



Kraft CEO must mollify investors in wake of risky Cadbury move

BUSINESS & FINANCE 17

Cramped on land, Big Oil bets on deepwater wells

THE BIG READ 14-15

THE WALL STREET JOURNAL.

VOL. XXVII NO. 237

EUROPE

Thursday, January 7, 2010

DOWJONES A NEWS CORPORATION COMPANY

europa.WSJ.com

New bid to remove Brown falters



British Prime Minister Gordon Brown leaves 10 Downing St. on Wednesday to attend question time at the House of Commons. Since taking office in 2007, Mr. Brown has faced a number of Labour Party rebellions.

BY LAURENCE NORMAN AND ALISTAIR MACDONALD

LONDON—U.K. Prime Minister Gordon Brown appeared to have beaten back another bid to oust him as leader of the ruling Labour Party Wednesday, but the latest round of intraparty strife will further hurt his chances months before a general election in which he trails the Conservatives in the polls.

Two former government ministers emailed Labour members of Parliament on Wednesday to call for a secret ballot on Mr. Brown's leadership.

"As we move towards a General Election it remains the case that the Parliamentary Labour Party is deeply divided over the question of the leadership," the letter from Geoff Hoon and Patricia Hewitt said. It cited broad concerns among lawmakers about the Labour Party's prospects in a general election, which must be held by June 3.

Since taking over from Tony Blair in June 2007, Mr. Brown has faced a number of rebellions from his party and last summer faced a string of cabinet resignations to show displeasure in his leadership.

Save our seats

Who is best leader to keep U.K. politicians in a job?.....2

Prior attempts to unseat the prime minister have failed because party heavyweights such as Foreign Minister David Miliband, Business Minister Peter Mandelson and Home Secretary Alan Johnson have come out in support of Mr. Brown.

By late Wednesday, most had backed Mr. Brown, with Mr. Johnson saying: "Gordon Brown is the best man to lead the Labour Party."

It is also hard to change leaders in the Labour Party. Critics within the party say Mr. Brown has made major tactical errors and hasn't connected with the public. Supporters say he has stabilized the country through its worst postwar recession. Many MPs believe that

changing the leader so close to the election would be suicide and say there is no alternative. "To have a ballot, you need an alternative, and there is no alternative," said Austin Mitchell, a Labour MP and longtime critic of Mr. Brown.

Mr. Hoon, a former defense minister, said he and Ms. Hewitt, a former health secretary, will consult Labour lawmakers in the coming days on the issue.

The prime minister also has to answer to party critics,

including ministers, who say he needs to settle on an election strategy quickly.

Talk of unease with Mr. Brown's leadership is unlikely to die down. Some politicians and the U.K. media were late Wednesday highlighting that it took hours for many ministers to affirm their support and said some of their statements didn't clearly spell out personal support for Mr. Brown.

—Joe Parkinson and Nicholas Winning contributed to this article.

The Quirk



On the 12th day of Christmas, my true love gave me...packing boxes. Page 29

World Watch

A comprehensive rundown of news from around the world. Pages 30-31

Editorial & Opinion

Iceland should not have to pay for the U.K.'s financial mistakes. Page 13

ECB official rules out Greek aid

BY BRIAN BLACKSTONE

A top European Central Bank official rattled European currency markets Wednesday with a warning to Greece not to expect a financial bailout from other European countries.

The euro weakened on the remarks by ECB executive board member Jürgen Stark, dipping briefly below \$1.43, before stabilizing.

The reaction offered a fresh reminder that European markets remain vulnerable to volatile swings until Greece puts forth a detailed plan to rein in its double-digit deficit.

"Whoever believes that, at the end, the European Union's members will put their hands in their pockets to save Greece, will end up deluded," Mr. Stark said in an interview with Italian financial daily Il

Sole 24 Ore.

Greece has struggled to reassure investors that it can put its fiscal house in order ever since it revealed in October that its budget deficit was twice as big as previous forecasts. Confidence in Greece's ability to repay its debt has been further shaken by a number of recent downgrades by ratings agencies.

Greek Finance minister George Papaconstantinou said in a television interview that Mr. Stark's remarks were "not very helpful" and reiterated that Greece doesn't expect a bailout.

On Tuesday, Greece pledged to bring its deficit, which currently accounts for nearly 13% of its gross domestic product, under the 3%-of-GDP limit set by European budget rules by 2012. Greece has said it will submit its sta-

bility program to the EU by the end of the month. European officials arrived in Athens Wednesday to go over Greece's deficit-reduction plans.

Investors want to see concrete steps on how Greece will achieve such rapid improvement in its finances against a backdrop of a still-sluggish European economy. Critics say the country didn't take the steps needed to improve its competitiveness when times were good, making it less likely that its economy will benefit much from a global recovery.

"So long as (Greece) keeps on postponing coming out with concrete policy measures, speculation continues and this creates volatility" in the financial markets, said Carsten Brzeski, economist at ING Bank.

Announcing

The First OLTP Database Machine



Exadata V2

Hardware by Sun

Software by Oracle

ORACLE

oracle.com/exadata or call 1.800.ORACLE.1

Copyright © 2009, Oracle. All rights reserved.

£1.50

THE WALL STREET JOURNAL.

01 97792191986948

PAGE TWO

Labour needs clarity in a cloudy time

[Agenda]

BY PATIENCE WHEATCROFT



SOS, the internationally recognized distress signal, has another meaning for elected politicians: Save Our Seats. In the U.K.'s beleaguered Labour Party, members of Parliament will today be pondering who, as leader, might give them the best chance of hanging onto their jobs.

The latest massive question mark now hanging over the U.K.'s prime minister, Gordon Brown, can only exacerbate the uncertainties that are causing such concern, both within the machinery of government and beyond. With debt downgrades threatened, and big investors becoming understandably nervous about the prospects for U.K. debt, the country needs clarity.

An early general election should be the response to this mess. Instead, Mr. Brown has seemed determined to draw out his premiership as long as possible, with a poll pencilled in for May 6. Yesterday's news is unlikely to change his mind on that score. But whether the challenge to his leadership develops to the extent that the decision on a general election is handed to a new leader is now at least a possibility.

Being an MP is no longer as lucrative as it was before the spotlight was shone on the extremely generous expenses regime that so many had exploited so effectively for so long. Nevertheless, the position is one most would like to retain, at least until a time of their choosing rather than the electorate's. After the surprise gauntlet that has been so spectacularly thrown at Mr. Brown, those Labour MPs whose seats are at risk in the forthcoming election will be trying to work out whether a different leader would give them better odds of success at the



getty images

Patricia Hewitt called for a secret ballot on Gordon Brown's leadership.

ballot box than their current boss.

The decision by two heavyweight members of the Labour Party to call for a leadership election came as a shock to Westminster. Neither Geoff Hoon nor Patricia Hewitt were likely contenders to foment such excitement. Ms. Hewitt, in particular, has already let it be known that she will not contest the next election and has been building an impressive portfolio career outside Parliament.

Off-balance-sheet accounting can be flattering but is always dangerous.

Ms. Hewitt's decision to sign off her political career in such a dramatic way must be because of real frustration over Mr. Brown's leadership and a belief, which was strongly held in some parts of the Parliamentary party even before he took over from Tony Blair, that he would be a dividing force. In an interview last summer, she said "Gordon Brown's inner circle has always been small, almost entirely men and, as far as I can see, really rather laddish in its culture."

He has alienated many in his party but there may be a shortage of candidates prepared to offer themselves as potential

successors. Already one of the more popular, home secretary Alan Johnson, has ruled himself out of any contest.

Yet the need for change is clear. In their letter to parliamentary colleagues, Mr. Hoon and Ms. Hewitt claimed that divisions over the leadership were "affecting our political performance." That is a concern for the Labour party. But such divisions must also affect governmental performance, and that should be a concern for the entire country.

There are said to be divisions between the prime minister and his chancellor, Alistair Darling, about how drastic should be the response to the dire state of Britain's finances, with Mr. Brown favoring a much softer approach than advocated by Mr. Darling.

There is plenty of evidence to indicate the chancellor's instincts are right. Earlier this week, the head of global portfolio management at major investor Pimco sent a shiver through the U.K. gilt market. Scott Mather said he believed there was an 80% chance of a credit rating downgrade for the U.K. if the debt-reduction plans weren't strengthened. His fund has indicated it will be cutting back on its investment in U.K. bonds and U.S. bonds.

Yesterday brought further evidence of why Mr. Mather's concerns are justified. The

Treasury Select Committee, the cross-party group that examines the U.K. government's finances, published its review of the pre-Budget Report that Mr. Darling delivered last month. It criticized the lack of clarity on how the government proposed to reduce the deficit. The stated aim of cutting it from 9% of GDP to 3.6% within four years sounds ambitious but the experts who gave evidence to the committee thought it optimistic, to say the least.

Karen Ward, HSBC's U.K. economist, said she was "in the dark" about how such a sharp drop was to be achieved. In the first rounds of phoney election campaign already being waged between the U.K.'s two main parties, the extent of government spending cuts has been a major issue. These are key to reducing the deficit yet details on them were scant in the PBR. The committee pointed out that the government is perfectly prepared to be specific on other forecasts, albeit they are prone to uncertainties. Some of its illustrative projections go out as far as 2017-18. A reluctance to be specific on spending may owe more to Mr. Brown's electoral concerns than the chancellor's lack of numbers.

In a reference that won't generate as much excitement among Westminster watchers as it might amongst economists, the committee also takes a swipe at government accounting. It notes that PFI (public sector projects financed by the private sector but ultimately paid for by government) remain off balance sheet for the purpose of the national accounts. This was a treatment favored by Gordon Brown when he was chancellor.

Yet off-balance-sheet accounting can be flattering but is always dangerous. Look what it did for Enron.

Clarity is what is required. It is needed for the national accounts just as it is for the leadership of the country. Doubts are damaging for both.

What's News

■ **A brief scare** over natural-gas supply in the U.K. earlier this week has heated debate over whether the government is doing enough to encourage raising the nation's storage capacity for natural gas. 5

■ **The retirements** of two top U.S. Democratic senators underscore the poor prognosis for the party in 2010 mid-term elections. 7

■ **Only five publicly listed** U.K. companies suffered shareholder revolts over their remuneration reports last year, despite the furor over excessive pay. 17

■ **Aberdeen Asset Management** is in the final stage of talks to buy parts of RBS's asset-management division for between \$128 million and \$160 million. 22

■ **A stronger dollar** won't spell the end for the commodities rally, analysts say, because world economies are getting back on their feet, ensuring more demand. 23

Inside



Five mistakes to avoid while seeking employment. 27



Justine Henin offers a late present for the WTA Tour 28

ONLINE TODAY

Most read in Europe



1. Google's Nexus One Is Bold New Face in Super-Smart Phones
2. Apple to Ship Tablet in March
3. Buffett Hits Kraft on Cadbury
4. Agenda: Iceland Should Have Stuck to Fishing
5. Google Opens New Front in Smart Phone Battle

Most emailed in Europe

1. The Hidden Benefits of Exercise
2. Google's Nexus One Is Bold New Face in Super-Smart Phones
3. Agenda: Iceland Should Have Stuck to Fishing
4. Opinion: Salute to West Point
5. Apple to Ship Tablet in March

Iain Martin on Politics

blogs.wsj.com/iainmartin

"If Brown had any inkling of what was coming then he hid it brilliantly during Prime Minister's Questions."



Continuing coverage



See dispatches from the consumer electronics show in Las Vegas at wsj.com/technology

Question of the day

Q: Which move will make Labour stronger in the coming general election?

Vote online at wsj.com/dailyquestion

Previous results

Q: What price would you pay for Apple's planned tablet device?

\$1000 or more

6%

\$750 to \$1000

23%

\$500 to \$750

40%

THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Stapleton House, 29 - 33 Scrutton Street,
London, EC2A 4HU

SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799. Calling time from
8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com.
Website: www.services.wsje.com

ADVERTISING SALES worldwide through Dow Jones
International. Frankfurt: 49 69 9714280; London: 44 207
842 9600; Paris: 331 40 17 17 01.

Printed in Belgium by Concentra Media N.V. Printed in
Germany by Dogan Media Group / Hürriyet A.S. Branch
Germany. Printed in Switzerland by Zehnder Print AG WIL.
Printed in the United Kingdom by Newsfax International
Ltd., London. Printed in Italy by Teletampa Centro Italia
s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland
by Midland Web Printing Ltd. Printed in Israel by The
Jerusalem Post Group. Printed in Turkey by GLOBUS
Dünya Basınevi.

Registered as a newspaper at the Post Office.
Trademarks appearing herein are used under license from
Dow Jones & Co. ©2009 Dow Jones & Company. All
rights reserved. Editeur responsable: Patience Wheatcroft
M-17936-2003.
Registered address: Boulevard Brand Whitlock, 87, 1200
Brussels, Belgium

NEWS

The problem with using sniffer dogs

They can be trained only using actual explosives such as those Slovakian airport security accidentally sent to Ireland

In a sign of the challenge aviation officials face in tightening airport security, one careless dog trainer has sparked an international scare about explosives on airplanes, Slovak officials said.

By **Quentin Fottrell, Leos Rousek and Daniel Michaels**

The Slovakian government apologized for a security officer's mistake that allowed explosives that were tucked into the backpack belt of an unwitting airline passenger to be loaded onto a passenger flight to Dublin Airport, Ireland's Department of Justice said Wednesday.

"The Slovakian Minister for the Interior has conveyed to Justice Minister Dermot Ahern his government's profound regret for this incident," a Department of Justice spokesman said. Mr. Ahern has asked the Irish Police Commissioner to compile a full report on the incident.

In a security experiment gone wrong that angered Irish politicians and worried already nervous airline passengers around the world, a 49-year-old Slovakian unknowingly carried approximately 96 grams of high-grade plastic explosives called RDX from Poprad-Tatry airport in eastern Slovakia on Saturday.

The head of the Slovak border police said Wednesday that two explosive samples, weighing up to 100 grams each, were used for sniffing-dog training at around noon Saturday, just ahead of a Dublin-bound flight of budget carrier Danube Wings.

The two samples were placed between pieces of checked-in luggage that were loaded onto a cart to be towed out of the airport building to the plane. The officer's dog found both explosive samples but the officer failed to remove one of them, and failed to tell his supervisors until Monday, Mr. Mako said.

"The unfortunate incident is a mistake of a policeman who was training his sniffing dog at [the Poprad] airport," said Tibor Mako, the head of Slovak border police.

Training sniffer dogs using real explosives is standard procedure around the world because the dogs must learn exactly what they are seeking. Dogs are widely used to sniff



The airport in Poprad, eastern Slovakia, pictured in 2007. A security official failed to remove explosive material used in a test that got snared on a passenger's luggage.

for weapons, drugs and other contraband, although their effectiveness is sometimes questioned because scientists aren't completely certain how their noses manage to detect scents so acutely. Dogs can be distracted from one scent by a stronger one, which necessitates extensive training in real-world surroundings.

Norman Shanks, an aviation-security consultant in England, said the use of live explosives is a problem for chemical-sensing machines because the trace amounts left behind during training can contaminate surfaces or baggage that it contacts.

The backpack that was sent to

Dublin with RDX would probably set off any explosive detectors it passes for months or years, Mr. Shanks said. "This guy might want to get a new backpack," Mr. Shanks said.

This is far from the first time security officials have misplaced live explosives in tests. French police in 2004 lost explosives in a passenger's bag during dog training at Charles de Gaulle Airport outside Paris. A similar event occurred several years ago at London's Heathrow Airport, Mr. Shanks said.

In the Slovak incident on Saturday, the airport's civilian air-control staff cleared the Dublin flight for

takeoff because the officer said no detonating device was attached to the explosive, and it wasn't even certain the sample actually had been loaded on the aircraft. The officer remembered wrapping the sample in the waste belt of a backpack.

"On Monday we then screened [closed circuit] camera footage and managed to identify the backpack on the wagon and his owner," Mr. Mako said. "This whole process of checking images of luggage of 160 passengers took until late Monday when we informed the Irish police."

The innocent Slovak man carrying the explosives to Dublin went to

his home there, and didn't find the explosives hidden in his baggage. On Tuesday, Irish police, unaware that the man had no knowledge of the explosives, arrested him at his home. The police later released the man, who hasn't been identified.

Legal experts say it is unlikely that charges will be pressed against the individuals who carried out the test or the man who unknowingly carried the explosives. "There is not a sophisticated criminal-law code that could cover this kind of situation," said Dublin-based barrister Conor Devally, senior counsel. "It's a very bizarre case."

Did Google go a literary reference too far?

By **NATHAN KOPPEL**

As Google Inc. launches its Nexus One phone, one call that the company hadn't made is to the family members of science-fiction author Philip K. Dick, who complain the device's name infringes on one of Mr. Dick's most famous novels.

"We feel this is a clear infringement of our intellectual-property rights," said Isa Dick Hackett, a daughter of Mr. Dick and the chief executive of Electric Shepherd Productions, an arm of the Dick estate devoted to adapting the late author's works.

"Our legal team is dealing head on with this," she said Tuesday. An attorney for the estate declined to elaborate on what legal steps it has taken.

Mr. Dick's 1968 novel, "Do Androids Dream of Electric Sheep?," which served as the basis for the 1982 cult film "Blade Runner," fol-

lows a bounty hunter chasing androids known as Nexus-6 models.

Ms. Hackett believes Google referenced that work in coming up with the name for its new phone, but the company never called her family or attorneys for permission to license the name. A Google spokesman declined to comment.

'Some words are never used for anything except in connection with a particular trademark.'

Ms. Hackett argues the association between the phone and the book are cemented by the fact that the Nexus One runs Google's Android operating system. Google has its "An-

droid system, and now they are naming a phone "Nexus One," she said. "It's not lost on the people who are somewhat familiar with this novel."

Attorneys who specialize in trademark disputes don't see a clear-cut case. One key issue is whether consumers are likely to be confused and think Mr. Dick's estate was associated with Google's phone.

"Will people buying the Google phone hear the Nexus One name and think that is just like in 'Do Androids Dream of Electric Sheep?'" asked Marc Reiner, a partner at Dorsey & Whitney LLP, who isn't involved in the matter.

Characters like Mickey Mouse and Indiana Jones that have served as bases for products are much more likely to be able to gain trademark protection. "A character in a book does not automatically get trademark protection," Mr. Reiner said.

It also may be more difficult to win a trademark case in regards to a word like nexus, which is used in other contexts apart from the characters in Mr. Dick's novel, said Beth Goldman, a partner at Orrick, Herrington & Sutcliffe LLP, who isn't involved in the Google matter.

"Some words are never used for anything except in connection with a particular trademark, like Hershey's," Ms. Goldman said.

That may explain why Verizon Wireless licensed the 'Droid' name from "Star Wars" creator and director George Lucas when it recently launched a Motorola Inc. smart phone with that name. "We were honored that Verizon chose to name their newest technological venture the DROID smart phone, and we were happy to grant them a license to use the mark," said a spokeswoman for Mr. Lucas's company, Lucasfilm Ltd.



Replicants in the movie 'Blade Runner' were Nexus androids in the book.

EUROPE NEWS

Economic chasms widen in euro zone

BY ILONA BILLINGTON

LONDON—The gap between the euro zone's strong and weak economies widened at the end of 2009, with Germany's services sector racing ahead while Spain's service-sector contraction deepened, creating a major headache for the European Central Bank.

The purchasing managers index for the euro zone's services sector rose to 53.6 in December from 53.0 in November, data provider Markit reported Wednesday, indicating that the currency area's economic recovery strengthened.

Significant parts of the euro zone didn't share in the strength. Spain is the fourth-largest member of the currency area, but its services PMI fell to 45.0 in December from 46.1 in November, indicating that activity fell at the fastest rate in five months.

The mixed performance of euro-zone members could stay the European Central Bank's hand in coming months, as it struggles to find the right balance between a monetary policy that is appropriate for the growing German economy and the laggards.

"The increasing divergence in growth prospects between the main countries of the euro zone and Spain and some smaller country is a reason for concern," said Luigi Speranza, an economist at BNP Paribas.

The ECB says that it responds to developments in the euro zone as a whole, and not to developments in any one economy. But if one of the currency area's largest economies is in difficulty, that is a problem for the entire euro zone.

Economists expect that the ECB will only gradually withdraw its policy stimulus over the course of this year, with its key interest rate seen remaining at 1% until the end of this year and possibly into 2011.

"Given that the recovery is still only modest I think the ECB is going to be reluctant to raise rates for some time to come," said Capital Economics economist Jennifer McKeown.

Other data reported Wednesday underlined the still fragile nature of the recovery. European statistics agency Eurostat reported industrial orders fell 2.2% in Octo-



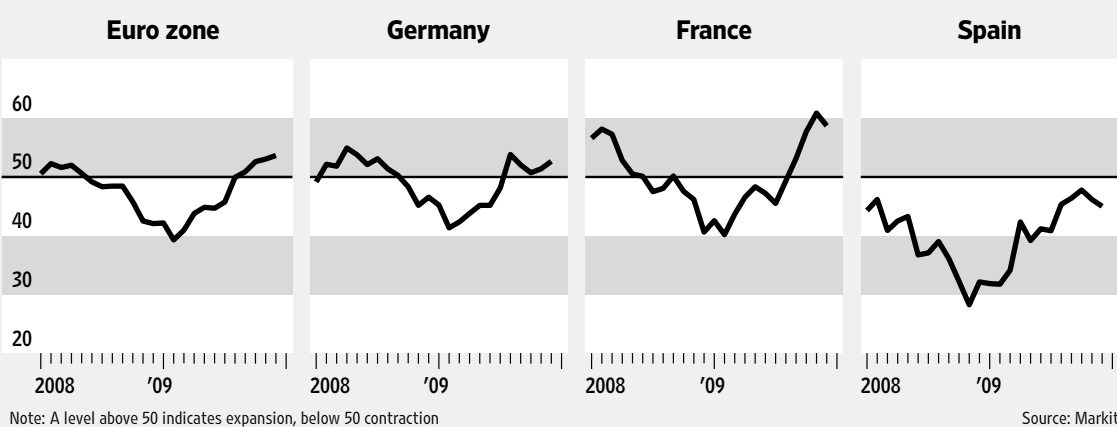
A clothing-store employee arranges a sale sign Tuesday in Strasbourg, France, on the eve of the country's official start of winter sales.

ber from September, the first drop in this measure for seven months. From October 2008 orders were down 14.5%, the 15th straight month of declining orders on an annual basis.

Eurostat also published producer-prices data for November, which rose just 0.1% in November from a month earlier and fell 4.4% from a year ago—the smallest decline in seven months.

—Nicholas Winning contributed to this article.

Mixed fortunes | Service-sector purchasing managers index



Northern Ireland's UDA finishes disarming

ASSOCIATED PRESS

Northern Ireland's major Protestant paramilitary group, the Ulster Defense Association, said it has fully disarmed—satisfying the key requirement of the province's peace accord from 1998.

The international official overseeing Northern Ireland disarmament, retired Canadian Gen. John de Chastelain, said his officials recently "conducted a major act of decommissioning in which arms, ammunition, explosives and explosive devices belonging to the UDA have been destroyed."

Mr. de Chastelain said UDA leaders had assured him "that these armaments constitute the totality of those under their control."

A UDA representative, Frankie Gallagher, told a Belfast news confer-

ence that the outlawed group regretted having killed more than 400 people, mostly Catholic civilians, from the 1970s to 1990s.

"But we are determined and are willing to play our full part in ensuring that tragedy of the last 40 years will never happen again," he said.

The governments of Britain and Ireland—which have spent more than a decade pressing Northern Ireland's underground armies to disarm—welcomed the move as a final piece of the peacemaking jigsaw.

The UDA has broadly observed a 1994 cease-fire, but previously refused to surrender its arms—chiefly guns and grenades—citing the continuing threat from Irish Republican Army dissidents based in Catholic areas.

Mr. de Chastelain has been seek-

ing the disarmament of Northern Ireland's illegal groups since 1997. The Good Friday peace pact of 1998 called for all truce-observing groups to disarm by mid-2000, but none of the three major groups met that deadline.

Irish President Mary McAleese called the disarmament "a very positive milestone on the journey of peace." Ms. McAleese, a Belfast-born Catholic, said the latest disarmament shows that Northern Ireland's militant traditions are "being replaced by a culture of consensus, democracy and good neighborliness."

Britain's secretary of state for Northern Ireland, Shaun Woodward, said the UDA move was spurred by his threat to withdraw the amnesty period for handing

over weapons. After Feb. 9, anyone who fails to surrender illegally held weapons will face potential imprisonment.

Mr. Woodward said the belated disarmament demonstrated "that firmness of government policy, with a clear deadline, have produced a startlingly strong outcome, removing some of the most dangerous weapons from the streets."

Two community witnesses, retired Protestant Archbishop Robin Eames and former Ulster Bank Chairman George Quigley, confirmed that they observed the surrender and destruction of UDA weapons.

They, like the UDA and the Canadian general, offered no details on the locations or manner of the weapons handover.

The Provisional IRA, the best-

armed group, surrendered its largely Libyan-supplied weapons stockpile gradually from 2001 to 2005. The other major British Protestant group, the Ulster Volunteer Force, completed its disarmament last year.

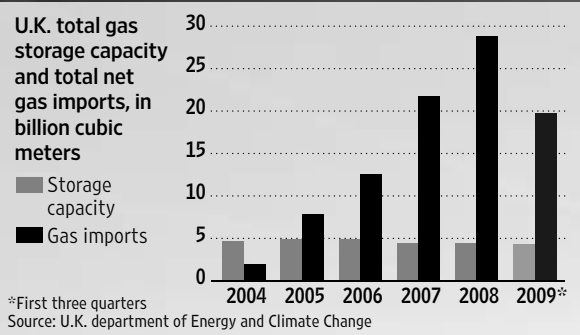
The UDA has an estimated 2,000 members, making it by far the largest illegal group in Northern Ireland.

The IRA and its dissident offshoots spent decades trying to force Northern Ireland out of the U.K., but the IRA's Sinn Féin party today takes part in a power-sharing government alongside the Protestant majority.

The Good Friday accord reaffirmed that Northern Ireland would remain in the U.K. as long as a majority of its citizens desire this.

EUROPE NEWS

A growing gap | As U.K. gas imports have soared, the volume of gas of storage available has stood still



Centrica's Rough facility, bought in November 2002, represents around 70% of the U.K.'s gas storage capacity

U.K.'s gas buffers struggle with cold

A brief supply alert has rekindled a debate over how the government should cope with less rich North Sea fields

BY JAMES HERRON

A brief natural-gas-supply scare in the U.K. earlier this week has heated debate over the nation's dependence on private-sector investment for energy security.

On Monday, a so-called gas-balancing alert U.K. gas-pipeline operator National Grid issued to network users has intensified an election-year debate over whether the government is doing enough to encourage raising the nation's storage capacity for natural gas. Opposition politicians used the alert to accuse the government of failing to adequately plan for the decline in domestic gas supplies and attacked its changes to the planning process.

The U.K. has one of the most liberalized energy markets in the world. State-run gas and electricity monopolies were broken up and privatized in the 1980s and 1990s, leaving the sole responsibility for investing in new energy infrastructure in the hands of private companies.

When privatization occurred, the U.K. was entirely self-sufficient

in natural gas thanks to its North Sea fields and even exported to Europe. However, a sharp decline in production from aging North Sea fields over the past decade has resulted in the U.K. becoming heavily dependent on imported gas from sources less dependable than its own backyard.

Gas storage is seen as an essential buffer against unexpected disruptions to supplies from outside, but while U.K. imports have grown more than tenfold in the past five years, storage capacity has barely changed.

"What we should have done in Britain is recognize how fast the North Sea was going to decline and bring forward a timely energy policy" to deliver adequate gas storage, said Dieter Helm, professor of energy policy at the University of Oxford. Instead, the government left it up to market forces, he said.

"Security of supply means you need a margin of excess capacity ... so when there are demand shocks there is capacity in the system to respond," said Mr. Helm. But excess capacity

depresses prices, meaning that, "for companies, it's much more profitable to have the market tight than have excess supply." The natural consequence of the tight market is price spikes and supply scares like those this week, he said.

At the start of an election year, the Conservative Party has used the alert to attack the government's handling of energy security. The supply scare, "is just a taste of what's to come as a result of Labour's negligence," said Greg Clark, the Conservative in charge of Energy and Climate Change. "When will the government understand we need more storage capacity ... so nobody has to face the possibility of going without gas during cold snaps."

The Conservatives will publish their own energy policy paper in the very near future, including a plan for gas storage. The party continues to support a liberalized energy market in the U.K.

National Grid said the energy market responded to the alert in the appropriate way following Monday's alert. Extra gas supply came to

the U.K. through pipelines and new liquefied natural-gas import terminals that companies built specifically to compensate for dwindling North Sea gas supplies, she said, although that didn't stop prices ending the day almost 30% higher than their previous closing price. said spokeswoman Isobel Rowley. There have been no subsequent supply problems despite continuing freezing weather, she said.

Department of Energy and Climate Change spokeswoman Helen McBain also said the current system is working. "We have 22 gas storage projects at various stages of development—they could increase our current gas storage capacity fourfold," she said. However, according to National Grid data, storage actually under construction today will boost capacity by only 14% and less than half of the other projects have planning approval. For example, Canatxx Energy Ventures Inc. has been struggling to get planning approval for a large gas storage facility in Lancashire since November 2003.

This planning-approval process,

which has seriously slowed the development of energy infrastructure in the past, has become a major point of contention between the Labour government and the Conservative opposition.

The government has overhauled the planning process in a way it says will speed approval of key infrastructure projects, but if the Conservatives win power in an election that must be held before June, they have promised to abolish the central plank of this overhaul—the Infrastructure Planning Commission.

"The IPC will strip local authorities and the secretary of state of their say on major planning applications," and final decisions will be made by unelected officials, said Conservative spokeswoman Lisa Hunter. This lack of democratic accountability could lead to IPC decisions getting bogged down in legal challenges, she said.

The government says the IPC is crucial to end long planning delays and make the application process for nationally significant infrastructure projects faster and fairer.

British service sector revives

BY JOE PARKINSON

LONDON—The U.K.'s important service sector expanded for the eighth straight month in December, new data showed, suggesting the economy emerged from recession in the final quarter of 2009.

Research group Markit Economics and the Chartered Institute of Purchasing and Supply said the purchasing-managers index for services rose to 56.8 in December from 56.6 in November. The reading was better than economists had expected, and well above the 50 mark that indicates business activity is improving.

Economists said the figure indicates the U.K. economy probably emerged from recession in the fourth quarter. Preliminary official

data for gross domestic product for the period are due later this month.

"December's data confirmed that the U.K. service sector recorded robust growth during the final quarter of 2009, remaining consistent

'The fundamentals remain in place for further solid gains in activity at least in the near term.'

with a quarterly expansion on the official measure of above 1%," said Paul Smith, senior economist at Markit.

December's data showed the index for new orders rising to 57 from

56.8, the fastest pace of growth since September 2007. Large firms posted the strongest growth, and a number of companies reported that new business had tested capacity. "The fundamentals remain in place for further solid gains in activity at least in the near term," Mr. Smith said.

However, some economists are cautious about extrapolating too much from the PMI, as it had previously indicated that the U.K. economy would expand in the third quarter, when in fact it contracted 0.2%.

"It needs to be borne in mind that in recent months the purchasing-managers survey has been portraying a significantly healthier picture of the services sector than the hard data," said Howard Archer, an economist at IHS Global Insight.

Snow disrupts London

ASSOCIATED PRESS

Blustery winter weather paralyzed Britain and parts of Europe on Wednesday, frustrating air travelers, stranding motorists and keeping thousands from their jobs and schools.

London area airports—including Heathrow, Europe's busiest—suffered widespread delays and cancellations. Forecasters blamed the prolonged cold snap on an arctic weather system that promises more cold weather through the month.

Britain's weather office warned that, if the cold keeps up through the end of February, this will be the country's coldest winter in three decades. London's transit network, which practically ground to a halt when snow hit the capital in February 2009, suffered sporadic disruptions and delays. Crowds were

lighter than expected as many people stayed home.

Icy weather struck elsewhere in Europe, including Scandinavia. Snows in northern Denmark have hit road, rail, and air traffic, and the Danish army has mobilized to help emergency vehicles cut their way through drifts. Freezing temperatures gripped Germany.

Elsewhere the weather was more moderate. Dutch police divers and helicopters were briefly scrambled when a group of skaters was feared to have fallen through the ice on a lake north of Amsterdam. Authorities eventually said it was a false alarm. France and Switzerland were largely unaffected by the chill, with a light dusting of snow on the ground in Geneva and a series of winter weather warnings issued for western France.

U.S. NEWS



Pedestrians walk past a Citibank branch in New York City. Banks are likely to face more losses as foreclosures mount.

Economists fault fixes

Few believe measures taken after financial crisis can prevent the next one

BY MARK WHITEHOUSE

ATLANTA—Wall Street investors may be breathing a sigh of relief as the financial crisis fades, but academic economists gathered here for the annual meeting of the American Economic Association say we're nowhere close to making sure it won't happen again.

Over the past few days, economists here highlighted the many ways in which the lessons of the crisis have yet to sink in. Few think the U.S. and other governments have made needed repairs to the financial regulatory system. And some suggest governments' response has increased the chances of a repeat, making the banking system more crisis-prone, putting new strains on institutions such as the Federal Reserve and stretching government finances closer to the breaking point.

"Our response has made us more vulnerable to a bigger crisis," said Tom Sargent, a New York University economist. "It's distressing."

Banks present the most immediate worry. By providing massive bailouts to commercial banks and securities firms, the logic goes, governments have given bank executives a sort of catastrophe insurance—and an incentive to take even greater risks than they did before the crisis. But it could take years for policy makers to impose the controls, such as tougher capital requirements, that would prevent the pain from spreading to taxpayers and the broader economy next time the banks get into trouble.

"If the banks really feel that they are insured, then we have a dangerous situation," said Stanford University's Robert Hall, the association's president. "The incentives are to take a very risky position. They get to pocket it if they win and it's the federal government's problem if they lose."

Policy makers find themselves in a tough position. They can't impose controls immediately, for fear they would curb the lending crucial to a sustainable economic recovery. But as the banks regain

strength, the political opportunity to create a new financial architecture could slip away.

"You have only a small window in which you can really change things," said Markus Brunnermeier of Princeton University. "It's closing already."

The crisis isn't over for banks. The worst-case scenarios in last year's stress tests, which restored the market's confidence in U.S. banks, included only two years' worth of losses. But banks are likely to face losses for many years to come as foreclosures mount and the commercial real-estate market sours.

The Fed's massive interventions have exposed it to greater financial and political risk, both of which could lessen its ability to step in and calm markets.

"If the U.S. government could credibly say [to banks]: We'll never bail you out again, it [the banking system] would collapse," said Kenneth Rogoff of Harvard University.

To quicken the banks' return to health, Princeton's Mr. Brunnermeier believes governments should place much harsher limits on cash dividend and bonus payouts, which deplete the capital banks need to absorb the losses and keep lending.

"I don't think there's enough forcefulness from the administration on this," he said. "If Goldman Sachs is paying these huge bonuses, the other banks are forced to do so as well."

Others fretted about the lack of a game plan for Fannie Mae and Freddie Mac, the money-losing mortgage giants—known as government-sponsored enterprises—that are now absorbing huge sums of taxpayer money as part of the U.S. government's efforts to keep the mortgage market functioning. When long-

term interest rates rise, as they inevitably will, said Anthony Sanders of George Mason University, "We're going to see tremendous losses taken on the bank balance sheets and [those of the GSEs]."

"The GSE structure must be ended because it creates inevitable failure based on the incentives," said Dwight Jaffee of the University of California at Berkeley. But he and his peers differed on the best solution. Mr. Jaffee called for the U.S. government to buy mortgages and package them into securities, as Fannie and Freddie do, but only temporarily; eventually, that task should be turned over to the private sector.

A pair of Federal Reserve economists, Diana Hancock and Wayne Passmore, emphasizing that they weren't expressing the Fed's official view, suggested the government should explicitly guarantee not only mortgages but other financial instruments against a catastrophe with a new insurance fund, financed by premiums similar to the one used to insure bank deposits.

Economists also expressed concern about the extent to which the unprecedented measures taken by the U.S. government and Fed could weaken them as a backstop in the future. The Fed's massive interventions have exposed it to greater financial and political risk, both of which could lessen its ability to step in and calm markets. And the huge costs of financial and economic bailouts have put added burdens on the finances of advanced-economy governments around the world.

In the next few years, for example, the gross government debt of both the U.S. and the U.K. will exceed 90% of their annual economic output, an event that could both spook investors and seriously impair economic growth.

When advanced countries cross the 90% threshold, their annual growth tends to be about one percentage point lower, said Mr. Rogoff and Carmen Reinhart of the University of Maryland.

"This is very troubling for the U.S. and other advanced economies," said Ms. Reinhart.

Lessons from the history of Medicare drug coverage

[Capital]

BY DAVID WESSEL



Four years ago, the U.S. government offered subsidized prescription-drug insurance to 43 million elderly and disabled, the biggest expansion of government-backed health care in decades. Today, the program is working better than many expected. Now academics are drawing lessons that are acutely relevant to health-care legislation pending in Congress.

Medicare Part D did lead the elderly to use more drugs. More important is the conclusion from Nobel laureate Daniel McFadden of the University of California at Berkeley: "Medicare Part D...has achieved its primary political goal of providing near-universal coverage in a viable private market."

Some early lessons:

Markets do work, but...

In Medicare doctor and hospital insurance, the government generally chooses benefits and sets prices. In Part D, there is no government plan; the typical elderly person has a choice of 40 plans, all sponsored by private insurers whose offerings are supervised by the government. Few elderly pick really lousy plans; the government makes sure no really lousy plans are offered, an important lesson for the "exchanges" at which many Americans would shop for private health insurance under the pending bill. Jonathan Gruber and Jason Abaluck of the Massachusetts Institute of Technology, with data on 2.7 million Part D enrollees, find that 70% could have chosen a lower-cost plan, and the typical enrollee could have saved about 25%. Consumers focused too much on premiums, not enough on out-of-pocket spending. It's a reminder that elaborate cost-sharing formulas don't guide consumers well if they're too complicated for consumers to understand.

"Markets definitely work," says John Hsu, a physician-MBA at Harvard Medical School. "However, they don't always work according to original assumptions. It's very important to examine each step very carefully to look for unintended consequences."

Prices don't always do the predictable.

The early fear was that arming the elderly with subsidized drug insurance would increase demand and thus drug prices, especially since Congress barred the government from negotiating drug prices directly. That task was left to the private insurers.

Insurers had strong incentive to bargain hard. Mark Duggan of the University of Maryland and Fiona Scott Morton of the Yale School of Management conclude, "Moving consumers into Medicare Part D plans significantly reduced the per-dose price paid to manufacturers." Average price cut: 12%. Why? "An individual consumer typically does not have the knowledge of which drugs are

acceptable [cheaper] therapeutic substitutes; the consumer's physician typically has poor knowledge of [drug] prices and any one consumer is too small...to negotiate with a pharmaceutical company." That strengthens the case for harnessing private insurers to restrain health costs, but doesn't mean drug prices couldn't be lower still. The Medicaid program for the poor and the Veterans Administration get even lower drug prices. That matters particularly to the elderly poor who may pay more for drugs because they were switched to Medicare Part D from Medicaid. One countervailing force: an uptick in drug-company ads aimed at elderly consumers. In unpublished work presented at the American Economic Association this week, Darius Lakdawalla of the University of Southern California compared direct-to-consumer ad spending on drugs with no Medicare use with ad spending on drugs typically used by Medicare patients. After Part D kicked in, spending on the latter rose 60% above spending on drugs with no Medicare users.

Programs never cost what the experts predict.

The Medicare prescription-drug benefit is costing taxpayers a lot, but less than expected. The Congressional Budget Office's original 10-year price tag was \$640 billion over 10 years; it's now down by a third to \$410 billion. The Center for Medicare and Medicaid Services was off by even more.

Economy-wide growth in drug spending slowed surprisingly sharply. "This sharp deceleration in growth rates was unexpected by us, CBO, and most industry experts," Mr. Foster said in an email to Slate's Tim Noah. "It occurred largely as a result of effective efforts by health-insurance plans to induce people to use generic equivalents and a slowdown in the number of new 'blockbuster' drugs coming into the market." Projections are always wrong, he notes, but still essential to wise policy making.

Health care is never simple, though. Higher drug spending pulled down hospitalization of the elderly for diseases treatable by medicine, such as diabetes. "It did make them healthier and keep them out of the hospital," Michael Chernow of Harvard Medical School said at an AEA presentation. Adds Julie Donahue, a University of Pittsburgh researcher whose findings match his: "The group for whom it seemed to matter the most is for people who had no drug coverage before." For that group of the elderly, about 20% of the total, savings on hospitalization more than offset added spending on drugs. Of course, Congress is often happy to spend those savings and more. Douglas Holtz-Eakin, CBO chief when the drug bill passed, notes that the pending health bill would fill "the doughnut hole"—out-of-pocket spending on drugs that wasn't covered by the original plan. "Every entitlement program gets richer over time," he says.

U.S. NEWS

Retirements hand Democrats setback

Majority party looking more vulnerable in 2010 midterm elections; Sen. Dodd becomes a casualty of the financial crisis

BY PETER WALLSTEN
AND NAFTALI BENDAVID

WASHINGTON—The retirements of two top Democratic senators underscore what many in the party had already conceded: The prognosis for Democrats in the 2010 midterm elections is looking bad.

In brief remarks Wednesday outside his home in East Haddam, Conn., Sen. Christopher Dodd confirmed he wouldn't seek re-election for a sixth term, bowing to political realities that see him trailing potential Republican opponents in a fall campaign.

Mr. Dodd, 65 years old, said his decision wasn't based on any predictions about the November elections, though the senator also acknowledged he is in "the toughest political shape" of his career.

Mr. Dodd's decision is the latest in a string of big-name Democratic retirements revealed this week as the party struggles to contend with a challenging political climate. Sen. Byron Dorgan of North Dakota said Tuesday that he, too, would retire after this year, unexpectedly saddling his fellow Democrats with a wide-open race that could be tough to win in a Republican-leaning state.

And Colorado Gov. Bill Ritter, viewed as a rising Democratic star after a 2006 election victory that laid the groundwork for a Democratic pickup there in the 2008 presidential race, said Wednesday that he wouldn't seek re-election.

The retirements underscore how sharply the political climate has turned against the majority party, which looked almost impregnable after the 2008 elections. With major initiatives such as the stimulus and the health-care overhaul unpopular, Democrats are looking increasingly vulnerable in the states that formed the basis of their new majority, particular places such as Colorado and Virginia. The defensive mood could hurt fund raising and candidate recruitment and will likely force the White House to further scale back its ambitions.

Another setback came in Michigan, where the Democratic front-runner for governor, Lt. Gov. John Cherry, said he wouldn't run. Mr. Cherry, strategists believe, was too closely associated with the state's unpopular Democratic Gov. Jennifer Granholm, who is blamed by many voters for a jobless rate that is far higher than the national average.

The departure of Mr. Dodd, first elected to the Senate in 1980, carried the most symbolic value because of his seniority and his close association with the financial-system bail-



Sen. Christopher Dodd speaks during a news conference at his home Wednesday in East Haddam, Conn. He said he was in 'the toughest political shape' of his career.

out and other economic policies. He has drawn criticism for backing a measure that allowed the embattled insurance giant American International Group Inc. to dole out bonuses to its executives.

Mr. Dodd, once closely associated with the insurance and hedge-fund industries, is one of the highest profile Democratic casualties of the financial crisis and its political fallout. Under fire for receiving what some charged was a sweetheart mortgage from Countrywide Financial, and for land deals in Ireland, Mr. Dodd had tried to reinvent himself as a populist, going after big banks and credit-card companies from his perch as chairman of the Senate banking committee.

Just three years ago, Mr. Dodd was planning a White House bid and was asserting himself as an expert on how to fix the economy. But in recent months he has fought prostate cancer, and, with the death of Sen. Edward Kennedy, lost his best friend in the Senate.

Mr. Dodd had been losing in polls to his potential Republican challengers, and some Democratic strategists speculated Tuesday that his retirement actually bolsters the party's chances of retaining the seat this year. There are strong candidates in the GOP primary, including former Rep. Rob Simmons and pro-wrestling executive Linda McMahon, who has said she would spend tens of millions of her own money to win the seat.

The state's Democratic attorney general, Richard Blumenthal, said Wednesday that he intended to be a candidate. "I will not be making a formal announcement today, but I do want to let people know about my plans," he told CNBC in an interview.

Democrats painted a silver lining in Mr. Dodd's retirement, arguing that Mr. Blumenthal had a stronger shot at the Senate seat.

Attention now moves to the House, where more than 10 Democratic House members have announced plans to retire.

A series of retirements can often foreshadow a bad year for a party, and Democrats acknowledge that the struggling economy, a conservative backlash against Obama administration policies—especially on health care—and other factors make it likely they will lose seats.

Democrats have been quick to point out that more Republicans than Democrats have announced their retirements so far in each chamber.

Every Senate race has taken on heightened significance this year, since Democrats' current majority of 60 votes, including two independents who usually side with them, is the bare minimum the party needs to break Republican filibusters. The 60-vote majority has enabled Democrats to pass a health overhaul through the Senate despite unbroken opposition by Republicans.

Mr. Dorgan has been elected three times to the Senate, winning 68% of the vote in 2004, but had come under increasing pressure in recent

months. Republicans say the retirement greatly boosts their chances of cutting into the Democrats' advantage in the chamber.

Mr. Dorgan, 67, has held public office since he was 26 and said he had intended to run again this year. But he concluded recently that he wanted to pursue other interests, including writing.

North Dakota Republicans had been encouraging the state's popular GOP governor, John Hoeven, to run against Mr. Dorgan. A Dec. 15 Rasmussen poll showed Mr. Hoeven, in a hypothetical match-up, with a significant lead over the senator. Mr. Hoeven hasn't announced his intentions and the campaign hadn't begun in earnest.

Democrats quickly began looking for a viable candidate in North Dakota to run in what could be an uphill campaign. Party leaders believe that their best hope is Rep. Earl Pomeroy, North Dakota's sole House member. Mr. Pomeroy couldn't be reached for comment.

Job losses mount in private sector

BY JUSTIN LAHART

Figures released Wednesday suggested that the U.S. economy continued to shed jobs last month, but some economists doubted their accuracy.

Payroll company Automatic Data Processing Inc. and forecasters Macroeconomic Advisers reported that their surveys indicate 84,000 private-sector jobs were lost in December. If the government job count is unchanged, that implies Friday's Labor Department report could be more negative than most forecast-

ers expect. Economists surveyed by Dow Jones Newswires estimated that 10,000 jobs were lost in December, about the same as November's 11,000-job drop.

But the ADP report, which is based on the roughly 430,000 businesses for which the company processes payrolls, has been off the mark recently. Last month, for example, it reported that private-sector payrolls fell by 169,000 in November; two days later, the Labor Department reported the economy lost 18,000 private-sector jobs. ADP

figures for November were revised higher Wednesday.

"The ADP report has had a streak here of seven months where it has been consistently more pessimistic" than the Labor Department report, said J.P. Morgan economist Michael Feroli. "It does call into question how much weight you want to put on it." Mr. Feroli stuck to his estimate of a gain of 40,000 jobs in December.

Macroeconomic Advisers' Joel Prakken conceded that the economic model behind the ADP report may lag behind the official figures. But he

said it may be that the government's figures are less accurate, and eventual revisions will make the ADP numbers look better. Mr. Prakken said that the ADP report suggests Friday's jobs report will be worse than most economists expect.

Meanwhile, the Institute for Supply Management said that its nonmanufacturing index, based mainly on commentary from service-sector companies, rose to 50.1 in December, up from 48.7 in November. A number over 50 represents economic expansion in the nonmanufacturing sector.

Expanding slightly

The ISM's nonmanufacturing purchasing managers' index



Note: Readings above 50 indicate expanding activity.
Source: U.S. Inst. for Supply Management

WORLD NEWS



Hong Kong's government is considering the construction of a high-speed railway to Shenzhen, left, and Guangzhou, right, which has its own new high-speed link to central China's Wuhan, center.

Hong Kong mulls faster train to China

Government makes a last-minute push before Friday's vote; critics cite high cost, disruption to villages on the route

BY JONATHAN CHENG

HONG KONG—Lawmakers on Friday may decide whether a contentious US\$8.6 billion express railway that would connect Hong Kong to southern China's two most important cities will move forward.

Hong Kong's government pitches the railway as a key to more closely integrate itself into the mainland Chinese economy. It warns that Hong Kong could be hurt without a dedicated link to China's high-speed national rail network.

Approval isn't a certainty. Opposition to the express rail link has already delayed progress for months. Cost-conscious legislators point to an existing railway that runs below capacity.

The express train would stop in the city of Shenzhen just across Hong Kong's northern border. Then, it would travel to an outlying suburb of Guangzhou, southern China's traditional commercial and transport hub, in about 45 minutes.

The current service, which arrives in downtown Guangzhou, takes about two hours. With the completion of a high-speed line linking Guangzhou and Beijing set for 2013, government officials say a train ride from Hong Kong to Beijing could take about 10 hours, compared with about 24 hours now.

"There's a strong public consensus to get this project up and running as quickly as possible," Eva Cheng, Hong Kong's secretary for transport and housing said Tuesday in Guangzhou.

She noted that the faster traveling time would benefit the 660,000 Hong Kong residents who make the trip to mainland China at least once a week.

Hong Kong's chief executive, Donald Tsang, has made infrastructure spending one of the cornerstones of his economic policy.

Mr. Tsang created a Development Bureau in 2007 to push ahead with 10 large-scale infrastructure projects before 2012, which he said would "lay a new foundation for our sustained devel-

opment in the future."

The legislature has already approved about \$1.2 billion to fund Hong Kong's portion of the world's longest overseas bridge, a 50-kilometer, six-lane highway to Macau and the mainland city of Zhuhai. Construction began in December.

Express rail to Guangzhou, with a high-speed link to Beijing set for 2013, could cut the trip from Hong Kong to China's capital to 10 hours, from 24 hours.

Hong Kong's international airport, which opened in 1998, suffered from delays and cost overruns and wound up costing US\$20 billion, including associated road, rail and bridge projects.

Funding for the new rail link was expected to have been approved in time for construction to have begun last year and finished

in 2015. But opposition lawmakers pushed back the vote to the new year, arguing that the cost of \$530 million for each mile of railway is out of proportion with the benefits to the economy.

Alan Leong, who sits on the legislative subcommittee reviewing the project, accused the government in an interview of trying to "bulldoze" its proposal through the legislature without a proper vetting, and without considering cheaper alternatives.

"We are all for the express rail to be expanded to Hong Kong," Mr. Leong says. But he says that the government's proposed terminus—in a newly reclaimed district called West Kowloon—is designed to benefit property developers who have built a cluster of luxury condominiums and office towers there.

"This is driven by real-estate development considerations," Mr. Leong says.

The lawmaker says the cost of the express rail is "out of proportion" with that of comparable rail and infrastructure projects. "We

have again set a world record," Mr. Leong said.

The government didn't respond to a request to comment.

Ms. Cheng said that most of the higher costs were driven by rising global commodity prices and extra engineering work required to address geological concerns.

"If costs eventually come down, every penny will be returned to the public coffers," she said, urging lawmakers to approve the railway funding as soon as possible.

At the same time, villagers in a rural settlement that would be displaced by the construction have also mounted an increasingly vocal campaign to stop the railway. The villagers plan to step up their protest outside the legislature as the vote approaches.

Ms. Cheng said Tuesday that the government determined the route of the railway after careful consideration to minimize the impact on the public. The villagers will be offered a compensation package for resettling.

THE WALL STREET JOURNAL.

EUROPE

THE/FUTURE LEADERSHIP/INSTITUTE

Powered by EXECUTIVE LEARNING PARTNERSHIP

Bringing Universities and Businesses Together

Books for Brains

15 management books to win



To win a copy of "The Murder of Lehman Brothers" email us your full contact details with "Lehman" in the subject field. Reply by noon CET, January 30, '10 to the address below. Winners will be informed by email.

The Journal Europe Future Leadership Institute supports

Energy Conference

"How to buy and sell energy at the best price?"

A Premier Cercle Conference

11 February, 2010
Coeur d'effense, Paris

www.premiercercle.com

Contact: gert.vanmol@dowjones.com

Networking with The Wall Street Journal Europe?

Win 1 out of 6 seats at our WSJE "Networking Table" at The European Business Summit

30 June, 1 July, 2010
Brussels, Belgium
www.ebsummit.org

To win a seat email us your full contact details with "Summit" in the subject field. Reply by noon CET, February 20, '10 to the address below. Winners will be informed by email.

The Wall Street Journal Europe is read every day by 40,500 students at 180 top business schools and university campuses across Europe, a program supported by



***** Business Lounge
www.bnobusinesscenters.be

Premier Cercle



Executive Learning Partnership - ELP: Strategy & Learning Architects: www.elpnetwork.com

Yemen forces hunt leader of local al Qaeda group

A WSJ NEWS ROUNDUP

SAN'A, Yemen—Yemeni security forces launched a manhunt for leader of the al Qaeda affiliate that claimed responsibility for the alleged attempt to blow up a U.S. airliner on Christmas Day, and is believed to be behind a threat that forced the closure of the U.S. and British embassies.

Security forces swept into several areas where the militant leader, Mohammed Ahmed al-Hanaq, was believed to be hiding, in the mountainous region of Arhab, northeast of the capital, but haven't located him, security officials said.

Officials negotiating with tribal sheiks in Arhab are demanding that they surrender Mr. al-Hanaq and another al Qaeda suspect related to him, Nazeeh al-Hanaq, tribal leaders said.

The U.S. says the Arhab cell was behind a plot to send al Qaeda fighters into San'a to carry out attacks, possibly against foreign embassies. The U.S. and British embassies closed Sunday and Monday, and other Western missions limited or stopped their access to the public.

U.S. Adm. Mike Mullen, the chairman of the Joint Chiefs of Staff, appeared to rule out direct military ac-

tion by the U.S. in Yemen.

Speaking to students at George Washington University, Adm. Mullen, the nation's top military officer, said the U.S. effort would be limited to helping fund and train the Yemeni security forces, some of whom are already mentored by small teams of elite American Special Operations forces.

Yemeni security forces on Monday tried to capture Mohammed Ahmed al-Hanaq as he was moving through the Arhab region, prompting heavy clashes. He and Nazeeh al-Hanaq both escaped, but two fighters with them were killed.

On Tuesday, security forces arrested three other fighters who were wounded in the clashes as they were being treated in a hospital in a nearby town. Four others who took them to the hospital were also arrested, the Interior Ministry said Wednesday.

The U.S. and British embassies reopened the following day, saying the effort by Yemeni forces had largely resolved the threat.

A French Foreign Ministry official also said the country's embassy in Yemen's capital has reopened to the public following a three-day closure.

WORLD NEWS

Militants hit both sides in Kashmir

Suicide bombing at Pakistani barracks and attack on Indian paramilitary troops mark surprise surge in violence

India and Pakistan saw surprise violence in the contentious border area of Kashmir on Wednesday as suspected Islamic militants engaged in a gun battle with police in Srinagar on the Indian side and a suicide bomber killed three Pakistani soldiers on the Pakistani-controlled side.

By Krishna Pokharel
in New Delhi and
Zahid Hussain in Islamabad

The Himalayan region has been relatively peaceful of late, and the incidents weren't expected to mark a return to sustained violence in an area that has become a flashpoint for terrorism and a source of tension between the two neighbors since the partition of India in 1947.

The suicide bomber struck a Pakistani army barracks, killing at least three soldiers and wounding 11 others. Pakistan police said the bomber detonated his explosives when stopped by security guards outside the facility near the border town of Rawalakot. The blast occurred as the soldiers were leaving their barracks in the morning, said Javed Iqbal, the chief of the regional police.

The western part of Kashmir, controlled by Pakistan, is home to several Islamic militant groups which have been involved in fighting Indian troops across the line of control that divides Kashmir. These groups, once patronized by Pakistani military intelligence, were outlawed in 2002 but have continued to operate under new banners. Some of the splinter groups have also been blamed for terrorist attacks in Pakistan.



Indian paramilitary soldiers escort civilians rescued from a building near the scene of a gun battle with militants in a central market area in Srinagar, Wednesday.

There was no immediate claim of responsibility for the attack in Pakistan on Wednesday. A senior security official said the involvement of some elements of outlawed militant outfit couldn't be ruled out.

Police in Srinagar, summer capital of the Indian state of Jammu &

Kashmir, were engaged in a gun battle with suspected militants that was still under way Wednesday evening in the city's crowded marketplace.

The militants threw grenades and opened fire on a contingent of paramilitary forces. One policeman was killed and two others injured.

Farooq Ahmad, an inspector-general of police in Srinagar, said the police had cordoned off Lal Chowk, the city's commercial hub, where the attack took place, and were closing in on "one or two militants who have reportedly holed up at a hotel in the area."

In India-ruled Kashmir, the last

year saw the fewest deaths due to the insurgency since it escalated in 1990. The violence peaked in 2001, when more than 4,500 people were killed. Fatalities dropped to 377 in 2009, according to South Asia Terrorism Portal, a New Delhi-based research group.

India opposition resigns

BY VIBHUTI AGARWAL

NEW DELHI—A leading figure in one of India's largest regional parties said he will step down from all party posts, removing another high-profile opposition leader from India's political scene.

Amar Singh, general secretary of the Samajwadi Party, said he is resigning his posts on health grounds, but declined to be specific. Mr. Singh, 53 years old, who is in Dubai on a vacation, faxed his resignation to party chief Mulayam Singh Yadav.

"Family and health come first for me. The party wasn't around when I was ill. Doctors have advised me rest," Mr. Singh told television channels over the telephone Wednesday. A party official confirmed his resignation.

The Samajwadi Party won 22 parliamentary seats in the general elections last year, down from 38 in 2004. It played a crucial role in maintaining in power the last United Progressive Alliance coalition, led by the Congress party, by joining the government in the summer of 2008 after the left-wing parties withdrew their support. The leftists opposed the government's civilian nuclear-power accord with the U.S.

The SP, however, has been critical of the government's economic policies and isn't part of the government formed in June.

Mr. Singh's resignation comes at a time when India's opposition is in disarray and the Congress party is increasing its parliamentary standing



Amar Singh, 53, general secretary of India's Samajwadi Party, said he is leaving his party posts for health reasons. He faxed his resignation while on vacation.

in the national vote. In December, L.K. Advani, leader of India's main opposition Bharatiya Janata Party, resigned as party chief after the BJP lost parliamentary seats in elections.

Political analysts speculated that Mr. Singh may even support the Congress party now. The party official declined to comment on that and declined to make Mr. Singh available to comment, saying Mr. Singh would be back in India on Saturday. The Samajwadi Party's

base is in the giant northern Indian state of Uttar Pradesh, where Congress has been resurgent.

"Amar Singh's strong connections and vote bank in Uttar Pradesh might benefit the Congress party, which is already on the rise in the state," said S. Chandrasekharan, director of the New Delhi-based South Asia Analysis Group. The Samajwadi Party's supporters are mainly Muslims and those low on the Hindu caste ladder.

U.S. drone strikes kill 13 in Pakistan Taliban area

BY ZAHID HUSSAIN

ISLAMABAD—A pair of airstrikes by U.S. drones killed at least 13 people in a region of northwestern Pakistan that is partly controlled by a Taliban faction believed to have aided last week's attack on CIA officers in neighboring Afghanistan.

Wednesday's missile strikes extended a series of attacks targeting militants in Pakistan's North Waziristan tribal area, a stronghold of the Taliban faction controlled by Sirajuddin Haqqani and his father, Jalaluddin.

In the first strike Wednesday, a drone fired two missiles at a compound in the Dattakhel village of North Waziristan, killing at least seven suspected militants, said a Pakistani security official.

The second strike, also from a drone, followed minutes later when the locals were digging the dead bodies from the rubble of the first, the official said. An additional six people were killed, the official said.

A Pakistani intelligence official said four of the victims were foreign nationals, but couldn't say where they came from. The Haqqanis are Afghan and they are believed by U.S. and Pakistani officials to have close ties to al Qaeda, which is primarily made up of Arabs.

The drone campaign remains classified, and officials rarely disclose

the precise target of each strike. There was no official comment on Wednesday's strike from the U.S. or the Pakistani government, which publicly opposes the attacks but privately aids the campaign.

There has been a marked increase in U.S. drone strikes in Haqqani-controlled areas of North Waziristan since the Dec. 30 suicide bombing at an American base, Camp Chapman, in the neighboring Khost province of Afghanistan. The attack killed at least seven Central Intelligence Agency operatives.

Officials say the attack was carried out by an al Qaeda double agent from Jordan who CIA operatives were hoping would help them track down top leaders of the terror network.

U.S. and Pakistani military and intelligence officials say they believe the attack was aided by the Haqqanis.

"The attack may have been planned by al Qaeda, but it could not have been possible without the help of the Haqqani group," said Mahmood Shah, a retired Pakistani Brigadier who once served as security chief for Pakistan's Taliban-dominated tribal areas.

U.S. officials say the Haqqanis operate from North Waziristan and control parts of Khost. The U.S. has pressured Pakistan to move against the group.

Some Pakistani officials insist that if the Haqqanis have any presence in North Waziristan, it is minimal.

WORLD NEWS



Naoto Kan

Tapped as new finance minister, 63 years old (pictured left)

- **1970:** Graduated with a degree in applied physics from the Tokyo Institute of Technology.
- **1980:** Gained a seat in the lower house of parliament for the first time as a member of Socialist Democratic Federation, a small left-leaning party.
- **1996:** Served as the minister of health and welfare in the Ryutaro Hashimoto cabinet, a coalition government led by the LDP. Mr. Kan was applauded by the public for getting bureaucrats to dig up documents that showed that the government was responsible for infecting thousands of hemophiliacs with HIV-tainted blood.
- **1998:** President of Democratic Party of Japan, then the leading opposition party (now ruling party).
- **2009:** Deputy prime minister, minister of state for national policy, minister of state for economic and fiscal policy, minister of state for science and technology policy.

Spending advocate tapped in Japan

Succeeding Fujii as finance minister, popular Kan will seek a weaker yen but may worry investors concerned about debt

BY ALISON TUDOR
AND KENNETH MCCALLUM

TOKYO—Prime Minister Yukio Hatoyama on Wednesday tapped as finance minister a colorful, charismatic politician who advocates more spending, a weaker yen, and a less powerful bureaucracy to lift the economy. The move may lift the government's flagging popularity but spook investors who are jittery about Japan's swelling public debt.

Naoto Kan, one of Japan's most prominent and popular politicians of the past decade, will take over from Hirohisa Fujii, who lasted less than four months in office until resigning after being hospitalized for high blood pressure and fatigue.

During the brief tenure of the Hatoyama administration, Mr. Kan—who has held the title of deputy prime minister—has periodically tangled with fellow cabinet members, including Mr. Fujii.

Mr. Kan differed with some of Mr. Fujii's attempts to keep a check on stimulus spending, and has openly

criticized the Bank of Japan for being insufficiently aggressive in attempting to curb deflation, remarks seen as challenging the central bank's independence.

The announcement came Wednesday evening in Tokyo, after Japanese financial markets closed. In the hours after the news was released, the yen weakened slightly against the dollar.

Mr. Kan, 63 years old, was a civic activist before entering parliament three decades ago with a small left-leaning party. He shot to fame and popularity in the mid-1990s when, as health minister, he exposed the bureaucracy's responsibility for infecting thousands of hemophiliacs with HIV-tainted blood.

He has also had his share of political embarrassments. Mr. Kan once stepped down as head of the Democratic Party of Japan after he admitted failing to make contributions to a national pension plan. In atonement, he shaved his head, donned traditional Buddhist garb, and went on a pilgrimage to 88 rural temples. In a separate instance, his candidacy for

presidency of the party, which he helped start in 1996, was damaged by reports he had an affair with a newscaster, which he denied.

Mr. Kan takes over the finance ministry at a time of big economic challenges for Japan, which has never fully recovered from the bursting of the financial and property bubble two decades ago. The economy recently fell back into deflation, economists are warning of a double-dip recession, and the country is on the verge of being eclipsed by China as the world's second-largest economy. The yen's persistent strength against the dollar has crimped exports. At the same time, Japan's large public debt—nearing 200% of GDP—has limited what the government can spend on fresh stimulus measures.

Mr. Kan also takes the helm at a difficult time for the Hatoyama administration, which took power with high hopes that it could steer a new path from the long-ruling Liberal Democratic Party, but has since floundered amid internal dissent and unclear policies to address the economic trouble.

Separately, Mr. Hatoyama appointed Yoshito Sengoku, state minister in charge of administrative reform, to the additional post of strategy minister. Mr. Sengoku, 63, had also been viewed as a potential successor to the finance post.

Analysts expect Mr. Kan, who has little government experience in economic policy, to refocus Japanese economic policy, making it more aggressive. "Kan's appointment makes it easier for the DPJ's elite to speak with one voice," said Ed Rogers, Tokyo-based adviser to Wolver Hill.

Where Mr. Fujii was a strict advocate of limiting fiscal spending to try to reduce Japan's mammoth debt, Mr. Kan has indicated that he thinks a more flexible approach to fixing the country's budgetary woes is needed.

In November, for example, he said he didn't share Mr. Fujii's desire to keep new government bond issuance below a hard target of 44 trillion yen (\$479.93 billion) for the fiscal year starting April. In the end, the government decided to make a target—but not a ceiling—of about 44 trillion yen.

While Mr. Fujii, at the start of his tenure, declared that a strong yen is in Japan's interest, and backed off from that stance only when the Japanese currency strengthened sharply, Mr. Kan said last month: "I am advocating a weak yen to a certain extent."

Mr. Kan has been one of the leading voices in Tokyo warning of the dangers of deflation, and has taken the unusual step of publicly prodding the Bank of Japan to take more aggressive measures to cushion the blow of falling prices.

"We want the BOJ to extend support on the monetary policy front in overcoming deflation," he told reporters shortly before one BOJ meeting. At an emergency meeting several days later, the central bank decided on an additional liquidity-provision measure that entails lending three-month funds at a fixed rate of 0.1%.

But Mr. Kan's biggest political passion has been less about specific policies than about changing the process of how Japanese government works, specifically shifting power from bureaucrats to politicians.

Malaysian court suspends ruling on 'Allah'

BY JAMES HOOKWAY
AND CELINE FERNANDEZ

KUALA LUMPUR—Malaysia's High Court on Wednesday suspended its decision to let Roman Catholics use the word Allah in their local, Malay-language newspaper, reducing pressure on the government as it prepares its appeal against a ruling that has stirred unrest among some of the country's majority-Muslim population.

Separately, another Malaysian court charged an air force sergeant and a local businessman with stealing military jet engines in the latest corruption allegation hitting the government.

On Dec. 31, the High Court ruled that non-Muslims could use the Arabic word Allah, overturning a three-year government ban. The move has sparked spirited debate in Malaysia, where Muslim activists are planning protests on Friday. They contend that allowing non-Muslims to use the word Allah could sow confusion among Malaysia's Muslims and jeopardize relations between ethnic-Malays, who are Muslim by law, and other racial groups.

The Catholic Church in Malaysia, for its part, argued that Allah was the only acceptable translation for God in the Malay language. After the government ban was im-

posed, Christians often used the term Tuhan, or Lord, instead. The High Court's Dec. 31 ruling was widely seen as a victory for Malaysia's ethnic-Chinese, Indian and indigenous minorities.

Attorney General Abdul Gani Patil, who argued the government's motion for delaying implementation of the Dec. 31 ruling, welcomed Wednesday's suspension of the judgment.

Separately, Malaysia's government stepped up its efforts to combat corruption by charging two men for their alleged involvement in the theft of two \$14 million fighter jet engines. The heist—which took place in 2008 and was exposed last month in the local New

Straits Times newspaper—involved stealing the engines while they were under repair and smuggling them to South America, Mr. Abdul Gani has said previously.

The heist has added to opposition concerns about corruption, and how it might be hindering Malaysia's recovery from the global recession. In 2009, the country got its lowest ranking to date in Transparency International's annual corruption perception index. Malaysia fell to 56th place among 180 countries from 47 in 2008. Competitors such as Indonesia and Vietnam have made substantial progress in reducing graft, according to the Transparency International rankings.

Prime Minister Najib Razak came to office in April 2009 with a goal of drastically reducing graft in the heavily state-controlled country. But his government faces accusations of corruption, and says it has put in place a three-year plan to root out graft.

The Associated Press reported that Royal Malaysian Air Force Sgt. N. Tharmendran pleaded not guilty Wednesday to a charge of stealing the engines at a court in Selangor state, near Kuala Lumpur.

The court also charged local aeronautical company director Rajandran Prasad with helping to conceal the stolen jet engines. He also pleaded not guilty, the AP said.