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Jacobs closes Paris show with a flourish



U.S. designer Marc Jacobs shows his ready-to wear designs for Louis Vuitton as the Fall-Winter show closed in Paris Wednesday. See more photos and coverage from Paris, at WSJ.com/Runway.

BP may buy \$5 billion in Devon assets

BY GUY CHAZAN
AND JEFFREY MCCrackEN

British oil giant **BP PLC** is the leading candidate to buy a big swath of oil assets from U.S. independent oil and gas producer **Devon Energy Corp.** in a \$5 billion-plus deal that would vault BP into the hot new oil region off the shores of Brazil, people familiar with the matter said.

The deal would also reinforce BP's dominant position in the Gulf of Mexico and give it a stake in Devon's operations in Canada. It is expected to be announced in the next several days, said people familiar with the matter.

Devon, a midsized company, doesn't have the financial muscle to develop all its many assets and has decided to concentrate on its onshore projects in North America.

The transaction could fall through in its final stages, as Oklahoma City-based Devon and its advisers are consider-

ing a number of options for the sale of the assets, said these people. Other suitors, including **China National Offshore Oil Corp.**, known as Cnooc, and major Western oil companies like **Chevron Corp.**, are also still in the mix, though they are less likely to win the assets than BP, said one of these people.

BP and Devon both declined to comment.

BP is already the largest producer in the Gulf of Mexico, with some 500,000 barrels of daily production capacity. Last year it found a giant oil field there, Tiber, after drilling the world's deepest discovery well at over 35,000 feet, or about 10,700 meters.

But the British-based supermajor so far has no exposure to offshore Brazil, which has yielded some of the largest oil discoveries of recent decades. Those include the huge Tupi field that is estimated to hold recoverable reserves of between five billion

and eight billion barrels of oil and is the biggest oil find in the Western hemisphere since 1976.

Brazil's so-called subsalt oil lies in deep water under thousands of feet of sand, rock and a shifting layer of salt. The area has been difficult for major oil companies to access, and so far, the biggest prospects are largely being developed by Brazil's **Petroleo Brasileiro SA**, or Petrobras, and smaller Western companies like Britain's **BG Group PLC** and **Repsol-YPF SA** of Spain.

BP's chief executive, Tony Hayward, has frequently indicated that the company would like to enter Brazil, where it can leverage its expertise as one of the world's leading deepwater operators.

Last November, Devon said it planned to sell all its offshore and international assets in order to concentrate on its onshore North American en-

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The Quirk



Who killed Caravaggio? Man digs into a Renaissance mystery. Page 29

World Watch

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

Editorial & Opinion

Gordon Brown's 'error of incalculable proportions.' Page 11

BA, union talks break down

BY KAVERI NITHYANANTHAN

LONDON—**British Airways PLC** moved closer to a strike by its flight attendants after protracted talks with union leaders failed to secure a resolution.

Union officials on Wednesday stopped short of detailing a timetable for industrial action although they said no further talks were planned.

BA has been preparing for disruption by training alternative staff and preparing to lease aircraft with replacement crews. It said it was available to meet again with the Unite union "at any time."

The move reflects deteriorating labor relations across the global airline industry, including a recent strike by pilots at **Deutsche Lufthansa AG** and protracted talks at many U.S. carriers.

BA's cabin crews have voted in favor of action, and the union has until March 15 to notify BA of a strike, which must start by March 22 under the terms of the ballot.

The airline has been battling with cabin crews for a year and in December secured a court injunction based on union voting procedures to prevent a planned 12-day strike.

"Despite a prolonged period of negotiations it has not been possible to reach agreement between BA and Unite," according to a statement Wednesday from the Trades Union Congress, an umbrella labor group. "Both parties will be reflecting on the position and the TUC will be keeping in touch but at this stage no further negotiations are planned."

The union and BA execu-

tives traded proposals this week as the airline seeks to reverse heavy losses and change working practices to boost productivity.

This week, Unite proposed savings for the carrier—which included pay cuts—provided BA reverse some of the changes to working practices introduced late last year. BA has rejected the proposals.

Last week, BA said it has 23 leased aircraft on standby to cover services that could be hit by potential disruptions. It will lease planes complete with crews and pilots. It wouldn't say which routes they would cover.

Some 6,000 staff had volunteered to help in areas such as handing out advice at airports; that figure includes 1,000 who have volunteered to replace cabin crews during any strike.

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PAGE TWO

Looking 'abroad' for spending help

[Agenda]

BY PATIENCE WHEATCROFT



While economists agonize over how Western economies are to return to good health, French finance minister Christine Lagarde was able to prescribe a simple, neat solution. "If demand from abroad picks up, private-sector investment will replace government spending and we'll get out of this situation," she told French radio last month.

But what constitutes "abroad" for euroland isn't proving terribly helpful in providing this rescue. A flurry of statistics yesterday demonstrated that Europe's economies haven't lost their hunger for consumption, while the wider world is failing to spend its cash on buying in large quantity the cars and camemberts that the factories of euroland produce.

In January France's trade deficit did narrow but its imports were still up on the previous month. It was strong exports of Airbus airliners that made the difference, but that isn't going to be repeated every month and, even then, it wasn't enough to stop the country from spending €3.68 billion more on imports than it earned on exports.

This is a familiar picture in Europe, where Germany has long stood out as the exception, the country with a positive trade balance. Hence, there were shudders in the markets yesterday when the trade balance came in significantly weaker than had been expected. At a surplus of €8.7 billion, it was still an exemplar to its neighbors, but the reading was the worst since March last year, when the world's economies were in the worst depths of the recession.

Germany's numbers, however, were nowhere near as shocking as those reported from outside the euro zone by the U.K. at the beginning of this week. Exports in



The world is failing to buy in large quantities camemberts euroland produces

January had their biggest drop in three years while imports fell only marginally. The result was a yawning trade gap of very nearly £8 billion, the worst since August 2008. The fall in sterling which should have made U.K. exports so much more desirable had not, apparently, had the effect that it should have.

This dire performance raises yet more doubts about how the

The main thrust is that there should be generous tax credits to fund research and development

U.K. is to sort out its economic woes. Yesterday, Prime Minister Gordon Brown confirmed that there would be a budget in a fortnight, but few are expecting this to give much indication of how the country's huge debts would be reduced. However keen Chancellor Alistair Darling may be to announce tough spending cuts, a prime minister heading into an election is likely to try and muzzle him. And as Mr. Darling let slip recently, it is daunting to risk the ire of Mr. Brown. The last time he did, the response from Downing Street was, he said, "to unleash the forces of hell" upon him.

Mr. Darling is a brave man but he may reason that, if that was

what happened when he made public a perfectly reasonable, and accurate, assessment of the scale of the recession, what might ensue should he deliver a harsh budget that might be seen as an election-loser would be too dreadful to contemplate.

So any pronouncements in the budget are likely to be small scale, such as the changes in public-sector pay that were revealed yesterday. They would, said Mr. Brown, save £3 billion by 2013-14. But job cuts are what is needed, not merely freezing some salaries that had already been over-inflated.

Along with the cuts, though, there must be the growth in exports to which Ms. Lagarde referred. James Dyson, the inventor of the eponymous bagless-vacuum cleaner, has this week published a report prepared for the Conservative Party, with ideas for stimulating exports. The main thrust is that there should be generous tax credits to fund research and development.

Such incentives might well have a positive effect but only in the longer term...and while any government needs to put in place measures that will equip the country well for the future, the U.K.'s problems are immediate. The continued mutterings about potential downgrades from the ratings agencies should leave no room for doubts about that.

But one country's woes, or

even one continent's, are another country's good news. Thus it was that yesterday China was able to reveal that its exports in February were 45.7% up on a year earlier. As the West has clambered out of recession, perhaps a little more price conscious than in the heady days that preceded the crash, the demand for Chinese goods, with their relatively low prices, has leapt right back.

China isn't in a hurry to dull that appetite by boosting prices. Despite the calls for it to let slip the yuan's peg against the dollar and allow the currency to rise, it isn't about to oblige.

Assistant minister of finance, Zhu Guangyao yesterday made that clear, insisting that any decision on whether to withdraw stimulus policies from the economy, including the artificially low currency rate, wouldn't be taken until at least the third quarter of the year.

China has many millions of factory workers to keep employed and exports are what pays them. The Lagarde solution for "getting out of this situation" may be hard to achieve. While it waits, and hopes, that it can sell more abroad, the West has little choice but to learn to live a little more within its means.

Hedge-fund fudge

The Alternative Investments Directive continues to wend its way through the laborious procedure that equates to the EU legislative process. The horse trading among nations that goes on behind the scenes during this process ensures the result is an unwholesome and often badly flawed compromise.

That this should be the case with this directive seems almost inevitable but on Monday a delegation from London will again descend on Brussels, intent on persuading the European Commission that hedge funds weren't the instigators of the financial crisis and, while a degree of regulation might be appropriate, punishment isn't. They deserve to be heard.

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Iain Martin on Politics

blogs.wsj.com/iainmartin

"The trade figures suggest that whoever wins the election must deliver a strong dose of reality."

Iain Martin on the economic outlook and its impact on the U.K. election



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Question of the day

Vote and discuss: Do you think the U.K. economy is going the right direction?

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Previous results

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72%

No

28%

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NEWS

EMI revises its executive playlist

Leoni-Sceti resigns, adding to upheaval at record company

BY BRUCE ORWALL
AND DANA CIMILLUCA

EMI Group Ltd. said the chief executive of its recorded-music division, Elio Leoni-Sceti, resigned after less than two years on the job, the latest convulsion at the music company that is trying to both stave off default and re-invent its future.

EMI said that Charles Allen, the former chief executive of UK broadcaster ITV PLC who is EMI Music's non-executive chairman, will become executive chairman. With no current plan to replace Mr. Leoni-Sceti as chief executive, Mr. Allen will effectively take control of EMI Music's day-to-day business activities, hoping to leverage his previous experience in the media business.

In an email to EMI staff on Wednesday, Mr. Leoni-Sceti said, "My job is now done.... the company is operationally on a solid track, contrary to what is reported, the creative momentum is very strong, and I thought it was time for me to move on."

Mr. Leoni-Sceti's abrupt departure is the latest episode in a downward spiral that has found EMI fighting the effects of both an ill-timed leveraged buyout and the music industry's steep decline. The company, home to heritage acts including the Beatles and Pink Floyd and current artists such as Lily Allen and Gorillaz, was acquired for £2.4 billion (\$3.6 billion) by British financier Guy Hands' private-equity firm Terra Firma Partners Ltd. in 2007, in large part with loans from Citigroup Inc.

With recorded-music sales plummeting in the declining music industry, however, the deal has backfired. Terra Firma has taken big write-downs on its investment, been forced to make cash injections into EMI, and now is scrambling to prevent the recorded-music unit from defaulting on its debts to Citigroup. It is now engaged in a high-profile legal battle with Citigroup over the takeover.

Mr. Leoni-Sceti joined EMI in 2008 from Reckitt Benckiser, a consumer products company whose products include Lysol, Airwick air freshener and Clearasil acne cream. While Mr. Leoni-Sceti lacked music industry experience, EMI believed that his time in the consumer products business would bring new innovations to a music industry struggling to reinvent its product.

Under Mr. Leoni-Sceti, EMI has slashed costs and sought greater efficiency. Earnings before interest, taxes and depreciation has increased, and revenue for 2010 so far is up 2%. EMI Music now argues that it is improving operationally but constrained by its debt.

But the cutting had disrupted its relationships with music artists, making it more difficult to sign and retain talent. Artists including the Rolling Stones and Radiohead have left EMI since the Terra Firma acquisition and on Wednesday, pop band OK Go - famous for its online music videos - announced it was parting ways with EMI Music in favor of a new venture to distribute and promote its music.

In an email Mr. Leoni-Sceti sent



Former EMI executive Elio Leoni-Sceti, above right, with singer Tiziano Ferro at last month's Grammy party in Los Angeles. The music company is turning to Charles Allen, pictured below while still head of ITV.



A TV media veteran, Charles Allen, takes helm in the storm

BY PAUL SONNE

LONDON—After two years with a consumer-products marketing executive heading its struggling recorded-music business, EMI Group Ltd. is turning to a veteran media insider to right the historic music company.

Charles Allen, the man named executive chairman of EMI Music on Wednesday, is the former chief executive of Britain's largest terrestrial broadcaster, ITV PLC. He takes over from Elio Leoni-Sceti, an Italian media outsider who joined EMI in 2008 and resigned abruptly from the unit's top post on Wednesday.

Mr. Leoni-Sceti, hired from consumer-goods firm Reckitt Benckiser Group PLC, was meant to bring more marketing expertise and consumer savvy to the faltering recorded-music unit.

The hope now is that Mr. Allen's longtime relations with both entertainment-industry talent and media-sector financial movers can better guide EMI Music out of a rocky period in which it is in jeopardy of defaulting on its debts.

Mr. Allen said he would retain EMI's focus on its artists and delivering a digital platform.

Mr. Allen spent over a decade at the British media company Granada PLC, ultimately spearheading a 2004 merger with Carlton Communications to create ITV.

The deal, marked by a host of political and regulatory obstacles, was seen as a major coup, and Mr. Allen subsequently took over as the new broadcaster's chief executive.

But declining viewing figures and a slump in advertising revenue at ITV's main channel led to Mr. Allen announcing his resignation in 2006. Though Mr. Allen said the declines were "cyclical" at the time, he faced pressure from ITV shareholders who had become worried about the broadcaster's performance.

Though Mr. Allen found some success in navigating thorny British media regulations, he also was criticized for the failure of ITV Digital, a pay digital platform, and the influx of reality shows on the network. Mr. Allen, who is also nonexecutive chairman of commercial radio group Global Radio and a nonexecutive director at Virgin Media Inc. and Tesco PLC, is now up against a host of challenges facing EMI.

The music company's owner, private-equity firm Terra Firma Partners Ltd., is engaged in a high-profile legal battle with Citigroup Inc., which lent the firm money to take over EMI in 2007.

The label is also struggling to come to terms with troubles that have affected the music industry as a whole, most notably declining sales and pervasive Internet piracy.

Mr. Allen, in a statement released Wednesday, said he would retain EMI's focus on its artists and their creativity and also concentrate on delivering a digital platform.

Mr. Hands last fall—which became public during the Citigroup litigation—he complained that the bad publicity "has created a situation that is jeopardizing our ability to execute our strategy.... Not only are artists and artists' managers raising concerns, but morale within the company has reached a low point. In addition, the top management team are increasingly concerned about the future of EMI Music and seeking assurances about their personal positions."

In last fall's email, Mr. Leoni-Sceti also said that over the previous nine months the company had lost distribution deals that would have generated fees of about \$13 million per year with counterparties voicing concern over the music company's stability. He estimated that £10 million to £15 million of "gross margin" from new music could be at risk as a result of negative press surrounding the company.

The latest shakeup comes at a

delicate time for EMI and Terra Firma. In the coming months, Terra Firma must raise £120 million to avoid a debt default or risk losing control of EMI to Citigroup.

The U.S. bank, which financed the takeover in 2007, is owed more than £3 billion. While EMI Music's debt is at risk, one loan from Citi is backed by EMI's music-publishing business, which is relatively healthy and isn't at risk of default.

Terra Firma and its founder, Mr. Hands, have promised their investors a new business plan for EMI that they planned to use as a marketing tool in their fundraising efforts. That was already going to be a tough sell given that Terra Firma's initial equity investment in EMI has already been mostly if not totally wiped out.

Mr. Allen said the new business plan would focus on several areas, including driving sales through smart packaging and added features that consumers are interested in.

EMI did very well over the holidays with box sets of remastered Beatles compact discs, and this week it released a new album by hit act Gorillaz that includes access to a range of extra content including a streamed live performance, an online game and a DVD.

Still ahead is the ongoing legal battle between Terra Firma and Citigroup. Mr. Hands has accused Citigroup of duping him during the original deal negotiations. Citigroup denies the allegations.

The suit had already added to the challenges facing EMI at a time when traditional recorded-music businesses are under fire as demand shifts away from CD sales and toward the Internet, and amid rampant piracy.

Before Terra Firma filed the suit against Citigroup, it had proposed a restructuring of EMI that would have separated the recorded-music and publishing divisions. Citigroup rejected the proposal.

EUROPE NEWS

Brown won't alter plan to cut debt

Prime minister, who will unveil U.K. budget March 24, keeps measured approach amid calls to accelerate trims

BY LAURENCE NORMAN
AND NATASHA BRERETON

LONDON—U.K. Prime Minister Gordon Brown reiterated that he won't be using the coming budget to accelerate his government's debt-reduction plan, a controversial topic that has split economists and other experts.

Some business organizations, credit-rating agencies and the Bank of England have called for faster cuts to Britain's record deficit, while many economists agree with Mr. Brown that cuts that are too aggressive could derail the country's fragile recovery.

Confirming that he will announce the budget on March 24, Mr. Brown said his government wouldn't adjust its four-year debt-reduction plan—either before or after the next election.

Mr. Brown's announcement came as data from the U.K. Office for National Statistics underscored just how fragile the recovery is, with manufacturing output down sharply in January as severe weather crimped activity.

Manufacturing output fell 0.9% in the first month of the year, reflecting a broad-based weakening, with 11 out of 13 subsectors posting month-to-month declines. The only two areas that strengthened were machinery and equipment, and food, alcohol and tobacco. However, in annual terms, manufacturing output rose 0.2%, its first gain since March 2008.

"Snow will have physically obstructed workers at manufacturers and their end customers from getting to work. Similarly, deliveries in and out of businesses will have been impeded," said Alan Clarke, U.K. economist at BNP Paribas SA. "We believe this was a temporary blip and a sharp snapback is likely next month."

In what is likely to be his last major economic speech before the election, Mr. Brown said the U.K. re-



British Prime Minister Gordon Brown, speaking in London on Wednesday, said the U.K. recovery remains fragile.

covery remains fragile and signaled the government hasn't ruled out the possibility that the economy could fall back into recession.

"There will be many months ahead of conflicting statistics, false hopes and mixed signals," Mr. Brown said. The latest figures show that the U.K. pulled out of a deep 18-month-long recession in the final quarter of 2009, but some economists have expressed concern that the January weather, a rise in the value-added tax rate and the impending general election could cause the economy to contract again in the coming months.

The prime minister's decision to stick to the government's current debt-reduction plan raises the political stakes ahead of what looks set to be a tight election.

The opposition Conservatives have said they would cut spending this year and plan to cut the debt further and faster than the government in coming years. The election is due by June 3.

Under the current plans, the budget deficit, which is set to reach 12.6% of gross domestic product this financial year, will drop to about 5.5% in 2014. The Treasury foresees net debt reaching 77% of GDP in the 2014 financial year—double its pre-recession levels—and expects the budget to return to balance in the

Mr. Brown's decision to stick to the plan raises the stakes ahead of what looks set to be a tight election.

year ending in the spring of 2018.

Those plans have faced renewed criticism in recent days. On Monday, the Confederation of British Industry urged Chancellor of the Exchequer Alistair Darling to draw up a more "credible" debt-reduction plan that aims to balance the budget by 2015. To do so, the CBI said the gov-

ernment should freeze everyday government spending in real terms starting in 2012.

Credit-rating agencies have made similar calls. Brian Coulton, managing director of Fitch Ratings, said Tuesday that the government's debt-cutting plan is "too slow." Bank of England Gov. Mervyn King has also called for more ambitious deficit reduction.

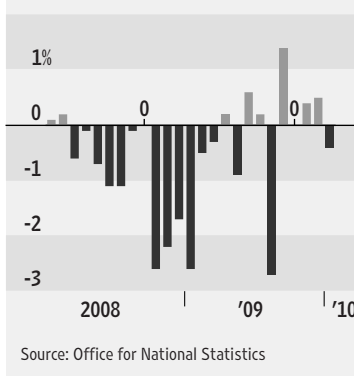
"If Brown is right and they do stick to halving the deficit over the coming four years, then it does suggest that our triple-A rating could be lost and that is obviously not good news," said Jason Simpson, head of interest-rate strategy at Royal Bank of Scotland.

Mr. Brown signaled his government was conscious of market concerns. While he promised to maintain government spending to support the economy this year, he said the budget will set out more details on how the Treasury plans to meet its debt-reduction goal.

In a sign that the government

Output wavers

U.K. industrial production, percentage change from the previous month



Source: Office for National Statistics

would accept political pain in cutting the deficit, he confirmed plans to save some £3 billion (\$4.5 billion) over the next three years by freezing the salaries of senior civil servants, judges and military officers and the pay of health consultants, doctors and dentists.

Hague calls for reordering foreign relations

BY ALISTAIR MACDONALD

The U.K.'s Conservative Party indicated Wednesday that if it wins a spring election, it would deepen relations with countries beyond its famously close bond with the U.S., in anticipation of a relative decline of American power in the years ahead.

The comments by William Hague, the opposition party's top foreign-affairs official, come ahead of a general election expected in early May. In a speech in London, Mr. Hague criticized the ruling Labour government for being too focused on Europe and North America, and "slow to recognize that a comprehensive approach to international relations is now essential."

The Conservatives are favored to win the spring election—though a once-commanding lead has shrunk in polls—and other countries are increasingly focused on the party's foreign-policy intentions. The U.S. has long enjoyed especially close ties with Britain in what is often described as "the special relationship." In recent years, the U.K. has been a key ally in Afghanistan, in exerting



The Conservative Party's William Hague at Davos in January.

pressure on countries like Iran and in sharing resources, such as intelligence.

But Mr. Hague said the U.K. must look further afield and "acknowledge that a vast proportion of the world's economic activity, followed inevitably by its political weight, has moved in recent decades beyond

the confines of Europe and North America." The Conservatives, he said, would look to strengthen the U.K.'s ties with Persian Gulf countries, India and China. Mr. Hague also said the country would change the present government's "neglectful attitude" toward the Commonwealth of former British colonies.

Mr. Hague said the relationship with the U.S. will continue to be an "irreplaceable bond in the conduct of our foreign policy" but that it will be "solid but not slavish." Former Prime Minister Tony Blair has been frequently criticized in Britain for being too close and uncritical of the U.S.

In the past, the party of Margaret Thatcher and Winston Churchill has put much of its diplomatic efforts into close cultural, military and economic ties with the U.S.

Over the past decade, the Labour governments of Tony Blair and Gordon Brown have taken up that baton. Foreign Secretary David Miliband was in the U.S. on Wednesday.

Mr. Hague's comments are in line with those made by other leading Tories on the need to prepare for the decline of the U.S. by broadening relations with countries such as India and the Gulf states. Party leader David Cameron has called for a new special relationship with India.

In his speech Mr. Hague also reached out to the European Union. The Tories and Mr. Hague have typi-

cally struck a belligerent stance over the EU, which they have often painted as an undemocratic body that impinges on British sovereignty.

"It is our firm intention that a Conservative government will be active and activist in the European Union from day one, energetically engaging with our partners," he said.

Separately, the former head of Britain's intelligence service MI5 late Monday criticized her U.S. counterparts for misleading the U.K. by hiding information extracted from alleged Sept. 11, 2001, plotter Khalid Sheikh Mohammed through methods classified as torture in Britain, such as waterboarding. Eliza Manningham-Buller said her staff had been told he talked because he had wanted to boast and that it was only after retirement that she read he had been subjected to waterboarding 160 times, according to remarks in the Associated Press and confirmed by a spokesman.

Representatives for the Foreign Office and Mr. Miliband didn't return calls.

EUROPE NEWS

Turkey delays loan talks with IMF

Discussions of politically unpalatable economic assistance are put off until after assessment is made in May

BY MARC CHAMPION

ISTANBUL—Turkey won't conduct further talks with the International Monetary Fund on a potential new standby loan until at least May, the economy minister said Wednesday, again delaying more than a year of intermittent talks on a loan facility favored by economists but resisted by the government.

Ali Babacan's comments followed statements late Tuesday by Turkey's treasury and the IMF in Washington, which said the IMF will send a mission for a routine update on Turkey's economy. Such assessments, known as Article IV reports, wouldn't usually be drawn up were a standby agreement on the table. Turkey hasn't had an Article IV report since May 2007.

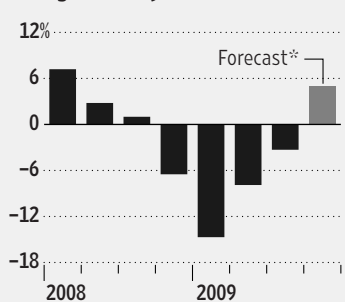
Mr. Babacan said the IMF study would take place at the beginning of May. "Following the Article IV review, we will decide on the framework with the IMF under the conditions of the day," Mr. Babacan told reporters in Ankara, according to state news agency Anadolu Ajansi.

Turkey's generally pro-business government must call national elections by the middle of next year. Many analysts say the government has been holding the IMF at bay in the hopes that it would be able to weather the financial crisis without the need for a new standby loan, which would impose restrictions on public spending and could appear to voters as a sign of government weakness or failure.

Turkey's public finances have survived the downturn relatively

Goodbye IMF

GDP quarterly growth, percentage change from a year earlier.



*Forecast given by Finance Minister Mehmet Simsek in late February, ahead of March 31 release.
Source: Turkish Statistical Institute

well, despite a sharp drop in output early last year. IMF and Turkish officials have stressed that a standby facility wouldn't represent a bailout for an economy in need of rescue, as in some other emerging markets. Instead, it would be a standard IMF facility designed to stimulate growth by providing the government with funds it would otherwise have to raise in the markets, crowding out private-sector borrowers.

Still, any standby program would likely involve unpopular austerity measures and other conditions, which Turkey's government has repeatedly balked at accepting.

Markets had already largely discounted the prospect of an early IMF deal. Turkey's IMKB stock index fell by 1% when trading opened Wednesday, but quickly recovered.



Ali Babacan spoke at a business forum in Istanbul on Wednesday. Prospects for an IMF loan facility dimmed this week.

"On balance we believe this is a negative development," said Ilker Domac, an Istanbul-based economist with Citigroup.

He cited tight external financing conditions, as Turkey's debts fall due and its current-account balance is forecast to rise to \$31 billion, or 4.4% of gross domestic product. These factors, together with rising

domestic political uncertainties and skittish global markets abroad, "do not bode well for market sentiment," Mr. Domac said.

Turkey can return to the IMF for talks on a standby loan at any time. However, some economists say the significance of this week's break is that going back may not now be instant or easy.

"The IMF is likely to be careful this time to avoid a repeat of the past 18 months, when it seemed to have lost some control of the process," said Christian Keller, an economist with Barclays Capital. "Therefore, investors should be cautious in assuming that Turkey's government continues to have the IMF on 'speed dial'."

Investment outlook is mixed

BY JAVIER ESPINOZA

LONDON—Countries in Central and Eastern Europe are facing frail investment prospects in the medium term, but for those looking for great opportunities this is a good time to invest, according to Yael Selfin, a senior economist with PricewaterhouseCoopers LLP in London.

"We are not expecting a quick pickup there. Less people will be looking at the region, so for those wanting to invest, there is a good chance to build up some ventures and snap up good undervalued assets," she said. "Investors can get higher returns because of less competition."

Some sectors with the biggest drop in foreign direct investment include real estate, automotive, consumer electronics and transporta-

tion. The drop in investment, Ms. Selfin says, would mean the skills and labor in these sectors "are likely to be cheaper and more plentiful and the prices of real estate and other infrastructure investment associated with these investments would also be lower."

Still, she said overall FDI—a big driver for the region—remains "very vulnerable and weak," as PwC published a report highlighting the major knock the region has seen in terms of foreign investment.

The report shows how five bumper years of FDI took a beating in 2009 as a result of the global recession. According to the study, the region's FDI fell by 50% to \$77 billion, after having enjoyed a fivefold increase from 2003 to 2008, rising to \$155 billion from \$30 billion.

Much of the blame for this col-

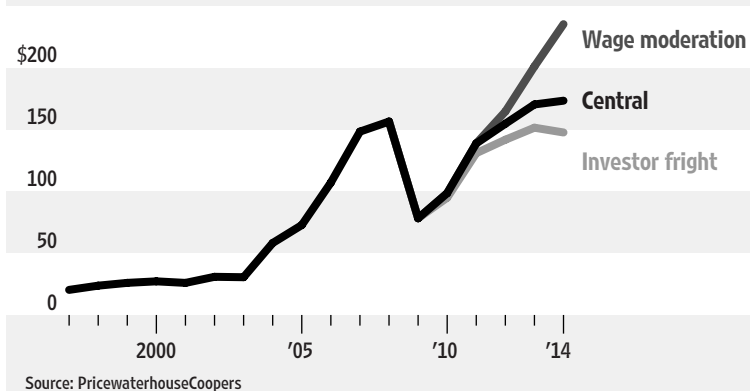
lapse can be laid at the door of the real-estate sector, where FDI declined by a massive 71% in 2009 from 2008, the research shows. Latvia is a good example of how the highly speculative real-estate sector has collapsed. More than 60% of total FDI inflows in 2008 were in this economic area, with a value of \$2 billion. In 2009, however, the country received just one investment amounting to \$100 million.

Apart from the real-estate drop, investors are worried about the region's efficiency in the financial market, its economic stability and its fiscal sustainability, the report said. PwC expects that a decrease of these perceived risks is likely to drive investment back into these countries.

Another factor expected to drive foreign investors to the region is the

In a crisis, opportunity

Projected scenarios for Central and Eastern European foreign direct investment inflows, in billions



lower salary expectations among the labor force. Salaries were rising before the crisis hit and were expected to rise even higher. But that changed following the collapse of

the financial markets as unemployment rose. Poland, for example, now expects average wage growth of 4% this year, well below the productivity gains, according to Wood & Co.

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Italian law allows premier to delay trials

BY STACY MEICHTRY

ROME—The Italian Parliament on Wednesday approved a law that temporarily shields Prime Minister Silvio Berlusconi and top members of his government from criminal trials.

Under the new law, Mr. Berlusconi and ministers in his Cabinet have the power to postpone ongoing criminal trials for up to 18 months on grounds that potential appearances in court would interfere with

their governing duties. Once the postponement ends, trials facing government ministers could resume, according to a copy of the new law.

The measure is the latest development in Mr. Berlusconi's long-running battle with Italian magistrates. In October, Italy's Constitutional Court struck down a law that granted Mr. Berlusconi and other top officials immunity from criminal prosecution, ruling that Parliament was required to pass a constitutional amendment to grant officials

immunity. Mr. Berlusconi's center-right coalition has a strong majority in Parliament. But to pass a constitutional amendment, Mr. Berlusconi's conservative allies in Parliament would need to muster a two-thirds majority vote.

Mr. Berlusconi and his supporters have long contended that the prime minister is the victim of politically motivated magistrates. Maurizio Gasparri, a senator from Mr. Berlusconi's conservative People of Freedom party, said the new law

aims to "balance the relationship between the executive and judiciary" branches of government.

Left-wing lawmakers criticized the move, which they said was tailored to place the prime minister and his top ministers above the law. "The prime minister and his cabinet can now avoid any judicial reckoning," said Nicola la Torre, a senator in the center-left Partito Democratico.

Mr. Berlusconi faces two separate trials.

U.S. NEWS



European Pressphoto Agency

U.S. Vice President Joe Biden talks to Palestinian President Mahmoud Abbas after a meeting in Ramallah on Wednesday.

Palestinians stay in talks

Biden warns Israel that building quashes trust in peace process

By JOSHUA MITNICK

RAMALLAH, West Bank—The Jerusalem building flap that overshadowed U.S. Vice President Joe Biden's trip the Middle East began to lose steam Wednesday, as Palestinian leaders stopped short of pulling out of an American effort to renew peace talks.

Palestinian leader Mahmoud Abbas, speaking after meeting with Mr. Biden in Ramallah, said that the plan made public on Tuesday to build 1,600 homes in east Jerusalem is a "severe blow" to talks and should be rescinded.

Mr. Abbas called on Israeli Prime Minister Benjamin Netanyahu not to "waste this opportunity to make peace."

The narrowly averted crisis over building in east Jerusalem is the latest in a string of Israeli diplomatic gaffes under Mr. Netanyahu over the past year.

The American vice president repeated for a second day an unusually blunt indictment of Israel, saying that the planning decision "undermined the trust" that was necessary for the success of the peace process.

In Cairo, Arab League foreign ministers met in an emergency session to discuss the Israeli building approval.

Just last week, the forum gave Mr. Abbas critical backing to renew the peace talks.

Arab League Secretary-General Amr Moussa said the group would re-examine that decision and would submit a recommendation later this month.

In Israel, Interior Minister Eli Yishai apologized for the flare-up, saying he had been unaware of the plans to make public the building project.

The narrowly averted crisis is the latest in a string of Israeli diplomatic gaffes that highlight how foreign relations under Mr. Netanyahu have been muddled over the past

year by political allies opposed to the very notion of final-status peace talks with the Palestinians.

Some observers question whether Mr. Netanyahu's embrace of negotiations toward a Palestinian state expresses a genuine strategic shift, saying that it could be a tactical maneuver for the security hardliners.

In either case, top ministers in the government appear to have gone off-script.

In January, Foreign Minister Avigdor Lieberman's deputy publicly humiliated the ambassador of Turkey over criticism of Israeli policy in the Gaza Strip, escalating a crisis with a regional ally which had recently mediated during Israeli peace talks with Syria.

Mr. Lieberman, leader of the ultranationalist Yisrael Beiteinu party, is an outspoken critic about negotiations with the Palestinians and with Syria.

Although Interior Minister Yishai apologized for the latest gaffe, the leader of the ultrareligious Shas party has been an outspoken opponent of even broaching negotiations on Jerusalem.

In Israel's system of multiparty coalition governments, bickering has always been endemic among the prime minister and top ministers who head their own political bases of support.

But it has risen to a new level in the current government, says an expert.

"In this government, ... there is, I would say cautiously, indifference, or maybe a wish to prevent the resumption of the talks," says Alon Liel, a former director general of the foreign ministry who supports peace negotiations with Syria.

"It's unprofessional and undiplomatic behavior of two political leaders who do not care at all about the peace process, who would like to embarrass Netanyahu in order to slow down the process," Mr. Liel adds.

The Israeli media portrayed the flare-up as bungled diplomacy reminiscent of Mr. Netanyahu's ill-fated first term in office.

"Embarrassment," declared the banner headline of the Ma'ariv tabloid.

"U.S. Vice President Joe Biden

came here to try to restore the chemistry between the White House and Jerusalem, to alleviate the suspicions, to create a kind of relationship, perhaps a new beginning. And what happened?" asked columnist Ben Caspit in the same paper. "Within fifteen minutes, we lost him too."

Italy, U.S. raid mob

By STACY MEICHTRY
AND MARGHERITA STANCATI

ROME—Police in Italy and the U.S. arrested 26 people in a sweeping series of raids that dismantled an international Mafia drug network, according to Italian police.

Twenty people were arrested in Palermo for alleged drug-trafficking, extortion and usury, Italian police said in a statement Wednesday. Three members of the Gambino crime family were arrested in New York and North Carolina and charged with extortion and obstruc-

tion of justice, according to a statement by the U.S. Attorney for the Eastern District of New York. Three people were arrested in Miami, said an FBI spokeswoman in Miami.

Prosecutors allege Italian national Roberto Settineri acted as an intermediary between a Palermo-based clan and the New York-based Gambino and Colombo families. He was charged with money laundering and obstruction of justice, the U.S. district attorney's statement said.

Efforts to reach a lawyer representing Mr. Settineri were unsuccessful.

BP seeks Devon assets

Continued from first page
ergy business. It said it expected to generate after-tax proceeds of up to \$7.5 billion from the divestitures. The announcement came as low oil prices were making it harder for smaller players like Devon to finance big technically complex offshore projects—a problem that larger companies like Exxon Mobil Corp. and BP haven't faced.

These assets "require a lot of capital, which Devon has decided it wants to use elsewhere," said a person familiar with the matter.

In December, A.P. Moller-Maersk, the Danish shipping and oil group, bought Devon's stake in the Jack oil field in the Gulf of Mexico for \$300 million. Maersk had originally intended to buy Devon's stakes

in two other deepwater fields as well—St. Malo and Cascade. But the deal unraveled when Devon's partners exercised pre-emptive rights to buy the stakes. Cascade is operated by Petrobras and Jack and St. Malo by Chevron.

Devon will sell to BP its interests in the Gulf of Mexico, offshore Brazil and a stake in its Canadian energy business, according to a person familiar with the matter. Devon produces both conventional and heavy oil in Canada, and also has shale-gas properties in the Horn River Basin of northeast British Columbia.

It was unclear whether a deal with BP would include Devon's other international assets, such as its offshore oil fields and exploration blocks in China.

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WORLD NEWS

China limits banks' bonuses

Regulator aims to control risk in financial system; new rules require lockups, clawbacks

China issued guidelines governing the payout of bonuses to executives at Chinese financial companies, joining the ranks of countries trying to discourage excessive risk taking by changing the way senior bankers are paid.

Under the rules, banks should retain at least 40% of the funds budgeted for bonus payments against possible future risks. They can then pay out the retained funds after a lockup period of three years, the China Banking Regulatory Commission said in a statement Wednesday. If the banks have significant losses, they will have the power to take back previously paid bonuses and stop further payments, the regulator said.

The new rules also limit bonus payments for senior managers to no more than three times their base salary.

The global financial crisis prompted a re-examination of executive pay in the U.S. and other countries. In China, salary levels have risen in recent years with rising profits, but executives in the financial sector generally earn a fraction of what their counterparts at Western companies make—even though China's banks are among the largest in the world and have mainly avoided the losses that crippled many foreign counterparts.

In 2008, **Industrial & Commercial Bank of China Ltd.** Chairman Jiang Jianqing received total compensation of about \$236,000, according to the bank's annual report.

Not quite Wall Street

2008 remuneration for top executives at China's three biggest listed banks, in U.S. dollars

Bank of China



Xiao Gang
Chairman
\$220,761

Li Lihui
President
\$226,181

ICBC



Jiang Jianqing
Chairman
\$235,849

Yang Kaisheng
President
\$224,862

China Construction Bank



Guo Shuqing
Chairman
\$229,843

Zhang Jianguo
President
\$228,671

Sources: Bank 2008 annual reports, Bloomberg News (photos)

Citigroup CEO Vikram Pandit received more than \$38 million that year. (For 2009, Mr. Pandit received cash compensation of \$128,751 after cutting his salary to \$1 in February 2009.)

Still, compensation in the financial sector has been a contentious subject in China, where almost all major banks and insurers are majority-owned by the government, and most top executives are appointed by the ruling Communist Party.

China moved early in the crisis to rein in financial-sector pay. The Ministry of Finance issued a notice in April saying it had capped total compensation for financial institutions in 2008 at 90% of the amount

executives received the year before. For financial firms at which revenue fell in 2008, the limit was set at 80%, the ministry said.

Back then, when a downturn in global demand resulted in layoffs in China's export sector, the government said its actions were driven by the need to ensure "fair distribution of income in society." By contrast, Wednesday's statement was focused on controlling risk in the financial system.

"The global financial crisis showed an inappropriate payment system in many countries' financial industries led to overly risky bets and excessive profit-chasing by financial companies, which destabi-

lized both the firms and the sector," the banking regulator said.

It also said its new measures aren't an attempt to decide remuneration levels at commercial banks.

In November, Hong Kong proposed similar guidelines that would require top banking executives to defer at least 60% of their bonuses for at least three years.

The rules will apply to all Chinese banks as well as state-run asset-management firms, trust companies and the financial units of state-owned companies. Foreign banks in China weren't included in the list of institutions covered by the rules.

—Rose Yu

Rosy growth

China's monthly exports, change from previous month



Sources: National Statistics Bureau of China via Thomson Reuters; Reuters (photo)



Workers categorize crayons at a toy factory in Dongguan, China

China's exports rose in February

By TERENCE POON

BEIJING—China's exports expanded strongly for the third straight month in February from depressed year-earlier levels, though they slipped slightly from January, showing the recovery remains tentative.

The choppiness of the export rebound could bolster the case for Beijing to stick with its currency policy, which has helped exporters.

China's exports in February rose 45.7% from a year ago, official data showed Wednesday, a pickup from January's 21% increase, though the jump was mainly due to a low com-

parison base, as exports in February 2009 fell at their fastest rate during the international financial crisis.

Seasonally adjusted exports last month fell 2.2% from January, suggesting lingering weakness in external demand—a recurring theme in recent remarks by officials.

Imports grew 44.7% in February from a year earlier, slowing from January's 85.5% pace, which in turn was partially due to the steep import drop in January 2009.

Seasonally adjusted imports in February rose 6.3% from the previous month, reversing January's 0.9% drop, indicating domestic demand remains strong despite government

efforts to slow lending.

Copper imports, for instance, rose in February from January, reversing a sequential drop in January, according to data from the General Administration of Customs.

In laying out the economic-policy blueprint for this year, Premier Wen Jiabao said Friday the government needs to "consolidate the momentum of the economic turnaround," given that many destabilizing factors in the world economy persist and private growth drivers in China remain weak.

Despite external pressure, Mr. Wen said the government will maintain the yuan exchange rate's "basic

stability."

China has kept the local currency largely unchanged against the dollar since July 2008 to help exporters cope with the financial crisis.

Alastair Chan, an associate economist with Moody's Economy.com, said Chinese import growth "will outpace export growth this year because the domestic economy is doing better than those of China's trading partners."

"If imports increase quite a lot and the trade surplus shrinks, international pressure will fade," he said, referring to pressure on Beijing to budge on the currency.

—Liu Li contributed to this article.

Climate panel to face review amid questions

By JEFFREY BALL

The launch Wednesday of an independent review of the Intergovernmental Panel on Climate Change immediately reverberated politically, as supporters and opponents of government controls on greenhouse-gas emissions jockeyed to use the announcement to their advantage.

United Nations and IPCC leaders officially announced that they have chosen the InterAcademy Council, an Amsterdam-based body representing scientific societies around the world, to conduct a wide-ranging review of the IPCC's procedures and management.

The review, to be finished by August, comes in response to a string of recent revelations of questionable behavior and factual errors by some scientists who contributed to the IPCC's 2007 report, which won a Nobel Peace Prize. That report called climate change "unequivocal" and "very likely" caused by greenhouse-gas emissions from human activity.

In announcing the review, Ban Ki-moon, the U.N.'s secretary-general, and Rajendra Pachauri, the IPCC's chairman, said they believe the 2007 report's basic conclusions about the link between human activity and climate change remain strong.

"Regrettably, there were a very small number of errors" in the report, Mr. Ban said. "Remember, this is a 3,000-page synthesis of complex scientific data. I have seen no credible evidence that challenges the main conclusions of that report."

Nevertheless, IPCC leaders, including Mr. Pachauri, say an independent review is needed to try to restore public confidence in the IPCC.

The IPCC now is gearing up to produce its next big report, due out in 2013 and 2014.

After the announcement, a number of factions involved in climate-change politics issued responses. Environmentalists who want the U.S. government to limit greenhouse-gas emissions said they hoped the review would quiet what they described as politically motivated criticism of the IPCC. It should "restore public confidence that has been shaken by an aggressive campaign to sow confusion about climate science," said Peter Frumhoff, among the scientists who helped to write the 2007 report, and director of science and policy for the Union of Concerned Scientists, an environmental-advocacy group.

However, some critics of government controls on greenhouse-gas emissions said the IPCC's conclusions about climate science are suspect. Republican Sen. John Barrasso of Wyoming reiterated his call for Mr. Pachauri to resign. Mr. Barrasso said the U.S. "cannot afford to continue to base our energy and environmental policies on contaminated U.N. data."

Among the issues the InterAcademy Council review will probe, said Robbert Dijkgraaf, the council's co-chair: the IPCC's guidelines for using non-peer-reviewed literature in its reports; how to ensure it considers a "full range of scientific views" on climate change; and how it corrects any errors in its reports once errors are detected.

In addition, Mr. Dijkgraaf said, the council will "look at the management of the IPCC."

WORLD NEWS

Taliban leaders move to avoid arrest

Afghan chiefs in Pakistan disperse to cities after the detentions of top militants, hindering the insurgency

BY MATTHEW ROSENBERG

KABUL—The Afghan Taliban's leadership has dispersed to cities across Pakistan to avoid arrest after the recent detention of senior militants, officials and militants say. Western officials say the growing pressure on militant leaders, if maintained, represents one of the best hopes for undermining the twin insurgencies threatening Afghanistan and Pakistan.

The dispersion of Taliban leaders is slowing the process of replacing the group's operations chief and effective No. 2, Mullah Abdul Ghani Baradar, say militants and tribal elders with ties to the insurgents. Mullah Baradar was arrested in late January, and at least three other major Taliban figures have since been picked up, along with a handful of second-tier leaders, U.S. and Pakistani officials say.

The Afghan militants and the affiliated Pakistan Taliban have also faced major territorial setbacks from military offensives on both sides of the border over the past six months. Yet they remain potent forces, as evidenced by car bombings in both countries over the past two weeks. The Taliban is a highly decentralized movement; even without top commanders, fighters can skirmish, launch hit-and-run ambushes and bury improvised bombs along dirt roads—tactics that have often stymied vastly superior military forces.

But the leadership vacuum, says a senior North Atlantic Treaty Organization officer, should hamper the militants' ability to fight off major offensives, like the planned coalition move later this year to reassert control over Kandahar the Taliban's spiritual and strategic heartland in southern Afghanistan.

"Foot soldiers will only be able to follow their last order," the officer said. "Their ability to conduct cohesive and coordinated operations—the more organized and strategic stuff—will be significantly deteriorated," he said.

Aghan President Hamid Karzai arrived Wednesday in Pakistan for talks likely to focus on how Pakistan's government can take a larger role in efforts to end the Taliban insurgency, including possible help training Afghan security forces, a senior Pakistani official said.

A Pakistani intelligence official said that "we're seeing and hearing a lot of confusion" in the Taliban's top ranks. "I don't think they are clear on the lines of authority right now," the official said.

He said his assessment was based on human intelligence and communications intercepts. It was backed up by former and current militants and tribal elders with ties to the Taliban.

"The shuras are totally split apart these days," said Izmat Ali Khan, a former militant who retains ties to his onetime compatriots. Shura is the common Pashto term for a leadership council. The Afghan Taliban's executive board, led by Mullah Muhammad Omar, is known as the Quetta Shura for the city in southwestern Pakistan where it is believed to have been based for most of the past nine years. The exact number and identities of people on the Quetta Shura is a closely guarded secret; at least three, perhaps four, of the people arrested re-



Local pro-government militia forces brandish their weapons in Bajaur, a Pakistani area recently cleared of insurgents, in a show of force earlier this month.

cently were on the shura, say U.S. officials and experts.

Most shura members now live in vast ethnic Pashtun neighborhoods of Karachi, and in and around Multan, in central Pakistan.

Mullah Baradar was captured in Karachi in late January in a joint operation between Pakistan's Inter-Services Intelligence agency and the Central Intelligence Agency.

Even though many leaders are believed to still live near one another, fear of arrest keeps them from meeting face-to-face in large groups, say people with ties to the militants. "You can't see more than three guys sitting together," said Gul Khan, a tribal elder in northwestern Pakistan with ties to the Haqqani network, a Taliban ally and pillar of the Afghan insurgency.

Some have simply dropped out of sight, cutting off contact with most colleagues, officials say. That appears to be the case with Amanullah Mehsud, a Taliban commander who serves as the liaison between the Afghan and Pakistan Taliban. He disappeared in Karachi in late February, according to relatives and Taliban members. They say believe he has been arrested; Pakistani officials say they aren't holding him.

Leaders of the Pakistan Taliban also began moving to Karachi and central areas late last year after the Pakistani military invaded South Waziristan, a militant stronghold.

"We are always on the lookout for them. We know some are here," said Collin Kamran Dost, the special home secretary for Sindh province, where Karachi is located.

For U.S. officials, the major question now is what other moves, if any, Pakistan plans to make against militants hiding on its territory.

U.S. officials have long alleged that elements of Pakistan's military and the ISI aid the Taliban, seeing it as useful proxy to combat the influence of archrival India in Afghanistan after an eventual American withdrawal from the region.

Pakistan's sudden willingness to

arrest the likes of Mullah Baradar surprised the American officials; Pakistani officials offered no public explanations for their apparent reversal. U.S. officials say they believe Pakistan, impressed by allied gains in Afghanistan, is now looking to hedge in the other direction.

"We're not winning yet," said the senior NATO officer. "We're making progress. The more we make, the more maybe we'll see help on that side," said the officer, speaking in

the southern Afghanistan town of Marjah, the sight of the largest coalition offensive since 2001.

Such optimism is tempered by evidence the Taliban and their allies retain the ability to strike. On Wednesday, six Pakistanis working for the U.S. charity World Vision were killed when a dozen suspected militants lobbed hand grenades into their offices and then entered and opened fire, officials said.

Still, a Pakistani general cited his

military's recent success against the Pakistan Taliban in the Bajaur tribal region as an example of "how we are punishing these miscreants."

That may be the case. But Pakistan has twice in the past year declared victory in Bajaur, and U.S.-led forces have repeatedly cleared areas in Afghanistan only to see the Taliban return.

—Tom Wright, Rehmat Mehsud and Arif Afzalzada contributed to this article.

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WORLD NEWS

Nigeria protests add to pressure

Demonstrators ask to see the country's ailing president as worries grow over leadership vacuum and violence

By Will Connors

ABUJA, Nigeria—Hundreds of protesters rallied Wednesday in this country's capital, piling political pressure on a government that is already reeling from a leadership shake-up and deadly violence in a nearby city.

The demonstrations in the Nigerian capital of Abuja took aim at the country's absentee president, Umaru Yar'Adua, and voiced frustration at what is seen as a leadership vacuum in Africa's most populous country. Nigeria, also a major oil exporter, has been engulfed in a series of crises, from militant attacks on pipelines to Sunday's slaughter, in which Muslims allegedly killed hundreds of Christians in villages outside the city of Jos.

The 58-year-old president, who recently returned from Saudi Arabia where he was receiving medical treatment for a heart condition, hasn't been seen in public for more than three months. Advisers to Mr. Yar'Adua have denied access to the ailing president to top Nigerian officials, including Vice President Goodluck Jonathan, who has assumed some duties of the president.

On Wednesday, protesters wore T-shirts reading "Enough is Enough," and waved signs reading "Jonathan Must Get Decisive Now." When protesters tried to enter the parliament compound, they were turned away by police. Supporters



Men detained by police after killings near Jos, on Wednesday; Right, protesters demand to see Nigeria's ailing president.

of Mr. Yar'Adua planned rival protests but were blocked by government officials because they didn't apply in time for a permit.

The protests have stoked political tensions, which were already high in the wrenching aftermath of religious clashes.

Several hundred people appear

to have been killed Sunday outside the former mining hub of Jos. The area straddles the border of Nigeria's Muslim north and predominantly Christian south, with various ethnic groups vying for political sway and control of fertile land. Death toll estimates have varied widely, but a local official in one af-

fectured village, Dogo Nahawa, said more than 350 bodies had been collected by Monday evening. State information commissioner Gregory Yenlong said the death toll surpassed 300 people.

After the violence, Nigeria's vice president, Mr. Jonathan, sacked the country's national security adviser.

The new security adviser, retired Gen. Aliyu Gusau, is a prominent figure in Nigeria who has served as national security adviser to two former heads of state.

The security official's dismissal fueled speculation that the government may have known about imminent attacks. Jonah Jang, the governor of Plateau State, told reporters that shortly before Sunday's violence he had warned the country's military that an attack was imminent, but that they didn't respond.

On a separate front, Mr. Jang sent a letter to the Senate president, a fellow member of the ruling political party in Nigeria, asking for help to resolve political infighting in the state.

The letter, which was viewed by The Wall Street Journal, was dated March 2, five days before the massacres outside Jos.

Mr. Jang, through an aide, didn't respond to requests to comment about the letter.

Aides to Vice President Jonathan also didn't respond to questions about Mr. Jang's letter.

Police continued to round up suspects in the weekend killings, arresting 46 people Wednesday. Mr. Yenlong, the state information commissioner, said 96 suspects had been arrested by Monday.

Many suspects were from the Fulani ethnic group, composed mostly of Muslim cattle breeders in Plateau State, of which Jos is the capital.

Iraqis jockey hard for lead

By Charles Levinson

BAGHDAD—Election officials on Wednesday delayed for a second straight day the announcement of preliminary results in Iraq's parliamentary elections, but the back-room wheeling and dealing to form the country's next government has already begun.

The race remains a tossup between incumbent Prime Minister Nouri al-Maliki's slate of candidates and former interim Prime Minister Ayad Allawi, a secular Shiite who has emerged as the favorite among Iraq's Sunnis.

Regardless of the vote's outcome, Mr. Maliki appears likely to face a stiff challenge to secure a second term as prime minister. Mr. Allawi is already working furiously to cement a coalition that will keep Mr. Maliki out of power.

On Tuesday, a top Sunni politician on Mr. Allawi's list, Iraq's current vice president, Tareq al-Hashemi, met with Ammar al-Hakim, the leader of the Islamic Supreme Council in Iraq, or ISCI, the Iran-backed Shiite party, who has said publicly in the past that they won't support another term for Mr. Maliki.

On Thursday, Mr. Allawi is traveling to Kurdistan, to meet with the Kurdish leader, Massoud al-Barzani. Kurds feel Mr. Maliki betrayed them by taking a harder line against Kurdish territorial claims in the north.

A spokeswoman for Mr. Allawi's list, Maysoun al-Damaluji, said the meetings are part of talks "to form a government that is capable of serving Iraqis in every way."

"If Allawi can agree on an alliance with the Kurds and Hakim,

then forget it, Maliki has no chance," said a Western diplomat in Baghdad.

Many of the top Sunnis on Mr. Allawi's slate are fiercely opposed to Kurdish territorial claims in the contested oil-rich city of Kirkuk and elsewhere. But Mr. Allawi himself has strong ties to the Kurds. Kurdish politicians said they haven't ruled out a coalition with Mr. Allawi.

A Western diplomat said the Kurds may agree to ally with their most outspoken opponents because they want to resolve outstanding disputes before the U.S. withdraws at the end of 2011. They may be better placed for a favorable resolution with their Sunni Arab opponents as political allies than as political enemies, the diplomat said.

Mr. Allawi has also extended an olive branch to followers of Muqtada al-Sadr, another powerful Shiite leader opposed to Mr. Maliki. In the run-up to Sunday's vote, Mr. Allawi publicly denounced the arrests of Sadr followers by the government. Allawi aides note that Mr. Allawi's father was a close friend and confidant of ISCI leader Ammar al-Hakim's grandfather, the revered Shiite cleric Ayatollah Mohsen al-Hakim.

To be sure there is a history of animosity between Mr. Allawi and the Shiite slate. Candidates on the Shiite slate spearheaded the last minute banning of more than 70 candidates on Mr. Allawi's list just weeks before the election because of their alleged ties to Saddam Hussein's Baath Party. Lingering mistrust from Iraq's sectarian war will be another difficult obstacle to

overcome.

There have also been reports that both Syria and Iran are considering blessing a Shiite union with Mr. Allawi, who already has the support of most Sunni Arab states in the region.

Top advisers to Mr. Maliki and a senior Western diplomat in Baghdad both said they had reason to believe that Syria and Iran are already in negotiations with each other about agreeing to support such an alliance. Syria supports Mr. Allawi, while ISCI is unlikely to move without Iran's consent.

The conventional wisdom among most Shiite lawmakers is that Iran's preference is to see Mr. Maliki and the Shiite slate reunite, putting an end to a division that has weakened Iran's Shiite allies' standing in Iraq. But there is another possibility as well, according to political party officials and Western diplomats in Baghdad.

Iraq is the one place where Iran's regional alliance with Syria is strained. With Iran facing growing international isolation and other Sunni Arab states in the region working to pry Syria away from its partnership with Iran, Tehran could see an Allawi-ISCI alliance as a means of shoring up its relationship with Syria and perhaps easing tensions with other Arab states. Mr. Allawi, who enjoys good relations with Washington, could also serve as conduit for Iran to the U.S.

Mr. Allawi received Iran's ambassador to Baghdad for a quiet closed-door meeting one month before the vote, according to a senior Allawi aide. Mr. Allawi also made two trips to Syria during the campaign. On



An electoral worker Wednesday sorts through ballots cast in the election. Officials delayed the announcement of preliminary results.

the eve of his second trip, one of Mr. Allawi's top aides said there was potential common ground between Mr. Allawi and Iran.

"Iran is looking for a player who can be a node between Iran and the Arab world, and they could find that Allawi can fill that role," he said.

A senior adviser to Mr. Maliki, Sami al-Askary, said that if ISCI unites with Mr. Allawi to keep Mr. Maliki from the premiership, there could be a Shiite backlash.

"The Shia will feel betrayed if Hakim joins with a secular, ex-Baathist, and allies with Mutlaq and that group," said Mr. al-Askary. "If Maliki gets a strong majority and ISCI goes and replaces him and takes the prime ministership from an Islamist Shia, and gives it to a secular ex-Baathist, that will be hard to swallow for a lot of people."

If Mr. Maliki's Shiite rivals reach the same conclusion, or if Mr. Maliki wins by a decisive-enough margin, Mr. Allawi and the Shiite slate could instead agree to back a compromise prime minister candidate from Mr.

Maliki's slate. Three such names have already been leaked.

Mr. Abadi, the Maliki aide and Dawa party lawmaker, is a longtime senior Dawa party member whom some of Mr. Maliki's rival parties have suggested would be a more acceptable candidate than Mr. Maliki. Officials from two top parties competing with Mr. Maliki have also raised the possibility of current Oil Minister Hussein al-Shahristani, an independent Shiite politician who allied with Mr. Maliki for the 2010 vote.

Finally, Jaafar al-Sadr, the son of the late revered Dawa Party founder, Mohammad Baqer al-Sadr, has been mentioned. Mr. Sadr is young and has virtually no public political profile in Iraq. That could make him a long shot, but he could also appeal to rival parties who are unlikely to agree to elevate a powerful rival to the premiership.

"We don't think there's any other choice other than Maliki. That's not even up for discussion," Mr. Abadi said.