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Pound skids to 9-month low

By NEIL SHAH
AND ALISTAIR MACDONALD

LONDON—The pound suffered its worst drop in months, as uncertainty about looming national elections combined with persisting economic problems to spook investors already nervous about the U.K.'s ragged fiscal situation.

The pound skidded early Monday in Europe, at one point falling 3% against the dollar to \$1.4784—its lowest level since April 2009—before recovering to finish at \$1.4973 in London, down 1.2% from Friday. Sterling is down 7.3% against the dollar this year, and negative sentiment has increased sharply in the past week. Monday's fall was the

biggest single-session drop in nearly a year, Bank of New York Mellon said.

Investors have focused heavily on the euro's problems since Greece's fiscal difficulties surfaced in early January. But the euro, down 5.4% against the dollar this year, has held up better than the pound. While Greece faces tough funding challenges,

other members of the euro zone, notably Germany, are in strong enough shape to give Athens assistance should it be required.

The U.K. has no such rich relative to help it. Moreover, its fiscal situation has become a double-edged sword, with tensions around the deficit growing as the national election, due by June, approaches.

Some market commentators argue that the U.K. must swiftly reduce its deficit to placate restless bond investors who are concerned about the possibility of the fiscal situation eroding even more.

At the same time, analysts at Swiss bank UBS AG recently warned that sterling could fall to \$1.05 or even lower—if Britain moves too

aggressively to cut the deficit. Being too quick to cut spending could shove the economy back into recession, UBS said. Fourth-quarter gross domestic product had a meager gain of 0.3%, heavily supported by government spending, so the fiscal debate remains very much unresolved.

"You've got negative eco-
Please turn to page 6



Spanish Prime Minister Jose Luis Rodriguez Zapatero and German Chancellor Angela Merkel try 3D glasses before the opening of the CeBIT computer fair in Germany

Merkel touts strong euro amid crisis

The strength of the euro helped European countries that share the common currency overcome the economic crisis, Germany's Chancellor Angela Merkel said Monday.

Ms. Merkel said euro-zone nations must support the currency's strength with responsible fiscal policies, and mentioned that Greece must make tough decisions to steer toward responsibility.

Separately, the government of Spanish Prime Minister Jose Luis Rodriguez Zapatero presented proposals it hopes can serve as the basis for a broad political agreement over crisis-fighting measures.

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The bankers made us do it—the sequel. Page 11

Mandelson urges M&A rethink

By ALISTAIR MACDONALD
AND JESSICA HODGSON

U.K. business secretary Peter Mandelson called for a wide-ranging review of U.K. takeover law, the latest sign that the decades-long mantra that foreign ownership is neutral for domestic companies is being challenged in Britain.

In a London speech reflecting recent unease about the number of U.K. companies that have been taken over, Lord Mandelson said he would consider changing Britain's 2006 Companies Act to encourage long-term ownership of firms. The January takeover of U.K. confectioner Cadbury PLC by U.S. food company Kraft Foods Inc brought widespread criticism that short-term investors had decided the fate of one of



Peter Mandelson

Britain's most beloved and oldest brands.

Long one of Europe's most vocal champions of open markets, Lord Mandelson on Monday proposed a number of possible changes to U.K.

takeover law, including setting the voting threshold for securing a change of ownership to two-thirds; lowering disclosure requirements of share ownership during a bid to 0.5% from the current 1%; and shortening "put up or shut up" notice timetables.

Lord Mandelson said bidders in takeover situations should be required to set out publicly how they plan to finance bids over the long term, and that any company making a "significant bid" for a company in Britain should put their proposals to its own shareholders. Kraft didn't put its Cadbury bid to its shareholders, attracting criticism from U.S. investor Warren Buffett, who said it wasn't a good deal.

Lord Mandelson also called for greater transparency.
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Sage advice on making an acquisition

[Agenda]

BY PATIENCE WHEATCROFT



Warren Buffett's latest letter to Berkshire Hathaway shareholders offered the sage

advice: "Don't ask the barber whether you need a haircut." He was alluding to taking the advice of investment bankers about the wisdom of making a particular acquisition. With big fees at stake, Mr. Buffett's argument is that bankers are almost invariably proponents of the deal.

"Invariably, the bankers give the board a detailed assessment of the company being purchased, with emphasis on why it is worth far more than its market price," he writes. He adds that when stock is being used to fund the purchase, the true value of that currency isn't taken into account, only the market price.

So his advice is that directors contemplating a takeover should hire a second adviser to make the case against the proposed deal, with the fee contingent on the deal not going through.

This idea seems unlikely to catch on, and neither should it be necessary. While the bankers may be predisposed in favor of acquisitions, nonexecutive directors should be playing the skeptics. And when a chief executive proposes spending \$35.5 billion on an acquisition, nonexecutives have an obligation to be very skeptical, indeed.

Harvey McGrath, chairman of Prudential, was an investment banker before joining Man Group where, as CEO then chairman, he was pivotal in building the success of this alternative-investment manager. Any deal Pru wanted to do would have to appeal to him on fiercely analytical grounds, not mere machismo.

The takeover of AIG's Asian operations does just that.

The logic behind the coupling is unarguable. Pru was an early



Warren Buffett's approach should be on call as M&A activity gathers speed.

entrant into the Asian market and sees far more potential for growth there than in the West: the disappointing U.K. figures from the group are a pointer to what lies ahead.

While western economists wail about the problem of global imbalances, Pru simply wants to be where the money will be flowing as the newly (relatively) wealthy begin to save.

When a CEO proposes spending \$35.5 billion, nonexecutive directors are obliged to be very skeptical

But even a transformational deal such as this has its price limits. Since the cash element of this cash and shares deal is being funded by a monumental rights issue, then the Pru stock price is a crucial determinant of value.

On that front, even after yesterday's 12% fall, the timing looks opportune. A year ago, Pru shares languished at 195.4 pence. Yesterday, they closed at 530 pence. That is some way off the heady levels they achieved before the financial crisis hit but, without this sort of dramatic action, those heights might not be seen again.

Hence even a wary Mr. Buffett would probably have felt able to

reject the advice of any banker hired to argue against the deal. Not that he would ever feel happy about having to part with stock to finance a deal unless he felt that it was positively over-valued.

Referring to his long-time business partner, Charlie Munger, he says in his letter: "Charlie and I enjoy issuing Berkshire stock about as much as we relish prepping for a colonoscopy." The comfort of Harvey McGrath and Tidjane Thiane will depend on investors waking up to the appeal of going east and not knocking the share price back much further.

Mr. Buffett's cautionary approach should be on call as M&A activity gathers speed. At the end of last year, a survey conducted by UBS and Boston Consulting Group found one in five European companies expected to make a major acquisition in 2010. While some of those will have the strategic sense of Pru's, others will be born of the perceived need to do something rather than nothing, and the encouragement of deal-hungry bankers.

Merck KGaA's \$6 billion purchase of Millipore doesn't fit totally into the latter category, though there was a growing need for the company to find a way of replacing its ebbing income stream. Its failure to win regulatory approval for a potential blockbuster cancer drug was a blow. Meanwhile, margins are

being squeezed in the bit of the business that makes the liquid crystals that go into flat-screen televisions.

Millipore, whose products are used in the biotechnology industry, looks more of an add-on than a strategically important step for Merck. But, with shares at little more than half of the level at which they began 2008, shareholders will be relieved that the deal is being done for cash.

Speaking of takeovers...

Protectionism is a dirty word but, when economies face tough times, instincts inevitably lead toward hauling up the drawbridge. This is rarely a wise move since it simply breeds retaliation.

Different countries, even within Europe, do have varying approaches as to how protective they are of their businesses. France has famously indicated that among those businesses that it would regard as to be largely protected against an overseas takeover would be the dairy company, Danone.

Yet cross-border mergers have been an increasing factor in corporate life. If the U.K. were to be contemplating making them harder, it would be a retrograde step. There will be attempts to portray the latest suggestions from Peter Mandelson, the U.K.'s minister for business, as a response to a famous British business being sold to the U.S.

That Kraft's bid for Cadbury succeeded undoubtedly raised qualms, but what Lord Mandelson is now suggesting wouldn't merely apply to predators from overseas. He is simply seeking a means of nurturing the long-term interests of companies. There is plenty of evidence that a high proportion of their owners don't consider that their role. There will always be investors who opt for a quick profit and sell their stock on the bounce after a bid is announced. But if those who bought in those circumstances were prevented from voting on the deal, it might protect companies from the worst short termism.

What's News

■ **European stocks rose**, supported by a surge in acquisitions news, but sterling sank to its lowest level in months against the dollar amid concern about the U.K.'s economic and political outlook. The euro fell more modestly against the dollar. 23

■ **France started rethinking** its rules governing coastline construction and dam building after its fiercest storm in a decade killed at least 51. 3

■ **HSBC said net profit rose** 1% in 2009, helped by gains at its investment bank, while the lender's Asian business slowed and impairments piled up in the Mideast. 22

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Iain Martin on Politics

blogs.wsj.com/iainmartin

"In the midst of Labour's excitement about polls, there are clear signs the Tories are starting to get their act together."



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Question of the day

Vote and discuss: Will Greece hit the deficit target this year?

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Previous results

Q: Should Internet companies be held legally liable for content posted on sites by third parties?

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Depends

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No

67%

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NEWS



Agence France-Presse/Getty Images

Boaters on Monday pass a submerged car in Aytres, western France, near the parts of the country worst-hit by the storm dubbed Xynthia that caused deadly flooding over the weekend.

Storm exposes risks of French dams

By GABRIELE PARUSSINI

PARIS—France started rethinking its rules governing coastline construction and dam building after the nation's fiercest storm in a decade killed at least 51 people there and more elsewhere in Europe.

President Nicolas Sarkozy on Monday rushed to the stricken area and pledged €3 million (\$4.1 million) of emergency aid. He also pledged to review the system of dams that failed to protect coastal inhabitants from the sea surge.

"It's a true tragedy," Mr. Sarkozy said in a news conference at l'Aiguillon-sur-Mer. "This shouldn't prevent us from analyzing the dams and the urban planning. We can't go on building everywhere." Mr. Sarkozy asked Environment Minister Jean-Louis Borloo to present a national dam plan before the summer.

The president also charged a commission to report on the 100 kilometers of dams protecting the sandy coast, which date back to the Napoleonic era. The dam line was



President Sarkozy, second from left, after surveying flooded regions Monday.

breached in several points, said Lt. Col. Patrick Vailli, spokesman for France's civil-protection agency.

Experts for some time have warned of the risks attached to the coastal dams.

"When something exceptional happens, dams simply aren't enough," Bruno Toison, an official from the agency that supervises the country's coast line, said on the phone. "We must decide to stop

construction in risky zones" close to the dams. He said the Languedoc-Roussillon region, the Mediterranean coast of Camargue, as well as the northern coast on the channel, close to Calais, remain at risk of inundation.

Mr. Toison said dams would require more maintenance, but that politicians lack incentive to invest because catastrophes aren't frequent. He added that the dam management is split among local authorities, landowners and the state, making decisions more complicated.

Weather improved markedly Monday, but experts warned that while the strong winds that hit the coast over the weekend had subsided, the damage caused by the storms had left the region vulnerable.

"The main risk is behind us, but there are still high tides, which could push sea water inland, where it's already breached the dams," said Patrick Galois, a forecaster at Météo France, the national weather service.

Between Saturday and Sunday, the combination of an exceptionally high tide pushing up the sea level by more than a meter above normal and strong winds gusting to 160 kilometers an hour spawned waves as high as eight meters, which overran dikes and flooded inland areas.

The worst damages were recorded in Vendée, in west-central France—where the coastal towns of Aiguillon-sur-Mer and Faute-sur-Mer took the brunt of the storm and tallied more than half the casualties.

Firefighters and emergency workers on Monday were still trying to rescue people trapped in the storm-stricken regions.

By Monday night, about 10,000 people had been evacuated from their homes on the Atlantic coast and rescue teams staff were trying to find eight people still missing, Mr. Vailli said.

The storm, dubbed Xynthia, killed more than 60 people in several European countries over the weekend, including Germany, Portugal, Belgium and Spain.

Madeira hopes recovery includes tourism

By JEFFREY T. LEWIS

A week after torrential rains and mudslides killed 42 people and left 17 missing on Madeira, government officials are trying to restart the tourism business that is vital to the Atlantic island's economy.

It won't be easy. Tourism marketing after a natural disaster is problematic because officials need to be careful not to appear insensitive toward the victims while also letting potential visitors know that it is safe to come.

Cleanup crews and local utilities have made rapid progress in removing mud and debris from the streets of Funchal, the capital, and restoring water, power and telecommunications services. Work continues in the

worst-affected areas of Funchal, where some underground parking lots that had been flooded are still being drained. Other parts of the island that were hit harder, such as the town of Ribeira Brava, will require more extensive cleanup and reconstruction efforts.

Tourism represents about 20% of the economy of this Portuguese autonomous region, located about 1,000 kilometers west of the European mainland. It employs 7,000 people in the hotel sector alone, out of a population of 245,000. Most tourists come from Britain, Germany and Portugal, according to official figures.

"People have seen so much on television about this disaster that it might discourage them from going,"

says Angelo Rossini, a research analyst for London-based Euromonitor. At the same time, he says, "respect for the dead can also be an issue. It might be a problem to get people to go for sun and vacation so soon after the tragedy."

Tourists who were in Madeira during the storm have applauded the government's response to the disaster. Joachim Becker, a 60-year-old environmental-health and medicine worker from Essen, Germany, said he and his wife rode out the storm in a small villa outside the capital. They say the storm won't stop them from returning.

"The local government did a very good job of cleaning up," Mr. Becker said. "We'll be back next year, for sure."



Workers help Madeira's cleanup effort after heavy rains and floods last week.

EUROPE NEWS

EU tells Greece to take more moves

Monetary Affairs Commissioner Rehn says Athens is 'ready to put in place a framework' to coordinate action

By COSTAS PARIS
AND ALKMAN GRANITSAS

ATHENS—The European Union is ready to take coordinated action to stem Greece's debt crisis from spreading, the EU's monetary chief said, but he insisted Greece must do more to fix its public finances.

"We are ready to put in place a framework for coordinating fiscal action," EU Monetary Affairs Commissioner Olli Rehn said at a news conference after a day of meetings with Greek officials in Athens.

"The euro is based on solidarity that goes both ways," he added. "If the situation worsens we have ways and means to safeguard financial stability in the euro area."

Greece has been under pressure from the EU and financial markets after it revealed late last year that its 2009 budget deficit was forecast to reach 12.7% of gross domestic product—four times the EU limit. The government has since pledged to cut the deficit to 8.7% of GDP this year and bring it below the EU's 3% ceiling by 2012.

However, EU and Greek officials have been at odds over whether the austerity measures announced by Greece will achieve that target. "Additional measures over financial consolidation are necessary to ensure targets in 2010 are met," Mr. Rehn said. "I want to encourage the Greek government to announce such measures in the coming days."

Earlier Monday, Mr. Rehn held a series of meetings with Greek officials that included Finance Minister George Papaconstantinou, Bank of Greece Governor George Provopoulos, and Prime Minister George Papandreou among others.

Speaking to reporters, Mr. Rehn expressed his support for Greece's efforts to fix its public finances, but said the government should focus more on cutting spending and mak-



Greek police battle protesters at the entrance to the Ministry of Employment, where Monetary Affairs Commissioner Olli Rehn was speaking, in Athens Monday.

ing those cuts permanent.

In particular, he stressed the need to cut the public-sector wage bill and said he had held discussions with the Greek side about slashing one of the two extra months bonus salaries that civil servants now collect over and above their normal 12-month pay.

"There should be more emphasis on the expenditure side and the measures should be on a permanent basis," he said. "I am sure you will be successful in these efforts."

"There is a need to reduce the public sector wage bill," he added. "What really counts are the concrete measures."

Earlier Monday, Mr. Papacon-

stantinou vowed to do "whatever is necessary" to meet Greece's deficit goals and declared that cutting the deficit was a "national duty." New measures are widely expected to be announced this week, most likely Wednesday, and are expected to target a further €4 billion (\$5.4 billion) in additional spending cuts and new taxes.

The additional measures will likely include an increase of one to two percentage points in Greece's value-added tax rate, currently 19%, as well as further cuts to civil-service salaries and pensions. Fuel taxes, as well as taxes on cigarettes and alcohol are also likely to rise.

The announcement of the mea-

asures is seen as key to unlocking a potential €20 billion to €30 billion aid deal for Greece that is being negotiated between the Greek government, the EU, Germany and France. The rescue plan under consideration, say Greek officials and other people familiar with the matter, would involve the sale of debt to French and German entities—probably state-owned banks—as well as to bond investors. The sale would be split between those banks and large debt investors, the people said.

On Monday, Greek financial markets rallied on reports of the deal, as well as expectations of the new deficit-busting plans. The Athens Stock Exchange general index ended

2.9% higher at 1969.47.

Likewise, Greek government bond prices rose while the spread between 10-year Greek government bonds and their benchmark German counterparts—a measure of credit risk—narrowed to 3.13 points in late Monday trade from 3.50 points Friday.

In his remarks, Mr. Rehn stressed that Greece's government hasn't requested financial support and said the new measures should go some way to calming investors' jitters. "Markets should be convinced that Greece will meet its target for deficit reduction," he said.

—Joe Parkinson
contributed to this article.

Time for turnaround in bets over Greece?

By CARRICK MOLLENKAMP
AND CASSELL BRYAN-LOW

LONDON—The short bet against Greece might not be around for long.

The increasing possibility that European nations will come to the rescue of Greece is upending what had been a highly successful series of trades that were effectively gambles the country wouldn't be able to pay off loans.

In recent months, the belief that Greece wouldn't cover its debts produced a number of winning bets. A barometer for measuring whether investors believe Greece will default, known as credit-default swaps, steadily increased in price, creating more fear of a default. Another good bet was to short Greek bonds, selling borrowed securities and buying them back later at a cheaper price.

Now, some investors are moving out of those trades. The reason: A potential bailout plan for Greece began to emerge last weekend, tamping down concern that Greece wouldn't be able to raise enough money to pay debt maturing in April and May.

On Monday, the annual cost of insuring €10 million of Greek gov-

ernment debt for five years was €341,000, down 14% from last Thursday. The cost hit a peak of €421,000 on Feb. 4.

"You've already had a scramble to close out the short positions," said Gary Jenkins, head of fixed-income research at Evolution Securities in London.

Less demand for protection against Greek default is also leading banks, which serve as market makers in cash and derivative trades, to cut back on trading that increased pressure on Greek bonds. Banks, for example, would sell credit insurance to a hedge fund in what would be a long position by the bank. To hedge that, banks would sell short Greek bonds.

But less demand for credit protection means that banks have fewer reasons to short the cash bonds.

A dreaded short squeeze could hit investors. That happens when a security rises, forcing investors to cover their positions and cap the losses. A shortage of securities can make it more expensive to cover the bet.

By the spring, for example, Greece needs to sell at some €23 billion of debt. That huge supply of debt meant that investors had

plenty to cover short bets.

But a bailout of Greece could mean the country won't have to issue as much debt to the bond markets. A good portion could be bought by state-backed entities. That then would cut down on the debt investors needed to cover the short trade.

Another squeeze could come for investors who shorted short-term Greek debt maturing in one and two years. If investors believe that the risk of Greek default is over, that sentiment would lead to buying and a rally in the value of the bonds. That, in turn, would lead to less supply of bonds and make it more expensive to cover short positions.

European officials, meanwhile, have unnerved some investors in recent days with calls for tighter regulation of the sovereign credit-default-swap markets.

German market regulator BaFin is preparing a report for Germany's finance ministry on speculation in Greek debt, an agency spokesman said on Monday. BaFin analysts are searching public trading data for signs of speculation in the trading of Greek credit default swaps.

"It is important to know if speculators are betting against Greek

national debt," said BaFin spokesman Ben Fischer.

Given the cross-border nature of such trading, many politicians believe any regulation would have to be global in scope to be effective. Germany has been pushing other major powers, including the U.S., to endorse a regulatory framework for sovereign CDS trading.

Berlin already has the support of most European countries. French Finance Minister Christine Lagarde

A bailout could reduce the supply of Greek debt, making it harder to cover short positions.

said in a Sunday radio interview that the derivatives should be "at least very rigorously regulated" or even "forbidden." Luxembourg Prime Minister Jean-Claude Juncker, in a German newspaper interview on Monday, said the EU has the necessary "torture instruments" to deal with speculators and is prepared to make use of them.

The fear of regulatory interven-

tion may also be sparking a decrease in the price of the credit insurance. Hedge funds might have bought protection against Greek default in what would be a short position. Now, to avoid detection by regulators, hedge funds are selling credit insurance to cancel out the short position, according to a London banker.

To be sure, a bailout of Greece could end up a short-term solution. Within months, the country could end up struggling to cover its maturing debt.

"I don't think it's going to be the catalyst people are hoping for," said George Papamarkakis at North Asset Management LLP.

The London-based hedge fund, which manages about \$300 million in assets, was among investors who bought Greek bonds during a January debt sale. Mr. Papamarkakis described the fund's position in Greek bonds as "modest."

Mr. Papamarkakis is expecting the Germans to bail out Greece, and bond spreads will likely narrow once a specific plan is announced. Still, the plan is "not going to have as big an impact as some are hoping for," he said, because investors already have factored in a bailout.

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EUROPE NEWS



Bloomberg News

'It is vital that we further strengthen the solidity of financial institutions,' Michel Barnier said last week.

U.K. banker concerns

Financiers worry that EU overhaul will make it harder to lend

BY ADAM BRADBERY

British bankers planned to raise concerns that regulatory reforms in the European Union could make it more difficult for them to lend money to businesses and consumers when they met Michel Barnier, the EU's internal markets commissioner, at a dinner late Monday, the British Bankers' Association said.

The bankers also stressed the need for regulators to coordinate their reform efforts to achieve a

level playing field across national borders, the BBA said in a release prepared before the dinner.

"The real issue is that changes may have the effect of making it more difficult for banks to lend to businesses and individuals," said Angela Knight, CEO of the British Bankers' Association. "This, in turn, will not help the economy recover."

The European Commission is considering changes to the rules governing how much capital banks must hold on their books, as part of

its response to the financial crisis.

The changes under consideration include a fixed limit to the amount of leverage banks could take on, requiring banks to hold a minimum amount of highly liquid assets that could be tapped if financial markets seize up again, as well as a requirement that banks hold more capital when the economy is strong to offset losses when it weakens.

The proposals are all being considered internationally by banking regulators at the Basel Committee.

Pound skids to a nine-month low

Continued from first page
 nomic surprises, negative political risks and negative capital outflows," says Monica Fan, a currencies portfolio manager at investment firm State Street Global Advisors in London. "Investors who are concerned about the possibility of a Greek default are increasingly eyeing the U.K.'s high level of public debt and public deficit as a reason to sell sterling."

Ms. Fan's reference to capital outflows referred in large part to insurer Prudential PLC's plan, unveiled Monday morning, to acquire American International Group's AIA business for \$35.5 billion, \$25 billion of it in cash. U.K.-based Prudential will need to convert a large amount of sterling into dollars to

make the acquisition, something that investors said amplified negative sentiment around the pound.

The political debate has also turned darker now that the quagmire caused by a "hung" Parliament is considered a realistic possibility after the coming elections.

In such a scenario, neither of the major political parties has sufficient support to carry out its legislative agenda without help from other parties.

David Cameron, the leader of the opposition Conservative Party, has watched the disintegration of his once double-digit lead in opinion polls over Prime Minister Gordon Brown's ruling Labour Party.

On Sunday, a YouGov poll for the London Sunday Times placed the Conservatives two points ahead. That is among the slimmest of Tory leads since Mr. Brown enjoyed a brief honeymoon period after he took over from Tony Blair in June 2007.

Because of the way the U.K.'s voting system works, most commentators believe the Conservatives need a 10-percentage-point national lead to be confident of commanding a parliamentary majority. Failing that, the result could be the election of Britain's first minority government in three decades.

The postelection stakes are large. International credit-ratings agencies have warned the U.K. it could lose its top-notch triple-A rating if the winner of the next election fails to

offer a credible plan for fixing the nation's finances.

Any new government plan must address what looks like a still-fragile national economy.

Economists and traders have started rifling through the speeches of the smaller British parties, since they could hold the key to crucial votes on budget matters. The Liberal Democrats, the country's third-largest party, is seen as the most likely king maker.

The Conservatives have pledged to start cutting spending this year, whereas Mr. Brown's Labour has said such a stance could undermine the nascent recovery.

Labour also has promised to protect more government departments from cuts. The Conservatives have given limited details of how they would reduce the deficit, and occasionally have appeared to contradict themselves on when any austerity measures would get under way.

Many analysts are taking politicians at face value when they say that they understand the gravity of the deficit and will act accordingly.

"Both sides recognize that something will have to be done quite quickly to avoid a downgrade," says Kevin Gardiner, the head of investment strategy at Barclays Wealth.

As political concerns grow, Britain's economic data remain challenging. The U.K. has lagged behind the U.S., Germany and France in bouncing back from the financial crisis.

Mixed message at end of Milan

BY CHRISTINA BINKLEY
 AND CHRISTINA PASSARIELLO

MILAN—Marni has long been a go-to clothing line for fashion editors, known for its modern-geometry prints as well as mixes of fabric, leather and fur.

Signature looks, such as a broad swath of lamb pelt along the angled bottom of a wool coat, are a staple for the Italian brand. It's possible to sit at another house's fashion show at count dozens of Marni pieces worn by attendees.

Now, just as the current studded motorcycle jacket trend is often attributed to Balmain, and as Marc Jacobs jumpstarted the 1980s power-shoulder trend of recent years, there have been signs in Milan and New York of the sort of mixed-media clothing that Marni is known for. It's a look that has multiple benefits for fashion brands, both because it incorporates inexpensive materials into what would otherwise be far more expensive garments, and because the clothes can then be sold as more versatile. At Milan's runway shows, Gucci, Bottega Veneta, Fendi, Jil Sander and Roberto Cavalli have shown looks such as coats with leather or fur at the bottom, or jackets and dresses that use contrasting materials such as fur and wool, or wool and leather, along the shoulders and neck, or sleeves.

In fact, the mixed-materials look has been one of the big trends for the Fall 2010 runways. Gianfranco Ferré shows a knit sweater dress with leather shoulders, neck and sleeves, for instance, and a wide leather waistband. Versace mixed ribbed fabric with knitted yarn in a sweater dress, and showed a pair of leather and denim pants.

There are advantages to designers mixing their media. Putting fur arms on a leather motorcycle jacket, as Frida Giannini did at Gucci this week, reduces the cost of the garment compared to a full-fur jacket, as well as its ultimate price to consumers. Designers have been intent on paring costs during the past 18 months—under pressure from retailers and also because their own sales have fallen drastically.

The mixed media also creates pieces that are more versatile because they cross a bridge between formal and casual.

"After the economic crisis, consumers want pieces that can go easily from daywear into eveningwear,"

says Lavinia Biagiotti, vice president of Laura Biagiotti, an Italian women's fashion brand.

The technique has certainly worked for Marni. The closely held company's sales were flat last year at €110 million, or about \$150 million—which can be considered a success in the midst of an economic crisis when business that drove houses including Gianfranco Ferré and Christian Lacroix into bankruptcy proceedings. Marni expects sales this year to grow 10%, says Gianni Castiglioni, the company's chief executive and husband of Marni designer Consuelo Castiglioni.

U.S. sales were up 20% in January and February, he said. With 90 stores globally, they're opening new boutiques this year in Singapore and China. For the past year, they've also been testing a lower-priced "diffusion" line in Japan, called Edition, which is aimed at consumers who are slightly younger than Marni's 35-55-age range. Marni plans to launch the first Edition store in Japan later this year.

Marni's show came toward the end of Milan's fashion week, the third week in a month of runway shows at which designers display the collections that will appear in stores next fall.

At other shows, Missoni sported a collection of chunky knitwear—the most arresting looks based on patchwork patterns that had a bohemian result. Thick-knit skirts were held closed with big pins, like kilts, and capes were often layered over under-layers of knits.

Gucci was surprisingly subdued, given designer Frida Giannini's penchant for hippy and world-trek looks. This season, the focus was on luxury tailoring and materials—and on the mixed-media look—with ostrich, suede and leather used together in one coat.

Roberto Cavalli shrugged off the trend for pared-down fashion and pursued his decadent style. When he worked in a mixed-media item, it came in the form of a black-and-gold tapestry vest with a wide band of black fur around the waist.

Jil Sander worked prints into its neatly tailored collection of dresses, skirt suits and jumpsuits. Designer Raf Simons, known for experimenting with new fabrics, replaced the side and arm of a black wool overcoat with pieces of a stretchy pink material. Black panels on the sides and underarm of a gray pinstriped blazer produced a slimming effect.



Associated Press

Marni models sport mixed materials and geometrics at Milan show Sunday.

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EUROPE NEWS



Associated Press

Russia's Olympic team arrives for the Vancouver Olympics closing ceremony Sunday. The president skipped the ceremony, letting other officials accept the flag.

Medvedev orders a shake-up

Quit or be fired, Russian president tells top sports officials after country's worst showing

By RICHARD BOUDREAU

MOSCOW—Russian President Dmitry Medvedev told top sports officials Monday to resign or be fired after the country's worst-yet showing in the Winter Olympics.

"Those in charge of preparation for the Olympics must take responsibility right now," Mr. Medvedev declared in televised remarks. He said they "should take the courageous decision and tender their resignations. If they cannot, we will help them."

Mr. Medvedev didn't mention names. But his ultimatum, made before leaders of the ruling United Russia party, appeared to herald shake-ups of the sports ministry, the Russian Olympic Committee and

some of the eight federations governing winter sports. He took particular aim at federation leaders, calling them "fat cats."

Before he spoke, Russia's ski-jumping federation said it had fired Wolfgang Steiert, the German who had coached its team for six years and finished the Vancouver Games with no medals.

Russian squads in Vancouver were a shadow of the Soviet powerhouse that finished first or second in the medal count in nine straight Winter Olympics before the Soviet Union broke apart in 1991. With 15 medals, the Russians placed sixth, their lowest ranking, and just three of the medals were gold. Their men's ice-hockey team, a favorite, was the first yet from Russia or the

Soviet Union not to make the semifinals; their figure skaters failed to win gold for the first time since 1964.

Mr. Medvedev skipped Sunday's closing ceremonies in Vancouver, letting other officials accept the Olympic flag on behalf of Russia as host of the 2014 Games, in Sochi.

"We had very negative emotions," the president said Monday. "But we need to move forward. ... Without messing around, we need to start preparations for Sochi. ... We need to completely change how we prepare our athletes."

There was no immediate reaction from Russia's top Olympic officials, many of whom were preparing to travel home from Vancouver.

Interviewed for Monday's edition

of Russian daily Vremya Novosti, Sports Minister Vitaly Mutko, who had predicted as many as 30 medals, said several factors weighed against Russia. New sports like freestyle skiing that "no one takes seriously" in Russia allowed other countries to move ahead, he said, and in several competitions Russian athletes lacked "a shot here, a second or a point there."

Russian officials said they spent about \$25 million a year to prepare athletes for Vancouver, roughly as much as Canada, which won 26 medals. Yet some Russian athletes complained of poor training facilities: Russian lugers, for example, cited problems with the freezing equipment at their two-year-old stadium.

U.K. expected to call for review of takeover rules

Continued from first page
 agency on fees paid to advisers such as bankers and lawyers. Bankers got paid hundreds of millions of dollars in fees for advising Royal Bank of Scotland Group PLC to purchase a big chunk of Dutch bank ABN Amro Holding NV on the eve of the financial crisis, a move that helped bring RBS to the brink of insolvency in 2008.

The Cadbury takeover stoked hostility to foreign takeovers in the U.K., where large parts of the economy, including almost its entire chemical, steel, investment-banking and utility industries, are now controlled from abroad; the U.K. is almost alone among major economies in making all its companies fair game.

Lord Mandelson said that a change in takeover rules wasn't about shutting out foreign buyers, but rather promoting sound corporate stewardship whatever the nationality of a potential buyer. But last year Lord Mandelson said that he had become concerned that over a long period of time foreign ownership could be detrimental to British manufacturers on issues such as jobs.

"In the case of Cadbury and Kraft it is hard to ignore the fact that the fate of a company with a long history and many tens of thousands of employees was decided by people who had not owned the company a few weeks earlier, and probably had no intention of owning it a few weeks later," Lord Mandelson said, according to a transcript of his remarks.

The issue of foreign ownership of British companies is likely to receive attention in a general election expected in early May, as politicians look to address voters' concerns about the loss of Britain's industrial heritage and worries foreign takeovers lead to job losses.

Kenneth Clarke, the Conservative Party's shadow business minister, said in a recent interview that any future Conservative government wouldn't interfere with foreign takeovers of British companies.

Lord Mandelson's call comes shortly after the U.K. Takeover Panel, which regulates U.K. merger activity, said it planned to launch a public consultation on whether to change takeover rules.

EU ties 'key' for Ukraine

Associated Press

BRUSSELS—Improving ties with the European Union is a "key priority" for Ukraine, the country's newly elected President Viktor Yanukovich said Monday, as the EU expressed support for plans to reform Ukraine's vital gas sector.

"Our priorities will include integration into the European Union, bringing up constructive relations with the Russian Federation, and developing friendly relations with strategic partners such as the United States," said Mr. Yanukovich.

During his first foreign trip since his inauguration last week, Mr. Yanukovich said that concluding an association agreement with the EU to allow free trade and visa-free travel between Ukraine and the 27-nation bloc tops the agenda of his

talks in Brussels. He proposed that the EU send a technical mission to Kiev to study ways in which the bloc can support his administration's reforms.

"For Ukraine, European integration is a key priority in our foreign policy, and this is also a key element in our strategy for the social and economic reforms we are going to carry out," Mr. Yanukovich said after meeting European Commission President José Manuel Barroso.

Mr. Yanukovich, who defeated the pro-Western Prime Minister Yulia Tymoshenko, has said he wants to pursue a more balanced foreign policy than his predecessor, Viktor Yushchenko, who alienated Moscow with his pro-American policies as he sought membership in the North Atlantic Treaty Organization. Mr. Yanukovich is heading to Mos-

cow on Friday to strike specific deals with the Kremlin.

Ukrainian officials say that rather than taking sides, Mr. Yanukovich is seeking to position the country as a bridge between Europe and Russia. They say the talks in Brussels are focusing on energy policy and on the easing of EU visa requirements for Ukrainians.

Ukraine is an important energy partner for the EU because its pipelines transport Russian natural-gas exports to the EU.

Mr. Yanukovich has said in the past that he would seek to amend a 2009 gas deal with Russia that ended a bitter contract dispute between the two neighbors that resulted in a two-week shutdown of gas supplies to Europe. He has invited Moscow to take part in a consortium, along with Western Eu-



Ukrainian President Viktor Yanukovich, left, prepares for a news conference with European Commission President José Manuel Barroso in Brussels Monday.

rope, to jointly operate Ukraine's pipeline network.

"We also discussed natural-gas deliveries to European consumers," Mr. Yanukovich told journalists

Monday. "To make that goal come true, we will enhance our relations with Russia ... and the modernization of our [gas-pipeline] infrastructure."

U.S. NEWS

Embrace of Tea Party carries reward—and risk

[Capital Journal]

BY GERALD F. SEIB



American politics reached a milestone when Ronald Reagan, then the Republican presidential nominee, traveled to a convention of evangelical Christians in Dallas in August 1980 and said something mainstream politicians hadn't been willing to say previously: "I want you to know I endorse you and what you are doing," Mr. Reagan told the 15,000 or so conservative church leaders there assembled.

From that point on, the "religious right," earlier seen by many as almost a fringe movement, became an important force within an ascendant Republican coalition.

Republicans today are trying something similar with the Tea Party movement. Yet even as Republicans relish this thought, it's worth remembering that, just as their embrace of the religious right created occasional heartburn alongside electoral success over the years, so too does their slow embrace of the Tea Party movement carry downside risks as well as upside potential.

In particular, Republicans' courtship of the Tea Party movement threatens to pull the party away from its moorings on two crucial and emotional issues: the war on terror and immigration.

On the terror front, many Tea Partiers question the very notion of a war on terror, and see some law-enforcement policies adopted in its pursuit as unacceptable intrusions on American liberties. On immigration, the close-the-borders rhetoric common within the Tea Party movement runs counter to what many in the GOP hope will be a renewed outreach to Hispanics.

It's a mistake, of course, to talk of a unified Tea Party position, for the movement is neither unified nor organized enough to have clear positions.

Clearly the movement is marked by hostility to big government, and to the health-care overhaul being championed by President Barack Obama and his Democratic party in Congress. Just as clearly, those impulses make the Tea Party phenomenon a net plus for Republicans. But the areas of disconnect have gotten less attention.

In significant sectors of the broad Tea Party movement, the war on terror, and the intelligence and law-enforcement policies originally crafted by the administration of Republican President George W. Bush to fight it, arouse sentiments ranging from suspicion to hostility.

As much as anything, the Tea Party movement is animated by antipathy toward government intrusions into private lives, and for many that extends toward intrusions with the stated goal of smoking out terrorists. On that front, the movement in some

respects has more in common with libertarians than with traditional Republicans such as former Vice President Dick Cheney, tireless champion of the Patriot Act and aggressive tactics in rooting out terrorist threats.

At the Conservative Political Action Conference in Washington two weeks ago—an annual gathering of conservative activists that this year had a distinct Tea Party overlay—one panel discussion was titled "Why Real Conservatives are Against the War on Terror."

In a paper prepared for that event, Philip Giraldo, a former CIA officer now a fellow at the American Conservative Defense Alliance declared: "Fear has been the key to the door for expansion of government and government powers and the people in charge in Washington have seized the opportunity. It has also eroded the liberties that have defined us as a nation."

Similarly, the Web site of Oath Keepers, an organization of present and former military and law-enforcement personnel who say there are some government orders they won't follow, declares: "We will NOT obey any order to detain American citizens as 'unlawful enemy combatants' or to subject them to trial by military tribunal."

One sign of how these tensions can divide, former Rep. Bob Barr got a combination of cheers and boos when he delivered a speech at the CPAC gathering urging that Americans "not be seduced by that siren of security over freedom."

Immigration opens similar fissures between the Tea Party movement and the Republican establishment. That was clear when former Rep. Tom Tancredo, an outspoken advocate of a crackdown on immigration, was a prominent speaker at the National Tea Party Convention in Nashville, Tenn., last month. In fact, his remarks were titled, "Thank God John McCain Lost!"

Mr. Tancredo declared that if Republican nominee McCain had won last year's presidential election, he and Rep. Luis Guterres, an Illinois Democrat, "would have been posing in the rose garden with big smiles as they received accolades from La Raza for having finally passed an amnesty" for illegal aliens.

That is cringe-producing rhetoric for Republicans who are straining to show they are, simultaneously, tough on illegal immigration yet empathetic with the nation's growing bloc of Hispanic voters.

And yes, that's important to, among others, Mr. McCain, who faces a tough election this year not for the White House, but to keep his Senate seat in Arizona, a state with a heavy Hispanic population.

As political parties have learned repeatedly over the years, the virtue of independent, grass-roots movements is that they can activate legions of previously apathetic voters. The problem with those independent movements is that they are exactly that—independent.



Reuters

Federal Reserve Board Vice Chairman Donald Kohn Jan. 3 at the American Economic Association Conference in Atlanta.

Fed's Kohn to retire

Departure gives Obama another chance to put his mark on board

BY DAVID WESSEL
AND JON HILSENATH

Donald Kohn, who helped steer the Federal Reserve through the financial crisis, said he would retire as Fed vice chairman in June, giving President Barack Obama a chance to reshape the Fed by filling this vacancy and two others on its seven-member board.

The opportunity comes at a delicate moment. The Fed is under political attack for its failure to prevent the financial crisis and the way it helped bail out the banks, and it is confronting the task of deciding when and how to raise short-term interest rates and drain the extraordinary amount of credit it pumped into the economy.

Daniel Tarullo, a Georgetown University law professor named to the Fed last year, has been mentioned as a potential successor to Mr. Kohn as a vice chairman, but he is said to prefer concentrating on the overhaul of the Fed's bank supervision.

The White House has been looking to add an economist to the board as well as a person versed in financial markets. Insiders say the combination of a cut in pay for some potential nominees and the intense vetting and Senate confirmation process has discouraged some possible candidates. Mr. Kohn's departure will leave just one econo-

mist, Mr. Bernanke, on the Fed board. Among potential economist candidates are Christina Romer, who chairs the White House Council of Economic Advisers, and Janet Yellen, president of the Federal Reserve Bank of San Francisco.

If Mr. Obama and the Senate move swiftly—White House press secretary, Robert Gibbs, said Monday that the president hopes to have a successor to Mr. Kohn confirmed by June—new Fed governors could influence the timing of the Fed's eventual move to raise interest rates. But Mr. Bernanke's clout inside the Fed remains significant, and presidents of the 12 Federal Reserve regional banks—who aren't political appointees—can serve as a counterweight to the Fed governors in Washington.

Mr. Kohn, 67 years old, was at Mr. Bernanke's side for nearly every critical decision during the financial crisis, serving as the institutional memory of the organization where he has worked for 40 years. Mr. Bernanke assigned him some of the thorniest challenges in the crisis—from melting frozen commercial-paper markets to keeping peace among warring factions inside the Fed.

"The Federal Reserve and the country owe a tremendous debt of gratitude to Don Kohn," Mr. Bernanke said. "He brought his deep knowledge, experience and wisdom

to bear in helping to coordinate the Federal Reserve's response to the economic and financial crisis."

Mr. Kohn joined the Federal Reserve Bank of Kansas City staff in 1970 before finishing his doctorate in economics at the University of Michigan. He came to Washington in 1975, and worked his way up the ranks to oversee the Fed's influential monetary-affairs unit in the Greenspan years.

"Don was my first mentor at the Fed," Mr. Greenspan said in a Wall Street Journal interview last year, recalling seeking Mr. Kohn's advice on running his first meeting of the Federal Open Market Committee in 1987. President George W. Bush appointed Mr. Kohn to the Fed board in 2002 and promoted him to vice chairman in 2006.

In a resignation letter to Mr. Obama released by the Fed, Mr. Kohn said the crisis had tested the "ability and dedication" of the Fed more than any time since the Great Depression, and said he was "confident that history will judge the Federal Reserve...to have met these challenges with great speed, imagination, and effectiveness."

Members of the Fed board are named to 14-year terms by the president; the chairman and vice chairman serve four-year terms. Mr. Kohn's term as vice chairman expires June 23. His term as a Fed governor extends to 2016.

Manufacturing shows strength

BY CONOR DOUGHERTY

The U.S. manufacturing sector continued to expand in February, a closely tracked survey of manufacturing purchasing agents found, and there were hints that factory hiring might turn up soon.

The Institute for Supply Management's index of activity in the manufacturing sector was a solid 56.5 in February but down 1.9 points from a month earlier. A number above 50 represents expansion, while readings below 50 indicate contraction. Nasty February weather may

have played a role in the decline, but it more likely signals that the U.S. manufacturing sector doesn't have much more room to expand, said Norbert Ore, chairman of the ISM's survey committee. "We're really at that point where we're starting to level out," he said.

The ISM's employment index for the sector stood at 56.1 in February, up from 53.3 the month before. That was the third consecutive month of growth and the highest reading in five years. Manufacturing has played a significant role in the nascent recovery, both in the U.S. and

overseas. In the U.S., the sector contributed to the strong economic growth in the fourth quarter, and last month it added jobs even as many other sectors continued to trim payrolls.

Separately, a report from the Commerce Department on Monday showed that Americans boosted spending in January by 0.5% even though their before-tax income increased only 0.1% compared with the prior month, not adjusted for inflation.

—Jeff Bater and Darrell A. Hughes contributed to this article.

WORLD NEWS

Spain says Caracas plotted on Uribe

BY SANTIAGO PEREZ AND JOSÉ DE CÓRDOBA

MADRID—A Spanish judge on Monday alleged that the Venezuelan government had collaborated in a plot by Basque separatist group ETA and Colombia's main guerrilla group to assassinate Colombian President Alvaro Uribe and other top political figures during various trips to Spain in the late 1990s and early 2000s.

The allegations were part of an indictment by Spanish National Court Judge Eloy Velasco that ordered 12 alleged members of ETA and of the Revolutionary Armed Force of Colombia, or FARC, to stand trial on charges of conspiracy to commit murder and terrorism, according to a copy of the indictment seen by The Wall Street Journal.

Mr. Velasco issued international arrest warrants and extradition requests for the 12 people.

"There is evidence...showing the cooperation of the Venezuelan government in the illegal collaboration between FARC and ETA," according to the indictment.

Officials at the Venezuelan Embassies in Madrid and Washington D.C. had no immediate comment and said they were awaiting instructions from Caracas.

Hayden Pirela, a congressman from the ruling coalition of Venezuelan President Hugo Chavez, said the allegation by the Spanish judge was part of a campaign "to discredit Venezuela." Mr. Pirela added: "We don't give guerrillas refuge, or have any pact with guerrillas."

Mr. Uribe, one of the targets of the alleged assassination plots, reacted cautiously. "I think we should react prudently and see what is going on through diplomatic channels," he said in an interview with a Colombian radio station.

The Colombian president has had a difficult relation with Mr. Chavez. Last year, Mr. Chavez cut economic ties to Colombia, costing the country billions of dollars in lost trade in retaliation for Mr. Uribe agreeing to host U.S. bases in Colombia.

In detailing the alleged role of the Venezuelan government, Judge Velasco pointed to Arturo Cubillas Fontan, one of those indicted, whom the judge describes as a Spanish national hired by Venezuela's Agriculture Ministry in 2005.

In the indictment, Mr. Velasco alleges that Mr. Cubillas Fontan has led ETA's activities in Latin America since 1999 and acted as a link with the FARC. Mr. Cubillas Fontan could not be located for comment.

Mr. Cubillas Fontan's alleged contacts with the FARC included "military training for ETA members in the Colombian jungle, in exchange for ETA's help in Spain, locating terrorist targets sought by FARC," according to the indictment.

The document also says that during a training course on explosives, FARC members were accompanied by "an escort vehicle with Venezuelan soldiers that was arranged and organized" by Mr. Cubillas Fontan and another person, according to the indictment.

Spain's National Court handles high-profile cases involving terrorism and financial crimes. The court's judges act on their own investiga-

tions and are independent from Spain's executive and legislative branches. Over the years they have handled some high-profile global cases, including against the governments of the U.S., China and Israel. One of the judges, for example, has been investigating allegations of U.S. torture at Guantanamo Bay.

Because of the sensitivity of the cases, the National Court judges' investigations have often proven a headache for the Spanish government in its relations with other countries. Under pressure from irate foreign governments, Spain's Congress last year passed a resolution that limited the jurisdiction of crusading judges to cases in which there is a clear Spanish connection and no home-country investigation already under way.

The allegations against Venezuela may also prove tricky for Spain. The South American country is a key trading partner of Spain, and Spanish Prime Minister Jose Luis Rodriguez Zapatero has struggled to maintain friendly relations with the mercurial Mr. Chavez.

Speaking at a press conference Monday, Mr. Zapatero said he had ordered Spanish Foreign Minister Miguel Angel Moratinos to "request an explanation from the Venezuelan government" regarding the allegations. "We are awaiting such explanation," Mr. Zapatero said.

Much of the evidence considered by Judge Velasco in the preparation of his indictment came from thousands of computer files and emails stored in laptops belonging to the late Raul Reyes, a FARC commander killed in a controversial crossborder raid by the Colombian military on his camp in Ecuador in 2008.

Since then, Mr. Reyes' computer has proven to be a treasure trove on the inner workings of FARC, which has been fighting to overthrow successive Colombian governments for more than four decades.

The Reyes documents drew a picture of widespread cooperation between the FARC and Mr. Chavez.

Since coming to power in 2002, Mr. Uribe has made defeating the FARC his prime objective. He revamped the Colombian armed forces, which in recent years have beaten back the guerrillas to remote jungle areas of the country. The FARC had once threatened the Colombian capital of Bogota.

Judge Velasco ordered the 12 people in the indictment to stand trial on murder and terrorism. He also charged Remedios Garcia Albert with the crime of collaboration with a terrorist group and ordered her to stand trial, according to the indictment.

In the document, Mr. Velasco described Ms. Garcia Albert as an alleged member of FARC's international support group residing in Spain and ordered her to present herself in court for questioning on March 24. According to court officials, Ms. Garcia Albert, a Spanish national, is free on bail linked to another case.

A lawyer for Ms. Garcia Albert was not immediately available for comment.

Spain does not try people in absentia, so a trial for the other 12 people would only take place if the indicted people are arrested.



Hugo Chavez

Chile asks U.N. for aid

President vows to rebuild as death toll rises; aftershocks hurt rescue

Chile's government asked the United Nations to provide international aid, two days after a giant earthquake ripped through the South American nation, killing at least 700 people, crushing buildings and sparking looting rampages in the hard-hit south.

By Anthony Esposito and Sergio Abarca in Pelluhue, Chile, and Matt Moffett in Santiago

On Sunday, President Michelle Bachelet sought to reassure Chileans that the government was up to the task of rebuilding, but as police and troops tried to restore civil order, efforts to determine the scope of destruction from the quake were undermined by a string of aftershocks that turned more buildings into rubble.

"We're facing an unthinkable catastrophe that will require an enormous effort in resources," Ms. Bachelet said in a nationally televised address.

In the southern city of Concepción, closer to the epicenter, firefighters searched for an estimated 60 people trapped inside a tall apartment building that toppled onto its side.

Tear gas fired at looters forced one rescuer to pause deep inside the building's rubble.

Police had imposed an overnight curfew to control looters who sacked virtually every market in the city.

Across the Bio Bio River in the city of San Pedro, looters cleared out a shopping mall. A video store was set ablaze, two automated-teller machines were broken open, a bank was robbed and a supermarket emptied, the Associated Press reported.

Ms. Bachelet dispatched 10,000 troops to restore order and help



A tsunami hurled boats ashore in the Chilean port city of Talcahuano.

rescue efforts in hard-hit southern towns. Two million people were displaced, she said.

The magnitude-8.8 quake, the fifth-biggest ever measured, struck off Chile's coast around 3:30 a.m. local time Saturday, toppling buildings, twisting roadways and driving deadly waves into seaside towns. Damage to power and communications systems further hindering res-

cue efforts.

Most of the confirmed deaths so far are in the Maule region on the Chilean coast, which was closest to the epicenter.

As much as 80% of some towns in the region was destroyed, officials said.

—Jeff Fick, Carolina Pica, Matthew Cowley and George Seal contributed to this article.

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WORLD NEWS

Bangkok under fire on immigration

New rules, which demand compliance by March 2, could cause massive deportation of foreign workers, raise costs

BY PATRICK BARTA

Pressure is mounting on Thai authorities to rescind or delay new immigration rules that could cause hundreds of thousands of migrant workers to face deportation and drive up business costs in one of Southeast Asia's most important economies, human-rights workers say.

The rules, which demand compliance by Tuesday and which require some 1.5 million migrants to register with Thai authorities and prove their nationalities, or be kicked out, are adding to recent concerns about overreliance on imported labor in Asia's wealthier countries.

Other countries in the region, including Malaysia, Singapore and Korea, have increasingly drawn on low-cost foreign workers to help them stay competitive with China and India. Malaysian palm-oil plantation owners count heavily on labor from Bangladesh or Nepal to keep wages low.

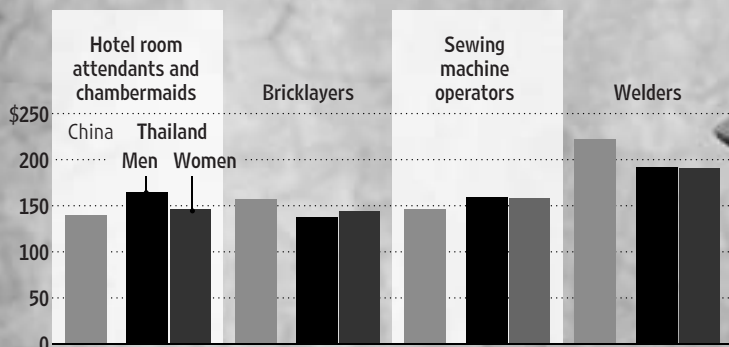
In Thailand, textile manufacturers and fishing fleets—two industries that heavily rely on foreign labor—use workers from Myanmar, Cambodia, Laos and elsewhere. Although precise data on such undocumented workers are unavailable, human-rights groups say they now account for roughly 5% to 10% of Thailand's work force.

As the number of migrants has grown, though, host countries have become more worried about backlash from local residents. Officials say they also are concerned foreigners could pose security threats or health risks, since some come from countries with high rates of HIV or other diseases.

Thailand is emerging as the lat-

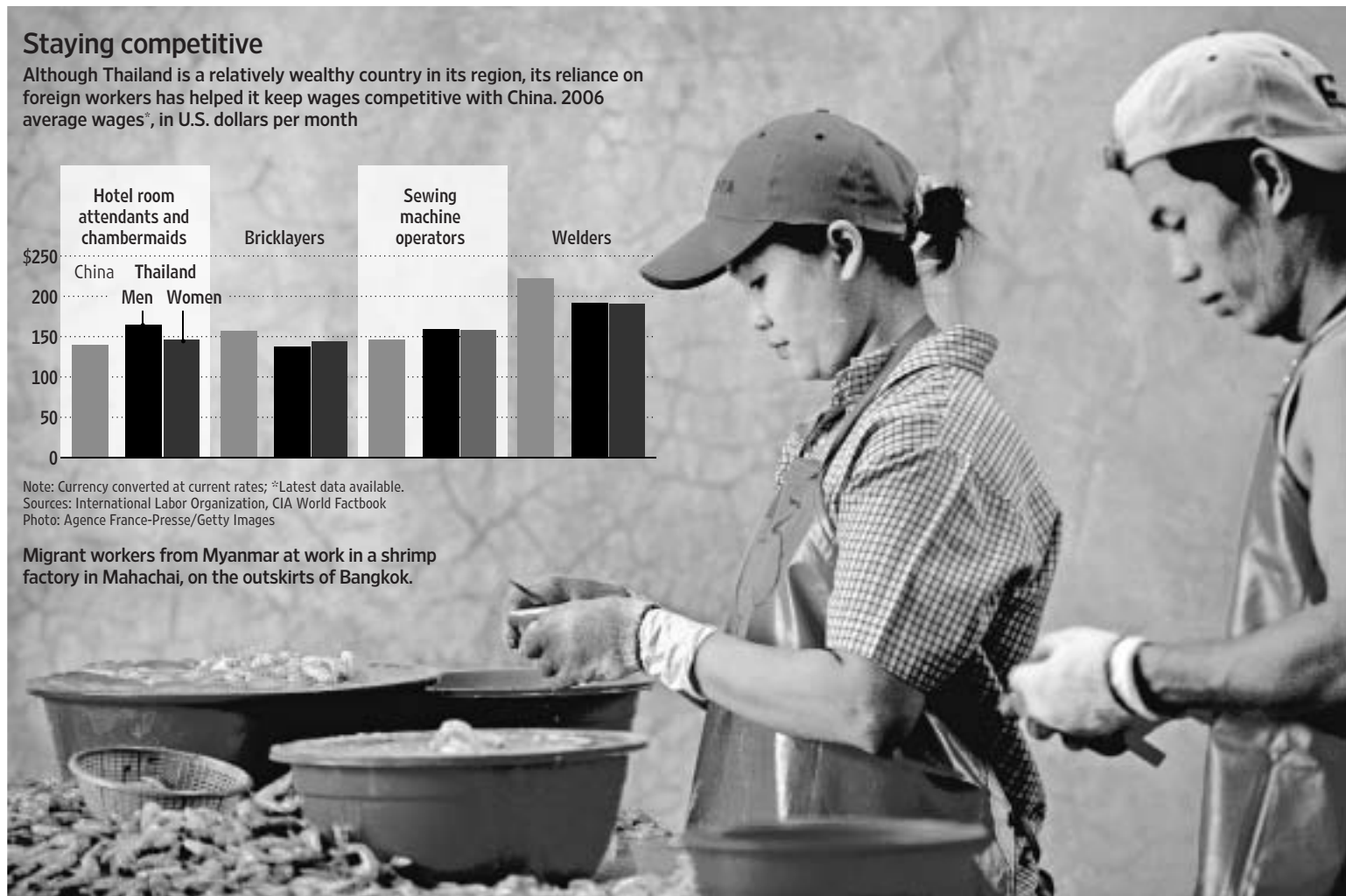
Staying competitive

Although Thailand is a relatively wealthy country in its region, its reliance on foreign workers has helped it keep wages competitive with China. 2006 average wages*, in U.S. dollars per month



Note: Currency converted at current rates; *Latest data available.
Sources: International Labor Organization, CIA World Factbook
Photo: Agence France-Presse/Getty Images

Migrant workers from Myanmar at work in a shrimp factory in Mahachai, on the outskirts of Bangkok.



est battleground. The country has long required migrant workers to register with the government. But now, authorities are asking them to undergo a considerably more onerous and time-consuming registration that involves verifying the mi-

grants' identities with their home governments. The goal of Thai authorities is to get a more reliable record of who is in the country at any given time, expand worker protections and tighten supervision, including ensuring workers have vac-

inations.

Employers say they already are experiencing labor shortages, and will need more migrants to keep textile mills and other low-wage businesses, such as farm work or seafood processing, humming.

"Thai people don't want these jobs," says Amnart Nantaharn, deputy secretary general of the Federation of Thai Industries.

—Wilawan Watcharasakwet and Celine Fernandez contributed to this article.

Israelis revelling in Hamas fallout

BY JOSHUA MITNICK

TEL AVIV—Israeli officials have either denied or withheld comment on allegations the country's intelligence agency, Mossad, murdered a top Hamas leader in a Dubai hotel room in January.

That hasn't stopped Israelis from celebrating what Dubai's police chief said was the "99%" chance that Israel was behind the death of Mahmoud al-Mabhouh.

As details of the case trickled out of Dubai, some commentators in Israel and abroad, assuming Mossad involvement, criticized the agency for underestimating the ability of Dubai police to piece together the hit. Dubai authorities identified a team of 26 suspects on closed-circuit TV—some of them disguised in wigs and beards, or carrying tennis rackets.

But on the whole, Israelis seem to be rallying around Mossad. During the Jewish festival of Purim, which ended Monday, Israelis have mimicked the suspects' disguises.

Purim is a holiday of public merriment, marking the foiling of a plot by an ancient Persian minister to annihilate the Jewish people. It is customary to dress up in costumes at parties, at readings of the biblical book of Esther, and on the streets.

Rami Patimer, the owner of a Tel Aviv costume store, said customers



Two suspects in the killing of a Hamas leader in Dubai in January.

were showing up in groups, with newspaper clippings and photos of the suspects. Popular items: Wigs, fake mustaches and tennis socks, like those worn by the Dubai suspects on video.

"Everyone wants to be a hero," he said. "It's Israeli pride."

Israel's foreign minister said last week there was no proof to accusations that Mossad played a role in the killing.

But Israeli officials have expressed satisfaction that Mr. Mabhouh is dead. He had been sought

by Israel for planning the kidnapping and killing of two Israeli soldiers in 1987, an allegation Hamas hasn't contested. After the news of the killing, Israeli security officials said they believed Mr. Mabhouh was also involved in weapons smuggling between Iran and the Hamas-controlled Gaza Strip.

Last week, Israeli opposition leader Tzipi Livni called the assassination "good news." On Sunday, the country's trade minister, Binyamin Ben-Eliezer, told Army Radio that he had no idea who killed Mr. Mab-

houh, but he also appeared to use the killing to put Hamas on notice: "None of their people are untouchable," he said, according to the Associated Press. "They can all be reached."

The killing, and Israel's fascination with it, have also become fodder for Israeli comedy shows on radio and TV.

In a mock news interview on the weekly television satire, "Eretz Nehederet," Mossad assassins bicker with one another about their cover names and the room-service bill in Dubai.

"I don't know about you, but I can't wait for our next assassination," says a mock Israeli news analyst on the show.

"Everyone always revered the Mossad, and now when you see it in real life like a James Bond movie everyone is fascinated," said Israeli pollster Mitchell Barak. "It looks very glamorous when it's live TV."

A spokesman for the prime minister's office, which has direct authority over Mossad, didn't respond to requests to comment.

Officials from Australia and European nations—whose passports Dubai has linked to the killing—have not blamed Israel, but have demanded Israeli help in determining how their passports were used in the case. U.K. investigators were at work in Israel on Monday.

Dubai pushes departments to cut 15%

BY SUMMER SAID

DUBAI—Dubai's government has ordered its departments to cut spending by 15% to save 3.7 billion dirhams (\$1.01 billion), with the aim of reducing the emirate's deficit of 5.99 billion dirhams, a finance department spokeswoman said Monday.

Dubai is currently preparing a medium-term budget plan for 2011-13, the spokeswoman said in a statement. Government departments are looking to cut costs and expenses without affecting the quality of services, she added.

The emirate's government said in January its 2010 budget revenue would total 29.4 billion dirhams, down 12% from last year's estimate of 33.5 billion dirhams. Government expenditure is expected to be 6.1% lower than the figure envisaged for 2009 at 35.4 billion dirhams.

Dubai, the second-largest sheikhdom in the seven member federation of the United Arab Emirates, had forecast its first-ever deficit for its 2009 budget at 1.3% of its 2007 GDP. The tax-free emirate has suffered from a sharp decline in real-estate prices and is straining under the weight of an estimated \$80 billion pile of debt.