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# THE WALL STREET JOURNAL.

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# Irish leader agrees to call vote

BY NEIL SHAH

Ireland's financial crisis morphed into political turmoil Monday, as the country's fragile coalition government began to unravel in the wake of an unpopular international bailout and Prime Minister Brian Cowen pledged to call an election next year if a crucial budget package is approved.

Mr. Cowen's concession on early elections was triggered by moves earlier Monday that undercut the stability of the shaky coalition led by his Fianna Fail party. In a surprise move, the country's Green Party—a junior partner in the government with just six seats in Ireland's 166-seat parliament—withdrawn its support for the coalition and called for elections in late January.

However, Green leader John Gormley said his party wouldn't withdraw its support from the government's pending December budget or the estimated €80 billion (\$110 billion) bailout deal Ireland is negotiating with the European Union and the International Monetary Fund.

Nonetheless, the Green Party's move virtually assures that an election will be held soon. Without its support, the coalition—which has just a three-seat majority in parliament—will be disabled.

The mounting drama shows that the financial crisis



An Irish policeman is confronted by protesters on Monday as they break through the front gates of the Irish prime minister's offices in Dublin.

that continues to infect Europe could have real consequences for political leaders it touches. In Ireland, the prospect of a new election could also sow fears of political instability and damp hopes that this small European country's rescue can stop Europe's debt crisis from spreading.

In a press conference Monday evening, Mr. Cowen said he would dissolve parliament

"in the new year," but only once the budget and bailout issues have been dealt with.

"There will be a time for political accountability for the electorate," he said. But first, he said, it is "imperative for this country that the budget is passed," adding: "Any delay would in fact weaken our country's position."

Mr. Cowen, whose Fianna Fail party had just 17% sup-

port in a recent poll, said he wouldn't resign, despite increasing calls for him to step aside.

The prime minister had resisted an international bailout for more than a week, before finally capitulating to it on Sunday.

On Wednesday, he faces another politically unpopular chore: the unveiling of a four-year budget plan that is ex-

pected to slash another €15 billion from a government budget that has already been aggressively cut in previous efforts to contain the country's financial crisis.

Even with the Green Party's continued support for the budget, its passage is still not assured. Two independent lawmakers who vote with Mr. Cowen's government on Monday also voiced serious

doubts about his handling of the economic crisis and rescue, raising the risk that the budget won't pass.

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Artistic community up in arms about a shapely pair of long legs. Page 29

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

### Editorial Opinion

Military intervention in Yemen may be unavoidable. Page 12

## FBI raids 3 hedge funds in insider-trading probe

Federal Bureau of Investigation agents raided the offices of three hedge funds as part of a high-profile insider-trading investigation, and more could be on the way, according to people familiar with the matter.

By Susan Pulliam, Jenny Strasburg And Michael Rothfeld

The offices of **Diamondback Capital Management LLC** and **Level Global Investors LP** were raided. Both hedge funds are run by former managers of Steven Cohen's **SAC Capital Advisors**. The third firm raided is **Loch Capital Management LLC**, based in Boston, people

familiar with the matter say. Leonard Pierce, a lawyer for Loch Capital, declined to immediately comment.

"The FBI is executing court-authorized search warrants in an ongoing investigation," said Richard Kolko, an FBI spokesman, who declined to comment further.

Loch had \$750 million in assets as of the start of this year, according to SEC filings. The firm, run by brothers Timothy and Todd McSweeney, didn't immediately return a message seeking comment.

The McSweeney brothers are acquaintances of Steven Fortuna, a hedge-fund manager who pleaded guilty in the Galleon Group case and

agreed to cooperate in that investigation.

Level Global Investors is a Greenwich, Conn., hedge-fund firm run by David Ganek, a former SAC Capital trader. He started Level Global Investors in 2003 and earlier this year reported managing about \$4 billion in assets.

Diamondback is based in Stamford, Conn., and was started in 2005. It oversees more than \$5 billion in assets, according to SEC filings.

The moves by the FBI follow an article by The Wall Street Journal.

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## PAGE TWO

# Tiger will be savage in its death throes

## [ Agenda ]

BY PATIENCE WHEATCROFT



Austerity is not enough; Ireland already has austerity. What the beleaguered country's budget on Dec. 7 will contain will be sheer unadulterated misery. A discredited government will promise yet more savagery to services and benefits and may even intend to deliver it but with an election to come just weeks later, finance minister Brian Lenihan might just as well take the opportunity to demonstrate his prowess at whistling in the wind. Confidence in the country's ability to sort out its financial mess has completely evaporated, as the markets made clear yesterday.

Ireland is in a hole and lending it more money, even on relatively generous terms, risks taking it deeper into the mire where, the market is now convinced, in what amounts to self-fulfilling prophecy, it will shortly be joined by Portugal and then Spain.

Prime minister Brian Cowen's belated decision to accept European aid did not, said Standard Chartered chief economist Gerald Lyons, signal the beginning of the end of the sovereign-debt crisis in Europe, only the end of the beginning. German Chancellor Angela Merkel's assertion that bondholders should share the pain, while perfectly justifiable morally, has had a calamitous effect, fueling fears of the contagion risks that exist in Europe's web of cross-border debts, should the haircuts eventually come.

Deposits have been racing out of Ireland's banks and some of the new loan facility is likely to be put to work shoring up those institutions. Matthew Elderfield, the country's head of financial regulation, made a valiant attempt on Monday to argue that this could be seen as "over-



Matthew Elderfield, Ireland's chief financial regulator, in Dublin Monday.

capitalizing" the banks since, on the most recent data, their existing capital was not inadequate. But he acknowledged that "Concerns about government finances, the current macro-economic environment and the future prospects for growth and employment in Ireland have impacted confidence in Irish banks." And that confidence was pitifully thin before the latest worries impacted.

## Confidence in Ireland's ability to sort out its financial mess has completely evaporated.

Mr. Elderfield must be wondering why he gave up his banking regulator's role in Bermuda to head to Dublin last autumn. But that a new regulator was badly required by then had already become glaringly obvious, as the banks were threatened by their exposure to the country's property bubble. "The Irish people are now paying a heavy price for the failures at the heart of banking," said Mr. Elderfield.

His speech provided a chilling reminder of the flawed system which allowed the "Celtic Tiger" to thrive on inflated valuations and false hopes, only to implode into a miasma of debt. It was a

massive failing of regulation and of corporate governance.

This summer Klaus Regling, who heads the EU's new rescue fund, the European Financial Stability Facility, and Max Watson a banking expert from Oxford University, produced a report on Ireland's crisis and concluded that "...Ireland was one of those cases where there were at least some instances of extremely serious breaches of corporate governance, going well beyond poor risk assessment, and eventually having a systemic impact."

The concept of "Light touch" regulation, the favoured mode in both the U.K. and Ireland as the financial boom was under way, was taken far too literally in both countries. In the wake of the crisis there has, inevitably, been a move to change the shape of financial regulation. Yet those who were in charge of the regulators at the time have avoided much of the blame. In fact, Sir Callum McCarthy, who was chairman of the U.K.'s Financial Services Authority from September 2003 until 2008, went on to become a non-executive director of the U.K. Treasury and is now chairman of J.C. Flowers, a private sector financial investor. John Tiner, who was his chief executive from 2003 to 2007, is now chief executive of the insurance group Resolution.

In Ireland, Patrick Neary, who had been the country's financial regulator, resigned in January

2009, the month that Anglo Irish Bank, beset with allegations of mismanagement and on the brink of collapse, was nationalized. A hefty payment to ease his departure did cause a degree of anger and led to some questions in the Irish parliament, but those now facing significant pay cuts as the country struggles with the drastic effects of weak banking regulation may feel that the payment should have gone in the other direction.

Mr. Elderfield believes that Ireland's failings may have stemmed at least in part from its speedy elevation into the unlikely and, as it turned out, illusory, role of major financial centre. "In Ireland poor governance may well have been exacerbated by the concentrated nature of corporate life where challenge and assertiveness in the board room was perhaps blunted by the social constraints of working and living in a small business community in a small country," he said.

So, on the day that Ireland put out its begging bowl to Europe, Mr. Elderfield spelt out the details of the new Corporate Governance Code for financial institutions. It itemizes requirements for a majority of independent directors on a board, for more diversity, and limits the number of boardroom roles individuals may undertake. It amounts to a sad, although necessary, exercise in stable-door slamming.

"It is clear," said Mr. Elderfield, with the clarity of vision of the newcomer, "that we need to put better controls in place to protect against the terrible damage that has been caused by over-dominant CEOs or directors in some of our leading banks and insurance companies."

Controls, however, are only as effective as those who police them. The failure of the financial regulators across much of Europe should not be forgotten just because public anger is directed at the more obvious target constituted by bankers.

Out of their natural habitat, tigers need tamers.

## What's News

■ **Norwegian police began** a probe into oil firm Statoil after the country's energy-safety watchdog said only luck averted a major blowout at a North Sea oil-drilling operation earlier this year. 17

■ **European stocks fell**, with the banking sector hit hard, as sentiment was hurt by political uncertainty in Ireland and fears that Irish problems would spread to other euro-zone economies. 23

■ **The battle for Dutch cable maker Draka** took an unexpected turn when China's Xinmao topped a bid by Italy's Prysmian. 18

■ **An investor group** reached a deal to acquire Novell for about \$2.2 billion, ending an eight-month takeover battle for the software company. 17

■ **More than 300 people** died when thousands of Cambodians celebrating a water festival on a small island panicked and stampeded over a bridge to the mainland. 9

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SAS chief Goodnight sees big potential in Asia. 27



What do we want from Tiger—birdies or tweets? 28

## ONLINE TODAY

### Most read in Europe



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### The Source

blogs.wsj.com/source

'No one thinks this is over yet, and these expectations have a tendency to become self-fulfilling.'

Eva Szalay on reaction to news that Ireland has officially requested aid



### Continuing coverage



See full coverage of the Silicon Valley Comes to Oxford forum in our blog at [wsj.com/techeurope](http://wsj.com/techeurope)

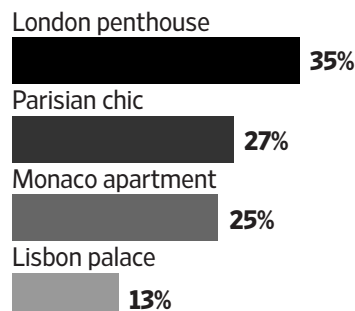
### Question of the day

Vote: Palin or Obama: Who would win in 2012?

Vote online at [wsj.com/polls](http://wsj.com/polls)

### Previous results

Q: What's your favorite House of the Week?



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NEWS

# New York aims to end cycle of street chaos

By TOM FERROTTA

London isn't the only major city to recently embrace the bicycle. In the past three years, New York City has built 322 kilometers of bike lanes and daily ridership is up—some estimates say it has nearly doubled since 2005.

The city's streets now include 775 kilometers of lanes and a total of 2,900 kilometers are planned by 2030. What the city has discovered, though, is that remodeling its streets and increasing ridership is the easy part of building a bike town. It's a far greater challenge to change the habits of drivers, bikers and pedestrians in a dense urban environment with congested streets.

Drivers see bikers as a nuisance: "They think they rule the road," said Doru Rosca, a taxi driver. "Are we supposed to stop because they are riding against traffic?" Pedestrians see bikers as faster, less predictable and more dangerous pedestrians. And cyclists, for all their gains in population and political clout, still feel besieged by cars and expect little help from the police. The result, as Manhattan Borough President Scott Stringer witnessed last month, is often mayhem.

"We've got seniors who think bike lanes are walkways. We've got police cars using bike lanes as a quick way around town. We've got taxi cabs pulling up so close to the bike lanes that a passenger gets out and actually doors a cyclist," Mr. Stringer said in an interview.

This fall, Mr. Stringer sent his staffers to the streets to document the chaos. The results, recorded over three days, astounded him: 1,700 total infractions by drivers, bikers and pedestrians, many of them egregious. "We have to do something about it," he said.

To this point, the Department of Transportation has largely taken a "build-it-and-they-will-come" approach to cycling. Next year, it plans to beef up its awareness and outreach programs to alert New Yorkers to the new rules of the road.

"We have to step up our game on the education front," DOT Commissioner Janette Sadik-Khan said in an interview.

In the next few months, DOT will unveil "Don't Be a Jerk," a campaign featuring prominent New Yorkers preaching bike etiquette.

Biking in New York is safer today than during any time in the city's history. This year, however, the city will see a slight increase in the number of cycling fatalities and accidents in its year-over-year numbers, according to a Wall Street Journal analysis of data from the New York City Police Department.

There were 19 cyclist fatalities in the city through Oct. 31, seven more than in all of 2009. In the same period, 3,505 bikers were injured in crashes with motor vehicles, more than last year's total and up 20% compared to the first 10 months of last year. If the current rate of injuries continues, the percentage of daily riders who sustain injuries in 2010 will rise slightly.

Such fluctuations are not uncommon when a city retrofits its infrastructure for bikes. Neither is conflict. In Portland, Ore., considered America's bike capital by many cy-

clists, there are still squabbles, especially on pathways shared by pedestrians and cyclists, according to Roger Geller, the city's bicycle coordinator. But Mr. Geller said several factors have contributed to improved relations and safety in his city: Increased biking, better education and improved coordination among city agencies.

In Portland, motorists ticketed for cycling-related violations can take education classes in lieu of paying a fine.

The New York police department recently received a \$150,000 federal grant to increase enforcement

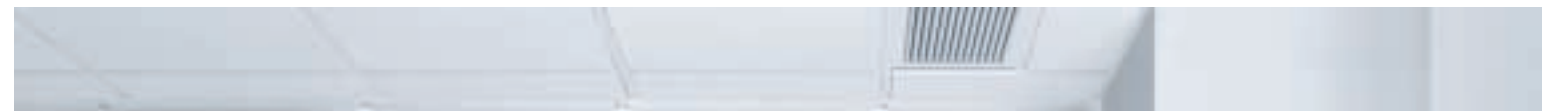
against drivers who speed and fail to yield to pedestrians and cyclists who violate traffic laws.

A recent evening presented a sign that there's hope for a friendlier future. At dusk, a food deliveryman stopped at a red light on Madison Avenue, despite no approaching traffic in the cross street. He was smoking a cigarette—and wearing a helmet. His bicycle even had lights. When the traffic light turned green, he rode off.

"We can do it," Mr. Stringer said. "Paris does it, Copenhagen does it. There's a way for all of us to get things right."



A new campaign featuring prominent New Yorkers will preach bike etiquette.



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## EURO-ZONE CRISIS

# Irish banks face downsizing

BY DAVID ENRICH

As part of Ireland's historic bailout, the country's banking sector is heading for a drastic retrenchment that likely will see a wave of asset sales and other moves meant to cut back the industry to its core function of serving the local market.

The Irish banks strayed far from their domestic mission during the now-collapsed real-estate boom, funding lavish commercial-property ventures and home loans abroad. Now, the banks could see a variety of their far-flung operations on the chopping block, according to government and industry officials. That could include dumping operations such as a partnership with the U.K. Post Office and a mortgage-lending company in Lithuania.

As Irish and European officials scramble to restore confidence in the country's crippled banking sector, they are weighing new sector-wide measures to clean up the lenders' polluted balance sheets, these officials say.

Ireland applied Sunday for a financial lifeline from European governments and the International Monetary Fund to defuse a crisis of confidence that threatened to spread across the euro zone.

While the negotiations between Irish and international officials are likely to continue for weeks, the bailout is expected to include tens of billions of euros that will be available to recapitalize Irish banks whose cash cushions have been crushed by losses on bad real-estate loans.

In addition to pumping new cash into the banks, the Irish government and European and IMF officials are checking which parts of the companies—including loan portfolios and overseas businesses—can be hived off.

The goal is to leave behind a slimmer, healthier sector that is po-

## On the block

Businesses that top Irish banks are selling or might look to sell



Allied Irish Banks



Bank of Ireland

### Already selling

- Stake in U.S.'s M&T Bank
- Bank Zachodni (Polish bank)
- Goodbody Stockbrokers

### Might look to sell

- AmCredit (Balkan mortgage lender)
- 50% stake in Bulgarian American Credit Bank
- AIB Group U.K.

- New Ireland Assurance Co. (pension and life insurance)
- Bank of Ireland Asset Management Ltd.

- Banking joint venture with U.K. Post Office
- Burdale Financial (asset-based lender)
- Corporate-banking arm

Photos: Bloomberg News (Allied Irish Banks, Bank of Ireland)  
Sources: the companies, WSJ reporting

sitioned to lend to Irish households and businesses—but not do much more.

Until now, the centerpiece of Ireland's bank-rescue efforts has been the National Asset Management Agency, which is buying about €73 billion (\$99.9 billion) of property loans from the banks. The program rids the banks of potentially risky loans and provides them with bonds they can swap for cash at the European Central Bank.

Bankers, analysts and other experts say Irish, European and IMF officials are contemplating new ini-

tiatives to mop up a sizable batch of other toxic loans that remain on the banks' books, including commercial-property loans NAMA didn't take on, corporate loans and home loans. Among the options: an industrywide "bad bank" to acquire risky assets, and an insurance program to entice investors to buy loans without fearing that they will get swamped with losses.

The government already is winding down fully nationalized Anglo Irish Bank Corp. and Irish Nationwide Building Society. It also has been hunting for a buyer for an-

other troubled lender, EBS Building Society.

The next phase of shrinking is likely to focus on Ireland's two biggest lenders, **Allied Irish Banks PLC** and **Bank of Ireland**.

Both have suffered severe losses on their property-lending misadventures, and some experts worry they are vulnerable to a surge in defaults on home loans.

After repeated capital injections, the government is set to own almost all of Allied Irish's shares and more than one-third of Bank of Ireland's. The taxpayer stakes may get bigger as more funds get pumped in via the latest rescue.

While both banks have been racing this year to dump extraneous businesses, there still is plenty left to unload. The question is how many buyers will want to pick through Ireland's banking wreckage. Already, investment bankers are descending on Dublin to pitch their services to banks that are likely to need to draw up plans to sell business lines and loan portfolios.

Allied Irish had been trying to sell its U.K. banking business, but it said last week that it hasn't been able to find a buyer and is therefore shelving the process for now.

Allied Irish also owns half of a Bulgarian small-business lender and fully owns AmCredit, a mortgage company in Lithuania, Latvia and Estonia. Allied Irish is exploring options to sell both businesses, but no viable offers have materialized, according to a person familiar with the matter.

For-sale signs also could be slapped on a number of businesses at Bank of Ireland. The company has set up a U.K. subsidiary to house, among other things, a joint venture with the U.K. Post Office.

Analysts and industry officials say the government will likely push the banks to dump loan portfolios as well as business lines.

## Europe debt panic swings to Portugal

Hopes that the rescue plan being worked out for Ireland would stop pressure building on other European governments were set back Monday as retreating financial markets turned the spotlight to Portugal.

By Jeffrey T. Lewis in Lisbon and Christopher Bjork in Madrid

Politicians expressed hope that the Ireland bailout would calm tensions in other economies in the European Union. "I hope that, with Ireland turning to the EU fund for help, the market situation will normalize, because Portugal was clearly suffering from a contagion effect," Portuguese Socialist Prime Minister José Sócrates told reporters Monday. "There's no relation between between Portugal and Ireland."

Spanish Finance Minister Elena Salgado reiterated that her country won't require external assistance to lower its budget gap or fix its finances. "Spain is honoring its commitments [to lower its deficit] and the results are already tangible," she told radio broadcaster RNE.

But Spain's stock market bench-

mark closed down 2.7%, while Portugal's key index ended 1.4% lower. "After confirmation that Ireland will be bailed out, markets are asking if the time has come to rescue Portugal, and eventually Spain or Italy," said Spanish brokerage Banca March in a note to clients.

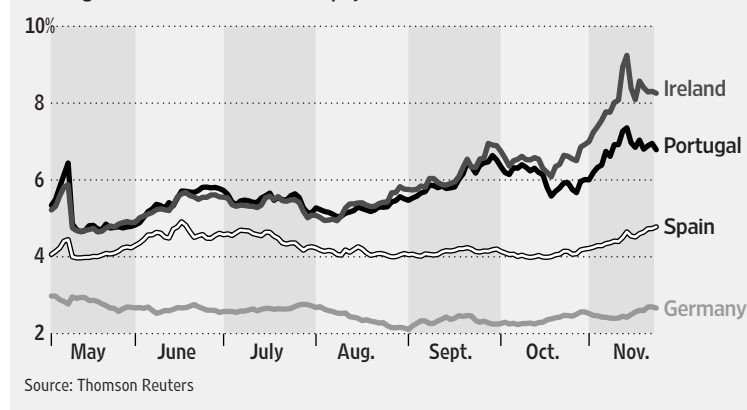
Investors remain intensely worried that Ireland's crisis will soon be Portugal's. Portugal's bonds saw only a small gain after Ireland's bailout, while the cost to insure them against default soared. Similar insurance costs for Spain, Greece and Ireland also leaped.

If Portugal were to turn to the EU bailout fund, it would need just €51.5 billion (\$70.5 billion) over the next three years to cover its expected budget deficits and redeem maturing bonds, according to figures from HSBC. But the equivalent for Spain is more than €350 billion, which would severely test the capacity of the EU and the International Monetary Fund.

Portugal faces a general strike Wednesday, ahead of an expected parliament vote Friday on 2011 spending plans after a bruising battle for Mr. Sócrates's minority gov-

### Risky yields

The spreads on 10-year bonds' yields reflect investor concerns about governments' abilities to repay debts.



ernment to cut the budget.

Miguel Macedo, parliament leader of Portugal's biggest opposition party, the PSD, said Monday the Irish decision could relieve some of the pressure on Portugal, but that the government mustn't let up in its efforts to slash the budget deficit. Portugal "can't stop doing every day what it has to do to get off the international markets' radar," he said.

But, said Tullia Bucco, an economist at UniCredit bank in Milan: "The longer the market pressure continues, the higher the chances Portugal will have to ask for some form of aid."

Portugal had a budget deficit equal to 9.3% of gross domestic

product in 2009, and its goal for this year is to reduce the percentage to 7.3%, and to 4.6% next year.

Ireland's rescue plan is expected to include a package to boost the capital buffers of banks. Shares of Spain's biggest bank, **Banco Santander SA** fell 4%, and its rival **Banco Bilbao Vizcaya Argentaria SA** lost 3.9%. Portugal's largest-listed bank, **Banco Comercial Português SA**, fell 2.2%, while rival **Banco Espírito Santo SA** slid 4.3%.

The euro dropped nearly 1% to \$1.3592 after initially rising after news of Ireland's bailout.

—Patricia Kowsmann, Neil Shah and Stephen Fidler contributed to this article.

## Cowen says new budget will set stage for early vote

Continued from first page

trigger new elections in about three weeks, possibly souring the market's already dim view of Ireland's creditworthiness.

Mr. Cowen's Fianna Fail party, which has ruled since 1997, has been weakened for some time, but the mounting backlash against Ireland's rescue could usher in a new phase of discontent in which Ireland's political turmoil compounds its fiscal and economic woes. Irish officials hope that the long-anticipated budget plan will convince markets that the country can tackle its budget deficit, which is projected to surpass 30% of its gross domestic product this year—10 times the euro-zone limit.

Ireland's mounting political turmoil also dashed hopes that its rescue might quell fears that Europe's debt crisis could spread to other countries that use the euro like Portugal and Spain.

European governments and the European Central Bank want to prevent Ireland's debt crisis from engulfing other countries and destabilizing the euro. But, so far, financial markets have proved skeptical, unwilling to believe that rescuing Ireland will necessarily ease debt burdens elsewhere.

The euro dropped nearly 1% to \$1.3592 on Monday after initially rising to \$1.3780 on news of Ireland's bailout. Prices of Ireland's government bonds also jumped higher in early London trading, but slipped back to Friday's levels as concerns about Ireland's fragile coalition government mounted. The yield on Ireland's benchmark 10-year government bond, which moves inversely to its price, stood at 8.37% in late London trading, after initially falling to 8%.

Investors also remain worried that Ireland's crisis will soon be Portugal's.

In a worrying signal, Portugal's bonds saw only a small gain after Ireland's bailout was unveiled, while the cost to insure Portugal's bonds against the risk of a default soared. Similar insurance costs for Spain, Greece and Ireland also leaped higher on investor fears the debt crisis will continue.

"It's adding a bit of uncertainty and instability," says Thomas Conefrey, an economist at the Economic and Social Research Institute, a Dublin-based think tank. "But in the long-run, a government with a majority could be a positive."

Leaders of Ireland's two main opposition parties, Fine Gael and Labour, repeated calls for the government to resign immediately. "What is needed now is an immediate general election so that a new government, with a clear parliamentary majority, can prepare the four year economic plan, complete negotiations with the EU and IMF and frame a budget for 2011," Fine Gael leader Enda Kenny said in a release.

The budget will be followed Thursday by a special election for a vacant parliamentary seat in northwestern Ireland, which is expected to result in reducing Fianna Fail's majority from three seats to two.

—Ainsley Thomson and Jason Douglas contributed to this article.



## EUROPE NEWS

# Estonia can't wait to join the euro

BY CHARLES DUXBURY

TALLIN—Whatever the problems afflicting some members of the euro zone, Estonia wants in as soon as possible.

It is hammering at the door for entry on New Year's Day after being given the green light by European Union finance ministers in June. Its neighbors, Latvia and Lithuania, are aiming to join in 2014.

As the Baltic state emerges from one of the deepest downturns of the financial crisis, Finance Minister Jürgen Ligi—the man widely credited with turning round Estonia's economic fortunes—says membership of the euro club is an important step in the country's economic recovery. Latest opinion polls show Estonians seem to be backing his judgment by a small majority.

"The euro is an important signal to the outside world about what we have done here, the cuts to expenses we have made," Mr. Ligi said in an interview with *The Wall Street Journal*. "Sometimes you need simple signals in politics and also for the markets."

A former defense minister, Mr. Ligi, 51 years old, became finance minister in June 2009 as Estonia's gross domestic product was falling by 15% from a year earlier. The severe cuts, amounting to \$1.4 billion, or 7.5% of GDP, he made to the budget and a 10% cut of public sector wages are credited with helping the country's economy turn around and fall in line with the European Union's Maastricht criteria for euro entry. These demand a deficit of below 3% of GDP and low inflation.

Joining the euro is good for general confidence and the markets, Mr. Ligi says. "We are just too small to have an independent monetary policy, nobody believes in small currencies," the finance minister adds.

Estonia had hoped to switch to the euro currency in 2007 but an average consumer price index rise of 6.6% that year failed the Maastricht criteria for inflation and the plan was shelved.

As Estonia's exchange rate has, since 2004 been locked in a tight band with the euro—a requirement for euro entry—it hasn't been able to devalue its currency to boost exports and improve growth. As a result, unemployment topped 15% and GDP plunged by an average 14% year-on-year in 2009, to \$19 billion.

Mr. Ligi has steadied the ship and Estonia's economy expanded in the last two quarters, rising by 3.1%



Estonia's Minister of Finance Jürgen Ligi said joining the euro will be good for general confidence and the markets.

and 4.7%, respectively. "We can say that we have restored growth but not yet the economy," he says.

Current concerns across Europe over the size of Ireland's debt and the controversy over that country applying for a bailout from fellow euro-zone members as well as the International Monetary Fund doesn't worry Mr. Ligi. "We believe the euro zone now is stronger than when we joined the EU in 2004, he says. "It is better regulated, more conservative in fiscal terms and the policies are better coordinated so decisions can be made quicker.

"When we applied the problems were hidden and nobody talked about them, but when the financial crisis hit Europe, violations of budget deficit and loan rules were taken much more seriously," he adds.

Should any euro-zone country need a bailout, Estonia will pay its share, Mr. Ligi says. "There is a principle of solidarity, of course, but also being a euro-zone member we are automatically expected to pay and we would never expect to be an exception."

Estonia's own financial crisis, during 2008-09, has left people cautious about the future and the adoption of the euro, says Maris Lauri, chief economist at Swedbank AB in Estonia, but they still feel the new

currency is more likely to prove a positive influence on the economy than a negative.

Figures from TNS Emor, the largest market researcher in the Baltics, show support for the euro running at 52% among Estonia's population. Joining the euro "is the last step of a transition into the European Union as an equal," says Ulo Ennuste, former professor of economics at Tallinn University. "It is a good stepping stone towards economic credibility, but it is a step being taken in a thick political fog."

Coming parliamentary elections in March will muddy the debate about the euro as different sides try to appeal to the electorate rather than consider what is best for the country, Mr. Ennuste adds. The coming of the euro is a key marker on the road away from the recent crisis and the turmoil of leaving the collapsing Soviet Union, he says.

Estonia broke apart from the Soviet Union in 1991, starting its second period of independence after the first phase of 22 years was brought to an end by Soviet occupation in 1940. This Baltic nation of 1.3 million people joined the EU and the North Atlantic Treaty Organization in 2004 but not everybody was in favor at the time and not everyone wants the euro now.

nians fought hard to get the kroon and they don't want to give it up," says Mr. Poolamets, who is a lawyer and historian.

"They say our economy is too small for its own currency but we have shown that we can balance our budget, we have low public debt." Countries like Ireland and Spain represent "a spend more than you earn culture" that will threaten the financial security of Estonia, he says.

Consumer prices are set to rise an average 3% over 2010, according to *Nordea Bank*, but that will be driven by rising prices for food on global markets, not the coming euro, the bank says. That prices are rising is happening at the same time as the new currency is set to come into force is unfortunate, says Ms. Lauri, as people are blaming the latter for the former.

In spite of such concerns, many traders around Tallinn, the capital, are positive about the new currency. "We have done ourselves a big favor in agreeing to join the euro—as a private citizen and as a business manager I welcome it," says Enn Parel, sales and marketing director at Tallinn's flagship department store Kaubamaja. The store, which has just celebrated its 50th anniversary, saw its worst year in two decades in 2009, when wages were cut by 10%, Mr. Parel says. "The euro brings stability—when the currency risk is taken away it will take away some serious concerns about investing in the region."

## Germany faces record deficit

BY BERND RADOWITZ

BERLIN—German fiscal-consolidation measures have been helpful and successful, the finance ministry said Monday in its monthly report, but the budget deficit this year will still be the country's highest ever.

"In the long run, only a reduction in the debt ratio can lead to higher economic growth," Deputy Finance Minister Hans Bernhard Beus said in the report.

A 2010 budget deficit of around €50 billion (\$68 billion) is possible, which would top the biggest previous deficit—€40 billion in 1996—the report said. The deficit reached €54.8 billion in the first 10 months of 2010.

Germany's budget deficit this

year will be "somewhat less" than €50 billion, Chancellor Angela Merkel said. The budget commission of Germany's parliament last week said it expects next year's deficit to come in at €48.4 billion.

Also last week, the German government's council of economic advisers said it expects the country's budget deficit to come down to 2.4% of gross domestic product next year from an expected 3.7% this year. That would bring the deficit below 3% of GDP—the maximum allowed under the European Union's Growth and Stability Pact—by next year, much earlier than 2013, the year the government had targeted for bringing down its deficit to meet EU requirements.

Germany's tax revenue this year

will be higher than expected in a previous estimate made in May 2010, the finance ministry's report said, and revenue is forecast to rise further next year and in 2012. Yet that only represents a recovery from a previous deep collapse in revenue, Mr. Beus said. "Even in 2012, the level of 2008 won't be reached yet," he said.

Germany's federal and state tax revenue was up 3% in October from the year-earlier month, to €33.88 billion, the report said. From January through October, tax revenue was flat from a year earlier at €385.6 billion, the report said. It added that the ministry now expects federal and state tax revenue to remain flat for all of 2010 as well, at €484.9 billion.

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## U.S. NEWS



U.S. Energy Secretary Steven Chu at the BP Command Center in Houston about a month after the Gulf disaster began.

# Panel says low estimates of Gulf spill hurt response

BY SIOBHAN HUGHES

The inability of BP PLC and government officials to accurately gauge the amount of oil flowing from the blown-out Gulf of Mexico well contributed to the failure of an early effort to stop the leak, according to staffers on a presidential panel investigating the disaster.

The report suggested that if BP knew the well was leaking as much as 62,000 barrels of oil a day when it tried the “top kill” in May, about a month after the spill began, the procedure would have been redesigned or scrapped altogether.

BP conducted the top kill, which involved pumping drilling mud into the top of the leaking well, under the apparently mistaken belief that oil was leaking at a rate of about 5,000 barrels a day.

Obama administration officials have insisted that the initial low estimates had no effect on the response to the spill. But investigators for the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling concluded that the 5,000-barrel-a-day estimate “appears to have impeded” the top kill.

“Because BP did not pump mud into the well at high enough rates to counter the actual flow, the hydrocarbons flowing from the well ejected the mud back up,” commission investigators found.

The White House, Energy Department and BP declined to comment. A call to retired Coast Guard Adm. Thad Allen, who was put in charge of the response to the oil spill, wasn’t immediately returned.

The spill commission’s staff’s latest report finds that the oil industry wasn’t prepared to deal with a deepwater blowout like the April 20 explosion that sank the Deepwater Horizon oil rig and killed 11 people. The commission staff also finds that the government was “similarly unprepared to provide meaningful supervision” of the effort to contain the disaster.

BP was eventually able to build and deploy a new system for containing the oil, and the government did provide effective oversight, the commission staff found. “Those impressive efforts, however, were

made necessary by the failure to anticipate a subsea blowout in the first place,” the report states.

The commission’s latest report portrays a turbulent relationship between government officials and BP managers during the crisis. Conference calls involving administration officials and industry experts “were fairly disorganized with no pre-set agenda and people talking over one another,” the investigators found.

One industry participant described an instance in which he learned he had been talking on a call with U.S. Energy Secretary Steven Chu without realizing it.

The spill commission staff report raises questions about the offshore drilling industry’s capacity for handling a substantial offshore spill. BP, “one of the world’s largest companies...still needed 87 days” to stop the gusher, the commission investigators said.

The government should require other oil companies “to demonstrate the capacity to respond to a disaster of this magnitude,” whether through bonding or insurance requirements or by requiring companies that drill in deep water to belong to industry consortia focused on well control, the commission staff recommends.

That finding could be helpful to the Obama administration which faces pressure from the oil industry and some Gulf Coast lawmakers to relax what some industry executives say is a de facto moratorium on new offshore drilling permits.

Interior Secretary Ken Salazar and other administration officials met with industry representatives in Louisiana Monday to discuss new safety requirements that the administration has imposed on drilling in the Gulf.

Industry officials came away disappointed that the federal government offered no commitments to speed up the approval of drilling permits, as had been hoped after their champion, Sen. Mary Landrieu (D., La.), said she had won unspecified commitments in exchange for yielding and allowing the White House budget nominee to be confirmed.

The spill commission investigators, in their latest report, shed

some additional light on the sometimes tense interactions of Obama administration officials and BP executives as they struggled to stop the undersea gusher flowing from BP’s blown out well.

Federal officials began to assert themselves more forcefully after the failure of BP’s “top kill,” the report said. On the night of May 28, Lars Herbst, the director of the Gulf of Mexico region for the Minerals Management Service, and Coast Guard Adm. Kevin Cook entered a BP meeting to analyze the top kill and stated that they had a right to be present—surprising BP workers. Previously, government personnel hadn’t insisted on joining these meetings, some of which took place behind closed doors.

“Asserting the right to be present for BP’s top kill analysis was a turning point for the government team,” the report found.

An unnamed senior government official told commission investigators that BP’s attitude before the government stepped up its supervision was “hope for the best, plan for the best, expect the best.” BP personnel felt that the government science team’s input slowed the containment effort.

The tension escalated after BP installed a “capping stack” to seal on the top of the set of valves on the sea floor known as the blowout preventer. By the time the capping stack was installed, responders were working with newer estimates that reflected a much higher spill rate. But some government officials were anxious that the stack would put too much pressure on the well, creating a new rupture, the report found.

Officials agreed to wait another day for additional test results. On July 15, during that 24-hour waiting period, a U.S. Geological Survey employee used the camera on his cell phone to take a picture of the pressure readings, and sent it to a co-worker, Paul Hsieh, in Menlo Park, Calif.

Mr. Hsieh “apparently relied on the data in the single cellular phone picture” to determine that there might not be a significant leak—backing BP’s view.

## Voters who stayed home offer clues for Democrats

[ Capital Journal ]

BY GERALD F. SEIB



A popular theory of this year’s midterm election holds that Democrats took a shellacking in part

because big chunks of the party’s core liberal base, discouraged at the path of the Obama administration, stayed home rather than show up to vote as they did in 2008.

It’s an interesting narrative. It also doesn’t appear to be entirely accurate.

While it’s correct that some key parts of the Democratic coalition—young voters and African-Americans among them—didn’t perform as they did in 2008, evidence emerging as the dust settles from this month’s election suggests the bigger hole in the side of the Democratic ship came from moderates in the political center who didn’t show up. (Those absences were in addition to the wave of independent swing voters also from the center who, exit polls showed, turned out but switched their votes to the Republicans.)

The case of the missing voters is important because how it is resolved will go a long way toward determining how Democrats respond to their midterm woes. If they conclude, as some argue, that the problem was an undermotivated liberal base, then the logical reaction would be a turn to the left and a staunch resistance to compromises with the Republicans who now control the House and hold expanded power in the Senate.

If, on the other hand, the conclusion is that the voters lost were moderates who got aboard the Barack Obama Express in 2008 but missed the train at the station this time, then that would argue for a political and policy strategy designed to appeal to the center of the electorate. And that might suggest more willingness to seek compromises in the middle.

Let’s look at some evidence. The latest Wall Street Journal/NBC News poll sifted out a group of voters who said they cast ballots in 2008 but didn’t vote this year. They do tend to be a bit younger than the overall average of voters. And as a group they like Mr. Obama noticeably more than do voters as a whole, and they tend to identify themselves as Democrats, which suggests that, as suspected, many would have been Democratic voters had they shown up.

But they also were more likely to identify themselves as “not very strong Democrats” rather than “strong Democrats.” And the largest share identified their ideology as moderate rather than liberal.

A more direct study of these 2010 no-shows was undertaken by Third Way, a think tank for moderate Democrats, and Lincoln Park Strategies, a Democratic polling firm. They surveyed 1,000 Democrats who voted for Mr.



President Barack Obama on Saturday.

Obama in 2008 but abandoned the party this year. Half of them were “switchers” who moved their votes to the Republicans this time, while the other half were “droppers” who simply dropped out of the voting this year.

That survey found that, while the droppers were a bit more liberal than 2010 voters as a whole, they were split in almost precise thirds into liberals, moderates and conservatives. Moreover, just 42% identified themselves as Democrats, while 40% were independents and 8% were Republicans. Almost a quarter of them voted for Republican George W. Bush in 2004.

Nor were the droppers largely minority voters, as the popular stereotype might suggest. Eight in 10 were white, while just 7% were African-American and 5% Latino.

In other words, those who stayed home don’t, as a whole, fit the profile of a disgruntled liberal base. Instead, they lean toward a profile of a group of centrist voters who weren’t motivated this time. Indeed, as that would suggest, the droppers were pretty much split down the middle on whether their concern was that Mr. Obama and the Democrats didn’t try to have government do more (45%), or whether they tried to have government do too much (39%).

“The Obama voters who stayed home in 2010 encompass more than the Democratic base,” concludes the study of these voters. “And disappointment that Obama didn’t go farther was not a major factor in their reasons for staying home.”

Not surprisingly, the same study found that 2008 Obama voters who showed up this year but switched their votes to the Republicans were much more likely to say that they thought Democrats and the president tried to have government do too much. They were, in short, more conservative, and tended as a group to lean more Republican to begin with, than did those who simply stayed home.

The question for Democrats and Mr. Obama, of course, is whether they can get both groups, the switchers and droppers, moving back in their direction now.

The droppers should be easier to retrieve—though the process of doing so would have to begin with figuring out why they checked out in the first place.

Write to Gerald F. Seib at [jerry.seib@wsj.com](mailto:jerry.seib@wsj.com)



U.S. NEWS

# Green-card lottery entries hit a high

*Fifteen million people seek to enter the U.S. through a program in which success is down to the luck of the draw*

BY MIRIAM JORDAN

A record 15 million people around the world this year entered America's green-card lottery, an immigration program that offers a quick path to legal, permanent U.S. residence for 50,000 people a year—selected purely by the luck of the draw.

The so-called diversity visa program drew nearly 25% more entries than last year, according to the State Department. The limit of 50,000 green-card recipients through the program was established years ago by Congress. Some lawmakers are now calling for an end to the program.

The annual lottery creates a buzz across the developing world. Applicants from Kenya to Kazakhstan brave lines at Internet kiosks to fill out electronic entries. In the final hours of the month-long enrollment period, which this year closed Nov. 3, entries were rolling in at the rate of 62,000 an hour. Recent winners already in the U.S. include cab drivers, professional athletes and Internet entrepreneurs.

"I would never have started a company that created value in the United States if I hadn't won the lottery," said Adam Gries, a 29-year-old Israeli who runs an Internet start-up in San Francisco.

Critics say the program poses security risks, lures uneducated immigrants and allows people with no ties to the U.S. to get into the country more quickly than those sponsored by relatives or employers.

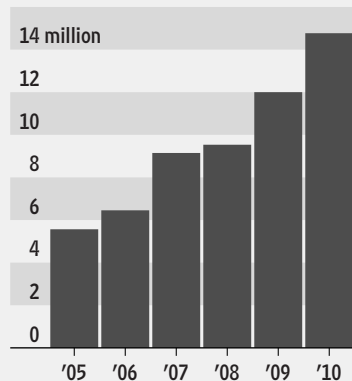
"More and more people are learning about this program and are dumbfounded that we have it in the first place," said Rep. Bob Goodlatte (R., Va.), who has introduced legislation to abolish it.

Launched in 1990 to promote diversity in the immigrant population, the green-card lottery is now open

## Luck of the draw

More people are entering the U.S. green-card lottery...

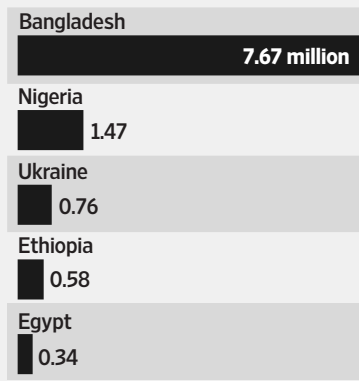
Total entrants into the lottery\*



\*Winners who enter the lottery in fall 2010 will receive their visas in fiscal year 2012

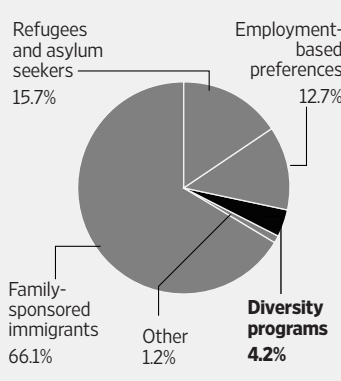
...with the largest number from Bangladesh...

Top five countries in the most recent lottery



...though the share of immigrants through the lottery remains small.

Legal permanent resident flow by category of admission, 2009



Sources: U.S. State Dept.; U.S. Dept. of Homeland Security



Tsegaye Kedir, originally from Ethiopia, is now a U.S. citizen after entering the country through the green-card lottery five years ago.

to people from almost anywhere in the world, except countries that already boast a large number of nationals in the U.S., including Mexico, China, India and the Philippines. No special skills are required: A high-school diploma suffices.

The number of entries has been rising each year. This year's total is more than 2.5 times greater than five years ago, when the lottery attracted 5.5 million entries. Immigration scholars say possible reasons include the spread of Internet connectivity and increased awareness of the lottery. "There is no faster way to get a green card to come to the United States," said Mark Jacobsen, an immigration lawyer.

After an electronic draw, about 100,000 applicants will be notified in May—twice as many as ultimately will be eligible to move to the U.S.—to undergo interviews, background checks and medical exams.

There is no cap on how many times the same person can enter the lottery—but no country can represent more than 7% of the total visas issued in a given year. For the fiscal year ended Sept. 30, 2009, nationals from Ethiopia, Egypt and Nigeria were the top recipients.

Five years since arriving as a single man in San Diego, lottery winner Tsegaye Kedir of Ethiopia is married and a U.S. citizen preparing to attend college.

"I came because the U.S. has big opportunity for work, to get an education and to live a better life than in my country," said the 29-year-old, who drives a taxi.

Zoltan Mesko, a rookie punter with the New England Patriots, came to the U.S. from Romania after his family won a spot in the lottery when he was a child.

Although the program accounts for a small percentage of the legal

immigrants who enter the U.S. each year, critics say it diverts State Department resources from processing more important visa categories. "We are allocating visas based on luck instead of knowledge," said Bernard Wolfsdorf, an immigration attorney.

Rep. Goodlatte of Virginia and others say the program is inviting to terrorists, as people don't need to prove ties to the U.S. and a green card allows them to get almost any

job—even handling explosives.

Hesham Mohammed Ali Hedayet, an Egyptian who killed two people at an El Al airline counter in Los Angeles in 2002, was able to remain in the U.S. after overstaying his visitor's visa because his wife won the green-card lottery.

The State Department said those who get in through the lottery are subjected to the same security review as other visa applicants.

# Debt level divides Republicans

BY NAFTALI BENDAVID

House Republican leaders appear headed for a clash with some newly elected members on a vote early next year to increase the amount the government can borrow.

Minority Leader John Boehner (R., Ohio), who is set to become House speaker in January, said last week he has been talking to Republican freshmen about the need to raise the federal debt ceiling.

"We're going to have to deal with it as adults," Mr. Boehner said. "Whether we like it or not, the federal government has obligations, and we have obligations on our part."

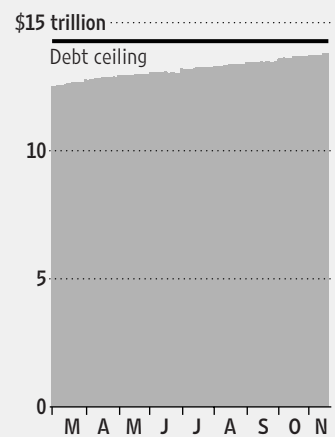
But incoming Republicans like Tim Scott of South Carolina have made it clear they won't support raising the debt limit. "The question is, when are we going to stop the way we are going? I think we have to stop it now," Mr. Scott said.

The government is currently authorized to borrow \$14.3 trillion and is expected to hit that amount within a few months. If the limit isn't raised, it could signal to markets that the U.S. isn't prepared to meet its obligations and send tremors through the financial system.

During this year's congressional

## Nearing the limit

Total public debt outstanding



Source: U.S. Treasury Department

campaign, many GOP newcomers attacked their Democratic opponents as spendthrifts for past votes to raise the debt limit. Wisconsin Republican Reid Ribble, for example, who eventually defeated incumbent Democratic Rep. Steve Kagen, blasted Mr. Kagen for voting to increase the ceiling in February, calling the debt "unconscionable" and

"insane." Mr. Ribble couldn't be reached for comment. In Colorado, Rep.-elect Scott Tipton ran a TV spot against Democratic Rep. John Salazar saying, "He voted to increase the debt limit to a staggering \$14 trillion, even with Colorado's skyrocketing unemployment."

Rep.-elect Bill Johnson of Ohio said those who ran on such messages don't intend to reverse themselves now. "Most of us agreed that to increase the limit would be a betrayal of what we told voters we would do," he said.

GOP leaders hope to package a debt-limit vote with spending cuts, making it easier for Republicans to vote for it. But it isn't clear that will be enough for many GOP freshmen. And most House Democrats are unlikely to vote for such a package.

Dynamics are different in the Senate, where Democrats will still be in charge next year, and most of the 53 Democratic senators are likely to support raising the debt limit.

Senate Democrats are anticipating a fight to get enough Republicans to agree: It takes 60 votes to pass most Senate bills.

—Neil King Jr. and Damian Paletta contributed to this article.

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## WORLD NEWS

# Cambodia stampede kills hundreds

Associated Press

PHNOM PENH, Cambodia—Thousands of Cambodians celebrating a water festival on an island in a river in the capital stampeded Monday night, leaving more than 300 people dead and hundreds injured. Some in the panicky crowd who tried to flee over a bridge were crushed underfoot or fell into the water.

Prime Minister Hun Sen, in the third of three post-midnight live television broadcasts, said that 339 people had been killed and 329 injured. He described the chaos as the “biggest tragedy” to strike his country since the communist Khmer Rouge’s reign of terror in the 1970s, and ordered an investigation.

Ambulances raced back and forth between the river and the hospitals for several hours afterward. Calmette Hospital, the capital’s main medical facility, was filled with bodies as well as patients, some of whom had to be treated in hallways. Many of the injured appeared to be badly hurt, raising the prospect that the death toll could rise.

Hours after the chaos, the dead and injured were still being taken away from the scene. Searchers looked for bodies of those who may have drowned.

Authorities had estimated that about two million people would descend on Phnom Penh for the three-day water festival, which marks the end of the rainy season with boat races along the river.

Soft-drink vendor So Cheata said the trouble began when about 10 people fell unconscious in the press of the crowd. She said that set off a panic, that turned into a stampede.



An injured Cambodian is carried off late Monday following a stampede in Phnom Penh. More than 300 people died after the press of the crowd turned into a panic.

## New Mumbai airport approved

BY GEETA ANAND

MUMBAI—India’s minister of environment and forests Monday approved an \$880 million international airport just outside Mumbai, meant to meet the rapidly growing aviation needs of the country’s financial capital.

Jairam Ramesh had withheld clearance for 17 months for the airport in Navi Mumbai, a planned city northeast of Mumbai, expressing concern about environmental impact that included the loss of several hundred acres of mangrove forests, the rerouting of two rivers and the flattening of a 90-meter hill. But his ministry and the Ministry of Civil Aviation reached an agreement to reduce the impact by moving two runways closer together and shift some functions to another location.

“We have worked on a compromise that would save part of the mangroves and avoid moving one of the rivers,” Mr. Ramesh said in an interview. “It isn’t perfect, but it preserves much of the environment and allows a vital infrastructure project to go forward.”

There was no way to safely build the airport, he said, without rerouting one river and losing some mangroves and the hill.

The new chief minister of the state of Maharashtra, Prithviraj Chavan, in a joint news conference with Mr. Ramesh on Monday, said the first phase of the new airport will be built by 2014 or 2015. Mumbai is the capital of Maharashtra, which also includes Navi Mumbai.



Aircraft at Mumbai’s international airport in May. With no room to expand the current airport, a new one was approved after an environmental compromise.

The Indian government has been trying for a decade to build a new international airport in Navi Mumbai to accommodate growing traffic. There isn’t room to expand the current international airport. The national cabinet endorsed the plan in principle in 2007.

Appearing at the news conference, Praful Patel, minister of civil aviation, tried to move beyond the friction that rose between the two ministries after Mr. Ramesh raised his concerns in June 2009, delaying construction plans.

“It is our concern and joint re-

sponsibility to address issues of the environment,” Mr. Patel said, adding that reducing the damage to the ecosystem hadn’t compromised aviation safety.

India’s civil-aviation industry is expected to grow by 25% this year, Mr. Patel said. Mr. Chavan, aiming to move forward with construction as fast as possible, said Mr. Ramesh had assured him he would quickly approve the remaining forestry permits required for the project.

Mr. Chavan also said he expects to get the remaining high-court clearances within the next week.

## Somali piracy suspects begin trial in Germany

Associated Press

HAMBURG, Germany—Germany’s first piracy trial in hundreds of years got off to a shaky start Monday, with the court struggling to get even the most basic information from 10 Somali men and youths charged with hijacking a German container ship earlier this year.

The 10 Somalis sat at three rows of tables in the Hamburg state court, some in hooded sweat shirts and oversized pants, which stood in sharp contrast to the pristine black robes of their 20 attorneys.

Prosecutors have been unable to determine the ages of three of the suspects. As a result, the trial is being held at a youth court for all suspects.

Dutch marines captured the Somalis aboard the MV Taipan in the Gulf of Aden on April 5.

The alleged pirates were extradited from the Netherlands to Germany in June.

When the ship was attacked, the crew sent out an emergency call and then locked themselves in the vessel’s security room for several hours. The 15 crew members from Germany, Russia, Ukraine and Sri Lanka also stopped the ship’s engine, making it impossible for the pirates to take the 140-meter Taipan to their Somali home port.

A Dutch antipiracy unit responded to the call for help, and after exchanging fire captured the 10 pirates and seized five machine

guns, two missile launchers and ammunition. None of the crew members was harmed.

The panel of judges questioning the defendants in person about their ages and places of birth—as none of them have identity documents—met with little success.

“I was born under the tree,” defendant Abdi Yussuf Karsi told the court when asked for his age and place of birth. “In Somalia.”

He said he didn’t know his exact birth date, but, according to what his mother told him, he is now 20 years old.

One of the youngest defendants started crying and shaking when the court tried to determine his age. He told the court he is 13 years old—which would mean that he would have to be released immediately because under German law people younger than 14 can’t be prosecuted.

No pleas were entered, which is standard in German court proceedings. The adults face a possible 15 years in prison if convicted, while the younger defendants can be sentenced to as many as 10 years.

Judge Bernd Steinmetz stressed that it was his priority to resolve the age issue of the youngest defendants and also decide whether the public and media should be excluded from the trial to protect the privacy of the three teenage defendants.

The trial is scheduled to resume on Dec. 2, and a verdict isn’t expected before next spring.



## WORLD NEWS

# Thai, Malaysian views strong

The economies of Thailand and Malaysia fell short of expectations during the third quarter as exports cooled, but full-year outlooks for both nations remain strong, with Thai authorities even upgrading their forecast.

By Phisanu Phromchanya in Bangkok and Elffie Chew in Kuala Lumpur

Thailand, Southeast Asia's second-largest economy, reported gross domestic product shrank a seasonally adjusted 0.2% during the July-September period from the prior quarter, on slower exports as well as lower manufacturing and agricultural output. The decline—following a downward revision Monday of second-quarter GDP to a slide of 0.6% from the prior quarter—meant the economy slipped into a technical recession, defined as two straight quarters of contraction.

But robust year-to-year growth over the first nine months of 2010, sparked by an especially strong first quarter, prompted the government's economic planning agency to revise upward its full-year GDP forecast to 7.9%, from a previous expectation of 7%-7.5%. In the third quarter, GDP rose 6.7% from a year earlier. During the January-September period, the economy expanded 9.3%, the agency said.

The slower third-quarter growth data, however, will likely encourage the Bank of Thailand to stand pat on rates at the Dec. 1 policy meeting.

The median forecast of nine economists polled by Dow Jones Newswires was for third-quarter GDP to have contracted 0.7% from the prior quarter.

Thailand's exports, a key growth driver, continued to expand during the third quarter, albeit at a sharply slower pace than earlier this year, when shipments surged as pockets of the global economy showed signs of picking up and inventory restocking was ramped up. Domestic demand is also continuing to improve.

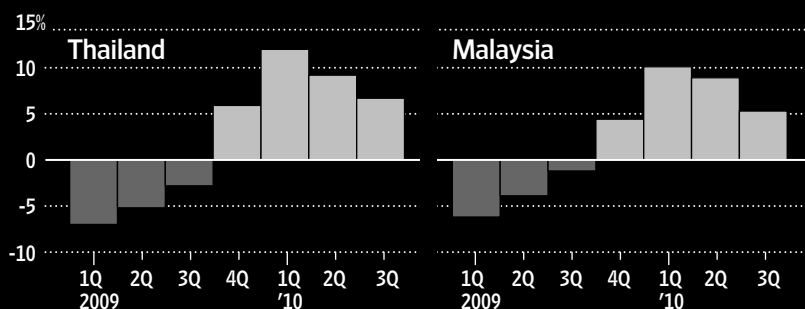


## Growth story

GDP of Thailand and Malaysia, Change from previous year

Sources: National Economic and Social Development Board, Thailand; Department of Statistics Malaysia  
Photo: Reuters

Above, a stall keeper attends to his customers at a fruit market in Kuala Lumpur.



Despite two consecutive quarterly falls in GDP, "I don't think we're anywhere near a recession. The marginal contractions are considered negligible as they are simply the result of massive inventory pileup earlier this year," said Pornthep Jubandhu, **Siam Commercial Bank's** manager of macroeconomic analysis.

Malaysia's economy, meanwhile, grew at a slower-than-expected pace of 5.3% in the third quarter from a year earlier, as exports cooled amid uncertainty in the global environment. But most economists said the deceleration isn't worrying and that

the trade-driven economy remains on track to meet its official growth forecast of 6% to 7% this year.

The third quarter's 5.3% growth was slower than the median forecast for 5.8% growth from 18 economists polled by Dow Jones Newswires. It also moderated from the 8.9% expansion in the second quarter.

GDP in the third quarter grew 2.4% from the prior quarter without seasonal adjustment, Bank Negara Malaysia Governor Zeti Akhtar Aziz said. That is slower than the 3.5% expansion in the second quarter.

Malaysia's year-to-year growth in the third quarter trailed neigh-

boring countries' such as Singapore, which recorded a 10.6% expansion, Thailand's 6.7% increase and Indonesia's 5.8% growth.

Ms. Zeti said the Malaysian economy's pace of growth will be influenced by the expected continued slowdown in external demand, but overall growth will be supported by robust domestic economic activity.

Malaysia, she added, is on track to meet the official growth forecast of 6% to 7% this year. She also said the current policy rate is appropriate and that there are still no signs of asset bubbles forming in the country.

# Australia to examine foreigners' takeovers

By Rachel Pannett

CANBERRA, Australia—Australia's center-left Labor government said it will examine foreign ownership of the country's rural land and agricultural food production in response to a spate of takeovers that have triggered anxiety about job losses and broader concerns about food security.

Worries about foreign ownership have been mostly limited to the mining and energy sectors, where a wave of investment by Chinese state-owned firms has threatened a loss of sovereignty and price control over commodities such as iron ore and coal.

But Friday's delisting of wheat exporter AWB Ltd., an icon of the country's agribusiness, highlights increasing deal concerns. AWB delisted following a court's approval of Canada-based **Agrium Inc.**'s takeover of the company.

"Whether there really are foreign-investment issues to be concerned by here, or whether there is actually a gap developing between anxiety and reality is the key question at hand," Assistant Treasurer Bill Shorten said. Mr. Shorten, along with the country's Foreign Investment Review Board and treasurer, is responsible for scrutinizing foreign-investment applications.

Global interest in Australia's vast natural resources has posed a dilemma for the government, which wants to protect national interests and at the same time appear open to foreign investment.

Last year, Anglo-Australian mining giant **Rio Tinto** walked away from a proposed \$19.5 billion deal with **Aluminum Corp. of China**, in part because of fears of the consequences of giving China direct access to a huge trove of natural resources. The proposed deal would have given state-owned Chinalco an 18% stake in Rio Tinto and would have given the Chinese company direct stakes in some mining assets.

The government said it has commissioned a research project by the Australian Bureau of Statistics, Rural Industries Research and Development Corp., and chief commodities forecaster the Australian Bureau of Agricultural and Resource Economics to give a "better picture of the foreign investment landscape." That includes an agricultural census early next year to look at rural land and water ownership.

"Foreign investment is vital for Australian farmers and regional communities because it supports local jobs and economic growth and prosperity," Agriculture Minister Joe Ludwig said. Official data show 99% of large-scale and dairy farms in Australia are family-operated.

Conservative Queensland-based independent Bob Katter on Monday presented a challenge in Parliament to a proposed \$8.3 billion takeover of the country's largest stock-market operator by **Singapore Exchange Ltd.** The ASX takeover, which could create Asia's fifth-largest market operator, is a controversial political subject in Australia, where some fear moving control of the exchange overseas will damage the national interest.

# Japan justice minister quits 'easy' post

By William Spasato

TOKYO—Japan's justice minister announced his resignation Monday following a weeklong furor over comments he made disparaging his job—the latest in a series of scandals undermining the government of Prime Minister Naoto Kan.

Minoru Yanagida stepped down after the opposition revealed plans to tie up parliament with a motion to censure him, which would have delayed a \$60 billion stimulus package meant to boost an economy hit by the global slowdown and a strong yen that reduces exports.

"In order to pass the supplementary budget through the Diet as soon as possible, I told Prime Minister Kan my intention to step down this morning....My remarks were a kind of joke, but I was careless. I am deeply sorry about that," Mr. Yanagida said at a news conference.

But some opposition parties said they weren't satisfied, and would still not allow the stimulus package to be voted on Wednesday as planned.

"It would be absurd for the prime minister to ask for support for the supplementary budget in ex-



Justice Minister Minoru Yanagida bows deeply as he announces his resignation.

change for meeting our call for the [justice minister's] resignation," said Tadamori Oshima, a vice president in the opposition Liberal Democratic Party. "The people who ap-

pointed him also bear responsibility."

Some other opposition figures expressed more caution about holding up a measure meant to help the

economy.

Chief Cabinet Secretary Yoshito Sengoku, considered one of the most powerful people in Mr. Kan's government, will also serve as justice minister, in what is expected to be an interim appointment.

Mr. Yanagida came under fire after reports surfaced that he had recently told constituents that the job of justice minister, part of the cabinet, wasn't very difficult.

"Being a justice minister is easy, as I only have to remember two phrases, either of which I can use in parliament whenever I'm stuck for an answer," he said, adding that the two phrases are "I refrain from making comments on a specific issue" and "We're dealing with the matter based on laws and evidence."

The resignation is yet another blow to Mr. Kan, who is seen to be in an increasingly tenuous position as his support slides following a series of setbacks.

Public support for the cabinet has plunged to 26%, its lowest level since Mr. Kan took office in June, according to a nationwide telephone poll conducted Saturday and Sunday and published in the Mainichi newspaper Monday.