DJIA 11187.28 Closed | Nasdaq 2543.12 Closed | Stoxx Eur 600 267.72 ▲ 0.54% | FTSE 100 5698.93 ▲ 0.74% | DAX 6879.66 ▲ 0.82% | CAC 40 3760.42 ▲ 0.34% | Euro 1.3370 ▼ 0.16% | Pound 1.5760 ▼ 0.13%

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THE WALL STREET JOURNAL.

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Students protest against education cuts in Italy

Associated Press

University students gather around the Leaning Tower of Pisa after hanging a banner from the famous landmark protesting against Italian education cuts Thursday. Students also occupied the tower and Rome's Colosseum during the second day of protests against the reforms.

Debate in EU on bailout aid roils markets

BY MARCUS WALKER AND MATTHEW KARNITSCHNIG

BERLIN—European leaders debated whether to commit more funds to rescue facilities for struggling euro-zone countries, as financial-market pressure on the region's weakest economies intensified.

The European Union's executive arm, the EU Commission, floated a proposal on Wednesday to double the size of Europe's €440 billion ($588 billion) bailout fund for euro-zone governments, but the idea was dismissed by Germany, according to people familiar with the situation.

The disagreement between Brussels and Berlin comes amid growing fears that the crisis of investor confidence in euro-zone governments, which has already forced Greece and Ireland to seek international bailouts, could expand sooner or later to Portugal and Spain.

Many investors and analysts doubt whether the EU has agreed to enough financing to rescue Spain if the country were to lose access to bond markets. Support from Germany, Europe's largest economy and biggest contributor to the EU's main bailout fund, would be essential for any increase in the facility.

Following Greece's €110 billion bailout in May, the EU set up a €750 billion rescue program together with the International Monetary Fund. The centerpiece of that effort is the European Financial Stability Facility, which euro-zone countries agreed to support with up to €440 billion in credit guarantees. The remaining contributions would come from the IMF and the Brussels-based Commission.

Referring to the EFSF in a speech on Thursday, German Chancellor Angela Merkel said: "Everything will remain as it has been agreed to."

Ms. Merkel and French President Nicolas Sarkozy discussed the euro zone's crisis in a phone call late Thursday, a spokesman for the chancellor said. The leaders agreed that talks over aid for Ireland should come to a swift conclusion, and praised the Irish government's plan to cut its budget deficit. They also stressed that the existing European bailout plan will remain unchanged through 2013, the spokesman said.

Fears that Ireland's debt and banking crisis could spread to Spain continued to weigh on European markets on Thursday.

The bond markets of Europe's weaker economies showed further signs of stress, keeping these countries' borrowing costs elevated. Traders speculated that the European Central Bank was partly counteracting the trend, by buying bonds as part of its emergency program to support the market.

—Neil Shah and Patrick McGroarty contributed to this article.

Dubai firm pushes for bigger debt deal

BY MIRNA SLEIMAN

DUBAI—**Dubai International Capital**—the investment arm of **Dubai Holding**, the conglomerate owned by Dubai's ruler—is seeking to restructure as much as $2.6 billion worth of debt by Nov. 30, twice as much as the amount that matures next week, people familiar with the situation said.

The push for the larger amount comes after the emirate reached a deal with creditors in October for about $25 billion of outstanding debt owed by the government's other flagship conglomerate, **Dubai World**. Dubai World shocked investors a year ago Thursday when it announced that it would delay debt payments.

The Dubai World deal buoyed sentiment in the city-state, one of seven semi-autonomous emirates that make up the United Arab Emirates.

In May, DIC asked local and international lenders for a three-month extension on some of its loans that would allow it to implement a "consensual longer-term plan." That extension was later expanded to Nov. 30.

Now the company is attempting to restructure $2.6 billion worth of debt as part of a larger debt restructuring under way at Dubai Holding. Total debt at Dubai Holding that could be restructured is estimated at as much as $12 billion, another person familiar with the situation said.

"A deal between DIC and lenders to restructure $2.6 billion has to be reached before the end of this month," a person close to the matter told Zawya Dow Jones.

Of the $2.6 billion, $1.25 billion was for a loan that matured in June and for which repayment was extended to Nov. 30. The remainder of the debt matures next year, but a deal that covers the entire $2.6 billion must be negotiated by the end of this month under the terms of the June loan extension.

DIC hasn't missed any payments on the remaining amount and is paying interest on the debt, a company spokesman said.

Dubai's total direct borrowing stood at $28.9 billion at the end of July, according to a Dubai Department of Finance investor presentation. But if the debt of its government-affiliated companies is added in, total debt eclipses the city-state's gross domestic product.

Another Dubai Holding company, **Dubai Group**, said earlier this month it had established a coordinating committee of banks to discuss its debt obligations.

Separately, Dubai Holding's real-estate and hospitality arm, **Dubai Holding Commercial Operations Group**, has a $555 million revolving credit facility due on Nov. 30.

The Quirk

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Now we could find out just how far they are willing to go to save the euro

[Agenda]

BY TERENCE ROTH

European leaders from Angela Merkel to Nicolas Sarkozy have sworn they will do anything needed to keep the euro project alive. Before long, it's a promise that must lead to something close to what early euro-skeptics foresaw from the start: a European fiscal union.

The alternative would be years of economic pain and social instability among weaker euro-zone countries, with recurrent bouts of speculation that the currency system will self-destruct.

Countries sharing the euro are about to enter the third phase of the euro project since its launch in 1999.

The second phase saw euro-zone governments over the past year scurrying to agree on new regulatory agencies girded by stiffer oversight and penalties imposed on fiscal mavericks. Included in the mix is the €440 billion ($58.8 billion) rescue fund for bankrupt governments, the temporary European Financial Stability Facility set up after Greece's near-insolvency in May.

Between them, Ireland and Greece will have rescue packages of something nearing €200 billion. What was billed as the firewall protecting the world's biggest currency union barely six months ago already is looking unfinished and inadequate.

But the flood tide has already surged past the half-built bulwarks and Ireland has now been forced to capitulate and accept outside help. Government debt issued by Portugal and even Spain is already in the crosshairs of international bond investors.

A decade too late, European Union leaders and the European Central Bank are hurrying to patch up the euro regulatory system to restore confidence. But early this year it was already clear that they have always been a step behind events.

Reuters

President Nicolas Sarkozy meets French rural representatives on Thursday.

Radical fiscal austerity plans among nations along the euro-zone periphery threaten to shrink gross domestic product faster than deficits. Amid those worries, serially bungled communications management over possible government debt restructuring has eroded confidence that euro-zone governments have a coherent plan.

Will weaker members eventually give up the struggle and leave the euro?

Now the euro has reached a new crossroads.

Will weaker members eventually give up the struggle and leave the euro? This would lead to an almost inevitable default as their new currencies would be too weak to service foreign liabilities. But it would relieve the austerity-recession spiral.

Even more far out, will Germany cast off from the euro and resurrect the deutsche mark, possibly joined by Austria and the Netherlands? Without its core members, the euro would plummet and any bailout systems now under construction would collapse without its principal paymasters.

Saving the euro means eliminating those options. And taking Ms. Merkel at her word, saving the euro tops everything.

Right now the surest way to stop cold the unrelenting default speculation is a one-time assumption of Greece, Irish and Portuguese sovereign debt by the treasuries of Germany, France and other fiscally stronger countries. Sharply reducing their debt burden also would ease the drag imposed on budgets by the cost of servicing that debt with the exorbitant risk premiums demanded by investors.

Economists at J.P. Morgan estimate a one-time transfer of €350 billion in debt from those three countries on the euro-zone periphery to its core would reduce their debt load to a more manageable level and stop the risk of the latest crisis in Ireland from spreading. Peripheral governments could then ease the degree of fiscal cutbacks to encourage economic growth and, with it, political risk.

Germany's muscular economic recovery is evaporating its own budget deficits, putting it in the best position to lead the initiative.

But it also would be in Germany where the domestic political backlash would be the most ferocious. Germany's own budget cuts have told on households. Ms. Merkel suffered horribly in the polls and lost a key regional election after reluctantly agreeing to contribute to Greece's €110 billion bailout, even while tightening screws at home.

Picking up its share for a bailout three times that size would amount to exonerating fiscal profligates for their sins while also paying the price out of their own taxes. The fact that this will result in a lower rate of interest, because Germany has a higher credit standing than Ireland or Portugal, would hardly appease an angry electorate.

But heads of government ultimately responsible for keeping the euro alive may be running out of options. Financial markets have seen the pattern in Greece, Ireland and now Portugal and will need an overwhelming show of fiscal backstopping.

A one-off fiscal transfer won't cover the gaps left by the framers of the Maastricht Treaty that put the euro project in this mess. But it will buy time to shore up its faults. It also would overwhelm doubts that the euro-zone governments really will do everything it takes.

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'It's a mess. Of course, the ECB and the politicians can't very easily publicly admit that.'

Katie Martin on how the euro may face serious troubles in the future

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NEWS

Debt still clouds recovery in Dubai

By Nour Malas

ABU DHABI—A year after Dubai's debt crisis first roiled global financial markets, glimmers of confidence are returning to the city-state that became synonymous with skyscrapers and a man-made archipelago. But the threat of more debt-restructuring pain remains a dark cloud over the emirate, investors and officials say.

Dubai World, one of the government's flagship conglomerates, shocked the financial community a year ago when it announced it would ask creditors to delay repayments on its $23.8 billion debt pile, leading investor confidence in the emirate to plummet.

The conglomerate, like other Dubai government-owned groups, built up debts during years of frenzied spending that included some of the world's most extravagant real-estate projects, developed by its **Nakheel** unit—seen to be at the center of Dubai's financial problems—and on the purchase of international properties by investment arm **Istithmar World** as prices peaked.

"There's opportunity in crisis, but it's really what is done in the next 12 to 14 months that is going to be critical," said V. Shankar, Standard Chartered Bank's chief executive officer for Europe, Middle East, Africa and Americas.

Investors have begun to place some of their faith back in the city-state, one of seven semiautonomous emirates that make up the United Arab Emirates, since Dubai World sealed a deal with creditors in October to restructure its debts—now at nearly $25 billion—after more than 10 months of negotiations.

Dubai's oil-rich neighbor Abu Dhabi, the capital of the U.A.E., has provided billions of dollars in aid, also reinforcing among investors a sense of underlying government support for Dubai and its corporate entities. In late September, Dubai returned to capital markets and sold $1.25 billion in bonds.

But concerns over Dubai's quasi-sovereign debt were stoked again earlier this month, when analysts raised questions over still-high debt obligations looming over the government and some of its related corporate entities, including **Dubai Holding**, the company controlled by the emirate's ruler, Sheik Mohammed bin Rashid Al Maktoum.

"The saga is far from over," J.P. Morgan analyst Zafar Nazim said in a recent research note. According to J.P. Morgan's estimates, Dubai Holding companies—including its investment arm **Dubai International Capital**—owe at least $8.8 billion. Some estimates have put the figure as high as $12 billion.

Associated Press

Dubai put itself on the map through a six-year real-estate boom. Above, the Dubai Marina towers are seen in the background of a construction site which has been at a stand still since the 2009 downturn.

"The borrowers will likely be looking to refinance debt falling due given the strategic or illiquid nature of most of their assets," Mr. Nazim said.

Commerzbank estimates $15 billion of wider Dubai government-related debt comes due next year, excluding Dubai World.

Dubai put itself on the map with a six-year real-estate boom during which it built palm-shaped islands and the world's tallest building.

Dubai's no-tax model and modern infrastructure drew international companies and expatriate workers to the emirate, while the government and its related companies splashed out on foreign assets, financed largely by borrowing.

However, the strategy unraveled in 2008 with the onset of the worst global recession since the Great Depression, leading property prices to crash and more than half of the registered real-estate projects in the emirate to be canceled.

Investors agree that the emirate needs to slash its debts—estimated at $100 billion for total government-related debt—and find new ways to grow its economy, including rethinking the very incentives that helped turn Dubai into the region's center for trade and tourism.

"If Dubai really wants to make it and be Singapore, they're going to have to think about taxes, and they're going to have to think laterally" with the rest of the emirates, said Davide Serra, founder and managing partner of Algebris Investments in London.

Closely watched | Select Dubai debt maturing through 2011

	Maturity date	Amount, in billions
Dubai Holding		
Dubai International Capital*	November 2010	$1.3
Dubai Holding Investments Group*	August 2011	1.1
Dubai Financial Group*	August 2011	1.5
	December 2011	0.3
Dubai Holding Commercial Operations†	November 2010	0.6
Dubai World		
Limitless (property division)	March 2011	1.2
Palm District Cooling	July 2011	0.5
Ports and Free Zone World	September 2011	1.0
Drydocks World	November 2011	1.7
Borse Dubai	February 2011	2.5
Investment Corporation of Dubai	May 2011	4.0
Dubai Aerospace Enterprise	July 2011	0.8

*Investment arm †Operations arm
Source: J.P. Morgan Securities

Catalan vote Sunday may shake up Spain

By Jonathan House

BARCELONA, Spain—Elections Sunday in Catalonia, Spain's wealthy northeastern region, are expected to usher in a combative nationalist government that could shake up Spanish politics.

Support for Prime Minister Jose Luis Rodriguez Zapatero's Socialist party, which governs in Catalonia as well as at the national level, has been undermined by a deep fiscal and economic crisis.

The Catalan elections are the first in a series of regional polls ahead of national elections Mr. Zapatero must call by the end of his term in March 2012. A poor showing for the Socialists in Catalonia, traditionally an important bastion of support, wouldn't bode well for the party. Many Spaniards believe he took far too long to recognize the severity of Spain's crisis. Now his minority government has difficulty getting the needed parliamentary support for big initiatives.

Opinion polls show that national opposition leader Mariano Rajoy doesn't inspire a lot of confidence among voters either, but his Popular Party is remembered for making the tough economic reforms that readied Spain for euro membership in 1999 and set the stage for its subsequent economic boom. Polls show that the Popular Party would win if national elections were held today.

The crisis has hit Catalonia particularly hard and its government is the most indebted of Spain's 17 regions, souring voter sentiment toward Socialist President Jose Montilla. At the same time, Spain's Constitutional Court's decision to water down a new charter for Catalonia passed in 2006—which defined the region as a nation and expanded the funding it received from the central government—has inflamed nationalist sentiments. The resulting boost to nationalist parties could have consequences that go beyond the local elections.

In the run-up to the elections, the center of debate in Catalonia is its historic grievance that the wealthy region gets little from the central government in services and investment in return for the taxes.

Convergence and Union, or CiU, long a dominant party in local politics and widely tipped to win the coming elections, wants to turn the tables on the central government, collect its own taxes and then transfer a portion to Madrid. A handful of smaller parties, however, advocate a more radical solution: independence for Catalonia.

Polls show the CiU, led by Artur Mas is poised to win a parliamentary majority, or at least get enough votes to lead any coalition building and prevent the Socialists from forming a government with their allies from the two previous terms: the pro-independence Republican Left of Catalonia and the environmentalists of Initiative for Catalonia Greens. The Socialists are fighting back, trying to scare voters by saying CiU will embark the region on a collision course with the central government in Madrid.

The Popular Party, though it has seen its political fortunes wane in Catalonia because of its opposition to the region's new charter, is hoping to be the third-most voted party. Such a showing would allow it to play an important role in any coalition government and create momentum on the national stage.

Press Association

A voter cast her ballot Thursday in Raphoe, Coounty Donegal.

Irish majority's seat in Donegal is at risk

By Quentin Fottrell

DUBLIN—Ireland's embattled ruling Fianna Fail party is expected to lose a long-held seat in a by-election in Donegal in the northwest of the country Thursday, likely to an opposition Sinn Fein candidate.

If Irish Prime Minister Brian Cowen's Fianna Fail party loses this by-election it will further erode his coalition government's slim parliamentary majority of 82 seats, compared with 79 for the opposition, ahead of Finance Minister Brian Lenihan's crucial 2011 budget vote Dec. 7. A general election will be held early next year after the junior partner in the coalition, the Green Party, said it would leave the government.

A recent survey in the local newspaper, the Donegal Times, concluded that Pearse Doherty from Sinn Fein—which currently has four seats in the Irish parliament—could win helped by vote transfers, beating Fianna Fail's candidate Brian O'Domhnaill.

About 61,000 people are eligible to vote for the constituency seat left vacant by Fianna Fail's popular Pat Gallagher. It is the first chance voters will get to show their dissatisfaction with the current coalition government since the economic crisis began.

Barry O'Neill, from the Fine Gael opposition party, is expected to poll just ahead of Frank McBrearty from the left-of-center Labour party. There is also an independent candidate for the seat, Thomas Pringle.

Paul Dunleavy, owner of Le Fleur flower shop on the main street in Ballyshannon in Donegal, said he won't be voting for the government party and believes many traditional Fianna Fail supporters will switch parties.

"People will vote against the government," he said. "Business here has been very quiet. There's no confidence left. That's the biggest problem."

On Wednesday, the government outlined a four-year budget plan detailing €15 billion ($20 billion) in spending cuts and tax increases to reduce the budget deficit to below 3% of gross domestic product by 2014, from an estimated 32% of GDP in 2010.

The proposed cuts and tax increases are only a roadmap for recovery and don't require parliamentary approval because it will be up to a new government to decide whether to see the plan through in its current form. The biggest challenge is passing the 2011 budget on Dec. 7.

Ireland's recovery plan is crucial to receiving financial aid from the European Union and International Monetary Fund. Mr. Cowen has said Ireland is discussing an aid package of around €85 billion with the EU and IMF, but the prime minister said that the final figure is still under discussion.

Ireland's finance minister, Mr. Lenihan, Thursday said the government doesn't intend to draw down at once all of the EU and IMF aid package. Speaking to the Irish parliament during a debate on the four-year budgetary plan, Mr. Lenihan also said that the growth projections of 2.75% annually over the next four years are "prudent," despite some economists suggesting that they are too optimistic.

"As far as banking is concerned, no particular level of drawdown has been agreed, but the fund is intended to be large enough to deal with all possible outcomes," Mr. Lenihan added. He said that "the interest rate is not yet set."

—Nicholas Hastings contributed to this article.

Austerity fails to soothe fears

By Neil Shah

Ireland's latest austerity drive failed to ease investor nerves on Thursday, as fears mounted that the country's new measures to raise income taxes, lower the minimum wage and slash government payrolls could worsen its economic woes.

The reaction reflects a host of concerns about Ireland's budget and political future. Observers warned that the government's forecasts for economic growth may be rosy given the country's looming belt-tightening. Also, Ireland's plan doesn't account for the cost of extra borrowing it would need to undertake to fix its banks through an estimated €85 billion ($114 billion) rescue the debt-laden country is negotiating with the European Union and International Monetary Fund.

Irish Prime Minister Brian Cowen, who pledged this week to hold new elections next year amid calls for his resignation, probably won't be around to implement his four-year austerity plan. That raises the risk that a new Irish government may choose a slightly different path.

EU officials have said that getting Ireland to cut its deficit to the EU's limit of 3% of GDP is critical to the aid package they are lining up. However, the government hit resistance on Thursday as Mr. Cowen discussed the plan with lawmakers in the country's parliament.

Financial markets were unimpressed by Ireland's move. The euro didn't budge, trading at $1.3349, while prices of Irish government bonds slid.

The cost of insuring Ireland's government bonds against default also neared an all-time high Thursday, as European securities-clearing house LCH.Clearnet raised the cost of trading Irish bonds for the third time this month.

Past debt crises offer lessons for shell-shocked euro zone

[Brussels Beat]

By Stephen Fidler

For almost 30 years, I have been covering sovereign debt crises.

I was working in the New York bureau of Reuters in August 1982 when Mexico announced it couldn't meet its debts. I followed Latin America's debt travails through the 1980s and Mexico's in 1994-95. I was on hand for the Asian crisis of the late 1990s and the subsequent rescue packages for Brazil and Argentina.

These experiences have led me to the following profound conclusion: Like Tolstoy's happy families, debt crises are all alike. On the other hand, like his unhappy families, they are also all different.

Many of these crises ended in default; some didn't. The difference between the two largely hung on whether an economy could grow out of its troubles. If Greece's rescue and Ireland's impending bailout aren't being greeted with relief by financial markets, that is almost certainly because of worries about low growth, which are heightened by austerity policies.

South Korea and the other Asian economies grew after their crises, so injections of emergency funding through financial rescues led by the International Monetary Fund were generally enough to tide them over and avoid default.

By contrast, the 1980s debt troubles of Latin American countries condemned them to slow growth. That initially forced rescheduling of their debts, stretching out maturities initially a year at a time and later over multiple years.

Bolder action was prevented by the weakness of Western banks whose balance sheets weren't strong enough to confront the reality that these governments were never going to pay their debts in full.

Rescheduling reduced the net present value of the debts, but not by enough to allow the governments to escape their debt traps. In a parallel with the euro zone's current predicament, governments could only reduce debt burdens significantly once the banks had had time to boost their capital cushions and recognize the losses. In retrospect, Asia suffered a liquidity crisis; Latin America a crisis of solvency.

But the lesson from both crises was: Don't borrow from banks at floating interest rates and don't borrow in somebody else's currency. Borrowing in your own currency at fixed interest rates was supposed to be the answer. That way interest rate spikes wouldn't create an unpayable interest bill across your entire debt. Neither would you suffer the ballooning of dollar debts that followed, for example, the sharp devaluation of the 1994 Mexican crisis.

Another lesson from past crises, such as the depression that followed Chiles's banking collapse in 1981, is that private debt matters. In a crisis, excess private-sector debts will almost inevitably become public debts as they did in the U.S., U.K. and with devastating effect in Ireland.

Euro-zone governments didn't borrow at floating rates but many are now realizing that they didn't borrow in their own currency either. The peripheral countries of the euro zone borrowed in a currency that belonged mainly to Germany and the other core countries of the euro zone. As a number of correspondents have suggested to me, this isn't a true sovereign debt crisis because the countries involved don't have sovereign control over their monetary and exchange-rate policies.

But the euro did allow governments such as in Greece and Portugal to pile on debts that otherwise would have been recognized as unsustainable. When governments in what used to be called the third world defaulted, they often did so with those debts at between 40% and 60% of GDP.

Bond investors and bankers would quickly become nervous of high debts and deficits. In the mid-1990s, most Latin American countries, based on their debts and deficits, would have qualified under the euro zone's membership criteria.

By contrast, euro-zone governments were able to pile on debts for a decade way beyond what would have been tolerated of Latin America.

European politicians are going through the usual phases of denial, shock and finally acceptance.

This has prompted another marked difference with past sovereign debt crises: the size of the debts relative to the size of the economies concerned. Ireland's probable bailout will approach 50% of gross domestic product. Spain's financing needs over 2011-13 to cover its budget deficits and its debt maturities are estimated at €350 billion ($467 billion).

European politicians are going through what all politicians do in such crises, phases of denial, shock and finally acceptance.

National governments struggle in such circumstances so it is small wonder that a loose economic confederation of states united by not much more than their common currency presents a spectacle of confusion.

As euro-zone members fashion a rescue plan for Ireland, with little sign that it has prevented contagion to other peripheral states in the currency area, I am reminded by what a senior U.S. policy maker told me in the late 1990s after he had backed a bailout plan for Brazil: "There is one thing worse than failure," he said, "and that's failure that takes a lot of your money and credibility with it."

EUROPE NEWS

Slow growth catches up with Portugal

By Yaroslav Trofimov

FELGUEIRAS, Portugal—Unlike Greece, Portugal didn't falsify its public accounts, and unlike Ireland or Spain, it didn't have a property bubble that saddled the banking system with mountains of bad real-estate debts.

Instead, the country is finding itself in the crosshairs of investors largely because of a chronic weakness: Over the past decade, it couldn't adapt to globalization and failed to grow. The cost of this failure is now being laid bare in the euro zone's gathering financial crisis that has sharply driven up the cash-strapped government's cost of borrowing.

"We have faced huge difficulties because of competition in the world markets from the new entrants that produced the same goods as Portugal, but at lower prices," said Gonçalo Pascoal, chief economist at Millennium BCP, Portugal's biggest traded bank. Yet, because of cheap funding in euros, until recently "these difficulties were not impacting our life patterns."

Now, this spigot's been shut. And, as Portuguese government bonds trade at record spreads above similar German paper, the economy's growth is likely to be further choked off.

Next year's budget that the Portuguese parliament is slated to approve on Friday includes some €3 billion ($4 billion) in spending cuts and about €1.5 billion in additional taxes, on top of earlier austerity measures. The country's two major unions held a nationwide strike against the budget on Wednesday, shutting down public transport, hospitals and some factories in a sign of rising social tensions.

Yaroslav Trofimov/The Wall Street Journal

Workers at the J. Sampaio & Irmao shoe factory in Felgueiras, Portugal. Shoes are a major export for the country.

The troubles of Portugal's shoemaking industry—one of the country's main exporters—illustrate the challenges that the country has faced over the past decade. China's entry into the World Trade Organization opened the floodgates of cheap imports just as the euro's relatively high value priced Portuguese products out of the market.

Since 2001, the country's shoe production shrank by 40% to 63.7 million pairs, as sales dropped to €1.3 billion from €1.9 billion.

In places like Italy or Switzerland, large shoemakers have managed to offset the Asian competition by creating global luxury brands, and making up for lost volume with premium prices.

For Portugal, Western Europe's poorest country, this has proven difficult. Despite investments, Portugal's old reputation for cheap, shoddy footwear still lingers. "The markets do not have the correct perception of the quality of Portuguese products," lamented Alfredo Jorge Moreira, executive director of APICCAPS, the country's shoe and leather producers' association.

Portuguese shoe companies are usually family-owned firms—and they lack the scope and resources to launch a global brand, said Leandro de Melo, director of CTCP, the Portuguese footwear industry's technology and research center.

One of the few Portuguese companies that has tried developing an international brand is J. Sampaio & Irmao, which makes the Eject line of bright-colored women's shoes.

Margins are low because the factory produces as few as 100 pairs of each type. Sampaio, which sells some €10 million worth of shoes a year, virtually all of them outside Portugal, hasn't had a profit for two years, said the owner and CEO, Joaquim Carvalho.

Portuguese officials insist that the markets are lumping their country with Greece and Ireland unfairly. They point out that the deficit is relatively low and the economy grew 1.5% in the third quarter.

"Portugal has historical problems with growth, but we're sorting them out. We're changing the structure to high-value-added products," said Joao Galamba, a lawmaker with the ruling Socialist Party.

"The problem," he added, "is that it takes time."

BOE chief accused of political bent

By Laurence Norman And Paul Hannon

LONDON—Bank of England Gov. Mervyn King was forced to defend himself from a charge of political interference Thursday over the Monetary Policy Committee's explicit approval of the government's fiscal plan.

MPC member Adam Posen said he was one of "at least" two policy makers who had concerns about the MPC entering overly political territory by backing the new government's fiscal plan. However, Mr. King said the language used in the May inflation report had the backing of most members.

"What the inflation report says is always the view of the majority around the table," he said. "The majority clearly approved" the wording of the May report on the fiscal plan.

Prime Minister David Cameron's coalition government took office in May amid the euro-zone debt crisis and announced plans to move immediately to cut spending as part of more ambitious debt reduction goals.

In the May inflation report, which was written before the election but published several days after it, the MPC said "a more detailed and demanding path of fiscal consolidation than set out in the March 2010 Budget may therefore be needed in order to avoid unnecessary increases in the cost of issuing public debt." The previous Labour government presented its last budget in March 2010.

In the news conference following the release of the inflation report, Mr.King went further, saying the government's new fiscal plan provided a "very strong and powerful agreement" to reduce the U.K.'s budget deficit. However, he said this was a personal view and that he was giving the plan backing only because he had been explicitly asked to by the new government.

In the committee hearing Thursday, Mr. King defended his record on fiscal matters, saying that unlike many other central bank governors, he had tried to stay out of fiscal debates.

"I think most central bank governors around the world have spoken far more often in fiscal policy than I have and I reserve the right to make those comments if we ever again have the largest peacetime deficit ever," he said.

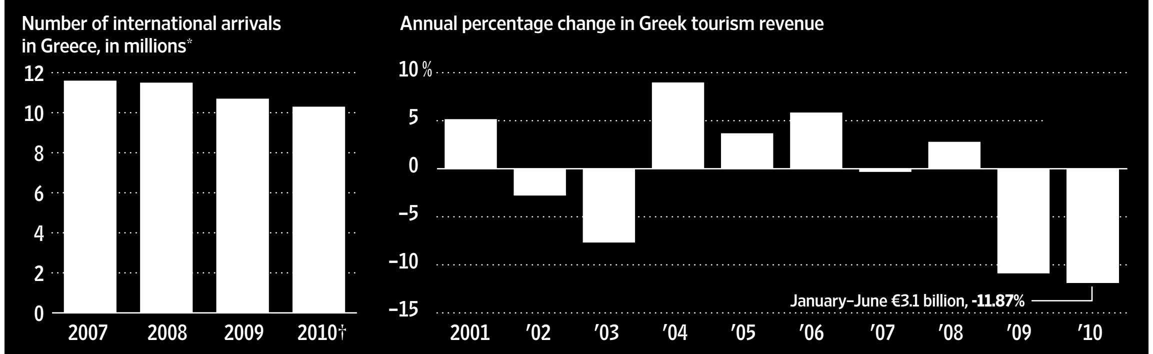
However, Mr. Posen confirmed reports that some MPC members had opposed making a statement in the inflation report that looked like taking sides in the fiscal debate.

He said "a number of people at the committee—more than just me and fewer than a majority—were concerned that the statement could be seen as excessively political."

Mr. King was strongly backed up by Deputy BOE Gov. Paul Tucker, who said he didn't believe in any way that a "line had been crossed." He said he backed the inflation report language and said it was "absolutely legitimate" for Mr. King to make the comments he had made in the news conference.

Tourism blues | Greece has seen fewer tourists, and they're spending less

A tourist pulls luggage along the port of Piraeus, Greece



*International arrivals at main airports. Doesn't include tourist arrivals by land or sea. †January to October.
Source: Association of Greek Tourism Enterprises (arrivals); Bank of Greece (revenue)

Photo: Reuters

Greece looks to tourism to help economy recover

By Alkman Granitsas And Nick Skrekas

ATHENS—Faced with a third year of a grinding recession, Greece is banking on an upturn in its vital tourism sector to lift its economy and provide jobs for the growing army of unemployed.

The Greek government is pushing ahead with efforts to boost tourism, spanning moves from attracting more budget airlines and relaxing restrictive laws on cruise ships to revamping the country's marketing campaign abroad.

Last week the government promised to slash the rate of VAT on hotels, to 6.5% from 11%, in a bid to make the country more competitive against rival destinations, even as the government scrambles in other areas to cut spending in other areas to bring down its bloated budget deficit.

"The crisis became a lesson for us," said Pavlos Geroulanos, Greece's 44-year-old, Harvard-educated minister for culture and tourism. "The conditions are good to turn around the situation next year."

Greece is one of the world's top 20 tourist destinations, attracting 14.9 million visitors last year. The sector accounts for about 15% of the country's gross domestic product and almost one in five jobs, according to the Association of Greek Tourism Enterprises.

But Greek tourism has fallen on hard times. The industry has suffered two successive years of weak tourist traffic and declining revenues as visitors—mainly from the U.K. and Germany—flocked to other, less-expensive destinations such as Turkey and Egypt.

Repeated protests in Athens, which climaxed in a May riot that left three people dead, compounded the woes, with some 30,000 tourists canceling trips to Greece amid fears over public safety. By some estimates, roughly 3,000 hotels—almost a third of the country's total—are teetering financially, while tens of thousands of tourism jobs have disappeared.

Turning the business around will be critical. "How tourism performs in 2011 will be very important, perhaps the most critical component of the country's growth next year," said Nikos Magginas, an economist at the **National Bank of Greece**.

The early signs are favorable. Two years of disappointing arrivals have forced many tourist-dependent businesses—such as hotels, rental-car agencies and souvenir shops—to slash prices to attract business. Advance bookings by tour operators, which represent about 10% of total summer bookings, are up slightly.

"I find Greece relatively cheap compared with other European countries," said Choo Jey Sern, a 23 year-old graduate from Malaysia on his first visit to Greece this month. "Sure, the issue of safety did cross my mind when I thought about coming, but now that I am here it actually feels like quite a safe place."

Andreas Andreadis, president of the Hellenic Hoteliers Federation, described the hotel market as "a little better" than last year and forecast an increase in bookings in the low single digits. "Our prices are now obviously very attractive, and there is a better value-for-money relationship."

Even so, Greek tourism is still dogged by a variety of ills that hamper its development, ranging from a tired marketing image of sea and sun to byzantine zoning and building codes that frighten investors.

"We are setting as a target that we want tourists all year round in all of Greece," Mr. Geroulanos said. "Last year was a breaking point for many hotels that could not compete with Turkey or Egypt, which have even lower-cost providers of services. Sun and sea can be provided by a lot of markets."

To differentiate Greece, Mr. Geroulanos has crafted a marketing campaign targeting events that take place throughout the year—such as the Athens Marathon in November—to bring more tourists in the off-season. He is also trying to lure visitors from new, or underdeveloped, markets such as China and Russia, and using the Internet and social media to focus the country's tourism campaign more sharply.

In the process, Mr. Geroulanos has won kudos from the industry, with people in the sector praising him for bringing a new spirit of cooperation to his ministry.

More significantly, say industry officials, was Mr. Geroulanos's efforts to lower the VAT rate on hotel stays, something long sought by the industry because some rival Mediterranean destinations have tax rates between 5% and 9%.

They also give him credit for repealing the country's cabotage laws, allowing cruise ships to pick up and drop off tourists in Greece—a move that could bring in a billion euros in extra revenue each year, according to industry estimates.

At the same time, Mr. Geroulanos's ministry has also opened talks with budget airlines such as **easyJet** PLC, **Ryanair Holdings** PLC and Air Berlin to increase their flights to Greece. Ireland's Ryanair is expected to announce soon that it is adding half-a-dozen destinations in Greece next year, according to a person familiar with the talks. The company declined to comment.

"It's not a one-year process," Mr. Geroulanos said. "We have struggled with these problems for a long time, but Greece can become an attractive destination for investors very soon."

How Greek tourism performs next year will depend on several factors, including how the rest of the world, and Europe in particular, fares economically. Perhaps even more important will be whether Greece escapes the negative publicity that dogged it this year.

That means avoiding the protests, riots and violence that characterized the country at the depths of its financial crisis this past spring.

"We will see how we go," Mr. Andreadis said. "Of course, the most important thing to attract visitors will be for Greece to stay peaceful and quiet, and no longer be front-page news around the world."

NATO rebuffs offer on missile defense

Leaders of the North Atlantic Treaty Organization have rebuffed a proposal from Russian President Dmitry Medvedev to unite Russia's missile defenses with those of the West, said diplomats and NATO officials.

*By **Stephen Fidler** in Brussels and **Gregory L. White** in Moscow*

At a closed-door meeting with NATO leaders in Lisbon Saturday, Mr. Medvedev suggested uniting a missile shield being built by the 28 allies with Russia's own missile defense system.

People attending the summit said President Barack Obama and other leaders diplomatically rejected the Russian leader's proposal, saying the issue should be looked at by the countries' technical experts. The experts will look at ways the two systems can cooperate and report to a meeting of NATO and Russian defense ministers in Brussels in June.

NATO diplomats said the Medvedev proposal goes way beyond what the alliance envisages, which is cooperation and information sharing between two systems rather than a single system. "We're looking at two different systems linked up," said a NATO spokeswoman.

Mr. Medvedev's told a news conference afterward that his proposal was for "sectoral missile defense." Russian officials later said Mr. Medvedev proposed that Russia and NATO countries would be responsible for shooting down missiles flying over their own territories and Russia would destroy missiles headed for NATO territory.

Dmitry Rogozin, Russia's ambassador to NATO, said in an interview with the Russian website Vzglyad that Mr. Medvedev's proposal "goes much further than NATO's fantasies" of limited cooperation.

"Medvedev is effectively proposing to create a collective missile-defense system along the perimeter of the Euro-Atlantic region. It roughly amounts to agreeing not to keep missile-defense systems inside the region—something that raises our suspicions—and arrange for the system to be pointed outwards."

The proposal would mean the NATO system's sensors wouldn't be pointed toward Russia, which is sensitive that the system could blunt its own nuclear deterrent.

Mr. Rogozin "tweeted" from the summit that the Russian approach was "reminiscent of two knights who, defending themselves from attackers, stand back-to-back."

Governments were left puzzling about whether Mr. Medvedev's proposal was an initial negotiating position or a spoiling gesture, diplomats said. But NATO leaders reacted diplomatically because most welcome the prospect of improved security cooperation with Russia, and that missile-defense cooperation offers benefits to both sides.

President Barack Obama publicly welcomed Mr. Medvedev"s presence at the meeting, describing him as "my friend and partner." The decision to cooperate on missile defense "turns a source of past tension into a source of potential cooperation against a shared threat," he said.

Skepticism over the proposal isn't limited to NATO governments. Nikolai Makarov, chief of Russia's General Staff, said in the official Rossiiskaya Gazeta newspaper that the idea of Russia shooting down missiles headed over its territory for Europe and vice versa was simplistic.

"For military men on both sides, this supposition looks, to put it gently, far-fetched. The fact is that any country with missile-defense systems would shoot down missiles approaching its borders without any international agreements."

Alexander Golts, an independent military analyst and deputy editor of the Russian news weekly Yezhenedelny Zhurnal, wrote that Russia isn't currently capable of mass producing suitable ballistic missile interceptor systems. Russia has the S-400 system, of which it has only two batteries, just outside Moscow.

"If this is the case, then Moscow has practically asked NATO to drop missile defense," he wrote.

Despite the apparently conciliatory signs on missile defense, the Kremlin hasn't given up its goal of expanding its global military reach.

On a visit to a base in central Russia Thursday, Mr. Medvedev said the government is looking for ways to build new military bases abroad to support its navy on long-distance missions.

"I won't hide it from you, we have some ideas about this," Mr. Medvedev said in comments carried on state television.

"Unfortunately, it turned out that a series of our country's previous capabilities disappeared," he added, an apparent reference to Soviet-era bases in Cuba and Vietnam that Moscow gave up about a decade ago.

Agence France-Presse/Getty Images

President Medvedev, right, visits the Gorokhovetsky training ground Thursday.

New York celebrates Thanksgiving in style

Reuters

A Smurf balloon floats by spectators at the Macy's Thanksgiving Day Parade, an institution in the city and nationwide.

BP spill-fund chief softens on claims

By Siobhan Hughes and Ryan Dezember

The overseer of a $20 billion oil-spill fund said Wednesday he would allow claimants affected by the largest marine oil spill in U.S. history to keep getting temporary relief as they ponder whether to seek a final lump-sum payment or to sue **BP** PLC and other companies involved in the incident.

The decision marks a concession from the fund's independent administrator, Kenneth Feinberg, who had previously said claimants would have to surrender their right to sue the U.K.-based oil company in order to receive payments beyond emergency disbursements.

Gulf Coast residents had complained that the emergency payments were so small they felt pushed into a hurried settlement with the oil company to get more money. The deadline to apply for emergency payments expired Tuesday.

Now, under the new rules, businesses and individuals may request compensation once a quarter over the next three years while they decide whether to permanently settle their claim.

The program officially began Wednesday and lasts through Aug. 23, 2013.

"There will be many, many claimants who opt for the final payments in order to get a higher amount and move on," Mr. Feinberg told reporters.

"If you take a quarterly payment and say down the road, 'OK, I'm ready for a final payment,' there's no guarantee that final payments will be as generous," he said.

The move shows the persistence of the economic fallout from the oil spill caused by the explosion of the Deepwater Horizon rig in April. The $20 billion fund, bankrolled by BP, which leased the rig, is intended to compensate those suffering economic damage from the incident, such as fishermen, hotel owners and tourism professionals.

Mr. Feinberg told reporters that emergency claims would likely total 450,000—four times more than he expected. He said he expected to pay about $2.3 billion to cover 175,000 of those claims that are deemed eligible.

Many claims lacked documentation, he said, adding that "fraud is a serious problem."

The new program was welcomed by some, though it wasn't clear whether it would end frustration along the Gulf Coast.

Orange Beach, Ala., Mayor Tony Kennon said the interim payment plan was good news for the hard-hit resort city, where business owners have increasingly felt pressured to enter settlement talks with Mr. Feinberg's adjustors, with little idea of how much money they would receive.

"What he was doing was, he was paying such small amounts he was forcing them into final settlement," Mr. Kennon said.

Rep. Jo Bonner (R., Ala.), who this week asked the Justice Department to investigate the claims facility and assume direct oversight of the process, said he had no more trust in the new process than he had in the emergency-payment program.

In an interview, Mr. Bonner said Mr. Feinberg had told him he would hire his own adjusters, but he was still using the same ones as when BP administered the fund. A spokeswoman for Mr. Feinberg said the process of hiring local adjusters was under way.

Onetime leader guilty

By Ana Campoy

AUSTIN, Texas—Former U.S. House Majority Leader Tom DeLay's conviction for money laundering in a state court here could inspire prosecutors in other states to target the methods used by politicians to raise and deploy corporate contributions.

A jury on Wednesday found Mr. DeLay knowingly funneled $190,000 in corporate donations to fellow Republicans running for the Texas Legislature in 2002, violating state laws that ban companies from contributing to candidates' campaigns.

He was convicted on one count of money laundering, which carries a maximum prison sentence of 99 years, and one count of conspiracy to commit money laundering, which has a penalty of up to 20 years. Mr. DeLay, whose sentence will be determined by a judge, could also receive probation.

Prosecutors said they haven't discussed whether to seek a prison term; sentencing is tentatively set for Dec. 20.

The outcome will likely reverberate throughout the other 22 states with similar bans on corporate contributions, discouraging politicians from employing similar techniques and emboldening prosecutors to go after them using the same strategy, some legal experts say. The district attorney's office in Travis County, where the Texas state capital is located, successfully argued that swapping corporate contributions for those made by individuals for use in a political campaign constituted money laundering.

Associated Press

Tom DeLay was convicted Wednesday.

"It will put more people on notice that something which by one perspective might be considered as legal on the other can be characterized as money laundering," said Richard Briffault, a professor at Columbia University Law School.

Mr. DeLay, 63 years old, who once commanded the House with a hard-hitting style that earned him the nickname "The Hammer," had been chatty and smiling for most of the trial. But he listened to the verdict with a somber expression. Afterward, he hugged his wife and daughter, then put his hands on his hips and sighed.

"This is an abuse of power," Mr. DeLay told reporters outside the courtroom. "It's a miscarriage of justice and I still maintain that I am innocent."

His lawyer, Dick DeGuerin, said he would appeal the conviction, which the jury reached after 19 hours of deliberation. If the judge hands down a sentence of less than 10 years, Mr. DeLay may be eligible to stay out of prison on bond while he appeals.

The defense had said from the start that the charges were a political witch hunt aimed at punishing Mr. DeLay for his political prowess. The case against him was originally brought by Democratic district attorney Ronnie Earle, who has since retired. Prosecutors said their only motivation was to enforce the law, adding that they recently tried a Democrat, State Rep. Kino Flores.

"This case is a message from the citizens of the state of Texas that the public officials they elect who represent them must do so honestly," said Rosemary Lehmberg, Travis County District Attorney. "If not they will be held accountable."

The prosecution alleged that Mr. DeLay skirted the state ban on direct corporate donations to candidates using a sort of shell game. Corporate donations to Mr. DeLay's political action committee were transferred to an arm of the Republican National Committee; the same amount of cash, raised by the RNC from individual donors, was then donated to the candidates.

The defense said the transfer of funds was legal, and that the money the RNC ultimately gave to the candidates didn't come from corporations. Mr. DeLay didn't testify.

WORLD NEWS

European Pressphoto Agency

Rabbi Nachman Holtzberg and his wife lit candles during special prayers at the Chabad House in Mumbai Thursday.

Mumbai Jewish center faces rebuilding hurdles

By Arlene Chang

MUMBAI—Two years after 10 Pakistani militants attacked Mumbai, business has seemingly returned to normal in India's financial capital—except in the Chabad House.

During the almost three-day siege of Mumbai in 2008, the militants took over the Chabad House and killed Rabbi Gavriel Holtzberg and his pregnant wife, Rivka. Their son, Moshe, escaped with his nanny, Sandra, and now lives in Israel.

The Jewish community center—much of its six stories bullet-riddled and bombed out—still stands in the old Colaba neighborhood. But it is in a dispute between its caretaker, Eliran Russo, and trustees of the Chabad Mumbai Relief Fund, which is overseen by members of the Chabad Lubavich movement. Both sides say they are eager to rebuild it.

The movement's officials had planned to rebuild the center into a memorial, with a kosher kitchen, a synagogue and Torah study and a memorial for the rabbi and his wife on the fifth floor, which served as their residence. The bullet-ridden fourth floor is to serve as a general memorial to all victims of the attacks.

However, plans for the memorial have been stalled by a dispute over rebuilding rights. The question is who has those rights—Mr. Russo, hired by Rabbi Holtzberg's father, or the Chabad Lubavich movement, which raised the money for the Chabad Mumbai Relief Fund to pay for the renovations, according to Rabbi Motti Seligson, a Chabad Lubavitch spokesman.

Rabbi Seligson says the Hasidic Jewish organization raised the money to look after the rabbi's orphaned son as well as rebuild the center.

But Nachman and Freida Holtzberg, parents of the killed rabbi, told an Indian news agency they want to restore the Chabad House the way their son and his wife would have wanted, and they have no choice but to take the issue to court.

In October, spokesman Rabbi Seligson said, officials noticed that construction was being done at the center, allegedly without the required permits. Rabbi Seligson says the organization responded by filing a case against the caretaker, Mr. Russo, as he was the one overseeing it.

"As a Chabad community center, we are trusted by all whom we serve to ensure their well being and safety," Rabbi Seligson said. "We therefore took immediate action to halt the current construction as well as replace the construction company."

Mr. Russo couldn't be reached for comment.

The dispute has put the center's restoration in limbo until the Bombay High Court makes a decision on which of the parties has the right to rebuild the structure.

"We all are one ... we are brothers," Mr. Holtzberg told the news agency. "This is really painful that the matter is in court ... in front of the public. We just want to rebuild the Chabad House at the earliest," he said.

After the attacks, the Chabad Lubavitch, which runs the functioning and administration of the Chabad House, moved the center's activities to an undisclosed location in South Mumbai. Officials of the new center cite security reasons for not disclosing its location.

The 26-year-old Rabbi Chanoch Gechtman and his wife are the new permanent directors of the relocated Chabad House. The Israeli couple, who were appointed in June, arrived in Mumbai in early August to take over as local emissaries of the movement. Rabbi Gechtman, who has been an educator, had worked alongside the late Rabbi Holtzberg in Mumbai in 2006.

After the Mumbai attacks, the United Nations placed financial sanctions against four members of the Lashkar-e-Taiba and a Pakistan based charitable organization, Jamaat-ud-Dawa. The sanctions require member states of the U.N. to freeze the assets of any organization or individuals named on the terrorism blacklist and to deny travel visas to blacklisted people.

In May, the lone surviving gunman, Mohammed Ajmal Kasab, was sentenced to death by a special court for his role in the attack that killed 166 people and left many others wounded. The 22-year-old Mr. Kasab, a Pakistani citizen, was sentenced to death by hanging, for murder and waging a war against India, among other charges. Mr. Kasab's death sentence is pending confirmation from the Bombay High Court, which if granted will be sent to the country's Supreme Court for a similar process.

In Pakistan, a day before last year's first anniversary of the attack on Mumbai, a local court filed charges against seven members—including a military chief —of the Islamist militant group Lashkar-e-Taiba. India has accused Pakistan of dragging its feet on the trials, but Pakistan counters that India itself took more than a year to convict Mr. Kasab despite having him on surveillance tapes. Pakistan says it needs access to Mr. Kasab to conduct its trial and recently sent a delegation to verify the testimony he provided to Indian courts.

Also in May, Pakistan's Supreme Court overturned the house arrest of Hafiz Mohammad Saeed, a firebrand Pakistani cleric who India believes masterminded the Mumbai attack. The court said Mr. Saeed can't be jailed due to lack of evidence against him.

Talks between India and Pakistan have been fractured ever since the 2008 attacks, with India blaming Pakistan for harboring the terrorists and not cracking down more strongly against terrorism.

On his trip to India earlier this month, U.S. President Barack Obama raised the issue during his speech to Parliament. "We will continue to insist to Pakistan's leaders that terrorist safe-havens within their borders are unacceptable, and that the terrorists behind the Mumbai attacks be brought to justice," he said, to resounding applause.

Victims of the attack say the city is still not safe from terrorism. "Our security is as bad as it was two years ago," said Zamir Haji Dalal, whose hand was injured by a bullet at the main train station during the attack. Mr. Dalal lost two family members during the attack, and now he cares for his bedridden mother who was shot in the thighs during the attack.

China urges farmers to plant vegetables

By Chuin-Wei Yap

BEIJING—China's government is pushing farmers to plant and produce many more vegetables in the coming months to tackle a key component of the recent surge in food prices, officials said Thursday.

The new commitment is part of a wide-ranging government drive to increase food supplies, efforts that have been stepped up dramatically in the past two weeks since the news that sharply higher agriculture prices fueled October inflation to a two-year-high.

The government plans to raise vegetable acreage by 7% and vegetable production by 7.5%, Agriculture Minister Han Changfu said in comments published on his ministry's website Thursday. The increase would follow almost three years of little to no growth in this farming segment.

The new target is more than double the 1.8% growth in vegetable acreage in 2009 and would be a 3.3% increase from 2008, according to data shared by Chinese grain consultancy Beijing Orient Agribusiness Consultant Ltd. on Thursday.

The new measure targets the surge in vegetable prices, which this year have doubled for such produce as ginger and garlic, while grains have posted smaller increases. Corn prices, for instance, have risen a relatively modest 30%-60%. Mr. Han's comments add to a barrage of government measures to roll back the price rallies.

"We should provide important support to those agricultural products with a large supply gap, and increase these products' production and processing capacity in order to boost market supply," Jiang Dingzhi, a vice chairman of the China Banking Regulatory Commission, said separately Thursday, as he urged banks to lend more to the agricultural sector.

Some food prices have fallen in the past two weeks after the rash of tightening measures, a development that has helped the government claim an early victory. On Thursday, the National Development and Reform Commission detailed price declines across major commodities, including cotton, rubber, soybean oil, sugar and copper.

"The reasons for the rapid decline in futures was, first, the State Council issuing its notice on stabilizing prices to protect basic livelihoods, and second, the sharp decline in global commodity prices," the commission said Thursday, citing declines in global zinc, soybean, corn and rubber prices.

The NDRC cited figures showing that cotton prices had fallen 24% from November highs, the heaviest decline in the commodity complex. Cotton prices have almost doubled this year amid drought-related global and domestic shortages.

Still, agriculture prices have fluctuated this year in response to a range of factors including drought conditions in the Black Sea area and lower yield projections in the U.S.; Chinese demand is just one variable, albeit large, swing factor.

The commission also continued to rail against speculators and hoarders for actions it says have been driving up food prices.

"It's important to attack malicious hoarding, price escalation, collusion and severely crack down on speculation to ensure the orderly trade in grains, cotton, sugar and other agricultural products," it said in a statement.

The State Council, China's cabinet, said last week that price controls may be applied if necessary on downstream food products, diesel and fertilizers, potentially reviving a drastic policy not seen since inflation hit a 12-year high in early 2008.

Still, price controls are a controversial measure, since they have in the past led to shortages.

"The government has to aim for moderate prices rather than volatility, and has to be mindful of low-income households as well as cater to farmers, so it won't impose controls on upstream grain products," said Lief Chiang, an agriculture analyst with Rabobank.

In his comments Thursday, Mr. Han gave assurances that China has secured a seventh record harvest this year.

China hasn't published this year's overall grain output details. Last year, it produced 530.8 million metric tons of grains, up 0.4% year-to-year.

Chinese grain output has been closely watched this year, especially after the autumn grain harvest fell 0.6% year-to-year, as Beijing strives to feed a growing population amid rising demand and slower increases in yields.

The government may be facing a tougher job managing prices in coming months, as its vaunted agricultural reserves have been dwindling.

—Zhoudong Shangguan contributed to this article.

Reuters

Shoppers picked over vegetables at a Beijing market on Thursday.

WORLD NEWS

Free food may decide Egyptian poll

By Caroline Henshaw

In Egyptian politics, the easiest way to most voters' hearts is apparently through their stomachs. With food price inflation running at almost 20%, campaigners for Sunday's parliamentary elections are taking advantage of the high prices by handing out food for votes.

"For a lot of people in poor areas, the only thing they care about is having a meal or feeding their kids," said Jihan Ibrahim, an activist with the opposition Taganmu party on the streets of Cairo.

"I was campaigning in one neighborhood and a woman said to me: 'You want my vote for free?' The expectation that they will get food and money for their votes is already there—candidates are competing over who will give them more," Ms. Ibrahim said.

In the Arab world's most populous nation, where one in five people live on less than $1 a day, food is a highly political issue. Egypt is the world's largest wheat buyer, using more than 8 million tons every year to provide subsidized bread for the 14.2 million people who live below the poverty line.

As President Hosni Mubarak approaches 30 years in power, opposition groups are calling for political reform. Many say that economic liberalization since 2004, which won the government international plaudits by boosting growth to more than 5% a year, has only widened the gap between rich and poor.

Agence France-Presse/Getty Images

Egyptians pass posters of parliamentary candidates for the general election in the Cairo area of Bulak al-Dakrur, Thursday.

The Nov. 28 vote for Egypt's lower house is a precursor to a presidential election next year. Many observers expect the 82-year-old Mr. Mubarak to use the election to pass power to an anointed successor, possibly his son. His ruling National Democratic Party is expected to win by a landslide amid accusations of corruption.

But for most ordinary Egyptians, putting food on the table is a more pressing concern than political ideals. Food prices soared over the summer, with staples such as tomatoes rising as much as 300%, sparking fears of a repeat of 2007-08 when record food prices caused riots in Egypt and around the world.

Allegations of corruption have been widespread. More than 1,000 supporters of the Islamist group The Muslim Brotherhood have been arrested in the run-up to the election and more violent clashes are expected. Although the party is officially banned from power, it controls around a fifth of officially independent MPs and is fielding candidates in the election.

The government has refused entry to international observers to verify the election and Human Rights Watch said the main two monitoring coalitions have yet to receive a single one of the 2,329 permits needed to monitor the vote.

Dr. Baghat Korany, director of the Middle East Studies Program at the American University of Cairo, estimates that the NDP has spent well over $10 million on campaigning, in blatant disregard of caps on election spending.

The practice has been widespread this year as the elections have coincided with the holy month of Ramadan, which ended last week with the feast of Eid-al-Adha, when Muslims traditionally slaughter a ram. "There is a duty for the rich to slaughter and distribute meat to the poor. But they were also doing that for election propaganda," said Ali Al Deen Helal, information secretary for the NDP.

Domestic meat prices soared this summer, with poultry prices rising 40% and the cost of other meats increasing by a quarter, according to figures from Egypt's central bank.

Mr. Helal said that candidates for all parties have been trying to bribe the poor with food and other supplies, using religious observance as an excuse for political gain.

Yet for opposition followers, Sunday's elections remain a David and Goliath affair. "I know [the candidate I support] is not going to win because the elections are rigged," said Ms. Ibrahim. "But we're still going to do everything we can to get out there and spread awareness for our views."

Zimbabwe premier files Mugabe lawsuit

By Farai Mutsaka

HARARE, Zimbabwe—Zimbabwe's Prime Minister Morgan Tsvangirai has filed a lawsuit against President Robert Mugabe, accusing him of breaching a power-sharing agreement that appears on the verge of collapse.

The prime minister's move is largely symbolic because of Zimbabwe's slow justice system, but it shows how bad ties have become between the two men at the top of the southern African nation's fragile "unity" government—and adds to signals that elections may not be far off.

The prime minister's application in Zimbabwe's High Court seeks to overturn Mr. Mugabe's October appointments of provincial governors, which Mr. Tsvangirai has complained were made without consulting him and violated the agreement that formed the basis of their government. Mr. Mugabe has previously argued that he has the constitutional powers to make unilateral appointments.

A "prime minister seeking to reverse constitutional appointments by the president is ridiculous. But we will respond fully in court," said Rugare Gumbo, spokesman for Mr. Mugabe's Zanu PF party.

After 21 months together, Messrs. Tsvangirai and Mugabe are both looking to elections as a possible way out of their dysfunctional relationship.

South African President Jacob Zuma, the official mediator in the Zimbabwe standoff, is to arrive in the country Friday to try to narrow differences between the men and to promote a road map for credible elections.

Associated Press

President Robert Mugabe.

President Mugabe's party, which had ruled the country since independence in 1980 until it was forced to share power with Mr. Tsvangirai's Movement for Democratic Change, announced Wednesday that they would push for elections by June next year. Despite rumors of poor health, the 86-year old Mr. Mugabe will almost certainly be the party's nominee.

Mr. Tsvangirai's party is also seeking elections "as early as possible," said the prime minister's spokesman, Nelson Chamisa, but the party wants democratic reforms first.

WORLD NEWS

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Supporters of Afghan parliamentary candidates who were disqualified by the electoral commission burn their voter registration cards in Herat Thursday.

Nine arrested for fraud in probe of Afghan vote

By Matthew Rosenberg And Habib Khan Totakhil

KABUL—Afghan authorities arrested nine private citizens and are seeking the arrest of four election officials on allegations of fraud in September's parliamentary vote, a top prosecutor said, deepening Afghanistan's political uncertainty at a crucial juncture in the fight against the Taliban.

Authorities are also looking into a person who works at the U.N. mission in Afghanistan, said Deputy Attorney General Rahmatullah Nazari without elaborating. The U.N. said it was looking into the matter.

The Attorney General's investigation sets up a potentially destabilizing confrontation that pits the administration of President Hamid Karzai against election officials and possibly even the international community at a critical moment. U.S. surge forces are clearing Taliban fighters from wide swaths of southern Afghanistan, making battlefield gains that coalition officials say can be capitalized upon only by a reliable and credible Afghan government.

Afghan and international observers had hoped the Sept. 18 parliamentary elections would indeed boost the government's credibility by improving on last year's fraud-ridden presidential vote, which returned President Karzai to office.

Instead, the similarly fraud-filled parliamentary vote and drawn out tallying process—complete results are now more than a month overdue—have underscored the fragility of Afghanistan's young democracy. Now there are fears among Western diplomats and Afghan observers that the Karzai administration, unhappy with the results announced so far, is seeking to alter the outcome through other means, thus the investigation.

As one Western official bluntly put it: "We are very worried."

The Western official and other diplomats questioned whether the Attorney General's office even has the legal authority to investigate allegations of election fraud.

Afghan prosecutors, who have been threatening to investigate for weeks, say they do have the authority. They say they have documentary evidence that shows wealthy and powerful private citizens tried to sway the vote by bribing election officials.

The nine people arrested Thursday on charges of passing bribes include money changers, the owners of two construction companies and other people who have "links" to election officials, said Mr. Nazari, the deputy attorney general, in an interview.

He said prosecutors are also seeking to arrest four elections officials—two from the Independent Election Commission, which organizes elections, and two from the Election Complaints Commission, which investigates fraud allegations and adjudicates disputes. Two of the sought-after election officials are spokesmen for their organizations.

While Afghan electoral authorities and Western diplomats have largely dismissed the prosecutors' allegations over the past few weeks, some international observers did report seeing workers from the Independent Election Commission, or IEC, stuff ballots in at least one province during the vote.

IEC spokesman Noor Muhammad Noor said late Thursday that he had been given notice of an arrest warrant for himself. But he didn't know of any others issued for IEC staffers.

The complaints commission spokesman, Zia Rafat, said he had not been notified of any warrants issued for either himself or others at the organization.

Word of the arrests came a day after the IEC announced nearly complete results for the vote. The IEC said it had disqualified a total of 24 winning candidates—about 10% of the total seats—because of evidence of ballot stuffing, fraud and other irregularities.

The disqualified candidates come from across Afghanistan's chaotic political scene and include some Karzai loyalists. Western election observers say that it does appear Mr. Karzai will have fewer supporters in the new parliament, in part because of the disqualifications, although it is hard measure because of the lack of political parties and the opaque—and sometimes shifting—loyalties of many lawmakers.

The moves by the IEC have infuriated many of those knocked out and given the outright losers rhetorical ammunition to claim they have been cheated out of their seats. There have been repeated protests by the losing candidates, who have pressed Attorney General Mohammed Ishaq Aloko to investigate.

President Karzai said in a statement Thursday, issued before news of the arrests broke, that the losers shouldn't protest and instead take their grievances to the courts.

His statement didn't please some Western officials and diplomats, who worried that candidates going to the courts, which do have the power to alter results, could further delay the formation of a new parliament.

The United Nations and Afghanistan's Western backers, who financed the election, haven't openly challenged Mr. Aloko's motives.

But they have in previous weeks pressed Mr. Aloko to stand down and let the IEC and the complaints commission do their work.

In a public statement earlier this month, the U.N.'s top envoy to Afghanistan, Staffan de Mistura, urged Mr. Aloko to "defer electoral decisions to electoral authorities."

Also of concern to Western officials and Afghan observers is the situation in the province of Ghazni, where IEC officials said the results were too lopsided to let stand.

There, the ethnic Pashtun majority, the people from whom the Taliban draw almost all its members, stayed away from the polls, handing all 11 seats to candidates from the ethnic Hazara minority

An immediate rerun is considered too dangerous, and the IEC is debating how best to fill those seats, officials said. One possible plan is to simply leave the lawmakers elected in the last election, in 2005, in place until a rerun could be held at some future date, an arrangement that officials say is constitutional.

—Maria Abi-Habib and Arif Afzalzada —contributed to this article.