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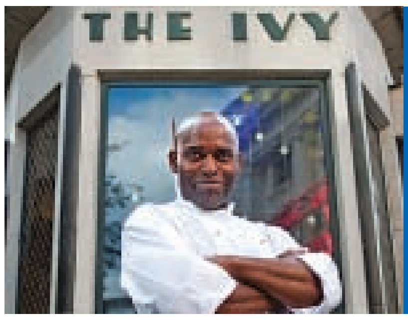

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THE WALL STREET JOURNAL.

Engine trouble forces Qantas to ground A380 fleet

European Pressphoto Agency

An engine manufactured by Rolls-Royce blew out on a Qantas Airways-operated Airbus A380 superjumbo jet, Thursday. Qantas grounded its six-strong A380 fleet, which all use Rolls-Royce engines, after the midair incident on the Singapore-to-Sydney flight. Other air operators are continuing to fly their A380s. **Article on page 3.**

Citi wins court battle over ill-fated EMI deal

By Chad Bray And Dana Cimilluca

Citigroup Inc. prevailed Thursday in a high-profile legal dispute with **Terra Firma Capital Partners** LP over its ill-fated purchase of **EMI Group** PLC, a verdict that could ultimately cause the buyout firm to lose control of the storied British music company.

In a suit filed last December, the private-equity firm and its founder, Guy Hands, alleged they were duped by Citigroup and its head of U.K. investment banking, David Wormsley, into believing a rival, Cerberus Capital Management Ltd., would make a competing bid for EMI in 2007. Terra Firma ended up being the only bidder, watched its investment in EMI whither, and in the lawsuit sought billions in damages.

After deliberating for roughly five hours over two days in U.S. District Court in Manhattan, the jury of five men and three women found Citigroup wasn't liable for fraud. The suit had originally included four counts before all but one were thrown out by Jed Rakoff, the judge overseeing the case.

The loss is a devastating blow for Terra Firma, as bankers say it could hamper Mr. Hands's ability to raise funds and continue doing deals. Terra Firma's audacious move to file the case raised eyebrows in London and New York, as it represented an unprecedented attack by a private-equity firm on a bank it depends on to help originate and fund its takeovers.

For Citi, the victory vindicates its decision not to settle the case by agreeing to a restructuring of EMI with Mr. Hands. The case was also a referendum on its trustworthiness as an investment bank, and a loss could have severely undermined its relationship with other banking clients. Citi lawyer Ted Wells argued during the case that Mr. Hands was just trying to blame someone else for his own mistake

Reuters

British financier Guy Hands

"We are very pleased that the jury reached a unanimous verdict confirming what we have said from the beginning: that Citi and David Wormsley treated Terra Firma with honesty and integrity in the EMI transaction," Citigroup said in a statement. "The jury's verdict makes clear that Terra Firma's irresponsible accusations of fraud were nothing more than a misguided attempt to gain leverage in debt restructuring negotiations."

In a statement, Terra Firma said it will continue to focus on securing a financial restructuring of EMI with Citi, which the music company now owes some £3 billion ($4.8 billion).

"We are disappointed that the jury found that we did not prove that we relied on misrepresentations from Citi which caused a loss to our investors," Terra Firma said. "We believe that this was an important action to bring and that we had a responsibility to our investors to bring it."

Dennis Posillico, a retired postal worker from the Bronx and a member of the jury, said jurors didn't feel there was enough evidence.

"It was only emails and telephone calls," Mr. Posillico said. "It just wasn't enough."

The outcome represents an embarrassing misfire for Mr. Hands, once seen as one of the private-equity industry's golden players. He initiated the suit more than two years after he struck the deal for EMI, though he claims he didn't learn he was duped by Citi until last year. As recently as last November, Mr. Hands had sought an agreement with Citi that would restructure EMI and lighten its debt burden, according to court filings.

Please turn to page 24

Trichet distances EU policy from Fed

The European Central Bank on Thursday widened its diverging course from the U.S. Federal Reserve by withholding further monetary stimulus amid Europe's economic recovery.

The euro hit a nine-month high after Mr. Trichet's remarks, approaching $1.43, a 20% rise since June.

Despite increasing signs of tension in Ireland, Greece and Portugal, the ECB has refrained from buying government bonds the past three weeks after buying almost €60 billion in bonds in May and June alone, at the height of the Greek crisis.

Meanwhile, officials in Asia warned of possible moves to brace their economies against an expected flood of money into the region stemming from the Fed's $600 billion asset-purchase plan, announced Wednesday, to rekindle growth in the U.S.

The Quirk

Pursuers of alien invaders eat their fill of what they kill.
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Editorial & Opinion

Britain signs a defense pact—with the wrong country. Page 13

Printing presses roll, but not in Europe

[Agenda]

By Patience Wheatcroft

The words themselves sound relatively innocuous. "The committee decided today to expand its holdings of securities." This is how the United States Federal Reserve announced on Wednesday that it was effectively starting the printing presses again and indulging in a further $600 billion bout of what is coyly known as quantitative easing.

The European Central Bank is not following suit, deciding on Thursday that it would not be pumping further monetary stimulus into the euro economy. "The positive underlying momentum remains in place, in line with previous expectations," declared ECB President Jean-Claude Trichet. But the statement reeked more of hope than conviction.

As he was speaking, one euro-zone country, Ireland, was preparing to announce a drastic budget tightening that stood no chance of achieving its desired intention of calming the debt markets. "I am well aware that such measures will impact on the living standards of everybody," said Finance Minister Brian Lenihan as he explained that the €15 billion ($21.2 billion) of savings spread over four years that he announced only last month would now be accelerated so that €6 billion would be cut in the course of next year alone.

"Our spending and revenue must be more closely aligned," he said. But while this is undoubtedly true, and the sort of prudence that the debt markets want to see espoused, they now doubt whether Ireland, already reeling from an earlier austerity package, can achieve that aim.

Mr. Trichet tried to be supportive, saying that Ireland was not in the same situation as Greece. Yet once the cost of its

Agence France-Presse/Getty Images

A typical Irish scene at Trim Castle, County Meath.

massive bank bailout is included, the country will be looking at a deficit this year of 32%. Russia has taken the view that Ireland is no longer a credit risk worth taking, despite the attractive yield, and has made public its decision to remove the country from the list of those in which its sovereign-wealth funds may invest. Spain was subjected to the same ignominy, as have been Portugal and Greece. The fact is that, while Mr. Trichet may try to focus on the positive trends he sees in Europe, the PIGS remain stuck in precarious territory.

Mr. Trichet's predicament is that he has 16 different economies wrapped inside his common currency.

"Some concerns remain on the re-emergence of financial tensions in certain markets," he conceded, in an understatement of impressive proportions. What he could have said is that there are some very sickly economies within the euro zone and, because they are locked into the common currency, they are unable to reach for the weapon of devaluation that would otherwise offer some help. On the contrary, they are set to find the struggle harder as the U.S. applies that medicine and the dollar continues to sink, thus making U.S. exports more competitive while it becomes an even tougher market for European exporters.

There was a chorus of hostility to the Fed's move. The Chinese were not thrilled to see the value of their vast holdings of dollars further diminished, the Bulgarians protested that the U.S. risked undermining the efforts of the EU to restore its economies, and Turkey's economics minister warned the move may "backfire."

The U.S., however, has only its economy to consider. Mr. Trichet's predicament is that he has 16 different economies wrapped inside his common currency and they are not all alike. An outside observer, uncommitted to the Grand Project that is the euro zone might conclude that the PIGS need to move into a different sty.

Technology please

David Cameron has hoisted a big placard over the U.K. declaring "Techology welcome here." The prime minister has signed up major technology companies including **Vodafone**, **Google**, **Facebook** and **Intel** to put cash into his scheme to develop the East End of London as a magnet for high-tech firms. Describing plans to turn the region into a "rival to Silicon Valley" may be verging on the hyperbolic but even modest progress in that direction would have the potential to deliver a major boost to the U.K. economy.

Mr. Cameron hopes the 2012 Olympics will give momentum to the plan. His designated "Tech City" will abut the Olympic Park, and the press and broadcast centers there will be given a new life after the Games as accommodation for infant technology businesses.

Unveiling the scheme on Thursday, the U.K. government also said that it would be introducing a new visa specially for entrepreneurs bringing new tech businesses to Britain. There has been controversy over restrictions on economic migrants to the country, with business claiming that it cannot recruit the expertise it needs but the government has been largely unpersuaded, pointing out that a third of migrants entering the country supposedly to bring specific skills to business are actually doing unskilled work.

But entrepreneurs who can find financial backing for their business ideas will be welcomed.

Hands down

Whatever Guy Hands's motives for taking **Citigroup** to court, it always looked like a risky move. Even had he won the case, he would have been only a partial victor. For his assertion was that he would not have paid the price he did for **EMI** had he not been led to believe there was another bidder interested and he had to top their offer. Had he won on that basis, the damages would probably not have been enough to counter the damage his image as a private-equity investor worth backing. It has already become horribly apparent that he paid too much for EMI. His contention that the price he agreed was based not on his own judgment of value, albeit faulty, but on what a perceived rival was prepared to pay is hardly likely to instill confidence in potential backers.

What's News

■ **The cost of insuring** Ireland's government debt against the risk of default hit a record for the fourth consecutive day, underscoring how the country's banking and economic problems show few signs of abating. 6, 32

■ **BHP sees** the Canadian government's preliminary rejection of its $38.6 billion bid for Potash Corp. as a tough hurdle and are unclear what more they can offer. 17, 32

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■ **The IMF warned** that the world's largest economies are failing to plan adequately beyond next year in efforts to cut fiscal deficits and maintain market confidence. 11

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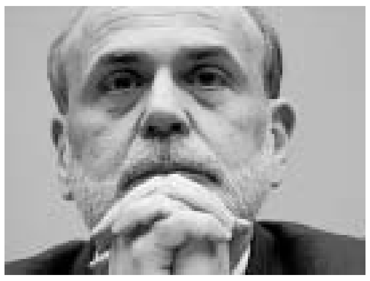

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'Until we address the root cause of terrorism in the Middle East and South Asia, nothing will succeed.'

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Vote and discuss: Do you think the risks outweigh the benefits in the Fed's latest round of quantitative easing?

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Q: Will changes in Washington have a positive or negative impact on the economy?

Positive **70%**

Negative **30%**

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NEWS

Qantas halts A380s after engine fails

Explosion sent pieces of plane to the ground after takeoff in Singapore; other airlines stick by the giant Airbus jet

BY ANDY PASZTOR AND DANIEL MICHAELS

Agence France-Presse/Getty Images

Indonesian police gather pieces of a Qantas Airbus A380 engine casing that fell from the aircraft while in flight Thursday.

A severe and unusually violent engine failure aboard a **Qantas Airways** Ltd. Airbus A380 on Thursday prompted the airline to temporarily ground its fleet of six of the super-jumbo jets as regulators and safety experts scrambled to unravel the cause.

The incident—which tore off a large portion of the engine's rear covering while spewing flames and metal debris that shocked passengers—occurred shortly after Qantas Flight 32 took off from Singapore for Sydney with 466 people aboard. The roughly two-year-old double-decker plane, whose there other engines continued to work properly, dumped fuel for more than an hour as a precaution and then made an emergency landing back in Singapore without any injuries, but apparently with damage to one of its wings and perhaps its fuselage.

The dramatic nature of the engine failure and the high profile of the world's largest passenger jetliner, which entered service in 2007 after massive production problems, sparked intense media and industry interest. It is too early to tell what happened to the Trent 900 engine manufactured by **Rolls Royce** PLC of England, though other operators of A380s with both Rolls-Royce and rival engines opted to continue flying the jets

But given the A380's immense size, engineering complexity and roughly $300 million price tag, some safety experts said the engine blowout raises broader questions about whether the latest generation of jetliners from Airbus or **Boeing** Co. will hew to the industry's pattern of providing significantly safer, more reliable transportation than the models they replace.

Such questions are particularly important for Rolls-Royce, which in the last few years has been buffeted by a series of design and reliability issues affecting engines it supplies for other jetliner types.

According to some safety experts, Qantas moved to suspend A380 flights immediately—before investigators had time to provide even the most preliminary conclusions—partly because the airline's own maintenance and operational safeguards have run into criticism from Australian regulators and others.

Engine failures that end with high-speed rotating parts puncturing or severing engine coverings aren't supposed to happen on modern jetliners. But such dangerous ruptures do happen infrequently on different airliner models, and each occurrence sparks heightened attention from regulators.

A spokesman for Airbus, a unit of **European Aeronautic Defence & Space** Co., said the company will "work closely" with Qantas and Australian government investigators to determine the cause. A Rolls-Royce spokesman said the engine maker also is cooperating with the probe while relying on "well-established processes to collect and understand information relating to the event."

Without elaborating, Rolls-Royce said it has urged airlines to perform "basic precautionary engine checks" on A380s. Rolls-Royce maintains the engines for Qantas but declined to comment on their maintenance history.

The incident is not the first mid-air A380 emergency stemming from an engine problem, but is by far the most significant.

The Qantas jet had logged only about 830 takeoffs and a total of 8,160 flight hours. So far, Airbus has delivered 37 A380s to five airlines, and the planes have flown for a total of 190,000 hours.

Singapore Airlines and Germany´s **Deutsche Lufthansa** AG, the only other airlines to use the Rolls-Royce Trent 900 engines, both said they will continue flying their A380s.

"Operations are continuing as normal," said a spokeswoman for Singapore Airlines, which has 11 A380s. "It is premature at this point to speculate and we will await advice from the aircraft and engine manufacturers as the investigation progresses."

The other A380 operators, Dubai´s **Emirates Airline** and **Air France-KLM** SA, use a different engine on the jet.

"The A380 is an aircraft that's more visible than others" and "it fascinates everyone," said Pierre-Henri Gourgeon, chief executive of Air France KLM, adding that he had no concerns about operating A380 jets. "There was a serious incident, but the plane is designed—like all other planes—to resist" such emergencies, he said.

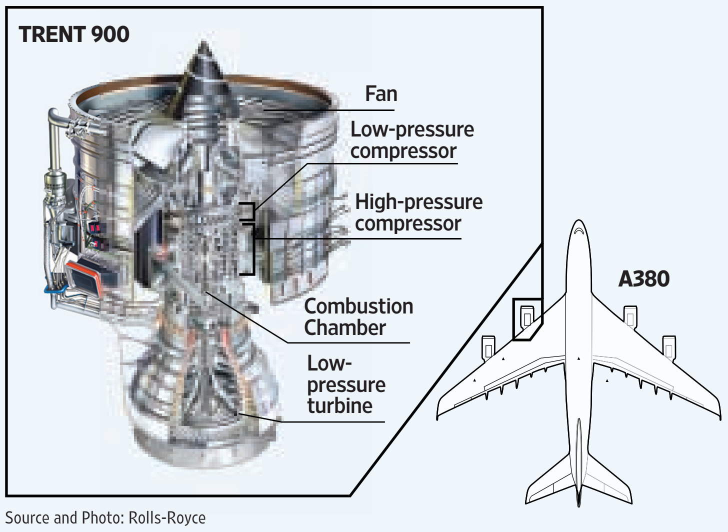
In August, pilots of a Lufthansa A380 flying from Tokyo to Frankfurt shut down one engine after sensors indicated an an oil-pressure problem. The plane landed safely in Frankfurt. In September 2009, a Singapore Airlines A380 traveling from Paris to Singapore suffered an engine problem, returned to Paris and landed without injuries.

Like other jet engines, the Rolls-Royce Trent models used on A380s have been subject to certain maintenance directives issued by European and U.S. regulators intended to prevent in-flight problems or failures. But until Thursday, neither regulators nor safety experts indicated any particular concerns with the engines' performance.

—Peter Sanders and David Pearson contributed to this article.

Under the wing

Key parts of the Rolls-Royce engine



Source and Photo: Rolls-Royce

NEWS

ECB declines to add stimulus

By Brian Blackstone

FRANKFURT—ECB President Jean-Claude Trichet declined to inject new stimulus into the euro zone despite signs of fragility in the currency bloc, further distancing the European Central Bank from other big central banks such as the Federal Reserve that are taking aggressive action to safeguard growth.

The Fed this week said it would buy another $600 billion worth of U.S. Treasury bonds in an effort to keep interest rates low and spur demand.

Mr. Trichet provided some verbal support to European trouble spots—such as Ireland, Greece and Portugal—that face crippling borrowing costs, saying that despite three weeks without purchases, the ECB's government-bond buying program remains active.

The ECB voted to keep its main policy rate unchanged at 1%, as widely expected. The Bank of England also held interest rates steady. Like the ECB, the Bank of England opted not to unveil new steps to stimulate growth through asset purchases, though some economists expect it to do so in the months ahead.

The euro hit a nine-month high after Mr. Trichet's remarks, approaching $1.43, a 20% rise since June. One measure of the perceived risk of a debt default—the spread between credit default swaps—hit a record Thursday in Ireland and approached a record for Portugal. After Greece, those two countries are seen as most likely to tap the European Union's recently created bailout fund, analysts say.

The ECB "is turning a blind eye" to Ireland, says Jacques Cailloux, economist at Royal Bank of Scotland.

"It certainly is taking a view which is underestimating the risks that are embedded in the system, and the risks of contagion that might come back," Mr. Cailloux said.

Despite signs of tension in Ireland, Greece and Portugal—which all must drastically reduce budget deficits in the face of economic stagnation and soaring borrowing costs—the ECB has refrained from buying government bonds the past three weeks after buying almost €60 billion ($84.2 billion) in bonds in May and June alone, at the height of the Greek crisis.

Mr. Trichet strongly hinted that the next weekly update from the ECB will show renewed purchases. "You will see the program exists," Mr. Trichet said at a news conference after the ECB's governing council met.

European Pressphoto Agency

ECB President Jean-Claude Trichet pauses on Thursday during his monthly news conference at the bank's headquarters in Frankfurt.

The central banker continued to hammer the latest proposals from European governments to prevent another debt crisis, saying they aren't the "quantum leap" that he has insisted on. The latest plan would leave the final say on sanctions for deficit rule-breakers to governments. The ECB wants sanctions to be automatic. Though Mr. Trichet described his talks with European leaders in Brussels last weekend as "heavy," he stopped short of accusing political leaders of sowing the seeds of the next debt crisis. "I'm not pre-announcing catastrophe," he said.

Mr. Trichet said that extraordinary support measures the ECB created at the height of the crisis—primarily unlimited loans to banks at low interest rates—are "temporary in nature." He also said inflation risks are "slightly tilted to the upside," another indication that ECB officials are unlikely to consider a fresh round of stimulus through rate cuts or large-scale asset purchases.

The region's economy maintains "positive underlying momentum" in the second half of the year, Mr. Trichet said.

But after robust growth in the second quarter of nearly 4%, at an annualized rate, the region's prospects have dimmed. An index of purchasing managers in the service sector fell to an eight-month low in October, according to Markit, suggesting fourth-quarter GDP growth of only around 1.5%.

The ECB "is not attaching enough importance to the fact that global demand is slowing and the euro is rising, and that will take a toll," says Jennifer McKeown, economist at the consultancy **Capital Economics**.

The ECB's status-quo stance contrasts with the Fed's planned bond buys. Since the recession ended in mid-2009, the U.S. economy has grown an average of about 3%, at an annualized rate, faster than the euro zone's 1.9% rate. Inflation is subdued in both regions. Annual core inflation—which excludes food and energy in the U.S. and those items plus alcohol and tobacco in the euro area—is running about 1% in both areas. Unemployment is near double digits; a little below in the U.S. and a little above in the euro bloc.

But, unlike the Fed, ECB officials are skeptical they can do much to stimulate growth. They think unemployment is largely the result of deep-rooted structural problems and not a fall-off in demand, so stimulus measures would be more futile in Europe than in the U.S.

The ECB also confronts wide disparities in the economies of its 16 members. Unemployment rates in Germany and Austria, which have emerged from the recession much stronger than their neighbors, are a fraction of Spain's 20%-plus jobless rate and Ireland's 14% rate.

—Beate Preuschoff contributed to this article.

Similar recoveries, vastly different responses

ECB and Fed go separate ways in responding to similar growth and inflation trends

	GDP growth*	Unemployment rate	Core inflation rate	Official interest rate	Asset purchases
Euro zone	**1.9%**	**10.1%**	**1.0%**	**1%**	**€123.5 billion** (covered bonds plus government bonds)
U.S.	**3.0%**	**9.6%**	**0.8%**	**0 - 0.25%**	**$1.7 trillion + $600 billion** (mortgage-backed securities plus government bonds)

*Average quarterly growth from 3Q 2009 to 2Q 2010
Sources: Eurostat, U.S. Bureau of Labor Statistics

Lagarde: Fed's move shows need for change

By Nathalie Boschat And David Gauthier-Villars

PARIS—French Finance Minister Christine Lagarde said the U.S. Federal Reserve's decision to buy $600 billion in government securities would put upward pressure on the euro, adding to gathering global concerns over whether the U.S. is seeking to depreciate the dollar.

"The euro bears the brunt of the move," Ms. Lagarde said in an interview Thursday, a day after the U.S. Fed embarked on a new phase of its strategy of so-called quantitative easing, saying it would buy more than a half-trillion dollars of U.S. Treasurys through June to spur the country's slow economic growth.

"I am not making a judgment on the U.S. quantitative easing," she added. "But it shows the imperative need to rethink the international monetary system and cooperation mechanisms."

Her comments come as France gears up to use its coming role as president of the Group of 20 major world economies to explore ways to curb foreign-exchange volatility, which is seen as a growing threat to global economic growth. France takes the year-long leadership of the G-20 at the end of next week.

Recent unilateral interventions by nations such as Japan, South Korea and Brazil to hold down the value of their currencies have fueled talk of a currency war. The U.S. Fed hopes that buying government bonds will help keep long-term interest rates low, boosting consumer spending and company investments.

Although the U.S. Treasury and Fed officials have repeatedly said that they pursue a "strong dollar" policy, the Fed decision was widely interpreted as a sign that Washington is trying to devalue its currency.

"It's in the U.S.'s best interest to have a weaker dollar," said Peter Vanden Houte, ING Group's chief European economist. "Their consumer-driven growth model is no longer sustainable; a weak currency is the best way to boost their exports."

In addition to Ms. Lagarde, several European leaders expressed concerns over the U.S.'s unilateral move. "I don't see without concern how America wants to stimulate the economy through yet more liquidity," German Economy Minister Rainer Bruederle told reporters Thursday.

Associated Press

Finance minister Lagarde on Tuesday.

Asia braces for a flood of foreign cash

By Alex Frangos And Kanga Kong

HONG KONG—Officials in Asia warned of possible moves to brace their economies against an expected flood of money into the region stemming from the Federal Reserve's latest plan to rekindle growth in the U.S.

Fast-growing economies in Asia have been inundated with cash in recent months as investors bet they can make more money in countries that have higher growth rates. The Fed's $600 billion asset-purchase plan, known as quantitative easing, is expected to increase that flow, as it depresses interest rates in the U.S. and increases the amount of cash available to investors to deploy in other markets.

The influx of cash has already put upward pressure on currencies in Asia and other emerging markets. That is something export-dependant economies are reluctant to allow, especially when the world's largest exporter, China, is tightly controlling a slow appreciation of its currency. The Thai baht is up more than 11% against the dollar this year. The Korean won is up 6%. The Philippine peso is up 8%.

The influx is also driving up other markets. Asian stock markets rose Thursday following the Fed's move, with India's benchmark Sensex ending at a record high.

The Fed's move has likely hastened action in South Korea, which like other countries has been considering imposing controls on the inflow of capital into its economy.

"We'll actively seek measures to alleviate" volatility stemming from sudden capital flows, said a senior official at the Ministry of Strategy and Finance.

In South Korea's case, analysts expect the country to stem the flood of foreign money by further limiting foreign investor access to won-linked currency derivatives or reinstating taxes on foreign investment in some Korean government bonds.

In Hong Kong, which maintains a de facto peg with the U.S. dollar, the head of the monetary authority said capital inflows will force the government to impose stricter lending requirements on property purchases to prevent price bubbles. Hong Kong has tightened lending requirements several times in the past year to cool the real-estate market. Nevertheless, property prices have risen nearly 50% since the start of 2009.

EUROPE NEWS

Emile Dubuisson for The Wall Street Journal.

Irish Minister of Finance Brian Lenihan offered a preview of his Dec. 7 budget, including spending cuts and tax rises.

Cost of default insurance for Ireland keeps rising

By Neil Shah

The cost of insuring Ireland's government debt against the risk of default hit a record for the fourth consecutive day, underscoring how the country's banking and economic problems show few signs of abating anytime soon.

The annual cost of insurance, as measured by credit-default swaps, hit $600,000 for the first time on Thursday before falling back somewhat, as Ireland continues to quickly close the gap with Greece, the poster child of financially troubled members of the euro zone.

Part of Ireland's problem is that investors are growing intensely worried about subordinated bonds they bought from troubled Irish banks like **Anglo Irish Bank Corp.**, **Allied Irish Banks** PLC and **Bank of Ireland** PLC. The risk is growing that the Irish government may wipe them out to help pay for the country's burgeoning bank bailout, which is already estimated to reach as much as €50 billion ($70.56 billion).

To protect themselves, investors are dumping their bonds or hedging their risks by purchasing insurance against either a bank default or an Irish sovereign-debt default.

Also pressuring Irish, and Greek, bonds is the European Union plan to replace the temporary bailout facility for governments that expires in 2013 with something that may be harsher to bondholders than the current arrangement, contributing to the recent weakness among bonds and credit-default swaps, which insure against default, in some of the 16-nation bloc's smaller countries.

For now, Ireland is getting hit much harder than most of its ailing peers. It now costs $585,000 annually to insure $10 million of Irish bonds against default for five years, compared with $558,000 on Wednesday and $416,000 two weeks ago. By comparison, Greece's insurance costs are $860,000 compared with $847,000 on Wednesday.

Were Ireland to borrow money for 10 years, it probably would have to pay around 7.636%, based on market rates, a premium of 5.25 percentage points over European benchmark Germany, the highest such gap since the euro's creation in 1999. The rise in yields and the yield premium has come even as central banks again bought Irish government bonds on Thursday, according to a trader.

One thing in the government's favor is it should have enough cash already to get it through to the middle of 2011.

Ireland's troubles are well-known: a massive banking debacle that keeps getting worse, a soaring budget deficit, a sluggish economy and a government on the verge of political collapse. Finance Minister Brian Lenihan on Thursday tried to calm markets by offering a preview of his Dec. 7 budget, including €6 billion of spending cuts and tax rises next year, twice as much as he had previously indicated. The government is tackling a deficit that will reach 32% of gross domestic product this year and which it has promised to reduce to 3% of GDP by 2014,

On the political front, the coalition government's parliamentary majority came under further pressure Thursday after it agreed to hold a by-election just two weeks before it attempts to pass its 2011 budget. Opinion polls currently put Prime Minister Brian Cowen's ruling right-of-center Fianna Fail party in third place behind the two main opposition parties.

"Ireland is in a very different fiscal position to Greece, but the markets have looked at Ireland and said: 'This is unsustainable,'" said Simon Penn, market analyst at **UBS** AG. "With 10-year yields up around 7.5%, fiscal savings will be sucked up by higher borrowing costs. The [bond] market has lost patience."

Investors have been worried for some time about a possible withdrawal of the European Central Bank's "nonstandard" monetary stimulus programs, such as purchases of government bonds, which ECB President Jean-Claude Trichet on Thursday repeated are "temporary in nature."

But a less obvious cause of the recent pall over Ireland is investors' intense concern over Irish bank bonds. In recent days, state-owned Anglo Irish has offered holders of its risky subordinated bonds 20 cents on the dollar to exchange their investments for new government-guaranteed bonds. The other option, Anglo Irish says, is to get one euro cent for every €1,000 of investments held. Some Anglo Irish creditors have rejected the offer, creating a stand-off.

In addition, Ireland's Parliament is working on legislation that would make subordinated debt holders help pay for the cost of bailing out nationalized banks, analysts at Barclays Capital say.

This week, Allied Irish Banks said it hasn't been able to sell its U.K. business as planned, suggesting its riskier bonds could go the way of Anglo Irish's debt. "There is a fear that [Allied Irish Banks] will also become fully nationalized," Barclays analysts say. In response, investors are dumping the riskier bonds of Allied Irish Banks and even relatively strong Bank of Ireland.

Investors also are buying insurance on the bank debt. The annual cost of insuring $10 million of Allied Irish Bank's risky subordinated debt jumped to $1,963,000 on Thursday from about $1,325,000 on Tuesday. Similar costs for Bank of Ireland's subordinated debt jumped to $1,032,000 on Thursday from $894,000 on Tuesday. Even insurance costs for these banks' safer senior bonds are jumping, even though Mr. Lenihan has repeatedly said that senior bond holders will not suffer.

Other investors may be hedging themselves by purchasing insurance against an Irish government debt default. This heavy demand for protection may explain why Ireland's credit insurance prices are ignoring a recent raft of better-than-expected news on Irish manufacturing and unemployment. By contrast, Irish stocks are roaring along with other stock markets on Thursday, after the Federal Reserve's move to juice the U.S. economy with $600 billion of new Treasury bond purchases.

—Mark Brown contributed to this article.

Credit default swaps: what's all the fuss about?

[Brussels Beat]

By Stephen Fidler

The cost of insuring Irish government bonds against default rose sharply this week—as it did for the bonds of other governments—in what was widely reported as a harbinger of doom for the continent's weaker economies.

These costs reflect what's happening in the over-the-counter market for credit-default swaps. But the emphasis on the costs of default protection in this market raises questions about how much importance should be attached to its day-to-day price gyrations.

One way of assessing their significance is to look at statistics from the Depository Trust & Clearing Corporation, the New York clearinghouse through which a vast majority of global CDS trades are directed.

The figures are released after a significant lag and don't say anything about prices, but they tell you about market volumes. And although sovereign CDS are more actively traded than all but a few corporate names, mainly banks, most aren't traded very actively at all.

Most sovereign credit-default swaps aren't traded very actively at all, data show.

In the three months ended June 20, the most active sovereign CDS market in Europe was in Spanish debt, where an average 34 trades a day took place. Greece, facing a repayments crisis that was relieved only by a bailout from its euro-zone partners, was the third most active name with 26 daily trades. Ireland, the focus of this week's activity, occupied eighth place with an average of eight trades.

So how much is at stake in these trades? The notional volumes of debt insured are on the face of it higher: some $500 million on average per day in the case of Spain; $575 million of Italian debt, $325 million of Greek debt and $150 million of Irish debt. But even these nominal sums are of the order of a thousandth or less of the total debt outstanding of these governments. At the end of 2009, according to the latest figures from Eurostat, the total government debt of Spain was €561 billion, of Italy €1.76 trillion; of Greece €273 billion and of Ireland €105 billion.

And banks, hedge funds and other users of the market stake only fractions of the notional sums insured. For example, according to Markit, a company that tracks the CDS market and produces indexes of market movements, the cost of insuring $10 million of five-year Spanish government bonds for one year

Trading down

Average daily trades for sovereign credit default swaps from March 22 to June 20, 2010

Source: DTCC

was being quoted Thursday afternoon at about $220,000.

According to Gavin Nolan, a Markit credit research analyst, premiums in the market are conventionally paid quarterly.

In other words, a buyer would put $54,000 down immediately to insure $10 million worth of bonds for three months. Assuming Spanish CDS trading volumes are about the same as in the second quarter, that suggests sentiment in the half-a-trillion euro market for Spanish government paper is being influenced by people staking around $2.5 million a day.

Mr. Nolan says that some names are barely traded—with barely a handful of dealers offering quotes—but that in recent days the market in Irish CDS has been fairly active. One conventional measure of trading depth is the spread between price a dealer will offer to buyers and that offered to sellers. In the case of Ireland Thursday, the bid price was $590,000 and the offer $610,000, a relatively narrow spread, he said.

He said trading volumes in the underlying Irish government debt market are very low—with few if any buyers. (One reason for this, apart from a lack of buyer appetite, is related to the fact that most bonds are traded actively only soon after they are issued and then are usually locked up in portfolios. Neither Ireland nor Greece are currently issuing new bonds.) In these circumstances, he said, the CDS market could be offering price signals that are at least as important as those being sent by the underlying bond market, if not more so.

Pessimism over the prospects for weaker euro-zone economies to surmount the crisis without a debt default has undoubtedly grown over the past week, fueled probably by last week's decision of European Union governments to examine ways of making bond restructurings an essential element of future government rescue packages. However, a closer look at the sovereign CDS market suggests its day-to-day price movements, and sometimes even daily price shifts in the underlying bond markets, should not be invested with too much significance.

U.S. NEWS

Greek elections could force new polls

By Alkman Granitsas
And Nick Skrekas

Agence France-Presse/Getty Images

Contract firefighters clash with riot police during a protest for permanent jobs outside Parliament in Athens on Thursday.

ATHENS—Greek voters go to the polls Sunday in fraught local elections widely seen as a referendum on the government's tough austerity program. Poor results could force the ruling Socialists to call new nationwide polls after only a year in office.

In the past two weeks, Prime Minister George Papandreou has said he would seek a fresh mandate for his government if voters don't back his party's candidates Sunday—a prospect that has unsettled the country's financial markets and drawn veiled criticism from Greece's international lenders.

The elections come amid growing discontent over the government's harsh economic measures and as Greek authorities deal with a spate of mail-bomb attacks by a leftist extremist group that has targeted leaders and institutions across Europe. On Thursday, Greek police charged two men in connection with the terrorist plot, and intercepted a 14th booby-trapped parcel in the capital.

Voters who already have endured a grinding, two-year economic slump now worry that the recession and the current austerity measures will continue for months to come with no immediate signs of recovery.

"These elections are taking place amid a very negative environment for public opinion," said George Kyrtsos, a political commentator and publisher of the City Press newspaper. "People understand that the measures are necessary, but they also need to see some light at the end of the tunnel."

In May, Greece narrowly avoided bankruptcy with the help of a €110 billion ($155 billion) bailout from the International Monetary Fund and European Union in exchange for a three-year austerity and reform program. That program has led to steep cuts in pensions and public-sector salaries, as well as a raft of new taxes on everything from cigarettes to basic foodstuffs.

The measures have drawn the ire of Greece's unions, and led to repeated strikes and protests around the country.

At the same time, the program has weighed on the economy, which is expected to shrink by 4% this year, while unemployment has rocketed to 12% in July from 9.6% a year earlier and business bankruptcies have soared.

But even amid the discontent with the Socialists' economic policies, many voters also are unhappy with the opposition, center-right New Democracy Party, which they blame for mismanaging the economy during its 5½ years in office. Analysts say Sunday's polls may be marked by a high level of abstentions and protest voting as Greeks turn their backs on both major parties.

"I am not going to vote at all and I've been trying to convince my friends not to go either because I don't believe anything Greek politicians say anymore. Look at the state that they have created in this unfortunate country. I want to send them a message that they all should all apologize and quietly go home," said Vassilis Babatsias, a 54-year-old plumber and father of two. "I came back from Sweden three years ago hoping I could raise my kids here and have an average, middle-class life. I have bitterly regretted the day I booked my ticket."

According to public-opinion polls from early October, the Socialists have continued to enjoy a solid lead of six to 14.5 percentage points over New Democracy.

But officials from both parties say that lead has shrunk in the past several weeks and is one factor that prompted Mr. Papandreou late last month to raise the specter of snap national elections—a move analysts say may have backfired.

Since then, the prospect of political instability in Greece has spooked investors. In the past two weeks, the Athens stock market has fallen about 9%, while the spread between interest rates on 10-year Greek government bonds and their benchmark German counterparts has jumped from about seven percentage points to close to nine percentage points.

"On Sunday, the prime minister will decide whether to proceed with snap national elections. If voters reject the government outright, then he will have no choice," said one political analyst close to the ruling Socialists. "If the voters do reject the government, the opposition will say it has lost its mandate. So better to go ahead with a new election rather than face constant doubts about its reform initiative."

What is less clear is what will decide the margin of victory for the government. Because of the diffuse nature of the local elections—which are being conducted under new election laws and following a sweeping reorganization of Greece's municipalities—the results could be murky.

BAE warned Cameron on cuts

By Jonathan Buck

Reuters (Cameron); Agence France-Presse/Getty Images (King)

David Cameron, left, received a letter from BAE's Ian King warning him that thousands of jobs would be lost by the scrapping of an aircraft carrier.

LONDON—Cancellation of one of the two aircraft carriers on order for the U.K.'s armed forces would have caused the loss of thousands of jobs and ended Britain's capability in complex warships, **BAE Systems** PLC warned David Cameron two weeks before the prime minister delivered the government's strategic defense and security review.

In a letter to Mr. Cameron dated Oct. 5 and marked "in strict confidence," BAE Systems Chief Executive Ian King laid out in stark terms the cost of scrapping the aircraft carrier HMS Prince of Wales.

Mr. King said cancellation would have meant that production in all BAE Systems shipyards would cease at the end of 2012, with no further production work planned until steel was due to be cut on a new frigate program in 2016.

"This means that the business would be unsustainable, and all three yards would have to close by early 2013, with the loss of more than 5,000 jobs in BAE Systems and many more across the U.K. in hundreds of companies in the supply chain," he wrote. "In practice, that means the end of the U.K.'s capability in complex warships, and would bring the sector to a halt."

BAE Systems' three shipyards are at Scotstoun and Govan in Scotland, and at Portsmouth in England.

The government decided to continue with the plan to build two aircraft carriers after it became clear that building both warships at a cost of £5.25 billion ($8.45 billion) was cheaper than scrapping one.

Mr. King raised the possibility of the "direct award of new work" to BAE Systems to mitigate a cancellation, touting fuel tankers, an ice-capable ship and the acceleration of the frigate program as options.

But he said even that wouldn't prevent the abrupt rationalization of the industry over the next two or three years, precipitating the closure of at least one of the U.K. defense giant's shipyards.

Construction of the aircraft carriers has become a political football between the current Conservative-Liberal Democrat coalition government and the Labour Party, which placed the orders for the two new carriers during its period in office. The new government had considered scrapping one of the carriers, HMS Prince of Wales, as part of a defense review designed to cut spending by billions of pounds over coming years. The other carrier will be named HMS Queen Elizabeth.

The letter was released Thursday by Chancellor George Osborne after repeated questions from the Treasury Select Committee during parliamentary hearings this week. BAE Systems said it consented to the letter being made public.

After the letter reached Downing Street, there was "a lot of investigation at the time to see if there was any...way out of this contract," said a spokeswoman for the prime minister. No way was found. "This really underlines the predicament that the new government faced," the spokeswoman added.

—Laurence Norman contributed to this article.

Milan cardinal decries Italian leader's lifestyle

By Stacy Meichtry

ROME—A prominent Italian cardinal lashed out at Prime Minister Silvio Berlusconi's lifestyle, bringing the country's Roman Catholic Church into the fray at a time of increasing political uncertainty in Italy.

"We need to speak out against the serious damage to a society bombarded by perturbing and hedonistic messages that treat everything as loaded jokes and amusement," Cardinal Dionigi Tettamanzi of Milan was quoted as saying in an interview published Thursday in La Repubblica of Rome. A spokesman for the cardinal confirmed the comments made to the newspaper.

On Thursday, Mr. Berlusconi reiterated that he is "ready to go to the polls" for early elections if his center-right coalition doesn't stand behind him. He also described the scrutiny of his personal life as a "smear" campaign.

A spokesman for Mr. Berlusconi declined to comment on the cardinal's remarks.

The cardinal's interview marks the first time a well-known Italian prelate has publicly weighed in on Mr. Berlusconi's openly declared penchant for hosting parties with young women at his home. Public statements by Catholic officials are carefully watched, because the church influences a large swath of Italy's voters.

The freshman class in the Senate

Marco Rubio
(R., Florida)

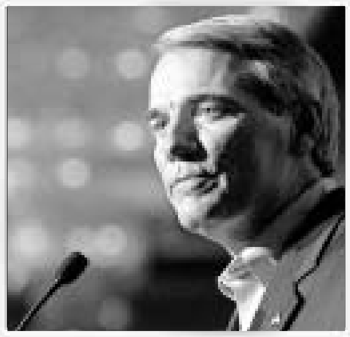
Cuban-American former speaker of the Florida statehouse could become an immediate voice for GOP among Hispanics.

Rand Paul
(R., Kentucky)

The tea-party darling beat the handpicked candidate of Senate GOP Leader McConnell in a contentious primary.

Ron Johnson
(R., Wisconsin)

The Oshkosh businessman caught everyone by surprise when he surged past a longtime liberal icon, Sen. Russell Feingold.



Rob Portman
(R., Ohio)

The ex-congressman and cabinet secretary strolled to victory as a Washington insider in a year dominated by outsiders.

Richard Blumenthal
(D., Connecticut)

The survivor of a tight race, he joins the Senate as his party needs new faces after the departures of stalwarts.

United Press International (Rubio); Getty Images (Blumenthal, Paul); Associated Press (Johnson, Portman)

New Congress could face gridlock

By Naftali Bendavid
And Janet Hook

Come January, the House will be composed of an energized conservative Republican majority and a Democratic minority that has become more liberal. At the same time, a more closely divided Senate could make it harder to assemble the 60 votes needed to pass most bills.

That could be a recipe for legislative gridlock.

In the past year, Senate Majority Leader Harry Reid (D., Nev.) has struggled to pass legislation even with a 59-seat majority, thwarted by Republican filibusters. The election's outcome remained uncertain in Alaska and Washington state, but it's clear Democrats will emerge with a far smaller majority of 52 or 53 seats out of 100.

In such a narrowly divided Senate, a bipartisan coalition will be required to tackle any difficult issue. Yet some Democrats leaving the Senate, like Arkansas's Blanche Lincoln and Indiana's Evan Bayh, are among the most open to working with Republicans.

Mr. Reid said the election results left the parties no choice but to work together—and that he wanted to do so. But he also said Republicans have been uniformly obstructionist over the past two years.

"The ball is in their court," Mr. Reid. "We made the message very clear that we want to work with the Republicans. If they're unwilling to work with us, there's not a thing we can do about it."

GOP leaders don't see it that way, saying voters rewarded them for blocking Democratic initiatives.

"What the American people were saying yesterday is they appreciate us saying no to things the American people indicated they were not in favor of," said Senate Minority Leader Mitch McConnell (R., Ky.).

Now, he said, it's up to the Democrats to move the Republicans' way.

That might be easier said than done, with the new Senate still including a strong faction of impassioned liberals, like Sen. Bernie Sanders (I., Vt.), as well as a group of staunch conservatives like Sen.-elect Rand Paul (R., Ky.).

With every senator having the ability to bring the Senate to a halt under its arcane rules, gridlock in the chamber is a serious risk.

The House is likely to be even more polarized than the Senate. The resurgent GOP majority appears responsive to the populist spirit of the tea party. The Democratic minority, having suffered many losses among its conservative members, will be more broadly liberal.

Twenty-two out of the 53 members of the conservative Blue Dog Democrats lost on Tuesday night, and another five are retiring, significantly weakening a group that has sought to bridge the gap between the two parties.

Many of the centrists who lost were first- or second-term members from conservative districts, and Democrats will have a far smaller foothold in the South and Midwest.

House Minority Leader John Boehner (R., Ohio), who is expected to become speaker in January, told reporters he hoped to work with President Barack Obama, but he didn't mention House Democrats.

Mr. Boehner did speak of "incorporating members of the tea party," which may not bode well for working with the opposition Democrats.

Rep. Lynn Woolsey (D., Calif.), who co-chairs the Congressional Progressive Caucus, noted that her liberal group lost only four of its 82 members, in contrast to the Blue Dogs. "We're not going to give up progressive values just to look like we're cooperating with the tea party," Ms. Woolsey said in an interview. "We cannot become timid."

Beyond the Blue Dogs, Democratic casualties in the House included powerful committee chairmen such as John Spratt of the Budget Committee, Ike Skelton of the Armed Services Committee and Jim Oberstar of the Infrastructure and Transportation Committee. All of them were noted for working with Republicans.

Tuesday's results did suggest a renaissance of Northeastern Republicans in Congress, a species that had been all but extinct. The House will have at least five new Republicans from Pennsylvania, five from New York and two from New Hampshire.

Some may be open to making common cause with Democrats on certain issues. "Centrists Republicans will play a larger and vastly more important role in this new Congress," said former Rep. Tom Davis (R., Va.), who heads the centrist Republican Main Street Partnership.

But given the passion of the small-government activists who powered the Republican sweep, there was little talk of compromise Wednesday in the House.

—Alexandra Berzon and Louise Radnofsky contributed to this article.

Revved-up Republicans look toward 2012

By Peter Wallsten

A revitalized Republican Party began looking toward the 2012 presidential election with renewed optimism about its prospects but uncertainty about who was best positioned to lead the charge.

Republican Sarah Palin was drawing especially close scrutiny from some in the GOP for signs of her viability as front-runner. Ms. Palin emerged from Tuesday's elections as a champion of the tea-party movement that helped spur a Republican wave. But losses by Ms. Palin's hand-picked candidates in Nevada and Delaware showed the limits to her powers, while preliminary results in her home state of Alaska showed her favored candidate, Joe Miller, was trailing.

"Sarah Palin is a beloved figure in the Republican Party, but now we shift gears—and, in the party, ideas are going to matter," said Katon Dawson, former chairman of the South Carolina GOP. He said Ms. Palin would "get fully vetted on her service in Alaska."

Ms. Palin's active media presence and endorsements in the midterm campaign have maintained her high profile as a spokeswoman for her party. In a Wall Street Journal/NBC News poll in mid-October, Republicans cited her most often as the "most important leader or spokesperson" for the GOP. Ms. Palin was named by 19% of Republicans in the survey, ahead of former Arkansas Gov. Mike Huckabee, at 16%, former House Speaker Newt Gingrich, at 14%, and former Massachusetts Gov. Mitt Romney, at 13%.

Associated Press

GOP presidential-nominee possibilities Sarah Palin, left, and Mike Huckabee as they helped candidates and talked to voters during the campaign. Ms. Palin is drawing close scrutiny for signs of her viability as a presidential candidate.

Independent voters also cited Ms. Palin as the "most important" GOP leader, but they listed Mr. Romney second most frequently, with Mr. Huckabee a more distant third.

Other potential candidates include Minnesota Gov. Tim Pawlenty, Mississippi Gov. Haley Barbour, Indiana Gov. Mitch Daniels, South Dakota Sen. John Thune and Rep. Mike Pence of Indiana.

Matt Kibbe, president of the conservative tea-party group FreedomWorks, said he would add a new name to the list: Florida Sen.-elect Marco Rubio, a 39-year-old Cuban-American who is a tea-party hero and could help Republicans expand their reach to Hispanics and younger voters. Mr. Kibbe said Ms. Palin is likely to face questions about her role in siding with candidates who proved to be ineffective.

Ms. Palin wasn't available to comment. An aide, Tim Crawford, treasurer of her political action committee, said Wednesday that the former governor was happy to stand by her record of endorsements in the midterm elections. Of 82 endorsements, he said, she had 51 wins and 22 losses, with nine races still uncertain.

Obama visits a chillier world

By Jonathan Weisman

President Barack Obama steps back onto the world stage Friday, when he sets off on a 10-day trip to two global economic summits in Asia after a big electoral rebuke, but his troubles will not ease overseas.

Conservative governments in Britain and Germany are pressing for the kinds of deep fiscal austerity measures in Europe that Mr. Obama's administration is resisting. And he is tangling with the Chinese about revaluing their currency.

Kenneth Rogoff, a former chief economist at the International Monetary Fund, said, "The rest of the world is looking more like the tea party," which wants to rein in government spending.

To be sure, Mr. Obama and his team still wield considerable influence. Treasury Secretary Timothy Geithner, in the run-up to next week's summit of the Group of 20 largest economic powers, almost single-handedly forced the body to address trade surpluses and deficits as part of efforts to restore balanced global growth. The president also took a leadership role in the push for stronger global banking regulations, one of the centerpieces of the coming economic summit.

But two years ago in London, Mr. Obama and his economic team were greeted at the G-20 summit like rock stars. At the G-20 in Seoul next week, "they're not going to have a lot of allies," said Alan Auerbach, a University of California, Berkeley, economist with close ties to the Obama White House.

In that sense, his 10-day swing through India, Indonesia, South Korea and Japan will play out as Mr. Obama against the world, with the president playing one of the last adherent to Keynesian economic policies, which embrace deficit spending and tax cuts to spur growth.

The recent election in Britain brought down Mr. Obama's ally on economic policy, Gordon Brown, and brought to power a prime minister in David Cameron who is going the opposite way, with deep budget cuts and tax increases designed to tame the U.K. budget deficit. He hopes a boost to private-sector confidence will offset the pain of austerity.

German Chancellor Angela Merkel is pressing smaller European countries with large budget deficits to follow suit.

Getty Images

President Barack Obama speaks during a cabinet meeting Thursday at the White House in Washington, D.C.

Republicans, swept to power on Tuesday by U.S. voters angered over swelling deficits, are pressing deep budget cuts of their own, though their concurrent calls for tax cuts do not follow the Cameron model.

Mr. Obama and his allies see it differently, though Mr. Obama was careful to say Wednesday he recognized voter concerns about mounting government debt.

Lael Brainerd, undersecretary of the Treasury for international affairs, said that "there is broad agreement that the United States needs to continue providing support to the economy until the handoff to the private sector is well established." She defended the administration's record on deficit-cutting, saying it is well on its way to meeting its commitment to cutting the deficit in half by 2013. Last year, U.S. red ink barely diminished.

White House officials do believe Washington needs to make dramatic moves to control federal deficits and debt in the long term, by curtailing the growth of entitlements such as Medicare and Social Security. But with the economy sluggish and unemployment high, they see short-term austerity as dangerous.

Mr. Obama is likely to be dogged with questions about his domestic travails not only as he meets the press at every stop on the trip, but by world leaders anxious to divine the policy implications of U.S. politics, said Daniel M. Price, who served as the Bush liaison to the G-20. That could amplify the image of a beleaguered U.S. president.

"I imagine politics in the U.S. will be a subject of this trip," said Michael Froman, deputy national security adviser for international economic affairs.

Productivity resumed rise in 3rd quarter

By Sudeep Reddy

Productivity rose in the third quarter as employers cut labor costs, while jobless claims reversed course with a sharp increase last week, the Labor Department said Thursday.

The productivity of nonfarm business workers grew at an annual 1.9% pace, bouncing back from a second-quarter decline that halted strong gains seen during the recession. Compared with a year earlier, productivity, which measures output per hour, was up 2.5% in the July-September period.

Increased productivity helps explain how businesses are able to expand without hiring many new workers. Nonfarm business output rose 3% in the third quarter, while growth in workers' hours slowed.

Unit labor costs declined 0.1% from the previous quarter, putting them 1.9% lower than a year earlier and underscoring the continued risk of deflation in the economy.

"Labor costs will be putting downward pressure on inflation for the foreseeable future," said Ian Shepherdson, chief U.S. economist at High Frequency Economics.

Meanwhile, the surge in jobless claims indicated the job market remains mired in a slump. Initial claims for unemployment compensation jumped 20,000 to 457,000 last week after a surprise drop in the previous week.

U.S. weighs easing tech limits to India

By Amol Sharma

NEW DELHI—The U.S. is considering easing restrictions on the export of sensitive technologies to India, but it is unclear if the countries will strike a significant enough pact during President Barack Obama's visit here this weekend to claim a major advance in their strategic relationship.

The U.S. imposed the controls on trade with India in so-called dual-use technologies—items that have both military and peaceful purposes—after India's nuclear-weapons tests in 1998. India is pushing to do away with the regulations, arguing it has proved its nuclear nonproliferation bona fides over the years.

A major agreement on the issue would demonstrate a strengthening of strategic ties between the two countries and give India a tangible gain from Mr. Obama's visit to complement the billions of dollars in commercial sales the U.S. is expected to announce in aviation, defense and other sectors.

Mr. Obama told an Indian news agency Wednesday that the export issue is "very difficult and complicated," lowering expectations in New Delhi somewhat.

But Indian Foreign Secretary Nirupama Rao said Thursday that the countries are making progress in their discussions.

Ms. Rao said smaller agreements are possible in health, agriculture, and clean energy during Mr. Obama's trip, which starts Saturday.

A U.S. Embassy spokeswoman in New Delhi declined to comment.

WORLD NEWS

Group plans new venture to challenge WikiLeaks

Former staffers to take roles in rival document-sharing initiative

European Pressphoto Agency

WikiLeaks founder Julian Assange at a news conference in Geneva Thursday.

By Jeanne Whalen
And David Crawford

WikiLeaks, the document-leaking website that has come under intense pressure after publishing classified U.S. military documents, has a new challenge on the horizon: competition.

A group that includes former WikiLeaks staffers who recently left the organization after disagreements with founder Julian Assange is pursuing plans for a rival document-leaking venture, said people familiar with their plans.

These people said one of the leaders of the new initiative is Daniel Domscheit-Berg, a top WikiLeaks lieutenant who quit the group in September. Mr. Domscheit-Berg, a German, is planning to launch new technology to assist whistleblowers who want to leak documents, said people with knowledge of the matter.

"There is some indication that Daniel and some others are setting up a similar venue, and we wish them luck," said Kristinn Hrafnsson, a WikiLeaks spokesman, in a recent interview in London. "It would be good to have more organizations like WikiLeaks."

Mr. Hrafnsson said a second WikiLeaks insider, a "technician," also recently quit the group, and that "two or three volunteers" have stopped working for it. He declined to identify them. He said reports of friction within WikiLeaks are "quite overblown."

In media interviews since leaving WikiLeaks, Mr. Domscheit-Berg has complained that the group, while pursuing big leaks about the wars in Afghanistan and Iraq, has neglected to publish lower-profile but still important documents it has received from other parts of the world.

Demand for whistle-blowing outlets appears robust. Speaking at an event in London last week, Mr. Assange said WikiLeaks has temporarily stopped accepting new documents because it has too large a backlog and not enough resources to publish them at the moment.

"I think it is not right to be receiving documents that people may wish to get out urgently if you're not in a position to publish them within a reasonable period of time," he said.

WikiLeaks has come under intense pressure since publishing thousands of classified U.S. military documents about the wars in Afghanistan and Iraq.

WikiLeaks has come under intense pressure since publishing thousands of classified U.S. military documents about the wars in Afghanistan and Iraq. The U.S. has sharply criticized the group, and is investigating how the documents reached the website.

Mr. Assange has also come under fire in Sweden, where prosecutors are investigating allegations that he raped one woman and molested another. He has denied the allegations and called them an attempt to smear him. In a brief statement Thursday, Swedish prosecutors said the investigation is continuing, but that they couldn't predict when they would make any decisions.

This pressure, along with apparent resentment about Mr. Assange's leadership style and strategy, has caused friction inside WikiLeaks.

"Julian Assange reacted to any criticism with the allegation that I was disobedient to him and disloyal to the project," the German magazine Der Spiegel quoted Mr. Domscheit-Berg as saying in a September interview.

The Associated Press reported that Mr. Assange was in Geneva Thursday, calling on the U.S. to investigate possible human-rights abuses in Afghanistan and Iraq that have been raised by the WikiLeaks documents.

"It is time the United States opened up instead of covering up," the AP quoted him as telling reporters near United Nations headquarters in Geneva, where on Friday the U.S. will face a review of its human-rights record.