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Apple's Jobs to take leave

By YUKARI IWATANI KANE
AND JOANN S. LUBLIN

Apple Inc. Chief Executive Steve Jobs said he is taking another medical leave, marking the latest health struggle for the head of the world's most valuable technology company and raising uncertainty over Apple's future direction.

In a Monday morning email to Apple employees, which the Cupertino, Calif., company released publicly, Mr. Jobs wrote the board of directors "has granted me a medical leave of absence so I can focus on my health."

The 55-year-old pancreatic cancer survivor, who received a liver transplant in 2009, didn't specify what health issue was causing him to take the leave.

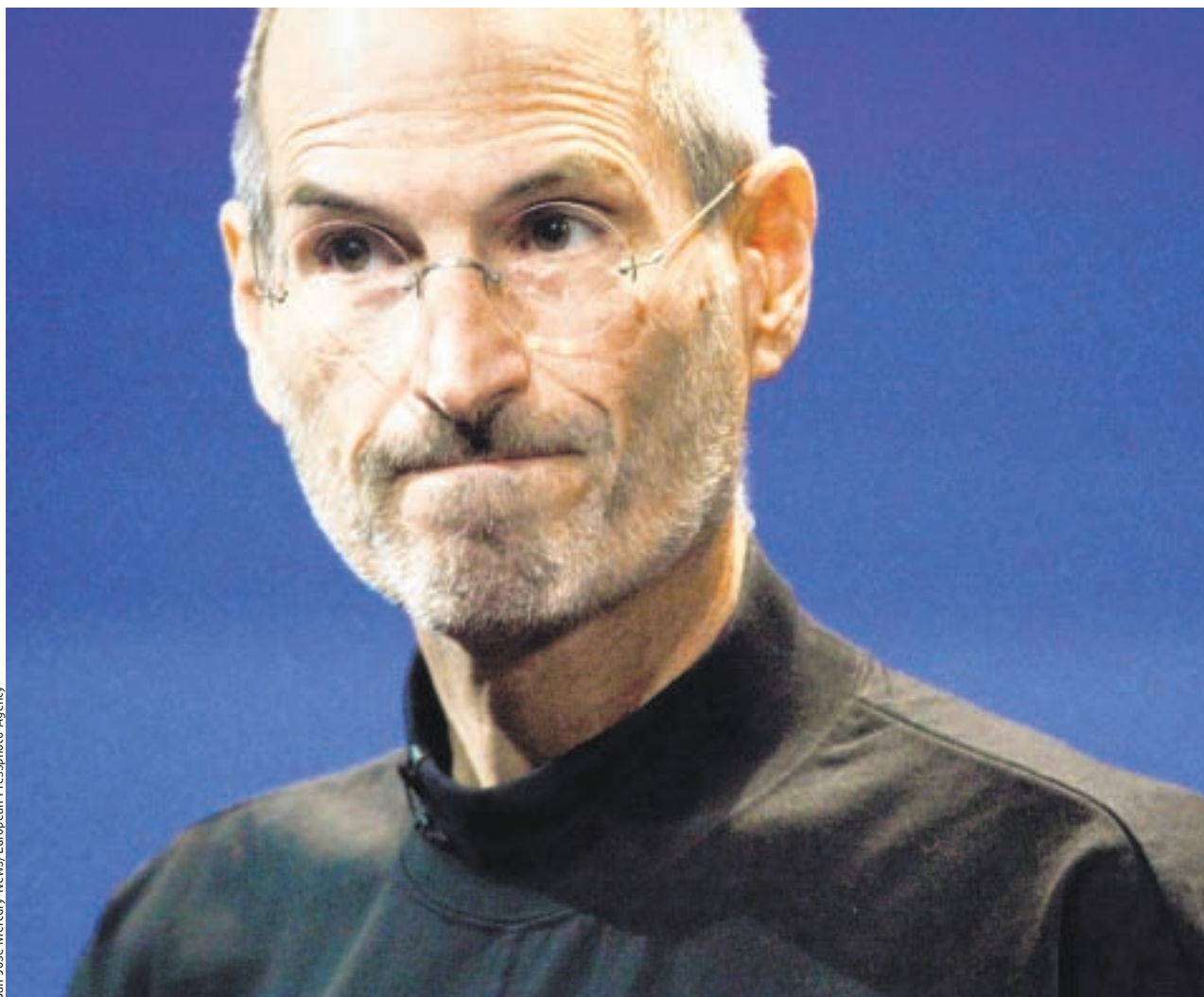
The leave marks the third time in the past decade Mr. Jobs has been forced to step back from his role at Apple. He took medical leave in 2004 and then again in the first half of 2009.

Mr. Jobs wrote in his six-sentence letter Monday that he will continue as CEO of Apple and "be involved in major strategic decisions for the company." He wrote, "I love Apple so much and hope to be back as soon as I can" and said he and his family would "deeply appreciate respect for our privacy."

In his absence, Apple Chief Operating Officer Tim Cook will run the company, the CEO said. Mr. Cook, 50 years old and a longtime lieutenant, ran the company during Mr. Jobs's previous leave. The change comes a day before Apple was slated to release its latest quarterly results.

Asked if the company or board planned to disclose further details, Apple spokeswoman Katie Cotton responded: "We've said all we're going to say."

Mr. Jobs was diagnosed in 2004 for a rare type of pancreatic cancer called islet cell



Steve Jobs, seen above in July, wrote that he will continue as CEO and 'be involved in major strategic decisions for the company.'

neuroendocrine tumor, which could be cured if surgery removed it promptly. But in 2008 he began exhibiting noticeable weight loss, and questions intensified when he said he would skip the Macworld trade show in early 2009. The CEO blamed a hormone imbalance for his weight issue in January 2009 but a week later went on medical leave blaming a "more complex" condition he didn't disclose.

Apple didn't provide an explanation for Mr. Jobs's 2009 medical leave, but a physician expert at the time said the type of cancer Mr. Jobs had commonly metastasizes in another organ, usually the liver, during a patient's lifetime. A Tennessee hospital later disclosed Mr. Jobs had received a liver transplant there.

William Chapman, transplantation chief at Washington University in St. Louis, hasn't examined Mr. Jobs personally, but said there are two likely scenarios in the CEO's case. The first is that there was a transplant-related problem, though Mr. Chapman said it would be unusual for that to happen a year and a half after the transplant.

Mr. Chapman said a more likely possibility would be that the neuroendocrine tu-

mor metastasized again. "It's really difficult to cure the disease with a liver transplant," said Mr. Chapman, adding that it's common to have some degree of recurrence. "Most people hope they reset the clock, gained some time and gained a quality of life even if you don't cure the disease."

Mr. Jobs's leave raises uncertainty for Apple. While Mr. Cook previously stepped in to run the firm, the CEO is closely identified with Apple and turning around the company last decade. He has introduced a succession of hit products such as the iPod music player, the iPhone and iPad

tablet.

Over the past year and a half, Mr. Jobs had again taken center stage in public events, making it clear that he was providing the direction of the company. People familiar with the situation have told the Wall Street Journal that Mr. Jobs had come back to work with full energy and was like the "old Steve" before he was

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Smallpox samples seek new reprieve

Health officials will launch a debate this week over whether to set a date to destroy the last known stocks of the smallpox virus—a virus that killed hundreds of millions of people before it was eradicated in 1980.

Addressing members of the World Health Organization, the U.S. plans to argue that it still needs to keep its virus samples in order to finish developing drugs and new vaccines to counter a potential bioterrorist attack.

Russia also believes the virus should be kept for research purposes, according to an official in the Russian delegation.

However, Washington and Moscow must win over some other governments and public health veterans who fear that the smallpox stocks could be unleashed accidentally or fall into the wrong hands.

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Euro zone missing the investment boat

[Agenda]

BY PAUL HANNON

After two years of cutting back on their overseas investments, businesses are starting to see the glass half full, and putting more capital into their foreign operations.

But there is one region in particular that is missing out: the euro zone. And that provides the clearest indication yet that the longer-term cost of the currency area's sovereign debt problems will exceed the sums involved in bailing out its weaker members.

If foreign investors continue to give the euro zone a body swerve, the result will be a weakened capital base, sluggish productivity growth, and a long-term reduction in its potential growth rate.

The United Nations has been monitoring flows of foreign direct investment since the 1970s.

Those flows reached a peak in 2007, and fell sharply in 2008 and 2009 as businesses responded to the global financial crisis and the ensuing recession by buying fewer foreign rivals, building fewer factories in new markets, and taking more of their profits home.

For much of the world, that stopped in 2010, and even reversed. The U.N.'s figures show foreign investment in Latin America rose by 21.1% from 2009, while foreign investment in Asia and Oceania rose by 10%.

One of the big gainers was the U.S., which attracted 43.3% more in foreign investment than it did in 2009. So the revival in investment flows wasn't restricted to fast-growing developing economies.

By contrast, foreign investment in the European Union fell by 19.9%, and most of that was down to the countries that use the euro.

Foreign investment in Germany fell by 3.5%, while foreign investment in France dropped by 3.7%. The two nations that have been forced to seek external help to repay their debts saw some of the largest declines, with foreign investment in Ireland down 66.3%



A worker builds a dynamo in Germany, which still lacks foreign investment.

and foreign investment in Greece down 38.3%.

But others also suffered big declines. Foreign investment in Luxembourg was down 55.7%, in Italy it was down 35.5%, and foreign investors actually withdrew \$24.7 billion in capital from the Netherlands, making it the only country for which the U.N. provides figures to suffer that fate.

There is a pressing need for the euro zone to bring this [sovereign debt] crisis to a conclusion.

There were some bright spots, most notably Portugal, which attracted inflows with a value 17.8% higher than in 2009, while inflows to Spain rose by 4.8%.

But overall, foreign businesses appear to be staying clear of the euro zone, and not just those parts of it that are set to grow weakly in the years to come.

It's hard to argue that the Greek market is particularly attractive when its economy has yet to emerge from recession and

it faces years of growth-damping austerity.

But Germany's economy grew strongly last year. Indeed, it hasn't expanded as rapidly since post-reunification records began in 1992.

So what is turning foreign businesses away from the euro zone? The obvious answer is the sovereign debt crisis that has gripped the currency area since late 2008.

Most foreign direct investments are for the long term, unlike purchases of shares or bonds that can be reversed quickly, if at a loss. And if you are making an investment that plays out over at least a decade, it matters whether the currency your profits will be denominated in is still going to be around. Indeed, it matters if there will be currency risk around moving a product made in one part of what is now the euro zone to another part.

So the most likely explanation for the euro zone's new status as the no-go area for foreign businesses is that there is so much uncertainty about its survival, they would prefer to wait and see rather than jump in.

"Europe is the weak spot," said

James Zhan, director of the investment and enterprise division at the United Nations Conference on Trade and Development. "It's not recovering, and the big question is what will happen in the euro zone."

The worrying thing about the figures on foreign investment flows is that they suggest that the sovereign debt crisis will harm even those countries that aren't in the immediate line of fire from worried bond investors.

On the back of Germany's strong performance in 2010, it's tempting to think that the real economic damage will be confined to Greece and Ireland, and possibly Spain, Portugal, Belgium and Italy, or those nations that are forced to pursue austerity programs to quickly cut their debts.

To be sure, there is a measurable cost to Germany, France and other stronger parts of the currency area, and that is the amounts their taxpayers will have to cough up to bail out their less solvent brethren.

Should the debt crisis rumble on, claiming new victims and underpinning doubts about the survival of the currency area itself, foreign investors are likely to continue to stay away.

That will slow the accumulation of capital across the euro zone, unless domestic businesses pick up the slack, and there's little reason to think that will happen.

That in turn will limit needed productivity growth, and potential economic growth.

The decline in foreign investment shows that the fates of the various euro-zone economies are closely interlinked, and in ways that may not have been anticipated. Indeed, there may be incalculable consequences for the long-term growth prospects of those countries that don't themselves have problems repaying their debts.

There is therefore a pressing need for the euro zone to bring this crisis to a conclusion. The longer it goes on, the more widespread and durable the damage seems likely to be.

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'Jobs single-handedly removed Apple from the commodity world of PC tech, and turned it into a luxury brand.'

Reader Frank Seldin on 'Apple CEO Jobs to Take Medical Leave'



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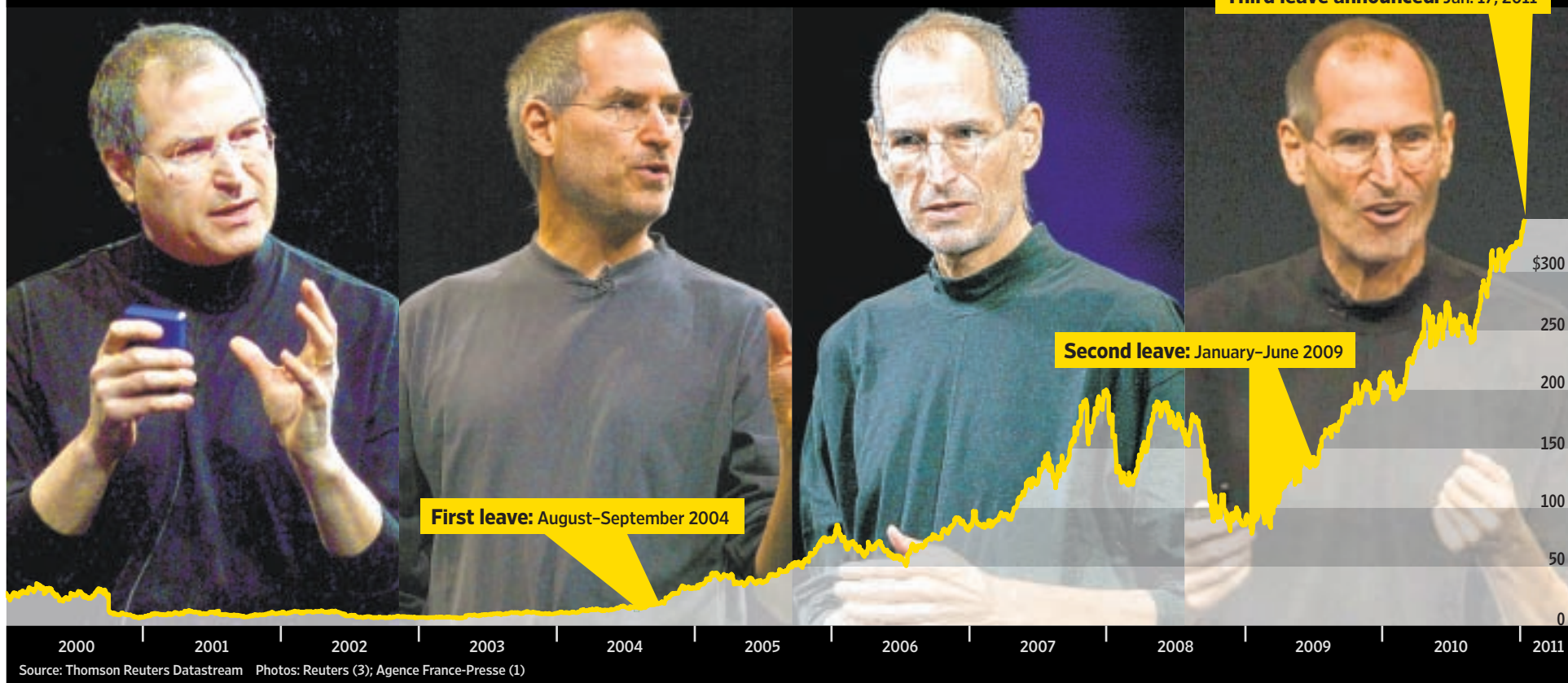
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NEWS

An eye on Apple | Apple's share price has continued to climb during CEO Steve Jobs' medical leaves

Third leave announced: Jan. 17, 2011



For Apple, new worries amid profits

BY YUKARI IWATANI KANE

The holidays were good for Apple Inc., but the new year has already thrown investors for a loop.

Apple's products were again popular gifts. So when the company reports fiscal first-quarter results Tuesday, analysts expect profit to increase to \$5.35 a share, up 46% from a year earlier, according to Thomson Reuters. Revenue is expected to jump 55% to \$24.3 billion. Both estimates are far higher than Apple's own forecasts.

Earnings, though, will be overshadowed by the news that Apple CEO Steve Jobs is taking a medical leave of absence. Chief Operating Officer Tim Cook will take over day-to-day operations. This again raises the question for investors of how the company will one day fare when Mr. Jobs, its driving force, is no longer at the helm.

That is all the more unsettling given the incredible run Apple has been on. iPhones and iPods appear to have sold briskly over the holidays, and the must-have item was the iPad tablet. Wall Street is forecasting a 50% quarterly sales increase to six million iPads. That is despite competition from Samsung Electronics' Galaxy Tab, which runs on Google's Android operating system and is considered the first real iPad rival.

The iPhone, meanwhile, is expected to have sold 17.8 million units, holding its own against competition from smartphones by the likes of Samsung and Motorola Mobility. Looking forward, Apple is expected to buck the usual seasonal slowdown that occurs in the three months after the holiday season.



Tim Cook will step in for Steve Jobs.

This year the company may see a significant bump from launching the iPhone on Verizon Wireless on Feb. 10.

That's not to say Apple doesn't face hurdles. iPad sales may slow as consumers wait for the next model to go on sale in coming months. Plus, the iPad will encounter more rivals this year, who eventually will try to undercut it on price.

But Apple's biggest challenge is now Mr. Jobs's health. Until his situation is more clearly known, it will be tough for investors to remain confident that the company can reliably stay well ahead of the competition and consumers' fickle tech tastes. Fortunately, the stock, at about 15 times forward earnings, isn't too expensive, despite its 65% climb the past 52 weeks. That may provide some support in coming, turbulent days.

CEO Jobs takes leave again

Continued from first page
diagnosed with cancer in 2004. During his 2009 leave, Mr. Jobs kept close management ties with Apple.

Last year, Apple stock surged and surpassed Microsoft Corp. in market capitalization to become the world's most valuable tech company. Mr. Jobs didn't appear last week at a Verizon Wireless event announcing the iPhone was now available through the carrier; Mr. Cook was there instead. Mr. Jobs was expected to announce a new digital publication for the iPad this week, but the event was postponed last week.

In a sign of the uncertainty, Apple's shares fell on overseas markets Monday. "Jobs is Apple," one trader said, adding that the CEO has taken the visionary decisions to bring the company where it is today. As U.S. markets remain closed for Martin Luther King Day, Apple shares fell 6.2% to €244.05 (\$326.40) in Frankfurt trading.

Brian Marshall, an analyst at Gleacher & Co., said he expects Apple shares to fall when trading resumes Tuesday in the U.S. "A lot of people will hit the ejection handle and the stock will come under a lot of pressure," Mr. Marshall said the language and tone of the note from Mr. Jobs to Apple employees was less optimistic than previous ones. When the CEO sent a similar email to employees about his medical leave in 2009, he gave a time frame for return and said he looked forward to seeing them in the summer. This time, Mr. Jobs said only he "hoped" to return.

Indeed, Mr. Jobs's minimal disclosure is again stirring controversy. His vague statement to Apple employees "leaves a lot to the imagination—and that was the problem the last time," said Charles Elson, head of the Weinberg Center for Corporate Governance at the University of Delaware's business school. "It does leave a lot for investors to worry about."

Mr. Elson, a corporate-governance expert and member of HealthSouth Corp.'s board, suggested that Apple directors divulge greater details about their ailing leader's medical condition. "They need to be as

specific with investors as he [Mr. Jobs] has been with them about the nature of his health difficulties and when he may come back," Mr. Elson said.

Mr. Elson argued shareholders' right to know overrides a public company chief executive's preference for privacy. "When you become a CEO, your privacy becomes muted a bit," he added.

Kim Caughy, an analyst for the Fort Pitt Capital fund, which used to own Apple stock but sold it a few years ago, said there are concerns about succession at Apple. "I'm not sure that the company, and the board of directors in particular, have answered the question on succession planning," she said. "We had this issue in 2008, and the board was supposed to learn from it, but they haven't."

In a sign of the uncertainty, Apple fell on markets outside the U.S. 'Jobs is Apple,' a trader said.

Mr. Cook joined Apple in 1998 after stints at Compaq Computer Corp. and other companies. Mr. Cook stepped in during Mr. Jobs's 2004 leave; during Mr. Jobs's 2009 leave, Mr. Cook emerged as one of the most visible stars on Apple's bench and won praise for his ability to make Apple's sprawling operations move on time.

Mr. Jobs said he had "great confidence that Tim and the rest of the executive management team will do a terrific job executing the exciting plans we have in place for 2011."

Van Baker, an analyst at Gartner Inc., played down any impact of Mr. Jobs's leave, noting that Apple has strong management bench including Mr. Cook. "Even if he [Mr. Jobs] said he wouldn't come back, it wouldn't make a significant impact to the company," said Mr. Baker. "Short-term, I think the impact is going to be minimal. They've done this before and the management team is very competent."

Other top lieutenants at Apple include chief financial officer Peter Oppenheimer, technology senior vice presidents Scott Forstall, Bob Mansfield and Bertrand Serlet, and head of Apple stores Ron Johnson.

Mr. Jobs, the adopted son of a family in Palo Alto, Calif., and a college dropout, established his reputation early on as a technology innovator when at 21 years old, he and friend Steve Wozniak founded Apple Computer Inc. in the Jobs family garage in 1976. The pair came out with groundbreaking computers such as the Apple II and later the Macintosh.

In 1985, Mr. Jobs was fired from Apple by then CEO John Sculley. Mr. Jobs then created NeXT Inc., a closely watched start-up that in 1988 introduced a distinctive black desktop computer with advanced software that was initially targeted at the academic computing market. The company's products didn't take off widely.

In 1986, using part of his fortune from Apple, Mr. Jobs paid filmmaker George Lucas \$10 million to acquire the computer graphics division of Lucasfilm Ltd. The company he formed out of those assets, Pixar Animation Studios, first sold hardware, then software, and later turned to feature films. Pixar went on to create a string of computer-animated hits, from "Toy Story" to 2008's "Wall-E." Mr. Jobs sold Pixar to Disney in January 2006 in a \$7.4 billion deal that gave him a Disney board seat and made him the entertainment company's largest shareholder.

In the late 1990s, a foundering Apple bought NeXT, bringing Mr. Jobs back to Apple. In May 1998, Mr. Jobs introduced the iMac computer, the first of a wave of products that eventually helped spur a revival.

—Cari Tuna, Ian Sherr, Roger Cheng and Thomas Leppert contributed to this article.

WSJ.com

ONLINE TODAY: See photos and video of Apple's rise under Jobs and a look at issues of privacy and disclosure, at WSJ.com/Tech.

EUROPE NEWS

Germany is wary of bailouts

BY CHARLES FORELLE
AND STEPHEN FIDLER

BRUSSELS—European finance ministers debated Monday how to beef up their giant rescue fund for troubled euro-zone countries, but on the first day of a two-day meeting here appeared to have reached no firm resolution on how to do it, amid German reluctance to open the doors to more and bigger bailouts.

Germany's disinclination to speed ahead dovetails with what European diplomats describe as a momentary air of calm that has descended on the bloc's sovereign debt crisis.

That is because the depressed government bonds of troubled Portugal and Spain have had some relief over the past week, thanks in part to the European Central Bank's program of buying euro-zone debt on the secondary market. The ECB said Monday it had purchased €2.3 billion (\$3.1 billion) worth from the middle of the first week in January to the middle of last week—a relatively high amount.

Spain on Monday also sold €6 billion of bonds through a syndicate of banks. It shelled the highest rate of interest it has had to pay in about a decade, but the sale demonstrated Spain still can raise money.

Still, pressure has remained to amplify the rescue fund, just in case.

For more than a week, policy makers on the Continent have floated ideas to give the fund more heft and signal that Europe has the wherewithal to help Spain and Portugal.

José Manuel Barroso, the president of the European Commission, the European Union's executive arm, suggested that the rescue fund could be "reinforced" and given the authority to take more aggressive steps; Belgian Finance Minister Didier Reynders said its size should be doubled.

None of the notions has captured the German imagination. In a radio interview before Monday's meeting, German Finance Minister Wolfgang Schäuble said Mr. Barroso's proposal was "complicating the situation." As the euro-zone's largest economy, Germany is paying more than anyone else to finance the rescue of weaker euro-zone states like Greece and Ireland. The bailouts are deeply unpopular in Germany.

The rescue fund took shape last May, after the European Union bailed out Greece with €110 billion.



French Finance Minister Christine Lagarde talks to her Irish counterpart, Brian Lenihan, at the start of the meeting.

The fund was pegged at €750 billion, the bulk of which—€440 billion—was to come from a special financing vehicle called the European Financial Stability Facility formed by the countries that use the euro.

But it soon emerged that €440 billion doesn't mean €440 billion. That is the maximum amount of loan guarantees the euro-zone countries will make. But guarantees of those receiving aid must be excluded, and other restrictions proved necessary to ensure that the EFSF's bonds receive a triple-A rating.

All told, the EFSF could lend around €250 billion if Portugal or Spain—or others—needed help.

One way or another, increasing the so-called effective lending capacity of the EFSF will require the strongest euro-zone members—the six that have triple-A credit ratings—to assume more responsibility. (The EFSF has 16 members; Estonia, which became the 17th euro-zone nation on Jan. 1, hasn't yet signed up.) Germany, again, would take the largest share.

That is a hard sell with the Ger-

man public, which is why discussions have focused on a way to bulk up the lending capacity while still leaving politicians plausibly able to claim the fund isn't exceeding the mandate laid out in May.

As the euro-zone's largest economy, Germany is paying more than anyone else to finance the rescue of weaker euro-zone states like Greece and Ireland.

Mr. Schäuble said last week he supports bringing the effective lending capacity up to €440 billion.

But he faces opposition within his own cabinet and parliament, where the Free Democratic Party—junior partner in Chancellor Angela Merkel's coalition—is opposed to putting more German taxpayers' money at risk.

The FDP and its leader, German

Foreign Minister Guido Westerwelle, are struggling to halt a slide in opinion polls ahead of a string of regional elections this spring. And many lawmakers in Ms. Merkel's own party, the Christian Democratic Union, aren't eager to increase the bailout fund. The chancellor has been more circumspect than Mr. Schäuble about the idea of boosting the fund's capacity and flexibility.

The idea of letting the EFSF buy countries' bonds or lend them money without a full-blown austerity program is particularly unappealing for Ms. Merkel, who persuaded her reluctant party to accept the need for rescue loans by pointing to the tough fiscal-austerity conditions that would be attached to any aid.

In return for Germany's support for a bigger bailout fund, Ms. Merkel and her finance minister want other euro-zone countries to commit to extra budget austerity as well as to faster structural overhauls of their economies, including their labor markets, German officials say.

—Marcus Walker
contributed to this article.

EU's push on cookies fizzles out

[Brussels Beat]

BY JOHN W. MILLER

In November, we wrote about the European Union's somewhat clumsy attempt to force Internet companies to obtain permission from users before placing cookies, small files then used to help deliver advertising and other targeted content, on their computers.

The directive mandates "informed consent" by users. EU member states now have until late May to write the directive into their national legislation. Legal experts say the wording leaves plenty of room for interpretation, and that's caused Internet companies to fear that some countries could overzealously interpret the document and make websites obtain permission every time a computer user makes a visit, which could gridlock the functioning of ad-based sites.

They needn't worry too much. Last week, a secret European Commission document written to offer formal guidance to EU member states implementing the directive surfaced. It sheds a bit of light on how EU regulators see the directive, and that's firmly on the side of business.

There's no language at all endorsing any kind of "opt-in" clause, which would force users to give their consent explicitly before cookies are placed on their computer. "Settings of a browser or another application" are sufficient, the document says.

"It is not necessary," the document says, "to obtain consent for each individual operation of gaining access to or storing of information on a user's terminal, if the initial information and consent covered such further use."

The document also explicitly endorses the notion of self-regulation, which the industry is working on. "The Commission services consider that the industry is well placed to design innovative technical solutions," the document says.

Says an industry lobbyist: "We're happy with what this says."

Bundesbank sees rebound fading

BY NINA KOEPPEN
AND GEOFFREY T. SMITH

FRANKFURT—Economic indicators point to a slowing in Germany's economic recovery this year but strong manufacturing orders have raised the prospects for German industry, the Bundesbank said in its monthly report published Monday.

German industrial production expanded strongly in the fourth quarter, the central bank said, criticizing the lack of reliable data on German retail sales during that period. The latest retail-sales numbers probably underestimate actual sales, it said.

"Latest short-term indicators ... point to some slowdown in the pace of the overall economic recovery after the turn of the year 2010/2011,"

the Bundesbank said.

German gross domestic product increased 3.6% last year in price-adjusted terms, after slumping 4.7% in 2009, according to preliminary data. That was the strongest increase since pan-German records began in 1992.

Separately, the central bank said the extraordinary rally in German government bonds last year saved the country about €3 billion (about \$4 billion) in interest costs.

The Bundesbank said that the federal government profited greatly from being able to refinance maturing medium- and long-dated bonds with new ones at interest rates that were between one and 2.5 percentage points lower. It said the average coupon of long-term bonds matur-

ing last year had been 5.3%, while the average rate of new, non-inflation-linked bonds had been a record low of 2.8%.

The Bundesbank said that further windfalls could be expected if capital market rates stay at their current levels, which are still depressed by historical standards, even though they have risen steadily in the past three months.

In a report last year, the Bundesbank had warned that German government bond yields had been depressed substantially by "safe-haven" capital flows as investors fled the sovereign-debt markets of countries in the euro zone with the most pronounced credit risks, notably Greece, Ireland, Portugal and Spain.

Slowing down

Germany's quarterly GDP, change from previous year



Source: Destatis



Reuters

EU Commissioner Neelie Kroes is in charge of overseeing the cookie legislation's implementation.

EUROPE NEWS

Greek border-fence plan scrutinized

Turkey's decision to open up its borders to visa-free travel from countries in the Middle East and Africa is a root cause of the flood of illegal immigrants that's pouring into Greece through the fields of garlic and brush outside the unassuming town of Orestiada, border officials here say.

By Marc Champion in Orestiada, Greece, and Alkman Granitsas in Athens

Greece plans to build a fence across the fields that constitute its only solid land border with neighboring Turkey. The goal is to block what Greek and European Union border officials describe as an explosion of illegal immigrants who are taking advantage of a cheap, safe highway to Europe's borderless Schengen area, of which Greece is a frontier state.

The net effect, these people say, is that the Greek border has become the meeting point of two open travel zones—the EU's Schengen area to the West, and another informal one that's developing in the East, around Turkey.

"Everyone gets to Istanbul by plane, flying on cheap tickets from Morocco, Algeria, Tunisia and so on. Then it's a three-hour car ride to Edirne [a Turkish city on the border] and a short walk to Greece," said Georgios Salamagkas, chief of police for the Orestiada district. That makes fees to traffickers lower too, as little as €200 (about \$270) in some cases, compared with the thousands required to travel by dangerous sea routes.

"Look at them wearing suits and ties like they're going for coffee in a cafe," Mr. Salamagkas said during an interview at his office at Orestiada's police station, as he watched a video of migrants walking across the fields toward the Greek border



Lt. Col. Osman Akdeniz, Turkish border commander, believes the fence will drive more immigrants to cross the Evros.

in broad daylight.

According to Frontex, the EU border-support agency that deployed 175 personnel to help protect the frontier here, Greece accounts for 90% of all detections of illegal crossings into the EU. Estimates of the number of illegal immigrants now living in Greece range from 500,000 to 2 million—a huge figure for a nation of 11 million more used to sending emigrants abroad.

Over the past few years, Turkey has signed visa-free travel agreements with Syria—with which it first had to demine its border—as well as Iran, Lebanon, Morocco, Tunisia, Libya and Jordan, among others. Citizens of many other coun-

tries, including Iraq, can buy a visa for about \$20 on arrival.

"It's true we are making visa agreements with some countries, to boost trade and tourism, but it's not correct to say this is getting people illegally to other countries," said Selcuk Unal, a spokesman for the Turkish Foreign Ministry. Turkey, he said, detained 260,000 illegal immigrants and 9,000 people traffickers in the past eight years.

In Greece, emotions are running high. Anti-immigrant protesters clashed with police in riots over the weekend. The flood of immigrants is another unwelcome, if small, strain on public finances at a time when the country is slashing government

spending as a condition for a €110 billion bailout from the EU and International Monetary Fund.

Greek police estimate that more than a quarter of its 54,000-strong force—and roughly the same proportion of its €200 million-per-year budget—is consumed with combating illegal immigration.

It isn't clear whether the proposed border fence outside Orestiada can solve those problems. The fence would be just 12.5 kilometers long, cutting off the only stretch of Turkey's 200-kilometer land border with Greece that doesn't follow the river Evros. At the moment, the border here consists of two dirt tracks, one Greek and one Turkish, with

five meters of grassy no-man's land between them. About 26,000 migrants crossed here last year, of the 47,000 who crossed the entire border, according to Mr. Salamagkas.

"It will work. It'll create an obstacle. Even if they cut the fence, it will give us some more time to react," said German police Capt. Gennaro Di Bello, the Frontex team leader for the district around Orestiada. He noted crossings have dropped since Frontex deployed last October, although that could be just the annual winter lull.

Many analysts are skeptical, however, as is Lt. Col. Osman Akdeniz, who commands the southern half of Turkey's land border with Greece. He believes the fence will simply drive more immigrants into his sector, where they have to cross first rice paddies, then swamps and finally the river itself, using inflatable dinghies. In the past 15 days, his men found three immigrants who had drowned or gotten stuck in the mud. Those that Turkey catches and deports, will probably just return to try again, he fears.

A tour with Col. Akdeniz displayed an impressive array of thermal cameras, armored cars, troops and sniffer dogs, spread out along the river border. Fast currents and hypothermia are major winter threats to the immigrants, who wet their clothes on purpose, so the thermal cameras won't pick up their body heat, he said.

Mr. Salamagkas is unconvinced that Greece's old rivals, the Turks, are doing everything they can. Asked if he thought his Turkish counterparts should do more, Mr. Salamagkas just showed another video in which a group of migrants walks across the fields from Turkey. "This is one of the best-controlled areas by the military in Turkey," he said. "You can conclude how carefully they are guarding it."

Prosecutors seek to search Berlusconi offices

By Stacy Meichtry

ROME—Italian Prime Minister Silvio Berlusconi financially supported and slept with a "significant number" of prostitutes, according to prosecutors who are seeking authorization from Parliament to search the billionaire's offices in Milan.

In the request, part of a prostitution case involving an under-age Moroccan woman, Milan's chief prosecutor, Edmondo Bruti Liberati, said prosecutors are seeking to obtain documents and computer files from one of Mr. Berlusconi's offices on the outskirts of Milan. The request was made Friday and posted on Parliament's website Monday.

Mr. Bruti Liberati said prosecutors believe the documents show that members of Mr. Berlusconi's entourage gave gifts and cash to a "significant number" of women, including Karima El Mahroug, a Moroccan teenager nicknamed "Ruby."

Prosecutors allege Ms. El Mahroug had sexual encounters with Mr. Berlusconi in return for gifts and cash payments between February and May 2010 when she was 17 years old, according to the request filed Jan. 14 to the Chamber of Deputies, or lower house of Parliament.

As a member of the chamber, Mr. Berlusconi is shielded by a law that requires a chamber commission to

sign off on any request by prosecutors to search members' properties before they are carried out.

A lawyer for Ms. El Mahroug, now 18 years-old, didn't respond to phone calls seeking comment. Mr. Berlusconi, who isn't charged in the investigation, has repeatedly denied making any payments to women in exchange for sexual favors.

Piersilvio Cipolotti, a lawyer for Mr. Berlusconi, described the prosecutors' request to search his client's offices as "illegitimate," adding that prosecutors had overstepped their powers in seeking to search the prime minister's property. He also denied that Mr. Berlusconi had ever made payments to women, either directly or through intermediaries.

In a televised address Sunday, the billionaire media mogul said he met Ms. El Mahroug and other women at formal dinners he hosted at his villa near Milan. He rejected prosecutors' allegations that he exploited Ms. El Mahroug as "absurd," describing the investigation as an attempt to smear his reputation.

He also denied prosecutors' allegations that he abused his office in an attempt to cover-up his alleged links to Ms. El Mahroug.

Under Italian law, it is illegal to patronize a prostitute under the age of 18. Paying an adult prostitute for sexual favors, however, isn't a



Karima El Mahroug with her boyfriend, Luca Risso, in Genoa, Italy, Saturday.

crime. Mr. Berlusconi has faced dozens of investigations and trials during his 15 years in politics. In the late 1990s he was convicted of corruption charges, but the rulings

were either overturned or dismissed after the statute of limitations kicked in. He has always maintained his innocence. The latest investigation, however, comes at a time when

his support in Parliament is thin.

In his address, Mr. Berlusconi said he has been in a "stable relationship" with an adult woman who attended the soirees in question. He said the steady relationship began after his wife announced she was seeking a divorce in 2009. He didn't name the woman in his address.

The chamber commission is expected to review the prosecutors' request on Wednesday, according to a chamber spokesman.

In a video interview recently posted on the website of newspaper La Repubblica, Ms. El Mahroug said she attended three late-night parties at Mr. Berlusconi's villa near Milan that she described as "normal dinners" consisting of song, dance and talk of politics.

In the request to Parliament, prosecutors also alleged that three members of Mr. Berlusconi's entourage operated a "system of compensation"—consisting of cash payments, gifts and permission to stay rent free in apartments owned by the prime minister—to recruit "a significant number of young women who prostituted themselves with Silvio Berlusconi."

Mr. Cipolotti, Mr. Berlusconi's lawyer, said he had "no specific information" on whether the prime minister hosted any women in apartments he owned.

EUROPE NEWS



WikiLeaks founder Julian Assange, left, receives CDs containing data on account holders from former Swiss private banker Rudolf Elmer.

WikiLeaks gets banking data

BY GORAN MIJUK

Former Julius Baer AG banker Rudolf Elmer Monday handed fresh client data to WikiLeaks, just two days before facing a court trial in Zurich for having allegedly breached the country's banking secrecy rules.

Mr. Elmer, a Swiss national, who had worked for the Swiss private bank until 2002, rose to prominence after providing WikiLeaks with confidential data in 2008. He is facing a court trial on Wednesday for also having leaked information to the Swiss press in 2005 and having threatened former employees.

Part or all of the fresh data, which Mr. Elmer said holds the names of around 2,000 clients, including individuals, companies and trusts, are scheduled to be published on WikiLeaks' online platform

in coming weeks.

"We will treat this information like all other information we get," Mr. Assange said. "Once we looked at the data, there will be full revelation," he said, adding publication is possible "in a couple of weeks."

Mr. Elmer said that he had collected the data from around 2008 onward after he had launched his own whistleblower website.

He declined to specify the age of the data or reveal any other specifics.

"I don't want to spread rumors ... I will not reveal any names, any companies," Mr. Elmer said. The data are believed to come from three banks and include prominent politicians and businessmen, according to press reports. It could be a further blow to Switzerland's attempts to maintain its traditional

banking secrecy, which protects a client's identity. During the financial crisis repeated attempts by foreign governments to crack down on banking secrecy have weakened the rule.

Julius Baer declined to comment on Mr. Elmer's latest move but described him as "evidently disgruntled and frustrated about unfulfilled career aspirations." The bank said that after his dismissal, "Mr. Elmer embarked in 2004 on a personal intimidation campaign ... spreading baseless accusations and passing ... documents to the media, and later to WikiLeaks."

Julius Baer said that after its legal complaint against Mr. Elmer, the official investigation also covered threats against the bank and certain employees, leading to the indictment by Zurich's district attorney.

While Mr. Elmer declined to comment on the outcome of the trial, he said that according to his understanding, the banking secrecy breach charges are unsubstantiated as he had obtained the data from the Cayman Islands. Mr. Elmer had been working at the bank's unit Julius Baer Bank & Trust Company on Cayman Island.

Commenting on Julius Baer's effort to discredit him as a witness, he said that "if you can't destroy the evidence, beat the witness." Mr. Elmer is facing up to three years in jail and a fine if he is found guilty. Mr. Elmer's steps have triggered mixed responses. Some of the data that he had previously handed out to WikiLeaks are believed to be falsified. Mr. Elmer said on Monday that he wanted WikiLeaks to check his data.

Poland to prepare own report on crash

BY MARCIN SOBczyk

WARSAW—Poland's government is preparing its own report on the plane crash in western Russia that killed Poland's president and 95 others that is expected to dispute central findings of a probe into the accident by authorities in Moscow.

The Moscow-based Interstate Aviation Committee, which oversees civil aviation in countries of the former Soviet Union, last week placed the blame for the April crash—which occurred near a fog-shrouded air field in Smolensk—squarely on the Poles.

Publication of the Russian report has led to the most visible rift between Poland and Russia since the historic rivals began mending fences in 2008 after years of heated disputes over political and economic issues.

Polish Interior Ministry officials say that the airport in Smolensk was unfit to handle any flights, especially in bad weather. The instrument-landing and air traffic-control technology there was obsolete and poorly maintained, while trees on the approach path to the runway were taller than permitted under safety rules.

In December, Poland's government, in comments submitted to the Russian authorities, also said that Russian air-traffic controllers gave misleading information to the Polish crew about their plane's position shortly before the crash. The Polish plane hit trees and then slammed into the ground short of the airport runway.

The Interstate Aviation Committee report said the Polish captain did nothing to abort the landing, despite the lack of visibility. The report said the crew feared President Lech Kaczynski would "get mad" if his delegation didn't land in time for a ceremony commemorating the Stalin-ordered massacre of Polish soldiers at Katyn.

The committee also said Poland's air force commander entered the plane's cockpit after drinking alcohol aboard and pressured the crew to land.

Poland's Interior Ministry, however, says the plane's captain can be heard on the cockpit voice recording deciding to abort the landing before Russian controllers reacted to the plane's dangerously low altitude. It also says there is no evidence the crew was under pressure to land or that the air force commander was intoxicated.

The Interstate Aviation Committee declined to comment Monday. Responding to earlier Polish criticism of the report, Russian Foreign Minister Sergei Lavrov said last week he hoped nobody would "try to make political capital out of this tragedy."

But the Russian findings have roiled Polish domestic politics. Supporters of the late president and his surviving twin brother, Jaroslaw Kaczynski, head of the Law and Justice party, had already opposed efforts by the government of Prime Minister Donald Tusk to strengthen ties with Moscow.

—Richard Boudreaux in Moscow contributed to this article.

UBS gives dress code a makeover

BY ANITA GREIL

ZURICH—UBS AG said it is revising its dress code to focus on the core elements of the style guide, and will require its Swiss retail-banking staff to wear the bank's corporate colors.

The bank was taken by surprise by the world-wide media attention the original version of the dress code drew when the 44-page document was leaked about a month ago. UBS was widely mocked over what some considered overly detailed fashion advice, though some thought it was a sensible dress guide for professionals.

First impressions count. This message still holds in the new, trimmed-down version of the guide, but it does away with most of the detail.

The new guide will focus on just a few mandatory elements, chiefly the requirement for retail staff to wear the bank's official colors of, black, white and red, spokesman An-

dreas Kern said.

"Men will be required to wear a dark-colored suit, a white shirt and a red tie, and women a female equivalent of this," Mr. Kern said. The dress code still is under review, he said.

The original guide instructed female employees to wear "light makeup consisting of foundation, mascara and discreet lipstick" and told men that designer stubble and excessive facial hair weren't acceptable.

The guide is part of a test UBS is carrying out in Switzerland across five pilot branches, the fifth of which will be opening in Kloten, a small town near Zurich, on Jan. 28. The test follows a recent advertising campaign aimed at re-establishing confidence in the Swiss bank's brand and mending relations with clients.

Upon concluding the test in April, UBS plans to start rolling out the revamp of about 300 Swiss branches this year.



Up to code? Men exit a UBS office building in midtown Manhattan in 2009.

U.S. NEWS

Showdown set on smallpox samples

By BETSY MCKAY

The U.S. and Russia will oppose destroying the last known stocks of the smallpox virus until they complete research to combat bioterrorism in a debate that begins Wednesday among members of the World Health Organization.

Once one of the world's deadliest scourges, smallpox was eradicated more than 30 years ago. But samples of the deadly virus are still kept for research in freezers at the Centers for Disease Control and Prevention in Atlanta and a government lab near Novosibirsk, Russia.

The U.S. says it needs to maintain the virus samples to develop new drugs and vaccines to counter a potential bioterror attack.

"Our position is that we need to have the virus collections maintained for the foreseeable future," said a U.S. official familiar with the matter.

Russia also believes the virus should be kept for research and is likely to concur with the U.S. position, said Vladimir Starodubov, an official in the Russian delegation to the WHO executive board.

But Washington and Moscow must win over other governments and public health officials who fear the virus could be stolen or unleashed by accident.

Smallpox is estimated to have killed hundreds of millions of people—roughly a third of those it infected—and left millions more scarred or blind over thousands of years before a global campaign finally halted the virus in 1980. It is the only human disease ever to have been eradicated by vaccination and its extermination is considered a milestone in medical history.

Whether to extinguish the remaining smallpox strains has been one of the fiercest debates in global public health over the past two decades. Some say the argument is moot: smallpox could eventually be synthesized in a lab, making total eradication impossible. Others argue the threat of a synthetic virus is all the more reason to get rid of the remaining strains.

The U.S. could face opposition from developing countries, where the memory of smallpox is freshest. "To put it bluntly, it is the same logic by which the superpowers continue the possession of the nuclear weapons; they wish to hold on to the smallpox virus as a super bio-weapon," said Kalyan Banerjee, a virologist from India, former member of a WHO advisory committee on smallpox research and now a committee adviser.

Destroying the virus is "not good public policy," said Kenneth Bernard, a health security expert in the administrations of Bill Clinton and George W. Bush. He said strains of



A patient is vaccinated against contagious diseases in London in 2003.

the virus could exist outside of the U.S. and Russian facilities, posing a global threat.

Some scientists also argue the smallpox virus should be retained to unlock the secrets to its unique ability to target the human immune system.

On Wednesday, representatives of 34 countries, including the U.S. and Russia, will discuss whether enough research has been completed to set a deadline for destroying the remaining samples. The group's executive board will then pass the debate on to the agency's larger decision-making body, the World Health Assembly, which will issue a decision at a meeting in May.

Once a decision is made, "any lab, scientist or country found to have the virus after the date of destruction is de facto guilty of very serious crimes against humanity," said D.A. Henderson, head of the World Health Organization's eradication campaign and a top anti-terror scientist at the Center for Biosecurity at the University of Pittsburgh.

The WHO agreed in 1996 that surviving smallpox stocks be destroyed. But the virus has won multiple stays of execution as fears of bioterrorism spread.

A review completed late last year by a WHO advisory committee concluded samples of the virus were needed for the development of antiviral medications, as well as a vaccine with fewer side effects. The U.S. and Russian labs conduct research in both areas.

"There are some practical endpoints that we haven't reached yet," said Inger Damon, chief of the pox-virus section and rabies branch of the Centers for Disease Control.

She is one of fewer than 10 CDC scientists with access, via security codes and retinal scans, to the high-security laboratory where 451 smallpox samples are kept frozen in liquid nitrogen.

U.S. officials say they need to finish developing and licensing antiviral medications to treat infected people.

None are currently approved for use.

The Russian State Research Cen-

ter for Virology and Biotechnology Vector has 120 samples, with access controlled by guards and security systems, according to a review by the WHO, which conducts inspections of the U.S. and Russian facilities.

U.S. officials say they fear a lethal strain of smallpox could be developed into a weapon through genetic engineering or synthesis and unleashed against a generation of people who have never been vaccinated.

While smallpox doesn't naturally spread as easily as some other infectious diseases—infected people aren't contagious until they are sick—world travel creates new risks, say experts.

Some worry about secret stockpiles of smallpox. Inspections in Iraq during 2003 and 2004 yielded some "credible intelligence and information that suggests it was there" but "no smoking gun," according to a former U.S. official and inspector for the United Nations familiar with the matter.

The U.S. has spent \$1.8 billion since 2001 on smallpox countermeasures, mostly to buy vaccine.

The government has stockpiled more than 300 million doses—enough for every person in the U.S.

No one is known to have synthesized smallpox, but terrorists could eventually learn how, said geneticist J. Craig Venter.

"At the moment it requires a pretty sophisticated scientific team," he said. The smallpox virus is also quite large, he said: "Only a few labs in the world have the skill set for handling large pieces of DNA. It gets very brittle as it gets larger."

In a paper posted online last week, smallpox expert Jonathan B. Tucker proposed partial destruction of the virus stocks as a compromise.

The U.S. and Russia could winnow their collections to 10 strains, he wrote in the journal *Biosecurity and Bioterrorism: Biodefense Strategy, Practice, and Science*.

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Smallpox timeline

Key dates in the eradication of the killer virus

- **1796:** The first smallpox vaccine was developed by Edward Jenner
- **After WWI:** Most of Europe smallpox-free
- **1967:** World Health Organization intensifies smallpox eradication campaign
- **1977:** Last natural case of smallpox occurs
- **1980:** WHO declares smallpox eradicated
- **2011:** World Health Assembly to decide whether to set deadline for virus destruction

Source: Centers for Disease Control and Prevention; World Health Organization

HU JINTAO'S U.S. VISIT

Rising profile of yuan stirs questions, cautions

BY PETER STEIN
AND SHAI OSTER

HONG KONG—Executives, bankers and government officials raised questions over the emerging offshore market for China's currency during a conference Monday, underscoring the debate over the future of the yuan in the global economy.

The rising use of yuan, also known as the renminbi, outside mainland China dominated much of the discussions at the government-backed financial conference in Hong Kong.

China has taken steps toward greater use of the yuan, long one of the world's most tightly controlled major currencies, for international trade and some types of finance. This has increased expectations that the yuan eventually will become an international reserve currency alongside the dollar.

But Beijing doesn't want the offshore-yuan market to expand too rapidly, said Cheng Siwei, former vice chairman of the National People's Congress, China's legislature.

"We want a more smooth development. We don't want it too fast," he said. "We're keeping an eye on speculation and risk. What we want to see is robust growth."

Mr. Cheng's comments come after Chinese President Hu Jintao, on the eve of a meeting with U.S. Presi-



Cheng Siwei, shown in November

dent Barack Obama in Washington this week, said making the yuan truly international "will be a fairly long process." U.S. officials have been pushing for China to let its currency appreciate more rapidly against the dollar to reduce China's trade surplus, even as Beijing manages a more gradual rise.

To prevent abuses of China's new currency initiatives, a senior financial policy maker on Monday proposed unusually tight restrictions on the use of funds raised with yuan-denominated bonds in Hong

Kong.

"The bulk of the money raised in Hong Kong [through yuan bonds] should not be repatriated to the mainland," said Fang Xinghai, director general of Shanghai's Financial Services Office, at the Asian Financial Forum conference in Hong Kong. He said the money should be kept offshore to help promote internationalization of the currency.

Last week, China announced a new policy allowing Chinese companies to use yuan to invest abroad. A big state-owned Chinese oil company, for example, might use yuan to pay for access to an oil field in Central Asia. The seller could then trade the yuan with the local central bank, which would hold the currency in its reserves, or the yuan could be used to buy Chinese goods. But restricting yuan bonds to funding overseas investment could damp demand for them, especially from companies seeking to raise capital for investments in China.

Several foreign companies, including McDonald's Corp. and Caterpillar Inc., have raised yuan through debt issues in Hong Kong aimed at funding their China expansion. Bankers said, however, that obtaining the go-ahead to transfer funds raised through these offerings is a bureaucratic process handled the same way as tightly regulated foreign-currency investments.

Senator gears up to scold China on currency, trade

[Capital Journal]

BY GERALD F. SEIB



Some people are preparing to give Chinese President Hu Jintao a warm welcome when he arrives in Washington this week. Sen. Chuck Schumer isn't one of them.

Instead, Mr. Schumer says he wants to use the Chinese leader's visit to deliver a message: "Both Democrats and Republicans in the Senate and the House, and the American people are just fed up when, up and down the line, China doesn't play by the rules and seeks unfair economic advantage."

The New York Democrat started trying to deliver that message Monday, the eve of the Chinese leaders' arrival in the U.S., when he and two Senate colleagues unveiled the latest version of his legislation to punish China for suppressing the value of its currency.

And on Tuesday he's opening a new front when he uses a visit to a New York optics company to push the Obama administration to call out Beijing for hoarding its reserves of rare-earth metals, making life difficult for a range of manufacturers.

Mr. Schumer has been trying for most of the last decade to promote the message that China doesn't play by the rules, with mixed success.

Yet his renewal and expansion of the effort now points to a basic, underlying reality: The global economic trauma of the last three years has intensified the economic strains between Washington and Beijing, while ensuring that they will be the dominant feature of the global economic landscape for years to come.

The loss of millions of American jobs has increased anxiety about the outsourcing of work to China, while the rise in the budget deficit caused by the crisis has raised fears about relying on China to finance American spending.

Meanwhile, the Federal Reserve's program of pushing down interest rates to help revive the economy has Beijing complaining that America's own monetary manipulation is worsening China's inflation problem. Simultaneously, Europe's debt crisis figures to keep it bogged down for years, making the U.S.-Chinese competition an even more prominent feature of the international economic landscape.

Above all, the recession has left Americans deeply insecure about their prospects in this long-term economic competition.

Indeed, a year ago a Wall Street Journal/NBC News poll found for the first time that Americans were more likely to name China than the U.S. as the nation that would be the world's leader in 20 years.

Against that backdrop, Mr. Schumer's message that the

Chinese are gaming the international system to their advantage, while hardly new, may have special resonance. In an interview, he argues that the cumulative effect of China's policies is making a broader range of political players open to his arguments.

"If it were just one area, if they were fine on most things...that would be one thing," he said. "It seems in almost every place you look, not only do they seek advantage, which every country does, but they seek unfair advantage."

The cornerstone of the Schumer case against China remains his charge that Beijing suppresses the value of its currency to give its exports an advantage and to undermine the efforts of foreign firms to sell in the Chinese market.

For six years, he has offered legislation to prod administrations—first a Republican one, now a Democratic one—to move against China for currency manipulation.

He's been trying to make his legislation look more reasonable, both to attract broader bipartisan support and to avoid the charge that passing it would, in his words, have "calamitous" consequences for international finances.

In the new version, Mr. Schumer—and Republican Sen. Lindsey Graham, the main Republican co-sponsor—don't simply call for imposing tariffs on Chinese goods to punish it for its currency policies. Instead, the legislation equates currency manipulation with unfair subsidies; allows an industry that feels damaged to file a complaint as it would against a nation dumping products on the U.S.; and gives the offending country 90 days to negotiate a change before countervailing duties would be imposed.

Mr. Schumer is widening his focus by going after rare-earth metals. These metals are mined predominantly in China and are crucial for manufacturing items such as batteries, wind turbines and specialized lenses. China has cut quotas and raised taxes on exports of rare-earth metals—the latest example, Mr. Schumer says, of a "mercantilist" economic policy.

The danger in railing against China is that complaining can become merely an excuse for Americans to avoid taking responsibility for their own problems.

Moreover, U.S. administration officials say China is finally starting to let its currency move upward in noticeable ways—though Senate Finance Committee Chairman Max Baucus complained in a letter to Mr. Hu on Monday saying he still doesn't consider the movement "meaningful."

Still, Mr. Schumer has a useful role to play by being the bad cop on such issues, allowing the Obama administration to play good cop in talks with China, and he knows it. Current trends suggest he can keep playing the role a long while.

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HU JINTAO'S U.S. VISIT

Parting veil of secrecy around leader

BY JASON DEAN

BELJING—Chinese President Hu Jintao, who arrives in the U.S. on Tuesday, heads one of the world's most powerful countries, but is arguably among the least powerful of the world's major leaders—and almost certainly the least understood.

More than eight years into his tenure, little is known about the 68-year-old lifelong bureaucrat who leads an emerging superpower that is increasingly challenging the U.S. economically, politically and militarily. He functions behind a thick curtain of secrecy, rarely speaking to international media, divulging little in his meetings with other world leaders, and engaging with his own population only in highly stage-managed encounters.

The secrecy reflects the increasingly consensus-driven nature of Communist Party leadership, where Mr. Hu is actually a mere senior among equals, and is constrained by concerns that he will be seen as overstepping his bounds. It is a formula that has managed to keep China's economy growing, but a leadership style that also seems to many observers increasingly at odds with China's growing stature in the world.

"There's a tension between China's ever-growing importance and the lack of a top leader who has a human touch and can articulate China's interests and concerns," says Cheng Li, an expert on Chinese politics at the Brookings Institution in Washington.

Ahead of his U.S. trip, Mr. Hu agreed to address questions that would be submitted separately by The Wall Street Journal and the Washington Post. China's Foreign Ministry supplied Mr. Hu's responses to seven of the questions submitted. Mr. Hu didn't grant interviews to the U.S. press ahead of his last visit, in 2006.

Mr. Hu called for enhanced cooperation with the U.S. in areas such as energy, infrastructure development and aviation and space, and said the two nations "should abandon the zero-sum Cold War mentality" that has governed ties in the past—while also making digs at U.S. monetary policy and the future role of the dollar.

Mr. Hu acknowledged that "political restructuring must deepen in the course of economic and social development and meet people's growing enthusiasm for participat-

Hu Jintao

December 1942: Born in Anhui province

1964: Joins the Communist Party

1965: Graduates from Tsinghua University

1984: Becomes first secretary of Communist Youth League of China

1985-1988: Party secretary of Guizhou Province

1988-1992: Party secretary of Tibet

1992: Promoted to Politburo Standing Committee in Beijing

2002: Becomes general secretary of the Communist Party

2003: Becomes president of the People's Republic of China

2006: First U.S. visit as president

2011: First U.S. state visit

Source: Chinese government



Associated Press

Even by China's standards, President Hu Jintao is opaque. Mr. Hu rarely grants interviews to international media.

ing in political affairs." But he gave no sense that this would accelerate from the slow, gradual liberalization the party has allowed, and he defended the status quo, saying that China's rapid economic growth and social stability prove that its political system fits its "national conditions." And Mr. Hu declined to address questions about a number of sensitive subjects, including imprisoned Nobel Peace Prize winner Liu Xiaobo and complaints about alleged Chinese cyberattacks.

The secrecy complicates what U.S. Ambassador to China Jon Huntsman says is one of the most important goals of Mr. Hu's visit to the U.S.: to "humanize" what has become the world's most important bilateral relationship, so that average Americans and Chinese see ties as more than a set of abstract issues and problems.

"It's highly understandable that U.S. people hope to see and know more of the personal side of Chinese leaders," says Liu Weidong, a researcher with the Institute of American Studies at the Chinese Academy of Social Sciences, a Beijing think tank. He says the secrecy could "hinder Americans from better understanding China."

Mr. Hu's four-day visit is the first by a Chinese leader since 1997 that Washington has formally designated

a state visit. Like the Obama administration, Beijing hopes Mr. Hu's trip will help smooth rocky bilateral ties. But its top priority, analysts say, is to ensure that he appears to the public back home as a respected statesman.

His last visit fell short by that measure. The Bush administration declined to designate it a state visit, a diplomatic snub compounded when the announcer at the White House welcome ceremony referred to China's national anthem as that of its rival, Taiwan. Then a member of the spiritual group Falun Gong, outlawed in China, shouted protests at Mr. Hu from the press area.

Mr. Hu's schedule this time sticks largely to scripted or closed-door events, but does include several that could give Americans a closer peek at his personality—or risk showcasing his aloofness. On Wednesday, he and U.S. President Barack Obama will hold a short joint news conference—something U.S. officials pushed hard for, after Beijing insisted during Mr. Obama's November 2009 China trip that the two leaders not take any questions in their joint appearance there.

On Thursday, Mr. Hu will travel to Chicago, where he is scheduled to visit the prestigious Walter Payton College Preparatory High School and tour its Chinese government-backed

Confucius Institute for Chinese language learning. But he isn't likely to take questions from students, according to a spokeswoman for Chicago Mayor Richard M. Daley.

Even by China's standards, Mr. Hu is opaque. Premier Wen Jiabao has given occasional interviews to foreign media, as did Mr. Hu's predecessor, Jiang Zemin—who was also known to disarm foreign guests by belting out songs. Deng Xiaoping, godfather of China's reform era, charmed the American public by donning a 10-gallon hat at a Texas rodeo during his first trip to the U.S. in 1979, weeks after the two countries established formal diplomatic ties.

Analysts say Mr. Hu's secrecy is driven partly by his personality, but also by the nature of China's leadership today. Power is more diffuse, and Mr. Hu, who heads the party's nine-member Politburo Standing Committee—which meets in secret and makes all important decisions in China—must worry how his actions will be assessed by the group's other members, who often have competing interests. The tensions are growing now ahead of a leadership transition in 2012, with various factions jockeying to ensure that their members are promoted. In what many analysts interpret as a sign of the limits of Mr. Hu's power,

U.S. officials say he appeared not to have been informed about a sensitive test flight of China's new stealth fighter when U.S. Defense Secretary Robert Gates asked him about it during a meeting in Beijing last week.

"The political system on the outside is very strong and very authoritarian, but internally nobody including the top leader can say something different" from the consensus, says Jing Huang, professor at the National University of Singapore's Lee Kuan Yew School of Public Policy. "The top leader has to be extremely careful so he cannot be blamed for a mistake."

The party's secrecy is also designed to shield leaders and their relatives from public scrutiny. Authorities bar discussion of leaders' families, who are kept out of the public eye. In 2003, Mr. Hu's daughter married Daniel Mao, a wealthy former Internet executive, in a secret ceremony in Hawaii that was potentially sensitive given Mr. Hu's public emphasis on improving the lot of China's poor. After the wedding, Mr. Mao stopped making public appearances.

Then in 2009, when authorities in Namibia said they were investigating corruption allegations involving a company connected to Mr. Hu's son, all traces of the story were scrubbed from Chinese Internet sites.

But the official aversion to transparency clashes with Chinese society's increasing openness, and is fueling growing public cynicism. Last month, state television carried a report of Mr. Hu visiting a Beijing woman and her daughter who were said to be renting an apartment for low-income residents built as part of a government housing push. The report said the woman paid a mere 77 yuan a month in monthly rent—about \$12—a pittance even in China.

Criticism of the report quickly exploded on the Internet. Commentators claimed that the mother and daughter were actually well-off and didn't qualify for subsidized housing. Photos circulated purportedly showing the pair traveling in fashionable cities such as Shanghai. State media insisted that the report was accurate. But many Chinese remain unconvinced, and "77 yuan" has become a catchphrase for bogus propaganda.

—Yoli Zhang
contributed to this article.

Washington presses China on Boeing deal

BY BOB DAVIS

WASHINGTON—The U.S. is pressing China to buy tens of billions of dollars in U.S. aircraft, auto parts, agricultural goods and beef to build goodwill when the two countries' leaders meet Wednesday.

In the run-up to the closely watched event between Chinese President Hu Jintao and U.S. President Barack Obama, the two countries are jockeying to set the agenda for the visit, as they haggle over deals. The White House expects the centerpiece of the package to be the sale of Boeing Co. jets.

Leaders of both nations say they want to show that the U.S.-China relationship, which was on the skids last year, is back on track and is mu-

tually beneficial. But they also want to frame the meeting in a way that plays most favorably at home.

"Our relationship is marked by great promise and real achievement," said U.S. Secretary of State Hillary Clinton in a speech Friday. "And more than ever it will be judged on the outcomes it produces."

Mr. Hu's last state visit, in 2006, came before the global financial crisis when the U.S. was clearly a dominant economic power. Since then, China has become the world's second-largest economy and its state-orchestrated style of development has become a rival to the U.S.'s more market-oriented approach.

Chinese deal-making is part of nearly all of its leaders' state visits

abroad. Given a trade gap with China on track to pass \$250 billion last year, the U.S. visit will likely be dismissed by China critics as insufficient.

But the White House considers the deals a way to show concrete benefits from the encounter, when many other issues being discussed—including Iran, North Korea and intellectual-property issues—aren't easily resolved.

Given tensions in past months, China wants the meeting to go smoothly and to underscore its new world stature.

Foreign-exchange policy is also bound to be a big issue at the Obama-Hu meeting.

—Yoli Zhang in Beijing
contributed to this article.



U.S. Secretary of State Clinton, shown at a Boeing facility in Shanghai in May, said the nations' relationship 'will be judged on the outcomes.'

WORLD NEWS

Road to recovery

Some of the federal government promises to disaster area:

Disaster recovery payment:
A\$1,000 per adult, A\$400 per eligible child designed to assist people in need

Disaster income recovery subsidy:
A\$469.70 per 14 days for single to A\$848 per 14 days for family

Emergency assistance grant:
A\$170 per person, up to a maximum of A\$780 for a family of five or more

Essential household contents grant:
Up to A\$1,660 for individuals and A\$4,980 for families

Repairs to dwelling grant:
Up to A\$10,250 for individuals and A\$13,800 for families

Small business grants:
Up to A\$25,000 for businesses and primary producers for cleanup and recovery

Source: Attorney-General of Australia

A Brisbane City Council worker walks by a mountain of household debris next to the sports grounds at the Victoria Park Golf Club



European Pressphoto Agency

Banks consider costs of Queensland floods

By GEOFFREY ROGOW

SYDNEY—Australian government officials have begun tapping bankers for advice on how to meet flood costs that could total 15 billion Australian dollars (US\$14.8 billion) in Queensland, a region that accounts for a fifth of the nation's economy.

As floods surged in downtown Brisbane last week, Australian Assistant Treasurer Bill Shorten began preliminary conversations with the Australian Bankers Association and executives at several banks, including **Commonwealth Bank of Australia** and **National Australia Bank Ltd.**, to discuss how best to help the region, according to representatives from both lenders.

This week, Mr. Shorten and Treasurer Wayne Swan will continue those meetings in an effort to begin tackling the rising individual, corporate and government costs, the bankers said. A spokesman for the treasurer declined to comment.

The government said it will need more than A\$5 billion for rebuilding public damage alone, without counting costs to private businesses as well as lost coal, tourism and agricultural revenue that all significantly add to the total price tag. The country's big banks are ready to help a government likely to issue more debt by supporting the issuance, but won't be simply writing devastated individuals or businesses a blank check, the bankers said.

"In a bizarre sort of way, the in-

creased debt and increased government bond issuance is good for banks, who will be interested in buying those to meet the new Basel requirements," said Steven Munchenberg, chief executive of the Australian Bankers Association, referring to new global regulations that require banks to meet tougher capital requirements. "As for businesses, banks will have to look through on a case-by-case basis and find what's best for the business and the banks. Ultimately, there will be some businesses that just won't be viable after the flooding."

The banks' promise to help comes even as the floods threaten to impact their bottom lines. Both Fitch Ratings and Moody's Investors Service warned Monday the floods may affect borrowers' ability to pay home loans, with lower recovery rates for damaged properties likely. Together, the country's four largest banks hold more than 80% of the country's mortgages on their books.

Australia's fiscal position is among the among top-rated nations, according to Moody's. But a strong fiscal position alone doesn't pay for the massive recovery effort that could take more than two years, with walkways and vital parts of the state's infrastructure washed away in floodwaters. More than 20,000 homes and businesses remain blacked out in the area around Brisbane even as some in the state's capital returned to work Monday.

At the same time, the govern-

ment has refused to back down from restoring the country's budget from an A\$55 billion deficit this past fiscal year to a surplus by the year ending June 30, 2013. Mr. Swan said Monday a cleanup of Queensland will require billions of federal funds.

The banks have already agreed to help by offering home loan-repayment deferrals and emergency credit limit for cardholders in Queensland.

Beyond that, Queensland's infrastructure reconstruction presents significant challenges. A mining boom is stretching skilled labor in the country, while materials needed for rebuilding are already in short supply to the surging iron ore mines of Western Australia.

The government must also figure out how to pay for its 75% share of the disaster relief costs. Insurers and reinsurance firms will pay for the bulk of the home and office building rebuild, with roads, ports, bridges and other infrastructure falling onto the government's balance sheet. Some bankers have begun to float ideas such as a potential federal government bond aimed at the recovery effort that would include a tax incentives.

"It would be a way to target the retail bond market," said Ken Hyman, an investment manager with Sydney-based Antares Fixed Income Capital. "Backed by government and supporting Queensland, at a time when retail investors are already calling out for more fixed-income exposure."

U.K. and Australia will discuss defense

By RACHEL PANNETT

CANBERRA—China's growing military influence across the Asian-Pacific region will top the agenda when British Foreign Secretary William Hague and Defense Secretary Liam Fox arrive here this week for bilateral talks that take place shortly after pictures were released of China's first stealth fighter aircraft.

The U.K.'s Conservative-led coalition government has dispatched two of its most senior ministers to Australia backed up by a team of high-ranking defense officials—including Iain Lobban, director of Britain's spy agency, and Gen. David Richards, chief of the defense staff—as defense spending in the region grows along with its surging economies.

"This is the century of the Asia-Pacific," Australian Defense Minister Stephen Smith told reporters in Sydney Monday. "Influence is moving to our part of the world, and the world needs to adjust to that."

The timing of the visit, the first by a British foreign secretary since Douglas Hurd in 1994, also comes as Australia's exports of coal and ore make it an emerging economic regional powerhouse, spurred on by demand for its resources from Asia.

"Our visit will be an opportunity to explore how Britain and Australia can work together to bring peace to troubled areas, to counter terrorism, to tackle climate change and to manage evolving global power structures," Mr. Hague said in a statement Monday.

The centerpiece of the visit will be a day of talks on international policy and security issues Tuesday, led by Mr. Smith and Australian Foreign Minister Kevin Rudd, followed by a dinner with Australian Prime Minister Julia Gillard.

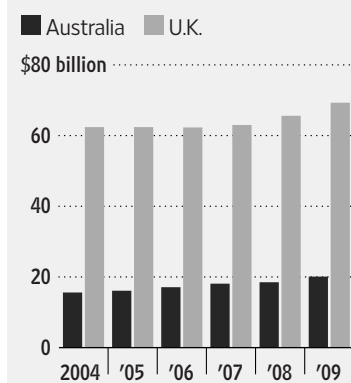
The visit coincides with a rise in China's military powers and its involvement in regional issues, with recent tensions involving territorial disputes with Japan and Vietnam and its continued unease with U.S. support of Taiwan. Tensions between North and South Korea also complicate regional issues.

Canberra is pressing for greater military transparency in the region, with Mr. Rudd using a recent visit to China to press for more openness in response to Beijing's military buildup. Australia's defense department estimates that China spent more than US\$150 billion in 2009 on its military, more than double the official Chinese figure.

Meanwhile, the U.S. and Europe are looking for ways to trim spending. Defense cuts in the U.K. are expected to shave 11% from military spending by 2017 and threaten a number of key programs, according to military think tank the Royal

Power balance

National defense spending by Australia and U.K., in U.S. dollars



Note: Estimates of military spending include a number of sources of military expenditure outside the official defense budget.

Source: Stockholm International Peace Research Institute

United Services Institute.

Britain is also seeking buyers for some of its old equipment, including its fleet of Harrier jump-jet fighters and aging aircraft carriers. Advisers say that Messrs. Hague and Fox will use the visit to help market U.K. defense sales, but the talks are unlikely to deliver firm commitments to buy equipment.

Australia is boosting its defense spending as it seeks to counterbalance China's power in the region. Canberra plans to spend more than US\$50 billion over the next 20 years on projects that include purchasing air warfare destroyers, submarines, frigates and F-35 Joint Strike Fighter aircraft.

British and Australian troops have served in combined U.S.-led operations recently in Afghanistan and Iraq.

Australia has thwarted numerous home-grown terrorist incidents in recent years, including plans by a Melbourne-based terror cell to carry out an attack on the Holsworthy Army Barracks in western Sydney in 2009. The government is tripling its secret service numbers to 1,860 by July this year and building a vast new high-security office.

Only a handful of Australian security personnel remain in Iraq, helping protect the Australian embassy, after the center-left Labor government made good on a 2007 election promise to withdraw combat troops. In Afghanistan, Australia currently has around 1,500 troops helping train a brigade of more than 3,000 Afghan soldiers to take over security in Uruzgan province. Units of Special Air Service soldiers and Australian commandos also are deployed in the international effort to search out insurgents.

Chinese plane spurs interest in U.S. fighter

By NATHAN HODGE

FORT WORTH, Texas—New evidence of China's military buildup has spurred interest in sales of the next-generation F-35 Joint Strike Fighter, U.S. defense and industry officials said.

Beijing's growing military arsenal isn't a new development. But recently publicized images suggest

China has made unexpected strides in developing the J-20, a "fifth-generation" aircraft that combines stealthy, radar-eluding design with high-end fighter performance.

Tom Burbage, general manager of the F-35 program for **Lockheed Martin Corp.**, said Beijing's progress in developing the J-20 has created a "stronger sense of urgency" throughout the Asian-Pacific region

about air-force modernization. He said Japan, South Korea and Singapore are now engaged in bilateral discussions with U.S. government officials over the F-35. Mr. Burbage said the Asian countries haven't committed to buying the plane.

In contrast to the Lockheed F-22 Raptor, the world's only fully operational stealth fighter, the U.S. is developing the F-35 specifically for in-

ternational markets. Several NATO members and Australia are partners in the program. Other countries such as Israel have also signaled interest in acquiring the fighter.

Lockheed isn't the only fighter manufacturer that could see a possible upside from countries interested in deterring China's rising military. **Boeing Co.** has marketed an upgrade to the F-15E Strike Eagle,

called the Silent Eagle, an aircraft that would have stealthy characteristics such as an internal weapons bay, which reduces the radar profile.

The Chinese J-20 seems to draw some design features directly from the F-35. For instance, the Joint Strike Fighter features a unique fuselage design called a diverterless engine inlet, which optimizes airflow to the engine at high speeds.