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THE WALL STREET JOURNAL.

VOL. XXVIII NO. 237 | EUROPE | Thursday, January 6, 2011

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Changing of U.S. political guard

Getty Images

John Boehner, the new Republican speaker of the U.S. House of Representatives, receives the speaker's gavel from his predecessor, Democrat Nancy Pelosi. The Republican-dominated House has vowed to take aim at President Barack Obama's policies. **Article on page 7**

BP, industry both blamed in Gulf spill

By Stephen Power And Ben Casselman

The Gulf of Mexico oil spill was an avoidable disaster that resulted from management failures by **BP** PLC and its main contractors, a presidential commission has concluded. But the accident also reflected "systemic failures" by the oil industry and its government regulators to deal with the risks of deep-water oil exploration, the panel said.

The report by the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling castigates the British oil giant and two of its contractors—**Transocean** Ltd. and **Halliburton** Co.—for "individual missteps and oversights" that contributed to the worst offshore oil spill in U.S. history and the deaths of 11 rig workers.

It also targets the industry, where executives have sought to portray the Gulf spill as largely the result of poor decisions by BP. The April 20 blowout "was not the product of a series of aberrational decisions made by rogue industry or government officials that could not have been anticipated or expected to occur again," according to a chapter of the report released Wednesday by the commission's staff. "Rather, the root causes are systemic and, absent significant reform in both industry practices and government policies, might well recur."

The panel says all three companies did a poor job of assessing the risks associated with their decisions and failed to adequately communicate, either with one another or with their own employees. Federal regulators lacked training and manpower to properly police the industry, the report finds.

The commission's conclusion that there are broad, systemic problems in the deep-water-drilling industry could give regulators more ammunition to enforce tougher, more costly safety rules.

President Barack Obama, in setting up the seven-member panel last summer, said he wanted the commission to recommend safety and environmental precautions the government should take to prevent future mishaps. Several other government entities, including the Justice Department, are conducting their own investigations.

A spokeswoman for the U.S. Department of Interior said the Obama administration had announced a slew of new safety regulations since the accident, including requirements that drilling projects meet new standards for well design, casing and cementing and be independently certified by a professional engineer.

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Global food prices surge to record on bad weather

By Alex MacDonald

LONDON—Global food prices hit a record high in December and are likely to continue rising in the year ahead due to inclement weather, raising the possibility of a repeat of civil unrest that erupted in emerging nations when prices last surged.

"The longer [food prices] remain high, the longer there is a possibility of a repeat of 2007 and 2008" food riots, said Abdolreza Abbassian, a senior economist at the United Nations' Food and Agriculture Organization, in an interview Wednesday.

Global food prices rose 4.3% in December from the previous month, according to the FAO's monthly food-price index published Wednesday.

The index—which monitors the monthly change in a basket of commodities including meat, dairy, cereals, oils and sugar—rose for the sixth month in a row to 214.7. That is a record in nominal terms, according to data going as far back as 1990.

The food-price surge was driven by significant monthly price increases in oilseeds, cereals and sugar; white-sugar prices recently hit 30-year highs. The indexes for those food groups rose 8.1%, 6.4% and 6.7%, respectively, in December compared with November.

Food prices have jumped because poor weather conditions across the globe have curtailed crop harvests.

Russia banned grain exports over the summer because of its worst droughts on record, while severe flooding in Australia has crimped the country's raw-sugar output by 20%.

The FAO's food-price index previously surged to a record high of 213.5 in June 2008 when poor harvests and rising commodity prices, particularly oil, made food more expensive. Riots broke out in developing countries that struggled to pay higher prices to import food.

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Complacent investors could be jolted by an early BOE interest-rate rise

[Agenda]

By Alen Mattich

Investors aren't expecting the Bank of England to start raising interest rates until the final quarter of this year. They shouldn't be so complacent.

Members of the Bank's Monetary Policy Committee are starting to worry they're losing credibility about their willingness to maintain price stability, particularly as the public's inflation expectations start to ratchet higher.

Little wonder.

For the past five years, U.K. consumer-price inflation has consistently overshot the bank's official 2% year-on-year target. What's more, it has been at or above 3% since the start of 2010 and is expected to hit 4% over the coming months. Nor has the MPC done itself any favors by systematically underestimating inflation trends. As recently as February 2010, it was forecasting the CPI to fall to 1% by the end of 2010. Inflation came in at 3.3% in November, the most recent month for which there are data.

It's not farfetched to imagine a majority of the nine member committee casting their votes toward one or even two quarter-point increases from the current 0.5% rate over the coming months.

Andrew Sentance has already voted for a quarter-point rate rise at every monthly MPC meeting since June. He has been alone, but recently, a few of his colleagues have seemed to tilt in his direction.

Paul Fisher, who is also the bank's executive director of markets, acknowledged in a recent interview that it was necessary to wean the British public off these emergency low rates. "I don't think a change of 25 or even 50 basis points is going to trigger a recession," he said.

Bloomberg News

Paul Fisher wants to wean the U.K. public off emergency low interest rates.

Around the same time, Deputy Governor Charlie Bean made a point of warning that he was watching inflation expectations "like a hawk." Unless that particular hawk has cataracts and double glaucoma, it won't have failed to notice the latest YouGov/Citi survey showed an increase in year-ahead inflation expectations to 3.5% from 3.3%, and to 3.8% from 3.5% for 5-10 year expectations.

The minutes of the MPC's meetings over the coming months will make for some very interesting reading.

The bank's chief economist, Spencer Dale, has also publicly worried that the MPC might be seen to be soft on inflation. It's worth remembering he was the sole dissenter against the final increase in the bank's quantitative-easing program in November 2009.

If the hawks win out, investors are likely to feel a jolt. The futures market isn't discounting any serious risk of tightening until the second half of the year and even then is fully pricing in a 25-basis point rise only in October.

But it would be ironic if an increase or two spooked the market into thinking the bank was about to start an aggressive tightening cycle. That's because even if the MPC decides to edge rates up a bit over the coming months it isn't likely to quicken the ultimate pace of policy "normalization" by much.

The value of any near-term rate rises would be purely symbolic, a PR exercise aimed at those who worry the bank's commitment to its 2% target is losing credibility, while also helping to keep inflation expectations in check. But even a half-point increase would have negligible impact on the U.K.'s inflationary path.

And that's just as well, because by and large the MPC doesn't really think it has an inflation problem. Most committee members remain convinced the U.K. economy has substantial overcapacity left over from the Great Recession—though they're willing to debate quite how much headroom there is.

The MPC is also worried about the degree to which the coalition government's fiscal retrenchment will prove a drag on the British consumer. For all the noise about public-sector austerity last year, a recent survey showed that fewer than half of U.K. households have started to trim their spending, to work longer hours or to look for new jobs in anticipation. This year, the impact of tax rises and spending cuts will really start to bite and those households will be forced to react.

But maybe the biggest disincentive for the MPC to take inflation seriously is that there is no real pressure on it to do so. A high inflation rate suits the government as it helps to trim its deficit in real terms.

Meanwhile, the U.K.'s sovereign-debt market has all but ignored domestic factors over recent years as, instead, it has closely tracked U.S. Treasury bonds.

Inflation also happens to be a relatively painless way to erode the massive debt load the bank allowed the private sector to build up during its first decade of independence, which it was given in 1997. Painless, that is, except for savers who are expected to bear the brunt of the costs of economic adjustment and most of the risks of bank policy mistakes.

Adam Posen and David Miles, the MPC's two highest-profile doves, have made the strongest case for ignoring inflation. Policy makers are bound to get it wrong, they argue. But deflation is such a terrible risk for an economy as overindebted as the U.K.'s that, given the MPC will get it wrong, it's worth getting it wrong with too much, rather than too little, inflation. Indeed, Mr. Posen has taken to voting for yet more quantitative easing in recent months. And, crucially, the bank's governor, Mervyn King, seems to have been siding with the doves.

However they vote, the minutes of the MPC's meetings over the coming months will make for some very interesting reading.

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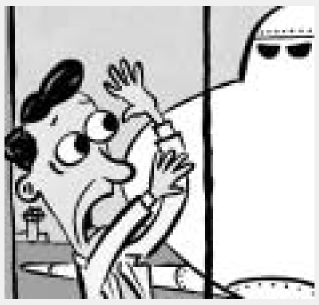

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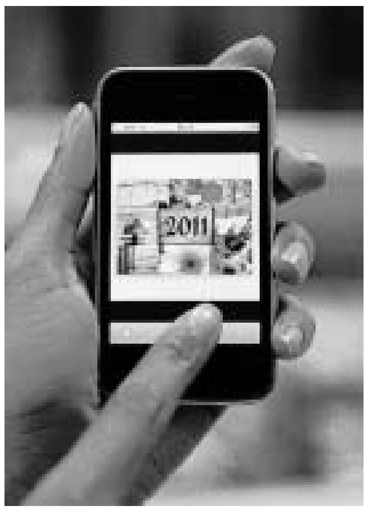

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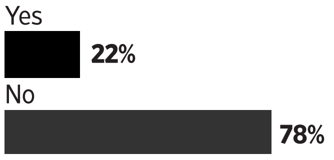

THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Commodity Quay, East Smithfield,
London, E1W 1AZ

SUBSCRIPTIONS, inquiries and address changes to: Telephone: +44 (0) 20 3426 1234. Calling time from 8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com. Website: www.services.wsje.com

ADVERTISING SALES worldwide through Dow Jones International. Frankfurt: 49 69 29725 390; London: 44 203 426 1111; Paris: 331 40 17 17 01.

Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basinevi.

Registered as a newspaper at the Post Office.

Editeur responsable: Patience Wheatcroft M-17936-2003.
Registered address: Boulevard Brand Whitlock, 87, 1200 Brussels, Belgium

NEWS

U.K. is uncertain on Afghan pullout

BY ALISTAIR MACDONALD

KABUL—U.K. defense secretary Liam Fox appeared to damp expectations at home that British troops could begin returning from Afghanistan this year, saying on a visit to the war-torn country that it would be "quite wrong" to make predictions on troop levels over the next 24 months.

In a December visit to Afghanistan, Prime Minister David Cameron said bringing British troops home in 2011 was "possible," echoing previous indications and triggering a raft of domestic newspaper headlines about an early return.

Mr. Fox emphasized Wednesday that Mr. Cameron had also said 2011 withdrawals would be dependent on conditions on the ground.

"Conditions have improved but we will want to ensure that that progress has been maintained and we will want to make sure that the training mission for Afghanistan is fully up to speed," he said in Kabul.

Mr. Fox said the role of British troops may change this year and next to, for example, place greater emphasis on training. Like many nations in the U.S.-led coalition, the U.K. has said it doesn't want its troops in a combat role by the end of 2014.

The Conservative Party minister also suggested that the U.K. needs to think about its North Atlantic Treaty Organization coalition partners before making decisions on pulling troops out. After the U.S., the U.K. has the biggest foreign troop commitment in Afghanistan, with about 10,000 currently serving. That commitment has come at a heavy cost, with more than 100 British armed forces personnel dying there last year—and with some Britons demanding that troops return home this year.

Mr. Fox said he was "cautiously optimistic" about progress in Afghanistan and gave a bullish account of what he saw as the stability taking hold in some parts of the country. He said the coalition is now pursuing the right strategy with the right military resources.

"For all the talk about the length of the campaign, we have really only been in Afghanistan, in the strength we need and the strength the military wanted, since the summer of 2009," he said.

His refusal to follow his prime minister in ruminating about possible early withdrawal may resurrect speculation of disagreements between the two men. Mr. Fox had disagreements with Mr. Cameron over the size and shape of cuts to the military in the country's strategic defense review in October. Aides to both men said at the time that such back and forth was to be expected during negotiations over budgets.

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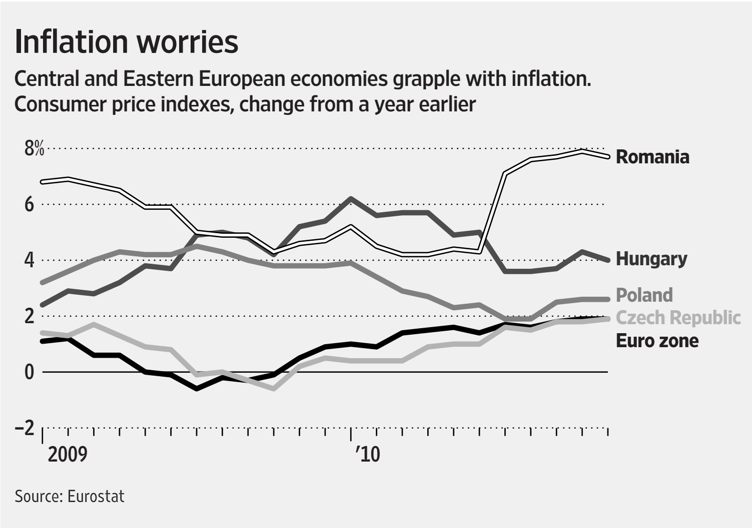
EUROPE NEWS

Bloomberg News

Marek Belka, Poland's central bank chief, said the zloty must be 'helped' to strengthen in order to keep inflation in check.

Poland's central bank hints at rate increase

By Marcin Sobczyk



WARSAW—Poland's central bank governor hinted that interest rates could start climbing here soon, while Romania held rates steady Wednesday as central bankers across the region consider the contrasting risks posed to their countries' fragile economies by hot money and mounting inflation.

Inflation has been quickening in central Europe, as energy, food and commodity prices all have risen, buoyed by a flood of liquidity from central banks in the U.S. and other developed countries trying to bolster economic growth. That has put pressure on rate setters to act in an effort to keep prices stable.

But higher rates have their own dangers. In addition to raising the cost of borrowing for businesses and households, they also stand to attract large inflows of speculative money that could push up the value of emerging markets' currencies, making their exports more expensive and potentially hurting growth.

National Bank of Poland Governor Marek Belka told Reuters on Tuesday that the country's currency, the zloty, must be "helped" to strengthen as a way of keeping inflation in check. His remarks pushed the zloty to an eight-week high against the euro on Wednesday as investors anticipated a rate increase this month.

Hungary has raised rates twice since November, as the central bank there moves to contain inflation that is already above the bank's target of 3%. In November, the inflation rate rose 4.2%. Andras Simor, the head of Hungary's central bank, has said he won't "tolerate divergence" from the strict inflation goal.

But analysts say another motive for the National Bank of Hungary's rate increases is a desire to assuage some international investors' concerns about the risks of Hungarian assets due to questions about the government's economic policies.

In Romania on Wednesday, the central bank held its main policy rate steady at 6.25%, despite inflation of 7.7% in November, well above the 4.5% upper limit of the bank's target range. Given the weak economy, which contracted last year and remains in the doldrums, the bank is reluctant to raise rates. Some analysts expect a rate cut if inflation starts to ease.

The Czech Republic's central bank governor, Miroslav Singer, has said the bank is deliberately keeping interest rates lower than those in the neighboring euro zone to prevent an inflow of money that would push up the value of the Czech currency, the koruna. A stronger koruna could hurt exports and growth, he has said. Still, Mr. Singer has said that tightening is coming, but the timing remains uncertain. The bank's key interest rate is 0.75%, a quarter of a percentage point below the 1% benchmark rate in the 17-nation euro zone.

Poland's 10-member monetary-policy council—which has kept its main policy rate at a record low of 3.5% since 2009—for months has wrestled with the pros and cons of tightening. Opponents have argued that raising rates could attract unwanted "hot money" from portfolio investors.

Those in favor have said that an increase would keep inflation in check and, by boosting the value of the zloty, would ease the debt burden on the government and households, which have foreign-currency loans.

The language of the council members shifted somewhat toward tightening in December, when the council's statement for the first time in many months left out any mention of the risks of hot money.

A consumer-price inflation estimate for December—of 3.1%, above the 2.5% target—and robust indicators of manufacturing strength, helped to boost the value of the zloty in the first days of January.

Poland's rate setters will meet again on Jan. 19, and many in the markets are expecting an increase. But such a move isn't a foregone conclusion, others warn.

"Obviously, the zloty's strengthening means the market has started to price in a January rate increase," said Maja Goettig, senior economist at Bank BPH in Warsaw. "On the other hand, a stronger zloty may make some members of the Monetary Policy Council more reluctant to hike—it's a kind of a vicious circle."

—Joe Parkinson in Istanbul and Sean Carney in Prague contributed to this article.

Euro-zone data show two speeds

By Nicholas Winning And Paul Hannon

LONDON—The euro zone's private sector grew at a steady pace in December, with growth in Germany and France offsetting weakness in debt-laden Spain and Ireland, final results of a survey by Markit showed Wednesday.

Meanwhile, factory orders in the euro zone rose in October, indicating that the recovery in industrial production is likely to continue in coming months, and factory-gate prices posted their strongest annual gain in 25 months in November, driven by the rising cost of energy and intermediate goods

"Overall, the [private-sector] data suggest that the euro zone will have grown by around 0.5% in terms of final quarter GDP [gross domestic product]," Chris Williamson, chief economist at Markit, said in a statement. "But the scene is set for a two-speed single currency area as we move into 2011."

The final Markit Euro-Zone Composite Output Index, a gauge of private-sector activity based on a survey of about 4,500 manufacturing and services companies, held steady at 55.5 in December. A reading above 50 indicates expansion. Economists surveyed by Dow Jones Newswires last week expected no change from the preliminary reading of 55 released by Markit Dec. 16.

The euro-zone services business activity index eased to 54.2 in December from a three-month high of 55.4 in November, as strength in Germany and France contrasted with near-stagnation in Italy and contractions in Spain and Ireland. Economists were expecting no change from the preliminary reading of 53.7. On Monday, Markit said the manufacturing purchasing-managers index rose to 57.1 from 55.3 in November—topping the preliminary estimate of 56.8.

The European Union's statistics agency said Wednesday that new industrial orders rose 1.4% from September and were up 14.8% from October 2009. Eurostat also said orders fell more sharply in September than it previously estimated, by 4.2% compared with 3.8%.

Factory-gate prices for intermediate goods, such as manufactured materials like steel or tools used to make other goods, rose 5.8% in November, the sharpest annual gain since October 2006. But, in a sign that inflationary pressures are growing across the production process, producer prices excluding construction and energy were 3% higher, also the strongest annual gain for 25 months.

Portugal sells debt, but at a high cost

By Emese Bartha

Portugal successfully sold €500 million ($664.9 million) of six-month treasury bills Wednesday, but at sharply higher yields than in its September tender, as the week's most anticipated debt sale signaled that investors remain worried the country may yet need a bailout.

Meanwhile, the European Union sold €5 billion of five-year bonds, drawing strong demand for a deal that was a key test of investor support for the EU's sovereign bailout strategy and kicks off billions of euros of bond issuance scheduled for the next two years.

The Portuguese treasury paid an average yield of 3.686% on the six-month treasury bills, compared with 2.045% at the previous tender on Sept. 1, for the same maturity. Such an increase "is an unsustainable dynamic," said Lena Komileva, head of G-7 market economics at Tullett Prebon in London.

But she added, "This auction proved that there is no panic and expectations that Portugal's access to funding might dry up to such an extent that it will be forced to go to the European Financial Stability Facility are overdone."

The more crucial test of investor demand comes Jan. 12 if Portugal decides to sell government bonds.

The EU said its €5 billion bond issue attracted more than €20 billion of orders. The bonds yield 2.59%, or 0.712 percentage point more than German bunds.

Proceeds from the offering have been earmarked for the European Financial Stabilization Mechanism, an emergency funding program that, like the EFSF, is aimed at preserving financial stability in the bloc. Ireland is getting €22.5 billion from the €60 billion program.

Separately, the Swiss National Bank confirmed a report that it has excluded Irish government bonds from being used as collateral for its repo operations.

A spokesman for the SNB said that only "securities that fulfill stringent requirements with regard to credit rating and liquidity are accepted as collateral by the National Bank." He referred to the central bank's daily updated "List of collateral eligible for SNB repos (SNB GC Basket)," according to which a number of bonds issued by Ireland have been excluded since Dec. 21.

—Mark Brown and Goran Mijuk contributed to this article.

EUROPE NEWS

U.K. questions readiness for big spill

BY JAMES HERRON

LONDON—In a new report, U.K. lawmakers raised serious doubts about whether the oil industry was prepared to tackle an oil spill similar to the Deepwater Horizon disaster should one occur in the North Sea, but stopped short of recommending a moratorium on drilling similar to that imposed in the U.S.

Instead, the U.K. Parliament's Energy and Climate Change Committee called on the government and regulators to compel companies to improve their spill-response plans, raise the liability limit for spill costs and install extra fail-safe equipment on rigs.

While the committee didn't directly investigate the causes of the Deepwater Horizon explosion, it was critical of **BP** PLC executive Mark Bly's report on the tragedy, particularly his conclusion that the design of the Macondo well played no part in the blowout. "We urge the government not to rely extensively on the Bly Report, given the controversy surrounding the responsibility for the incident and the design of the Macondo well," it said.

BP said it hadn't seen the report yet and couldn't comment.

The first of several official U.S. inquiries, the National Commission on the BP Deepwater Horizon Oil Spill, is due out Tuesday.

Major changes to drilling regulations could have a significant impact on the U.K. because its main deep-water area, west of the Shetland Islands, is thought to be home to the bulk of the country's undeveloped oil and gas resources. For this reason, "a moratorium on deep-water drilling off the west coast of Shetland would undermine the U.K.'s energy security and isn't necessary," said Tim Yeo, the Conservative member of Parliament who is chair of the committee, in a statement accompanying the report.

The majority of wells drilled in the U.K. North Sea have been in shallow areas, but as resources have dwindled there companies have pushed into deeper and more hostile waters in search of new fields. BP, **Chevron** Corp. and France's **Total** SA have been searching for oil and gas west of Shetland in water depths of between about 600 and 1,600 meters.

The Deepwater Horizon was drilling in about 1,500 meters of water when it exploded in April, killing 11 men and spilling almost five million barrels of oil into the Gulf of Mexico.

U.K. lawmakers criticized oil companies' readiness for a similar incident in the North Sea. "The offshore oil and gas industry is responding to disasters, rather than anticipating worst-case scenarios and planning for high-consequence, low-probability events," the committee report said.

In particular, existing oil-spill plans for the area west of Shetland were inadequate, the committee said. "There are serious doubts about the ability of oil spill response equipment to function in the harsh environment of the open Atlantic in the West of Shetland," it said.

Current industry provisions for the cost of any cleanup are also lacking, it said. Given the high costs of the Gulf of Mexico spill, the cap of $250 million set out under the Offshore Pollution Liability Association is too low and the rules as to what kinds of damage are covered by this fund are too vague, it said.

The committee's third big recommendation was that an extra fail-safe be added to the piece of equipment that was the last line of defense against the accident that destroyed the Deepwater Horizon—the blowout preventer. A set of blind shear rams, two large pieces of metal within the blowout preventer that were supposed to close the drill pipe on the Deepwater Horizon failed to operate, allowing oil and gas to flow freely from the well head and into the Gulf of Mexico for three months.

"Blowout preventers on the U.K. continental shelf should have two [sets of] blind shear rams," the committee said. There was only one set of blind shear rams, the current industry standard, in the blowout preventer on the Macondo well in the Gulf.

The committee rejected moves from the European Commission to regulate drilling in U.K. waters. It also said there was no need for the U.K. to follow the U.S. in a fundamental overhaul of its regulatory regime.

Reuters

Activists tried to stop a Chevron ship in the North Sea, about 160 kilometers north of the Shetland Islands, in September.

Going deeper

Most North Sea oil fields are less than 100 meters deep, but oil companies are pushing into deeper water west of Shetland in search of new resources.

Oil field	Company	Maximum water depth, in meters
Clair	BP	140
Schiehallion	BP	450
Foinaven	BP	600
Laggan/Tormore	Total	630
Rosebank/Lochnagar	Chevron	1,115
Lagavulin	Chevron	1,500
Tobermory	Total	1,600

Source: U.K. Energy and Climate Change Committee Report

Swiss franc's steep rise puts chill on tourism

BY GORAN MIJUK

ZURICH—The strong Swiss franc is keeping some tourists off the slopes in Switzerland this winter, prompting travel organizers to offer discount packages to win back skiers attracted to lower prices in the Austrian or French Alps.

The Swiss franc has soared to record highs during the euro-zone sovereign-debt crisis, which has underlined the Swiss market's status as a safe haven. In the process, foreigners looking at winter holidays here are suffering sticker shock.

"It has been a complete nightmare," said Mark Butler, a 30-year-old resident of Bristol, England, who, with his family of three, spent the New Year holiday in Klosters—Prince Charles' preferred ski resort—in the canton of Grison in eastern Switzerland.

"Ski passes, ski hiring and food have been extremely expensive," he said. "We paid some £150 [$234] for two people for a regular dinner in a normal restaurant. This would have bought me an exquisite dinner at a great London restaurant."

In response to the sky-high franc, tourists from Italy, France and the U.K., who in the past accounted for around half of foreign overnight stays in Switzerland, are choosing to stay at home, to ski elsewhere or to cut the length of their stay in the country.


Reuters

Skiers on a restaurant terrace near the Swiss mountain resort of Grindelwald.

The currency problem for Switzerland's tourism industry, which generates between 3% and 4% of the country's gross domestic product, is also hurting other sectors. Many exporters, such as the watch and machinery industry, are suffering from the strong franc, which risks curbing economic growth. But tourism is suffering most acutely at what is traditionally a crucial time of year.

Ernst Jaggi, director of tourist platform **Tourismus-Schweiz** GmbH, which organizes travel in Switzerland, said overnight stays could drop 5% or more during the Christmas-New Year holiday period. Should this drop extend through the next two months, the tourism industry, which generates about 30 billion francs ($32 billion) in annual sales, could lose between 150 million and 500 million francs in revenue, affecting hotel, restaurant and shop owners.

In December 2009, Switzerland registered around 555,833 arrivals from foreigners, who stayed for 2.5 days on average, according to the Swiss Federal Statistics Office. Including Swiss residents, hotel bookings that month topped 1 million, a 2% rise over December 2008.

That feat is unlikely to be repeated for 2010, after the franc has risen more than 10% against major currencies over the past 12 months.

"The strong franc is a big problem, especially for the winter holiday season, which has always been expensive," said Simon Bickel of transport firm **Jungfrau Bahnen Holding** AG, which operates several mountain railways in the Swiss Alps.

Its Jungfrau railway climbs 1,400 meters through the Bernese Alps and takes passengers to an altitude of 3,454 meters to Europe's highest train station, offering stunning views of the alpine landscape.

"We have started to develop travel packages for tourists in the U.K., Germany and elsewhere," Mr. Bickel added. Packages will include ski passes and hotel stays, and tourists can exchange the euro for 1.5 Swiss francs—a near-17% discount to the current level of about 1.25 francs. "We want to attract tourists even at the expense of margin erosions," Mr. Bickel said.

Tourists also are put off by high prices. According to Hotels.com's Hotel Price Index, Switzerland was the most expensive country in Europe for U.K. visitors in 2009, with the average price per room at £124.

Ralf Gallinat, a social worker from Karlsruhe, Germany, said he was overwhelmed at how little his euros got him in Swiss ski resorts. "I wasn't really aware about how the currency market developed over the past year. But the ski pass was more than 20% more expensive than in previous years. And food prices were also pretty high," Mr. Gallinat said. "I was glad we stayed only for a few days."

Edith Zweifel of **Zermatt Matterhorn**, a tourism company, said that while hotels in the region were fully booked during the New Year week, the strong franc had taken its toll. "We feel that many people spend less because of the strong Swiss franc. But we hope that the season will still develop well thanks to the good weather," she added.

While in the past few years weak snowfall hurt winter tourism, this year's early and heavy snowfalls attracted many one-day tourists from Switzerland, still the most important single tourist group.

"One-day tourists are certainly going to help," said Mr. Jaggi of Tourismus-Schweiz. "But, honestly, Switzerland needs to reconsider its price policy. Should the franc stay as high as it is now, we will certainly struggle."

Private sector steps up hiring

By Sara Murray

Private-sector employers picked up the pace of hiring significantly in December, a report by a payroll-processing firm indicated, prompting increased optimism that the U.S. job market finally may be improving.

Payrolls in the private sector grew by 297,000 last month, Automatic Data Processing Inc. and Macroeconomic Advisers LLC, a consulting firm, said Wednesday. The gain was the largest in their report's 10-year history.

The report doesn't always align with the government's official tally, which comes out Friday, but the ADP data led analysts to lift their predictions for the Labor Department's report, which they now expect will show 165,000 private-sector jobs were added in December.

A separate upbeat report, the Institute for Supply Management's survey of companies in the services and non-manufacturing sector, climbed to 57.1 from 55 in November, the 12th straight month of growth. A level above 50 indicates expansion. The ISM survey of manufacturing firms released earlier this week also was strong.


Agence France-Presse/Getty Images

People scan job listings in Las Vegas last November. A report said private-sector firms added 297,000 jobs last month.

The latest reports, along with recent declines in initial claims for unemployment benefits, added to optimism that economic growth in the U.S. is picking up.

"The economy is clearly gaining momentum," said Zach Pandl, a Nomura Securities International Inc. economist. "With that should come better jobs data."

But the non-manufacturing firms were less upbeat about hiring. The survey found that employment in those companies continued to expand, but at a slower pace than in November. Fewer than one in five firms added workers, though hiring was strong in mining, retail trade, utilities and finance.

The latest reports, along with recent declines in initial claims for unemployment benefits, added to optimism that economic growth in the U.S. is picking up. Most analysts expect the government to report later this month that the economy expanded at better than an 3% annual rate in the fourth quarter.

The ADP report said that most private-sector job gains came from the service sector in December, where payrolls rose by 270,000. Manufacturers added 23,000 jobs. Large companies, those employing more than 499 workers, added only 36,000 jobs in December. Firms with fewer than 50 workers added 117,000 and midsize firms added 144,000.

Fresh & Easy Neighborhood Market Inc., a supermarket chain with more than 150 stores in California, Arizona and Nevada, is in the process of hiring for 22 locations opening in California earlier this year, said Brendan Wonnacott, a spokesman. The company is looking to add 550 to 600 employees, about 200 of whom were hired in November and December. "This is just kind of the next step in our expansion," Mr. Wonnacott said.

Seasonal adjustments may have inflated private-sector hiring data, analysts said. "Not all of what we're seeing this month is a fluke," said Joel Prakken, chairman of Macroeconomic Advisers, but he warned, "Approach today's number with an appropriate degree of caution."

The Labor Department report will also include federal, state and local government employment not covered by ADP. Fiscal woes at the state and local level have led to job cuts, offsetting some private-sector hiring.

Mr. Prakken predicted the Labor Department's report would show 200,000 to 250,000 private- and public-sector jobs were added overall in December. Other analysts' estimates are around 150,000.

Even if those estimates prove correct, U.S. employment remains far below the 2007 peak. As of November, there were 7.4 million fewer jobs than before the recession, and more than 15 million Americans were looking for work. "There's a tremendously huge hole to fill," said Jonathan Basile, a Credit Suisse Securities analyst.

A corporate tax deal is on horizon

By John D. McKinnon

The White House, congressional Republicans and business groups are moving from different directions toward a consensus that the U.S. corporate-tax code needs a fundamental overhaul.

Specific proposals for retooling the complex corporate-tax system aren't on the table, and the debate over the issue is sure to be lengthy and difficult. But President Barack Obama and Republican congressional leaders are sounding some of the same broad themes in discussing the corporate tax issue, in contrast with the sharp disagreements they have on other policy issues.

Leading Republican lawmakers this week said they would push hard for an overhaul in the months ahead to help boost the economy and job creation. Supporters say lowering corporate rates is particularly important to stimulating more investment within the U.S. and expanding exports.

"Tax reform could be a significant boost to our competitiveness," Rep. Eric Cantor (R., Va.), the new House Majority Leader, said this week. "I'm hopeful and expect the president to put some action behind his statements."

Mr. Obama has expressed interest in rethinking the corporate tax system, though administration officials caution that he hasn't yet decided whether to push for action this year. Mr. Obama has expressed a willingness in recent interviews to have "a conversation" this year about lowering corporate tax rates, while also reducing the number of tax breaks, which would "broaden the base," in Washington parlance.

Embracing lower corporate tax rates could help Mr. Obama advance his effort to repair relations with business leaders, many of whom soured on the initiatives he pushed during his first two years in office.

Business executives on Mr. Obama's Export Council, who are advising the president in his effort to double exports by 2015, last month said the current U.S. corporate tax code, with its top rate of 35%, puts U.S. companies at a competitive disadvantage against rivals from countries where tax rates are lower. To be sure, many companies don't pay that top rate. The executives recommend a new top rate around 20%.

A blue-ribbon fiscal commission appointed by Mr. Obama also recommended late last year sharply lower corporate tax rates, along with the elimination of business tax breaks.

Obstacles to a deal to revamp corporate taxes include the likelihood that corporations will fight to keep tax breaks that work to their benefit, and White House insistence that any tax overhaul not result in less revenue.

"In these difficult fiscal times, we've got to do it in a way that means somebody is giving up something," Mr. Obama said at a December meeting of his export council, according to a transcript. The president predicted a "tough discussion" on offsets, though he said the plan wouldn't have to be offset "dollar-for-dollar."

Republicans, in turn, are unlikely to support a scheme that substantially raises the government's total tax take. Rep. Pat Tiberi (R., Ohio), the incoming chairman of a House Ways and Means panel on federal revenue, said it was "unrealistic" to expect businesses to give up enough of their breaks to hold tax revenues flat.

A revamp of corporate taxes could also be hitched to an overhaul of individual taxes. That could increase the risk that lawmakers would try to raise overall taxes on businesses, as a way to offset the cost of keeping rates low for individuals. That's what happened in the last big tax overhaul, in 1986.

Lawmakers say any effort to overhaul corporate taxes could run into the 2012 election season. Rep. Richard Neal (D., Mass.) said the conversation needed to start this year. "Then the presidential candidates need to take it up in earnest the following year," he said.

But key congressional committees are already digging into the issue.

House Ways and Means Committee Chairman Dave Camp (R., Mich.) is expected to hold early hearings on a tax overhaul. The Senate Finance Committee, led by Sen. Max Baucus (D., Mont.), has also started holding hearings on a broad-based tax overhaul.

"We are hearing from—the administration is hearing from—members are hearing from CEOs around the country, saying this is a huge issue," said Mr. Tiberi.

As a short-term alternative to an overhaul, some lawmakers and business advocates are pushing a temporary change in tax rules to encourage U.S. multinational corporations to bring home more of their overseas profits that currently are parked offshore.

Obama spokesman Gibbs plans to resign

By Laura Meckler

WASHINGTON—White House Press Secretary Robert Gibbs plans to leave his post in early February to become an outside adviser to President Barack Obama and his reelection campaign.

Mr. Gibbs, 39 years old, has long been part of Mr. Obama's inner circle and had been expected to step down from the briefing-room podium. "It is the right time for me to recharge a bit," Mr. Gibbs said in an email. "I will go do some speaking and continue to advise the president."

A successor hasn't been named. People believed to be under consideration include Bill Burton, a deputy press secretary, and Jay Carney, who is Vice President Joe Biden's communications director. The president also will consider external candidates, one White House official said, though no names have surfaced.

Mr. Obama, in a statement, called Mr. Gibbs one of his closest advisers and an "effective advocate" for his administration, and signaled that he would continue to rely on his advice.

"I think it's natural for him to want to step back, reflect and retool. That brings up some challenges and opportunities for the White House—but it doesn't change the important role that Robert will continue to play on our team," he said.

The move comes as Mr. Obama reshapes the top ranks of his White House at the midpoint of his term. He is expected to announce soon whether Pete Rouse, who is interim chief of staff, will continue in that post. He is also considering **J.P. Morgan Chase** & Co. executive Bill Daley, a former commerce secretary under President Bill Clinton, for that position or another top post.

Two other key advisers, David Axelrod and Jim Messina, are leaving to start up the president's reelection campaign. Mr. Axelrod will be succeeded by David Plouffe, Mr. Obama's 2008 campaign manager.

The president is also expected to name a new director of the National Economic Council this week. Gene Sperling, an adviser at the Treasury Department who held the position at the end of the Clinton administration, is seen as the leading candidate.


Getty Images

Press Secretary Robert Gibbs will continue to advise President Obama.

Associated Press

A House family member watches the proceedings of the first session of the 112th Congress on Wednesday.

Boehner elected speaker, vows to tackle tough tasks

By Patrick O'Connor And Corey Boles

WASHINGTON—Ohio Republican John Boehner was elected speaker of the U.S. House of Representatives Wednesday, completing a decade-long comeback and heralding the return of divided government in Washington.

Mr. Boehner, in a roll-call vote of House members, was elected with 241 of the 432 votes cast. Outgoing Speaker Nancy Pelosi, (D., Calif.), received 173 votes, while seven other lawmakers received limited support.

In remarks to the House shortly after his election as speaker, Mr. Boehner said Congress could no longer afford to "kick the can down the road" on grave issues such as job creation, rising health-care costs and increased federal-government spending. He said there were "tough decisions" ahead to avoid having the federal government's debt overwhelm U.S. economic growth.

Many of those difficult decisions won't sit well with Democrats in Congress and the White House. House Democratic leaders already object to a series of changes in House rules that would give Republicans greater authority to cut spending, repeal the health-care law and extend Bush-era tax cuts that Congress just extended for another two years. The House is expected to adopt that package of rule changes.

The White House and congressional Democrats have vowed to stymie the Republicans' push to repeal health care. Democrats are expected to pose a similar blockade when the GOP seeks to cut roughly 20% from the federal government not allocated to the military or homeland security. Republicans in the House have promised to make those cuts through a measure to fund the government after March 4, when the current stopgap bill expires.

In the Senate, which Democrats still control, a procedural debate is taking shape over rules that give the minority party power to slow—or block outright—controversial legislation. A group of younger Democrats wants to change Senate rules that grant the minority the right to filibuster bills they don't like.

In her speech before passing the gavel to Mr. Boehner, a defiant Ms. Pelosi delivered an unusually partisan speech for the occasion, listing bills Democrats have passed during their four years in power. She emphasized components of the health-care bill that Republicans want to repeal, as the new majority looked on in silence. And in a sign of rebellion from her rank and file, 19 Democrats didn't cast votes for Ms. Pelosi to be speaker.

Mr. Boehner, in his acceptance speech, sought to mark a new chapter in the history of the House, an institution defined by nasty fights between the two parties. He said he wants to "dispense with the conventional wisdom that bigger bills are always better" or that "fast legislating is good legislating."

Mr. Boehner has promised to make Congress more transparent and involve the minority party in the legislative process. In his speech, he encouraged lawmakers from both parties to upgrade the tone of debate, but not to stop debating. He also welcomed members of both parties to approach him on issues.

"A great deal of scar tissue has built up on both sides of the aisle," Mr. Boehner told the audience of lawmakers, their families and invited guests. "My belief has always been, we can disagree without being disagreeable to each other. That is why it is critical this institution operate in a manner that permits a free exchange of ideas and resolves our honest differences through a fair debate and a fair vote."

Wednesday marks the pinnacle of Mr. Boehner's 20-year congressional career. He came to Washington after the 1990 election as a firebrand in the mold of his freshmen class but was ousted from the Republicans' leadership table in 1998 after years of bitter fighting between GOP leaders. He returned to the leadership eight years later, but only as Republicans were on the brink of losing power in the 2006 midterms.

He unified his rank and file during President Barack Obama's first two years in the White House to oppose the health-care bill and a package of spending and tax cuts Congress passed to revive the sputtering economy.

Weapons systems in cross hairs

By Nathan Hodge

U.S. Secretary of Defense Robert Gates is expected to unveil substantial cuts to weapons programs Thursday, according to government and industry officials, part of a plan to accommodate the Pentagon to slower growth in its budget.

The Pentagon has kept the details under wraps. But defense observers expect all the military services to take significant hits to their procurement accounts, even as overall military spending holds steady.

Congressional aides said Mr. Gates would brief key leaders of defense appropriations and oversight committees on the proposal Thursday morning.

The proposed weapons cuts come as a new Congress takes office amid concerns about the federal deficit and the Pentagon advances its own bid to pare costs. On Tuesday, new House Majority Leader Eric Cantor (R., Va.) indicated that Republicans, traditional supporters of robust defense spending, may target the Pentagon's budget.

At risk of cancellation: the Expeditionary Fighting Vehicle, a high-speed landing craft being developed for the Marine Corps by **General Dynamics** Corp., of Falls Church, Va. The Marines now plan to buy 573 of the new vehicles, which are used for storming beaches.

Also targeted for trims: the F-35 Joint Strike Fighter, a stealthy, supersonic fighter designed by **Lockheed Martin** Corp. that is supposed to replace a wide range of aircraft now in service with both the U.S. and allies.

Defense insiders expect the F-35's production might be slowed or its numbers reduced.

Often distorted or ignored, deficit's facts are stubborn

[Capital]

By David Wessel

More than 20 years of covering debate, denial and distortion about the federal budget—from the often-maligned, though successful, deficit-reduction deal George H. W. Bush struck with Democrats in 1990, to the looming showdown over the federal debt ceiling—leaves a journalist frustrated. Protagonists and the public too often treat facts as annoying, irrelevant details.

Budgets matter. Budgets are manifestations of a nation's priorities and the terms of one generation's compact with the next. Unlike manifestos, TV shouting matches and campaign ads, budgets have to add up—with a little leeway for accounting gimmickry. Before we get preoccupied with the politics, personalities and sideshows in this year's chapter in the long-running deficit drama, a few observations:

■ One, the ceiling on the federal debt needs to be raised—even if the new Republican House majority delivers all the spending cuts it promises soon.

With revenues depressed and spending elevated, the government is spending about $100 billion a month more than it takes in, adding about $1.3 trillion to the federal debt this year. Right now, the government has room to borrow an additional $400 billion or so before it hits the $14.3 trillion ceiling. Even if Congress refused to spend a nickel on domestic appropriations after a temporary spending bill expires in March—wiping out everything from soap for prisons to the president's paycheck—that wouldn't avoid the ceiling.

Refusing to raise the debt ceiling won't cut spending or shrink the deficit. "As far as I am aware," former Reagan Treasury official Bruce Bartlett wrote recently, "no other country on Earth has the idiotic policy that the U.S. has of having a legal limit on…bonds the central government can issue. They correctly recognize that the deficit and the debt are simply residuals resulting from the government's tax and spending policies. It makes no sense to treat the debt as if it is an independent variable."

In other words, if you favored extending expiring Bush tax cuts, you favored borrowing more.

So why the bluster? Some politicians are misinformed or pretending. Some want action-forcing deficit-reducing rules attached to a debt-ceiling bill. Some see a "no" vote as a symbolic protest, knowing others will vote to avoid default. In 2006, a senator from Illinois named Barack Obama opposed a debt-ceiling increase, calling it "a sign of leadership failure."

■ Two, today's deficits are a political problem, tomorrow's an economic threat.

The federal budget isn't a family budget. When families, businesses and state and local governments cut back and rushed to pay debts, the federal government spent more, taxed less and borrowed more to cushion the blow to the economy and slow the inevitable deleveraging. That's the textbook remedy. Federal borrowing *grew* by $3.9 trillion between the end of 2007 and the third quarter of 2010 without provoking an increase in interest rates because private and state and local government borrowing *fell* $4.3 trillion. If there are short-term economic costs today to all this federal spending and debt, they're hard to see.

The political costs are obvious. For all the government did, spent and borrowed, the public sees unemployment at 9.8% and wonders if it was all wasted. The case that "it could have been worse" is true, but unconvincing. Symbolic spending cuts, like the Republican move to slice 5% from House personnel spending, don't add up to much. But they may be a necessary step toward tougher votes to restrain spending on health and retirement benefits and raise taxes. Because tomorrow's deficits won't evaporate when the economy recovers. The problem isn't mainly the cost of recent economic-rescue efforts; it's that the government has promised to pay benefits that it cannot afford without raising taxes far higher than voters will tolerate.

The numbers here are too big to absorb. Here's just one: Although the government has borrowed heavily, its interest tab fell to $197 billion in 2010 from $253 billion in 2008 because interest rates were extraordinarily low. Even before Congress decided to borrow more to extend expiring tax cuts, the Congressional Budget Office was predicting a nearly fourfold increase in interest payments over the next 10 years to $778 billion by 2020. That's almost as much as the Pentagon is projected to spend. Every additional $100 billion borrowed this year adds $43 billion in interest over the next decade, and much of it will go to foreigners.

■ Three, big tax increases or big spending cuts that took effect immediately could hurt the economy just as it appears to be regaining its footing, but there are good reasons to make decisions now that take effect when the economy is healthy.

Money-saving changes to benefit programs take time to implement wisely. Waiting until political or financial pressure forces deficit reduction means relying more on tax increases and cuts to government spending on education, infrastructure and other things that foster economic growth. And if deficit-reduction steps taken today are credible and bipartisan (so they won't be repealed after the next election) they'll help avoid a crisis—a market-shaking plunge in the dollar or unwelcome spike in interest rates—that could result if markets decide the U.S. government is becoming the world's largest subprime borrower.

Floods hit Australia growth

By Geoffrey Rogow
And David Fickling

SYDNEY—Flooding in Australia's coal-rich state of Queensland was expected to worsen as rainfall in the region continued unabated Wednesday, adding to the economic impact of a disaster that already has cost billions of dollars in damage and lost exports from the state's mines.

More rain is forecast to fall over the next week and will "certainly increase the river levels over areas that have already seen significant flooding," said Tony Auden, a meteorologist with the Australian Bureau of Meteorology.

Australia's government has intensified relief efforts in the wake of the deluge, sending navy helicopters to help with evacuations, resupply efforts and medical emergencies around the city of Rockhampton, where 77,000 people have been cut off by the rising floodwaters of the Fitzroy River.

"This is a disaster on an unprecedented scale, and it is going to take an unprecedented, sustained effort to rebuild regional Queensland," said state Premier Anna Bligh, who oversaw an emergency meeting of Queensland legislators Wednesday. The officials agreed to set up a task force headed by an army general to address the recovery, but fell short of announcing a comprehensive package of financial aid.

The severity of the floods in the heartland of Australia's main coal-mining region could trim economic growth in a country that has benefited from a resource boom. According to energy advisers Wood Mackenzie, almost four dozen of the state's coal mines have been affected by the downpour, the worst on record since 1991.

Fear that the flooding could hurt mining companies weighed on the country's main stock market Wednesday, which fell 0.6% to 4,714.9 points.

Macarthur Coal said disruptions to its sites from the floods would push profit for the six months ended Dec. 31 to the lower end of its guidance.

Australia's five biggest miners by output, **BHP Billiton** Ltd., **Rio Tinto** PLC, **Xstrata** PLC, **Peabody Energy** Corp. and **Anglo American**, have declared *force majeure* on their Queensland coal fields. The state supplies close to two-thirds of the seaborne trade in the high-grade coking coal used for steelmaking.

"I don't think any of it has sunk in properly," said Stuart Smith, a client adviser at Bell Potter Securities. "The market's just saying 'enough's enough' for the time being."

In the port city of Mackay, the Dalrymple Bay Coal Terminal—the world's third-busiest—was working through the night to clear a backlog held up by a coal-train derailment on Christmas Eve.

The port was operating at around two-thirds of its capacity due to the dearth of coal coming down the track, with the offshore ship queue of 47 vessels at average levels. The volume of coal arriving was expected to taper further over the coming week as the backlog was cleared, spokesman Andrew Garratt said.

Economists lowered their outlook for fourth-quarter gross domestic product on concerns over the impact of the floods on exports. National Australian Bank shaved 0.1 percentage point off its forecast for the quarter.

NAB now forecasts total fourth-quarter GDP growth of 0.5%, with the latest forecasts from the country's central bank showing GDP growth of more than 3.5% for 2011, with 4% growth forecast for both 2012 and the first half of 2013.

"There is going to be uncertainty for a number of weeks in terms of the impact on the economy, but the floods do cause some near-term downside risk," said Paul Bloxham, chief economist at HSBC Holdings PLC in Sydney.

Mr. Bloxham is among several economists who expect the country's central bank to pass on raising interest rates next month because of the floods. Successive rate increases by the central bank have pushed the Australian dollar up about 20% since late 2009. Australia's economy has blossomed partly because of a commodities-driven boom, which may be threatened as coal production faces a slowdown.

The now six-month rally in the Australian dollar has also been damped by the floods, after a push at the end of last year helped propel the Australian dollar to a high of US$1.0253.

Since the start of the new year the currency has fallen back down to US$1.002, with National Australia Bank saying fair value on the Australian dollar is off about US$0.0060 because of the impact of the floods.

Agriculture in the state has also been hit by the flooding over an area bigger than France and Germany. The floods will constrain beef production and limit exports from the second-biggest global beef exporter after Brazil in coming months, said John Berry, the director and manager of corporate and regulatory affairs at Swift Australia.

—Gavin Lower in Melbourne and Ray Brindal in Canberra contributed to this article.

Agence France-Presse/Getty Images

Residents used street signs as moorings in the flooded city of Rockhampton.

Obama to push Chinese leader on yuan, rights

By Michael R. Crittenden

WASHINGTON—U.S. President Barack Obama will press Chinese President Hu Jintao on Beijing's policies on currency and human rights when the two meet at the White House in two weeks, White House spokesman Robert Gibbs said Wednesday.

Mr. Gibbs, appearing hours after confirming he will step down as White House press secretary next month, said the U.S. continues to believe that China must take steps to allow its currency, the yuan, to continue to appreciate.

"China plays an enormously important role in our global economy, and China has to take steps to rebalance its currency," Mr. Gibbs said.

The comment cames a day after Mr. Obama joined a high-level meeting between U.S. National Security Adviser Tom Donilon and Chinese Foreign Minister Yang Jiechi in which the U.S. officials stressed the need for the two economic powers to reduce their trade imbalances.

Separately, Chinese Vice Commerce Minister Jiang Yaoping said in Beijing on Wednesday that yuan appreciation won't resolve the U.S.'s trade imbalance with China, as the exchange rate has little effect on the major cause of China's trade surplus: the import of materials used in goods that are then exported.

The meeting between Messrs. Hu and Obama is seen as key to maintaining the relationship between the two countries at a time of tension over trade and human-rights issues. Mr. Gibbs said human rights, currency, and simmering tensions on the Korean peninsula are all anticipated to be on the agenda when Mr. Hu visits the White House on Jan. 19.

The yuan has risen 3.2% against the dollar since June 19, when China pledged to increase exchange-rate flexibility.

—Yajun Zhang and Aaron Back contributed to this article.

Japan Inc. sees mild recovery

By Toko Sekiguchi

TOKYO—Some of Japan's top corporate leaders predicted a mild economic recovery in the next fiscal year, led by growth in the U.S. and emerging markets, adding that the yen wasn't likely to rise sharply over the next 12 months.

The leaders of the country's three major business lobbies—the Japan Federation of Economic Organizations, the Japan Association of Corporate Executives and the Japan Chamber of Commerce and Industry—said the yen will likely depreciate against the dollar as the U.S. and European economies pick up.

"I expect the dollar to be around 80 to 85 yen, a relative depreciation compared with this year," said Tadashi Okamura, the head of the Chamber of Commerce and former chairman of **Toshiba** Corp. He spoke at a news conference after a New Year gathering of Tokyo's economic and political leaders.

The vice chairman of **Sony** Corp., Ryoji Chubachi, told reporters on the sidelines of the gathering that based on economic fundamentals, "it is unlikely that the yen will become extremely stronger or weaker," without referring to specific levels.

Mr. Okamura warned that the current quarter may be difficult for Japan's economy, with businesses facing layoffs and even closures.

The government forecasts 1.5% growth in the next fiscal year, a slowdown from this year's 3.1%, due to a spending binge driven by government subsidies for purchases of energy-efficient appliances.

Prime Minister Naoto Kan made a brief appearance at the gathering, encouraging businesses to "stop saving, invest domestically, hire more and raise wages."

In response, the business community took a jab at Mr. Kan's failure to negotiate with opposition parties in passing the budget.

The opposition Liberal Democratic Party threatens to boycott the budget debate scheduled for the regular parliamentary session this month unless Mr. Kan gets rid of two cabinet ministers that the opposition-led upper house has censured.

"Politicians don't seem to understand the role of business executives," said Hiromasa Yonekura, head of the Japan Federation of Economic Organizations and chairman of **Sumitomo Chemical**.

The business leaders supported Mr. Kan's effort to make this year "a year of opening Japan up," a reference to his stated commitment to free trade. "This is an opportunity for Japan's small to medium-size businesses to expand overseas," Mr. Okamura said, calling for collaboration between agriculture and businesses to build consensus on free trade.

WORLD NEWS

Pakistan killer had revealed his plans

By Zahid Hussain
And Tom Wright

Associated Press

Malik Mumtaz Qadri, third from right, has become a hero to Islamists after killing a Pakistani governor and is cheered on arrival at an Islamabad court Wednesday.

The killer of a senior politician who spoke out against Pakistan's blasphemy laws had told others about the pending attack but had still been assigned to guard his victim.

Malik Mumtaz Qadri, a member of an elite police force responsible for providing security to the country's top civilian leadership, fired multiple rounds Tuesday into Salmaan Taseer, governor of Punjab province, at a shopping complex in an upscale part of Islamabad. He later told police he was angered by Mr. Taseer's efforts to abrogate the country's strict blasphemy laws.

Officials familiar with the investigation said it had also become apparent that the murder, which was widely lauded by Islamist groups and sympathizers Wednesday, was abetted by the other security guards, raising concerns about the country's elite security services being penetrated by Islamic extremists.

Mr. Qadri had previously been removed from a branch of the police dealing with counterterrorism due to concerns about his Islamist leanings, and had himself asked to guard Mr. Taseer, a senior police official said.

Preliminary investigations revealed that Mr. Qadri informed other police officers of his plans, the official said. Police detained six other guards from Mr. Taseer's security detail and are investigating their possible involvement.

Officers responsible for Mr. Qadri's assignment were also detained on the suspicion that they allowed him to join Mr. Taseer's detail despite knowing of his association with radical Islamists.

Investigations are focusing on Mr. Qadri's links with Dawat-i-Islami, a radical Islamist group that has been at the forefront of protests in recent weeks against efforts to change the blasphemy laws, the police official said. Mr. Taseer's death has exposed a deep fissure in Pakistan society between liberal politicians with Western lifestyles and religious leaders who hew to an Islamist view of the world and are gaining influence.

Some analysts speculated that the high-profile murder could be a part of a wider conspiracy to silence liberal voices.

In the past, there have been some cases where military personnel have been found aiding Islamists. At least two policemen have reportedly carried out suicide attacks, including an incident a few years ago in Karachi where a policeman blew himself up at a Shiite mosque.

India has charged that officers of Pakistan's spy agency, Inter-Services Intelligence, were involved in the 2008 Mumbai terrorist attacks.

Thousands of people gathered for Mr. Taseer's funeral in his native Lahore on Wednesday, including Prime Minister Yousuf Raza Gilani. Pakistan President Asif Ali Zardari, who was close to Mr. Taseer, vowed to bring those responsible to justice. He didn't attend the funeral for security reasons.

The killing drew international condemnation. U.S. Secretary of State Hillary Clinton said in a statement, "His death is a great loss."

Dawn, a Pakistani newspaper, said in an editorial: "The governor of Punjab had been an outspoken critic of the blasphemy laws and he paid the ultimate price for his rejection of the cancer of intolerance that has aggressively eaten away at this country for over three decades now."

Lahore remained in lockdown amid fears that local religious groups would stage violent protests.

Mr. Qadri became an instant hero for the Islamists who posted thousands of messages on Facebook. "Pray for the ascension of Qadri to heaven," reads one.

Many religious leaders, even those from so-called moderate groups, were angered by Mr. Taseer's support in recent months of a 45-year-old Christian farm worker, Asia Bibi, who was sentenced to death by a Pakistani court in November for blasphemy for insulting Islam.

"Everybody is in favor of Mumtaz Qadri," said Raghib Hussain Naeemi, a leading cleric in Lahore. "Everybody is thinking that Salmaan Taseer was on the wrong side. He's standing with that person who committed blasphemy."

The Jamaat-e-Ahl-e-Sunnat, another religious group, said in a statement signed by more than 500 clerics that Mr. Qadri was a "true soldier of Islam," and warned Muslims not to mourn Mr. Taseer's death. "It is a warning to all intellectuals and politicians who want to change Islamic laws," the statement said.

Jamaat-e-Islami, one of Pakistan's main Islamist political parties, also said the assassination was justified. "If the government had removed him from the governorship, there wouldn't have been the need for someone to shoot him," it said in a statement.

The rift between liberal politicians and religious groups shows the difficulties facing the U.S. and other Western nations that are giving billions of dollars in aid money to bolster Pakistan's secular government.

Mr. Taseer was a businessman and a leading politician from the Pakistan People's Party, whose leader, former Prime Minister Benazir Bhutto, was assassinated in 2007, also by religious extremists.

The government of Mr. Zardari, Ms. Bhutto's widower and co-chairman of the PPP, has been slow to clamp down on religious extremists for fear of causing a backlash from clerics in Punjab, Pakistan's most populous province, and elsewhere at a time when the military is also fighting Taliban militants on the border with Afghanistan.

—Rehmat Mehsud contributed to this article.

Seoul rejects North Korean offer to talk

By Evan Ramstad

SEOUL—North Korea issued a vague invitation for talks with South Korea in a news statement that abstained from its usual harsh criticism of the South's government.

The overture appeared by its timing and method of delivery to be more of a public-relations tactic than a genuine diplomatic invitation. Seoul rejected it out of hand.

"We think it is not a serious offer," said Lee Jong-joo, a spokeswoman for South Korea's Unification Ministry, which deals with the North.

Ms. Lee added South Korea wants North Korea to acknowledge its recent attacks, including the sinking of a warship and shelling of a civilian-inhabited island, that together resulted in the deaths of 50 South Koreans.

"We think it's time for North Korea to act, not just make some kind of rhetoric," she said.

The governments of the two Koreas have a formal means of communication through a daily exchange at military posts in the inter-Korean border, which is known as the demilitarized zone.

North Korea has used that formal channel in recent months to arrange military meetings and logistics for receiving aid donations and setting up reunions of separated Korean families.

The highest-level talks between the two countries, including summit meetings in 2000 and 2007, are usually set up after months of quiet negotiations between the two governments.

Wednesday's invitation came in a news story issued late at night by its state news agency. The story cited unnamed "government, political parties and organizations" as "courteously" proposing a "wide-ranging dialogue."

"We call for an unconditional and early opening of talks between the authorities having real power and responsibility, in particular," the statement said. It added, "We are willing to meet anyone anytime and anywhere, letting bygones be bygones, if he or she is willing to go hands in hands with us."

North Korea in recent months has also offered through its media to talk to South Korea and the U.S. in the six-nation diplomatic process that has previously been focused on nuclear disarmament. Seoul and Washington have refused to let that process—which also involves China, Japan and Russia—to be expanded to issues not related to denuclearization.

Instead, South Korea and the U.S. have insisted that North Korea use regular diplomatic channels in communication and give assurances that sitting down at a table for talks won't be a waste of time.

Both countries have been looking for a way to resume formal discussions with North Korea. The U.S. special representative for North Korea, Stephen Bosworth, visited Seoul earlier Wednesday to coordinate outreach to Pyongyang.

He said the U.S. is ready for "serious negotiations." Asked if the U.S. was putting pressure on South Korea to talk to Pyongyang, Mr. Bosworth said, "Never."

WORLD NEWS

A whale of a sale: world's priciest tuna

[Letter from Tokyo]

By Yuka Hayashi

If the prices of premium tuna for sushi and sashimi are an indication of consumer behavior, Japan's economy seems to be doing quite well: Tokyo's Tsukiji central fish market rang in the new year with a happy record: a bluefin tuna fetching a highest-ever price at the year's first auction Wednesday.

A team of a popular Hong Kong restaurant chain and a stylish Tokyo sushi bar successfully bid 32.49 million yen, or nearly $400,000, for the 324-kilogram tuna caught off Toi in Hokkaido, a fishing town known for its catch of rich and fragrant bluefin. (That comes to about $1,200 a kilo.)

The price exceeded the previous record of 20.2 million yen set in 2001, and overshadowed the 9.63 million yen that the same pair paid for their fish a year earlier.

A spokesman for the Tsukiji market said tuna prices tend to get inflated in the first auction of the new year, in a custom known as a "celebratory market," or shugi soba. In fact, the average price of bluefin tuna has been declining since 2006, he said, as demand weakens for gourmet fish, reflecting belt-tightening by Japanese households and businesses amid the country's prolonged economic malaise. Tougher global restrictions on fishing of bluefin, considered by many as an endangered species due to overfishing, haven't kept their prices from sagging.

"What a relief I was able to buy this fish," Ricky Cheng, the owner of the Itamae Sushi chain, part of Hong Kong's Taste of Japan Group, told reporters at Tsukiji. "We wanted to get it for good luck, even if we lose money." Mr. Cheng's company had teamed up with Kyubey, a renowned, Michelin-starred Ginza sushi bar that counts Steven Spielberg as a client.

Mr. Cheng may be risking more than lost profit. Since the company's highly publicized win at Tsukiji last year, the Hong Kong branch of WWF has pressured the company to stop serving bluefin tuna. The environmental group also asked Taste of Japan this week not to participate in the "symbolic bidding in Tsukiji market in Tokyo."

—More at blogs.wsj.com/japanrealtime

Zuma Press

The buyer and broker of the record-breaking bluefin tuna pose with their 324-kilogram catch at Tokyo's Tsukiji market.

U.S. commanders seek more troops

By Adam Entous
And Julian E. Barnes

WASHINGTON—Top American commanders are pushing for an increase of nearly 3,000 combat forces in Afghanistan to coincide with the spring fighting season, in order to cement tentative security gains before White House-mandated troop reductions begin in July.

If the proposed increase is approved by the Pentagon, the first units could be on the ground as early as mid-January, and the bulk would be put in place in April and May. The forces would mostly be deployed in the south, around Kandahar.

Commanders in Afghanistan and advocates in Washington argue that temporarily adding frontline forces could help counter an anticipated spring offensive by Taliban militants returning from havens in neighboring Pakistan.

Senior defense officials hope to build on what they see as recent military gains, particularly in southern Afghanistan, with the goal of exhausting the Taliban and forcing at least some of the movement's leaders to the negotiating table.

"This is about keeping the foot on the gas, putting the pressure on," a senior defense official said.

The proposal points to the intense political pressure facing U.S. commanders in Afghanistan to show sustainable security gains in the first half of 2011. The Pentagon has just a few months before the July deadline to convince the White House the war strategy is working.

The additional deployment could push the total number of surge troops beyond the 30,000 announced by President Barack Obama in December 2009.

But Mr. Obama gave Defense Secretary Robert Gates authority to send up to 3,000 on top of the 30,000 to respond to unforeseen contingencies. Mr. Gates initially said he intended to use the reserve if additional support troops, not combat forces, were needed. About 1,000 troops remain available from the reserve.


Reuters

U.S. troops at the site of a suicide bombing in Kandahar in December.

The additional forces would be drawn from both the Army and Marine Corps.

Officials said the total number of troops wouldn't exceed the force size authorized by Mr. Obama. The proposal calls for changing the mix of forces in Afghanistan, replacing some support units with additional combat forces. The senior defense official said commanders in Afghanistan have been evaluating which support units are no longer needed.

A further boost could come by introducing new units a few weeks earlier than planned in April, allowing them to overlap longer with outgoing units. Commanders could also structure new deployments to get frontline troops in place more quickly. There are now 97,000 American personnel in Afghanistan.

The U.S.-led coalition in Afghanistan, known as the International Security Assistance Force, declined to discuss "predecisional operational plans and concepts," said Rear Adm. Vic Beck, an ISAF spokesman.

Come June, a senior U.S. official said, commanders should be able to assess the extent to which U.S.-led offensives over the past year have weakened the Taliban, or whether the insurgency is bouncing back.

Advocates see the proposed troop increase as a way to build on progress that they say has been made in clearing Taliban insurgents out of their strongholds in the southern provinces in Helmand and Kandahar, where most of the 30,000 surge troops have been sent.

Officials said nearly all the additions would be frontline infantrymen who could immediately begin patrolling population centers and remote villages to keep the Taliban at bay.

That would have a disproportionate impact on the U.S.'s combat capabilities, which could double in and around Kandahar, the senior U.S. official said. Preventing Taliban militants from reasserting themselves in the city where the hard-line movement was born is a top American priority. The troop boost could also help buy additional time for training Afghan security forces.

In a strategy review released in December, the White House said the Taliban's momentum has been arrested in much of Afghanistan, and particularly in the south, but warned that those gains could be reversed, citing the threat posed by militants coming across the border from Pakistan.

A troop increase could meet with some resistance within Mr. Obama's Democratic Party. Key Democrats, who controlled the House in the last Congress, had pushed Mr. Obama to begin withdrawing troops, and supported the July deadline.

Republicans, who now hold a majority in the House, may be more supportive, officials said. Republicans have criticized Mr. Obama's withdrawal deadline, arguing that commanders should get the resources they need to succeed and shouldn't be boxed in by artificial time lines.

Some officials have voiced concerns about the military's ability to maintain control of areas cleared of Taliban, citing the group's ability to replace leaders killed or captured in U.S. Special Operations raids.

"As much as we are hammering them in the south and east, there numbers aren't dwindling. They have so many young men who are disenfranchised who have nothing better to do," the senior U.S. official said.

Defense officials in Washington and commanders in southern Afghanistan have offered the White House a more upbeat assessment, pointing to military gains, including routing the Taliban from districts surrounding Kandahar, as well as recent deals with local tribes to keep the Taliban out of their areas.

Some American officials believe sustained military pressure could open divisions within the movement or force the group to shift away from a strategy that precludes negotiations with the government of Afghanistan.

"We may be having a greater effect on the Taliban than we realize, just by exhaustion, if nothing else," a senior U.S. military official said. "That is the way they do business. They fight until they are exhausted and they are in a position where neither one can claim victory, then they negotiate."

Anthony Cordesman, a defense analyst at the Center for Strategic and International Studies in Washington, said it was unclear what impact, if any, a temporary increase in combat power would have on the overall military campaign as long as the havens in Pakistan remain open to the Taliban.

"If the enemy simply chooses to hunker down, ride out, adapt the kinds of tactics that other guerrilla movements have used under acute pressure...you don't win the war—all you do is basically create a battle of attrition," Mr. Cordesman said.

—Matthew Rosenberg contributed to this article.