WEEKEND JOURNAL.

Seeking the liquor of the gods in Cognac

PLUS: CIRQUE DU SOLEIL REACHES NEW HEIGHTS

THE WALL STREET JOURNAL.

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Germany's Westerwelle fights back

Associated Press

Guido Westerwelle, the embattled head of German Chancellor Angela Merkel's junior coalition partner, defended his leadership and party Thursday. In a party conference speech he insisted his Free Democratic Party had helped ease taxes and create jobs. **Article on page 5**

Electric cars lie at center of spy probe

PARIS—Three **Renault** SA employees who are accused of major ethical breaches will face legal action by the company, for acts serious enough to "threaten strategic assets," the company's chief lawyer said Thursday.

By David Pearson, Sebastian Moffett, and Inti Landauro

The breaches are apparently linked to electric vehicles, France's industry minister said.

Christian Husson, Renault's head of legal and ethical affairs, said an investigation lasting several months had "enabled us to identify a body of converging evidence demonstrating that three group employees have committed misconduct that infringes Renault's ethics and deliberately endangering the company's assets."

The three employees, one of whom sits on Renault's management committee, have been suspended. That move, Mr. Husson said, "is designed to immediately protect the strategic, intellectual and technological assets of our company."

"These are serious acts concerning people with extremely strategic positions at the group," Mr. Husson said in a statement. "We are examining all legal options, which will inevitably result in legal actions," he added.

People familiar with the situation said the three employees are suspected of having disseminated proprietary information about Renault's electric vehicle projects outside the company.

The high-level suspensions highlight how seriously car makers take the risk of corporate espionage, especially as they engage in a high-stakes race to develop technology that is different from traditional internal-combustion engines.

"The case illustrates the risks of industrial spying faced by companies," French Industry Minister Eric Besson told French radio station RTL earlier Thursday.

Electric vehicles are a promising technology since they could reduce the dependence on oil. The big problem is the batteries on which they run.

The first models to be sold travel only around 90 miles (150 kilometers) before they need either to be recharged or to swap their battery pack. But even these batteries are very expensive, making electric cars costly. Estimates of the battery cost are in the range of $10,000, or at least one-third of the price of the car.

Cheaper, longer-lasting batteries are one of the keys for making electric vehicles a success; major car makers are scrambling to improve them.

For Renault, the electric car bet is a huge one.

Renault says that, together with its Japanese partner **Nissan Motor** Co., it has invested €4 billion (US$5.26 billion) in its electric-car program and will roll out four models over the next year or two. The Fluence compact sedan and an

Please turn to page 3

Apple's apps fight to grab tech spotlight

Apple Inc. moved to expand the market for apps and continue to change the way consumers buy software, launching an App Store for its Macintosh computers on Thursday amid a busy week for technology companies.

Apple's announcement briefly turned tech watchers' attention away from Las Vegas, where the Consumer Electronics Show featured a slew of announcements about planned tablets, seen as a major growth area for computer makers following the success of Apple's iPad.

Motorola Mobility, recently split off from the old Motorola Inc., saw its shares edge higher Thursday after introducing a much-anticipated tablet product, dubbed Xoom, based on a new version of **Google** Inc.'s Android operating system, called Honeycomb.

"While live hands-on demos were not available of Honeycomb or the Xoom, both appeared to be well engineered," said Jefferies & Co. analyst Peter Misek said in a note.

In other announcements, Sony Ericsson unveiled a new flagship device, the Xperia arc, which also marks deeper collaboration between the company and **Sony** Corp.

Meanwhile, shares in U.K. microchip designer **ARM Holdings** continued to gain after U.S. software giant **Microsoft** Corp. confirmed that the next release of its Windows operating system will work with ARM chips. Microsoft still plans to make versions of Windows that also run on chips make by long-time "Wintel" partner **Intel** Corp., but the company's ARM efforts signals a bet on a technology geared to smartphones and tablets.

The new Apple store, which seeks to extend apps' popularity beyond mobile devices, initially contains more than 1,000 apps for its PCs in 21 categories such as productivity, games and education, and will include a word processing app and presentation software. It will also include contributions by third-party developers including **Twitter** Inc. and design software company **Autodesk** Inc., which launched both a free and paid professional version of its paint and drawing software SketchBook. **Rovio Mobile** Ltd. is also offering its hit Angry Birds game

The Mac App Store is seen as a way by Apple to capitalize on the popularity of its iPhone and iPads to sell more computers. While Macintosh sales have been strong—increasing 22% in the quarter ended in September—that business has been overshadowed in recent years by the faster-growing iPhone and iPad businesses.

■ Highlights from the CES trade show 20
■ Apple expands its vision for software apps 21
■ More at WSJ.com/Tech

The Quirk

Hey, folks: here's a digital requiem for a dearly departed salutation. Page 29

Editorial & Opinion

Viktor Orban is showing an unhealthy appetite for control. Page 12

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PAGE TWO

A bullish start—but it carries risks

[Agenda]

By Simon Nixon

Investors have started the year in a bullish mood. Stock markets have risen in the first few days of trading and bond issuance on both sides of the Atlantic is breaking records for the start of the year. This bullishness reflects a combination of ultraloose monetary policy driving investors into riskier assets and increasing optimism about the global economy, fueled by positive news this week.

In the U.S., private-sector payrolls increased by 270,000 in December, far ahead of expectations, while consumer spending is picking up and auto sales have risen significantly. The latest global industrial purchasing-managers indexes—a key barometer of economic health—suggest the recovery picked up speed in December, a conclusion supported by recent surveys of economic confidence.

Germany's remarkable economic performance continues to help pull other euro-zone countries out of recession. Asia and other emerging markets continue to behave as if the global financial crisis never happened. So what could possibly go wrong? Here are four risks to watch out for:

A China slowdown: China has been the engine of the global recovery, its economy likely to have expanded at a breakneck 10% in 2010. But there is now plenty of evidence the economy may be overheating, with inflation running at 5%. The central bank has already raised interest rates by 0.25 percentage point, imposed price controls on a range of goods, especially food, and has placed restrictions on bank lending. The market now expects interest rates to rise a further 0.75 percentage point this year.

Some other Asian economies have introduced capital controls to try to prevent huge capital inflows from driving up domestic inflation. What's unclear is the effect of all this tightening on Asian and global growth. The market is betting that growth will remain strong, but if inflation proves harder to control, a bigger slowdown could be on the cards.

European Pressphoto Agency

A construction worker at a central Beijing site this week.

A bond-market rout: Who would want to be a central banker right now? Headline figures show inflation is rife in Asia and ahead of target in the euro zone and U.K. But how much of this is due to one-off factors such as commodity-price rises, sales-tax increases and currency devaluations that will eventually pass through and are beyond the control of monetary policy?

If central banks wait too long to raise rates, they may need even more aggressive action.

The situation is most acute in the U.K., where a majority of members of the Monetary Policy Committee believe that underlying core inflation is very weak and that raising rates now just as government austerity measures are kicking in and with the banking system still weak risks badly damaging the recovery. But inflation expectations are picking up and both the Bank of England and European Central Bank may come under pressure to raise rates sooner than expected. Over their heads hangs the specter of 1994 when the U.S. Federal Reserve's surprise decision to raise rates triggered a bond-market rout, which if repeated in the current fragile economic environment could cause real problems for companies and banks.

But if central banks wait too long to raise rates, they may need even more aggressive action to regain control of inflation. Getting the timing of central bank exit strategies right will be crucial to markets this year.

A euro-zone crisis: Spreads on Spanish and Portuguese government bonds have already risen ominously in the first few days of the year in a clear sign the euro-zone sovereign-debt crisis is far from over. Investors are spooked at proposed European rules to require bondholders to bear the losses of failed banks.

Meanwhile, potential future flashpoints include the substantial redemptions of existing bonds due in February and April, a new round of tougher European bank stress tests that may reveal big capital shortfalls beyond the ability of some governments to fill, and the Irish elections likely in March. No one believes the euro-zone bailout mechanisms cobbled together in response to the Greek and Irish bailouts are adequate.

But much depends on whether Europe has the political will and, crucially, leadership to provide a more credible long-term solution that must involve stronger euro-zone members taking more responsibility for weaker economies.

German Chancellor Angela Merkel's powerful New Year affirmation of Germany's commitment to the euro was encouraging, suggesting she now recognizes the need to spell out to her countrymen the catastrophic consequences of allowing the euro zone to collapse. But it may take further hairy moments to focus political minds.

Protectionism: Bank of England Governor Mervyn King warned in October of the dangers of failing to tackle global imbalances: without collective action, "it will be only a matter of time before one or more countries resort to trade protectionism.... That could, as it did in the 1930s, lead to a disastrous collapse in activity around the world. Every country would suffer ruinous consequences—including our own."

Western countries with large external deficits need to rebalance their economies away from debt-fueled domestic consumption in favor of export-led growth. But that requires surplus countries particularly in Asia to provide a market for these exports. So far there's not much sign of the necessary rebalancing; indeed, Mr. King's BOE colleague Andrew Haldane argues that global imbalances are on track to get much bigger as emerging-market economies grow, savings rates rise and global capital flows increase.

The solution is straightforward: exchange-rate adjustments, structural reforms to stimulate demand in surplus countries, and measures to boost saving in deficit countries. Tensions over the lack of progress simmered dangerously in 2010 as Western countries struggled with high unemployment and domestic austerity—perhaps 2011 will be the year these tensions boil over.

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Of a field where once I stood

Murmuring, I laugh

A haiku from EU President Herman Van Rompuy amid Belgian elections

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What's News

■ **A Chinese firm dropped** its $1.3 billion offer for a Dutch cable-wire maker, dealing a setback to Beijing's efforts to buy European companies in key sectors and a sign that Chinese investment in Europe is taking on heightened political sensitivity. 17

■ **Chinese leaders** are stepping up their courtship of cash-strapped European countries, but China watchers caution that Beijing won't save the euro zone. 4

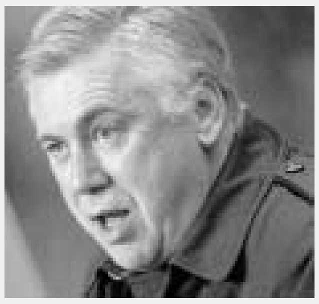
■ **Greece said** it isn't in talks to restructure government debt held by private bondholders. 4

■ **The Hermès clan** won approval to create a holding company to control the luxury fashion house, in a defensive move against LVMH. 17

■ **The U.S. report** on last year's Gulf oil spill reduces the likelihood that BP will be found guilty of gross negligence, legal experts and industry analysts said. 19

Inside

There are so many travel awards, but who really is best? **27**



Trying to explain what has gone wrong at Chelsea. **28**

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NEWS

How high-tech cars will break mold

By Mike Ramsey

As the auto industry faces tougher fuel-economy standards, engineers are working on longer-term fixes for what ails today's models: too much weight, inefficient engines, a troubled fuel source for gasoline-powered cars and recalcitrant batteries in electric ones.

Here's a look at four technologies that could make cars more environmentally friendly:

Pointing the way to greener cars

Carbon fibers made like knitting yarn could cut the weight of body parts such as trunk lids and roofs by about two-thirds.

A novel engine design called the Scuderi, which divides up the tasks done by the cylinders, promises to boost fuel economy 50%.

Gasoline made from sawdust or wood chips offers a way to break the grip of oil while being more environmentally friendly.

Devices called ultracapacitors could store power for electric cars more cheaply than batteries and offer longer driving range.

Carbon-Fiber Parts To Trim Vehicle Weight

Cutting a car's weight is one of the best ways to boost fuel economy. And one way to reduce weight is to replace some of the steel in a car's body with a material called carbon fiber.

But carbon fiber is too expensive for widespread use—it costs at least four times as much as steel by weight. That's why its use has been limited to luxury vehicles such as the Audi R8 and racing cars, along with some airplanes and golf clubs.

Now, researchers hope to make automotive-grade carbon fiber using a process similar to how knitting yarn is created. The development could lower the price of carbon fiber by as much as 25%.

And reducing weight in one vehicle part can cut weigh elsewhere by allowing the use of lighter-weight supporting parts.

"For every pound you take out of a vehicle, there is usually a corresponding 30% reduction in the need for weight in other areas of the vehicle," said Jay Baron, the director of the Center for Automotive Research in Ann Arbor, Mich., who is a materials expert.

Carbon fiber is a thin strand of repeating carbon molecules lined up in parallel, an arrangement that makes them incredibly strong. These tiny filaments are wound into strands that are subsequently turned into a fabric. The fabric is then combined with a glue-like chemical and hardened into the final shape of a car part, such as a hood or trunk lid.

BMW AG aims to mass-produce a carbon fiber interior shell for its MegaCity electric vehicle that will lower the car's weight by about 772 pounds, or roughly 20%.

Ultracapacitors Aim At Batteries' Shortfalls

The first electric vehicles now on the road are limited by the immense cost and weight of their giant battery packs, which are needed to store huge amounts of energy. Scientists working to improve batteries face the fundamental limitations of battery chemistry.

Current battery technology limits the distance electric cars such as Nissan's Leaf, right, can travel. However, the development of ultracapacitors could cut the cost and improve the performance of such vehicles.

But there is another energy-storage device that could radically cut the cost of electric and hybrid vehicles while improving their performance.

The device is called an ultracapacitor. Related to the tiny capacitors long used in electronic products such as TV sets, they can absorb large amounts of electricity quickly, and then discharge it just as fast.

Ultracapacitors function in very cold or very hot air without the temperature-related problems batteries can experience. They also can be recharged millions of times before failing, compared with a few thousand times before a battery goes bad.

On top of that, ultracapacitors are made of inert and abundant materials such as carbon, compared with the rarer metals like cobalt and lithium used in batteries. There's also no chance an ultracapacitor could overheat and cause a fire, as some batteries have done.

The devices work by capturing electrons in a field between carbon-coated metal plates contained in an electrolyte solution. Batteries, in contrast, rely on a chemical process that builds up electrons between an anode and cathode.

The big limitations in using ultracapacitors in cars have been their cost and limited amount of energy storage by weight compared with batteries. But that's changing.

Researchers believe ultracapacitors could replace batteries entirely in hybrid vehicles and be paired with much smaller batteries in all-electric vehicles, cutting costs while improving the driving range.

Already, a few vehicle makers use ultracapacitors. **PSA Peugeot Citroën** SA of France has begun deploying Maxwell's ultracapacitors instead of batteries in its diesel cars in Europe, where they run the car's electronics as part of a fuel-saving "start-stop" system that shuts off the engine at stop lights.

Start-Ups Make Gasoline From Wood

There are reasons why gasoline has been the dominant motor-vehicle fuel for a century: It's packed with energy, noncorrosive, easily transported and readily available.

As the world looks for alternatives to counteract global-warming gasses and other pollution, as well as boost energy security, almost all the proposals require major tradeoffs or an entire new infrastructure, such as charging stations for electric vehicles.

But what if you could make gasoline out of readily available plants? Not ethanol, which requires huge amounts of water and energy to produce and is corrosive. Real, actual, gasoline.

It's not science fiction. A number of start-ups are working on technologies that produce oil substitutes or the base products of gasoline from wood chips or other so-called biomass through a process called pyrolysis.

One firm, **KiOR** Inc., has pledged to build five plants in Mississippi to create "Re-Crude," a crude-oil substitute that can be refined into diesel fuel or gasoline. Another, **Annellotech**, is working to build a demonstration plant to make gasoline compounds directly from biomass.

New Engine Seeks 50% Economy Boost

The auto landscape is littered with variations on the internal combustion engine that fell by the roadside. But one is gaining notice with its promise of a 50% boost in fuel economy.

The technology makes what seems like a minute change in when the gasoline ignites inside an engine. But that split-second twist has a big impact on how efficiently the engine operates.

Nearly every gas engine today shoots a mist of fuel into the engine's cylinder and, as the piston squeezes the fuel and oxygen into a hot, high-pressure environment, a spark is created and...KABOOM! The piston is sent the other direction and drives gears that eventually move the wheels. But the explosion actually happens a moment before the piston comes all the way to the top of the cylinder.

A start-up called Scuderi Group has developed an engine that causes combustion to occur after the piston reaches the top of the cylinder. That change could result in a 50% fuel economy improvement when the engine is paired with a turbocharger and a small air tank, Scuderi says.

Scuderi Group, founded by a thermodynamics engineer and his family, is nearly finished testing the engine design to see how it performs under thousands of scenarios. The tiny company in West Springfield, Mass., says its design may be the fastest route for vehicle makers to meet tough new U.S. fuel economy standards.

Car makers must get their corporate average fuel economy to 35.5 miles per gallon by 2016. To reach that they are counting on using high-compression engines that are turbocharged or supercharged—two existing ways of getting more power out of a small, fuel-thrifty motor.

A Renault Fluence Z.E. electric car at the Paris motor show in September.

Renault battles espionage

Continued from first page
electric version of the Kangoo small van are scheduled to go on sale later this year.

Nissan, meantime, released its Leaf electric car in the U.S. at the end of last year.

Carlos Ghosn, who is CEO of both companies, has said he believes that electric vehicles will represent 10% of global automobile sales in 10 years.

The case carries other business risks for Renault. A Nissan executive said he was angry that Renault had allegedly leaked information, especially as Nissan is the source of much of the technology for the lithium-ion batteries that are being developed for electric vehicles under the Renault-Nissan alliance.

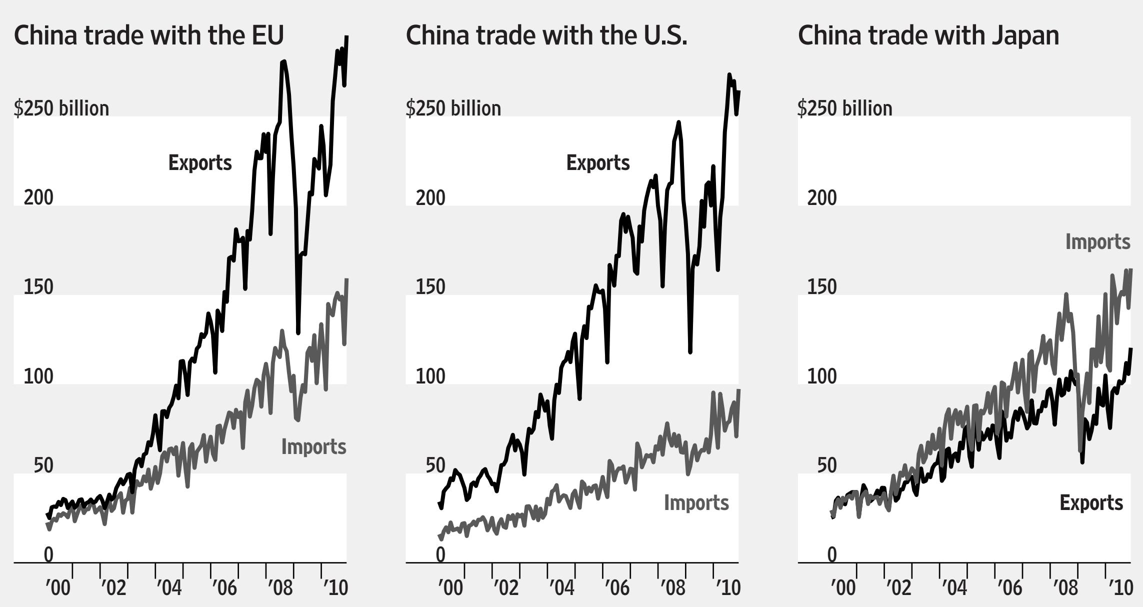
"Whatever they leaked, it's ours," said the Nissan executive, who declined to be identified. "They don't have their own lithium-ion battery technology. We serve all of their battery technology needs, and we are their supplier of battery cells and packs."

In a statement, Renault said its investigation was continuing, and that it intended to "respect and preserve the identity of the three managers concerned."

The suspension could lead to disciplinary action, including dismissal, a Renault spokeswoman said. The employees' contracts were suspended without pay, and the three workers were barred from entering their workplace.

Mr. Besson, the industry minister, said he wants companies that receive support from the government for research and development to strengthen their security against espionage. Renault is partially owned by the French government.

Biggest market | Europe is now China's top trading partner, giving China a big stake in the euro-zone crisis



Source: Capital Economics

Europe's hopeful eyes turn to Beijing's purse

Chinese leaders are stepping up their courtship of cash-strapped European countries such as Spain, pledging to buy their bonds and expand business ties. Yet China watchers caution that despite the warm diplomacy, Beijing won't save the euro zone.

*By **Marcus Walker** in Berlin and **Jason Dean** in Beijing*

Chinese Vice Premier Li Keqiang arrived in Berlin Thursday on the latest stage of a European tour that began in Madrid. While in Spain, Mr. Li, who is widely expected to become China's next premier, signed a string of trade and investment deals. He also vowed that China would continue to buy Spanish government debt, a message welcomed by Spain's embattled government as a vote of confidence in the country.

Reuters

Spain's King Juan Carlos, right, greets China's Li Keqiang in Madrid Wednesday.

However, Chinese officials made no commitment to lend Spain a specific amount, despite suggestions in Spanish media that Beijing might buy €6 billion ($7.89 billion) of Spanish bonds.

China's actions "frequently fall short of the expectations raised by their words," London consultancy Capital Economics said in a research note Thursday, pointing to China's slow steps on other economic issues where Europe and the U.S. want to see Beijing take action, such as its exchange-rate policy.

Most analysts say China is unlikely to bail out Spain if the European Union can't muster enough will or money to save Madrid from a debt default. "If Spain can no longer access the bond market, will the Chinese lend enough to Spain to get it out of this crisis? I very much doubt it," says Katinka Barysch, deputy director of the Center for European Reform, a London-based think tank. "Nor would the EU want one of its members to become beholden to China," she says.

The need to preserve the value of its financial reserves sets a limit on the amount of money that China would be prepared to stake on lending to Spain or other struggling European countries, economists say. Many Chinese view the country's reserves as a national treasure, and the government has come under harsh public criticism on the Internet for perceived missteps in its foreign investments. Large-scale use of reserves in a European crisis is highly unlikely to appeal to Beijing.

Chinese investments in Spain, Greece and Portugal are almost certainly a pittance compared with China's overall foreign-exchange holdings, which totaled $2.65 trillion at the end of September.

However, verbal support and limited financial backing for Europe's struggling economies fit neatly with China's interests, enabling it to help stabilize an essential export market, and enhance its diplomatic standing at relatively little cost.

Visits to Europe by Chinese leaders aiming to promote trade and investment ties in the past focused on Europe's major power centers such as Berlin, Paris and London. But in recent months, top officials have also visited crisis-hit countries on the euro zone's periphery, with Premier Wen Jiabao visiting Greece in October and President Hu Jintao going to Portugal in November.

"One could interpret China's policy as: 'We've got to keep these economies going because they buy our goods, and we need to protect the value of our euro-denominated holdings,'" says Vanessa Rossi, senior research fellow at London think tank Chatham House.

Since China manages the yuan's value primarily against the dollar, when the euro weakens against the U.S. currency it also falls against the yuan, making Chinese goods more expensive for Europeans.

China also hopes its assistance will help it advance its own agenda in the region. Beijing wants the EU to formally designate China a "market economy," a status that would limit the countries' ability to pursue trade actions against China at the World Trade Organization. EU officials have said China doesn't yet meet the criteria for that.

The country is already thought to have a substantial exposure to the euro zone. Ms. Rossi estimates China may hold as much as €700 billion in euro-zone government bonds, or nearly 10% of government debt issued by the 17-nation currency bloc.

In the past, the prospect of China investing heavily in Europe provoked fears of a buildup of unwanted Chinese influence in the region. "Because of the crisis, China is getting a better reception than before," Ms. Rossi says.

■ Chinese bid for Dutch Draka meets wall in EU.................................... 17

China addresses concerns raised by foreign firms

By Esther Fung

SHANGHAI—China Vice Premier Li Keqiang, in an apparent attempt to address concerns raised about China's investment climate, wrote in an op-ed article that coincided with the first day of his visit to Germany that China will continue to strengthen intellectual-property protection and improve the business environment for foreign firms, saying they are entitled to the same treatment as their Chinese counterparts.

"China will continue to improve foreign-business-related laws, regulations and policies, and give protection to intellectual-property rights in order to provide a level playing field and a stable, orderly, transparent and predictable market environment for all players," Mr. Li said in the article, published in the China Daily on Thursday.

Chinese leaders have offered repeated reassurance in recent months over the country's policies toward foreign investors, amid complaints from business groups and executives—including prominent German industrialists—that Beijing's handling of matters such as intellectual-property protection, government procurement rules and technology-transfer requirements were putting non-Chinese firms at a disadvantage.

A number of foreign officials and executives have welcomed the Chinese reassurances, but said they want to see more evidence the promises will be implemented.

Mr. Li, who is widely expected to succeed Wen Jiabao as China's premier in two years, is in Germany from Thursday to Sunday on the second leg of a trip to Europe.

Mr. Li visited Spain earlier this week and will visit the United Kingdom from Sunday to Wednesday.

In July, German Chancellor Angela Merkel said China hadn't satisfied all the requirements for attaining market-economy status in the eyes of Europe, and that Beijing still had to do more to ensure the protection of intellectual-property rights and equal market access for German businesses in China.

Mr. Li said China and Germany can work together to promote bilateral trade and investment and resolve trade frictions through consultation, and that "China welcomes the presence of more foreign investment, particularly in the areas of modern agriculture, high and new technology, new energy and new materials."

Germany's investment in China accounts for only 2% of its overseas investment, and China's investment in Germany is a little more than $1 billion, Mr. Li said, adding that both countries should continue to explore new areas of cooperation such as green technology.

To develop its services sector, China will further open financial and logistics services and steadily open up education, health services and sports to foreign investment, Mr. Li said.

China is aiming to strengthen its ties with the European Union, its biggest trade partner, amid continued pressure from Washington to let its currency, the yuan, appreciate faster to reduce trade imbalances with the U.S.

"We hope that the EU will relax restrictions on high-tech exports to China, promote the improvement of international trade and financial regime, and develop trade relations that are balanced and sustainable," Mr. Li said.

Xu Xianping, the vice chairman of the National Development and Reform Commission, said Tuesday the EU should relax controls on high-tech exports to China and quickly grant the country market-economy status, while China should strengthen intellectual-property protection and improve its business environment.

Greece seeks to soothe investor worries on debt

By Nathalie Boschat And Frances Robinson

PARIS—Greece's prime minister sought to allay investor concerns over its debt burden, saying on Thursday that the country isn't in talks to restructure government debt held by private bondholders and will return to the bond markets this year if conditions allow.

In an interview, Prime Minister George Papandreou said Greece's program of tough structural reforms and fiscal austerity—as demanded by its international lenders—would ensure that Athens could repay its private creditors.

"We have no such [restructuring] talks going on. If we look at growth, at the fiscal consolidation, the reforms we're making and the fact we have the strong backing of the [European Financial Stability Facility], we believe will have no problem in paying back the debt," Mr. Papandreou said.

In May, Greece narrowly avoided default with the help of a €110 billion ($145 billion) bailout from the European Union and the International Monetary Fund in exchange for imposing economic overhauls while also cutting its budget deficit.

However, renewed jitters over Greece's debt burden—expected to hit 153% of GDP by the end of 2011—combined with recent reports that Greece was considering restructuring interest payments on the debt held by private investors have propelled yields on Greek bonds to their highest level since the country's rescue.

Greece is in talks with the EU and IMF to extend the repayment terms of its €110 billion loan, with a final deal expected within weeks.

German coalition partner struggles

By Patrick McGroarty
And Bernd Radowitz

BERLIN—Guido Westerwelle, the embattled head of German Chancellor Angela Merkel's junior coalition partner, defended his leadership and party Thursday, saying the Free Democrats had helped spur the country's economic recovery and acted as a bulwark against the leftward drift of German politics.

Mr. Westerwelle, who serves as foreign minister and vice chancellor under Ms. Merkel, has drawn harsh criticism from within the pro-business Free Democratic Party and increasingly dire approval ratings after failing to follow through on a tax-cut pledge and other campaign promises.

The Free Democrats' plight has also become a headache for Ms. Merkel ahead of a string of regional elections in coming months. A collapse in support for the party could shift control of key states. Such an outcome would give the opposition a wider majority in Germany's upper house, which represents the country's 16 states, further hobbling Ms. Merkel's legislative agenda and weakening her coalition's credibility.

"Even Hercules couldn't turn everything around in a week. But we've made a start," Mr. Westerwelle said at a party conference in Stuttgart. "Germany is doing better than it was before the election...and the [Free Democrats] have done our part."

Critics have often branded Mr. Westerwelle as arrogant and out of touch, and reaction to the speech suggested he hadn't done as much as his allies had hoped to improve his image.

"No self-criticism, no new ideas, no new vision," wrote Roland Nelles, Berlin bureau chief for the news website Spiegel Online, in a commentary posted after the speech. "This was the old Westerwelle: 'Everyone's a fool except for me.' "

A weekly poll released Wednesday by Stern magazine showed support for the Free Democrats at just 4%, below the 5% threshold required to hold seats in parliament and a shadow of the nearly 15% showing that brought the pro-business party to power in national elections in September 2009. Mr. Westerwelle's personal approval ratings are equally dire: He garnered a 29% approval rating, a personal low that put him last on the list of politicians respondents were asked to rate.

The Free Democrats spent decades as kingmakers to successive coalition governments before a decisive victory for left-leaning parties in 1998 pushed them into more than a decade of outspoken opposition to the initiatives of center-left and then grand coalition governments.

This was the climate in which Mr. Westerwelle, now 49 years old, became the youngest person ever to lead his party in 2001. He helped convert a deep current of voter dissatisfaction into a record showing for the Free Democrats in the 2009 election, but has since struggled to steer the party from a decade of adversarial rhetoric back toward their traditional role as consensus-builders.

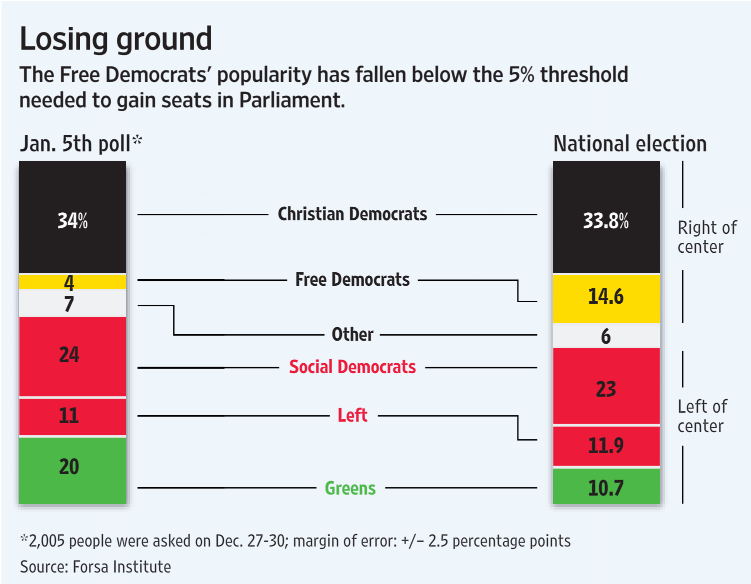
"Naturally, 11 years heading in the wrong direction can't be forgotten in a year," Mr. Westerwelle said Thursday of the country's politics while the Free Democrats were out of power. "But we've started to make political change."

A key stumbling bloc has been the party's campaign promise to lower taxes. Ms. Merkel put the agreement on hold last spring, as the government became preoccupied by the euro-zone debt crisis and made plans to set an example for the bloc's weaker members by slashing its budget over the next three years. But key FDP leaders like Economics Minister Rainer Brüderle continued to call for tax cuts, opening the party to critiques that they were inflexible and lacked new ideas.

Mr. Westerwelle addressed the tax dispute carefully Thursday, saying the government would simplify the tax system in 2011 and would pursue tax cuts "if there is room for further tax relief through our consolidation policies, through good economic development."

European Pressphoto Agency

FDP Chairman Guido Westerwelle speaks at Thursday's party meeting in Stuttgart, Germany.



U.K. steps up flu-vaccine efforts

By Sten Stovall

LONDON—U.K. health officials Thursday told the country's doctors to use stockpiled pandemic flu vaccine where appropriate to help cope with a shortage of seasonal flu medicine.

Interim Chief Medical Officer Sally Davies said the move was needed due to a "mismatch" of demand for influenza vaccines and a lack of supply in certain parts of Britain.

"We find there is a mismatch—that there are patients who are not getting vaccines when they wanted them," Dame Sally told journalists.

"We do believe there is vaccine in the system, but we are still encouraging people to come forward and it's important to increase the access to vaccine."

Agence France-Presse/Getty Images

Interim Chief Medical Officer Sally Davies wants to increase access to vaccines.

The government's move comes amid evidence that flu is spreading across the U.K. as well as a number of European countries. The main circulating forms of influenza are the H1N1 swine flu strain and Influenza B.

Britain's stockpile comprises 12.7 million doses of **GlaxoSmithKline** PLC's Pandemerix, containing only the H1N1 strain. The seasonal flu vaccine that is in short supply in the U.K. contains three flu strains—H1N1, Influenza A and B.

The jump in cases of severe influenza has put pressure on some intensive care units in the U.K., with such patients now occupying more than 20% of intensive care space.

Some doctors' surgeries in parts of Britain are running out of flu vaccines, prompting Thursday's decision to release supplies of pandemic vaccines stockpiled last year during the swine flu epidemic, which turned out to be milder than many had feared. The government says the stockpiled vaccines are still safe and won't expire until late 2011.

The U.K.'s coalition government is keen to avoid a public health crisis over the issue.

"The way it works in this country is that GPs are responsible for ordering in advance a flu vaccine, which they did this year," Prime Minister David Cameron said when asked about the subject by journalists.

"Clearly those stocks are being used up and in some places, yes there have been some shortages, and the Department of Health has been looking urgently and working hard to work out how we can help address that issue," he said.

Vaccine manufacturers delivered around 14.7 million doses of seasonal flu vaccine to the U.K. this year, a similar amount to that in each of the previous two years. Of that total, 10% was distributed in Scotland with the remainder earmarked for England, Wales and Northern Ireland, according to the U.K. Vaccine Industry Group, or UVIG.

Manufacturers can't make more vaccine to order in time for this winter because it takes six months to produce.

A spokesman for Sanofi Pasteur MSD, one of the manufacturers within UVIG, said the company had only "a few thousand" of one particular type of vaccine left, called Intanza, which was only licensed for patients aged 60 or over. He said stocks of other types had run out. Sanofi Pasteur MSD is a joint venture between Sanofi Pasteur, a unit of **Sanofi-Aventis**, and **Merck** & Co.

The situation in Britain underscores the need for greater efforts to encourage vaccination, not only for at-risk groups like very young children and pregnant women but also health-care workers, the European Society of Clinical Microbiology and Infectious Diseases said Thursday.

"There are concerns that what is happening in the U.K. could be mirrored in other parts of Europe with France, the Russian Federation and Ukraine already reporting influenza rates above their usual thresholds," the non-profit organization said.

Worries loom in Belgium as official resigns

By John W. Miller

BRUSSELS—Johan Vande Lanotte resigned Thursday as mediator of talks between Belgium's two main language groups, prolonging a deadlock that has left the country without a government since elections in June and sparking fresh worries on bond markets about the country's ability to repay its debt.

The spread between yields on Belgian and German bonds increased Thursday to 113.3 basis points from 100.3 basis points the day before. However, volume was light, and the spreads were below highs of more than 150 basis points in November during the worst days of the European debt crisis.

Although Belgium's debt-to-gross-domestic-product ratio is 100%, behind only Greece and Italy in the euro zone, it has so far encountered no problems issuing new debt, thanks to its high domestic savings rate and its stellar repayment record.

That could change. The proposed coalition's failure to agree on the key question of how devolve more power to Belgium's three regions has become problematic, even by Belgian standards. Ratings agency Standard & Poor's has said Belgium could be downgraded if it can't form a government in coming months.

Reuters

President Sarkozy, center, met with President Barack Obama and other leaders at November's NATO summit in Lisbon.

Sarkozy likely to suggest a lesser role for dollar

By Nathalie Boschat
And Ian Talley

PARIS—French President Nicolas Sarkozy is likely to make a provocative suggestion when he visits U.S. President Barack Obama on Monday: Give the dollar a less-prominent role in the world economy.

France has the rotating presidency of the Group of 20 industrialized and emerging nations this year, and Mr. Sarkozy wants to use the platform to urge a rethinking of the international monetary system, with the aim of reducing the consequences of excessive currency volatility on global growth.

Key to Mr. Sarkozy's goal is reexamining the role of the U.S. dollar and the Chinese yuan. Last year, Mr. Sarkozy secured a commitment from China's President Hu Jintao that Beijing would participate in discussions over currency issues. To get the initially reticent Chinese leader to the table, Mr. Sarkozy sidestepped the touchy issue of the yuan's valuation.

On Monday, Mr. Sarkozy hopes to snag a similar commitment from Mr. Obama that he will participate in multilateral currency talks. The argument Mr. Sarkozy will make is that overdependence on the dollar as the de facto global reserve currency leaves nations exposed to policy decisions by the U.S. Federal Reserve over which they don't have control, said an official close to the French president.

"To talk about currencies, we need China and we need the U.S. around the table," another senior French official said.

Economists and analysts say Mr. Sarkozy may be able to make small changes in the international monetary system by highlighting the issue among G-20 states and by encouraging greater oversight over capital flows by the International Monetary Fund. But they say it is highly unlikely he will be able to budge the dollar from its global throne.

Mr. Sarkozy believes that fostering a more "multipolar" currency system will also help address the increasing thirst of fast-growing emerging nations for reserve assets, which the dollar alone can't quench.

"We need to assess the relevance of a system that is based on the accumulation of currency reserves in U.S. dollars," Mr. Sarkozy said at a conference in Paris last month. The French leader said he wouldn't challenge the dollar's role, "which will no matter what remain prominent." But, he added, "prominent doesn't mean exclusive."

A group of more than a dozen leading international economists led by a former French IMF chief is working on recommendations to turn the president's thinking into an actual strategy.

The U.S. view is that it is supplying what the world demands; Washington sees little space for other currencies to gain significant traction. Countries could choose another currency to stock their reserves, but only at a cost. And there may not be enough supply of other currencies to meet some countries' needs.

Bluntly advocating a diminished role for the dollar would be a no-go for the U.S. administration, said Agnés Benassy-Quere, director of the Paris-based think tank CEPII. That is why Mr. Sarkozy "has to outline the potential benefits for the U.S. of a world in which economic and monetary powers are better aligned."

—David Gauthier-Villars contributed to this article.

EU eyes bondholders' burden

By Riva Froymovich

BRUSSELS—The European Union is proposing a regionwide framework for confronting bank and investment-firm failures that urges bondholders to share the burden.

The EU executive arm, the European Commission, Thursday released a 100-plus page consultation paper that aims to abolish the excuse that a bank is too big to fail. The paper, which is open to public comments until March 3, asks whether bank bondholders should share in paying for future bailouts and seeks to give greater authority to national regulators over bank leadership and business strategies when a country's economic stability is at risk.

The goal is for key bank services, such as withdrawing deposits and making payments, to remain unaffected in the process of winding down a bank and for the cost of that winding-down not to weigh on government budgets.

"It can be intrusive," said an EU official, but should be used when "necessary, justified, proportionate and aimed at achieving the right outcome."

The lack of an EU-wide game plan and rules for engagement between countries in the case of a bank collapse heightened the uncertainty during the financial crisis. Banks, too, were found unready to plan for their own exits.

Officials intend to propose legislation in early summer, although it is unlikely to come into force before 2013.

EU officials acknowledge that the legal hurdles to holding secured bondholders responsible will likely keep them safe. However, the rights of unsecured bondholders are up for debate. The officials said any rules that are approved would affect only new bonds. However, if bonds are rolled over because of a creditor's inability to repay—as is expected to happen in Ireland—it is possible these bonds would be subject to the new provisions.

How much should the EU charge bailout recipients?

[Brussels Beat]

By Stephen Fidler

In a column just before Christmas, I outlined some of the dilemmas that European leaders had to confront in dealing with the euro zone's sovereign-debt crisis in 2010. A further related dilemma is how much to charge cash-strapped governments borrowing from the European Union bailout funds.

It wasn't much discussed because other governments understood that high interest rates were the price for German participation in the bailouts. The government in Berlin wanted a signal, not least to its own population, that the bailout wasn't a soft option for spendthrift governments.

The problem is that those high interest rates—Ireland is expected to pay just over 6% for its money from other EU governments, and Greece will pay similar rates—make it so much more difficult to bring down the overall debt burden to levels that are sustainable.

In Paris on Thursday, Greek President George Papandreou hinted he believed the interest rates should be lowered because Greece and its fellow troubled governments can't grow fast enough to bring down their debt burdens. "The loans themselves should...fit better to the characteristics of advanced countries which cannot experience growth rates similar to emerging economies," he said.

Economists at J.P. Morgan have calculated that Greece, by paying interest rates at current rates from the bailout vehicles and then being forced back prematurely to raise funds from the capital markets from 2013, would see its debt pushed up to 184% of economic output by 2020 from 141% now. Ireland's burden would increase to 155% from 97%. And these percentages climb thereafter.

How to escape the dilemma? In a paper published last month and explained in a conference call Thursday, the J.P. Morgan group describes a solution: Subsidize the interest rate. It is, said David Mackie, European economist at J.P. Morgan, "the lesser of the evils on offer."

The economists advocate cutting the interest rate from the rescue funds from a margin of 3.5% over Germany's borrowing costs to 1%. They say access to funds at this lower margin should be contingent on the governments following through on their budget-cutting commitments.

That would put the countries onto a potentially sustainable debt trajectory, if they continued to pursue budget austerity. Doing this would be in effect a fiscal transfer from the core of the euro zone to Greece, Ireland, Portugal and Spain until 2020 of €110 billion ($145 billion), just 2.5% of the combined gross domestic products of Germany and France. But it would be an implicit transfer, embedded in the subsidized rate, rather than a direct burden on the budgets of the core countries.

Moreover, the economists say subsidies would cost much less than direct fiscal transfers from the core governments and it would be far less costly than a default, which would cause huge damage to banks across Europe. Voluntary debt restructurings, as envisaged for insolvent countries in the post-2013 euro zone, historically don't yield big changes to debt dynamics. In the recent cases of Ukraine, Pakistan, Uruguay and the Dominican Republic, the net present value of the debt was cut by less than 20%.

Like Mr. Papandreou, the economists may be talking their own book. In line with most bank economists, they expect Portugal to have to tap the bailout funds soon; on Spain, they are not so sure because of its strong domestic investor base and current low funding costs.

The problem is that high interest rates make it difficult to bring down debt to sustainable levels.

According to Pavan Wadhwa, European rates strategist at J.P. Morgan, the bank is short Spanish and Portuguese bonds "in the belly of the curve." That means they will profit from declines in the price of Spanish and Portuguese bonds maturing in two to 10 years. The bank is also short Belgian and French bonds, he said.

One possible reason for this pessimism: They don't see any sign yet of interest from euro-zone governments in taking up their idea.

* * *

Some of the uncertainty in the euro-zone government bond markets surrounds how the transition to the post-2013 world of possible sovereign-debt restructurings will occur. "Investors are very unsure how the current regime will transition into the new regime, and how decisions about private-sector participation will be made," the J.P. Morgan economists say.

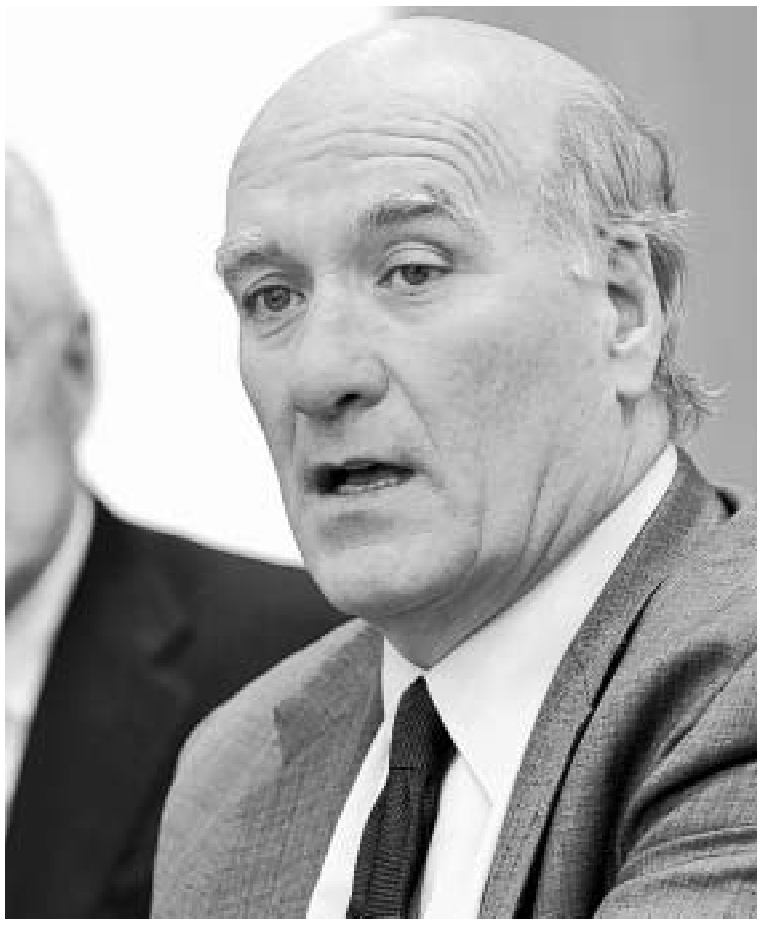
There is a similar transition under consideration for the market for European bank bonds as part of the EU's efforts to find ways to remove implicit state guarantees for failed banks.

That could imply forcing holders of senior bonds in failed banks to take losses when the new bank resolution rules come into effect in 2013 or 2014. In a consultation paper Thursday, the European Commission said: "It is not envisaged to apply [debt write-downs] to any debt currently in issue."

In other words, just as euro-zone sovereign bonds currently in existence are (supposedly) not at risk of default; neither are senior European bank bonds. But at some point in 2013 and 2014 that situation could change. Cue more market uncertainty?

U.S. NEWS

Obama selects Daley for chief of staff position



Associated Press

Banking executive William Daley was a Commerce secretary under Bill Clinton.

By Laura Meckler

WASHINGTON—President Barack Obama on Thursday chose William M. Daley, a banking executive and former Commerce secretary, to serve as his next chief of staff, reaching outside his tight inner circle to bring a Democratic business voice to the top of the White House.

Mr. Daley succeeds Mr. Obama's first, high-profile chief of staff, Rahm Emanuel. Like Mr. Emanuel, Mr. Daley is a Chicagoan and is known more as a pragmatist than ideologue.

Mr. Daley, 62 years old, who oversees Midwestern operations for J.P. Morgan Chase & Co., takes the reins from interim chief of staff Pete Rouse, who will become a counselor to the president.

The move was welcomed by the business community, panned by some liberals and met warily by labor unions, which remember Mr. Daley's successful effort to push the North American Free Trade Agreement through Congress in the early 1990s.

The Daley selection brings an outside influence to a White House dominated by longtime aides to Mr. Obama.

It also answers critics who say the president needs stronger relations with a business community that has grown increasingly unhappy with his administration.

It is the most significant move in a larger White House shuffle at the midpoint of the president's term. Three top aides are leaving the White House and will form the nexus of the president's re-election campaign.

David Plouffe, who ran Mr. Obama's 2008 campaign, arrives next week to shape the president's strategy and message. And a half dozen other officials are expected to move into new jobs as the final staffing chart fills out over the coming days and weeks.

While Messrs. Daley and Obama both come from Chicago, they are not personally close. However, Mr. Daley is allied with Mr. Emanuel, who left the chief's job to run for Chicago mayor, and with David Axelrod, Mr. Obama's top political adviser.

Thursday's move also imports someone who has been openly critical of Democrats for, in Mr. Daley's view, tacking too far to the left. In December 2009, Mr. Daley said publicly that the party must do more to reach out to political independents and Republicans.

The selection irritated many liberals, with Moveon.org and others issuing critical statements. It is likely to extend the bad feelings between Mr. Obama and the political left that reached a high point last month when the president came to agreement with Republican leaders on a broad tax-cut package.

—Neil King Jr. contributed to this article.

Congress urged to raise debt limit

By Jeffrey Sparshott And Meena Thiruvengadam

WASHINGTON—U.S. Treasury Secretary Timothy Geithner told lawmakers Thursday the country could reach its debt limit of nearly $14.3 trillion as early as March 31, setting up a showdown with Republicans who want billions of dollars in spending cuts before they would vote for any increase in the limit.

Mr. Geithner, in a letter sent to all members of Congress, warned that failure to raise the debt limit would precipitate a default by the U.S. and have catastrophic economic consequences.

Lawmakers have lifted the ceiling 10 times over the past 10 years and a Treasury official called Thursday's message routine. But with Republicans, who this week took control of the House of Representatives in Congress, eyeing a mounting budget deficit, the process may be anything but routine.

"The American people will not stand for such an increase unless it is accompanied by meaningful action by the president and Congress to cut spending and end the job-killing spending binge in Washington," Republican Speaker of the House John Boehner said.

And House Budget Committee Chairman Paul Ryan (R., Wis.) explicitly tied an agreement to raise the U.S. debt limit to spending cuts.

"Do I want to see this nation default? No," Mr. Ryan said at an event at the National Press Club. "But I want to make sure we get substantial spending cuts and controls in exchange for raising the debt ceiling."

The Treasury Department estimates that the U.S. could reach its debt limit as soon as March 31 and probably no later than May 16. The exact date depends on the rate of economic growth, tax receipts and other factors.

"This means it is necessary for Congress to act by the end of the first quarter of 2011," Mr. Geithner said.

The U.S. now has about $335 billion of headroom before it hits the $14.29 billion ceiling set by Congress in February 2010. The administration didn't say by how much it wanted the ceiling raised.

Deep spending cuts would delay reaching the ceiling by no more than two weeks. With emergency measures—such as suspending the sale of state and local government series Treasurys—the Treasury could buy roughly another eight weeks, an official said.

The Treasury is hoping it doesn't get to that point. Officials also would like to separate the debt-ceiling increase from the debate on spending, though that seems unlikely.

"While America cannot default on its debt, we also cannot continue to borrow recklessly, dig ourselves deeper into this hole, and mortgage the future of our children and grandchildren," Mr. Boehner said.

The House agreed Wednesday to change voting procedures on increasing the nation's borrowing limit.

The new policy means that lawmakers will be forced to go on record in support of raising government borrowing or vote "no" and risk putting the U.S. into default. Previously, Congress usually approved debt limits automatically as part of the budget resolution.

Many conservative candidates now in office ran election campaigns criticizing their opponents for voting to lift the debt ceiling last year, and promised to vote against another increase.

House Republicans meanwhile are targeting $60 billion in cuts to the current year's federal budget.

A Treasury official said that so far investors haven't expressed concern and bond yields haven't been affected.

Microbes gobbled up the methane from the Gulf oil spill, study says

BY ROBERT LEE HOTZ

Bacteria made quick work of the tons of methane that billowed into the Gulf of Mexico along with oil from the Deepwater Horizon blowout, clearing the natural gas from the waterway within months of its release, researchers reported Friday.

The federally funded field study, published online in the journal Science, offers peer-reviewed evidence that naturally occurring microbes in the Gulf devoured significant amounts of toxic chemicals in natural gas and oil spewing from the seafloor, which researchers had thought would persist in the region's water chemistry for years.

"Within a matter of months, the bacteria completely removed that methane," said microbiologist David Valentine at the University of California at Santa Barbara. "The bacteria kicked on more effectively than we expected," he said.

Dr. Valentine was part of a research team that tested samples from more than 200 locations across 38,000 square miles of the Gulf during three research cruises between August and October, after the well was shut down last year.

The fate of the methane is only one aspect of the environmental impact on the Gulf of the massive spill. All told, scientists estimate that 200,000 tons or more of methane bubbled from the damaged **BP** PLC well—about 20% of the hydrocarbons released during the spill—along with about 4.4 million barrels of petroleum.

The crude oil settled on the seafloor as sludge within a mile or so of the damaged drill head, floated to the surface, washed ashore or was diluted by chemical dispersants dissolved into the seawater.

In a report last month, federal officials managing the cleanup effort said there was no longer any significant oil from the spill left offshore and no evidence of chemical dispersants in the water that exceeded federal safety standards. Most state and federal fisheries in the Gulf have reopened.

David Rainey, a vice president of science, technology, environment and regulatory affairs for BP's Gulf Coast Restoration Organization, which had no role in the new study, called the methane findings "very good news for the Gulf of Mexico."

The report stirred disbelief among several microbiologists studying the aftermath of the 87-day oil and gas leak. "I think they are jumping to a conclusion," said University of Georgia microbiologist Samantha Joye, who has been analyzing methane from the damaged wellhead independently.

"It would take a superhuman microbe to do what they are claiming," she said.

NOAA

The National Oceanic and Atmospheric Administration deploys the CTD Rosette system for collecting water-column samples in the Gulf.

But Robert Haddad, head of the damage-assessment effort at the National Oceanic and Atmospheric Administration, said, "The data they've collected on the methane plume is consistent with what we've seen."

Early tests conducted by researchers at Texas A&M University around the damaged wellhead showed that little of the methane gas ever reached the surface.

The scientists determined that almost all of it had been trapped in a plume of microscopic oil droplets in a layer of water between 2,600 feet and 3,900 feet deep. The measurements the scientists made in June showed that methane levels in the water were tens of thousands of times higher than normal.

Now it is nowhere to be found.

"We were shocked," said chemical oceanographer John Kessler at Texas A&M, who was the lead author of the Science study. "We thought the methane would be around for years."

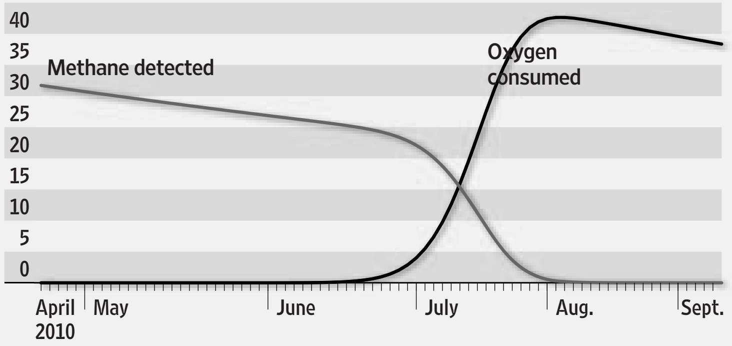
By comparing water samples from their Gulf cruises, Dr. Kessler and his colleagues found a telltale drop in the amount of oxygen left in the water that appeared to equal the amount needed for microbes to metabolize so much methane. In addition, genetic tests revealed relatively high levels of microbes known to consume methane.

"This is very compelling evidence that the methane had been consumed," said geo-microbiologist Antje Boetius at the Max Planck Institute for Marine Biology in Bremen, Germany, an expert on methane microbes who wasn't involved in the study.

Gulf gas guzzlers

Methane, released in massive amounts after the Deepwater Horizon rig sank in April, was quickly consumed by bacteria, researchers have discovered. By September, the gas had diminished to background levels. During the process, the bacteria took in large amounts of oxygen.

Average daily amounts found in study areas around the spill site in microMolar units:*



*A microMolar is a measure of the concentration of a substance in a solution. In this case it is equal to 10^{-6} moles of gas per liter of seawater

Source: Sciencexpress, John Kessler, David Valentine

The new research offered a glimpse into the remarkable abilities of an obscure family of microbes that dwell in the depths of the Gulf and along almost every continental margin around the world.

If borne out by additional research, the ability of ocean microbes to absorb such large releases of methane so rapidly also has implications for the study of global warming and the potential for catastrophic climate changes, the researchers said. Methane is a greenhouse gas 24 times more potent than carbon dioxide, and these bacteria may help prevent large natural leaks of methane, which is cached in vast reservoirs beneath the seafloor, from ever reaching the surface where it could affect temperatures.

"They showed that, even when there is a massive release of methane, the ocean can compensate," said microbiologist Terry Hazen at the Lawrence Livermore National Laboratory, who has long championed the use of methane-oxidizing microbes to biodegrade oil spills.

Ireland to fund cultural programs in U.S.

BY ERICA ORDEN

NEW YORK—The government of Ireland is set to fund a $5.3 million initiative to support a vast array of arts programming in the U.S. during 2011, the country's minister of culture is set to announce Friday in New York.

Encompassing 400 events in 40 states, the project, "Imagine Ireland," will finance programming related to the country at major New York cultural institutions such as the New York Public Library, the Museum of Modern Art and the Brooklyn Academy of Music, as well as support U.S. tours by at least three of Ireland's historic theaters: the Abbey, Gate and Druid.

At the New York Public Library, for example, the project will help fund "Ireland America: The Ties That Bind," an exhibition that examines 19th- and 20th-century Irish-American performance history. Institutions including the Public Theater, P.S. 122, St. Ann's Warehouse and La MaMa, an experimental theater venue, will also present "Imagine Ireland"-backed programming.

Ireland's minister for culture, Mary Hanafin, and New York City Council Speaker Christine Quinn will disclose additional details of the yearlong project at Lincoln Center for the Performing Arts, where they will be joined by actor Gabriel Byrne, cultural ambassador for Ireland.

Additional programming is planned for Washington, D.C., Boston, Chicago, Los Angeles and San Francisco, among other U.S. locations.

Efforts stall to overhaul crumbling river locks

BY JENNIFER LEVITZ AND CAMERON MCWHIRTER

BELLE VERNON, Pa.—Barges piled high with coal float smoothly down the lower Monongahela River here—until they reach the 75-year-old Charleroi Locks and Dam, where many get waylaid at the gate.

The lone functioning lock is set in crumbling concrete. Pieces of steel hang loose, threatening to gouge barges as they pass. Part of the river is blocked by construction. For barge operators, Charleroi is a choke point on the river.

"You can be here for two hours up to 12 hours—that's right out of my pocket," said Michael Somales, general manager of river operations for **Consol Energy** Inc., a Pennsylvania company that carries coal from Appalachia downriver to power plants along the Ohio River Valley.

In 1994, when the Army Corps of Engineers started a project to replace two aging locks at Charleroi, completion was expected by 2004. Now, the work is estimated to drag on until 2023, according to the Corps, which blames insufficient funding and design complications.

The problems at this aging and deteriorating lock some 50 kilometers southeast of Pittsburgh are typical of much of the nation's waterway infrastructure, which hampers U.S. shippers and the economy as a whole.

The Obama administration, promoting water transport as a cheaper and energy-saving alternative to trucks and rail, issued $68.2 million in grants in fiscal 2010 to ports and local governments to buy barges and build infrastructure to move cargo by water. But the Corps, which maintains 19,000 kilometers of waterways and 241 locks that move one-sixth of the nation's freight, says 54% of those locks are 50 years old or more. And 36% of the locks, which allow boats and barges to pass from one water level to another along a river or a canal, are more than 70 years old.

"Things could snap at any moment—that's what keeps you up at night," said Col. William Graham, commander of the Pittsburgh district for the Corps. The failure of many locks at once would create an "economic disaster," causing coal, grain fertilizer, and other goods shipped by water to spike in price, he said.

Some 60% of U.S. grain exports and 20% of coal used for electricity generation is moved by barge, according to Waterways Council, an industry group.

Waterways infrastructure is funded by both the barge and towing industry and the federal government. The industry pays a fuel tax into a trust fund for waterways construction, and the cost of projects is generally split 50-50 with the government.

But many projects authorized for funds by Congress don't receive enough federal money each year to remain on schedule, said Jeanine Hoey, a chief of the Corps' engineering division.

Piecemeal funding accounted for a third of cost overruns on projects, according to a 2008 study by the Corps. The remaining two-thirds of problems were design complications, some traced to the Corps' own decisions, the study found.

WORLD NEWS

Wave of Christians arrested in Iran

Iranian authorities arrested dozens of Christians around the country in the two weeks since Christmas, the latest challenge to the Mideast's small but vibrant Christian communities.

*By **Farnaz Fassihi** in Beirut and **Matt Bradley** in Cairo*

Reuters

Christian women attended a New Year Mass—celebrated by the Assyrian and Armenian Christian minorities in Iran—at Saint Serkis church in Tehran on Jan. 1.

The detentions appear focused on individuals who have converted from Islam or sought to convert others. Conversion is a capital offense under Shariah law, and can carry the death penalty in Iran.

Tehran's governor, Morteza Tamadon, confirmed there have been detentions, and said more arrests were on the way, according to Iranian state media. The government hasn't commented further.

Mr. Tamadon suggested the roundup hadn't targeted the mainstream Armenian or Catholic churches, denominations that make up most of the small Christian population in Iran.

Instead, he suggested the arrests targeted Protestant evangelicals, who have run into trouble elsewhere in the Mideast.

Mr. Tamadon said missionary evangelicals had stepped up their activity in Iran as a "cultural invasion of the enemy" to corrupt the minds of Iranians.

"Just like the Taliban, who have inserted themselves into Islam like a parasite, [evangelicals] have crafted a movement in the name of Christianity," he said, according to state media outlet IRNA.

About 1% of the population in majority-Muslim Iran is Christian. They are largely Armenian and Catholic-sanctioned sects that have mostly co-existed peacefully with Muslims since the founding of the Islamic Republic in 1979.

The Iranian Christian News Agency, a Toronto-based evangelical Christian organization dedicated to news about Christians in Iran, Afghanistan and Tajikistan, said the recent roundups targeted individuals who have converted to Christianity from Islam, as well as some who have been trying to win over converts.

According to the ICNA, armed plainclothes Iranian security agents raided the homes of Christians in the early hours, including on the mornings of Dec. 25 and 26, searching houses for pictures, CDs, Bibles and religious books. In addition to making arrests, they confiscated computers and personal documents, according to the group.

ICNA director Saman Kamvar, a 40-year-old convert to Christianity, said Thursday that curiosity and interest in Christianity is growing among Iranian Muslims.

Iranian officials, meanwhile, have stepped up calls for vigilance against unsanctioned Christian organizations.

Iran's intelligence minister said in October that his agents had discovered hundreds of underground church groups, including 200 in the Muslim holy city of Mashad.

Supreme Leader Ayatollah Ali Khamenei said in an October speech that Iran's enemies were behind the underground church networks.

"Since officials gave these comments, pressure has increased on our community, and the crackdowns have taken a more organized shape," said Mr. Kamvar.

The Iranian crackdowns follow a recent wave of unrelated attacks against Christians in the Middle East, notably in Iraq and Egypt, which have triggered a sense of siege among Christians across the region.

On Jan. 1, a bomb attack targeting a Coptic Christian church in Alexandria, Egypt, killed 23 people, stoking riots and demonstrations by young Christians.

Late last year, an al Qaeda affiliate claimed responsibility for the siege of a Catholic church in Baghdad that killed dozens. Deadly attacks against Christians in Iraq have continued since then.

The violence has stoked worry and anger among Christians across the region. "We are very angry because we don't harm anyone," said Daisy Sarkis, a 26-year-old Christian Orthodox Lebanese.

Egyptian Copts celebrated Christmas on Thursday evening, amid tight security at churches across the country. At Cairo's main Coptic cathedral, police blocked off a perimeter around the building, forbidding cars and pedestrians from entering without written permission from church authorities.

—Sam Dagher in Baghdad contributed to this article.

U.S. protests handling of diplomat

By James Hookway

The U.S. government Thursday said it has strongly protested Vietnam's treatment of a U.S. diplomat who was detained and wrestled to the ground while attempting to visit a dissident Roman Catholic priest—a development that could further inflame concerns in the U.S. about the Southeast Asian nation's human-rights record.

Vietnam's treatment of dissidents and religious activists is a major point of contention in relations between Hanoi and Washington.

U.S. Ambassador Michael Michalak confirmed an incident occurred after the American-funded Radio Free Asia reported that an embassy political officer it identified as Christian Marchant was intercepted by police Wednesday outside the home of the Rev. Thadeus Nguyen Van Ly in Hue, central Vietnam. The report said Mr. Marchant was manhandled by local authorities before being forced into a police car and driven away. He was later released.

"The United States government, both here in Hanoi and in Washington, has lodged a strong, official protest with the government of Vietnam regarding the treatment of one of our diplomats," Mr. Michalak told reporters Thursday during a press briefing in Hanoi, the Associated Press reported.

Mr. Marchant couldn't be reached for comment. Vietnamese government officials couldn't be reached for comment, although the AP reported Vietnamese Foreign Ministry spokeswoman Nguyen Phuong Nga as saying the Vietnamese government is reviewing what happened. She also said foreign diplomats have to abide by a host country's laws.

Vietnam's treatment of dissidents and religious activists is a major point of contention in relations between Hanoi and Washington, which have otherwise been warming significantly in recent months. Secretary of State Hillary Clinton last year announced during a visit to Vietnam that the U.S. endorses an international, multilateral approach to resolving territorial disputes in the South China Sea, portions of which are claimed by both China and Vietnam, as well as other countries in the region. Her statement echoes Vietnam's preferred strategy for dealing with the problem, and angered Beijing.

Reuters

Vietnamese priest Thadeus Nguyen Van Ly is under house arrest in Hue.

The U.S. and Vietnam also are developing a deepening military relationship and U.S. Navy vessels have visited the country several times in recent years. Vietnam is enthusiastically endorsing Washington's proposals to create a pan-Pacific trading zone known as the Trans-Pacific Partnership.

Hanoi's dwindling tolerance for free speech and freedom of worship in recent years, though, threatens to sour the relationship. Political analysts say the coming Communist Party Congress, which begins next week, has prompted security forces in Vietnam to take an increasingly harsh line against dissidents in order to deter any possible disruptions.

Father Ly's involvement is especially significant. The priest is a potential lightning rod for dissent and is one of Vietnam's best known anti-government critics and a persistent advocate for greater human rights and religious freedoms in the one-party state. In 2007, he was sentenced to eight years in prison after being convicted of attempting to undermine the government, prompting several members of the U.S. Congress to demand his release. Now 63 years old, Father Ly is being held under house arrest in Hue because of health problems, including treatment for a brain tumor.

In a symbolic resolution, the U.S. House of Representatives last month called on Vietnam to be included on Washington's blacklist of religious-rights offenders.

Mine managers fail to appear in Zambia case

By Nicholas Bariyo

A Zambian court on Tuesday issued arrest warrants for two Chinese managers accused of shooting at least 13 miners at a Chinese-owned coal mine in October during a wage protest, court officials said Wednesday.

According to officials at the magistrate's court in Choma in the south, the court issued the warrants for Xiao Lishan and Wu Jiuhua, the former mine managers at Collum Coal Mine Ltd., after they failed to appear in court for the Jan. 4 hearing in the case, in which they are each facing charges of 13 counts of attempted murder.

The managers were arrested shortly after the Oct. 15 shooting incident, which triggered riots in the Sinazongwe district where the mine is located. They were later granted bail pending the commencement of their trial.

The magistrates' court on Tuesday also issued arrest warrants for two Chinese diplomats who signed bail papers for the accused.

The Chinese Embassy in Lusaka, the Zambian capital, declined to comment.

WORLD NEWS

Chinese experts caution about rising smoking toll

By Laurie Burkitt

BEIJING—The annual death toll from tobacco-related illnesses in China could triple over the next two decades, health experts warned ahead of a deadline for the country to implement international commitments to curb smoking that activists say Beijing has failed to meet.

In a report issued Thursday, a group of 60 Chinese public-health experts, officials and economists argued that state ownership of the tobacco industry continues to stymie real progress in fighting tobacco—despite the mounting health and financial costs.

"While the national government may know it has a problem, it still doesn't understand that the long-term costs of this problem outweigh the revenue pulled in from tobacco sales," said Zhao Ping, deputy director general of the Cancer Foundation of China, who contributed to the report. The report's authors also include Hu Angang, an economist at Tsinghua University in Beijing, and Yang Gonghuan, a deputy director of the Chinese Center for Disease Control and Prevention.

China has an estimated 300 million smokers, nearly a quarter of its 1.3 billion population and by far the largest number of any country.

China is not only the world's largest tobacco consumer, but it is also the largest producer. Its main tobacco companies are state-owned and feed revenue into state coffers, which activists have long said conflicts with the country's efforts to address smoking's harmful effects.

Thursday's report, "Tobacco Control and China's Future," said that tobacco-related illness killed about 1.2 million people a year in China as of 2005. It warned that the number could rise to 3.5 million a year by 2030 if stricter measures aren't taken.

The report was published ahead of a Jan. 9 deadline to ban smoking in public indoor venues, workplaces and public transportation that Beijing agreed to in 2006, when it signed the World Health Organization's 2005 Framework Convention on Tobacco Control. The treaty's 168 signatories, including China, agreed to restrict smoking by 2011, in part through bans, price increases and taxes.

China has fallen far short of meeting the deadline, health experts say. While it has made some significant efforts, they have come too late and enforcement has been spotty. Authorities announced only last year a ban on smoking at primary and secondary schools. It wasn't until May that they created a smoking ban in state-owned hospitals and government buildings.

Compliance has been lax, said Gan Quan, a senior project officer with the International Union Against Tuberculosis and Lung Disease. Smokers are still rampant in hospitals and government offices, Mr. Gan said.

Attempts to ban advertising for cigarettes on radio, television and newspapers have also largely failed. Cigarette companies have found loopholes in the restrictions, placing their logo on advertisements for other companies' products, the anti-smoking experts said.

The group called for more comprehensive national laws to widen indoor smoking restrictions and reduce second-hand smoke exposure.

China's State Tobacco Monopoly administration is responsible for tobacco production and sales as well as implementation of antismoking laws, creating an inherent conflict of interest.

The tobacco industry pulled in nearly 600 billion yuan ($90.66 billion) from sales and taxes in 2010, up from 513 billion yuan a year earlier, according to the State Tobacco administration.

Health costs related to tobacco accounted for nearly 62 billion yuan last year, the report said, and are expected remain a burden on the government. The State Tobacco administration collects all tax revenue from tobacco, and it isn't known how much of that Beijing allocates to curbing tobacco addiction or smoking-related health costs.

Men remain tobacco's target consumers. Nearly 60% of China's adult male population smoke, according to the report.

"A snapshot of China's smoking problem now looks like America in the 1940s," said Mr. Zhao of the Cancer Foundation of China at a media briefing. "People just don't know the health risks."

The report also comes as China's government is preparing its next five-year economic plan, due to be finalized by the National People's Congress in March. The Chinese Center for Disease Control and Prevention recommends that the government allocate more funding to tobacco control, including law enforcement and public awareness.

The report's authors advised the government to increase cigarette taxes. The Chinese government has raised cigarette taxes four times over the past 20 years, according to China's Ministry of Finance and State Administration of Taxation.

In 2009, it raised the tax on premium cigarettes, those costing more than 7 yuan, to 56% from 45%. The tax on lower-grade cigarettes jumped to 36% from 30%. The median price of a pack of cigarettes in China, including the tax, is 5 yuan, or 76 U.S. cents. The average tax on cigarettes in the U.S. is $1.45 a pack, according to Campaign for Tobacco-Free Kids.

—Kersten Zhang contributed to this article.

Officials to augment Afghan police, army

By Alistair MacDonald And Maria Abi-Habib

KABUL—Afghan and coalition officials are considering a plan to boost the manpower target for Afghanistan's security forces to around 400,000 soldiers and police, roughly a 30% increase over the current goal for the allied training mission.

Details of the plan are still being hashed out by Kabul and the U.S.-led coalition, whose eventual withdrawal depends on the ability of Afghan forces to take over security operations. But both Afghan and Western officials say they are in broad agreement on the need to bolster the Afghan security forces beyond the current target number.

"The war in Afghanistan needs more troops. We are facing a lack of security forces," said Gen. Mohammad Zahir Azimi, an Afghan defense ministry spokesman. He added that there is an "informal agreement" between Afghan forces and the international community on the 400,000 number.

The current goal, of 171,000 soldiers and 134,000 police, was announced about a year ago. Those targets are supposed to be reached later this year. As of October 2010, levels stood at 145,000 troops and 116,000 police.

Word of the plan to bolster the number of Afghan security forces came after Defense Secretary Robert Gates on Wednesday approved sending 1,400 additional Marine combat forces to Afghanistan ahead of the spring fighting season. The new Marines could start arriving later this month, officials said.

The time frame for the proposed increase in Afghan forces isn't yet clear. Under the plan being considered, the Afghan army would end up with between 200,000 to 240,000 soldiers with police and other forces making up the rest of the 400,000 total, Afghan officials said.

"If that's what [the Afghans] are aiming for, we should encourage that," Liam Fox, the U.K.'s Defense Secretary, told journalists Wednesday in Kabul. "The earlier the Afghan government is able to get control, the quicker it will be possible for us to transition from a combat role."

Concerns over the quality of Afghan soldiers and police, and the cost of training more, had previously led coalition members to resist Afghan demands for the goal to be increased to 400,000, a number that some U.S. military commanders had earlier advocated.

But some coalition commanders are reporting improvement in the abilities of Afghan soldiers, and some officials say they are being trained faster and more cheaply than previously envisioned. The police, however, remain beset by problems, such as drug use, corruption and general poor discipline.

Afghan and Western officials plan to discuss the issue this month, said U.S. Col. John Ferrari, a senior officer at the coalition training mission. He said additional international funding to support new manpower goals would depend on certain quality targets being met, such as lowering the attrition rate and increasing the number of qualified mid-level Afghan commanders.

The Afghan government's international backers spent just over $20 billion on training and equipping Afghan forces between 2003 and 2009. A further $20 billion is being spent between last year and this; it isn't clear how much more it would cost to reach the newly proposed manpower targets.

—Adam Entous in Washington and Habib Khan Totakhil in Kabul contributed to this article.

Associated Press

Afghan army soldiers Thursday in Kandahar with NATO training certificates.

Moody's raises its rating outlook for Philippines

By Arran Scott And Rhea Sandique-Carlos

Moody's Investors Service raised its credit-rating outlook on the Philippines to positive from stable, bringing into view a possible upgrade for the Southeast Asian nation and highlighting improving economic conditions in the region.

The move came a day after the government raised around $1.25 billion by selling a global peso bond, reducing its foreign-exchange risk and creating a new benchmark for 25-year debt for one of Asia's most aggressive sovereign borrowers.

Moody's listed a number of encouraging signs for its decision to lift the outlook on its speculative-grade Ba3 foreign and local-currency bond ratings. It cited the country's improving external payments position and its successful monetary policy, which the agency said has anchored inflation expectations and helped to lower the government's cost of funding.

Moody's said the stronger trade position has reduced the vulnerability of the government's finances to external shocks. Improved prospects for policies meant to overhaul the economy will likely have positive effects on government finances, investor sentiment and economic growth, the ratings company said.

The Moody's move, which comes after Standard and Poor's upgraded the Philippines' credit rating to double-B from double-B-minus in November, offers another reminder of the improvement in Asia's ability to handle its debts in recent years. While the Japanese government's financial health has deteriorated, the credit positions of other nations in the region are improving because of strong economic growth and efforts by governments to push through reforms.

The Moody's announcement gave a brief lift to the Philippine peso, but the dollar ended the day higher.

Finance Secretary Cesar Purisima said the decision underscores investor confidence in the country and said the government remains committed to pursuing fiscal consolidation in the near term. "The government's pursuit of continued economic growth and fiscal consolidation is bearing fruit and the international credit rating agencies acknowledge this," Mr. Purisima said.