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# THE WALL STREET JOURNAL.

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# Germany recommits to the euro



German Chancellor Angela Merkel in the Bundestag in Berlin this month. Under Ms. Merkel's leadership, Germany has given ground on tough demands for austerity to gain euro-zone consensus.

BY MARCUS WALKER

BERLIN—Germany's insistence that Ireland, Greece and the euro zone's other fiscally feeble members adopt punishing austerity regimes has fueled concern across Europe that the bloc's biggest member is souring on the euro.

But Sunday's agreement among euro-zone leaders to establish a permanent rescue facility for overly indebted members suggests that far from turning its back on the euro, Germany is doubling its bets. Put simply, Chancellor Angela Merkel and her allies have concluded that the euro is essential for Germany's continued prosperity.

To appease a domestic audience deeply opposed to rescuing profligate euro-zone members, Germany's leaders have vowed to push for harsh punishments on both governments and investors. Yet time and again in recent months, Berlin has sacrificed its tough public demands for backroom euro-zone consensus.

The fine print of the week-end agreement commits Germany to do what its leaders insist they want to avoid—prop up the weakest countries of the euro zone in future debt crises, even after Europe's current, €750 billion (\$993.21 billion) bailout facility expires in 2013.

In return for that open-ended promise to other euro nations, Germany gave up its

### Sharing the pain

Top contributors to the European Financial Stability Facility rescue package for Ireland, in billions



\*Germany also contributes €4.28 billion through the EU Commission portion and €1.35 billion through the IMF portion of the package.  
Source: European Commission

insistence that investors automatically share in future losses.

Instead, Berlin won a watered-down agreement that will force investors to shoulder losses only if a member state is declared insolvent by a unanimous vote of all euro-zone members.

That political concession sets a high bar for including shareholders in future restructurings. Currently, for example, euro-zone leaders insist that even Greece remains solvent, despite its massive debts and poor growth prospects.

"The Germans have accepted that there will be more bailouts," says Simon Tilford, chief economist at the Center for European Reform, a Lon-

don-based think tank. "They have compromised on their demand that haircuts for bondholders should be automatic," he says.

Berlin's readiness to compromise in order to get an agreement with France and other euro countries reflects the still-strong belief of Germany's governing class that saving the common currency is a vital national interest.

The euro has allowed Germany's export-dependent industries to sell their wares in their main European markets at stable prices, free from the currency appreciations that afflicted them in the days of the Deutsche mark.

Most German business people agree that a revived mark would be too strong for comfort, jeopardizing Germany's booming trade with China and other emerging economies, and wiping out a decade of efforts to make German companies more competitive.

In addition, an unraveling of the common currency would leave Germany's banking system holding hundreds of billions in distressed assets in countries that dropped out of the euro.

That could force the German government to spend far more on propping up its banks than it must now lend

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## U.S. calls leaks an 'attack'

A Wall Street Journal Roundup

Secretary of State Hillary Clinton Monday said the U.S. "deeply regrets" embarrassment caused by the release of a quarter-million classified State Department documents and said the government is taking "aggressive steps" to prevent future leaks.

The Obama administration ordered a government-wide review of how agencies safeguard sensitive information.

The publication of the sensitive diplomatic cables Sunday by the website WikiLeaks exposed years of U.S. foreign-policy maneuvering. Among activities detailed in the documents was the extensive, and increasingly successful, push by the U.S. for an international consensus to confront Iran's nuclear program.

The director of the White House's Office of Management and Budget, Jacob Lew, said in ordering the agency-wide assessment Monday that the disclosures are unacceptable and will not be tolerated.

Mrs. Clinton called the disclosure an "attack" on America and the international community. "It puts people's lives in danger, threatens our national security and undermines our efforts to work with other countries to solve shared problems," she told reporters at the State Department.

She acknowledged that the newly released cables that revealed deep concerns among Arab world leaders about Iran's nuclear ambitions have a basis in reality. "It should not be a surprise to anyone that Iran is a great concern."

A WikiLeaks spokesman said publication of secret cables will continue into the new year, with new batches coming in the next few days.

Italy's foreign minister, Franco Frattini, described the leaks as the "Sept. 11 of world diplomacy."

Rep. Peter Hoekstra of Michigan, the senior Republican on the House Intelligence Committee, called the release very damaging. "The catastrophic issue here is just a breakdown in trust," he said, adding that many other countries

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## PAGE TWO

# Dr. Doom delivers unhappy diagnosis

## [ Agenda ]

BY PATIENCE WHEATCROFT



Lost confidence cannot be retrieved for such a lowly sum as €85 billion (\$112 billion). After the negative response to Ireland's hastily cobbled together bailout package, it is impossible to judge just what sum might be required to restore tranquility to the euro zone. The markets are convinced that Portugal will need the same treatment as Ireland and the panic meter remains hovering over Spain, with Italy regaining some attention.

The essence of the problem is that the bailout in itself is not a solution. The heavy interest rate it carries is an almost built-in guarantee of failure. The market doesn't believe that Ireland will be able to afford its new funds. That Greece has extended the terms of its rescue loans over a further six years, taking it to 2021, but only on condition that it too agrees to the same high level of interest payment as Ireland only exacerbates its own prospects of default.

The generally accepted question now is when default and restructuring will come, not if. Nouriel Roubini, the New York University economist who was one of the first voices to predict the economic crisis, was living up to his "Dr. Doom" nickname on Monday. Speaking at a conference in Prague, he warned that Spain could soon need a bailout.

Although Spain doesn't have the gaping deficits of some of its European neighbors, its dire unemployment levels, with youth unemployment now above 40%, and collapsed property market make for a grim outlook. Its banking sector is still in need of restructuring and the costs could be high.

Mr. Roubini warned that the eventual cost of sorting out Spain's financial system would be



Nouriel Roubini, chairman of Roubini Global Economics.

much higher than Madrid had estimated and that Europe's newly created safety net wouldn't be wide enough. "The official funds are not sufficient for also bailing out Spain," he declared.

According to the latest numbers from the European Commission, Spain remains in recession while most of the rest of

**The generally accepted question now is when default and restructuring will come, not if.**

Europe has clambered out. The commission isn't optimistic about the prospects for those countries currently in receipt of bailout funds or thought to be in the queue. Greece is expected to record a fall of 4.2% in its GDP for the current year, a further 3% the next year, and stagger up to a positive performance of just 1.1% in 2012. Ireland it says will see gross domestic product fall 0.2% in the current year, then grow by 0.9% and 1.9% in the next two years. Those numbers, however, cannot take account of the latest addition to its debt burden or the cuts that will have to be made to try to service it.

The outlook for Italy is hardly

much brighter: GDP growing 1.1% this year and next and then 1.4% in 2012. By comparison, the U.K. looks more sprightly, with growth of 1.8%, 2.2% and 2.5% over the three years. Those figures were similar to forecasts issued by the U.K.'s Office for Budget Responsibility on Monday. It had previously forecast that the outcome for 2010 would be just 1.2% but has lifted the figure to concur with the EU forecast, slightly reducing its figures for the following two years to 2.3% and 2.6%.

The OBR concludes that the loss of public-sector jobs will not be as high as had previously been thought. The number cited at the time of the comprehensive spending review in October was 490,000 and now the OBR thinks it could be just 330,000 public-sector workers who lose their jobs over the four years of the coalition government's deficit-reduction program.

While that might seem to be good news, and would be for the public-sector workers involved, it may not be in the long-term interests of the economy. The economic crisis has provided the government with the opportunity to redress the balance between public sector and private, to reduce bureaucracy in favor of the wealth creators. While there may be benefits in spreading the redundancy costs over a longer

period, and allowing more natural wastage to lower the total, the determination to cut back government spending should not wane.

The original target was to reduce departmental spending by an average of 19%. The suggestion is that higher cuts to benefits may now leave leeway for more of the jobs to remain. But leaner government could be better for the private sector to provide new jobs to take up the slack.

Evidence that the U.K. government is thinking of positive ways to do that came Monday in the shape of plans for corporate tax reform. There had already been a promise to look at the taxation of foreign earnings, an issue that has already driven some companies, such as WPP, the marketing group, to move its headquarters to more tax congenial regimes—in WPP's case, Ireland. Now the government is moving to more detailed discussion on this complicated issue, acknowledging a willingness to be more accommodating.

More unexpected though was the plan for a "patent box" approach to taxing profits on intellectual property. The idea is that companies that generate profits by manufacturing in the U.K. on the basis of intellectual property developed there will benefit from a low rate of tax on what falls within the "patent box." Too often companies may devise a product in the U.K. and then manufacture it elsewhere.

Drugs group GlaxoSmithKline has been an enthusiastic supporter of the idea and has already announced that the patent box would shape its investment plans. It is more than 40 years since GSK actually built a new factory in the U.K., while it has invested hugely in lower-tax areas such as Singapore.

Its response to the patent-box idea points to the beginnings of an answer to that familiar cry: "Where will the growth come from?" The answer is that low tax can help attract it.

## What's News

■ **European stocks fell**, unable to hold on to early gains as the initial enthusiasm over Ireland's rescue package faded and the focus shifted to other indebted "peripheral" euro-zone nations, such as Spain and Portugal. 23

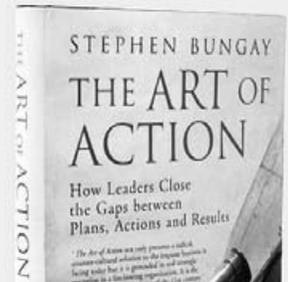
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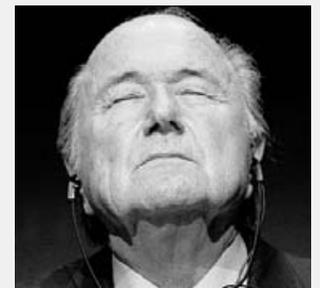
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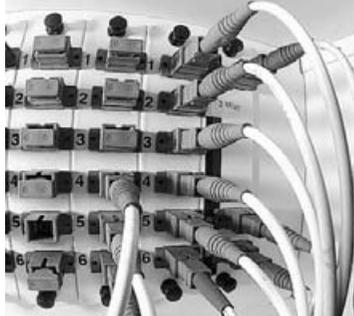
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WikiLeaks founder Julian Assange says the site is a deterrent to future war crimes. Do you agree?

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### Monday's results

**Q: Is Spain in a good position to weather the contagion storm?**

Yes **54.6%**

No **45.4%**

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NEWS

# Student protesters test U.K. leaders

By CASSELL BRYAN-LOW  
AND ALISTAIR MACDONALD

LONDON—Student protests in the U.K. over rising tuition fees are testing both the strength of Britain's new coalition government and the ability of police to contain social unrest in the country's looming period of deficit-battling austerity.

After successive weeks in which students mounted large protests in London and elsewhere—sometimes spiked with violence—police are gearing for more demonstrations on Tuesday in opposition to plans to nearly triple university fees, a key plank in the government's deficit-cutting measures. A rally is scheduled in the capital's Trafalgar Square at noon with protesters then expected to march to the Houses of Parliament.

The issue is proving a key test of the strength of the coalition government led by the Conservative Party and Prime Minister David Cameron.

The coalition's junior partner, the Liberal Democrats, is under heavy pressure not to renege on a pre-election pledge not to raise university tuition. The Lib Dems face a December vote on the tuition increases, at a time when opinion polls are showing steep declines in support for the party and its leader, Nick Clegg.

The U.K. is just starting to see the fallout of the country's most sweeping budget cuts in many decades. On Monday, London's commuters struggled with the latest in



Demonstrators protesting plans for higher tuition smashed windows at Conservative Party offices in London on Nov. 10.

a string of strikes by public transport workers. And, firefighters in November planned a strike around Bonfire Night, an annual U.K. celebration that marked by fireworks and bonfires—though the strike was canceled at the last minute.

The student protests—which have already resulted in violent disturbances, criminal damage and dozens of arrests—are proving to be a trial for the police's ability to con-

tain public reaction to the cuts.

Britain's most senior police officer, Sir Paul Stephenson, last week warned of a new era of civil unrest. "The game has changed," said Sir Paul, speaking at a regular public meeting of the independent body that oversees the police.

Sir Paul added that the police adapted their strategy, having made what he described as mistakes during the Nov. 10 student protests that

led to a riot at the Conservative Party's headquarters in central London. Those lessons include sharply increasing the number of officers to police such events, as well as paying closer attention to social networking sites, where plans for protests are discussed.

Protest organizers have criticized police reaction as heavy-handed, including the tactic of "kettling," in which police contain a

large crowd by restricting or blocking exit routes. The strategy, which police call containment, came under scrutiny in the wake of the Group of 20 summit protests last year, in which one person died. Critics say the practice punishes law-abiding citizens as well as troublemakers, among other things.

Sir Paul, at the public meeting, defended using the tactic at last week's student protests, calling it appropriate under the circumstances. He commended officers for having handled protests well, including halting what was believed to be an attempt to occupy the Liberal Democrats' headquarters in London.

The tuition-fee issue is potentially the most damaging that many Liberal Democrat lawmakers will face in the near term.

Ahead of the May general election Liberal Democrats signed a National Union of Students' pledge opposing tuition fees. Many now regret this and lawmakers concede that some of the party's 57 members of Parliament will vote against the bill.

"There are people who agree with it, people who disagree and people who will abstain," said Gordon Birtwistle, a Liberal Democrat member of Parliament.

On Friday, a group of about 35 students surrounded Mr. Birtwistle's office in Burnley, North West England, to protest, in one of a number of direct actions that students have taken against Liberal Democrat lawmakers.

## Americans still see bargains as fees rise

By KIM HJELMGAARD

LONDON—When final-year economics undergraduate Robert Rogers transferred from Georgetown University to the London School of Economics, his annual tuition fees plummeted to around \$20,000 a year from around \$41,000.

"It didn't even occur to me to apply abroad when I was in high school," said Mr. Rogers, on a recent afternoon outside the LSE's Students' Union. "I certainly didn't hear of any of my [high-school] classmates applying to study abroad."

Mr. Rogers said that his reasons for moving to the LSE weren't financially motivated. But finances drive others to follow him. As tuition at U.S. colleges gets more expensive, some American high schoolers are looking to the U.K. to meet their educational needs.

It is almost heresy to say it right now here in the U.K., what with British students recently taking to the streets in protest at the government's proposal to raise tuition fees to no less than £6,000 a year (about \$9,350) for some domestic enrollees, but the fact remains that, by U.S. standards, universities across England, Scotland, Wales and Northern Ireland remain a "cheap" place to get an education.

Tuition fees in the U.K. vary from institution to institution, but the cost for an overseas undergraduate at University of St. Andrews, in Scotland, for the academic year 2009-2010 would be about \$19,000. And if you're lucky enough to be

able to claim "home" or "European Union" status, this figure would be just shy of \$3,000 a year—though it is set to triple or even quadruple from 2012 onward for some institutions south of the Scottish border under the British coalition government's aggressive overhauls to higher-education funding.

Every college that features in the top 20 of the U.S. News and World Report's most recent ranking of best U.S. colleges costs at least \$34,000 a year for tuition and fees. Most, in fact, are closer to \$40,000 a year, and quite a few top that level.

The downsides of going abroad include: plane tickets, time zones, foul weather and, in some cases, a tougher time getting a job back in a student's home country after graduation.

More than 3,000 normally U.S.-domiciled undergraduate-level students applied to U.K. schools in 2009, according to UCAS, the organization responsible for managing applications to higher-education programs in the U.K. And while only 1,330 were accepted, according to UCAS, the relatively modest numbers mask a rising trend.

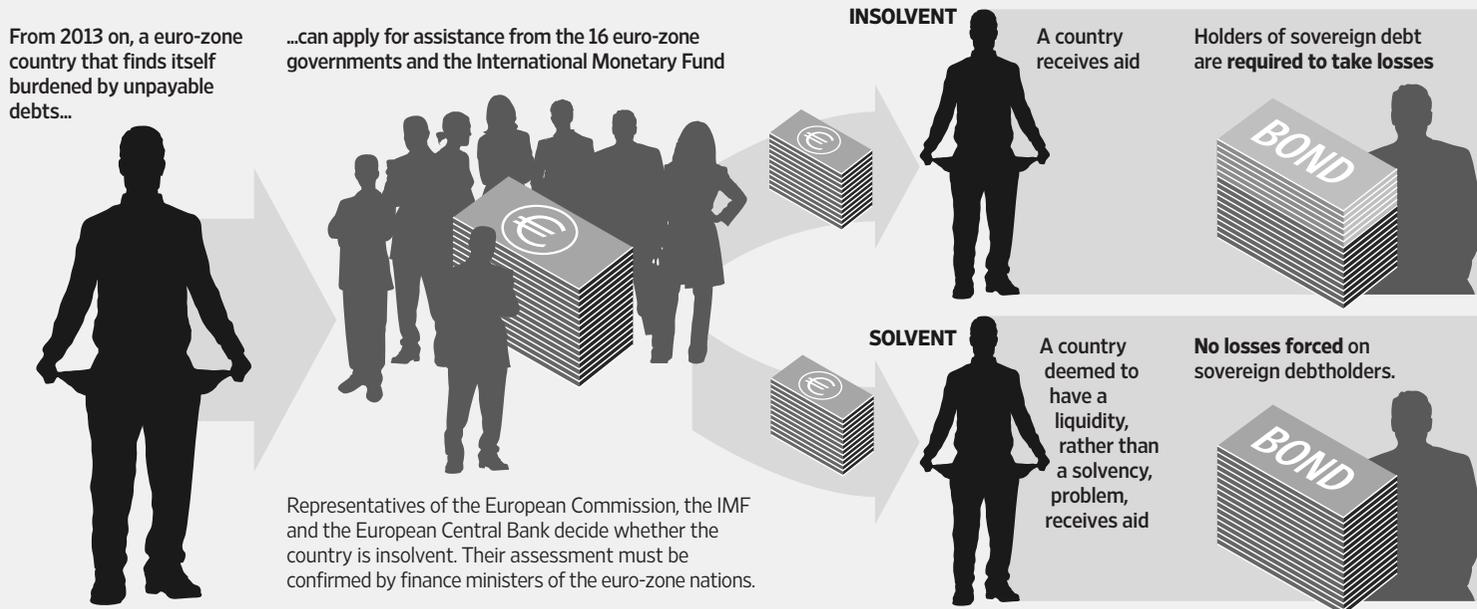
There has been a 27% increase in undergraduate applications from U.S. students since 2006, while the total number of U.S. students studying for full degrees at British higher-education institutions as of 2009—across both the undergraduate and postgraduate levels—stands at just over 14,000, data from the U.K.'s Higher Education Statistics Agency show.

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## EUROPE NEWS

## Europe's plan to contain future financial crises hinges on a troubled country's solvency



## Merkel sees euro as key for economy of Germany

Continued from first page to Greece, Ireland and possibly other governments.

For example, Germany is taking on roughly €12 billion in credit exposure to the Irish government through the European Union and International Monetary Fund loans to Dublin, but is thereby shoring up around €118 billion of German banks' exposure to Ireland, according to Bundesbank data.

"The idea that we might not successfully defend the common European currency would have unimaginable economic, social, and also budgetary consequences for Germany," Finance Minister Wolfgang Schäuble told reporters in Berlin on Monday.

Ms. Merkel's dilemma all year has been that the cold economic logic that underpins her government's commitment to the euro is hard to sell to German voters and lawmakers. Many ordinary Germans resent having to pay for the financial follies of other European countries, especially after years of cuts to entitlements at home.

The chancellor, whose ear is acutely tuned to German public perceptions, knows that nostalgia for the mark has grown this year.

When Ms. Merkel and her finance minister pushed the €750 billion bailout facility through Germany's parliament in May, they sold it as an emergency measure that would last only three years. In the meantime, they pledged, Berlin would impose much tougher rules on budgetary discipline on other euro members, to ensure that there would be no repeat of the Greek debt crisis.

In the face of stiff resistance from other euro-zone governments, however, Ms. Merkel backed away from her demand that euro-zone laggards face automatic sanctions last month.

On Oct. 18, Ms. Merkel stunned Europe and angered many in her own ruling coalition by agreeing to a quid-pro-quo with French President Nicolas Sarkozy.

Germany dropped its pressure for automatic sanctions. In return, France promised to support Germany's demand for a change to EU treaties, to enshrine the principle that bondholders, not just taxpayers, will pay a price if a euro member needs a bailout in future.

Germany's insistence on including bondholders spooked financial markets, pushing up the risk premiums on government bonds of Greece, Ireland and Portugal, and helping to push Ireland into a crisis, say many observers.

EU leaders including European Central Bank President Jean-Claude Trichet and Greece's Premier George Papandreu have slammed Ms. Merkel's proposal for making life even harder for euro-zone stragglers.

German officials deny sparking the past month's investor panic. But amid growing financial-market pressure on the euro and its weakest members, Ms. Merkel decided to push for a final agreement on its debt-restructuring idea. Berlin argued that clarity about Europe's future rules would help to reassure investors.

## EU bailout fund delays pain

BY CHARLES FORELLE  
AND STEPHEN FIDLER

BRUSSELS—The European Union's proposed new bailout fund contemplates losses for government bondholders in the rescue of an insolvent country—but not anytime soon.

The new system, whose groundwork was approved Sunday night, wouldn't take effect until 2013, and would apply only to bonds issued after mid-2013.

In the meantime, Europe faces difficult questions about how to deal with existing debts of troubled countries and about how the transition to the new regime will take place.

Most crucially, the decision to delay any formal program of bondholder losses—known as "haircuts"—means the EU itself has implicitly committed to paying the bills of its weak states for years. That pledge will be sorely tested should the crisis expand beyond Greece and Ireland to larger countries that are more expensive to fix.

Europe "will do whatever it takes" to preserve stability, EU economy commissioner Olli Rehn said Monday.

It may take a lot. Greece got a bailout of €110 billion (\$145.67 billion), Ireland €67.5 billion; Portugal and Spain would together need €400 billion to see them through 2013, according to HSBC calculations.

And the next few years will be tough. The cost of carrying high

debt burdens—more than 150% of a year's economic output in the case of Greece—will land on public treasuries just as governments are cutting public services and raising taxes to squeeze more money out of their citizens to shrink their deficits.

The post-2013 deal "doesn't change the underlying sustainability of the debt" of problem countries, said Lorenzo Bernaldo de Quirós, a Madrid-based economist.

Markets appear unnerved. Despite the insistence of European leaders Sunday that no haircuts are even contemplated until 2013, two-year Irish, Greek, Portuguese and Spanish bonds remain expensive. Irish two-years traded Monday with yields above 7%—compared with less than 1% for rock-solid Germany.

Economists say the high yields signal that even debt issued before mid-2013 is at risk: The EU can say it won't force haircuts in a restructuring, but it can't rule out countries deciding that bailout funding comes at too high a price and defaulting of their own accord.

The rescue packages can't "prevent a restructuring of the debt of Greece nor of Ireland," said Mr. Bernaldo de Quirós.

It is also unclear precisely what will happen when the new system arrives. Euro-zone governments say they will commit to including so-called collective action clauses in any bonds issued after mid-2013.

Those clauses, common in debt issued by poorer countries, make defaults more orderly by permitting a supermajority of creditors to agree to changing the terms of bonds for everyone, avoiding the difficulty of persuading every last holdout creditor.

The new bonds will also be subject to haircuts that could be imposed through these clauses if an insolvent country eventually has to borrow from the new bailout mechanism.

But since countries spread their borrowing out over decades, for the first few years after the switch, there wouldn't be enough post-2013 bonds outstanding for any haircutting under the new system to provide much financial relief to governments.

"People now know what will happen if you have a debt crisis in 2050. The more interesting thing is what happens if you have a debt crisis in the euro zone in 2015," said Marco Annunziata, chief economist at UniCredit Group.

Mr. Annunziata and others argue that it isn't credible to insist that all bonds issued before 2013 are irrevocably safe from future haircuts. That, he says, is tantamount to promising potentially huge and long-lasting transfers from strong economies to pay off the debts of the weak.

If pre-2013 bonds are shielded, and a country runs into trouble in

2015, the options are few. Forcing losses on the small number of haircut-eligible bonds issued after the changeover wouldn't make much of a dent in the country's debt pile. So the EU would have to pony up fresh bailout funding to help the country get back on its feet and start paying down its debts.

Eventually, the country might be able to start borrowing again. But it would find its bonds a tough sell in the market. What's more, the EU is insisting that its post-2013 bailout funding be preferred credit that is repaid before ordinary bondholders, though after the International Monetary Fund. (The IMF's status as a preferred creditor is a matter of international custom; it isn't clear how the EU would enforce its claim of preference.)

Rodrigo Olivares-Caminal, a senior lecturer in financial law at the University of London, said a more likely solution to a near-term debt crisis is a so-called debt reprofiling, a voluntary exchange under which creditors—threatened with default by the country—agree to accept, for instance, their money at a later date.

Such an exchange would provide the opportunity to swiftly insert collective-action clauses into all of the country's debt and to make it haircut-eligible under the EU's system. "It could be much faster than you think," Mr. Olivares-Caminal said.

## Euro-zone confidence continues to rise

BY PAUL HANNON

LONDON—Consumers and businesses across much of the euro zone continued to grow more confident about their prospects in November, despite the loss of faith among bond investors that culminated Sunday when Ireland became the euro-zone's second nation to need external financial help.

The European Commission Monday said its overall Economic Sentiment Indicator, or ESI, rose to 105.3 from 103.8 in October, the sixth straight monthly rise. The steady increase in the ESI above the average of 100 since it was first calculated in 1990 suggests the euro-zone economy will continue to grow in the

months ahead.

The largest improvement in confidence came in the services sector, with the commission's measure rising to 10.2 from 8.1. The headline measure of industrial confidence rose to 0.9 from zero in October, driven by another rise in total orders and export orders.

Encouragingly, both manufacturing companies and service providers expected to hire more workers in the coming months, suggesting that the euro zone's economic recovery could soon lead to a fall in the unemployment rate.

The prospect of a turnaround in the jobs market is already boosting consumer confidence, particularly in Germany. The commission's headline

measure for the euro zone rose to -9.4 from -10.9, ahead of expectations of a rise to -10.

In the U.K., which is outside the euro zone, the commission recorded a drop in consumer confidence, likely reflecting concerns about the impact of spending cuts announced by the government in late October. But the pickup in confidence wasn't universal, and the commission's measures for both the construction and retail sectors fell.

The recovery in confidence was strongest in Germany, where the ESI rose to 116.3 from 113.5.

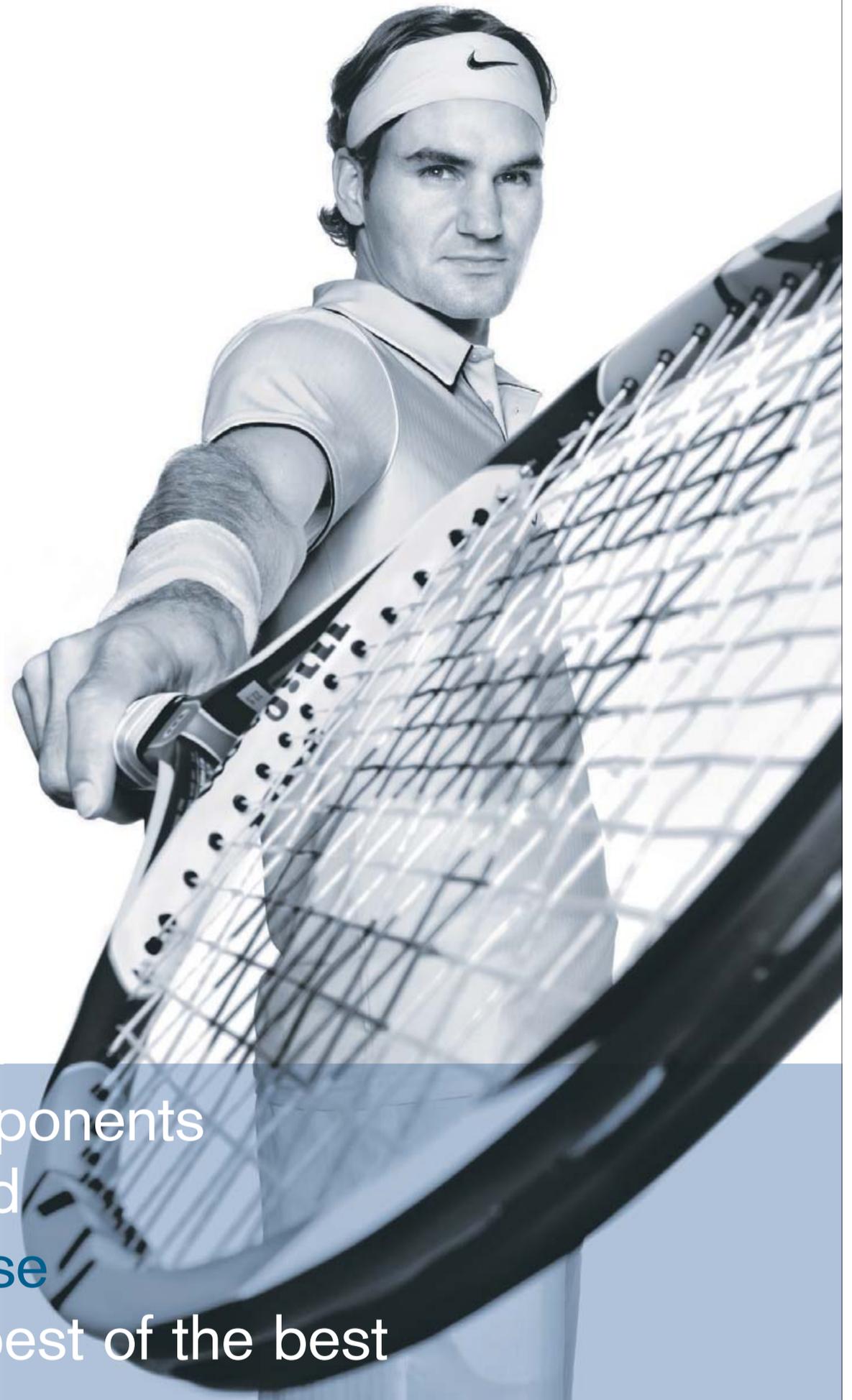
But confidence weakened in Portugal and Greece, two nations that have embarked on austerity programs in an effort to cut their large

debts.

"The trend emerging from today's sentiment indicators is one of increased divergence," said Carsten Brzeski, an economist at ING Bank. "In fact, economic divergence remains the biggest problem for the euro zone for some time."

The commission doesn't publish measures of confidence for Ireland, which Sunday followed Greece in agreeing a bailout package with the European Union and the International Monetary Fund.

A separate measure of the environment for manufacturers in the euro zone—the Business Climate Indicator—rose to 0.96 from 0.91, reaching its highest level since December 2007.



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## THE WIKILEAKS FALLOUT

Pen portraits | How world leaders were described in the cables and how they replied



**FRANCE**  
President Nicolas Sarkozy

**What was said:** "Has a thin-skinned and authoritarian style," is "touchy" and is an "emperor with no clothes."

**Response:** France's Budget Minister Francois Baroin said: "We are very supportive of the American administration in its efforts to avoid what not only damages countries' authority and the quality of their services, but also endangers men and women working to defend their country."



**IRAN**  
President Mahmoud Ahmadinejad

**What was said:** Saudi King Abdullah said to have repeatedly urged America to attack Iran to "cut the off the head of the snake" to end its nuclear weapon program.

**Response:** President Ahmadinejad said: "These published documents lack legal credibility and value, and are a sinister act. We are all friends and brothers in the region and these documents will have no impact on the relationship between regional countries."



**RUSSIA** Prime Minister Vladimir Putin and President Dmitry Medvedev

**What was said:** Mr. Putin is described as an "alpha dog." Mr. Medvedev is described as playing "Robin" to Mr. Putin's "Batman."

**Response:** A Kremlin spokeswoman said: "Fictional Hollywood characters hardly deserve comment."



**ITALY**  
Prime Minister Silvio Berlusconi

**What was said:** A cable describes Mr. Berlusconi as "feckless, vain and ineffective as a modern European leader" whose "frequent late nights and penchant for partying hard mean he does not get sufficient rest."

**Response:** Mr. Berlusconi laughed when told the content of the cables at a press conference, according to Italian newspapers.



**Germany**  
Chancellor Angela Merkel

**What was said:** One envoy said Mrs. Merkel did not take risks and was "rarely creative."

**Response:** Foreign Minister Guido Westerwelle said: "A few gossipy comments about European politicians are not exactly welcome but they are not really important. But in other cases, people's lives could be put at risk," AFP reported.

Reuters (Sarkozy, Merkel); AFP/Getty Images (Ahmadinejad); AP (Putin, Medvedev); European Pressphoto Agency (Berlusconi)

## Mideast leaders silent after Iran views are aired

BY MARGARET COKER

ABU DHABI—Middle Eastern governments were silent Monday about the trove of leaked U.S. intelligence made available over the weekend by WikiLeaks, which disclosed more-hawkish views by Arab leaders about Iran than they generally have voiced publicly, as well as some withering and indelicate comments about allied regional leaders themselves.

The U.S. diplomatic cables associated with the Middle East span a 30-year range, but the most recent missives focus on topics such as counterterrorism, military aid and Arab preoccupation with the rising influence of Iran's Persian, Shiite government in the region.

But it is the personal biases, frustrations and quirks expressed by Arab officials during closed-door meetings that makes for some of the most interesting—if embarrassing—reading, revealing personal feuds among the close-knit Arab leaders who take great pains to show a united public face.

In a Feb. 9, 2009, cable sent by U.S. Ambassador to Egypt, Margaret Scobey, to Secretary of State Hillary Clinton, Ms. Scobey writes that Egyptian President Hosni Mubarak "has a visceral hatred for the Islamic Republic, referring repeatedly to Iranians as 'liars.'"

The description of Mr. Mubarak's feelings isn't necessarily surprising, given that Iran broke diplomatic ties with Egypt in 1979 and that Egyptian officials speak negatively about Iran in public. But the cable goes on to characterize the view the Egyptian leader has toward two Arab countries that maintain good ties with Tehran. "He sees the Syrians and Qataris as sycophants to Tehran and liars themselves," the cable says of Mr. Mubarak.

Qatar is shown in the cables going to great lengths to reassure Washington that its loyalties are to America first, not to Iran. In a Dec.



Cables show Egyptian President Hosni Mubarak calling Iranians 'liars.'

20, 2009, cable summarizing a meeting between the visiting Deputy Secretary of Energy Daniel Poneman and Qatar's prime minister, Sheikh Hamad bin Jassim al-Thani, the member of Qatar's ruling family says that Washington shouldn't be "upset" about his nation's ties to Iran. "He characterized the relationship as one in which 'They lie to us, and we lie to them,'" according to the cable.

During a live televised news conference on Monday, Iran President Mahmoud Ahmadinejad dismissed the WikiLeaks documents, saying they wouldn't affect Iran's diplomatic relations with Arab countries.

"These published documents lack legal credibility and value, and are a sinister act. We are all friends and brothers in the region and these documents will have no impact on the relationship between regional countries," Mr. Ahmadinejad said.

Iraq and its top politicians also come under harsh criticism from leaders, according to the cables.

Arab governments have long been uneasy about the rise to power of Shiite political parties in Bagh-

dad, but some cables show frustration over a perceived lack of political leadership among Iraq's Sunni groups as well.

Abu Dhabi Crown Prince Mohammed bin Zayed al-Nahyan, who is also deputy supreme commander of the United Arab Emirates armed forces, is quoted as saying in a May 2005 cable that "there wasn't one worthwhile Sunni on the scene" in Iraq. The deputy ruler also singled out then-Iraqi Defense Minister Saadoun al-Dulaimi, a Sunni, as being "in it for himself," instead of having a desire to be a public servant, according to the cable.

A spokesperson for Iraq's Prime Minister Nouri al-Maliki, a conservative Shiite leader poised for a second term, whom Arab leaders cite as untrustworthy in several leaked cables, said Baghdad was still examining the WikiLeaks revelations and had no comment.

Iraq President Jalal Talabani is described in a November 2009 dispatch from Gary A. Grappo, former political counselor for the U.S. Embassy in Baghdad, as one of the Iraqi leaders with the closest ties to Tehran's clerical regime and Revolutionary Guards. Fakhri Karim, a senior aide to Mr. Talabani, called the document conclusions "fabrications."

Some of the cables contained some humor. During a March 2009 visit to Riyadh by John Brennan, President Barack Obama's chief counterterrorism adviser, King Abdullah bin Abdelaziz al-Saud proposes an unorthodox idea to help track detainees released from the U.S. detention facility at Guantanamo Bay: implant electronic chips.

"This was done with horses and falcons, the King said. Brennan replied, 'horses don't have good lawyers,' and that such a proposal would face legal hurdles in the U.S.," according to the cable.

—Farnaz Fassihi in Beirut and Ali A. Nabhan in Baghdad contributed to this article.

## Leaks feed schism in Turkey's politics

BY MARC CHAMPION

Turkey's foreign minister on Monday shrugged off leaked State Department cables that described him as a dangerous Islamist with imperial delusions, but the leaks resonated strongly within Turkey where they fed into the country's divisive politics.

The weekend release of State Department cables by WikiLeaks revealed caustic U.S. assessments of foreign leaders in Turkey and many other countries. Analysts said that while the dispatches were embarrassing, neither side was likely to let them become a game-changer in their relations.

"Turkish-American relations will not be affected," Turkish foreign minister Ahmet Davutoglu told reporters in Washington on Monday after a meeting with U.S. Secretary of State. He said Mrs. Clinton had apologized for the leaks, according to CNN Turk, but added "it is correct to depict this as the 9/11 of di-

plomacy," the TV channel reported.

The leaks received wall-to-wall coverage in Turkey's media Monday. That, analysts say, was in part because of the sheer number of documents related to Turkey—close to 8,000 cables came from the U.S. Embassy in Ankara alone—and because of the way they played into Turkey's internal debate over the Islamic-leaning Justice and Development Party, or AKP, and its leaders.

Turkey's Finance Minister Mehmet Simsek on Monday denied a comment in a U.S. Embassy cable that in 2008 he urged foreign investors to sell stock in Turkey's largest media company, **Dogan Yayin Holding AS**, as it became locked in a tax battle with the government.

Mr. Simsek, a former Merrill Lynch banker with a strong links to the international investor community, said in a statement that the allegations were "baseless" and "fabricated."

—Joe Parkinson contributed to this article.

## U.S. calls leaks an 'attack'

*Continued from first page*  
tries allies and foes alike are likely to ask, 'Can the United States be trusted?'"

In London, Steve Field, a spokesman for British Prime Minister David Cameron, said "it's important that governments are able to operate on the basis of confidentiality of information." French Foreign Ministry spokesman Bernard Valero said "we strongly deplore the deliberate and irresponsible release of American diplomatic correspondence by the site WikiLeaks."

Pakistan's foreign ministry said it was an "irresponsible disclosure of sensitive official documents" while Iraq's foreign minister, Hoshiyar Zebari, called the document release "unhelpful and untimely."

The encrypted e-mails and other documents unearthed new revela-

tions about long-simmering nuclear trouble spots, detailing U.S., Israeli and Arab world fears of Iran's growing nuclear program, U.S. concerns about Pakistan's atomic arsenal and U.S. discussions about a united Korean peninsula as a long-term solution to North Korean aggression.

The leaks also cited American memos encouraging U.S. diplomats at the United Nations to collect data about the U.N. secretary-general and foreign diplomats. A State Department spokesman played down the diplomatic spying allegations, saying, "This is what diplomats, from our country and other countries, have done for hundreds of years."

The Sunday release of the documents was WikiLeaks' third in recent months, following caches of U.S. documents on the Afghanistan and Iraq wars.

THE WIKILEAKS FALLOUT

# Cables show strain with China

By JEREMY PAGE

BEIJING—Leaked U.S. diplomatic cables put China's relationship with Iran under renewed scrutiny by suggesting Beijing hadn't complied with U.S. requests to stop transfers to Tehran of technology and materials that could be used in its ballistic-missile and chemical-weapons programs.

China repeatedly failed to act on U.S. requests that it stop shipments of ballistic-missile components from North Korea to Iran on commercial flights via the Beijing airport in 2007, according to one of more than a quarter-million U.S. diplomatic cables made public Sunday.

Another of the cables gathered by the website WikiLeaks showed that U.S. Secretary of State Hillary Clinton asked China in February to act on intelligence that Iran was trying to buy gyroscopes and carbon fiber for its ballistic missiles from Chinese companies. Mrs. Clinton also expressed concern in May that Chinese companies were supplying Iran with precursors for chemical weapons, according to one cable.

Last year, Mrs. Clinton raised concern that a Chinese company was selling French thermal-imaging technology to Tehran that could be used against U.S. forces in the Gulf, yet another cable showed.

The cables reflect continuing U.S. concern that China isn't doing enough to prevent proliferation of materials and technology that could help Iranian weapons programs, in-



Associated Press

Kim Jong Il, left, and China's Hu Jintao met in August in northeastern China.

cluding some from North Korea.

China pledged in 2000 not to help any country develop ballistic missiles that can be used to deliver nuclear weapons. China also introduced stricter export controls in 2002 and in June backed U.N. sanctions that imposed a broader arms embargo on Iran.

But an analysis of the Iranian missile threat last month by Arms Control Today, which is published by the independent Arms Control Association in Washington, suggested U.S. pressure on Beijing has produced only mixed results.

The content of the leaks "shows either China's inability to enforce its own export laws, or a kind of malign

negligence," said Peter Crail, a research analyst at the ACA who covers North Korea. "There's a pattern of frustration on the part of the U.S. government." He said one factor could be China's continuing support for the North Korean regime, which earns hard currency from exports of missile technology, often sold through front companies in China.

The publication of the cables comes at a sensitive time in China-U.S. ties, as Beijing faces mounting pressure from Washington to rein in an increasingly belligerent North Korea ahead of President Hu Jintao's U.S. visit in January.

China's Foreign Ministry didn't respond to a request to comment

Monday. The U.S. State Department has called the leaks illegal.

Mrs. Clinton spoke about the leaks by telephone with her Chinese counterpart, Yang Jiechi, on Friday, the State Department said.

One cable from the U.S. Embassy in Beijing quoted an unidentified Chinese contact alleging in January that the Politburo, the powerful 25-person governing group in the Communist Party, ordered a cyberattack on Google Inc. as well as U.S. government computer systems.

A Google spokeswoman said: "We have conclusive evidence that the attack came from China." She declined to elaborate. China's government has repeatedly denied any involvement in any cyberattacks.

Another cable gave a detailed account of a conversation between a U.S. political officer and Li Guofu, an expert on the Middle East at the China Institute for International Studies, which is affiliated with the Foreign Ministry.

That cable said Mr. Li suggested that the U.S. negotiate a secret deal with Iran, allowing it limited uranium-enrichment operations in exchange for closer international supervision and a suspension of its support for Hamas and Hezbollah.

"Some of the talks between me and my diplomat friends are not supposed to be open for public," Prof. Li told The Wall Street Journal. He said he will be more careful in future talks with U.S. diplomats.

—Sue Feng contributed to this article.

## Kremlin says 'Batman' jibes are no big deal

By RICHARD BOUDREAU

MOSCOW—Russian officials played down the release of confidential U.S. diplomatic documents that portray Prime Minister Vladimir Putin as the dominant ruler in a "virtual mafia state."

Newly posted documents on the WikiLeaks website include a U.S. Embassy cable describing Mr. Putin as an "alpha dog" who calls the shots and President Dmitry Medvedev as a pale, hesitant figure who "plays Robin to Putin's Batman."

Foreign Minister Sergei Lavrov brushed off the assessments Monday, indicating that Russia didn't want their revelation to spoil the improved relations pursued by the Kremlin and the White House.

"It's certainly amusing reading, but in actual policy we prefer to be guided by the concrete actions of our partners," Mr. Lavrov told reporters in India, according to Russia's Interfax news agency. Natalya Timakova, a Kremlin spokeswoman, told Russian news agencies there was nothing new or worthy of comment in the documents. "Fictional Hollywood characters hardly deserve comment," she added.

The most-sensitive documents about Russia characterized the country and its leaders in ways that American officials would never do publicly but are nonetheless commonly voiced by commentators and analysts in Russia.

# U.S. Sees Crimes in Leak

By EVAN PEREZ AND JEANNE WHALEN

Attorney General Eric Holder said the U.S. was looking to prosecute those responsible for the leak of U.S. diplomatic cables, but he drew a distinction between online whistleblower WikiLeaks and news organizations that published classified material.

"There's a predicate for us to believe that crimes have been committed here, and we are in the process of investigating those crimes," Mr. Holder told reporters.

He said the Federal Bureau of Investigation and the Defense Department were continuing their probe. But the investigation is complicated by the fact that key targets are overseas, officials say.

Over the weekend, sensitive U.S. diplomatic cables were published by U.S. and European news organizations, which sourced the material to WikiLeaks. The documents exposed years of U.S. foreign-policy maneuvering that could prove embarrassing to the U.S. and its allies, especially in the Islamic world.

Mr. Holder noted that news organizations that published the documents worked with the government to redact some of the material deemed most sensitive.

"I think one can compare the way in which various news organizations that have been involved in this have acted, as opposed to the way in which WikiLeaks has," he said. The news organizations, he said, acted in a "responsible manner."

It was the latest of a series of such publications of WikiLeaks-sourced documents, including the



Reuters

Julian Assange, founder of WikiLeaks

July publication of more than 70,000 classified military reports on the Afghanistan and Iraq wars.

New batches of cables will be published on WikiLeaks' website in the next few days, WikiLeaks spokesman Kristinn Hrafnsson said Monday.

"I think we can see new releases tomorrow and gradual releases over the next days and weeks and possibly months," he said.

The U.S. has condemned the leak and urged WikiLeaks to return the documents, saying their publication could undermine cooperation between nations in fighting terrorism, nuclear proliferation and other problems.

Mr. Hrafnsson described Washington's position as an over-reaction, with "uncredible statements about individuals being put in danger, lives at risk, etc."

Authorities haven't named a suspect in the release of the latest cache of documents.

In July, the military charged Army intelligence analyst Pfc. Bradley Manning, 22 years old, with illegally taking secret State Department files and disseminating a classified video, later released by WikiLeaks, showing a U.S. military helicopter firing on people in Baghdad.

Pfc. Manning worked in intelligence operations in Baghdad. He was supposed to be examining intelligence relevant to Iraq, but defense officials said Pfc. Manning used his "Top Secret/SCI" clearance to tap into documents around the world.

Widening the probe is difficult because the WikiLeaks website is hosted outside the U.S. The site's founder, Julian Assange, is an Australian citizen and isn't within U.S. jurisdiction.

Federal officials have said Mr. Assange isn't considered a target of the probe. But the Pentagon has pushed for the leaks to be considered a theft of U.S. government property and wants to explore the possibility of charging Mr. Assange and others involved in disseminating the leaks, according to officials familiar with the matter.

The probe raises broader concerns for the news media. Current U.S. law focuses on the leaker of secret information, not the publisher of the material.

Government lawyers have debated whether WikiLeaks should be treated like a news organization, according to U.S. officials familiar with the matter.

Legal experts say a prosecution targeting WikiLeaks officials as publishers of the material would likely raise implications for conventional news organizations that publish secret government information.

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## U.S. NEWS

# Democrats get ready for tax-relief battle

BY JANET HOOK

Congressional Democrats, under pressure from their liberal wing, are preparing to put up a fight over tax relief for wealthier Americans before they agree to any compromise with Republicans that could extend the Bush-era breaks.

With the lame-duck Congress reconvening, House Speaker Nancy Pelosi (D., Calif.) may hold a vote midweek on legislation that would extend the 2001 and 2003 tax cuts only for families with incomes less than \$250,000, while allowing the upper brackets to expire.

But Senate Democrats are still divided over their party's end-game strategy. Some Democrats are ready to accept a temporary extension of all tax cuts. But there is also growing interest among other Democrats in a compromise that would keep them in place only for families with income of as much as \$1 million. Administration officials have opposed making upper-income tax cuts permanent but are widely viewed as being willing to accept an extension of a year or two. Republicans are unified in opposition to allowing the Bush-era tax cuts to lapse for any income group.

The result could be a protracted series of votes in both chambers and a weeks-long debate before the compromise expected by many in Washington will be reached.

"The Democrats don't have a bargaining position—that's the problem," said Don Stewart, communications director for Senate GOP Leader Mitch McConnell (R., Ky.)

The White House Tuesday will host its first high-level bipartisan meeting on the issue. Expectations are dwindling about the meeting, which was initially billed as a long, summit-like session followed by a White House dinner for senior House and Senate leaders of both parties.

Tax policy is just one of many issues that Congress will be confronting this week, the beginning of the end of the contentious lame-duck session. Others include the expiring program of extended benefits for the



The lame-duck Congress meets in Washington this week to consider tax policy and other legislative issues, including expiring extended benefits for the long-term unemployed.

long-term unemployed, government funding and ratification of a nuclear-arms treaty with Russia.

The focal point on taxes will be breaking the impasse between Republicans who want all the Bush-era tax cuts to be made permanent and Democrats who, like Mr. Obama, want to make them permanent only for families with income under \$250,000. Although both sides are digging in now, Sen. Byron Dorgan (D., N.D.) said the compromise path was clear.

"What's likely to happen is there will be an extension of the tax cuts for everybody for a period of time," Mr. Dorgan said Sunday on CNN's "State of the Union."

Many liberal Democrats are reluctant to concede that ground without a fight. When Mr. Obama and his top advisers signaled willingness to give ground after the election, they were slammed by liberals who viewed it as a capitulation. "Let the millionaires fend for themselves for a change," said AFL-CIO president Richard Trumka before Thanksgiving.

Democrats have been trying to reinforce their commitment to the party's initial position of supporting only tax breaks for the middle class. "Democrats agree that there should be permanent extension to the middle-class tax cuts, that there shouldn't be a permanent extension of tax cuts for millionaires and billionaires," said White House press secretary Bill Burton.

By preparing to bring a middle-class tax-cut bill to the House floor, a Democratic leadership aide said, Ms. Pelosi was "daring Republicans" to vote against it. House GOP Leader John Boehner (R., Ohio) has already made plain he would take the dare.

Whatever happens in the House, the Senate will be the likely source of any potential compromise. Senate Majority Leader Harry Reid (D., Nev.) has promised two votes this month—on middle-class tax cuts and on Mr. McConnell's plan to make all the tax cuts permanent—before any compromise is forged.

—John McKinnon and Michael Crittenden contributed to this article.

# Obama plans pay freeze

BY JONATHAN WEISMAN

WASHINGTON—President Barack Obama on Monday proposed a two-year salary freeze for all federal civilian employees, ahead of negotiations with Congress on deficit cutting that are likely to dominate Washington next year.

The freeze, which would require congressional approval, would affect about two million workers and cover calendar years 2011 and 2012.

Mr. Obama made it clear his gesture was supposed to kick off negotiations on deficit cutting that would require political sacrifices on the part of Republicans and Democrats. He called on both parties to "set aside the politics of the moment to make progress for the long term."

"My hope is that starting today we can begin a bipartisan conversation about our future," the president

said in comments to reporters. "Everybody's going to have to cooperate."

Though in effect for two years, the proposed freeze would save \$28 billion over five years and more than \$60 billion over 10 years as the government pockets savings from a lower wage base for its civilian work force, said Jeffrey Zients, deputy White House budget director for management.

Workers were due to have a 1.4% pay raise in 2011. Federal wages generally rise each year in step with inflation, though Congress often makes adjustments.

Some conservatives have been attacking the federal work force as overpaid, but Mr. Obama didn't join in. He hailed those whose pay he would freeze as the men and women who protect the nation's borders and airports, guard federal prisons,

maintain national parks and make sure Social Security checks go out on time.

"Clearly this is a difficult decision," Mr. Zients said, lauding federal workers as dedicated civil servants. "The president is clearly asking them to make a sacrifice."

The White House had to make the announcement ahead of Tuesday's statutory deadline for White House notification to Congress of different pay rates for different localities where federal workers are employed.

Republicans, who will take control of the House next year, have been calling for such a freeze for months. Rep. Darrell Issa (R., Calif.), the senior Republican on the House Committee on Oversight and Government Reform, called the proposed pay freeze "necessary and, quite frankly, long overdue."

# Talks on tax cuts set stage for the 2012 election cycle

[ Capital Journal ]

BY GERALD F. SEIB



That's not how President Barack Obama's meeting with Republican congressional leaders will be advertised, but that will be the reality when they sit down to discuss what to do with the Bush-era tax cuts, which expire at year's end if Congress and the president don't agree to extend some or all of them.

The first debate of the 2012 presidential election cycle will occur Tuesday, and taxes will be the subject.

It's quite possible that, in the end, the tax cuts simply will be extended for everyone temporarily, punting the debate into next year and beyond. Meanwhile, there likely will be lots of maneuvers and test votes, all designed to probe the underlying question: What is the real balance of power in Washington in the wake of the midterm elections?

That power equation also will help shape the landscape for the 2012 presidential campaign. If there was any hope the tax debate could be separated from that seemingly distant presidential contest, it was extinguished when Senate Republican leader Mitch McConnell declared that his party's main political goal was to deny Mr. Obama a second term—and when the president seized upon that comment to portray the Republicans as more interested in politics than in governance.

So both sides will be test-driving their main themes for the next political cycle. Republicans will be arguing that they offer the low-tax, less-government path to real economic recovery, and that the Democrats want to strangle small-business growth by increasing taxes. Democrats will be trying out their argument that Republicans are out to protect the wealthy above all else, and that they remain addicted to Bush-era policies that caused economic calamity and ruinous budget deficits.

Substantively, the positions of the two sides are clear, and incompatible. Mr. Obama and the Democrats want to extend the tax cuts permanently for families making less than \$250,000 a year, and return to higher rates for all above that line. Republicans want to extend cuts permanently for all.

Both sides bring their own peculiar sets of strengths and vulnerabilities to this debate. The Republicans' strengths are most obvious, simply because they were demonstrated in this month's elections. Because the tax debate is being held in a lame-duck Congress, before the big batch of newly elected Republicans arrives early in 2011, GOP leaders have an incentive to resist compromise for now.

That could force all tax cuts to expire at year's end, allowing Republicans to accuse Mr. Obama of raising everybody's taxes. Then

they could re-open the conversation about extending the tax cuts next year, when their position has been fortified by the arrival of new members.

But that tactical maneuver also would expose Republicans to their greatest political vulnerability. Their risk is that the White House will make them look rigid, and charge that they are over-reading their election mandate, while the president is the one being reasonable.

Indeed, Mr. Obama's announcement Monday that he is freezing pay for federal workers for two years to deal with the deficit is one sign of how the White House intends to position him as a leader seeking sensible compromises to deal with economic distress. By contrast, the White House would portray a collapse of tax talks as a sign the GOP is playing games with the economy to seek political advantage.

**Substantively, the positions of the Republicans and the Democrats are clear, and incompatible.**

So, given that balance of power, what's the most likely outcome?

Here's a reasonable guess. There will be congressional votes on rival measures giving each side exactly what it wants, and they will fail. Democratic leaders will try to preserve most tax cuts while raising taxes on top earners, but, given that they didn't have the votes in the Senate for such a strategy before the election, they seem unlikely to have them now. Republicans, because they still face a Democrat-controlled Congress in the lame-duck session, won't have the votes to permanently extend all the tax cuts.

At that point Democrats will try an alternative of continuing tax cuts for all but the wealthiest Americans—say, for those with a family income above \$1 million rather than \$250,000. But liberal Democrats won't like the idea of extending cuts so far up the income scale, and conservative Democrats don't want to raise any taxes right now, so that approach might fail as well.

That would leave a temporary extension for all, perhaps for one or three years. (Democrats will resist extending for two years, which would reopen the whole issue squarely amid the 2012 campaign.) Then the question will be what Democrats might negotiate in return for agreeing to continue all tax cuts: an extension of long-term jobless benefits, for example, or a continuation of the "making work pay" tax credit for lower-income Americans the White House is pushing.

That would represent a truce in, but surely not the end of, a tax argument sure to continue through the presidential cycle.

Write to Gerald F. Seib at [jerry.seib@wsj.com](mailto:jerry.seib@wsj.com)

WORLD NEWS

# South Korea walks fine line

By EVAN RAMSTAD  
AND GORDON FAIRCLOUGH

SEOUL—South Korean President Lee Myung-bak vowed Monday to strike back at any further attacks by North Korea on South Korean territory, but the South's military later canceled a drill that would have asserted its territorial rights over a maritime border the North disputes.

The military late Monday initially announced it would conduct an artillery drill on the same island attacked Nov. 23 by the North in an hourlong barrage that killed four South Koreans, destroyed more than 30 homes and damaged nearly every building in the island's main village, which was home to 1,400 people.

The new test was announced shortly after 7 p.m. Monday, then canceled about 90 minutes later without explanation. The test could have led to another confrontation with North Korea and, as a result, its cancellation underlined the constraints Seoul faces in dealing with Pyongyang's latest aggression.

North Korea cited a similar artillery drill on the island, called Yeonpyeong, as the reason it opened fire last week in what was the first attack on South Korean land by the North since the Korean War of the 1950s.

South Korea has conducted such tests for years. But North Korea's use of last week's test as justification to attack the island marked an escalation of a campaign that began in the late 1990s to force South Korea to redraw the inter-Korean maritime border off the countries' west coast.

In recent days, North Korea's statements shifted from emphasis on the test-firing to a broader condemnation of the sea border, unnerving South Koreans on four other islands in the border area and spurring speculation among defense analysts about Pyongyang's next move.

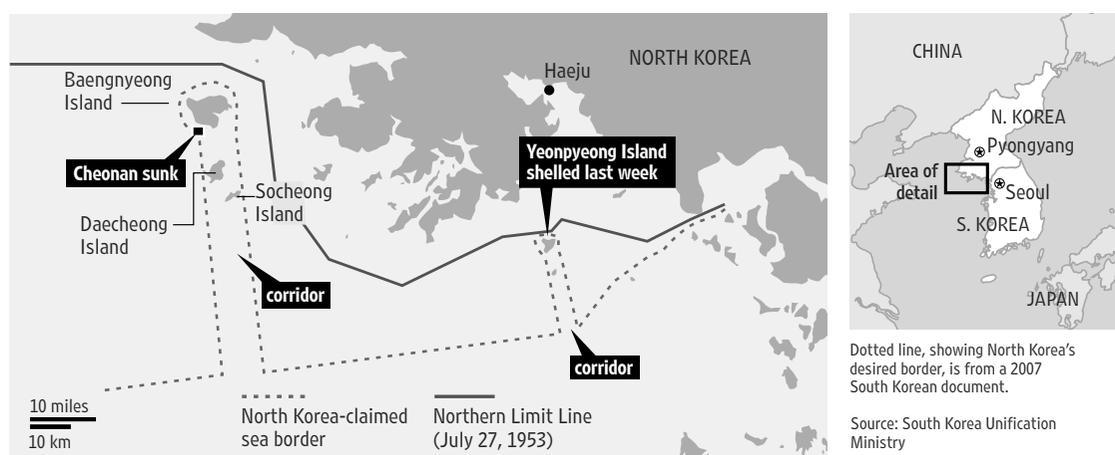
Statements in North Korean media since Friday justified the barrage as a means of preventing South Korea from making the line a "de facto border," without referring to the fact that the line has existed as such a border since it was drawn by the United Nations in 1953 after an armistice agreement ended hostilities.

"The 'northern limit line' adhered to by the south Korean authorities is an illegal ghost line," *Rodung Shinmun*, North Korea's biggest newspaper, wrote Sunday in one of several articles in the North's media over the weekend that focused on the line.

North Korea objects to the line



South Korean President Lee Myung-bak talks with field commanders during a joint drill with U.S. forces Monday.



chiefly because it forces cargo and fishing vessels on its southwestern coast to take lengthy routes to international shipping lanes and open water. The narrowest passage is the area north of Yeonpyeong Island, which is separated from North Korea's mainland by just 10 kilometers, or about six miles.

Following the sinking of the South Korean warship *Cheonan* in March, North Korea issued a similar series of statements critical of the maritime border.

Defense analysts at the time speculated that North Korea might try an artillery attack on one of the five South Korea-controlled islands near the border, citing an exercise in January when it fired more than 400 rounds of artillery from various points on the North Korean coast that were aimed at one spot.

"It was a practice session for what they did last week," said Bruce Bechtol, a Korea defense specialist and professor at Angelo State Uni-

versity, in San Angelo, Texas. "This is part of a very deliberate, well-planned set of events designed to intimidate the South and bring the Northern Limit Line to the world's attention."

Many analysts say that getting the maritime border changed is a major goal of North Korean dictator Kim Jong Il—a chance to recover some of what is perceived in the North to have been lost when his father's invasion of South Korea in 1950 was turned back in the Korean War. Mr. Kim early last week visited a town on the coast near the disputed maritime border with military leaders.

On Monday, South Korean President Lee in a nationally televised speech called the North Korean attack an "inhumane crime" and noted that shells exploded just a few meters from the island's elementary school. "I am outraged by the ruthlessness of the North Korean regime, which is even indifferent to the lives

of little children," Mr. Lee said, though he didn't refer to Mr. Kim by name.

Public opinion polls show that a vast majority of South Koreans—as many as 80% in some surveys—are upset by what they perceive to be a weak response to the attack. In his speech, Mr. Lee defended the military and said North Korea would pay "a dear price without fail" if it attacks again.

On Sunday, South Korean military officials ordered all journalists, aid officials and other outsiders off the island, citing the prospect of another attack.

Mr. Lee vowed to "defend the five islands near the northern sea border with a watertight stance against any kind of provocation."

This past week, some residents of the other islands also left their homes to stay with friends and relatives on the mainland.

—Jaeyeon Woo  
contributed to this article.

# Nuclear scientists attacked in Tehran

Associated Press

TEHRAN—Assailants on motorcycles attached bombs to the cars of two nuclear scientists as they were driving to work in Tehran Monday, killing one and seriously wounding the other in separate attacks, state television reported.

The report didn't say whether the two university teachers were directly involved in the country's nuclear program.

State TV swiftly blamed Israel for the attacks. At least two other Iranian nuclear scientists have been killed in recent years in what Iran has alleged is part of a covert attempt by the West to damage its nuclear program. One of those two was killed in an attack similar to those on Monday.

The nuclear program is at the center of a bitter row between Iran on one side and the U.S. and its allies on the other.

A number of world powers suspect Iran is trying to make nuclear weapons, an allegation the government denies.

Tehran's refusal to limit some of its nuclear activities has brought on multiple rounds of United Nations sanctions against the country.

The assailants, who escaped, drove by their targets on motorcycles and attached the bombs as the cars were moving. The bombs exploded shortly thereafter, the state TV report said.

## The attacks bore close similarities to another in January that killed a physics professor.

The man killed Monday was identified as Majid Shahriari, a member of the nuclear-engineering faculty at Shahid Beheshti University in Tehran. His wife, who was in the car with him, was wounded.

A second attack in Tehran seriously wounded nuclear physicist Feireidoun Abbasi. His wife was also in the car with him, and she was also wounded.

A pro-government website, *mashreghnews.ir*, said Mr. Abbasi held a Ph.D. in nuclear physics and was a laser expert at Iran's Defense Ministry and one of few top Iranian specialists in nuclear-isotope separation.

The site said Mr. Abbasi has long been a member of the Revolutionary Guard, the country's most powerful military force. It said he was also a lecturer at Imam Hossein University, affiliated with the Guard.

Some Iranian media reported that Mr. Abbasi died after he was transferred to the hospital. But Iran's official IRNA news agency said he was in a stable condition.

The attacks bore close similarities to another in January that killed Masoud Ali Mohammadi, a senior physics professor at Tehran University.

He was killed when a bomb-rigged motorcycle exploded near his car as he was about to leave for work.

# Afghan gunman kills 6 U.S. troops

By MATTHEW ROSENBERG

KABUL—A gunman in an Afghan Border Police uniform shot and killed six U.S. troops during a training mission in what appeared to be the deadliest in a series of shootings of allied personnel by Afghan forces.

The gunman was killed in a subsequent shootout with coalition forces. Afghan officials and the North Atlantic Treaty Organization task force here said they were investigating the incident, which occurred Monday in the eastern province of Nangarhar.

"Such attacks will not deter our cooperation with [NATO] to provide security in Afghanistan," said Zema-

rai Bashary, the spokesman for the Afghan Interior Ministry, which oversees the police.

NATO, in a statement, described the assailant as dressed in an Afghan Border Police uniform, leaving open the possibility the gunman wasn't with the border police but rather an infiltrator in disguise—a tactic the Taliban have previously used. Pentagon spokesman Col. David Lapan said the six killed were American service members.

Hours after the shooting, the Taliban took credit for the killings, saying the gunman had infiltrated the border police with the sole intent of killing foreign soldiers.

The Taliban's claim was impossi-

ble to immediately verify, and the militants have been known to take credit for events in which they played no direct role.

But if the gunman was from the border police, Monday's shooting would be the latest attack on coalition service members by Afghan security forces. Such events were relatively rare until recently.

A pair of U.S. Marines were allegedly killed by an Afghan soldier earlier this month in Helmand province. In July, an Afghan army sergeant killed two U.S. civilian trainers during an argument at a shooting range in northern Afghanistan before being gunned down himself. Earlier that month, an Afghan

soldier in the south killed three British soldiers.

The shootings have raised the prospect of Taliban sympathizers in the Afghan security forces. Coalition and Afghan officials say they don't believe the problem is widespread but acknowledge it is a possibility with a massive recruitment drive under way to expand the ranks of the Afghan army and police.

They also say an increase in joint operations between coalition and Afghan forces is bound to lead to arguments—and that a small percentage turn deadly.

—Maria Abi-Habib  
and Habib Khan Totakhil  
contributed to this article.

## WORLD NEWS

# Japanese lap up imports, foreign deals

By YUKA HAYASHI  
AND MIHO INADA

TOKYO—Pizza delivery, European suits and foreign beach condos: Thanks to a stronger yen, Japanese consumers are snapping them up at big discounts.

The yen's recent surge—the dollar closed Monday in Tokyo at 84.04 yen, stronger than its 15-year low of 79.75 yen—has lowered prices on imported items from avocados to Audis. To the delight of many consumers, the yen's gain also makes it easier for Japanese to travel abroad and invest in foreign assets, including real estate and mutual funds that target emerging-market stocks or U.S. high-yield bonds.

The bargains appear to be a silver lining in the dark cloud over Japan's economy. The yen's surge makes Japan's goods pricier worldwide, hurting the prospects for the country's export-driven economy. And even the cheap prices of imports are a mixed blessing: Falling prices on goods deepen the nation's stubborn deflation, keeping shoppers on the sidelines with expectations that prices will fall further and eroding corporate profits.

"In theory, a strong yen can enhance the consumer's purchasing power and prop up consumption and the economy as a whole," says Hiro-michi Shirakawa, a Credit Suisse economist. "But given that the economy relies nearly entirely on exports to realize growth right now, it's hard to paint this as a pretty story."

Many retailers entice customers with "strong-yen rebate" sales, offering discounts on imported goods. They hope to buttress sales hurt by lingering pessimism over job security, driven in part by Japanese exporters moving jobs overseas in response to the stronger yen.

Department-store chain **Matsuzakaya Co.** recently held a sale featuring 2,000 imported leather bags and shoes at its central Tokyo store. On the last day of a weeklong sale this month, shoppers gathered around a wagon filled with purses costing 490 yen—roughly \$5.80—while others tried on Italian-made shoes. On top of 30% to 50% markdowns on the shoes and bags, the store was offering a discount depending on the previous day's exchange rate. If the dollar was at 81 yen, the discount was 10%; if it fell to 79 yen, the discount rose to 20%. Hiroko Isobe, a 48-year-old em-



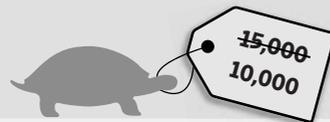
A customer buys Microsoft Corp.'s new Xbox 360 Kinect after the product's launch in Tokyo last week.

## Cheap in Japan | The strong yen is pushing down prices for a range of items

MARGHERITA PIZZA FROM  
SALVATORE CUOMO JAPAN



PET TURTLES  
IMPORTED FROM INDONESIA



THREE-PERSON SOFA  
IMPORTED FROM ITALY



COACH SIGNATURE FLAP  
DUFFLE SHOULDER BAG



ELECTRIC TESLA ROADSTER  
IMPORTED FROM U.S.



1,200-SQUARE-FOOT  
MANUFACTURED HOUSE FROM U.S.



Source: WSJ Research

ployee of a financial firm, saw a newspaper ad for the sale and came to buy a pair of sneakers. She ended up with four pairs for just more than 5,000 yen in all, about \$60.

Supermarket operators **Ito-Yokado Co.** and **Aeon Retail Co.** are discounting imported groceries such as Australian beef and American broccoli. Pizza-delivery chain **Salvatore Cuomo Japan Inc.** offers its popular margherita pizza at 1,500 yen, compared with the usual 1,980

yen. The company says the yen's rise against the euro has cut the cost of Italian mozzarella and tomato sauce.

Even imported pets are getting a boost. "We can buy more animals now because each one is cheaper," says Koichiro Okuhira, president of Science Factory, an Osaka firm that imports rare animals it sells to people or leases to ad agencies.

Mr. Okuhira says business is booming in snakes, iguanas and, particularly, tortoises from Indone-

sia and the U.S. "They don't bark and can be raised in apartments with no-pet policies," he says. With a tortoise selling for 10,000 yen last year, he says the company is on track to sell 4,000 tortoises this year, twice as many as last year.

**Global Property Inc.** recently held a seminar in Tokyo on purchasing condominiums in Kuala Lumpur as an investment. The brokerage company also recommends condo-

miniums in Hawaii, citing sharp declines in the U.S. property market in addition to the strong yen. In the second quarter, when the yen began its latest rise, Japanese residents also became net buyers of real estate abroad after being net sellers for two years, figures from the Ministry of Finance show.

Many people are venturing abroad for vacations again. In the holiday month of August, the number of Japanese going overseas on package tours grew 7.5% from a year earlier to 475,000, according to the Japan Association of Travel Agents.

Kyoko Satake, a 52-year-old housewife, traveled to Hawaii in September for her niece's wedding. She bought a Marc Jacobs watch for her daughter, paying a little more than \$200, half what she would have paid in Japan. She thinks she saved even more by using her credit card to get a better exchange rate, because the yen kept appreciating.

Tsutomu Fujita, a 33-year-old photographer, has bought photography supplies online from New York retailer B&H Foto & Electronics Corp. "I can save a lot even after paying for shipping and import tariffs," says Mr. Fujita, who saves on costs by pooling orders with friends.

But he is seeing the other side of the yen's strength, too. He believes fewer soon-to-be-wed couples from Hong Kong are traveling to Japan to be photographed at famous tourist sites, crimping a longtime income stream. The yen value of dollar-based payments he receives from a foreign wire service has fallen nearly 30% in four years.

As his experience shows, the strong yen's benefits look small compared with the damage suffered by the economy by damped export earnings and deepening deflation. The consumer-price index in central Tokyo fell 0.5% from a year earlier in October. Leading the decline were furniture and household items, most imported from China and other Asian countries.

Mr. Shirakawa, the Credit Suisse economist, says that over the long term, the yen's rise could help strengthen the economy if people and companies increase overseas investment. But following steep drops in financial markets world-wide earlier this year, ordinary Japanese investors, like their peers elsewhere, remain risk-averse.

—*Makiko Segawa*  
contributed to this article.

## Islamists see losses in Egypt

By CHARLES LEVINSON

CAIRO—Egypt's largest opposition group, the Muslim Brotherhood, said Monday it had failed to win a single seat in parliamentary elections, joining local and international rights groups in denouncing what they described as massive and systemic fraud.

No official results have been released. If the opposition's forecast—gathered from representatives observing the vote-counting process—is accurate, the government of President Hosni Mubarak will have pushed out a group that had made up one-fifth of Egypt's parliament.

"The evidence suggests that Egyptian officials made a concerted effort to prevent opposition candidates from exercising their rights during voting," said Joe Stork, dep-

uty director of Human Rights Watch Middle East division.

Egypt's High Election Commission dismissed the fraud allegations. It acknowledged a handful of irregularities in the voting, but said in a statement that those "did not undermine the electoral process as a whole."

The president's National Democratic Party has called the parliamentary vote a practice run for presidential elections late next year. It remains uncertain if Mr. Mubarak, 82 years old, will seek re-election.

Rights groups said poll monitors from opposition parties were systematically denied access to polling stations around the country, as the law requires.

Unlike in past elections, when Egypt's independent judiciary oversaw voting, a 2007 law significantly

restricted the oversight role of judges this time around.

The Muslim Brotherhood, which is banned but allowed to field candidates as independents, said that only 15 to 30 of its 130 candidates would proceed to a runoff to be held on Dec. 5. The rest of the group's candidates appeared to have lost outright.

The Brotherhood even lost in districts it won by huge margins in the 2005 elections.

The head of the Brotherhood's parliamentary bloc, Saad al-Katatni, for example, lost his seat in southern Egypt, after winning it with 74% of the vote five years ago.

As initial results poured in on Monday, there were scattered reports of violence around the country, as supporters of losing candidates rioted and clashed with police.

## Pakistan graft watchdog says it was threatened

By TOM WRIGHT

ISLAMABAD, Pakistan—Corruption watchdog Transparency International says it is facing intimidation in Pakistan because of its agreement with the U.S. to monitor increased aid flows to the country.

The U.S. Congress a year ago agreed to a five-year, \$7.5 billion civilian aid package for Pakistan, at least half of which will be funneled through Pakistan government ministries. The U.S. in September signed an agreement with Berlin-based Transparency International's Pakistan affiliate under which the group will set up a hotline through which people can report any misuse of U.S. assistance.

Syed Adil Gilani, chairman of Transparency International Pakistan, said he had received death threats from "high-level" government officials telling him to halt anti-graft probes and plans for the hotline. He declined to name the source of the threats.

"They don't want TI Pakistan to monitor" U.S. aid flows into the country, he said.

Pakistani Interior Minister Rehman Malik didn't respond to requests for comment.

Transparency International's chairwoman, Huguette Labelle, wrote to Pakistan's chief justice Monday to ask for action to address any "possible state intimidation against TI Pakistan."

OPINION: REVIEW & OUTLOOK

# Europe's Single Debt Zone

European Union finance ministers agreed late Sunday on more than just an €85 billion bailout for Ireland. They also turned the currency union into a de-facto debt union by choosing to turn May's €750 billion rescue fund into a permanent feature of the euro zone. What's more, they promised that no sovereign creditor would face a haircut on their debt holdings until 2013, and that's at the very earliest.

Taxpayers from the more fiscally responsible countries, particularly Germany, will be on the hook for the budget failures of Greece, Ireland and any other country that may still require saving. This violation of the euro zone's

own rules forbidding bailouts is not likely to improve fiscal discipline in those countries traditionally lacking it.

While laying the foundation for future reckless spending, the finance ministers did not solve the immediate problem they like to call "contagion." The word suggests that Portugal, Spain, Belgium and Italy are innocent victims of some inexplicable financial flu that has put pressure on their bonds. But it was their own economic policies that got them into trouble in the first place.

**The permanent crisis-management fund will only make permanent crisis more likely.**

Not surprisingly, the patients are not responding to treatment. Yield spreads of 10-year Portuguese, Spanish, Belgian and Italian government bonds over benchmark German debt all widened yesterday, hitting euro-era records for Italy and Spain. Even German debt came under pressure yesterday, with Bund yields rising as investors began to worry about

the bailout burden on Europe's paymaster.

Realizing that its funds are not unlimited, Germany wanted Sunday's

agreement to lay out a path for private bondholders to share the burden of future bailouts. But France insisted that private-sector participation in any future sovereign debt restructuring would not be automatic. The EU agreement speaks of a "case by case" evaluation, meaning it will be subject to the political considerations of the moment.

So here is what the EU has done: In the name of combating speculation against the debt of euro-zone members, the EU has now insured all those speculators against loss for three years at least. Meanwhile, in creating a permanent crisis-management mechanism, the EU has succeeded only in making permanent crisis more likely.

## Students for State Subsidies

Tens of thousands of British students have taken to the barricades over the question of tuition-fee caps. They have engaged in sit-ins at university buildings, stopped traffic in Westminster and invaded and vandalized Tory Party headquarters. Today they are expected to take to the streets again.

The students are fighting for the ennobling proposition that someone had better pay for their education. Less noble is their notion that someone else had

better do the paying. David Cameron's government proposes that students borrow the money they need for their fees from the government. The alternative is for the government to borrow the money it needs to pay for the current tuition subsidies. Whichever way, the students will have to pay, either as current borrowers or as future taxpayers.

Our view is that students, as the chief beneficiaries of their own educations, ought to have the principal hand in pay-

ing for them. "Society" consists of plenty of taxpayers who did not have the benefit of a university education, and whose children may not have one either. As a matter of social justice, a phrase we dislike but which is much in vogue among the government's critics, these taxpayers ought not to be made to pay for another person's privilege.

As it is, the government's plan still involves considerable subsidy to students, since they will enjoy low-cost

loans from the state that will only become payable once the students are earning £21,000 a year or more. Those who never reach that level of income, despite their education, will still wind up with a free ride courtesy of their fellow taxpayers.

And yet there they'll be, arguing for a system in which everyone is subsidized equally regardless of current wealth or future income. Surely, somewhere, there is a better cause than this.

## The Hangover, Part II

Not even Mel Gibson would want a role in this political sequel. Readers will recall the true story of U.S. Congressman Barney Frank and Senator Chris Dodd, two pals who stayed up all night rewriting derivatives legislation.

The plot centered around the comedy premise that two Beltway buddies would quickly restructure multi-trillion-dollar markets to present their friend, President Barack Obama, with an apparent achievement before a G-8 meeting. As in the movies, the slapstick duo finished rewriting their bill just in time for the big meeting in Toronto last June.

But after the pair completed their mad-cap all-nighter, no hilarity ensued. That's because companies that had nothing to do with the financial crisis woke up to find billions of dollars in potential new costs. The threat was new authority for regulators to require higher margins on various financial contracts, even for small companies that nobody considers a systemic risk. The new rules could apply to companies that aren't speculating but are simply trying to protect against business risks, such as a sudden price hike in a critical raw material.

Businesses with good credit that have never had trouble off-loading such risks might have to put up additional cash at the whim of Washington bureaucrats, or simply hold on to the risks, making their businesses less competitive. Companies that make machine tools, for ex-

ample, want to focus on making machine tools, not on the fluctuations of interest rates or the value of a foreign customer's local currency. So companies pay someone else to manage these risks. But Washington threatens to make that process much more costly.

Messrs. Frank and Dodd responded to the uproar first by suggesting that the problem could be fixed later in a "corrections" bill and then by denying the problem existed. Both proclaimed that their bill did not saddle commercial companies with new margin rules. But comments from the bill's authors cannot trump the language of the law.

Flash forward to today, and the U.S. Commodity Futures Trading Commission (CFTC) is drafting its new rules for swaps, the common derivatives contracts in which two parties exchange risks, such as trading fixed for floating interest rates. We're told that CFTC Chairman Gary Gensler has said privately that his agency now has the power to hit Main Street with new margin requirements, not just Wall Street.

Main Street companies that use these contracts are known as end-users. When we asked the CFTC if Mr. Gensler believes regulators can require swap dealers to demand margin from all end-users, a spokesman said, "It would be premature to say that a rule would include such a requirement or that the Chairman supports such a requirement."

It may only be premature until next month, when the CFTC is expected to is-

sue its draft rules. While the commission doesn't have jurisdiction over the entire swaps market, other financial regulators are expected to follow its lead. Mr. Gensler, a Clinton Administration and Goldman Sachs alum, may not understand the impact of his actions outside of Washington and Wall Street.

In a sequel to the Dodd-Frank all-nighter, the law requires regulators to remake financial markets in a rush. CFTC Commissioner Michael Dunn said recently that to comply with Dodd-Frank, the commission may need to write 100 new regulations by next July.



Gary Gensler

"In my opinion it takes about three years to really promulgate a rule," he said, according to Bloomberg News. Congress's instructions include to "forget what's physically possible," he added. The commission can't really use this impossible schedule as an excuse because Mr. Gensler had as much impact as anyone in crafting the derivatives provisions in Dodd-Frank. No surprise, the bill vastly expands his agency's regulatory turf.

And if anyone can pull off a complete overhaul of multi-trillion-dollar markets in a mere eight months, it must be the CFTC.

Just kidding. An internal CFTC report says that communication problems between the CFTC's enforcement and market oversight divisions "impede the overall effectiveness of the commis-

sion's efforts to not only detect and prevent, but in certain circumstances, to take enforcement action against market manipulation." The report adds that the commission's two primary surveillance programs use incompatible software. Speaking generally and not in response to the report, Mr. Gensler says that the agency is "trying to move more toward the use of 21st century computers," though he warns that "it's a multiyear process." No doubt.

The CFTC report also noted that "the staff has no standard protocol for documenting their work." If we were tasked with restructuring a complex trading market to conform to the vision of Chris Dodd and Barney Frank, we wouldn't want our fingerprints on it either.

The report was completed in 2009 but only became public this month thanks to a Freedom of Information Act request from our colleagues at Dow Jones Newswires. Would Messrs. Dodd and Frank have responded differently to Mr. Gensler's power grab if they had realized how much trouble the CFTC was having fulfilling its traditional mission? We doubt it, but it certainly would have made their reform a tougher sell, even to the Washington press corps.

The U.S. Congress should scrutinize this process, which is all but guaranteed to result in ill-considered, poorly crafted regulation. In January, legislators should start acting, not like buddies pulling all-nighters, but like adults who understand it's their job to make the tough calls, rather than kicking them over to the bureaucracy with an arbitrary deadline.

## OPINION

## The Good Life With David Cameron

By JAMIE WHYTE

Jigme Dorji Wangchuck, the former King of Bhutan, declared in 1972 that “gross national happiness is more important than gross national product.” The Center for Bhutan Studies dutifully constructed a survey-based happiness index, whose increase is now the goal of Bhutan’s five-year plans.

Wangchuckism has slowly caught on outside of the happy kingdom. French President Nicolas Sarkozy recently commissioned economists Joseph Stiglitz and Amartya Sen to construct a measure of French happiness. The

### The prime minister wants Britain to lead the world in measuring happiness.

United Nations, World Bank, European Commission and Organization for Economic Cooperation and Development also now measure not only wealth but well-being.

Last week, British Prime Minister David Cameron announced that he is unhappy “following meekly behind”; Britain must lead the world in measuring happiness. He has asked the Office of National Statistics to construct a survey-based measure of the country’s general well-being. They will publish their first findings in the summer of 2012.

Mr. Cameron might not be such an enthusiastic Wangchucker had he spent his pre-politics years in more boring jobs, fantasizing

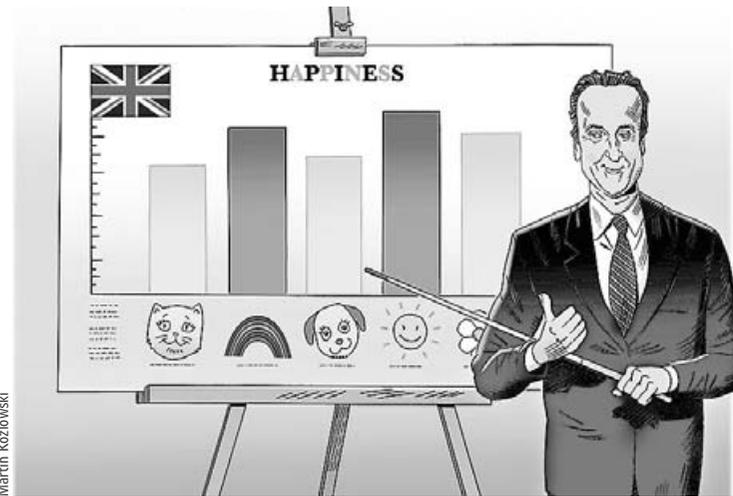
about what might make him happier. Any young management consultant, for instance, would be lying if he told you he has not devoted a few of his endless hours in front of an Excel spreadsheet to constructing a girlfriend-rating model.

Here’s how it is done. Start by asking what contributes to a woman’s appeal: bone structure, skin condition, body shape, intelligence, humor. . . and so on. Give each of these factors a weight reflecting their relative importance. Now assign the women in your sample a score (from 0 to 100, say) for each factor. To arrive at a woman’s overall score, simply sum up her factor scores multiplied by their weights.

It is an amusing exercise but it always ends in failure. No one I know has built a model that gives the right answers. The ranking of women as scored by the model does not match their actual ranking in the affections of the modeler. Diana scores better in most categories but for some ineffable reason you prefer Camilla.

And this failure occurs when all you are trying to do is construct a measure of women’s attractiveness to a single person, namely, yourself. Imagine the impossibility of modelling female appeal for the whole male population. Some like women curvy, others skinny; some like them clever, others simple; some funny, others serious. Any model’s ranking of women would inevitably be way off the mark for millions of men.

The same failure is inevitable when trying to measure happiness



Martin Kozlowski

or well-being. As with attractiveness, it is easier to tell when you are happy than why you are. And the causes of happiness vary widely, not just between different people but for the same person over time. When I was a child, Brussels sprouts made me unhappy but made my mother happy. Now that I am middle-aged and she is old, the matter has reversed.

Of course, Brussels sprouts are unlikely to be part of the Office for National Statistics’s measure of happiness. They will no doubt turn to “the new science” of happiness, as Lord Richard Layard of Highgate called it in his 2005 book on the topic. But the Brussels sprout problem will persist.

Consider divorce, which according to Mr. Layard makes people unhappy. I am a living counter-example. My experience of being unmarried, then married, then di-

vided, goes like this: happy, then unhappy, then happy. Yet when the Office for National Statistics conducts its survey armed with Mr. Layard’s science, they will count my happy divorce as a contribution to the nation’s misery. And when Mr. Cameron, armed with this science, changes the law to make divorce more difficult, he will be extending the misery of people in marriages like my first one.

Yet the folly of imposing a one-size-fits-all view of happiness on a diverse population is only secondary. The more fundamental error is selecting happiness as the measure of a successful society. Happiness is but one of the things people value. They also value justice, truth, glory, cars, rugby, Brussels sprouts, woolly slippers and an endless list of other things. So, even if happiness had the same causes for everyone, it would still be a silly mea-

sure of society’s success.

Many will protest that people value these other things only as sources of happiness. If someone wants a Rolex watch, that is because he thinks it will make him happy. But, depending on what you mean by “happy,” this is either a mere tautology or obviously false.

If “happy” means only that you have satisfied your desires, then it is trivially true that people seek only happiness. This is nothing more than the claim that people want what they want. On the other hand, if “happy” refers to some particular state of mind—as it does for happiness scientists, who seem to model it on the apparent contentment of the Dalai Lama—then it is clear that we do not seek only happiness. No one believes that a Rolex will put him in the mental state of the Dalai Lama, but many still want one.

In a free society people will pursue “the good life” as they conceive it. Mr. Cameron claims to reject governmental interference in favor of individual liberty. His taste for industrial policy, nationalized health care, compulsory charity and population control make some doubt him. His Wangchuckery should put the matter beyond doubt. No one with a shred of liberal principle could think it the state’s proper job to specify the nature of “the good life,” and then design policies that get people to live it.

*Mr. Whyte is a management consultant and author of Crimes Against Logic (McGraw Hill, 2004).*

## The Emperor’s Nuclear Clothes

By STEPHEN PETER ROSEN

Enough is enough. Every day, the events of the real world reveal that the American foreign-policy establishment is wearing nothing but the emperor’s new clothes—policies that make proper people murmur “how Nobel-worthy” while looking around to see if anyone else notices something odd.

Respectable wise men, in and out of government, talk of the importance of arms control and a nuclear-free world, when the reality is that Iran, North Korea and other countries have made the acquisition of nuclear weapons their highest priority. The government of Russia has committed itself to a military posture in which tactical

nuclear weapons play a larger role in war fighting and war termination.

The bitter truth is that a world with fewer nuclear weapons really is in the interest of the United States. That is why it won’t happen: Too many countries believe that a nuclear-free world will leave the conventional military superiority of the U.S. unchallengeable.

The wise men call on China to help restrain the nuclear programs of North Korea and Iran, while the Chinese official press praises North Korea for its toughness after its artillery attacks. American officials piously intone that the U.S. will not reward bad behavior. They point to the deployment of carrier forces that everyone knows are determined not to fire one round in anger. Meanwhile, Washington prepares the ground for new rounds of talks in which rewards for North Korea will be carefully discussed.

The relative decline and overextension of American military power makes the prospect of using military power against U.S. allies increasingly a matter of “It just might work,” rather than “Don’t even think about it.” American allies must, as reasonable men and women, consider whether to strike out on their own, either by increasing their own military power or by seeking accommodations with those who oppose the U.S.

So what is to be done? There are no good options, we are told,

with the subtext being “Get used to North Korean and Iranian nuclear weapons.” But we do have options.

In the near term, America must allow its allies to acquire the weapons they need for their own defense. The U.S. government should reverse its decision not to sell F-22s to Japan. It should aid the expansion of the Japanese submarine force by transferring relevant military technologies, and it also should encourage Japanese production of anti-missile interceptors for foreign sale.

If the U.S. deploys American military power, it must do it like it means it. If North Korea and Iran want nuclear weapons, and China does nothing to stop them, the U.S. can reintroduce tactical nuclear weapons onto American aircraft carriers and attack submarines in the Pacific. The U.S. should put on round-the-clock shifts the production lines of weapons that would be needed in the event of war with Iran or North Korea (such as the long-range version of the Joint Air-to-Surface Standoff Missile).

The U.S. can also ask the United Nations for a resolution authorizing air strikes against North Korea in the event of any future attack on the people or territory of South Korea or Japan. China will then stand up and be counted on one side or the other.

Such measures would provide some immediate reassurance to allies that the U.S. will fight if it

must, if they are attacked again. Of course, they won’t make the Iranian and North Korean nuclear programs go away. To deal with those, a longer-term program is needed.

The U.S. will need offensive as well as defensive forces that can thwart foreign aggression, even though aggressors have nuclear weapons. This is neither impossible nor paradoxical. Countries have defeated the U.S. since it developed nuclear weapons. Israel has been attacked repeatedly even though it has had nuclear weapons since 1967. What is very hard, and may be impossible, is to get other countries to allow the U.S. military to use bases on their territory when their enemies have nuclear weapons and they do not.

Over the next 10 years, the U.S. needs to increase its ability to conduct non-nuclear war from undersea, from ships out of range of missile attack, and from bases on American soil by means of long-range missiles and aircraft, manned or unmanned. The U.S. must be able to use cyber warfare and other unconventional means, and to defend itself from retaliatory attacks in kind. The U.S. military must also be prepared to operate in an environment in which other countries have used nuclear weapons. This means having not only missile defenses, but also protection against the electromagnetic pulses generated by nuclear weapons, which can paralyze modern electronics.

This will not be cheap, but it will be less expensive if Washington helps its democratic allies arm themselves—by transferring technologies to them, by working with them, and by encouraging them to help each other.

This isn’t a recipe for World War III with China or anybody else. It is a realistic response to a world in which countries are developing nuclear weapons not to fight other countries but to coerce them. America’s goal should be a world in which countries can live peacefully without fear of being coerced militarily. It is an old-school response that doesn’t seek war, but that also doesn’t aspire to utopian goals.

*Mr. Rosen is professor of national security and military affairs at Harvard.*

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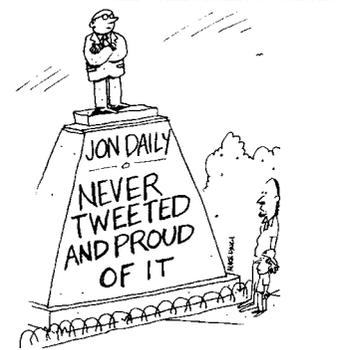
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### Pepper . . . and Salt



OPINION

# Impeaching Ahmadinejad

By Amir Taheri

Is Mahmoud Ahmadinejad a closet Persian nationalist trying to de-Islamize Iran? Is he part of a plot to send the mullahs back to the mosques to make way for an Islamist military regime?

These are some of the questions raised in the Majlis, Iran's ersatz parliament, by members who are trying to impeach the president. As astonishing as this might be for Western observers, Ahmadinejad is challenged by people who claim that he is not Muslim enough and that he harbors a hidden anti-clerical agenda to promote a mixture of messianism and chauvinism. His closest friend and aide, Esfandiar Rahim Masha'i, has even suggested that "within one year Ahmadinejad's enemies would declare him to be an infidel."

The anti-Ahmadinejad coalition within the Khomeinist establishment is a curious coterie that includes hard-line Islamists, mullahs clinging to their wealth and power, rival politicians, and crypto-Communists posing as Muslims. Because they have to claim to be more militant than Ahmadinejad, the victory of these groups could produce an even more unpredictable and dangerous Iran.

The campaign to impeach Ahmadinejad started last June when Majlis Speaker Ali Larijani claimed that the parliament had the right to pass laws without the president's consent. He then tested his claim by pushing through a \$2 billion (€1.51 billion) appropriation to Tehran's subway company, despite a presidential veto.

Larijani formed an alliance with another of Ahmadinejad's bitter foes, former President Ali Akbar Hashemi Rafsanjani. Ahmadinejad had defeated both men in the presidential election of 2005. One of Rafsanjani's sons heads the subway company that benefited from the parliamentary largesse. Ahmadinejad retaliated by asserting that the

president, and not the Majlis speaker, was the country's second highest authority after the "Supreme Guide."

To calm things down, the "Supreme Guide," Ali Khamenei, ordered the creation of a commission to arbitrate the dispute. By last September it had become clear that there could be no compromise, as Ahmadinejad's foes within the establishment were united for the first time and saw him as a threat to their hard-won privileges.

Starting the impeachment process requires a petition signed by at least a quarter of the 290 members of the Majlis. This week the number of signatures reached 178. But grilling the president in an open session of the Majlis is only the first step. The next step would be to secure the signature of two-thirds of the Majlis for a petition to Khamenei to dismiss the president.

So far, the Larijani-Rafsanjani tandem has failed to make the numbers needed. More importantly, there is no sign that the "Supreme Guide" is prepared to dump Ahmadinejad. Last month, talking to some 30 leading members of the Majlis, Khamenei admitted that Ahmadinejad might have "made some mistakes" but insisted that the president was "doing a good job and should be supported."

This backing comes despite accusations that the president has signed 110 unconstitutional edicts since his re-election last year. Some of these deal with a privatization scheme that has transferred large chunks of the public sector to companies owned by members of the Islamic Revolutionary Guard Corps, the president's staunch supporters.

Ahmadinejad is also criticized for being too liberal on women's issues. His Majlis critics attack his decision to allow women to attend sporting events and an order to the religious police not to harass women for minor infringement of the hijab. Newspapers supporting the impeachment lobby have pub-

lished pictures of Ahmadinejad shaking hands with foreign women during his trips abroad. Since Islam bans physical contact between the sexes outside marriage, the implication is that Ahmadinejad is not a good Muslim.

The campaign to impeach Ahmadinejad is being orchestrated by Ali Motahari, a brother-in-law of Larijani and a member of the Majlis. Ali Motahari is the son of the late Morteza Motahari, a Khomeinist mullah assassinated by Forqan, a terrorist group of which Ahmadinejad has been accused of being a member. Forqan was inspired by



Some members of Iran's parliament worry the president is not Islamist enough.

the ideas of Ali Shariati, a Shiite propagandist who preached an Islam without the clergy.

The charge that Ahmadinejad is trying to push the mullahs out of power is based on his own claim that he has a direct line of communication with the Hidden Imam, a Messiah-like figure in Shiite Islam who is supposed to emerge at the end of time to install eternal justice.

Ahmadinejad constantly talks of the Hidden Imam but almost never mentions Ruhollah Khomeini, the mullah who created the present regime. Nor is Ahmadinejad keen to pay tribute to Khamenei. A man who talks to God wouldn't bother with mere saints.

Several times a year, Ahmadinejad takes his entire cabinet to Jamkaran, a suburb of the "holy" city of Qom south of Tehran, to report to the Hidden Imam. In Jamkaran there is a well that is supposed to lead to the place where the Hidden Imam is in hiding. In a solemn ceremony, Ahmadinejad throws copies of his government's budget and other edicts into the well for consideration by the Hidden Imam.

The message is clear: A government that is preparing for the end of times, under the command of the Hidden Imam, does not need the mullahs.

At the same time, Ahmadinejad's foes in the Majlis suspect that the president is a secret Persian nationalist, a grave sin under Islam, which bans nationalism. Their suspicions were first raised when Ahmadinejad's friend, Masha'i, told a public meeting in June that it was time to promote "the Iranian school" rather than Islam as such. Pressed to disown Masha'i, regarded by many as his philosophical guru, Ahmadinejad did the opposite by endorsing the idea of an "Iranian school" as the only valid version of Islam in the modern world.

As if that were not enough, Masha'i recently managed to persuade the British Museum to bring the famous Cyrus Cylinder to Teh-

ran for an exhibition. On the clay cylinder is inscribed an edict by Cyrus the Great, the founder of the Persian Empire 2,569 years ago, declaring a number of rights, including freedom of worship. Many Iranians regard this edict as the first declaration of human rights. To underline the importance of the cylinder's return, Ahmadinejad headed an honor guard, whose members were dressed in the uniforms of Cyrus's army. In a speech, Ahmadinejad paid tribute to Cyrus while Masha'i claimed that the Persian King of Kings should be regarded as "equal to prophets." This was too much for the mullahs, who remember that Cyrus freed the Jews from bondage in Babylon.

Since Islam claims that everything and everyone before and outside Islam is nothing but "darkness and sin," the public tribute to Cyrus even sparked criticism from one of Ahmadinejad's closest clerical allies, Ayatollah Mesbah Yazdi.

Behind all this is the struggle for power between the mullahs and the rising generation of the military and their technocratic allies. An Islamist regime controlled by a military-technocratic elite rather than the clergy is not inconceivable. One example was Pakistan under General Zia ul-Haq in the 1980s. Another is Sudan today under General Omar al-Bashir.

Whatever the outcome, we are sure to witness a long and bitter fight within the ruling establishment. Because neither Ahmadinejad nor his rivals within the regime have anything positive to offer Iranians, both have to maintain the country's state of permanent crisis. And because both seek support from the ever narrowing Khomeinist base, they are almost obliged to pursue a policy of growing confrontation with Western democracies.

*Mr. Taheri is the author, most recently, of "The Persian Night: Iran Under the Khomeinist Revolution" (Encounter, 2010).*

## Do Monopolies Rule the Internet?

[ Information Age ]

By L. Gordon Crovitz



This will surprise consumers overwhelmed by choice on the Internet, but there's a growing claim that "monopolies"—dominant firms such as Google and Facebook—rule the Web. But as close students of economic history know, the greater threat to freedom on the Web would be for governments to decide which companies are good and which need to be broken up or punished.

The debate over possible government breakups of Internet companies began with a recently published book that also chronicles how monopolies in the information industry are almost always caused by government meddling. The book is "The Master Switch" by Tim Wu, a Columbia law professor who coined the term "network neutrality."

Setting aside for a moment Mr. Wu's call for more aggressive regulation of the Web, he is right that over the past century what he calls "information empires" have hijacked what start out as open systems, almost always with government regulation at fault. "Every few decades," Mr. Wu writes, "a new communications technology appears, bright with promise and possibility." There is innovation but also chaos, as new business models disrupt old ones. The result often is that "the market's invisible hand waves in some great mogul" who promises a more orderly structure for the industry. "Usually enlisting the federal government, this kind of mogul is special for he defines a new type of industry, integrated and centralized." Consider these examples:

**Telephone.** In 1913, the American Telephone & Telegraph Co. asked the U.S. federal government to regulate it, in the hopes of creating a monopoly on long-distance service that would let it over time crush local independent providers. With the slogan of "One system,

one policy, universal service," AT&T got government-set rates that ensured it strong rates of return for decades while limiting competitors. As Mr. Wu says, "Imagine Microsoft in the 1990s asking the states and the Clinton Justice Department to determine the price of installing Windows or Google today requesting federal guidelines for its search engine." AT&T wasn't broken up until 1984.

**Radio.** In the 1920s, radio was an open medium of unrestricted, competitive communications. Church groups, universities and hobbyists launched radio stations catering to hundreds of different communities of interest. But by the late 1920s, the U.S. Federal Radio Commission—later renamed the Federal Communications Commission—decided that large networks provided better service, at one point issuing an order calling for 164 small stations to be abolished. In the 1940s, AM radio stations got the FCC to limit frequencies for upstart FM stations, suppressing competition until the 1980s.

**Television.** David Sarnoff, the

founder of radio powerhouse RCA, lobbied the FCC beginning in the 1920s to restrict television licenses. The FCC limited each community to two, creating a duopoly for NBC and CBS. In the 1960s, the FCC barred cable television from the largest 100 U.S. cities, a policy that was reversed during the Nixon administration.

Mr. Wu ran into a firestorm when, earlier this month, he proposed aggressive regulation against what he called Internet monopolists, citing Facebook, Google and Apple among the culprits. These may be the current most successful companies, but that doesn't make them monopolists. Facebook has social-media competitors, Google was dismissed for daring to compete in search with companies such as AltaVista, and Apple even has competitors for the iPad tablet. Facebook this month launched an email service that could challenge Google's Gmail.

Mr. Wu didn't say what consumer harm these companies cause. "What Tim Wu is really do-

ing is propagating the simplistic old saw that 'Big Is Bad,'" George Mason researcher Adam Thierer wrote on the Tech Liberation Front blog, accusing Mr. Wu of redefining monopolist "such that it now means any combination of big firms he personally doesn't approve of in markets that he has defined far too narrowly." Mr. Wu responded on the Tech Liberation blog that he thinks there can be "rules against the worst forms of abuse without a creeping regulation that turns into capture."

This is hope over experience, as Mr. Wu's own historical review makes clear. The Internet was built by what Internet pioneer Vinton Cerf calls "permissionless innovation," without the licenses or heavy regulation that stifled innovation in earlier eras from phones to television. Mr. Wu writes, "Coming of age concurrently with an ideological backlash against centralized planning and authority, the Internet became a creature of its times."

So long as government keeps out the way, the Internet can stay free.

## THE BIG READ



Getty Images

Executives Jim Ross, Aram Shishmanian and James Burton celebrated SPDR Gold Shares' fifth anniversary in New York City in November 2009.

# Behind gold's new glister: miners' big bet on a fund

*Precious metal's rally propels growth of GLD, but skeptics fret about the bottom falling out when resurgence ends*

BY LIAM PLEVEN  
AND CAROLYN CUI

**T**HE innovation that opened gold investing to the masses and helped spur this year's record-breaking bull market was hatched in an act of desperation by a little-known gold-mining trade group.

The World Gold Council, created to promote gold, was fighting for survival. Its members—global gold-mining companies—were frustrated with the council's inability to stem two decades of depressed prices and find buyers for a growing glut of the yellow metal. Eight years ago, they were considering withdrawing funding from the trade group, a move that would have effectively shut it down.

Chris Thompson, the group's chairman, figured the council needed to expand the pool of gold buyers, particularly in the U.S. The idea of trading gold on an exchange had been floating around for years, but various hurdles had prevented it from taking off in America.

What the council eventually managed to create in those dark days surpassed its wildest dreams: SPDR Gold Shares, the exchange-traded fund launched in November 2004. The fund, known by its ticker symbol GLD, has ballooned into a \$56.7 billion behemoth.

Today, GLD is the fastest-growing major investment fund ever, according to research company Lipper Inc., and one of the most active gold traders in the market. Its presence has helped gold—which settled up 0.26% in New York trading Monday, at \$1,366 a troy ounce—triple in price in recent years to fresh all-time highs this month.

As the world's largest private owner of bullion, GLD is soaking up \$30 million of gold daily, stored in a London vault that now holds the equivalent of about six months' worth of the world's entire gold-mining production.

GLD has won fans who say it has democratized the gold market, paving the way for investors of all stripes to get direct exposure to the precious metal. Its nearly 1 mil-

lion investors include ordinary individuals, institutions like **Northern Trust Corp.** and billionaire hedge-fund managers like John Paulson.

But skeptics argue GLD could become a Godzilla-like beast if the gold rally reverses sharply. They say its buying has already turbo-charged gold prices, exposing the market, and legions of small investors, to a rapid fall. Smaller copycat funds add to the risk. "We tell our clients to watch out for it, because it's there, and it's a real risk," said Jeffrey Christian, founder of CPM Group, which advises major investors world-wide on gold.

The questions come as ETFs in general are coming under heightened scrutiny about whether they distort markets. ETFs are wildly popular and growing fast, spanning stocks, bonds and hard assets. But they have made it possible for far more money to rush in and out of previously illiquid markets.

GLD shares trade on the New York Stock Exchange, as well as in Tokyo, Hong Kong, Singapore and Mexico City. Each share rep-

resents one-tenth of an ounce of gold. That, in effect, gives shareholders the right to their share of proceeds from selling a full bar, minus fees. Before GLD issues new shares, it takes in the necessary gold to back them. On days when there are more sellers than buyers of GLD shares, the fund offloads some of its gold.

Created under the auspices of the World Gold Council, the fund relies on a number of partners. It is marketed under the banner of **State Street Global Advisors**, which has fund-selling expertise. **HSBC PLC** stores and protects the gold bars. **Bank of New York Mellon Corp.** handles daily operations, such as calculating the fund's net asset value. For all its size and breadth, fund managers say, it's relatively simple to operate. BNY Mellon, for instance, needs roughly a dozen employees to run the fund day-to-day.

That has helped make it a windfall for all involved. The gold council, which spent \$14 million developing the fund, has reaped about \$150 million from its inception through Sept. 30. Its revenue is a percent-

# THE BIG READ

age of net asset value, set at 0.15%. State Street has the same terms and also collected about \$150 million in that time. Both are on track to bring in more than \$80 million in the coming year if GLD stays at today's size.

The success owes much to timing. The council launched the fund as interest in gold was picking up, first because of inflation worries and then as a safe-haven against financial disasters. Since then gold prices have more than tripled from \$444.80, setting a record high—though not adjusted for inflation—of \$1,409.80 on Nov. 9.

The recent rally has been driven by many factors, of which GLD is just one. The U.S. dollar has steadily lost value, so some investors have bought gold as a hedge against the greenback. Tapping new ore veins is getting harder. Gold has benefited at once from fears of economic stagnation after the financial crisis and concern that government spending on the recovery will trigger inflation.

GLD, though, is widely seen as amplifying those trends. Buying fund shares is easier and cheaper than investing in gold futures or buying coins. And GLD has now locked up nearly 1,300 metric tons of the world's gold supply, making the market tighter. The fund's impact has won it a following in the gold industry.

"It's got the gold price up," said Nick Holland, chief executive of **Gold Fields Ltd.**, a major mining company and a member of the gold council. "That's got to be good."

Calculating the impact of GLD and its brethren is far from an exact science. But industry observers including Mr. Christian and Philip Klapwijk of GFMS Ltd. estimate gold-backed ETFs have probably added about \$100 to \$150 an ounce to the price of gold as a result of the incremental increase in demand.

Translated, that would mean gold-backed ETFs have increased the value of the bullion that gold miners will produce this year by up to \$9 billion.

Many investors believe gold has much further to rise. But after a 10-year, one-way ride, others worry there could be a violent reversal down the road. The gold market hasn't been severely tested since GLD and similar, but far smaller, bullion-backed funds were launched.

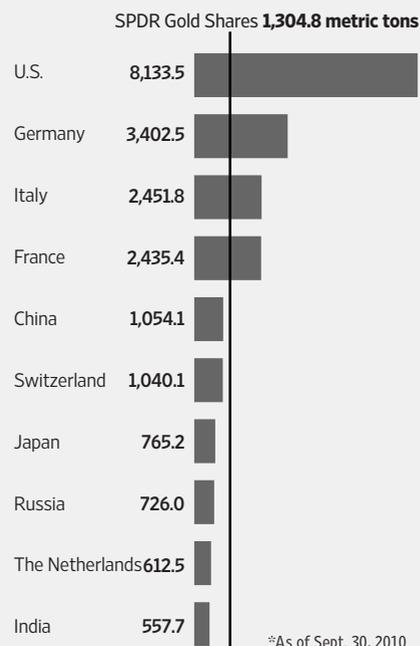
And many GLD investors aren't experienced in gold investing. Between 60% and 80% of GLD investors had never bought gold before, estimates Jason Toussaint, managing director of the council. No one knows how those newcomers might react in a sharp downturn.

If GLD shareholders get spooked by drops in the gold price and sell en masse, the fund would have to dump metal to meet redemptions, possibly accelerating declines by prompting others to sell even more. Because GLD trades on an exchange, any sell-off would be immediately visible, unlike typically opaque bullion sales.

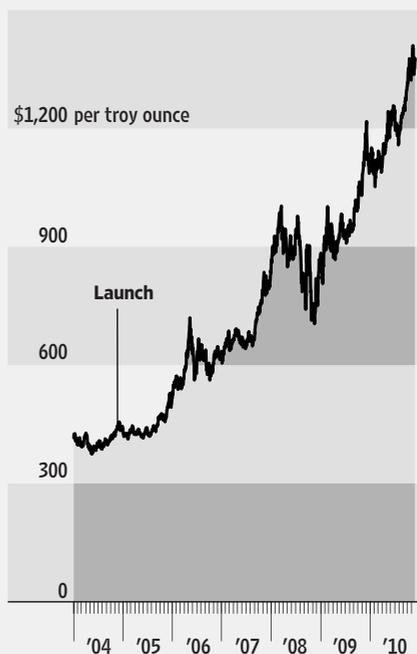
"We are more concerned about these issues than we were initially," said Scott Malpass, chief investment officer for University of Notre Dame Asset Management, which started buying GLD shares in 2005 and now has about \$70 million invested. "It can turn

## Stockpiling | SPDR Gold Shares has quickly become one of the world's biggest gold holders

Many world governments own gold, and SPDR Gold Shares holds more than all but four of them.\*



Since SPDR Gold Shares launched on Nov. 18, 2004, gold prices have risen steadily.



SPDR Gold Shares has quickly become one of the world's largest investment funds.\*



Sources: World Gold Council; SPDR Gold Shares; Thomson Reuters; Morningstar

on a dime. It can happen very quickly." For now, Mr. Malpass thinks the advantages of investing in gold outweigh the risks and the fund is properly managed.

In the fund's planning stages, the world's miners had modest ambitions.

Gold prices were just starting to stir from a 20-year bear market and many companies were struggling to break even. Hurdles to gold abounded. It was hard to purchase, store and insure. Some investors chose to own stocks of gold miners.

The council had long focused on gold jewelry, which represented over 80% of demand but exposed the industry to economic downturns. In 2002, after the Sept. 11 terrorist attacks, jewelry demand for gold dropped 11%.

Attracting investors, the industry concluded, was the way to go. Mr. Thompson, the chairman, wanted a CEO for the council who would have credibility with American investors to help implement the vision. He zeroed in on James Burton, who at the time headed the California Public Employees' Retirement System, one of the biggest institutional investors in the world. Calpers had no direct investments in gold.

In July 2002, Mr. Burton flew to meet Mr. Thompson in London. Mr. Burton was skeptical, but curious. Their discussions lasted 12 hours—including talks over a round of golf, two rounds of beers and meals. Mr. Thompson gave an overview of the gold market, and a pitch for why the moment was ripe to attract retail investors. By the end, Mr. Burton was hooked.

In August 2002, Mr. Burton, who had left Calpers, took over the gold council and immediately slashed 60% of the 108-person staff, closed half of the 22 offices and set about creating what became GLD.

The gold council wanted a product that ordinary investors could buy and sell just like a stock. The challenge was to make shares track the gold price, much like an index fund. The eventual solution was to create a trust to serve as the legal owner of GLD's gold bars.

Products were launched in Australia and the U.K. But getting a U.S. version took longer than the council expected.

The mining community backed the idea, but worried it might cannibalize demand for gold-mining stocks. Since it was to be the first U.S. fund entirely backed by a physical commodity, regulators also sought to understand how the concept would work. The Securities and Exchange Commission spent months seeking information about the product and the gold market, say Mr. Burton and Mr. Thompson.

The gold council also needed to hire assorted players—a trustee, a marketing agent and a vault operator. That process wasn't seamless, either.

**Barclays PLC** worked for months on the project, then withdrew and built its own fund, the iShares Gold Trust, which also holds bullion. Barclays sold the iShares exchange-traded fund business to **BlackRock** in June 2009, and its smaller gold fund has since become an intense competitor.

The council also wasn't sure how successful the fund would be, and paid **UBS Securities** \$4 million for underwriting the first 2.3 million shares of GLD, according to regulatory filings. UBS declined to comment.

"I thought it would take a lot more marketing effort to convince people to buy gold in a securitized form," said Mr. Burton.

But as GLD opened, the pent-up investor demand erupted. The fund hit \$1 billion in assets in three trading days, and \$10 billion in just over two years.

"It grew pretty quickly," said Jim Ross, head of exchange-traded funds for State Street. The firm manages 120 exchange-traded funds, as of Sept. 30, and the SPDR S&P 500 fund is the only one larger than GLD. "The fact that's our second-most successful product is still surprising to me, frankly," Mr. Ross said.

The sniping at GLD also began early. Some gold investors questioned whether the fund held as much bullion as it said it did, eventually prompting the council to post on its website audit reports by an independent firm, **Inspectorate International Ltd.**, which conducts two counts each year of GLD's gold bars in London.

A segment of the gold-investing community still prefers to secure a personal stash. Some want to be able to get their hands on their bullion in a hurry, particularly in the event of a severe crisis. Gold-vault operators are cutting fees to lure such investors.

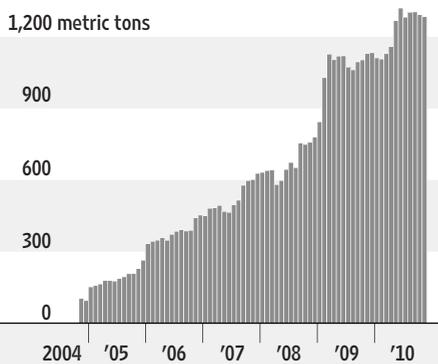
Rivals also highlight worst-case scenarios the fund could face. Ben Davies, chief executive of London-based **Hinde Capital**, which oversees a gold fund, noted that GLD's bullion isn't insured. If the gold "is lost, damaged, stolen or destroyed," the trust "may not have adequate sources of recovery," according to the prospectus.

Mr. Toussaint said the council believes HSBC's security measures and the bank's other liability coverage provide protection. "That's the whole reason we put it in a vault in the first place," he said.

Despite GLD's success, even those involved in the fund acknowledge the rally will eventually end. "We don't believe gold is always going to go up," said State Street's Mr. Ross. "No investment does."

### Shine on

SPDR Gold Shares has seen its gold holdings rise steadily since its 2004 launch.



Source: SPDR Gold Shares

WSJ.com

ONLINE TODAY: See a video about investing in gold at [WSJ.com/Markets](http://WSJ.com/Markets).

The exchange-traded fund—SPDR Gold Shares—has won fans who say it has democratized the gold market, paving the way for nearly one million investors of all stripes to get direct exposure to the precious metal. But skeptics argue GLD could become a Godzilla-like beast if the rally reverses sharply. They say its buying has already turbo-charged prices, exposing the market, and legions of small investors, to a rapid fall. Smaller copycat funds add to the risk.

MARKETS LINEUP

# Moving the markets

At right, Europe's benchmark stock indexes and stocks Monday. Below each index are its most actively traded stocks. The charts show the percentage change in each index's or stock's value, rather than the point change, for purposes of comparison. The index level or stock price is indicated on each axis. All indexes and stocks are shown in local currency terms.

## European indexes...

### FTSE 100

U.K. 5550.95  
▼ 2.08% or 117.75

Lower prices for metals weighed on mining stocks, sending the index to its lowest closing level since Sept. 30. The FTSE has fallen five of the past seven trading days.



Stock	Volume in millions	Close In pence	Change Net	Change %
Lloyds Banking Grp	226.34	60.54	-1.31	-2.12
RoyalBnkofScot	133.60	38.52	-0.17	-0.44
VodafoneGp	123.38	159.30	-6.00	-3.63
Barclays	61.19	262.95	3.15	1.21
HSBC Hldng	38.43	651.40	0.30	0.05

### DAX

Germany 6697.97  
▼ 2.20% or 151.01

Doubt about whether the bailout for Ireland will keep euro-zone countries' funding problems from spreading weakened shares across Europe.



Stock	Volume in millions	Close In euro	Change Net	Change %
DeutscheTel	19.55	9.87	-0.10	-1.02
DeutscheBk	15.35	37.12	-1.15	-3.00
InfineonTch	14.10	6.78	-0.06	-0.81
Commerzbank	11.36	5.72	-0.13	-2.16
E.ON	7.71	22.30	-0.35	-1.52

### CAC-40

France 3636.96  
▼ 2.46% or 91.69

Financial-services stocks led the decline as investors worried over the potential impact of the euro-zone debt crisis. Société Générale fell 3.5%.



Stock	Volume in millions	Close In euro	Change Net	Change %
Alcatel Lucent	29.23	2.085	-0.040	-1.88
AXA	16.82	11.470	-0.415	-3.49
CreditAgricole	12.50	9.700	-0.360	-3.58
FrTelecom	11.64	15.755	-0.430	-2.66
ArcelorMittal	9.95	23.875	-0.140	-0.58

### FTSE MIB

Italy 19314.38  
▼ 2.67% or 529.93

News that Italy sold fewer bonds Monday than the maximum it had planned hurt sentiment. The interest rate was higher than a month ago.



Stock	Volume in millions	Close In euro	Change Net	Change %
UniCredit	521.23	1.543	-0.056	-3.50
IntesaSanpaolo	158.12	2.043	-0.088	-4.13
TelecomItalia	75.61	0.960	-0.012	-1.23
Enel	64.92	3.668	-0.080	-2.13
BcaPaschiSiena	32.00	0.843	-0.028	-3.21

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## European stocks in the news

### TDC

Denmark DKK53.00  
▲ 0.5% or DKK0.25

The gold exploration firm began drilling at its Clan Lake camp in its Yellowknife project in Canada.



Price-to-earnings ratio	26		
Earnings per share, past four quarters	2.06		
Dividend yield	11.42%		
PERCENTAGE CHANGE			
Daily	1wk.	52 wks	
Telecommunications	-3.0%	-6.8%	-8.2%
TDC	0.5%	-1.7%	8.2%

### Autogrill

Italy €10.07  
▲ 0.6% or €0.06

Deutsche Bank gave the restaurant company a "buy" rating.



Price-to-earnings ratio	36		
Earnings per share, past four quarters	0.28		
Dividend yield	None		
PERCENTAGE CHANGE			
Daily	1wk.	52 wks	
Travel & Leisure	-1.9%	-3.4%	10.2%
Autogrill	0.6%	1.4%	22.1%

### Barclays

United Kingdom 262.95 pence  
▲ 1.2% or 3.15 pence

The Sunday Times said Barclays is reviewing the growth potential of underperforming units.



Price-to-earnings ratio	3		
Earnings per share, past four quarters	83.40		
Dividend yield	1.71%		
PERCENTAGE CHANGE			
Daily	1wk.	52 wks	
Banks	-2.2%	-7.8%	-23.5%
Barclays	1.2%	-2.6%	-10.1%

### Komercni Banka

Czech Republic 4,109.00 Czech koruny  
▲ 1.8% or 61.00 Czech kor uny

The bank rebounded after falling steadily since mid November.



Price-to-earnings ratio	12		
Earnings per share, past four quarters	329.68		
Dividend yield	4.14%		
PERCENTAGE CHANGE			
Daily	1wk.	52 wks	
Banks	-2.2%	-7.8%	-23.5%
Komercni Banka	1.8%	-1.9%	8.1%

### Aryzta AG

Switzerland CHF42.75  
▲ 6.1% or CHF2.45

The food company said sales increased by one-third in the 13 weeks through Oct. 30.



Price-to-earnings ratio	17		
Earnings per share, past four quarters	2.57		
Dividend yield	1.24%		
PERCENTAGE CHANGE			
Daily	1wk.	52 wks	
Food & Beverage	-2.1%	-4.3%	8.0%
Aryzta AG	6.1%	2.4%	12.5%

### British Airways

United Kingdom 261.20 pence  
▼ 3.9% or 10.70 pence

Shareholders approved a merger with Iberia, but worry over potential strikes hurt the stock.



Price-to-earnings ratio	None		
Earnings per share, past four quarters	-10.30		
Dividend yield	None		
PERCENTAGE CHANGE			
Daily	1wk.	52 wks	
Travel & Leisure	-1.9%	-3.4%	10.2%
British Airways	-3.9%	-1.7%	33.7%

### Banco Bilbao Vizcaya

Spain €7.23  
▼ 4.3% or €0.33

Worry that Irish-style funding troubles might hit Spain weighed on the bank.



Price-to-earnings ratio	6		
Earnings per share, past four quarters	1.22		
Dividend yield	5.58%		
PERCENTAGE CHANGE			
Daily	1wk.	52 wks	
Banks	-2.2%	-7.8%	-23.5%
Banco Bilbao Vizcaya	-4.3%	-9.0%	-40.0%

### Vestas Wind Sys

Denmark DKK156.50  
▼ 5.1% or DKK8.40

Exane BNP Paribas downgraded the firm to "underperform," citing weak demand for wind turbines.



Price-to-earnings ratio	17		
Earnings per share, past four quarters	9.24		
Dividend yield	None		
PERCENTAGE CHANGE			
Daily	1wk.	52 wks	
Oil & Gas	-2.5%	-5.2%	-11.7%
Vestas Wind Sys	-5.1%	-7.5%	-55.0%

### Hochtief

Germany €55.93  
▼ 6.3% or €3.73

Germany is likely to reject ACS's bid for the construction firm, the magazine Spiegel said.



Price-to-earnings ratio	18		
Earnings per share, past four quarters	3.19		
Dividend yield	2.68%		
PERCENTAGE CHANGE			
Daily	1wk.	52 wks	
Constructn & Matl	-2.8%	-6.9%	-12.3%
Hochtief	-6.3%	-10.5%	6.9%

### Deutsche Postbank

Germany €22.38  
▼ 6.6% or €1.59

Postbank holders tendered 22% of their shares to Deutsche Bank, giving it 51.98% of the bank.



Price-to-earnings ratio	41		
Earnings per share, past four quarters	0.55		
Dividend yield	None		
PERCENTAGE CHANGE			
Daily	1wk.	52 wks	
Banks	-2.2%	-7.8%	-23.5%
Deutsche Postbank	-6.6%	-10.8%	-4.5%



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## European bailout facility must woo investors

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# BUSINESS & FINANCE.

Tuesday, November 30, 2010

THE WALL STREET JOURNAL.

europe.WSJ.com

## Sky News to expand via channel in Arabic

BY LILLY VITOROVICH

LONDON—U.K. pay-television operator **British Sky Broadcasting Group PLC** said Monday it has struck a joint venture with a private investment company owned by Sheikh Mansour bin Zayed Al Nahyan to launch a free-to-air Arabic-language news channel across the Middle East and North Africa region from 2012.

The new company—which will be jointly owned by BSKyB and **Abu Dhabi Media Investment Corp.**—will operate under the Sky News brand as flagged in July, and be based in Abu Dhabi. It will have 180 multimedia journalists as well as a technical and operations team.

Adrian Wells, previously Sky News' head of international news, has been appointed to work with the ADMIC team to launch the new channel. A director of news will be appointed to lead the venture on a permanent basis.

"The Middle East and North Africa is a highly attractive region for media investment and Abu Dhabi is an excellent location from which to enter this exciting marketplace," BSKyB Chairman James Murdoch said in a statement.

"Both parties are committed to launching an independent, impartial news service," a BSKyB spokesman said. He declined to comment on speculation that an editorial advisory board may be set up.

Sky News, which was launched in 1989, currently broadcasts in English to viewers in more than 90 million homes in Europe, Africa, the Middle East, Asia, Australia and New Zealand.

Mr. Murdoch, who is also News Corp.'s chief executive for Europe and Asia, earlier this month dismissed speculation that the media giant may sell Sky News to secure regulatory approval for its proposed takeover of BSKyB. He said the company hasn't considered selling media assets to secure approval, adding that it was very early in the regulatory process.

News Corp. in June offered 700 pence (\$1.09) a share to buy the 60.9% stake in BSKyB that it doesn't already own, valuing the stake at about £7.8 billion (\$12.16 billion). BSKyB's independent directors have rebuffed the proposal, but said they would back an offer of more than 800 pence a share.

The companies have already agreed to cooperate on securing regulatory clearance for a proposed deal.

News Corp. also owns Dow Jones & Co., publisher of The Wall Street Journal.

## Wal-Mart sets South Africa deal

BY ROBB M. STEWART

JOHANNESBURG—Wal-Mart Stores Inc. offered 16.5 billion rand (\$2.32 billion) to buy 51% of South Africa's **Massmart Holdings Ltd.**, marking the U.S.-based retailer's first foray into sub-Saharan Africa's growing retail market.

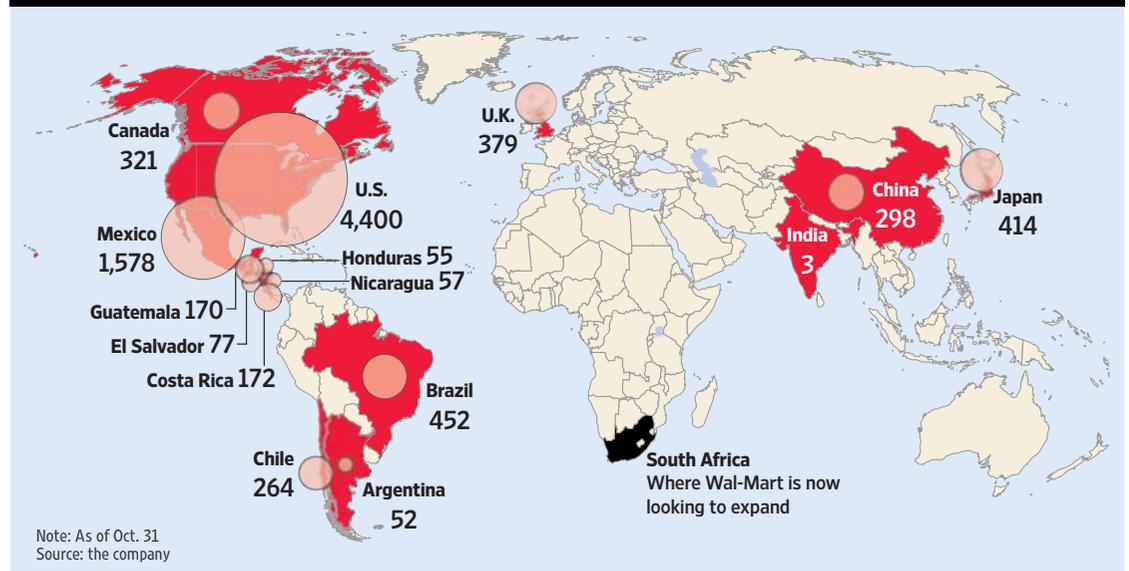
"The more we learn about South Africa and the surrounding countries, the more we are convinced that this is an important region with attractive growth characteristics," **Doug McMillon**, president and chief executive of Wal-Mart International, said Monday. "This combination fits perfectly with our strategy to enter high-growth markets."

Africa is attracting foreign companies keen to sell to an increasingly affluent population. Yet European multinationals such as France's **Carrefour SA**, Germany's **Metro AG** and the U.K.'s **Tesco PLC** haven't ventured south of the Sahara.

Wal-Mart and Massmart disclosed in late September that they were discussing a possible full takeover by Wal-Mart. But Massmart Chief Financial Officer Guy Hayward said some international shareholders wanted to retain exposure to Massmart and that the government had hoped to maintain a domestic listing.

Mr. Hayward said it would be easier to gain the support of at least 75% of Massmart shareholders if Wal-Mart bought majority control. Wal-Mart, based in Bentonville, Ark., has structured its global acquisitions in a variety of ways. It owns 100% of its Asda operations in the U.K. and 68% of Walmart de Mexico.

Global giant | Number of Wal-Mart retail units across the world



"Around the world, companies certainly adopt some of the Wal-Mart culture, but they also do have their own culture," Massmart CEO Grant Pattison said. "Not everyone comes in in the morning and has a rah-rah meeting....Not everyone does the Wal-Mart cheer." Mr. Pattison said Massmart's management in South Africa will continue to run the company and will maintain its strategy, including continued expansion into the region.

Massmart operates several wholesale and retail chains, including Game general-merchandise stores, Builders Warehouse for construction and Makro warehouse-club stores. The bulk of the company's

288 stores are in South Africa, although Massmart also operates in 13 other sub-Saharan countries.

There have been no discussions on rebranding operations, Mr. Pattison said. The first sign of change consumers are likely to see is the introduction of new products, including private-label goods and the sale of more food in its stores, he said.

Massmart's board recommended that shareholders accept 148 rand (\$20.78) a share, a 19% premium to the 30-day average price until just before the companies announced they were in discussions. Massmart's shares would remain listed in Johannesburg. Massmart said institutional shareholders representing

35% of its shares agreed to tender their shares and a further 15% gave nonbinding support. The takeover is subject to approval by South African regulators.

The South Africa Commercial, Catering and Allied Workers Union has expressed concern about the deal and accused the U.S. company of antiunion activities. The union also has said it is concerned about Wal-Mart's possible impact on local suppliers and manufacturers.

Andy Bond, a regional executive vice president at Wal-Mart, said the company would honor all existing labor contracts and local labor laws. He said Wal-Mart is committed to working with local suppliers.

## Irish lenders begin capital-raising push

BY SIMON ZEKARIA AND NICHOLAS WINNING

**Bank of Ireland** and **Irish Life & Permanent Group Holdings PLC** are starting capital-raising drives to meet the terms of the multibillion-euro bailout that Ireland agreed to over the weekend.

The Irish Financial Services Regulatory Authority has set additional capital targets for banks, meaning Bank of Ireland will have to raise €2.2 billion (\$2.9 billion) by Feb. 28. The bank said it will do so through internal initiatives, and by drawing on support from existing shareholders and other capital-markets sources.

The Irish government will subscribe for the incremental capital should the bank "not be in a position to raise sufficient capital within the proposed timeframe," it said in a statement. Analysts say this would involve the government underwriting an equity issue.

The government's stake in the bank, currently 36%, would increase to 74% if Bank of Ireland fails to

generate the capital internally and needs state support, analysts said.

Separately, the financial regulator has said Irish Life & Permanent, a life-insurance and banking company, must raise €100 million from its own resources over an unspecified period. Observers say the company could generate capital from its life-insurance operations. Irish Life & Permanent said the move will have a "modest impact" on the firm.

Irish Life & Permanent is unique among Ireland's main financial institutions in not receiving state support, or making use of the National Asset Management Agency, a so-called bad bank, which is buying good and bad property loans from five other Irish financial institutions at a steep discount. Other Irish banks lent billions of euros to property developers, and most of that is now unlikely to be paid back.

Irish Life & Permanent Chief Executive Kevin Murphy said the strengthening of the capital position would reassure international investors about the ability of Irish banks to weather the current recession.

Meanwhile, the financial regulator ordered **Allied Irish Banks PLC** to raise €5.27 billion by the end of February. Allied Irish declined to comment. The government is expected to end up with a stake of more than 90% in Allied Irish, up from 18.6% currently, analysts said.

Ireland's government reached an agreement Sunday on an €85 billion rescue package from the European Union and International Monetary Fund, which will carry an approximately 5.8% interest rate and have an average maturity of 7.5 years. Ireland will have to contribute €17.5 billion to the effort.

Under the deal, €35 billion was earmarked to help restructure the banking sector, including €10 billion for recapitalization. The banks must submit detailed plans for the disposal of nonessential assets before the end of April 2011.

Dublin-based NCB Stockbrokers said in a note that the banking restructuring appears to be on "significantly more shareholder-friendly terms than previous reports suggest." *Please turn to page 23*

### Expanding reach

Percentage of government stake in Irish banks



Funds needed: €5.3 billion



Funds needed: €2.2 billion

**Irish Life & Permanent**  
No government stake  
Funds needed: €100 million

Source: Official data and analyst estimates

## BUSINESS &amp; FINANCE

## Liquor makers hope to tap Turkey

BY DANA MATTIOLI

With countries like Spain, Italy and Greece, where they traditionally sell alcohol, plagued by economic troubles, liquor-company executives are turning to a perhaps unlikely Mediterranean market: Turkey, whose mostly Muslim population hasn't ranked among the world's big drinkers historically.

Tapping nontraditional markets while established regions stagnate is a strategy that other industries are also pursuing, and the challenges that liquor makers face in Turkey echo the kinds of dilemmas that those industries confront as well.

Turkey, for instance, offers a fast-growing economy, but liquor companies must navigate high taxes, advertising restrictions, and a lack of familiarity among some consumers with the finer points of their products.

"In developed countries, consumers are much more familiar with products," says Robert Furniss-Roe, vice president of **Bacardi Ltd.** "In these new, emerging economies you have to go back to basics in some ways and explain things."

But the economics are alluring. Turkey's economy grew about 10% in the second quarter compared with a year earlier, and its population is young and urban. The country's economic growth is also providing young Turks with more disposable income, and they are using it to travel or study abroad, bringing back some new tastes.

"Young people in Turkey are changing very quickly," says Mr. Furniss-Roe. "There's growth in disposable income, and young Turks want to spend it on status."

Still, Turkey presents hurdles. In October, its government introduced a 30% tax increase on alcohol makers on top of already high alcohol-consumption taxes. In response, alcohol-producer **Pernod Ricard** said it in-



Liquor makers are looking to Turkey, where its Muslim population hasn't ranked among the world's major drinkers.

creased prices for key brands, including Chivas, Ballantines and Absolut, an average of 12%. Earlier, in 2008, Danish brewer **Carlsberg** closed its Turkish business partly in response to rising taxes.

In addition, during Ramadan—a monthlong religious observance during which Muslims abstain from eating, sexual relations and alcohol from dawn until sunset—Pernod's operations in Turkey experience a 30% decline in sales, says Selcuk Tümay, general manager of Pernod Ricard Turkey.

Liquor makers also face a population of less-experienced drinkers who don't always know how to use and mix different spirits. "It's not easy to

educate end-consumers because we aren't allowed to advertise on the radio or television," says Seyit Karagozlu, president of the alcohol importing company in Istanbul that imports Patron tequila. Instead, companies rely on print advertising, much of which is instructional, and work with bartenders and restaurants to teach people about new drinks.

Nonetheless, alcohol makers are pouring in. In 2011, Bacardi plans to increase its marketing investment in Turkey 20% to 30% over five years, says Mr. Furniss-Roe.

So far, the expansion is paying off. Patron Spirits International's business in Turkey is up 80% this

year compared with last year, and its duty-free revenue in Istanbul increased 155% in the first half, says John McDonnell, chief operating officer of Patron Spirits International. Pernod's most popular brands, such as Absolut, Chivas, Havana Club and Ballantines, grew 40% in Turkey in 2010, a company spokeswoman says.

Cengiz Can, a 34-year-old e-commerce director who lives in Istanbul, says young Turks are turning away from raki, an anise-flavored alcohol that has been popular in Turkey, because it's "old fashioned." Instead, he says, Turks are becoming image conscious, opting for drinks like vodka and tonic, or Bacardi or Jack Daniels and Coke, which he likes.

## Porsche returns to a profit

BY CHRISTOPH RAUWALD

FRANKFURT—**Porsche Automobil Holding SE** said Monday it swung to a €155 million (\$205.3 million) net profit in the first three months of its fiscal year after suffering a €431 million loss a year earlier, and reiterated that full-year results for fiscal 2011 are expected to be profitable.

The German auto maker said, however, that the last fiscal year's figures include the full consolidated earnings from **Volkswagen AG** and Porsche Zwischenholding GmbH, which makes a direct comparison difficult. Porsche's fiscal year started on Aug. 1.

In the August-through-October period, sales of the new-generation Porsche Cayenne sport-utility vehicle more than doubled year to year to 10,292 vehicles, marking the latest sign of a quick recovery in demand for luxury cars after the slump last year. The updated Cayenne was launched in May.

Meantime, Porsche's new four-door Panamera coupe accounted for 5,778 sales in the first three months of the fiscal year, up 94% compared with the same period a year earlier.

Porsche's 911 model posted a 20% sales rise to 3,130 cars, compared with an 18% increase to 2,018 vehicles for the company's Boxster line. The Boxster roadster accounted for 1,089 vehicles and the Cayman version for 929 cars. Porsche also confirmed Monday it will add a small SUV called the Cajun as part of a broader effort to boost sales.

"The Cajun will attract new and even younger customers to the premium brand along with the Boxster," the company said.

Porsche's sports-car unit is due to be integrated into Volkswagen as the company's 10th brand as part of a complex merger. Volkswagen last year acquired a 49.9% stake in Porsche's highly profitable operating business and has a call option to buy the remaining stake at a later stage.

Porsche initially tried to take over its much larger German peer, but the attempt collapsed last year when credit markets tightened and Porsche's debt ballooned. Porsche eventually agreed to a merger under Volkswagen leadership.

Separately, Volkswagen said that Porsche's executive board member for research and development, Wolfgang Dürheimer, will succeed Franz-Josef Paeffgen as chief executive of Volkswagen's Bentley and Bugatti luxury brands as of Feb. 1, 2011. Mr. Paeffgen is set to retire.

## Shell looks to sell older Texas gas fields

BY ANUPREETA DAS AND GINA CHON

Shell Oil Co., the U.S. arm of the European oil giant **Royal Dutch Shell PLC**, has put its South Texas gas fields on the block, and a sale could fetch roughly \$1 billion, people familiar with the matter said.

The most likely buyer for the natural-gas assets is an energy-focused private-equity firm or master limited partnership.

People familiar with the matter described the fields as "mature," meaning large volumes of gas have already been produced from them.

Shell's 400 wells in South Texas produce about 210 million cubic feet of natural gas every day, according to the company's website. The oldest wells have been in operation since 1953.

Shell couldn't be reached for comment.

Earlier this month, Shell announced it agreed to sell its interest in six Gulf of Mexico oil and gas fields to W & T Energy VI LLC, a subsidiary of **W&T Offshore Inc.**, for \$450 million. The sale was part of Shell's portfolio-restructuring efforts, which include the divestiture of \$7 billion to \$8 billion in assets in

2010 and 2011.

Shell isn't the only large oil company looking to sell its U.S. gas assets. On Nov. 21, Bermuda-based oil exploration company **Energy XXI Bermuda Ltd.** agreed to buy some of **Exxon Mobil Corp.**'s shallow-water and natural gas assets in the Gulf of Mexico for \$1 billion. The move will help Energy XXI become the third-largest oil producer on the Gulf shelf, the company said.

Deals involving Gulf of Mexico oil and gas assets are expected to heat up after the **BP PLC** oil spill. As a result of the disaster, U.S. lawmakers are expected to increase the

maximum amount companies would have to pay for economic losses and damage resulting from similar incidents.

That means small and midsize companies operating in the Gulf region will likely have to merge with other companies to meet those anticipated increases in liability caps.

Shale oil and gas also continue to be a hot ticket for merger transactions. Earlier this month, **Chevron Corp.** announced it was acquiring **Atlas Energy Inc.** for \$3.2 billion, giving the oil company access to the Marcellus Shale resources in Pennsylvania.

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BUSINESS & FINANCE

# BA, Iberia holders approve merger

By KAVERI NITHTHYANANTHAN

LONDON—British Airways PLC shareholders voted overwhelmingly on Monday to approve the company's proposed merger with Iberia Líneas Aéreas de España SA, the final step before the carriers become International Consolidated Airlines Group SA in the new year.

Iberia shareholders also approved the merger at a separate meeting in Madrid. The merger would create Europe's third-largest airline by revenue, behind market leader Deutsche Lufthansa AG and Air France-KLM.

More than 99% of BA shareholders approved the deal, including those that voted by proxy, although only a handful of shareholders attended the BA meeting in London amid poor weather and a public-transport strike.

BA Chief Executive Willie Walsh described 2010 as an "excellent year so far" for the airline, with U.S. and European Union regulators having granted the carrier antitrust approval to work more closely with AMR Corp.'s American Airlines.



BA chief Willie Walsh, in London Monday, called the airline's year 'excellent.'

As institutional investors welcomed the merger, some individual shareholders were more restrained about a deal that will end the full independence of one of Britain's most iconic brands. BA shareholders' main complaints included the

airline's plans to host future annual general meetings in Madrid.

"The beauty of this structure is that it maintains a strong British company with a strong British identity," Mr. Walsh said.

Other BA shareholders, who are

also cabin-crew members, voiced their frustration over the failure to resolve an industrial dispute and address the significant pay increases that board members will get once the merger takes effect. Unite, the union that represents cabin crew, said Monday that a fresh ballot on industrial action would begin soon and likely be completed in early January, raising the prospect of strike action in the new year.

Another concern centered on Spain's economic troubles and what a potential bailout for the country would mean for the merged airline. "I don't think the group will be affected in any way," Mr. Walsh said, adding that one of Iberia's strengths lies with its Latin American routes.

Merger talks had dragged on for more than two years.

Having gained shareholder approval, the airlines expect the merger to be completed on Jan. 21, and the shares to list on the London Stock Exchange and Spanish exchange on Jan. 24.

The merger would generate annual synergies of €400 million (\$529.9 million) starting from the

end of the fifth year after the merger is finalized. About 60% of synergies will come from the cost side of the business, while the rest will come from revenue opportunities, Mr. Walsh said.

Approximately €72 million in synergies will be achieved in the first year, Mr. Walsh said.

Under the merger, BA and Iberia will keep their separate brands and identities. The combined airline is expected to carry about 57 million passengers a year, using a fleet of more than 400 aircraft.

Shareholders in BA will receive one new share of International Airlines Group for each existing share they hold in the British carrier, while Iberia holders will get 1.0205 shares of the new holding company for each Iberia share they hold.

BA will take 56% of the enlarged entity, with Mr. Walsh retaining his position as CEO. Iberia's shareholders will own 44%, with Antonio Vazquez securing the nonexecutive chairmanship. The new company will have its headquarters in Madrid, while its operational offices will be in London.

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## BUSINESS &amp; FINANCE

# EU to increase air-cargo security

BY DANIEL MICHAELS

The European Union will tighten security rules for air cargo arriving from outside the bloc, but it remains uncertain whether new resources will be made available to help combat the heightened threat that authorities have warned about recently.

EU Transport Commissioner Siim Kallas said Monday that he will on Thursday present to transport ministers from the EU's 27 member countries proposals for new steps to ensure that air freight from outside the EU meets the same tight screening standards as cargo loaded at European airports. If the proposals are accepted, as expected, they should take effect early next year, he said.

Mr. Kallas said his proposals will include new legislation to expand existing inspection laws to cover non-EU air cargo, an increase in intelligence sharing, and greater coordination through the United Nations' air regulator, the International Civil Aviation Organization. The organization's members recently pledged to boost cooperation on cargo security.

Under EU rules since 2004, member countries conduct security inspections under the oversight of officials from the European Commission, the EU's executive arm. Freight flying within the EU and to the U.S. is inspected very closely, while cargo to other regions faces varying degrees of scrutiny.

Freight coming from outside the bloc is screened based on standards set by carriers and the country of origin. The EU will now require that all cargo entering the bloc meet specific screening standards.

The move follows an international security alert on Oct. 30, when terrorists based in Yemen managed to get explosive devices onto U.S.-bound flights in packages



Agence France-Presse/Getty

The EU aims to ensure air freight from outside the EU meets the same standards as cargo loaded at European airports.

that were transferred in Germany and the U.K. The bombs were located and removed before they left Europe, thanks to an informant's tip.

Since the incident, some politicians in Europe and the U.S. have said all air cargo should be inspected, but Mr. Kallas said screening 100% of freight would be impractical.

"We should not fall into the trap of overreacting," Mr. Kallas told a news conference. "That would be a victory for our enemies."

A spokesman for the Association of European Airlines, which represents many of the EU's biggest carriers, said the group was positive about the announcement. "We generally agree with what has been

proposed," said spokesman Christian de Barrin. He said the airlines want to see greater reliance on electronic documentation for cargo, which could help reduce the workload of tracking and inspections.

The EU wants to make greater use of electronic customs data that are already supplied, said Radoslaw Olszewski, a European Commission official handling aviation security.

Cargo inspection can be quite labor intensive, partly because few scanners exist to vet large freight containers. Industry officials have complained that Europe lacks a sufficient number of inspectors to handle the volume of cargo being shipped by air.

The U.S. Transportation Security

Administration has more than 500 cargo inspectors. Far fewer inspectors cover the EU, although the precise number isn't public.

Mr. Kallas said the new rules will stress prioritizing threats rather than recruiting armies of inspectors. "We should make a proper risk assessment and devote our resource where they are needed most," he said. "At this first stage, we will work with the resources we have," he added.

The proposed legislation will require that EU governments boost their cargo-inspection efforts, so that more resources might eventually be focused on the issue. Governments pass along the cost of cargo inspections to shippers.

# Microsoft suit appeal to proceed

BY BRENT KENDALL

WASHINGTON—The U.S. Supreme Court agreed Monday to consider Microsoft Corp.'s challenge to a \$290 million patent-infringement judgment that barred the company from selling certain versions of its flagship Word software.

The main issue in the case is the proper legal standard for determining the validity of a patent. The outcome could have significant implications for companies involved in patent litigation.

Microsoft is urging the court to make it easier for companies facing infringement lawsuits to prove that a plaintiff's patent is invalid. Leading high-tech companies, auto makers, generic-drug companies and the financial-services industry are all supporting Microsoft's appeal.

The software giant and its backers say the current legal standard for proving a patent invalid is too demanding, prompting courts to uphold dubious patents and making it costly to defend against patent-infringement lawsuits.

Microsoft's opponent in the case, Toronto-based technology company i4i Inc., said Monday that Microsoft is seeking a radical revision of patent law.

i4i persuaded a Texas jury last year that recent versions of Microsoft Word infringed an i4i software patent that deals with manipulating the architecture of a document.

After the jury verdict, U.S. District Court Judge Leonard Davis barred Microsoft from selling Word 2003 and Word 2007, versions of the product that include a technology called Custom XML that is used to classify documents for retrieval by computers. Judge Davis also ordered Microsoft to pay more than \$290 million in penalties.

A federal appeals court later rejected Microsoft's challenge to i4i's patent and the lower court's \$290 million judgment and injunction.

Microsoft said it complied with the injunction without suspending sales of Word or Microsoft Office, by offering modified product. Word 2010 and Office 2010 don't contain the technology at issue in the case, the company said.

The lower courts said Microsoft was required to prove by clear and convincing evidence that i4i's patent was invalid—a standard the software giant couldn't meet. The legal standard is high because it presumes the U.S. Patent and Trademark Office makes the correct decision when it decides to issue a patent.

Microsoft, however, said its arguments that the i4i patent is invalid are based on evidence the Patent Office didn't consider in choosing to grant the patent. In such instances, which are common in patent battles, the standard for proving a patent invalid should be lower, it said.

i4i said that any changes to the standards for proving the invalidity of patents should be made by Congress, not the courts.

Separately, the Supreme Court refused to consider a Tiffany & Co. lawsuit against eBay Inc. in which two lower courts had ruled that eBay couldn't be held liable for the sale of counterfeit jewelry on its auction site unless it had specific knowledge that particular items might be counterfeit.

# Rise of tablet cuts into PC demand

BY BENJAMIN PIMENTEL

Gartner Inc. cut its forecast of personal-computer shipments for 2010 and 2011 as consumers rein in spending and interest grows in tablet devices such as Apple Inc.'s iPad.

Tablet devices are expected to displace 10% of global PC shipments by 2014, emerging as a disruptive factor for PC growth, according to the research firm.

The impact of tablets is already evident this year, when PC shipments are projected to total 352.4 million units, up 14.3% from last year, according to Gartner. The group had earlier projected growth of 17.9% for this year.

Next year, PC unit sales are expected to reach 409 million units, up 15.9% year-over-year, slower than Gartner's earlier projection of 18.1% growth.

"These results reflect marked reductions in expected near-term unit growth based on expectations of weaker consumer demand, due in no small part to growing user interest in media tablets such as the iPad," Gartner analyst Ranjit Atwal said in a statement.

Apple's iPad triggered strong in-

terest in tablets, which share more design elements with mobile devices such as smartphones, and less with PCs and laptops. Major PC makers, led by Dell Inc. and Hewlett-Packard Co., have rolled out their own version of the device.

"Over the longer term, media tablets are expected to displace around 10% of PC units by 2014," Mr. Atwal said.

Gartner expects tablet unit sales to total 19.5 million this year and to nearly triple to 54.8 million in 2011. The group projects tablet sales will surpass 208 million units in 2014.

Gartner said the economic slowdown is also a factor for weaker PC sales.

In the U.S. and Western Europe, the group said, consumers "continue to postpone purchases in the face of financial and economic uncertainty."

Gartner said consumers also are "temporarily, if not permanently, forgoing PC purchases in favor of media tablets."

In emerging markets, Gartner said consumers are likely to "simply leapfrog PCs and move directly to alternative devices in the coming years rather than following the traditional pattern of purchasing a PC as their first computing device."

# Broadband satellite firm, O3b, raises more funding

BY TOMMY STUBBINGTON

LONDON—Satellite-communications company O3b Networks Ltd. said Monday it raised \$1.2 billion from a group of investors and banks, its final funding round before the launch of its global satellite broadband network.

O3b, which is backed by Google Inc., plans to launch its fiber-quality Internet service for emerging markets in the first half of 2013, after securing \$770 million of debt financing and \$410 million of equity investment.

The firm's name refers to the "other 3 billion" people in the world currently without access to broadband Internet.

"We are looking to connect the unconnected, now we can start to do that," Chief Executive Mark Rigolle said in an interview.

The company already has around 10 service customers who have signed deals valued at \$500 million to \$600 million to use its infrastructure, Mr. Rigolle said.

O3b is selling capacity on its network on a wholesale basis to Internet service providers and telecom companies. Mr. Rigolle said he expects the strongest long-term demand to come from mobile phone companies in emerging markets,

which lack the fiber-optic infrastructure to offer their subscribers high-speed Internet access. O3b's network will be able to offer "backhaul" connections in place of a fiber network.

"Fiber is not an option in the Amazon, or in Indonesia with thousands of islands," Mr. Rigolle said.

**O3b's CEO is expecting strong demand from mobile phone companies in emerging markets, which lack the fiber-optic infrastructure for high-speed Internet access.**

Shareholders include Google, satellite operator SES SA, HSBC Holdings PLC, Liberty Global Inc., North Bridge Venture Partners and Allen & Co.

SES said it injected an additional \$75 million, taking its total investment to \$155 million. It now holds a 34% stake, making it O3b's largest shareholder. The company didn't disclose further holdings, but said HSBC and Liberty Global have the second- and third-largest stakes, with Google among the next tier of holders.

BUSINESS & FINANCE

# Fiji Water loses its taste for Fiji

BY LAUREN A. E. SCHUKER

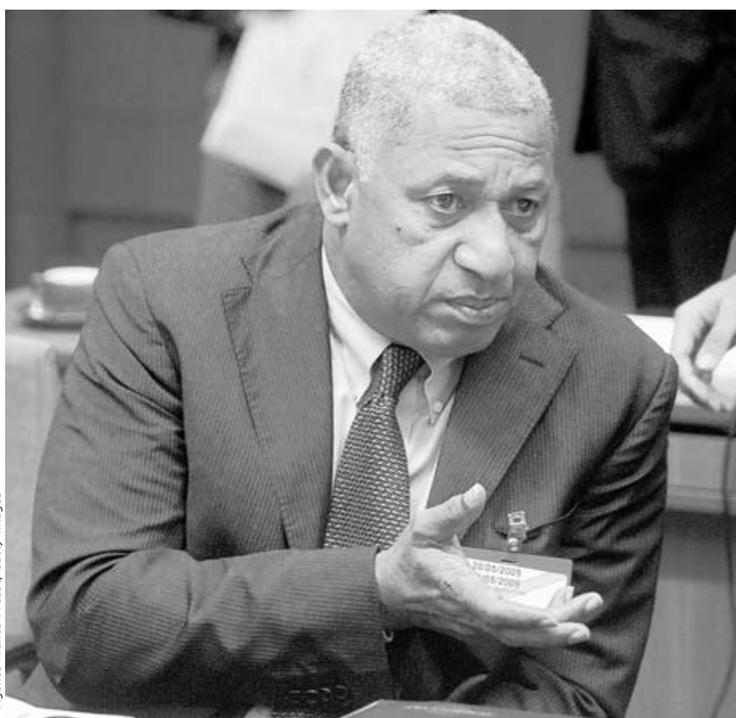
LOS ANGELES—Is Fiji Water still Fiji Water if it no longer comes from Fiji?

The bottled-drink company on Monday said it closed its operations in the South Pacific country that is the source of the company's name and its sole product, citing a massive tax increase imposed by the Fijian government. The company said that in addition to closing its facility in the country, Fiji Water also would cancel orders from suppliers and place several pending construction contracts on hold.

But the company implied that the actions might not be permanent, saying it remained "willing to work through" the issue with the Fiji government and preferred to continue operating in the country.

Fiji Water is owned by Southern California billionaire couple Lynda Resnick and Stewart Resnick, who are well-known in Los Angeles, where the company has its headquarters. They also own POM Wonderful LLC, which came under fire earlier this fall when the U.S. Federal Trade Commission sued, alleging that the pomegranate-juice maker's advertisements contained "false and unsubstantiated claims" about the juice's health benefits.

Fiji Water comes from an artesian aquifer in Yaqara Valley, a remote part of Fiji's main island, Viti Levu.



Commodore Frank Bainimarama, seen last year, took power in a 2006 coup.

The company said the Fiji government last week announced that it would impose a new tax rate of 15 cents per liter of bottled water at locations where more than 3.5 million liters of water a month are extracted. Fiji Water, which previously paid 0.33 cent per liter, is the

only company extracting that much water in the country.

"Fiji Water is left with no choice but to close our facility in Fiji," Fiji Water President John Cochran said in a prepared statement. Hundreds of Fijians will lose their jobs as a result, Mr. Cochran said. He said Fiji

Water employs nearly 400 Fijians and pays millions of dollars in duties and income tax to the government. The company said it also contributes to a trust that supports six villages around its facility.

The tax increase comes in the wake of economic troubles in Fiji, where recent political unrest since a 2006 military coup by Commodore Frank Bainimarama has caused economic instability.

The government didn't return requests for comment.

The well-known brand is sold in more than 40 countries. It accounts for about 2% of the multibillion-dollar U.S. bottled-water market, the company said, making it one of the biggest imported waters in the U.S.

The Resnicks' holding company, Roll International Corp., bought Fiji Water in 2004 from Canadian billionaire David Gilmour, who founded the water company in 1996.

Though Fiji Water previously has steered away from involvement in its host's political sphere, Monday's announcement marked the second time this month that the company has found itself entangled with the country's government. Fiji Water executive David Roth earlier this month was deported from the country to the U.S. for acting "in a manner prejudicial to good governance and public order," according to the Fiji government. The nature of his alleged actions hasn't been clarified.

# Glaxo plans new plants in Britain

BY STEN STOVALL

LONDON—GlaxoSmithKline PLC Monday said it will build its first new manufacturing facilities in Britain in about 25 years in response to the U.K. government's plan to cut the rate of corporation tax on income from patents.

The U.K.'s biggest drug maker said it will now push ahead with plans to invest £500 million (\$779.7 million) in new manufacturing facilities, creating about 1,000 jobs.

"What this does is encourage us to generate as much intellectual property in Britain as possible and—much more importantly—to keep it here," Glaxo Chief Executive Andrew Witty told journalists.

He was responding to the government's announcement that it will proceed with plans originally drafted by the former Labour government for a "patent box" that lowers the tax rate on profits from successful product launches that result from a patent registered and then manufactured in the U.K.

Glaxo last year spent £3.95 billion on research and development globally, of which £1.5 billion was spent in Britain.

# 'Queen of the Net' moves on to Silicon Valley venture firm

BY PUI-WING TAM AND AARON LUCCHETTI

Mary Meeker, Morgan Stanley's head of global technology research and the analyst dubbed "Queen of the Net" in the 1990s dot-com boom era, is heading to where that Internet boom began.

Ms. Meeker is joining Silicon Valley venture-capital firm Kleiner Perkins Caufield & Byers as a partner, said KPCB partner John Doerr. The Menlo Park, Calif., venture firm was one of the prime backers of the early wave of Internet companies such as Netscape Communications, Amazon.com Inc. and, later, Google Inc.

Mr. Doerr said Ms. Meeker is joining KPCB's digital practice, where she will invest in start-up technology companies and help current KPCB-backed companies grow. Mr. Doerr said KPCB is adding to its digital practice as "a third wave of innovation" combining social networking, mobile technology and e-commerce creates investment opportunities.

Ms. Meeker, 51 years old, said she began talking to KPCB in late September and decided last week to make the move from Wall Street to Silicon Valley.

She will start at KPCB in the next few weeks.

Ms. Meeker began covering the Internet sector in the 1990s, helping to fuel the dot-com boom. After the bubble burst in 2000, she and other Wall Street analysts faced investor ire for touting Internet stocks. Unlike some other star analysts of the time, Ms. Meeker wasn't charged with any securities-laws violations and today remains one of the better-known Wall Street analysts.



Mary Meeker is leaving Morgan Stanley for Kleiner Perkins Caufield & Byers.

Ms. Meeker leaves Morgan Stanley as it is rebuilding its research efforts. It has increased the number of stock-research analysts in the U.S. to 53 from 40 last year.

The culture of research has changed, from a period where top analysts were often treated like stars and operated with relative autonomy to a more team-based approach. In an interview at a conference in November, Morgan Stanley Chief Executive James Gorman discussed how Wall Street, after the financial crisis, should work on "changing the perception that it's the individual that is the hero."

Since the Internet boom, Ms. Meeker has kept a lower profile, sticking to more thematic reports while sharing the day-to-day job of stockpicking with 17 analysts. In a memo to colleagues, Ms. Meeker said she had considered joining an investment firm "for many years"

and that she was leaving now partly because she felt Morgan Stanley's tech-research effort is on a solid footing.

KPCB has long backed Internet companies, but more recently hasn't been an investor in two of Silicon Valley's hottest start-ups, Facebook Inc. and Twitter Inc.

This year, KPCB announced a \$200 million iFund to invest in start-ups making applications and technology for Apple Inc.'s iPhone and iPad, and a \$250 million sFund to invest in social Web companies.

According to a Securities and Exchange Commission filing earlier this month, KPCB is raising its 14th fund, targeted at \$650 million.

Ms. Meeker and KPCB had worked together on the 1993 initial public offering of software company Intuit Inc., which was funded by KPCB and taken public by Morgan Stanley.



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As from 1st December 2010, the Net Asset Value of the portfolios of the Funds will be published on a daily basis at [www.alliancebernstein.com/investments](http://www.alliancebernstein.com/investments).

The Net Asset Value is also available upon request from AllianceBernstein (Luxembourg) S.A., the management company of the Funds.

The Board of Directors of **AllianceBernstein (Luxembourg) S.A.**

## LEGAL NOTICES

### INTERNATIONAL NOTICES

**THE IRISH HIGH COURT**  
Commercial

Record No. 2010/635 COS

IN THE MATTER OF  
GLOBAL INDEMNITY PUBLIC LIMITED COMPANY  
AND IN THE MATTER OF  
THE COMPANIES ACTS 1963 TO 2009

AND IN THE MATTER OF A  
PROPOSED REDUCTION OF CAPITAL PURSUANT  
TO SECTION 72 OF THE COMPANIES ACT 1963

Notice is hereby given that a Petition presented to the Irish High Court on the 22nd day of November 2010 seeking the Court's confirmation of a reduction of the share capital of Global Indemnity plc (the "Company") by the cancellation of approximately US\$931,487,912.31 standing in the credit of the Company's share premium account is directed to be heard before the Commercial Court of the Irish High Court sitting at the Four Courts, Inns Quay, Dublin 7, Ireland at 2pm on the 13th day of December 2010. Any interested party who wishes to appear may appear at the time of hearing and a copy of the Notice of Motion, Petition and Affidavit is available for any interested party who requires it, from the undersigned.

Date: 30th November 2010

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THE WALL STREET JOURNAL  
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## THE MART

## AUCTIONS

## SALE OF INTERNATIONAL MANUFACTURING COMPANIES

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The common stock equity holdings described below will be sold PURSUANT TO SECTION 363 OF THE U.S. BANKRUPTCY CODE at a date, time and venue to be announced by the SHAREHOLDER of 100% of the equity of the companies.

The equity interests to be sold consist of 100% of the issued and outstanding equity in each of a South American based industrial ingredient manufacturing and distribution business and a Western European based processing and distribution business of such industrial ingredient. The operating assets of these companies include land, buildings, machinery, equipment, inventory, accounts receivable, furniture and fixtures, patents, trademarks, knowhow, employees, contracts and other general intangibles. The equity will be sold on an "as is and where is" basis with all faults and with no representations or warranties other than as to the Shareholder's authority to execute a purchase agreement, and will grant free and clear title to the 100% equity interest in these subsidiaries. The equity interests will be sold to the purchaser who presents the highest and best offer at such public sale, as determined by the Sole Shareholder and approved by the Bankruptcy Court.

Any prospective purchaser will be required prior to bidding to execute a confidentiality agreement, make a good faith deposit with the Shareholder in an amount to be determined, and demonstrate to the satisfaction of the Shareholder and Bankruptcy Court its ability to consummate the transaction promptly.

FOR MORE INFORMATION RELATING TO THE SUBJECT SALE, PLEASE CONTACT: Gerald Shapiro Director of BDO Consulting Corporate Advisors, LLC (email: jshapiro@bdocca.com, tel: (212) 885-7440).

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## BUSINESS &amp; FINANCE

## Stockbrokers flock to Asia

## [ Deal Journal ]

By NISHA GOPALAN



The business of selling stocks in Asia is about to get more crowded, raising questions about whether the region's growth will be fast enough to let the industry keep its fat Asian profit margins.

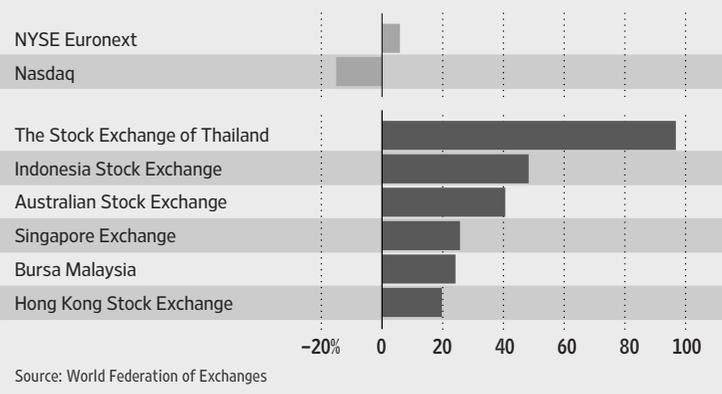
Standard Chartered has doubled its staff devoted to research, sales and trading of stocks to "just short of" 200 people this year and is looking to hire "in the high double digits" next year as the U.K. bank expands in India and South Korea and rolls out in Indonesia, said Tim Andrew, Standard Chartered's global head of cash equities in Hong Kong. It didn't have a franchise in what is known as cash equities until early 2009.

Another cash-equities newcomer, the U.K.'s Barclays Capital, this year has upped its cash-equities headcount in Asia outside Japan by more than 100 people, Barclays spokeswoman Clare Williams said, though she declined to disclose a staff total. Citigroup hired 70 people this year in its equities sales and trading business and started stock-brokerage operations in Indonesia and Malaysia.

Smaller players are also getting in on the game. Japanese brokerage Daiwa Securities Group said last week it wants to add more than 430 people in Asia outside Japan in areas such as cash equities by March 2012. South Korea's Samsung Securities expects to have an Asia ex-Korea staff of almost 100 by year end in cash equities and investment banking from 44 when

## Asian vanguard

Percentage change in value of share trading from January to October 2010



it launched in Hong Kong last year. U.S. brokerage house Jefferies Group in July hired CLSA Asia-Pacific Markets' group head of sales and sales trading, Michael Alexander, to build out a full-service equity research, sales and trading platform in Hong Kong, India, Japan, Singapore, Korea and Taiwan.

"There is a feeling there will be limited growth in U.S. and European markets, while in Asia, there's growth in economies, and savings," said Jesse Lentchner, chief executive officer for the Asian-Pacific region, at institutional equities brokerage BTIG, which plans to boost Asia headcount "considerably" in 2011.

The firms have been lured by the expanding investor base in Asia, as greater numbers of people and commercial customers look to buy or trade stocks or get research on prospects and valuations. Global investors have invested a net US\$19.13 billion in Asia ex-Japan stock funds as of late November, compared with just \$161 million at the beginning of the year.

Asian stocks will have generated US\$3.8 billion in commissions this year, according to projections from Greenwich Associates, from US\$3.3 billion for all of last year. By contrast, U.S. brokerage commissions have been shrinking: falling 13% to US\$12.1 billion in the first quarter this year—the most recent figures—from a year earlier.

It isn't clear who will reap most of the fees or whether the fees will stay fat in a region where commissions historically have been higher than elsewhere. Data on average commissions are hard to come by, but anecdotally brokerages charge about 0.15% to 0.2% a trade now, compared with 0.4% a decade ago.

Brokers say that still beats fees in the U.S., though direct comparisons are tricky because the U.S. uses different measures. The average commission for U.S. transactions including single equities and program trades slipped to 2.78 cents a share from 2.9 cents a year earlier, according to Greenwich Associates data from the first quarter of this year.

## Inflation could strong-arm the yuan

By ANDREW BATSON

BEIJING—In the complicated cocktail of policies China has pursued in recent weeks to tackle an unwanted burst of inflation, one ingredient has been missing: a stronger yuan. But economists think that is likely to change.

In the past two weeks, the Chinese yuan has barely budged against the U.S. dollar, though it is still up 2.4% this year. The tightly controlled currency is actually slightly weaker than it was on Nov. 11, when official data were published showing China's consumer-price inflation at a two-year high of 4.4%, with food prices surging 10.1%.

With inflation already sparking public discontent, the government has been working overtime since then to contain price pressures. While currency policy remains contentious, some observers think the renewed worries about inflation could help shift the balance of debate among policy makers and lead to renewed gains.

"In the current situation, with inflationary pressures rising, there may be more people who would support an appropriate appreciation of the renminbi," said Zhang Yongjun, an economist at the China Center for International Economic Exchanges, a think tank in Beijing.

U.S. criticism of China's exchange-rate policy has continued in recent weeks. Federal Reserve Chairman Ben Bernanke weighed in during a speech, warning that a "strategy of currency undervaluation" in China and other emerging markets is preventing more-balanced global growth.

But the yuan has risen at an annualized rate of more than 6% against the dollar since it was effectively unshackled from the U.S. currency in June, with gains often followed by interludes of a stable or declining exchange rate.

That is roughly the same rate as in the previous period of yuan appreciation from 2005 to 2008, which U.S. officials have pointed to as a model for acceptable upward movement by the yuan. Most economists expect the currency to resume that upward march against the dollar in coming weeks, though few forecast big moves.

There are also noneconomic factors that could drive China toward continued gains in the currency, notably, the planned state visit by President Hu Jintao to the U.S. in January, the first by a Chinese leader in a decade.

"In the months immediately ahead, there could be another round of relatively fast renminbi appreciation against the U.S. dollar" to ease

political tensions, said Morgan Stanley economist Wang Qing.

The pickup in inflation is hurting those with lower incomes, a source of concern for the Chinese government. "The price of everything, including food, vegetables and fruits, really scares me," said Li Guifang, a retired elevator attendant in Beijing. She says the price of eggs at her local market has jumped 20%, and that she is cutting back on luxuries to compensate.

While a stronger yuan wouldn't be a cure-all for the recent rise in food prices, it could help lower the bill for China's huge imports of commodities, including iron ore, soybeans and crude oil. A higher exchange rate should also reduce the trade surplus, which would slow economic growth and thus also reduce broader inflationary pressures.

Government officials have made few public comments about the currency in recent weeks, even after Mr. Bernanke's criticism. Of course, few governments telegraph their currency moves in advance. And exchange-rate policy is a sensitive political issue in China, with many Chinese reluctant to be seen bowing to pressure for a stronger currency from the U.S. and the International Monetary Fund.

—Kersten Zhang contributed to this article.



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THE WALL STREET JOURNAL.  
EUROPE

MARKETS

Irish lenders begin an effort to raise capital

Continued from page 17 gested," noting that the next round of stress testing isn't expected until the first half of 2011, after the initial capital increases.

Bank of Ireland shares rallied 16% in Dublin Monday, while Irish Life surged 59%.

Patrick Honohan, the governor of the Central Bank of Ireland and a member of the European Central Bank's Governing Council, said there is no indication that Irish banks have more big hidden losses on their books.

"There has been no indication in our discussions over the past couple of weeks that there is a hole that we haven't discovered," he said on RTE radio Monday, referring to experts from the EU and IMF who have been in Dublin to set up the aid package.

"They didn't find a hole," he said, adding that the central bank constantly looks for additional losses and would disclose and deal with them quickly if any were discovered.

Mr. Honohan said the aid package announced Sunday was a "win-win" despite concerns that the average 5.8% interest rate on the support was too high.

"They're not charging the cheapest interest rates ever found, but they are trying to ensure that the economy comes back to strength again," he said.

—Quentin Fottrell contributed to this article.

European stocks and the euro fall

By TOBY ANDERSON

European stock markets fell Monday, unable to hold on to early gains as the initial enthusiasm over Ireland's rescue package dissipated and the focus shifted to other indebted "peripheral" euro-zone nations, such as Spain and Portugal.

"Spain is the line in the sand that cannot be crossed," said Gary Jenkins, head of fixed-income research at Evolution Securities. "We will see if the outline of the permanent crisis-resolution mechanism calms the waters, but if we get close to the point where Spain is unable to fund itself in the market, we move onto a new chapter in this crisis."

The Stoxx Europe 600 index ended down 1.7% at 262.16. The U.K.'s FTSE 100 closed down 2.1% at 5550.95, Germany's DAX declined 2.2% to 6697.97, and France's CAC-40 fell 2.5% to 3636.96, its lowest close since Sept. 2.

In the U.S., the Dow Jones Industrial Average fell 39.51 points, or 0.4%, to 11052.49 on continuing concerns about the euro-zone crisis.

On Sunday, European ministers and the International Monetary Fund agreed on loan facilities for Ireland of as much as €85 billion (\$113 billion), split between recapitalizing the banking network and funding the state itself. Officials for

the first time crafted a blueprint for future rescues that would have private-sector creditors bearing some of the cost.

"Overcapitalization and contingent capital do not, however, remove uncertainty about the precise eventual size of the losses at the banks, the associated total added to the government's debt and the implications for the feasibility of stabilizing the ratio in the future," BNP Paribas said.

Banks reversed early gains to trade lower. In Paris, Société Générale fell 3.5%, while BNP Paribas slid 3.2%. In Madrid, Banco Bilbao Vizcaya Argentaria shed 4.3%, and Banco Popolare fell 4.6% in Milan.

Meanwhile, traders digested the outcome of a bond sale by the Italian Treasury. It sold a total of €5.498 billion of bonds and €1.339 billion of floating-rate bonds indexed to six-month Euribor. "Demand for both lines was decent but not exceptional, given the concession given ahead of the auction," said bond brokerage Newedge.

In the currency markets Monday, the euro came under pressure again as concern about sovereign-debt contagion overtook relief over Ireland's bailout. The euro fell below \$1.31 for the first time since Sept. 21 before regaining some ground. In late U.S. trade, the euro was at \$1.3120 from \$1.3248 late Friday.

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NS	<b>India Capital Growth</b>	India Investment Partners Limited		GBPGGY	<b>58.14</b>	66.75	56.15	NS
4	<b>Danske Invest India A</b>	Danske Fund Management Company S.A.		USD LUX	<b>39.12</b>	52.74	54.36	12.77
NS	<b>New India</b>	Aberdeen Asset Management Funds Ltd (UK)		GBPGBR	<b>38.39</b>	51.24	54.62	10.87
5	<b>First State Indian Subcontinent A</b>	First State Investments (UK) Ltd		GBPGBR	<b>35.66</b>	50.53	61.94	NS
2	<b>Invesco India Equity A USD</b>	Invesco Global Asset Management Limited		USD LUX	<b>33.08</b>	47.27	55.79	11.53
4	<b>First State Indian Subcontinent II</b>	First State Investments (Hong Kong) Ltd		USD IRL	<b>32.34</b>	46.58	58.12	16.36
5	<b>Aberdeen Global Indian Equity D2</b>	Aberdeen Asset Managers Limited(Lux)		GBPLUX	<b>35.27</b>	44.20	51.17	13.30
2	<b>FF - India Focus A Euro</b>	Fidelity (FIL) (Luxembourg) S.A.)		EUR LUX	<b>29.57</b>	42.86	57.86	9.81
4	<b>Franklin India A Acc \$</b>	Franklin Templeton Investment Funds		USD LUX	<b>29.58</b>	41.56	50.91	17.07
1	<b>Simplicity Indien Inc</b>	Simplicity AB		SEKSWE	<b>26.95</b>	40.10	48.29	7.90

NOTE: Changes in currency rates will affect performance and rankings. KEY: \*\* 2YR and 5YR performance is annualized. NA-not available due to incomplete data; NS-fund not in existence for entire period. Source: Morningstar, Ltd 1 Oliver's Yard, 55-71 City Road London EC1Y 1HQ United Kingdom www.morningstar.com; Email: mediadeservice@morningstar.com Phone: +44 (0)203107 0038; Fax: +44 (0)203107 0001

December gold on the Comex division of the New York Mercantile Exchange rose \$3.60 to \$1,366 per ounce. Light, sweet, crude for January delivery settled \$1.97 higher at \$85.73 a barrel on Nymex.

In major market action:

In Dublin, the ISEQ index ended little changed, erasing most of its intraday gains. Bank of Ireland ral-

lied 16% and Irish Life & Permanent Group Holdings surged 59% on the belief that the banking-sector part of Ireland's bailout would be more shareholder-friendly than previous reports had suggested.

Philips fell 3.9% after a surprise announcement that Chief Financial Officer Pierre-Jean Sivignon is stepping down for personal reasons.

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FUND NAME	GF	AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR
Am Blend Portfolio A	US	EQ	LUX	11/26	USD	10.75	3.7	4.1	15.7
Am Blend Portfolio I	US	EQ	LUX	11/26	USD	12.74	4.3	4.8	16.6
Am Growth A	US	EQ	LUX	11/26	USD	32.05	2.6	4.7	23.8
Am Growth B	US	EQ	LUX	11/26	USD	26.71	1.7	3.7	22.6
Am Growth I	US	EQ	LUX	11/26	USD	35.79	3.4	5.6	24.8
Am Income A	OT	OT	LUX	11/26	USD	8.94	11.1	12.0	22.0
Am Income A2	OT	OT	LUX	11/26	USD	21.25	11.6	12.0	21.9
Am Income B	OT	OT	LUX	11/26	USD	8.94	10.5	11.1	21.1
Am Income B2	OT	OT	LUX	11/26	USD	18.19	10.8	11.1	21.1
Am Income I	OT	OT	LUX	11/26	USD	8.94	11.7	12.6	22.7
Emg Mkts Debt A	GL	BD	LUX	11/26	USD	16.66	12.7	13.1	33.9
Emg Mkts Debt A2	GL	BD	LUX	11/26	USD	22.78	13.3	13.2	33.9



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FUND NAME	GF	AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR
GI Conservative A2	US	BA	LUX	11/26	USD	17.60	4.0	4.0	11.4
GI Conservative B	US	BA	LUX	11/26	USD	15.18	3.0	2.9	10.3
GI Conservative B2	US	BA	LUX	11/26	USD	16.57	3.0	3.0	10.3
GI Conservative I	US	BA	LUX	11/26	USD	15.32	4.6	4.7	12.3
GI Eq Blend A	GL	EQ	LUX	11/26	USD	11.67	0.1	1.3	16.4
GI Eq Blend B	GL	EQ	LUX	11/26	USD	10.85	-0.9	0.3	15.2
GI Eq Blend I	GL	EQ	LUX	11/26	USD	12.40	0.8	2.1	17.4
GI Growth A	GL	EQ	LUX	11/26	USD	42.75	2.0	3.4	16.7
GI Growth B	GL	EQ	LUX	11/26	USD	35.37	1.1	2.3	15.5
GI Growth I	GL	EQ	LUX	11/26	USD	47.82	2.8	4.2	17.6
GI High Yield A	OT	OT	LUX	11/26	USD	4.61	13.5	17.0	39.0
GI High Yield A2	OT	OT	LUX	11/26	USD	10.58	14.3	16.9	38.8
GI High Yield B	OT	OT	LUX	11/26	USD	4.61	12.5	15.8	37.3
GI High Yield B2	OT	OT	LUX	11/26	USD	16.86	13.3	15.8	37.5
GI High Yield I	OT	OT	LUX	11/26	USD	4.61	14.0	17.6	39.9
GI Thematic Res A	GL	EQ	LUX	11/26	USD	16.48	11.9	12.3	42.7
GI Thematic Res B	GL	EQ	LUX	11/26	USD	14.29	10.9	11.2	41.4
GI Thematic Res I	GL	EQ	LUX	11/26	USD	18.51	12.7	13.2	43.9
GI Value A	GL	EQ	LUX	11/26	USD	10.99	-1.3	-0.2	16.6
GI Value B	GL	EQ	LUX	11/26	USD	10.00	-2.3	-1.2	15.4
GI Value I	GL	EQ	LUX	11/26	USD	11.77	-0.7	0.7	17.5
India Growth A	EA	EQ	LUX	11/26	USD	142.52	12.3	15.7	NS
India Growth B	EA	EQ	LUX	11/26	USD	124.91	12.6	16.1	54.3
India Growth I	EA	EQ	LUX	11/26	USD	147.95	11.3	14.6	NS
India Growth B2	EA	EQ	LUX	11/26	USD	105.81	11.6	14.9	52.7
India Growth I	EA	EQ	LUX	11/26	USD	130.04	13.1	16.7	55.0
Int'l Health Care A	OT	OT	LUX	11/26	USD	133.84	-2.6	-0.5	10.1
Int'l Health Care B	OT	OT	LUX	11/26	USD	111.87	-3.5	-1.5	9.0
Int'l Health Care I	OT	OT	LUX	11/26	USD	147.30	-1.9	0.3	11.0
Int'l Technology A	OT	OT	LUX	11/26	USD	124.96	13.2	19.0	32.5
Int'l Technology B	OT	OT	LUX	11/26	USD	107.30	12.2	17.8	31.2
Int'l Technology I	OT	OT	LUX	11/26	USD	141.13	14.1	20.0	33.6

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12-month and 2-year returns may be calculated over 11- and 23-month periods pending receipt and publication of the last month end price.

FUND NAME	GF	AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR
Global Absolute USD	OT	OT	GGY	03/31	USD	2.05	2.8	15.2	0.3
Special Opp EUR	OT	OT	CYM	10/29	EUR	90.76	-0.3	0.7	NS
Special Opp Inst EUR	OT	OT	CYM	10/29	EUR	86.22	0.2	1.4	NS
Special Opp Inst USD	OT	OT	CYM	10/29	USD	98.21	0.5	1.5	NS
Special Opp USD	OT	OT	CYM	10/29	USD	95.62	-0.2	0.8	NS
GH Fund AP	OT	OT	GGY	04/30	EUR	120.82	3.5	-13.4	-3.8
GH Fund CHF Hdg	OT	OT	GGY	10/29	CHF	113.23	2.4	2.9	NS
GH Fund EUR Hdg (Non-V)	OT	OT	GGY	04/30	EUR	109.43	2.9	-15.9	-5.9
GH Fund GBP Hdg	OT	OT	GGY	10/29	GBP	135.85	3.0	3.6	NS
GH Fund Inst USD	OT	OT	GGY	10/29	USD	115.41	3.5	4.1	NS
GH FUND S EUR	OT	OT	CYM	10/29	EUR	132.63	4.0	4.7	NS
GH FUND S GBP	OT	OT	GGY	10/29	GBP	138.00	4.3	5.0	NS
GH FUND S USD	OT	OT	CYM	10/29	USD	155.87	4.0	4.7	NS
GH Fund USD	OT	OT	GGY	10/29	USD	200.86	2.8	3.3	NS
Hedge Investments	OT	OT	JFY	08/31	USD	139.81	NS	4.9	NS
Leverage GH USD	OT	OT	GGY	09/30	USD	121.63	2.7	3.0	NS
MultiAdv Arb CHF Hdg	OT	OT	JFY	10/29	CHF	96.29	1.9	3.0	NS
MultiAdv Arb EUR Hdg	OT	OT	JFY	10/29	EUR	105.26	2.3	3.6	NS
MultiAdv Arb GBP Hdg	OT	OT	JFY	10/29	GBP	113.66	2.4	3.7	NS
MultiAdv Arb S EUR	OT	OT	CYM	10/29	EUR	113.80	3.5	5.0	NS
MultiAdv Arb S GBP	OT	OT	CYM	10/29	GBP	119.36	3.7	5.1	NS
MultiAdv Arb S USD	OT	OT	CYM	10/29	USD	130.02	3.4	4.8	NS
MultiAdv Arb USD	OT	OT	JFY	10/29	USD	198.30	2.2	3.4	NS

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Horseman EmMkt Opp USD GL EQ USA 01/31 USD 194.78 -24.5 -22.7 -9.1  
Horseman EurSellLtd EUR EU EQ GBR 10/29 EUR 216.31 10.9 17.9 2.9  
Horseman EurSellLtd USD EU EQ GBR 10/29 USD 229.09 13.5 20.7 3.9  
Horseman Gbl Ltd EUR GL EQ CYM 10/29 USD 416.30 12.3 10.3 -5.3  
Horseman Gbl Ltd USD GL EQ CYM 10/29 USD 416.30 12.3 10.3 -5.3

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Global Absolute EUR OT OT GGY 05/13 EUR 1.56 2.8 14.2 NS



■ MERIDEN GROUP  
Tel: +376 741175 Fax: +376 741183 Email: meriden@meriden-ipm.com

FUND NAME	GF	AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR
Antanta Combined Fund	EE	EQ	AND	11/19	USD	416.54	13.0	19.5	44.7
Antanta MidCap Fund	EE	EQ	AND	11/19	USD	844.74	19.0	33.2	63.1
Meriden Opps Fund	GL	OT	AND	11/24	EUR	43.86	-26.9	-31.8	-30.6
Meriden Protective Div	GL	EQ	AND	09/01	EUR	79.14	NS	NS	NS

FUND NAME	GF	AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR
Japan Blend A	JP	EQ							

MARKETS

German bonds caught in the euro-zone pinch

By NEELABH CHATURVEDI AND MARK BROWN

Jitters about the euro-zone debt crisis are affecting even ultra-safe German government bonds amid concerns that Berlin would have to fork out more cash to save other members of the currency bloc.

These concerns are also pushing up the cost of credit-default swaps—derivatives that act like an insurance contract for debt—written on the German bonds, or bunds.

In the government bond-market Monday, the yield spread between 10-year U.K. bonds and bunds was 0.28 percentage point tighter at 6.43 percentage points, while the U.S./German spread was 0.35 percentage point tighter at 1.57 percentage points.

"If the situation gets a lot worse and contagion spreads to Italy and Spain, the eventual cost will have to be borne by someone, and that is hurting bunds," said Jonathan Cloke, head of global government bonds at Legal & General.

A €85 billion (\$112.61 billion) aid package for Ireland unveiled over the weekend failed to allay fears that the crisis would spread, with the premiums demanded by investors to buy Italian and Spanish bonds instead of bunds widening to their highest levels since the common currency was created.

But despite worries over the euro-zone periphery, bunds were still lagging behind U.S. Treasuries

and U.K. gilts, with the euro also falling against the U.S. dollar and sterling.

Portugal and Spain are seen as possible candidates to join Greece and Ireland in needing a bailout.

Spain in particular makes traders skittish because its economy is much larger than that of Ireland or Greece, and the current EU rescue fund of €440 billion may need to be increased to meet any requirements.

David Schnautz, an interest-rate strategist at Commerzbank in London, said that, with the caution about the Irish bailout, some money that investors wanted to put in the safest assets was probably flowing to Treasuries and gilts rather than bunds.

"There could be some cutting back of euro exposure, which would explain the movement in the rates and foreign-exchange markets," Mr. Schnautz said.

Germany's five-year sovereign CDS rose 0.03 percentage point to 0.49 percentage point Monday—a level last seen in early June—according to Markit, and have risen 0.10 percentage point in a week.

Similar concerns are also being felt in other "core" euro-zone bond markets. CDS costs on French government bonds have risen more than 0.15 percentage point since Nov. 17, according to Markit, and now trade above those of the Czech Republic.

—Irene Chapple in London contributed to this article.

Hong Kong gets picky on IPOs

By PRUDENCE HO AND YVONNE LEE

HONG KONG—Jittery markets sidelined a Russian electricity producer's Hong Kong fund-raising hopes Monday even as three other companies began courting investors in a bid to raise a combined \$3 billion from the city's stock market.

EuroSibEnerg, controlled by Russian billionaire Oleg Deripaska, was due to begin its investor presentations Monday for an offering raising up to US\$1.5 billion, but shelved the deal due to market weakness, one person familiar with the situation said. Another person said the company may look to revisit the IPO next year. EuroSibEnerg is the third company in a week to halt Hong Kong IPO plans.

At the same time, Chongqing Rural Commercial Bank Co., Huaneng Renewables Corp. and MIE Holdings Corp. all began their own presentations for potential investors Monday. All three have locked in big investors to support their offerings, according to their preliminary prospectuses.

The different fortunes of these deals show that, for now, investors continue to support certain stock issues that offer a play on China's long-term growth. Relatively brighter prospects in Asia and emerging markets generally have been attracting global money to the region, and to Hong Kong's stock exchange in particular, at a time of weakness and uncertainty in the U.S. and Europe. The result has been a

banner year for initial public offerings on Hong Kong's exchange.

But North Korea's surprise attack on a South Korean island, the euro-zone sovereign-debt crisis and worries about China's inflation are starting to inject caution among fund managers, encouraging them to be selective about which offerings they support.

EuroSibEnerg's shelved deal has raised questions about the ability of foreign firms to raise funds in Hong Kong's IPO market, especially if their ability to benefit from China's growth isn't clear.

"Some long-only funds which focus on the Greater China market can't buy these non-Chinese companies as the main revenues of those companies don't come from China, meaning that some of these foreign IPOs lose out on potential investors," said Alex Au, managing director of Richland Capital Management Ltd., a US\$300 million pan-Asian hedge fund.

Mr. Au also noted that investor interest in Russian companies has been hurt by the fact that two Russian companies that listed this year—aluminum maker UC Rusal PLC, which is also owned by Mr. Deripaska, and miner IRC Ltd.—are trading below their IPO prices.

BOC International Holdings Ltd., Deutsche Bank AG and Bank VTB OAO are the global coordinators of EuroSibEnerg's deal, according to the prospectus.

The three Chinese companies that began investor presentations Monday have found support from

so-called cornerstone investors that will take up a chunk of the offerings while helping boost their appeal with other investors. Cornerstone investors pay the same price as other investors in an offering and typically agree to hold their stakes for six months or longer. The sizes of the purchases range from US\$240 million of shares in the case of Chongqing Rural Commercial Bank to US\$30 million for Beijing-based oil-field operator MIE Holdings.

Chongqing Rural Commercial Bank's IPO will be one of the largest in Hong Kong in the fourth quarter. The lender is seeking to raise up to US\$1.55 billion by selling two billion new shares at between HK\$4.50 and HK\$6.00 each, becoming the first rural lender from mainland China to list in Hong Kong.

The bank has an option to increase the deal size by 15% to raise up to US\$1.78 billion. Listing is scheduled for Dec. 16. Nomura Holdings Inc. and Morgan Stanley are joint bookrunners on the deal.

Not far behind in deal size is Huaneng Renewables, which is raising up to US\$1.28 billion. It will be the second Chinese wind-farm operator to list in Hong Kong after China Longyuan Power Group Corp. raised US\$2.6 billion from its IPO in December 2009.

Meanwhile, MIE Holding, which called off a U.S. listing in May due to weak markets, is now planning a Hong Kong listing that will raise up to US\$184 million ahead of a listing on the Hong Kong stock exchange on Dec. 14.

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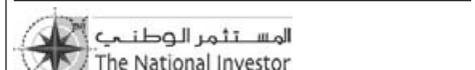
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Yuki 777 Series Yuki 77 General

Yuki Chugoku Series Yuki Chugoku Jpn Gen, Yuki Chugoku JpnLowP

Yuki Hokuyo Japan Series Yuki Hokuyo Jpn Gen, Yuki Hokuyo Jpn Inc, etc.

Yuki Mizuho Series Yuki Mizuho Jpn Gen III, Yuki Mizuho Jpn Dyn Gro, etc.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, -%RETURN-12-MO, -%RETURN-2-YR. Includes funds like Yuki Mizuho Jpn Gen, Yuki Mizuho Jpn Gro, etc.

Yuki Shizuoka Japan Series Yuki Shizuoka General Japan

# BLUE CHIPS & BONDS

## Major players & benchmarks

### Stoxx Europe 50: Monday's best and worst...

Below, a look at the Dow Jones Stoxx 50, the biggest and best known companies in Europe, including the U.K.

Company	Country	Industry	Volume	Previous close, in local currency	STOCK PERFORMANCE		
					Previous session	YTD	52-week
<b>Barclays</b>	U.K.	Banks	61,187,581	262.95	1.21%	-4.7%	-10.1%
<b>HSBC Holdings</b>	U.K.	Banks	38,427,809	651.40	0.05	-8.1	-7.9
<b>Hennes &amp; Mauritz AB Series B</b>	Sweden	Apparel Retailers	3,531,819	236.20	-0.25%	18.9	14.6
<b>UBS</b>	Switzerland	Banks	15,024,035	15.33	-0.39	-4.5	-1.6
<b>Standard Chartered PLC</b>	U.K.	Banks	4,453,228	1.750	-0.46	15.3	22.4
<b>Banco Bilbao Vizcaya Argentaria</b>	Spain	Banks	66,252,391	7.23	-4.32%	-40.9	-40.0
<b>Intesa Sanpaolo</b>	Italy	Banks	158,124,693	2.04	-4.11	-35.2	-29.2
<b>Vodafone Group</b>	U.K.	Mobile Telecommunications	123,383,347	159.30	-3.63	10.9	16.2
<b>BASF SE</b>	Germany	Commodity Chemicals	4,159,196	56.29	-3.55	29.5	40.2
<b>Societe Generale</b>	France	Banks	6,136,019	37.05	-3.54	-24.3	-21.0

### ...And the rest of Europe's blue chips

Company/Country (Industry)	Volume	Latest, in local currency	STOCK PERFORMANCE			Company/Country (Industry)	Volume	Latest, in local currency	STOCK PERFORMANCE		
			Latest	YTD	52-week				Latest	YTD	52-week
<b>Zurich Financial Services AG</b> Switzerland (Full Line Insurance)	787,228	228.40	-0.52%	0.8%	5.5%	<b>Telefonica</b> Spain (Fixed Line Telecommunications)	34,262,807	16.59	-2.21%	-15.0%	-13.2%
<b>ABB Ltd.</b> Switzerland (Industrial Machinery)	9,449,914	19.52	-0.66	0.5	8.9	<b>Anheuser-Busch InBev N.V.</b> Belgium (Beverages)	2,927,192	42.41	-2.28	16.5	27.6
<b>Deutsche Telekom</b> Germany (Mobile Telecommunications)	19,545,672	9.87	-1.02	-4.1	0.5	<b>Nokia</b> Finland (Telecommunications Equipment)	22,571,462	7.05	-2.42	-21.0	-19.6
<b>L.M. Ericsson Telephone Series B</b> Sweden (Communications Technology)	7,218,395	72.55	-1.23	10.1	8.3	<b>Diageo</b> U.K. (Distillers & Vintners)	3,346,613	1,150	-2.46	6.1	12.2
<b>Credit Suisse Group</b> Switzerland (Banks)	7,170,426	38.01	-1.35	-25.8	-26.9	<b>British American Tobacco</b> U.K. (Tobacco)	2,711,439	2,334	-2.53	15.7	26.3
<b>Roche Holding</b> Switzerland (Pharmaceuticals)	2,204,768	138.60	-1.42	-21.2	-15.6	<b>France Telecom</b> France (Fixed Line Telecommunications)	11,636,779	15.76	-2.66	-9.6	-9.1
<b>Royal Dutch Shell A</b> U.K. (Integrated Oil & Gas)	7,505,337	23.14	-1.47	9.6	16.9	<b>Banco Santander</b> Spain (Banks)	111,783,773	7.33	-2.67	-36.5	-35.7
<b>Nestle S.A.</b> Switzerland (Food Products)	6,855,267	55.75	-1.50	11.1	17.4	<b>Bayer AG</b> Germany (Specialty Chemicals)	2,788,654	56.06	-2.67	0.2	9.9
<b>Unilever</b> Netherlands (Food Products)	7,552,260	21.82	-1.51	-4.1	6.9	<b>GlaxoSmithKline</b> U.K. (Pharmaceuticals)	10,025,834	1,225	-2.86	-7.2	-2.6
<b>E.ON AG</b> Germany (Multiutilities)	7,705,506	22.30	-1.52	-23.7	-15.3	<b>Anglo American</b> U.K. (General Mining)	3,927,947	2,821	-2.87	4.1	8.4
<b>Allianz SE</b> Germany (Full Line Insurance)	3,163,118	85.57	-1.53	-1.8	4.6	<b>Sanofi-Aventis</b> France (Pharmaceuticals)	4,336,856	46.97	-2.99	-14.7	-6.7
<b>Siemens</b> Germany (Diversified Industrials)	3,821,758	84.52	-1.57	31.6	29.5	<b>Deutsche Bank</b> Germany (Banks)	15,350,993	37.12	-3.00	-17.7	-15.3
<b>Astrazenca</b> U.K. (Pharmaceuticals)	2,674,330	3,023	-1.63	3.9	11.3	<b>ING Groep</b> Netherlands (Life Insurance)	38,137,810	7.00	-3.11	15	12.8
<b>SAP AG</b> Germany (Software)	3,797,888	35.91	-1.64	8.8	12.8	<b>BG Group</b> U.K. (Integrated Oil & Gas)	6,910,504	1,169	-3.19	4.1	5.9
<b>Total S.A.</b> France (Integrated Oil & Gas)	8,036,291	37.10	-1.68	-17.6	-10.0	<b>BNP Paribas</b> France (Banks)	7,297,991	47.18	-3.19	-15.6	-14.2
<b>Novartis</b> Switzerland (Pharmaceuticals)	4,505,754	54.05	-1.73	-4.3	-3.0	<b>Rio Tinto</b> U.K. (General Mining)	5,405,520	4,043	-3.25	19.3	30.9
<b>BP PLC</b> U.K. (Integrated Oil & Gas)	35,406,664	428.25	-1.78	-28.6	-25.5	<b>GDF Suez</b> France (Multiutilities)	7,119,989	25.59	-3.33	-15.5	-8.0
<b>ENI</b> Italy (Integrated Oil & Gas)	16,752,972	15.35	-1.85	-13.8	-7.0	<b>Daimler AG</b> Germany (Automobiles)	5,308,100	49.79	-3.40	33.7	47.7
<b>Tesco</b> U.K. (Food Retailers & Wholesalers)	12,749,365	421.60	-1.95	-1.5	-0.3	<b>AXA</b> France (Full Line Insurance)	16,820,788	11.47	-3.49	-30.7	-27.7
<b>BHP Billiton</b> U.K. (General Mining)	6,574,390	2,266	-2.14	13.6	22.0	<b>UniCredit</b> Italy (Banks)	521,231,320	154	-3.50	-31.0	-29.0

Sources: Thomson Reuters

## Dow Jones Industrial Average P/E: 14

LAST: 11052.49

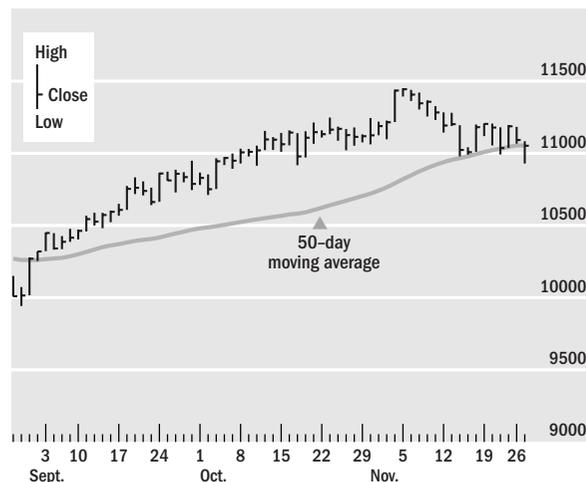
▼ 39.51, or 0.36%

YEAR TO DATE:

▲ 624.44, or 6.0%

OVER 52 WEEKS

▲ 707.65, or 6.8%



Note: Price-to-earnings ratios are for trailing 12 months

### DJIA component stocks

Stock	Symbol	Volume, in millions	Latest	Points	CHANGE Percentage
<b>AT&amp;T</b>	T	23.4	\$27.69	-0.24	-0.86%
<b>Alcoa</b>	AA	21.5	13.30	0.13	0.99
<b>AmExpress</b>	AXP	10.0	43.31	1.04	2.46
<b>BankAm</b>	BAC	139.2	11.33	0.21	1.89
<b>Boeing</b>	BA	4.2	64.37	-0.43	-0.66
<b>Caterpillar</b>	CAT	5.0	83.68	-0.45	-0.53
<b>Chevron</b>	CVX	8.7	81.64	-0.41	-0.50
<b>CiscoSys</b>	CSCO	51.4	19.44	-0.05	-0.26
<b>CocaCola</b>	KO	10.8	63.42	-0.25	-0.39
<b>Disney</b>	DIS	8.1	36.44	-0.26	-0.71
<b>DuPont</b>	DD	6.6	46.90	0.59	1.27
<b>ExxonMobil</b>	XOM	18.6	69.46	0.23	0.33
<b>GenElec</b>	GE	54.5	15.98	0.18	1.14
<b>HewlettPk</b>	HPQ	20.1	42.59	-0.61	-1.41
<b>HomeDpt</b>	HD	11.5	30.70	-0.30	-0.97
<b>Intel</b>	INTC	46.2	21.33	-0.01	-0.05
<b>IBM</b>	IBM	4.8	142.88	-1.02	-0.71
<b>JPMorgChas</b>	JPM	29.4	37.90	0.40	1.07
<b>JohnsJohns</b>	JNJ	11.5	61.91	-0.39	-0.63
<b>KftFoods</b>	KFT	9.9	30.18	-0.12	-0.40
<b>McDonalds</b>	MCD	4.8	78.27	0.34	0.44
<b>Merck</b>	MRK	12.8	34.68	-0.11	-0.32
<b>Microsoft</b>	MSFT	56.1	25.31	0.06	0.24
<b>Pfizer</b>	PFE	36.0	16.56	0.07	0.42
<b>ProctGamb</b>	PG	8.0	62.13	...	...
<b>3M</b>	MMM	3.4	84.21	-0.19	-0.23
<b>TravelersCos</b>	TRV	5.1	54.19	-0.18	-0.33
<b>UnitedTech</b>	UTX	4.2	74.82	-0.46	-0.61
<b>Verizon</b>	VZ	14.2	31.90	-0.31	-0.96
<b>WalMart</b>	WMT	10.4	53.85	0.11	0.21

Source: WSJ Market Data Group

## Tracking credit markets & dealmakers

### Credit derivatives

Spreads on credit derivatives are one way the market rates creditworthiness. Regions that are trading in rough waters can see spreads swing toward the maximum—and vice versa. Indexes below are for five-year swaps.

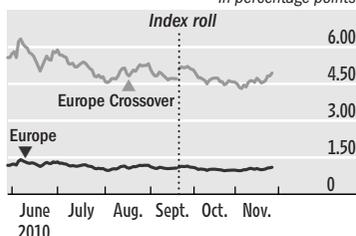
#### Markit iTraxx Indexes

Index: series/version	Mid-spread, in pct. pts.	Mid-price	Coupon	SPREAD RANGE, in pct. pts. since most recent roll		
				Maximum	Minimum	Average
<b>Europe: 14/1</b>	1.10	99.54%	0.01%	1.18	0.95	1.04
<b>Eur. High Volatility: 14/1</b>	1.65	97.01	0.01	1.79	1.45	1.59
<b>Europe Crossover: 14/1</b>	4.94	100.22	0.05	5.37	4.24	4.73
<b>Asia ex-Japan IG: 14/1</b>	1.12	99.43	0.01	1.25	0.93	1.08
<b>Japan: 14/1</b>	0.93	100.34	0.01	1.10	0.90	1.00

Note: Data as of November 26  
In percentage points

#### Spreads

Spreads on five-year swaps for corporate debt; based on Markit iTraxx indexes.



Source: Markit Group

### Credit-default swaps: European companies

At its most basic, the pricing of credit-default swaps measures how much a buyer has to pay to purchase—and how much a seller demands to sell—protection from default on an issuer's debt. The snapshot below gives a sense which way the market was moving yesterday.

#### Showing the biggest improvement...

Company	Yesterday	CHANGE in basis points	
		Yesterday	Five-day 28-day
<b>Stora Enso</b>	271	-1	5
<b>BP P.L.C.</b>	113	-1	-37
<b>Solvay SA</b>	70	...	-15
<b>ISS Hldg AS</b>	367	...	-22
<b>Danske Bk AS</b>	110	...	40
<b>Metso Corp</b>	113	...	-6
<b>Total SA</b>	57	...	-2
<b>Unilever NV</b>	46	...	1
<b>Heineken NV</b>	91	...	-4
<b>Linde AG</b>	51	...	-10

#### And the most deterioration

Company	Yesterday	CHANGE in basis points	
		Yesterday	Five-day 28-day
<b>Kabel Deutschland GmbH</b>	303	18	25
<b>Norske Skogindustrier ASA</b>	905	20	86
<b>Kdom Spain</b>	323	22	109
<b>BCO Pop Espanol</b>	387	23	126
<b>Rep Portugal</b>	502	23	123
<b>CODERE Fin Luxembourg SA</b>	649	28	35
<b>BCO de Sabadell SA</b>	406	29	150
<b>BCO Espirito Santo SA</b>	762	31	348
<b>BCO Comercial Portugues SA</b>	759	32	348
<b>Alcatel Lucent</b>	737	56	107

Source: Markit Group

### Behind Asia's deals: Bank revenue rankings, Australia

Behind every IPO, bond offering, merger deal or syndicated loan is one or more investment banks. Here are investment banks ranked by year-to-date revenues from recent deals.

Company	Revenue, in millions	Market share	PERCENTAGE OF TOTAL REVENUE			
			Equity capital markets	Debt capital markets	Mergers & acquisitions	Loans
<b>UBS</b>	\$173	10.7%	42%	12%	42%	5%
<b>Macquarie Group</b>	115	7.1	33	4	61	1
<b>JPMorgan</b>	114	7.0	21	50	13	16
<b>Goldman Sachs</b>	98	6.0	30	10	59	2
<b>Bank of America Merrill Lynch</b>	85	5.3	47	15	34	4
<b>RBS</b>	79	4.9	39	27	12	22
<b>Deutsche Bank</b>	76	4.7	30	31	37	2
<b>Credit Suisse</b>	62	3.9	52	13	32	3
<b>Citi</b>	46	2.9	27	24	47	1

Source: Dealogic

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## GLOBAL MARKETS LINEUP

## Commodities

Prices of futures contracts with the most open interest

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; CME: Chicago Mercantile Exchange; ICE-US: ICE Futures U.S.; MDEX: Bursa Malaysia Derivatives Berhad; LIFFE: London International Financial Futures Exchange; COMEX: Commodity Exchange; LME: London Metals Exchange; NYMEX: New York Mercantile Exchange; ICE-EU: ICE Futures Europe

Commodity	Exchange	Last price	Net	ONE-DAY CHANGE		Contract high	Contract low
				Percentage			
 Corn (cents/bu.)	CBOT	553.25	0.25	0.05%		617.50	356.75
Soybeans (cents/bu.)	CBOT	1235.00	-3.50	-0.28%		1348.50	872.75
Wheat (cents/bu.)	CBOT	690.50	3.25	0.47		864.25	504.75
 Live cattle (cents/lb.)	CME	105.775	-0.450	-0.42		106.375	88.750
Cocoa (\$/ton)	ICE-US	2,755	-39	-1.40		3,477	2,410
Coffee (cents/lb.)	ICE-US	202.65	-0.05	-0.02		221.45	131.40
Sugar (cents/lb.)	ICE-US	28.35	0.10	0.35		33.39	11.90
Cotton (cents/lb.)	ICE-US	115.76	4.00	3.58		151.95	61.89
Crude palm oil (ringgit/ton)	MDEX	3,381.00	107	3.27		3,450	2,533
Cocoa (pounds/ton)	LIFFE	1,866	-8	-0.43		2,322	1,610
Robusta coffee (\$/ton)	LIFFE	1,799	-36	-1.96		2,084	1,374
Copper (cents/lb.)	COMEX	376.75	0.50	0.13		408.75	230.00
Gold (\$/troy oz.)	COMEX	1367.50	3.20	0.23		1,426.10	897.30
Silver (cents/troy oz.)	COMEX	2719.30	42.10	1.57		2,940.50	1,475.00
Aluminum (\$/ton)	LME	2,273.00	8.00	0.35		2,481.50	1,857.00
Tin (\$/ton)	LME	24,350.00	255.00	1.06		27,325.00	14,750.00
Copper (\$/ton)	LME	8,255.00	25.00	0.30		8,920.00	6,120.00
Lead (\$/ton)	LME	2,275.00	-14.00	-0.61		2,616.00	1,580.00
Zinc (\$/ton)	LME	2,126.00	2.00	0.09		2,659.00	1,617.00
Nickel (\$/ton)	LME	22,820	225	1.00		27,590	15,910
Crude oil (\$/bbl)	NYMEX	85.73	1.97	2.35		93.29	69.08
Heating oil (\$/gal.)	NYMEX	2.3803	0.0473	2.03		2.5235	1.5200
RBOB gasoline (\$/gal.)	NYMEX	2.2244	0.0660	3.06		2.3329	1.8222
Natural gas (\$/mmBtu)	NYMEX	4.210	-0.189	-4.30		11.750	3.853
Brent crude (\$/bbl)	ICE-EU	87.34	1.76	2.06		134.00	57.36
Gas oil (\$/ton)	ICE-EU	739.25	12.50	1.72		782.25	592.50

Source: Thomson Reuters; WSJ Market Data Group

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## Currencies

London close on Nov. 29

	Per euro	In euros	Per U.S. dollar	
			U.S. dollar	In U.S. dollars
<b>AMERICAS</b>				
Argentina peso-a	52145	0.1918	3.9838	0.2510
Brazil real	22645	0.4416	1.7300	0.5780
Canada dollar	1.3406	0.7460	1.0242	0.9764
1-mo. forward	1.3414	0.7455	1.0248	0.9758
3-mos. forward	1.3431	0.7446	1.0261	0.9746
6-mos. forward	1.3463	0.7428	1.0285	0.9722
Chile peso	637.65	0.001568	487.15	0.002053
Colombia peso	2509.26	0.0003985	1917.00	0.0005217
Ecuador US dollar-f	1.3090	0.7640	1	1
Mexico peso-a	16.4432	0.0608	12.5621	0.0796
Peru sol	3.6997	0.2703	2.8265	0.3538
Uruguay peso-e	26.179	0.0382	20.000	0.0500
U.S. dollar	1.3090	0.7640	1	1
Venezuela bolivar	5.62	0.177889	4.29	0.232848
<b>ASIA-PACIFIC</b>				
Australia dollar	1.3666	0.7318	1.0440	0.9579
China yuan	8.7181	0.1147	6.6604	0.1501
Hong Kong dollar	10.1653	0.0984	7.7660	0.1288
India rupee	60.2117	0.0166	46.0000	0.0217
Indonesia rupiah	11801	0.0000847	9016	0.0001109
Japan yen	110.46	0.009053	84.39	0.011850
1-mo. forward	110.40	0.009058	84.35	0.011856
3-mos. forward	110.33	0.009064	84.29	0.011864
6-mos. forward	110.14	0.009079	84.14	0.011885
Malaysia ringgit-c	4.1265	0.2423	3.1525	0.3172
New Zealand dollar	1.7597	0.5683	1.3444	0.7439
Pakistan rupee	112.439	0.0089	85.900	0.0116
Philippines peso	58.039	0.0172	44.340	0.0226
Singapore dollar	1.7313	0.5776	1.3227	0.7561
South Korea won	1522.90	0.0006566	1163.45	0.0008595
Taiwan dollar	39.969	0.02502	30.535	0.03275
Thailand baht	39.583	0.02526	30.240	0.03307
<b>EUROPE</b>				
Euro zone euro	1	1	0.7640	1.3090
1-mo. forward	1.0001	0.9999	0.7641	1.3088
3-mos. forward	1.0005	0.9995	0.7643	1.3083
6-mos. forward	1.0010	0.9990	0.7648	1.3076
Czech Rep. koruna-b	24.858	0.0402	18.991	0.0527
Denmark krone	7.4561	0.1341	5.6963	0.1756
Hungary forint	283.73	0.003525	216.76	0.004613
Norway krone	8.1300	0.1230	6.2111	0.1610
Poland zloty	4.0975	0.2440	3.1304	0.3194
Russia ruble-d	41.090	0.02434	31.392	0.03186
Sweden krona	9.2043	0.1086	7.0319	0.1422
Switzerland franc	1.3110	0.7628	1.0016	0.9985
1-mo. forward	1.3105	0.7631	1.0012	0.9988
3-mos. forward	1.3096	0.7636	1.0005	0.9995
6-mos. forward	1.3076	0.7647	0.9990	1.0010
Turkey lira	1.9749	0.5063	1.5088	0.6628
U.K. pound	0.8429	1.1864	0.6440	1.5529
1-mo. forward	0.8431	1.1861	0.6441	1.5525
3-mos. forward	0.8434	1.1856	0.6444	1.5519
6-mos. forward	0.8440	1.1848	0.6448	1.55109
<b>MIDDLE EAST/AFRICA</b>				
Bahrain dinar	0.4935	2.0264	0.3770	2.6524
Egypt pound-a	7.5746	0.1320	5.7868	0.1728
Israel shekel	4.8156	0.2077	3.6790	0.2718
Jordan dinar	0.9267	1.0791	0.7080	1.4124
Kuwait dinar	0.3699	2.7036	0.2826	3.5388
Lebanon pound	1965.39	0.0005088	1501.50	0.0006660
Saudi Arabia riyal	4.9087	0.2037	3.7501	0.2667
South Africa rand	9.3543	0.1069	7.1464	0.1399
United Arab dirham	4.8077	0.2080	3.6730	0.2723
SDR-f	0.8548	1.1699	0.6530	1.5314

a-floating rate b-commercial rate c-government rate d-Russian Central Bank rate f-Special Drawing Rights from the International Monetary Fund; based on exchange rates for U.S., British and Japanese currencies. Note: Based on trading among banks in amounts of \$1 million and more, as quoted by Thomson Reuters.

## Major stock market indexes

Stock indexes from around the world, grouped by region. Shown in local-currency terms.

Price-to-earnings ratio*	Region/Country	Index	PREVIOUS SESSION			PERFORMANCE	
			Close	Net change	Percentage change	Yr.-to-date	52-wk.
23	EUROPE	Stoxx Europe 600	262.16	-4.44	-1.67%	3.6%	9.6%
14		Stoxx Europe 50	2483.06	-42.63	-1.69	-3.7	2.1
27	Euro Zone	Euro Stoxx	261.69	-6.21	-2.32	-4.8	0.5
14		Euro Stoxx 50	2669.96	-67.00	-2.45	-10.0	-4.6
14	Austria	ATX	2639.65	-41.74	-1.56	5.8	7.3
10	Belgium	Bel-20	2521.33	-58.48	-2.27	0.4	4.1
11	Czech Republic	PX	1119.0	-7.5	-0.67	0.2	0.2
21	Denmark	OMX Copenhagen	395.79	-4.86	-1.21	25.4	29.4
14	Finland	OMX Helsinki	7092.73	-133.83	-1.85	9.9	16.2
13	France	CAC-40	3636.96	-91.69	-2.46	-7.6	-1.2
14	Germany	DAX	6697.97	-151.01	-2.20	12.4	19.1
...	Hungary	BUX	20221.37	-542.17	-2.61	-4.7	-2.8
11	Ireland	ISEQ	2655.30	-11.47	-0.43	-10.7	-5.4
11	Italy	FTSE MIB	19314.38	-529.93	-2.67	-16.9	-11.9
9	Netherlands	AEX	329.67	-6.59	-1.96	-1.7	7.8
9	Norway	All-Shares	439.77	-4.90	-1.10	4.7	10.9
17	Poland	WIG	45284.42	-357.48	-0.78	13.3	14.4

Thomson Reuters is the primary data provider for several statistical tables in The Wall Street Journal, including foreign stock quotations, futures and futures options prices, and foreign exchange tables. Reuters real-time data feeds are used to calculate various Dow Jones indexes.

Price-to-earnings ratio*	Region/Country	Index	PREVIOUS SESSION			PERFORMANCE	
			Close	Net change	Percentage change	Yr.-to-date	52-wk.
5	Portugal	PSI 20	7415.74	-166.06	-2.19	-12.4	-10.2
...	Russia	RTSI	1589.31	-13.17	-0.82%	11.4	15.6
8	Spain	IBEX 35	9324.7	-222.5	-2.33	-21.9	-19.9
15	Sweden	OMX Stockholm	346.85	-2.51	-0.72	15.8	18.1
14	Switzerland	SMI	6397.50	-86.06	-1.33	-2.3	2.2
...	Turkey	ISE National 100	64072.16	-2075.58	-3.14	21.3	41.3
12	U.K.	FTSE 100	5550.95	-117.75	-2.08	2.6	6.9
18	ASIA-PACIFIC	DJ Asia-Pacific	133.69	0.62	0.47%	8.6	11.1
...	Australia	SPX/ASX 200	4618.51	20.17	0.44	-5.2	-1.8
...	China	CBN 600	27528.66	10.73	0.04	-5.2	-3.6
14	Hong Kong	Hang Seng	23166.22	288.97	1.26	5.9	6.2
19	India	Sensex	19405.10	268.49	1.40	11.1	14.6
...	Japan	Nikkei Stock Average	10125.99	86.43	0.86	-4.0	8.4
...	Singapore	Straits Times	3158.21	0.13	0.004	9.0	15.6
11	South Korea	Kospi	1895.54	-6.26	-0.33	12.6	21.9
17	AMERICAS	DJ Americas	319.01	-2.91	-0.90	7.6	10.8
...	Brazil	Bovespa	67908.18	-317.92	-0.47	-1.5	0.6
17	Mexico	IPC	36704.72	-199.81	-0.54	13.7	17.8

\*P/E ratios use trailing 12-months, as-reported earnings  
Note: Americas index data are as of 3:00 p.m. ET.

Sources: Thomson Reuters; WSJ Market Data Group

## Dow Jones indexes

Dividend yield*	Price-to-earnings ratio*	Dows Jones Index	PERFORMANCE (euros)			PERFORMANCE (U.S. dollars)														
			Last	Daily	52-wk.	Last	Daily	52-wk.												
2.15%	16	Global TSM	2433.62	-0.98%	7.4%	1.75%	12	Turkey Titans 20 -c	681.40	-3.51%	66.5%	772.67	-3.31%	43.1%						
1.94	16	Global Dow	1407.30	-0.16%	15.6%	4.42	15	Global Select Div -d	183.10	-0.40	18.0	205.06	-1.36	2.8						
2.22	14	Global Titans 50	169.40	-0.29	10.0	5.24	11	Asia/Pacific Select Div -d	286.37	-0.37	5.8	3.95	15	U.S. Select Dividend -d	341.30	-1.09	11.5			
2.57	16	Euro TSM	2542.25	-2.53	-3.7	1.46	19	Islamic Market	2073.42	-1.00	7.8	1.89	15	Islamic Market 100	1870.20	-0.18	15.2	2094.75	-1.14	0.5
2.20	17	Developed Markets TSM	2344.32	-1.05	6.5	2.87	14	Islamic Turkey -c	1758.50	-2.21	53.1	3423.40	-2.01	31.7						
1.97	13	Emerging Markets TSM	4539.62	-0.40	14.8	2.39	15	Sustainability	889.90	-0.67	13.1	983.37	-1.63	-1.4						
2.78	25	Africa 50	919.50	0.34	32.4	3.21	20	Brookfield Infrastructure</												

C-SUITE: MANAGEMENT

# From Prussia without fluff

By LAURENCE EYTON

At the beginning of this book the writer tells us he is a corporate manager who wants to show how lessons from military history can be applied in the world of business. Oh dear, one thinks, another management guru riding his hobbyhorse.

But such skepticism swiftly turns out to be grossly unfair. For Stephen Bungay, with his somewhat outré knowledge of German military command techniques, has something genuinely interesting to tell us. His book is not one of those vacuous essays in “leadership qualities” of the “how would Napoleon/MacArthur/Alexander the Great have turned around General Motors” variety.

His interest in the Prussian—and then German—army comes from its consistently outperforming its rivals for nearly 100 years, between 1865 and 1945. So, a large organization that proved extraordinarily effective in the most challenging of environments over a long period of time—might there not be something to learn?

There is, and its name is *Auftragstaktik*. This is a technique that can restore order and focus from the hodgepodge of empty buzzwords that is what often passes for management wisdom. Few readers here will have been lucky enough not to sit through at least one management address in which they have been told things such as “reconfiguring the legacy means not reinventing the wheel but leveraging the knowledge-base to streamline performance objectives for a win-win outcome.”

Mr. Bungay wins our sympathy in the first chapter, where he tells the story of a corporate bash, climaxing with such a speech from the CEO, who was then completely floored in the subsequent Q&A by the simple question: “But what exactly do you want us to do?”

And this is where we can learn from the Prussian army. What made that body so formidable was not the brilliance of its generalship or the quality of its strategy formulation. Rather it was the ability to execute that strategy, embodied in a command style that valued versatility and originality of thought within a sharply defined ethos. This focus on effective implementation is crucial.

Far from being rigid and unimaginative, as it is commonly portrayed—at least outside Germany—the Prussian military fostered an intellectual suppleness and versatility all the way down the command structure. And this was achieved by treating people as intelligent.

In particular, the more they understood about the overall strategy they were a part of, the more they could adjust their role to fit rapidly changing circumstances. If smaller units had a grasp of the overall plan, when they saw something wasn’t going right they could step in to counter it without having to request permission to do so. Within this framework it was important for units to know what they weren’t allowed to do as much as what they were.

How does this apply to the world of business management? Mr. Bungay gives neat examples; like Tracy, the airline check-in clerk who, by having a grasp of what is important to her airline, can decide whether to rush through a late passenger after the gate is closed, or not. If the airline is the kind that prioritizes ser-

vice, and obtains large amounts of revenue from high-value frequent fliers, and she is faced with such a customer, then she should try to get him on the plane. If she works for a low-cost airline where no one passenger represents a significantly greater revenue stream, and the efficiency of turnaround is crucial, she shouldn’t. But she is helped to decide what to do by knowing what is important to the company.

Mr. Bungay points out that good management is often more about good execution of a plan than its formulation. He adds that none of

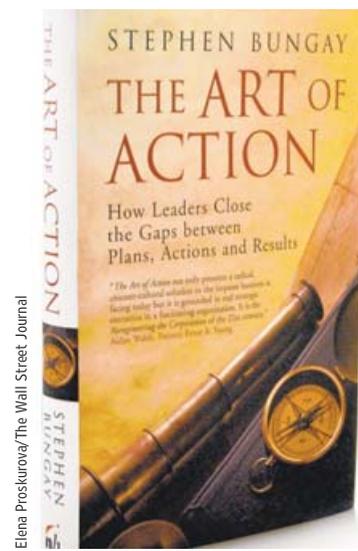
this is new, and some of it might seem obvious. But much gets lost in the passion for buzzword babble that managers often think adds some kind of lofty grandeur to their directions, but which leaves subordinates with no clear idea of what they are supposed to do or why.

To say this is the essence of Mr. Bungay’s work isn’t to say this is all there is. Those who like organizational dynamics maps and discussions of metrics, for example, won’t be disappointed. And there are plenty of other case studies. But what makes this book worth reading

**The Art of Action: How Leaders Close the Gaps Between Plans, Actions and Results**

By Stephen Bungay  
(Nicolas Brealey Publishing, 288 pages, £20)

is the way in which Mr. Bungay calls time on an entire culture of gobble-dy-gook. You don’t succeed in warfare by having vague objectives and issuing ambiguous orders. And you shouldn’t expect to succeed in business that way, either.





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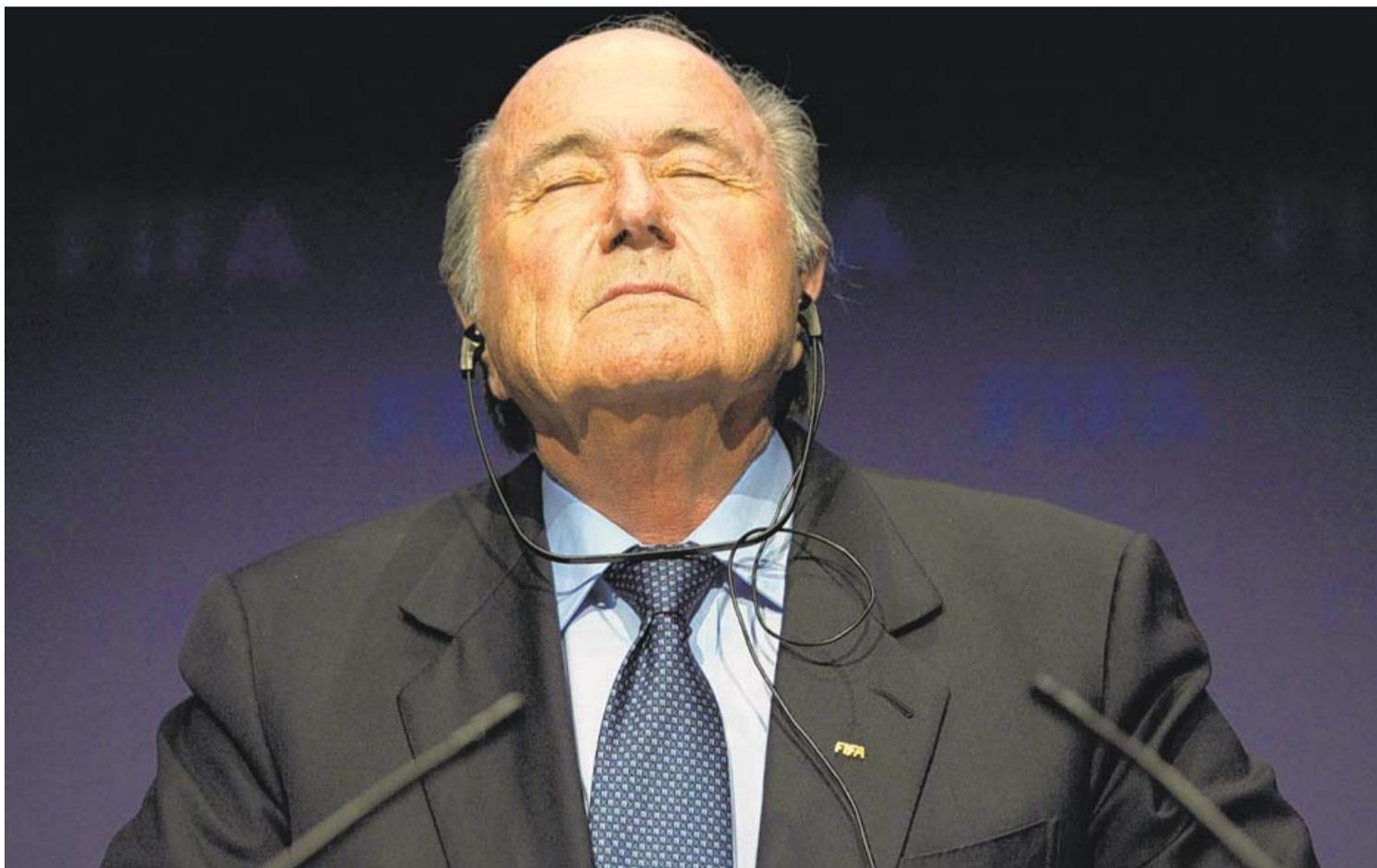
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## SPORT



FIFA President Sepp Blatter is seen by many as some kind of über power-broker, with certain executive committee members keen to do his bidding.

# A world-wide World Cup mystery

*After three years of lobbying and controversy the decisions over 2018 and 2022 finally beckon*

BY GABRIELE MARCOTTI

FIFA's executive committee will vote to determine the host nations of the 2018 and 2022 World Cup later this week. And while the governing body of world soccer has helpfully illustrated its voting process, the whole affair remains shrouded in mystery to most fans.

For example, after three years of being wined and dined by bid committees, after extensive visits to each nation and after poring over the detailed bid books (England's alone is 1,752 pages long), how close attention are any of the executive committee members going to pay the nine 30-minute long presentations by each bidding team scheduled immediately prior to the vote?

Because it's a political process by secret ballot, pretty much anything goes when it comes to allegations of skullduggery or conspiracy. Indeed, last month, FIFA's ethics committee provisionally suspended two executive committee members, Nigeria's Amos Adamu and Tahiti's Reynald Temarii after Britain's Sunday Times alleged that they were willing to shift their support in exchange for financial "contributions." Both insist they are innocent, but, in the meantime, neither Mr. Adamu nor Mr. Temarii will be voting this week, reducing the number of eligible executive committee members from 24 to 22.

And, of course, there is plenty of room for allegations of collusion. At the last committee meeting, on Oct. 29, in a scene reminiscent of a fifth-grade classroom, Spain's Angel Maria Villar Llona passed a handwritten note to his fellow committee member, Qatar's Mohammed bin Hammam. The note read "Congratulations, we are going to win!" and it was seen by the U.S. committee member, Chuck Blazer, who blew the whistle. All three countries are bidding for the World Cup (Spain in 2018, the U.S. and Qatar in 2022)

and it was interpreted by many as a sign of potential collusion between Spain and Qatar at the expense of other bidders. FIFA said there was no basis to open an investigation and Mr. Blatter has since accepted that while "it shouldn't have happened" it was largely an innocent gesture.

Trying to divine the intentions of the voters has been a parallel sport for much of the media in bidding nations. It's a tricky game. Each of the 2018 bidders (Spain/Portugal, Belgium/Holland, England and Russia) and three of the five 2022 bidders (USA, Australia, Japan, South Korea and Qatar) have a seat on the decisive committee, so it's no surprise which way they'll go. But the rest is pretty much up for grabs.

**Hosting the 2018 World Cup would open Russia to the rest of the world... Hosting 2022's tournament, so the narrative goes, would help unify North and South Korea.**

Tactical voting is bound to be rife. Unless a bid receives an absolute majority (12 votes), the bid with the lowest number of votes drops out and another round is held. Much attention has been paid to the FIFA president, Sepp Blatter, though he doesn't actually get a vote unless a tie-breaker is needed. Yet Mr. Blatter, who spent 35 years moving up the ranks at FIFA before becoming president in 1998, is seen by many as some kind of über power-broker, with certain executive committee members keen to do his bidding (or, more accurately, keen to do what they think Mr. Blatter wants them to do).

Which may explain the theory

doing the rounds a few weeks ago, whereby Mr. Blatter favored Russia in 2018 and South Korea in 2022, based on the fact that these would be "legacy" World Cups. (That's a favorite FIFA buzzword heard often in South Africa.)

Hosting the 2018 World Cup would open Russia to the rest of the world, banishing the ugliness of the Iron Curtain once and for all. Hosting 2022's tournament, so the narrative goes, would help unify North and South Korea. Such is the power of soccer that, according to the theory, South Korea would happily share its World Cup with its neighbor to the North. That part's not implausible, but the imagined narrative goes further: North Korea would open up in time for 2022, ridding itself of an authoritarian regime (by that point, Kim Jong Il, the Dear Leader, might have made way for his designated successor, Kim Jong Un) and turning the event into a celebration of soccer-propelled international brotherhood. As theories go, the latter half seems somewhat far-fetched, especially in light of events last week.

But when it comes to the inscrutable Mr. Blatter, you can make just about any theory stick. Because the reality is that while the bidding is public, the decision-making process is so secretive and fraught with uncertainty that nobody really has a clue what the Executive Committee will do later this week. The good news is that all will be revealed in a few short days.

**Seeing red over yellow cards**

Real Madrid boss Jose Mourinho has a busy week. On Monday his team faced arch-rival Barcelona in what is arguably the biggest, most anticipated club game in world soccer.

The following day Mr. Mourinho and four of his players are to face UEFA's disciplinary committee and charges of "improper conduct" after

Sergio Ramos and Xabi Alonso were sent off in last Tuesday's Champions League game against Ajax.

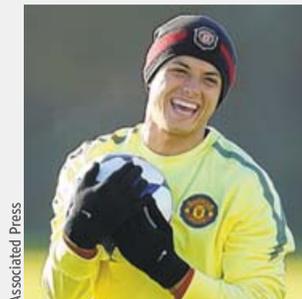
Mr. Ramos and Mr. Alonso stand accused of intentionally getting themselves yellow-carded and ejected in the dying minutes of a game Real led 4-0. Why would they do this? Because both players were booked earlier in that match and, in both cases, it was their second yellow of the competition. One more yellow, either in the final game of the group stage or in the first leg of the knockout round (for which Real has already qualified) would bring a one-game ban. But by getting a second caution (and subsequent red) in the Ajax match, both will be suspended for the largely irrelevant final group game and their yellow card count will reset to zero, ensuring they won't miss either leg of the first knockout round.

The nature of their yellow cards—both for rather obvious time-wasting—suggests to some that it was intentional, an allegation both refute. Mr. Mourinho refused to comment, though Real Madrid officials pointed out that the club broke no rules.

Certainly nobody violated the letter of the law. The question is whether Real Madrid violated the spirit of it and whether UEFA can punish the players without appearing to target Mr. Mourinho and his club unfairly. Either way, judging from Mr. Mourinho's track record, you can't help but feel he'll come out on top. If UEFA fails to punish Real, he'll know Mr. Ramos and Mr. Alonso (injury-permitting) can play both legs. And if UEFA throws the book at Real, he'll do what he usually does: Turn it into a motivational tool along the lines of the old "everyone-is-out-to-get-us" siege mentality.

—Gabriele Marcotti is the world football columnist for *The Times* and a regular broadcaster for the *BBC*.

## The Count



Javier Hernández.

### Tip of the day

There are still six months before the end of the English football season, but the League Cup—one of the country's two knockout tournaments—has already reached the quarterfinal stage.

Vying for a place in the last four of the competition, East London club West Ham United faces a tough challenge on Tuesday when it hosts Manchester United.

Sir Alex Ferguson has used the League Cup to give some of Manchester United's kids a taste of the bright lights, and he's likely to rest key players again here, including Dimitar Berbatov, who scored five times against Blackburn Rovers last weekend.

United possess extraordinary strength in depth, however, and Javier Hernández, who starred for Mexico in the 2010 World Cup, is likely to start in Mr. Berbatov's place. Mr. Hernández scored a last-minute winner in the previous round against Wolverhampton Wanderers and should be backed to score again here against a defense which has conceded 26 goals in 15 league games. He is 7/5 with Bet 365 to score at any time.

Currently mired at the bottom of the Premier League with just two home league wins all season, the Hammers will find it hard to contain an unbeaten United team. United is a general 4/5 to win, but backing the away team to win 'to nil' at 15/8 with Bet365 and William Hill is also worthy of consideration. West Ham has been beaten and failed to score in each of its last five head-to-heads against United.

# 329

Number of runs scored by Alastair Cook and Jonathan Trott in an unbeaten second-wicket stand against Australia on Monday, the highest partnership Down Under in the history of English cricket.

Source: Cricinfo

THE QUIRK

# U.S. lawmakers want to do a sleepover

Congress's new members aim to share voters' scorn for Washington and fiscal excess by camping out near their desks

By MICHAEL M. PHILLIPS  
AND DANNY YADRON  
Washington

OF the 94 incoming members of the House of Representatives, 90% are Republicans, nearly 40% have law degrees and about 35% have never before held elective office. Oh, and at least 15% plan to bed down in their congressional offices.

It's the ultimate I'm-not-a-professional-politician statement, reminiscent of the 1994 midterm elections, when a Republican House takeover led to a surge in House sleepovers. With voters again shunning Washington and fiscal excess, a number of incoming House members plan to demonstrate their scorn for both by camping out near their new desks. Many more are still undecided but may well join the sleep-sofa caucus.

"Since I'm here on a temporary basis, I don't see any need to have a permanent kind of residence," says Rep.-elect Joe Heck, a Nevada Republican, who was thinking roll-out cot when he looked at office space this month.

Earlier this month, freshman lawmakers drew lots and chose the three-room suites they and their aides will inhabit in one of three House office buildings.

For many of them, a key selling point was not proximity to the House chamber, where they'll vote, but to the House gym, where they'll shower.

Rep.-elect Tim Griffin, an Army reservist, stood near the gym in the Rayburn House Office Building and used some compass software on his phone to navigate the paths to potential offices.

"We want to get as close to Rayburn as possible," Mr. Griffin, an Arkansas Republican, told an aide. "I've got to walk all the way down this hall in the morning."

He settled on a suite in the Longworth building with plenty of space for the 1.8-meter sofa he says will be his bed for the foreseeable future. "I don't want to see you in your bathrobe," Rep.-elect Cory Gardner (R., Colo.), a non-office sleeper, told Mr. Griffin as freshmen rushed about Capitol Hill looking at available offices. Mr. Griffin plans to fly home to Arkansas and his family after the last vote each week.

Nobody seems to know for certain how many lawmakers currently dwell in their offices; estimates range into the dozens. The practice appears to crest after Republican wave elections.

In the mid-1980s, then-Speaker Tip O'Neill (D., Mass.) roused the office sleepers, including Texas Republican Dick Armey, who later became House majority leader and is now a booster of the anti-Washington tea-party rebellion. "The theory was the offices weren't for sleeping," says Stan Brand, who was House general counsel at the time. "They were for transacting business." Mr. Armey moved out briefly, then quietly started sleeping on his office couch again, according to a former aide.

After Republicans took the House in 1994, ending four decades of Democratic control, the number of office sleepers grew. The new speaker in 1995, Georgian Newt Gingrich, gave the practice his blessing.

House administrators supply desks, files, tables and chairs for the



Incoming Rep. Joe Heck (R., Nev.), who plans to sleep in his office, checks one out in the Longworth building.

suites, each of which has a toilet and sink.

Overnighters have to buy their own air mattresses or cots. They can also stretch out on a government-issue couch. "We don't provide any Murphy beds," says Eva Malecki, spokeswoman for the Architect of the Capitol.

Cleaners do their work early enough in the evening, she says, that they shouldn't interfere with snoozing congressmen.

The class of 2010 is arriving in Washington during the worst economic crisis since the Depression, carried into town atop a surge of anti-incumbent anger that swept many longtime Capitol denizens aside. For them, appearances and substance merge.

Freshman Todd Rokita (R., Ind.) was floored when shown a 600-square-foot, \$2,000-a-month studio. He'll sleep in his office instead. "I'm not doing this as a political stunt," he says. "I'm doing this because I'm a cheap b—." Most House members earn \$174,000 a year and maintain homes in their districts.

"I don't want to be comfortable in Washington because I need to get back to metro Detroit," says Democrat Clarke Hansen, another office sleeper-elect. "Businesses are struggling right now. Families are struggling. I'm only in Washington to work."

One veteran sofa extremist is Rep. Pete Hoekstra, a Michigan Republican who has camped out in his office two or three nights a week since 1993. In his failed run for Michigan's governorship this year, he put out an ad showing him sitting on his couch in his plaid pajamas. Now he's retiring, and hundreds of his constituents have let his successor, Republican Bill Huizenga, know they expect him to sleep on the sofa, too.

"I think back home there's a sense of frugality and sort of a spartan element that this isn't a place where you're going to call home and get too comfortable," says Mr. Huiz-

enga. Still, he's a bit cautious. He's 1.85-meter-tall, and the Hoekstra couch is just 1.8 meters long. Maybe an inflatable mattress, he thinks.

Many freshmen, who assume their duties in January, are still pondering their sleeping arrangements. Others have no intention of sleeping on a sofa.

"I've slept in pup tents," says Congressman-elect Allen West (R., Fla.), a former Army artillery officer. "I'm not sleeping in my of-

face."

Republican Rep.-elect Steve Womack, the mayor of Rogers, Ark., says he doesn't want to impose on his staff if they stay past his bedtime or arrive before his alarm rings. "I don't think my staff wants to see me in my pajamas necessarily," Mr. Womack says. "And I'm not the prettiest thing to look at first thing in the morning."

Rep.-elect Joe Walsh (R., Ill.) says he'll live in his office. His wife,

interior designer Helene Miller-Walsh, says he won't. Mr. Walsh thinks it's easier to live near his desk. Ms. Miller-Walsh thinks it's unhealthy to never leave it.

"When I come to stay, I'm not walking around in fuzzy slippers in the office," she says. Then there's the whole image thing. "I just can't tell my college-age kids that mom and dad moved back into the dorm," she says. Mr. Walsh has yet to decide where to sleep.

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- 6:30pm Registration
- 7:30pm Welcome address by Philippe Sarens, NetworKing Belgium and the partners of the "alliance"
- 7:50pm MM. Nikolov & Ioakimdis "Future calls for tenders" by the DG Enterprise of the European Commission
- 8:00pm Q/A: Building a consortium to join a cooperative or concrete call for tenders to apply for EC co-financing
- 8:15pm Mentoring by Charles Ruffolo, founder of "The NetworKing".
- 8:45pm Continued networking
- 10:00pm End of formal session

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## WORLD WATCH

\* \* \*  
*Euro-Zone Crisis*

■ **The Bank of Ireland** and Irish Life & Permanent Group Holdings said they are launching capital-raising drives to meet the terms of the country's multibillion-euro bailout. The Bank of Ireland said it aims to raise €2.2 billion (\$2.91 billion) by Feb. 28 through a combination of internal initiatives, support from existing shareholders and other capital-markets sources.

■ **Separately**, Irish Life said it aims to raise €100 million from its own resources in an unspecified time frame.

■ **Greek Finance Minister** George Papaconstantinou said the country is likely to get an extension for the repayment of its €110 billion (\$145.73 billion) financial assistance package from the European Union and International Monetary Fund. It was facing a repayment date of 2015, but it might now have until 2024, in line with the repayment terms of the Irish aid package.

■ **The Spanish economy** has yet to embark on a robust recovery path, although it stabilized this year after a deep recession in 2008 and 2009, the European Commission said as it marginally lowered its 2011 economic growth forecast for the country.

■ **The European Commissioner** for Economic Affairs said the governments of both Spain and Portugal may need to take additional deficit cutting measures if growth next year came below expectations. Commissioner Olli Rehn said it would be "challenging" for Spain to achieve its budget deficit target of 6%.

\* \* \*  
*WikiLeaks*

■ **WikiLeaks'** publication of secret U.S. diplomatic cables will continue into the new year, with new batches coming in the next few days, said a spokesman for the document-leaking website. Later publications will focus on specific regions, where WikiLeaks is striking partnerships with local media, he said in an interview.

■ **U.S. Secretary of State** Hillary Clinton said the country "deeply regrets" embarrassment caused by WikiLeaks' release of a quarter-million classified State Department documents and said the government is taking "aggressive steps" to prevent future leaks. The Obama administration ordered a government-wide review of how agencies safeguard sensitive information in the wake of the unauthorized release of the documents.

■ **Russian officials** played down the release of confidential U.S. diplomatic documents that portray Prime Minister Vladimir Putin as the dominant ruler in a "virtual mafia state." Newly posted documents include a U.S. Embassy cable describing Putin as an "alpha dog" who calls the shots and President Dmitry Medvedev as a pale, hesitant figure who "plays Robin to Putin's Batman," a reference to comic heroes.

■ **The leaked** diplomatic cables put China's relationship with Iran under renewed scrutiny by suggesting Beijing hadn't complied with U.S. requests to stop transfers to Tehran of technology and

materials that could be used in its ballistic-missile and chemical-weapons programs.

■ **Middle Eastern** governments were silent about the trove of leaked U.S. intelligence made available over the weekend, which disclosed more-hawkish views by Arab leaders about Iran than they generally have voiced publicly, as well as some withering and indelicate comments about allied regional leaders themselves.

■ **Turkey's foreign minister** Ahmet Davutoglu shrugged off leaked U.S. State Department cables that described him as a dangerous Islamist with imperial delusions, but the leaks resonated strongly within Turkey where they fed into the country's divisive politics.

\* \* \*  
*Europe*

■ **The European Commission** expects weak global markets and government deficit cuts across the European Union to drive a "gradual and rather uneven" recovery across the bloc's 27 member states.

■ **Consumers** and businesses across much of the euro zone continued to grow more confident about their prospects in November, despite the loss of faith among bond investors when Ireland became the euro-zone's second nation to need external financial help.

■ **The European Union** will tighten security rules for air-cargo arriving from outside the bloc, but it remains uncertain whether new resources will be made available to help combat new threats.

■ **U.K. consumers' appetite** for debt and the ability to secure it picked up in October, data showed. Sharp upturns in both secured and unsecured borrowing boosted consumer lending, despite weakening confidence and the government's rollout of austerity measures.

■ **The U.K.'s independent** Office for Budget Responsibility cut its official growth forecast slightly for 2011 and 2012 but kept its borrowing estimates relatively unchanged. The OBR said the government remained well on track to meet its formal fiscal targets.

\* \* \*  
*U.S.*

■ **President** Barack Obama proposed a two-year salary freeze for all federal civilian employees, ahead of negotiations with Congress on deficit-cutting that are likely to dominate Washington next year. The freeze, which would require congressional approval, would affect about two million workers and cover calendar years 2011 and 2012.

■ **The Supreme Court** agreed to consider Microsoft's challenge to a \$290 million patent infringement judgment that barred the company from selling certain versions of its flagship Word software. The case could have significant implications for all companies involved in patent litigation.

■ **The court** also said it will consider dismantling an Arizona rule that gives extra money to publicly funded candidates who face privately funded rivals.

\* \* \*  
*Americas*

■ **In Mexico**, world governments began another attempt to over-

come the disconnect between rich and poor nations on fighting global warming, with evidence mounting that the Earth's climate already is changing.

\* \* \*  
*Asia*

■ **South Korean** President Lee Myung-bak vowed to strike back at any further attacks by North Korea on South Korean territory, but the South's military later canceled a drill that would have asserted its territorial rights over a maritime border the North disputes.

■ **Japanese** Foreign Minister Seiji Maehara rejected China's new proposal to hold emergency talks between North Korea and related nations, saying Pyongyang must first display sincere efforts to ease its confrontational posture.

■ **A mad rush** to the playground turned into a stampede that left dozens of elementary school children hurt and seven severely injured in western China, state media and officials said. Xinhua said 41 students were admitted to a hospital in Aksu city for treatment. No deaths were reported.

■ **A Thai court** dismissed a case against the ruling Democrat Party of Prime Minister Abhisit Vejjajiva for allegedly misusing state funds in an election campaign, a decision that lifts a cloud of uncertainty over Thailand's immediate future but which might also further inflame opposition activists.

■ **A shootout** in a crowded marketplace in the Indian portion of Kashmir killed three suspected Muslim rebels and one policeman, while two suspected militants were killed in other fighting, officials said.

■ **Corruption watchdog** Transparency International says it is facing intimidation in Pakistan because of its agreement with the U.S. to monitor increased aid flows to the country.

■ **A gunman** in an Afghan Border Police uniform shot and killed six U.S. service members during a training mission. The gunman was killed in a subsequent shootout with coalition forces.

■ **In Iran**, assailants on motorcycles attached bombs to the cars of two nuclear scientists as they were driving to work in Tehran, killing one and seriously wounding the other in separate attacks, state television reported.

\* \* \*  
*Middle East*

■ **An Iraqi court** has found two of Saddam Hussein's half brothers not guilty in 1980s-era atrocities that the dictator led against Farsi Kurds during the Iran-Iraq war.

\* \* \*  
*Africa*

■ **Egypt's largest** opposition group, the Muslim Brotherhood, said it failed to win a single seat in parliamentary elections and only a handful of the group's 130 candidates proceeded to a runoff.

## Gadhafi meets EC President Van Rompuy at summit in Libya



Libyan leader Moammar Gadhafi, right, shakes hands with European Council President Herman Van Rompuy during the Africa-EU Summit in Tripoli, where 80 African and European leaders and some 50 observers from other countries met.

Associated Press

WSJ.com

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**BUSINESS WATCH**

\* \* \*  
*Autos*

■ **Porsche** Automobil Holding said it swung to a €155 million (\$205.3 million) after-tax profit in the first three months of its fiscal year after sustaining a €431 million loss in the same period a year earlier, and reiterated that full-year earnings are expected to be positive in 2011.

■ **Separately**, Volkswagen said that Porsche's executive board member for research and development, Wolfgang Duerheimer, will succeed the retiring Franz-Josef Paefgen as chief executive of VW's Bentley and Bugatti luxury brands.

■ **Fiat** announced a deal to supply a range of light commercial vehicles to Adam Opel, the German unit of General Motors that the Italian company tried to take over in 2009. Fiat said the initial supply will be up to 6,000 vehicles in 2011, but the total amount could reach 250,000, it added.

\* \* \*  
*Aviation*

■ **British Airways'** shareholders voted overwhelmingly in favor of the company's merger with Iberia Lineas Aereas de Espana, the final step before the carriers become International Consolidated Airlines Group in the new year. More than 99% of shareholders approved the deal, including those that voted by proxy. Iberia's shareholders also approved the merger.

\* \* \*  
*Banks*

■ **National Bank of Greece**, Greece's largest lender by assets, said nine-month net profit fell 74% to €259 million (\$343 million) on sharply higher provisions for bad loans but otherwise meeting market expectations.

■ **Standard Bank Group**, the largest bank in South Africa, has begun talks to spin off its entire private equity arm, Standard Bank Private Equity, and is expected to carry out the process in the first half of next year, according to a person with knowledge of the situation.

■ **Several** South Korean banks have submitted letters of intent to acquire Kwangju Bank and Kyongnam Bank, regional units of Woori Finance Holdings that the government is trying to sell.

\* \* \*  
*Conglomerates*

■ **Hyundai Group's** plan to buy a controlling stake in Hyundai Engineering & Construction grew muddy, with creditors of South Korea's largest construction company at odds over the buyer's funding, and Hyundai Group filing a lawsuit against its erstwhile rival for the stake, Hyundai Motor Group.

\* \* \*  
*Energy*

■ **Husky Energy** said it will kick start a new growth phase by buying 860 million Canadian dollars (US\$843 million) in western Canada oil and gas properties from Exxon Mobil, and spending C\$2.5 billion on an oil-sands project.

■ **Shell Oil**, the U.S. arm of the European oil giant Royal Dutch

**Lufthansa to test biofuel use on passenger flights**



Joachim Buse, right, head of Lufthansa's Aviation Biofuel research organization, and Manfred Aigner, left, head of the German Aerospace Center's combustion technology institute, answer questions after the airline announced a six-month trial to use renewable fuel on daily flights between Hamburg and Frankfurt.

Associated Press

Shell, has put its South Texas gas fields on the block, and a sale could fetch roughly \$1 billion, people familiar with the matter said.

\* \* \*  
*Fashion*

■ **Coty**, one of the world's largest fragrance companies, reached an agreement to acquire nail-polish maker OPI Products. Terms weren't disclosed, but people familiar with the situation said the price tag was about \$1 billion.

\* \* \*  
*Financial services*

■ **Mary Meeker**, Morgan Stanley's head of global technology research and the analyst once dubbed "Queen of the Net" in the 1990s dot-com boom era, is heading to the roots of where that Internet boom began by joining Silicon Valley venture-capital firm Kleiner Perkins Caufield & Byers as a partner.

■ **Orix**, the Japanese financial services and leasing company, is seeking a foreign acquisition that could propel its fee-based business, including asset management, as a growth driver, its chairman and chief executive officer said.

\* \* \*  
*Food*

■ **Fiji Water** closed its operations in the South Pacific country that gives the brand its name and its

product, saying it was being singled out by the military-appointed government for a big tax increase.

\* \* \*  
*Health*

■ **Cardinal Health** said it bought privately held Zuellig Pharma China, that country's largest pharmaceutical importer, for \$470 million, continuing an acquisition streak for the U.S.'s second-biggest drug distributor by market value.

\* \* \*  
*Media*

■ **U.K. pay-television** operator British Sky Broadcasting Group struck a joint venture with a private investment company owned by Sheikh Mansour bin Zayed Al Nahyan to launch a free-to-air Arabic-language news channel across the Middle East and North Africa region from 2012.

\* \* \*  
*Pharmaceuticals*

■ **A Dutch arbitration court** ordered Johnson & Johnson to pay \$130 million to Basilea Pharmaceutica after it found the U.S. healthcare giant in breach of its licensing agreement with the Swiss biotechnology company.

■ **GlaxoSmithKline** said it will build its first new manufacturing capacity in Britain in about 25 years in response to the U.K. gov-

ernment's plan to cut the rate of corporation tax on income from patents, the life-blood of the pharmaceuticals industry.

\* \* \*  
*Property*

■ **Global Logistic Properties**, a real-estate unit of the Government of Singapore Investment Corp., said its second-quarter net profit nearly doubled to \$74.2 million compared with \$37.4 million a year earlier due to increased contributions from its China business.

\* \* \*  
*Retail*

■ **Wal-Mart Stores** said it has made a cash offer of 16.5 billion rand (\$2.32 billion) to buy a controlling 51% of South Africa's Massmart Holdings, its first foray into the growing retail market in sub-Saharan Africa.

■ **Kulim (Malaysia)** said its board has rejected Carlyle Asia Investors' offer to buy Kulim's 58% stake in fast-food restaurant chain operator QSR Brands, after QSR Brands rejected a revised matching offer from Ida-ma Saga, which is controlled by businessman Halim Saad.

\* \* \*  
*Technology*

■ **Tablet devices** are expected to displace 10% of personal-computer shipments by 2014, industry group

Gartner said. The impact of tablets is already evident this year, when PC shipments are projected to total 352.4 million units, up 14.3% from last year.

■ **Toshiba** said it will offer new TVs tailored specifically for emerging markets, in a bid to more than double its sales in Southeast Asia.

■ **Tencent Holdings'** president said the Chinese internet company plans to speed the pace at which it opens some platforms to partners and third-party developers.

\* \* \*  
*Telecommunications*

■ **A key Australian senator** vowed to block access arrangements due for debate early next year as lawmakers signed-off on legislation to clear the way for a national high-speed Internet network.

■ **O3b Networks** said it raised \$1.2 billion from a group of investors and banks, its final funding round before the launch of its global satellite broadband network. O3b, which is backed by Google, plans to launch its fiber-quality Internet service serving emerging markets in the first half of 2013.

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# HEARD ON THE STREET

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FINANCIAL ANALYSIS &amp; COMMENTARY

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## Europe bailout facility's road to reality

When European leaders set up the €440 billion (\$583 billion) European Financial Stability Facility after the Greek crisis in June, they hoped it would never have to be used. But the Irish bailout has dashed that hope. If the rescue is finalized in its current form, the EFSF will have to issue bonds to lend as much as €17.7 billion to Ireland—with the likelihood of much greater issuance if other euro-zone members have to be bailed out. But who will buy these bonds? And how will they be priced? EFSF officials led by Chief Executive Klaus Regling have met around 150 investors, ranging from central banks to pension funds. But the EFSF is a complex beast. To win a triple-A credit rating, euro-zone governments

had to offer guarantees for 120% of the amount issued and agree to keep some of the proceeds as a cash buffer. Adding complexity, the guarantor structure changes the more countries tap the facility, raising the risk that the market will differentiate between tranches of EFSF debt, potentially reducing liquidity.

This is likely to be reflected in the amount the EFSF has to pay to borrow. Bonds issued by the **European Investment Bank**, a European Union institution similarly backed mostly by callable capital from the 27 member states, trade at yields around 0.5 to 0.6 percentage point higher than German Bunds. But the EIB has a multiyear track record and a consistent borrowing program, to-

taling €70 billion this year. The EFSF, besides being complex, is a new, unfamiliar issuer with a limited life and uncertainty over how much it might be required to issue. That means it is likely to have to pay a premium.

True, the similarly monickered SFEE, a French government vehicle launched in 2008 to provide financing for the country's banks, swiftly built up an investor following such that its borrowing costs fell during its brief life. But that was back in the days when sovereign guarantees were unquestioned. The EFSF will have to work hard when it hits the market, most likely in late January, to ensure that the euro-zone bailout doesn't fall short of funding.

—Richard Barley



European Pressphoto Agency

EFSF Chief Executive Klaus Regling

## Purifying portfolios of India stocks

It is becoming something of a ritual in India: a cleansing, but not of one's spirit. Rather, this scrubbing is of stock portfolios.

Indian stocks have been sliding amid allegations of bribery and corruption in two different scandals. First, several companies that bid for wireless licenses in 2008 were accused of using falsified information or receiving "undue favors" from the ministry handling the sale. Then came the arrest of bank officials for accepting bribes in exchange for large corporate loans.

Alongside this, a broader flight to quality in governance terms is taking place, and it favors bigger companies. **Infosys Technologies**, which is ranked No. 6 in Asia by the Asian Corporate Governance Association, is up 2.2% in the past two weeks. Infosys also has the second-heaviest weighting on the Sensex by market capitalization. For another highly rated large cap, **Bharti Airtel**, the telecom scandal is also seen as an opportunity. Its shares are up 10%.

As a result, the 3.7% decline in the 30-stock Sensex, in two weeks, is masking much of the turmoil. Midcap stocks are down 10%, and small caps are down 13%.

That India is a mine field of poor governance is no surprise. The Asian Corporate Governance Association lowered its rating on India earlier this year, saying standards aren't as robust as previously thought, because of a lack of disclosure and common practices in reporting. Concerns also stem from the treatment of minority shareholders in family-run companies.

It is difficult to say how long this will go on. That depends on the scale of the graft and how aggressive regulators are in tackling the issues.

In India, it has again become plain to see that good governance pays.

—Harsh Joshi

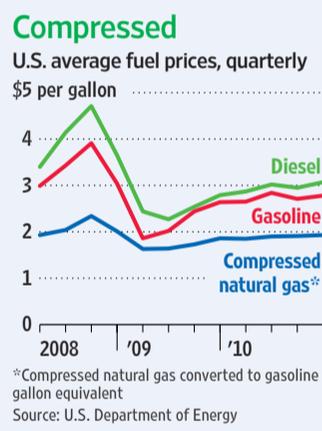
## Rich Pickens for China in gas vehicles

Will China adopt the Pickens plan? Apart from T. Boone himself, the answer should interest policy makers and investors.

Mr. Pickens made waves two years ago, when he proposed that the U.S. power vehicles with natural gas instead of oil. Washington hasn't proven particularly enthusiastic. Senate Democrats earlier this month canceled a vote on a bill that would have enhanced tax breaks for natural-gas vehicles, or NGVs. Bipartisan agreement on funding these remains elusive.

China could be more receptive, not least because there isn't an aisle to reach across in a one-party state. Beijing also doesn't relish emulating America's oil addiction. As Sanford C. Bernstein points out, if Chinese per capita oil consumption ever matched U.S. levels, the country would need 45 million barrels a day, more than half of the current global supply.

Electric vehicles offer one way of curbing oil consumption as car ownership takes off. But nine-tenths of China's electricity comes from coal, which keeps China's cities smoggy. Gas, meanwhile, emits between 20%



and 25% less carbon dioxide than petroleum fuels and also less nitrogen dioxide and carbon monoxide.

Right now, China is partly dependent on imports of natural gas. Like the U.S., however, China sits on vast reserves of shale gas, more than 1,000 trillion cubic feet, according to Chinese energy officials.

Vehicles can be fitted to use either compressed natural gas or LNG as a fuel. Barclays Capital projects a U.S. truck burning 12,000 gallons of

diesel a year could save almost a dollar a gallon by switching. Under current incentives, the \$80,000 conversion cost would be recouped in just more than four years. The Senate bill would have cut that to 16.2 months.

In China, the vehicle market is less mature, so more NGVs could be built new, rather than having to retrofit older ones. Similarly, more refueling stations could be built from scratch, rather than retrofitted.

Oil bulls should be nervous, even if the near-term impact looks relatively limited: Morgan Stanley reckons LNG could displace about 3% of China's estimated diesel demand by 2015. But oil-price strength rests largely on expectations of unquenchable Chinese thirst for the fuel stretching into the future. China embracing gas as a transportation fuel would undermine this.

What is more, if China looks like it might make a success of NGVs, even Republicans and Democrats might agree that it is in America's interest to also better utilize its gas riches, and thereby reduce oil consumption.

—Liam Denning

### OVERHEARD

Congratulations to **Lord Myners**, who six months after leaving office as financial secretary to the U.K. Treasury, has picked up a new job, albeit an unpaid role as a director of hedge-fund charity Absolute Return for Kids. While his former colleague, **Lord Davies**, the other business bigwig in Gordon Brown's ill-starred government, has picked up a host of impressive roles, the former Marks & Spencer chairman seems to have been overlooked, perhaps reflecting ongoing anger in the City at some of his comments in office. But there is one place where this upturn in his fortunes will be welcomed: Back in the Treasury, civil servants are apparently being driven round the bend by Lord Myners' efforts to keep himself busy in Parliament by tabling up to six written questions a day.

\* \* \*

Korean combat and Irish debt have been driving markets batty, so who needs economic indicators? In the more than a dozen economies in Asia outside Japan, the only economic-data report analysts at ANZ Bank could scrounge up Monday: Taiwan's bounced-check ratio.

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