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THE WALL STREET JOURNAL.

VOL. XXVIII NO. 214

EUROPE

Wednesday, December 1, 2010

DOW JONES
A NEWS CORPORATION COMPANY

europa.WSJ.com

Doubts over new 'stress tests'

By DAVID ENRICH
AND STEPHEN FIDLER

LONDON—As market sentiment toward the euro zone continues to sharply deteriorate, European plans for another round of bank "stress tests" next year are already beset by squabbling and the possibility that the test results won't become public.

European officials are planning a new round of bank "stress tests" that they say will be more rigorous than the widely discredited exams conducted earlier this year.

But the tests are already subject to bickering between countries. While some European leaders are pushing for next year's tests to be broader and more transparent than last summer's exercise, the agency that will oversee the tests says it might opt to not publicly disclose the results.

The planned European Union stress tests are a follow-up to last summer's exams of 91 European lenders, whose results were published in an attempt to restore confidence in the health of the continent's banks.

The exercise temporarily eased fears about European banks' vulnerabilities to the burgeoning sovereign-debt crisis. But those jitters have been steadily building since late July. The tests were largely discredited by revelations that they lacked rigor,

including a Wall Street Journal report in September that the tests understated some banks' holdings of potentially risky sovereign bonds.

The eroding confidence is now accelerating, thanks to events like the international bailout of Ireland. Two big Irish banks that passed the tests have encountered trouble and are likely to end up majority-owned by the Irish government. This week, the stress tests' effectiveness—or lack thereof—was back in the spotlight as fears mount that

Europe's banks, holding tens of billions of euros worth of bonds issued by troubled governments, are caught in the crossfire. Investors are dumping the banks' shares, and the banks are growing nervous about lending to each other. It is precisely the situation the stress tests were meant to avert.

On Tuesday, a top European Union official for the first time publicly acknowledged problems with last summer's tests. "There was some variety in terms of rigor and application of these tests," European Economic and Monetary Affairs Commissioner Olli Rehn said in Brussels.

Mr. Rehn said the European Banking Authority, a newly created agency that is set to officially open its doors in early 2011, will have the power to conduct next year's tests in a more "rigorous" manner than last summer's exams. People familiar with the matter say the EBA's new tests may examine banks' access to funding—a major weakness for some European banks—in addition to the previous tests' focus on the banks' cushions to absorb losses.

The European Union's second stab at the stress tests will take place next year. The EBA is already working on the methodology and scope for

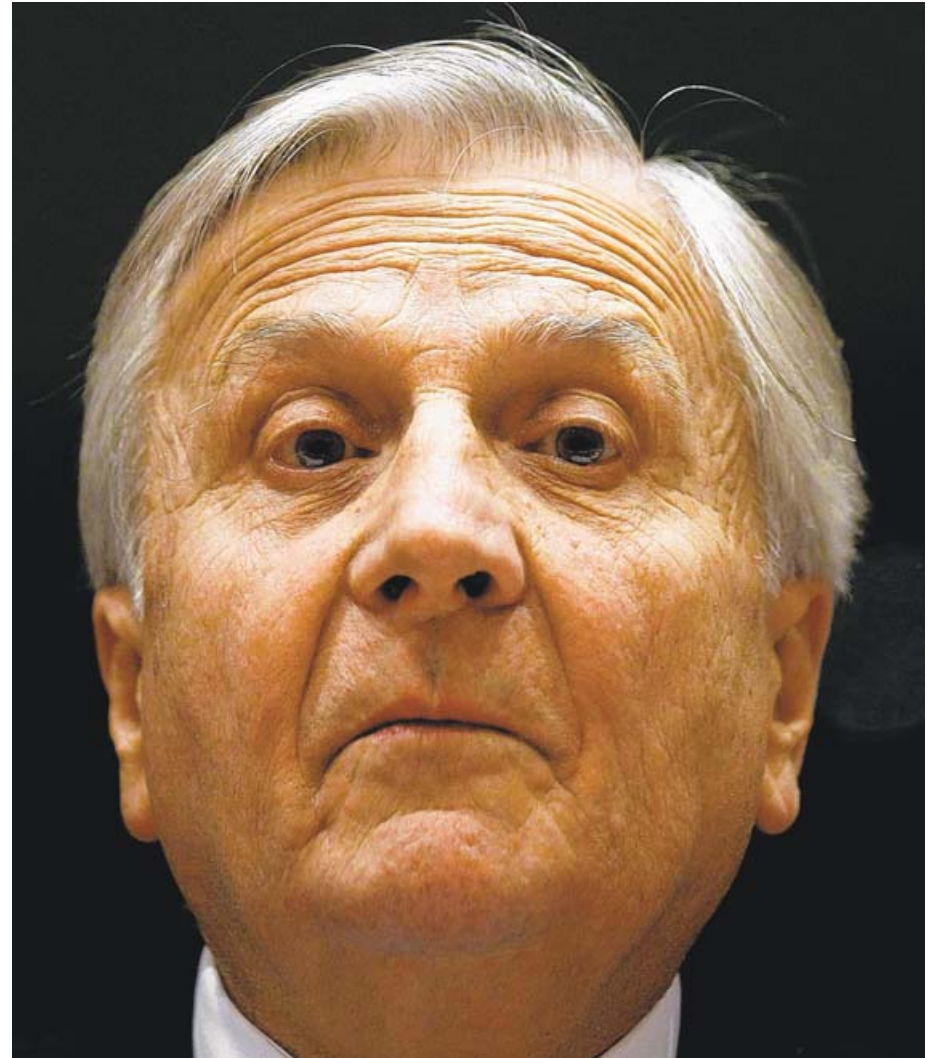
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Euro-zone crisis

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financially shaky countries such as Portugal, Spain and Italy may follow in Ireland and Greece's footsteps and require foreign bailouts.

Yields on Spanish, Italian and Belgian bonds rose sharply Tuesday and the euro tumbled to a two-month low against the dollar. Also Tuesday, European Central Bank President Jean-Claude Trichet sought to allay financial market concerns over the procedure for dealing with possible sovereign defaults.



Reuters

ECB President Jean-Claude Trichet sought to allay financial market concerns on Tuesday.

Deloitte partner faces insider-trading charges

By JESSICA HOLZER

WASHINGTON—The Securities and Exchange Commission on Tuesday charged a Deloitte Tax LLP partner and his wife with passing nonpublic information about pending corporate deals to relatives in London.

The SEC, in a civil complaint filed in federal district court in Northern California, alleged that San Francisco residents Arnold McClellan and his wife Annabel alerted her sister and brother-in-law Miranda and James Sanders about at least seven pending transactions from 2006 to 2008.

The McClellans allegedly learned about the deals

through Mr. McClellan's work leading one of Deloitte's regional mergers and acquisitions teams, the SEC said.

James Sanders, who co-founded a derivatives-trading firm in London, allegedly took financial positions in the acquisition targets based on the tips and shared the insider information with his colleagues at the firm, **Blue Index Ltd.**

The SEC said the Sanders netted \$3 million from transactions based on the tips, half of which they shared with the McClellans. Mr. Sanders's colleagues and clients made \$20 million in profits from the tips, according to the SEC.

The U.K. Financial Services Authority last week an-

nounced charges against the Sanderses and three of James Sanders's colleagues. The SEC decided not to charge the Sanderses to avoid duplicating efforts already being made by the U.K. authorities, the official said.

Lawyers for the three colleagues couldn't be reached when the charges were filed last week.

A lawyer for Arnold McClellan said he denies the charges. A lawyer for the Sanderses couldn't immediately be reached, while a lawyer for Annabel McClellan didn't immediately respond to a request for comment.

A Deloitte spokesman said the firm is cooperating with the SEC's investigation.

The Quirk



U.K. lawmakers weigh a leap into the future—if only by an hour. **Page 33**

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PAGE TWO

For leadership, read stewardship

[Agenda]
By Ken Costa

We need to rethink leadership. The financial crisis and the continuing turbulence have exposed a crisis of values. Acres of newsprint have been consumed with what people did, but little serious consideration has been given to the moral underpinning to their behavior. There can be no lasting restoration of confidence without answering the question: What kind of leadership can take us through the transition to greater stability? I believe the answer is the leader as steward.

We live in a time of turbulence and transition. Mistakes of commercial judgment were made. But the roots of the crisis go much deeper. Finance became dominated by easy money and “originate and distribute”—disassembling and reassembling financial assets such as mortgages in ever more complex ways and passing the parcel as though production could be separated from responsibility.

The market was allowed to become a master instead of a servant. Too often finance ignored the silent partner—that great mass of the population that has been profoundly affected by the crisis but had little say in the decisions which precipitated it. In so doing, the moral, spiritual and financial dimensions of life were artificially sundered apart.

Nevertheless, capitalism did not fail. Rather, the principles that make capitalism so powerful a moral force—its capacity to promote freedom and improve lives—were neglected. Rewards were not based on genuine risk. Equity was neglected in favor of perverse ingenuity. Short-termism prevailed. Above all, the concept of service was impoverished.

Calamitous upheavals such as the near collapse of the financial system are frequently followed by transitions, a move from one set of attitudes and practices to



Capitalism was under fire at an autumn protest in Berlin.

another set. Critically, they lead to another state of mind—a future quite different from that previously envisaged. We cannot go through a crisis of this magnitude without deep soul-searching. Something went very wrong and we do not wish to repeat it.

Making the transition to where we want to be rather than wherever events take us is the terrain of leadership. But leadership today in any walk of life—business, politics, the military, charities—is fraught with difficulty. The turbulence in the euro zone is just the latest instance of what seems to be an increasingly volatile world in which events can move very fast. Distinguishing the valuable from the worthless in the deluge of information can be hard.

Stewardship might sound unrealistic. But what was the kind of leadership that led us into crisis?

This is an opaque period. Great global trends underlie the confusion: an epochal shift of power from West to East epitomized by a crisis that was made in London and New York and not in Mumbai and Shanghai; a sharpening contest of religious

beliefs, although this century will be marked by a rise of faith rather than the march of secularism; and of course the digital revolution, which has turned Facebook’s 500 million users into the world’s third-biggest country. Faced with such forces we must either shape or be shaped.

Leadership falls firmly into the category of things we think we recognize but find hard to define—love, truth, justice, an elephant. A good working summary, however, is that genuinely successful leaders can get a group to achieve an objective, quite possibly an objective they did not think they could reach or even thought they wanted to reach. Under such leaders, we buy into something that is bigger than ourselves.

The legitimacy of leaders comes from their followers. Command-and-control does not work in this Wiki-world of swirling ideas and data that reinforce informal power structures. The potentially undemocratic nature of leadership can be redeemed by the leader’s values and behavior—above all, by achievements that followers see as based on good values and as beneficial to them. The leader, in short, is a steward of the community’s interests.

Society partly recognizes this. Corporate managers are supposedly the agents of the shareholders. Generals place great

store by the welfare of their troops. Religious leaders have certainly regarded themselves as serving their flocks. The integration of leader and servant is a profoundly Christian idea, though it can also be found in other faiths such as Buddhism.

But the steward does not just manage. He or she has a moral obligation to conserve resources for the future, if necessary by making cuts now to generate growth later. The most demanding test of the servant-leader is whether those served grow as people—the opposite of old-fashioned coercive leadership. In this sense, the steward is the moral spirit in action, the self confronting good and evil in the real world.

Stewardship has three elements. First, influence. The steward manages networks of resources and information to effect change. The steward may take the initiative, but it works only if influence is a two-way street.

Second, affluence. Good stewardship is rewarded by material affluence. With it comes moral affluence—a richness of spirit flowing from a constructive reciprocity between the present and the future, the leader and the followers, the self and the still, quiet voice of conscience.

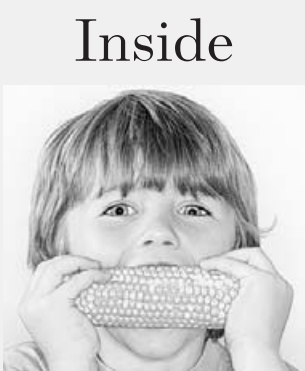
Third, confluence. Leadership has to bring people together, not as a common-denominator consensus, but in a way that enables us to grow as people.

Stewardship might sound unrealistic. But what was the kind of leadership that led us into crisis? We need now to reintegrate the elements that make us human—the moral, spiritual and financial—to make what may be a long transition from turbulence to renewed confidence and greater stability. The leader as steward can take us there.

—The author is chairman of Lazard International and professor of commerce at Gresham College.
This article is based on a lecture he gave at the college recently.

What’s News

- **The wave of financial turmoil** sweeping over Europe appears to be chasing away corporate deal makers. The value of deals in the past two months with the target located in Europe accounted for just 26% of the global total, according to Dealogic. 19
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THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Commodity Quay, East Smithfield,
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Registered address: Boulevard Brand Whitlock, 87, 1200 Brussels, Belgium

NEWS

Strong Aussie dollar deflates Barmy Army

By EVA SZALAY

LONDON—Few English cricket fans would have been thinking about U.S. monetary policy when they booked their trip to Australia for this year's Ashes series.

But now that the contest has begun, these cricket fanatics are paying a brutal price for everything from burgers to beers thanks to the sky-high Australian dollar.

The currency has been edging higher for some time, but it is now at dizzying levels as a mix of comparatively high interest rates, close economic links with China and a once-in-a-century rally in commodities has propelled it to new heights. Sterling, by contrast, is limping under the weight of a meek recovery from recession and feeble interest rates. The Aussie got an added boost in the run-up to November, when the U.S. Federal Reserve announced it was embarking on another round of bond-buying to try to stimulate economic growth.

That all adds up to bad news for hugely enthusiastic English cricket fans—known semi-affectionately as the Barmy Army—who travel the world to watch their beloved national team in action.

The Ashes series, against the once-indomitable Australians, attracts an almost religious following. Thousands of fans have made the trip, at a huge personal expense in terms of flights and accommodation.

But while the Barmy Army once chanted “we’re fat, we’re round, three dollars to the pound,” at the opposing Australian fans, they are now wincing at the cost of everything.

“We are paying the equivalent of £6 to £7 per pint of beer. It has made a dramatic difference,” said Stuart Kitching, a 53-year-old tax inspector from Newcastle-upon-Tyne, watching the showdown in Brisbane.

Mr. Kitching also visited Australia two years ago, and describes the change in the exchange rate since then—which leaves him paying twice as much for a beer as he does back home—as “horrendous.”

His experience is common. Cricket Australia, the sport's governing body Down Under, says that thousands of tickets for the five-match series remain unsold, and travel experts expect to see Barmy Army numbers dwindle as fans grapple with the punishing exchange rate. Fewer than 20,000 English fans are thought to have made the trip this year, down almost 50% from 2006.

This time last year, £1 fetched A\$1.80. Two years ago it was A\$2.35, while four years ago during England's last cricket tour of Australia the rate was A\$2.49. Now the pound buys just over A\$1.60—sterling's weakest exchange rate since the Australian dollar first floated freely in 1983.

While that hasn't deterred all fans from making the trip, it is clearly hurting those who are there.

“We’ve had to tighten the money belts. On our first night in Brisbane, a burger and chips cost the equivalent of £15. After that we started going to the local supermarket for food. We’ve worked hard to get here and I don’t want to chuck all our

money away in Australia,” said Norman Scott, a 48-year-old pub owner from Newcastle-upon-Tyne.

Still, the Australian dollar's strongest days may be behind it. The euro-zone debt crisis is tempering investors' enthusiasm for risky bets, China is trying to rein in credit growth and the Reserve Bank of Australia sounds more cautious on the future path of interest rates.

“The RBA may be nearing the peak of its current interest-rate cycle,” said analysts at UBS, adding that commodity-linked currencies might see some weakness against the dollar going into the end of the

year. They expect to see the Aussie trading between A\$0.93 and A\$0.97 against the U.S. dollar for the next month or so.

But this might be too little, too late for the Barmy Army, which for now has to face up to some sobering economic realities.

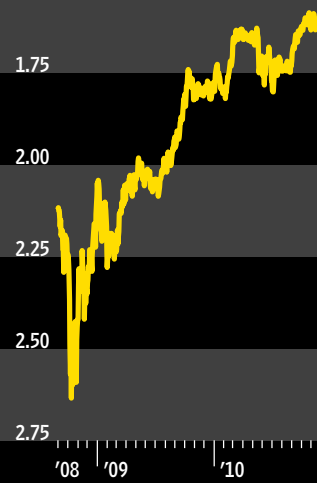
“After a good dinner out, it wakes you up from your hangover in the morning when you think about the money you spent,” said Gareth Birch, a 37-year-old insurance broker from Cheltenham.

—Enda Curran in Sydney and Andrew Peaple in Brisbane contributed to this article.

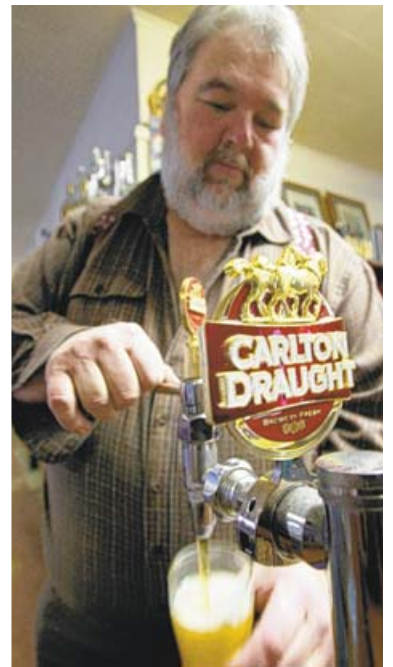
Aussie strength

How many Australian dollars one British pound buys

A\$1.50



Note: Inverted to show strength of Australian dollar
Source: WSJ Market Data Group Photo: Reuters



A pub owner pours a Foster's Carlton Draught beer in Melbourne.

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EUROPE NEWS

Crisis of confidence deepens

By MARCUS WALKER

Investors dismissed European leaders' latest attempt to restore market calm, raising doubts about whether governments have enough options and financial firepower to keep the region's common currency intact as signs emerge that the debt crisis is creeping deeper into the continent.

The euro fell to a 10-week low, slipping to close below \$1.30. Bond markets across Europe's vulnerable fringe sank as the risk premium that investors attach to Spanish and Italian government bonds hit highs.

The selloff extended Monday's declines, suggesting that Sunday's agreement by European governments to bail out Ireland and set up a permanent European rescue fund has left investors cold.

Germany and other European governments hoped the twin announcement would end the near-panic that has gripped debt markets in recent weeks. Instead, a crisis of confidence that began last year in Greece has continued to spread, from Ireland to Portugal and Spain.

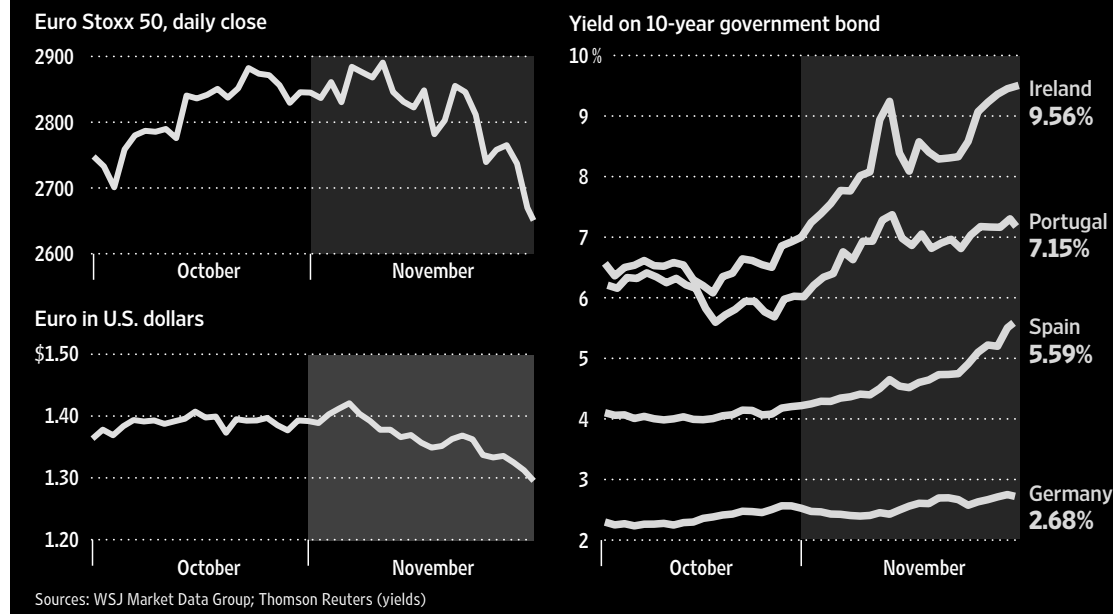
In addition to the enormous government debt weighing on periphery countries, investors also worry that the region's banks could face big shortfalls. If problems among the banks are greater than disclosed, that would affect these countries' budgets—and the size of the bailouts they would need. That concern is driven largely by a lack of trust in the integrity of stress tests undertaken by euro-zone banks earlier this year. Ireland's banks passed the tests, yet it was the weakness of those same banks that forced the country to seek a bailout.

Particularly worrying to Europe's leaders are early signs that the market turmoil is spilling into countries thought to be less at risk—Italy and Belgium.

"Tension is very high, in part because the market has already raided three countries," said Luca Cazzulani, deputy head of fixed-income strategy at Italy's Unicredit bank.

Economists agree that Europe's

Cold comfort | Europe's bailout plans haven't reassured markets



current bailout fund is sufficient to rescue Spain. But if Italy, Europe's third-largest economy, teeters, a rescue would test both Europe's economic resources and the will of healthier countries, such as Germany, to shoulder the debts.

Italy is faring better economically than some of its neighbors and its budget deficit is among the lowest in the euro zone. But the country also boasts the region's second-largest debt burden.

Germany stands accused by many, from financial markets to European capitals, of fueling the current panic by insisting that Europe's future bailout facility include rules that could see bondholders take a hit if euro-zone governments need a rescue.

German Chancellor Angela Merkel pushed hard for that principle, insisting that it is unacceptable that private investors make profits from lending to governments while taxpayers must cover all of the losses. Even economists who believe she is right in principle say the timing of Germany's push was terrible,

however, since it undermined fragile confidence in European debt markets.

German officials insist the future debt-restructuring rules will affect only future bonds, not existing euro-zone debt, which they say will be repaid in full even after bailouts. But merely talking about the issue has shattered the assumption that Western European governments don't default.

That means Germany, France and other financially strong countries in Europe are now increasingly likely to have to bail out Portugal and possibly Spain following the rescues of Ireland and Greece.

"By their actions, the Germans have unsettled the markets and brought about what they're hoping to prevent," says Simon Tilford, chief economist at the Center for European Reform, a London think tank.

Even the prospect of more and bigger bailouts of weaker euro-zone governments is no longer enough to win back investor confidence, because emergency loans don't solve

the region's underlying problem, say economists: Several countries on the euro-zone periphery have more debt than their weak economies can cope with.

The rising cost of borrowing for countries on the euro-zone periphery bodes ill for their plans to issue hundreds of billions in new bonds in coming years. Ireland, Portugal, Spain and Italy need to issue close to €900 billion (\$1.187 trillion) of government bonds over the next three years, with Italy alone accounting for about €500 billion, according to Citigroup estimates.

Many observers say the euro zone will eventually have to choose between unraveling or creating a deeper union that includes financial transfers from strong countries to weaker ones. Giving up on the euro would undermine 60 years of political effort to build a united Europe, and could cause devastating economic and financial disruption in the region.

—Alessandra Galloni, Stephen Fidler and Christopher Emsden contributed to this article.

Contagion fear hits bonds, euro

By MARK BROWN
AND EVA SZALAY

LONDON—Yields on Spanish, Italian and Belgian bonds rose sharply and the euro tumbled to a two-month low against the dollar as investors continued to worry that the financial problems of some members of the euro zone would infect others in the 16-nation bloc.

The Dutch finance minister acknowledged that it "could take months" before stability returns to the euro zone, even as he sought to soothe investors in the wake of the bailout of Ireland, agreed to last weekend.

The head of the European Central Bank, meanwhile, sought to allay concerns over the procedure for dealing with a possible default of a euro-zone nation. He stressed that European finance ministers wouldn't necessarily demand, in advance, that private-sector creditors be forced to shoulder losses in the event of a default.

Germany had been demanding that bondholders should be forced

to accept losses as part of any bailout after July 2013.

European governments "will do everything to defend the euro" and, if necessary, they will help out if other members of the euro zone run into trouble, Dutch Finance Minister Jan Kees de Jager told Dutch broadcaster RTL Z.

"Spain has a funding requirement in excess of €150 billion (\$196.85 billion) for 2011 and Italy needs close to €340 billion," Gary Jenkins, head of fixed-income research at Evolution Securities in London, said in a note. "With the market moving rapidly onto Spain and Italy, it is possible that 'too big to fail' becomes 'too big to bail.'"

Spanish Deputy Finance Minister José Manuel Campa played down such concerns. He told legislators that the government has a "comfortable" cash-flow position and "won't have financing problems" this year.

Addressing the EU Parliament in Brussels, ECB President Jean-Claude Trichet stressed that finance ministers had agreed to stick closely to the precedents set by the Interna-



Dutch Finance Minister Jan Kees de Jager, shown Nov. 17.

tional Monetary Fund and wouldn't necessarily demand in advance that private-sector creditors be forced to shoulder losses.

Private-sector creditors would be asked to accept losses only if the country in trouble was unanimously

voted as insolvent, he said. Mr. Trichet added that he considers Greece and Ireland to be solvent.

Underscoring investors' unease, the yield premium demanded by investors to hold Spanish 10-year bonds over the less risky German bund, considered the euro-zone benchmark, rose more than 0.3 percentage point to top three percentage points Tuesday, before easing slightly to 2.90 percentage points, according to Tradeweb.

The gap for Italy's 10-year bonds rose more than 0.2 percentage point to 2.15 percentage points, before moderating to 2.04 percentage points, while the premium for Belgian debt climbed more than 0.20 percentage point to 1.40 percentage points. The yield gap for all three nations hit euro-era records, and yield premiums for Italian and Portuguese debt also rose.

The euro lurched to reach a two-month low of \$1.2969, as investors showed little confidence that the region's financial problems will quickly be solved, even after the latest bailout package for Ireland.

EU to apply more rigor in new round of stress tests

Continued from first page

the next batch of tests, said Arnoud Vossen, secretary general of the banking agency's predecessor organization and a likely senior official at the EBA.

Until now, the assumption has been that those test results will be publicly revealed. But that is not necessarily the case.

"This is an open question. We are now looking at the pros and cons," Mr. Vossen said in a recent interview at the agency's headquarters in the 18th floor of a London skyscraper.

Mr. Vossen said the plan was for the tests to get under way next spring, after banks have finalized their year-end numbers, and to wrap up by July 2011.

But some European officials are pressing to accelerate the tests by a few months, arguing that the Irish bailout undermined whatever credibility remained of this year's exercise. These officials said the issue was raised at a meeting of EU finance ministers in Brussels on Sunday that finalized the Irish bailout plan.

Meanwhile, at a meeting of European officials last week, the European Commission, the EU's executive arm, lobbied for the tests to be tougher and to look at a broader range of financial-health metrics, according to people familiar with the matter. But at least some large European countries opposed such a move. The intensifying euro-zone crisis is likely to put added pressure on the EBA.

EU lawmakers in Brussels last summer signed off on the creation of three pan-European regulatory authorities, including the EBA, to replace the existing committees of national supervisors across the continent. Those committees have been relatively weak because they lack specific powers and are often hobbled by squabbling among their members. The EBA, by contrast, will be authorized to craft binding rules that will apply across the EU. It also will have the power to mediate disputes between regulators in different countries.

Even before it gets off the ground, though, the EBA is encountering turbulence. Its launch, originally planned for Jan. 1, is being pushed back by at least a few months. It only recently posted advertisements seeking a new chairman and executive director, and hiring of other top officials is on hold until those positions are filled.

Complicating the process, the EBA is only allowed to hire employees who speak at least two European languages, one of which must be English.

Kay Swinburne, a U.K. member of the European Parliament, said she's "furious" about the bilingual requirement, which she fears will disqualify some U.K. regulatory officials.

Mr. Vossen shrugs off such concerns. "I would imagine that when you're becoming a European agency, it might be helpful to master more than one language," said the Dutch native.

—Carolyn Henson contributed to this article.

EURO-ZONE CRISIS

Irish economic ripples become waves

By Bob Davis

WASHINGTON—The Irish banking crisis and bailout are affecting borrowing costs around the world, moving exchange rates, undercutting efforts to reduce global trade imbalances and whittling the confidence essential to the global economic recovery.

Ireland's economy—about the size of the U.S. state of Connecticut's—isn't big enough to halt that recovery, but as a symbol of tensions among the countries that use the euro, it is stirring concerns beyond Europe about the health of the currency bloc's economy and the ability of European governments to pay their debts.

Indicators show the world economy improving faster than anticipated, says Bruce Kasman, J.P. Morgan's chief economist, citing improved Asian factory production and exports and a pickup in U.S. consumer spending.

But he is wary of boosting his forecast for 3.9% global growth next year—down from 4.7% in 2010—largely because of uncer-

tainty prompted by Europe.

A key issue is whether Portugal, Spain and other European nations larger than Ireland will be forced to accept rescues and toughen their austerity programs, endangering their growth. Equally important, he says, is whether European voters rebel against further bailouts, making default more likely. "The big risk is whether governments can get the populace on board for what's going to be a very difficult ride," Mr. Kasman says.

Already, market fears that Spain, Portugal, Italy and Belgium will need rescue packages to cover their debts has boosted those countries' borrowing costs.

Widening uncertainty, said Howard Archer, chief European economist for IHS Global Insight, is one reason euro-zone unemployment remains high, 10.1% in October, according to data released Tuesday. "Companies are increasingly cautious about employing anyone," he said.

Edwin Truman, a former Obama Treasury and Federal Reserve official now at the Peterson Institute



for International Economics, said German Chancellor Angela Merkel's insistence on a change in policy that raises the possibility that government bondholders, after 2013, may not get paid in full is having ramifications today. "People say 'If they change the rules of the game today, I'd better protect myself today'"—which means insisting on higher in-

terest rates for lending to governments, he said. "It's threatening; no one knows what the rules are."

So far, turmoil in Europe hasn't had much visible effect on the U.S. economy. The main impact, economists say, is a roughly 7% climb in the value of the dollar against the euro since Nov. 1. The euro Tuesday at one point slid below \$1.30 for the first time since mid-September. A higher dollar makes U.S. exports more expensive abroad, diminishing demand for U.S. goods and services and diluting the impact of the U.S. Federal Reserve's recent moves to give the economy a boost.

Offsetting the higher dollar, at least in part, is the stimulative effect of lower bond yields produced as global investors move money in to U.S. Treasuries.

The U.S. has a big stake in European growth. About 19% of U.S. exports so far this year have gone to the 27 countries in the European Union.

The first act of the European sovereign-debt crisis, starring Greece, was widely blamed for the global economy's hesitation in the

spring, partly because it revived memories of the turmoil surrounding the collapse of Lehman Brothers in the fall of 2008.

The rising dollar is likely to put a crimp in the Group of 20's plans to "rebalance" world growth so it is less dependent on U.S. consumer spending. Trade surplus countries—especially China and Germany—have pledged to reduce their reliance on exports and boost domestic consumption; trade-deficit countries—particularly the U.S.—have pledged to do the opposite.

A cheaper dollar is crucial to convincing all three countries to change their policies. But Ireland's problems have had the opposite effect, boosting the dollar's value because the U.S. is seen as the safest place to park money.

A cheaper euro gives German exporters an edge and reduces the chance that China will let the yuan appreciate further. Because the yuan is tied to the dollar, the dollar's climb against the euro means the yuan rises too and hurts China's export competitiveness against European products.





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EUROPE NEWS



Reuters (Italy); Associated Press (U.K.)

University students, holding placards, marched in Rome Tuesday to protest budget cuts, while others gathered in London's Trafalgar Square to protest higher fees. **More photos at europe.WSJ.com.**

Students protest in Italy and U.K.

Associated Press

ROME—Students protesting state university budget cuts clashed Tuesday with riot police who used tear gas and police vans to seal off much of Rome's historic center to stop the demonstrators from reaching Parliament.

There were no reports of serious injuries or damage. Lawmakers on Tuesday were voting on a contested reform bill many students and professors say will give the private sector too much involvement in the state university system.

Protesters claim the funding cuts mean faculty positions will go unfilled.

The protests turned briefly vio-

lulent as students—about 3,000 in all with a core group of about 200—poured onto the main thoroughfare of the historic center, throwing eggs, tomatoes and smoke bombs at police.

At one point, protesters tried to overturn a police van. Riot police charged after them, using tear gas.

The heavy police presence, intended to prevent the protesters from reaching the square outside the Chamber of Deputies, blocked bus and tram routes for hours and jammed traffic on the main roads leading into the center.

Romans and tourists alike were further inconvenienced when the students then marched on Rome's main train station and occupied sev-

eral tracks, the ANSA news agency reported.

After the clashes, while the protesters retreated, the eggshells, squashed tomatoes and other garbage remained on the streets.

"They want to keep us out of sight because they know they're wrong," said protester Giacomo Luni, a student at Rome's La Sapienza university.

Prime Minister Silvio Berlusconi brushed off the protests, saying "serious" students were home studying. He defended the changes as necessary to modernize education in Italy, and predicted the bill would pass later Tuesday, the ANSA news agency reported.

Similar protests snarled other

cities, including Milan, Turin, Naples, Venice, Palermo and Bari. In Genoa, students protested under the slogan "they block our future, we block the cities."

Meanwhile, British students held a third day of protests Tuesday over plans to triple university tuition fees, with police urging them to avoid the violence that marked earlier demonstrations.

School and university students braved snow in London for a rally in Trafalgar Square against the decision to increase university fees to £9,000 (about \$14,000) a year as part of government deficit-cutting measures.

Rows of police officers lined up near the Houses of Parliament,

blocking a group of several hundred demonstrators who tried to approach.

The crowd appeared smaller than at two protests earlier in November, as the first snow of the year fell on London. Rallies and sit-ins were scheduled in university towns across the country.

Previous protests drew thousands, and saw groups of students storm the building housing Conservative Party headquarters and attack a police van.

Students have accused the police of a heavy-handed response to isolated violence, after officers corralled protesters for several hours in the cold last week, a controversial practice known as "kettling."

A Banco de Portugal warning

By PATRICIA KOWSMANN
AND DAVID GAUTHIER-VILLARS

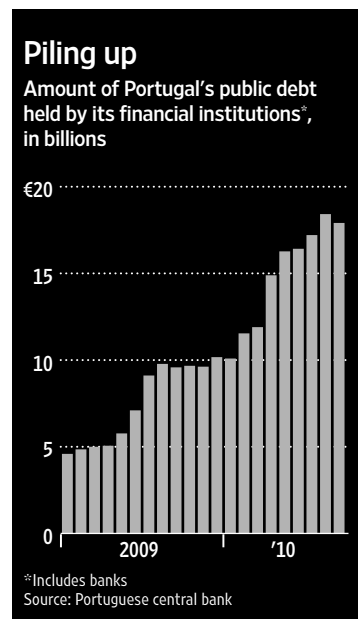
Portugal's central bank warned Tuesday that the nation's financial system was facing "serious challenges," adding to concerns that, after Greece and Ireland, Portugal won't be able to cope alone with growing investor distrust in its sovereign debt.

Struggling to raise funds at affordable cost on international money markets, Portuguese banks have relied on a cheap, alternative source of financing in recent months: the European Central Bank.

This mechanism "will be unsustainable" because the ECB is expected to close the spigot at some point, Banco de Portugal said in a report. It said Portuguese banks must refrain from using financing from the ECB, reduce lending and collect more household savings.

It warned that such tough medicines would hurt Portugal's economy. "This adjustment...will have inevitable negative effects on the Portuguese economy's growth prospects," the report said.

Unlike Ireland's economy, which was rescued by the European Union and the International Monetary Fund on Sunday, Portugal isn't sagging under a pile of real-estate debt. Unlike Greece, Portugal moved relatively quickly to shore up its public finances with a combination of



spending cuts and tax increases.

Yet, Portugal is now facing similar pressure. As of this week, the government had to pay nearly 7% to borrow money—a level above which economists say debt is unsustainable in a slow-growing country such as Portugal.

Portuguese banks haven't been a major cause for concern during the global financial crisis because they have been able to diversify lending. Many Portuguese banks have also

been getting more and more of their profits from operations abroad, mostly in emerging and booming markets such as Angola and Brazil.

But as prospects for Portugal's economy deteriorated, Portuguese banks were gradually squeezed out of interbank lending markets.

To fill the gap, Portuguese banks have been relying heavily on funding lines from the ECB. They have borrowed around €40 billion (\$52.5 billion) in each of the past two months, compared with as little as €15 billion earlier in the year.

Banco Comercial Portugues, for instance, had €14 billion borrowed from the ECB as of September against eligible assets—mostly securitized mortgage and commercial loans—that could be used as collateral totaling €17.8 billion. Its plan is to have more than €20 billion in eligible assets at the end of the year.

Flush with ECB money, Portuguese banks have been increasingly using the funds to buy sovereign debt issued by Portugal.

The country's financial institutions, including banks, have together plowed €17.9 billion in Portugal's public debt as of September, up 87% from €9.58 billion a year earlier, according to Banco de Portugal.

In its Tuesday report, the central bank said this strategy carried risks because "the price of such assets has dropped significantly over the last few months."

Turkey's trade deficit widens, exposing risks

By JOE PARKINSON

ISTANBUL—Turkey's trade deficit widened sharply in October, official data showed Tuesday, underlining the emerging economy's growth but spotlighting an imbalance that analysts say leaves it exposed to external shocks.

According to the Turkish statistics institute, or Turkstat, the October trade deficit expanded to \$6.3 billion from \$2.7 billion a year earlier, exceeding market expectations of a \$5.8 billion deficit.

Driving that expansion was a 35.5% year-to-year rise in imports, to \$17.3 billion. Export growth moderated 8.8%, to \$11.0 billion, Turkstat said.

The news sent Turkish bonds and the lira lower, extending losses generated by euro-zone debt worries, although shares held firm after sharp declines a day earlier.

Economists said the widening deficit reflected Turkey's strong consumer-fueled economic growth, but cautioned that with export growth moderating and imports surging, the trade deficit and, critically, the current-account deficit, were likely to widen further.

"Disappointingly, the data show export growth slowing with imports continuing to boom," said Timothy Ash, an emerging-markets econo-

mist at RBS in London. But the figures, he added, are "consistent with a 5% current-account deficit for the full year in 2010."

Turkey's economy has recovered rapidly from the economic crisis, posting 10.3% growth in the second quarter, tying China for the fastest growth in the Group of 20.

But some policy makers and economists are starting to worry that the heavy dependence on imports and domestic demand is magnifying a potentially fatal flaw in its impressive rebound from economic crisis: a blossoming current-account deficit financed by volatile hot money, or speculative investments.

Turkey's Central Bank Governor Durmus Yilmaz recently warned that the quality of the Turkey's deficit financing was "a concern," which may require policy to place "restrictions on demand."

In September, Finance Minister Mehmet Simsek also expressed doubts about the "quality of financing" entering the country.

For some economists, the starring role that hot money plays in funding Turkey's yawning current-account deficit is a red flag that could cause problems if another bout of risk-aversion were to drive investors away from emerging markets and into havens, such as the U.S. dollar or gold.

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U.S. NEWS

Russian missiles worry U.S.

By ADAM ENTOUS
AND JONATHAN WEISMAN

The U.S. believes Russia has moved short-range tactical nuclear warheads to facilities near North Atlantic Treaty Organization allies as recently as this spring, U.S. officials say, adding to questions in Congress about Russian compliance with longstanding pledges ahead of a possible vote on a new arms-control treaty.

U.S. officials say the movement of warheads to facilities bordering NATO allies appeared to run counter to pledges made by Moscow starting in 1991 to pull tactical nuclear weapons back from frontier posts and to reduce their numbers. The U.S. has long voiced concerns about Russia's lack of transparency when it comes to its arsenal of tactical nuclear weapons, believed to be many times the number possessed by the U.S.

Russia's movement of the ground-based tactical weapons appeared to coincide with the deployment of U.S. and NATO missile-defense installations in countries bordering Russia. Moscow has long considered the U.S. missile defense buildup in Europe a challenge to Russian power, underlining deep-seated mistrust between U.S. and Russian armed forces despite improved relations between political leaders.

On Tuesday, Russian President Dmitry Medvedev said NATO's failure to build a joint European missile shield with Russia may force Moscow to deploy new offensive weapons and trigger a new arms race, the Associated Press reported. Mr. Medvedev's comments reflected the deeply rooted Kremlin distrust of Western intentions.

Republican critics in the Senate say it was a mistake for President Barack Obama to agree to the new Strategic Arms Reduction Treaty with Russia, or New Start, without dealing with outstanding questions about Moscow's tactical nuclear weapons. New Start would cap the Russian and U.S. deployed strategic



Lithuania's Foreign Minister Audronius Azubalis says he raised concerns about the weapons with Washington.

nuclear arsenals at 1,550 per side. It doesn't address tactical weapons, which are smaller and for use on a battlefield.

Senior administration officials say New Start, like most arms treaties before it, deals only with strategic nuclear weapons, adding that only after it is ratified can Washington and Moscow begin to negotiate a legally binding, verifiable treaty to limit tactical warheads in Europe.

The positioning of Russian tactical nuclear weapons near Eastern European and the Baltic states has alarmed NATO member-states bordering Russia. They see these as potentially a bigger danger than long-range nuclear weapons. Tactical weapons are easier to conceal and may be more vulnerable to theft, say arms-control experts.

Lithuanian Foreign Minister Audronius Azubalis said he raised concerns about the weapons last

month with Secretary of State Hillary Clinton and senior defense officials in Washington.

"Being a NATO member, of course, someone could say, 'Don't worry.' But when you're living in the neighborhood, you should always be more cautious," Mr. Azubalis said. He added that American officials "expressed worry but they also don't know too much" about where the weapons are and the conditions under which they are kept.

Classified U.S. intelligence about Russia's movement of tactical nuclear weapons to the facilities has been shared with congressional committees. During a September hearing on the new arms-reduction treaty, Sen. Jim Risch (R., Idaho) spoke of "troubling" intelligence about Russia without saying what it was, adding it "directly affects" the arms-control debate. Senate Foreign Relations Committee Chairman John

Kerry (D., Mass.) countered that it had "no impact" directly on Start, without elaborating.

U.S. officials say Mr. Obama's revised approach to missile defense, and warming personal ties with Russian President Dmitry Medvedev, has fostered cooperation in key areas, from isolating Iran to opening new routes to transport gear to Afghanistan.

But mistrust runs deep, U.S. diplomatic cables released by the organization WikiLeaks over the weekend showed.

Two senior Obama administration officials didn't deny the tactical warhead issue has arisen in private discussions with lawmakers, but said the 1991 pledges, known as the Presidential Nuclear Initiatives, weren't legally binding on either side and were difficult to verify.

—Stephen Fidler
contributed to this article.

Pentagon: Little harm from lifting ban on gays

By JULIAN E. BARNES

WASHINGTON—Lifting the ban on gays serving openly in the military could cause some isolated, short-term disruption to the force, a Pentagon study concluded, but it predicted that over time the military would adjust to the policy change.

The report found that 70% of service members reported a positive or mixed reaction should the law be repealed, or forecast no effect from such a change.

Still, the report found more discomfort in combat units. About 48% of Army soldiers in combat arms units, and 58% of Marines in combat units, said there would be a negative effect on unit cohesion.

Fears that including homosexuals in infantry units would hurt cohesion are what turned military leaders and members of Congress against President Bill Clinton's 1993 effort to allow gays to serve in the military. Instead of lifting the ban, Congress passed the current law, dubbed "Don't Ask, Don't Tell," which prohibited gays from serving openly.

'Longer term...we are convinced that the U.S. military can adjust and accommodate this change.'

Openly gay service members can be discharged under the policy, and gay recruits barred from serving.

President Barack Obama has said that if someone was willing to serve, he or she shouldn't be barred because of sexual orientation. But he has said he cannot change the policy unilaterally, because it was put into law by Congress.

Defense Secretary Robert Gates called on the Senate to pass a repeal of the ban this year, saying that he feared if Congress didn't act, the courts would order a hasty change. A federal judge has ruled the policy is unconstitutional, although that ruling has been put on hold.

"The findings suggest that for large segments of the military the repeal of Don't Ask Don't Tell, though potentially disruptive in the short term, would not be the wrenching, traumatic change that many have feared and predicted," Mr. Gates said.

"Longer term...we are convinced that the U.S. military can adjust and accommodate this change, just as it has others in its history," the report said.

The report recommended against creating separate barracks or bathroom facilities for gay soldiers. Although a large number of service members expressed reservations about sharing bathrooms with gays and lesbians, the report's authors said such a practice would evoke the "separate but equal" policies that once kept blacks in a second-class status.

And building separate bathrooms, in U.S. bases or in war zones, would be a "logistical nightmare," it said.

Slump in housing prices deepens

By CONOR DOUGHERTY
AND MATT JARZEMSKY

The U.S. housing market is showing signs of falling deeper into a slump that could weigh on the nation's economic recovery.

Home prices nationwide were down 1.5% in the third quarter compared with a year ago, according to the S&P/Case-Shiller home-price index released Tuesday. The drop reflects the sharp fall in home sales after government home-buying tax credits expired earlier this year. Prices fell even more, by 2%, in the third quarter compared with the second quarter.

Case-Shiller's composite index for 20 major U.S. cities fell 0.7% in September, compared with August, not adjusted for seasonal variations. The biggest decline was in Cleveland, where prices fell 3% in September, compared with August. Minneapolis, Portland, Ore., and Phoenix were also big losers, with monthly price declines between 2.1% and 1.5%.

The best showing was in Washington, D.C., where prices increased 0.3% in September from August.

Tough sell

The S&P Case-Shiller housing index shows the mixed state of U.S. housing, by metro area in September 2010

Metro area	Relative value*	Change from August	Change from a year ago
Chicago	124.76	-1.5%	-5.6%
Las Vegas	101.18	0.1%	-3.5%
Los Angeles	175.36	-0.1%	4.4%
Miami	145.64	-1.2%	-2.7%
New York	174.59	-0.3%	-0.1%
Washington, D.C.	188.79	0.3%	4.5%

*The S&P/Case-Shiller indices have a base value of 100 in January 2000. So a current index value of 150 translates to a 50% appreciation rate since January 2000 for a typical home in that market.

Source: Standard & Poor's and FiservData

Despite an improving job market and growth in consumer spending, home prices and sales have stayed consistently depressed through the

economy's year-old recovery. The expiration of federal tax credits for home buyers, problems in foreclosure processing and an unemploy-

ment rate still at 9.6% have kept buyers at bay and prompted sellers to cut prices.

Those drawbacks, combined with a large stock of unsold homes and distressed sales that hold down prices, have left new-home sales and construction near historic lows.

"The housing market is stuck at the bottom, and we've been stuck there for months," said Patrick Newport, an economist at IHS Global Insight.

A separate report Tuesday showed that consumers are feeling a bit better about the economy in spite of the woeful housing market. The Conference Board, a private research group, said its index of consumer confidence increased to 54.1 in November from 49.9 in October. While confidence remains low by historical standards, the November reading was the highest since June.

Consumers were more optimistic about business conditions in the near future. Those anticipating improving conditions in the next six months rose to 16.7% from 15.8%, while those expecting worsening conditions declined to 12.1% from 14.4%.

U.S. NEWS

Negotiators to tackle tax-cut logjam

By JARED A. FAVOLE
AND COREY BOLES

WASHINGTON—President Barack Obama on Tuesday said he had assigned Treasury Secretary Timothy Geithner and White House budget director Jacob Lew to work with congressional leaders from both parties to break a logjam on tax cuts that expire at the end of the year.

The assignments came as Mr. Obama emerged from a highly anticipated meeting with congressional leaders without any breakthrough announcements. The president said, however, that he was confident Republicans and Democrats would find common ground in the coming weeks.

The White House had promoted the meeting, which lasted more than an hour, as a way for Democrats and Republicans to rekindle their frayed relationship. Both parties are trying to resolve a dispute over extending the tax cuts enacted under former President George W. Bush.

Mr. Obama said there was wide agreement that the tax issue needed to be resolved before the end of the year. He said he still believed it would be “unfair and unwise” to extend tax cuts for the wealthy. Republicans want to extend the tax cuts to people of all income levels.

The president characterized the meeting as “extremely civil” and a start to what he hoped was a new spirit of cooperation in Washington. He didn’t say whether another



Sen. Mitch McConnell (R., Ky.), Rep. John Boehner (R., Ohio) and Rep. Eric Cantor (R., Va.) speak after Tuesday's meeting.

meeting had been set.

“The American people did not vote for gridlock,” Mr. Obama said after the meeting, which included Senate Majority Leader Harry Reid (D., Nev.) and the next House speaker, Rep. John Boehner (R., Ohio), among others.

Republican leaders said they had agreed with the president to establish a negotiating group to try to end the disagreement over the tax question. Mr. Boehner said that

House Republicans would send Rep. Dave Camp (R., Mich.), the likely chairman of the Ways and Means Committee next year, to represent them in the negotiations. Senate Republicans didn’t announce a representative.

If the issue isn’t resolved before the end of the year, Mr. Obama will be negotiating with more powerful Republican Party. Republicans are due to take control of the House in January. Democrats will retain con-

trol of the Senate, but with a smaller majority.

Mr. Obama, and most Democrats, had insisted in the lead-up to congressional elections in November that the tax cuts be extended for the middle class, not the wealthy. After Democrats suffered big election losses, the White House signaled a willingness to compromise, though it has been unclear what shape that would take.

Congressional Republican lead-

ers have held their ground, saying they won’t accept an increase in taxes for the wealthy.

Mr. Boehner and Senate Minority Leader Mitch McConnell of Kentucky wrote an op-ed in the Washington Post on Tuesday in which they pledged to “permanently extend the current tax rates, so small-business owners won’t get hit with a massive tax hike at the end of December.”

They warned Mr. Obama and congressional Democrats to prioritize. “It’s time to choose struggling middle-class families and small businesses over the demands of the liberal base. It’s time to get serious,” they wrote.

The meeting was originally set for earlier but was delayed because of scheduling conflicts. The White House played down the chances of any major announcements in the lead-up to the meeting, saying it hoped it was the first of many.

In addition to tax cuts, Mr. Obama said the two sides discussed an arms-reduction treaty called Start and extending unemployment benefits to the long-term jobless.

Asked about the likelihood that the Start treaty would be ratified by the Senate before the end of the year, Mr. McConnell said the Senate needed first to resolve the tax dispute and pass legislation funding the federal government for the next 10 months.

After that, he said, Mr. Reid could seek to bring up the treaty if there was time.

Food-safety bill is cleared by Senate

By BILL TOMSON

WASHINGTON—The U.S. Senate on Tuesday approved a long-delayed bill to give the Food and Drug Administration a broad array of new food-safety authority.

The bill, approved by a 73-25 vote, is expected to be passed by the House by the end of the year. The measure has wide support from farm, consumer, retailer and manufacturing groups that believe it will prevent massive food recalls and food-borne-illness outbreaks.

“We’ve been shocked over the past few years by a series of large outbreaks of food-borne illness caused by common food products such as spinach, green onions, peppers, peanut butter, cookie dough and eggs,” said Chris Waldrop, director of the Consumer Federation of America’s Food Policy Institute. “The new law requires a fundamental shift in the [FDA’s] food-safety program, emphasizing prevention instead of waiting until people become sick or die.”

The bill would give the FDA the power to mandate food recalls, keep better track of fruit and vegetable shipments so that contaminated commodities can be found more quickly and set new standards for food manufacturers.

The measure doesn’t address meat safety, which is the responsibility of the U.S. Department of Agriculture.

The House first approved the food-safety bill in July 2009. Because the Senate made changes be-

fore its vote on Tuesday, the House must pass it again.

Traditionally, the House and Senate convene a conference committee to iron out differences after both bodies pass a bill, but lawmakers such as Sen. Mike Enzi (R., Wyo.) said there was no time for that because the lame-duck Congress finishes by the end of the year.

Sen. Tom Harkin (D., Iowa), the chairman of the Health, Education, Labor and Pensions Committee, said he hoped the House would simply approve the legislation exactly as the Senate passed it.

There are about 76 million cases of food-borne illnesses every year in the U.S. that result in 325,000 hospitalizations and 5,000 deaths, according to the Centers for Disease Control and Prevention.

The CDC estimated that 1,470 people became ill after eating salmonella-tainted eggs this summer.

The illnesses prompted a recall of more than half a billion eggs that were sent to 22 states and produced at two facilities in Iowa.

Small farms and food companies were longtime opponents of the bill, claiming the extra Food and Drug Administration regulations would be too burdensome, until a controversial provision was added to the measure.

The provision excludes small farms and food processors with annual sales of less than \$500,000 from the new regulations if they sell their products directly to consumers or restaurants no more than 275 miles away from the production site.

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THE WIKILEAKS FALLOUT

Iran shown meddling in Iraq

By SAM DAGHER

BAGHDAD—Leaked U.S. diplomatic cables provide new details on the U.S. assessment of how Iran's Revolutionary Guards Corps has promoted Tehran's influence in Iraq since the 2003 U.S.-led invasion.

The demise of archenemy Saddam Hussein, with whom Tehran fought an eight-year war in the 1980s, presented the Iranians with an unprecedented opportunity, and they appear to have exploited it from Day One.

The leadership of the Qods Force—the Guards' paramilitary and espionage arm—"took advantage of the vacuum" in aftermath of the fall of Mr. Hussein's regime to begin sending operatives into Iraq when "little attention was focused on Iran," according to an April 2009 dispatch from the U.S. Embassy in Baghdad. The cable was part of a trove of classified U.S. diplomatic communications made public this week by WikiLeaks.

Early priorities for the Iranian operatives included assassinating former Iraqi fighter pilots who flew sorties against Iran during the Iran-Iraq war, according to a December 2009 dispatch from Baghdad. As of the end of last year 180 pilots had been killed, according to the report.

But Iran's broader goals have been the establishment of "an economically dependent and politically subservient Iraq" and the undermining of rivals, in part through paramilitary means, the cables suggest.

Iran's current ambassador to Iraq Hasan Danaie-Far denied in a recent interview that Iran was meddling in Iraq's affairs or supporting militias.

Since 2003, Qods Force commander Brig. Gen. Qasim Soleimani has been "the point man directing the formulation and implementation" of the Iranian government's Iraq policy "with authority second only" to the country's Supreme Leader Ayatollah Ali Khamenei, according to another dispatch from Baghdad dated November 2009.



Reuters

A U.S. cable calls Iran's former ambassador to Iraq, Hassan Kazemi-Qomi, shown in 2009, 'an associate' of the Qods Force.

Through his officers and "Iraqi proxies," Gen. Soleimani "employs the full range of diplomatic, security, intelligence, and economic tools to influence allies and detractors in order to shape a more pro-Iran regime in Baghdad and the provinces," according to the same dispatch.

Some Qods Force operatives have entered Iraq under the guise of charities or the Iranian Red Crescent—the Islamic version of the Red Cross—according to an October 2008 dispatch from America's Iran Regional Presence Office based in the Gulf Arab emirate of Dubai.

The cable says the organization contracted companies affiliated with the Revolutionary Guards to build clinics in Baghdad and the predominantly Shiite cities of Basra, Hilla, Karbala and Najaf to the south. The clinics were used "for treatment but also as warehouses for military equipment or military bases if needed."

Other Iranian operatives came in

as diplomats, including some allegedly as senior as Tehran's former ambassador to Iraq Hassan Kazemi-Qomi, who is described as "an associate" of the Qods Force in the November 2009 dispatch.

His successor, Mr. Danaie-Far, is a former naval commander in the Revolutionary Guards.

In addition to training, funding and arming Shiite militias in Iraq involved in attacking U.S. interests, Gen. Soleimani has overseen economic development assistance to Iraq and the promotion of bilateral trade. He also oversaw the furthering of Iranian "soft power" through activities such as the renovation of Iraq's revered Shiite shrines by Revolutionary Guards-owned companies, according to several dispatches.

The Iranian commander also "enjoys longstanding close ties" with several top Iraqi officials such as President Jalal Talabani and Prime Minister Nouri al-Maliki, according

to a dispatch from Baghdad.

The November 2009 cable says Iran hands out cash payments to "Iraqi surrogates," which include some of the political parties currently in power.

In one cable, U.S. diplomats in Baghdad say sensitivity by Iraqi leaders toward being seen as "Iranian lackeys" will ultimately constrain Iran's influence in Iraq.

Even though both countries are majority Shiite Muslim, they embrace opposing clerical traditions. Iraq's revered Shiite cleric Grand Ayatollah Ali al-Sistani is Iranian-born but rejects Iran's clerical rule.

One dispatch that followed a visit by U.S. diplomats to Mr. Sistani's base in Najaf last year said the reclusive cleric personally prohibited the enrollment of Iranian students at seminaries in the city in order to prevent infiltration by the Revolutionary Guards.

—Ali A. Nabhan
contributed to this article.

New attack stops users accessing WikiLeaks

Associated Press

The WikiLeaks website said it came under a forceful Internet-based attack on Tuesday, making it inaccessible for hours to users in the U.S. and Europe.

The site appears to have recovered from the attack with the help of Amazon.com Inc.'s U.S.-based server-for-rent service. Later in the day, Web traffic to the site was handled by Amazon Web Services.

The site, which distributed a trove of U.S. diplomatic documents on Sunday, said in a Twitter message on Tuesday that it was under a "distributed denial of service attack," a method commonly used by hackers to slow down or bring down sites.

WikiLeaks didn't identify the attackers.

The site, which is devoted to releasing anonymously submitted documents, also came under attack Sunday, but Tuesday's attack appeared to be more powerful.

Calls to Seattle-based Amazon.com weren't returned. Bahnhof, a Swedish Internet company that has been involved in hosting WikiLeaks, had no immediate comment on Tuesday.

The site, which is devoted to releasing anonymously submitted documents, also came under attack Sunday, but Tuesday's attack appeared more powerful.

In a typical denial-of-service attack, remote computers commandeered by rogue programs bombard a website with so many data packets that it becomes overwhelmed and unavailable to visitors. Pinpointing the culprits is difficult.

WikiLeaks said the malicious traffic was coming in at 10 gigabits per second on Tuesday, which would make it a relatively large effort.

According to a study by Internet security company Arbor Networks, the average denial of service attack over the past year was 349 megabits per second, about 1/28th the stream that WikiLeaks reported.

Sunday's attack didn't stop the publication of stories based on messages leaked from the U.S. State Department in several major newspapers. WikiLeaks had given the media outlets prior access to the diplomatic cables to publish in conjunction with their Sunday release on its site.

The cables, many of them classified, offer candid, sometimes unflattering assessments of foreign leaders, ranging from U.S. allies such as Germany and Italy to other nations like Libya and Iran.

On Tuesday, potential U.S. Republican presidential candidate Rick Santorum said the founder of WikiLeaks, Julian Assange, should be prosecuted as a terrorist for posting classified national-security documents. "What he's doing is terrorism, in my opinion," Mr. Santorum said.

U.S. rethinks access to its data

By KEITH JOHNSON

WASHINGTON—U.S. officials condemned the release of a quarter-million diplomatic messages by the website WikiLeaks and pledged to review how U.S. government agencies protect sensitive information.

White House spokesman Robert Gibbs said the people who released the cables were "criminals, first and foremost," and Attorney General Eric Holder said the U.S. was looking to prosecute those deemed responsible.

Secretary of State Hillary Clinton called the leak an "attack on the international community." She said "there is nothing laudable about endangering innocent people, and there is nothing brave about sabotaging the peaceful relations between nations on which our common security depends," adding that the U.S. regretted the disclosure of sensitive diplomatic messages.

WikiLeaks had published some of the cables on its website Monday and said more would be posted there in coming days. The cache was also released to some news organizations, which published some of



Getty Images

Hillary Clinton with Turkish Foreign Minister Ahmet Davutoglu on Monday.

the cables Sunday. A spokesman said U.S. statements about individuals being put in danger by the leaks weren't credible.

In an interview with Forbes Magazine, WikiLeaks founder Julian Assange said WikiLeaks plans to release thousands of documents related to a "big" U.S. bank early next year. He said he also has documents on other

areas including technology, energy and corporate espionage.

Mrs. Clinton said she had ordered specific actions to ensure that the breach that led to the release of the cables wasn't repeated. The State Department response could include limiting access to sensitive diplomatic messages. In recent years, reports from embassies and

consulates have reached a far wider audience thanks to use of a military network, SIPR-net.

Restricting access inside the government to sensitive information could help prevent future breaches, but it would also hamstring efforts to share more crucial information among agencies. The Sept. 11, 2001, terrorist attacks were facilitated in part by government agencies' inability to share critical information.

Another possibility for securing diplomatic communications that worries some former diplomats: Classifying more dispatches as top secret. That would route them through different networks with smaller audiences. None of the quarter-million cables WikiLeaks released were classified "top secret"; only 15,000 were classified "secret."

That would reverse a trend of seeking to classify only those data that really needed it. "Overclassification would be a total abuse of the system," said David Shinn, a 37-year State Department veteran and former ambassador.

—Evan Perez, Jay Solomon
and Julian E. Barnes
contributed to this article.

THE WIKILEAKS FALLOUT

China struggles to ease Korea crisis

By JEREMY PAGE

BELJING—A senior North Korean official arrived in Beijing for talks about the crisis on the Korean peninsula on Tuesday, as a new batch of leaked U.S. diplomatic cables showed a China caught between loyalty to Pyongyang and pressure from the U.S. and others to take a tougher stance.

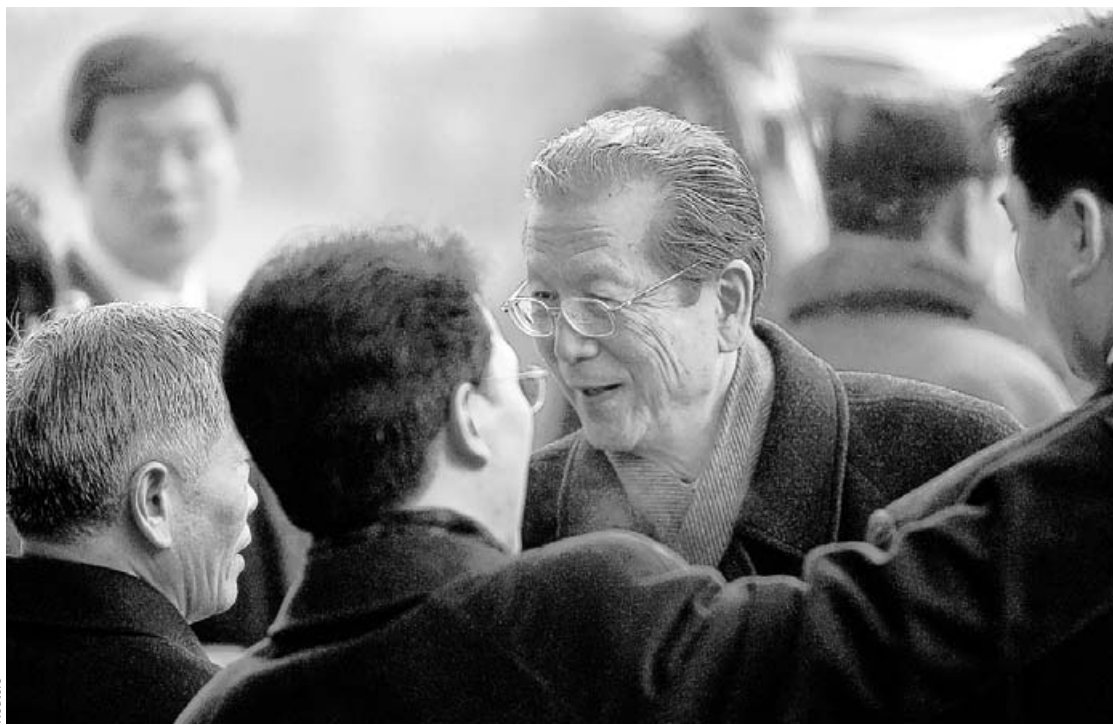
The U.S., Japan and South Korea have dismissed Beijing's proposal to hold emergency talks to address North Korea's deadly artillery raid on a South Korean island last week.

Washington said such a meeting would amount to "PR activity" unless North Korea changes its behavior. The U.S. and its allies have instead urged China to use its political and economic influence to press North Korea to abandon its nuclear program and halt further attacks on the South.

Choe Thae Bok, the chairman of North Korea's Supreme People's Assembly, arrived in Beijing for a five-day visit during which he is scheduled to hold talks on the crisis with Wu Bangguo, the No. 2 in China's Communist Party leadership.

Mr. Choe, who is also secretary of the ruling Workers' Party, is expected to seek assurances of China's continued support for the North Korean regime, as well as its opposition to the joint military exercises that the U.S. and South Korea began staging in the Yellow Sea on Sunday, analysts said.

China continued to press for an



Senior North Korean official Choe Thae Bok, center, arrived in Beijing Tuesday for a five-day visit to his country's chief ally.

emergency meeting in Beijing in December between the regional powers involved in talks on North Korea's nuclear arms program. The so-called six-party talks between the two Koreas, the U.S., China, Russia and Japan have been stalled since last year.

"Under the circumstances it is imperative and important to bring the peninsula issue back to the track

of dialogue and consultation as soon as possible," foreign ministry spokesman Hong Lei said Tuesday.

Japan and South Korea say they are planning to send their foreign ministers to a meeting with U.S. Secretary of State Hillary Clinton in Washington next week.

Akitaka Saiki, the chief of Japan's Asian and Oceanian Affairs Bureau and the country's top North

Korea envoy, arrived in Beijing on Tuesday for talks with his Chinese counterpart, Wu Dawei, but there were no immediate details about their discussions.

The challenges facing China were highlighted by the latest batch of diplomatic cables leaked by the WikiLeaks website, which portray U.S., Chinese and South Korean officials struggling to find a common

strategy to deal with North Korea.

The first batch of cables, released Sunday, contained allegations that China brushed off U.S. requests to stop the export of North Korean missile parts through Beijing, and that Chinese leaders ordered cyberattacks on Google Inc. and U.S. government computers.

The second batch, made public Monday, showed Chinese officials expressing frustration with North Korea, with one describing the regime there as a "spoiled child."

One cable quoted Dai Bingguo, China's state councilor for foreign affairs, telling James B. Steinberg, the U.S. deputy secretary of state, in September 2009 that on a recent visit to North Korea he "did not dare" to be too candid in a meeting with North Korean leader Kim Jong Il. Yet another quoted South Korea's former Vice Foreign Minister Chun Yung-woo, telling U.S. Ambassador to Seoul Kathleen Stephens that China was ready to support a reunified Korea under Seoul's control.

Other cables reflected very different views. One quoted Lee Kuan Yew, Singapore's former prime minister, saying Beijing didn't want North Korea to develop nuclear weapons, but also didn't want a reunified Korea under Seoul's control.

China responded Tuesday, saying it didn't want the cables' release to disturb relations with Washington, and asking the U.S. to "properly handle relevant issues."

—Aaron Back and Evan Ramstad contributed to this article.

Diplomatic frustration descends into name-calling

[Analysis]

By JONATHAN SHIEBER

Even diplomats can be undiplomatic when it comes to North Korea, Asia's perennial problem child.

As the Korean peninsula teeters on the edge of another military crisis, the WikiLeaks cables show that power brokers across the region were already more than a little frustrated with the seemingly unending cycles of provocation and negotiation that have marked the last 50-odd years of history in the region.

That frustration, it would seem, has devolved into name-calling, proving that even at the highest levels of statecraft no one is above a little mud-slinging.

In one briefing from the U.S. Embassy in Seoul, the Republic of Korea's former vice foreign minister Chun Yung-woo is quoted describing Wu Dawei, China's delegate at the (now-stalled) six-party negotiations as "an arrogant, Marx-spouting former Red Guard" who "knows nothing about North Korea, nothing about nonproliferation and is hard to communicate with because he doesn't speak English."

The same briefing saw Chun grouse about Wu's claims that China's rise was a "return to normalcy" for the Middle Kingdom.

Even sharper were comments

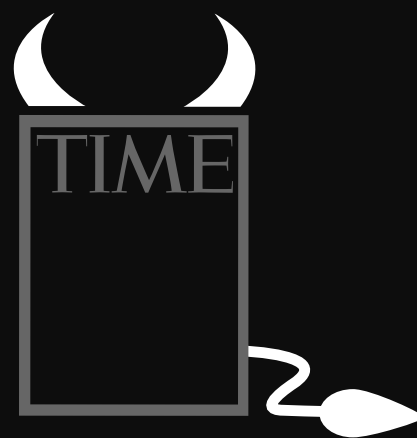
directed by Singapore's elder statesmen and founding Prime Minister Lee Kuan at North Korea in a 2009 conversation with U.S. diplomats. Mr. Lee, according to the cable, "described the North Koreans as psychopathic types, with a 'flabby old chap' for a leader who 'prances around stadiums seeking adulation.'"

It's not just third parties with unkind words for the Hermit Kingdom and its leadership. The patience of at least a few Chinese officials also seems to be wearing thin when it comes to their North Korean allies, according to an April 2009 cable.

While Chinese State Councilor Dai Bingguo spoke of Kim Jong Il's "sharp mind" and his reputation among Chinese government circles as being "quite a good drinker," Vice Foreign Minister He Yafei compared the country's actions to that of a "spoiled child" trying to get attention from an "adult" U.S. government.

That latter comment is small but telling sign of what one analyst is calling China's Pyongyang fatigue. Even China's bloggers are piling on, with a recent piece on the website of prominent business news magazine Caixin calling North Korea "our son of a bitch" and questioning whether the alliance between the two nations has outlived its efficacy.

—More at blogs.wsj.com/chinarealtime



Taking a nosedive, by TIME

When the bull market of Wall Street stumbled, we all took the fall. As the global economy struggles to find its feet, keeping up to date is more important than ever. So for breaking business news, informed articles and our dedicated business blog *The Curious Capitalist*, visit Time.com

Understanding comes with TIME.

www.time.com/business

WORLD NEWS

Japan output fell 1.8% in October

By TAKASHI MOCHIZUKI

TOKYO—Japanese industrial output dropped at the fastest pace in 20 months in October, a further sign of fragility in the nation's economic recovery, as the expiration of government purchasing subsidies for new cars led to shrinking auto production.

Output fell 1.8% in October compared with September, data from the Ministry of Economy, Trade and Industry showed Tuesday, deeper than the 1.6% decline in the previous month and marking the fifth straight monthly fall.

The result, however, was much better than the 3.3% fall economists expected. Analysts said the higher figure was mainly due to a boost in production of flat-screen TV sets as companies anticipate a surge in demand before subsidies for energy-efficient home appliances are sharply reduced in December.

Even so, the data will do little to soothe investor concerns over the state of the Japanese economy, which some expect to further stagnate as exports, the nation's key engine of growth, begin to lose steam.

Production is likely to remain sluggish as smaller government-subsidy programs offer less support to domestic demand and slowing global growth means fewer orders from overseas, analysts said. That would likely drag on Japan's already stagnant labor market, which in turn could further depress sentiment and bite into domestic consumption.

Separate data released Tuesday showed Japan's jobless rate rose to 5.1% in October, while household spending slipped 0.4% during the month. Daiwa Institute of Research economist Hiroshi Watanabe said the unemployment rate may rise toward 5.5%, just 0.1 of a percentage point behind the worst level on record.



Nissan Motor's Leaf electric car being manufactured at the company's Oppama plant in Yokosuka City, Japan. Auto production fell 10% for the month.

Other data released Tuesday added to the grim view. Japan's housing starts rose 6.4% on year in October, weaker than the 10% gain economists expected. Construction orders slipped 5.6%, the government said.

Analysts also saw cause for concern in the inventory-shipping ratio for October, which rose 7.6% in the month after climbing 1.3% in September. Companies raising inventories at a faster pace means further declines in output are likely, analysts said.

"This is certainly a bad sign," said Daiwa's Mr. Watanabe.

Analysts added that a cautious approach also must be taken toward firms' relatively bullish output forecasts for the next couple of months. The data showed manufacturers, on average, think production will in-

crease 1.4% in November and 1.5% in December.

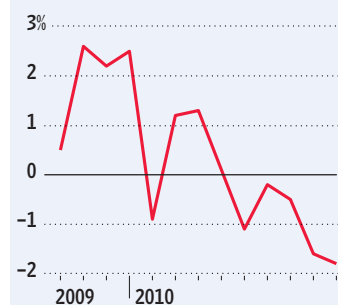
Firms may be factoring in an anticipated surge in demand for flat-screen television sets until the end of November, analysts said. The government is providing purchasing subsidies for new TV sets ahead of the switch to digital broadcasting next year, but those subsidies will be halved from December due to a lack of funds.

"You must not be so optimistic on this, and we should remain cautious about production going forward," said Hirokata Kusaba, a senior economist at Mizuho Research Institute.

During October, production of automobiles fell 10% from a month earlier, while general machinery—which includes flat-screen TV panels—rose 3.8%, the METI data

Falling output

Japan's industrial output, change from previous month



Source: Ministry of Economy, Trade and Industry

showed.

The data also showed shipments fell 2.7% while inventories slipped 1.5%.

—Andrew Monahan
contributed to this article.

India GDP expanded by 8.9% in quarter

By MUKESH JAGOTA
AND ABHRAJIT GANGOPADHYAY

NEW DELHI—India's economy grew 8.9% in the quarter ended Sept. 30, maintaining its dramatic expansion when many Western economies are struggling to resuscitate growth.

The year-to-year rise in gross domestic product, following an 8.9% on-year rise the previous quarter, marks India as one of the world's fastest-growing economies, and will likely allow the Reserve Bank of India to raise interest rates again soon, seeking to tame inflation without fear of hindering growth.

It also prompted Finance Minister Pranab Mukherjee to revise higher his growth forecast for the year ending March 31, to 8.75% from a previous estimate of 8.5%.

The benchmark 30-share BSE Sensex rose on the strong data, ending up 0.6% to 19521.25. Government bonds fell as investors saw a greater chance of interest-rate increases. The benchmark 7.80% bond due 2020 ended at 98.25 rupees (\$2.14), compared with the previous close at 98.59 rupees.

"Inflation is still the No. 1 policy focus, and we continue to expect more rate hikes in the months ahead, perhaps as soon as the next meeting in December," said Brian Jackson, senior emerging-markets strategist at the Royal Bank of Canada.

The central bank has raised its key interest rates six times since March as it tries to control inflation. It last raised rates by 0.25 percentage point Nov. 2.

The growth was confirmation that India, which is less reliant on exports for growth than many smaller Asian nations, has been able to shrug off the global downturn and accelerate growth while other nations are struggling to emerge from the downturn.

That growth is credited to robust domestic demand. In the three months ended Sept. 30, farm output, which constitutes about 16% of GDP, rose 4.4%, quicker than the 2.5% rise in the previous quarter. Services such as trade, hotels and transport grew 12.1%, while manufacturing output rose 9.8%.

The government hopes to return to its pre-crisis growth rate of 9% in the fiscal year beginning April 1, 2011. Ultimately, it hopes to achieve double-digit growth and outpace its larger northern neighbor, China, the only major economy growing faster.

The rapid expansion is expected to continue to attract a hefty inflow of foreign funds into India's stock market, which has risen sharply this year as investors world-wide seek fast-growing markets.

But some analysts say growth may be curtailed next year. Robert Prior-Wandesforde, a Credit Suisse economist, predicted growth will remain strong through March, but then "a combination of higher oil prices, a strengthening real exchange rate and, most importantly, the lagged impact of higher interest rates is likely to take its toll on economic activity."

He predicts GDP growth of 7.7% in the fiscal year ending March 31.

China to curb property-rights abuses

By LAURIE BURKITT
AND AARON BACK

BEIJING—Chinese officials announced details of a crackdown on intellectual-property abuses that some lawyers and executives say is perhaps China's most intensive effort against piracy to date.

The campaign, which began in October and is set to last six months, includes several measures aimed at addressing a piracy problem that has been the subject of complaints from U.S., European and other foreign companies.

It also is seen as a move by Beijing to promote innovation by Chinese companies by ensuring their protection.

Among the initiatives is a plan to provide government offices funds to pay for licensed software. On Tuesday, Vice Commerce Minister Jiang Zengwei said the State Council, China's cabinet, will launch inspections—to be completed by October 2011—to ensure that central and local government bureaus and businesses are using legitimate software.

The software-piracy rate overall remains high in China. According to estimates by the Business Software Alliance, an industry-advocacy group, and research firm IDC, 79% of all computer software installed last year in China was pirated, down from 86% in 2005.

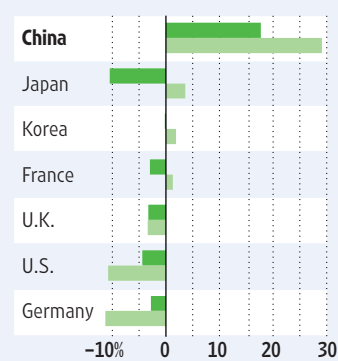
At a news briefing, Mr. Jiang

Innovation trials

China's move to crack down on intellectual-property abuses is intended to protect domestic companies and promote innovation.

Patent application growth rate by country of origin, 2009

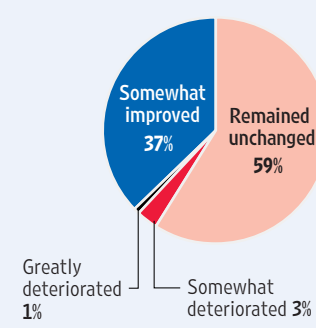
■ Resident applications
■ Patent Cooperation Treaty applications



Sources: World Intellectual Property Indicators, 2010, U.S.-China Business Council

U.S.-China Business Council survey of 100 companies

Over the past year, China's protection of intellectual property rights...



said Chinese authorities are also focusing on stamping out the proliferation of fake branding of auto parts, mobile phones, food and other products in Zhejiang and Fujian—two of China's richest provinces—and in the wealthy southern city of Shenzhen.

China regularly trumpets its efforts to address copyright infringement, patent theft and other intellectual-property crimes. Some

observers say that while the current campaign still has far to go, authorities seem more determined than in the past to achieve solid results.

"I've been practicing here for 17 years and have not seen a push like this one," said Douglas Clark, an attorney at Hogan Lovells in Shanghai, who specializes in intellectual-property law. Mr. Clark says that the Ministry of Commerce has issued a request for complaints from foreign

corporations, and that local public-security bureaus entrusted with enforcing piracy laws are now responding to grievances that, in some cases, they have ignored for the past decade.

The current campaign began amid increasing complaints from foreign and domestic companies in China about worsening piracy, despite repeated pledges to improve the situation.

Some intellectual-property experts say the government actually relaxed its copyright enforcement during the global economic downturn, beginning in 2008, to avoid taking any actions against Chinese companies that could hurt employment.

A recent study by the U.S.-China Business Council found that intellectual-property theft was one of the top four concerns among the 100 U.S. businesses surveyed. The U.S. and European governments have put intellectual-property violations increasingly at the center of their trade demands with Beijing.

In addition to foreign pressure, China's government also may be acting because Chinese companies are increasingly looking to protect their own rights, as they compete for larger turf in China and internationally, said Robert Poole, vice president of China operations at the U.S.-China Business Council.

Software piracy is one of the biggest sources of complaint.

Attack by WikiLeaks

Regarding the latest WikiLeaks dump of U.S. secrets, our friends at the New York Sun (at nysun.com) have taken to asking, What would Abraham Lincoln do? Their implication is that the President who suspended habeas corpus during the Civil War would not be wringing his hands about Julian Assange the way the Obama Administration has for so many months. This week's cable cache does less immediate harm than the previous leaks did to the lives of Afghans and Iraqis who have cooperated with us on the battlefield, but it certainly will damage U.S. foreign policy.

In most cases, of course, the leaks merely pull back the curtain on disputes and the character of global leaders that are already widely known. That the Turkish government of the AK Party is an unreliable ally, or is chock full of Islamists, will not surprise anyone who's been paying attention. The private rage of Egyptian President Hosni Mubarak against Iraqi democracy is also no shocker; a modern Pharaoh doesn't like the voter precedent.

Yet in some cases the damage will be real because effective policy often requires secrecy about detail. Foreign officials will only speak candidly to U.S. emissaries if they believe their words won't be splashed all over the world's front pages.

In the cases of Yemen and Pakistan, this batch of leaks may do particular harm. The

U.S. wants the cooperation of Yemeni strongman Ali Abdullah Saleh to carry out attacks on al Qaeda bases in that country, but Mr. Saleh wants to preserve the fiction that the attacks are his government's. The cables expose this fiction and now may jeopardize that cooperation, even as the terrorist threat from Yemen has increased.

The leaks also expose the U.S. attempts to safeguard the potential fuel for a nuclear weapon produced by Pakistan's research reactor. This revelation will play as an affront to national sovereignty inside Pakistan and thus make cooperation that much more difficult to secure. We don't see what purpose "transparency" serves in these cases, other than to make it harder to prevent some future terror or WMD attack.

One lesson is that it is much harder to keep secrets in the Internet age, so the U.S. government is going to have to learn to keep fewer secrets and confine them to fewer people. It is amazing to discover that so many thousands of cables might have been accessible by Private First Class Bradley Manning, who is suspected of being the main source for the Wikileaks documents. The bureaucratic excuse is that the government was trying to encourage more cross-agency cooperation post-9/11, but why

does an Army private need access to the details of a conversation between Yemen's dictator and General David Petraeus?

We've long agreed with the late Senator Daniel Patrick Moynihan's critique that the Cold War gave bureaucrats license to keep too many secrets, which they can use as a way to enhance their own policy leverage.

North Korea's transfer of advanced missile technology to Iran is one example of a reality that would have better served U.S. national security if it had been explained to the American public. Yet knowledge of the missile transfer, though widely suspected, might have complicated the diplomatic ambitions of the late George W. Bush and early Obama Administrations. Both had incentive to hide the facts to hide the true nature of these rogue regimes.

But that still leaves the Lincoln question of how to stop the likes of Mr. Assange. If he were exposing Chinese or Russian secrets, he would already have died at the hands of some unknown assailant. As a foreigner (Australian citizen) engaged in hostile acts against the U.S., Mr. Assange is certainly not protected from U.S. reprisal under the laws of war. Perhaps Lincoln would have considered him an "enemy combatant."

In his Saturday letter urging Mr. As-

sange to cease and desist, State Department Legal Adviser Harold Koh accused the WikiLeaks of breaking U.S. law without mentioning a particular statute. Perhaps Mr. Koh meant the 1917 Espionage Act, a vague statute which has rarely been used to punish leakers, and never against a publisher. As recently as 2009, the government dropped an Espionage Act prosecution against two lobbyists for AIPAC, the American-Israel lobby, after a rebuke by a federal appeals court.

Mr. Assange is clearly trying to protect himself from such an indictment by inviting the New York Times, the Guardian and Der Spiegel to be his co-publishers. Newspapers used to understand that the right of the First Amendment implied some publishing self-restraint. But as publishers ourselves, we nonetheless worry that indicting a bad actor like Mr. Assange under an ambiguous statute would set a precedent that could later be used against journalists.

For all of his self-justification as an agent of "pure" transparency, Mr. Assange is not serving the interest of free societies. His mass, indiscriminate exposure of anything labeled secret that he can lay his hands on is a hostile act against a democracy that is fighting a war against forces bent on killing innocents. Surely, the U.S. government can do more to stop him than send a stiff letter.

Assange is an enemy of the U.S., but the U.S. keeps too many secrets.

Hong Kong's Regulatory Misdirection

Earlier this month, Hong Kong police raided the headquarters of the territory's Independent Commission Against Corruption—a body that was originally set up three decades ago to root out graft in the police force. Three graft-busters found themselves under arrest, suspected of perverting the course of justice by allegedly coaching a witness. And the shaky case for which they ruined their careers? The prosecution of four defendants for manipulating derivatives markets and laundering the proceeds.

Hong Kong's regulators are expending ever greater efforts to crack down on ever paltrier financial crimes such as insider trading and market manipulation. If this reflected a consistent program to maintain high ethical standards in the capital mar-

kets so that small investors could be confident of getting a fair shake, that would be one thing. But these cases look more like fiddling while Rome burns.

Hong Kong's status as a financial center depends on it walking a very fine line, attracting mainland Chinese companies to list while at the same time maintaining standards of corporate probity.

The 2005 appointment of Martin Wheatley, a former deputy chief executive of the London Stock Exchange, as head of the Security and Futures Commission created optimism that Hong Kong was finally getting serious about this challenge. While Mr. Wheatley has notched up some notable successes, he is stymied by the "one country, two systems" system that makes it difficult to obtain information from across the

border and enforce judgments there.

Last week, for example, it emerged that Hong Kong-listed mainland electronics retailer GOME made grossly misleading statements about the state of its business. Locked in a battle with its founder and majority shareholder Huang Guangyu, the management told investors and regulators in December 2008 that the company was operating as "normal." But in a circular to shareholders three months ago, the company says that it faced a cash crunch at the time. The chairman explained to an analyst that they lied in order to prevent a catastrophic loss of confidence among suppliers.

Perhaps the SFC will now go after GOME, but the company is hardly the worst offender. It's worth noting that the managers thought they were acting in the best

interests of the company, and their behavior was perfectly normal within the corporate culture of mainland China. Which only goes to show what a challenge Hong Kong faces in getting Chinese companies to adopt international standards.

There are plenty more horror stories in which managers and majority shareholders were deceiving Hong Kong investors right from the first line of the IPO prospectus. Reliable information is the most basic prerequisite for a market to function properly. Insider trading and share ramping schemes deserve to be stamped out, but they are a secondary consideration. Aggressively prosecuting such crimes and meting out disproportionate punishments is only increasing suspicion that Hong Kong's regulators have lost the plot.

Federal Freeze Play

American Federation of Public Employees President John Gage derided President Obama's federal pay freeze, announced Monday, as a "slap at working people." It might better be described as a small but symbolic first step toward reining in a ballooning federal payroll that is a slap at the non-government American workers who pay the bills.

Mr. Obama proposed a two-year pay freeze for all civilian federal employees, a move that will save taxpayers \$2 billion in fiscal 2011 and \$28 billion over five years. (Congress must approve it.) As cost-cutting goes, this is modest: The freeze doesn't extend to new hiring, bonuses or step increases. It doesn't even match the three-year freeze recommended by the

President's deficit commission. But it is more than this Administration has ever been willing to consider, and it suggests that Mr. Obama, post-midterm-shellacking, realizes he must show some willingness to restrain the growth of government.

It certainly needs restraint. U.S. federal employment has grown by a remarkable 17% since 2007 to an estimated 2.1 million nonmilitary full-time workers (excluding 600,000 postal work-

ers). This is the largest federal work force since 1992, when civilian employment at the Pentagon began to shrink rapidly after the Cold War.

These federal employees operate in a pay-and-benefit universe that no longer exists in the private economy. According to recent analyses by USA Today, total compensation for federal workers has risen 37% over 10 years—after inflation—compared to 8.8% for private

workers. Federal workers earned average compensation of \$123,000 in 2009, double the private average of \$61,000. Unions like to argue that federal jobs are unique, yet in occupations that exist both in government and the private economy—nurses, surveyors, janitors, cooks—the federal government pays 20% more than private firms.

American voters have swept Republican reformers like New Jersey's Chris Christie and Wisconsin's Scott Walker into gubernatorial office precisely to rein in bloated public-employee pensions and salaries. If Mr. Obama is serious about cutting spending, his pay freeze needs to be an opening bid for a leaner, more modestly compensated, federal work force.

No Recession in Washington

Total executive branch civilian full-time equivalent employees, in thousands

Year	Total Executive Branch	Department of Defense	Total Civilian Agencies
2007	1,832	659	1,173
2008	1,875	671	1,204
2009	1,978	703	1,275
2010*	2,148	720	1,428

*Estimate
Source: The President's Budget for Fiscal Year, 2011

OPINION

Letters To
The Editor

* * *

The Tolerant Swiss

Regarding your Nov. 29 article "Swiss voters back plan to oust foreign criminals," I'd like to add that few other countries have a legal foreign population in excess of 22%, as is the case in Switzerland. It was in particular Bern's generous immigration policy during the Balkan wars that helped boost the numbers of foreigners in Switzerland.

With regard to the so-called minimum tax also mentioned in the article, it is important to note that it was proposed by the Socialist Party but refused by the people because Switzerland, like the U.S., is a federal country and thus each state (canton) and municipality collects its own taxes and decides on its own expenditures. Approximately one third of taxes are paid to the federal authorities and two thirds to cantons and municipal authorities. The defeated Socialist proposal would have seriously undermined the federal structure of tax collections.

ELISABETH SALINA AMORINI
Crans-Montana, Switzerland

* * *

Believe Me, Treaty Is
a Good Start

Your opposition to the New Start treaty is based on the premise that the administration is not committed to modernizing our nuclear deterrent ("The Nuclear Treaty Rush," Review & Outlook, Nov. 24): You also claim we have failed to provide Congress the information it needs to make a decision, or access the scientists who maintain the nuclear stockpile.

Wrong on all counts. Our nuclear infrastructure has never received the level of support we have today. The president has projected \$85 billion over the next 10 years, a substantial increase. Contrary to your claims, key senators and their senior staff were given access to our scientists. Our lab directors testified before Congress. Senators and their staffs were given access to our sites with no limitations. Both the New Start treaty and modernization are in the national security interest. The Senate should approve both.

THOMAS P. D'AGOSTINO
Administrator
National Nuclear Security
Administration
Washington

THE WALL STREET JOURNAL.

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Patience Wheatcroft, Editor in Chief, Europe
Iain Martin, Deputy Editor in Chief
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[Global View]

By BRET STEPHENS



So WikiLeaks founder Julian Assange is guilty of "a reckless action which jeopardizes lives." That's according to John Kerry, on this week's unauthorized release of a huge tranche of State Department cables. Confronted with a previous Wiki-avalanche, the senator took a more sanguine view: "However illegally these documents came to light," he intoned in July, "they raise serious questions about the reality of America's policy toward Pakistan and Afghanistan."

The latest WikiLeaks may ultimately amount to no more than a colossal headache for U.S. diplomats. By contrast, the previous leak exposed U.S. sources and methods on the battlefield. Yet the senator somehow finds the prospect of an embarrassed State Department more troubling than the exposure, to the Taliban's vengeful gaze, of Afghan informers—an other instance, I suppose, of John Kerry reporting for duty.

Still, every fiasco must have its silver lining, and this one is no exception. For starters, it has belatedly prompted at least some liberals to grow up on the topic of government secrecy and its connection to national security, international stability and, not least, human rights.

Take the Obama administration, whose condemnation of the July leak was leavened by the self-serving observation that most of the documents dated to the Bush years. The administration was also at pains to reject any comparison with the Pentagon Papers, the pub-



Sen. John Kerry: WikiLeaks flip-flopper.

lication of which remains a pillar of liberal self-regard.

Yet if there's a salient difference between the Pentagon Papers and the WikiLeaks disclosures, it's that the Nixon administration went to court to prevent publication, whereas it was only Monday that President Obama ordered a review of security procedures for handling confidential documents and his Justice Department opened a criminal investigation into the leaks. Couldn't the administration have acted sooner, particularly since, as Mr. Kerry has belatedly noticed, lives have been put at risk?

But better late than never. Last week, State Department legal adviser Harold Koh sent a stern letter to Mr. Assange's lawyer warning of the "grave consequences" that would flow from publication. Alas, none of the consequences had anything to do with Mr. Assange, which might explain why the letter had no effect. But given that this is the same Mr. Koh who, as dean of Yale Law School, pompously lectured the Senate Judiciary Committee in 2008 about the evils of "excessive government secrecy," his letter still represents a signifi-

cant change of heart.

Speaking of changes of heart, one also has to wonder what effect the WikiLeaks disclosures might have on other articles of liberal policy faith. Are Israeli Likudniks and their neocon friends (present company included) the dark matter pushing the U.S. toward war with Iran? Well, no: Arab Likudniks turn out to be even more vocal on that score. Can Syria be detached from Iran's orbit? "I think not," says Abu Dhabi's Crown Prince Mohammed bin Zayed, who added that Syria "would continue hedging on key regional issues (Iran, support for Hezbollah, peace process) for the foreseeable future."

Has the administration succeeded in pressing the reset button with Russia? Hard to credit, given Defense Secretary Robert Gates's description of the Putin-Medvedev regime as one from which "there has been little real change." Is the threat of an Iranian missile strike—and therefore of the need for missile defense—exaggerated? Not since we learned that North Korea had shipped missiles to Tehran that can carry nuclear warheads as far

as Western Europe and Moscow.

All this is enough to make me hope for a more grown-up foreign policy from the administration—and nearly enough to tempt me into applauding WikiLeaks' disclosures. But not quite. We shouldn't need WikiLeaks to settle policy differences. Nor should it have required another round of WikiLeaks to make the administration take secrecy seriously. What really matters for the successful conduct of U.S. foreign policy is confidence, a word that simultaneously denotes trust, secrecy and also betrayal (think of the word "con").

What WikiLeaks has done is use the betrayal by the original leaker to expose American secrets and thus destroy trust in America's reliability. For an administration whose policy choices have already done so much to erode global confidence in the U.S., these leaks are a disaster.

How should the administration go about regaining confidence? It's astonishing that Iceland, a member of NATO, is where WikiLeaks is headquartered. Don't we have an embassy there? It's astonishing that the Australian government has yet to receive a request from the U.S. to take action against Mr. Assange, an Australian national. It's astonishing that Pfc. Bradley Manning, the suspected leaker, has yet to be court-martialed. It's astonishing that Mr. Assange should be described by National Public Radio as a "whistleblower," while in fact he's conducting a form of cyberwarfare against the United States.

OK, that last one isn't so astonishing; some liberals never grow up. Then again, some do. What a pity so much damage had to be done before that could happen.

Write to bstephens@wsj.com

Europe's Scientific Dark Ages

By JIM MCCARTHY

Kildare, Ireland

European ignorance has claimed a new victim: One of the Continent's leading agricultural researchers told Reuters recently that her organization has quit trying to develop new varieties of genetically modified crops. "We have no research on GMO innovation anymore, none," said Marion Guillou, the head of France's National Institute for Agricultural Research. "Since European society does not want to buy GMOs, we had better focus on other technology."

This is a shame and a tragedy, but hardly a surprise. Farmers around the world have embraced the promise of biotechnology. They've planted and harvested more than 2.5 billion acres of genetically modified crops. Every day, people safely consume food derived from these products.

Yet Europe remains strangely isolated from this global phenomenon. Eco-fundamentalists have dominated the debate here. They have no science to back up their claims, but they've managed to spread their propaganda like a virus.

I'm familiar with the problem

because I have farming interests on three continents: Europe, North America, and South America. Only in Europe is biotechnology controversial.

Many European farmers refuse to test experimental crops because they're targeted by radical activists. In explaining her organization's decision to abandon genetically modified crops, Ms. Guillou

Eco-propaganda is driving
biotechnology and
the brightest researchers
out of the EU.

pointed to an incident in August, when activists in France destroyed a plot of transgenic vines. Their attack caused about €1.2 million in damage and wiped out seven years of research.

Such crimes, and Europe's various anti-biotechnology pressure groups, have paralyzed European governments. A few brave voices continue to speak out, but most officials are afraid to defend biotechnology. This plague on our intellectual life is now starting to

claim our brightest scientists. Just as authorities threatened Galileo for offering proof that the planets orbit the sun, today's eco-fundamentalists are forcing scholars such as Ms. Guillou to shut down their research.

Europe can take pride in a long history of enlightened inquiry and leadership, but its recent behavior on agriculture points more toward a new Dark Ages—a period of stagnation when ideology trumps truth.

Lives are at stake. Our best scientists must focus on creative solutions to what will soon be the world's most pressing problem: increasing food production so that it can feed a world of 9 billion people by 2050.

Biotechnology is no panacea, and each new innovation has to be considered on its merits. But to dismiss such research entirely is nothing short of irresponsible. As Ms. Guillou has pointed out, past genetic progress in rich countries such as France has been largely responsible for their great leaps in agricultural production. Today, further advancement could improve millions more lives; African farmers, for instance, could significantly increase their yields with new ge-

netically selected varieties of crops.

Ms. Guillou's institute employs some 1,800 researchers. No other European organization publishes more scientific articles on agriculture. Because of eco-propaganda, however, it no longer invests any brainpower in an area that enjoys a record of success and holds enormous potential for the future.

Most Europeans have no idea even what they're up against. They assume that their governments have huge stocks of grain and beef. But it's just not there. The agricultural technologies of today are barely adequate to meet the Continent's present needs. Without progress, they'll fail in the face of the future's daunting challenges.

The scientific challenges are surmountable. The political problem, however, will require more courage and determination than Europe's leaders have shown thus far.

Mr. McCarthy, based in Ireland, has farming interests in Europe, South America and North America. He won the 2009 Kleckner Trade and Technology Advancement Award and is a member of the Truth About Trade & Technology Global Farmer Network.

<http://hotnpapers.blogspot.com>

OPINION

WikiLeaks and the Art of Diplomacy

By FOUAD AJAMI

The founder of WikiLeaks, Julian Assange, is no Daniel Ellsberg. Say what you will about the man who put out the secret history of the Vietnam War, he had skin in the game. He had been a hawk and had grown disillusioned with the war before leaking in 1971 the classified documents that came to be known as the Pentagon Papers.

Not so this Australian practitioner of electronic piracy. Mr. Assange feeds off the taste for high gossip. Doubtless, he sees himself as truth-teller at war with an American "empire" with a lot to hide. But he communicates brazenness and a love of the limelight that is of a piece with this time when all discretion and privacy are now things of the past.

There can be no denying the appeal of this big dump of diplomatic cables. We want to see the political deities in Ankara and Rome and Riyadh as they are, unmasked. We now know what we knew before, but on official paper. So Italian Prime Minister Silvio Berlusconi is "feckless, vain and ineffective," a man whose "frequent late nights and penchant for partying hard mean he does not get sufficient rest." We now know that Libyan leader Moammar Gadhafi is "mercurial and eccentric," that he loves horse racing and flamenco dancing, that he fears flying over water. In short, he is the "flake" that Ronald Reagan dubbed him a quarter century ago.

There is gambling going on at Rick's! Foreign leaders play the American empire and wish it to do what they can't do for themselves. In the public domain, Arab leaders are solicitous of Iran and fear its reach and power. But when American diplomats and military commanders turn up, the Arab-Persian schism is laid out. From Lebanon's



Surprise! Saudi Arabia's King Abdullah (right) is no fan of Iranian President Mahmoud Ahmadinejad (left).

young Prime Minister Saad Hariri, then parliament majority leader in 2006: "Iraq was unnecessary," he claimed, "Iran is necessary."

There had always been a received wisdom about the secrecy of the House of Saud, the cunning of Saudi diplomacy. The cables lend credence to the prevailing view. King Abdullah plays to type—he is blunt and self-assured. In 2008, on the challenge of Iran, a close aide says the king wants the Americans "to cut off the head of the snake."

We had known the depth of the Saudi animus to the American war in Iraq, and to the new Iraq midwifed by that war, and the cables underline what had already been in the public domain. The Saudi monarch did not trust Iraqi Prime Minister Nouri al-Maliki and saw him as a sectarian pawn of Iran. In their heart of hearts, the Saudis have been convinced that the American war in Iraq handed Iraq to Iran on a gold platter. WikiLeaks added nothing new there.

Some of America's allies in the

war on terror are crooks: An Afghan vice president turns up in the United Arab Emirates with \$52 million in cash. He keeps the money and he offers no accounting of how the money was obtained. Other allies are sly, and the cables offer a glimpse of how they have managed to rule seemingly impossible places. Yemeni President Ali Abdullah Saleh runs a dictatorship and a kleptocracy that has survived secessionist movements, both north and south. To Gen. David Petraeus, then commander of U.S. forces in the Middle East, he provides assurance that the American drone attacks in that country present no problem for U.S. diplomacy: "We'll continue saying the bombs are ours, not yours." The best sort of ally that money and military aid can buy.

From time immemorial, long before encrypted emails, envoys returned from foreign lands with the most coveted things in their diplomatic kit: an informed view of rivals, an eye for the quirks of foreign rulers, a sense of who, and

what, plays in their courts.

Homer's Odysseus gloried in what he saw—"many cities of men . . . and learned their minds."

A good deal of that boast is, inescapably, part of the diplomatic pride and beat. In a way, diplomats are frustrated novelists and storytellers who love to render scenes and characters and in these electronic dispatches they do, as their predecessors have done for so long. Afghan President Hamid Karzai is afflicted with grave paranoia; France's Nicolas Sarkozy is "an emperor with no clothes"; Germany's Angela Merkel is risk-averse, the ultimate Teflon politician; Turkey's Recep Tayyip Erdogan is surrounded by aides who humor him but have little regard for him.

And the dispatches, by sheer volume, often tell of the rise of new powers or places of great controversy. Turkey, it turns out, is the diplomatic listening post that ranked first in the volume of the cable traffic sent to Washington. Of a quarter-million documents, more than 7,000 dispatches were filed from that country. An erstwhile ally of America has all but gone over to the dark side and the traffic bears witness to American concern.

But the cable traffic does not tell what these leaders in exotic, distant lands would do when history comes calling, when the advice rendered the American emissaries has to be redeemed and made good on. The bravado in Bahrain or Abu Dhabi, the admonition that Iran is a rogue power best tamed, is sure to be denied and forgotten if America draws the sword against Iran. Don't be surprised if the erstwhile whisperers take to the public square to express sympathy for the Iranians under an American attack.

There is no equivalent of the Zimmerman telegram here. The

Zimmerman telegram, it should be recalled, obtained by the British, was released in early 1917 by President Woodrow Wilson himself. He was girding for war, and the revelations that German Foreign Minister Arthur Zimmermann had instructed his ambassador to enlist the Mexicans in a campaign against America, with the promise of vast territorial gains in the American Southwest, were helpful to Wilson's strategy.

Nor is the handiwork of Mr. Assange comparable to the diplomatic storm unleashed in 1917 by the Bolsheviks upon their seizure of power in Russia. They opened up the czarist archives, and from the revelations the Arab world learned of the secret Sykes-Picot Accord of 1916 that mapped out the partition of the post-Ottoman Middle East between Britain and France.

Foreign leaders will continue to talk to America. It is the way of power to brag, and to tempt visitors from afar. In a world where secrecy mattered, Mr. Assange would have long been brought to justice. His country of birth and citizenship would have disciplined him, he would have been denied sanctuary in decent places, and an American intelligence service worth its name would have located him and brought him to justice. But we don't play by these rules anymore, and voyeurs and curiosity seekers will have a moment of satisfaction. Mr. Assange, if nothing more, has given us all the thrill of looking behind the curtain.

Mr. Ajami is a professor at the Johns Hopkins School of Advanced International Studies and a senior fellow at the Hoover Institution. He is co-chairman of Hoover's project on Islamism and the International Order.

Why North Korea Survives

By EDWARD N. LUTTWAK

If North Korea were an island, it would now be under a strict blockade—minimum punishment for sinking a South Korean warship and killing 46 sailors in March, for building an illegal nuclear-enrichment plant, and for killing South Korean soldiers and civilians with last week's sudden artillery barrage on Yeonpyeong island.

But North Korea isn't an island. It shares a long border with China and a short one with Russia. The so-called China-North Korea Friendship Bridge connects, by road and rail, Dandong on the Chinese side and Sinuiju on the North Korean side. Without the traffic it carries—everything from coal, petroleum products and fancy foods to the Chinese-built locomotives that pull North Korean trains—the dictatorship of the Kim dynasty could not long endure.

The fancy foods are anything but a frivolous import. The dictatorship is secured by a well-fed class of party officials, political policemen and elite soldiers. They are the ones without the starved look typical of North Koreans—thanks to shops, canteens and fancy eater-

ies like the Pyongyang No. 1 Duck Barbecue, which are always well-supplied even when famine rages outside the capital. The regime has long refused to waste scarce foreign currency to import rice or wheat to keep its population from starving whenever its mismanaged agriculture fails.

What makes the traffic of the Friendship Bridge essential—North Korea does have some cargo ships, after all—is that it is partly free of charge because China is the one country that considers the North Korean regime worthy of aid and support. No matter what the North Koreans do, China's government continues to supply coal and oil at low prices, and its foreign ministry invariably refrains from any criticism. Instead, it piously calls on both sides to show restraint and resume the six party talks, which have never produced anything but hot air.

The only Chinese complaint issued after the Yeonpyeong artillery attack was directed at the United States—for sending the aircraft carrier USS George Washington into waters near South Korea. U.S. carriers stay a long way from the 12-mile limit of territorial waters,

but China keeps illegally trying to claim control of much more—a 200 nautical mile "exclusive economic zone." Restraining North Korea is simply not a priority for Beijing.

The government of South Korea would seem to have little choice but to press the Chinese to change course drastically and discipline the North Koreans. But the South Koreans have always been humbly deferential to the Chinese. One reason the recent G-20 summit failed to achieve any worthwhile result was that the South Korean hosts opposed any criticism of China. If South Korea rules out diplomatic pressure on China because it's bad for business, then it shouldn't expect the Obama administration to do much either.

Certainly nothing is achieved by issuing solemn warnings and indignant declarations. Mere words do not impress the hard-bitten North Koreans. They have seen Americans and South Koreans meekly accept what they had previously denounced as "unacceptable" and there is no credible threat of force since the Obama administration is already twice occupied on that front.

That leaves American diplo-

matic action. Former President Jimmy Carter, who considers himself an expert on North Korea, reacted to the nuclear revelations and the deadly Yeonpyeong bombardment by immediately calling for bilateral talks with North Korea, which demands "respect," he said.

"Leaders in Pyongyang consider South Korea's armed forces to be controlled from Washington and maintain that South Korea was not party to the 1953 cease-fire," Mr. Carter helpfully explained. It follows that any U.S.-North Korean negotiation would confirm the central North Korean claim that South Korea is a mere puppet with no standing to negotiate anyway. It would be a momentous victory for the Kim dynasty.

Mr. Carter has therefore done a great service: As usual, America needs only to do the exact opposite of what he recommends, this time by rejecting talks with the Kim dictatorship until (at a minimum) it makes full amends for its most recent crimes. Nothing will be lost, since all past negotiations have proven futile, and the U.S. will avoid rewarding North Korean aggression.

But if I were a South Korean citizen, I would not be content with an expensive military and a supposedly "hard-line" government that does not even try to retaliate when attacked, not even when innocent civilians are killed.

Mr. Luttwak, a senior associate at the Center for Strategic and International Studies, is the author of "Strategy: The Logic of War and Peace" (Belknap, 2002).

Pepper . . . and Salt

THE WALL STREET JOURNAL



"Five hundred words on the relative merits of the iPad and the Kindle."

THE BIG READ

Researchers' grail: finding a post-crash economic model

They're trying to understand a world that has proved more complex than the most advanced paradigms assumed

By MARK WHITEHOUSE

PHYSICIST Doyne Farmer thinks we should analyze the economy the way we do epidemics and traffic.

Psychoanalyst David Tuckett believes the key to markets' gyrations can be found in the works of Sigmund Freud.

Economist Roman Frydman thinks we can never forecast the economy with any accuracy.

Disparate as their ideas may seem, all three are grappling with a riddle that they hope will catalyze a revolution in economics: How can we understand a world that has proved far more complex than the most advanced economic models assumed?

The question is far from academic. For decades, most economists, including the world's most powerful central bankers, have supposed that people are rational enough, and the working of markets smooth enough, that the whole economy can be reduced to a handful of equations. They assemble the equations into mathematical models that attempt to mimic the behavior of the economy. From Washington to Frankfurt to Tokyo, the models inform crucial decisions about everything from the right level of interest rates to how to regulate banks.

In the wake of a financial crisis and punishing recession that the models failed to capture, a growing number of economists are beginning to question the intellectual foundations on which the models are built. Researchers, some of whom spent years on the academic margins, are offering up a barrage of ideas that they hope could form the building blocks of a new paradigm.

"We're in the 'let a thousand flowers bloom' stage," says Robert Johnson, president of the Institute for New Economic Thinking, launched last year with \$50 million from financier George Soros, a big donor to liberal causes who has long been a vocal critic of mainstream economics. The institute so far has approved funding for

more than 27 projects, including efforts by Messrs. Farmer and Tuckett aimed at developing new ways to model the economy.

Some of academia's most authoritative figures say the new ideas are out of the mainstream for a good reason: They're still very far from producing a model that demonstrably improves on the status quo.

"I guess I'll wait until I see these models and what they can and cannot do," says Robert Lucas, an economist at the University of Chicago who won the Nobel Prize for his work on "rational expectations," the concept at the very heart of modern orthodoxy.

New York University's Mark Gertler, who with now-Federal Reserve Chairman Ben Bernanke did ground-breaking work in the 1980s on how financial troubles can trip up the economy, says economists already have many of the tools they need to fix the current models.

"It strikes me as not productive to say that all we have done is a complete waste," he says. "The profession is extremely competitive. If you have a better idea, it's going to win out."

Today's models emerged from a revolution of their own. In the 1970s, economists were struggling to figure out how policy moves, such as raising taxes or cutting interest rates, could change how people behave. They were also eager to subject their own reasoning to the unforgiving judge of mathematical logic.

So they populated their models with rational people who can calculate the value of various possible moves and choose the optimal path. A person deciding whether to buy a car, for example, would take into account the potential return on investing the money, the probability that car prices will rise, and the chances that an increase in tax rates will cut into her disposable income.

By translating peoples' preferences into equations, and finding the point at which they meet those of firms and other players,

the models forecast an exact trajectory for the economy. That feature makes them very attractive to economists, who can plug in a change in interest rates and see precisely how the move might affect an entire country's output for the next few years.

The problem, says Mr. Farmer, is that the models bear too little relation to reality. People aren't quite as rational as models assume, he says. Advocates of traditional economics acknowledge that not all decisions are driven by pure reason.

Mr. Farmer sees a perhaps greater flaw in the models' mathematical structure. A typical "dynamic stochastic general equilibrium" model—so called for its efforts to incorporate time and random change—consists of anywhere from a few to dozens of interlinked equations, which must agree before the model can spit out a solution. If the equations get too complex, or if there are too many elements, the models have a hard time finding the point at which all the players' preferences meet.

To keep things simple, economists leave out large chunks of reality. Before the crisis, most models didn't have banks, defaults or capital markets, a fact that proved problematic when the financial crisis hit. They tend to include only households, firms, central banks and the government. They also commonly use a single equation to represent each player, impairing the models' ability to explain the unexpected outcomes that can emerge when millions of different people interact.

"You are limited by what you can solve," says Mr. Farmer. "It puts the whole enterprise in a straitjacket."

His proposal: Create a richly complex, computer-based simulation of the economy like those scientists use to model weather patterns, epidemics and traffic. Given enough computing power, such "agent-based" models can include millions of individual players, who don't have to be rational or agree with one another. Instead of equations that must be solved, the players

have open-ended rules of behavior, such as, "If I've just turned 55 and I'm feeling blue, I'll buy a sports car."

A leading expert on complex systems at the Santa Fe Institute, a nonprofit think tank, the 58-year-old Mr. Farmer has spent much of his life trying to figure out how to predict the future.

In the 1970s, he and a group of graduate students from the University of California at Santa Cruz managed to outsmart Las Vegas casinos, developing software and portable computers that clocked the velocity of the ball and rotor on roulette wheels. Later, he made a small fortune as a partner in Prediction Company, which applied some of what he learned at the roulette table to financial markets and was ultimately sold to the Swiss bank UBS AG.

Some policy makers believe the agent-based approach to modeling the economy has promise. "I think the whole profession is much more open to these new approaches than it has been at any time in the past 20 years," says Simon Potter, director of economic research at the Federal Reserve Bank of New York.

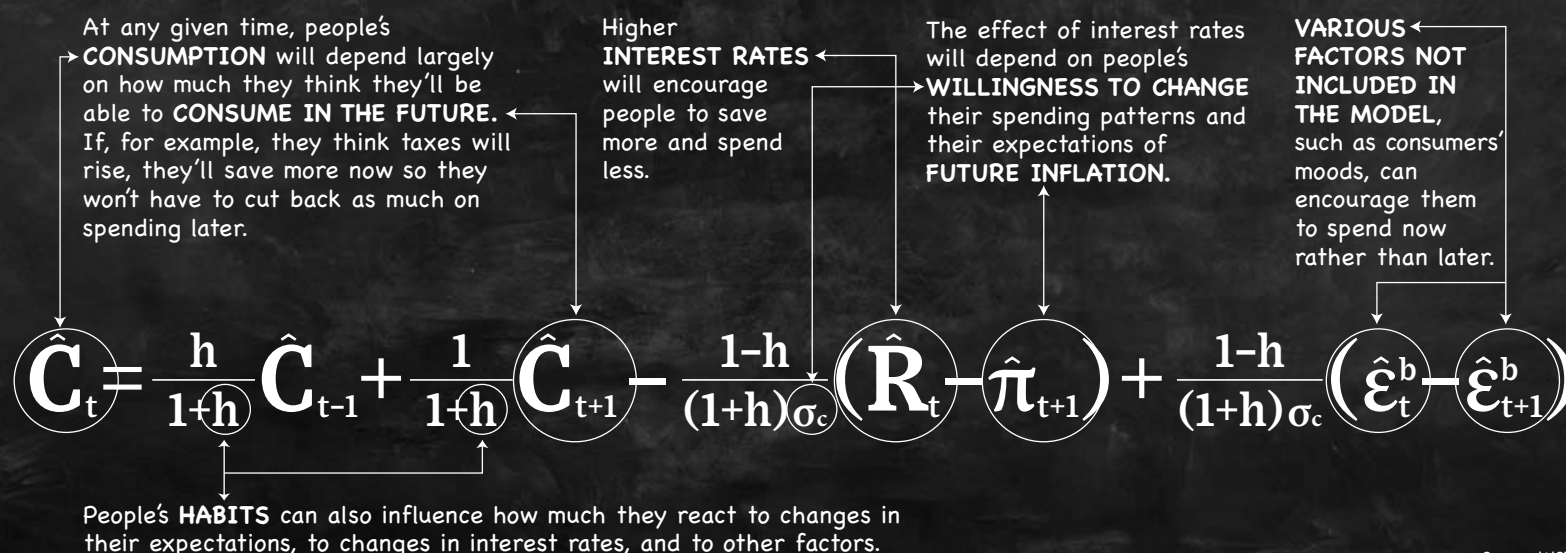
The tough part is coming up with rules that bear some relation to reality. To that end, Mr. Farmer and three economists—Robert Axtell of George Mason University, John Geanakoplos of Yale University and Peter Howitt of Brown University—are hoping to involve dozens of experts on the behavior of consumers, investors and firms in a massive model-building project. Inputs could include everything from historical data to interviews.

"It's going to be a very hard job that will require a lot of time and persistence," says Mr. Farmer. He estimates that a proper agent-based model could take many years to build, but would cost a tiny fraction of the \$1 billion a year the government spends on the National Weather Service. "This is not something you can do in your kitchen."

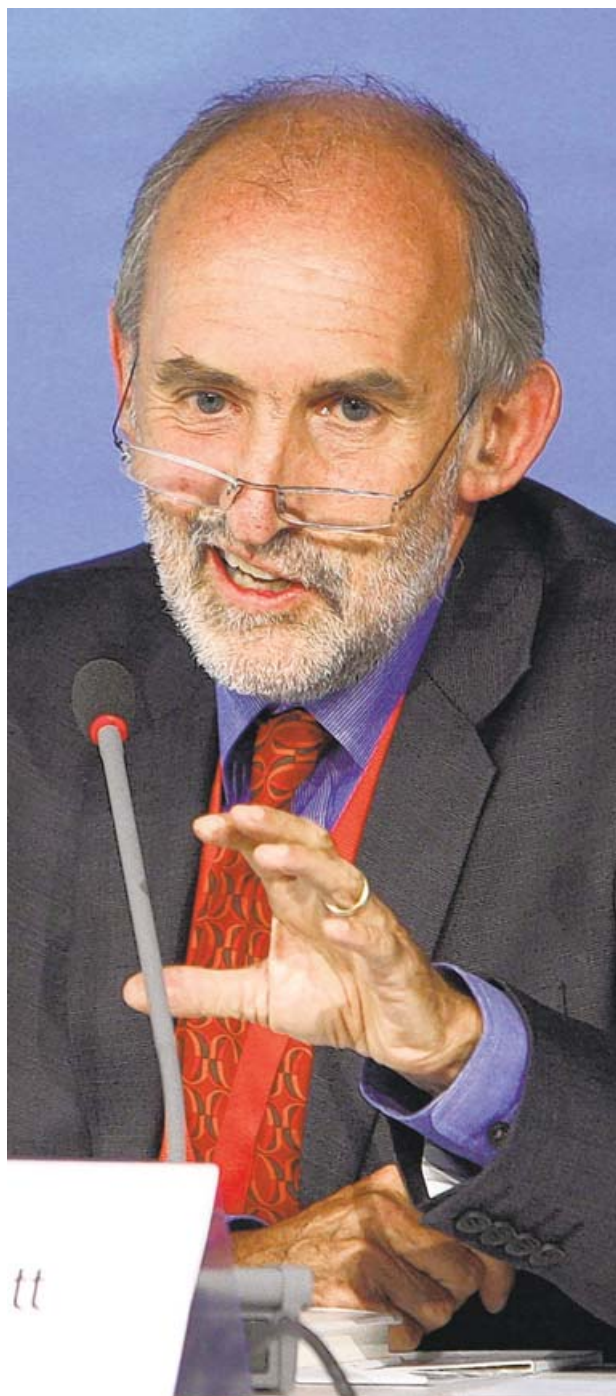
Writing better rules for human behavior

Decoding the model

Economic models, including those used at the world's most powerful central banks, seek to reduce the entire economy to a handful of mathematical equations. Here, for example, is an equation describing consumer behavior from a European Central Bank model.



THE BIG READ



(Left to right) Rick Schell Jr.; Global Economic Symposium; Roman Frydman

Grappling with a riddle that they hope will catalyze a revolution in economics are, from left, physicist Doyne Farmer, psychoanalyst David Tuckett and economist Roman Frydman.

will require researchers to dig deeper into the human psyche, says Mr. Tuckett, a professor at University College London. Specifically, he's looking into how unconscious needs and fears can cause big swings in financial markets.

The field of economics has already borrowed from psychology to help explain the sometimes irrational behavior of people and markets. Psychologist Daniel Kahneman shared a Nobel Prize in 2002 for his work identifying the ways in which humans systematically overestimate or underestimate risk.

Mr. Tuckett goes one leap further. Extensive interviews with money managers have led him to posit that because certain financial instruments are so volatile and hard to value, they trigger humans' tendency to fantasize. Borrowing language from Sigmund Freud, he calls such financial assets "phantastic objects," which people see alternately as capable of fulfilling their dreams of wealth and power or utterly worthless and repulsive.

Economic models, argues Mr. Tuckett, need to account for the way peoples' behavior changes with the psychological context. When they're in fantasy mode, they'll place astronomical values on anything from Dutch tulips to dot-com stocks to complex mortgage securities. When they realize the folly of their ways, they'll focus only on the flaws. He hopes to create a survey of investors' state of mind, which could be used as an input for an agent-based model such as the one Mr. Farmer is developing.

The 63-year-old psychoanalyst, who is working with Manchester Business School finance professor Richard Taffler to develop a new field of "emotional finance," says it could be a long time before his ideas reach the mainstream.

"Economists have been terrified of psy-

chology," says Mr. Tuckett. "They believe that if they take it on board, they'll have to go interviewing people and will never be able to make generalizations."

Mr. Frydman, a professor at New York University, is accustomed to the role of an outsider. The 62-year-old economist says that even as a graduate student in the 1970s at Columbia University, he didn't buy into the concept of rational expectations—a stance that has left him to pursue a career on the academic margins for more than three decades.

The main flaw in the dominant models, he says, is the same feature that makes them so attractive to policy makers: Their ability to make precise predictions. To generate their predictions, the models assume that people, firms and other players always make decisions in the same way. The players must also share the same beliefs about the exact probabilities of various outcomes, such as a rise in car prices or tax rates.

"It's like socialist planning," says Mr. Frydman. "If we really knew that much, we could have Communism and God knows what." Capitalism works better than other systems, he says, because it lets people disagree about the future and profit from their insights—rational behavior that models don't accommodate.

Mr. Frydman doesn't offer a better way to make predictions. Rather, he believes economists and policy makers must come to terms with the limits of their knowledge.

Consider the housing market. If prices far exceed historical averages, as they did in 2006, we can know there's an elevated risk of a crash. What we can't know, says Mr. Frydman, is when that crash will occur, how exactly consumers will respond, or how much a given decrease in interest rates might help.

In Mr. Frydman's view, the best that pol-

icy makers can do is try to limit extreme swings. A central bank might, for example, set indicative parameters for the prices of assets such as stocks, bonds and houses. If prices exceed those parameters, potential buyers will be forewarned that they're taking on added risk of a big loss—and might even think twice about doing so.

Developed with economist Michael Goldberg of the University of New Hampshire, Mr. Frydman's concept of "imperfect knowledge economics" has some influential admirers, including Nobel Prize-winning economist Edmund Phelps of Columbia University.

The ideas of Messrs. Farmer, Tuckett and Frydman are just a few of the myriad being hatched around the globe.

Many economists think the next big idea will more likely come from the ranks of younger Ph.D. candidates, who are producing reams of work examining the financial crisis. Established academics—such as Mr. Gertler, Nobuhiro Kiyotaki of Princeton, Marcus Brunnermeier of Princeton, Michael Woodford of Columbia and Robert Hall of Stanford—are making progress on including banks, financial markets and even a bit of irrationality in traditional models.

Mr. Farmer says he thinks the traditional models will always be useful for certain types of analysis, but isn't optimistic they'll provide the whole solution. "Economic forecasts have never been very good, and it's not clear that if we stick with the methods we're pursuing we'll do any better," he says. "We need to try something new."

The question is far from academic. For decades, most economists, including the world's most powerful central bankers, have supposed that people are rational enough, and the working of markets smooth enough, that the whole economy can be reduced to a handful of equations.

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MARKETS LINEUP

Moving the markets

At right, Europe's benchmark stock indexes and stocks Tuesday. 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.

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European indexes...

FTSE 100

U.K.

5528.27

▼ 0.41% or 22.68

Investors continued to sell banking stocks because of fear over the euro-zone crisis. The index has fallen for three straight sessions, bringing the monthly loss to 2.6%.



Stock	Volume in millions	Close In pence	Change Net	Change %
Lloyds Banking Grp	247.55	60.41	-0.13	-0.21
RoyalBnkofScot	184.04	37.59	-0.93	-2.41
VodafoneGp	174.27	160.75	1.45	0.91
Barclays	79.53	256.15	-6.80	-2.59
HSBC Hldng	44.24	648.30	-3.10	-0.48

DAX

Germany

6688.49

▼ 0.14% or 9.48

Better-than-expected economic data in the U.S. limited the market's losses. The index gained 1.3% in November, its third straight month of gains.



Stock	Volume in millions	Close In euro	Change Net	Change %
DeutscheTel	21.35	9.87	unch	...
InfineonTch	14.20	6.85	0.07	1.03
Commerzbank	13.49	5.61	-0.11	-1.84
DeutscheBk	12.76	36.60	-0.53	-1.41
DeutschePost	9.17	12.35	-0.32	-2.49

CAC-40

France

3610.44

▼ 0.73% or 26.52

The index has lost 5.8% this month. Banks continued to fall as the rescue plan for Ireland failed to bring calm to financial markets in the euro zone.



Stock	Volume in millions	Close In euro	Change Net	Change %
Alcatel Lucent	29.34	2.092	0.007	0.34
AXA	22.82	11.060	-0.410	-3.57
CreditAgricole	17.57	9.441	-0.259	-2.67
FrTelecom	11.44	15.600	-0.155	-0.98
ArcelorMittal	11.39	24.285	0.410	1.72

BUX

Hungary

20639.64

▲ 2.07% or 418.27

The index closed higher, despite a surprise interest-rate increase on Monday. Investors sought bargains, breaking a streak of seven sessions of losses.



Stock	Volume in millions	Close In forint	Change Net	Change %
OTP	3.10	4925	110	2.28
MagyarTelekom	2.50	545	6	1.11
Econet.Hu	1.18	96	3	3.23
MOL	0.23	18595	345	1.89
PannErgy	0.08	840	30	3.70

European stocks in the news

Cairn Energy

United Kingdom

386.50 pence

▲ 2.4% or 8.90 pence

Cairn rose after losses Monday as analysts welcomed the firm's obtaining new exploration licenses.



Price-to-earnings ratio	120		
Earnings per share, past four quarters	3.23		
Dividend yield	None		
	PERCENTAGE CHANGE		
	Daily	1wk.	52 wks
Oil & Gas	...	-3.0%	-14.4%
Cairn Energy	2.4%	51%	22.9%

Alstom

France

€31.74

▲ 2.6% or €0.79

Deutsche Bank upgraded the engineering company to "buy" from "hold."



Price-to-earnings ratio	9		
Earnings per share, past four quarters	3.62		
Dividend yield	3.91%		
	PERCENTAGE CHANGE		
	Daily	1 wk.	52 wks
Indus Gds & Svcs	-0.1%	-1.5%	12.3%
Alstom	2.6%	-3.5%	-36.2%

Lukoil Hldgs

Russia

1,735.00 ruble

▲ 3.1% or 52.10 ruble

The energy company reported better-than-expected third-quarter results.



Price-to-earnings ratio	6		
Earnings per share, past four quarters	287.29		
Dividend yield	3.00%		
	PERCENTAGE CHANGE		
	Daily	1 wk.	52 wks
Oil & Gas	...	-3.0%	-14.4%
Lukoil Hldgs	3.1%	2.0%	0.6%

Porsche Automobil

Germany

€57.93

▲ 3.7% or €2.05

Porsche said its plan to form a combined company with Volkswagen still stands.



Price-to-earnings ratio	None		
Earnings per share, past four quarters	-2.17		
Dividend yield	0.17%		
	PERCENTAGE CHANGE		
	Daily	1 wk.	52 wks
Automobiles & Parts	-0.6%	-2.7%	24.7%
Porsche Automobil	3.7%	9.2%	24.4%

Essar Energy PLC

United Kingdom

522.00 pence

▲ 4.1% or 20.50 pence

The company will enter the MSCI World index after markets close on Thursday.



Price-to-earnings ratio	None		
Earnings per share, past four quarters	n.a.		
Dividend yield	None		
	PERCENTAGE CHANGE		
	Daily	1 wk.	52 wks
Oil & Gas	...	-3.0%	-14.4%
Essar Energy PLC	4.1%	5.6%	..

Soc. Generale

France

€35.71

▼ 3.6% or €1.35

Like Dexia and Standard Life, the bank was caught up in concern over the euro-zone crisis.



Price-to-earnings ratio	8		
Earnings per share, past four quarters	4.45		
Dividend yield	0.70%		
	PERCENTAGE CHANGE		
	Daily	1 wk.	52 wks
Banks	-1.4%	-5.9%	-27.1%
Soc. Generale	-3.6%	-7.9%	-25.3%

Standard Life

United Kingdom

201.20 pence

▼ 3.7% or 7.80 pence

Concern over the potential need for more bailouts in the euro zone hurt insurance shares.



Price-to-earnings ratio	11		
Earnings per share, past four quarters	18.80		
Dividend yield	6.18%		
	PERCENTAGE CHANGE		
	Daily	1 wk.	52 wks
Insurance	-2.0%	-7.2%	-16.7%
Standard Life	-3.7%	-5.4%	-4.8%

Resolution Ltd.

United Kingdom

211.30 pence

▼ 3.8% or 8.30 pence

J.P. Morgan Cazenove gave the insurance buyout company an "underweight" rating on Monday.



Price-to-earnings ratio	None		
Earnings per share, past four quarters	488.83		
Dividend yield	7.54%		
	PERCENTAGE CHANGE		
	Daily	1 wk.	52 wks
Insurance	-2.0%	-7.2%	-16.7%
Resolution Ltd.	-3.8%	-6.8%	-35.2%

Dexia

Belgium

€2.82

▼ 3.8% or €0.11

Financial stocks fell as concern continued over the European debt crisis.



Price-to-earnings ratio	6		
Earnings per share, past four quarters	0.46		
Dividend yield	None		
	PERCENTAGE CHANGE		
	Daily	1 wk.	52 wks
Banks	-1.4%	-5.9%	-27.1%
Dexia	-3.8%	-2.8%	-42.0%

Jeronimo Martins

Portugal

€10.90

▼ 4.7% or €0.54

The food retailer fell after three days of gains amid worry over Portugal's financial prospects.



Price-to-earnings ratio	27		
Earnings per share, past four quarters	0.41		
Dividend yield	1.04%		
	PERCENTAGE CHANGE		
	Daily	1 wk.	52 wks
Retail	-0.9%	-2.7%	-1.2%
Jeronimo Martins	-4.7%	-5.5%	60.2%



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ABB to pay \$3 billion for Baldor

By GINA CHON

Swiss conglomerate **ABB Ltd.** said Tuesday it is acquiring electric-motor manufacturer **Baldor Electric Co.** for about \$3 billion.

ABB will pay \$63.50 a share in cash, or \$4.2 billion in total including the assumption of \$1.1 billion in debt, for Fort Smith, Ark.-based Baldor. It is a 41% premium compared to Monday's closing price of \$45.11.

The deal marks ABB's first major acquisition in the U.S. and retains Baldor's Arkansas headquarters and brand name. The Baldor sale gives ABB a foundation to establish a presence in the U.S., while also allowing Baldor to take advantage of ABB's global distribution.

The Zurich-based power and industrial automation company operates in about 100 countries and employs about 117,000 people. ABB produces electric grids, generators, industrial robots, transmissions for power systems and other products.

The company said it could continue its shopping spree, even after using some of its roughly \$5.3 billion cash pile to buy Baldor.

"We still have excess cash, and some people would define our balance sheet as efficient, so we continue to look at opportunities out there," ABB Chief Executive Joe Hogan said on a conference call outlining the acquisition.

ABB in October reported net income for the third quarter was \$774 million, compared with about \$1 billion in the same period in 2009.

For the third quarter, Baldor had sales of \$453.7 million, a 19% jump from the year-earlier period. Net income more than doubled to \$25.7 million in the third quarter, from \$12.6 million a year earlier.

Baldor makes electric motors, power transmissions, generators and other products, which are produced at 26 plants in the U.S., Canada, England, Mexico and China.

Like many companies in the industrial sector, Baldor is recovering from the financial downturn. Company executives said in statements that last year was one of the most difficult in its history, with sales totaling \$1.52 billion in 2009.

That reflected a 22% drop from 2008, when the company had record sales of \$1.95 billion. But Baldor is starting to benefit from improving global demand. The two companies fit "like a glove" with little overlap in products or geographies, ABB executive Ulrich Spiesshofer said.

Citigroup and law firm **Kirkland & Ellis LLP** are advising ABB, while **UBS AG** and law firms **Gibson, Dunn & Crutcher LLP** and **Thompson Coburn LLP** are working for Baldor.

—Katharina Bart contributed to this article.

Deal drought worsens in Europe

By DANA CIMILLUCA

LONDON—The wave of financial turmoil sweeping over Europe isn't only scaring investors away from the region's stocks and bonds, it appears to be chasing away corporate deal makers, too.

In the past two months, the value of deals with the target located in Europe accounted for 26% of the global total, according to Dealogic. That would be the lowest level of any quarter in the past five years.

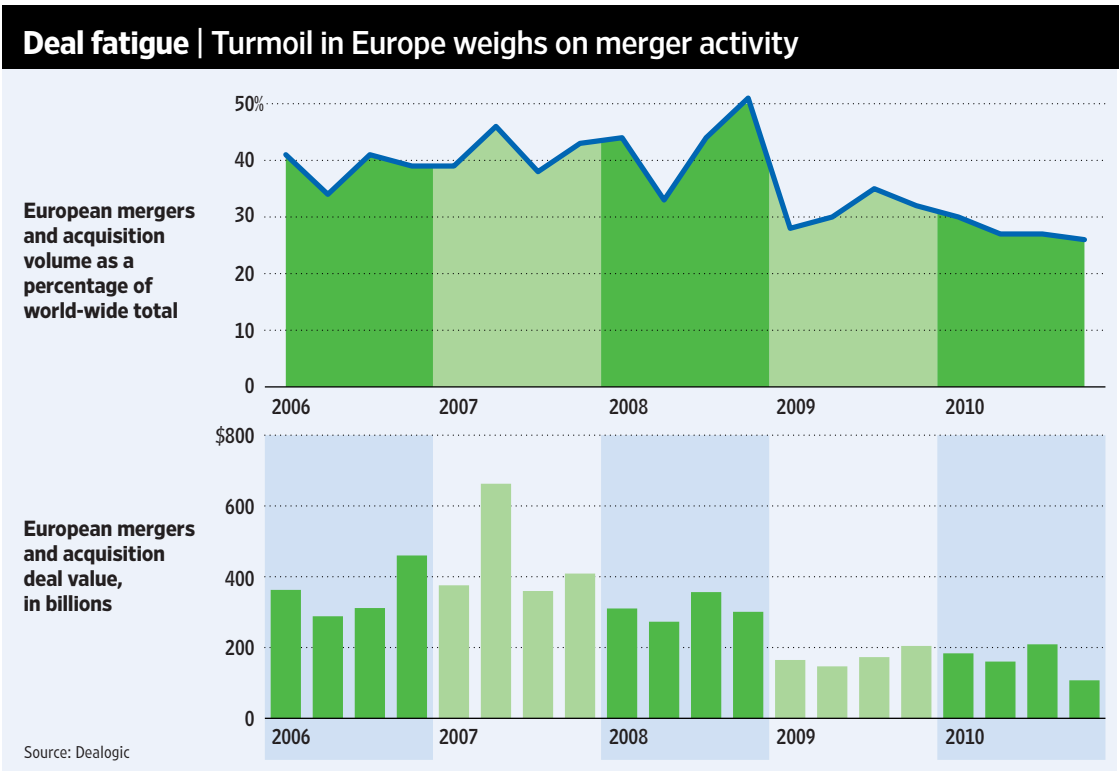
Indeed, after regularly accounting for more than 40% of global deal volume before the financial crisis, the European region's contribution to the mergers and acquisitions pie has declined steadily over the past two years.

Corporate deal making thrives in a benign economic and financial environment, and at the moment the atmosphere in Europe is anything but. Fear over the ability of the region's weaker economies to fund themselves has blossomed with Ireland's need this week for a huge international bailout package.

A number of M&A bankers in Europe, many as recently as August, had expressed optimism that the worst of the deal drought had passed. But now, many privately concede that their pipeline of deals in the works is thin. In a survey released Tuesday by **UBS AG** and **Boston Consulting Group**, 40% of 179 European executives polled said they called off some or all of their planned M&A this year. Their report calls 2010 a "lost year" for M&A.

In an interview, Axel Ross of BCG said the number of aborted deals the firm has worked on this year is double the normal annual level.

Even in the best of times, a delicate balance of complicated factors must be struck before two sides can come together on deals. Seemingly insignificant details can scuttle them—let alone the weighty finan-



cial and economic challenges Europe faces now as concern mounts that other countries could follow Ireland to the brink of insolvency.

Reflecting the nervousness, stocks, often the best indicator of how fertile the ground is for deals, have been falling. The Stoxx Europe 600 index is down 4% in the past three weeks from a post-financial-crisis high reached Nov. 9.

Sovereign-debt concerns have bedeviled deal makers since international attention focused on Dubai's financial woes a year ago and Greece required a bailout earlier this year. Those concerns were added to a list of factors that were already slowing the gears of the acquisition machine in Europe, such as inflexible labor markets and the

protectionist bent of a number of countries, including France and even increasingly England.

"European M&A is out of sync with the rest of the global market," said Daniel Stillit, M&A analyst at UBS.

Europe's share of the global M&A pie is shrinking at a time when that pie itself has declined sharply.

Global announced merger volume so far this year is \$2.4 trillion, little more than half the \$4.3 trillion high of 2007. While global deal activity has inched up 9% from last year's depressed level, Europe's is down 4%, according to Dealogic.

There are pockets of strength in the European M&A market. Companies with global operations, even those based in troubled countries,

can still make for attractive merger candidates. "You're going to see deals today when they make strong strategic sense," said Roland Phillips, UBS's European head of consumer and retail investment banking, in an interview.

UBS expects 70 to 80 deals worth €1 billion (\$1.3 billion) or more in 2011, up from just 54 so far this year, according to the report. Executives expressed "measured optimism" that could indicate the beginning of a sustained upward swing in M&A next year, the survey found.

While the slowdown in Europe hasn't triggered large-scale layoffs in the deal community, a number of banks staffed up in anticipation of a stronger resurgence this year that never materialized.

EU opens antitrust probe against Google

By CHARLES FORELLE AND FRANCES ROBINSON

BRUSSELS—The European Union's antitrust cop began a formal investigation of **Google Inc.** that zeroes in on its core search and advertising businesses, cementing the Silicon Valley company's position as Europe's premier corporate target.

At issue is whether Google manipulates search results to disfavor providers of Web services, such as price-comparison tools, that Google competes with. The European Commission, the EU's antitrust watchdog, also is investigating allegations that Google restricts which advertisements website operators who use its ad services can display.

The inquiry has been percolating since at least February, when Google



Competing Web services allege that Google manipulates search results.

disclosed that the commission was looking into complaints from other, smaller Web services.

Elevating the investigation to formal status puts the case on a more serious track that could lead to

a finding that Google is breaking antitrust laws. Such a finding, if it arrives, is likely years away, however. And forcing Google to change its operations could be tough.

The probe isn't Google's first clash in Europe. The commission did a lengthy investigation of Google's purchase of **DoubleClick Inc.**, before ultimately clearing the deal in 2008. European countries have complained about Google's Street View feature, which shows photographs taken on streets and which collected personal data from Wi-Fi networks. And Google agreed to hold on to search records for a shorter period of time after pressure from an EU advisory

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HEARD ON THE STREET

Email: heard@wsj.com

FINANCIAL ANALYSIS & COMMENTARY

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Vodafone foray is now Indian nightmare

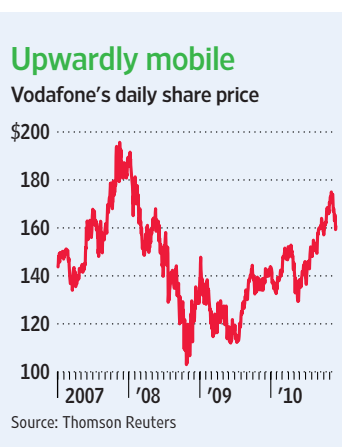
Vodafone's foray into India has been a disaster. In 2007, it paid £5.5 billion (\$8.57 billion) to acquire 67% of Hutchison Essar. Three years later, it was forced into a £2.3 billion write-down after regulatory changes flooded the market with an unprecedented level of competition and sparked a price war. Now, it faces a disputed tax bill and possible retrospective charges on licences. The U.K. mobile operator now concedes it might take as long as 13 years to make an economic profit. Investors should ask whether it is worth the wait.

Vodafone entered India with high expectations, paying 16 times earnings before interest, taxes, depreciation and amortization for its majority stake. Including the cost of 3G licences, the company has invested £7.2 billion in the country to date. It is committed to a further £3.1 billion for the final 33% of the Indian business if **Essar Group** decides to sell

its stake before May. And the bill keeps rising. India is chasing Vodafone for £1.6 billion in tax charges, which the mobile operator is contesting. If it decides to impose additional charges for 2008 licenses, the market puts Vodafone's likely bill at £500 million.

Back in 2007, Vodafone promised returns on invested capital, or unlevered free cash flow, equal to its cost of capital by year five. Vodafone investors might reasonably demand 15% returns in such a risky market. Based on the £7.2 billion so far sunk in the venture, this would require it to generate more than £1 billion in 2012 post-tax profit. Vodafone doesn't publish national post-tax numbers, but in 2009 its Indian operations delivered operating profit of just £6 million. The market expects £100 million for 2011.

Vodafone insists it is committed to India. But the best it can promise now is that it will cover its cost of



capital sometime before 2020—and that distant target assumes double-digit revenue growth as mobile penetration and data use rises, market consolidation, and capital expenditure falling to midteens as a percentage of sales.

Those assumptions look optimistic. The Indian unit delivered 48% revenue growth in 2009 and still booked an operating loss. Capital expenditure is currently almost 30% of sales, with a scheduled 3G rollout next year maintaining pressure on investment. Regulation remains highly uncertain and market consolidation some way off.

Vodafone already has a lot on its plate sorting out minority investments in the U.S. and France. Based on average Indian peer-group multiples of eight times 2010 Ebitda, the Indian unit is worth around £7 billion to £8 billion.

True, a sale at these levels would trigger further write-downs, particularly if Vodafone were first forced to buy Essar's stake. And in the current environment, would-be buyers may be thin on the ground. But if one comes along, Vodafone should seize the chance to cut its losses.

—Hester Plumridge

Hyundai's family feud hits shareholders

This is a family discount, but not the kind you would brag about.

Family-controlled and run with little regard for minority shareholders, many of South Korea's companies fall short on governance scales. It is one reason Korean stocks trade at a discount to the rest of Asia.

The latest reminder of why is the fight over a 35% stake in **Hyundai Engineering & Construction**. On sale by creditors, the stake drew only two bids, both from former members of the Hyundai *chaebol* that was split up after the Asian financial crisis. The loser, **Hyundai Motor**, is flush with cash but lacked a clear business rationale for the investment. But the winner, **Hyundai Group**, hasn't satisfied all of Hyundai E&C's creditors that it has the financing in place to close the deal.

The finger pointing and legal threats only cement the view that this is a feud between family members competing for control of their inheritance. More important, it doesn't take much to see how minority shareholders are getting stiffed. Even if Hyundai Group can finance its bid, it will do so only by taking on huge amounts of debt. Meanwhile, investors worry about how Hyundai Group might extract cash from Hyundai E&C. Its shares are down nearly 17% in a month.

One reflection of Korea Inc.'s low regard for minority shareholders is the rate at which companies hand cash back to investors. Korea's dividend yield, expected to be 1.6% in 2011, is half the average of the rest of Asia, Citi Investment Research data show.

Governance is a problem across Asia, but Korea rates poorly given its stage of economic advancement. A ranking of 11 nations by the Asian Corporate Governance Association put Korea third from the bottom.

There are other reasons investors refuse to bid up Korean stocks. But this one brings a new meaning to the phrase family values.

—James Simms
and Mohammed Hadi

Google finds no coupon for Groupon

For two years of work, \$6 billion isn't a bad pay day. According to the All Things Digital blog, that is what **Google** may pay for **Groupon**, a couponing website launched in 2008. To justify the steep price would require a fundamental shift in how Google does business.

Groupon is on track to generate \$600 million of revenue in 2010, estimates Barclays analyst Doug Anmuth, growing to perhaps \$1.5 billion next year. A privately held company, it isn't clear how profitable Groupon is, but four times 2011 revenue doesn't seem an outlandish multiple to pay, considering its rapid growth and strategic value to Google.

An Internet-coupon business offering daily deals to users, Groupon provides a powerful marketing opportunity to small local businesses that have thus far been resistant to advertising online. Historically, these businesses have advertised in the yellow pages, on the radio, on TV,

and by direct mail. Even though consumers are increasingly on the Internet, however, small businesses still spend just 10% of advertising dollars online, according to Gordon Borrell of research firm Borrell Associates.

Google has tried to capture a bigger share of local advertising dollars, but its primary product—paid links next to search results—is ineffective for the vast majority of small businesses, says Mr. Borrell. Few sell products or services online, so paid search doesn't pay. Groupon has proved more effective, sending customers through the front door. Buying Groupon could thus give Google a more successful way to engage with local merchants.

Google would also get email addresses and other personal information from Groupon users, which would enable it to provide more targeted, more lucrative ads to them.

Part of the rationale of the deal has to be using Google's immense scale to expand Groupon's business,

but that is easier said than done. Groupon's business is driven by people, who talk to merchants directly to arrange deals. Google's business is all about technology, and providing merchants with a self-service online advertising tool. Groupon shows that, in local online advertising, individual contacts beat an automated tool. So to build on Groupon's success, Google will likely have to make significant investments in people.

Moreover, if an automated solution were easy, it would make little sense for Google to pay billions for Groupon when it could launch its own coupon product for a fraction of that.

With \$33 billion of cash on its balance sheet, Google has plenty of dry powder to invest in growth. With its shares down 5% on the deal rumors, however, shareholders seem skeptical that Groupon's feet on the ground really are worth such lofty numbers.

—Rolfe Winker

OVERHEARD

The European Central Bank has been accused of not doing enough to ease the euro-zone debt crisis. But could some of its actions actually be making the situation worse?

When traders at **UBS** recently received an order to sell €600 million (\$787.4 million) of Irish government bonds, it first offered the portfolio to the ECB, which has a mandate to buy peripheral euro-zone bonds as part of its efforts to stabilize markets.

Under the circumstances, the ECB might have been expected either to refuse to buy any bonds or bid for pretty much the lot. Instead, it placed an order for just €20 million, according to someone familiar with the transaction. Not surprisingly, the ECB then had to watch the value of the bonds slump as UBS tried to offload the other €580 million—and Ireland's miseries grew.

—overheard@wsj.com

wsj.com/foodandwine

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EUROPE

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BUSINESS & FINANCE

Hiding Web users' online footprints

By JULIA ANGWIN
AND SPENCER E. ANTE

The makers of the popular Firefox Web browser are exploring ways to create a do-not-track mechanism that could offer Internet users a way to avoid being monitored online.

The effort comes just months after Firefox's creator, **Mozilla Corp.**, killed a powerful new tool to limit tracking under pressure from an ad-industry executive, *The Wall Street Journal* has learned. Mozilla says it didn't scrap the tool because of pressure, but rather out of concern it would force advertisers to use even sneakier techniques and could slow down the performance of some websites.

Meanwhile, online advertising company **Lotame Solutions Inc.** is also supporting efforts for an industry-created do-not-track mechanism. Lotame's powerful tracking technologies were featured in a front-page article in the *Journal* earlier this year.

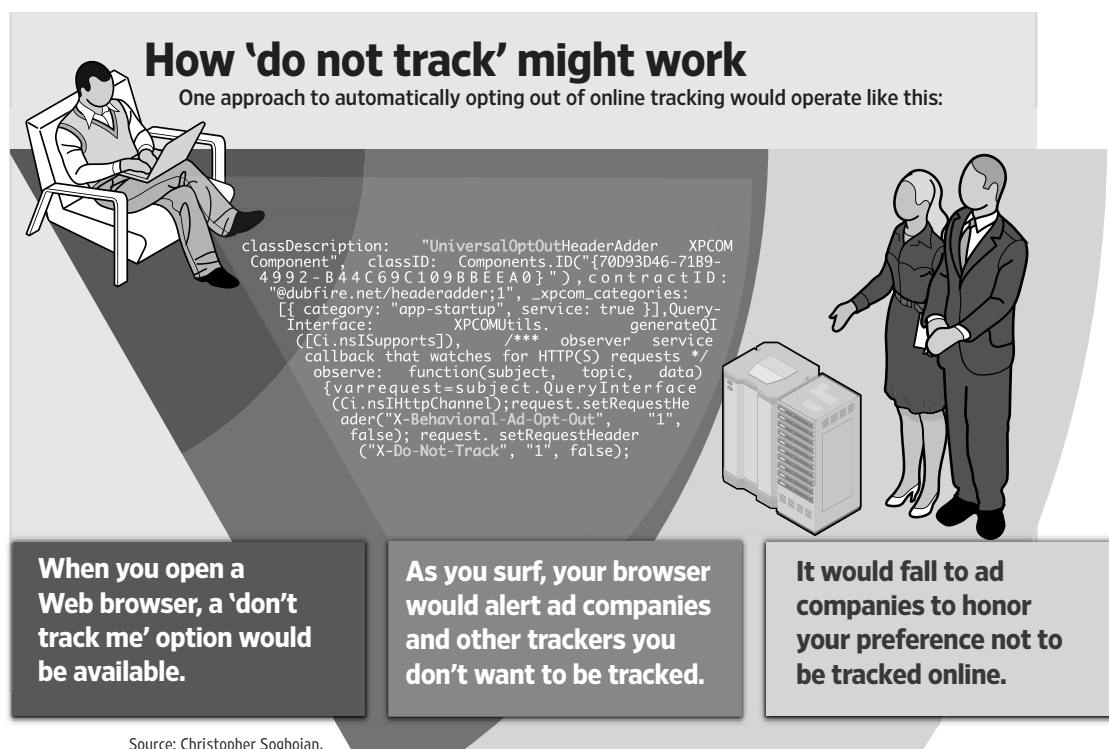
The tensions reflect growing concern about the burgeoning trade in personal information online. Increasingly, advertisers don't want to simply buy ads online—they want to buy access to specific people they consider most open to their message. The data-gathering industry is the subject of a *Journal* investigative report, "What They Know."

The idea of a do-not-track mechanism that could be built into Web-browsing software is gaining steam in Washington. This week, a House subcommittee on consumer protection is holding a hearing about do-not-track proposals and the Federal Trade Commission is expected to release an online privacy report that will promote a do-not-track mechanism.

Officials from Mozilla and Lotame are expected to appear at a separate panel this week to discuss how the industry could create its own do-not-track mechanism before "government tries to legislate how browsers function," according to the event organizer, Jules Polonetsky, director of the Future of Privacy Forum, an Internet-industry funded think tank.

The group will discuss a technical method that would allow Web browsers to broadcast a "do not track" message at a user's request.

For such a tool to work, browser makers would need to build in such a feature and tracking companies would need to agree to not track users that use the tool.



Source: Christopher Soghoian,

"Our goal is to put the user in control but not overwhelm them," says Mike Shaver, vice president of engineering at Mozilla. Firefox, the second-most-popular browser, was used by about 23% of the world's Web users in October, according to NetApplications.com. **Microsoft Corp.**'s Internet Explorer was selected by 59% of Web users and **Google Inc.**'s Chrome was used by about 9%.

Lotame, which is based in New York, operates an ad network that reached about 84 million people in October. It builds detailed profiles on Web users, including comments they type on websites, and sells that information to companies seeking customers. "We strongly support transparency and choice for online consumers," Lotame said. "In this spirit, we'll continue to adopt new and innovative privacy management tools."

Currently, tracking companies aren't required by law to offer people an option of not being tracked, though some voluntarily offer a so-called opt out.

Last week, the online-advertising industry unveiled a website, www.aboutads.info, which allows people to opt out of 58 tracking companies, including Lotame, with a single click. Mike Zaneis, senior vice president at the Interactive Advertising Bureau, said "we've built the

functional equivalent of do-not-track."

However, those 58 companies are only a portion of the tracking industry. Earlier this year, the *Journal* found 131 companies that installed tracking tools on computers of visitors to the top 50 U.S. websites. Former ad executive Jim Brock has compiled a list of 274 companies on his website, PrivacyChoice.org, that use tracking technology.

Of those companies, Mr. Brock has found 171 companies offer an opt-out option. To opt out, a consumer usually must install a file on her machine—called a cookie—that prevents data about the individual from being used for targeted advertising. Opting out doesn't prevent the user's information from being collected.

"The current cookie-based opt-out system is clumsy and fails too often," says Mr. Polonetsky of the Future of Privacy Forum.

Concerns about the effectiveness of opt-outs have prompted calls for a better method of blocking tracking. In 2007, nine privacy groups wrote a letter to the FTC calling for a "Do Not Track" list modeled on the Do Not Call registry that prohibits telemarketing phone calls. However, it isn't easy to create a list of computers to not be tracked, so the proposal died.

The idea resurfaced earlier this

year when privacy researchers came up with the notion of installing small bit of code in a Web browser that would essentially broadcast a message to every website saying "do not track this user." It would only work if tracking companies would agree to honor the user's request. So far, no tracking companies have signed on.

Neither have any commercial browser makers. Google and Microsoft both said they are awaiting details of a do-not-track proposal before taking a position. **Apple Inc.**, which makes Safari, the fourth-most-popular Web browser, declined to comment.

The *Journal* reported earlier this year that Microsoft had scaled back some privacy features in Internet Explorer 8 under pressure from the advertising industry.

Mozilla, which is run by a non-profit foundation that receives the majority of its revenue from Google, has also received pressure from advertisers about its efforts to limit tracking.

In May, Mozilla engineer Dan Witte proposed a mechanism that caused cookies to automatically expire when a user closed his or her Web browser. (By comparison, most tracking cookies last for years.) It only affected tracking cookies—not cookies that websites use to remember users' passwords or shopping-

cart information.

Mr. Witte's proposal was inserted into a developers' version of the Firefox browser on May 28. By early June, however, the news trickled out to advertising-industry executive Simeon Simeonov.

Mr. Simeonov is the co-founder of a company, Better Advertising, that provides technology to online-ad companies. When he heard about the change, Mr. Simeonov said he worried it "would have broad, unforeseen impact on the consumer experience and perhaps even on the Web ecosystem."

Mr. Simeonov reached out to the chief executive of Mozilla, who put him in touch with Jay Sullivan, vice president of products at Mozilla. The two spoke on June 9. Mr. Sullivan said Mr. Simeonov expressed concern that the change would prompt advertisers to "go underground" to conduct even more surreptitious forms of tracking. Mr. Sullivan said that Mr. Simeonov's comments "supported what we were already thinking."

Mr. Sullivan added that Mr. Simeonov was one of many people who expressed concerns about the change, including representatives from companies that use tracking tools to provide Web statistics and companies that host content on behalf of other companies. He said the tool would have slowed down or hampered the performance of those companies.

The software was removed from the Firefox prototype on June 10. Mr. Sullivan said it isn't unusual for proposed changes to be rejected. "We haven't precluded making all these changes but we didn't want to do it two weeks before the release" of a new test version of the browser, he said. The final version of the browser will be released early next year; it does not include any new tools to limit tracking.

Mr. Shaver rejected the notion that Mozilla's decisions may be influenced by the advertising industry. Rather, he said Mozilla is driven by the needs of Web users and its mission that the Internet must remain open and accessible.

In its most recent financial statements, Mozilla disclosed about \$86 million of its \$104 million in 2009 revenue came from an advertising agreement with Google.

"I wouldn't say we are under pressure from advertisers," said Mr. Shaver. "They are a big part of the economics of the Web. We want to understand what their needs are."

EU opens antitrust probe against Google looking at its online search

Continued from page 19
panel on privacy issues.

Under EU antitrust law, companies with a dominant position in their markets have a special responsibility to treat their rivals with care. EU case law puts restrictions on the extent to which dominant companies can "tie" ancillary products or services to their dominant offering. In a landmark 2007 case, an EU court ruled that **Microsoft Corp.** improperly tied its Media Player software to the dominant Windows operating system to the detriment of competing media-software vendors.

The EU has vast power to impose fines—it has hit Microsoft and **Intel Corp.** with penalties in excess of €1 billion (\$1.3 billion)—but recently

has had a harder time compelling a company to change its ways.

Microsoft responded to the Media Player ruling by offering a version of its operating system without the software. But nearly no one bought it. Intel, which didn't admit wrongdoing in a case about its sales practices, agreed to provide information about its practices and adjust some procedures. It has appealed the underlying ruling.

Google, which has about 80% of the European search market, according to the comScore research service, said Tuesday it has never intentionally hurt competing services and that there are "compelling reasons" why complaining sites were "ranked poorly by our algorithms." It said it would work with the com-

mission to address any concerns.

The complaints that prompted the investigation came from Ciao.de, a German subsidiary of Microsoft; Foundem.co.uk, a U.K. price-comparison site; and Ejustice.fr, a French site specializing in law-related queries, Google has said.

Google pointed out that Foundem is a member of Icomp, an Internet-business trade group partly funded by Microsoft that has been critical of Google. Microsoft has acknowledged helping direct complaints by small companies to competition authorities but says it doesn't orchestrate them.

David Wood, who represents Icomp, suggested that more complaints might be raised. "The commission will no doubt be pleased to

hear from other companies that have insight or concerns about Google's practices," said Mr. Wood, a lawyer at Gibson, Dunn & Crutcher in Brussels.

Google's search engine provides two types of results when users look for information online. Unpaid results, sometimes referred to as "natural" results, appear in the main body of a search-results page. And paid advertisements appear at the top and on the right side of the results page.

The commission said it will investigate whether Google lowered the page placement of unpaid results of services with which it competes, such as price comparison or specialized search, and placed its own services higher.

Tuesday's announcement by the commission also provided more detail about allegations that Google has tried to block advertisers from using competing search services.

The commission said Tuesday it is investigating whether Google "imposes exclusivity obligations" on websites for which it places ads, restricting the sites from placing certain other ads.

The EU also is looking into whether Google puts restrictions on computer and software vendors with the aim of shutting out competing search tools.

Google had a few exclusive contracts, but those were stopped almost two years ago, Google said.

—Thomas Catan
contributed to this article.

BUSINESS & FINANCE

Toyota to repair 650,000 Priuses

By YOSHIO TAKAHASHI

TOKYO—**Toyota Motor Corp.** said Tuesday it will repair cooling pumps in about 650,000 Prius hybrid cars world-wide in the company's latest effort to rehabilitate its reputation for quality and service that was badly hit by massive recalls earlier this year.

While the repairs aren't part of a recall required under law, Toyota decided to fix the Prius cooling pumps to ensure customers were fully satisfied, a company spokesman said.

Of the 650,000 Priuses to be fixed, about 390,000 are in North America, 180,000 in Japan and 70,000 in Europe, the spokesman said.

The pump could cause the vehicle to overheat and lose power, although there haven't been any reports of accidents or injury, the spokesman said.

The impact of the latest repairs is limited "since this seems minor compared to previous recalls," said Mitsushige Akino, chief fund manager at Ichiyoshi Investment Management.

On the Tokyo stock exchange Tuesday, the news of the coolant-



pump repairs and the weaker euro versus the yen dragged Toyota shares down 2.4% to 3,220 yen (\$38.22).

Earlier this year, the world's biggest car maker by sales volume came under intense criticism for its slow decision to recall more than 8.5 million vehicles to fix problems with gas pedals, floor mats and

braking systems.

After that, Toyota introduced measures to improve customer service. These included a special committee to oversee all operations, from research and design to production and sales. Toyota also set up quality committees in each major region to promptly respond to customer complaints.

In February, Toyota recalled 397,000 Prius hybrids globally, including about 200,000 in Japan, to fix problems with antilock braking systems.

The Prius has been the top-selling model in Japan for 18 straight months, helped by government buying incentives, although such aid expired in September.

Shell, Gazprom set deal to partner beyond Russia

By JAMES HERRON

LONDON—**Royal Dutch Shell PLC** and Russian gas giant **AO Gazprom** signed an agreement Tuesday that will deepen their existing partnership within Russia and see them work together outside Russia for the first time, Shell said in a statement.

The agreement promises "further development of bilateral cooperation in exploration and production of hydrocarbons in western Siberia and the far east of Russia [and] cooperation in the downstream oil products business in Russia and Europe, as well as Gazprom participation in Shell upstream projects outside of Russia," Shell said.

The pact was signed in Moscow by Gazprom Chief Executive Alexey Miller and Shell CEO Peter Voser. It will give Gazprom "new large-scale projects and growing joint presence in new markets," said Mr. Miller.

"This underscores the strong partnership our companies have built in recent years," said Mr. Voser. Gazprom and Shell are already partners in the Sakhalin-2 liquefied-natural-gas export project in Russia's far east, although Gazprom's entry only came about after pressure from

the Russian government for Shell to cede control.

"We are happy to invite foreign partners to develop our upstream reserves, but only if in exchange we get the access to their first-class projects somewhere in the world," said Gazprom Deputy Chief Executive Alexander Medvedev. "We do know Shell has good assets, which could be of interest for us."

Under former Chief Executive Jeroen van der Veer, Shell discussed participating in the development of huge energy resources in the remote Yamal Peninsula, which are seen as vital to Russia's ability to meet future demand for natural gas.

"Russia is an important area for new energy development for Shell, and I expect it will play a big role in meeting the world's growing demand for oil and gas in the years ahead," said Mr. Voser.

Gazprom already has joint ventures with large international companies, primarily linked to the Nord Stream and South Stream gas-export pipelines.

However, the company has had little success gaining direct access to international oil and gas exploration and production ventures.

Airbus to offer updated A320 with new, more efficient engines

By DANIEL MICHAELS AND PETER SANDERS

After months of consideration, European plane maker Airbus is expected to announce as soon as Wednesday that it will offer an updated version of its popular A320 single-aisle jet with more efficient, state-of-the-art engines supplied by **General Electric Co.** and **Pratt & Whitney**, according to people familiar with the plans.

The decision will put additional pressure on rival **Boeing Co.** as it ponders the future of its competing 737. Boeing has said that it is unlikely to offer new engines on the plane, but may instead design an entirely new single-aisle jetliner that could enter service by the end of the decade.

For Airbus, a unit of **European Aeronautic Defence & Space Co.**, the decision to offer new engines on the current A320 means that a new replacement is unlikely to come before 2025, company officials have said.

The new engines, offered by rivals GE and Pratt & Whitney, a unit of **United Technologies Corp.**, are still in development and testing. The Geared Turbofan from Pratt is ex-

pected to be available first; GE's LeapX engine will be certified later.

Airbus hopes that by offering a new engine and other small upgrades to the A320 it can boost sales and extend the life of its most popular product before having to undertake a costly new design program.

Airbus hopes that by offering a new engine and other small upgrades to the A320 jetliner it can boost sales and extend the life of its most popular product.

Officials from Pratt & Whitney didn't immediately respond to requests for comment.

Both engine makers are promising significant new fuel efficiencies that could cut fuel consumption by 15%.

Airlines typically regard any fuel savings of 2% or greater to be significant. Both companies have also promised reduced maintenance costs on the new engines.

Merck taps lawyer as new CEO

By JONATHAN D. ROCKOFF

Merck & Co. picked a lawyer as its new chief executive, becoming the latest pharmaceutical maker to tap a leader from outside of the laboratory as issues like defending patents and controlling costs have become pressing.

Kenneth Frazier made his name in Merck as the lawyer who masterminded the drug maker's strategy of defending the pain drug Vioxx by fighting every case separately instead of as a joint action. Controversial at the time, that strategy is now seen as having minimized Merck's losses and drawn an aggressive line against suits in an industry worried about legal liabilities.

Merck said it intends to follow the strategy set forth by current CEO Richard Clark of relying on its laboratories to replace drugs losing patent protection. Mr. Clark, who steps down Jan. 1, is nearing Merck's mandatory retirement age of 65; he will remain chairman.

A primary task, Mr. Frazier said, would be to bring to market promising therapies in Merck's late-stage pipeline, including therapies to prevent blood clots, cure hepatitis C and fight high cholesterol. "The most important thing is to continue on the strategy" that Mr. Clark established, Mr. Frazier said.

Mr. Frazier, a Harvard Law School graduate who was a corporate litigator before joining Merck in 1992, is the latest nonscientist to head a drug maker. **Pfizer Inc.** is similarly headed by a lawyer, while **Sanofi-Aventis SA** is run by an accountant.

"You have so many complexities in our business that didn't exist before," said Thomas Carey, a Spencer Stuart recruiter who handles life-sciences industry searches. "It wouldn't surprise me if you find more and more folks coming from the commercial side."

Mr. Frazier dismissed his lack of scientific expertise, noting that as head of Merck's commercial side he maintained overall sales despite the loss of patents for several blockbusters, while also overseeing the launch of new therapies like cervical-cancer vaccine Gardasil.

Merck will pay Mr. Frazier, 55 years old, a base salary of \$1.5 million, a bonus of up to 150% of salary and an equity package worth \$7.5 million, the company disclosed in a regulatory filing. Mr. Clark's compensation last year included a salary of \$1.8 million, a bonus of \$2.85 million and an equity package worth \$7.18 million.

—Joann S. Lublin and Peter Loftus contributed to this article.

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Corrections & Amplifications

The yield spread Monday between 10-year U.K. government bonds and German Bunds was 0.028 percentage point tighter at 0.643 percentage point, while the U.S.-German spread was 0.035 percentage point tighter at 0.157 percentage point. A Markets article Tuesday incorrectly said the U.K.-German yield spread was 0.28 percentage point tighter at 6.43 percentage points, and the U.S.-German spread was 0.35 percentage point tighter at 1.57 percentage points.

Congressman-elect Hansen Clarke is from Michigan. The Quirk article Tuesday about lawmakers sleeping in their offices incorrectly gave Mr. Clarke's name as Clarke Hansen.

BUSINESS & FINANCE

Did rules worsen pay situation?

By Aaron Lucchetti

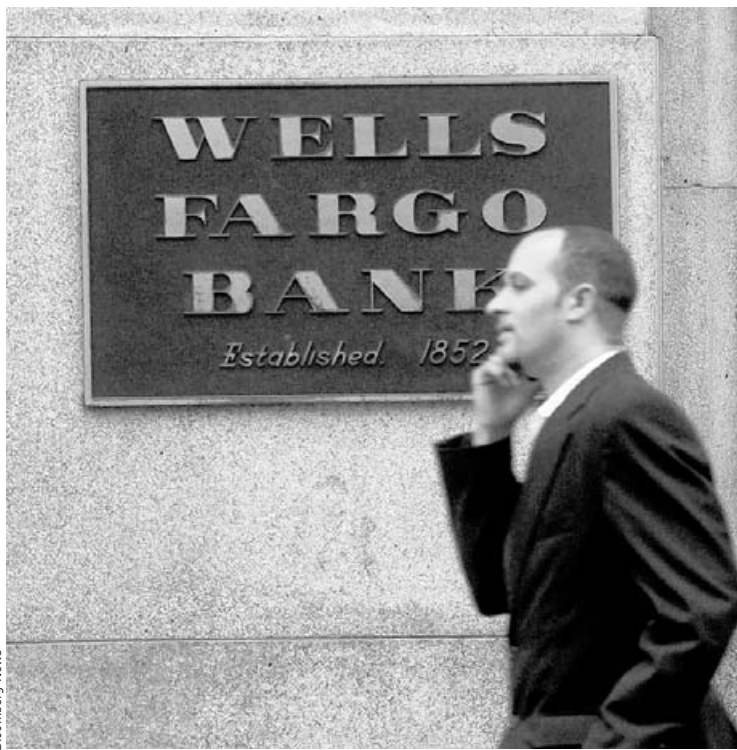
A study prepared for an influential shareholder group says rule changes meant to revamp Wall Street's pay culture have been negative, concluding that pay practices at six U.S. banks and securities firms have "worsened" since the financial crisis.

The report, set to be released Tuesday and commissioned by the Council of Institutional Investors, which represents about 130 pension funds, contends that financial firms still tie too much of their compensation to short-term results and have increased salaries to offset the impact of recent regulatory curbs on pay.

"Very little of any real import has changed" since financial stocks began tumbling in 2007 as the subprime-mortgage issue emerged, wrote Paul Hodgson, a senior research associate at Corporate Library, a corporate-governance research firm that produced the report. "On balance, pay practices have worsened."

The study could influence opinions and strategic moves by institutional investors that are part of the Council of Institutional Investors as year-end bonuses are decided on Wall Street. The shareholder group includes pension funds ranging from the California Public Employees' Retirement System to the Florida State Board of Administration.

Some institutional investors have become more vocal about pay practices criticized for encouraging reckless risk-taking and failing to penalize executives enough when banks and securities suffered during the crisis. Shareholders of U.S. companies recently won the power to cast a nonbinding vote on pay, though no "say on pay" measures have passed at the nation's largest banks. This year's proxy season is likely to feature more shareholder proposals on pay and lobbying about how to



Wells Fargo rewarded executives after the crisis with salary increases.

vote on say-on-pay measures.

In response to outside pressure, Wall Street firms have shifted their compensation structure to include more stock to pay bonuses, deferring additional pay until later and bolstering so-called clawback provisions that allow companies to seize compensation under certain circumstances. Companies also have generally shifted a higher percentage of overall pay to base salaries in an effort to de-emphasize bonuses seen by some critics as fueling a swing-for-the-fences mentality.

Meanwhile, U.S. regulators led by the Federal Reserve have been examining Wall Street pay practices to ensure that they don't encourage excessive risk. Regulators in Europe have been more aggressive in proposing restrictions on pay levels.

Still, the report concluded that the changes in the U.S. might not be enough to help prevent future crises. "While many banks have strengthened their pay practices, there's still a long way to go," said Amy Borrus, deputy director at the Council of Institutional Investors. "The report suggests they need to do more to make sure that executive compensation rewards performance over the long term."

For example, some financial firms actually rewarded executives after the crisis with "massive salary increases," including four Wells Fargo & Co. officials who saw their base salary at least triple from 2008 to 2009, according to the report. Wells Fargo, Citigroup Inc. and Bank of America Corp. each "exploited a loophole" in rules trig-

gered by the Treasury Department's bailout of financial firms in late 2008 by paying salaries ranging from \$3.3 million to \$9.9 million, the report added.

A Wells spokeswoman said the firm "rewards long-term performance" and that the firm, much larger after the Wachovia Corp. acquisition, generated record profits in 2009. Representatives from BofA and Citi declined to comment, noting they hadn't seen it. The level and structure of the banks' compensation were established in close consultation with government officials.

The group recommended that U.S. financial firms tie pay even more closely to future performance. The practice is more common at non-U.S. banks, where bonuses depend on whether an employee maintains his performance. Mr. Hodgson also suggested that clawback provisions be toughened beyond the material loss, fraud or earnings restatements that trigger them now.

Bank executives have defended the use of more stock in bonuses as a way to better align employee incentives with shareholders. One program favored by Mr. Hodgson: so-called performance shares that fluctuate based on a company's relative performance. At Morgan Stanley, for example, some refer to the New York company's new performance-share program as making executives "earn their bonuses twice."

Such shares represented about 20% of the firm's overall compensation last year, rising and falling in value along with the firm's share price and return on equity in the following three years. Wells Fargo awarded its executives similar "retention performance shares."

Financial firms included in the study are BofA, Citigroup, Goldman Sachs Group Inc., J.P. Morgan Chase & Co., Morgan Stanley and Wells Fargo. The six companies had combined assets of \$9.44 trillion as of Sept. 30.

Google is in talks to acquire Groupon

By Amir Efrati

Google Inc. has been in talks to buy Groupon Inc., a fast-growing website offering daily deals at businesses in the U.S. and abroad, according to a person familiar with the matter.

No deal is imminent between Google and Groupon, said people familiar with the matter. One of these people said that other parties recently offered to finance Groupon at a valuation of more than \$3 billion.

Spokespeople for Google and Groupon declined to comment. The website All Things D earlier reported that Google has offered \$5.3

A deal for the website would boost Google's position in the race to win local business-ad dollars.

billion for Groupon, with a \$700 million earnout, or performance hurdle. News Corp. owns All Things D and The Wall Street Journal.

A deal to buy Groupon would boost Google's position in the race to win local business-ad dollars online, an area coveted by other large Web companies including Facebook Inc.

A deal between Google and Groupon likely would also eclipse Google's \$3.1 billion purchase of DoubleClick in 2007—its largest to date—which has since helped the Internet search giant in its push in the market for online graphical ads.

AIG returning to bond market

By Serena Ng
And Katy Burne

NEW YORK—American International Group Inc. kicked off its first bond sale in more than two years, a key part of the bailed-out insurer's plan to regain financing independence as it prepares to end its reliance on U.S. government aid.

The offering of unsecured AIG notes is the first since the company was bailed out by the government in September 2008 and lost access to the credit markets. Since then, AIG has relied on support from the Federal Reserve Bank of New York and the Treasury Department.

In recent months, as the company has completed major asset sales and made progress in its restructuring, market prices of its outstanding bonds have staged a strong recovery, enabling the company to tap the markets again.

AIG is now looking to issue three-year and 10-year notes in a benchmark-sized offering, meaning that at least \$500 million is likely to be offered. People familiar with the sale said the insurer was unlikely to sell more than \$2 billion.

The three-year notes due in January 2014 could be priced to yield between 3 and 3.5 percentage points over comparable Treasury notes; the

10-year notes, which would mature in December 2020, could yield between 3.5 and 4 percentage points over Treasuries, the people said. The yield on a 10-year Treasury note was at 2.793% mid-afternoon Tuesday.

Orders on the notes are around \$7.5 billion, according to a person familiar with the sale. About \$3 billion of that represents interest in the three-year debt and \$4.5 billion is appetite for the 10-year debt.

The new bonds are expected to receive investment-grade credit ratings: A3 by Moody's Investors Service, A-minus by Standard & Poor's, and BBB by Fitch Ratings.

The company said in an offering prospectus that it intends to use proceeds from the debt sale for general corporate purposes, in an agreement with the New York Fed, which is its largest creditor.

Bank of America Corp.'s Merrill Lynch unit, Barclays PLC's Barclays Capital, Citigroup Inc. and Morgan Stanley are arranging the debt offering.

An AIG spokesman had no comment.

AIG is trying to bring down its total debt to levels more in line with companies with high investment-grade ratings. The insurer is working to close an agreement with the government that will effectively end

active federal support of the insurer and position the Treasury to start selling off a 92% ownership stake in AIG over two years, starting in 2011, through stock sales.

Before that can occur, AIG needs to demonstrate it has access to other sources of financing. The government still has more than \$90 billion in outstanding assistance to the company in the form of a secured credit facility and investments in preferred equity of AIG and its units.

AIG recently raised \$37 billion from asset sales and is hoping to fully repay and terminate its credit facility from the New York Fed by year's end. In addition to issuing new bonds, AIG is also negotiating new credit lines from commercial banks.

Since its September 2008 bailout, prices of AIG's existing bonds have rebounded from crisis lows of around 30 to 40 cents on the dollar to trade at close to their full value.

The cost of insuring AIG's debt from default has fallen sharply, to levels last seen before the bailout. Derivative prices now imply that AIG's risk of default is comparable to that of other large companies in the life-insurance sector. But AIG is still viewed as riskier than most property-and-casualty insurers.

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THE PROPERTY REPORT

The secret of German property loans

By WILLIAM BOSTON
Special to the WSJ

BERLIN—Financing for property acquisitions may still be tight in Europe, but German banks have been among the most active lenders in many of the deals in Europe's main real-estate markets this year.

What is their secret? While securitization of property debt remains all but nonexistent in Europe, German mortgage banks have a secret financial weapon: the Pfandbrief, a type of tightly regulated covered bond.

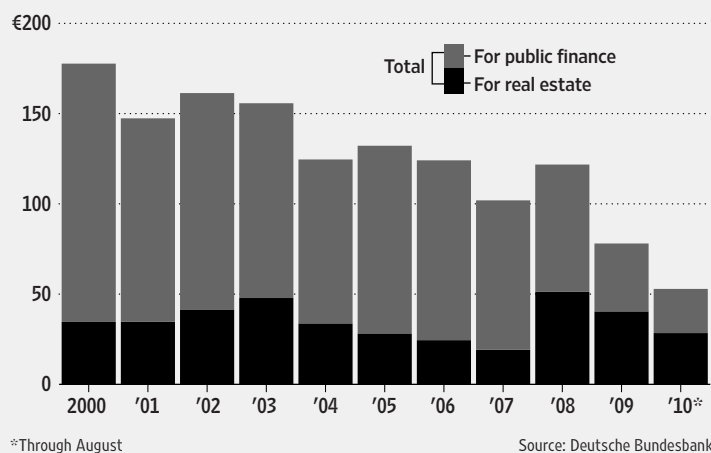
Access to this type of bond financing is one of the main reasons nine German mortgage banks were among the 12 most active lenders in a survey published by property consultant Savills PLC in October.

But the future of this market is somewhat clouded by the upheaval facing German banks as many of them deal with losses, restructurings, bailouts and Europe's sovereign-debt woes. Under new Basel rules regulating how much capital banks must hold in the future, Pfandbrief issuers may have to find alternative sources of refinancing or restrict lending.

Covered bonds are debt securi-

Germany's wunderwaffe

German mortgage banks use the Pfandbrief as a major source of funding in property lending. New Pfandbrief bonds issued, in billions



ties that are backed by the cash generated from mortgages or public-sector loans.

The main difference between a covered bond and an asset-backed security is that the covered bond's assets remain on the balance sheet of the issuer. Mortgage loans that are funded through the Pfandbrief

are pooled, and buyers of the debt are given special protections that go beyond those of other types of covered bonds.

While there have been no public commercial-mortgage-backed securities issued in Europe since 2007, German Pfandbrief issuance is going strong. Last year, German banks is-

sued mortgage Pfandbrief bonds totaling €40.4 billion (\$53 billion), down from €51.3 billion in 2008, according to data compiled by the Deutsche Bundesbank. In 2007, German banks issued €19.2 billion worth of mortgage Pfandbrief.

"The only banks that are still active [as lenders] are the ones that have access to the Pfandbrief," said Hans Vrensen, head of global research at DTZ Research in London.

As a refinancing instrument, the Pfandbrief has its roots in the 18th century but has been refined repeatedly. The most recent overhaul of Pfandbrief regulation was in 2005, when Germany passed a law outlining who can issue Pfandbrief and restricting how issuing banks can lend the funds raised.

One of the guidelines that Pfandbrief issuers say makes the bond so secure is that Pfandbrief issuers may not lend more than 60% of the value of the property that secures the mortgage.

The trend of rising Pfandbrief issuance is in line with broader European mortgage-backed covered-bond issuance. Covered bonds have become an increasingly important source of refinancing for mortgage banks as securitization has dried up

in the wake of the financial crisis.

Eurohypo AG, a unit of **Commerzbank** AG, is one of Europe's largest property lenders and is Germany's biggest issuer of Pfandbrief bonds. In June, Eurohypo issued a five-year jumbo mortgage Pfandbrief worth €1 billion. The bank said the order book closed after just 2½ hours and was nearly 30% oversubscribed.

"We could also envisage even greater volumes," says Frank Pörschke, Eurohypo's chief executive. "However, we are no longer prepared to set margins that do not adequately reflect the associated risk."

The risk Mr. Pörschke is referring to is the potential for another drop in European property values.

Such a scenario could be precipitated by a continued squeeze on property financing, or if banks begin dumping property as they seek to reduce their portfolios of nonperforming loans, or if the various "bad banks"—set up by European governments to pool the toxic assets of their banks—begin to sell their assets at deeply discounted prices.

Another risk is that Europe's sovereign-debt problem could spark another interruption in the smooth flow of Pfandbrief issuance.



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BUSINESS & FINANCE

Goldman code-theft trial begins

By CHAD BRAY

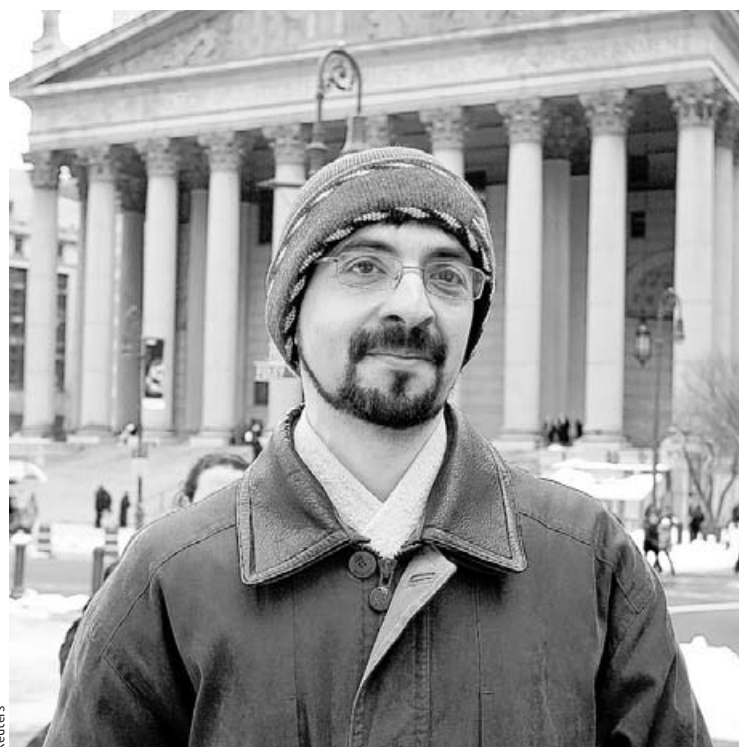
A former **Goldman Sachs Group** Inc. computer programmer plotted for two months before leaving the investment bank for a rival about how to steal the confidential source code for Goldman's high-frequency trading platform, a federal prosecutor said.

In his opening statement Tuesday, Assistant U.S. Attorney Joseph Facciponti said Sergey Aleynikov located a computer server in Germany that wasn't blocked by Goldman's firewalls and secretly uploaded portions of the code in the days before he left the investment bank. Mr. Aleynikov wanted to use the code to build a similar trading platform at **Teza Technologies LLC**, Mr. Facciponti said.

Kevin H. Marino, Mr. Aleynikov's lawyer, said Mr. Aleynikov was only trying to download "open source" code that was used on the trading platform and wasn't owned by Goldman or anyone else. Mr. Marino said Mr. Aleynikov may have violated Goldman's confidentiality policy, but he didn't commit a crime.

"The defendant thought that he had found a foolproof way of getting around the security barriers," Mr. Facciponti said.

The trial, which could take two to three weeks, is focused on the computer programs used by investment banks, hedge funds and other securities firms to squeeze more profits from their trading operations. Such high-frequency trading involves rapid-fire buy-and-sell or-



Sergey Aleynikov, pictured in February, left Goldman Sachs in 2009.

ders aimed at capitalizing on minuscule differences in price.

Mr. Aleynikov, 40 years old, has been charged with theft of trade secrets and transportation of stolen property. Mr. Aleynikov faces up to 10 years in prison if convicted on the most serious charge of theft of trade secrets. He has denied wrongdoing.

The jury trial is being heard in U.S. District Court in Manhattan.

Mr. Facciponti, the prosecutor, said Mr. Aleynikov had considered leaving Goldman in 2008 when he received a job offer from **UBS AG**. He stayed after Goldman agreed to pay him \$400,000 a year, making him one of the highest paid programmers at the investment bank.

However, he considered leaving the bank again the next year, negoti-

ating with Teza for a pay package that would include a \$300,000 base salary, a \$700,000 guaranteed bonus and profit-sharing valued at \$150,000, Mr. Facciponti said.

Mr. Aleynikov then went about devising a system to get around Goldman's security procedures, including writing a computer program that would download thousands of files and hundreds of thousands of lines of source code, Mr. Facciponti said.

He downloaded additional portions of the code on his last day at work in June 2009 and tried to cover his tracks by deleting files that would show what he had done, Mr. Facciponti said. Mr. Aleynikov then went to have drinks with his supervisor and co-workers to celebrate his last day, Mr. Facciponti said.

Mr. Aleynikov was arrested at Newark Liberty International Airport on July 3, 2009, after returning from a meeting in Chicago with Teza. He had a laptop and a flash drive, which included portions of the source code, with him at the time, Mr. Facciponti said.

Mr. Facciponti said Mr. Aleynikov admitted to federal agents at the time that he intended only to upload open source code from Goldman and any upload of proprietary code was inadvertent.

The prosecutor also said that Mr. Aleynikov, after making "cosmetic changes," uploaded some of the code to Teza's systems and "passed it off as his own work," a contention disputed by Teza and Mr. Aleynikov's

lawyer.

Chris Gair, a lawyer for Teza, said that Teza never asked Mr. Aleynikov for code belonging to any other firm and didn't have "the slightest interest in such code."

"To the contrary, Teza affirmatively prohibited employees from bringing in or using any such code in their employment agreements," Mr. Gair said. "In addition, the evidence is going to show that Teza had no hint that Aleynikov had taken any code from Goldman or that he was uploading any stolen code. Period."

In his opening statement, Mr. Marino, Mr. Aleynikov's lawyer, said Mr. Aleynikov had no intention of trying to harm Goldman or steal proprietary information from the investment bank.

Mr. Aleynikov, a U.S. citizen who came to this country from Russia in 1990, made a "mistake" in trying to download open-source code from Goldman, but made no efforts to sell the information he took and didn't share it with Teza. He said the case should be heard as a civil dispute, rather than a criminal one.

"A mistake? Absolutely," Mr. Marino said. "Regrettable? It's pretty regrettable, but it's not a federal crime."

Mr. Marino said Goldman has a broad confidentiality policy, in which it claims open-source code in its system belongs to the company. Also, Mr. Aleynikov's contract with Teza prohibited him from using any other firm's proprietary code, Mr. Marino said.

Probe of 'expert-network' firms is wider than known

By SUSAN PULLIAM
AND JENNY STRASBURG

The largest "expert-network firm" in the U.S. could be drawn into the government's insider-trading investigation.

Federal Bureau of Investigation agents questioned a consultant for **Gerson Lehrman Group** in August as part of the probe, according to people familiar with the matter. The consultant, an employee of **Marvell Technology Group Ltd.**, provided

information about the technology industry to a Gerson client, **Diamondback Capital Management LLC**, a hedge fund the FBI raided last week, the people said.

Gerson controls two-thirds of the market for expert networks, which set up meetings and calls with current and former managers from hundreds of companies for hedge-fund and other traders seeking an investing edge, according to Integrity Research Associates, a New York firm that tracks expert networks.

A spokesman for Marvell, a Santa Clara, Calif., semiconductor company, declined to comment, as did representatives for the FBI and the Manhattan U.S. attorney's office.

The development is part of an insider-trading investigation examining the activities of expert-network firms, investment bankers, analysts, hedge-fund traders and mutual-fund traders. Last week, prosecutors charged an employee of **Primary Global Research LLC**, another expert-network firm, with providing inside information to a hedge-fund trader. A lawyer for that consultant, Don Ching Trang Chu, declined to comment. A spokesman for Primary Global, of Mountain View, Calif., declined to comment.

The FBI questioning of the Gerson consultant shows the government's examination of the expert-network business is broader than Primary Global. Criminal and civil authorities are investigating whether these consultants passed inside information to clients, who pay the expert companies large fees for their services.

Monday, U.S. Attorney General Eric Holder confirmed in a news conference that the U.S. is investigating trading on Wall Street, first reported by The Wall Street Journal on Nov. 19, though Mr. Holder declined to provide any details.

In a letter to investors made public Monday, Diamondback said it was informed by the government that it isn't a target of the investigation.

The firm also said it put a portfolio manager, which it declined to name, on leave in connection with the probe. A spokesman for the firm declined to comment.

The Gerson consultant, Menucher Menuchehry, is a 41-year-old employee of Marvell working in the business-development and strategy area of the company, according to public records.

It isn't known whether authorities suspect Mr. Menuchehry passed inside information to any fund. A lawyer for Mr. Menuchehry declined to comment.

Mr. Menuchehry worked for Gerson Lehrman during the past two years and also has worked for Primary Global as well as other expert networks, according to people familiar with the matter.

Gerson's company policy limits its consultants who currently work at companies from doing more than

examined the company's expert-network business, but dropped probes with no charges. Representatives for the SEC and the New York attorney general's office declined to comment.

In recent years, Gerson's client roster has included prominent hedge funds like **SAC Capital Advisors LLC**, mutual-fund company **Fidelity Investments**, private-equity firm **Carlyle Group LLC** and Wall Street investment banks, said people familiar with the matter.

Besides big-name clients, Gerson has pursued business with smaller hedge funds, too. In July 2009, it formed a partnership with **Merlin Securities**, a brokerage firm that helps smaller hedge funds finance trades.

The partnership with Gerson has been less successful than Merlin hoped, said Stephan Vermut, founder and managing partner at Merlin, which offered to set up calls for its hedge-fund clients and offered fee breaks for access to Gerson experts.

"I think those business models, while they have a credibility issue here going forward, provide a really terrific service," Mr. Vermut said.

Trading in Marvell Technology stock also surfaced in the **Galleon Group** insider-trading investigation last year. I

n that case, in which 14 of 23 defendants have pleaded guilty, a chief witness who pleaded guilty told a federal judge that he paid an executive at Marvell to give him nonpublic inside information that he then traded on. At the time, that Marvell executive and the company declined to comment.

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MARKETS

Grim month for Italy, Spain

By TOBY ANDERSON
AND SIMON KENNEDY

Stock markets in Italy and Portugal fell more than 1%, leading a day of red ink in European markets as investors fretted that more countries may need a bailout.

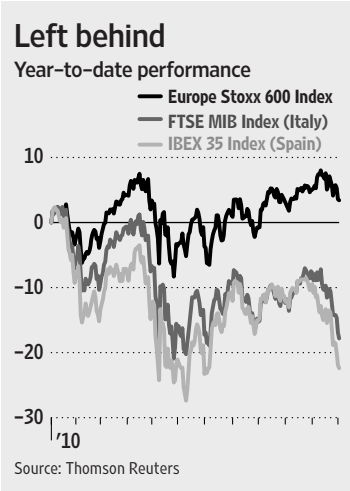
While financial stocks fell across the board, hurt in part by falling bond markets, losses were modest in the biggest national markets, and the Stoxx Europe 600 index edged down 0.1% to 261.83, part of a 1.6% loss for the month.

The euro fell below \$1.30 as the details of Ireland's rescue package failed to ease fears that other debt-laden countries in the 16-nation bloc would need financial help. The risks of contagion helped push down Italy's FTSE MIB 1.1% to 19105.71, part of an 11% slide in November, and even dented the Dow Jones Industrial Average.

Spain's IBEX 35, while posting a more modest loss on Tuesday, plunged 14% in November amid persistent worries about its finances and the health of its savings banks.

Bond markets focused on Belgium as well as Italy and Spain. Yields on government debt in all three countries rose sharply, and the gap over German debt, the euro-zone benchmark, jumped to the highest levels in the euro era.

"Concern about the euro is still playing havoc with the markets as the Irish bailout has done little to stabilize the euro zone," said Barry O'Neill, head of foreign-exchange sales at Clear Currency, a foreign-



exchange brokerage. "It looks as if concerns about the euro are unlikely to dissipate any time soon and the euro is in for a rough ride short term."

Philip Shaw, chief economist at Investec Securities, said a vicious circle has developed, where debt worries have pushed up bond yields, which has prompted some investors to pull out, driving up yields yet more.

"Bailing out individual economies is not sufficient to quell the nerves in euro-zone bond markets," he said.

The yield premium demanded by investors to hold Spanish 10-year bonds over the benchmark German bund rose more than 0.3 percentage point to top three percentage points at one point, before easing back to

2.90 percentage points, according to Tradeweb. The premium for Italian bonds rose more than 0.2 percentage point to 2.15 percentage points and later eased to 2.04 percentage points. The yield gap for Belgian debt climbed more than 0.20 percentage point to 1.40 percentage points.

Investors seeking a haven turned to U.S. Treasuries, where prices rose and yields fell. The benchmark 10-year note firmed 7/32 to 98 17/32 to yield 2.795%. Others turned to gold. Comex gold for December delivery gained \$19, or 1.4%, to \$1,385.

The dollar also benefited. The euro traded as low as \$1.2969 before recovering some losses. Late Tuesday in New York, it was at \$1.3007, down from \$1.3123 late Monday.

Among national stock markets, the U.K.'s FTSE 100 fell 0.4% to 5528.27 and France's CAC-40 shed 0.7% to 3610.44, part of a 5.8% slide for November. Germany's DAX lost 0.1% to 6688.49 but ended the month up 1.3%, its third consecutive monthly gain.

Lisbon's PSI General Index fell 1.1% to 2591.84, and Spain's IBEX 35 shed 0.6% to 9267.20.

Spain, Europe's fourth-largest economy, is suffering from a housing bust and unemployment of around 20%. The Bank of Portugal, meanwhile, warned in its semiannual Financial Stability Report that the country's banks face severe challenges in the coming years, including finding new sources of funding and tackling slow economic

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Latin America Equity

Funds that invest mainly in Latin American companies. At least 75% of total assets are invested in equities. Ranked on % total return (dividends reinvested) in U.S. dollars for one year ending November 30, 2010

Leading 10 Performers

FUND RATING	FUND NAME	FUND MGMT CO.	CURR. BASE	LEGAL	YTD	% Return in \$US **	1-YR	2-YR	5-YR
5	Findlay Park	Findlay Park	USD	IRL	46.73	62.04	77.34	NS	
	Latin American USD	Investment Management Ltd							
3	PineBridge	PineBridge	USD	IRL	43.85	60.31	78.16	NS	
	Latin America Small/Mid Cap A	Investments Ireland Ltd							
NS	Santander	Santander SICAV	USD	LUX	40.58	58.91	85.27	NS	
	Latin American Sm Caps A								
NS	First State	First State	GBP	GBR	35.35	46.75	NS	NS	
	Latin America A	Investments (UK) Ltd							
3	IP Latin	Invesco Fund	GBP	GBR	27.78	40.23	54.71	14.92	
	American Inc	Managers Limited							
4	Handelsbanken	Handelsbanken	SEK	SWE	28.99	39.82	55.59	16.96	
	Latinamerikafond Inc	Fonder AB							
4	Aberdeen	Aberdeen Asset	USD	LUX	28.56	38.03	53.58	17.16	
	Global Latin Am Eq S2 Acc	Managers Limited(Lux)							
4	Threadneedle	Threadneedle	GBP	GBR	27.88	36.47	52.79	15.99	
	Latin Amer Inst Net GBP	Investment Services Ltd							
NS	MFS Meridian	MFS Meridian Funds	EUR	LUX	24.42	35.84	NS	NS	
	Latin Amer Eq A1 EUR								
5	Danske Inv	Danske Invest	DKK	DNK	26.96	35.64	56.36	17.48	
	Latinamerika								

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

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FUND NAME	GF	AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR
ALLIANCE BERNSTEIN									
Am Blend Portfolio A	US	EQ	LUX	11/29	USD	10.74	3.6	6.0	15.1
Am Blend Portfolio I	US	EQ	LUX	11/29	USD	12.72	4.1	6.6	16.0
Am Growth A	US	EQ	LUX	11/29	USD	32.03	2.5	6.6	23.4
Am Growth B	US	EQ	LUX	11/29	USD	26.68	1.6	5.5	22.2
Am Growth I	US	EQ	LUX	11/29	USD	35.76	3.3	7.5	24.4
Am Income A	OT	OT	LUX	11/29	USD	8.92	10.9	11.7	21.3
Am Income A2	OT	OT	LUX	11/29	USD	21.22	11.4	11.8	21.7
Am Income B	OT	OT	LUX	11/29	USD	8.92	10.3	10.9	20.5
Am Income B2	OT	OT	LUX	11/29	USD	18.17	10.7	11.0	20.8
Am Income I	OT	OT	LUX	11/29	USD	8.92	11.4	12.3	22.0
Emg Mkts Debt A	GL	BD	LUX	11/29	USD	16.54	11.9	12.9	32.4
Emg Mkts Debt A2	GL	BD	LUX	11/29	USD	22.62	12.5	12.9	32.9

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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
ALEXANDRA INVESTMENT MANAGEMENT									
Alexandra Convertible Bond Fund (Ltd. Class A)	OT	OT	VGB	08/31	USD	2174.86	28.6	51.1	47.6
D'AURIOL FUNDS WWW.DAURIOL.BIZ									
2 FUNDIS OF FUNDS OF HEDGE FUNDS									
D'Auriol Alt Non-Lev A	OT	OT	CYM	10/29	EUR	100.66	-0.4	-0.4	-1.9
D'Auriol Opp F3 EUR	OT	OT	CYM	09/30	EUR	954.33	-3.5	-3.7	-9.1
HERMITAGE CAPITAL MANAGEMENT LTD.									
The Hermitage Fund	GL	EQ	JEY	03/12	USD	963.12	4.5	105.6	-23.2
HORSEMAN CAPITAL MANAGEMENT LTD.									
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Horseman EmMkt Opp EUR	GL	EQ	USA	01/31	EUR	187.60	-23.2	-21.7	-7.7
Horseman EmMkt Opp USD	GL	EQ	USA	01/31	USD	194.78	-24.5	-22.7	-9.1
Horseman EurSell Ltd EUR	EU	EQ	GBR	10/29	EUR	216.31	10.9	17.9	2.9
Horseman EurSell Ltd USD	EU	EQ	GBR	10/29	USD	229.09	13.5	20.7	3.9
Horseman GIBI Ltd EUR	GL	EQ	CYM	10/29	USD	416.30	12.3	10.3	-5.3
Horseman GIBI Ltd USD	GL	EQ	CYM	10/29	USD	416.30	12.3	10.3	-5.3
HSBC ALTERNATIVE INVESTMENTS LIMITED									
T: +44 20 7860 3074 F: +44 20 7860 3174 www.hailhsbc.com									
HSBC Absolute Companies									
Global Absolute	OT	OT	GGY	03/31	GBP	1.11	2.9	16.5	0.6
Global Absolute EUR	OT	OT	GGY	05/13	EUR	1.56	2.8	14.2	NS

[INTERNATIONAL INVESTMENT FUNDS www.wsj.com/funddata]

FUND NAME	GF	AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR
Emg Mkts Debt B	GL	BD	LUX	11/29	USD	16.54	11.0	11.9	31.2
Emg Mkts Debt B2	GL	BD	LUX	11/29	USD	21.59	11.5	11.9	31.6
Emg Mkts Debt I	GL	BD	LUX	11/29	USD	16.54	12.4	13.5	33.0
Emg Mkts Growth A	GL	EQ	LUX	11/29	USD	37.54	8.3	14.2	39.8
Emg Mkts Growth B	GL	EQ	LUX	11/29	USD	31.53	7.4	13.1	38.4
Emg Mkts Growth I	GL	EQ	LUX	11/29	USD	41.92	9.1	15.2	41.0
Eur Income A	OT	OT	LUX	11/29	EUR	6.82	8.3	9.3	21.1
Eur Income A2	OT	OT	LUX	11/29	EUR	14.01	8.9	9.4	21.4
Eur Income B	OT	OT	LUX	11/29	EUR	6.82	7.7	8.7	20.4
Eur Income B2	OT	OT	LUX	11/29	EUR	12.94	8.1	8.6	20.6
Eur Income I	OT	OT	LUX	11/29	EUR	6.82	8.8	9.9	21.7
Eur Strat Value A	EU	EQ	LUX	11/29	EUR	8.64	1.3	6.1	9.2
Eur Strat Value I	EU	EQ	LUX	11/29	EUR	8.91	1.9	7.0	10.0
Eur Value A	EU	EQ	LUX	11/29	EUR	9.29	1.0	5.8	10.9
Eur Value B	EU	EQ	LUX	11/29	EUR	8.47	0.1	4.7	9.8
Eur Value I	EU	EQ	LUX	11/29	EUR	10.81	1.8	6.6	11.7
EuroZone Strat Val AX	EU	EQ	LUX	11/29	EUR	7.51	6.8	12.3	13.8
EuroZone Strat Val BX	EU	EQ	LUX	11/29	EUR	6.70	6.0	11.3	12.8
EuroZone Strat Val IX	EU	EQ	LUX	11/29	EUR	8.25	7.6	13.2	14.7
GI Balanced (Euro) A	EU	BA	LUX	11/29	USD	15.77	NS	NS	NS
GI Balanced (Euro) B	EU	BA	LUX	11/29	USD	15.23	NS	NS	NS
GI Balanced (Euro) C	EU	BA	LUX	11/29	USD	15.61	NS	NS	NS
GI Balanced (Euro) I	EU	BA	LUX	11/29	USD	16.16	NS	NS	NS
GI Balanced A	US	BA	LUX	11/29	USD	16.96	2.9	3.9	14.7
GI Balanced B	US	BA	LUX	11/29	USD	15.98	2.0	2.9	13.6
GI Balanced I	US	BA	LUX	11/29	USD	17.70	3.6	4.7	15.5
GI Bond A	OT	OT	LUX	11/29	USD	9.57	7.0	6.5	11.6
GI Bond A2	OT	OT	LUX	11/29	USD	17.18	7.3	6.5	11.8
GI Bond B	OT	OT	LUX	11/29	USD	9.57	6.2	5.5	10.6
GI Bond B2	OT	OT	LUX	11/29	USD	14.91	6.3	5.4	10.7
GI Bond I	OT	OT	LUX	11/29	USD	9.57	7.5	7.0	12.2
GI Conservative A	US	BA	LUX	11/29	USD	15.19	3.8	3.9	11.1

FUND NAME	GF	AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR
GI Conservative A2	US	BA	LUX	11/29	USD	17.56	3.7	3.9	11.1
GI Conservative B	US	BA	LUX	11/29	USD	15.16	2.8	2.9	10.0
GI Conservative B2	US	BA	LUX	11/29	USD	16.54	2.8	2.9	10.0
GI Conservative I	US	BA	LUX	11/29	USD	15.29	4.4	4.7	12.0
GI Eq Blend A	GL	EQ	LUX	11/29	USD	11.61	-0.4	1.8	15.7
GI Eq Blend B	GL	EQ	LUX	11/29	USD	10.79	-1.5	0.7	14.4
GI Eq Blend I	GL	EQ	LUX	11/29	USD	12.33	0.2	2.5	16.5
GI Growth A	GL	EQ	LUX	11/29	USD	42.55	1.5	4.0	16.1
GI Growth B	GL	EQ	LUX	11/29	USD	35.20	0.6	3.0	14.9
GI Growth I	GL	EQ	LUX	11/29	USD	47.59	2.3	4.8	17.0
GI High Yield A	OT	OT	LUX	11/29	USD	4.60	13.3	17.0	37.9
GI High Yield A2	OT	OT	LUX	11/29	USD	10.56	14.0	17.1	38.4
GI High Yield B	OT	OT	LUX	11/29	USD	4.60	12.3	15.8	36.3
GI High Yield B2	OT	OT	LUX	11/29	USD	16.82	13.0	15.8	37.1
GI High Yield I	OT	OT	LUX	11/29	USD	4.60	13.8	17.6	38.7
GI Thematic Res A	GL	EQ	LUX	11/29	USD	16.51	12.1	14.5	42.9
GI Thematic Res B	GL	EQ	LUX	11/29	USD	14.31	11.0	13.3	41.4
GI Thematic Res I	GL	EQ	LUX	11/29	USD	18.54	12.8	15.4	43.9
GI Value A	GL	EQ	LUX	11/29	USD	10.92	-2.0	0.0	15.5
GI Value B	GL	EQ	LUX	11/29	USD	9.94	-2.9	-1.0	14.3
GI Value I	GL	EQ	LUX	11/29	USD	11.70	-1.3	0.8	16.4
India Growth A	EA	EQ	LUX	11/29	USD	144.65	14.0	20.2	NS
India Growth AX	EA	EQ	LUX	11/29	USD	126.77	14.3	20.5	53.7
India Growth B	EA	EQ	LUX	11/29	USD	150.16	12.9	19.0	NS
India Growth BX	EA	EQ	LUX	11/29	USD	107.38	13.2	19.3	52.2
India Growth I	EA	EQ	LUX	11/29	USD	131.98	14.8	21.1	54.4
Int'l Health Care A	OT	EQ	LUX	11/29	USD	133.26	-3.1	-0.2	9.2
Int'l Health Care B	OT	EQ	LUX	11/29	USD	111.38	-3.9	-1.2	8.2
Int'l Health Care I	OT	EQ	LUX	11/29	USD	146.67	-2.3	0.6	10.1
Int'l Technology A	OT	EQ	LUX	11/29	USD	124.40	12.7	20.4	32.6
Int'l Technology B	OT	EQ	LUX	11/29	USD	106.81	11.7	19.2	31.2
Int'l Technology I	OT	EQ	LUX	11/29	USD	140.50	13.5	21.3	33.6

FUND NAME	GF	AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR
Japan Blend A	JP	EQ	LUX	11/29	JPY	5843.00	-3.0	9.7	6.9
Japan Growth A	JP	EQ	LUX	11/29	JPY	5486.00	-6.6	4.1	1.4
Japan Growth I	JP	EQ	LUX	11/29	JPY	5687.00	-5.9	5.0	2.2
Japan Strat Value A	JP	EQ	LUX	11/29	JPY	6207.00	1.4	15.4	12.7
Japan Strat Value I	JP	EQ	LUX	11/29	JPY	6418.00	2.2	16.3	13.6
Real Estate Sec. A	OT	EQ	LUX	11/29	USD	15.92			

MARKETS

Hedge funds flood into Asia, again

By ALISON TUDOR

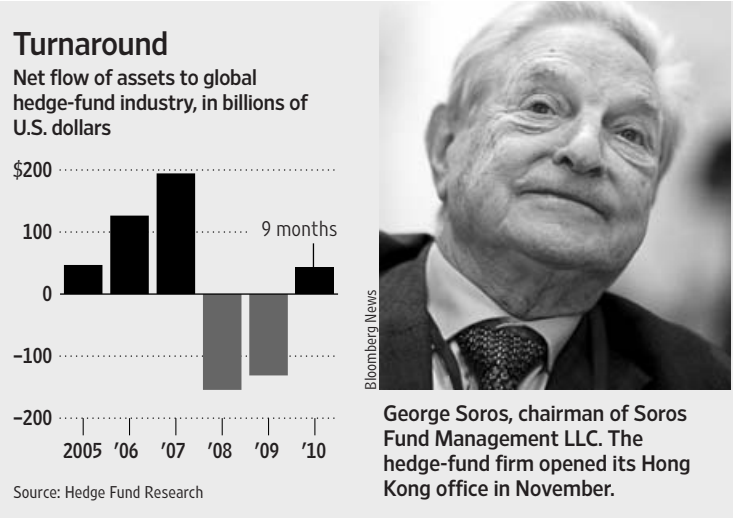
HONG KONG—Global hedge-fund managers are beefing up their presence in Asia, particularly Hong Kong, in the hope of raising more capital amid a swell of investor interest in the region.

Among the big names hanging out their shingles in Asia are **Soros Fund Management LLC**, **Viking Global Investors** and **GLG Partners LP**. **D.E. Shaw** recently said a member of its six-person executive committee is moving to Hong Kong, and **Maverick Capital Ltd.** raised the number of analysts in its Hong Kong office to four in August.

David Gray, head of prime services for **UBS AG** in the Asian-Pacific region, said he knows of about 10 global groups that are putting stakes in the ground in Asia. “They’ve said, time to get a little serious, because to be credible with investors they need people on the ground,” Mr. Gray said. Prime brokers provide a wide range of services to hedge funds, including helping them set up and trade shares.

Investors allocated a net \$19 billion of new capital to the hedge-fund industry globally in the third quarter, the largest inflow since the fourth quarter of 2007, according to industry data provider Hedge Fund Research Inc.

The biggest funds that can invest around the world say part of the reason money is pouring into their coffers again, especially from U.S. pension funds, is because of their



increasing exposure to Asia. As a result, they are ramping up staffing in the region. In contrast, smaller funds and funds of funds remain starved of capital.

“We’ve seen a shift internally of allocations towards Asia because we feel you get a better bang for your buck here at present,” said Des Anderson, a partner in **Marshall Wace LLP**. The London-based, multibillion-dollar fund has about a quarter of its assets invested in Asia. Its Hong Kong office has doubled in size over the past two years to 30 people, Mr. Anderson said.

Buoyant Asian economies are spurring the hedge-fund charge. The International Monetary Fund forecasts Asian economic growth of 8%

this year, with China and India leading the way at 10.5% and 9.7%, respectively.

Tax rates are also a factor. Hong Kong and Singapore compare favorably, given their relatively low personal income taxes for higher earners. For Hong Kong, the rate is 17%, and in Singapore it is 20%, compared with 50% in Britain.

In one sign that hedge funds are eager to bet on China, revenues generated in Hong Kong from lending stock to hedge funds for short selling recently overtook revenues generated in Japan, historically one of the most heavily traded Asian markets. October is the first time this has happened, according to Dataexplorers, an industry service pro-

vider.

Hedge funds often sell short one stock at the same time that they buy another, a tactic known in the industry as a pair trade. Chinese-listed companies are more accessible to investors in Hong Kong than on any other exchange.

The industry’s move eastward comes at a time when the industry is under siege in the West. Investigations into insider trading at hedge funds in the U.S. are roiling the industry. Strict new rules on capital and disclosure requirements for hedge funds in the European Union are prompting some to move to places where they may feel more welcome.

“The EU doesn’t seem to particularly like hedge funds—a move to Hong Kong or Singapore would be natural,” said Ian Mukherjee, chief investment officer of London-headquartered **Amiya Capital**, which has \$1.75 billion under management focused on emerging markets.

Hong Kong and Singapore are eager to court hedge funds to help boost their credentials as regional financial centers, although evidence of any wrongdoing in other jurisdictions could prompt tougher scrutiny of funds’ activities in Asia, too.

This isn’t the first time hedge funds have flocked to Asia. Many set up offices in 2006 and 2007, but either closed or severely cut back their Asian operations during the global financial crisis.

That history raises concerns that the current influx of hedge funds

represent hot money flowing into a region where veteran investors are needed to eke out gains. Asia’s markets are relatively shallow compared with those in the U.S. and Europe. Short selling is banned in some places, such as South Korea, and heavily restricted in others, including Australia.

Already, some Asian governments are implementing limited capital controls in order to cope with a flood of money in search of higher yields. Quantitative easing in the U.S. and Japan has speeded up that flow of cash. Capital controls could trip up hedge funds that find themselves unable to exit from markets as quickly as they would like during times of turbulence.

Chicago-based **Citadel Investment Group LLC** ramped up staffing aggressively in Asia during 2005, but closed its Tokyo office and cut jobs in Hong Kong in 2008.

“It feels like we are going back to 2003, where people rushed into the space wanting to spend their money,” said UBS’s Mr. Gray, “but there is not enough people with enough experience of running an Asian portfolio.”

Many hedge funds are also using similar strategies in Asia, which could make it harder for them to make a profit in the region’s less liquid markets. Nearly two-thirds of the capital deployed in the region is in long-short strategies, in which funds take long and short positions in stocks at the same time, compared with a third globally.

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FUND NAME	GF	NAV			-RETURN-				
		AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR
Andfs. Espanya	EU	EQ	AND	11/29	EUR	10.81	-22.3	-20.8	1.5
Andfs. Estats Units	US	EQ	AND	11/29	USD	14.84	-1.2	0.7	10.9
Andfs. Europa	EU	EQ	AND	11/29	EUR	6.92	-11.7	-7.8	3.2
Andfs. Franca	EU	EQ	AND	11/29	EUR	8.90	-8.6	-3.3	2.8
Andfs. Japo	JP	EQ	AND	11/29	JPY	485.47	-5.0	8.3	7.4
Andfs. Plus Dollars	US	BA	AND	10/22	USD	9.66	2.3	3.0	6.2
Andfs. RF Dolars	US	BD	AND	11/29	USD	11.89	4.0	3.9	8.8
Andfs. RF Euros	EU	BD	AND	11/29	EUR	10.94	1.1	1.0	10.3
Andorfonis	EU	BD	AND	11/29	EUR	14.40	-0.7	-1.0	9.4
Andorfonis Alternative Premium	GL	EQ	AND	09/30	EUR	98.21	-0.8	0.6	-3.6
Andorfonis Mix 30	EU	BA	AND	11/29	EUR	9.68	1.3	2.3	8.5
Andorfonis Mix 60	EU	BA	AND	11/29	EUR	9.13	-1.5	0.5	5.3

■ CHARTERED ASSET MANAGEMENT PTE LTD - TEL NO: 65-6835-8866
Fax No: 65-6835 8865, Website: www.cam.com.sg, Email: cam@cam.com.sg
CAM-GTF Limited OT OT MUS 11/19 USD 399682.63 45.6 65.1 81.0

DJE INVESTMENT S.A.

Internet: www.djeli.lu email: info@djeli.lu phone: +00 352 269 2522 0 fax: +00 352 269 2525

DJE Real Estate P	OT	OT	LUX	11/30	EUR	8.89	0.4	1.1	-2.4
DJE-Absolut P	GL	EQ	LUX	11/30	EUR	223.04	8.9	13.0	12.9
DJE-Alpha Gbl P	OT	OT	LUX	11/30	EUR	185.93	4.4	6.9	10.9
DJE-Divk Substanz P	EU	EQ	LUX	11/30	EUR	234.01	8.8	13.2	17.0
DJE-Gold&Resourc P	OT	OT	LUX	11/30	EUR	228.12	33.9	31.2	36.8
DJE-Renten Gbl P	EU	BD	LUX	11/30	EUR	136.28	4.4	4.7	7.3
LuxPro-Dragon I	AS	EQ	LUX	07/20	EUR	144.57	-8.5	5.0	7.6
LuxPro-Dragon P	AS	EQ	LUX	07/20	EUR	140.29	-8.8	4.4	7.0
LuxTopic-Aktien Europa	EU	EQ	LUX	11/30	EUR	17.21	-2.8	0.8	11.2
LuxTopic-Pacific	OT	OT	LUX	11/30	EUR	21.11	28.9	35.6	57.7

■ HSBC ALTERNATIVE INVESTMENTS LIMITED
T +44 20 7860 3074 F + 44 20 7860 3174 www.hail.hsbc.com

HSBC Portfolio Selection Fund									
Sel Emerg Mkt Debt	GL	BD	GGY	12/31	USD	350.10	42.6	54.7	6.4
Sel Emerg Mkt Equity	GL	EQ	GGY	12/31	USD	207.66	63.0	73.6	-11.3
Sel Euro Equity EUR	OT	OT	GGY	12/31	EUR	96.29	32.6	27.0	-17.7
Sel European Equity	EU	EQ	GGY	12/31	USD	181.94	42.7	49.9	-16.8
Sel Glob Equity	GL	EQ	GGY	12/31	USD	189.25	35.2	42.1	-15.7
Sel Glob Fxd Inc	GL	BD	GGY	12/31	USD	143.46	11.4	15.8	-1.4
Sel Pacific Equity	AS	EQ	GGY	12/31	USD	143.75	68.5	80.5	-7.1
Sel US Equity	US	EQ	GGY	12/31	USD	123.56	24.0	30.0	-14.2
Sel US Sm Cap Eq	US	EQ	GGY	12/31	USD	168.82	30.1	42.6	-14.8

■ HSBC Trinkaus Investment Managers SA
E-Mail: funds@hsbctrinkaus.lu
Telephone: 352 - 4718471

Prosperity Return Fund A JP BD LUX 11/29 JPY 9981.95 1.0 NS NS
Prosperity Return Fund B EU BD LUX 11/29 JPY 8868.08 -10.0 NS NS
Prosperity Return Fund C EU BD LUX 11/29 USD 94.87 -1.3 NS NS
Prosperity Return Fund D EU BD LUX 11/29 EUR 111.84 15.0 NS NS
Renaissance Hgh Grade Bd A JP BD LUX 11/29 JPY 10206.87 3.4 NS NS
Renaissance Hgh Grade Bd B EU BD LUX 11/29 JPY 9005.75 -8.4 NS NS
Renaissance Hgh Grade Bd C EU BD LUX 11/29 USD 95.73 0.5 NS NS
Renaissance Hgh Grade Bd D EU BD LUX 11/29 EUR 105.83 9.0 NS NS


MP Asset Management Inc.
www.mpam.si

MP

■ MP ASSET MANAGEMENT INC.
Tel + 3861 587 4777
MP-BALKAN.SI EU EQ SVN 11/29 EUR 19.19 -21.1 -23.7 -16.2
MP-TURKEY.SI OT OT SVN 11/29 EUR 46.67 34.4 62.5 55.4

■ PAREX ASSET MANAGEMENT IPAS
Republikas square 2a, Riga, LV-1522, Latvia

FUND NAME	GF	AT	LB	NAV DATE CR	NAV	YTD	12-MO	2-YR	
NAV DATE CR									
NAV YTD 12-MO 2-YR									
www.parexgroup.com Tel +371 67010810									
Parex Eastern Europ Bal	OT	OT	LVA	11/29	EUR	15.62	16.8	17.9	35.0
Parex Eastern Europ Bd	EU	BD	LVA	11/29	USD	17.09	16.7	19.2	40.0
Parex Russian Eq	EE	EQ	LVA	11/29	USD	24.21	24.0	25.7	66.4



PICTET

FUNDS

PICTET & CIE, ROUTE DES ACACIAS 60, CH-1211 GENEVA 73

Pictet-Asiaticque+PEUR	GL	EQ	LUX	11/29	EUR	147.16	20.5	31.3	NS
Pictet-Agriculture ExJpn+USD	OT	OT	LUX	11/30	USD	189.03	8.6	16.1	35.9
Pictet-Asian Excl ExJpn+USD	OT	OT	LUX	11/30	USD	178.52	7.8	15.1	34.8
Pictet-Biotech+P USD	OT	OT	LUX	11/29	USD	281.33	0.1	1.9	4.5
Pictet-CHF Liquidity-P	CH	MM	LUX	11/29	CHF	124.14	0.0	-0.1	0.1
Pictet-CHF Liquidity-Pdy	CH	MM	LUX	11/29	CHF	93.34	-0.1	-0.1	0.1
Pictet-Conv. Bonds+PEUR	OT	OT	LUX	11/29	EUR	101.88	NS	NS	NS
Pictet-Digital Comm+P USD	OT	OT	LUX	11/29	USD	137.53	18.2	20.8	35.9
Pictet-Eastern Europe+PEUR	EU	EQ	LUX	11/29	EUR	376.61	21.2	30.4	63.9
Pictet-Emerging Markets+P USD	GL	EQ	LUX	11/30	USD	576.39	8.8	14.3	40.8
Pictet-Eu Equities Sel+PEUR	EU	EQ	LUX	11/29	EUR	431.93	7.6	13.7	20.1
Pictet-EUR Bonds-P	EU	BD	LUX	11/29	EUR	399.93	4.5	4.0	3.5
Pictet-EUR Bonds-Pdy	EU	BD	LUX	11/29	EUR	293.27	4.5	4.0	3.5
Pictet-EUR Corporate Bonds-P	EU	BD	LUX	11/29	EUR	153.57	4.1	4.2	11.5
Pictet-EUR Corporate Bonds-Pdy	EU	BD	LUX	11/29	EUR	104.11	4.1	4.2	11.5
Pictet-EUR High Yield-P	EU	BD	LUX	11/29	EUR	168.52	15.7	17.9	36.1
Pictet-EUR High Yield-Pdy	EU	BD	LUX	11/29	EUR	92.37	15.7	17.9	36.1
Pictet-EUR Liquidity-P	EU	MM	LUX	11/29	EUR	136.32	0.3	0.3	0.8
Pictet-EUR Liquidity-Pdy	EU	MM	LUX	11/29	EUR	96.92	0.2	0.3	0.8
Pictet-EUR Sovereign Liq-P	EU	MM	LUX	11/29	EUR	102.49	0.1	0.1	0.4
Pictet-EUR Sovereign Liq-Pdy	EU	MM	LUX	11/29	EUR	100.01	0.1	0.1	0.4
Pictet-Europe Index+PEUR	EU	EQ	LUX	11/29	EUR	107.12	7.8	13.8	18.7
Pictet-Europe Sust Eq+PEUR	EU	EQ	LUX	11/29	EUR	140.99	7.7	13.4	18.3
Pictet-Glo Emerging Debt+P USD	GL	BD	LUX	11/29	USD	265.74	9.8	9.2	24.8
Pictet-Glo Emerging Debt+Pdy USD	GL	BD	LUX	11/29	USD	172.58	9.8	9.1	24.7
Pictet-Greater China+P USD	AS	EQ	LUX	11/30	USD	390.99	11.6	19.8	39.3
Pictet-Indian Equities+P USD	EA	EQ	LUX	11/30	USD	401.44	10.6	15.4	48.4
Pictet-Japan Index+P JPY	JP	EQ	LUX	11/30	JPY	8546.65	-2.2	10.4	5.8
Pictet-Japanese Eq 130/30+P JPY	JP	EQ	LUX	11/30	JPY	4294.79	-1.5	9.7	6.9
Pictet-Japanese Eq Sel+P JPY	JP	EQ	LUX	11/30	JPY	7526.73	-1.4	9.6	3.9
Pictet-Japanese Eq Sel+Pdy JPY	JP	EQ	LUX	11/30	JPY	7257.76	-2.0	8.9	2.9
Pictet-MENA+P USD	OT	OT	LUX	11/29	USD	51.43	14.5	8.3	NS
Pictet-Pac (ExJpn) Idx+P USD	AS	EQ	LUX	11/30	USD	296.01	9.2	11.0	40.5
Pictet-Pacilife+P CHF	OT	OT	LUX	11/29	CHF	792.22	0.8	2.5	6.3
Pictet-Premium Brands+PEUR	OT	OT	LUX	11/29	EUR	91.20	40.5	48.9	45.9
Pictet-Russian Equities+P USD	EE	EQ	LUX	11/29	USD	73.22	14.5	16.8	79.7
Pictet-Security+P USD	GL	EQ	LUX	11/29	USD	119.13	20.8	25.0	33.5
Pictet-Small Cap Europe+PEUR	EU	EQ	LUX	11/29	EUR	547.48	22.5	30.2	31.4
Pictet-Timber+P USD	GL	EQ	LUX	11/29	USD	113.10	6.8	13.0	30.5
Pictet-USA Index+P USD	US	EQ	LUX	11/29	USD	97.44	7.6	8.2	17.1
Pictet-USD Government Bonds-P	US	BD	LUX	11/29	USD	545.06	7.1	4.7	3.3
Pictet-USD Government Bonds-Pdy	US	BD	LUX	11/29	USD	389.73	7.1	4.7	3.3
Pictet-USD Liquidity-P	US	MM	LUX	11/29	USD	131.24	0.2	0.2	0.5
Pictet-USD Liquidity-Pdy	US	MM	LUX	11/29	USD	84.98	0.2	0.2	0.5
Pictet-USD Sovereign Liq-P	US	MM	LUX	11/29	USD	101.63	0.1	0.1	0.3
Pictet-USD Sovereign Liq-Pdy	US	MM	LUX	11/29	USD	102.12	0.1	0.1	0.3
Pictet-Water+PEUR	GL	EQ	LUX	11/29	EUR	144.54	16.7	25.1	16.5
Pictet-World Gvt Bonds-P USD	OT	OT	LUX	11/29	USD	170.94	4.2	-0.8	5.8
Pictet-World Gvt Bonds-Pdy USD	OT	OT	LUX	11/29	USD	138.62	4.2	-0.7	5.8

■ POLAR CAPITAL PARTNERS LIMITED
International Fund Managers (Ireland) Limited PH - 3531 670 660 Fax - 3531 670 1185
Global Technology OT EQ IRL 11/29 USD 16.79 24.8 36.1 48.6
Japan Fund USD JP EQ IRL 11/30 USD 17.16 8.0 9.4 13.5
Polar Healthcare Class I USD OT EQ IRL 11/29 USD 12.88 -0.4 2.3 NS
Polar Healthcare Class R USD OT EQ IRL 11/29 USD 12.80 -0.9 1.8 NS

■ Hemisphere Management (Ireland) Limited

FUND NAME	NAV				NAV				
	GF	AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR
Discovery USD A	OT	OT	CYM	10/29	USD	104.34	10.8	12.5	12.2
Elbrus USD A	GL	EQ	CYM	10/29	USD	11.68	35.9	-24.7	-17.9
Europ Conviction USD B	EU	EQ	CYM	10/29	USD	136.29	-0.8	0.0	5.8
Europ Forager USD B	EU	EQ	CYM	10/29	USD	236.74	5.8	6.1	15.0
Latin America USD A	GL	EQ	CYM	04/30	USD	14.21	2.2	-4.7	14.7
Paragon Limited USD A	EU	EQ	CYM	11/28	USD	324.09	12.7	12.7	14.2
UK Fund USD A	OT	OT	CYM	10/29	USD	197.18	7.2	5.0	8.5
PT CIPITADANA ASSET MANAGEMENT									
Tel: +6221 25574 883 Fax: +6221 25574 893 Website: www.ciptadana-asset.com									
Indonesian Grth Fund	GL	EQ	BMU	11/24	USD	179.76	41.2	44.9	100.4
RUSSELL INVESTMENT GROUP									

■ PT CIPTADANA ASSET MANAGEMENT
Tel: +6221 25574 883 Fax: +6221 25574 893 Website: www.ciptadana-asset.com
Indonesian Grth Fund GL EQ BMU 11/24 USD 179.76 41.2 44.9 100.4

EURO FIXED INCOME A	OT	OT	IRL	11/29	EUR	1407.74	5.9	6.3	8.1
EURO FIXED INCOME B	OT	OT	IRL	11/29	EUR	1446.69	20.5	25.8	27.3
EUROPEAN SMALL CAP A	EU	EQ	IRL	11/29	EUR	1558.32	21.2	26.6	28.1
EUROPEAN SMALL CAP B	EU	EQ	IRL	11/29	EUR	1558.32	21.2	26.6	28.1
EUROZONE AGG A EUR	EU	EQ	IRL	11/29	EUR	705.61	7.6	12.2	18.9
EUROZONE AGG B EUR	EU	EQ	IRL	11/29	EUR	1019.60	8.2	12.9	19.6
GLB REAL EST SEC A	OT	OT	IRL	11/29	USD	994.85	10.9	17.9	27.4
GLB REAL EST SEC B	OT	OT	IRL	11/29	USD	1031.30	11.6	18.6	28.2
GLB REAL EST SEC EHA	OT	OT	IRL	11/29	EUR	875.41	8.8	17.4	21.9
GLB REAL EST SEC SHB	OT	OT	IRL	11/29	GBP	82.96	9.5	18.1	22.1
GLB STRAT YIELD A	OT	OT	IRL	11/29	EUR	1799.62	12.0	14	28.2
GLB STRAT YIELD B	OT	OT	IRL	11/29	EUR	1936.24	12.6	14.9	29.0
GLOBAL BOND A	OT	OT	IRL	11/29	EUR	1291.59	16.9	18.8	12.8
GLOBAL BOND B	OT	OT	IRL	11/29	EUR	1383.09	17.5	19.6	13.5
GLOBAL BOND EHA	EU	BD	IRL	11/29	EUR	1494.33	8.7	8.9	12.7
GLOBAL BOND SHB	EU	BD	IRL	11/29	EUR	1594.85	9.3	9.6	13.4
JAPAN EQUITY A	JP	EQ	IRL	11/29	JPY	11022.35	-5.3	6.7	5.0
JAPAN EQUITY B	JP	EQ	IRL	11/29	JPY	11812.72	-4.8	7.3	5.6
PACBASIN (X JPN) A	AS	EQ	IRL	11/29	USD	251.76	10.1	17.8	45.0
PACBASIN (X JPN) B	AS	EQ	IRL	11/29	USD	2701.78	10.7	18.3	45.9
PAN EUROPEAN EQUITY A	EU	EQ	IRL	11/29	EUR	1029.76	7.0	11.8	17.7
PAN EUROPEAN EQUITY B	EU	EQ	IRL	11/29	EUR	1103.77	7.6	12.4	18.4
US EQUITY A	US	EQ	IRL	11/29	USD	921.34	5.6	8.0	18.3
US EQUITY B	US	EQ	IRL	11/29	USD	991.86	6.2	8.6	19.0
US SMALL CAP EQUITY A	US	EQ	IRL	11/29	USD	1493.24	15.9	24.5	24.6
US SMALL CAP EQUITY B	US	EQ	IRL	11/29	USD	1606.56	16.5	25.3	25.3

BLUE CHIPS & BONDS

Major players & benchmarks

Stoxx Europe 50: Tuesday'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
BASF SE	Germany	Commodity Chemicals	4,562,132	57.50	2.15%	32.3%	40.3%
ENI	Italy	Integrated Oil & Gas	21,177,616	15.50	0.98	-12.9	-8.7
Nokia	Finland	Telecommunications Equipment	24,792,984	7.12	0.92	-20.2	-20.1
Vodafone Group	U.K.	Mobile Telecommunications	174,266,916	160.75	0.91	11.9	14.8
Rio Tinto	U.K.	General Mining	5,377,864	4,080	0.90	20.3	27.1
Societe Generale	France	Banks	8,160,974	35.71	-3.63%	-27.1	-25.3
AXA	France	Full Line Insurance	22,821,568	11.06	-3.57	-33.1	-32.7
UniCredit	Italy	Banks	666,709,594	1.49	-3.37	-33.3	-33.8
BNP Paribas	France	Banks	10,200,747	45.60	-3.35	-18.4	-18.2
ING Groep	Netherlands	Life Insurance	56,871,166	6.80	-2.84	-1.4	4.5

...And the rest of Europe's blue chips

Company/Country (Industry)	Volume	Latest, in local currency	STOCK PERFORMANCE		
			Latest	YTD	52-week
BHP Billiton U.K. (General Mining)	9,229,429	2,285	0.86%	14.5%	18.8%
Total S.A. France (Integrated Oil & Gas)	9,695,185	37.32	0.58	-17.1	-11.6
Hennes & Mauritz AB Series B Sweden (Apparel Retailers)	4,150,561	237.40	0.51	19.5	15.3
Royal Dutch Shell A U.K. (Integrated Oil & Gas)	8,211,864	23.20	0.26	9.9	14.8
Daimler AG Germany (Automobiles)	5,941,938	49.87	0.16	34.0	42.1
SAP AG Germany (Software)	3,739,470	35.94	0.10	8.9	12.1
Deutsche Telekom Germany (Mobile Telecommunications)	21,350,769	9.87	...	-4.1	-3.3
L.M. Ericsson Telephone Series B Sweden (Communications Technology)	8,642,693	72.55	...	10.1	6.8
Anglo American U.K. (General Mining)	3,895,694	2,821	-0.02	4.0	4.0
British American Tobacco U.K. (Tobacco)	4,075,338	2,331	-0.13	15.6	22.7
GDF Suez France (Multiutilities)	6,335,137	25.55	-0.14	-15.6	-10.4
Bayer AG Germany (Specialty Chemicals)	3,232,638	55.95	-0.20	-0.0	7.0
Siemens Germany (Diversified Industrials)	3,409,803	84.29	-0.27	31.3	24.5
ABB Ltd. Switzerland (Industrial Machinery)	11,873,534	19.45	-0.36	0.1	6.5
Unilever Netherlands (Food Products)	8,516,577	21.73	-0.41	-4.5	3.0
Banco Santander Spain (Banks)	107,929,556	7.30	-0.42	-36.8	-37.2
HSBC Holdings U.K. (Banks)	44,237,639	648.30	-0.48	-8.5	-10.7
Diageo U.K. (Distillers & Vintners)	4,867,181	1,144	-0.52	5.5	10.0
BP PLC U.K. (Integrated Oil & Gas)	41,282,695	425.95	-0.54	-29.0	-27.4
Roche Holding Switzerland (Pharmaceuticals)	2,956,565	137.80	-0.58	-21.6	-16.7

Company/Country (Industry)	Volume	Latest, in local currency	STOCK PERFORMANCE		
			Latest	YTD	52-week
BG Group U.K. (Integrated Oil & Gas)	8,755,751	1,162	-0.60%	3.5%	2.9%
Sanofi-Aventis France (Pharmaceuticals)	4,486,543	46.58	-0.83	-15.4	-10.5
E.ON AG Germany (Multiutilities)	9,026,737	22.11	-0.87	-24.4	-18.0
Astrazeneca U.K. (Pharmaceuticals)	4,007,121	2,996	-0.91	2.9	8.8
France Telecom France (Fixed Line Telecommunications)	11,437,494	15.60	-0.98	-10.5	-11.7
GlaxoSmithKline U.K. (Pharmaceuticals)	13,846,835	1,212	-1.02	-8.1	-5.3
Standard Chartered PLC U.K. (Banks)	5,821,231	1,731	-1.06	14.1	15.1
Anheuser-Busch InBev N.V. Belgium (Beverages)	4,118,877	41.93	-1.14	15.2	22.4
Telefonica Spain (Fixed Line Telecommunications)	40,216,561	16.39	-1.21	-16.0	-16.0
Allianz SE Germany (Full Line Insurance)	3,209,376	84.50	-1.25	-3.0	-0.2
Deutsche Bank Germany (Banks)	12,755,863	36.60	-1.41	-18.8	-19.2
Novartis Switzerland (Pharmaceuticals)	9,470,180	53.25	-1.48	-5.8	-5.3
Tesco U.K. (Food Retailers & Wholesalers)	20,450,764	414.30	-1.73	-3.2	-2.8
Intesa Sanpaolo Italy (Banks)	185,741,409	2.01	-1.84	-36.3	-32.1
UBS Switzerland (Banks)	22,928,932	15.03	-1.96	-6.4	-6.3
Banco Bilbao Vizcaya Argentaria Spain (Banks)	79,057,063	7.08	-2.10	-42.1	-42.4
Nestle S.A. Switzerland (Food Products)	12,396,647	54.55	-2.15	8.7	12.5
Zurich Financial Services AG Switzerland (Full Line Insurance)	1,334,037	223.30	-2.23	-1.4	0.6
Credit Suisse Group Switzerland (Banks)	11,964,544	37.04	-2.55	-27.7	-30.4
Barclays U.K. (Banks)	79,533,773	256.15	-2.59	-7.2	-13.5

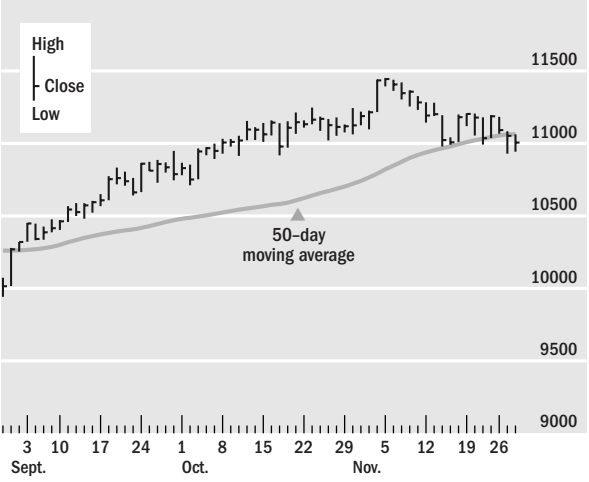
Sources: Thomson Reuters

Dow Jones Industrial Average P/E: 14

LAST: 11006.02▼ 46.47, or 0.42%

YEAR TO DATE:▲ 577.97, or 5.5%

OVER 52 WEEKS▲ 534.44, or 5.1%



Note: Price-to-earnings ratios are for trailing 12 months

DJIA component stocks

Stock	Symbol	Volume, in millions	Latest	CHANGE	
				Points	Percentage
AT&T	T	20.2	\$27.81	0.11	0.40%
Alcoa	AA	15.5	13.13	-0.16	-1.20
AmExpress	AXP	8.5	43.22	-0.11	-0.25
BankAm	BAC	245.3	10.95	-0.36	-3.19
Boeing	BA	5.1	63.77	-0.59	-0.92
Caterpillar	CAT	7.0	84.60	0.93	1.11
Chevron	CVX	8.7	80.97	-0.72	-0.88
CiscoSys	CSCO	61.7	19.18	-0.27	-1.36
CocaCola	KO	9.8	63.18	-0.21	-0.33
Disney	DIS	9.1	36.51	0.09	0.25
DuPont	DD	6.0	47.01	0.09	0.19
ExxonMobil	XOM	22.2	69.53	0.08	0.12
GenElec	GE	46.6	15.83	-0.14	-0.87
HewlettPk	HPQ	20.5	41.98	-0.62	-1.46
HomeDpt	HD	10.9	30.22	-0.24	-0.78
Intel	INTC	50.5	21.16	-0.17	-0.80
IBM	IBM	6.1	141.41	-1.48	-1.04
JPMorgChas	JPM	29.6	37.37	-0.54	-1.42
JohnsJohns	JNJ	10.5	61.51	-0.40	-0.65
KftFoods	KFT	8.3	30.26	0.07	0.23
McDonalds	MCD	4.5	78.31	0.05	0.06
Merck	MRK	13.7	34.44	-0.25	-0.72
Microsoft	MSFT	70.4	25.30	-0.01	-0.06
Pfizer	PFE	36.1	16.28	-0.28	-1.69
ProctGamb	PG	13.9	61.04	-1.09	-1.75
3M	MMM	3.0	83.99	-0.23	-0.27
TravelersCos	TRV	4.0	53.99	-0.19	-0.35
UnitedTech	UTX	4.7	75.27	0.47	0.63
Verizon	VZ	13.8	32.00	0.10	0.31
WalMart	WMT	10.5	54.11	0.26	0.48

Source: WSJ Market Data Group

Tracking credit markets & dealmakers

Credit derivatives

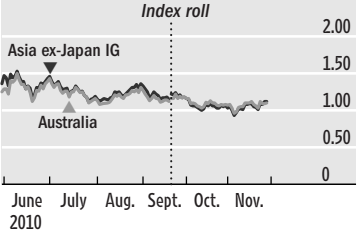
Spreads on credit derivatives are one way the market rates creditworthiness. Regions that are treading in rough waters can see spreads swing toward the maximum—and vice versa. Indexes below are for five-year swaps.

Index: series/version	Mid-spread, in pct. pts.	Mid-price	Coupon	SPREAD RANGE, in pct. pts. since most recent roll		
				Maximum	Minimum	Average
Europe: 14/1	113	99.37%	0.01%	1.18	0.95	1.04
Eur. High Volatility: 14/1	172	96.74	0.01	1.79	1.45	1.59
Europe Crossover: 14/1	5.13	99.47	0.05	5.37	4.24	4.74
Asia ex-Japan IG: 14/1	112	99.45	0.01	1.25	0.93	1.08
Japan: 14/1	0.95	100.26	0.01	1.10	0.90	1.00

Note: Data as of November 29
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...

	Yesterday	CHANGE in basis points	
		Yesterday	Five-day 28-day
BCO Santander SA	246	-6	42 91
Deutsche Bk AG	112	-4	9 17
Havas	246	-4	10 16
Corus Group	361	-3	12 6
Bco Bilbao Vizcaya Argentaria SA	263	-3	44 81
BP P.L.C.	111	-2	-5 -36
UBS AG	102	-1	9 10
Marks Spencer PLC	143	-1	2 6
Xstrata PLC	183	-1	9 30
J Sainsbury PLC	129	-1	... -7

And the most deterioration

	Yesterday	CHANGE in basis points	
		Yesterday	Five-day 28-day
EDP Energias de Portugal SA	355	23	62 110
Kdom Belgium	182	23	41 61
Smurfit Kappa Fdg PLC	271	24	31 18
Gas Nat SDG SA	281	25	63 100
Kdom Spain	349	26	68 125
C de Aho y Monte de Piedad de Madrid	429	28	78 136
Rep Italy	244	31	53 68
Rep Portugal	539	37	83 146
BCO Comercial Portugues SA	804	44	159 390
BCO Espirito Santo S A	809	47	162 392

Source: Markit Group

Behind Asia's deals: Bank revenue rankings, North Asia

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.

	Revenue, in millions	Market share	Equity capital markets	PERCENTAGE OF TOTAL REVENUE		
				Debt capital markets	Mergers & acquisitions	Loans
Goldman Sachs	\$267	4.4%	67%	19%	13%	...
Morgan Stanley	244	4.0	70	7	23	...
Bank of China Ltd	241	4.0	49	42	2	8%
China International Capital Corp Ltd	231	3.8	68	24	7	...
Ping An Securities Co Ltd	226	3.7	96	4	1	...
UBS	222	3.6	67	21	12	...
JPMorgan	189	3.1	63	21	17	...
Deutsche Bank	185	3.0	60	19	21	...
CITIC Securities	163	2.7	76	20	4	...

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 Percentage	Contract high	Contract low
	Corn (cents/bu.)	CBOT	544.00	-9.25	-1.67%	617.50	356.75
	Soybeans (cents/bu.)	CBOT	1243.00	8.00	0.65%	1348.50	872.75
	Wheat (cents/bu.)	CBOT	690.75	0.25	0.04	864.25	504.75
	Live cattle (cents/lb.)	CME	106.375	0.600	0.57	106.700	88.750
	Cocoa (\$/ton)	ICE-US	2,807	52	1.89	3,477	2,410
	Coffee (cents/lb.)	ICE-US	201.20	-1.45	-0.72	221.45	131.40
	Sugar (cents/lb.)	ICE-US	27.55	-0.80	-2.82	33.39	11.90
	Cotton (cents/lb.)	ICE-US	117.34	1.58	1.36	151.95	61.89
	Crude palm oil (ringgit/ton)	MDEX	3,412.00	31	0.92	3,458	2,533
	Cocoa (pounds/ton)	LIFFE	1,904	38	2.04	2,322	1,610
	Robusta coffee (\$/ton)	LIFFE	1,809	10	0.56	2,084	1,374
	Copper (cents/lb.)	COMEX	382.55	5.80	1.54	408.75	230.00
	Gold (\$/troy oz.)	COMEX	1386.10	18.60	1.36	1,426.10	897.30
	Silver (cents/troy oz.)	COMEX	2821.20	101.90	3.75	2,940.50	1,475.00
	Aluminum (\$/ton)	LME	2,265.00	-8.00	-0.35	2,481.50	1,857.00
	Tin (\$/ton)	LME	24,100.00	-250.00	-1.03	27,325.00	14,950.00
	Copper (\$/ton)	LME	8,285.00	30.00	0.36	8,920.00	6,120.00
	Lead (\$/ton)	LME	2,224.00	-51.00	-2.24	2,616.00	1,580.00
	Zinc (\$/ton)	LME	2,101.50	-24.50	-1.15	2,659.00	1,617.00
	Nickel (\$/ton)	LME	22,620	-200	-0.88	27,590	15,910
	Crude oil (\$/bbl)	NYMEX	84.11	-1.62	-1.89	93.29	69.08
	Heating oil (\$/gal.)	NYMEX	2,324.4	-0.0559	-2.35	2,5235	1,5200
	RBOB gasoline (\$/gal.)	NYMEX	2,186.8	-0.0376	-1.69	2,3329	1,8222
	Natural gas (\$/mmBtu)	NYMEX	4.180	-0.030	-0.71	11.750	3.853
	Brent crude (\$/bbl)	ICE-EU	85.92	-1.42	-1.63	134.00	57.36
	Gas oil (\$/ton)	ICE-EU	734.50	-4.75	-0.64	782.25	592.50

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Source: Thomson Reuters; WSJ Market Data Group

Currencies

London close on Nov. 30

AMERICAS	Per euro	In euros	Per U.S. dollar	In U.S. dollars
Argentina peso-a	51870	0.1928	3.9838	0.2510
Brazil real	2.2393	0.4466	1.7199	0.5814
Canada dollar	1.3369	0.7480	1.0268	0.9739
1-mo. forward	1.3377	0.7475	1.0274	0.9733
3-mos. forward	1.3393	0.7467	1.0286	0.9722
6-mos. forward	1.3423	0.7450	1.0310	0.9700
Chile peso	634.94	0.001575	487.65	0.002051
Colombia peso	2512.63	0.0003980	1929.75	0.0005182
Ecuador US dollar-f	1.3021	0.7680	1	1
Mexico peso-a	16.2472	0.0615	12.4782	0.0801
Peru sol	3.6887	0.2711	2.8330	0.3530
Uruguay peso-e	26.041	0.0384	20.000	0.0500
U.S. dollar	1.3021	0.7680	1	1
Venezuela bolivar	5.59	0.178832	4.29	0.232848
ASIA-PACIFIC				
Australia dollar	1.3576	0.7366	1.0426	0.9591
China yuan	8.6811	0.1152	6.6673	0.1500
Hong Kong dollar	10.1109	0.0989	7.7654	0.1288
India rupee	59.7934	0.0167	45.9225	0.0218
Indonesia rupiah	11763	0.0000850	9034	0.0001107
Japan yen	109.08	0.009168	83.78	0.011937
1-mo. forward	109.03	0.009172	83.73	0.011943
3-mos. forward	108.94	0.009180	83.66	0.011952
6-mos. forward	108.72	0.009198	83.50	0.011976
Malaysia ringgit-c	4.1242	0.2425	3.1675	0.3157
New Zealand dollar	1.7498	0.5715	1.3439	0.7441
Pakistan rupee	111.716	0.0090	85.800	0.0117
Philippines peso	57.375	0.0174	44.065	0.0227
Singapore dollar	1.7213	0.5810	1.3220	0.7564
South Korea won	1509.66	0.0006624	1159.45	0.0008625
Taiwan dollar	39.696	0.02519	30.488	0.03280
Thailand baht	39.328	0.02543	30.205	0.03311
EUROPE	Per euro	In euros	Per U.S. dollar	In U.S. dollars
Euro zone euro	1	1	0.7680	1.3021
1-mo. forward	1.0001	0.9999	0.7681	1.3019
3-mos. forward	1.0004	0.9996	0.7683	1.3015
6-mos. forward	1.0007	0.9993	0.7686	1.3012
Czech Rep. koruna-b	24.994	0.0400	19.196	0.0521
Denmark krone	7.4542	0.1342	5.7250	0.1747
Hungary forint	281.91	0.003547	216.51	0.004619
Norway krone	8.0865	0.1237	6.2106	0.1610
Poland zloty	4.0332	0.2479	3.0976	0.3228
Russia ruble-d	41.008	0.02439	31.495	0.03175
Sweden krona	9.1552	0.1092	7.0314	0.1422
Switzerland franc	1.2974	0.7708	0.9964	1.0036
1-mo. forward	1.2967	0.7712	0.9959	1.0041
3-mos. forward	1.2953	0.7720	0.9948	1.0052
6-mos. forward	1.2924	0.7737	0.9926	1.0074
Turkey lira	1.9634	0.5093	1.5079	0.6632
U.K. pound	0.8360	1.1961	0.6421	1.5574
1-mo. forward	0.8362	1.1959	0.6422	1.5571
3-mos. forward	0.8365	1.1954	0.6425	1.5565
6-mos. forward	0.8370	1.1948	0.6428	1.5557
MIDDLE EAST/AFRICA				
Bahrain dinar	0.4909	2.0369	0.3771	2.6522
Egypt pound-a	7.5389	0.1326	5.7900	0.1727
Israel shekel	4.7850	0.2090	3.6750	0.2721
Jordan dinar	0.9222	1.0844	0.7083	1.4119
Kuwait dinar	0.3682	2.7158	0.2828	3.5361
Lebanon pound	1955.03	0.0005115	1501.50	0.0006660
Saudi Arabia riyal	4.8834	0.2048	3.7506	0.2666
South Africa rand	9.2274	0.1084	7.0868	0.1411
United Arab dirham	4.7824	0.2091	3.6730	0.2723
SDR -f	0.8534	1.1718	0.6554	1.5258

a-floating rate b-commercial rate c-government rate c-commercial 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	261.83	-0.33	-0.13%	3.4%	6.6%
14		Stoxx Europe 50	2477.63	-5.43	-0.22	-3.9	-0.7
27	Euro Zone	Euro Stoxx	260.19	-1.50	-0.57	-5.3	-2.6
14		Euro Stoxx 50	2650.99	-18.97	-0.71	-10.6	-7.7
14	Austria	ATX	2607.50	-32.15	-1.22	4.5	3.1
10	Belgium	Bel-20	2506.13	-15.20	-0.60	-0.2	0.6
11	Czech Republic	PX	1107.2	-11.8	-1.05	-0.9	-0.9
21	Denmark	OMX Copenhagen	396.95	116	0.29%	25.7	27.4
13	Finland	OMX Helsinki	7071.95	-20.78	-0.29	9.5	13.6
12	France	CAC-40	3610.44	-26.52	-0.73	-8.3	-4.4
14	Germany	DAX	6688.49	-9.48	-0.14	12.3	15.8
...	Hungary	BUX	20639.64	418.27	2.07	-2.8	-1.3
11	Ireland	ISEQ	2646.00	-9.30	-0.35	-11.1	-7.1
11	Italy	FTSE MIB	19105.71	-208.67	-1.08	-17.8	-15.3
9	Netherlands	AEX	327.41	-2.26	-0.69	-2.4	3.8
9	Norway	All-Shares	438.93	-0.84	-0.19	4.5	8.1
17	Poland	WIG	45361.07	76.65	0.17	13.4	13.7

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.

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				2434.62	-0.30%	5.3%
1.94	16	Global Dow	1413.70	0.11%	14.5%	1954.43	-0.43	-1.2
2.22	14	Global Titans 50	170.10	-0.01	9.0	165.39	-0.55	-6.0
2.57	16	Europe TSM				2525.72	-0.65	-7.3
2.20	17	Developed Markets TSM				2344.13	-0.37	4.5
1.97	13	Emerging Markets TSM				4559.06	0.21	12.7
2.78	25	Africa 50	921.70	0.23	30.4	761.53	-0.31	12.5
1.42	13	BRIC 50	502.90	0.69	19.2	624.07	0.14	2.8
2.80	18	GCC 40	619.20	0.22	38.3	511.60	-0.32	19.3
1.81	17	U.S. TSM				12358.31	-0.23	10.1
2.81	27	Kuwait Titans 30 -c				223.39	-0.28	20.0
1.52	61	RusIndex Titans 10 -c	3608.10	0.58	23.2	6131.76	0.38	15.2

*Fundamentals are based on data in U.S. dollar. Footnotes: a-in US dollar. b-dividends reinvested. c-in local currency. Note:All data as of 2 p.m.ET.

Dividend yield*	Price-to-earnings ratio*	Dows Jones Index	PERFORMANCE (euros)			PERFORMANCE (U.S.dollars)		
			Last	Daily	52-wk.	Last	Daily	52-wk.
1.75%	12	Turkey Titans 20 -c	697.20	2.32%	65.4%	785.72	1.69%	43.1%
4.42	15	Global Select Div -d	183.50	0.12	16.1	204.43	-0.42	0.1
5.24	11	Asia/Pacific Select Div -d				284.99	-0.48	3.8
3.95	15	U.S. Select Dividend -d				342.47	-0.35	10.5
1.46	19	Islamic Market				2078.44	-0.18	6.0
1.89	15	Islamic Market 100	1881.60	0.15	14.5	2096.21	-0.39	-1.3
2.87	14	Islamic Turkey -c	1762.60	0.23	48.9	3410.11	-0.39	28.8
2.39	15	Sustainability	893.00	0.11	11.3	981.43	-0.43	-4.0
3.21	20	Brookfield Infrastructure	1772.70	0.32	29.8	2200.00	-0.22	12.0
1.04	23	Luxury	1293.20	0.84	56.2	1427.13	0.30	34.7
2.95	15	UAE Select Index				239.51	-0.57	-5.3
		DJ-UBS Commodity	155.60	0.78	24.0	147.06	0.24	6.9

Source: Dow Jones Indexes

Cross rates

U.S.-dollar and euro foreign-exchange rates in global trading

	USD	GBP	CHF	SEK	RUB	NOK	JPY	ILS	EUR	DKK	CDN	AUD
Australia	1.0426	1.6238	1.0464	0.1483	0.0331	0.1679	0.0124	0.2837	1.3576	0.1821	1.0155	...
Canada	1.0268	1.5991	1.0305	0.1460	0.0326	0.1653	0.0123	0.2794	1.3369	0.1793	...	0.9848
Denmark	5.7250	8.9161	5.7457	0.8142	0.1818	0.9218	0.0683	1.5578	7.4542	...	5.5758	5.4908
Euro	0.7680	1.1961	0.7708	0.1092	0.0244	0.1237	0.0092	0.2090	...	0.1342	0.7480	0.7366
Israel	3.6750	5.7234	3.6883	0.5227	0.1167	0.5917	0.0439	...	4.7850	0.6419	3.5793	3.5247
Japan	83.7750	130.4712	84.0777	11.9145	2.6599	13.4890	...	22.7959	109.0792	14.6332	81.5924	80.3486
Norway	6.2106	9.6724	6.2330	0.8833	0.1972	...	0.0741	1.6900	8.0865	1.0848	6.0488	5.9566
Russia	31.4953	49.0508	31.6091	4.4793	...	5.0712	0.3760	8.5701	41.0085	5.5014	30.6748	30.2071
Sweden	7.0314	10.9506	7.0568	...	0.2233	1.1322	0.0839	1.9133	9.1552	1.2282	6.8482	6.7438
Switzerland	0.9964	1.5518	...	0.1417	0.0316	0.1604	0.0119	0.2711	1.2974	0.1740	0.9704	0.9556
U.K.	0.6421	...	0.6444	0.0913	0.0204	0.1034	0.0077	0.1747	0.8360	0.1122	0.6254	0.6158
U.S.	...	1.5574	1.0036	0.1422	0.0318	0.1610	0.0119	0.2721	1.3021	0.1747	0.9739	0.9591

C-SUITE: HEALTH

Looking after your heart starts early

By RON WINSLOW

Has your child had a checkup for heart disease lately?

The vast majority of heart attacks happen to people well past middle age, so a potential problem a half-century away may not be high on your list of child health-

HEART BEAT care worries. But it is well-established that heart disease begins to develop in childhood. Now, two new studies, led by researchers in Finland, add to a burgeoning body of evidence that developing heart-healthy habits as a youngster or adolescent may have lasting benefits in adulthood.

One of the reports, based on a pooling of data from four major studies that tracked people from early childhood into their 30s and 40s, suggests that the presence of such risk factors as high blood pressure and abnormal cholesterol by about age 9 strongly predicts a thickening of the walls in the carotid or neck arteries in early adulthood. Experts consider this condition, called carotid intima media thickness, a precursor to heart attacks and strokes.

The second study found that children who ate fruit and vegetables once a day had healthier arteries as young adults than those who reported eating fruit and vegetables less than twice a month. Low consumption was associated with stiffening arteries, a warning sign of future heart problems.

The studies have limitations, however. In both cases, the risks in early years are linked to other risks in adulthood—not to actual heart attacks or other serious events. How reliable such surrogate markers are in predicting clinically significant problems is in dispute. Data on fruit and vegetable consumption are based on how study participants described their monthly diet, not from a rigorously controlled randomized study.

Nevertheless, says Stephen Daniels, pediatrician-in-chief at Children's Hospital, Denver, the findings "are part of an emerging and increasingly consistent picture where lifestyle starting early in life is a very important factor for long-term cardiovascular health." Dr. Daniels was a co-author of one of the studies.

Interest in children's heart



Children who ate fruits and vegetables once a day had healthier arteries as young adults.

health is driven largely by the epidemic of obesity, which has more than tripled in prevalence among American children over the past three decades, according to the U.S. Centers for Disease Control and Prevention. Obesity is associated with unhealthy cholesterol and blood pressure and also heightens a person's risk of heart attack.

Such statistics have many heart experts worried that more than four decades of declining death rates due to cardiovascular disease, the Western world's leading killer, may unravel if the problem goes unaddressed.

Amid a flurry of new research in recent years related to the adult consequences of childhood heart risk, experts are now rewriting guidelines on how to track and treat risk factors.

"It's pretty clear that the best scenario is never to have those risk factors in the first place," says Dr. Daniels. "When you accumulate the impact of a risk factor over time, that seems to be problematic. Interrupting it early is a good concept."

In one of the new reports, researchers led by Markus Juonala, of Turku University Hospital, Finland, gathered data from four studies that tracked heart risk in total of 4,380 people at three-year intervals beginning as early as age 3 and followed them for more than two decades. In adulthood, they underwent tests to detect thickening in the carotid arteries.

Children with high levels of four markers—total cholesterol; levels of blood fats called triglycerides; a measure of body size called body mass index, or BMI;

and systolic blood pressure—were considered most at risk.

Researchers found that the presence of the risk factors at ages 3 and 6 had limited association at best with thickened arteries in adulthood. But beginning at age 9, the risk factors were significantly linked with evidence of disease when the carotid artery test was taken between ages 20 and 45.

The finding is consistent with other research suggesting that risk factors begin to become meaningful between ages 8 and 10, researchers said. It suggests that age range might be the time for a thorough heart-risk evaluation, says Hugh Allen, a pediatric cardiologist at the Ohio State University College of Medicine, Columbus.

Such a checkup might include

Risky business

Four risk factors of heart disease:

- High total cholesterol
- High triglycerides or blood fats
- High body mass index
- High systolic blood pressure (the higher number)

Chances that children with these risk factors will develop early signs of cardiovascular disease as adults, by age of initial diagnosis, compared with children without risk factors:

Age 3: 1.17*

Age 6: 1.20*

Age 9: 1.37

Age 12: 1.48

Age 15: 1.56

Age 18: 1.57

*Not statistically significant
Source: Circulation

measurements of BMI, cholesterol and blood pressure, as well as questions about diet, exercise and exposure to second-hand cigarette smoke, which has an impact on heart health, he says. Unlike adults, where specific cholesterol, blood pressure and BMI targets are established, what constitutes warning signs in children depends on age and other factors.

The second study, headed by senior author Mika Kähönen, of Tampere University Hospital, Finland, found that low consumption of fruit and vegetables in both childhood and adulthood was associated with a higher likelihood of arterial stiffness—a condition that typically develops with aging where the arteries lose their elasticity, putting a potentially unhealthy workload on the heart.

In the study, which tracked children ages 3 to 18, arterial stiffness was determined by a test called arterial pulse wave velocity that was taken in adulthood, ages 30 to 45.

Exactly how fruit and vegetables might keep arteries healthy isn't understood, but the result is consistent with other research and long-standing recommendations about the health benefits of these foods—not to mention your mother's persistent dinner-time pleas to eat your greens.

Aging ills reversed in mice fuel hope for use in humans

By GAUTAM NAIK

Scientists have partially reversed age-related degeneration in mice.

By tweaking a gene, the researchers reversed brain disease and restored the sense of smell and fertility in prematurely aged mice. This appears to be the first time that some age-related problems in animals have actually been reversed.

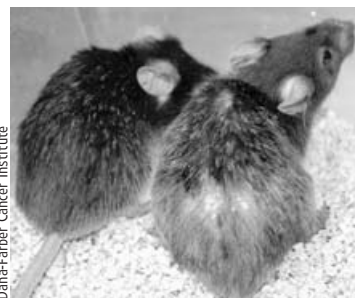
The study was published online Sunday in the journal *Nature*.

"These mice were equivalent to 80-year-old humans," says Ronald DePinho, co-author of the paper and a scientist at Dana-Farber Cancer Institute in Boston. After the experiment, "they were the physiological equivalent of young adults."

It remains to be seen whether the approach can slow the signs and symptoms of aging in people. The latest results were obtained with mice that were specifically altered to age prematurely. And while the animals showed no signs of tumors, there is a risk that the technique could trigger cancer.

The experiment focused on telomerase, an enzyme that makes small units of DNA that seal the tips of chromosomes. These DNA units, known as telomeres, act like the plastic caps at the ends of a shoelace, preventing the chromosomes from fraying and the genes inside them from unraveling.

Many different stimuli conspire and contribute to the aging process. The telomere is one of



Two mice involved in an experiment on age-related degeneration. Mice whose telomerase gene was activated, left, showed notable improvements.

them. In normal tissue, telomeres get progressively shorter as part of the aging process, causing cells to stop dividing. As a result, stem cells go into a state of qui-

escence, organs atrophy and brain cells die.

As people age, low levels of telomerase are linked to the erosion of telomeres. Dr. DePinho and his colleagues wanted to see if by reactivating telomerase in mice they could halt—or possibly reverse—the shortening of telomeres, and thus turn back the clock on some aspects of aging.

The team produced genetically engineered mice that aged prematurely. The animals had short, dysfunctional telomeres and suffered a range of age-related problems. The researchers had devised an estrogen-based drug that would switch on the animals' dormant telomerase gene. The drug, in the form of a time-release pellet, was inserted under the skin of some mice. A similar

pellet without the active drug was given to a separate group of mice.

A month later, the treated mice showed surprising signs of rejuvenation. Overall, their telomeres had lengthened and the levels of telomerase had increased. This woke up the dormant brain stem cells, producing new neurons. The spleen, testes and brain grew in size.

In addition, key organs started to function better. The treated mice regained their sense of smell, for example, though they didn't live longer than normal mice.

Dr. DePinho said the next step was to try the technique on normally aged mice to see whether it can slow, halt or reverse signs of aging in them.

SPORT



England's Alastair Cook, right, watches his shot as Australian fielder Simon Katich looks on during the first Test. Mr. Cook can expect more runs in the second Test.



The Count



Jamie Carragher.

Tip of the day

Juventus could become the latest high-profile casualty in the UEFA Europa League on Thursday when the Italian club faces Lech Poznan, of Poland, in Group A.

If Lech, the surprise group leader, wins that game and England's Manchester City secures even a point at home to Salzburg, then Juventus would be eliminated from a competition it has won on two occasions in the past 20 years.

The club's first group-stage meeting with Lech ended in a 3-3 draw, so a goalless game is unlikely here. With its progress in the balance, Juventus is likely to field an attacking side and Lech could take advantage of the Italian team's desperation and is good value at 14/5 with Bwin for victory.

Elsewhere, Liverpool travels to Steaua Bucharest, where a victory would ensure the English club progresses to the next round as Group K winners, although even a draw will see the Merseysiders through to the round of 32.

If the Romanians do not win, they can still qualify with a victory over Napoli in their final group match, providing FC Utrecht fails to win one of its two remaining games.

Liverpool's Jamie Carragher will miss this game through injury, joining a long list of star players on the sideline that includes Steven Gerrard, Joe Cole and Daniel Agger. With these players missing, expect to see a cautious Liverpool display on the road and a Bucharest team happy to settle for a point. Back no goal scorer at 8/1 with Bet365 and Totesport.

6

The number of times FC Barcelona has beaten Real Madrid by five goals in La Liga after its 5-0 victory on Tuesday.

Source: Infostrada Sports

This Test could run and run

Australia and England's Ashes clash in Adelaide is the stuff bowlers' nightmares are made of

By JONATHAN CLEGG

After weeks of hype, five days of cricket and a ton of runs, the first Test match in the Ashes series ended in a draw, an unsatisfying outcome some have likened to kissing your sister.

But for one group of people at the Gabba Stadium on Sunday, the conclusion of this game was no cause for complaint. We're talking about the bowlers.

By the time England and Australia left the field in Brisbane, 2,481 balls had been bowled in the match, and only 22 of them had captured wickets. A handful more had produced appeals. Meanwhile, 1,365 runs had been scored—an average of 62 per wicket.

In the contest between bat and ball, the bowlers on both sides were reduced to batting fodder. But as the two countries prepare to resume hostilities in the second Test on Friday, the most troubling scenario is this: Things are about to get worse.

The Adelaide Oval, venue of the second of the five head-to-head matches in this sport's oldest rivalry, has traditionally produced the flattest pitches in Australia. This is a ground where batsmen usually run up huge scores. So, less happily, do the bowlers.

"Over the years, it's certainly a ground that has favored batsmen more than bowlers," said Mike Gat-

ting, the former England captain who scored two Test centuries at Adelaide. "It's usually a belter of a pitch."

In other words, expect another endurance test in the field.

If the deluge of runs in the first Test has proved one thing, it is that despite modern technological advances, the 22 yards of turf in the middle of a cricket field plays a more central role in the outcome than you might think.

Not so long ago, Test match strips showed extraordinary variety and they were scrutinized with the sort of scholarly attention typically reserved for wine-tasting. Wickets were "flat," "slow," "tacky," "dry" or even "trampoline-style" and each of these quirks posed its individual problems over and above those of bowler to batsman.

Lately, however, the only description that can be safely applied to most Test wickets is "predictable." The introduction of covered pitches, short boundaries and jet-propelled bats have made Test grounds increasingly homogenous, tilting the scales in this sport—usually so delicately balanced—firmly in favor of the batsmen.

Pitches these days are typically hard, flat and lifeless, producing the sort of grinding cricket as witnessed at the Gabba, where England became only the sixth team in the 133-year history of Test cricket to reach

500 for the loss of just one wicket.

But even by the standards of contemporary Test cricket, the pitch in Adelaide has the reputation of being the most benign in Australia. The average first-innings score in the last five Test matches here is 468. Even West Indies, which sits eighth out of the nine Test match nations in the ICC rankings, has passed 400 on each of its past two visits.

Thanks to everything from the composition of the region's soil to the climactic conditions that make Adelaide the driest state in the driest continent in the world, the painfully slow pitch has made this ground a batter's paradise. But it's also the peculiar dimensions of this 139-year-old ground that make the venue ideal for run-scoring.

Although known as the Adelaide Oval, the playing area is actually elongated: The straight boundaries are long—perhaps the longest in the world—which means it isn't unusual to see fours and even the odd five run, while the short boundaries square of the wicket have made it the most popular Australian ground for hitting sixes.

"Even blokes who can't bat hit sixes there," said Phil Tuffnell, the former England bowler who made his debut in the 1990-91 Ashes series. "As a bowler in Adelaide, you're usually in for a long, hot day of work."

There have been 64 individual centuries (27 for England, 37 for Australia) in the 29 Tests played between the two countries at Adelaide since 1885, a higher ratio than on any other ground. It was on this ground in 1920, when Test matches here were still played to a conclusion, that England totaled 817 in two innings—and still lost by 119 runs.

Despite the docile nature of the pitch, in recent times Adelaide's surface has yielded surprisingly few stalemates. After six successive Tests failed to produce a result from 1985-86 to 1990-91, the Oval has since hosted only three draws in its past 19 Test matches.

Even mammoth first-innings totals are no guarantee of success: When India won at Adelaide in Dec. 2003, it overcame an Australian first innings of 556, including Ricky Ponting's score of 242—the highest individual innings in a losing side. More recently, England lost the last Ashes Test played here, in 2006, despite scoring 551 in its first innings.

Still, given the struggles experienced by the bowlers at Brisbane, doubts persist over whether either side will be able to take the 20 wickets needed for victory.

"I think Adelaide has got a draw written all over it," said Mr. Tuffnell. "Both teams can bat well and I can't see either side being bowled out cheaply."

Italy's footballers on verge of strike action

Associated Press

Serie A players say they will go on strike on the weekend of Dec. 11 and 12 after Italian players' union representative Sergio Campana walked out on talks with the Italian league over a new collective bargaining agreement.

Mr. Campana of the Associazione

Italiana Calciatori left the negotiations Tuesday despite a Nov. 30 deadline for reaching a resolution to the dispute between the sides, according to ANSA news agency.

The union is refusing to accept a proposal that clubs be allowed to force unwanted players to train away from the first team or accept a transfer.

"The decision to strike comes from the repeated refusal of the league to accept the AIC's proposals," the union said in a statement.

Italian Football Association President Giancarlo Abete joined the talks but failed to find a breakthrough.

"We are bound by the decision of the AIC executive that a strike

would take place on Dec. 11 and 12 if we couldn't find an accord," AIC Vice President Leonardo Grosso said.

Serie A players went on strike in March 1996 over several issues, including the Bosman ruling, which established the right of players to switch clubs freely once their contracts expired.

THE QUIRK

U.K. lawmakers weigh a leap into the future



BY JOHN CROWLEY
London

STOP all the clocks. Britain could soon be aligning its watches to run on what tabloid newspapers have dubbed “Berlin time.” A fractious debate over daylight saving has raged in the U.K. for decades, but it may finally be resolved by a piece of legislation going before the House of Commons this week.

At present, Britain moves its timepieces forward by one hour every March before reverting to Greenwich Mean Time in October. The new bill argues there is a powerful economic case for London to synchronize with Central European Time, which sets clocks over most of the European Union. This would mean being an hour ahead of GMT in the winter, increasing to two hours in the summer.

Supporters of the plan, known as “double summertime,” say longer, lighter evenings have manifold health, environmental and economic benefits. They argue that such a measure would cut the number of deaths on the roads in the evenings, conserve energy and create jobs through increased tourism.

U.K. media have recently argued that the hundreds of extra hours of daylight would also contribute to the well-being of the nation as a whole—something Prime Minister David Cameron may well ponder as he considers plans to spend £2 million (\$3.1 million) on “measuring” Britain’s happiness.

Since 1994, the Commons has blocked eight separate bills to harmonize Britain’s clocks with continental Europe, bowing to complaints from Scottish lawmakers and farmers that the winter dawn wouldn’t break in the most northerly parts of the country until almost 10 a.m.

But it now appears the once-implacable opposition is beginning to thaw. A spirited campaign led by a new Conservative lawmaker has brought together sporting, tourist and motoring bodies under one umbrella lobbying group.

Rebecca Harris, who became

Conservative MP for Castle Point in Kent, in the south of England, at May’s general election, is championing the move in the lower house.

In contrast with other failed attempts, she proposes that a review should be conducted first by every government department before a three-year trial can be agreed. Previous bills have failed, she says, because their proponents wanted to go straight to the trial phase without a preliminary study. Crucially, she has won the tacit backing of the government,

which has indicated that it won’t block her private member’s bill and will allow MPs a free vote.

Mrs. Harris needs at least 100 MPs to vote on Friday and two more to count the votes, from which she needs a simple majority to push the bill through its crucial second reading, a hurdle that needs to be passed for it to be turned into law. She says she has found “very

good cross-party support” for the idea.

The decision on the cost of the governmental review, how long it will take and, most importantly, who or what the arbiter will be is to be debated by lawmakers at the committee stage of the bill. Once the review is established in legislation, it is expected to give the green light to a trial.

At the moment, Britain shares a time zone with Ireland and Portugal. Just next door but one hour ahead, the Central European Time zone stretches over most of the rest of the European Union.

Influential lawmakers say harmonizing trading hours with capitals in France, Germany and Spain has clear advantages—although such a move would conversely increase the time difference with America.

Lord Oakeshott, an economics spokesman for the Liberal Democrats, the junior partner in Britain’s coalition, said: “Are we seriously suggesting that we are better off in the same time zone as 15 million people in Ireland and Portugal, as opposed to 374 million people in West and Central Europe, who are our main trading partners?”



Rebecca Harris

Daylight-saving time was originally conceived by Benjamin Franklin. The current system has been in place since 1916, except during World War II, when double summertime was used.

Between 1968 and 1971, the country conducted an experiment in which the clocks didn’t return to GMT during the winter. It ended after complaints from lawmakers in Scotland and northern England, who pointed to increased traffic fatalities among children on their way to school on dark winter mornings.

Mrs. Harris’s bill received a timely boost last month when a study, “Time to Change the Clocks,” was published by fellow Conservative MP Tobias Elwood.

The report argues double summertime would deliver an extra

235 hours of daylight after work every year—with dusk falling in the high summer around 10:30 p.m. in London and up to an hour later in the far north.

The study collates research that also argues the move would boost tourism revenue by £2.5 billion, save health providers £200 million and cut carbon emissions by 2.2% by reducing heating and lighting costs.

But there is some strong opposition to the bill. The Mail on Sunday, an influential British tabloid, has launched a campaign to stop Britain running on “Berlin time,” saying it had received 11,000 messages of support from readers. “For millions of people across the U.K., the result would be longer, darker mornings. People in Wick in the [Scottish] Highlands would

A new bill argues there is a powerful case for London to synchronize with Central European Time.

not see daylight until 10 a.m. on the shortest day of the year,” the paper said.

Even so, there are signs deep-seated attitudes in Scotland could be changing, as farming methods modernize and the lobbying power of the farm industry itself begins to wane.

Wendy Fleming, a spokeswoman for the National Farmers Union of Scotland, said: “We have been described as been vigorously opposed to [putting the clocks forward], but it is not quite as simple as that.”

In a statement, the union said it had not yet seen “sufficient justification” to press on with double summertime, but it added: “To move the discussion forward, we do support the private member’s bill ... which would propose in-depth analysis of the impact of any change—a key concern for Scotland—before any permanent change to the clocks is proposed or adopted.”

Tom Harris (no relation of Mrs. Harris), a Scottish Labour lawmaker representing Glasgow South, said he had changed his views and was now backing the change.

In a parliamentary debate last month, Mr. Harris showed the depth of cross-party support for the proposal, saying: “The change would boost Scotland’s tourist industry, we are told. It would help us reduce our greenhouse emissions, we would be a fitter and healthier nation, our streets would be safer to walk on.

“There should be a public debate, but one based on facts, not on the exhumation of the English as evil bogeymen aiming to steal the sun from the Scottish sky.”

It remains to be seen whether individual lawmakers will seek to derail the bill. But Mrs. Harris remains hopeful. “Come on guys, it looks really attractive to me,” she says.

THE WALL STREET JOURNAL. EUROPE

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WORLD WATCH

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Euro-Zone Crisis

■ **The European Central Bank** is putting pressure on Portugal to seek a financial rescue package just as it did before Ireland's bailout, Irish Justice Minister Dermot Ahern said in an interview.

■ **European officials** are planning a new round of bank "stress tests" that they say will be more rigorous than the widely discredited exams conducted earlier this year. Some officials are pushing for next year's tests of leading banks to take place months earlier than currently planned, according to people familiar with the matter.

■ **Portugal's Central Bank** warned that the nation's financial system was facing "serious challenges," adding to concerns that, after Greece and Ireland, Portugal won't be able to cope alone with growing investor distrust in its sovereign debt.

■ **Bonds issued** by the European Financial Stability Facility may be an "interesting" investment for Russia, the country's Finance Minister Alexei Kudrin said "since they have the backing of the European Union." The European Financial Stability Facility was set up by the 16 countries that use the euro to provide a funding backstop should a member state find itself in financial difficulties.

■ **Yields** on Spanish, Italian and Belgian bonds rose sharply, as did the cost of European sovereign-debt insurance, as investors continued to worry that the financial problems of some members of the euro zone would infect others. The yield gap for all three countries' debt hit euro-era records. Yield premiums also rose on Irish and Portuguese debt.

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WikiLeaks Fallout

■ **U.S. diplomatic cables** leaked by WikiLeaks provide new details on the U.S. assessment of how Iran's Revolutionary Guards Corps has promoted Tehran's influence in neighboring Iraq since the 2003 U.S.-led invasion.

■ **The WikiLeaks website** said it came under a forceful Internet-based attack Tuesday morning, making it inaccessible for hours to users in the U.S. and Europe. The site appeared to have recovered from the attack with the help of Amazon.com's U.S.-based server-for-rent service.

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Europe

■ **The overall** jobless rate in euro-zone countries rose to its highest level in more than 12 years in October, with little sign that the beleaguered peripheral countries are catching up with healthier economies at the currency area's core.

■ **The average** unemployment rate across the 16 states that use the euro rose to 10.1% from 10% in September, marking the highest rate since July 1998. But there are big gaps between countries, with rates ranging from 4.4% in the Netherlands to 20.7% in Spain.

■ **Consumer-price inflation** across the 16 countries that use the euro held steady in November, preliminary data showed. Eurostat estimated the annual consumer-price index in the euro zone rose 1.9% on the year in November, unchanged from the pace of price rises in October.

■ **A U.K.** government-ordered commission into public-sector pay is likely to recommend a maximum pay multiple for government

employees, which would cap top salaries in relation to low-paid employees.

■ **NATO's failure** to build a joint European missile shield with Moscow may force Russia to deploy new offensive weapons and trigger a new arms race, Russian President Dmitry Medvedev said in a stern warning reflecting the deeply rooted Kremlin distrust of Western intentions. technologies to mount a military buildup.

■ **In Italy**, students protesting state university budget cuts clashed with riot police who used tear gas and police vans to seal off much of Rome's historical center to stop the demonstrators from reaching Parliament.

■ **Meanwhile**, British students held a third day of protests over plans to triple university tuition fees, with police urging them to avoid the violence that marked earlier demonstrations.

■ **Spain's** large current account deficit narrowed in the first nine months of the year, helped by a widening services-sector surplus.

■ **Germany's labor market** continues to benefit from the country's strong economic upswing, although unemployment in November decreased by less than expected. The number of people unemployed declined by 9,000 in November when adjusted for seasonal swings, after a decrease of 3,000 in October. The adjusted jobless rate was unchanged at 7.5% in November.

■ **In Poland**, gross domestic product rose at an annual rate of 4.2% in the third quarter, up from the annual 3.5% increase in the second quarter. The robust GDP figure was mainly supported by a strong rebound in private consumption,

up 3.5% annually, accelerating from 3% in the second quarter.

■ **Turkey's trade deficit** widened sharply year-over-year in October, official data showed. According to the Turkish statistics institute, the October trade deficit expanded to \$6.3 billion from \$2.7 billion a year earlier.

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U.S.

■ **President Barack Obama** said he assigned Treasury Secretary Timothy Geithner and White House budget director Jacob Lew to work with congressional leaders from both parties to break a logjam on tax cuts that expire at the end of the year. The assignments came as he emerged from a highly anticipated meeting with congressional leaders without any breakthrough announcements.

■ **The Securities and Exchange Commission** charged a Deloitte Tax partner and his wife with passing insider tips on merger deals to the wife's sister and brother-in-law in London, allowing the two couples to reap millions in illegal profits. The U.K. Financial Services Authority also unveiled charges in the case against the wife's sister and brother-in-law and his colleagues.

■ **A Pentagon study** on a proposed lifting the ban on gays serving openly in the military found that while there could be some isolated, short-term disruption, over time the military will adjust to the policy change.

■ **The Agriculture Department** said net farm income, its rough measure of the agriculture sector's profitability, is jumping 31% this year to \$81.6 billion from \$62.2 billion last year.

■ **The Senate** approved a long-delayed bill to give the Food and Drug Administration a broad array of new food safety authorities and the House of Representatives is expected also to approve it before the end of the year.

■ **U.S. home prices** dropped in September from a month earlier and the rate of decline showed signs of accelerating, according to the S&P Case-Shiller home-price indexes. Third-quarter prices were also down.

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Asia

■ **A senior North Korean** official arrived in Beijing for talks about the crisis on the Korean peninsula, as a new batch of leaked U.S. diplomatic cables showed a China caught between loyalty to Pyongyang and pressure from others to take a tougher stance.

■ **Chinese officials** announced details of a crackdown on intellectual-property abuses that some lawyers and executives say is perhaps China's most intensive effort against piracy to date.

■ **A Beijing appeals court** barred U.S. diplomats from attending a hearing for an American geologist sentenced to eight years in prison for obtaining information on China's oil industry that the government says are state secrets.

■ **Japanese** industrial output dropped at the fastest pace in 20 months in October, a further sign of fragility in the nation's economic recovery.

■ **India's economy** grew 8.9% in the quarter ended Sept. 30, maintaining its dramatic expansion when many western economies are struggling to resuscitate growth.

■ **India's central bank** will take more steps if needed to ease a liquidity crunch in the banking system that may include cutting lenders' cash reserve requirement, two senior officials said.

■ **Malaysian Prime Minister Najib Razak** announced new tax incentives to promote the domestic oil and gas sector as part of a plan to transform the country into an industrialized nation by 2020.

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Middle East

■ **Abu Dhabi's Mubadala Development** announced it is putting \$100 million into Verno Capital's Russia-focused hedge funds, in what officials said is the first major direct commitment by a Persian Gulf sovereign-wealth fund into Russia.

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Africa

■ **At least 30 people** have been killed in Morocco after heavy rain and floods, official sources said. The MAP news agency said 24 people died when a bus carrying them was swept away by a flooding river in the Atlantic coastal town of Bouznika, south of the capital Rabat.

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Palestinians protest Israeli demolition of home in East Jerusalem



A Palestinian youth holds a burning tire during disturbances in the neighborhood of Issawiya, as clashes between stone-throwers and Israeli police broke out after officials tore down a Palestinian house. The municipality said the home was built without a city permit, but Palestinians say such permits are impossible to get.

BUSINESS WATCH

Auto maker BMW celebrates 50th anniversary as independent company



An employee cleans the platform on which stands a hybrid test vehicle, ahead of a ceremony commemorating BMW's adoption of an important restructuring plan 50 years ago on November 30, 1960.

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Autos

■ **Porsche** Automobil Holding confirmed it still plans to merge with Volkswagen and asked shareholders at a shareholder meeting to approve a planned €5 billion (\$6.56 billion) capital increase to reduce debt and clear the way for the next step of the merger.

■ **Chrysler Group** plans to hire 1,000 engineers and other high-tech workers over the next four months in an effort to fortify its work force for the global growth and expansion of small and mid-sized car development, a company executive said.

■ **General Motors** will begin exporting Chevrolet Volt battery-powered cars late next year, and plans to hire 1,000 engineers and researchers in Michigan to expand development of electric vehicles and hybrids, the company's chief executive said.

■ **Mazda** is considering building a factory in an emerging market, possibly Mexico, to take advantage of burgeoning demand.

■ **Toyota** said it will repair cooling pumps in about 650,000 Prius hybrid cars world-wide. Of the cars to be fixed, about 390,000 are in North America, 180,000 in Japan and 70,000 in Europe, a company spokesman said.

■ **Suzuki Motor** said its Maruti Suzuki India unit isn't part of discussions with Volkswagen, as it lays out details of proposed joint projects with the German firm.

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Aviation

■ **Airbus**, a unit of European Aeronautic Defence & Space, is expected to announce as soon as Wednesday that it will offer an updated version of its popular A320 single-aisle jet with more efficient, state-of-the-art engines supplied by General Electric and Pratt & Whitney, according to people familiar with the plans.

■ **Flybe** announced plans to raise £60 million (\$93.4 million) in an

initial public offering on the London Stock Exchange, a deal it expects to complete in December.

■ **Japan Airlines** said a court had approved its restructuring plans, more than 10 months after the struggling airline filed for Japan's biggest-ever nonfinancial bankruptcy protection.

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Chemicals

■ **BASF** said it is setting up a new joint venture with U.K.-based INEOS Industries Holdings to produce styrenics with expected annual sales of more than €5 billion (\$6.56 billion).

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Conglomerates

■ **ThyssenKrupp** said it returned to profit in the fiscal year ended Sept. 30, helped by a recovery in the global economy, and forecast its revenue and earnings to rise in the next 12 months. Germany's largest steelmaker by output said net profit for the period was €824 million (\$1.08 billion) compared with a €1.86 billion loss in the prior year.

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Construction

■ **Germany's** financial regulator, BaFin, approved Actividades de Construcción y Servicios's takeover offer for Hochtief, paving the way for the Spanish construction company to proceed with its proposal to gradually increase its Hochtief stake to just above 50%.

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Drinks

■ **The U.K. government** said it will tax stronger beers at a higher rate than weaker ones as part of its move to tackle problem drinking. The new tax rates will be revealed in the 2011 budget and will apply to beers with an alcoholic content above 7.5% and below 2.8%.

■ **Rémy Cointreau** said its fiscal first-half net profit fell 65% to €14.1 million (\$18.5 million) due to a provision related to the sale of

Metaxa Greek brandy. The French spirits group said it has begun the process to sell its champagne business and plans to focus on developing its premium brands.

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Energy

■ **Lukoil Holdings**, Russia's biggest privately-owned oil producer, said net profit in the third quarter rose 37% to \$2.82 billion on higher oil prices, a \$438 million one-off gain and a large disposal of crude from its inventory.

■ **Royal Dutch Shell** and Russian gas giant Gazprom signed an agreement that will deepen their existing partnership within Russia and see them work together outside Russia for the first time.

■ **Woodside Petroleum** raised the forecast cost of its Australian liquefied natural gas project to 14 billion Australian dollars (\$13.49 billion) and pushed back the start-up of the venture.

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Financial services

■ **Natural catastrophes** and man-made disasters this year cost the global insurance industry \$36 billion, but the economic loss for society was much higher at \$222 billion, reinsurer Swiss Re said.

■ **China's** securities regulator approved China International Capital's plan to change its shareholding structure, bringing Morgan Stanley a big step closer to finally selling its 34.3% stake in the Chinese brokerage.

■ **Charles Schwab** disclosed that a court has preliminarily approved an amendment to its settlement of a consolidated class-action lawsuit related to investors' losses in an ultra-short bond fund.

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Health

■ **Bain Capital** is inching closer to a deal to buy U.K. care-homes business Priory Group after resuming talks with owner Royal Bank of Scotland Group, people familiar with the situation said.

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Manufacturing

■ **ABB** is taking a steep bet that tougher U.S. energy regulations will spread to other major industrialized countries such as China, as it spends \$4.2 billion to buy Baldor Electric, a 41% premium on the U.S. firm's prior share price.

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Pharmaceuticals

■ **Novartis** said it will be cutting about 1,400 jobs at its U.S. general-medicines unit in a move to improve efficiency. Novartis, based in Basel, Switzerland, said the restructuring will cost around \$85 million, but didn't quantify the expected savings.

■ **Merck's board** named Kenneth C. Frazier as its new chief executive starting Jan. 1, while current Chief Executive Richard T. Clark will continue as chairman.

■ **The U.S. Food and Drug Administration** said a proposed thyroid cancer drug being developed by AstraZeneca was associated with "substantial toxicity."

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Retail

■ **Carrefour** said it will incur one-off charges related to its Brazilian operations this year of €550 million (\$721.8 million), up sharply from a previous estimate of €180 million, prompting the company to lower its full-year operating profit target.

■ **Barnes & Noble's** fiscal second-quarter loss narrowed to \$12.6 million compared with a prior-year loss of \$24 million though the U.S.'s largest bookstore chain worried investors by reporting shrinking sales at its physical stores, declining margins and muted guidance.

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Technology

■ **Google** has been in talks to buy Groupon, a fast-growing website offering daily deals at businesses in the U.S. and abroad, according to a person familiar with the mat-

ter. No deal is imminent, said people familiar with the matter.

■ **Earlier**, the European Commission is investigating whether Google is shutting competitors out of the online-search market.

■ **American Express** said it would allow its card holders to redeem their membership rewards points for virtual games from online social-games maker Zynga Game Network, known for games such as "Farmville" and "Mafia Wars."

■ **U.S. Federal Communications Commission** Chairman Julius Genachowski said the agency wants more information about the dispute between Level 3 Communications and Comcast over fees the broadband provider is charging Level 3 for streaming movies over its network.

■ **Seagate Technology** said it called off talks with private-equity firms about taking one of the biggest makers of computer disk drives private for a second time, concluding the price likely to be offered wasn't attractive.

■ **LG Electronics** said it will eliminate its business-solutions unit next year, reducing the number of divisions to four, and focus on boosting the development of advanced technology and strengthening new businesses.

■ **Software services** company iGate is looking to raise up to \$700 million to help fund a joint bid with Apax Partners to take control of Indian rival Patni Computer Systems, two people familiar with the matter said.

* * *

Telecommunications

■ **Germany's** network regulator said it will significantly lower the rates mobile operators can charge each other to connect calls, in line with European Commission targets.

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