

TWO-SPEED EGYPT

The economy is roaring ahead, but political reform has stalled ■ SEPARATE SECTION

SMELLY COLLEAGUES

Lucy Kellaway on how to deal with malodorous workmates ■ PAGE 8

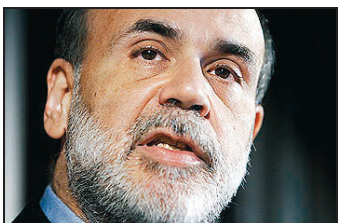
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BRIEFING



Fed sees signs of frailty but holds rates at 5.25%

The Federal Reserve, headed by Ben Bernanke (above), acknowledged recent signs of weakness in the economy but predicted moderate growth in coming quarters. The central bank kept interest rates on hold at 5.25 per cent for the fourth successive month. Page 6; Lex, Page 14; Short View, Page 15; Markets, Page 26

Doj business crime rethink

The US department of justice abandoned some of the tough tactics it used to fight corporate crime in the post-Enron era but business groups said the moves did not go far enough to restore a level playing field between prosecutors and corporations under investigation. Page 6

China boosts forex unit

China is to beef up the agency that manages the country's \$1,000bn-plus in foreign exchange reserves, doubling its in-house trading departments and recruiting staff to invest the funds. Page 4

Dell rejigs management

Dell, the struggling US computer group, named Steve Schucklenbrock, a former executive with EDS, to head the company's \$5bn services business. It was part of a broader management shake-up designed to reinvigorate sales. www.ft.com

Bush firm on war costs

The Bush administration is unlikely to accept the recommendation of the Iraq Study Group to include all Iraq war spending in its budget for 2008 but may be willing to compromise on being more specific about the costs. Page 6

JSF deal agreed with UK

The Pentagon has agreed to provide the UK with sensitive defence technology in an agreement that paves the way for Britain to continue investing in the Joint Strike Fighter programme. Page 6

Beijing calls internet tune

China's culture ministry has ordered internet companies to apply for approval from censors for any foreign music they make available online and to prove they own distribution rights. The rules are the latest move by Beijing to tighten control of the internet. Page 4

Israeli PM's bombshell

Israel's prime minister struggled to contain a furore over remarks he made appearing to confirm Israel's possession of nuclear weapons. Page 5

Himalayan flood alert

Nearly 50 Himalayan glacial lakes could burst their banks, say experts, putting thousands of lives at risk. Page 4

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Q&A: US in the Middle East

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Blair gives backing for Darfur no-fly zone

Washington develops air strike plan for Sudan

By Guy Dinmore in Washington

Tony Blair has backed imposing a no-fly zone over Sudan's Darfur region, calling for "tougher action" if the government in Khartoum does not halt violence there and allow in a UN-led peacekeeping force.

The Bush administration is also working on other military options should the crisis continue to deteriorate, including air strikes and a naval blockade, US officials said.

Mr Blair, the UK prime minister declared his support for a no-fly zone for the first time during his visit to Washington last week. He told President George W. Bush that they had to deal with Omar al-Bashir, the Sudanese president, in the next two to three months.

"If rapid progress is not made, we will need to consider alternative approaches, with international partners," Mr Blair warned on returning to London.

Planning has moved ahead, according to one official, who added: "The Americans mean business."

Military action in another oil-rich Muslim country almost four years after the Iraq invasion would be risky. But some officials in Washington and London suggest that it might be the only way to deal with the situation in the western Sudanese region. Between 100,000 and 400,000 people have died there through famine and slaughter and 2.5m more have fled their homes since 2003.

A no-fly zone would be designed to prevent the Sudanese government using its air force in attacks against villages in Dar-

fur. Such attacks have been alleged by UN monitors and human rights organisations.

No decisions over possible military action have been reached and such a course would be considered only if Mr Bashir resists UN demands for the deployment of a "hybrid" force of UN and African Union peacekeepers.

Opposition from the US military is said to be strong. Analysts and diplomats are also sceptical the US and UK will conclude that military intervention against Khartoum's wishes would rescue a complex situation.

Armed action would also risk destroying a separate North-South agreement that ended decades of civil war last year.

China, which consumes almost two-thirds of Sudan's oil exports, is said to be concerned that its image is being tarnished by its close association with Khartoum. But envoys doubt that Beijing would back any UN plan that might affect its oil purchases.

Mr Blair spoke in Washington of his fears that the violence and "terrible suffering" in Darfur might destabilise the whole region. He called for "tougher action" but with UN approval.

Andrew Natsios, the US special envoy for Sudan, flew to Khartoum at the weekend for a diplomatic push. US officials doubted that Mr Bashir would allow the deployment of peacekeepers.

A US official confirmed that the government wanted to work with France in Chad, where Paris has about 1,200 troops to assist the government against Sudanese-backed rebels.

Iraq casts shadow, Page 5

Radiation alert Spy death probe grows



Workers from the German Federal Office for Radiation Protection enter a house that Russian businessman Dmitry Kovtun visited in late October.

Mr Kovtun is believed to be in a Moscow hospital suffering radiation contamination. He stayed at his former wife's home in Haselau, near Hamburg, just before meeting Alexander Litvinenko in London on November 1.

Litvinenko, a critic of the Kremlin and former Russian spy, died at a London hospital of poisoning from the rare radioactive substance polonium 210 on November 23.

Mr Kovtun's former wife, her two children and her boyfriend were taken to a Hamburg hospital on Monday amid fears that they had been contaminated. German officials said yesterday the four were out

of danger. Though traces of polonium were found at their Hamburg apartment, hospital officials said initial tests on the four had revealed no measurable radiation levels.

The United Nations atomic watchdog is undertaking a review of its relatively safe classification of polonium 210 following Litvinenko's death. Photo: Getty Images

Watchdog reviews, Page 2

SEC raises the bar for hedge fund investors

By Jeremy Grant in Washington

US regulators are proposing to prevent all but the very wealthy from investing in hedge funds by more than doubling the current investment threshold for individuals to \$2.5m.

The proposal is likely to be approved today at a meeting of the Securities and Exchange Commission. It comes as the SEC grapples with the best way in which to regulate the estimated \$1,300bn hedge fund market.

It will be seen as an aggressive attempt by the SEC to back up its investor protection mandate by ensuring that only those investors deemed sophisticated enough should be given access to the rapidly growing industry.

"I think it goes a long way to achieving what the SEC wants to do here, which is making it almost impossible for the 'mom and pop' type investor to get into vehicles like this," said Aaron Buser at law firm Stark & Stark.

The last threshold, set in 1982, allowed individuals with \$1m in net assets and annual income of \$200,000 over the previous three years to invest.

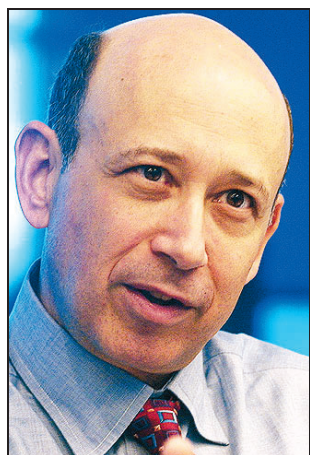
The \$1m included the value of a person's main residence, but with US house prices rocketing in recent years the threshold was deemed too low.

Now, investors will not be able to include their residences in their asset totals. Instead, they will have to show they have \$2.5m invested in assets such as equities and bonds, as well as other riskier investments, to qualify as a hedge fund investor.

Douglas Scheidt, chief counsel at the SEC's investment management division, said the new rule was a test of investor sophistication, not merely net worth.

Separately, the SEC said new guidance to be unveiled today on how company management should comply with Sarbanes-Oxley's internal controls provisions would give more flexibility to management to decide what controls it should check, freeing up executives to devote time to running their companies.

Goldman glisters



Goldman Sachs yesterday reported the most profitable year ever for a Wall Street investment bank. Fourth-quarter earnings jumped 93 per cent to \$3.15bn (£2.4bn). Annual earnings rose 69 per cent to \$9.54bn. Trading accounted for most of the profit but chief executive Lloyd Blankfein also benefited from Asian investments and reduced compensation costs. Shares were flat at \$202.43 at midday in New York, amid scepticism over whether Goldman could repeat the performance. Report, Page 15

Foreign companies faring worse in US law courts

By Brooke Masters and Francesco Guerrera in New York

Non-US public companies sued in the US are more likely to lose than their American counterparts of similar size facing similar claims, a study of 3,000 corporate defendants has found.

The mere announcement of a US lawsuit also hits non-US companies far harder.

On average, their value dropped \$930,000 on the day of the announcement compared with \$366,000 for US firms, according to the study by Utpal Bhattacharya, a finance professor at Indiana University.

The study, which will be published next year, looked at lawsuits filed in federal courts between 1995 and 2000 and followed the cases through to final resolution.

The apparent "home court advantage" revealed in the study may heighten foreign companies' concerns over their ability to do business in the US.

Fears of protectionism in the US have increased due to public opposition to foreign takeovers of US companies and rising hostility towards the outsourcing of US jobs to developing countries.

"If it's a foreign firm that gets sued, they lose far more often and they lose higher dollar amounts," Mr Bhattacharya said. "Foreign firms don't think they get a fair shake in US courts."

He said the companies studied were spread across the globe.

The study, co-authored by Bruce Haslem and Neal Galpin, also found more non-US firms were becoming entangled in the US legal system.

In 1995, non-US firms made up 20 per cent of the public company defendants.

By the end of the study period, their share had risen to 29 per cent.

Some non-US companies may choose to fight lawsuits that US companies would opt to settle. "Even if you have US legal

counsel, the companies back home don't understand the crazy things that go on here," said Tom Niles, vice-chairman of the United States Council for International Business.

Last year, US lawmakers threatened to block the \$18.5bn bid by China's CNOOC for Californian oil group Unocal, which was subsequently bought by Chevron.

This week, Dubai Ports World agreed to sell to AIG the US ports bought as part of February's acquisition of P&O - a divestment forced upon the group following Congressional opposition.

The study "gives empirical backing to the idea that the US legal system is broken," said Linda Kelly, vice-president of the US Chamber of Congress's Institute for Legal Reform.

"It suggests a need for Congress to see what they can do to improve our global competitiveness from a legal standpoint," she said.

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