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THE WALL STREET JOURNAL.

VOL. XXVIII NO. 133 **EUROPE** Tuesday, August 10, 2010 europe.WSJ.com

Birthday gold for the U.K.'s Miley



Reuters

Hannah Miley strikes out for the U.K.'s first gold medal of the European Swimming Championships in Budapest on Monday. It was Miss Miley's 21st birthday and she celebrated by beating world champion Katinka Hosszu in a European 400 meters medley record time. **Report WSJ.com/sport**

Rights groups join criticism of WikiLeaks

By JEANNE WHALEN

A group of human-rights organizations is pressing WikiLeaks to do a better job of redacting names from thousands of war documents it is publishing, joining the list of critics that claim the Web site's actions could jeopardize the safety of Afghans who aided the U.S. military.

The letter from five human-rights groups sparked a tense exchange in which WikiLeaks founder Julian Assange issued a tart challenge for the organizations to help with the massive task of removing names from thousands of documents, according to several of the organizations that signed the letter. The exchange shows how WikiLeaks and Mr. Assange risk being isolated from

some of their most natural allies in the wake of the documents' publication.

The human-rights groups involved are Amnesty International; Campaign for Innocent Victims in Conflict, or CIVIC; Open Society Institute, or OSI, the charitable organization funded by George Soros; Afghanistan Independent Human Rights Commission; and the Kabul office of International Crisis Group, or ICG.

Several groups said they emailed WikiLeaks to say they were concerned for the safety of Afghans identified as helping the U.S. military in documents obtained by WikiLeaks. WikiLeaks has already published 76,000 of the documents and plans to publish up to 15,000 more.

Some of the already published documents included

names that critics including the Pentagon claim could lead to harm for Afghans seen as helping the U.S. war effort. The Pentagon last week demanded that WikiLeaks hand over all the classified Afghan war documents it has.

"We have seen the negative, sometimes deadly ramifications for those Afghans identified as working for or sympathizing with international forces," the human-rights groups wrote in their letter, according to a person familiar with it. "We strongly urge your volunteers and staff to analyze all documents to ensure that those containing identifying information are taken down or redacted."

In his response to the letter signed by the human-rights organizations, Mr. Assange said:

Please turn to page 7

Germany's exports continue to ramp up

Germany's exports continue to pull the country out of the economic doldrums, according to data from the federal statistics office, Destatis.

The June data show German exports are almost back to pre-recession levels. A steep drop in global trade at the end of 2008 and in early 2009 hammered its export-dependent economy during the recession, with gross domestic product falling nearly 7% from its peak in early 2008. Destatis is expected to announce

a 1.4% expansion in GDP for the second quarter when it releases its preliminary estimate Friday, according to a poll of analysts.

Germany rebounded last quarter despite the most severe fiscal crisis since the euro's creation in 1999, as investors questioned whether highly indebted countries such as Greece would be able to pay back their debts.

■ Export data point to strong growth in German GDP 4

The Quirk



Rogue tailor needles Savile Row and gets himself a (law) suit. **Page 29**

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The international focus on blood diamonds is a self-serving charade. **Page 12**



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PAGE TWO

Where's the evidence about lending?

[Agenda]

BY SIMON NIXON



Bank-bashing remains good sport, even now. For politicians, the banking industry is the gift that keeps giving: easy to attack when their reckless lending nearly brought down the financial system; still easy to attack now that they stand accused of not lending enough even as they return to healthy profits. Even so, it's an important principle of public policy that those in power should base their public pronouncements on evidence rather than hearsay. That courtesy should be extended to the banks.

The latest row over bank lending to small businesses was kicked off by Bank of England Governor Mervyn King in an appearance before the House of Commons Treasury Select Committee two weeks ago, when he talked of the U.K. banks' treatment of their customers as "heartbreaking." When the head of the central bank uses such emotive language to describe such a politically sensitive subject, the rest of us are entitled to believe it must be based on deep analysis. After Mr. King's comments, Chancellor of the Exchequer George Osborne was virtually obliged to step in with his own attack on the banks' lending practices, which inevitably overshadowed the sector's encouraging results last week.

So what evidence does Mr. King have to back up his highly-charged assault? Senior bankers say they have pleaded with the BOE for specific examples of creditworthy companies that have been refused finance but have so far heard nothing. The BOE itself has conducted no detailed analysis of small-company lending conditions. Pushed on the subject, its staff can point only to a Department for Business, Innovation and Skills chart which



Bank of England Governor Mervyn King in Downing Street last week.

actually shows lending to smaller companies is rising and its own credit conditions survey, whose data series on small company lending only goes back to the fourth quarter of last year but also shows lending conditions picking up. The governor's comments appear to be based on little more than tittle-tattle. No wonder bank executives are furious.

The BOE itself has conducted no detailed analysis of small-company lending conditions.

Set against this is the evidence provided by the banks themselves last week. All the major high-street lenders provided data that showed net lending to small and medium-sized companies had risen over the past half year, albeit only marginally in some cases. All the banks insist the biggest obstacle to increasing their lending to this market is lack of demand from creditworthy customers—an excuse Dr. King pre-emptively dismissed as "not good enough." Yet **Barclays** insists that business customers are currently using only 40% of their agreed borrowing facilities, with profitable businesses preferring to pay down debt in

the current uncertain economic climate. Applications for new credit facilities had halved over the previous three years, while approvals had increased to 80%. All the banks insist that they have no shortage of lending capacity for healthy businesses.

Of course, the banks could be fudging their numbers. There's a suggestion that one bank has been repackaging old, distressed commercial property loans and counting them as new business lending. Another bank is said to be complying with political pressure to lend to borrowers but refusing to take on new small business customers. But if Mr. King suspects that banks are pulling the wool over people's eyes, he should have done his analysis before speaking out.

Similarly, the BOE could tell us why exactly it believes it is so important that banks should be lending more to businesses. After all, most of the evidence from previous recessions around the world suggests it's quite normal for bank lending to fall during the early stages of a recovery as companies fund their growth from their own cash resources. Why does the BOE think this recession should be different?

But let's assume Mr. King is right, with the implication that banks are indeed turning down profitable lending opportunities and refusing to finance projects that might deliver a positive net

present value to the detriment of the U.K.'s economic prospects. That could only mean that banks lack the liquidity to provide the funding—in which case what are the BOE and U.K. government going to do about it?

The government last month launched a Green Paper to look at the options, and the six biggest U.K. lenders have launched a task force that will include the government and the BOE to analyze the issues and come up with solutions. But if the BOE really felt there was a serious problem, there are already steps it could take. After all, it has just spent £200 billion (\$318 billion) buying up highly liquid U.K. government bonds. If it had used some of that money to buy portfolios of small company loans, as the U.S. Federal Reserve did during the financial crisis, it could have materially improved access to, and the price of, bank finance. **Lloyds Banking Group** recently securitized a portfolio of SME loans. The BOE's participation could help jump start a potentially promising new market.

The real problem, however, is most likely not so much a shortage of credit as a lack of equity—and an understandable reluctance by small company owners to raise equity. That isn't an easy message to deliver to businesses that became used during the boom to easy access to credit on very lax terms.

But it is hardly the fault of the banks that equity capital for SME's is so scarce: successive governments have grappled for years with tax-based incentive programs to encourage greater investment in smaller companies. Yet the current U.K. government has just made angel investing even less attractive by raising the rate of capital gains tax for higher earners from 18% to 28%.

If viable companies now go to the wall because of a lack of equity funding, that really would be "heartbreaking."

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What's News

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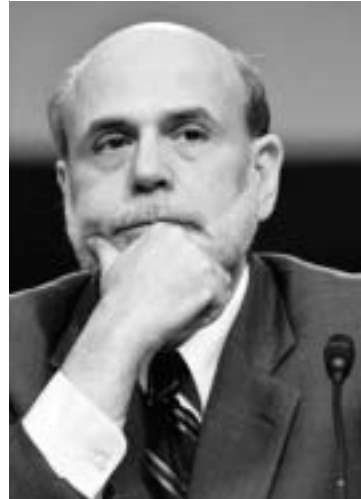
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"I think we should give the farmers any subsidy they need to insure an abundant supply of food."

Louis Ciola on tough decisions facing farmers over the world's grain supply



Continuing coverage



Follow a slew of economic news due out this week and get instant analysis at **wsj.com/economy**

Question of the day

Vote and discuss: Do you expect the U.S. Federal Reserve to signal deeper concern on the economy?

Vote online at **wsj.com/polls**

Previous results

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Real book, bought in store **39%**

Real book, bought online **32%**

Digital book **29%**

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

SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 20 3426 1234. Calling time from 8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com. Website: www.services.wsje.com
ADVERTISING SALES worldwide through Dow Jones International. Frankfurt: 49 69 29725 390; London: 44 203 426 1111; Paris: 331 40 17 17 01. Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG WIL. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Teletampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basinevi.
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Registered address: Boulevard Brand Whitlock, 87, 1200 Brussels, Belgium

NEWS

Gitmo sentence to be secret

Former al Qaeda bodyguard reaches plea deal; second case involves actions of 15-year-old

By JESS BRAVIN

GUANTANAMO BAY, Cuba—The public will never learn the sentence imposed on a former al Qaeda cook and bodyguard for supporting terrorism under a plea bargain that military prosecutors reached with defense attorneys, a prosecution spokesman said.

In a second case resuming here Monday, the Defense Department planned to begin a nearly unprecedented trial of a juvenile for war crimes. The military accuses Omar Khadr, who was 15 years old when captured in Afghanistan, of throwing a grenade during a firefight that killed a Delta Force medic. On Monday, Mr. Khadr pleaded not guilty to all charges.

The Obama administration hopes to show that the latest version of military commissions, which have been marred by internal disarray and mired in legal challenges since former President George W. Bush tried to create them in 2001, can be run effectively and withstand judicial scrutiny.

But the cases being heard this week underscore both the troubled history and future challenges facing the military-commissions experiment, which was designed to bring about convictions more easily than in courts-martial or federal or state courts.

Ibrahim al-Qosi, who reached the plea bargain with prosecutors, is the last case remaining from the initial four defendants the Bush administration charged six years ago in its first version of military commissions.

The Pentagon would not disclose what sentence the secret agreement provides. But the Arabic-language news channel al Arabiya, citing two sources who have seen the secret agreement, said the term was two years, after which Mr. Qosi would be repatriated to Sudan.

In 2004, prosecutors alleged that Mr. Qosi was one of Osama bin Laden's money managers, helping run the al Qaeda front company **Taba Investments** in Sudan. Mr. Qosi was "in charge of managing donated money from nongovernmental and charitable organizations," the 2004 charges said.



Defendant Omar Khadr, left, at his hearing Monday in the courthouse at Guantanamo Bay U.S. Naval Base in Cuba.

The 2004 proceedings against Mr. Qosi were halted after a federal judge found Mr. Bush's commission structure unlawful. After the Supreme Court threw out the Bush commissions in 2006, Congress enacted measures intended to bring commissions into line with basic fair trial standards, such as excluding statements obtained under torture or cruel, inhuman or degrading treatment.

New charges filed against Mr. Qosi in 2008 dropped all references to terrorist financing, instead accusing him of "serving as a bodyguard, driver, fighter and supplier for al Qaeda."

In a six-page stipulation that the government accepted as true, Mr. Qosi, about age 50, said, "I was in charge of the kitchen at the [Star of Jihad] compound" near Jalalabad, Afghanistan, and, at various times, worked as a driver, a bodyguard and on a mortar crew. He wrote that he "had no foreknowledge" of the Sept.

11, 2001, terrorist attacks or al Qaeda's earlier attacks on U.S. embassies in Kenya and Tanzania, and the USS Cole.

While the Qosi case seems likely to be settled quietly, the trial of Toronto-born Mr. Khadr may raise some of the most difficult issues surrounding military commissions.

Mr. Khadr's father, Ahmed Said Khadr, an Egyptian-born Canadian citizen, was closely identified with extremist Islamic causes. He became a bin Laden confidant in the 1980s, and in 1993 moved his family to Afghanistan, where U.S. authorities say he funneled money to al Qaeda under cover of charity work. After the U.S. invaded Afghanistan to topple the Taliban regime in October 2001, the Khadr's scattered. Ahmed Khadr was killed by Pakistani forces in an October 2003 battle that also left his youngest son paralyzed.

Omar Khadr was captured after a July 27, 2002, firefight in the Afghan village of Ab Khail. Among

other charges, the Pentagon alleges that Mr. Khadr threw a grenade that killed the medic.

Aside from denying the allegations, Mr. Khadr's lawyers have challenged the entire premise of the prosecution. They contend that Mr. Khadr should be considered a "child soldier" who is himself a war victim, rather than a war criminal.

U.S. officials respond that after World War II, several juveniles were tried for war crimes by American or Allied tribunals.

Last week, Mr. Khadr's military defense lawyer, Lt. Col. Jon Jackson, asked the Supreme Court to stay proceedings while he pursued another challenge to the commissions structure. Col. Jackson contends the commissions are unconstitutional because they subject foreign citizens to a lower standard of justice than U.S. citizens would receive if charged with identical offenses.

The justices declined to stay proceedings.

Ex-soldier completes an Amazon expedition

Associated Press

MARAPANIM, Brazil—After 859 days, thousands of kilometers and "50,000 mosquito bites," Ed Stafford became the first man known to have walked the entire length of the Amazon River when the waves of the Atlantic Ocean lapped at his feet in northern Brazil on Monday.

"It's unbelievable to be here!" Mr. Stafford told the Associated Press the moment he entered the sea. "It proves you can do anything—even if people say you cannot. I've proved that if you want something enough, you can do anything!"

A few hours earlier, Mr. Stafford had collapsed at the side of the road, just short of his destination. But upon arrival at the Crispim beach—and his journey's end—Mr. Stafford jumped into the ocean and hugged anyone in sight.

While he says he is "no eco-warrior," Mr. Stafford told the AP near the end of his journey that he hoped his feat would raise awareness of destruction to the Amazon rain forest—but that at its heart, it was simply a grand expedition of endurance.

"The crux of it is, if this wasn't a selfish, boy's-own adventure, I don't think it would have worked," the 34-year-old former British army captain told the AP as he sat under the Brazilian sun near the jungle city of Belem. "I am simply doing it because no one has done it before."

There are at least six known expeditions along the course of the Amazon river, from its source high in the Peruvian Andes across Colombia and into Brazil before its waters are dumped into the ocean 6,760 kilometers away.

But those used boats to advance their travel.

Mr. Stafford said his journey—which has cost \$100,000 and is paid for by sponsoring companies and donations—has deepened his understanding of the Amazon, its role in protecting the globe against climate change and the complex forces that are leading to its destruction.

Farrow testifies in Taylor trial

Associated Press

LEIDSCHENDAM, Netherlands—Actress Mia Farrow testified at the war crimes trial of former Liberian ruler Charles Taylor that fashion model Naomi Campbell told her she was sent a "huge diamond" by the then-president in 1997, contradicting Ms. Campbell's evidence last week.

The prosecution called Ms. Farrow and Ms. Campbell's former agent Carole White to testify about a gift of uncut diamonds that Mr. Taylor allegedly gave the model at a September 1997 party hosted by Nelson Mandela.

Ms. Campbell told the court Friday that she was given several small stones by unknown men during the night, but she didn't know they were diamonds or who sent them.

If Ms. Farrow's account is true, it would dent Mr. Taylor's denials of

any involvement with trade in illicit diamonds. The prosecution claims Mr. Taylor traded guns to rebels in neighboring Sierra Leone in exchange for uncut diamonds—known as "blood diamonds" for their role in financing conflicts—during the country's 1992-2002 civil war, which left more than 100,000 dead.

Mr. Taylor faces 11 charges at the Special Tribunal for Sierra Leone, including murder, rape, sexual enslavement and recruiting child soldiers. He denies all charges.

Ms. Farrow testified that Ms. Campbell told guests over breakfast she had received a diamond from Charles Taylor. "She said that in the night she had been awakened, some men were knocking at the door, and they had been sent by Charles Taylor, and they had given her a huge diamond," Ms. Farrow said.

Mr. Taylor's chief counsel, Courtenay Griffiths, said Ms. Farrow was

unlikely to accurately recall what happened at a breakfast 13 years ago. The defense also suggested Ms. Farrow's credibility was tainted by her activism, particularly her campaigns for victims of Africa's wars.

Ms. Farrow conceded she never saw the diamond or diamonds, and that Ms. Campbell might not have used the word "huge."

Ms. White, the agent, told the court that Mr. Taylor and her then-client enjoyed each other's company at the dinner table. During the meal, Ms. White said, Ms. Campbell spoke to her. She "was very excited and she told me he was going to give her some diamonds," she said.

Under cross-examination, Mr. Griffiths challenged Ms. White's testimony. "You have a very powerful motive for lying," he said, noting that Ms. White is suing Ms. Campbell for millions of dollars over an alleged breach of contract.



American actress Mia Farrow testifies at the trial of the former Liberian ruler.

EUROPE NEWS



Agence France-Presse/Getty Images

A container ship in Hamburg's port. German exports are almost back to prerecession levels, partly thanks to strong demand for German-manufactured goods.

German exports show surge

By BRIAN BLACKSTONE

FRANKFURT—German exports surged in June, confirming a revival in Europe's largest economy after a severe recession and, until recently, a sluggish recovery.

Germany posted strong growth last quarter but the extent of the rebound wasn't clear until the release of the latest trade data, which showed a 3.8% rise in exports from May and a €14.1 billion (\$18.78 billion) trade surplus.

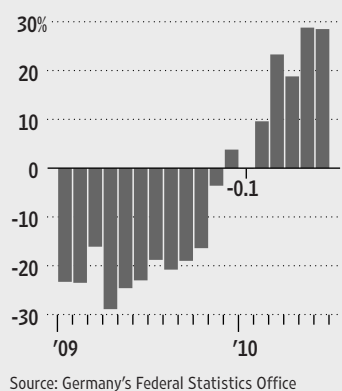
Monday's numbers—which come on the heels of steady declines in unemployment and surging industrial orders—point to second-quarter growth in Germany of at least 5%, at an annualized rate. Growth could even approach 7%, some forecasters say, which would be among the fastest paces since German reunification.

German exports are almost back to prerecession levels. A steep drop in global trade at the end of 2008 and early 2009 hammered its export-dependent economy during the recession, with GDP falling nearly 7% from its peak in early 2008. The recovery has been quite mild so far due in part to the end of a car-scraping program last summer and a harsh winter that delayed construction projects. In the fourth quarter of 2009 and this year's first quarter, Germany grew at rates below 1%.

The second-quarter surge “is a combination of catching up after the winter, then there's the strong de-

Growth engine

German exports, year-to-year percentage change



Source: Germany's Federal Statistics Office

mand for German manufacturing and a stabilization of private consumption,” says Carsten Brzeski, economist at ING Bank.

The EU releases second-quarter euro zone GDP figures on Friday. The 16-nation region grew around 3%, at an annualized rate, according to private-sector forecasts, thanks largely to Germany, which likely contributed more than one-third of the region's growth. If the forecasts prove accurate, EU growth will have exceeded that of the U.S. for this first time since the global recovery began last year. The U.S. economy advanced 2.4% last quarter.

“I think that after having been extremely negative about Europe and extremely positive about the

United States, we are now observing some kind of swing in the other direction,” European Central Bank President Jean-Claude Trichet said last week.

The euro zone, and Germany in particular, rebounded last quarter despite the most severe fiscal crisis since the euro's creation in 1999. Investors questioned whether indebted countries such as Greece would be able to pay back debts, threatening the monetary union.

Euro-zone governments and the IMF in May committed nearly \$1 trillion toward a loan facility to protect Greece, Portugal and Ireland, while the ECB for the first time bought the government debt of those countries. The purchases, which amounted to €16.5 billion during the program's first week at the height of the crisis, have slowed amid Europe's recovery, and totaled just €9 million last week, the ECB said Monday.

The German data highlight the positive offsets of that crisis. The falling euro, which dipped below \$1.20 before recovering recently, made exports cheaper in global markets. Lower interest rates in havens such as Germany reduced borrowing costs for businesses.

But many other nations in Europe continue to struggle. Italy only grew 0.4% on a quarterly basis in the second quarter, according to figures released last week, or about 1.6% annualized. Spain grew at a less than 1% annualized rate, according to estimates from Spain's cen-

tral bank. The Bank of France said Monday it expects the euro zone's second-largest economy to grow at slightly more than a 1% annual rate in the third quarter.

“Germany's economy is growing far above potential, while the rest of the euro zone is still growing far below potential,” says Simon Juncker, economist at Commerzbank.

Even though Germany has regained most of the exports, and jobs, lost during the recession, it will take another two years before it recoups all of the output lost during the worst economic crisis since the Great Depression, economists warn.

The export side of German industry has recovered rapidly, but Germany's frugal consumers continue to save heavily and spend sparingly despite rising confidence. Investment is under pressure, in part from Germany's successful drive to limit the loss in employment, which saved jobs at the expense of new business spending, economists say. German industries “made a decision to hoard labor, so they did that at the expense of capital spending,” says Greg Fuzesi, economist at JPMorgan Chase.

Despite the export revival, winning back bragging rights as the world's biggest exporter, which Germany lost to China last year, appears out of reach. Chinese exports should swell 18% this year, Germany's Industry and Trade Association said, outpacing Germany's 11%.

—Andrea Thomas
contributed to this article.

Official floats idea of pushing pan-EU tax

Reuters

The European Union executive is preparing proposals for an EU-wide tax that could fall on bank transactions or air travel, a senior official said Monday, prompting immediate opposition from Berlin.

With European governments under financial pressure, officials in Brussels are looking for alternatives to finance a growing EU budget, the vast majority of which goes to subsidize farming and fund structural projects such as road building, while 4% pays for the EU's civil service in Brussels.

Janusz Lewandowski, the European Union's commissioner in charge of the €140 billion (\$186 billion) budget, said Monday that he would outline in September how a new EU tax might look.

“There are various options that would not affect the finance ministries and have a link to European policy like a financial transaction tax, CO₂-emission auctions and an aviation scheme,” Mr. Lewandowski told Financial Times Deutschland.

“A transaction tax can bring in a big amount of money,” he said. “The others will only contribute a smaller part to the €140 billion a year we are spending.”

Within hours of Mr. Lewandowski's remarks being published, the German government had criticized the idea.

“The demand to introduce an EU tax contravenes the position underlined by the [German] government in its coalition agreement,” a spokesman for the German finance ministry said. “The government's reservations are about the instrument of an EU tax as such,” he said.

A spokesman for Mr. Lewandowski said the commissioner was about to embark on a tour of Europe's capitals to talk to leaders in Rome, Paris and London about the plans, adding that he would be “surprised” if anyone objected.

Asked what specific revenue-raising measures could be included in the European Commission's proposals, which are to be presented on Sept. 21 or 28, the spokesman was noncommittal.

“Anything that relates to the budget in terms of income, and also spending, will have to be in there,” spokesman Patrizio Fiorilli told a news conference on Monday, explaining Mr. Lewandowski's remarks. “The Commission must present a proposal that is as concrete as possible and the climate now is to try and reduce member states' contributions, that is it.”

Karel Lannoo of the Centre for European Policy Studies, a Brussels think tank, said now wasn't a good time to introduce a new tax. “Many member states are going through drastic spending cuts,” Mr. Lannoo said. “For any EU tax to be introduced you would need to address all the different ways European countries raise revenue. This is a can of worms and this is not an opportune moment to open it.”

Repeated past attempts to craft a tax for all the bloc's 27 countries have failed because many politicians believe it would surrender too much power to Brussels.

House prices in Britain slipped in July

By ILONA BILLINGTON

LONDON—U.K. house prices fell in July for the first time in a year as the number of new properties for sale outpaced demand from cautious buyers, and further price declines look likely over the coming three months, the Royal Institution of Chartered Surveyors said Tuesday.

A separate survey of retail sales by the British Retail Consortium added another pessimistic note: Sales volumes grew at a slower pace in July than in June. The BRC attributed the slowdown to uncertainty over job security in the wake of the recently announced government spending cuts, which weighed on sales of larger-ticket items.

The RICS survey showed that, in

seasonally adjusted terms, the proportion of surveyors reporting a fall in house prices exceeded the proportion reporting a rise, resulting in a balance of minus 8 percentage points in July. That was the first negative balance since July 2009 and compared with a revised balance of plus 8 in June. The RICS originally reported the June balance was plus 9.

“The fall in the RICS house-price measure is broadly consistent with most other recent data that has been released,” said RICS spokesman Jeremy Leaf. While surveyors predict the softer pricing trend will continue, he said, “agents are still generally optimistic about sales activity which should benefit from more realistic pricing of properties.”

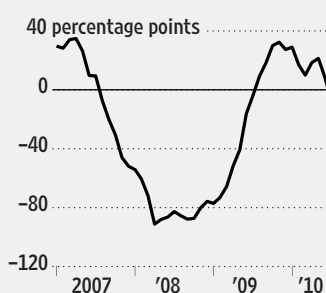
The survey is in line with other measures showing a slowdown in price growth and activity. The more forward-looking aspects of the survey suggest the unexpected property-price recovery that began in the second half of 2009 is running out of steam, in part because of fears over job security.

Those fears played out in the retail sector, too, BRC said Tuesday. Total sales in all stores rose 2.6% on the year in July, down from a 3.4% increase in June. Like-for-like sales were weaker still, rising just 0.5% in July after June's 1.2% gain.

“Talk of public spending cuts is unsettling customers and they are concentrating on essentials,” said Stephen Robertson, director general of the BRC.

Prices falling

U.K. housing price balance: proportion of surveyors reporting a rise in prices minus those reporting a fall



Source: Royal Institution of Chartered Surveyors

EUROPE NEWS

Russia sees an end to fires in a week

By WILLIAM MAULDIN
AND RICHARD BOUDREAU

MOSCOW—Russia reported progress in battling wildfires that have covered a large part of the country with smoke, even as poor air quality continued to drive residents out of Moscow and the outlook for the grain harvest further dimmed.

The fires covered 174,000 hectares Monday, down by 9% from Sunday, the Emergency Situations Ministry said, adding that the number of blazes also diminished. Fires were extinguished or contained in five regions of European Russia, it said.

In this Russian summer of extreme heat and drought, firefighters have reported such gains before but have been unable to sustain them. The area on fire has fluctuated since late July, with as many as 400 new fires erupting on some days.

Nonetheless, Emergency Situations Minister Sergei Shoigu said the Moscow region could be free of fires within a week.

A thick, malodorous smoke blanketed Moscow much of Monday, and temperatures hit 35 degrees Celsius in the city. Road traffic, usually rated among the world's worst, was extremely light after many residents fled the city and others worked from home.

The U.S. Embassy in Moscow halted visa operations, although other functions continued, it said in a statement.

Most residents of Moscow lack air conditioning at home, and those who also lack comfortable work places or ways to escape the city have suffered most from the heat and smog.

On Sunday, Moscow authorities announced that residents seeking relief could cool off and breathe

Inferno | Fires have hit a wide swath of Russia and neighboring countries

1 Kolonna

A naval aviation depot was destroyed by fires in an incident that Russia's Defense Ministry initially denied. President Dmitry Medvedev fired five navy officials after the fire. Peat fires in the Moscow region have blanketed the capital with smoke, leading residents to flee.

2 Sarov

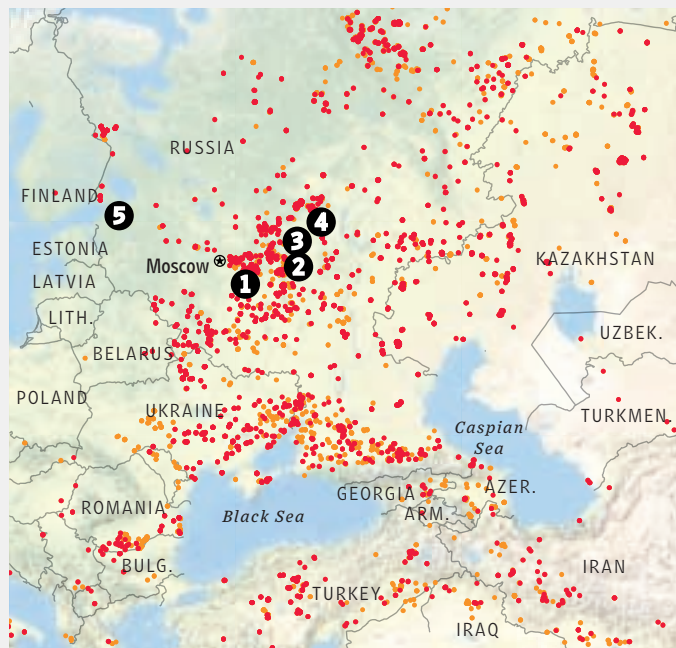
Russian soldiers have dug an 8-kilometer-long canal in Sarov, a city 350 kilometers east of Moscow, to protect a nuclear arms site from forest fires. The Sarov plant produced the first Soviet nuclear bomb in 1949 and is still Russia's main nuclear production facility.

3 Nizhny Novgorod and surrounding region

Already suffering from extreme drought affecting grain crops, the Nizhny Novgorod region is battling 77 wildfires that have killed 22 people, or nearly half of Russia's total death toll from the fires.

4 Mari El

As Mr. Medvedev traveled to the Volga River republic on Monday to discuss the drought and other topics, 1,200 firefighters battled stubborn blazes, including one covering 8,040 hectares.



5 St. Petersburg

So many Muscovites traveled to the 'northern capital' to seek relief that Russia's railways added an additional train to St. Petersburg on Friday because of problems at airports.

Fires that are burning or have burned in the last:

• 24 hours • 48 hours

Sources: Fire Information for Resource Management System; WSJ research

easy at any of the city's 123 community social-services centers—at least during the day.

The air-conditioned centers traditionally offer free lunch and recreational activities for the poor, the elderly and the ailing who drop by during daytime hours. The televised announcement said they would become "antismog centers" for other Muscovites as well.

"Some people are feeling trapped and claustrophobic at home," said Tatyana Smirnova, deputy director of the center in the city's Basmany district. "Here they can get their breath back and be among neighbors who are suffering as they are."

At one center near downtown Moscow, the 30 or so new visitors felt little relief. One of its two air conditioners wasn't working; the

new visitors had left by early afternoon.

Many of those drawn to the centers by the announcement, like Nadezhda Tikhovna, were retired and living alone in hot, polluted apartments.

Ms. Tikhovna, a 55-year-old former office worker, said she has felt headaches and nausea for more than a week and has spent much of that

time visiting doctors, without any improvement. On Monday she decided instead to check in at the Basmany center. She sat in a cool conference room, where the staff served water, tea and snacks until closing time at 8 p.m.

The death rate in the capital has risen to about twice as high as normal in recent days, officials said Monday. Last month, nearly 50% more Muscovites died than a year earlier, city officials said. It wasn't immediately clear whether authorities could conclusively link the heat and smoke to the higher death rate.

Fires near a nuclear research facility in the city of Sarov were slowly contained, battled by 3,717 people, the Emergency Situations Ministry said. Blazes in the Tatarstan, Vladimir, Mordovia, Lipetsk and Belgorod regions were fully under control, the officials said.

Mr. Shoigu, the minister, called for the creation of an organized volunteer firefighter corps similar to those of the U.S. and European countries.

Russian authorities have acknowledged that the 10,000 professional firefighters battling the blazes are not enough. But many of the thousands of citizens who have volunteered to help lack training and say they have had difficulty getting information on how to sign up.

The country's abnormally high temperatures and drought have also wreaked havoc on grain crops, leading to an export ban that has boosted world prices.

Prime Minister Vladimir Putin said Monday Russia will likely harvest 60 million to 65 million metric tons of grain, down from a prior estimate of 70 million to 75 million tons.

—Jacob Gronholt-Pedersen contributed to this report.

European space goals come back to earth

By ANDY PASZTOR

Shrinking budgets and national rivalries increasingly are undermining European space programs, even as the U.S. seeks expanded partnerships for future manned exploration efforts.

Debates over financial commitments for space projects by individual countries—and the number of jobs they expect in return—have intensified as a result of the region's economic woes. Some governments are considering slashing next year's contributions to the European Space Agency by 20% or more, while Italy's top space official last month stressed that economics and return on investment are now primary factors in determining national funding levels.

Jean-Jacques Dordain, ESA's director-general, predicts it could take the European Union until 2014 to substantially reorient its space priorities. "There are some economic difficulties in all of our" participating countries, Mr. Dordain said in an interview last month, so Europe won't be able to fully respond to Washington's invitation to step up cooperative ventures until national budgets stabilize.

The lack of momentum is a dramatic shift from the situation two years ago, when politicians and senior executives at major European aerospace companies expressed con-



European Space Agency astronaut Christer Fuglesang does construction and maintenance work during a spacewalk outside the International Space Station in September.

fidence that the region was on the verge of establishing a strong, unified and ambitious space program.

Underscoring the importance of scientific, military and possibly manned European missions, the EU for the first time explicitly linked space efforts to broader diplomatic and foreign-policy goals. Starting in 2008, the new aim was to launch Europe on a trajectory to become an equal partner with Washington and Moscow across the full range of space endeavors.

Since then, China, India and other countries have ratcheted up

their own space ambitions.

But many European initiatives appear to be faltering, according to industry officials and analysts, due to a lack of will by the region's political leaders, and budget problems squeezing a wide array of government programs.

Europe is estimated to spend less than \$9 billion a year on civilian space projects. Roughly half goes to programs overseen by ESA, while the rest is spent on space programs run by individual countries. But the total is only a fraction of U.S. civilian and military space ex-

penditures.

So far, critics contend Europe has failed to come up with a consensus around a coherent, long-term exploration plan.

"I am sorry to say there is no visible and clearly articulated strategy," Francois Auque, who runs space businesses for European Aeronautic Defence & Space Co., the region's largest aerospace company, said in an interview last month. "Space exploration is quite low in the European priorities."

In Britain, for example, where a new space agency opened its doors in April, industry officials had hoped to parlay that into increased government funding. "We can make the cake much bigger, and everyone gets a bigger slice," according to Keith Mason, chairman of a government advisory board, who has advocated job growth in the sector.

But David Willetts, U.K. minister for universities and science, made it clear that public spending isn't going up. During a panel discussion at the Farnborough International Airshow in July, Mr. Willetts said he couldn't support such a move because the government's "fiscal position is very tight" and other parts of his department are being asked for 25% cuts in spending.

Unlike in the U.S., European space officials are trying to save money by pushing the concept of combined satellite fleets providing

various services—including monitoring orbiting debris—to both civilian and military users.

Separately, Europe is pressing ahead with construction of more than two dozen civilian earth-observation and environmental-monitoring satellites, the largest part of the space agency's budget.

Mr. Dordain also said there is strong U.S.-European agreement in at least one promising arena: potential robotic missions deep into the solar system. "We have decided to use any opportunity to go to Mars together," he said.

But work on a new, pan-European spacecraft able to carry cargo and possibly crews to the international space station is inching along.

In addition, Mr. Auque pointed to what he described as a stalemate over designing a next-generation European heavy-lift rocket. The governments of Italy, France and Germany—which would bear the largest cost—haven't agreed on a "concrete budget" despite years of debate and don't appear to have "the impetus or the stamina" to finish the job, according to Mr. Auque.

Mr. Dordain disagrees, countering that work on the proposed new rocket is "a big development" that needs more technical and political debate. Yet officials at his agency worry about spending increases necessary to keep the international space station going past 2020.

U.S. NEWS

Some firms still struggling to hire

Despite 15 million Americans looking for work, many companies are finding it difficult to fill their vacancies

By MARK WHITEHOUSE

In Bloomington, Ill., machine shop **Mechanical Devices** can't find the workers it needs to handle a sharp jump in business. Job fairs run by airline **Emirates** attract fewer applicants in the U.S. than in other countries. Truck-stop operator **Pilot Flying J** says job postings don't elicit many more applicants than they did when the unemployment rate was below 5%.

With a 9.5% jobless rate and some 15 million Americans looking for work, many employers are inundated with applicants. But a surprising number say they are getting an underwhelming response, and many are having trouble filling open positions.

"This is as bad now as at the height of business back in the 1990s," says Dan Cunningham, chief executive of the **Long-Stanton Manufacturing Co.**, a maker of stamped-metal parts in West Chester, Ohio, that has been struggling to hire a few toolmakers. "It's bizarre. We are just not getting applicants."

Employers and economists point to several explanations. Extending jobless benefits to 99 weeks gives the unemployed less incentive to search out new work. Millions of homeowners are unable to move for a job because the real-estate collapse leaves them owing more on their homes than they are worth.

The job market also has changed. During the crisis, companies slashed millions of middle-skill, middle-wage jobs. That has created a glut of people who can't qualify for highly skilled jobs but have a hard time adjusting to low-pay, unskilled work like the food servers that **Pilot Flying J** seeks for its truck stops.

The difficulty finding workers limits the economy's ability to grow. It is particularly troubling at a time when 4.3% of the labor force has been out of work for more than six months—a level much higher than after any other recession since 1948.

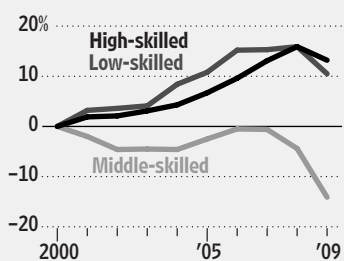
Some economists fear the U.S. could end up with a permanent caste of long-term unemployed, like those that weigh on government budgets in some European countries. "It is a very worrisome development," says Steven Davis, an economist at the University of Chicago's Booth School of Business. "It leads over a long period of time to social alienation as well as economic hardship."

Matching people with available jobs is always difficult after a recession as the economy remakes itself. But Labor Department data suggest the disconnect is particularly acute this time around. Since the economy

Stuck in the middle

The recession has accelerated a longer-term decline in middle-skilled, middle-wage jobs.

Cumulative change in employment since 2000, by skill level



Sources: David Autor, MIT; Labor Dept.

bottomed out in mid-2009, the number of job openings has risen more than twice as fast as actual hires, a gap that didn't appear until much later in the last recovery. The disparity is most notable in manufacturing, which has had among the biggest increases in openings. But it is also appearing in other areas, such as business services, education and health care.

If the job market were working normally—that is, if openings were getting filled as they usually do—the U.S. should have about five million more gainfully employed people than it does, estimates David Altig, research director at the Federal Reserve Bank of Atlanta. That would correspond to an unemployment rate of 6.8%, instead of 9.5%.

Of course, many jobs remain easy to fill. Companies offering middle-skilled jobs can be flooded with applicants. Laquita Stribling, a senior area vice president in Nashville for staffing firm **Randstad**, says she received several hundred applications for a branch manager job that might have attracted a few dozen candidates before the recession.

"The talent pool has swollen to the point where it's almost overwhelming," says Ms. Stribling.

But other employers with lots of applicants say the pool of qualified workers is small for specialized jobs. Carolyn Henn, head of hiring at environmental consultancy **Apex Companies**, says she recently received about 150 applications for an industrial hygienist job paying as much as \$47,000 a year, which requires special certifications and expertise to oversee projects such as asbestos cleanups. That is about three times the amount she received for similar jobs before the recession. But she says the number of qualified applicants—about five—is less than she got before.

"We've always been looking for a needle in a haystack," she says. "There's still only one needle, but the haystack has gotten a lot bigger than it was before."

Longer-term trends are at play. For one, the U.S. education system hasn't been producing enough people with the highly specialized skills that many companies, particularly in manufacturing, require to keep driving productivity gains. "There are a lot of people who are unemployed, but those aren't necessarily the people employers are looking for," says David Autor, an economist at the Massachusetts Institute of Technology.

Manufacturers of high-precision products such as automobile and



Troy Arnett, at home in Colfax, Ill. The former truck driver quit the training program at Mechanical Devices.

aircraft parts are in a particularly tough spot. Global competition keeps them from raising wages much. But they need workers with the combination of math skills, intuition and stamina required to operate the computer-controlled metal-working machines that now dominate the factory floor.

At Mechanical Devices, which supplies parts for earthmovers and other heavy equipment to manufacturers such as Caterpillar Inc., part owner Mark Sperry says he has been looking for \$13-an-hour machinists since early this year. The lack of workers is "the key limitation to the growth of our business

The U.S. education system hasn't been producing enough people with the highly specialized skills that many companies, particularly in manufacturing, require.

and to meeting our customers' expectations," says Mr. Sperry. He estimates the company could immediately boost sales by 20% if it could find the 40 workers it needs.

Trips to several job fairs yielded almost nothing, so the company set up a 10-week training program to create its own machinists. Out of the first group of 24 trainees, 16 made it to graduation.

Mr. Sperry sees extended jobless benefits as one of the main culprits behind his company's hiring difficulties. Many of the applicants he saw at job fairs, he says, were just going through the motions so they could collect their unemployment checks.

Some workers agree that unemployment benefits make them less likely to take whatever job comes along, particularly when those jobs don't pay much. Michael Hatchell, a 52-year-old mechanic in Lumberton, N.C., says he turned down more than a dozen offers during the 59 weeks he was unemployed, because they didn't pay more than the \$450 a week he was collecting in benefits. One auto-parts store, he says, offered him \$7.75 an hour, which amounts to only \$310 a week for 40

hours. "I was not going to put myself in a situation where I was making that small of a wage," says Mr. Hatchell. He has since found a better-paying job.

Unemployment benefits, though, can't explain the whole problem. Federal Reserve researchers have estimated that the benefits could account for between 0.4 and 1.7 percentage points of the unemployment rate. That doesn't cover the 2.7-percentage-point gap between the current jobless rate and what Mr. Altig's analysis of job openings suggests the rate should be.

Some of the people who dropped out of the Mechanical Devices training program aren't collecting unemployment benefits and offer other reasons why they couldn't or wouldn't do the work. Former truck driver Troy Arnett says the prospect of standing in front of a machine all day was just too restricting after a career spent making about \$60,000 a year on the open road.

"I figured in these economic times you've just got to bite the bullet, and I couldn't do it," says the 42-year-old Mr. Arnett. He considers himself among the lucky ones: He has since found a job installing railroad crossings that he expects will pay about \$50,000 a year.

Employers say getting people to move for work has been especially difficult this time. Often, that is a function of the mortgage and credit problems many potential employees face. In a recent study, Fernando Ferreira and Joseph Gyourko of the University of Pennsylvania, together with Joseph Tracy of the Federal Reserve Bank of New York, found that people who owe more on their mortgages than their homes are worth are about a third less mobile.

At Emirates, four cabin-crew job fairs the airline held in Miami, Houston, San Francisco and Seattle attracted an average of about 50 people each, compared to a global average of about 150 and as many as 1,000 at some events in Europe and Asia. "I would have liked to have seen more and would have expected to see more," says Rick Helliwell, vice president of recruitment.

The jobs require little more than a high-school diploma and fluency in English. They include free accommodation and medical care, and

starting pay of about \$30,000 a year. Mr. Helliwell speculates that Americans might be hesitant to move to Dubai, where the jobs are based. "Maybe they have less of an adventurous spirit" given the uncertainties they face at home, he said.

The obstacles to moving are aggravated because many employers no longer provide the same job security as in the past. Temporary jobs, for example, have increased 21% since September 2009 as more employers—including Mechanical Devices—hire through staffing agencies to help control health-care costs and maintain flexibility.

David Denton, a 63-year-old quality-control expert, recently quit a temporary job at Mechanical Devices. He says the terms of employment simply weren't attractive enough to make him pick up stakes and move. The one-hour commute from his hometown of Mt. Zion, Ill., proved to be too burdensome, he says, as the cost of gasoline cut into his \$15-an-hour wage.

Like a number of older workers, Mr. Denton has decided to leave the work force rather than accept a lower-paying job. He plans to live on savings until he can collect full Social Security benefits at age 66. "I'm trying to hang on the best I can."

The disconnect between workers and jobs could constrain the economy for some time. It makes it hard for even small firms, which as a group typically account for an outsize share of job growth in a rebound.

Paul McNarney, owner of **The Mower Shop** in Fishers, Ind., says he has been looking for a good lawnmower mechanic so he can guarantee a one-week turnaround on repairs. He received only two responses to an Internet ad he placed a couple of months ago, even though the job can generate income of more than \$40,000 a year. Similar ads he placed before the recession attracted more than a dozen candidates, he says.

"My thought was that in a cr—economy I could probably find somebody good because a lot of people were looking," says Mr. McNarney, who has been in business for 13 years selling everything from simple lawnmowers to big riding models. "I didn't find anybody."

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U.S. NEWS



European Pressphoto Agency

U.S. Defense Secretary Robert Gates announced initiatives at the Pentagon on Monday to reduce expenses.

U.S. military announces streamlining to cut costs

Associated Press

WASHINGTON—U.S. Defense Secretary Robert Gates on Monday said tough economic times require that he shutter a major command that employs some 5,000 people in Norfolk, Va., and eliminate other jobs throughout the military.

Mr. Gates told reporters at a news conference that getting rid of the Joint Forces Command and other job cuts were necessary so that the military has enough money to repair itself after several years of war.

He said a 10% reduction in the military's use of contractors is one of his top priorities.

The Virginia-based command, which trains troops from different services to fight together, pays annual salaries of more than \$200 million and holds more than one mil-

lion square feet of real estate in Suffolk, Va., and Norfolk. Savings will be offset by the cost of shifting some jobs elsewhere.

The Pentagon already has announced a target of cutting \$100 billion over five years. Earlier this year, Mr. Gates ordered a reduction of the military bureaucracy in search of at least \$10 billion in annual savings.

Mr. Gates took aim at what he called wasteful business practices and too many generals and admirals, and noted that "overhead" costs chew up as much as 40% of the Pentagon's budget.

Big cuts are essential, considering the recession and the likelihood that Congress no longer will give the Pentagon the sizable budget increases it has enjoyed since the attacks of Sept. 11, 2001, Mr. Gates and other defense leaders have said.

"The gusher has been turned off and will stay off for a good period of time," Mr. Gates said in May.

The current defense budget, not counting the cost of fighting in Iraq and Afghanistan, is \$535 billion. The administration is asking for \$549 billion for 2011.

Joint Forces Command, or JFCOM, is one of 10 full combatant commands. Most correspond to regions of the world, such as the Pacific Command, but others are organized around a concept or mission rather than geography.

JFCOM lists its mission as training troops from all services to work together for specific missions. It tries to make sure equipment used by different services works together and looks for gaps in capabilities within military services that could be filled by a specially trained joint force.

Rights groups, WikiLeaks in spat

Continued from first page
Mr. Assange asked what the groups were doing to analyze the documents already published, and asked whether Amnesty in particular would provide staff to help redact the names of Afghan civilians, a person that saw the letter said.

An Amnesty official replied to say that while the group has limited resources, it wouldn't rule out the idea of helping, according to a person who has seen the reply. The official suggested that Mr. Assange and the human-rights groups hold a conference call to discuss the matter.

Mr. Assange then replied: "I'm very busy and have no time to deal with people who prefer to do nothing but cover their asses. If Amnesty does nothing I shall issue a press release highlighting its refusal," according to people familiar with the exchange.

In an email Monday, WikiLeaks

declined to comment on the exchange with the human rights groups.

Later, WikiLeaks posted on its Twitter account: "Pentagon wants to bankrupt us by refusing to assist review. Media won't take responsibility. Amnesty won't. What to do?" Taliban representatives have said publicly that they are searching the documents and plan to punish people who have helped U.S. forces.

Human-rights groups say they are increasingly worried about the execution of Afghan civilians by the Taliban and other insurgent groups. The Afghan Independent Human Rights Commission, or AIHRC, published figures this week showing that such executions have soared in the first seven months of this year, to 197, from a total of 225 in all of 2009.

In a phone interview, Nader Nadery, senior commissioner of the AIHRC, said the civilians executed

are often people who support the Afghan government, or their family members. Some of these people "may have come into contact with the U.S. or other international forces," he said.

He said the AIHRC signed the letter to WikiLeaks. He said he and his colleagues "appreciate the efforts by WikiLeaks" to highlight some previously unreported aspects of the war, but worry that "having the names of the individuals with the location of their village and specific info about them...will enable the Taliban to develop another hit list."

CIVIC, OSI and ICG also confirmed that they signed the letter. Erica Gaston, program officer for OSI's Afghanistan-Pakistan regional policy initiative said: "Our concern was that the Taliban had announced it was going through the data looking for names and that it would begin targeting that. It's a very real threat that they're making."

In rust belt, a chance for GOP to regain policy shine

[Capital Journal]

By GERALD F. SEIB



Back in the 1990s, when the political world was fascinated by Newt Gingrich and his band of revolutionaries storming to power in Congress, the bulwark of their Republican party actually could be found elsewhere, far from Washington.

The GOP's real strength in those days was in the states of the upper Midwest, where a group of smart, energetic governors not only held a crucial piece of political turf for their party, but also became the party's fount of policy ideas.

Now, Republicans hope history is about to repeat itself.

While attention once again is focused on the debilitating political and policy fights in Washington, the most important political story of 2010 may lie in a series of gubernatorial and state legislative races in the same Great Lakes region of the upper Midwest.

There, Republicans have a good shot in November's elections of taking back governors' seats in Ohio, Michigan, Wisconsin, Illinois and Iowa. They also have their eyes on winning control of legislative chambers; Republican control of state houses of representatives is within reach in Wisconsin, Ohio and Indiana.

In their quest for these prizes, Republicans are bringing significant resources to the table. Ed Gillespie, a former national party chairman, this year is running the Republican State Leadership Committee, an organization devoted to electing state officials. He says the committee has assembled 85,000 individual donors and will bring \$18 million to state-level battles, including many in the upper Midwest.

If Republicans succeed in taking most of those targets, they will be re-establishing a beachhead that was crucial to the party and its national policy thinking in the 1990s. So, yes, there are sexy governor and Senate races under way in California, and Tuesday's primaries in Colorado have big national significance. But ground zero in 2010 may well lie in the decidedly less sexy Rust Belt.

The significance of this battle is partly political. State leaders will redraw congressional districts after the 2010 elections, and, obviously, Republican leaders would make that process more favorable to their party. In addition, the states of the upper Midwest, though their populations have declined, remain crucial in presidential politics, and Republican governors might help deliver those states for a GOP nominee in 2012 (though, as Republicans found when President Bill Clinton won re-election easily in 1996, their ability to do so is limited).

The ranks of governors also tend to produce presidents. In fact, four of the last six occupants of the White House once were

governors. So a new crop of governors also becomes, by definition, a new crop of eventual presidential contenders.

But the battle for control of the upper Midwest may be most important because of the region's proven capacity to serve as an incubator for innovative Republican policy ideas, at a time when the party's leaders in Washington aren't exactly overflowing with them.

That's what happened in the 1990s. Five Republican governors from the region—John Engler in Michigan, Tommy Thompson in Wisconsin, George Voinovich in Ohio, Terry Branstad in Iowa and Jim Edgar in Illinois—defined a kind of practical yet innovative Midwestern conservatism that had national ripple effects.

They reduced spending and changed tax codes, as one might expect of Republican chief executives, but also paved the way for national welfare reform by remaking the welfare programs in their own states to emphasize leading recipients back into the work force.

The battle for control of the upper Midwest may be most important because of the region's proven capacity to serve as an incubator for innovative Republican ideas.

They were social engineers in other areas. They crafted crime bills that led to policy changes at the national level, and introduced school-choice programs that challenged ossified public-education systems. They were conservative but not reflexively anti-government: Most increased spending on education, and Mr. Branstad led a government program that wired the state's schools to a fiber-optic network. They were practical more than ideological.

Now Mr. Branstad actually is running to reclaim his job in Iowa. But the real policy prophet for Republicans in the Midwest now is a governor who isn't up for re-election this year, Indiana's Mitch Daniels. He's made a mark by bringing his state budget into surplus while cutting property taxes (and by earning the enmity of his party's social conservatives by calling for a "truce" on divisive social issues).

Some of Mr. Daniels's moves have been controversial. But now that the Midwest industrial states are staggering from the hit of a deep national recession, the market is open for new policy ideas to bring them back. "These are states that clearly are feeling the burden of high unemployment and the loss of a manufacturing base," says Mr. Gillespie. "There's an opportunity to turn that around here."

Republican ideas—or for that matter, Democratic ideas—on how to bring that about are as likely to emerge in the states and flow to Washington as the other way around.

U.S. NEWS

Offshore drillers face labor dilemma

The oil industry is wrestling with how to address the pervasive problem of undertrained and overstretched workers on deepwater rigs as federal investigators probe those issues in the Deepwater Horizon catastrophe.

By Leslie Eaton,
Ben Casselman and
Stephen Power

As the number of huge, high-tech drilling rigs has soared in recent years, finding and keeping experienced staff has become a growing challenge for the offshore industry, experts say.

The world's largest drilling contractor, **Transocean Ltd.**, faced staffing problems long before its Deepwater Horizon rig exploded in the Gulf of Mexico in April, according to documents reviewed by The Wall Street Journal. The blast killed 11 of the 126 workers aboard.

In recent years, customers in surveys and safety consultants in a report have criticized the company for rising worker turnover and falling competence. In testimony before a federal panel investigating the Deepwater Horizon disaster, Transocean workers have complained that personnel cutbacks have left them short-handed.

Transocean defended its safety record and said it had programs in place to ensure its workers were sufficiently trained. The company said many of the workers in key decision-making positions aboard the Deepwater Horizon had decades of drilling experience.

While the explosion and sinking of the Deepwater Horizon was unprecedented in the U.S., the stresses on its workers appear to be commonplace at Transocean and at many companies operating in the Gulf of Mexico, according to reports from federal investigations, industry and regulator studies, and interviews with experts.

The role that worker inexperience may have played in the disaster has yet to be determined. In hearings in Kenner, La., investigators repeatedly raised questions about manpower and training. In particular, investigators have probed whether the rig had enough workers to conduct necessary maintenance, and whether inexperience could have allowed workers to miss crucial signals that the well was in trouble in the hours before the explosion.

Transocean said in a statement Sunday: "The crew aboard the Deepwater Horizon set numerous safety and performance records and was generally regarded as one of the best in the business. That's not a distinction that comes without ample training, on-the-job experience, and



Engineers at BP's Houston operations last week working on the Gulf of Mexico spill. Transocean, which owned the doomed Deepwater Horizon rig that BP leased, faced staffing problems long before the blast in April, according to documents reviewed by The Wall Street Journal.

strong leadership aboard the rig."

Some industry experts believe understaffing and inexperience were likely important contributing factors in workers' failure to prevent or stop the blowout on the rig, which had been hired by **BP PLC**. And they say such problems have become common in the industry as companies drill more challenging wells using ever-advancing technology.

"While our technology gets more and more complex every day, the number of people with meaningful service is less and less," said Tadeusz W. Patzek, chairman of the petroleum engineering department at the University of Texas in Austin.

The American Petroleum Institute and other industry groups say companies require extensive training for workers and that improving technology has made the industry much safer. They point to industry statistics that show the rate of injuries on offshore rigs in the U.S. has fallen 40% since 2005.

Federal rules require oil companies to ensure that their workers are competent. Last year, regulators proposed toughening the requirement, but the new rules were never finalized. After the Deepwater Horizon disaster, experts have called on the government to increase training requirements. But they also said both the industry and the government have to do more to attract talented workers to the oil field.

"There's been a general shortage

Survey says...

Transocean employees were surveyed about job conditions in March, before the Deepwater Horizon disaster. While most answers were positive, a large minority expressed concern about reprisals and mergers. Positive answers are in **bold**.

Management feels operational performance (e.g. drilling) is more important than my safety.

AGREE **8.5%**

DISAGREE **91.5%**

I must demonstrate that I can do my job safely before I am considered to be competent.

AGREE **91.0**

DISAGREE **9.0**

If my actions led to a potentially risky situation (e.g. forgetting to do something, damaging equipment, dropping an object from height), I feel I could report this without any fear of reprisal.

AGREE **56.5**

DISAGREE **43.6**

All the changes in the company, i.e. mergers, have negatively impacted our safety performance.

AGREE **33.4**

DISAGREE **66.6**

Source: Lloyd's Register survey of 232 Transocean workers on four rigs and at Houston office

of properly educated people, in this country in particular," said James Pappas, vice president for technical programs for the Research Partnership to Secure Energy for America, a nonprofit research group. That, he said, has forced companies "to rush a lot of our employees into positions where they're going to have to learn on the job."

One reason for the shortage of experienced workers is the boom-and-bust cycles of the energy industry, which laid off workers and largely stopped hiring when oil prices plunged in the 1980s. When drilling

picked up in the 2000s, companies scrambled to find workers.

Federal regulators have long known that personnel shortages are a major problem for the industry. A report on Gulf of Mexico operations published by the federal Minerals Management Service in 2003 identified shortages of staff ranging from petroleum engineers to laborers. These shortages "may limit the future growth of the industry," the report warned, adding that inexperienced engineers and drillers were impeding rig operations.

Since 2006, the number of rigs

that can drill in more than 3,000 feet of water has jumped by 43%, to 146, according to research firm ODS-Petrodata. The firm says 65 more such rigs are under construction; many will be able to drill in water a mile or more deep.

These rigs function like floating cities, requiring hundreds of workers just to keep them functioning. The drilling process is also increasingly complicated, relying heavily on complex software.

Since 2008 Transocean has had at least two serious accidents, including a major fire, attributed to inexperienced workers, federal records show. Other companies have also had similar problems.

In recent surveys of Transocean's customers conducted by EnergyPoint Research, an independent research firm, Transocean ranked last among deepwater drillers in "Quality and Reliability of Field Personnel."

In the surveys, some customers pointed to Transocean's 2007 acquisition of rival GlobalSantaFe as a possible source of trouble. Workers have sometimes echoed those criticisms. An April survey of workers aboard the Deepwater Horizon found that a third of workers felt the merger had "negatively impacted on safety." Transocean said the merger didn't hurt safety and that in 2009 it had its lowest rate of industries ever.

In a study begun before the April 20 explosion aboard the Deepwater Horizon, consultants at Lloyd's Register found that almost 20% of the company's workers "felt that there were not always enough people to carry work out safely."

The report, which was completed July 2 and was based on surveys of workers aboard four Transocean rigs, said that as a result of increased demand for workers in the drilling and exploration businesses, "average experience levels on rigs have been affected, due to individuals either leaving or getting early promotions and an influx of new starters brought in to fill gaps."

Transocean said its decision to conduct the study shows its commitment to worker safety and noted that other sections of the report that praised its record. "A clear belief and commitment to safety was evident in all crews and, collectively, there was a strong culture of responsibility for safety," the Lloyd's study found.

The report found that the situation aboard the Deepwater Horizon was by some measures better than aboard other rigs the consultants examined. But BP, which hired the rig, complained in an audit last September that turnover there had been high and experience levels had been declining, adding, "Any further dilution of experienced personnel may be detrimental."

Scientists fight for funds to study oil spill

By ANA CAMPOY

Scientists studying one of the biggest oil spills 31 years ago watched with alarm as funds to research the environmental damage evaporated shortly after the well was plugged.

As **BP PLC** appears to have sealed its own troubled well, some of the same people who researched the effect of oil and chemical dispersants on wildlife after the Ixtoc I well exploded in 1979 off the Mexican Gulf Coast are mobilizing to make sure

the situation is different this time.

Scientists at research institutions along the U.S. Gulf Coast are lobbying Congress and other federal agencies for money as they rush to compile a list of must-do projects to determine the long-term impact of the spill from BP's Macondo well.

In Mexico, a group of researchers have secured government funds to investigate their side of the Gulf for the next five years. "We're getting involved right now, so that we don't see a repeat of what happened in

1979," said Luis Soto, an oceanographer who studied the Mexican spill and is now tracking Macondo's oil in Mexican waters.

In June of that year, Ixtoc I, an exploratory well owned by Mexico's national oil company, blew out, erupting in flames and causing the drilling platform above it to sink. Over the next nine months, it spewed out more than three million barrels of oil.

In the early days of that spill, U.S. and Mexican scientists armed with

government funds fanned out to track its effects, but when the oil disappeared so did much of the money, they said.

Wes Tunnell, now the associate director at the Harte Research Institute, said he had been studying the oil's effect on the Texas shore with a grant from the National Oceanic and Atmospheric Administration, but "once the word got back to Washington that a tropical storm had cleaned the beaches, the funding kind of dried up."

Mr. Tunnell got a graduate student to do some follow-up work a few years later at no cost to the government. Mr. Soto, the Mexican oceanographer who is now at the National Autonomous University of Mexico, said he experienced the same, although he doesn't recall how much money he got back then. For this spill, the Mexican government granted his group a little less than \$3 million over five years. "The money is never enough," Mr. Soto said.

WORLD NEWS

Polls in Rwanda set to extend Kagame's reign

By SARAH CHILDRESS

Rwanda's President Paul Kagame was sailing to re-election in a vote Monday that would allow him to stamp his identity on a country that has grand economic ambitions but is still struggling to turn the page on the 1994 genocide.

Voters turned out early and in high numbers to cast ballots, according to Manohar Eshipu, a deputy spokesman for the secretariat of the Commonwealth, a coalition of governments, most of which were once British colonies. The group sent an election-monitoring mission to Rwanda, its newest member. On Monday afternoon, Mr. Eshipu said the team hadn't reported any major problems with the vote.

Provisional results could be released as early as Tuesday, but the final tally could take days more.

Mr. Kagame, who has been in power effectively for the past 16 years, appeared at the top of Monday's ballot. Running against him were three candidates from minor

parties that usually align with the platform of his ruling party. In the 2003 general election, Mr. Kagame won 95% of the vote.

There was no immediate polling data Monday, but because Mr. Kagame has strong support and faced no significant opposition, he was expected to win by a large margin.

Under Mr. Kagame, Rwanda's economy has made impressive gains, expanding 11% in 2008 from a year earlier before slowing last year during the global downturn. Growth is expected to reach at least 5% this year.

Mr. Kagame is trying to turn the tiny east African nation into an information-technology hub, boost investment and cut the country's dependence on aid.

As a guerrilla commander, Mr. Kagame played a leading role rescuing Rwanda from the 1994 genocide, which killed about 800,000 ethnic Tutsi, as well as some Hutu.

Now, on the cusp of a second seven-year term, Mr. Kagame is touting the country's economic po-



Paul Kagame casts his vote in Kigali, the Rwandan capital, on Monday. He was expected to win by a wide margin.

tential, saying that its recovery from ethnic slaughter shows how much it can achieve.

"If we started from scratch in 1994, what is to stop us from building on these accomplishments to reach even greater heights?" he said in a posting on his website Thursday.

Critics say the election also has highlighted simmering divisions in Rwanda, with the government using

the ghosts of genocide to justify a crackdown on political dissent.

Ahead of the presidential election, three of Mr. Kagame's opponents were disqualified, two because they have been charged with genocide ideology, or what amounts to ethnic hate speech. The third candidate, Frank Habineza, was unable to register his party in time, he says because of government harassment.

The government says it hasn't harassed any political figures.

"Rwanda is still a country where people can't speak freely and where there's increasing resentment and increasing dissolution," said Carina Tertsakian, a senior researcher for Human Rights Watch, an independent watchdog group based in New York. "As long as that situation continues it's difficult to talk about long-term stability."

Global woes weigh on Japanese economy

By ANDREW MONAHAN

TOKYO—Japan's current-account surplus unexpectedly fell in June as foreign bond yields dropped and dividends from domestic companies' overseas subsidiaries slid, suggesting that slower growth overseas is already starting to weigh on the country's economy.

The recently strong yen could compound such problems, as data Monday showed China recently continued to buy Japanese bonds aggressively, contributing to the currency's appreciation.

Analysts say if interest rates in the U.S. and other key investment destinations stay low, there is a distinct chance Japan's current account could keep contracting.

In what some analysts say may be a sign that China is shifting the composition of its foreign reserves, China bought a net 508 billion yen (\$5.94 billion) of short-term Japanese bonds in June, after purchasing 694.8 billion yen in May, its largest monthly net purchase yet, data from the Ministry of Finance showed Monday. The vast majority of China's \$2.5 trillion in foreign-exchange reserves is believed to be invested in U.S. Treasuries and other dollar assets.

Meanwhile, the broadest measure of Japan's trade fell 18.2% from a year earlier to 1.047 trillion yen before seasonal adjustment, the ministry said. The reading marked the second straight contraction in the surplus after it fell 8.1% to 1.205 trillion yen in May and was well off the median forecast for a 1.5% increase

to 1.299 trillion yen in a survey of economists by Dow Jones News-wires and the Nikkei.

Analysts say that if interest rates in the U.S. and other key Japanese investment destinations remain low, there is a distinct chance that the current account could continue to contract into the end of the year. Yen strength may also hurt by eating into overseas income sent back to Japan.

"The fall in interest rates in the U.S. and elsewhere, along with the strong yen, are dealing a double punch to the current-account surplus," said Hirokata Kusaba, an economist at Mizuho Research Institute.

In June, the trade balance logged a 769 billion-yen surplus, up 26.6% year-to-year. Exports were up 29.2% at 5.563 trillion yen. But the rises were more a reflection of how low exports were last year, analysts said, as the country's economy continued to struggle with the aftereffects of the global finance crisis. Illustrating that point, for the January-June period, exports rose a record 39.6% year-to-year, separate Finance Ministry data showed.

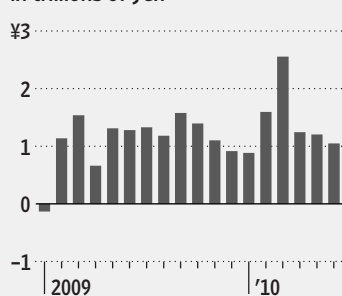
Such strong growth will be increasingly difficult to maintain. One obstacle is the persistently strong yen, which makes Japanese products more expensive overseas and eats into income sent back to Japan. The dollar fell to an eight-month low of 85.02 yen Friday, before rebounding to around 85.75 Monday.

Monday's data showing China has continued to pile into short-term yen bonds adds to recent signs the foreign-currency superpower may be looking to increase the proportion of its yen-denominated holdings, analysts said.

"This has led to the view that China is a culprit in the yen's recent strength," said Kenichi Nishii, a senior manager in the foreign-ex-

Slower growth

Japan's current-account balance, in trillions of yen



Source: Ministry of Finance, Japan

change sales department at Bank of Tokyo-Mitsubishi UFJ.

Other foreign-exchange dealers echoed the view that Chinese buying could be a factor in the yen's recent gains. They said China must be careful to make its yen purchases in small sizes, to avoid moving the market to its disadvantage. But if such purchases continue, the net cumulative effect will be yen-positive, possibly reducing Japan's current-account surplus.

Lower global interest rates are already keeping a lid on the surplus, analysts say. Any announcement of further easing measures at the end of a regular meeting of the U.S. Federal Reserve's policy-setting Open Market Committee on Tuesday, as some analysts are predicting, could also weigh on foreign yields.

"That would certainly be another negative factor for Japan's current account into the end of the year," Mr. Kusaba said.

Overseas investment income dropped 46% year-to-year to 462.1 billion yen, Finance Ministry data showed.

"How low low interest rates per-

sist" is a key concern going forward, said Toshio Oya, director of the foreign-exchange markets division at the ministry. While some countries like Canada and Brazil have raised rates, "low interest rates have continued in the U.S., and in Europe it's entirely mixed depending on the country," he said.

Any further slowdown in growth in overseas markets could drag on Japan's current-account surplus, by weighing on dividends sent back to Japan by subsidiaries and on exports. For that reason, the performance of Japanese companies overseas "is also obviously [a concern]," Mr. Oya added.

One key factor will be whether China, Japan's biggest export market, can maintain its high rate of growth, compensating for any falloff in demand from the U.S. and Europe. But as the Chinese government took steps earlier in the year to keep its economy from overheating, some continued slowing is expected.

"As overseas demand flags, Japanese exports will have difficulty growing as much, so you could see a lower trade balance," Mr. Kusaba said.

Elsewhere, in a sign that Japanese companies remain hesitant to increase investment strongly amid the uncertain economic outlook, bank lending continued to drop. Lending by Japanese banks excluding credit unions fell 1.9% year-to-year in July, down for the eighth straight month, data released by the Bank of Japan showed.

Although the decline was smaller than the 2.1% fall in June, "there is no change to weak funding demand from the corporate sector," a central bank official said. "The need for operating funds as well as capital expenditure remains sluggish."

—Megumi Fujikawa contributed to this article.

North Korea fires artillery in border area

By EVAN RAMSTAD

SEOUL—Hours after South Korea ended a naval drill Monday, North Korea fired artillery near a contested maritime border, stepping up its military posturing and diplomatic rhetoric, which has been hotter than usual since the South in late May accused the North of sinking one of its warships.

North Korea fired 110 to 130 rounds from a base on its southwest coast near the inter-Korean maritime border in the Yellow Sea.

It isn't clear what the target was, but the shells landed in North Korean waters and caused no damage, a South Korean military spokesman said. The artillery firing was the first by North Korea in that region since January.

The action came a few hours after South Korea finished the second of two multiday antisubmarine drills designed to boost naval training in the aftermath of the March sinking of its patrol ship Cheonan, which resulted in the death of 46 sailors.

North Korea's silence about its detention over the weekend of a South Korean fishing vessel added another issue to strained inter-Korean relations. South Korea was joined by China on Monday in asking North Korea for information about the ship and its crew of four South Koreans and three Chinese.

The artillery firing is one of the few military actions North Korea can take that spawns headlines in South Korea, but doesn't produce much criticism from Seoul.

China's expression of concern over the detained ship complicates the situation for North Korea, which relies heavily on its bigger neighbor for economic and political support.

WORLD NEWS

Indonesia arrests Bashir, prominent Islamic cleric

BY PATRICK BARTA

Indonesian police arrested the country's best-known radical Islamic cleric, marking the latest effort by authorities to halt the spread of new terrorist networks in Southeast Asia.

The arrest was also a reminder that for all of Indonesia's antiterrorism success in recent years, authorities still haven't delivered a mortal blow to alleged militant groups that analysts fear could continue to threaten the region.

Police arrested 71-year-old Abu Bakar Bashir in West Java Monday morning on suspicions that he assisted in developing a new jihadi cell in Indonesia's Aceh province.

Police arrested 71-year-old Abu Bakar Bashir on suspicions that he assisted a new jihadi cell.

Authorities disrupted the group in a series of raids earlier this year in which more than 20 suspected leaders were arrested or killed, but some of its members remain at large and authorities continue to warn of possible attacks. Police said Mr. Bashir was actively involved in establishing the network and provided financial support.

Five other suspects were rounded up Sunday, the Associated Press reported, and police said they have seized large caches of assault weapons, ammunition and explosives. Police also said they had discovered a bomb-making laboratory in Cibiru, a village 180 kilometers southeast of the capital.

Mr. Bashir has repeatedly denied involvement in terrorist activities

and maintained he is being singled out for his efforts to promote Islamic law in Indonesia. He repeated those denials as he was taken into national police headquarters on Monday.

"The United States is behind this!" he shouted, the AP reported. "This arrest is a blessing....I will be rewarded by Allah!"

A spokesman for the U.S. Embassy in Jakarta said it had no comment on the arrest. Efforts to reach Mr. Bashir's lawyer were unsuccessful. Police have one week to file charges.

The arrest was interpreted by some intelligence analysts as a sign that authorities are growing more ambitious in their multiyear campaign to stamp out Islamic radicalism in the country, the world's fourth-largest, with 240 million people.

Mr. Bashir has long been regarded as a spiritual leader of Jemaah Islamiyah, a terrorist group with links to al Qaeda that aims to create an Islamic state across much of Southeast Asia. Jemaah Islamiyah has carried out attacks at nightclubs, embassies and hotels in Indonesia in the past decade, killing more than 200 people.

Mr. Bashir was cofounder of an influential Islamic boarding school in Indonesia in the 1970s that educated several Indonesians later convicted of terrorist acts.

Authorities arrested Mr. Bashir twice before over the past decade, but have failed to prove their most serious charges against him. He served several years in prison for lesser convictions, including conspiracy in relation to a 2002 attack on the resort island of Bali that killed 202 mostly Western tourists, but he was released in 2006. Indonesia's Supreme Court overturned his conviction in the Bali case.

Mr. Bashir maintained a relatively low profile after his release and resumed work at his school in Central Java. But he continued to lecture across the country and remained critical of the U.S., which he described as a "state terrorist." More recently, he formed a new above-ground Islamic group, Jemaah Ansharut Tauhid, which publicly renounced violence and focused on promoting religious education and the imposition of Shariah law in Indonesia.

Intelligence experts suspected the group had ties to violent extremists, however. In May, authorities arrested three of the group's members for allegedly raising money for Aceh-based activities, which included an Islamic-militant training camp.

The cell is accused of planning to attack Jakarta hotels and embassies along the lines of a brazen siege in Mumbai in 2008 that killed 166 people. It is also linked to unsuccessful plans to assassinate Indonesian President Susilo Bambang Yudhoyono. Mr. Bashir "played an active role" in preparing the group's plans, said police spokesman Maj. Gen. Edward Arintonang.

"They would not have picked him up this time unless they really had the goods," said Sidney Jones, an Indonesia expert for the International Crisis Group, a Brussels-based think tank. "You do not take on something this high-profile" after twice failing to score a major conviction before, she added.

An Asia-based intelligence official said Indonesian investigators are confident they have identified a money trail linking Mr. Bashir and his group to the alleged terrorists arrested in Aceh earlier this year. "They think they can make this stick," he said.

Terrorism experts were divided



Special police escort cleric Abu Bakar Bashir, arrested on suspicion of aiding a new radical-Islamist cell, to headquarters in Jakarta on Monday.

on how important Mr. Bashir's arrest would be in the long run. Indonesian authorities have arrested or killed scores of alleged terrorists in recent years, and the frequency of attacks has declined, leading many analysts to conclude the government is succeeding in its war against radicalism.

"Terrorism won't end with Bashir, but if he is charged and tried and sentenced, it will be very difficult to replace" him, said Rohan Gunaratna, head of the International Center for Political Violence at Singapore's Nanyang Technological University. He described Mr. Bashir as "the most important terrorist in Southeast Asia."

But Ms. Jones said elements of

the Aceh cell remain at large. Even if Mr. Bashir was helping fund the group, she said, his influence was waning as other radicals emerged.

Mr. Bashir "is just one individual, and taking one person out of the network, even if that person has a big name, it doesn't have a definitive impact on the security situation," she said.

Indonesia's security situation "is probably getting a little better, but it remains unpredictable in the sense that we're no longer dealing with large organizations but small, dispersed groups" that have the potential to plan attacks, she said.

—Yayu Yuniar and James Hookway contributed to this article.

Netanyahu criticizes Turkey in testimony

BY CHARLES LEVINSON

JERUSALEM—Prime Minister Benjamin Netanyahu defended the deadly raid of a Gaza aid flotilla in testimony before an Israeli commission investigating the incident on Monday, saying Turkey had rebuffed Israel's high-level diplomatic appeals to call off the flotilla.

"As we got closer to the date, it became clear our diplomatic efforts would not stop it," Mr. Netanyahu said. "It appears that the Turkish government did not see the prospect of a clash between Turkish activists and Israel as something that clashed with its interests."

Turkey's foreign ministry didn't comment.

Mr. Netanyahu also appeared to lay some of the blame for the May 31 operation, in which Israeli commandos shot and killed nine Turkish passengers, on Defense Minister Ehud Barak and the Israeli military leadership who planned the operation.

Mr. Netanyahu said he had assigned Mr. Barak to oversee the raid, as Mr. Netanyahu was abroad at the time preparing for a meeting with President Barack Obama in Washington. He said the Israeli military was responsible for planning the operational details of the raid.

The remarks stirred up a storm in the press, and Mr. Netanyahu called a news conference a few hours later to clarify that he accepted overall responsibility for the raid.

The opposition centrist Kadima Party said Mr. Netanyahu had tried to "put the blame on others and made the Israeli military into a punching-bag."

Mr. Barak's office had no comment about Mr. Netanyahu's testimony. Mr. Netanyahu was the first person to testify before the government-appointed commission led by a retired Israeli Supreme Court justice. Mr. Barak is due to testify on Tuesday to the group, which includes three Israelis and two foreign observers.

With Mr. Barak under pressure from some members of his left-of-center Labor Party to quit Mr. Netanyahu's coalition because of the slow pace of progress toward peace with the Palestinians, any rift between the two leaders could destabilize Mr. Netanyahu's government.

The findings of the Jerusalem-based inquiry could also affect an increasingly bitter fight among the military's top brass to succeed Lt. Gen. Gabi Ashkenazi as Chief of Staff of the Israeli military as the end of



Benjamin Netanyahu arrives to testify.

his term early next year approaches. Gen. Ashkenazi will testify on Wednesday.

Mr. Netanyahu's account of the behind-the-scenes diplomacy with Turkey in the days before the raid was the first such detailed account from the prime minister's office. He said that his office "held contacts

with the highest levels of the Turkish government" beginning on May 14, over two weeks before the raid, and continuing until the eve of the operation.

The six-ship flotilla trying to deliver aid to Gaza was intercepted by Israeli naval commandos enforcing the blockade of the strip, which Israel says is aimed at weakening Hamas's hold on the territory and preventing the smuggling of weapons. When troops met resistance, they opened fire and killed nine Turkish activists, one of them a dual American citizen.

The bloody raid triggered a storm of international criticism, nearly ruptured Israel's ties with Turkey, and led to Israel's relenting to international pressure to ease the blockade.

A separate Israeli military commission found that Israeli commandos' use of force in response to attacks from passengers on board the ship was justified but faulted the military for faulty intelligence and planning in the run-up to the operation.

A United Nations investigatory commission, announced last week, is due to begin work on Tuesday. Both Israel and Turkey are cooperating with the U.N. panel.

Taliban claim they hold 21 Afghan troops

BY MARIA ABI-HABIB

KABUL—The Taliban took 21 Afghan soldiers hostage and want to exchange the men for militants held in government prisons, a Western official and insurgents said.

Also Monday, the U.S.-led coalition said two detainees were killed Saturday by a Marine, and the head of operations for an Afghan security contractor quit under pressure from President Hamid Karzai.

The Taliban ambushed the soldiers Wednesday in Laghman province, east of Kabul, engaging in a daylong gun battle that killed several soldiers and insurgents, according to the Taliban and Afghan government officials.

A Taliban spokesman, Zabihullah Mujahid, said the insurgent group was holding 21 Afghan soldiers. A Western official in Kabul and a senior Afghan defense official confirmed the claim.

"We will exchange these soldiers with the government," said Mr. Mujahid, the Taliban spokesman. The Afghan Defense Ministry said the Taliban had taken no hostages.