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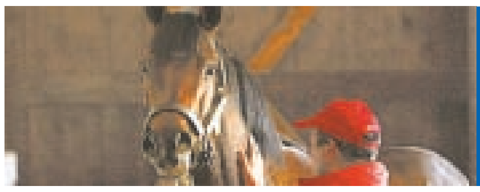

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THE WALL STREET JOURNAL.

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Spring back in Prudential chief's step

Bloomberg News

Tidjane Thiam, CEO of Prudential PLC, saw the U.K. insurer's first-half operating profit climb 41% to £968 million ($1.5 billion). The company, which failed in a bid for AIA Group Ltd., said the outlook for its Asia business is positive but was cautious about the West. **Related articles on pages 17, 32.**

New worries cast shadow on euro zone

Gloom is overtaking financial markets' view of the euro zone again—just at the moment when the region prepares to announce what will be the strongest growth figures in two years.

Eurostat is expected to announce Friday that the euro-zone economy grew by around 0.7% in the second quarter led by the recovery in Germany, its largest member state. Germany is expected to have grown 1.4% from the first quarter, according to a poll of analysts by Dow Jones Newswires. That would make it one of the strongest quarters since reunification in 1990.

But growing signs of an economic slowdown in the U.S. and China have convinced markets that the euro zone's rebound can't last.

Moreover, new problems in the Irish banking sector are also rattling investors. Earlier this week, state-owned **Anglo Irish Bank** said it needed an additional €10 billion ($12.8 billion) in capital, on top of the €14.3 billion the government has already injected into the bank. On Wednesday, **Bank of Ireland**, 36%-owned by the government, reported a pretax first half loss nearly twice as big as its loss in the year-ago period.

The combination of events has made it more expensive for Ireland to borrow and driven the country's credit-default insurance costs sharply higher—to levels last seen just ahead of the European banking stress tests.

The renewed troubles in Ireland offer the latest hints that the recent stress tests of 91 big European banks haven't accomplished their central goal: easing concerns about the health of the continent's financial institutions.

Bank stocks have sunk recently, with the Stoxx Europe 600 banking index down about 8% in the last two weeks.

A survey of forecasters released by the European Central Bank on Thursday predicted that the euro zone will grow at very subdued rates for the next two years despite recent signs of a German-led pickup in activity. Casting further doubt about the region's recovery hopes, Greece reported a steep drop in second quarter gross domestic product, as fiscal austerity and economic reforms push its troubled economy deeper into recession.

The ECB's quarterly survey of forecasters pegs economic growth this year at just 1.1%, unchanged from the previous forecast in May. Forecasters see growth of 1.4% next year, a slight downward revision from previous estimates, and 1.6% in 2012.

GDP growth "is expected to have strengthened" in the second quarter, the ECB said in its monthly economic bulletin, though the central bank cautioned that the rise is "largely on account of temporary effects."

Meanwhile, in the U.S., economists are getting more pessimistic about the strength of the recovery, but they don't think policy makers should do anything more to support it, according to the latest Wall Street Journal forecasting survey.

The 53 surveyed economists, offered a bleak picture of tepid growth and high unemployment. On average, they still don't see the unemployment rate dropping below 9% through at least June 2011.

The Quirk

Parties to die for: Cemeteries set out to attract future customers. Page 29

Editorial & Opinion

Beware, Google: In Germania, there be dragons. Page 12

U.S. intensifies H-P bribery probe

By David Crawford

The U.S. Department of Justice has asked **Hewlett-Packard** Co. to provide a trove of internal records as part of an international investigation into allegations that H-P executives paid bribes in Russia, according to people familiar with the investigations.

German prosecutors, as first reported by The Wall Street Journal in April, are looking into the possibility that H-P executives paid about €8 million ($10.9 million) in bribes to win a €35 million contract under which the U.S. company sold computer gear, through a German subsidiary, to the office of the prosecutor general of the Russian Federation. The German probe has been joined by U.S. and Russian authorities, according to people familiar with the matter.

H-P has yet to provide some records, people close to the investigation say. A spokeswoman for H-P said the company is cooperating with the investigations but declined to provide details. The technology giant has said the investigation involves people that have largely left the company and matters that happened as much as seven years ago.

The Justice Department asked H-P to comply voluntarily with the request and hasn't subpoenaed the records, according to the people familiar with the matter.

The Justice Department request came after German prosecutors complained H-P had refused to provide them with all of the records they requested, according to people close to the investigation. H-P initially argued that the German request for bookkeeping records, some of which are five years old, imposed an "undue hardship" on the company, according to one of the people. H-P has given German prosecutors access to its records stored in Germany, this person said.

German authorities ordered the arrest of three individuals in early December in connection with the probe on suspicion of bribing foreign officials, tax evasion and breach of trust, according to court records. All have since been released on bail although they remain suspects, prosecutors say. A prosecution spokesman said investigators haven't found any evidence that they enriched themselves.

In addition to the German probe, according to people familiar with the matter, H-P is under investigation by the Justice Department and Securities and Exchange Commission for possible violations the Foreign Corrupt Practices Act, a U.S. law that outlaws

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Austerity is worse than you thought

[Agenda]

By Patience Wheatcroft

"Austerity: the condition or policy of living without things that are not necessary and without comfort."

The dictionary definition of the regime now being imposed in varying degrees across Europe leaves no room for doubt. Austerity is not fun. Economies subjected to austerity measures will get worse before they get better. That prospect provides the ammunition for the argument that cuts should be delayed until the patient is healthy enough to take the hit and bounce back. But the risk in delaying austerity measures is that the debts they seek to address simply continue to mount, making the reckoning when it comes even more drastic.

The European Union and the **IMF** were in no doubt that profligate Greece had to curb its spendthrift ways immediately. The exercise is proving every bit as painful as the dictionary implied. The second-quarter fall in gross domestic product, worse than had been forecast, shows that the country's economy is now shrinking at an annualized rate of 3.5%. Unemployment, inevitably, is growing. The picture will look bleaker as the year goes on.

Such is the scale of Greece's debt burden that, even as it undergoes this misery, it is unlikely to avoid the need to effectively default on its borrowings within a year or two, no matter how anxious the EU has been to avoid such an eventuality. Whether it is termed a restructuring rather than a default, it looks inevitable.

Nevertheless, it was surely right for Greece to begin to address its problems rather than carry on its gravity-defying extravagance.

The same is true of Europe's other delinquent economies, including Ireland and the U.K.

Reuters

Jean-Claude Trichet, the president of the ECB, in Frankfurt last week.

The European Central Bank, led by Jean-Claude Trichet, in its latest monthly report released Thursday, remains adamant about the need for cuts, at least in next year's budgets. "It is essential that budget plans for 2011 and beyond reflect a strong commitment to returning to sound public finances," it thunders.

It adds: "All countries must specify credible fiscal adjustment measures, focusing on the expenditure side," which is just a polite way to say that the cuts must come.

Sorting out the worst offending economies will be a prolonged painful process, not a rapid cure.

Yet the markets, having calmed down after their Greek-led panic earlier this year, now seem to be waking up to the fact that sorting out the worst offending economies is going to be a prolonged painful process, not a rapid cure. Thus the bout of nervousness that afflicted Ireland's bonds this week. The developments that might have inspired the jitters were relatively minor. Whereas U.K. banks have been gleefully reporting that their potential bad debts are reducing, **Bank of Ireland** reported that it wasn't lowering its forecast impairments, which suggested that its view of the economy, particularly the property market, showed no improvement.

But that shouldn't have been a surprise to those who have been watching the humbling of the former Celtic Tiger. Neither should there be any new fears over the prospect of Eurostat, the EU's official ruler on EU country accounts, demanding that the country treats the latest bail-out of the sickly **Allied Irish Bank** as government expenditure rather than investment, so bumping up the country's debt ratio. It has insisted that earlier injections of cash to AIB be treated that way, since it queries whether the money will be retrieved, let alone make a return, so it should be expected that it will regard the latest instalment in the same way.

But the mood of the market had turned and it was ready to treat the slightest move as a danger signal. and why should the mood be anything other than nervous? As the ECB points out, as it looks at the economic outlook: "Concerns remain relating to the emergence of renewed tensions in financial markets, renewed increases in oil and other commodity prices, and protectionist pressures, as well as the possibility of a disorderly correction of global imbalances."

Striving to find any potential upside amid such gloom, the ECB can only muster the suggestion that: "The global economy and foreign trade may recover more strongly than is now projected." Hardly a convincing argument for optimism in an age of austerity.

Prudence once more

Prudential PLC's chairman and chief executive, Harvey McGrath and Tidjane Thiam, think they have the support of their shareholders. On the strength of the numbers unveiled Thursday, they probably should have, but for the fact that they can hardly claim all the credit for such a strong half-year performance. Mr. McGrath took over as chairman in January 2009 and Mr. Thiam only became chief executive in October 2009. The structure that delivered an operating profit of £1.68 billion ($2.63 billion) was well established before their reign began.

But the botched bid for AIA, the Asian business of **AIG**, was firmly led by the pair. They remain staunch defenders of their attempt to buy the only other major pan-Asian insurance business other than Pru and, philosophically, it was probably the right move to make. But they failed to convince investors of that and Thursday's reminder of the heavy costs associated with the lost deal will not have gone down well with them, even though they were lower than had originally been suggested.

Shelling out £66 million to advisors for a bid that was judged too high and had to be reduced, only to see the deal abort and incur a £153 million break fee is never going to be regarded as prudent. Mr. McGrath maintains that professional fees are a form of insurance against the risks involved in such a deal but the owners of the business have still ended up paying a hefty bill. Pru's strong performance, and a couple of new non-executive directors, may appease shareholder ire but Messrs. McGrath and Thiam will have to work to regain goodwill.

What's News

■ **Anheuser-Busch InBev** said its quarterly profit and sales rose on robust business helped by the World Cup. The strong performance was a signal of health for the global beer industry, which has been shaken by the recession and grain shortages. 19, 32

■ **BP will pay** a $50.6 million fine for failing to fix safety hazards at its Texas City, Texas, oil refinery after an explosion in 2005. 21

■ **Retail entrepreneur** Philip Green will head a team of officials to drive efficiency savings in the public sector, the U.K. government said. 6

■ **The suspected** mastermind of the July 11 terror attacks in Uganda's capital said they were intended in part to target Americans for U.S. involvement in Somalia. 9

■ **Russia's wildfires began** to retreat and Medvedev took aim at rising consumer prices, hinting at government action to hold them down. 6

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Inventors of ping pong set out to bring it back to life. 28

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"It's hard to see the bright side of a 'saved' £73 million when Prudential has nothing to show for its Asian foray."

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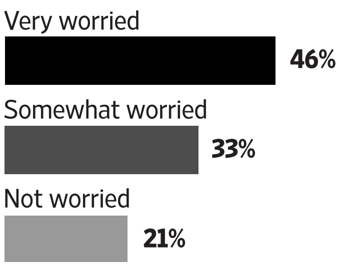

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NEWS

Cameron tourist pledge hit by strike

By Laurence Norman

LONDON—Prime Minister David Cameron on Thursday promised action to boost the U.K.'s status as a tourist magnet, but his message was undercut hours later when 6,000 workers at some of the country's largest airports voted to strike in coming weeks.

In a speech at the Serpentine Gallery in London, Mr. Cameron said he wanted to see the U.K. attract more visitors from emerging nations such as China, taking advantage of a coming decade of major sporting events, including the 2012 London Olympics.

Mr. Cameron criticized the previous Labour government, which left office in May, for trying to paint the U.K. as a "young country" and underplaying its heritage. In its early years, Labour pitched an image of the U.K. as "Cool Britannia."

Mr. Cameron promised his government would cut red tape and provide incentives for the tourism industry, which he said was vital to the country's economic recovery.

"Tourism presents a huge economic opportunity," he said. "Not just bringing business to Britain but right across Britain, driving new growth in the regions and helping to deliver the rebalancing of our national economy that is so desperately needed."

However, hours after Mr. Cameron's speech, staff at U.K. airport operator BAA, which is owned by Spanish consortium **Ferrovial** SA, voted to take strike action, including at London's Heathrow and Stansted airports.

The Unite union will meet Aug. 16 to decide its next step, but the move could bring huge disruption to travel months after the Icelandic ash clouds forced the closure of U.K. airspace in April.

Asked about the strike threat at a news conference alongside Danish Prime Minister Lars Lokke Rasmussen on Thursday, Mr. Cameron appealed to workers not to vote to walk off the job.

"These sorts of strikes never achieve anything apart from damage—damage to business, damage to jobs, damage to the interests of tourists who want to come to visit Britain," Mr. Cameron said.

According to U.N. World Travel Organization data, the U.K. is sixth in the world in terms of international visits and seventh in tourism receipts.

However, as Mr. Cameron noted Thursday, the U.K. attracts just 0.5% of Chinese international tourism and has fallen back in some key measures of international tourist competitiveness.

Mr. Cameron said the U.K. has some 3.5% of the world market for international tourism.

Raising that by half a percentage point, he said, could add £2.7 billion ($4.2 billion) to the economy and 50,000 jobs.

Yet for the past couple of years, the U.K. has seen fewer foreign visitors as the effect of the world recession on countries that provide most visitors—the U.S. and Europe—has outweighed a significant drop in the pound's value.

On Thursday, the Office for National Statistics released data showing the number of foreign visits to the U.K. dropped 3% in the second quarter of 2010 from a year earlier and 8% from the second quarter of 2008, just before the global economy slumped.

In the same two years, spending by foreign visitors has stagnated, reaching £4.3 billion in the second quarter of this year from £4.2 billion two years earlier, ONS data showed.

Getty Images (2)

Workmen inspect the Clock Tower at the Palace of Westminster, one of the U.K.'s biggest attractions. Tourists enjoy Trafalgar Square, but their numbers have fallen in recent years.

The recession has also meant fewer Britons going abroad. That has helped boost the domestic tourist industry, which saw a 7% rise in the number of overnight trips within the country last year, with 126 million trips taken and £22 billion spent, according to the United Kingdom Tourism Survey.

And at least Mr. Cameron can boast he is doing his bit for the tourist industry. The prime minister heads away for a U.K.-based break next week after a hectic 100 days at the head of the country's first coalition government in 65 years.

Meanwhile, Mr. Cameron's meeting with Mr. Rasmussen on Thursday may also have enticed the Danish prime minister to take his own weeklong U.K. vacation. In recent days Mr. Rasmussen's holiday has included biking around the southeast of England.

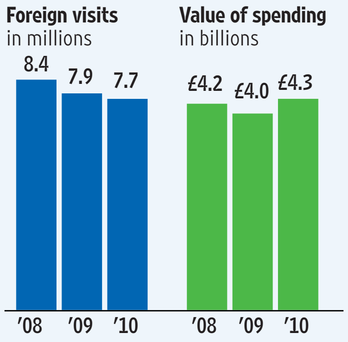
That is something Mr. Cameron admitted he wouldn't try to emulate.

"I am no match for the Danish prime minister on a bicycle," he said.

—Kaveri Niththyananthan contributed to this article.

Tourist trap

U.K. Prime Minister David Cameron wants to boost Britain's tourism industry but foreign visits have dropped during the global downturn. Figures are for the second quarter of the year



Source: U.K. Office for National Statistics

U.S. seeks internal records in bribery probe of H-P

Continued from first page

bribes to foreign officials.

Spokesmen for the Justice Department and the SEC declined to comment.

German prosecutors have centered their investigation on one current and two former senior executives of the U.S. computer maker plus seven accomplices, according to German court records and people familiar with the probe. Prosecutors have not indicted any of the suspects.

German prosecutors have spent two years looking into whether H-P executives paid bribes to secure the contract with Russia's prosecutor general. The computer system H-P delivered under the deal is designed to provide secure communications for prosecutors throughout Russia.

H-P learned details of the probe in December when police in Germany and Switzerland presented search warrants detailing allegations against 10 suspects, according to two people familiar with the investigation. Russian investigators raided H-P's Moscow offices in April in connection with the probe.

A special unit of the State of Saxony Prosecutor General that is tasked with investigating major corruption cases has provided evidence to colleagues in the U.S., according to people familiar with the matter. The Justice Department, in turn has asked H-P to informally turnover the documents stored in the U.S. that had been sought by the German prosecutors, according to people familiar with the two investigations.

A German prosecution spokesman says his office is investigating the flow of about €8 million transferred by three H-P dealers in Germany to accounts outside of Germany. The three German dealers declined to comment.

Court records show the funds were paid according to invoices flown to Germany between 2004 and 2006 in the luggage of a person who worked for an H-P dealer in Moscow.

German prosecutors have traced the suspected bribe payments through a complex network of shell companies and bank accounts in various countries , according to documents submitted to a German court.

Without assistance from the U.S. or from Russia, German investigators say they may never be able to identify the ultimate beneficiaries of the funds.

—Thomas Catan contributed to this article.

European Pressphoto Agency

Pedestrians in Athens on Thursday pass a store that was shuttered because of the economic crisis. Greece reported a steep drop in GDP amid a dim ECB outlook.

ECB sees lackluster growth in euro zone in next two years

By Brian Blackstone

FRANKFURT—The euro zone will grow at very subdued rates for the next two years despite recent signs of a German-led pickup in activity, according to a survey of forecasters released by the European Central Bank.

Casting further doubt about the region's recovery hopes, Greece reported a steep drop in second-quarter gross domestic product, as fiscal austerity and economic reforms push its economy deeper into recession.

Consumer and business demand is expected to be restrained in parts of Europe later this year by fiscal austerity measures.

The euro slipped further below the $1.30 mark on the reports, which included an unexpected slide in euro-zone industrial production in June. The cost of insuring against the default of debt-heavy euro-zone countries, a group that includes Greece, Portugal, Spain and Ireland, has risen in recent days.

"There are some reminders that we're not out of the woods yet," says Nick Matthews, economist at Royal Bank of Scotland.

Economists say they expect that the 16-nation currency bloc's economy expanded around 3% in the second quarter, at an annualized rate, the fastest rate of growth since the recovery began last year. Those figures are due Friday. Germany is expected to generate a good deal of that expansion, growing as much as 7% according to some forecasters, aided by booming exports and brisk springtime construction following a harsh winter that stalled many projects.

Yet economists surveyed by the ECB were unimpressed. The ECB's quarterly survey of forecasters pegs economic growth this year at just 1.1%, unchanged from the previous forecast in May. Forecasters see growth of 1.4% next year, a slight downward revision from previous estimates, and 1.6% in 2012.

GDP growth "is expected to have strengthened" in the second quarter, the ECB said in its monthly economic bulletin, though the central bank cautioned that the rise is "largely on account of temporary effects."

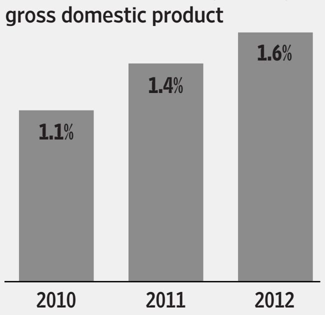
"The tone is somewhat wary," says Barclays Capital economist Julian Callow.

Mr. Callow projects second-quarter GDP growth of 3% in the euro zone to be followed by growth of less than 1.5% in the third and fourth quarters. The temporary effects of construction and restocking of business inventories should fade, he says, as will export growth as economies in the U.S. and Asia slow, leaving consumer and business spending in the euro zone as the main drivers of growth. "These key ingredients are a bit lacking in this recovery, which makes it quite languid," Mr. Callow says.

Euro-zone industrial production slipped in June for the first time in four months, by 0.1%, the EU's statistics agency said. Although still up

Slow and steady

Euro zone is expected to grow slowly despite recent upbeat data. Year-to-year percentage change in gross domestic product



Source: European Central Bank's Survey of Professional Forecasters

sharply in the second quarter thanks to robust gains in April and May, the report suggests the third quarter got off to a much weaker start. Separately, Italy's statistics agency said that country's trade deficit widened to more than €3 billion ($3.86 billion), a reminder that in much of Europe, outside Germany, global trade is subtracting from growth.

Consumer and business demand is expected to be restrained in parts of Europe later this year by fiscal austerity measures, including higher taxes and reduced public spending.

In a sign of what vulnerable countries such as Spain and Portugal can expect as their deficit-cutting measures kick in, Greece contracted nearly 6%, at an annualized rate, in the second quarter, according to calculations based on figures released by the Greece's statistics agency. It was a steeper drop than expected. Greece accounts for less than 3% of the currency bloc's GDP, so its contraction won't keep overall GDP from accelerating last quarter, analysts say.

But doubts remain concerning Europe's ability to grow without its once-reliable source of demand in Southern Europe and Ireland. Though investors appear somewhat less worried about default than they were a few weeks ago, peripheral countries are still heavily dependent on the ECB for support. Commercial banks in Greece and Portugal increased their use of ECB lending facilities last month to record amounts. The ECB bought Irish government bonds this week in a bid to calm markets roiled by concerns over Irish banks, according to people familiar with the matter.

When trouble spots such as Ireland, Portugal and Spain are included with Greece, the periphery accounts for one-fifth of euro-zone GDP, nearly offsetting Germany.

Those countries were the main drivers of consumer spending during the expansion last decade, though demand was in many cases driven by unsustainable housing bubbles and debt-induced consumption.

Unless Germany's export-reliant economy can generate growth domestically, the prospects for a lasting recovery appear dim, economists warn.

"Given that global demand seems to be slowing, the German recovery needs to spread to the domestic economy, but that doesn't really seem to be happening," says Jennifer McKeown, economist at the consultancy **Capital Economics**.

—Adam Bradbery contributed to this article.

Greece's statistics: wrong till very end

[Brussels Beat]

By Charles Forelle

Greece stunned financial markets (and plenty of European policy makers) in October 2009, when it reported its budget deficit for that year would be 12.5% of its gross domestic product, instead of the 3.7% estimated in April.

As is now well known, Greece actually reported its October data to Eurostat, the European Commission's statistics agency, twice—once on Oct. 2 and then again in revised form on Oct. 21, a day before the full set of EU figures was set to be released.

Revised is an understatement. The heretofore undisclosed Oct. 2 document shows Greek authorities thought—or at least said—the 2009 deficit would be just 6% of GDP, despite massive fiscal deterioration since the 3.7% estimate was made in April. That suggests the authorities were either blind to the budget fiasco until weeks before it exploded, or weren't entirely forthcoming.

A document disclosed Thursday shows that Greece's estimate of its annual budget deficit more than doubled—in a span of less than three weeks.

It's not entirely surprising: In a January report, Eurostat excoriated Greece for sloppy statistics, and noted that the country made huge revisions to years of historical data between the Oct. 2 and Oct. 21 reports. (The Oct. 21 report came after a change of government.)

But Eurostat never disclosed the Oct. 2 report, and it never said what the Oct. 2 report's 2009 forecast was. (Under Eurostat's procedures, governments are allowed to revise their initial filings, and only the final version is released to the public.)

Brussels Beat made a freedom-of-information request for the Oct. 2 report, which Eurostat released Thursday.

The details: Greece had projected a deficit of €14.36 billion ($18.5 billion), or 5.99% of €239.6 billion in GDP.

By the Oct. 21 filing, those figures had changed quite a bit: a deficit of €30.10 billion, or 12.5% of €241.1 billion in GDP.

Greece continues to be bogged down: Data released Thursday showed the economy shrunk 1.5% in the second quarter and unemployment rose to 12% in May, up from 8.5% a year earlier. The International Monetary Fund expects unemployment to rise even further, to 14.8% by 2012.

EUROPE NEWS

Irish banks are rattling nerves again

By Sara Schaefer Muñoz
And David Enrich

LONDON—Less than a month after stress tests calmed concerns about the health of the European banks, new problems in the Irish banking sector are making investors nervous again.

This week, Ireland received European Commission approval for an additional €10 billion ($12.9 billion) in capital for state-owned **Anglo Irish Bank**, on top of the €14.3 billion the government has already injected into the bank. On Wednesday, **Bank of Ireland**, 36%-owned by the government, reported a pretax first-half loss nearly twice as big as its loss a year earlier.

The combination of events has made it more expensive for Ireland to borrow and driven the country's credit-default insurance costs 36% higher since the start of the month, to levels last seen just ahead of the European banking stress tests.

The renewed troubles in Ireland offer the latest hints that the recent stress tests of 91 big European banks haven't accomplished their central goal: easing concerns about the health of the continent's financial institutions and, by extension, reducing fears about deeply indebted sovereigns, such as Ireland.

EU regulators announced the test results July 23, showing that just seven of the 91 tested banks would need more capital in a worst-case scenario. The upbeat results seemed to cheer the markets, with bank stocks rallying and the cost of insuring their bonds against default declining.

But problems have started to crop up again. Bank stocks have tumbled, with the Stoxx Europe 600 banking index down about 8% in the last two weeks. Bank funding costs have climbed, a sign of wariness among banks and investors about the sector's conditions.

Lenders in southern Europe have increased their reliance on the European Central Bank as a source of funds, according to data released Thursday by central banks.

Greek banks boosted their borrowings in July by about 2.5% from June, Portuguese banks' ECB borrowings jumped by about 21% and Italian banks borrowed an additional 12%.

"The evidence this week seems to indicate that the stress tests might have failed to ring-fence the periphery" of Europe, Royal Bank of Scotland's Andy Chaytor and Nick Matthews wrote in a research note Thursday.

For right now, Ireland's problems have moved to center stage.

On Thursday, the government sold €1 billion in six- and eight-month treasury bills, paying 2.458% on the six-month note, a big jump from the 1.367% yield it paid at the last auction three weeks ago. The yield on the 10-year bond rose to 5.367%, 2.94 percentage points higher than the relative German Bund and up almost half a percentage point from one week ago.

Philip Lane, a professor of international and macro-economics at Trinity College in Dublin, said Anglo Irish's call for more capital is troublesome and there are worries that the deeper the government digs into its loan book, the more problems it could find.

Still, he said, "Financial markets can go into panic mode, and it's hard to say that the Irish fundamentals are sufficiently bad to warrant these spreads."

Problems in the Irish banking sector stem from Ireland's collapsed commercial-real-estate sector, where the market for office developments and build-able land has become illiquid. Anglo Irish was particularly exposed to these toxic commercial-real-estate assets.

In May, the bank sold about €10 billion of such loans to the National Asset Management Agency, or NAMA, at a discount of nearly 55%. But Anglo might be facing an even tougher haircut on its coming asset sales.

NAMA said last month that it applied an average 48% discount to assets it received from four other Irish lenders, which analysts generally view as having healthier balance sheets than Anglo. Loans from one of those institutions—Irish Nationwide Building Society—faced a 72% haircut.

The fact that Anglo's loans weren't included in the mid-July transfer to NAMA has fueled speculation that Anglo will be forced to accept a higher discount than it did in its previous transfer, which would further erode the bank's capital buffer. A NAMA spokesperson couldn't be reached Thursday.

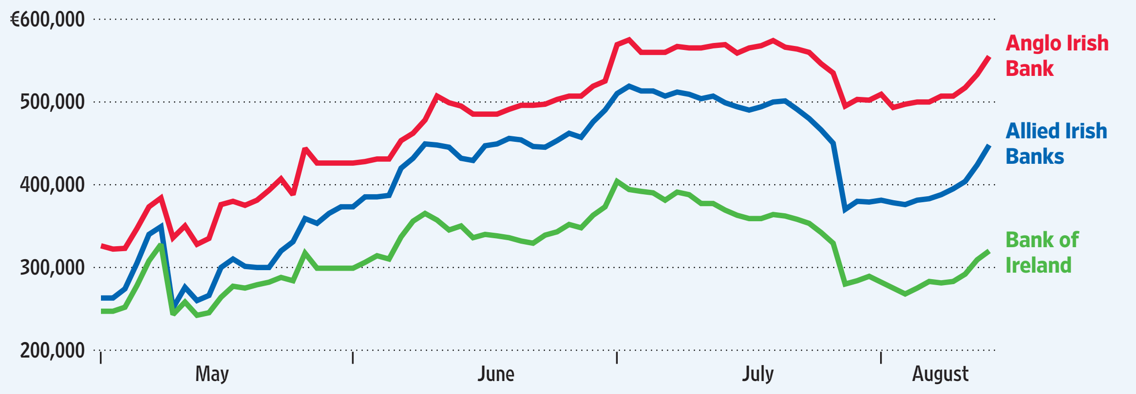
—Margot Patrick contributed to this article.

Bloomberg News

The European Commission has approved an additional $12.9 billion capital injection for Anglo Irish Bank.

Fresh worries

The cost of insuring €10 million of debt of three Irish banks



Source: Markit

Ireland has done a lot, but anxiety remains

By Neil Shah

Ireland is at the epicenter of a recent jump in concern about Europe's weaker economies. So what's going on?

The short answer: Investors are worried that Ireland's banking system may require so much additional help that this punches another big hole in the country's already-stretched government finances. Making things worse, there are concerns about what the Irish government is going to do about a key crisis-era guarantee on bank liabilities that expires late next month. Without that guarantee, some Irish banks, especially nationalized Anglo Irish Bank, may find it harder to refinance their debt.

Ireland has done a lot to fix its problems. After suffering one of Europe's worst property busts, the former Celtic Tiger moved to avoid Greece's crisis of confidence by cutting government spending and raising taxes. Irish authorities injected fresh capital into ailing banks; set up the National Asset Management Agency, a so-called bad bank, to warehouse dud property loans; and forced several lenders to raise even more capital to meet new, tougher emergency requirements.

But despite these efforts, Ireland's shell-shocked banking industry remains in bad shape and needs more help. That's worrying people who took comfort in Europe's recent bank "stress" tests a few weeks ago.

It's been a tough week for Ireland. On Tuesday, the European Commission rubber-stamped Ireland's plan to support ailing Anglo Irish, which most people think is the worst apple in the bunch.

On Wednesday, one of Ireland's best-positioned banks, Bank of Ireland, kept unchanged its tally of future impairments, or expected losses on loans. Meanwhile, the government's bad bank, NAMA, is finding that the bad loans it's removing from some banks are worth less than previously figured.

Perhaps as important, analysts are wondering what Ireland is going to do about a government guarantee on the debt of its six biggest financial institutions—one that expires Sept. 28.

So far, the Irish government hasn't said what it's going to do. While Bank of Ireland has raised enough capital in the market lately, Anglo Irish Bank and Allied Irish Banks probably need the guarantee support, says Thomas Conefrey, an economist at the Economic and Social Research Institute, a leading Irish think-tank. "The banks are still in a relatively fragile position," he says. "The guarantee is up and we don't yet have any details."

Irish banks can still issue government-guaranteed debt under a program that ends in December. And observers generally think some form of guarantee will be extended. But it's likely to be less generous than the original version, which was unveiled at the height of the financial crisis in 2008.

All this has taken a toll on Ireland's government-bond prices and credit-insurance costs lately.

Ireland's Treasury now has to pay investors a premium of nearly three percentage points to get investors to buy its 10-year bonds instead of safer Germany's. This so-called risk premium stood at around 2.4 percentage points a week ago.

"Ireland is proof that to address the problems associated with the most indebted sovereigns and financials we need a constant positive following wind for many quarters, if not years to come," said Jim Reid, an analyst at Deutsche Bank.

European Pressphoto Agency

A Polish firefighter works to put out a fire in a forest near the Russian village of Ryabinovka, this week. International crews have helped Moscow battle the fires.

Russia moves to limit fires, prices

MOSCOW—With skies over Moscow clearing and the country's wildfires in retreat, Russian President Dmitri Medvedev took aim Thursday at a new scourge—rising consumer prices—and hinted at government action to hold them down.

By ***Richard Boudreaux, William Mauldin*** *And* ***Ira Iosebashvili***

A month of extreme heat and drought has ravaged almost a quarter of Russia's grain crop, causing the government to ban exports of the commodity amid a shrinking outlook for this year's harvest and skyrocketing domestic grain prices.

The damage has begun to hit consumers. Although inflation stands at a historic low of 5% for the year, prices for buckwheat have risen by 7% and flour by 2.4% in the past week, according to Federal Statistics Service data.

"The key task is to prevent price growth for grain, feed and food products such as flour, bread, meat and milk," Mr. Medvedev said Thursday. "We have to monitor this situation on an almost daily basis, because there will be those who try to profit from this situation. They already exist."

Mr. Medvedev spoke as firefighters reported new gains against wildfires in forests across much of the country. They were aided by more than 300 volunteers and five fire-fighting aircraft from Italy, Bulgaria, Ukraine, Belarus, Armenia and France.

The Emergency Situations Ministry said 562 fires were burning on 200,155 acres Thursday, compared with 229,067 acres a day earlier.

Mr. Medvedev declared an end to the state of emergency in three of seven fire-sticken regions.

The area covered by fires has dropped by more than half since reaching a peak of 475,678 acres on Saturday.

In the Moscow region, forest and peat fires that covered the capital with a toxic haze for much of August have been reduced to 311 acres, down from 430 acres on Wednesday, officials said.

A north wind that began Wednesday has cleared Moscow's air and kept the smoke at bay, giving the capital's 11 million people a badly needed respite. By Thursday the sky was blue, and the Kremlin's brick towers and St. Basil's domes had re-emerged from the haze in vivid colors.

The city continued to endure 90-degree temperatures, and weather forecasters said the smog could return as soon as the wind shifts. But for now, Muscovites have shed the surgical masks that had become ubiquitous in the streets.

Anger with the political leadership simmered, however. More than 100 demonstrators gathered in central Moscow to protest Mayor Luzhkov's absence last week during the worst days of smog and to call for his resignation. Police broke up the rally and made 35 arrests.

City officials denied permission for the protest, and police sealed off the proposed site, the square opposite City Hall on Tverskaya Street. Among those arrested were two protest leaders—human-rights activist Lev Ponomarev and Left Front leader Sergei Udaltsov.

Viktor Davidoff, a writer who took part, gave the mayor poor marks for helping Muscovites cope with the heat and smoke. He noted that City Hall moved only this week to open air-conditioned shelters to the public and said it had failed to ensure an adequate supply of face masks.

Mr. Medvedev and Prime Minister Vladimir Putin have come under criticism for their handling of the disaster, and Mr. Medvedev's focus on prices reflected concern over the political fallout.

One recent poll shows that 61% of Russians trust the prime minister and 52% trust Mr. Medvedev, a loss of 10 percentage points for each from the year's highs.

Not waiting for voluntary price cuts, the prosecutor general's office said Thursday it would investigate possible collusion among grain sellers. Meanwhile, Moscow grocer Seventh Continent said it would stop selling **Danone** SA products after recent price increases. Danone confirmed the dispute.

Such an approach would not be uncommon in Russia. Last summer, Prime Minister Vladimir Putin paid a surprise visit to a Moscow supermarket to scold management for price mark-ups on pork.

Philip Green tapped to find cuts in U.K.'s public sector

By Laurence Norman

LONDON—Retail entrepreneur Philip Green will head a team of officials to drive efficiency savings in the public sector, the U.K. government announced.

Sir Philip, who heads clothing retailer **Arcadia Group** PLC, is one of Britain's top business executives.

He was asked to take on the role by Prime Minister David Cameron whose central domestic policy goal is to cut back the U.K.'s £155 billion ($243 billion) budget deficit.

Sir Philip's remit will be to look over government spending from the past three years "to identify inefficiencies and potential savings," according to the Cabinet Office.

That will include reviewing the progress made in continuing public sector efficiency programs and assessing whether government leases and contracts signed since 2007 offer value for money.

Sir Philip and his team will report back to Cabinet Office Minister Francis Maude and Chief Secretary to the Treasury Danny Alexander by Oct. 20, when the government's spending review is wrapped up.

In a statement, Sir Philip said, "I want to help focus, motivate and energize to achieve these efficiency savings. Is is these actions that will restart growth in the U.K."

Meanwhile, Mr. Alexander said that "tough decisions need to be taken in order to ensure that Britain lives within its means. By being prepared to do things differently, we can ensure that this process will enable us to get more for less, and support our frontline services."

Mr. Cameron's government has pledged to pare back the deficit mainly through spending cuts but have promised to protect key frontline services.

The prime minister has said that will require a shake-up in the way services are delivered.

Meanwhile, Mr. Cameron on Thursday again urged fellow European leaders to ensure that the European Union budget is put through the same kind of austerity that national governments are having to impose.

In a news conference with Danish Prime Minister Lars Lokke Rasmussen, Mr. Cameron said the EU budget needed to be trimmed.

"As we reduce our deficits at home, I think it's very important...that we both argue to make sure that the European budget, over time, is reduced," he said.

Bloomberg

Retail entrepreneur Philip Green

EU to probe U.S. diesel trade

By Matthew Dalton

BRUSSELS—The European Commission said Thursday it would investigate whether U.S. biodiesel is being shipped through third countries to avoid tariffs placed last year on direct shipments from the U.S. to the European Union.

The commission, the EU's executive arm, also said it would examine whether U.S. producers are shipping their product in blends that contain less than 20% pure biodiesel to avoid the tariffs, which only apply to blends containing more than 20%.

The investigation was requested by the European Biodiesel Board, the EU industry's main lobby group, in its long-running effort to fight a subsidy the U.S. government gives to its producers. The EU industry says the subsidy—a $1 tax credit for each gallon of biodiesel blended with petroleum-based diesel—has caused the U.S. industry to flood the European market with exports, depressing prices and threatening the viability of European producers.

The commission investigation will focus on shipments of biodiesel from the U.S. that appear to be moving through Canada or Singapore and then on to the EU, according to an announcement in the EU's Official Journal.

Since the duties came into force last year, U.S. shipments to the EU have plummeted, while U.S. biodiesel exports to Canada and Singapore have soared, as have Canadian and Singaporean exports to the EU.

U.S. NEWS

Senate shines—with only 2 senators

By Naftali Bendavid

Apparently the Senate can work quickly after all. You just have to limit it to two senators.

On Thursday, the chamber approved a $600 million border-security bill in 31 minutes, from opening gavel to final passage. While their colleagues were enjoying a summer recess, Sen. Chuck Schumer flew in from New York and Sen. Ben Cardin drove his Pontiac from Baltimore to represent the entire Senate in the cavernous chamber.

Mr. Schumer delivered the opening (and closing) speech, while Mr. Cardin sat in the presiding official's chair. Mr. Schumer told his fellow Democrat that he hoped the border bill, which provides 1,500 additional border agents, would "clear the path" for talks on revamping the nation's immigration rules.

"I urge my colleagues on both sides of the aisle to join in this important task," he added, looking around at 99 empty seats.

The New York Democrat proposed passing the bill by "unanimous consent," meaning it would become law as long as no one objected. Mr. Cardin, also a Democrat, asked the empty room if anyone did, and, not surprisingly, response came there none. Just like that, the bill was on its way to the president's desk.

There wasn't a coup in the nation's capital Thursday. Republicans agreed to the bill last week, and it had passed both the Senate and House already before falling foul of an element of Congressional procedure enshrined in the Constitution. To avoid ruining vacations—and reelection campaigns—Republicans gave Messrs. Schumer and Cardin the OK to re-pass the bill themselves.

Critics in recent weeks, especially on the left, have denounced the Senate as dysfunctional and dismissed it as broken. In the halls of the House and in the media, detractors have complained about its endless proceedings and cumbersome rules, and about how it has pared the Obama administration's legislative agenda (a surprising critique, perhaps, considering the passage of an economic stimulus package, health-care reform and a financial-regulation overhaul).

If Republicans were concerned about Mr. Schumer, a strong partisan and shrewd operator, having the Senate under his complete control, they professed otherwise. Technically, Mr. Schumer could have passed other major bills unilaterally—climate change legislation, for example—or named a string of post offices after himself in Texas.

"There is still trust in the Senate," said Don Stewart, spokesman for Senate Minority Leader Mitch McConnell (R., Ky.). Mr. McConnell was miles from Washington, addressing the Taylor County Chamber of Commerce in Campbellsville, Ky.

Messrs. Cardin and Schumer admitted they were intrigued by the notion of instantly enacting the entire Democratic agenda while Republicans were out of town. "I went over with Sen. Schumer whether we could get some of our judges done," said Mr. Cardin. "No one could have objected. By the time they got back, they would be sworn into office."

Agreed Mr. Schumer, with a grin: "We had a long list of things we were tempted to bring up and pass."

They resisted, providing a display of efficiency that was a far cry from the chamber's usual machinations, with votes at 2 a.m., permanent filibusters and arcane procedures from "reconciliation" to "live quorum calls."

The truncated session was necessary because of a mistake that itself stemmed from Congress's many rules. The Constitution says revenue-raising bills must originate in the House, a fundamental division of authority between the two chambers. And the $600 million measure is funded by raising fees on H-1B visas, which allow specialized foreigners to work in the U.S.

That means it's a revenue-raising bill, but the Senate erred in passing it first. The House, returning temporarily from its own summer break, approved it Tuesday. Even though both chambers had already given it the nod, the Senate had to enact it again.

Such quickie sessions are rare. On Sept. 1, 2005, a handful of senators, returning from summer break, met at 10:02 p.m. in the Capitol to pass a Hurricane Katrina relief bill. The session took 28 minutes, and by 10:30 the senators were on their way.

During the presidency of George W. Bush, the Senate held brief "pro forma" sessions during its breaks, so those breaks would not be uninterrupted long enough to qualify as official recesses. That prevented Mr. Bush from making "recess appointments," a way to install nominees without Senate approval.

Those sessions, too, were only a few minutes long. But unlike those events, Thursday's proceeding resulted in an actual law being passed. The Senate took what both sides saw as a step toward tackling the problem of illegal immigration, and did it with civility, brevity—and very few senators on hand.

All 100 senators will return to Washington in mid-September. So, no doubt, will the Senate's more lethargic pace.

Getty Images (Schumer); Associated Press

Sens. Chuck Schumer, left, and Ben Cardin represented the entire Senate while their colleagues enjoyed a summer recess.

Trial opens for detainee from Canada

Associated Press

GUANTANAMO BAY, Cuba—A Canadian former child soldier told jailers he comforted himself in his first days at Guantanamo by thinking about killing an American soldier, military prosecutors said Thursday in opening arguments at the war-crimes trial of the youngest inmate at the detention center.

Toronto-born Omar Khadr, who was 15 years old when he was captured in 2002, is accused of throwing a grenade that killed a Delta Force medic after a firefight in Afghanistan.

"Omar Khadr is a terrorist, trained by al Qaeda to murder Sgt. 1st Class Christopher Speer," prosecutor Jeff Groharing told a jury of U.S. military officers at this U.S. Navy base in southeast Cuba.

"He said when he first arrived at Guantanamo, thinking about killing an American would make him feel better," Mr. Groharing said.

"When asked what he was most proud of in his life, he said conducting the operations against the Americans."

Mr. Khadr denies throwing the grenade, and his lawyers argued that his purported confessions were extracted through mistreatment, including threats of rape.

U.S. economists' pessimism grows

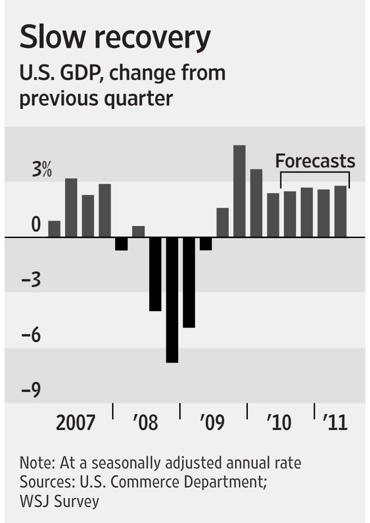
By Phil Izzo

Economists are getting more pessimistic about the strength of the U.S. recovery, but they don't think policy makers should do anything more to support it, according to the latest Wall Street Journal forecasting survey.

The 53 surveyed economists, not all of whom answer every question, offered a bleak picture of tepid growth and high unemployment. On average, they still don't see the unemployment rate dropping below 9% through at least June 2011. They expect the economy to add just 136,000 jobs a month over the next 12 months, down from a forecast of 157,000 in the July survey. At that rate, job creation will barely keep up with new entrants to the labor force.

Another increase in initial claims for unemployment benefits reported Thursday by the Labor Department underlined the troubles facing the labor market. Initial jobless claims climbed by 2,000 to 484,000 for the week ended Aug. 7, the highest level since February. The four-week moving average, which aims to smooth out weekly volatility, increased 14,250 to 473,500.

The claims data come on the heels of a disappointing July employment report that showed just a small increase in jobs, excluding the effect of layoffs related to the decennial census.



"If claims remain at their current level, then even the modest recent gains in private payrolls will not be sustained," said Ian Shepherdson of High Frequency Economics.

When asked about the biggest risk facing the economy, "too few jobs, too little wage income and too little consumer spending" was the most popular choice. Issues such as inflation, deflation, state- and local-government cutbacks and another downturn in housing garnered just a handful of responses each.

Meanwhile, they forecast annualized, inflation-adjusted growth of 2.5% for the third quarter and 2.9% for 2011, down from 3.1% for both periods only three months ago.

Despite the continued challenging conditions, 30 out of 48 economists who answered the question said the economy doesn't need any more fiscal or monetary stimulus. Six economists said more fiscal stimulus is necessary, while five want more monetary stimulus from the Fed and seven said the economy could use both.

The survey was conducted before the central bank's announcement Tuesday that it would reinvest proceeds from its mortgage-backed securities and agency debt portfolio into Treasurys, essentially boosting monetary stimulus.

"The economy needs government to get out of the way," said Stephen Stanley of Pierpont Securities.

The economists, though, generally didn't support the idea of ending Bush-era tax cuts, which will expire at the end of this year unless Congress acts. Just three respondents said that the tax cuts on individual income should be allowed to expire for everyone. Thirty-two economists said they should all be extended, while 11 said they should be extended for people making less than $250,000 a year—the policy option backed by the Obama administration.

Many of the economists said that any extension should be temporary while the recovery still is struggling to gain traction. But amid concerns about the deficit, 23 respondents said that the extension should be offset with spending cuts or other taxes. "It is irresponsible nonsense to claim that tax cuts 'pay for themselves,' " said Nicholas Perna of Perna Associates.

Though concerns about the deficit persist, more than half of the respondents—28 economists—don't think the U.S. will adopt a value-added, or consumption, tax over the next decade. "Political pressure against is too strong," said David Wyss of Standard & Poor's Corp.

9/11 museum takes shape

By Joseph De Avila

Bryan Derballa for The Wall Street Journal

Work on a reflecting pond at the 9/11 memorial of the World Trade Center site.

NEW YORK—The way 9/11 is remembered will soon be transformed.

Located beneath a maze of construction at Ground Zero, the National September 11 Memorial Museum is taking shape and has made significant progress. Members of the media took a tour of the cavernous, 120,000-square-foot museum site this week.

The museum opening is slated for Sept. 11, 2012. Officials expect it to become one of the city's most popular tourist destinations, drawing seven million visitors a year.

The museum will be located beneath an eight-acre memorial plaza, which will open next Sept 11. The entire project will cost about $610 million. In contrast with museums where viewing the building exterior is part of the experience, the memorial museum will be underground and unseen from the surface, said Steven M. Davis, the museum's architect and partner of Davis Brody Bond LLP.

"The exhibits are the icon. It's the inverse of a traditional museum in those respects," Mr. Davis said.

Artifacts will be used to personalize the almost 3,000 people who died on 9/11. Wedding rings, the base of the antenna that topped the north tower, and elevator motors from the towers will be among the exhibits, said Alice Greenwald, director of the memorial museum, a nonprofit organization that worked with the Lower Manhattan Development Corp. on design and construction.

"Every artifact is evidence of the destruction," Ms. Greenwald said.

Visitors will descend seven stories beneath the surface into what was once the core of the World Trade Center. The so-called Last Column from the twin towers, which is covered in tributes from family members of victims and first responders, will be on display.

The design team wanted to preserve the feeling of vacancy for visitors at Ground Zero, said Mark Wagner, associate partner at Davis Brody Bond.

Ms. Greenwald said the contents of the museum could change over the years. "We have to be somewhat nimble to remain relevant. The museum will evolve—9/11 isn't over."

High voter volatility stirs parties in this year of fear

[Capital Journal]

By Gerald F. Seib

It's becoming increasingly clear that Americans aren't simply in the midst of hard times. They are in the midst of one of the most volatile political environments since World War II.

The immediate cause of this volatility is clear enough to see. Just a few months ago, there was a chance that an improving economy and progress in the war in Afghanistan might calm national nerves and return the political world to a more normal setting before November's midterm elections.

Instead, trend lines in both the economy and Afghanistan now seem to be heading in the wrong direction, and that is producing a public attitude hovering somewhere between anxiety and apprehension. If hope was the watchword for the 2008 campaign, fear may be more apt for 2010.

But that snapshot merely fits into a bigger and broader picture. Today's dark public mood appears to be the culmination of a long stretch of national anxiety encompassing a historic terrorist attack and two lengthy wars, followed hard by the worst economic crisis of the last 75 years. The nation is in a period of volatility that started well before this year, and that may stretch well beyond it.

In the political realm, there's no doubt that this environment will produce significant victories for Republicans in November's congressional elections. But the long-term consequences are much less clear.

In the words of Republican pollster Bill McInturff, who helps direct The Wall Street Journal/NBC News poll, America is in "an era of unprecedented unstable political attitudes."

Consider just a few indicators:

■ Voter loyalties are gyrating. Republican victories in this year's elections for the House of Representatives seem almost certain to make 2010's voting the third national election in a row in which more than 20 seats in the House have changed party control. That hasn't happened in more than half a century, the years just after World War II.

Democrats were the ones picking up big chunks of seats in 2006 and 2008, when they took over 32 and 23 seats, respectively. This year the Republicans are the ones who stand to pick up a similar, or bigger, bounty of seats.

To the extent some analysts thought the George W. Bush era was bringing about a Republican and conservative realignment of the country, or that the election of Barack Obama signaled a Democratic and liberal realignment, both conclusions now appear wrong. Instead of realignment, there is volatility.

■ Both parties are sinking simultaneously. Normally if Democrats go down in public esteem, Republicans go up, and vice versa. Not now. Despite the fact that this year's most motivated voters say they're more likely to vote Republican than Democrat in the fall, the Republican party just this week received its lowest positive rating in the 21-year history of The Wall Street Journal/NBC News poll.

To be in a period in which the party favored to prevail is, at the same time, enduring an all-time low in its public image is to be in a period of unusually high voter alienation.

■ The traditional American spirit of optimism about the future is fading. In two straight monthly Journal/NBC News polls, only a third of those surveyed have said the economy will get better in the next year. Notably, this level of pessimism cuts across all income lines.

This environment will produce significant victories for Republicans in November's congressional elections, but the long-term consequences are much less clear.

And when Democratic pollster Peter Hart, who co-directs the Journal/NBC News poll, convened a focus group of a dozen voters in Richmond, Va., earlier this week for the Journal, a third of those around the table said they thought the country was more likely to be moving in the wrong direction five years from now than it is today. That's just the view of a few people, of course, but it represents a striking variation from the usual American impulse to think life will steadily improve.

Nor is this attitude entirely a function of the Obama era. The share of Americans who said in Journal polling that the country was headed in the right direction began sliding midway through the last decade, and was even lower at the time of the 2008 election than it is now.

Beyond the peril for both parties in this climate, there is opportunity. For Republicans, the opportunity isn't merely to regain seats in Congress but to capture and channel some of the tea-party fervor that has sprung up as a result of this volatile environment.

For Democrats, the opportunity lies in the fact that, in President Obama, the party has the one leader who has managed, as he did two years ago, to make a feeling of hope spring out of this anxiety. That the hope has faded doesn't mean he lacks the capacity to recapture it.

Write to Gerald F. Seib at jerry.seib@wsj.com

WORLD NEWS

Uganda suspects explain details of July attacks

Agence France-Presse/Getty Images

Muhamoud Mugisha, center, Issa Ahmed Luyima, left, and Issa's younger brother Hassan at Thursday's news conference.

By ***Nicholas Bariyo*** *in Kampala, Uganda, and* ***Sarah Childress*** *in Nairobi, Kenya*

The suspected mastermind of the July 11 terror attacks in Uganda's capital said on Thursday that the deadly bombings were intended in part to target Americans for their government's involvement in Somalia.

"My rage was mainly against the Americans and Ethiopians for planting the [transitional] government in Somalia and for mistreating Muslims," said Issa Ahmed Luyima, whom Ugandan and Kenyan authorities consider the main suspect in the attacks on an Ethiopian restaurant and popular bar in Kampala that left at least 79 people dead, at a news conference in Kampala.

One suspect said he and his fellow detainees hadn't been mistreated and wouldn't have agreed to discuss their involvement in the plot had they been abused.

Ugandan military authorities organized Thursday's news conference to present four suspects they apprehended in recent weeks. Brig. James Mugira, the head of Uganda's military intelligence, said they were holding the session to deliver on a promise to offer "accountability to the Ugandan people."

The men seemed calm and in good health, and will be held in a military prison until their trial. In response to a reporter's question, one suspect said they hadn't been mistreated and wouldn't have agreed to discuss their involvement in the plot had they been abused.

Mr. Luyima's remarks and the comments from three other suspects, including two Ugandans he had recruited—one who was his brother—and another who was originally tapped to plan the bombings, offered a window into the operations of al Shabaab, the al Qaeda-linked Somali militant group that claimed responsibility for the attack, its first outside of Somalia.

The story of his recruitment into an extremist group, and how he was assigned to plot the attack, highlights an organization that was able to carry out a violent attack despite setbacks and sometimes reluctant recruits.

Their comments came just after another man authorities have linked to the plot was released on bail Wednesday in Kenya. Kenyan authorities had arrested Salmin Mohammed Khamis, 34 years old, on suspicion of harboring participants in the plot—including Mr. Luyima—in his home in the coastal town of Mombasa before the attack.

Mr. Khamis was arrested in 2003 on suspicion of involvement in a plot to bomb an Israeli airliner in Mombasa and a hotel. He was later acquitted, but at the time he gave a statement to Kenyan authorities that he was affiliated with al Qaeda and was plotting to bomb the U.S. Embassy in Nairobi. So far, authorities say he hasn't been implicated further in the Kampala attacks.

Al Shabaab had initially tapped an al Qaeda-trained fighter named Muhamoud Mugisha to carry out the Kampala bombings, said Mr. Mugira.

On Thursday, Mr. Mugisha said al Qaeda recruited him in 2004 in Nairobi. His recruiters promised him he would head to Dubai, but he was sent to a training camp in Somalia.

The 24-year-old Ugandan said he trained alongside at least 40 others from Uganda. He said he also worked with Saleh Ali Saleh Nabhan, who U.S. authorities believe was behind the 1998 bombings of U.S. embassies in Kenya and Tanzania. U.S. Special Forces killed Mr. Nabhan last year in Somalia.

In April, Ugandan immigration officials arrested Mr. Mugisha in the border town of Busia as he attempted to enter the country from Kenya. Al Shabaab turned to Mr. Luyima instead, he said.

His fellow suspects described Mr. Luyima, 33, as a devout Muslim who worked as a librarian at a university in Kampala before he left for Somalia last year and joined al Shabaab. They said he used religion to persuade them to participate in the plot. Mr. Luyima didn't dispute their comments.

Mr. Mugira, the intelligence chief, told reporters that Messrs. Luyima and Mugisha had been among the foreign fighters in Somalia that had bolstered the ranks of al Shabaab in the past year, and had participated in several combat missions against the African Union peacekeeping force stationed in Mogadishu, and the Somali government.

Terrorism is a capital offense in Uganda. The four suspects will be tried in a criminal court, despite their confessions, though they will be allowed to ask for leniency for cooperating with authorities.

Mr. Luyima said he had initially planned to use four suicide bombers in the Kampala attack. He said that when two Somalis abandoned the project, he was forced to rely on the remaining two bombers and then recruited other participants.

"Because I had been away from Uganda for some time, I did not trust people who were not close to me, so I used my brother," Haruma Luyima, 27, to help with the planning, he said.

He also recruited Idris Nsubuga, a 30-year-old former university student. Mr. Nsubuga, who is in custody, has confessed to detonating a bomb at the Kyadondo Rugby Club.

Mr. Luyima said he rented a safe house in Uganda, which authorities said was used to plan and execute the attacks. On July 10, Mr. Luyima and his brother scouted the targets with the bombers, they both said.

The next night, Haruma Luyima escorted the Kenyan suicide bomber to the Ethiopian restaurant. Mr. Nsubuga escorted the Somali bomber to the rugby club, then detonated a second bomb remotely, using his cellphone.

The younger Luyima, who sobbed throughout most of his statement, was supposed to detonate a fourth bomb at a bar in Makindye, a Kampala suburb, where people were gathered to watch the World Cup, but abandoned his plan when he saw the crowds of people.

"I decided to hide the bag containing the bombs in a flower garden," he said. "I knew that I had already done something evil, but decided to stop there."

Mr. Mugira declined to reveal how and where the four suspects were arrested, but another military-intelligence officer said they were picked up in Uganda and Kenya. Investigators said they used a phone Haruma Luyima allegedly abandoned in the flower garden to find anyone who had made or received calls to track and apprehend the suspects.

Marbury courts hoops fans in China

BY LORETTA CHAO

BEIJING—Not only is former NBA star Stephon Marbury staying on with his new basketball team in China, he's planning to open dozens of stores and a distribution company here for his brand, Starbury.

Under a proposed joint venture with the owner of his team, Starbury Corp. plans to manufacture, distribute and promote Starbury products in China—specifically, shoes ranging from $14.88 to $48.88. Start-up funding will be used to open three stores by the end of this year in the city of Taiyuan, the hometown of Mr. Marbury's team, Shanxi Zhongyu.

The pending deal, if it goes through, would introduce a new way for Chinese teams to woo top talent from other countries to the Chinese Basketball Association, which caps salaries for foreign players at less than $60,000 a month—far below the many millions high-profile National Basketball Association players make in the U.S. each year.

Other players have stepped up their efforts to cash in on China's love of basketball. Boston Celtics forward Kevin Garnett this month announced his endorsement of Chinese sportswear brand **Anta Sports Products** Ltd. and went on an eight-day tour of China to meet fans and promote the partnership. Kobe Bryant and Ron Artest of the Los Angeles Lakers, meanwhile, have made trips to China to meet fans. In 2007, Chinese sportswear company **Li Ning** Co. launched a line of basketball products for China featuring Shaquille O'Neal.

Mr. Marbury, who has played for teams including the Knicks and the Celtics, founded Starbury in 1996 and later sold products through retailer Steve & Barry's LLC until the clothing company filed for bankruptcy two years ago. Starbury has been primarily funded by Mr. Marbury himself, and is seeking to raise an additional $50 million to expand both overseas and inside the U.S., where it plans to relaunch its brand, distributing via standalone stores.

Under the plan—which has yet to be signed—**Beijing RenHeshengye International Economics & Trading** Co., the company that owns Mr. Marbury's team, will make an initial investment of 10 million yuan ($1.48 million) to establish a joint-venture company with Starbury, according to Gustavus Bass, the chief financial officer of Starbury.

RenHeshengye is expected to make additional investments later.

If the deal moves forward, Mr. Bass says, Starbury will create a subsidiary that would hold a 51% stake in the new Chinese joint venture and would likely appoint Mr. Marbury as its chairman. Mr. Marbury, who arrived in China in January, last month said he had signed on to play two more seasons with Zhongyu with the option to play a third.

Mr. Bass, who estimates that China's athletic shoe market has reached $6 billion, has ambitions to open at least 100 more stores in China within five years.

"Working on a market that is so huge and so phenomenal ... could be unbelievable," Mr. Marbury said. There's "real movement in China," he said.

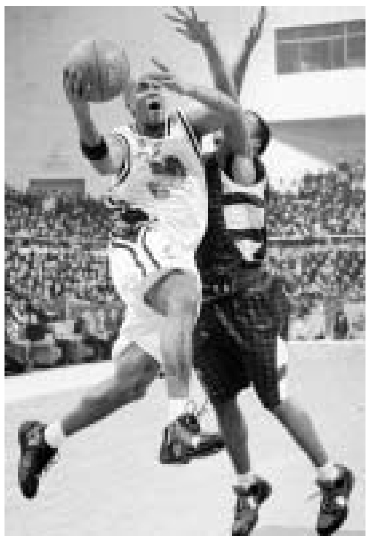
While Mr. Marbury has fallen out of favor with many fans in the U.S. because of run-ins with his coaches and teammates, the player has been well-received in China.

Taiyuan is a grimy coal-mining city but Mr. Marbury—who stays in a luxury hotel and has access to translators and Western food—said he enjoys it.

Taiyuan "is amazing," said Mr. Marbury, who was named most-valuable player in the China Basketball Association's all-star game. "The people there, they showed me love. ... They gave me a chance."

Mr. Marbury has drawn large crowds at games and at one two-hour autograph signing, Mr. Marbury sold more than $30,000 in shoes.

Mr. Marbury, known as "Ma Bu Li" to Chinese fans, has "created a different business model and is setting the tone for the future," said Bruce O'Neil, president of the U.S. Basketball Academy, which works with Chinese teams to recruit American players. China "wasn't even in the picture" for top players used to making $15 million or $20 million a year because of the salary cap, he said, but now "I'm getting calls from some high-profile players and agents."



Associated Press

Former NBA All Star Stephon Marbury in China.

—Juliet Ye in Shanghai and Gao Sen in Beijing contributed to this article.

WORLD NEWS

Chechen rebel's shift signals a rift

By Gregory L. White
And Richard Boudreaux

Agence France-Presse/Getty Images

A separatist's rise

During the three years Doku Umarov has led the Chechen rebellion, the insurgency has shifted from a movement for independence from Moscow to an embrace of global jihad.

- April 1964: Born in Chechnya.
- June 1997: Named secretary of security council in Chechnya's separatist government.
- August 2002: Appointed commander of Western front for separatist army.
- June 2006: Becomes separatist president when Russian troops kill incumbent; denies he is an Islamist.
- October 2007: Declares a "Caucasus Emirate," naming himself leader.
- April 2009: Forms terrorist martyrs' brigade.
- February 2010: Threatens attacks in cities across Russia.
- March 29, 2010: Suicide bombers kill 40 in Moscow subway.

Source: WSJ research

Associated Press

Chechen rebel leader Doku Umarov, top center, with two fighters. Above, a funeral for victims of March subway blasts in Moscow.

MOSCOW—The Chechen rebellion was faltering when its new commander, Doku Umarov, dispatched a video by courier from his hideout in southern Russia to his allies abroad.

His message, in late 2007, shocked many Chechens who had been fighting since the early 1990s to free their tiny Caucasus mountain republic from Russian rule. In the video, Mr. Umarov declared he had dissolved Chechnya's borders and created a Caucasus Emirate—an Islamic state spanning a swath of Russia's restive southern border. The enemy, he said, wasn't just Russia but also the U.S., Britain, Israel and "all those who wage war against Muslims."

A pair of conflicting videos last week from Mr. Umarov indicate the shift may be a source of turmoil within the Chechen rebellion.

During the three years Mr. Umarov has led it, the insurgency has shifted from a movement for independence from Moscow to an embrace of global jihad, prompting the U.S. to join Russia in officially declaring him a terrorist.

Terrorists have struck an average of once a day in Russia since Mr. Umarov took over, reaching into its heartland and killing more than 900 people. He has claimed responsibility for the worst attacks, including twin suicide bombings in the Moscow subway in March.

Mr. Umarov says his decision to embrace global jihad was "the will of God" and reflected an Islamist "awakening" that arose among his rank-and-file fighters.

Russia's campaign against the separatists, killing thousands of Chechen fighters and civilians, has hardened the rebels, marginalized moderates and broadened the appeal of Islamic extremism among Muslims in the impoverished region, some independent analysts and human-rights groups say.

In last week's first video, the 46-year-old Mr. Umarov said he was in poor health and retiring in favor of a "younger, more energetic" successor, Aslambek Vadalov.

Although Mr. Umarov didn't say so, Mr. Vadalov is believed to represent a nationalist wing of the movement that favors a renewed focus on independence, opposes attacks on civilians and has no ties to Islamist groups. Mr. Vadalov didn't speak in the video, which appeared on insurgent websites and YouTube.

A few days later, Mr. Umarov in a second video reversed himself. "Given the current situation in the Caucasus, I believe that it is impossible to resign from my post," Mr. Umarov said. He sat alone, his arm resting on the barrel of an automatic rifle. "My health is good, and I will work to kill the enemies of Allah," he said.

Some analysts see the about-face as a sign that Islamic militants who value Mr. Umarov as a figurehead opposed his resignation. At the least, "these colliding statements indicate a split in the underground," says Alexei Malasheknko, a specialist on the Caucasus at the Carnegie Moscow Center.

Mr. Umarov joined the violent separatist struggle well before Russian leader Vladimir Putin came to power in 1999 and launched an invasion of Chechnya. As the conflict dragged on, Mr. Umarov evolved from a young field commander who by his own admission didn't know how to pray to the self-proclaimed emir of his notional Islamic state.

Mr. Umarov, born in Chechnya in 1964, trained as a construction engineer. He was one of the youngest separatist commanders, former rebel officials recall. Akhmed Zakayev—a Soviet-trained Shakespearean actor who was then a senior rebel commander and is now president of the Chechen separatist government in exile—says he saw "absolutely nothing distinguishing" in the young officer but nonetheless recommended him for promotions and medals. "We needed to develop the next generation," he says.

In 1995, the separatists struck outside Chechnya's borders, taking hundreds hostage at a hospital in southern Russia. The Russians killed Chechen seaparatist President Dzhokhar Dudayev in an airstrike but eventually agreed to a peace deal, pulling most troops out in 1996. The republic descended into lawlessness.

A split developed between Islamic fundamentalists backed by advisers from the Middle East and less-religious separatists whose primary goal was Chechen independence. Mr. Umarov supported the new separatist president, Aslan Maskhadov, as he struggled to stem the Islamists' growing influence.

Internal divisions were quickly-forgotten when Mr. Putin, then prime minister, ordered Russian troops back into Chechnya in late 1999. The rebels were driven out of Grozny, Chechnya's capital. Mr. Umarov's jaw was shattered as he and other fighters fled the city.

The Islamists had been steadily gaining influence, but Mr. Umarov rejected their message, say people who spoke to him at the time.

Some in Moscow viewed Mr. Umarov as a moderate. But room for compromise was diminishing rapidly. Russian forces drove the separatists into the mountains or exile.

The separatists struck deep into Russia with an attack on a Moscow theater in 2002. A rebel siege of a school in Beslan in 2004 killed more than 330 Russians, most of them children, and cemented the Kremlin's refusal to negotiate.

Chechen authorities installed by the Kremlin joined in the crackdown. Relatives of the separatists, including Mr. Umarov's wife and infant son, were kidnapped in what human-rights groups called a campaign by security forces to bring about a surrender. Some were released, including Mr. Umarov's wife and son. Others disappeared. The Kremlin-backed Chechen leadership denies involvement.

Mr. Umarov had distanced himself from the brutal attacks on Russian targets outside Chechnya. But the abductions of his relatives changed things.

"I was naive before," he told Britain's Channel 4 television in an interview from a rebel camp in mid-2005. He said he had lost hope that Western governments would pressure the Kremlin to end the crackdown. As a result, he said, "our tactics will change, the war will change."

In 2006, when Mr. Umarov became president of the separatist government, his first public statement contained no Islamist rhetoric. He vowed to mount attacks in "many regions of Russia" but to target "exclusively military and police institutions."

One year later, Mr. Umarov abandoned his anti-Islamist stance, unnerving Moscow as well as some of his former colleagues. Mr. Zakayev said in April that he felt betrayed by Mr. Umarov's video declaration that he was forming the Caucasus Emirate and imposing Sharia law.

Mr. Zakayev and other exiled separatist leaders accused Mr. Umarov of treason. Many separatist fighters have backed Mr. Umarov. A video released by Mr. Umarov in April 2008 showed him sitting in the woods with a group of field commanders, endorsing jihad in a mix of Arabic and Russian as birds chirp in the trees.

In embracing Islamist rhetoric, Mr. Umarov gave up his reservations about targeting civilians. "For me, there is no civilian population in Russia," he said in an interview on a separatist website.

Terror attacks spread soon after Mr. Umarov declared his emirate. Within days, a bomb exploded on a bus in the southern Russian city of Togliatti, killing eight people. Prosecutors attributed the attack to the insurgents. By last year, suicide bombings had become a fixture of life in the Caucasus.