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EUROPE NEWS 4

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Amazing survival story as Colombian plane breaks up in crash



Reuters

A Boeing 737 lies shattered in three pieces after a crash landing on the Caribbean island of San Andres on Monday. Amazingly only one of the 131 passengers aboard the Colombian jet died—of a suspected heart attack. The pilot reported the aircraft being hit by lightning 80 meters from touchdown. Article on page 9

Europe's debt fears return

By NEIL SHAH

After a brief summer lull, signs of stress are resurfacing in Europe's weaker economies as investors fret that a slower economic rebound across the globe could exacerbate Europe's financial problems.

The cost of protecting against bond defaults by countries in Southern Europe and Ireland has soared this month, a sign that investors are again worried that these countries may struggle with their debts. Ireland's credit insurance costs have leapt by 45%, as have Italy's, while Greece's costs are up 10%.

On Tuesday, Ireland's Treasury will sell up to €1.5 billion (\$1.91 billion) of new debt in an auction that will be closely watched for signs of trouble given the euro-zone jitters and concerns about Ireland's costly bailout of its banking system.

Despite the recent nerves, Europe's bond markets remain in better shape than in May, when the European Central Bank shocked investors by

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The Quirk



The burglar who is so tough that bullets simply bounce off his head. Page 29

Editorial Opinion

Cameron beats even Thatcher during his first 100 days. Page 13

EU told to lift high-tech tariffs

By JOHN W. MILLER

BRUSSELS—The World Trade Organization ordered the European Union to strike down import tariffs on billions of dollars of high-tech goods or risk retaliatory trade sanctions.

In dollar terms, the decision could be one of the biggest wins yet for the U.S. at the Geneva-based trade body.

The dispute concerns the 1996 Information Technology Agreement, a trade treaty signed by some 70 countries that set 0% tariffs on a wide category of electronic goods.

The ITA accounts for \$5 billion a year in tariffs that don't have to be paid, according to industry groups. "U.S. high-tech companies and their workers depend on the ITA to reach foreign markets," said John Neuffer, vice president of the Washington-based In-

formation Technology Industry Council. Global trade in products covered by the ITA increased to \$4 trillion in 2008 from \$1.2 trillion in 1996.

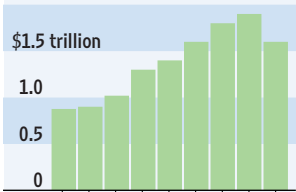
The dispute among the signatories was over the definition of "high-tech."

The European Union declined to designate as high-tech three categories of goods: television cable converter boxes that also deliver the Internet, flat-panel computer screens, and printers that also scan, fax or copy.

The EU argued that these products were old-fashioned consumer goods, not cutting-edge high-tech products. Under the EU's tariff classifications, these goods were considered ordinary cable boxes, TV screens and photocopiers, subject to tariffs between 6% and 14%. The EU's total imports of these products were

Tech trade

Global trade in flat-screen computer monitors and other high-tech goods has surged in the past decade, due in part to a 1996 free-trade



Note: Figures are for total global trade in the international tariff code's main category of electronic goods. Source: Global Trade Information Services

valued at \$11 billion in 2007, according to the ITIC.

The U.S., Japan and Taiwan for years lobbied the EU to reduce these tariffs. The three countries are home to some of the world's largest

makers of electronic goods. Those with operations in the U.S., such as Hewlett-Packard Co., Dell Inc. and Japan-based Canon Inc., have taken a front position in lobbying the EU to lower its tariffs and in lobbying the U.S. government to take the case to the WTO.

The EU, a U.S. trade official said, was "manipulating tariffs to discourage technological innovation." The EU declined to remove the tariffs. In 2008, the three countries filed a case against the EU at the WTO.

The wording in Monday's ruling was clear: The WTO's arbitration panel requested "the European Communities to bring the relevant measures into conformity with its obligations."

U.S. Trade Representative Ron Kirk hailed the decision as "an important victory for U.S. technology manufactur-

ers and workers."

The EU has 60 days to appeal. The bloc is divided on high-tech tariff policy, so it isn't a given that it will appeal. If it does, the WTO will rule within three months.

"The report does not establish general principles that would imply any form of generalized conclusions," the European Commission said. "No decision on a possible appeal to the WTO report is taken yet."

EU officials say, however, that they would like to renegotiate the entire ITA.

If the EU doesn't respect the WTO ruling and lift the tariffs, the U.S., Japan and Taiwan would have the right to impose tariffs on goods made in Europe—including cars, pharmaceuticals and cheese—valued at an amount equal to the tariffs that the WTO has now ruled illegal.

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PAGE TWO

That volcano may well have gone quiet but investors still fear Europe explosion

[Agenda]

By RICHARD BARLEY



When the Icelandic volcano Eyjafjallajökull erupted in April, it brought air traffic to a halt and dominated the news headlines. But as the ash cloud dissipated, the story faded almost as quickly as it arrived.

Something similar seems to have happened with the euro-zone sovereign-debt crisis that erupted around the same time, freezing government bond markets. From hitting fever pitch in May and June, it moved out of the limelight. But the past couple of weeks have brought some disconcerting rumblings.

Why did the crisis subside? First, it was necessary to shelter Greece from markets while it attempts to rebalance its budget and economy. This, after a few false starts, was achieved via the €110 billion (\$140 billion) joint euro-zone and International Monetary Fund package.

Second, contagion to other euro-zone states with weak budget positions had to be avoided. In particular, Spain became the critical link in the chain due to its size and concerns over how much it might cost to support the country's banks.

Again, after some false starts, Europe swung into action. A €750 billion rescue package was announced, the European Central Bank started buying bonds, the European Financial Stability Facility was established and the IMF again lent its imprimatur to the whole process.

The turning point was the success of Spain's June bond auctions, removing any risk of a funding shortfall before the EFSF was up and running.

With the near-term pressure



Smoke and ash from Iceland's Eyjafjallajökull volcano halted air traffic.

point removed, Spanish, Portuguese, Irish and Italian bonds rallied, the euro rose and the cost of insuring government debt against default fell. The European bank stress tests were the icing on the cake given that the problem they had been designed to address—a euro-zone debt crisis—was receding.

The euro zone can't take all the credit. It got a helping hand from the emergence of data showing

The situation remains finely balanced, however. The tipping point may not be far away.

that the U.S. recovery wasn't going as planned. Most investors and analysts admit that the market can really focus on only one big idea at a time: fears of a double dip in the U.S. and the clamor for action from the Federal Reserve simply took top billing in investors' minds. Europe suddenly

seemed like a relatively safer place, especially given some of the positive economic data that were emerging, in particular from Germany.

But many of the problems facing Europe haven't gone away. In recent weeks, Irish bonds have come under pressure, mainly because of the government's exposure to its outsized banking system—a similar worry to that which dogged Spain in May and June. As a result, the market is unusually focused on an Irish bond auction that takes place Tuesday.

Again, it is possible that this auction will go well—the spread widening means that 10-year Irish debt now yields around three percentage points more than German bonds, pricing in a lot of bad news.

Some of the move may be down to summer trading conditions that have reduced liquidity. A successful auction could lead concerns to subside swiftly.

But other flashpoints remain. Governments will spend this

autumn fleshing out budget plans for 2011; political risk could rear its head.

There is still a significant amount of bond supply to be digested this year. There is no let-up ahead: Citigroup estimates that gross issuance will in fact peak next year, at €865 billion, and both Spain and Ireland have relatively high net issuance needs.

After an initial period of euphoria after the bank stress tests, worries about bank funding have re-emerged. The way the statistics agency Eurostat accounts for banking-sector support may yet lead to startling revisions to headline deficit and debt-to-GDP numbers, even if they don't imply changes to funding requirements.

Set against this, Europe is in a far better position to head a crisis off at the pass. The ECB's willingness to buy bonds should act as a backstop, even if the bank seems keen to wind down its purchases.

Recent budget data have largely confirmed that deficits are being reduced, and the euro zone is growing faster than expected. The EFSF became fully operational at the start of August. True, it remains to be seen how the facility would work in practice—and some suspect it would cause a bigger crisis than it solves. But it is no longer a race against time to set it up before it is needed.

The situation remains finely balanced, however. The tipping point may not be far away.

Even after Germany announced growth of roughly 9% on an annualized basis—on a par with China—10-year Bund yields plumbed new depths, hitting 2.33% Monday, more than one percentage point lower since the start of the year.

That investors are so in love with bonds, a safe haven, means they still fear an explosion may take place.

What's News

■ **Barclays reached** a \$298 million agreement with U.S. and New York authorities to settle charges that it facilitated financial payments for parties and countries facing U.S. sanctions. 19

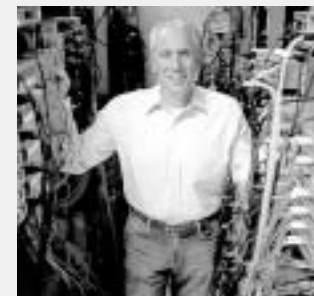
■ **Vedanta Resources said** it plans to spend \$8.5 billion to \$9.6 billion to acquire as much as 60% of Cairn India from U.K.-listed oil company Cairn Energy. 21, 32

■ **Dell plans to buy** data-storage firm 3Par for \$1.15 billion, as the personal-computer maker seeks to boost its offerings for corporate-technology departments. 20

■ **Government forces** in Kyrgyzstan have arrested hundreds of ethnic Uzbeks and tortured many of them in the course of a probe into ethnic clashes, a rights group said. 9

■ **Defense Secretary Gates** plans to step down next year, a move that would take away a powerful voice on U.S. policy on Afghanistan. 6

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‘Cairn has decided to do the oil-industry equivalent of selling the Volvo and buying a Harley.’

James Herron on the oil producer's \$8.5 billion midlife crisis



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NEWS

So when is a pirate not a pirate?

By KEITH JOHNSON

NORFOLK, Va.—Not since Lt. Robert Maynard of the Royal Navy sailed back triumphantly to nearby Hampton Roads in 1718 with the severed head of Blackbeard swinging from his bowsprit has this Navy town been so embroiled in the fight against piracy.

For the first time since the Civil War, accused pirates will be put on trial this fall in a federal courtroom. The defendants are six Somali men fished out of the Gulf of Aden, between Somalia and Yemen, in April after allegedly firing on a U.S. Navy ship, which blew apart the tiny skiff they were on.

Prosecuting pirates, rather than hanging them from the yardarm, is the modern world's approach to the scourge of Somali piracy that has turned huge swathes of the Indian Ocean into a no-go zone for commercial vessels.

But there's a problem: Some 2,000 years after Cicero defined pirates as the "common enemy of all," nobody seems able to say, legally, exactly what a pirate is.

U.S. law long ago made piracy a crime but didn't define it. International law contains differing, even contradictory, definitions. The confusion threatens to hamstring U.S. efforts to crack down on modern-day Blackbeards.

The central issue in Norfolk: If you try to waylay and rob a ship at sea—but you don't succeed—are you still a pirate?

It may seem strange there should be doubt about an offense as old as this one. Piracy was the world's first crime with universal jurisdiction, meaning that any country had the right to apprehend pirates on the high seas.

The Romans took piracy so seriously they gave near-dictatorial powers to an up-and-coming general named Pompey, who soon swept away piracy in the Mediterranean. In more recent centuries, European countries such as Britain cracked down on pirates—except when enlisting certain ones, dubbed "privateers," to help them fight their wars by raiding enemy ships.

Pirates even spurred the creation of the U.S. Navy, after Thomas Jefferson erupted over the cost of paying tribute to the Barbary Corsairs for safe passage of U.S. merchant ships.

When Congress dealt with piracy in a statute in 1819, the crime was so easy to recognize that legislators didn't bother to describe it, just the punishment. The statute that made piracy a capital offense (now mandatory life in prison) simply deferred to "the law of nations." That legal punt has kept American jurists scrambling ever since.

The stage was set for the Norfolk trial on April 10 of this year when the USS Ashland, cruising in the Gulf of Aden about 330 miles off Djibouti, was fired upon at 5 a.m. by Somali men in a small skiff. The Navy vessel, an amphibious dock landing ship, returned fire with 25-mm cannon, wrecking the 18-foot skiff and sending its six occupants overboard.

The Ashland sent a search boat to recover the Somalis and photograph the smoking hulk of the skiff, which contained at least one weapon and what looked like a grappling hook or anchor. Though that boat was blasted to pieces, even when pirate skiffs survive, the ships they target are often loath to



bring the skiffs aboard. One captured by a Navy force in 2006, according to the judge advocate's testimony in a subsequent trial in Kenya, was crawling with "roaches the size of leopards."

In Norfolk, the prosecution has begun its effort to convince the District Court for the Eastern District of Virginia that the Somalis are guilty not just of lesser charges but the main charge of piracy.

"Violent attacks on the high seas without lawful authority have always been piracy under the law of nations, in 1819 and today," said the lead prosecutor, Benjamin Hatch, at a pretrial hearing last month.

"So if one ship fires a bow-and-arrow," asked Judge Raymond Jackson, "or a slingshot, or a rock, those are all acts of violence, and thus piracy?" The prosecutor nodded.

The public defender, Jeremy Kamens, weighed in. "That a slingshot

fired upon another ship would expose the defendant to a mandatory life sentence shows the absurd result of this reading," he said. The defense added that under this definition, Greenpeace activists could be considered pirates for their anti-whaling antics.

The defense lawyers trawled through history books, coming to rest upon an obscure 1820 Supreme Court ruling.

"We have, therefore, no hesitation in declaring that piracy, by the law of nations, is robbery upon the sea," Justice Joseph Story wrote for the majority in *United States v. Smith*. That gave the defense lawyers their main argument: Piracy is robbery on the high seas; it isn't merely attempted robbery at sea, which is covered by a separate statute that the Somalis are charged with as well.

Since the attack on the Ashland

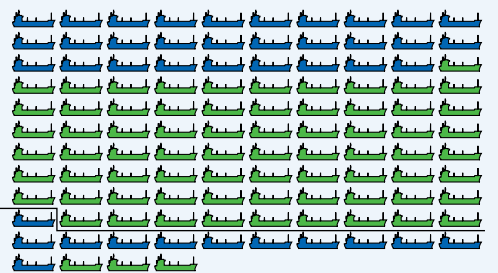
Troubled waters

Attacks on ships in the first half of 2010, by region

Boarding or hijacking
Failed attack

AFRICA: 114

EAST: Gulf of Aden, Red Sea, Somalia, Tanzania



WEST: Cameroon, Congo, Republic of Congo, Guinea, Ivory Coast, Liberia, Nigeria

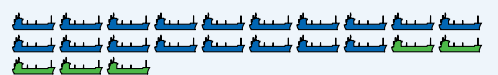
SOUTHEAST ASIA: 30

Indonesia, Malacca Straits, Malaysia, Philippines, Singapore Straits, Thailand



FAR EAST: 23

China, Vietnam



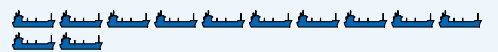
AMERICAS: 15

Colombia, Ecuador, Guyana, Haiti, Peru, Venezuela



INDIAN SUB-CONTINENT: 12

Bangladesh, India



ARABIAN SEA: 2



Source: ICC International Maritime Bureau

Captain Edward Teach (1680-1718), otherwise known as Blackbeard. Bottom left, some of the alleged pirates currently on trial are led into the Federal courthouse in Norfolk, Va., during indictment proceedings in April.

failed, it wasn't piracy, the defense argues, and, therefore, the most serious charge should be dropped.

But the prosecutors, too, have probed early sources and have leaned heavily on a 1934 ruling by Britain's Privy Council, which pondered the case of a similarly failed attack at sea, near Hong Kong. In that case, the jury found the defendants guilty, but said its verdict was subject to the question of whether it is really piracy if no actual robbery occurs. The court in Hong Kong said it isn't and acquitted the attackers.

The Privy Council members, however, ultimately reached a different conclusion. "Actual robbery is not an essential element in the crime of piracy," they said; "A frustrated attempt to commit piratical robbery is equally piracy."

They added, with more than a hint of exasperation: "Their Lordships are almost tempted to say that a little common sense is a valuable quality in the interpretation of international law."

Piracy's golden age may have passed two centuries ago, but it remains a scourge in places like the Strait of Malacca in Indonesia and Malaysia, off the coast of Nigeria, and off the east coast of Africa, where the disintegration of Somalia has led to a major resurgence. The first half of 2010 saw about 200 raids and unsuccessful attacks on ships, the bulk of them off Somalia. An estimated 18 ships and their crews are being held for ransom.

To fight the problem, the U.S. and the United Nations are counting on prosecuting pirates. Some U.N. officials would like to have an international tribunal. In the meantime, the U.S. and other countries have helped Kenya, the closest stable country to the source, to put scores of pirates on trial. But Kenyan law is cumbersome, requiring witnesses to testify on three separate occasions, a tough order logistically for merchant sailors. The European Union is

now trying to jump-start Kenya's pirate prosecutions—the first sentence will come later this month—but progress is slow.

As a result, attackers captured by European warships in the Indian Ocean often are let go for lack of any real legal recourse. That leaves courtrooms like the one in Norfolk as among the best hopes for bringing pirates to justice and deterring future ones. But even seemingly clear-cut cases don't necessarily pass muster in court.

After a celebrated incident in April 2009, when U.S. Navy Seals snipers killed three Somali men holding an American captain hostage on a small boat after a raid, rescuing him, the lone Somali survivor of that attack on the Maersk Alabama pleaded guilty to lesser charges in New York, not to piracy. Indeed, the last U.S. piracy conviction was in 1861.

Now the court in Norfolk must contend with a motion to dismiss the piracy charge, which would leaving only such lesser charges as attempted plunder.

The prosecution argues that U.S. courts should defer to international law, especially an 1982 U.N. Law of the Sea treaty the U.S. never ratified. Aping the 1958 Geneva Convention, it offers a definition of piracy as any illegal acts of violence, detention or depredation committed for private ends on the high seas.

Defense lawyers balk at that suggestion. "We do not interpret U.S. law based on U.N. resolutions, but rather what Congress meant at the time," says the public defender, Mr. Kamens.

Judge Jackson is expected to rule soon.

WSJ.com

ONLINE TODAY: To view an interactive graphic mapping history's pirates, visit online.wsj.com.

EUROPE NEWS

EU's budget plan draws fire

By CHARLES FORELLE

BRUSSELS—In recent years, the European Union's budget has climbed steadily upward. For 2011, the European Commission, the bloc's executive arm, wants another, modest increase. It is likely to be disappointed.

The 27 countries that make up the EU, which are themselves on tough fiscal diets prescribed by the commission, are insisting that Brussels swallow its own medicine. Last week, they demanded that a proposed €142.6 billion (\$181.8 billion) budget shave off some €800 million, reserving some of their deepest cuts for the cost of operating the commission and the other EU institutions.

In many capitals, there is lingering resentment that pay and benefits for the EU's civil servants tick higher and the EU's scope continues to expand, even as Brussels—in its role as the bloc's economic-policy enforcer—chides countries for their own deficits.

U.K. Prime Minister David Cameron, in a news conference last week with his Danish counterpart, Lars Lokke Rasmussen, also no fan of an expensive EU, said it would be important in coming negotiations that “we both argue to make sure that the European budget over time is reduced rather than increased.”

The sharp words presage a testy September, when Europe's political apparatus returns from languid holidays and dives into the budgeting season. The commission has already sued the European Council—the body that represents the 27 governments—for slicing in half a 3.7% pay increase to civil servants that was supposed to take effect last year.

There are also likely to be fights over the cost of the European External Action Service—the EU's new diplomatic corps—which isn't budgeted at all, though it is expected to be up and running next year. Officials say the body will draw staff from other parts of the EU, and from national governments, but the commission allows that it “may not be entirely budgetary neutral.”

For its part, the commission says the EU has grown in scope, and thus needs more funding to keep up with its demands. Many of its expenses stem from multiyear programs. A spokesman points out that the commission has a “zero-growth” policy in place for its own staff.

The EU's budget is a complicated beast. About a quarter of its expenditures are financed by customs duties and sales taxes collected by



Reuters

EU flags outside the European Commission headquarters in Brussels.

countries. The rest is directly filled in by national governments, more or less in proportion to their economic size. (To make things more complicated, the U.K. gets a special “rebate” of about €4 billion this year.)

For years, the commission has floated ideas that would bring more money directly to Brussels. They rarely get off the ground. In a newspaper interview last week, Budget Commissioner Janusz Lewandowski suggested—as he had before—that taxes on aviation or financial transactions could be used to fund the EU and reduce countries' contributions. It drew swift scorn from London and Berlin.

Nearly half of the cash that is collected by Brussels goes right back out as agriculture subsidies and other payments to farmers and landowners.

The rest is spent on subsidy programs for poorer EU countries.

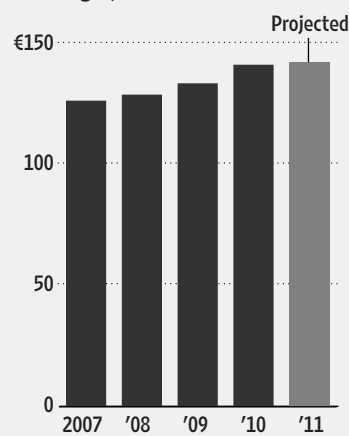
Much attention is focused on a relatively small piece of the budget—the roughly €8 billion in administrative costs to run the EU's institutions and agencies. The commission asked for €8.3 billion for 2011, a rise of 4.4%. The European Council last week cut that down to €8.1 billion, or a 2.5% increase. The red pen struck particularly on the commission's own budget.

Under procedures being used for

The price of Europe

Countries contribute to the EU's expenses roughly in proportion to their economic heft. Over the years, the EU's budget has ticked up steadily.

EU budget, in billions



Note: Country figures represent cash payments into the budget; aggregate annual figures represent commitments for expenditures, as originally adopted. Source: European Commission

Top country contributors for 2010, in billions

Germany	€23.73
France	20.33
Italy	16.21
U.K.	13.21
Spain	11.34
Netherlands	6.11
Belgium	4.88
Poland	3.21
Sweden	2.77
Austria	2.66
Denmark	2.64
Greece	2.62
Finland	1.91
Portugal	1.66
Ireland	1.52

the first time this year, the European Parliament will this fall make its own adjustments to the commission's proposed budget. The parliament's numbers then must be reconciled with the figures approved last

week by the European Council.

The parliament is likely to want more spending than the council. It will be a tough fight: Some countries aren't happy even with the council's lowered numbers.

Blair plans to donate book funds to troops

Associated Press

LONDON—Tony Blair, who took Britain to war in Iraq and Afghanistan, is donating millions in earnings from his coming memoir to a charity for injured troops.

The Royal British Legion said Monday that the former prime minister agreed to give all proceeds from “A Journey” to its Battle Back Challenge Center. The center opens in 2012 and will provide state of the art sports facilities and rehabilitation services for seriously wounded personnel.

Publisher Random House paid an estimated \$7.5 million for Mr. Blair's personal account of his time in power, due to be published next month.

Mr. Blair's spokesman Matthew Doyle said Monday that Mr. Blair's donation includes the advance and all royalties.

Chris Simpkins, director-general of the Royal British Legion, said the organization “is delighted to accept this very generous donation.”

Mr. Blair, 57 years old, stepped down in June 2007 after a decade that included a historic peace accord in Northern Ireland, a deeply unpopular war in Iraq and a continuing conflict in Afghanistan.

He remains a controversial figure. Families of some of the hundreds of British troops killed in Iraq and Afghanistan have criticized Mr. Blair for earning millions from the book and public speaking since leaving office.

Antiwar activists say they will protest during Mr. Blair's book signing at a large bookstore in central London on Sept. 8, and security will be tight. Customers have been told they can't take their mobile phones into the venue and no one is allowed to take photographs of Mr. Blair.

Mr. Blair has been at the center of numerous books, notably “The Blair Years,” by former press secretary Alastair Campbell, and the recently published memoir “The Third Man,” by Labour Party insider Peter Mandelson.

He was also the inspiration for the former prime minister dogged by allegations of war crimes in Robert Harris' thriller “The Ghost,” which was turned into a film by Roman Polanski.

Wariness returns to European bond markets

Continued from first page starting to buy euro-zone government bonds in a bid to prop up the market. The ECB's purchases have declined from more than €16 billion in the first week of its program to about €10 billion last week.

While the euro has slipped again against the U.S. dollar, its declines haven't been as violent as when Europe's debt woes flared up in the spring.

Last week, Greece reported that it slipped even deeper into recession in the second quarter. Spain and Italy barely eked out a positive economic growth reading. But Germany, Europe's biggest economy, expanded

at a sharp 2.2% clip from the first quarter, the fastest pace since reunification in 1990.

Ireland has been under particular pressure in recent days. Ireland's deficit is equivalent to well over 14% of its gross domestic product—the euro zone's biggest—and is likely to widen given its additional banking bailouts.

“As global risk increases, [Europe's] periphery gets hit, and Ireland has been hit harder than the other countries because of the banking issues,” said Brian Devine, an economist at NCB Stockbrokers in Dublin.

On Monday, Ireland's credit-in-

surance costs hit their highest level since March 2009 despite comments by Irish central bank chief Patrick Honohan that the bailout costs were a “manageable sum.” It now costs about \$305,000 a year to insure \$10 million of Ireland's government bonds against default for five years compared with less than \$200,000 in early August.

Ireland now also pays an interest rate of 5.43% to borrow cash for 10 years, a premium of 3.1 percentage points over Germany's borrowing rate.

Some observers said the recent weakness has less to do with new problems than with the performance

of Germany's bonds.

As worries about the strength of the global economy have deepened, investors have retreated from stocks and piled into safe havens such as U.S. Treasuries, British government bonds and German bonds, pushing up their prices and sending the yield on the 10-year German bond to a paltry 2.33%.

“Germany is making everyone else look worse, especially the peripherals,” said Scott MacDonald, head of research at brokerage and money-manager Aladdin Capital in Stamford, Conn.

—Mark Brown
contributed to this article.



European Pressphoto Agency

Former U.K. Prime Minister Tony Blair

EUROPE NEWS

Russia tussles over putting out fires

Plan to flood peat bogs would meet opposition from dacha dwellers; solution may involve adding water to canals

BY RICHARD BOUDREAUX

SHATURA, Russia—The noxious smoke that has smothered Russia's capital for much of this summer billows from dried-up peat bogs like the one under a hamlet known as Settlement 17. It consists of two log cabins.

Hardly a flame is visible. Yet firefighters have spent days battling a stubborn subterranean blaze, crisscrossing the 10-hectare field with hoses and blasting away as plumes of smoke rise from the blackened surface. Tamed in one spot, the menace spreads below ground and emerges hundreds of feet away.

Russian officials say the only sure way to stop the peat fires is to flood the land, restoring its natural swampy state. Prime Minister Vladimir Putin has indicated support for such an approach, but there is one obstacle: Those tinderbox patches on Moscow's eastern edge are home to about half a million people in 10,000 scattered dacha communities. Few of them care to leave.

"We have no moral right to flood them out," said Andrei Keller, chief of the Shatura district administration, 124 kilometers east of Moscow. "We'll find other ways to control the fires."

As Russia endures a summer of record heat, forest fires and crop failures, its leaders have cast blame on natural forces. The peat fires, on the other hand, are the legacy of decades of misguided management of vast tracts of countryside, scientists and historians say.

Starting in 1918, Soviet engineers drained the swamps to supply peat for electric power plants. Four decades later, the plants began replacing peat with newly discovered natural gas from Siberia. As the peat-mining industry died out, no one bothered to reflood the bogs.

Then, in the mid-1980s, the Soviet authorities gave away parts of the desiccated land, near Moscow and other cities, to thousands of urban dwellers so they could build weekend cottages. They have clung to their dachas even as peat fires have broken out each summer, usually sparked by careless smokers and campers. Fires near Moscow in 2002 and this year were particularly intense.

"We are now paying the price for a barbaric attitude toward nature," said Ivan Sudnitsyn, a biologist and member of Russia's Academy of Natural Sciences.

Peat bogs are compressed layers of rotting vegetation formed over tens of thousands of years. In Shatura, some are as deep as seven meters. When ignited, they burn more slowly than a typical forest fire but consume as much as 10 times as much biological mass per acre, give off a lot more smoke and are harder to extinguish. All countries with peat, including the U.S. and Canada, have such fires, but many of them smolder in remote areas, drawing little public attention or outcry.

Driven by strong easterly winds, smoke from peat fires has wreaked havoc on Moscow this summer, prodding officials to revive an unfulfilled plan drafted after the 2002 fires to reflood the peat mines.

Because a peat fire generates less heat than a surface fire, the smoke stays near the ground. In



Yuri Kosyrev/Noor for The Wall Street Journal (2)

Moscow, peat smoke has delayed flights at airports, shrouded Red Square and other landmarks in a milky-white haze and seeped into homes and offices, slowing economic activity and jeopardizing the health of millions.

Russia's wildfires shrank further in area Monday, as forecasters promised cooler weather for Moscow after record temperatures in recent weeks.

On Sunday, northerly winds that had cleared Moscow's air late last week shifted again, bringing the smoke back and driving the concentration of air contaminants to five times the normal level. "There are a lot of really nasty things that are given off when peat is burned—carbon monoxide, sulfates, nitrous oxide," said Lisa Curran, a Stanford University professor of environment and anthropology who studies peat fires. "They cause respiratory problems and burning eyes when smoke is in the air."

The peat-fire smoke that had covered Moscow mostly cleared Monday.

The Moscow region has 200,000 hectares of peat bogs, 60,000 of which were drained, harvested and abandoned, according to Torfgeologiya, a geological research enterprise. Russia's Emergency Situations Ministry has recorded 482 peat fires this summer on 523 hectares of dried-out bogs within 160 kilometers east of the capital.

Here in Shatura, firefighters were battling two peat fires, the one at Settlement 17 and one at the edge of a larger dacha community, Rosinka 3. One group poked needlelike nozzles deep into the ground and pumped in water. Another separated into several two-man teams and sprayed high-powered jets at scattered plumes of smoke.

Residents of both communities had been evacuated safely, except for a few who remained at Rosinka 3 to help firefighters defend the settlement's dozens of dachas. None of the dachas burned. But the fires have put the communities' survival in question.

The revived flooding plan, subject to federal approval, calls for

Civil defense students help in the effort to extinguish fires on peat bogs near the town of Shatura, 120 kilometers southeast of Moscow, last week.

\$670 million in spending over the next three years. Officials haven't specified which inhabited areas, if any, would be evacuated and put under water.

Any evacuation order would likely meet resistance here. Like denizens of Louisiana's coastal wetlands who cling to their homes through seasons of hurricanes, the dacha owners of Rosinka 3 are a defiant lot.

"Sure these fires are dangerous, but this is our land and we love it," said Alexander Pavlov, a 54-year-old transport-company worker from Moscow, lighting a cigarette in the foul air as firefighters worked a patch near his dacha. "If they want to flood the land, let them build a lake over there, away from our homes," he said, pointing to a smoky forest clearing. "We could stock it with fish."

Environmentalists are divided on the extent of flooding needed. Evgeny Sharts, World Wildlife-Russia's director of conservation policy, advocates a full evacuation of the old peat mines.

"We're talking mainly about people who are not very wealthy and who have small dachas in marginal areas," he said. "We need to spend money to give new land to these people. Otherwise, we'll face the same high risks of new fires each summer."

But Tatyana Minaeva, Russian coordinator of the Dutch-based Wetland International Program, said the plan could be engineered to flood as much land as possible without uprooting people. That's the approach favored by Mr. Keller, the top elected official for the Shatura district's 160,000 people.

In an interview, he said it is

more important to raise the water level in the extensive network of canals that were dug decades ago to drain the bogs into a river. More water in the canals would enable authorities to wet down the old mines more frequently and fight fires when they erupt.

To achieve this, he said, local authorities need money from Moscow to replace dam-like barriers that were stolen from the canals as they fell into disuse over the years. "We need to keep as much water on the

Plans to flood the areas have met resistance. 'Sure these fires are dangerous, but this is our land and we love it,' said a resident of a threatened dacha.

territory as we can, so that we'll be able to use it effectively next spring when the peat gets dry and the fires start again," he said. "But we don't want to turn Shatura back into a swamp."

Separately, the agricultural research firm SovEcon on Monday said Russia's grain harvest may slip below 60 million metric tons in 2010 amid the heat and drought. It cut its grain-output forecast to between 59.5 million and 63.5 million tons, from between 70 million and 75 million tons earlier. The firm also said Russia's barley harvest may fall to between 8.7 million tons and 9.3 million tons, the smallest harvest in 40 years.

—William Mauldin
contributed to this article.

U.S. NEWS



Getty Images

Defense Secretary Robert Gates, who presided over the troop surge in Iraq, spoke to soldiers in Kirkuk, Iraq, in December.

U.S. Defense chief plans to step down next year

BY SIOBHAN GORMAN
AND ADAM ENTOUS

WASHINGTON—Defense Secretary Robert Gates plans to step down next year, Pentagon officials said Monday, a move that would take away a powerful voice on U.S. policy on Afghanistan and cast doubt on recently announced plans to cut the Pentagon budget.

By broadcasting his intentions well in advance, Mr. Gates is giving the Obama administration considerable time to find a successor prior to the 2012 presidential election.

Pentagon officials cautioned, however, that Mr. Gates's comments, in an interview with Foreign Policy magazine released Monday, didn't amount to an official retirement announcement. "This is not Bob Gates announcing his retirement," said Pentagon spokesman Geoff Morrell. "This is the secretary musing aloud about when it makes sense for him to bow out to make sure there is

enough time on the clock for his successor to be effective."

As the only member of President George W. Bush's administration serving in President Barack Obama's cabinet, Mr. Gates has long been expected to step down during Mr. Obama's first term.

The announcement provides the most specific time frame to date for Mr. Gates's departure. However, Mr. Gates has spoken publicly in the past about leaving, and Mr. Obama persuaded him to stay on into 2011.

It is also unclear if Mr. Gates will leave as soon as next year if Mr. Obama asks him to extend his tenure.

"Bob Gates has been a failure at retirement, and it remains to be seen if 2011 will be any different, because every time he has seriously contemplated leaving, his sense of duty and responsibility has trumped his desire to return home," Mr. Morrell said.

With a yearlong window set for his departure, it's not clear whether Mr. Gates will stay until the U.S. is

scheduled to begin the drawdown of troops in Afghanistan in July.

He recently embarked on a sweeping set of cost-cutting measures in anticipation of tighter budgets in future years. Those plans, which seek to squeeze \$100 billion out of the budget over five years and include eliminating a combatant command, have already come under fire from lawmakers, so it's unclear whether those cuts will truly take hold once he leaves.

Mr. Gates, 66 years old and a former director of the Central Intelligence Agency, was called back into government service by then-President Bush in 2006 to succeed then-Secretary Donald Rumsfeld and turn around the war in Iraq.

He presided over the surge of troops in Iraq that has been credited, in part, with turning the tide there.

The U.S. is scheduled by the end of the month to draw down its forces to 50,000 troops.

Concerns about economy feed impulse to look inward

[Capital Journal]

By GERALD F. SEIB



Economic stress has a way of bringing underlying tensions and suppressed emotions to the surface, for people and nations alike. That's certainly true for the U.S., where economic anxiety tends to bubble up in three related forms: isolationism, protectionism and anti-immigration sentiment.

Sure enough, as if on cue, whiffs of all three are in the air this summer, a natural byproduct of a long-slumping economy showing precious few signs of bouncing back to full health. The real question isn't why these feelings are in the air—that's obvious enough—but which leaders in both political parties will push back against them, in this fall's campaign and beyond.

The most obvious example is the capital's newly revived debate over immigration. That debate has just taken a strange new twist in the form of calls to modify the provision of the Constitution's 14th Amendment that guarantees citizenship to children—including babies of illegal immigrants—born on American soil.

The Senate's Republican leaders have called for hearings to explore changing the way the amendment is implemented to block citizenship for offspring of illegal aliens—a call that got a rocket boost last week from a report by the Pew Hispanic Center saying that one in 12 babies in the U.S. are born to illegal immigrants.

The push may be coming mostly from Republicans, but it has a strange bipartisan twist. It turns out that the Senate's top Democrat, Majority Leader Harry Reid, back in 1993 sponsored a bill that also included a provision to block citizenship for children of illegal immigrants. Sen. Reid later called the bill a mistake and profusely apologized for offering it. Now, locked in a tough re-election campaign in which he badly needs Hispanic votes in his home state of Nevada, he's chiding Republicans for advancing an idea he once proposed.

If that debate is a sign of a certain nativist emotion bubbling to the surface, the related impulse to withdraw inside America's borders isn't far behind. On both the liberal left and the libertarian right, for example, the calls to simply vacate Iraq and Afghanistan are rising.

Beyond that, Rep. Barney Frank, chairman of the House Financial Services Committee, has tied the slumping economy directly to a desire to withdraw troops elsewhere as a way to save money.

"I don't see why we need troops in Okinawa, why we need troops in Germany, why we need troops in Italy," Rep. Frank said in a recent interview on National Public Radio. "And people have said to me, well...that's what you do with allies, you have troops in

their country. Well, if that's the case, where are the Belgian troops in Arizona? Where are the French troops in South Dakota?"

In fact, the impulses to withdraw troops and to stop illegal immigration are merging neatly right now, as some call for bringing troops home to station them instead along the U.S.-Mexico border.

Of course, simply calling for drawing down troops abroad doesn't amount to isolationism. But one of the reasons Defense Secretary Robert Gates is pushing so hard to find other ways to cut the defense budget is to prevent economic stress from translating directly into a broad reduction in America's global troop structure.

Meanwhile, the rise of economic protectionism is more subtle.

"I do think hard economic times bring out tendencies toward economic isolationism, which manifests itself in both active or passive protectionism," says Robert Kimmitt, a veteran of international economic policy making who served as deputy Treasury secretary under President George W. Bush. "And that protectionism extends to both trade and investment."

The real question isn't why these feelings are in the air, but which leaders in both political parties will push back against them, in this fall's campaign and beyond.

Mr. Kimmitt says he sees some signs of active protectionism in a "Buy American" movement now taking shape in Washington, and passive protectionism in the lack of movement on free-trade treaties pending with South Korea, Panama and Colombia.

Less obvious but perhaps more worrisome is the impulse to restrict the flow of investment back and forth across America's borders. Signs of that impulse are popping up in calls to use tax penalties to restrict overseas investments by American firms, in the name of a politically appealing effort to stop the export of American jobs.

Some bipartisan moves are afoot to keep such emotions—natural enough at a time like this—under control. A bill President Barack Obama signed into law last week to toughen border security actually may help soothe passions; better border security can head off some uglier forms of anti-immigration sentiment.

But the most encouraging move is President Obama's recent pledge to complete the long-languishing free-trade deal pending with South Korea. Of course, saying that and actually doing it, in the face of union opposition, are two different things. The real test comes in the next few months.

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

Bank lending begins to ease

BY LUCA DI LEO
AND MEENA THIRUVENGADAM

U.S. bank lending conditions began to ease in the second quarter, the Federal Reserve said in a report published Monday, providing some

hope for an economic recovery that appears to be losing momentum.

For the first time since the end of 2006, the Fed's quarterly Senior Loan Officer Survey found some easing of standards on commercial and industrial loans to small companies.

Separately, an industry measure of U.S. home builder confidence continued to stagnate in August, as economic uncertainty kept buyers at bay despite low mortgage rates.

The Fed survey, based on responses from 57 domestic banks and 23 U.S. branches of foreign banks, found the improvement was focused at big U.S. banks—which had been keeping credit very tight following the financial crisis—mainly as a result of competitive pressures.

"While the survey results suggest that lending conditions are beginning to ease, the improvement to date has been concentrated at large domestic banks," the U.S. central bank said.

Lending in financial markets nearly came to a standstill following the collapse of Lehman Brothers in September 2008, forcing the Fed to step in by flooding the financial system with cash by buying government debt and mortgage-backed securities. Despite the huge reserves accumulated by banks, credit has remained tight amid weak demand by households and firms facing an uncertain economic outlook. The U.S. economy slowed sharply in the second quarter from the first quarter.

The National Association of Home Builders on Monday said its housing-market index, which measures builders' attitudes toward sales prospects for single-family homes, fell to 13 in August. The reading is down from 14 in July and the lowest since March 2009. A reading above 50 indicates more builders view sales conditions positively than see them negatively.

—Tom Barkley
contributed to this article.

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U.S. NEWS

Obama mosque remarks reverberate

By VICTORIA McGRANE
AND SIOBHAN GORMAN

President Barack Obama's remarks supporting the right to build a mosque near the site of the World Trade Center in New York have reverberated across the country, the most prominent in a series of debates springing up where Muslim groups have sought to build mosques.

In the community of Temecula, Calif., where a proposed mosque has sparked an intense dispute, Mr. Obama's comments spurred a surge of letters to local newspapers decrying his statements. Pastor William Rensch of Calvary Baptist Church, next door to the proposed mosque site, said he now expected opposition to the mosque plan to harden.

"It will galvanize their desire for resistance to the mosque," he said. "It confirms in their minds the idea that Mr. Obama seems to be more accommodating to the Islamic world than he is for the Christian representation in America."

Mr. Rensch said initially he opposed the new mosque next door because he thought such a large structure on two acres would tower over the church. But since he has begun reading more commentary from American Islamic leaders, he said, he has grown concerned about extremist statements such as one imam declaring Islam the "dominant" religion.

At a dinner Friday celebrating the start of the Islamic holy month of Ramadan, Mr. Obama said Muslims have a right, as a matter of religious freedom, to build a religious center near Ground Zero. On Saturday, during a visit to the Gulf Coast, the president told reporters, "I was not commenting and I will not comment on the wisdom of making the decision to put a mosque" near Ground Zero. "I was commenting very specifically on the right people have that dates back to our founding."

Backers of local mosque projects welcomed Mr. Obama's comments, but some said he needed to be more forceful in his support for Muslims to build houses of worship.

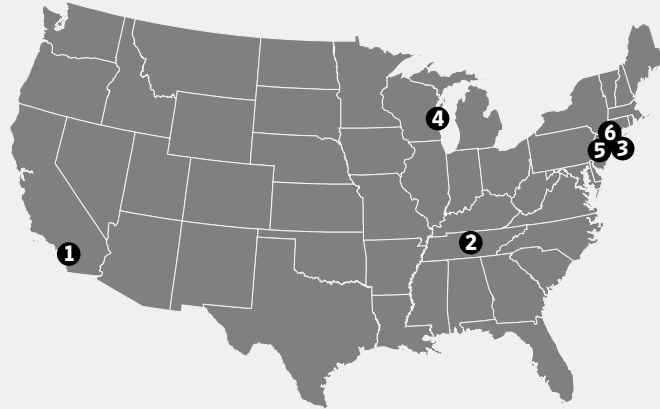
"He should be more firm about it," said Hadi Nael, chairman of the Islamic Center of Temecula Valley, which is seeking permission to build the new center there. "I know it's political stuff, but he should assure the Muslim community they have the right to build over there." Still, the weight of the president's words in support of freedom of religion bolster the Islamic Center's efforts, Mr. Nael said. "It will help the case," he said.

The center plans to build a 25,000-square-foot mosque in conservative Riverside County outside of Los Angeles. Opponents have said it will draw extremists and traffic. Plans for a public hearing this month were postponed until November to perform a traffic study.

In Tennessee, where the growing Muslim community wants to build a larger mosque in Murfreesboro, Darrel Whaley of nearby Milton said the president's remarks angered him. A local pastor at Kingdom Ministries Worship Center, Mr. Whaley has spoken at county meetings against plans for the mosque and recreational facilities.

Asked how the president's comments might influence the local debate over the Islamic center, Mr. Whaley said Mr. Obama "didn't help it any, that's for sure." Mr. Whaley

Mosque disputes around the U.S.



1 Temecula, Calif. ▲
Local officials will consider in November plans by the Islamic Center of Temecula Valley for a 25,000-square-foot mosque.

2 Murfreesboro, Tenn. ►

The Islamic Center of Murfreesboro plans to build a new mosque and school.

3 Brooklyn, N.Y.

The Muslim American Society plans a four-story mosque and community center in Sheepshead Bay.

4 Sheboygan, Wis.

A town board in rural Sheboygan County approved plans in May for the Islamic Society of Sheboygan to convert a former health-food store into a mosque.

5 Staten Island, N.Y.

The Muslim American Society plans to convert a former Catholic convent into a mosque and community center in Midland Beach.

6 New York, N.Y. ►

New York City's Landmarks Preservation Commission cleared the way for a mosque and Islamic community center near Ground Zero.



Photo credits: Reuters (1); Associated Press (2,6)

said he was concerned that "if Islam comes in with the Sharia law, there's not going to be any such thing as religious freedom."

Recently approved plans to establish a mosque in Sheboygan County, Wis., have also stirred intense feelings. Imam Mohammad Hamad, president of the Islamic Society of Sheboygan, said he appreciated Mr. Obama's emphasis on religious freedom. "The issue here is not the issue of a religious building, it is an issue of the Constitution," he said.

Another Sheboygan mosque supporter, the Rev. Gregory S. Whelton, a pastor at St. John's United Church of Christ in Sheboygan, said Mr. Obama articulated the same issues of religious tolerance that were at stake there.

"It falls right in with the middle of our debate," he said, adding that the local debate centered on religious tolerance and opponents' concerns that the mosque would attract extremists, a notion Rev. Whelton called "really funny."

While he believes Muslims have a right to construct mosques anywhere, the mosque near Ground Zero in New York is different because of the circumstances of the Sept. 11, 2001, terrorist attacks, he said. "To do it in light of what has happened," he said, "I'm not sure I would agree with that. But as far as their right to do it, absolutely."

A number of Republicans quickly folded the president's remarks into their election-year narrative that Mr. Obama, a former constitutional scholar, is out of touch with the American citizenry. Rep. Kevin McCarthy of California called the president "insensitive" to Americans' feelings on the issue. "Why isn't the president spending the time debating about jobs instead of moving into New York" local issues, he asked on CNN's "State of the Union" Sunday.

Mr. Obama's remarks quickly energized local opponents of the proposed mosque. Gary Berntsen, a New York Republican Senate candidate, fired off a statement Friday criticizing the president's comments. In an interview Sunday, Mr.

Berntsen, a former senior Central Intelligence Agency officer who served in Afghanistan, said a mosque near Ground Zero would become a national security risk.

"He missed the point that people

found this offensive because it's very, very close to Ground Zero," he said. "That mosque will become a magnet for militants."

Conservative blogger Pamela Geller, founder of a group called

Stop Islamization of America and a vocal opponent of the mosque near Ground Zero, blasted Mr. Obama in a statement. The president, she said, "has, in effect, sided with the Islamic jihadists."

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WORLD NEWS

India no longer top threat: Pakistan

Pakistan's main spy agency says homegrown Islamist militants have overtaken the Indian army as the greatest threat to national security, a finding with potential ramifications for relations between the two rival South Asian nations and for the U.S.-led war in Afghanistan.

By Tom Wright in Islamabad and Siobhan Gorman in Washington

A recent internal assessment of security by the Inter-Services Intelligence, Pakistan's powerful military spy agency, determined that for the first time in 63 years it expects a majority of threats to come from Islamist militants, according to a senior ISI officer.

The assessment, a regular review of national security, allocates a two-thirds likelihood of a major threat to the state coming from militants rather than from India or elsewhere. It is the first time since the two countries gained independence from Britain in 1947 that India hasn't been viewed as the top threat. Decades into one of the most bitter neighborly rivalries in modern history, both countries maintain huge troop deployments along their Himalayan border.

"It's earth shattering. That's a remarkable change" said Bruce Hoffman, a counterterrorism specialist and professor at Georgetown University. "It's yet another ratcheting up of the Pakistanis' recognition of not only their own internal problems but cooperation in the war on terrorism."

It remains unclear whether the assessment of the ISI—a group that is largely staffed by active military officers and enjoys wide-ranging powers—is fully endorsed by Pakistan's military and civilian government. The report's impact on troop positioning and Pakistan's war against militants remains to be seen.

The assessment reflects the thinking in the mainstream of the ISI. But U.S. officials worry that elements Pakistan's military establishment, which they say includes retired ISI officers, continues to lend support to militant factions that shelter in Pakistan's tribal regions, an effort these people say is aimed at building influence in Afghanistan once the U.S. pulls out.

The U.S., which gives between \$1.5 billion and \$2 billion in military aid to Pakistan annually, is particularly concerned about one of these groups, the Haqqani network. U.S. military officials recently stopped asking the Pakistanis to take action against the group, which has strong ties to al Qaeda, because they concluded pressuring the Pakistanis on the issue wasn't working.

Gen. Athar Abbas, the chief Pakistan military spokesman, said he hadn't seen the ISI report. He said India remained a threat but confirmed that it is the ISI's role to draw up security assessments.

A spokesman for India's Ministry of External Affairs didn't return calls seeking comment. Over the weekend, Indian Prime Minister Manmohan Singh urged Pakistan to crack down on militants. "If this is not done, we cannot progress far in our dialogue with Pakistan," Mr. Singh said.

Pakistan's admission that domestic militants are its No. 1 enemy could reinvigorate stalled peace talks with India.

"It's a good sign, but one has to wait and watch" whether it will lead



Pakistani and Indian officers shake hands at a quarterly coordination meeting at a border post between the neighboring countries earlier this month.

to sterner action by Pakistan against militants, says Naresh Chandra, a former Indian ambassador to the U.S. and chairman of the National Security Advisory Board, a panel of experts that advises the government on security policy.

The assessment has the potential to shift Pakistan's policy toward Afghanistan, which has been driven by the belief that India is seeking influence there in order to encircle its traditional enemy.

While the jostling for influence in Afghanistan between Pakistan and India isn't likely to diminish, the ISI's assessment could push Pakistan to take even stronger action against Pakistani and Afghan militants operating from the porous mountain region along the country's border with Afghanistan. Such action, U.S. officials have said, is a key to winning the Afghan war.

Hindu-majority India and largely Muslim Pakistan have fought three wars over territory since 1947. Both sides are nuclear armed and have historically regarded the other as a pre-eminent threat to security.

The U.S. has been playing a behind-the-scenes role to dial down tensions between the nations. Washington wants Pakistan to redeploy more troops from its eastern frontier with India and send them to Pakistan's western border regions, which Taliban militants use as a base for attacks on U.S. and North Atlantic Treaty Organization forces inside Afghanistan.

Peace talks began in 2004 but India pulled out in November 2008 after 10 Pakistani gunmen killed more than 160 people in an attack on Mumbai, India's financial capital. The sides started talking again in February but have so far made little progress amid Indian accusations that Pakistan hasn't done enough to clamp down on Mumbai attacks' perpetrators.

The significance of the ISI's assessment will hinge on exactly which militant groups it considers a threat, said Georgetown's Mr. Hoffman.

Stormy relations

India and Pakistan have been enemies for 63 years

■ **1947:** India and Pakistan are carved out of British India. Violence erupts, killing around 500,000, as Muslims move to Pakistan and Hindus and Sikhs to India.

■ **1947-48:** India and Pakistan fight the first of three wars over the disputed Himalayan region of Kashmir.

■ **1965:** Both sides again go to war over Kashmir.

■ **1971:** East Pakistan becomes Bangladesh after a short war with India. Some 80,000 Pakistani troops are taken prisoner by India.

■ **1980s:** Pakistan moves to achieve 'strategic depth' in Afghanistan to balance Indian

power by backing Islamist guerrillas fighting Soviet troops.

■ **1990s:** The Afghanistan war over, Pakistan continues to back Islamist militants that fight Indian troops in Kashmir.

■ **2001-02:** India and Pakistan, now nuclear-armed, almost go to war after an attack on the Indian Parliament by Pakistani gunmen.

■ **2004-08:** Both sides launch a peace dialogue, which is put on hold after 10 Pakistani gunmen kill at least 160 people in November 2008 in Mumbai.

■ **February 2010:** Peace talks restart.

Source: WSJ research

The Pakistan Taliban and its allies have unleashed a wave of suicide bombings across Pakistan, killing almost 7,000 civilians since 2003. These attacks have turned public sentiment against the Pakistani Taliban.

The U.S. has praised the military's war against the Pakistan Taliban, begun in earnest two years ago, which has led to the death of more than 2,000 Pakistani soldiers.

But Washington has been frustrated by Pakistan's failure to broaden the war to go after other al Qaeda-linked militant groups that use Pakistan's tribal regions to launch attacks on U.S. forces. Some U.S. officials believe the ISI continues to fund the Haqqani network, which doesn't attack Pakistani forces and could be useful allies in Afghanistan when the U.S. pulls troops out.

India says it believes the ISI retains ties with Lashkar-e-Taiba, which New Delhi blames for carrying out the Mumbai attacks.

The ISI, whose links with militant

groups dates to the U.S.-backed war against Soviet troops in Afghanistan in the 1980s, says it has now severed relations with groups including the Haqqanis and Lashkar-e-Taiba.

The ISI's new assessment is at odds with the projection of India inside Pakistan. Politicians and the media regularly hold up India as working to undermine Pakistan's interests in Afghanistan. Others believe India is stealing water from Pakistan by building dams on shared rivers. And many Pakistanis blame India for funding a separatist insurgency in Baluchistan province. India denies the charges.

A recent report by the Pew Research Center in Washington, D.C., found that 53% of Pakistanis polled considered India the biggest threat to national security versus 23% for the Taliban and 3% for al Qaeda.

Pakistan became especially focused on the threat from India after losing East Pakistan, now the independent nation of Bangladesh, after a war between the two nations in

1971. Some 80,000 Pakistani soldiers were taken prisoner by India and Pakistan lost half of its territory.

Although there has been no formal war since then, Pakistan trained and armed Islamist guerrillas—including militants from Lashkar-e-Taiba—in the 1990s to fight Indian troops in Kashmir, a Himalayan territory that was split between India and Pakistan in 1948 and is claimed in its entirety by both countries.

After the attacks of Sept. 11, 2001, the U.S. pressured Pakistan to ban Lashkar-e-Taiba and a number of other Islamist militant groups, leading to a drop in militant infiltrations into Indian-held Kashmir. But many of the Punjab-based militants continued to operate, finding shelter with Taliban fighters in the tribal areas.

Gen. Abbas, the military spokesman, says Pakistan plans to mount a campaign against the Haqqanis in North Waziristan, the group's mountainous base in the tribal regions. But the operation has been delayed as the Pakistan Taliban has recently staged a comeback in other tribal areas that the military had earlier secured, he added.

Pakistan has about 150,000 soldiers fighting on its western border, with an additional 100,000 in reserve to rotate with those troops, the senior ISI officer said. The country's remaining 350,000 soldiers are focused on the western border with India, including the disputed Himalayan territory of Kashmir.

"The direct threat from India has reduced considerably but that's not to say it's diminished entirely," the ISI officer said.

Obama administration officials have expressed fears Pakistan could move troops back to the Indian frontier if relations with India deteriorate. In April, Michèle Flournoy, under secretary of defense for policy, told the U.S. House Armed Services Committee that "Pakistan's strategic concerns about India remain pre-eminent" despite the redeployment of troops to fight militants.

WORLD NEWS



Associated Press

An Aires aircraft that originated in Bogotá was in pieces on the runway at the airport on San Andrés, a Colombian resort island, on Monday, following a crash during approach.

Airline crash off Colombia kills one

By DARCY CROWE

BOGOTA, Colombia—A Boeing 737 airliner crashed on landing at a Caribbean island belonging to Colombia on Monday. The plane broke apart, killing one of the 131 passengers aboard, authorities said.

The flight, operated by Colombia's Aires airline, ran into a lightning storm as it approached San Andrés, a Colombian resort island about 120 miles east of Nicaragua. The flight had left the capital, Bogotá, just after midnight and crashed 1 hour and 42 minutes later.

Pictures show the plane's fuselage split into three on the runway, with the front third of the plane coming to rest behind the last half.

Despite the dramatic scenes, the only fatality was listed as Amar Fernandez de Barreto, a 68-year-old woman whom officials say may have died of a heart attack from the incident. Colombian newspaper El Tiempo said three newborns survived the crash.

"We lament this tragedy ... but at the same time we give thanks to God because the accident could have been much worse," San Andrés Gov.

Pedro Gallardo was quoted as saying by El Tiempo. He called it "a miracle."

The pilot, identified by local television as Wilson Gutierrez, reported that the plane was struck by lightning just about 87 yards from the runway, according to Gen. Orlando Páez, of the National Police. He said the strike may have jarred loose one or both engines.

Transportation Minister Germán Cardona said "weather conditions were very difficult" at the time of landing, and that the first reports indicated that the accident was

caused by the lightning strike.

The low-cost airline, **Aerovías de Integración Regional SA**, is Colombia's second largest after flagship carrier Avianca. In its Twitter account, it said it was "working and investigating with the aeronautical authorities to determine the causes of what happened."

Gen. Páez praised the pilot for preventing a greater tragedy. "It was because of the pilot's ability that the plane didn't skid off the landing strip," he told a local radio station.

Some people suffered light burns

as they were sprayed by the jet's fuel in the crash, he added. One of the plane's engines caught fire but the airports' firefighters were able to quickly put it out, Gen. Páez said.

Heriberto Rua, who was traveling to San Andrés with his wife and five children, said the flight had been normal until the plane was about to land. "I felt that we were struck by something," Mr. Rua told a radio station.

Colombia's civil-aviation authority reported that 125 people were taken to local hospitals, with four of them suffering serious injuries.

Group issues Kyrgyz report

By RICHARD BOUDREAUX

MOSCOW—Government forces in Kyrgyzstan have arrested hundreds of ethnic Uzbeks and subjected many of them to torture in the course of an investigation into ethnic clashes in the Central Asian country two months ago, New York-based watchdog group Human Rights Watch said Monday.

A government spokesman, Farid Niyazov, wouldn't comment Monday on the allegations by Human Rights Watch but said the government welcomed its report and would cooperate with the group to help establish the facts about the unrest.

Rosa Otunbayeva, Kyrgyzstan's president, earlier this month acknowledged some abuses by her security forces in an interview with Agence France-Presse. The government has confirmed her remarks.

The 91-page report by Human Rights Watch focuses on the causes and consequences of the June violence that left at least 371 people dead in southern Kyrgyzstan and sent hundreds of thousands of ethnic Uzbeks fleeing their homes.

The former Soviet republic has been unsettled since a popular uprising in April ousted President Kurmanbek Bakiyev and brought to power a coalition led by Ms. Otunbayeva.

The violence has tested her grip on the military and security forces, especially those based in southern Kyrgyzstan, where Mr. Bakiyev's support was strongest.

The report says at least two ethnic Uzbeks had been killed during police raids on their neighborhoods and one in police custody. It said that although both ethnic Kyrgyz



Kyrgyz police in June conducted home searches in Osh, southern Kyrgyzstan.

and Uzbeks were involved in the June violence, the government probe is targeting mainly Uzbeks in 3,500 criminal cases.

"The investigation goes on with colossal violations, including massive arbitrary detentions of ethnic Uzbeks, unsanctioned searches, threats and frequent beatings," Human Rights Watch researcher Anna Neistat said at a Moscow news conference.

During and after the weeklong clashes in June, many witnesses reported seeing men in army uniform using armored vehicles clear away defensive roadblocks around Uzbek neighborhoods, allowing Kyrgyz mobs to enter and to loot and burn Uzbek homes.

Human Rights Watch devoted much of its report to documenting those reports, which were widely reported at the time by news organizations. It concluded that the armed forces abetted and may have taken active part in the June violence.

The organization said it had credible information about the torture of 60 people detained since the

unrest. One, a 20-year-old Uzbek man, died of head injuries in police custody, it said.

Other detainees interviewed by the group reported being suffocated with gas masks or plastic bags, burned with cigarettes and strangled with straps.

In an incident confirmed by Ms. Otunbayeva in her interview, the report said two unarmed Uzbeks were killed and 39 wounded in a retaliatory raid by Kyrgyz security forces on the village of Nariman, where a Kyrgyz police official had been killed during the clashes nine days earlier.

The report said ethnically motivated attacks have continued on a small scale over the summer and the authorities have done little to stop them.

The government has invited a 52-member delegation of police advisers representing the Organization for Security and Cooperation in Europe to help Kyrgyz police keep peace in advance of parliamentary elections in October.

The delegation is set to arrive in the coming weeks.

Iran plans new facility for enriched uranium

By CHIP CUMMINS

Iran unveiled a new law mandating the production of higher-enriched uranium and limiting future cooperation with an international nuclear watchdog, while Tehran's top nuclear official laid out plans for the country's next enrichment facility.

None of Monday's announcements were new initiatives, but they appeared to be orchestrated to rebut recent claims by U.S. officials and others that fresh international sanctions enacted to thwart Iran's nuclear ambitions may be weakening Tehran's resolve.

In recent weeks, the United Nations, the U.S., the European Union, Canada and Australia have all enacted fresh economic sanctions aimed at curtailing Iran's nuclear program. Iranian officials have repeatedly said the sanctions won't deter Tehran from pursuing a peaceful nuclear program and have said the measures aren't affecting Iran's economy significantly.

Iran this year started enriching its own stock of low-grade uranium to a much higher 20% threshold, a level needed for a medical-research reactor. The decision came after a proposed deal to enrich the fuel overseas under the auspices of the International Atomic Energy Agency fell apart.

The higher enrichment level is still far short of weapons grade. But the process makes it easier for Iran to enrich still further, raising alarms among Western and Arab officials who believe Iran is seeking to build

a nuclear weapon.

Iran has sent contradictory signals about its willingness to suspend its enrichment program as part of any new negotiations. Last month, Turkish officials said Iran had indicated it wouldn't need to enrich fuel to 20% if Tehran and the West agreed to a uranium swap championed by Turkey and Brazil. That raised some hope among diplomats that Iran was softening its position amid the new sanctions.

But on Monday, Iranian President Mahmoud Ahmadinejad signed legislation that appeared to rule out suspending the current enrichment program. The legislation called for increased government investment in nuclear technology and requires Iran to continue enriching uranium at the 20% level, according to Iran's state-run broadcaster.

State media said Parliament and the Guardian Council, a top policy body, had already approved the law. The new measures also limit cooperation with the IAEA to the minimal level needed to comply with Iran's obligations under the Nuclear Non-Proliferation Treaty. IAEA inspectors have long complained about a lack of cooperation from Iranian officials. An IAEA spokesman said the agency couldn't comment on the new law.

Separately, the head of Iran's Atomic Energy Organization, Ali Akbar Salehi, said Tehran will begin constructing its third enrichment plant by early 2011. Iran already has two publicly disclosed sites. Iranian officials have said in the past they intend to build 10 more.

WORLD NEWS

Karzai to ban foreign security firms

By MARIA ABI-HABIB

KABUL—Afghan President Hamid Karzai plans to issue a decree disbanding all private security companies within four months, his spokesman announced Monday, catching U.S.-led coalition officials by surprise.

The abrupt decision is likely to meet stiff resistance from coalition commanders who say the Afghan army and police are too weak to fill the security void that would be created by a sudden removal of some 30,000 armed contractors operating here.

NATO officials had planned to phase out security firms gradually. Mr. Karzai held recent meetings with Gen. Petraeus but didn't mention the four-month deadline.

In a speech earlier this month, Mr. Karzai lashed out at the Afghan and foreign security companies working in Afghanistan, accusing them of killing civilians and engaging in widespread graft.

Through a spokesman, Mr. Karzai said at the time he wanted the security companies closed "as soon as possible."

The outburst came amid worsening relations between Mr. Karzai and the international community following his decision to assert con-

trol over Western-backed anti-corruption task forces. These units had angered the Afghan president by arresting a senior aide.

North Atlantic Treaty Organization officials say they had planned to work with Mr. Karzai on gradually phasing out the security firms, which protect international installations, supply convoys and vital infrastructure.

Mr. Karzai didn't mention the four-month deadline to the coalition's commander, U.S. Gen. David Petraeus, in a recent meeting on the future of security companies, a senior NATO official said. The official added that NATO had spoken to the Afghan government only about ways to improve regulation.

Mr. Karzai's rush to confront the security contractors comes as violence has worsened throughout the country. July was the deadliest month for U.S. troops in the nine-year war, with 66 fatalities.

"It's no longer about regulating [security companies'] activities," Mr. Karzai's spokesman, Waheed Omar, said in a news conference Monday. "The government of Afghanistan believes these security companies have to go."

Mr. Omar gave Jan. 1, 2011, as the deadline for the firms to close. He said the presidential decree could be issued as soon as late Monday night or Tuesday.

Just hours before the announcement, NATO's head of private security contracting in Kabul, U.S. Army Brig. Gen. Margaret Boor, held a small roundtable talk with journalists. There, she said she supported



Hamid Karzai's decree would affect some 30,000 armed contractors. Above, a U.S. contractor at a Kandahar base in July.

Mr. Karzai's plan to shut down the security firms, but not right away.

"I'm not sure any of us know what a timeline will look like," Gen. Boor said. "It's conditions-based," she said, and dependent on when Afghan forces are ready to take charge of the country's security.

Mr. Karzai's railing against private security companies may be part of a wider backlash against Gen. Petraeus, NATO officials say.

Gen. Petraeus has been more vigorous than his predecessor, Gen. Stanley McChrystal, in pressing the Afghan government to stamp out corruption.

In response, Mr. Karzai has pointed to the security companies as a key source of corruption, challenging the international community to disclose its security contracts with these firms.

There are 52 licensed security

companies in Afghanistan but dozens more operating without licenses, according to NATO officials.

"We continue to support President Karzai's objective of eliminating the need for private security companies—but in a deliberate process that recognizes the scale and scope of the issue," U.S. Air Force Maj. Joel Harper, a coalition spokesman, said in response to Mr. Karzai's plans.

Floods raise risks of disease

By ZAHID HUSSAIN

ISLAMABAD, Pakistan—The United Nations warned Monday that 3.5 million Pakistani children were at risk from cholera and other diseases because of the slow and inadequate delivery of flood relief, as raging waters from the bloated Indus River marooned dozens more villages.

Hundreds of thousands of survivors are still cut off from rescue more than two weeks after the worst flooding yet seen in Pakistan hit the country, killing at least 1,500 people. Many survivors have been forced to drink contaminated drinking water, relief workers said.

The death toll could rise from disease and hunger if the aid effort isn't stepped up, the U.N. warned.

"Up to 3.5 million children are at high risk of deadly waterborne diseases including diarrhea-related diseases," said Maurizio Giuliano, a U.N. spokesman.

He put the total number of people, including adults, at risk from such diseases at six million. "What concerns us the most is water and health. There is a shortage of clean water," he added.

More than 20 million people have been affected by the flooding, which started in the country's mountainous north and expanded to the southern and western provinces of Sindh and Baluchistan.

According to the U.N., one-fifth of the country is now under water and some 900,000 people are homeless. Thousands of towns and villages have been washed away. Roads, buildings, bridges and crops have been lost.



Flood victims hold a rope as they flee flooded areas in Sindh province Monday.

While local charities and international agencies have helped hundreds of thousands of people with food, water, shelter and medical treatment, the scale of the disaster has meant millions have received little or no assistance.

"Communities desperately need clean water, latrines and hygiene supplies, but the resources currently available cover only a fraction of what is required," said Neva Khan, Oxfam's country director in Pakistan.

U.N. Secretary-General Ban Ki-moon flew to Pakistan over the weekend amid concerns about an inadequate international response to the U.N. emergency-aid appeal. Only

a quarter of the \$459 million aid needed for initial relief has arrived, according to the U.N.

Four U.S. Marine Corps CH-46 Sea Knight helicopters arrived Monday and U.S. Air Force C-130 cargo aircraft began transporting international aid within Pakistan as part of the continued American humanitarian assistance, a spokesman for the U.S. Embassy in Islamabad said.

The four helicopters are part of the contingent of 19 helicopters ordered to Pakistan last week by U.S. Secretary of Defense Robert Gates. To date, the U.S. has pledged to provide \$75 million in aid, the largest donation of any country.

Slower Japanese growth fuels doubts on recovery

By ANDREW MONAHAN

TOKYO—Japan's growth slowed sharply in the second quarter, coming in well short of expectations as stagnant consumption and flagging exports weighed on an economy already hobbled by deflation and a soaring yen.

The data add to widespread concerns that Japan's fragile recovery may be running out of steam as growth in key export markets also slows. The weak numbers come as China looks set to overtake its east Asian neighbor as the world's second-largest economy after the U.S. But they also come as Japan faces pressure to tame its massive public debt, making new government stimulus efforts unlikely for now.

The economy could face a critical test in coming months, analysts said, as existing shopping incentives and other stimulus programs expire, removing what has been a crucial crutch. Meanwhile, the strong yen could put further pressure on Japan's key exporters, which are less competitive in other markets when the currency rises.

Real gross domestic product rose 0.4% in annualized terms in the April-June period, the slowest pace in three quarters and down from a revised 4.4% increase in the January-March quarter, the Cabinet Office said Monday.

The result was much worse than the median forecast for 2.3% growth in a poll of 16 economists by Dow Jones Newswires. GDP grew 0.1% compared with the previous quarter.

Investors reacted by selling equities and buying safe-haven assets such as bonds. The Nikkei Stock Average closed down 0.6% at 9196.67 on Monday, while the yield on the benchmark 10-year Japanese government bond fell 3.5 basis points, or hundredths of a percentage point, during Asian trading to a seven-year low of 0.945%.

"The Japanese economy has already fallen into a lull," said Keisuke Tsumura, Cabinet Office parliamentary secretary for economic and fiscal policy. But Economy Minister Satoshi Arai sounded more upbeat, saying after the GDP results that "we don't need to move immediately based on the current situation."

While the economy is unlikely to fall back into recession, "how long and deep [it] will be in a lull is worrying," said Masatoshi Sato, a senior strategist at Mizuho Investors Securities.

The lull may heighten anxiety in Japan that it is ceding ground to China, which could displace Japan to become the world's second-biggest economy this year. Japan's nominal GDP dropped 0.9% on quarter, or an annualized 3.7%, to 118.538 trillion yen, or \$1.288 trillion. That was below China's nominal GDP of \$1.337 trillion in the quarter. The Cabinet Office said it used average exchange rates for the quarter of 92.01 yen and 6.823 yuan to the dollar for the dollar-based figures.

—Takashi Nakamichi,
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and Tomoyuki Tachikawa
contributed to this article.