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# THE WALL STREET JOURNAL.

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### Pressure grows on Pakistani leadership



Pakistani flood survivors gather at a medical camp in Mehmood Kot, Wednesday. The country's president, Asif Ali Zardari, has come under pressure for his slow response to the disaster which has so far killed about 1,500 people and affected 20 million others. **Related article on page 9**

# BHP Billiton makes big bet on agriculture

Australian mining giant **BHP Billiton Ltd.** made an unsolicited \$38.6 billion offer for the world's largest fertilizer maker, **Potash Corp. of Saskatchewan Inc.**, in an aggressive wager that developing economies will drive up demand for the world's food supply.

By Anupreeta Das,  
Scott Kilman  
and Liam Plevin

Potash, along with nitrogen and phosphate, are key crop nutrients that replenish soil and increases the amount of crops produced on farmland. The world's potash supplies are relatively limited and Potash Corp., based in central Canada, controls 20% of the globe's supply.

BHP Billiton's offer will likely set off a months-long struggle for the fate of the company, regarded as one of the jewels of Canada's natural-resources-based economy. On Tuesday, Potash Chief Executive Bill Doyle said the company's board isn't opposed to a sale. "We just don't expect someone to come steal the company," he said.

In an Aug. 12 letter, BHP offered to buy Potash for \$130

a share, a 16% premium to Potash's Monday closing price. The offer did little to persuade Potash's board, which disclosed the approach and rejected it, calling it "grossly inadequate."

In trading Monday afternoon, Potash shares were up 27% at \$142.67 each, a sign traders expect that BHP Billiton will raise its offer or that Potash might attract other suitors.

People familiar with the matter said BHP will decide during the next few days whether to take its offer directly to Potash shareholders, a move that would make BHP Billiton's unsolicited offer a hostile one.

"They're big boys and they have to pay big-boy prices," Mr. Doyle said. He refused to discuss what might be a more suitable offer. People close to the company said that for Potash to enter into negotiations, the offer needs to factor in Potash's record-high price of about \$240. That price came at the market peak in 2008, before the recession cut into demand.

Looming over any negotiations is a national debate in Canada about open markets and foreign takeovers. Over

the past decade, Canada has seen most of its big natural-resources companies and many industrial ones taken over by buyers from the U.S., Europe and South America.

Those include sales of Canada's biggest aluminum and nickel mines to Brazil's **Vale** and Switzerland's **Xstrata PLC**, the purchase of Canada's biggest steel producer by **United States Steel Corp.** and the piecemeal sale of technology giant **Nortel Networks Corp.** to buyers from the U.S. and Europe.

While the demand for commodities has fueled Canada's economic growth, there is a lingering worry the country is losing its corporate mettle. Columns and editorials in the *Globe and Mail*, Canada's national newspaper, described Vale and Xstrata in 2006 as "predatory raiders" who had "carved the heart out of the Canadian mining industry," and decried government "indifference" to the deals.

In 2009, the country amended its foreign takeover code, raising the bar for scrutiny of some investments but allowing the government explicit power to veto deals that pose a danger to national security.

Please turn to page 3

## France clamps down on Gypsy settlements

French President Nicolas Sarkozy flexed his muscles on immigration Tuesday, as his interior minister announced a clampdown on Roma, or Gypsies, who have been making their homes in illegal camps around the country.

Interior Minister Brice Hortefeux announced that deportations of foreign Roma are to begin Thursday. About 700 people expelled from their camps will be flown back home to Eastern Europe, Mr. Hortefeux said.

The move follows several scuffles involving groups of Gypsies this summer, perhaps

most notably riots in central France after police shot and killed a 22-year-old Roma for failing to stop at a checkpoint.

The drive to make people leave the camps comes as Mr. Sarkozy's ratings in the polls have tanked in the wake of several stumbles. Prosecutors are investigating an alleged link between Mr. Sarkozy and Liliane Bettencourt, France's richest woman and heiress to the L'Oréal SA fortune, and his UMP party didn't fare well in regional elections this spring.

Earlier this summer, Mr. Sarkozy had announced a plan

to dismantle camping sites used by Gypsies and others, as well as take away the French citizenship of people of foreign origin who attempt to kill police or other officials—a tough stance that played well with the French public.

The issue with the camp sites is complicated by the fact that many of the people who have been ousted are French, sometimes descended from Roma, an ethnic group.

About 15,000 of France's Gypsies are Roma from Eastern Europe, in particular from Romania. As European Union

citizens, they are legally allowed to move to France and settle down—if they can prove they are able to support themselves.

The French government will offer the people it is expelling a few hundred euros as "aid for a humanitarian return" to their home countries.

Though the move to send people packing may be playing well with Mr. Sarkozy's constituency, the action could backfire if the public tires of the harsh tone of the campaign against traveler camps, observers say.

One lawmaker from Mr.

Sarkozy's UMP party, Jean-Pierre Grand, described the Gypsy expulsions as *rafles*, a French word for "roundup." The word has links to the World War II roundup of Jews by French police on behalf of the occupying Nazis.

Mr. Sarkozy's immigration minister, Eric Besson, called the implied comparison unfair, saying the current campaign to send foreign Gypsies to their home countries was nothing like the roundups of World War II.

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## PAGE TWO

# Obama's troop-withdrawal plans could suddenly turn into a mirage

## [ Agenda ]

By IAIN MARTIN



The clock is ticking on the end of U.S. combat missions in Iraq. But with a fortnight to go until that deadline, violence is escalating again. On Tuesday, a suicide bomber killed at least 46 Iraqis, and injured more than 60, in a queue outside a recruiting center for the Iraqi army. Al Qaeda, or groups inspired by its leader Osama bin Laden, are being blamed.

The rise in the number of bombings and murders by extremists in Iraq in recent months hasn't attracted quite as much attention as it should have. It cuts across what has been for some time a widely accepted version of events that runs as follows: The famous "surge" of U.S. troops cleared the way for huge improvements in the situation on the ground (which it did). Responsibility is now being handed over to the Iraqi army and security services. While that hand-over will not be without its difficulties, the direction of travel is the right one.

According to this dominant analysis, what Barack Obama promised when he won the presidency—a steady disengagement from George W. Bush's war in Iraq—is being delivered, albeit with a few problems along the way. A conflict that has been broiling for seven years—longer than the entire span of World War II—is finally cooling down.

Instead, much of the focus is on Afghanistan. American withdrawals will supposedly begin there next year once the Afghan surge, involving an increase in troop numbers and operations, reaches its high-water mark.



President Barack Obama has heard straight talking from Gen. David Petraeus.

In Britain, the preoccupation is also departure from Afghanistan—with Iraq an increasingly distant memory, except for those who lost loved ones in the conflict or were injured fighting in a war their fellow countrymen would seemingly much rather forget.

By the time of the next U.S. presidential election in 2012, combat operations in Iraq will be long ended and the drift to the exits in Afghanistan should be well under way. That's the theory anyway.

**Anyone can design a timetable, but when it comes to war it can easily be rendered irrelevant.**

It is becoming apparent that there are several problems with all of this. First, the political reality appears increasingly at odds with the military reality. In Iraq, the most senior Iraqi general, Lt. Gen. Babakir Zebari, caused a minor sensation recently when he said that Iraqi forces would be unable to cope without

American help until 2020. He noted that the American withdrawal of combat troops was going well "because they are still here."

As many as 50,000 troops will stay on to help with training and logistics, although they will be combat ready and capable of intervening in an emergency. But a full drawdown of troops is then scheduled for next year. Gen. Zebari, who seems to have a gift for straight-talking, put it well: "The problem will start after 2011—the politicians must find other ways to fill the void after 2011."

Also indulging in some straight talking in recent days has been Gen. David Petraeus, the commander of U.S. and NATO forces in Afghanistan. He has indicated that he will not be held to President Obama's commitment to start shipping out U.S. troops in July 2011. Against a backdrop of rising U.S. casualty numbers, he wants more time to gain the trust of local populations and apply pressure to the extremists.

From Washington emerge various statements by the administration, designed to suggest that all of this is entirely consistent. Iraq is on track and in

Afghanistan Gen. Petraeus is not diverging from his commander-in-chief's line.

These contradictions risk sending conflicting signals to allies. And the West's enemies will have noticed, too.

As the recent bombings in Iraq suggest, al Qaeda and its allies love a vacuum. Extremists engaged in global jihad are unlikely to abide by any timetable announced by a U.S. president keen to get out of two wars. They are determined to exploit it all they can.

At this highly dangerous point, the weather has intervened and Afghanistan's neighbor Pakistan—deeply troubled country and security headache before the floods—is becoming even more of a problem.

Millions are suffering in the northwest of the country where al Qaeda and related groups are based. The international aid response, with a few countries providing the exception, has been woeful. Extremists thrive where conditions of poverty combine with the failure of central government institutions and international neglect.

Swift action, ideally U.S.-led to support the relief effort, looks sensible. If Pakistan becomes even less stable, the implications are hardly positive for Afghanistan.

It illustrates that anyone can design a timetable, but when it comes to war or defeating terrorists it can easily be rendered irrelevant by events.

Of course one can understand, with U.S. domestic opinion in the condition it is and most of Europe looking the other way, why President Obama wants to stay the course with his policy.

But the big potential difficulty here is that a clear impression is being created by the president, of problems on their way to being solved. Instead, that clear impression could easily turn out to have been a mirage.

## What's News

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### Yesterday's results

Q: Should 'birthright citizenship' be denied to children born in the U.S. to illegal immigrants?

Yes 79.4%  
No 20.6%

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NEWS

# Egypt steps up effort to ban smoking

Campaign sees one of the world's most tobacco-friendly countries increase taxes and prohibit lighting up indoors

BY ASHRAF KHALIL

CAIRO—In a city where bumming a smoke from a stranger used to be as easy as asking for directions, Sami Amar no longer shares his cigarettes.

"It used to be at work or with friends, you would pull out your pack and pass them around," the 32-year-old fire-alarm technician says. But in the past few weeks, he has cut back from two packs a day of his favorite L&M brand to just one. "Now, all 20 cigarettes are for me."

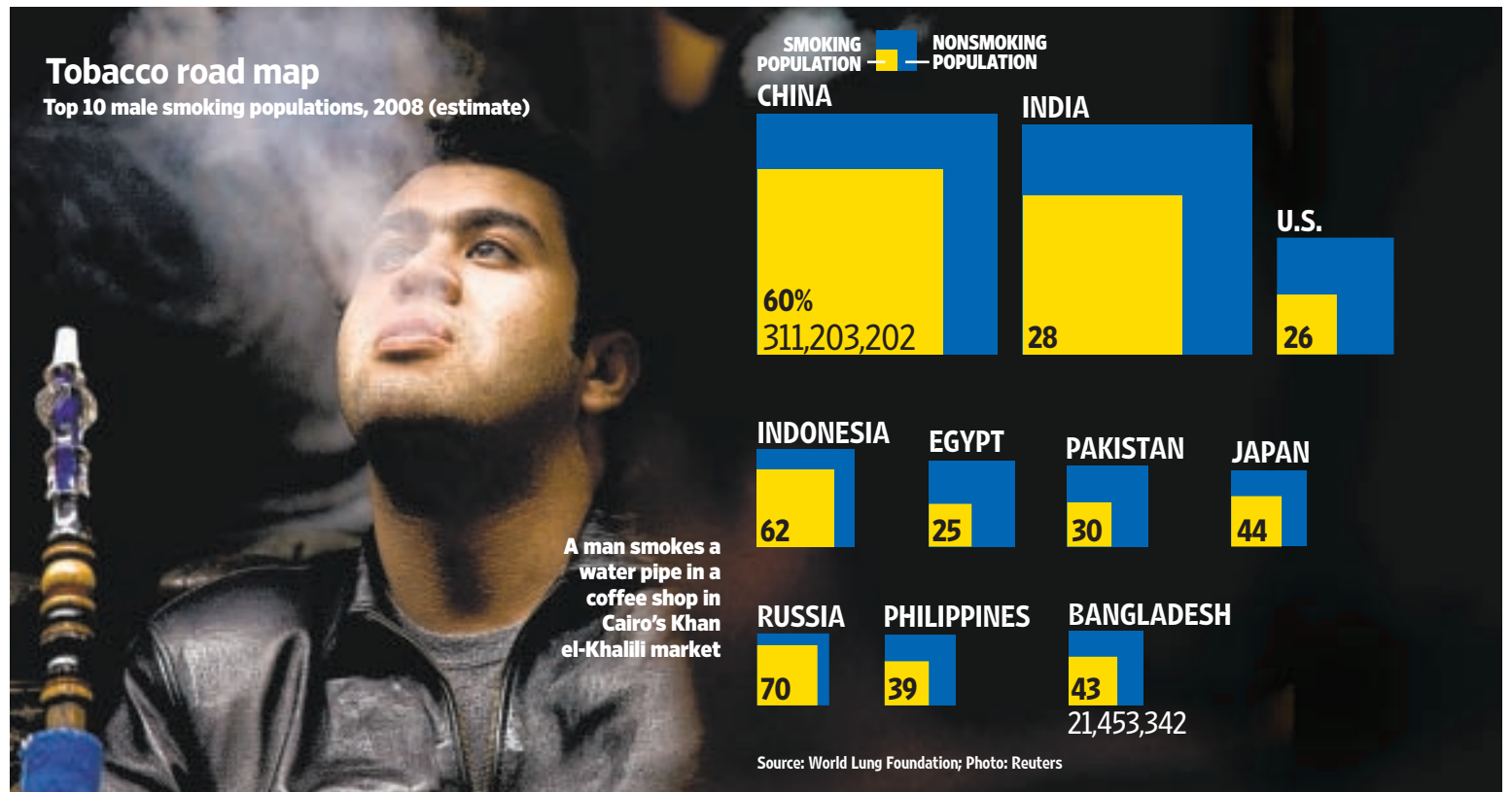
Long one of the most tobacco-friendly countries in the world, Egypt has launched an ambitious, multipronged antismoking campaign. It combines drastic new taxes with plans to ban all indoor smoking, in phases, in Egypt's big cities.

Egypt is joining a long list of tobacco-infused countries that are clamping down on smoking. France and Italy moved to curb their smokers' habits years ago. Antismoking laws have also cleared the air in British pubs.

More recently, the trend is wafting across the Middle East. Earlier this year, Syria banned smoking in most public places, including parks, and outlawed advertising for tobacco products. Jordan recently banned cigarette-vending machines and billboards in the capital, Amman. For Egypt, the Arab world's most populous country, the campaign is an especially tall order. The country is ranked one of the top 10 per capita tobacco consumers by the World Lung Foundation, a six-year-old organization affiliated with New York Mayor Michael Bloomberg, who has clamped down on smoking in that city during his time in office.

To a new Western visitor, Cairo can resemble an Islamic version of the hit television show "Mad Men"—a place where doctors, pharmacists and even some senior Ministry of Health officials commonly smoke on the job. The ministry estimates that 20% of adult Egyptians smoke, consuming about 80 billion cigarettes a year.

To combat the trend, on July 1, the government raised taxes on cigarettes to 40%—and to 100% for the molasses-soaked tobacco that fills the city's bubbling hookah pipes, a fixture of the city's restaurants and sidewalk cafés. And in the Mediterranean coastal city of Alexandria,



authorities are about to ban smoking in all closed public spaces.

Critics question the authorities' resolve in actually enforcing the ban, and other Arab cities—including the more regulated city-state of Dubai—have had mixed success enforcing similar bans. Still, it is one of the most draconian antismoking statutes in the Arab world.

It is unlikely that the smoking measures will give rise to a black market in Egypt. Even with higher taxes, cigarettes and tobacco are cheaper in Egypt than they would be coming from overseas. Egypt's limited land borders also pose barriers to an underground market.

"The government wants people to regard smoking as undesirable and unacceptable," says Ehab Attia, head of the environmental health department at the Egyptian Ministry of Health. "The stage we want to reach is where the people themselves ban smoking and refuse to be around it."

Officials acknowledge enforcement will be tough. Smoking in all government buildings was banned in 2007, but most government offices are still smoke-filled warrens.

Dr. Attia said the Alexandria Governorate and the Ministry of Justice are on board, and ministry officials expect better results. "There's more focus and awareness in the government and in society in general about the dangers," he says.

Apart from the health risks, smoking here is a drag on income already strained by inflation and high joblessness. The World Lung

**To a Western visitor, Cairo can resemble an Islamic version of the TV show 'Mad Men'—a place where even doctors commonly smoke on the job.**

Foundation estimates that the average smoker here spends more than 15% of monthly income on tobacco.

By pushing prices out of reach, authorities hope to force people to quit, and eventually save some cash. The new taxes have boosted the cost of Cleopatra, the cheapest local

brand, to 75 cents a pack from about 50 cents. Marlboro imports now cost nearly \$2, up from \$1.50.

Compared with prices in the U.S. and Europe, that is still extremely cheap. But it is a significant cost in a country where the average citizen makes less than \$500 a month. Ministry of Health officials say the increased tax revenue will be funneled into the national health-care system.

Ahmed Yassin, who sells chips, candy, soda and cigarettes from his roadside kiosk in the Giza district, home to Cairo's famous pyramids, said he has already noticed a change in buying habits. A Marlboro supply truck stops by three times per week. He used to restock each time. Now, he only needs to replenish his supply once a week.

Despite the loss of income, Mr. Yassin, a devout nonsmoker, applauds the new taxes. "It's a good thing," he says. "My income will be there either way. If it's not cigarettes, it will be chips and sodas."

Emad Hamdy, an employee at a Toyota dealership, defiantly says he is keeping up his habit. But he knows not everyone will be able to shrug off the taxes.

"I'm still able to afford it. But someone smoking Cleopatra, that price change could hurt a lot," he said.

In Alexandria, which has a population of about four million, authorities say they are serious about a total indoor-smoking ban that takes effect in September. Violators will be subject to fine of about \$9, a princely sum there.

The indoor-smoking ban will eventually be expanded to other Egyptian cities, said Dr. Attia at the Ministry of Health, who added that he hopes to have it in place in every city within four years.

Back in Cairo, at the First Coffee Shop in Giza, customers puff contentedly on midday water pipes. Coffee Shop employee Nader Morsi says the café hasn't raised its prices because it is relying on its old stock of sticky molasses- and apple-flavored tobacco.

However, the regulars can expect to pay double in the future, and that might mean gut-wrenching decisions for some of his customers, he says. "There are people," Mr. Morsi says, "who won't be able to sleep without their smoke."

# Potash rejects \$38.6 billion takeover bid by BHP Billiton

Continued from first page  
curity. The government hasn't defined what "national security" is, but it has resisted invoking that authority with regard to recent oil investments by China.

Tuesday, Canadian Prime Minister Stephen Harper said the government would review any transaction but otherwise declined to comment on the takeover approach.

As the world's largest mining company, BHP Billiton has remained unbowed by a costly and ultimately unsuccessful acquisition attempt of Australian mining giant Rio Tinto in 2008.

For BHP's chief executive, South African Marius Kloppers, a play for Potash fits into a broader theme of economic development, particularly

in China and India.

"World GDP and GDP development is being driven by...new people entering the modern industrial age...by massive urbanization processes," Mr. Kloppers said during an interview in 2008, as he sought to cinch a \$150 billion bid for Rio Tinto. This, he said, is "having a huge knock-on effect in demand for our products."

For Mr. Kloppers's approach to pay off, fertilizer prices will need to increase significantly in the years ahead, perhaps 40% to 50% more from current levels, according to Tony Robson, an analyst at **BMO Capital Markets**. A deal would also represent a significant shift for BHP Billiton, which specializes in minerals and metals and has only limited

experience with customers who buy potash.

There are certainly plenty of reasons to believe the world needs more fertilizer. Between 2000 and 2050, the world is projected to add 57 million people a year annually on average, leading to an expected global population of 8.9 billion by 2050, according to the United Nations. Rising incomes in growing economies will also push up demand for diverse diets, and fertilizer is a clear way to increase production.

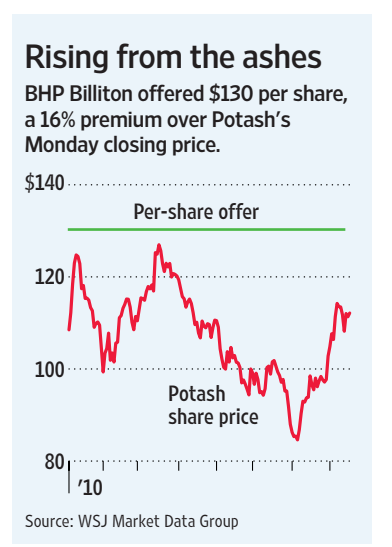
Potash is often found a mile underground and is energy-intensive to produce. Developing potash mines is so costly and time-consuming that supplies tend to grow slowly. BHP has been trying to build its own potash mines from

scratch in recent years, acquiring exploration rights in Saskatchewan.

BHP is expecting China, India and other rapidly growing nations to put a premium on producing more of their own food to gain independence from foreign suppliers. This can be critical to preventing civil unrest, as the world learned in 2008, when a sharp rise in the cost of food kicked off riots around the world. This summer's scare over wheat supplies amid a Russian drought provided a vivid reminder, too.

"It's just a bet that food is going to continue to be precious," said Emerson Nafziger, a professor of agronomy at the University of Illinois at Urbana-Champaign.

—Robert Guy Matthews and Phred Dvorak contributed to this article.





## EUROPE NEWS

# U.K. inflation edges lower, but still tops its target rate

By NICHOLAS WINNING  
AND LAURENCE NORMAN

LONDON—U.K. inflation slowed in July, but not by enough to prevent Bank of England Governor Mervyn King from having to write another open letter to the government explaining the above-target rate of price growth.

The Office for National Statistics said Tuesday that the U.K.'s annual inflation rate dropped to 3.1% in July from 3.2% in June—in line with economists' expectations. On a monthly basis, the consumer price index fell 0.2% in July after rising 0.1% in June.

In his letter to the government, Mr. King said there was a "significant probability" he would need to write further explanatory letters in coming months as inflation is expected to remain above the 2% target until the end of 2011. However, he also said that over the medium term, inflation would be close to or below target because of the spare capacity in the economy.

U.K. inflation remains much higher than in the U.S. and euro zone, but economists said there was little risk the BOE would threaten the economic recovery by tightening policy in the near term.

"With fiscal austerity set to weigh on activity and medium-term inflation pressures, we continue to doubt that the BOE will look to tighten monetary policy before [the second half of] 2011," said James Knightley, an economist at ING NV.

The U.K. statistics office said the main downward pressure on inflation in July came from prices for clothing and footwear, as well as furniture, household equipment and maintenance. The main upward pressures were from transportation and a sharp rise in the prices of food and nonalcoholic beverages.

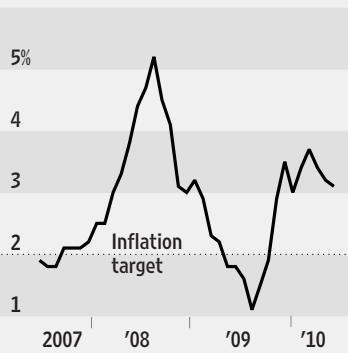
However, core inflation—which excludes volatile energy, food, alcohol and tobacco prices—slowed to 2.6% in July from a year earlier, compared with 3.1% in June. That's the lowest level since November.

Earlier this month, the BOE kept



Agence France-Presse/Getty Images

## Slowing U.K. annual inflation rate



Source: U.K. Office for National Statistics

its benchmark interest rate at a record low of 0.5% and left its bond-buying program unchanged at £200 billion (\$313 billion).

The BOE chief is obliged to write to the chancellor of the exchequer

Chancellor of the Exchequer George Osborne arrives to give a speech in London on Tuesday. Mr. Osborne said he is cautiously optimistic about the economy.

every three months that annual inflation is more than one percentage point above or below the central bank's 2% target.

"We stand ready either to expand or reduce the extent of monetary stimulus as needed," Mr. King said in his latest letter. In response, Chancellor of the Exchequer George Osborne said, "I welcome the Committee's flexibility and commitment to move policy in either direction depending on how the outlook evolves." In a speech later Tuesday, Mr. Osborne said he was cautiously optimistic about the economy and stressed that the government wouldn't budge from its tough fiscal consolidation plan.

Separately, a twice-yearly survey by Lloyds TSB Commercial Wednesday showed that U.K. business confidence has risen to its highest level since 2007 thanks to increased optimism on export growth.

The balance of companies with a positive outlook rose to 18 in June from 16 in the previous. The balance is the difference between the percentage of respondents with a positive outlook and those with a negative outlook. In December 2008, the survey recorded its lowest net balance of -32. The renewed business confidence is being driven by the promise of growing exports, the survey found, with 42% of the 2,300 companies surveyed expecting a rise in foreign sales as a result of the rebound in world demand and a sustained fall in sterling.

The optimism surrounding overseas sales comes as U.K. Prime Minister David Cameron places increased emphasis on export growth and the rebalancing of the economy as a central policy goal for the government.

—Ainsley Thomson  
contributed to this article.

## Irish ease worries on successful bond sale

By NEIL SHAH

Ireland pulled off an impressive performance on Tuesday, selling the maximum intended €1.5 billion (\$1.9 billion) of bonds in a sale that was closely watched for signs of trouble, given resurfacing worries about financial problems in the euro zone.

Signaling the confidence that investors still have in Ireland, the country sold €500 million of bonds maturing in 2014, paying an average interest rate of 3.627%.

Investor demand was more than five times the amount of new bonds on offer. That compares with a "bid-to-offer" ratio of only three times in May, when Ireland last sold a similar bond, then at a yield of 3.11%.

Ireland's sale of 10-year bonds was arguably even more impressive: The average interest rate paid was 5.386%, lower than the 5.537% paid in an auction last month, and the yield fell after the sale, underscoring the solid demand.

Despite growing fears that Ireland might turn into the next Greece as the euro zone's fiscal crisis drags on and one of its biggest banks taps the government for more aid, Ireland again has proved the strength of its financial position. As many analysts have noted, it is nearly done with its funding activities for the year, which puts it in a better position than Spain.

## Despite growing fears that Ireland might turn into the next Greece, the country again proved its strength.

Markets responded positively.

After the sale, prices of Irish bonds rose further, pushing the yield on the 10-year Irish bond down to 5.34% from 5.41% on Monday.

The premium over German bonds, a key measure of risk, fell sharply, to 2.97 percentage point, from 3.09 percentage point on Monday. Credit-default swaps tied to Ireland also rallied, along with others in the euro zone, and the euro strengthened.

Ireland's sale saw "solid demand," noted Brian Devine, an economist at NCB Stockbrokers in Dublin. "Market positioning rather than new news was driving the performance" of Irish bonds and pushing prices lower ahead of the auction, he said.

Elsewhere, Spain and Hungary sold more Treasury bills than planned at lower yields than at previous sales, while Belgium's short-term debt sale also eased through. Bid-to-coverage ratios for all sales signaled strong investor interest.

Both Spain and Belgium are part of the euro zone. Hungary, which isn't, has had to turn to the International Monetary Fund for help in 2008 but its recent talks with the joint delegation of the IMF/European Union came to an abrupt halt mid-July as Hungary refused to take further austerity steps.

—Emese Bartha  
contributed to this article.

# German investor morale declines

By GEOFFREY T. SMITH

MANNHEIM, Germany—Expectations for Germany's economy fell in August, according to a closely watched survey published Tuesday by the ZEW economic research institute.

ZEW said its economic expectations index fell to 14 in August, from 21.2 points in July. The outcome was well below economists' forecasts of an unchanged reading.

The euro was little changed after the data.

"The current decrease of the economic sentiment indicates that the enormous growth observed in the second quarter is unlikely to continue," ZEW said.

The think tank said that the export-heavy structure of the German economy leaves it exposed to a slowdown in the global economy, where evidence of weakness

mounted in recent weeks, especially in the U.S. and China, which account for nearly half of global economic output.

However, senior researcher Peter Westerheide said the indicator still suggests modest growth in the second half, consistent with growth of 3% or more for the full year.

Tuesday's report is in line with other forecasts showing that Germany, the largest economy in Europe, will slow down in the second half of the year after posting its fastest rate of growth in 20 years in the second quarter.

The Federal Statistics Office Destatis reported on Friday that German gross domestic product, which measures the total value of goods and services in an economy, grew by 2.2% in the second quarter, fueled by a boom in export orders, and also supported by business investment.

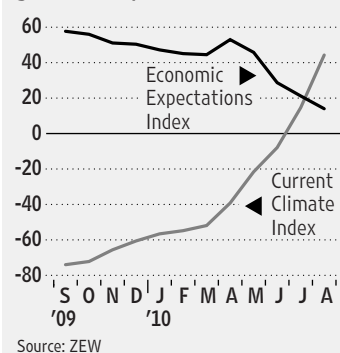
The extremely buoyant spring and summer were reflected in the strongest-ever monthly rise in the subindex that tracks current conditions. This rose to 44.3 from 14.6 in July.

"German GDP should post a very healthy expansion of at least 3% this year, thanks to a surge in exports," Jennifer McKeown, an analyst with Capital Economics, said in a research note. "But as global demand growth slows further and consumers remain reluctant to spend, the recovery is likely to be fairly short-lived."

Separately, the European Central Bank said the euro zone's current-account deficit narrowed slightly in June amid a rise in exports. The current account deficit fell to €4.6 billion (\$5.9 billion) from a €7.4 billion deficit in May, as exports rose 1.4% from May to €134 billion.

Over the 12 months to the end of

## Slowdown ahead Germany's red-hot economic growth is expected to fizzle



June, the cumulative current-account deficit was €45.1 billion, or some 0.5%, of euro-zone GDP.

—Andrea Thomas  
contributed to this article.



EUROPE NEWS

# France set to deport foreign Gypsies

BY SEBASTIAN MOFFETT  
AND MAX COLCHESTER

PARIS—France is preparing to deport hundreds of foreign Gypsies as part of a drive to clamp down on law-breaking by Roma, Interior Minister Brice Hortefeux said Tuesday.

The deportations, scheduled to start Thursday, follow the dismantling of 51 illegal camps—set up by Roma of eastern origin and by other Gypsies, some of them French citizens—over the past three weeks. Around 700 of the people expelled from their camps will be flown home to Central and Eastern Europe, he said.

“We are not stigmatizing a community, but making people respect the law,” Mr. Hortefeux said in a speech in Toulon, southern France.

Around 15,000 Gypsies in France are Roma from Eastern Europe, in particular Romania. Because the European Union guarantees freedom of movement, they can travel to France—but can settle there only if they can support themselves. After three months in France, they must leave unless they can prove that they are working or studying and that they have sufficient funds and health care.

The French government is interviewing the Roma to determine where they are from, and plans to put those who can’t legally remain in France on flights home. It is offering them €300 (about \$390) per adult and €100 per child as “aid for a humanitarian return.” To prevent them from coming back and claiming the payments again, the govern-



A Roma family on Tuesday at their makeshift shelter, built after French police seized their trailer two weeks ago from an illegal camp in Roubaix, northern France.

ment plans to collect biometric data on those who are deported.

Officials at the Romanian Embassy in Paris couldn’t immediately be reached to comment.

Dismantling the illegal camps is part of a wider law-and-order push by President Nicolas Sarkozy following a number of skirmishes this summer. The campaign has led to charges that he is engaging in a cynical populist ploy to distract from a number of political setbacks.

Mr. Sarkozy’s ruling UMP party did badly in regional elections in March. In July, a prosecutor launched a probe into links between Mr. Sarkozy and Liliane Bettencourt, heiress to the founder of French cosmetics group L’Oréal SA. Mr. Sarkozy denied that Ms. Bettencourt had illegally financed his 2007 presidential election campaign—but he was hurt by the perception of links to Europe’s richest woman, who has also admitted evading taxes. And although France’s economy improved, growing 0.6% in the second quarter, the latest unemployment figure re-

mained stubbornly high at 9.5%.

In July, after police in Saint-Aignan, in central France, shot dead a 22-year-old Gypsy for failing to stop at a roadblock, Gypsies armed with hatchets and iron bars felled trees and traffic lights, torched cars and attacked a bakery and a police station.

Two weeks later, on July 28, Mr. Sarkozy said the government would dismantle illegal sites used by Gypsies. He also proposed stripping French citizenship from people of foreign origin who were convicted of trying to kill police or other public officials. Separately, a member of Mr. Sarkozy’s ruling UMP party has proposed that parents of delinquent children be imprisoned for up to two years.

The campaign has played well in opinion polls. Mr. Sarkozy’s approval rating was up two percentage points at 34% in early August, according to pollster CSA. In a separate survey, 80% of respondents said they were in favor of the proposal to strip people of French nationality

if they were convicted of attempts on the lives of French officials, while 79% agreed with dismantling illegal Gypsy camps.

Mr. Sarkozy launched the law-and-order drive “to hide his political weakness,” said Daniel Cohn-Bendit, co-leader of the European Parliament’s Green grouping, in an interview in Monday’s Le Monde newspaper.

The moves could backfire if the French public tires of Mr. Sarkozy’s harsh tone. One UMP lawmaker, Jean-Pierre Grand, described the Gypsy expulsions as *raffles*, a French word for “roundup.” The word is associated with the World War II roundup of Jews by French police on behalf of the occupying Nazis.

Immigration Minister Eric Besson, also of the UMP, said the comparison was unfair. “People are interviewed, their identity is verified and we offer them money to go back to their country of origin,” he told radio station RTL on Tuesday. “I would like someone to explain the link with the roundups of World

War II.”

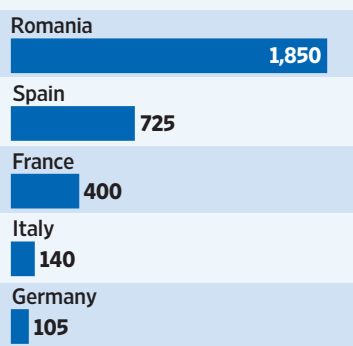
The issue is complicated by a lack of reliable information about the various Gypsy groups. Many of those whose campsites have been closed are French, sometimes descended from Roma, a distinctive ethnic group. Since 1990, larger French municipalities have been obliged to provide them with campsites equipped with electricity and water supply.

However, some cities don’t provide adequate accommodation, the Gypsies say. Last weekend Gypsies blocked a bridge in Bordeaux after they were refused the right to settle on a local sports field. Spokesmen for the group said two other options offered to them weren’t suitable.

The decision to shut down camps and expel Gypsies who aren’t French citizens is the first time the French government has pursued such a hard-line policy, says Robert Kushen, executive director of the European Roma Rights Center. “It’s a very draconian measure,” he says. “It’s not going to solve much.”

## Moving on

Number of Roma in selected European countries in 2009, in thousands



Source: The Council of Europe

# Bulgaria wants more tourists

BY NICK SKREKAS  
AND TOM MUDD

VARNA, Bulgaria—For decades the beach holiday of choice for students and budget package tours, Bulgaria still struggles to get higher up the quality ladder.

Bulgaria’s tourism sector accounts for 8.7% of gross domestic product in this former Soviet bloc country. But people in the industry complain about the heavy dependence on all-inclusive mega resorts, an underdeveloped service mentality among employees and a rundown infrastructure.

The past 10 years have seen plenty of talk about Bulgaria’s value-added tourism centered on hunting, golf, skiing, nature and cultural attractions, but mass tourism is likely to remain the staple because other

forms of tourism are hamstrung by a lack of state organization, poor management of cultural sites and a lack of marketing.

Juergen Buettner, a German retiree who lives in Plovdiv, Bulgaria’s second-largest city after the capital, Sofia, complained of his difficulty in finding “anyone who speaks a semblance of English, let alone German, even though they supposedly have degrees in tourism and languages.”

“The country is still not able to take advantage in full of its natural gifts,” he said.

Finding experienced, multilingual staff is still difficult, said Sonya Alexieva, associate professor at the New Bulgarian University and an authority on the country’s tourist industry. Value-added tourism will require even further skills, she said.

“Introducing quality standards

for specialized tourism is particularly important as it is going to help Bulgaria diversify its tourism,” Ms. Alexieva said.

A total of 2.1 million tourists visited the Eastern European country in the first half of 2010, an increase of 1.9% from the year-earlier period. But nine out of 10 visitors come during the summer, something Prime Minister Boyko Borisov is hoping to change.

Last week, Mr. Borisov ordered his ministers to develop a strategy for developing cultural tourism after archaeologists found what are believed to be relics of John the Baptist in the Black Sea town of Sozopol.

Other signs of action are popping up. In Sofia, long-neglected neoclassical buildings are getting a facelift similar to the one that rejuvenated



Shoppers are reflected in a mirror at a street stall in Sofia.

Prague in the 1990s.

A 290-kilometer, €3 billion (\$3.85 billion) high-speed rail line will connect Sofia with Plovdiv and the city of Burgas on the Black Sea. Comple-

tion is set for 2012.

Meanwhile, budget airline Ryanair Holdings PLC will begin twice-weekly scheduled flights from London to Plovdiv.



## U.S. NEWS

# Pentagon suspends key missile-defense contract

BY NATHAN HODGE

A top Pentagon official has said he is withholding a contract from **Lockheed Martin Corp.** over concerns about reliability problems with a missile interceptor that is a centerpiece of the Obama administration's missile-defense strategy.

Lt. Gen. Patrick O'Reilly, the director of the Missile Defense Agency, told reporters on Tuesday that a safety switch on the missile had failed qualification testing, forcing a delay in fielding the system, called Terminal High Altitude Area Defense, or THAAD. The switch is supposed to prevent accidental launch.

Production of the missile, Gen. O'Reilly said, is "badly needed" so the Army's first THAAD unit, stationed at Fort Bliss, Texas, can fully train on its equipment.

But he said he would not approve a \$400 million-plus production contract unless the company fixed the flaws and the safety device passed

new qualification tests within the next 30 days.

"I am holding their [the contractor's] feet to the fire," Gen. O'Reilly said. "I will not move forward until they satisfy all the quality requirements and all the production start-up requirements."

According to Gen. O'Reilly, Lockheed offered a warranty over the part, called an optical block switch. If production is approved and new problems are discovered, the company will be liable for any extra costs stemming from production delays, he said.

Lockheed did not directly comment on the general's statement about the warranty. In a statement, Lockheed spokeswoman Cheryl Amerine said the company "is working closely with the MDA to complete qualification testing of an optical block switch for the THAAD interceptor. We are confident a solution is in place that will allow production to begin next month."

Along with **Raytheon's** ship-launched Standard Missile-3, THAAD is a key piece of a strategy that calls for defending forward-deployed U.S. forces and allied nations against short- and medium-range missiles from North Korea and Iran. The system, which includes a truck-mounted launcher, interceptors, X-band radar and fire-control systems, is supposed to be capable of shooting down ballistic missiles both inside and just outside the atmosphere. It is also rapidly deployable. Gen. O'Reilly said it could be airlifted on short notice to defend a city-sized area.

"These are defensive systems, and if the missile fails, you have very little time to put a second missile up there," Gen. O'Reilly said. "And because of the nature of the systems, quality has to be extremely high."

The system is also the subject of government-to-government negotiations between the United States and the United Arab Emirates. The Per-



Lt. Gen. Patrick O'Reilly, director of the Missile Defense Agency, on Capitol Hill.

sian Gulf state wants to be the first foreign buyer to acquire THAAD, and Gen. O'Reilly said his counterparts in the UAE had been fully informed about the technical delays.

Investment in THAAD is part of an emphasis on what Secretary of Defense Robert Gates has termed "our most capable theater missile defense systems." But the military has not entirely shed its interest in more technologically ambitious missile defenses.

Gen. O'Reilly said the Missile De-

fense Agency was planning a test Tuesday night of the Airborne Laser test platform, a high-powered chemical laser aboard a modified **Boeing 747**. In February, the aircraft successfully shot down a short-range missile in a test off the coast of California.

Tuesday night's test is supposed to be much more challenging. While the exact range is classified, Gen. O'Reilly said the flying laser would be firing at a target over 100 miles away.

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## Safety warning preceded rig blast

BY BEN CASSELMAN

Weeks before the Deepwater Horizon drilling rig exploded in the Gulf of Mexico, the crew was warned not to let down its guard in a sternly worded memo from the rig's owner.

"Do not be complacent...Remain focused on well control," drilling company **Transocean Ltd.** wrote in a 10-page "operations advisory" on April 5.

The memo was prompted by a frightening spectacle on another Transocean drilling rig two days before Christmas the previous year. Workers aboard the drilling rig Sedco 711, operating in Britain's North Sea, heard a loud noise and looked up to see dark liquid shooting out of the well and spraying across the deck.

As the rig's drillers tried to bring the well under control, co-workers scrambled to lifeboats and prepared to evacuate, according to internal Transocean documents reviewed by The Wall Street Journal. Explosive gas began to surround the rig.

Workers managed to regain control of the well before the gas ignited, and no one was injured. Environmental damage was minimal—just three barrels of heavy drilling fluid spilled overboard.

But executives from Transocean, the Swiss-based contractor that owned the rig, were sufficiently concerned by the near miss that they held conference calls with managers aboard the company's fleet of nearly 150 rigs to discuss the lessons from the incident and issued two operations advisory memos.

The bottom line: Workers on the North Sea rig put too much faith in tests that showed the well was secure and stopped watching for signs of trouble.

Later that month, the Deepwater Horizon explosion killed 11 workers and set off the worst offshore oil

spill in U.S. history. Investigators looking into the disaster are probing how workers from Transocean and **BP PLC**, which owned the well, could have missed signals that the well was in trouble.

One possibility, according to experts and public testimony from rig workers, is that some members of the Deepwater Horizon crew, like the workers in the North Sea, let their guard down after running tests.

Workers aboard the Deepwater Horizon likely believed tests had shown the well was secure, said John Rogers Smith, a petroleum-engineering professor at Louisiana State University who was hired by federal investigators to study what happened on the Deepwater Horizon. "They think they've already proven that the well is safe," he said.

A Transocean spokesman said the memos illustrate its commitment to safety and denied that its workers on the Deepwater Horizon were inattentive.

Investigators are still trying to determine what caused the Deepwater Horizon disaster and who is to blame.

BP has said Transocean failed to control the well, while Transocean has said it was following BP's instructions and that BP had final responsibility for decisions.

Experts have questioned whether the Deepwater Horizon's workers were sufficiently vigilant. Workers on that rig, too, were removing heavy mud when the well they were drilling went out of control. They had sealed off the well with cement and had run a series of tests that they believed showed the well was secure.

Workers on the Deepwater Horizon have testified before federal investigators that they believed their work was done.

—Russell Gold  
contributed to this article.



## U.S. NEWS

# Geithner sees mortgage role for U.S.

By NICK TIMIRAOS

The U.S. government will likely continue to play a role in guaranteeing mortgages, but policy makers must design a system that doesn't lead to a rerun of the collapse of mortgage-finance giants **Fannie Mae** and **Freddie Mac**, Treasury Secretary Timothy Geithner told a housing summit Tuesday.

While the Obama administration won't put out a detailed proposal until January, Tuesday's sessions in Washington offered clues about where policy makers are headed.

Without some government backstop, Mr. Geithner said, "the risk is that future recessions could be more severe because the financial system would not have the capital to support mortgage lending on an adequate scale." That could lead to bigger price declines and wealth destruction, he said, pointing to the recent crisis as proof.

The challenge facing policy makers and the industry, he said, "is to make sure that any government guarantee is priced to cover the risk of losses, and structured to minimize taxpayer exposure."

The summit comes nearly two years after the government took control of Fannie and Freddie through a legal process known as conservatorship. So far, it has injected \$148 billion to keep the companies afloat.

The debate over the future of the companies promises to be heated, with many critics calling on the government to end any subsidies for mortgages to avoid larger taxpayer-funded losses in the future.

Mr. Geithner called the effort to



Treasury Secretary Timothy Geithner speaks Tuesday at the Conference on the Future of Housing Finance in Washington.

rebuild the U.S.'s broken housing-finance system a test for Washington, and he called on Republicans and Democrats to work together. "The failures that produced the system we have today were bipartisan. The solution must be as well," Mr. Geithner said.

Fannie and Freddie failed, he said, due to a "toxic combination" of a perceived government guarantee and ineffective oversight. While they weren't the sole causes of the housing bust, "they made the financial crisis worse," he said.

The problem facing policy mak-

ers: how to bring private capital back to its traditional role in taking credit risk on mortgages. Between Fannie, Freddie and government agencies such as the Federal Housing Administration, the U.S. backs nearly nine in 10 new loans today.

"The government's footprint in

the housing market needs to be smaller than it is today," said Shaun Donovan, secretary of the Department of Housing and Urban Development.

Mr. Geithner called the debate over how to remake the \$10 trillion mortgage market "one of the most consequential and complicated economic policy problems we face as a country." He said the administration wouldn't support any return of Fannie and Freddie to their previous role, "where they took market share from private competitors while enjoying the perception of government support."

Tuesday's sessions promised to be part college seminar and part political theater. They could help offer the administration a shield against partisan recriminations of foot-dragging on the issue and could help build broader support for the road map that the White House has promised to deliver by early next year.

Mr. Geithner said it was a "myth" to suggest that by delaying action on Fannie and Freddie, the U.S. is running up a larger tab.

"There is nothing we can do to decrease the significant losses Fannie and Freddie incurred ahead of this crisis. All we can do is to minimize the risk that they get worse," said Mr. Geithner.

Panelists included capital markets veterans Lewis Ranieri, the co-inventor of the mortgage-backed security, and Pacific Investment Management's Bill Gross; the heads of mortgage banking divisions at **Wells Fargo & Co.** and **Bank of America Corp.**; and leading academics and economists.

## Debate on mosque builds

By MICHAEL SAUL AND PETER WALLSTEN

PHILADELPHIA—Politicians beyond New York City continued to stake out positions Tuesday on the controversy over plans to build an Islamic center and mosque near the site of the World Trade Center, but divisions emerged within each political party over what has become a surprise issue in the 2010 elections.

Days after several Republican congressional candidates and political leaders began highlighting their opposition to the mosque plan, several prominent GOP figures expressed concern that the issue was a distraction that risked alienating some voters.

Divisions also emerged among Democrats. In Pennsylvania's closely contested Senate race, the Democratic candidate, Rep. Joe Sestak, appeared with New York Mayor Michael Bloomberg and endorsed

the rights of project organizers to construct the Islamic center at its proposed location.

Mr. Sestak's position put him in line with President Barack Obama but left him at odds with several other candidates in his own party, including Senate Majority Leader Harry Reid, who on Monday announced his opposition to the mosque being built near the destroyed towers in Manhattan.

The issue dominated a news conference Tuesday in which Mr. Bloomberg endorsed Mr. Sestak's Senate bid. Mr. Sestak, who had won the Democratic nomination over the opposition of Senate leaders and the White House, appeared pleased to once again highlight a difference between himself and Mr. Reid.

"I'm proud to be endorsed by someone who speaks what he believes ... and speaks about the principles and the ideals and the constitutional rights of America," he said.

The discussions within each party underscored how the mosque debate has emerged as a national political flashpoint in the wake of Mr. Obama's initial comments at a Ramadan dinner Friday in which he seemed to fully back the project. The president over the weekend appeared to step back, saying he was defending religious freedom, not commenting on the project.

The president "injected something into the debate that everyone has to take a stand on," said Democratic pollster David Beattie. "It's something that I would rather my campaigns not have had to comment on, but the president has the right and responsibility to talk about the things that he thinks should be addressed."

White House officials have tried to explain Mr. Obama's position since Saturday. On Tuesday, spokesman Bill Burton told reporters the president "feels completely fine"



People walk by 45 Park Place in New York City, the mosque's proposed site.

that Mr. Reid might disagree with him on the issue. He said the mosque wasn't "something that the president viewed through a political lens."

Still, the issue has surged to the forefront this week in a number of political battlegrounds, fueled in part by leading conservatives such as former House Speaker Newt Gingrich, former Alaska Gov. Sarah Palin

and Minnesota Gov. Tim Pawlenty. All are potential 2012 presidential contenders who argue that the mosque's proximity to Ground Zero is an affront to victims of 9/11.

"It's about being sensitive, being respectful and having good judgment about not putting a mosque within two blocks of Ground Zero," Mr. Pawlenty told Fox News Channel's Sean Hannity Monday night.

## Fed rules take aim at mortgage-lending abuses

By MEENA THIRUVENGADAM

The Federal Reserve unveiled a slew of rules aimed at protecting consumers from abusive lending practices blamed for luring millions into unaffordable home loans.

The rules, which will take effect April 1, include a ban on yield-spread premiums—controversial payments that mortgage brokers

have historically received from lenders in exchange for guiding consumers toward mortgages with higher interest rates.

"This will prevent loan originators from increasing their own compensation by raising the consumers' loan costs, such as by increasing the interest rate or points," the Fed said.

The ban will apply to both mortgage brokers and the companies em-

ploying them.

Loan originators will be able to continue receiving compensation based on a percentage of the loan amount.

Since the financial crisis began, the Fed has been criticized for failing to enact sufficiently stringent mortgage-lending standards and for moving too slowly in curbing the practice of paying yield-spread pre-

miums.

The rules announced Monday were being formulated long before the overhaul of financial-sector regulation was passed last month.

That legislation included provisions similar to the Fed's ban on yield-spread premiums but also covered some loan-origination practices that the Fed's rules don't address.

The Fed also said it would re-

quire borrowers whose mortgages are sold or transferred to be notified of the changes.

In addition, it said it would require lenders to tell borrowers when balloon payments or minimum-payment options could increase loan amounts, and to disclose how payments could fluctuate for borrowers who have adjustable- or step-rate loans.



## WORLD NEWS

# Attack kills 46 Iraqis at army recruitment site

By SAM DAGHER

BAGHDAD—A suicide bomber killed at least 46 people and wounded more than 60 others Tuesday after detonating his explosives amid a crowd of young men congregating for the last day of an army-recruitment drive in Baghdad, the latest in a series of attacks targeting Iraqi security forces.

Police checkpoints, patrols and traffic cops have been targeted in brazen attacks over the past month in and around Baghdad, underscoring the vulnerability of both the Iraqi government and its security forces just weeks before the end of the U.S. combat mission on Aug. 31.

The early morning carnage was reminiscent of similar attacks against army and police recruits in 2004 and 2005, during some of the worst of Iraq's postinvasion bloodshed. Analysts said the latest attacks appear to be a calculated message from insurgents that they are still capable of striking at will despite the major blows dealt to their networks in recent years.

"The country has become like a carcass," said a man who gave his name as Abu Hassan as he walked under blazing sun to the city's main morgue to collect the body of a nephew killed in the attack. "Everyone wants a bite out of it," he added.

The attack occurred on Midan Square in historic Baghdad, where hundreds of unemployed young men have converged daily since the Aug. 7 start of an army recruitment drive. Many have spent the night in the square to hold their place in line.

According to security officers and witnesses, a man strapped with explosives passed through the concertina wire and army checkpoints that ringed the square and then infiltrated a secure area in front of the headquarters of the 43rd Brigade of the Iraqi Army's 11th Division, which is barricaded with giant blast walls.

Shortly after 7 a.m., a brigadier general started collecting the IDs of assembled men preselected as candidates. The bomber then cut through



A woman mourns outside a Baghdad morgue after Tuesday's suicide bombing.

the line and detonated his explosives, according to witnesses. The general was among the dead.

An official at Baghdad's Medical City, which includes the main morgue, said at least 46 people were killed and 62 wounded. Later, Mohammed al-Askari, spokesman for the Ministry of Defense, gave a toll of 48 dead and 80 wounded.

The bloodshed comes after more than five months of struggle among Iraqi political leaders over forming the next government, following

March polls. Prime Minister Nouri al-Maliki's caretaker government has defended the security forces and has blamed attacks on insurgents eager to take advantage of Iraq's political wrangling and the imminent departure of U.S. fighting forces. But at a meeting last week of Iraq's top military brass to discuss plans ahead of the U.S. withdrawal, Mr. Maliki also warned about partisanship and divided loyalties inside the army.

—Munaf Ammar and Ben Lando contributed to this article.

# Lebanon eases ban on refugee workers

Associated Press

BEIRUT, Lebanon—Lebanon's Parliament passed a law on Tuesday allowing the country's Palestinian refugees the right to work in the same professions as other foreigners, lifting a ban that has relegated the refugees to only the most menial jobs.

The bill was the most serious effort yet by Lebanon to transform its policies toward the 400,000 refugees, although Palestinian leaders in Lebanon and human rights workers say it is only a first step with significant stumbling blocks.

The Palestinians living in Lebanon are isolated in their camps to a higher degree than in any other Arab country.

"I was born in Lebanon and I have never known Palestine," said Ahmed al-Mehdawi, 45 years old, a taxi driver who lives in the Ein el-Hilweh refugee camp, which is notorious for its lawlessness. "What we want is to live like Lebanese. We are human beings and we need civil rights."

Some 4.7 million Palestinian refugees—who fled or were driven from their homes during the 1948 and 1967 Israeli-Arab wars—and their descendants are scattered across the Middle East. They live mostly in the West Bank, Gaza, Lebanon, Jordan and Syria, according to United Nations figures.

Their fate is one of the most emotionally charged issues in the Israeli-Palestinian peace process. Palestinian negotiators have demanded at least partial repatriation, but Israel has refused, saying an influx of refugees would dilute its Jewish majority and threaten the existence of the state.

Unlike in neighboring Arab countries Syria and Jordan, where Palestinians enjoy more rights, the refugees in Lebanon live mostly on U.N. agencies' handouts and payments from the rival Palestinian factions. Those who do work are generally either employed by the United Nations Relief and Works Agency or as laborers at menial jobs such as construction.

Parliament lifted restrictions that kept Palestinians almost entirely out of the formal labor market, although even with the vote they are still subject to Lebanese labor law like other foreign workers.

Lebanon's National News Agency said the lawmakers amended a segment of the existing labor law that

dates back to 1946.

But the laws governing foreign workers in Lebanon pose a unique problem for Palestinians, who are stateless.

Lebanese law restricts some professions only to Lebanese, while other professions—such as law, medicine and engineering—require the employees to be members in a relevant syndicate. But most syndicates say foreign membership depends on reciprocity in their home country, which effectively bars Palestinians.

"If you're a Palestinian born and raised in Lebanon and your dream is to become a doctor, you're out of luck," said Nadim Houry, the Beirut director at Human Rights Watch.

**The bill was the most serious effort yet by Lebanon to transform its policies toward its 400,000 Palestinian refugees, though stumbling blocks still remain.**

Mr. Houry said Tuesday's vote was a welcome step, but more needs to be done.

Ali Hamdan, an aide to Lebanon's parliament speaker, said Tuesday's vote will legalize much of the work that many Palestinians already are doing and open up positions in fields such as insurance and banking.

"For the first time, Lebanon, which is a small country, is trying to solve a historic crisis for the Palestinian refugees," Mr. Hamdan said.

Beyond the legal restrictions on them, Palestinians also face deep prejudice from many Lebanese.

The bitterness dates back to the early years of the Palestinian-Israeli conflict when Lebanon was flooded with tens of thousands of refugees, upsetting its delicate religious and sectarian balance.

The situation worsened when the late Palestinian leader Yasser Arafat moved his base here in 1970 after he was expelled from Jordan in a bloody crackdown because his forces tried to form a rival government.

Many Lebanese haven't forgiven Arafat's fighters for attacking Israel repeatedly from southern Lebanon, giving Israel a pretext to attack villages and twice invade.

# Australia's Gillard says 'end royal ties'

Associated Press

CANBERRA, Australia—Australia should drop its ties to the British monarchy after Queen Elizabeth II's reign, the prime minister said Tuesday, raising the contentious issue of a republic just days before tightly contested national elections.

Prime Minister Julia Gillard, whose center-left Labor Party has long held that the country should dump the British monarch as its head of state and become a republic, said Australians have "deep affection" for Queen Elizabeth II but that she should be Australia's final monarch.

"What I would like to see as prime minister is that we work our way through to an agreement on a model for the republic," Ms. Gillard told reporters.

"I think the appropriate time for this nation to move to be a republic is when we see the monarch change. Obviously I'm hoping for Queen Elizabeth that she lives a long and happy life, and having watched her mother I think there's every chance that she will."

The queen is 84, and her mother lived to age 101.

Many Australians are British immigrants or descendants who feel strong loyalty to the queen, but many younger Australians view the idea of a foreign royal being the

country's highest power as anachronistic. The British monarch is formally Australia's head of state, and its representative, the governor general, swears in the government and signs legislation into law. Governing power resides with the elected government.

Many members of the opposition Liberal Party are monarchists, and its leader, Tony Abbott, said he sees no need to change the status quo.

"I think that our existing constitutional arrangements have worked well in the past and I see no reason whatsoever why they can't continue to work well in the future," Mr. Abbott told the National Press Club. "I am far from certain—at least in our lifetimes—that there is likely to be any significant change."

The comments by Ms. Gillard and Mr. Abbott are likely to influence some voters ahead of Saturday's election. Ms. Gillard's party wants to replace the governor general with a president. Parliament would retain its power, with the president a largely symbolic figure.



Agence France-Presse/Getty Images

Palestinians in the refugee camp of Beddawi, north of Beirut, on Tuesday.

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WORLD NEWS

# Slow Pakistan response hurts leader

The Pakistani government's slow response to the worst floods in decades has further eroded President Asif Ali Zardari's standing in Islamabad's power structure, said U.S. officials, entrenching perceptions of him as an ineffectual leader and frustrating American efforts to expand civilian control in a country still dominated by the military.

By Adam Entous and Jay Solomon in Washington and Tom Wright in Islamabad

So slow was Mr. Zardari's initial response to the crisis, said these officials, that the White House's point man on Pakistan, Richard Holbrooke, twice called the Pakistani leader in Europe to press him to head home.

The floods are so far known to have killed about 1,500 people and affected about 20 million others. The World Bank stepped in with a \$900 million loan from other projects as the United Nations warned that the country wasn't receiving enough assistance. People have begun to protest the lack of aid, especially in Punjab and Sindh provinces.

U.S. officials regarded the flood as an opportunity for the civilian government to respond quickly and restore its flagging popularity with Pakistanis. But Mr. Zardari's absence and the relative inaction of the civilian government have only led to more criticism being heaped on his administration.

By contrast, Pakistan's military has been active in flood response, with 60,000 troops involved in the relief effort. That visibility has helped deepen the impression many Pakistanis have that the military is the real power in Pakistan.

The country has been ruled by military governments for more than half the 63 years since its independence, most recently for almost a decade until 2008. The military continues to run many areas it has recently taken over from Pakistani Taliban militants—such as the Swat Valley—saying the civilian government in those regions is too weak to assume control.

Gen. Ashfaq Kayani, the powerful head of the Pakistan military, has shown no signs of wanting to seize power. But he remains an omnipresent figure who earlier this year appeared to lead a delegation of Pakistan ministers to a strategic dialogue with the Obama administration in Washington.

The U.S. believes a strong civilian government would lead to a



A Pakistani family make their way through flooded streets in Muzaffargarh, near Multan, Tuesday. The government's slow response to the worst floods in decades has further eroded support for President Asif Ali Zardari, above right.



### Pakistan's toll

- Dead: About 1,500
- Affected by flooding: 20 million
- Under water: A fifth of country
- Children at risk of disease: 3.5 million
- U.N. appeal: \$460 million, only 35% of which has been raised
- U.S. response: \$75 million in aid and the loan of 19 helicopters to ferry aid

Source: United Nations

more stable Pakistan and allow the military to focus on attacking Taliban militants on its border with Afghanistan.

The Obama administration has invested heavily in promoting Pakistan's civilian government, pledging \$7.5 billion in aid to help it provide basic services in order to counter Islamist influences.

But instead of improving the standing of the government, the floods have confirmed the pre-eminent role of military.

Mr. Zardari is increasingly seen as a figurehead. Changes in Pakistan's constitution have largely shifted official power to Prime Minister Yousuf Raza Gilani. But Mr. Zardari still carries weight as head of PPP, the largest party in parliament.

Even before the floods struck, Mr. Zardari's approval ratings had been falling. A poll by the U.S.-based Pew Research Center found that

only one in five Pakistanis viewed him positively.

Mr. Holbrooke voiced frustration last week that "international recognition of this disaster hasn't yet been sufficient to its dimensions."

Mr. Zardari's 10-day absence during flooding fueled protests at home and struck a nerve in the Obama administration as it sought to highlight the importance of the crisis.

Islamic charities, some of which have links to terrorist organizations, are active in the flood zone, distributing aid and competing with the Pakistani government for the population's goodwill, worrying some U.S. officials.

Mr. Zardari was in France when he got his first phone call from Mr. Holbrooke, who urged the president to fly back to Pakistan as soon as possible to oversee the flood response. Mr. Zardari was dismissive of the idea, according to officials familiar with the conversation.

Mr. Holbrooke called for a second time when Mr. Zardari was in London. The Pakistani leader then returned to Islamabad. But U.S. officials don't know whether it was because of American pressure or the protests Mr. Zardari faced while in Europe. One expatriate Pakistani threw a shoe at Mr. Zardari, according to Pakistani media reports.

Mr. Zardari has defended his decision to travel abroad, saying he helped focus international attention on the crisis.

A spokesman for Mr. Zardari said the president had decided to go ahead with the European visit in the long-term interests of good relations with the U.K. and France. Returning would have given him only a short-term popularity boost, he said.

U.S. officials are reluctant to criticize the Pakistani government publicly. "It's a crisis; they need support," a senior U.S. official in the

region said.

It took days for Pakistan to present the U.S. with an initial list of what supplies it needed.

"The delay is understandable because the Pakistani military couldn't get up in the air to do a thorough assessment. The monsoon is continuing," a U.S. defense official said.

U.S. Secretary of State Hillary Clinton will be in New York Thursday to attend a special U.N. session on the floods in Pakistan. Washington has so far pledged \$75 million in aid, the most of any country, and plans to send teams from the U.S. Army Corps of Engineers to help Pakistan make more detailed assessments.

Deployment of U.S. military personnel is complicated by Islamabad's insistence on minimizing the U.S. footprint, officials said. "Everything we're doing is at the express invitation of the government of Pakistan," a defense official said.

# South Africa businesses slam media curbs

By Peter Wonacott

JOHANNESBURG—South Africa's business community, which rarely confronts the powerful ruling political party, took aim at the African National Congress-controlled government and proposals to clamp down on the print media, saying such efforts threatened to tarnish the country's image and undermine a wave of investor interest after hosting the World Cup.

"We just dispelled so many stupid ideas about our country," said Bobby Godsell, chairman of Business Leadership South Africa, a group made up of chief executives of the nation's 80 largest companies. "Now

we've got people raising questions about whether our government believes in press freedom," he told reporters at a media briefing on Tuesday.

Business Leadership South Africa called press freedom "the lifeblood of both markets and democracies." And while the group said the quality of the country's journalism needed to improve, it criticized a proposed parliamentary watchdog for the media and a separate bill that casts a wide net over what information is classified.

The comments from the business group follow a statement Friday from President Jacob Zuma, who also leads the ANC. President Zuma

expressed support for steps to reel in print media, including a tribunal overseen by Parliament, which his party controls.

"The media has put itself on the pedestal of being the guardian," he said. "We therefore have the right to ask, who is guarding the guardian?"

Proponents of a tribunal say print media has veered into sensationalist and sometimes defamatory coverage—with little or no corrective punishment from an existing press ombudsman for inaccurate stories. Critics say that, in trying to muzzle the press, the ANC is hoping to conceal government corruption and failures to deliver reliable electricity, drinkable water and paved

roads to the poor.

Newspapers have also dived into the personal life of South Africa's polygamous president. Mr. Zuma acknowledged this year he fathered a 20th child with a woman who wasn't one of his three wives. The disclosure followed intensive press coverage.

In Friday's statement, Mr. Zuma said the media should allow the ANC and the public the same constitutional right to express views in favor of a press tribunal.

"We will use our right to express what we think. And we should not be silenced by claims of 'threats to press freedom,'" Mr. Zuma said. "Let the real debate begin."

In wading into the debate, the typically cautious business community is taking a bold step—and one that may not be without risk.

In South Africa, the ANC-dominated government hovers over almost all areas of the economy. It supports big state-owned companies, awards lucrative infrastructure contracts and keeps scorecards on how well companies comply with "black empowerment" policies. But the desire to "say something" trumped any worries about government repercussions for speaking out, said Michael Spicer, chief executive of Business Leadership South Africa. "Some may have felt we waited too long," he said.



## WORLD NEWS

# China's military growth worries U.S.

By ADAM ENTOUS

WASHINGTON—The Pentagon voiced alarm over China's military buildup, saying it was expanding its advantage over Taiwan and investing heavily in ballistic and cruise missile capabilities that could one day pose a challenge to U.S. dominance in the western Pacific.

In its annual report to Congress on Chinese military capabilities, the Pentagon also cited China's advances in electronic warfare. The U.S. government has been the target of cyber intrusions the report says appear to have originated in China and aimed to steal military secrets. "These intrusions focused on exfiltrating information, some of which could be of strategic or military utility," the report said.

Though their two countries are increasingly interlinked economically, ties between the U.S. military and the People's Liberation Army of China have deteriorated since January, when the Obama administration notified Congress of a plan to sell Taiwan up to \$6.4 billion in arms.

Defense Secretary Robert Gates has appealed to the Chinese to re-engage to reduce the risk of any military miscommunications. But U.S. officials say they have seen few signs of a thaw.

Washington has long voiced alarm over China's military buildup opposite Taiwan. In this year's re-



A Pentagon report highlighted a new antiship missile. Above, North China Sea Fleet soldiers parade on Aug. 1.

port, which was delayed from its typical spring release, the Pentagon said China's military edge over Taiwan was continuing to "shift in the mainland's favor," the main argument used by the Obama administration in approving the arms deal.

A particular concern for the U.S. is China's development of an antiship ballistic missile with a pro-

jected range of nearly 1,000 miles. The missile is meant to give the PLA the capability of attacking ships, including aircraft carriers, in the western Pacific, the report said.

Some experts say the missile could herald the end of U.S. naval domination. Others say the PLA has yet to conduct any realistic tests of the conventionally armed ballistic

missile and has no reliable way of targeting U.S. carrier task forces when they are at sea because China doesn't have enough low-earth-orbit reconnaissance satellites.

A senior defense official called the antiship ballistic missile a "great concern," but added: "They still have a long way to go."

The new missile is part of what

the Pentagon described as "the most active land-based ballistic and cruise missile program in the world."

The report said China's military has established information-warfare units to develop viruses to attack computer systems of its adversaries as well as tactics to protect its own networks. The goal of the computer attack tools, the report said, is "to deny an adversary access to information essential to conduct combat operations." The ability to conduct cyberattacks fits within China's broader goal of conducting asymmetric warfare to exploit weaknesses in stronger enemies like the U.S. By seeking to harvest huge volumes of data from U.S. computer networks and building up cyberwarfare capabilities, China is positioning itself to leverage some of the weak links in U.S. military systems.

The report referenced cyber intrusions it says appear to have originated within China. It is unclear whether these were conducted by or at the behest of the Chinese military.

The Wall Street Journal reported last year, and U.S. officials recently acknowledged publicly, that the Pentagon's largest weapons program, the Joint Strike Fighter, had been infiltrated. Investigators believe attackers in China were behind the effort to siphon off engineering designs and other information.

## Singapore's growth in exports eased in July

By GAURAV RAGHUVANSHI

Singapore's exports grew less than expected in July on a drop in pharmaceutical shipments, and analysts say the slowdown will likely continue into the rest of the year as concerns over the global economy linger and the benefits of a favorable base of comparison wear off.

Nonoil domestic exports from Singapore grew 18.2% from a year earlier in July, slowing sharply from a downwardly revised 28.5% expansion in June, trade promotion agency International Enterprise Singapore said. The growth pace was also below the median forecast of 20% in a Dow Jones Newswires poll of six economists.

"We could yet see more significant moderation in exports growth in the second half of this year. ... It is likely the export recovery may have reached a plateau in the first half, and going forward the recovery momentum will slow and even look anemic for some months," said Alvin Liew, an economist at Standard Chartered Bank.

Mr. Liew pointed to concerns about the sustainability of the global economy's recovery, stubbornly high unemployment in the U.S. and euro zone, and lingering worries about a possible Europe sovereign-debt crisis possibly hurting global trade.

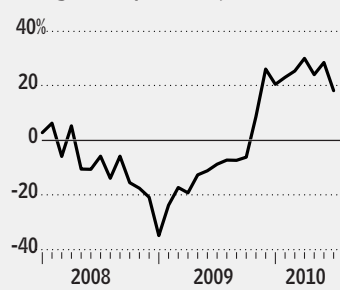
Measured in seasonally adjusted terms, exports declined 3.9% from June, steeper than the expected 2.7% fall. The July reading marked the third straight month of decline, a fall that is sharper than the contraction of 0.1% in June and 0.3% in May.

While the export figures were weaker than expected, many analysts say the trend was largely expected.

"I wouldn't be too upset with the

### Weaker demand

Singapore's non-oil exports, change from previous year



Source: Statistics Singapore via Thomson Reuters

data as the series can be quite volatile month to month. Markets have been weighed in by weaker growth data from the U.S. and Japan, but at the same time exports from China, South Korea and Taiwan held up well," said David Cohen, the director of Asian economic forecasting at Action Economics.

Exports to the U.S. rose 30.1% from a year earlier, after staying flat in June.

Shipments to the European Union rose 26.1% after June's 75.1% rise. Exports to China grew 34.6% on year, after gaining 38.3% in June.

Among sectors, electronics exports logged 25.7% growth on year, slowing from 43.9% in June.

Nonelectronic shipments rose 14.1%, slower than 20.8% in June. Pharmaceuticals fell 23.5% on year, after rising 29.7% in June.

The extremely volatile pharmaceuticals exports will remain the "wild card" for Singapore, magnifying the peaks and troughs for trade performance, Mr. Liew said.

## BOJ sees no threat from yen

By MEGUMI FUJIKAWA AND TOMOYUKI TACHIKAWA

TOKYO—Japan's central bank has come under a spotlight amid speculation that it could act to slow the surging yen, but people familiar with its thinking say officials there aren't alarmed as much by the increase and aren't yet ready to move.

The Bank of Japan, however, is ready to consider additional steps should the currency climb further or political pressure to act increases, these people said. And while any move the BOJ makes could have a limited effect, analysts say the central bank still has some tools to counteract a sudden currency jump.

The currency's climb to 15-year highs has alarmed Japan's government, which worries that the stronger yen could throttle a fragile recovery by reducing exporters' competitiveness and intensifying deflation. The government last week reiterated it will work closely with the BOJ to fight the yen's strength, and BOJ Gov. Masaaki Shirakawa issued a rare statement expressing concern about volatility in the yen and Japanese share prices.

The yen traded as low as 85.54 to the U.S. dollar in Asian trading Tuesday amid reports that Japanese Prime Minister Naoto Kan and Mr. Shirakawa would meet to discuss the currency's strength. Last week the U.S. dollar fell to 84.72 yen, the lowest since July 1995.

The BOJ pre-empted a similar meeting between Mr. Shirakawa and Mr. Kan's predecessor, Yukio Hatoyama, in December by unveiling a three-month emergency-loan program amid pressure to curb the yen.

Scrutiny has turned to the BOJ because Japan's government—which in past years has directly intervened in currency markets—could face some awkward moments if it moves.

Tokyo would have a hard time justifying intervention when it has expressed its displeasure with China's bid to depress the yuan.

Japanese officials have ratcheted up their rhetoric against the yen's relentless ascent. Finance Minister Yoshihiko Noda threatened Thursday to take "appropriate steps" in the foreign exchange market—code for yen-selling intervention. The ministry, which runs Japan's currency policy, hasn't ordered the BOJ to intervene since March 2004.

Even if the BOJ doesn't act directly in currency markets, the central bank could take steps to add liquidity to the market, which could push down market rates, pressuring the yen lower. One person familiar with the situation said if political pressure on the central bank to curb the yen should rise, the BOJ might have to take some additional steps.

Still, the BOJ considers the yen's recent gains relatively mild compared with its sharp moves late last year, said half-a-dozen people familiar with the central bank's thinking. The threat to the overall economy—so far—appears limited, as the yen's rise hasn't been excessively fast or dealt a significant blow to business sentiment, they said. "The current yen appreciation is different in terms of speed, substance and degree" from last year's surge, said one of the people. Still, "it would be regarded as risky if [the yen started to rise] rapidly and in an erratic manner."

For starters, the yen's real, trade-weighted exchange rate is significantly weaker than when the currency was at current levels against the dollar 15 years ago, given years of consumer price deflation in Japan and a change in the composition of its trading partners.

The potential limited effect also plays a role. The yen's rise is due

largely to the U.S. dollar's drop, driven by the U.S. Federal Reserve's super-loose monetary policy. That policy would likely overpower any effort by Japan to weaken the yen.

Few BOJ watchers expect the central bank to take anything other than token measures if it does act.

One possibility, would be to expand December's emergency loans. The BOJ initially set up a 10 trillion yen (about \$117 billion) facility, doubling that in March. It offers three-month loans at 0.1% with government bonds and corporate debt as collateral.

"Although it may not have real effects on stimulating economic activity, it would likely help push down the Japanese currency by lowering longer term-fund rates" such as interbank offered rates, said Mari Iwashita, chief market economist at Nikko Cordial Securities. She expects the BOJ to add a further 10 trillion yen to that program if either the yen surges more or political pressure intensifies.

Five of nine BOJ watchers in a Dow Jones Newswires survey last week forecast that the central bank would loosen policy if the yen rises further, either by increasing the amount of cheap three-month loans or extending their duration to six months. A more aggressive step would be for the BOJ to increase the amount of Japanese government bonds it buys outright from the current pace of 1.8 trillion yen a month, said Susumu Kato, chief Japan economist at Credit Agricole.

He expects the central bank to increase the size of government-bond buying operations to 2.6 trillion yen a month in October. Doing so would have a greater impact than expanding the loan facility as it would push down bond yields and improve funding conditions for banks.