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European Pressphoto Agency

Left to right, Tajikistan's President Imomali Rakhmon, Afghanistan's Hamid Karzai, Pakistan's Asif Ali Zardari and Russia's Dmitry Medvedev in Sochi on Wednesday.

Russia moves to shore up influence in Afghanistan

By RICHARD BOUDREAU

MOSCOW—Russia is negotiating the sale of about 20 helicopters for Afghanistan, stepping up efforts to help the country's U.S.-backed government battle the Taliban insurgency and drug traffickers. Foreign Minister Sergei Lavrov said Wednesday that Russia also had begun supplying firearms for the Afghan Interior Ministry and for police training. Until now, Russia's support for U.S.-led operations in Afghanistan has been limited to offering transit for railway shipments of nonlethal supplies as well as air corridors for weapons supplies.

Russia's tentative steps in Afghanistan, although small, are part of an effort to reassert influence in Central Asia in anticipation of a U.S. withdrawal, analysts in Moscow

say. Mr. Lavrov said Russia is awaiting a response to its proposed arrangement under which the North Atlantic Treaty Organization would pay for the helicopters. He said President Dmitry Medvedev and his Afghan counterpart, Hamid Karzai, discussed the deal during a meeting the Russian leader convened Wednesday at the Black Sea resort city of Sochi.

"There is a willingness to do this, but it naturally should be carried out on a mutual basis, primarily in terms of sources of financing," Mr. Lavrov told reporters in Sochi, Russia's Interfax news agency said. He didn't say what type of helicopters were under discussion, how much the deal would cost or the quantity of firearms Russia is providing.

NATO's purchase of Rus-

sian-made military helicopters became easier in May, when the U.S. lifted sanctions it had imposed in 2006 against Rosoboronexport, Russia's state arms dealer, for doing business with Iran.

The restrictions were ended as part of a U.S. effort to win Moscow's support for broader sanctions against Iran's nuclear program.

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Russia says it won't send troops to Afghanistan, where the Soviet Union lost more than 13,000 soldiers during a decadelong occupation in the 1980s. But Moscow is worried

that a return of Islamic fundamentalist rule there under the Taliban would unsettle neighboring republics of the former Soviet Union and threaten Russia's security.

"Russia naturally supports the Afghan government's fight against terrorism and is ready to help in any way," Mr. Medvedev told Mr. Karzai at the televised start of their meeting. He said trafficking in Afghan drugs, which feed drug abuse in Russia, "is an issue for all the countries in the region. ... Our actions should be coordinated."

Mr. Karzai responded, "Afghanistan will need the support of friends and from great countries like Russia."

Presidents Asif Ali Zardari of Pakistan and Imomali Rakhmon of Tajikistan, countries that border Afghanistan, joined Messrs. Karzai and Medvedev in Sochi. The four

leaders issued a statement pledging to fight terrorism and drug trafficking. Mr. Medvedev convened the same group last year as part of Russia's outreach to the region.

At Wednesday's meeting, Mr. Medvedev also offered Pakistan support for dealing with the catastrophic floods that have ravaged the country, killing an estimated 1,500 people and affecting about 20 million, according to news reports.

"We are mourning together with you and we are ready to provide all the necessary assistance," Mr. Medvedev said, Interfax reported.

A Russian Emergency Situations Ministry plane delivered relief supplies to Pakistan on Tuesday, and another such flight will be conducted Thursday, the news agency said.

Exit for man who let Soros cash in

One of the key figures behind Britain's devaluation of the pound is closing his hedge fund, citing the "high emotional toll" of not performing up to his own expectations.

Billionaire hedge-fund manager Stanley Druckenmiller told clients in a letter Wednesday that he is returning their money and ending his firm's 30-year run.

Mr. Druckenmiller, 57 years old, manages some \$12 billion in assets, including several billion dollars that are his own, at Pittsburgh-based **Duquesne Capital Management**.

The one-page letter capped a career that included a decade overseeing strategy at George Soros's famed Soros Fund Management, while Mr. Druckenmiller continued to run his own firm. He left Soros 10 years ago.

While at Soros Fund Management, he was instrumental in trades that triggered the devaluation of the British pound in 1992 and generated roughly \$1 billion for the firm.

Mr. Druckenmiller told clients he was "dissatisfied" with his performance the past several years measured against his long-term track record. Duquesne is down about 5% so far in 2010, a person familiar with the matter said. Were he not to recoup those losses by year-end, this would be Mr. Druckenmiller's first negative year ever.

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PAGE TWO

Deputy's hand-bagging shows Merkel is in no mood to ease up on austerity

[Agenda]

By TERENCE ROTH



Anyone wondering if Germany's stunning economic growth spurt this summer could move to soften Angela Merkel's austerity program need look no further than her latest censure of the junior coalition partner, the Free Democrats.

After news that Germany in the second quarter grew at its fastest pace since reunification, Deputy Chancellor Guido Westerwelle rashly spent the weekend resurrecting ideas of a tax cut, branding it a "recovery dividend" in one interview. After all, the likely upgrade in German growth forecasts will signify an unanticipated windfall of at least €13 billion (\$16.7 billion) for the public purse when adding up added tax intake and welfare savings, one estimate claims.

Then Ms. Merkel returned this week from her summer break and, a likely hand-bagging later, a government spokesman announced that all government parties were agreed that budget consolidation remained their top priority. No more was heard of recovery dividends.

This is more than a censure for Mr. Westerwelle and his forlorn hope to make good campaign promises of tax relief. It is Ms. Merkel asserting unmistakably that her government is determined to have Germany leading Europe back to fiscal piety, with economic recovery consigned to a supporting role. Any measure straying from the focus on deficit limits, now written into German law, will remain anathema for Germany's current government.

Recovery is already on track and Germany already appears



Chancellor Merkel with a toy at a wind turbine park near Rostock Wednesday, German Associated Press

within reach of getting its budget deficit in line with the EU-mandated 3% of GDP in 2012, a year earlier than planned. But few German policy makers believe Germany can sustain the blistering 2.2% second-quarter growth rate for the rest of the year. That puts additional focus on tweaks being made to the 2011 budget this month.

The coalition parties and government ministries are still

Merkel's government is determined to have Germany leading Europe back to fiscal piety.

thrashing out final details for austerity measures that are part of a sidecar bill to the 2011 budget, to be presented to the cabinet on Sept. 1. Most of those plans bear the heavy stamp of austerity framed by the government's plan for an €81.6 billion package of cost savings adopted in June.

Caps on defense spending are angering the military. The power industry is chafing at government plans to take its tax on nuclear fuels (now delayed) into the general budget rather than into an

independent fund for renewable energy. Trade unions fume at government resistance to a universal minimum wage, which industry warns would trigger massive job cuts among unskilled workers. Also taking hits are social welfare and unemployment benefits, where the government aims to cut €30.3 billion in spending.

None of this has made Chancellor Merkel very popular at home. Her Christian Democratic Party and Christian Social Union have dropped to near 30% in approval ratings as the opposition Social Democrats keep gaining ground. One poll showed her current coalition with the Free Democrats losing to a combination of Social Democrats and the Green Party if a general election were held now. That gap is partly explained by voters believing they are excluded from the recovery, a complaint that could grow louder if the economic expansion slows.

New sentiment indexes this week reflected confidence in the economy falling off this month. Yet nothing short of another recession would move the current government to forsake the austerity covenant to restore lapsed stimulus programs or campaign promises of tax cuts, as Mr. Westerwelle can confirm.

Honohan's roadshow

Patrick Honohan's whistle-stop tour through Asia's power centers this week wasn't billed as a roadshow marketing Irish debt to Asian institutional investors, but it didn't have to be.

Officially, the Irish central bank chief was to present a progress report on the government's effort to get its economic house in order. But the journey also was neatly timed with a crucial Irish sovereign-debt auction and news that the government needs to inject billions more into solvency-challenged Irish banks.

The Irish debt office's painless €1.5 billion bond sale this week soundly rebuts, for now, skeptics who see Ireland as the next Greece. But there remains an uneasy truce with financial markets, where many still aren't convinced that Ireland can avoid a debt restructuring further down the road unless its dysfunctional banking system is restored.

Ireland has received EU approval to inject an additional €10 billion into **Anglo Irish Bank**, coming after €14.3 billion stuck previously into the nationalized bank. The government also now holds 18.6% of **Allied Irish Banks PLC**, which could need a further €7.4 billion if it can't raise the money itself. The **Irish National Building Society** also needs more support.

Until that running bank liability is crossed off, Ireland will continue to pay hefty premiums to attract investors to its debt and add to debt-servicing costs, as treasury officials are the first to attest.

Mr. Honohan's salesmanship would be vastly aided if, as he predicts, Ireland can show convincingly that it can keep the economy growing even as it pares back spending to get its budget deficit to an acceptable level by 2014. A sustained global recovery would help.

What's News

■ **BHP said it will take its hostile \$38.6 billion bid for Potash directly to shareholders after the fertilizer company's board rejected the offer as too low.** BHP's chief executive said the \$130-a-share offer is a fair price. 17

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Laurence Norman explains why Tories have warmed to quantitative easing



Continuing coverage



Why the World Cup's lasting effects haven't been felt, wsj.com/africa

Question of the day

Vote and discuss: Would you buy shares in the new General Motors?

Vote online at wsj.com/poll

Previous results

Q: Would you convict the JetBlue flight attendant for deploying an emergency chute?

Yes, give him suspended sentence

48%

No, reaction was forgivable

33%

Yes, throw the book at him

19%

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NEWS

Sotheby's puts vegetables on the block

By SUMATHI REDDY

Sotheby's Auction House, that purveyor of all things rare and fine, will soon dabble in something a little more pedestrian: vegetables.

But these aren't your average garden greens. On the auction block are mixed crates filled with vegetables such as Turkish Orange Eggplant, Lady Godiva Squash and Pink Banana Pumpkin. Rare, indeed. The asking price: \$1,000 a crate.

The auction is part of a Sotheby's benefit featuring heirloom vegetables—vintage varieties that aren't commonly grown by the

mass-produced agriculture of today. The Sept. 23 benefit, titled "The Art of Farming," is the first of its kind by Sotheby's and is being held in the auction house's Manhattan showroom.

If ever there was a sign that locavorism—the movement to eat all things natural and local—has reached a new level, this may be it. As local vegetables become sought-after ingredients du jour, local farmers, often using organic growing methods, find themselves increasingly in the spotlight.

"I feel very fortunate to be an organic farmer right now," said Erich

McEnroe, manager of McEnroe Farm in Millerton, N.Y., who is growing Black Sea Man Tomatoes and Turkish Orange Eggplant for the auction. "I'm glad my father made the switch many moons ago."

Proceeds from the event will go to GrowNYC New Farmers Development Project, an initiative helping immigrants to become farmers, and to the Sylvia Center, a program that teaches children to eat well.

Jamie Niven, chairman of Sotheby's North America, will auction off food-related packages such as celebrity-chef dinners and vegetable shares in local farms.

At the end of the auction, those present will be asked whether they want to donate \$1,000 for one of 10 crates of the mixed heirloom vegetables grown by several dozen farmers. The contents of the crates then will be donated to two local food pantries.

A silent auction will allow people to buy some heirloom vegetables for themselves.

The Sotheby's event is preceded by a cocktail reception and followed by a four-course dinner created by celebrity chefs.

The auction kicks off Eat Drink Local week, running statewide be-

tween Sept. 26 and Oct. 6. Other observances around New York state center on participating restaurants highlighting the locally grown fare they offer on their menus.

Amy Todd Middleton, Sotheby's director of world-wide marketing, said the event is designed to promote heirloom vegetables and local farming.

"It's not that Sotheby's is entering a new line of business or that we're starting to have farm auctions," said Ms. Middleton. "This is a benefit to raise awareness and a philanthropic event for the local farming community."

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Victory travels in Louis Vuitton



LOUIS VUITTON

EUROPE NEWS

New tensions emerge in U.K. among Liberal Democrats

By LAURENCE NORMAN
AND AINSLEY THOMSON

LONDON—As the U.K. government marked 100 days in power on Wednesday, signs of tension emerged within the Liberal Democrats, the junior coalition partner to the Conservatives.

The Liberal Democrats' deputy leader, Simon Hughes, proposed that his party's lawmakers should get a veto over government policies. Mr. Hughes's comments came as Deputy Prime Minister Nick Clegg, leader of the Liberal Democrats, sought to move the focus from the government's austerity measures to one of his party's touchstone issues—social mobility.

Since the May general election, the Liberal Democrats' popularity has dwindled. An ICM poll for the Guardian newspaper on Wednesday showed their support at 18%, five percentage points lower than on Election Day. The poll showed the Conservatives and Labour tied at 37%.

Mr. Hughes—who has previously raised concerns about aspects of the coalition's austerity plans and has criticized Conservative Prime Minister David Cameron on housing policy—is seen as a lightning rod for left-leaning members of the Liberal Democrats.

The Conservatives and Liberal Democrats agreed to a detailed coalition agreement after taking power. Handing a veto power to backbenchers—lawmakers who don't have government posts—could block some of the policies the two parties agreed on.

People familiar with the Liberal Democrats said that Mr. Hughes's comments—which came a month before the party's annual conference—illustrate the apprehension that some members feel about the coalition's policies, but that they don't indicate serious cracks within the party.

In his comments to the BBC, Mr. Hughes also said he still hoped to see the party link with Labour in the future. The Liberal Democrats are seen by many as a more natural partner to Labour, and the Conservative-Liberal Democrats coalition



U.K. Deputy Prime Minister Nick Clegg, leader of the Liberal Democrats, visits the Shepherds Bush Families Project, which provides child care and help for families with housing difficulties, in London on Wednesday.

surprised some observers.

"The idea of a center left, a progressive-liberal Britain, is still very much for me what I am here to achieve, and who knows there may be a coalition with the modern Labour Party if they're progressive at the next election or after the next election," Mr. Hughes said. "It's on the agenda."

Mr. Cameron's office didn't comment on Mr. Hughes's remarks.

In a speech Wednesday at a think tank in London, Mr. Clegg sought to shift the focus away from the coalition government's austerity plans, which seek £113 billion (\$176 billion) in savings over the next five years.

"Our critics characterize us as being solely defined by our public spending cuts," he said. "Tackling the deficit is our immediate priority

but it's not our be-all and end-all."

Mr. Clegg said he was proud of what had been achieved in the first 100 days of the Conservatives-Liberal Democrats tie-up—the first coalition government in the U.K. since World War II.

He said the government's determination to fix the deficit was matched by its determination to create a more socially mobile society.

"Under Labour, huge sums of money were spent pushing low-income households just above the statistically defined level of household income—sometimes by just a few pounds a week—but with no discernible impact on the real-life chances of the next generation," Mr. Clegg said.

He said tackling poverty of opportunity required a more rounded

approach, with welfare reform based on the need to improve people's lives, not just raise their incomes.

Mr. Clegg declined to address reports that the coalition government was considering restricting benefits such as winter fuel payments and child tax payments as a way of curbing spending.

Such a move would be politically contentious—the Conservatives had promised to protect some of these benefits before May's vote.

A Treasury spokesman said that the government had committed to £11 billion in welfare reforms in the budget and that it had "signaled its intention to look for further reforms to create a simpler benefits system."

The spokesman added that "any reforms will be considered as part of the spending review process."

BOE voted 8-1 to make no change in policy

By PAUL HANNON
AND AINSLEY THOMSON

LONDON—The Bank of England's Monetary Policy Committee considered arguments for easing and for tightening policy at its August meeting, but eight of its nine members decided to leave policy on hold.

For the third month in a row, Andrew Sentance was the lone dissenter arguing for a rise in the bank rate to 0.75% from 0.5%.

However, the minutes of the meeting published Wednesday showed that most MPC members saw "substantial" risks to inflation and "stood ready to respond in either direction as the balance of risks evolved."

Among the factors that suggested policy might need to be eased, the MPC considered the continued tightness in credit conditions, the impact of the emergency budget and some weakness in recent business and consumer surveys.

There were also some developments that suggested tightening might be appropriate, including a pickup in economic growth, the continued high level of inflation and the risk that inflation expectations may rise. Still, most MPC members continued to believe that spare capacity would bring inflation back down to target and that policy should be left unchanged.

"On balance...most members thought that the current level of Bank rate and stock of asset purchases financed by the issuance of central bank reserves remained appropriate to balance the risks to the inflation outlook in the medium

In dissenting, Mr. Sentance argued that companies find it easier to raise prices in response to higher costs.

term," the minutes said.

The BOE's key interest rate stands at a record low of 0.5%, while its stock of bond purchases has been at £200 billion (about \$312 billion) since February.

Few economists expect the BOE to change policy soon, unless there is a clear deterioration in the economic outlook. The August meeting was the first in which new member Martin Weale participated. As expected, he voted with the majority.

In dissenting, Mr. Sentance argued that with momentum from the recovery, companies were finding it easier to raise prices in response to higher costs. He also argued that the strength of the manufacturing sector in recent months "suggested the U.K. economy was receiving a strong stimulus from healthy global growth."

Separately, the BOE's regional agents said the spending cuts announced in the June 22 emergency budget had hit business confidence. However, they noted that few businesses had changed their investment or hiring plans as a result, as many were awaiting details of where the cuts will fall in the spending review to be announced Oct. 20.

Iceland cuts rate as inflation eases

STOCKHOLM—Iceland's central bank Wednesday lowered its key interest rate, continuing a string of cuts throughout 2010 as inflation has eased and its currency has stabilized.

By *Gustav Sandstrom*
in Stockholm and *Tom Mudd*
in London

The central bank lowered the benchmark rate to 7% from 8%. The bank's Monetary Policy Committee has gradually cut the seven-day collateralized lending rate from a peak of 18% in the autumn of 2008.

Iceland's economy teetered after the tiny country's highly leveraged banking system collapsed in late 2008, but its currency and inflation rate have since stabilized. The krona

has appreciated 4.6% against the dollar since the beginning of 2010.

Iceland's annual inflation rate fell to 4.8% in July, marking the fourth month of decline. Annual price inflation in the North Atlantic island economy declined in June to 5.7% from 7.5% in May, falling from a peak of 18.6% in January 2009.

Late last month, Moody's Investors Service lowered its outlook on Icelandic government debt in reaction to an Icelandic Supreme Court decision that the ratings firm said could cause "substantial bank losses," raising the prospect that further government support for the banking sector could be needed. Moody's rates Iceland at Baa3, its lowest investment-grade rating.

The ratings agency warned at the time that the Reykjavik govern-

ment needs to resolve a \$5.5 billion dispute with the Netherlands and the U.K. over collapsed Internet bank Icesave, or else the Nordic countries and the International Monetary Fund might withhold future disbursements of a \$5 billion aid program.

On a positive note, Moody's said it expects inflation-adjusted economic growth to begin this year in Iceland—but that projection is subject to significant risks. Iceland posted first-quarter gross domestic product growth of 0.6% on a quarterly basis after its economy contracted 6.5% in 2009, according to Statistics Iceland.

The central bank's MPC said further easing could be in store, provided that there aren't any negative developments for inflation and Ice-

land's currency.

"The MPC stands ready to adjust the monetary stance as required to achieve its interim objective of exchange-rate stability and ensure that inflation is close to target over the medium term," the bank said.

Wednesday's one-percentage-point cut was surprisingly big, given that the central bank lowered by half that amount at previous meetings in 2010, Iceland-based Islandsbanki said in a note to investors.

"The question that now arises is whether a new tactic is being adopted in these interest-rate change decisions and whether further big interest-rate cuts might be in the pipeline," Islandsbanki said Wednesday, adding that a policy rate of 5% to 5.5% before year-end wouldn't be unlikely.

EUROPE NEWS

Exports to China stir German fears

By VANESSA FUHRMANS

Germany's resurgent export economy is presenting the country's policy makers with a new worry—a growing reliance on China.

Germany's economy expanded at an annualized 9% rate in the second quarter, its strongest pace in more than 25 years. Driving that growth was demand for German exports, especially from China. Now, however, with China expected to tap the brakes on its double-digit growth in coming months, many economists say the cooldown will have an outsize effect on Germany.

"I see the [Chinese growth] with a lot of mixed feelings," said Ralph Wiechers, chief economist at the VDMA German engineering federation. "On one hand, it is clear that China is ever more important for German companies. But as a businessman, you always wish that your growth was broader-based."

German export gains in China—55% in the first five months of the year, or roughly six times the growth rate of exports to the euro zone—have been the primary engine in the recovery of many German manufacturers, such as textile machinery, compressor and machine-tool makers.

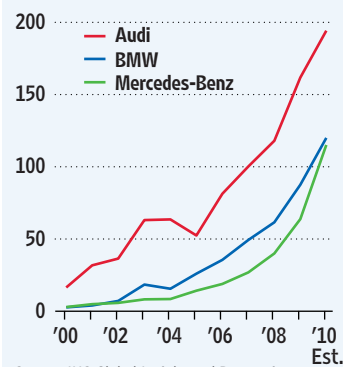
German industry as a whole has benefited from exports to China, but the auto sector has profited most.

For German machinery makers—a pillar of the country's economy—China last year surpassed the U.S. as the largest export market, with some 10.2% of their exported products flowing there, compared with 7.2% going to the U.S. During the first five months of this year, the share of German machinery production headed to the China grew further to 11.1%.

Across Germany's broader economy, China represents about 5% of all German exports, half the volume of exports to France, Germany's largest, single export market, and a fraction of those to the entire euro

Upwardly mobile

Sales of passenger vehicles in China, in thousands



Source: IHS Global Insight and Bernstein Research.

zone. Nevertheless, China's predominance as a driver of German growth is unlikely to change soon, with much of Europe stagnating and the U.S. outlook uncertain.

China's growth softened over the second quarter, to 10.3% from 11.9% in the first quarter, and economists predict further slowing as the government restrains bank lending in a bid to keep the economy from overheating. Though German industry as a whole has benefited from exports to China, the country's marquee sector—autos—has profited most.

Among Germany's big premium car makers—**BMW AG**, **Daimler AG's Mercedes-Benz** and **Volkswagen AG's Audi**—individual car sales to China have soared between 63% and 132% so far this year. Such growth has fueled a surge in profits, pushing operating margins to record levels despite weak sales on their home turf in Europe and spotty growth in the U.S.

Behind the windfall is a confluence of factors. Chinese luxury-car drivers gravitate toward pricier, higher-end vehicles with much bigger engines and more options than such buyers in the three auto makers' more mature markets. The euro's roughly 15% slide against the dollar and the Chinese yuan in the first half of 2010 added another boost to profit margins on cars imported from Germany or elsewhere.

As a result, analysts estimate that the German auto makers of



Browsers take a look at a BMW convertible at China's Guangzhou Auto Show in November.

late, particularly BMW and Mercedes, may have been reaping as much as €30,000 (\$38,613) in profit per car exported to and sold in China, roughly 10 times the amount they typically do in Europe.

At BMW, Chinese profitability may have contributed as much as 90% of the car maker's €1.3 billion in second-quarter operating profit from its auto segment, estimates Max Warburton of Bernstein Research in London.

Such lopsided fortunes have some economists and industrialists fretting that Germany's auto industry is becoming too reliant on Chinese growth and that such exposure is a harbinger for other swaths of Germany's export-driven economy.

"What makes me worried is that it is just such unsustainably explosive growth," said Bernstein's Mr. Warburton, who added that the re-

markable Chinese profitability of German car makers presents a "potentially misleading picture" of their financial health as they struggle with overcapacity, growing investment costs in fuel-efficient technologies and minimal growth in other big markets. "I've got a horrible feeling there will be a few setbacks" as China's car market develops, he added.

This week, a key monthly index of German investor confidence, conducted by the ZEW institute, showed that investor sentiment dropped to a lower-than-expected 14.0 in August from 21.2 in July, suggesting a more pessimistic outlook for the rest of the year after strong growth in the first half.

German auto makers dismiss the notion that they have become too dependent on China for growth, even as they shift resources and

ramp up production to meet Asian demand.

"It is important to me to emphasize we are not solely relying on China," BMW's chief executive Norbert Reithofer said this month, when the auto maker presented its second-quarter earnings. "We are a company that acts and operates globally."

Others have already begun managing expectations for slower growth world-wide. In announcing Volkswagen's July car sales last week, the company's sales chief Christian Klingler predicted that the global auto market would shrink in the second half, suggesting that growth from China and other emerging markets wouldn't be enough to offset declining sales in Europe and elsewhere. "There will not be a return to precrisis levels this year," he said.

Delay on Berlin's fuel-rod tax

By ANDREA THOMAS

BERLIN—German Chancellor Angela Merkel's government postponed its decision on a duty on nuclear-fuel-rods until the end of September, and will link it to continuing talks about the government's energy road map, a government spokesman said Wednesday.

"The reliability of the budget planning remains unchanged, but if things which are in correlation can be better debated together, it's better to do so," the spokesman said.

Environmental Minister Norbert Röttgen also confirmed the decision would be delayed to the end of September.

The government had planned to finalize the levy in talks with utilities by Sept. 1, and details of the levy would have formed part of a draft law on austerity measures to be put to the cabinet.

The decision means German Finance Minister Wolfgang Schäuble gave in to pressure from other min-

isters who had urged him to link the issue of a levy on nuclear fuel rods to the government's energy plan and negotiations about the extension of the life span of nuclear-power plants, which are expected to be finalized by the end of September.

The government spokesman later said that the nuclear-fuel-rod tax remains on the table, and that talks about alternatives will be conducted simultaneously, with results expected soon.

Finance ministry spokesman Michael Offer said the draft bill sent to the other ministries Tuesday includes the nuclear-fuel-rods tax, but "it will have to be clarified over the next weeks" in further talks whether utilities will have to pay a tax or have to pay into a fund.

Under existing plans, utilities will have to pay €220 (\$283) a gram of plutonium or uranium with this levy to generate a net proceed for the government of €2.3 billion, Mr. Offer said.

The government plans a €2.3 bil-

lion annual duty on nuclear fuel rods as part of its €80 billion austerity package that is scheduled to be implemented next year.

This amount will still be included in the supplementary budget bill, but the bill won't provide any details on how to achieve these revenues, the government spokesman said.

Germany's utilities have warned that the government's plan to tax the fuel used in nuclear-power plants could make reactors unprofitable and hasten the country's exit from atomic-energy generation.

Ms. Merkel will meet with the chief executives of **RWE AG** and **E.ON AG** on Aug. 26 at the nuclear-power plant Emsland in Lingen as part of her energy trip through Germany.

Nuclear plants account for about 25% of electricity production in Germany. The country's nuclear-power plants are operated by utilities **E.ON**, **RWE**, **EnBW Energie Baden-Württemberg AG** and **Vattenfall Europe AG**.

Basel says bank rules won't hit global growth

By GEOFFREY T. SMITH

FRANKFURT—The global economy won't suffer if banks are forced to adopt tighter standards on capital and liquidity, the Financial Stability Board and Basel Committee for Banking Supervision said in a joint statement Wednesday.

The statement summarizes an interim report on the long-term effects on the economy of forcing banks to hold more capital and more liquid assets, relative to their overall balance sheet. The findings rebut bank complaints that such requirements would crimp lending to the real economy.

"The Basel Committee's assessment of the long-term economic impact finds that there are clear net long-term economic benefits from increasing the minimum capital and liquidity requirements from their current levels in order to raise the

safety and soundness of the global banking system," the statement said.

"The analysis shows that the macroeconomic costs of implementing stronger standards are manageable, especially with appropriate phase-in arrangements, while the longer-term benefits to financial stability and more stable economic growth are substantial," FSB head Mario Draghi said in an accompanying statement.

The FSB and Basel Committee said that for every 1% increase in the ratio of capital to assets that banks are asked to keep, growth would fall by only 0.04% a year over 4½ years. They said an increase of 25% in liquid assets held by banks would have less than half of the effect of a 1% rise in capital ratios over the same period. The regulators intend to phase in the new standards over a period of time, once they are finally determined.

EUROPE NEWS

Turkey PM, business lobby face off over referendum

BY MARC CHAMPION
AND JOE PARKINSON

ISTANBUL—Prime Minister Recep Tayyip Erdogan has warned Turkey's largest business lobby that it risks "elimination" if it doesn't take a stand on the country's Sept. 12 referendum on constitutional change, as the campaign to influence the vote turns increasingly hostile.

Twice this week, Mr. Erdogan has called on Tusiad, the Turkish Industrialists and Businessmen's Association, to say whether it is for or against the government's proposed constitutional amendments. The changes, if passed, would transform the makeup of the country's top courts, which are currently bastions of secularist opposition to Mr. Erdogan's Islamic-leaning government.

"Declare your stance. If it is no, say 'No.' If it is yes, say 'Yes.' ... He who is neutral will be eliminated," Mr. Erdogan said in a speech at a dinner Tuesday night, noting that smaller business lobbies had come out in favor of the changes. "We will not leave this country to the hegemony of capital. You were able to play with governments as if you were playing with cats and dogs in the past, but you can not do it with this government."

Rhetoric has become increasingly virulent in recent days between the supporters of amendments—which includes the Justice and Development Party, or AKP—and opposition politicians and the secularist establishment. Politicians on both sides have been holding rallies while party mini-buses have crisscrossed the country tossing fliers on road-sides.

Opposition leader Kemal Kilicdaroglu has repeatedly over the past week referred to Mr. Erdogan as Recep, which some AKP members found disrespectful. Mr. Erdogan has called Mr. Kilicdaroglu a "civil servant," shorthand for underachiever.

On Wednesday, a spokesman for President Abdullah Gul confirmed that he had called on all sides to calm down, warning that otherwise party leaders would be incapable of doing business with each other after the referendum.

Tusiad, which claims to represent 50% of Turkey's private-sector economy and 80% of exports, represents an important policy voice in the country. Mr. Erdogan has long history of friction with Tusiad, some of whose members, including Dogan group media, whose newspapers had been critical of his political movement.

"The striking fact is that Tusiad



Mr. Erdogan challenged a business lobby to declare its stand on the referendum.

Constitutional conundrum

Polling is inconclusive on which way the Turkish electorate will vote Sept. 12 on the government's proposed constitutional amendments.

Genar (August 12) Firm's owner has been candidate for ruling AKP.

Yes 56.1% No 43.9%

Sonar (August 11) Owner has been candidate for opposition MHP nationalist party.

Yes 49.1% No 50.9%

Andy-ar (August 2) Poll of 1,961 people, conducted in 20 cities. Undecided

Yes 51.8% No 33.9% 14.3%

Sources: Genar Research Consultancy Education; Andy-Ar Social Research Center; Sonar Research

really has said nothing against the referendum. To the secularists, this seems to confirm their worst nightmares, that it is not enough to stay neutral now—you have to become an AK party supporter" to escape punishment, said Atillah Yesilada, Istanbul-based analyst for Global Source Partners, an economic consultancy. "The environment is already so poisoned that a lot of people are saying the first priority of the [referendum] winner will be to take revenge."

Tusiad said Mr. Erdogan was taking "an unfortunate approach." In a statement issued Tuesday, it added: "To warn an institution of civil society that 'the neutral will be eliminated' ... will not strengthen role of civil society in modern democracy."

A spokesman for Mr. Erdogan said the prime minister's comments "should not be taken as a threat." He said the main thrust of Mr. Erdogan's speech had been to challenge Tusiad to explain why it was staying neutral now when it had joined a public petition in favor of constitutional reform in 2001.

Tusiad in its statement said the 2001 petition was in favor of constitutional reform in general, not of the amendments the government is putting to referendum.

The prime minister's comments triggered concern in Turkey's establishment business community, which is already worried by the government's levy of massive tax fines against the Dogan media group. On Wednesday, **Dogan Yayin Holding AS** said a Turkish court had upheld a 713.3 million lira (\$476 million) tax fine, part of a series of fines the government has imposed on the company that now total 4.8 billion lira.

The referendum, if approved, would expand Turkey's Constitutional Court to 17 members from 11, with Mr. Gul, who comes from the AKP, playing a key role in the new appointments. The court blocked legislation to permit the wearing of headscarves in universities, and in 2008 came within one vote of banning the AKP.

The Supreme Board of Judges and Prosecutors, which plays a key role in the appointment of and disciplining of the judiciary, would expand to 22 members from 7.

The government says the changes are key to breaking the so-called military-tutelage of Turkish democracy since the republic's foundation in 1923, and to securing entry to the European Union. EU officials have backed the package, while saying more changes are needed.

Critics worry that with opposition from key institutions tamed, the government will use the courts and other levers of government to crush opponents.

The referendum is also being watched closely as a predictor of next year's elections, which must be held by July. Recent polls predicting the referendum outcome are inconclusive. Many analysts predict a win for the government.

Economists say the AKP, chastened by defeat or an inconclusive victory in the referendum, could embark on a pre-election spending spree that could undermine Turkey's fiscal stability. Last week, the government rattled markets by delaying adoption of a new fiscal rule that would cut the budget deficit to 1% of gross domestic product within 10 years.

—Erkan Öz
contributed to this article.

Swiss regulator plans to step down

BY KATHARINA BART

ZURICH—Eugen Haltiner, the chairman of Switzerland's financial regulator, said he will step down at year's end, ending a tenure marked by controversy linked to his former employer, **UBS AG**.

"Although it was not an easy decision to make, the time is now right for me to step down. The merger into Finma was successfully concluded thanks to the commitment of everyone involved," Mr. Haltiner said in a statement Wednesday, referring to the 2009 merger of Switzerland's banking, insurance and anti-money-laundering authorities.

Mr. Haltiner, 62 years old, became head of the Swiss banking supervisor in 2006, shortly before UBS's problems with illiquid mortgage securities emerged. UBS was ultimately propped up by the government, Swiss National Bank and Finma in October 2008.

He faced criticism over his connection to UBS and some called Mr. Haltiner's role regulating UBS's private-banking business a conflict of interest. In May, the government criticized Finma for being lax when UBS began racking up mortgage losses. Finma acknowledged shortcomings in handling the financial crisis, which hit UBS far harder than rival **Credit Suisse Group**.

Finma introduced a slew of remedial measures, including tougher regulation on liquidity, capital and risk-taking, and beefed up its supervisory division by hiring another

former UBS executive, Mark Branson.

The government issued a separate statement thanking Mr. Haltiner for his service and said it will propose a new Finma chairman in November. Mr. Haltiner, who wasn't available for comment Wednesday, is free to pursue opportunities in the private sector should he wish to do so, a Finma spokesman said.

Mr. Haltiner is perhaps best known for his dealings with U.S. tax officials on the issue of secret offshore Swiss accounts held by wealthy Americans, many suspected of tax evasion. Mr. Haltiner and Finma were behind a Feb. 2009 emergency order for UBS to turn over the names of around 250 Swiss offshore account holders as part of a \$780 million criminal settlement with U.S. authorities.

The government backed the handover, meant to pre-empt an indictment for UBS, which Finma argued would have had harrowing consequences for the Swiss economy. Finma is currently appealing to Switzerland's highest court after a lower court ruled the move was unlawful.

One day later, the U.S. Internal Revenue Service launched civil proceedings aimed at gaining access to data on over 50,000 accounts. Swiss and U.S. officials reached a settlement on the handover of another 4,450 sets of data last August, a pact which the government was finally able to honor by winning parliamentary approval in June.



Eugen Haltiner's tenure was marked by controversy surrounding UBS.

Germany brings charges against Rwandan man

Associated Press

BERLIN—A former Rwandan mayor living in Germany was charged for allegedly organizing massacres and inciting killings during the African country's 1994 genocide, federal prosecutors said.

The 53-year-old, identified only as Onesphore R., was charged with genocide and murder as well as inciting those crimes, prosecutors said. They said the man was the mayor of a district in northern Rwanda at the time of the killings, without identifying the district. At least 500,000 members of the Tutsi

ethnic minority and moderates from the Hutu majority were slaughtered in the Rwandan genocide.

Prosecutors allege the former mayor, a Hutu, called for pogroms against the Tutsi minority on three occasions in April 1994. They said he forced a local official to throw out Tutsis who had taken refuge in his house, threatening the official's family would be killed otherwise.

Prosecutors said the man ordered and coordinated three massacres in April 1994 in which at least 3,730 Tutsis were killed—some of whom had sought shelter in church buildings.

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U.S. NEWS

Plans push accounts for 'unbanked'

BY SUDEEP REDDY

Federal and local governments are trying once again to persuade some of the 17 million U.S. adults who rely on check-cashing services to open their own bank accounts. Past efforts to lure "unbanked" consumers into the financial mainstream have fallen short. Some states require state-chartered banks to offer low-cost accounts, but banks rarely promote them. A Treasury Department initiative earlier this decade offered grants to banks and community groups to sign up consumers, but few accounts were opened.

Jolita Richmond, a nursing assistant in Laurel, Md., patronizing a Kash King check-cashing store last week, said she closed her bank account earlier this year after \$300 in overdraft fees piled up without her realizing it. Her income-tax refund, deposited into her account, took care of the charges but she decided it wasn't worth the cost.

"That's when I said, 'Forget it with the banks,'" she said. "I just lost hope with them."

Ms. Richmond, 39 years old, now relies on check-cashers that take a cut of her paycheck—generally 1% to 4%—or heads to the bank where a check was drawn. When she needs plastic, she uses a prepaid debit card that charges \$1 a purchase and \$3 to reload.

Still, she misses having a place to sock away \$30 a month for emergencies.

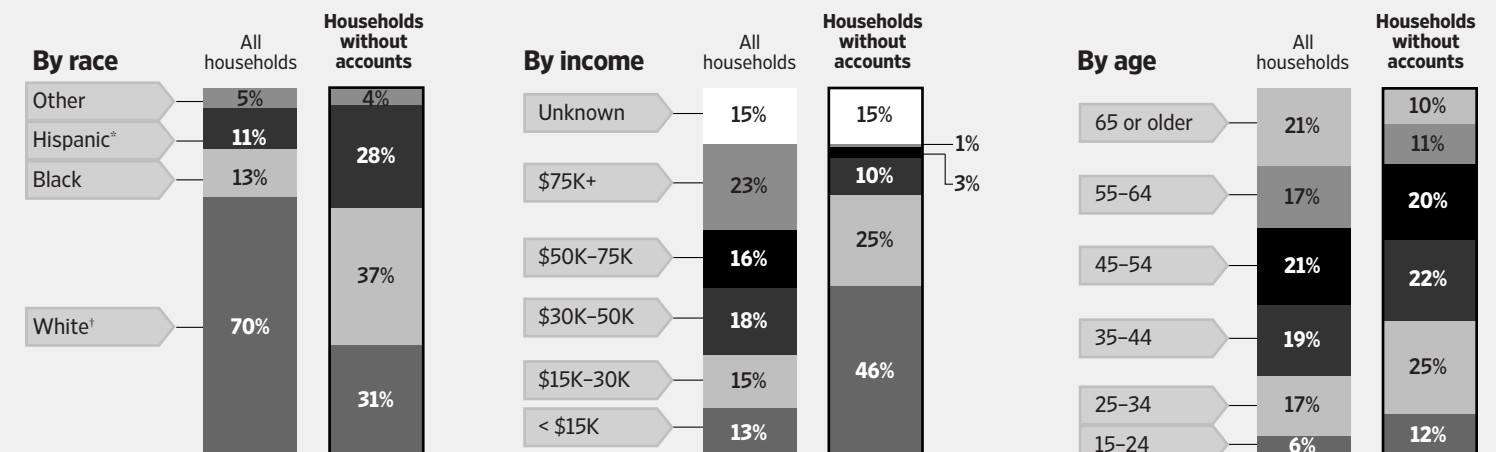
"I'm not really saving anything," she said.

Now governments are trying to take a more active role to shield consumers from higher-cost financial services.

The Federal Deposit Insurance Corp. approved a pilot program last week to encourage banks to create simple, low-cost deposit accounts.

Meanwhile, the Treasury, in its latest budget proposal, is seeking \$50 million from Congress to create a "Bank On USA" program to extend local initiatives that encourage people to set up bank accounts. The financial-regulation measure signed into law last month also directs the Treasury to use grants and other agreements

Un-accounted for | U.S. households without a savings or checking account in 2009



Note: Figures may not total 100 due to rounding *Not black †Neither black nor Hispanic
Source: U.S. Federal Deposit Insurance Corp. and Census Bureau survey of 54,000 households with 86% responding

to draw lower-income consumers into the financial mainstream. Other initiatives are under way at the local level.

The efforts are directed at the nine million households, or one of every 12, without bank accounts, a group disproportionately minority and low-income. In the modern economy, that puts them at a huge disadvantage: They often rely on higher-cost check cashers or neighborhood stores because they don't have credit histories to borrow at a bank or credit union. They aren't saving for retirement, aren't building the credit records needed to get common loans and often are excluded from less-expensive forms of electronic payment.

Along with the unbanked, 21 million more Americans are considered "underbanked"—people who have checking accounts but often turn to higher-cost services, such as payday loans and car-title loans, with annualized interest rates frequently exceeding 300%.

"It's important that people get into the financial mainstream," said Ellen Lazar, senior advisor for consumer policy to the FDIC chairman.

The FDIC pilot program provides a template for banks to offer what the agency calls a "safe" account with features—such as no overdraft fees and a \$1 minimum-balance requirement—appealing to

lower-income consumers. The FDIC and the banks would promote the program to customers.

The program, for which the FDIC is enlisting banks through next month, is designed to assess whether minimizing fees could be sustainable across the industry. While its accounts would prohibit fees for overdrafts and nonsufficient funds, they would allow other fees that are "proportional" to the banks' costs.

"We felt banks are in business to earn money," Ms. Lazar said. "They've got to do it some way."

It is unclear how the new programs will fare at a time when many banks have indicated they are likely to raise fees for basic checking accounts due to new regulations.

The American Bankers Association, an industry trade group that says it supports drawing in more low-income consumers, has called the FDIC initiative "an inflexible 'one-size-fits-all' approach" that "would not be economically viable" for banks.

Surveys show unbanked consumers don't think they have enough money or don't write enough checks to make an account worthwhile. Some, of course, avoid banks to dodge tax authorities. Many say they have been burned too often by fees for overdrawing their bank accounts.

James Stuckey, an escalator me-



Jolita Richmond at Kash King in Temple Hills, Md., last week. 'Unbanked' workers typically spend hundreds of dollars a year to cash checks.

chanic in Oxon Hill, Md., has a bank account but says he sometimes heads to his local liquor store to cash checks instead of using banks.

The \$14 fee for an \$800 check, he said, beats the repeated \$35 overdraft fees he has been hit with on his bank account—and lets him keep a closer eye on his money.

"I know where it is and exactly where it's going," said Mr. Stuckey, 45. "I definitely can't afford the little extra fees."

Workers without bank accounts typically spend hundreds of dollars a year to cash checks. An unbanked worker can spend \$41,600 over a lifetime in check-cashing fees, the Brookings Institution, a liberal think tank, estimated in 2008.

Dozens of state and local governments have launched programs, partnering with local financial institutions, to provide starter accounts with no overdraft fees and low or no monthly fees.

Scores suggest poor preparation for college

BY STEPHANIE BANCHERO

New data show that fewer than 25% of 2010 graduates who took the ACT college-entrance exam possessed the academic skills necessary to pass entry-level courses, despite modest gains in college-readiness among U.S. high-school students in the last few years.

The results raise questions about how well the nation's high schools are preparing students for college, and show the challenge facing the Obama administration in its effort to raise educational standards. The administration won bipartisan support for its education policies early on, but faces a tough fight in the fall over the rewrite and reauthorization of the No Child Left Behind program.

While elementary schools have shown progress on national achievement exams, high-school results have stayed perniciously low. Some experts say the lack of rigor in high-school courses is partly to blame.

"High schools are the downfall of American school reform," said Jack Jennings, president of the Center on Education Policy, a nonpartisan research group in Washington. "We haven't figured out how to improve them on a broad scope and if our kids aren't dropping out physically, they are dropping out mentally."

President Barack Obama has said the nation's long-term prosperity depends on fixing the nation's high schools and preparing students to compete in a global economy. A recent study found the U.S. ranks only 12th in the percentage of adults aged 25 to 34 who hold college degrees, and Mr. Obama has set a goal of becoming No. 1.

To accomplish its aims, the administration will need to finesse the co-operation of the powerful teacher's unions, Congress, parents and local school officials—groups that aren't always on the same page when it comes to education reform. Support for the administration's

reforms has fractured in recent weeks. The Democratic party is fiercely divided over education policy; the nation's largest teacher's union passed a vote of no-confidence in the education reforms; and civil-rights groups have charged that the administration isn't doing enough to help minority children.

In the recent results, only 24% of the graduating class of 2010 scored high enough on the ACT in math, reading, English and science to ensure they would pass entry-level college courses. This is a slight uptick from last year, when 23% were ready for college, and from 2008, when 22% were ready.

Still, 28% of students didn't score high enough on even one subject-matter exam to ensure college readiness.

The ACT is taken by students in every state but is most popular in the Midwest. About 47% of the 2010 graduating class, 1.6 million students, sat for the exam, which is ac-

cepted at most U.S. colleges. The ACT is an achievement test that measures students' mastery of high-school curriculum and the skills they'll need to pass first-year college courses.

The average ACT composite score has actually fallen since 2007, after increasing during the five-year period before that. This year, the average composite was 21.0, compared with 21.1 last year and 21.2 in 2007. The test is scored on a 1-36 point scale.

ACT officials say a more diverse test-taking population partly explains the less-than-stellar results. African-American and Hispanic students made up 24% of the test-taking pool this year, compared with about 19% four years ago. African-American and Hispanic students generally post lower scores than their white and Asian counterparts.

But ACT officials and national experts say a weakened high-school curriculum is also at fault.

Falling behind

Percentage of adults ages 25-34 with an associate degree or higher in 2007

1. Canada	55.8%
2. South Korea	55.5
3. Russia	55.5
4. Japan	53.7
5. New Zealand	47.3
6. Ireland	43.9
7. Norway	42.7
8. Israel	41.5
9. France	41.4
10. Belgium	41.3
11. Australia	40.7
12. U.S.	40.4
13. Denmark	40.1
14. Sweden	40.0
15. Finland	39.3

Source: OECD via the College Board

WORLD NEWS

Crash victim may be defector

By JAMES T. AREDDY

SHANGHAI—A plane crash that killed its lone pilot near the Chinese city of Shenyang on Tuesday appeared to be that of a North Korean jet, reports said, prompting speculation a fighter pilot was fleeing his homeland.

On Wednesday, China's state-run Xinhua news agency quoted "relevant" government sources as saying the plane that crashed a day earlier may have been North Korean, noting its pilot was killed but otherwise damage was minimal. In South Korea, the Yonhap news agency quoted intelligence sources as saying the plane was a North Korean MiG fighter jet that crashed shortly after takeoff.

Photos circulating on the Internet showed what appeared to be a fighter jet with a faded red star of the North Korean military burrowed into a thick corn field, its silver fuselage draped by logs, bricks and hay matting, with a slashed tail wing. "The aircraft crashed into a civilian makeshift house, leaving no Chinese dead or injured. The pilot died on the spot," Xinhua quoted its sources as saying.

It is unlikely the flight was a provocation by North Korea into China; no one has suggested it was shot down. Beijing is North Korea's primary global ally, supporting it in the face of U.S.-led allegations that Pyongyang was behind the sinking of a South Korean naval vessel this year. Beijing has played host to North Korean leader Kim Jong Il.

But if the plane proves to be a defecting North Korean military jet, it would likely heighten concerns about worsening conditions in the reclusive and possibly unstable country. Xinhua said China is communicating with North Korea about "the issue."

The crash took place midafternoon Tuesday in the northern Liaoning province county of Fushun, just outside the major city of Shenyang, known best as the site where communist military hero Lei Feng died in a 1962 accident.



Tuesday's fatal crash in China is suspected to be a North Korean military plane flown by a pilot fleeing North Korea.

The spot is about 250 kilometers (155 miles) north of Dandong, the major Chinese border crossing with North Korea.

A woman in Ersongguo village said she saw a plane around 2:45 p.m. but didn't pay much attention until she heard a thud into the earth. She later saw smoke rising from the wreckage, which she and others said destroyed the small hut of an elderly couple surnamed Hong.

"I couldn't see the plane very clearly," said another woman, surnamed Lu in Lagu village. "I think it was an old plane." Another villager said China's People's Armed Police were blocking access to the site.

The Yonhap news agency speculated the pilot may have been attempting to defect to Russia. It said radar images showed the plane took off from Sinuiju, just over the border from Dandong. Such a short distance would raise the possibility the pilot ran out of fuel.

Attempting a flight to Russia over China would be extremely risky, taking it near major cities, including Beijing, although it might be

the quickest route out of North Korea.

Though defectors from North Korea into China are common, they are mostly civilians, not military. But North Korean pilots have used MiGs to defect at least three times previously, including in 1996, 1983 and 1953, flying each time to South Korea.

The North Korea Air Force has approximately 1,700 aircraft, including about 800 fighters, and nearly all of those are Soviet-era MiGs. Its last major upgrade was in the late 1980s before the breakup of the Soviet Union, a longtime sponsor of its military.

In 1999, North Korea acquired about 40 MiG-21s from Kazakhstan. In May, North Korea asked China to provide it with J-10 fighter jets but was rejected, according to reports in the South Korean media at the time.

In the 1980s, Chinese pilots flew their planes to South Korea at least three times, and once, in 1985, a small Chinese bomber crashed into a South Korean rice field.

Separately, the U.S. and South

Korea plan to conduct another joint military exercise next month to bolster defenses against attacks by North Korean submarines, a move that could ratchet up tensions on the peninsula.

The planned exercise, the latest in a series, will be conducted in international waters off the Western coast of the Korean peninsula. Planning for the exercise is still under way, Pentagon spokesman Bryan Whitman said.

"These exercises are intended to deter North Korea from future destabilizing attacks, such as occurred with the Cheonan," he added, referring to the South Korean warship that Seoul and Washington say was sunk by a North Korean sub in March, killing 46 sailors.

The Pentagon sought to reassure China, which has opposed past exercises. "China has no reason to view this exercise, or this series of exercises, as a threat to its security," Mr. Whitman said.

—Evan Ramstad in Seoul and Bai Lin in Shanghai contributed to this article.

Vietnam devalues currency

Vietnam devalued its currency late Tuesday for the third time in nine months, highlighting stresses in its economy that analysts say authorities will have a difficult time containing.

By Nguyen Pham Muoi in Hanoi and David Roman in Singapore

The devaluation could have the effect of spurring exports, which would reduce a persistently wide trade deficit, one of several challenges facing a government struggling to keep the country's economic recovery on track ahead of a key Party Congress early next year.

But it also reflects a realization that trying to hold the tightly controlled Vietnamese dong at higher levels could put excessive strain on the country's foreign exchange reserves, a concern flagged by Fitch Ratings when it downgraded Vietnam's rating last month.

The State Bank of Vietnam announced late Tuesday that it would raise the central reference rate for the dollar's exchange rate by 2.1% to 18,932 dong. The central bank said it will keep a trading band of plus or minus 3% by which commercial banks will follow to set their own exchange rates.

Besides the official policy of a weak currency, the dong remains under pressure because Vietnam's high inflation erodes the local purchasing power of the currency, making the ubiquitous dollar an attractive alternative domestically. Among other factors, Tuesday's move could help make Vietnam's exports more competitive abroad.

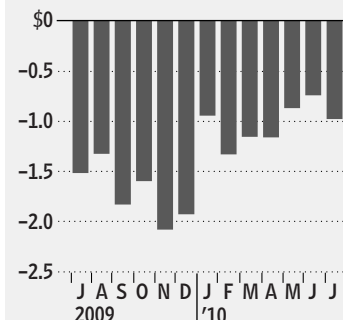
Vietnam's markets reacted badly to the latest devaluation. Stocks fell 1.7%, even as most other Asian markets rose, on worries about the country's ability to attract portfolio and direct investment.

Vietnam keeps the official rate in a narrow band and has been guiding the currency gradually lower for years, even as the rest of Asia's currencies have surged in times of global growth and tumbled during bouts of risk-aversion.

The central bank over the three moves since November has devalued the dong by 10% against the dollar. But that has done little to turn around the trade balance. The trade deficit widened to \$980 million in July from \$742 million in June. In the first seven months of 2010, the gap was \$7.26 billion, from \$3.65 billion in the year-earlier period, and nearing a \$12 billion limit the government target for the year.

Vietnam's trade deficit

In billions of U.S. dollars



Source: Thomson Reuters Datastream

Australia opposition vows larger surplus

By ENDA CURRAN

SYDNEY—Australia's conservative opposition on Wednesday pledged to deliver a bigger budget surplus and quicker reduction in debt than forecast by the ruling Labor government if elected Saturday, hitting on a central theme of this season's campaign.

But it again declined to submit its projections to the Treasury Department for official costing, reducing clarity on both the impact and on the differences with the ruling party as the two sides trade barbs over which party will cut borrowing faster. Both the Labor Party and opposition Liberal-National coalition, led by Tony Abbott, adopt a broadly similar approach to economic policy. Also, Australia already has one of the lowest debt profiles in the developed world, and the Treasury has forecast a peak in net debt of 6% of gross domestic product—well below a more-than-90% average for its peers.

Still, the debate has found resonance with the voting public amid discussion of wider global doldrums as well as heightened debate over

big-budget programs such as a proposed tax on resource-industry profits and Labor's now-delayed plan to curb global-warming gases.

On Wednesday, a new poll showed the Labor government of Prime Minister Julia Gillard holding a slim lead. The weekend survey of 28,000 voters by the Sydney Morning Herald newspaper suggested Labor is set to scrape home with a vastly reduced majority.

Outlining the opposition coalition's election spending and savings commitments, Shadow Treasurer Joe Hockey said his party would return to a budget surplus of 6.19 billion Australian dollars (US\$5.58 billion) in the fiscal year beginning July 1, 2012. This contrasts with the Labor party's pledge for a surplus of A\$3.1 billion the same year.

The larger forecast comes despite the fact that the Liberal Party has promised if elected to drop Labor's planned mining tax, which the government has said is expected to raise A\$10.5 billion in revenue. Some of the savings come from a promise to largely drop a planned new national broadband network.

Stephen Roberts, Australia chief



Australian opposition leader Tony Abbott and Prime Minister Julia Gillard.

economist at Nomura, said outside of the broadband network and mining tax, other differences in both parties' spending policies involve education, youth training and the company tax rate.

On a wider picture, however,

Mr. Roberts said voters would see little difference between the two proposals. "You have some differences which will impact certain sectors, but when you put it all together they net out," Mr. Roberts said.

WORLD NEWS

Pakistan seeks lower textile tariffs

By TOM WRIGHT

FAISALABAD, Pakistan—Pakistan is renewing calls for the U.S. and Europe to reduce their tariffs on its textile goods after the country's worst-yet flooding wiped out parts of this year's cotton crop, deepening a crisis in the textile sector.

Pakistan has for years pushed for better market access for its clothes, housewares and other textile goods as a way of creating jobs and drawing unemployed youth away from Islamist ideologies.

Now the flooding, which has so far killed 1,500 people, affected 20 million others and left a fifth of the country under water, has given fresh impetus to those demands. The deluge has destroyed at least two million bales of cotton, or 15% of the forecast harvest for this year, raising fears of shortages.

"Clearly a big crisis is looming on the horizon for the textiles sector, which is the mainstay of the country's economy. Yarn shortage is inevitable. Market access will greatly mitigate the imminent disaster," said Waqar Khan, secretary of Pakistan's Textile Ministry in Islamabad.

At issue is how the U.S. and other Western nations can balance help for Pakistan, which is a key ally in the war on terrorism, with demands from powerful textile industries at home for protection from inexpensive imports.

Pakistan's textile lobby argues that better access to U.S. and European markets, not major aid pack-

ages, is the best way to create jobs and counter Islamic extremism that feeds on joblessness.

The European Union opened its markets for a few years after 2001 to help Pakistan's textile exports, but those benefits have lapsed. Today there are few signs that either Europe or the U.S. is willing to reduce tariffs significantly on Pakistan textiles.

The country's textile sector directly employs 3.5 million people, accounting for 40% of urban factory jobs. Textile-product exports were \$10.3 billion this fiscal year, just over half Pakistan's total exports. About \$3 billion of those goods went to the U.S. and a similar amount to Europe.

But the sector has faced a slump in the past 18 months, due in part to competition from China's much-larger industry, which uses its size to win big U.S. orders and keep costs down. While China's exports of textile goods have powered ahead over the past three years, Pakistan's have stagnated. Some producers, also affected by the rising cost of raw materials like yarn and more expensive electricity, have been forced out of business.

The textile crisis has hit Faisalabad—a grimy city of three million named in the 1970s for the late King Faisal of Saudi Arabia—harder than anywhere in Pakistan. Scores of factories have shut here recently in the heartland of Punjab province's textile industry.

Umer Apparel Ltd., a company in Faisalabad that exports \$15 million in goods to the U.S. annually, including brands like American Eagle and Aeropostale, has had to lay off almost a fifth of its 1,500 work force and is running at only three-quarters of capacity, says its chief executive, Rana Hassan Sajjad.

Faisalabad officials are concerned about links between unemployment and a rising wave of Islamic extremism in the city. A number of suicide bombings by the Pakistan Taliban on government and civilian targets in Pakistan this year, including many in Lahore, the capital of Punjab, have been planned from Faisalabad, city police say.

Sectarian violence has also been rising in the city. In July, clashes be-



A worker arranges cotton to dry outside a textile factory in the city of Faisalabad, Pakistan, in May.

tween Muslims and Christians broke out after a Muslim man shot dead two Christians who were attending court on charges of blasphemy, which is illegal in Pakistan.

"There's a valid link between joblessness and militancy," says Tahir Hussain, the chief federal government official in Faisalabad. "Wherever the militants are getting manpower, that's where the joblessness is."

The government estimates that more than half a million Pakistanis have lost their jobs nationwide as hundreds of uncompetitive small factories have shuttered. "Pakistan cannot compete with China because we don't have those kinds of economies of scale," says Khurram Iftikhar, chief executive of **Amtex Ltd.**, one of Pakistan's largest makers of clothes and other textile goods.

Abolishing American tariffs, which currently stand at an average 17% on cotton pants and shirts from Pakistan, would boost the nation's textile exports by \$5 billion annually, government officials and factory owners estimate.

The U.S. Congress agreed last year to a \$7.5 billion civilian aid package for Pakistan to help build schools, roads, bridges and power

plants, among other initiatives, in a bid to restore faith in the U.S. and to counter Islamic militancy. A further annual \$2 billion in U.S. military aid is aimed at helping the Pakistan army fight its war against the Pakistan Taliban in the nation's tribal regions bordering Afghanistan.

At the same time, the U.S. has been slow to grant trade concessions, angering some in Pakistan who say this would have a greater effect on job creation. Europe, too, has stalled on lowering tariffs, with EU officials in June saying it could take as many as three years to reach a deal for Pakistani textiles.

"It would help if they would lower the tariff," said textile-company owner Mr. Sajjad. "Being an owner of a company, do I benefit from aid? No. I don't know what the government is doing with the money. They are not spending it on us."

The administration of then-U.S. President George W. Bush pledged in 2006 to allow special "Reconstruction Opportunity Zones" in impoverished areas of Pakistan and Afghanistan to export some textile goods to the U.S. free of tariffs. The plan was to create jobs in the tribal regions and Pakistan-held Kashmir,

recruiting grounds for al Qaeda and Taliban militants.

But the legislation on ROZs remains blocked in the U.S. Senate because of a disagreement over labor standards in the House of Representatives' version of the bill, which was passed in June 2009 and sets strict labor protections for textile workers.

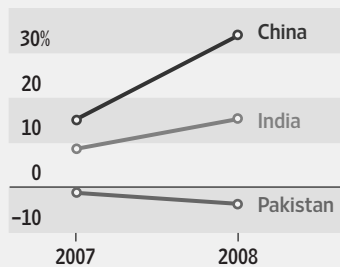
Pakistan's government, its textile-factory owners and some American retailers, meanwhile, argue the House bill should go further and offer tariff-free status for all textile exports.

The American Apparel and Footwear Association, which supports plans to create the free-trade zones in Pakistan, last year wrote to Congress to complain that the current proposed legislation would still protect U.S. textile producers by excluding key Pakistani exports of cotton pants, shirts and blue jeans from tariff-free status. The association also said the zones need to be in Pakistan's industrial heartlands, not remote and dangerous war zones bordering Afghanistan, to have any effect.

"As currently drafted," the association said, "the ROZ program represents only symbolic assistance for Pakistan and Afghanistan."

Material world

Textile exports, change from previous year



Source: World Trade Organization

Afghan election prompts fears of violence

By MARIA ABI-HABIB

KABUL—Next month's Afghan parliamentary elections, which President Hamid Karzai hopes will produce a more compliant legislature, are prompting fears of further violence and fraud, diplomats and international observers say.

With Afghanistan's security situation worse than last year during August's disputed presidential vote, the possibility for fraud is greater this time, say Western embassy officials monitoring the campaign.

Last year, a United Nations-led watchdog threw out as fraudulent more than a million ballots cast for Mr. Karzai, discrediting his presidency in the eyes of many Afghans and lawmakers and damaging relations between the Afghan leader and the international community.

Since then, parliament has become a center of defiance against Mr. Karzai. Lawmakers have rejected dozens of his ministerial appointees

and voted against his proposed changes, ultimately implemented through presidential decree, to electoral law.

Mr. Karzai "has had a very unpleasant experience with the previous parliament that challenged him. He wants a more obedient parliament to be elected," said Daud Sultanzoy, an independent lawmaker who is running for re-election.

Unlike previous elections, which were co-managed with the U.N., Afghanistan's Independent Electoral Commission is overseeing these elections alone. Under rules that Mr. Karzai decreed last fall, the U.N. no longer appoints the majority of commissioners at the Electoral Complaints Commission, the watchdog that disqualified so many votes last year; Mr. Karzai now makes these appointments.

Afghan election officials say they believe next month's vote won't be as problematic as last year's. "We've learned from our mistakes," Fazl



Campaign posters for next month's parliamentary vote line a market in Kabul.

Ahmad Manawi, chairman of the IEC, said.

Independent observers aren't so certain. "There are still issues of competency, quality and the trustworthiness of the IEC staff," said

Glenn Cowan, a co-founder of Democracy International, a U.S. organization that plans to oversee the September elections.

The U.N. considers some 40% of Afghanistan's districts unsafe for

unarmed government officials. Coalition military officials say more territory has succumbed to the insurgents since August 2009, with once-peaceful provinces in the north now infiltrated by the Taliban. At least three parliamentary candidates have been killed, IEC and interior ministry officials say.

More than 2,500 candidates are running for 249 slots in the lower house of parliament in the Sept. 18 election. Competition is intense in Kabul. In the more volatile provinces, especially in the south and east, there is little public sign of the campaign; candidates live in fear of the Taliban and campaign secretly.

Taliban spokesman Zabihullah Mujahid said "The Taliban are totally against elections in Afghanistan, and people have been asked to not participate because it will extend the occupation of our country." The insurgents, he added, "will not spare any effort to disrupt the upcoming election."

WORLD NEWS

Thai groups denounce Web censor

By PATRICK BARTA

BANGKOK—Criticism over Thailand's efforts to curb political debate online is mounting, as the government restricts thousands of websites following deadly protest clashes earlier this year.

Thai authorities say they have blocked at least 40,000 Web pages this year, according to the government's Ministry of Information and Communication Technology, which monitors the Internet. Free-speech activists say authorities are blocking at least 110,000 sites, based on government disclosures and spot checks online.

Many of the sites feature criticism of the government or debates about Thailand's revered monarchy, a taboo subject here. As a result, some advocates say Thailand—long seen as a relative haven of free speech in Asia—is becoming one of the least-free states in a region that includes China and Myanmar, when it comes to discourse online.

Censorship of the media has reached "an unprecedented level" in Thailand, says Pavin Chachavalponpun, a Thailand expert at the Institute of Southeast Asian Studies in Singapore.

He says his research, which includes discussions with government officials, supports the 110,000 figure for blocked sites.

"The government has been using this partly to defend national security but also to protect its own regime as well," he says.

Human Rights Watch has called Thailand's censorship a "broad-brush clampdown" that "violated Thailand's obligations to respect media freedom and freedom of expression."

Thai officials say that the country remains open to public debate, and that the curbs are in place to prevent antigovernment groups from inciting violence or otherwise threatening the nation's stability.

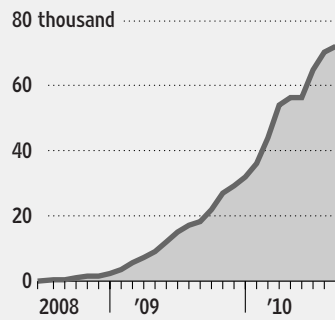
Political analysts note that previous administrations—including one supported by Thailand's current crop of antigovernment protesters—moved to clamp down on the media.

Prime Minister Abhisit Vejjajiva said in an interview with The Wall Street Journal this month that protesters have their voices heard. "You might be under the impression that somehow the opposition is not getting any space in the media," but the views of antigovernment groups figure prominently in local news reports, he said.

Still, the Internet restrictions are generating new controversy in a country that is only starting to stabilize after clashes between antigovernment protesters and authorities

Crackdown

Number of websites blocked in Thailand since June 2008



Note: Includes sites that denigrate Thailand's monarchy or relate to gambling, pornography or drugs

Source: Ministry of Information and Communication Technology, Thailand

left 91 people dead and 1,400 injured in April and May. Several multinational companies, including **Ford Motor Co.**, have recently announced plans to expand Thai operations.

The government imposed a state of emergency in April that gave it expanded powers, including the ability to block sites quickly. A 2007 Computer Crimes Act imposes penalties for illegal activities online; it was also designed to target fraud, as e-commerce develops in the country. Thai authorities also rely on a strict lèse majesté rule, dating back a century, that limits discussion of Thailand's royal family. Thai authorities recently expanded a team tracking inappropriate discussion of the monarchy online and elsewhere to 120 people from two previously.

Mr. Abhisit says Thailand needs a period of stability before new elections can be held—a sentiment endorsed by many Bangkokians who view some protesters as terrorists. Several small bombs have exploded in the capital, and the government maintains a state of emergency in Bangkok and other areas.

Tensions have remained high since the clashes. The demonstrations were led by so-called Red protesters—known for wearing the color representing their side—who say Mr. Abhisit's government is illegitimate because it didn't spring from fresh national elections. Mr. Abhisit became prime minister in a 2008 parliamentary vote with backing from military and royalist groups after rival, yellow-wearing protesters took over Thailand's main airport, triggering the collapse of a Red-allied administration.

The government accuses Red leaders of wanting to dismantle Thailand's monarchy, an institution whose official powers are largely ceremonial but which has wielded significant influence over the years,



Websites with details about Thai 'Red Shirt' antigovernment protesters, above, have been among those blocked.

at times helping to mediate political squabbles. Red leaders deny anti-royal schemes.

Free-speech advocates in Bangkok and elsewhere contend the government is exaggerating threats as an excuse to shut down sites critical of the country's civilian government. They cite one prominent site called Prachatai that describes itself as an "independent" news source and has included links to articles and reports from other sources questioning government policy. Recent posts include an article expressing doubt about government-led reconciliation programs designed to ease the country's tensions.

Chiranuch Premchaiporn, the site's director, says that Prachatai is exposing readers to "voices that people can't get from the mainstream media" and that it tries to include views on all sides of Thailand's political divide.

The site was blocked in April, but staff have switched domain names multiple times and taken other steps to keep it operational. "I think they are afraid" of open debate online, Ms. Chiranuch says of the government.

The Committee to Protect Journalists as well as Reporters Without Borders have questioned Thailand's moves to block Prachatai, which CPJ describes as a "neutral" site.

Efforts to get government comment on the case were unsuccessful.

In his interview with The Wall Street Journal, Mr. Abhisit said authorities were "mindful" that "there could be abuses" in deciding which sites to block. But the gradual removal of emergency powers, which have been rolled back in some parts of the country, should help ease those concerns, he added. If there are continuing concerns, he said "we'll put things right."

"I don't like the blocking or banning of websites. People should be able to make their own decisions," said Yanaphon Youngyuen, deputy director-general of Thailand's Department of Special Investigation, which is involved in monitoring websites.

But he added that some websites include false information about institutions such as the monarchy that can't easily be corrected because the authors of the material can't be located. "We cannot talk with them," he said.

Another recent government target is Sombat Boonngamanong, a social activist and founder of a non-profit organization devoted to disaster relief and other issues. More recently, he ran a website for roughly 10,000 or so mostly middle-class Thais who are often critical of the government but who don't always support the tactics of the opposition. The site included details about Red Shirt events.

Mr. Sombat says he criticized the government on the site but doesn't think any of his comments violated the law. The government later blocked the site and arrested Mr. Sombat in late June for taking part in a rally, releasing him two weeks later.

In July, his photograph appeared in a local magazine with a raised middle finger and the words, "If you stop me from writing, I will still think; if you want to stop me from thinking, you have to stop my breathing."

He has continued organizing small weekly rallies around Bangkok where supporters extend their middle fingers as a gesture of defiance against the government.

At one recent event, roughly 200 supporters jogged a lap around a central Bangkok park and re-enacted scenes from recent political violence.

He says he and his supporters now communicate regularly via social networking sites such as Facebook, which he believes the government is unlikely to shut down because they are also popular among government supporters.

"The truth of what happened around here has not been fully revealed, so I want to make it public," he said during the rally.

"I'm not afraid" of jail, he added. "It's free food."

U.S. backs inquiry into rights in Myanmar

By A WALL STREET JOURNAL REPORTER

The Obama administration decided to back efforts to create an international commission to investigate alleged human-rights violations in Myanmar in a move that ratchets up pressure on the country as it prepares for its first election in 20 years.

The move comes just months after Washington said it was embarking on a new policy of "engagement" with Myanmar aimed at

improving relations after years of economic sanctions failed to weaken its secretive military regime. Supporters of the engagement effort, including some Myanmar exiles and analysts, had hoped it would encourage top Myanmar generals to open more to the outside world and take steps to ensure the coming election, scheduled for Nov. 7, is held to international standards.

More recently, however, U.S. officials began to express frustration that their overtures—which in-

cluded visits to Myanmar by high-ranking State Department officials—had failed to influence the government, which is accused of human-rights violations including the imprisonment of 2,000 or more political opponents.

Myanmar's government has declined to release Nobel laureate opposition leader Aung San Suu Kyi from house arrest, which U.S. officials have said is a precondition to holding fair elections. In June, Myanmar officials issued new cam-

paign rules that prohibit political parties from marching or chanting slogans or giving talks "tarnishing the image of the state." Opposition leaders say they have been harassed by police in recent weeks.

U.S. officials have expressed concern over unconfirmed reports that Myanmar may be attempting to develop a nuclear-weapons program. Myanmar officials have denied any attempts to develop nuclear weapons.

"The United States supports es-

tablishing an international commission of inquiry to investigate alleged war crimes and crimes against humanity" in Myanmar, an administration official said Wednesday.

It wasn't possible to reach anyone within the Myanmar government to comment.

U.S. support doesn't mean an inquiry will occur. But it indicates that Western governments are hoping to tighten pressure on Myanmar's military, which has ruled the country since 1962.