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THE WALL STREET JOURNAL.

VOL. XXVIII NO. 142

EUROPE

Monday, August 23, 2010

DOW JONES
A NEWS CORPORATION COMPANY

europe.WSJ.com

WikiLeaks keeps funding secret

By JEANNE WHALEN AND DAVID CRAWFORD

The controversial website WikiLeaks, which argues the cause of openness in leaking classified or confidential documents, has set up an elaborate global financial network to protect a big secret of its own—its funding.

Some governments and corporations angered by the site's publications have already sued WikiLeaks or

blocked access to it, and the group fears that its money and infrastructure could be targeted further, founder Julian Assange said in an interview in London shortly after publishing 76,000 classified U.S. documents about the war in Afghanistan in July. The move sparked international controversy and put WikiLeaks in the spotlight.

In response, the site has established a complex system for collecting and disbursing

its donations to obscure their origin and use, Mr. Assange said. Anchoring the system is a foundation in Germany established in memory of a computer hacker who died in 2001.

WikiLeaks's financial stability has waxed and waned during its short history. The site shut down briefly late last year, citing a lack of funds, but Mr. Assange said the group has raised about \$1 million since the start of 2010.

WikiLeaks's lack of financial transparency stands in contrast to the total transparency it seeks from governments and corporations.

"It's very hard work to run an organization, let alone one that's constantly being spied upon and sued," Mr. Assange said in the interview. "Judicial decisions can have an effect on an organization's operation. ... We can't have our cash flow constrained entirely," he said.

Among the cases WikiLeaks has faced, the Swiss bank Julius Baer & Co. in 2008 sued for damages in federal court in California, alleging that the site had published stolen bank documents. The court ordered the disabling of the wikileaks.org domain name, but the bank withdrew its lawsuit after civil-rights advocates protested.

Though Mr. Assange declined to name donors or cer-

tain companies through which donations flow, he provided some insight into the funding structure that allows the group to operate.

The linchpin of WikiLeaks's financial network is Germany's Wau Holland Foundation. WikiLeaks encourages donors to contribute to its account at the foundation, which under German law can't publicly disclose the names of donors. Because the founda-

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Agence France-Presse/Getty Images

Iranian President Mahmoud Ahmadinejad, right, and armed forces chief Hasan Firouzabadi, inaugurate the long-range drone, dubbed Karrar ('striker').

Iran unveils long-range attack drone

Iranian President Mahmoud Ahmadinejad unveiled the country's first domestically built drone Sunday, hailing it as an accomplishment aimed at "deterring foreign aggressions against Iran."

In a ceremony to mark national defense day, Iran said it would begin production of two high-speed vessels, one capable of launching missiles and torpedoes.

On Saturday, Russian engineers loaded nuclear fuel into Iran's first nuclear-power plant, in a ceremony attended by Russian and Iranian officials.

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Australia's elections show that voters have hardly given up on free-market policies. Page 11

Australia's main parties are wooing independents

A handful of independent lawmakers in Australia are being touted as kingmakers in the country's election, after weekend polls in which neither of the two main political parties did well enough to form a government.

The outcome is likely to result in further uncertainty over where the government is headed. A key issue is the fate of the left-leaning Labor party's controversial new tax on the mining sector.

Labor Prime Minister Julia Gillard said Sunday that her party is in discussions with unaffiliated lawmakers. Until a new government takes office, Labor will lead a caretaker administration.

Tony Abbott, who leads the rival Liberal-National bloc, a conservative coalition, is also seeking to make deals with unaffiliated lawmakers, saying on Sunday that Labor had lost its majority and its legitimacy to govern.

Australia's weekend elections marked the first time since the 1930s that a first-term government has failed to be clearly re-elected. Some Australians' disenchantment with the Labor party in part reflects serious divisions over its mining-tax plans.

Former Labor Prime Minister Kevin Rudd—who was ousted by his party in June, giving way to Ms. Gillard—had in May proposed a

40% tax on profits earned by big miners. The plan resulted in outrage from the nation's powerful mining companies.

When Ms. Gillard took over from Mr. Rudd, she negotiated a lower tax rate—30% instead of the earlier 40%—that kicks in at a higher profit level and is restricted to coal and iron ore.

After the election, Ms. Gillard said Labor is committed to the mining-tax plan. Crucially, newly elected Greens lawmaker Adam Bandt, who won his party's first-ever lower-house seat, has said he will support Labor.

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PAGE TWO

Global shivers mean that nobody escapes the worsening economic cold

[Agenda]

BY IRWIN STELZER



The U.S. economy grows smartly—at an annual rate of 5.6% in the last quarter of last year—but when the final figures are in America will have recorded a growth rate of less than 2% in the most recent quarter. Meanwhile, in that recent quarter Germany grew at an annual rate of close to 9%, and powered the euro-zone annual growth rate to almost 4%. But in part because America has now slowed, the Bundesbank and other experts are forecasting much lower growth rates in the second half of the year. In short, America spurts, Europe slows, so America slows; Europe spurts, America slows, so Europe slows. Coincidence? Not likely.

It is no longer true, if ever it was, that what happens in the U.S. stays in the U.S., or indeed that what happens in the E.U. stays in the E.U. When it seemed certain that America was finally on the path to sustained growth one of the factors that rattled nerves was the financial crisis in Greece, which triggered concern about Spain, Portugal, Ireland and, to a lesser extent, Italy. American bankers took a harder look at the IOUs on their books, especially those affected either directly or indirectly by sovereign debt, and became increasingly squeamish about lending to European banks that might get caught in a series of sovereign debt defaults.

The dollar rose in response to a typical flight to safety, putting something of a crimp into the prospects of American exporters and President Barack Obama's plan to have exports create millions of jobs. All of this added to the already-unsettled case of nerves that has U.S. companies



Axel Weber's musings drove the euro down a percentage point.

hoarding \$2 trillion in cash, and contributed to a slowing of the American economy.

As it became clear last week that joblessness and a weak housing sector would hurt the important American market, European investors caught the things-can-only-get-worse fever that is gripping the American

The effect of America catching cold when Europe sneezes, and vice versa is magnified by China

business community, as did Europe's consumers. Germans never had much taste for consumption just for the satisfying fun of it, while French consumers are made cautious by slow job growth, the possibility that their welfare state might not be so sumptuous in the future, and their government's downward revision of expected 2011 growth.

And, of course, consumers in the Club Med countries and in Ireland have empty wallets—or (think Britain) wallets soon to be turned over more completely to their governments in the form of higher income, wealth and consumption taxes, with France a notable exception.

The effect of America catching cold when Europe sneezes, and vice versa—some call the disease “coupling”—is magnified by the decision of the Chinese regime to rein in growth after injecting a stimulus of approximately 14% of GDP, in the hope of preventing the country's property bubble from bursting.

The twin slowdowns in the U.S. and the euro zone explain the intense reaction to the statement by Axel Weber, president of the Bundesbank and a candidate to succeed Jean-Claude Trichet as head of the European Central Bank in October of next year when Mr. Trichet's non-renewable eight-year term expires. Mr. Weber told Bloomberg television that in his view the ECB would be well

advised to meet all the loan requirements of Europe's banks into 2011, a statement that surely reflects continuing uncertainty in Germany, the euro-zone bailer-in-chief, as to the ability of many banks to raise capital at acceptable rates in the market.

When the televised musing of the head of the Bundesbank can drive the euro down a full percentage point against the dollar, and trigger a widening of the spreads over bunds that the markets are exacting from euro-zone countries in order to make funds available, it is safe to conclude that the worriers outnumber the optimists. The Economist Intelligence Unit points out in its latest survey that euro-zone and U.K. banks will have to refinance about £3.3 trillion of debt by 2015. It adds, “Many of the region's banks remain fragile and, to a greater extent than their U.S. peers, vulnerable to funding constraints as a result of their dependence on the wholesale markets.”

Which is only one reason German economists are predicting a slowdown in their economy and, therefore, in the euro zone as a whole. The EIU guesses that euro-zone growth will come to only 0.9% next year, and never get higher than 1.7% in the next three years. That might prove a bit optimistic. In the euro zone's future is a default (aka restructuring) by Greece, and/or riots as the unemployment rate rises to somewhere between 15% and 20%; the ripple—no, tsunami-like—effects on other countries and the world financial system of such a Greek tragedy; growth-stifling austerity everywhere; continued imbalances between Germany's export machine and the rest of the euro zone; and tight lending conditions.

Have a nice week.

—Irwin Stelzer is a director of economic-policy studies at the Hudson Institute.

What's News

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‘Anyone who thought Europe's crisis had gone away because bond markets look stable is in for an interesting time.’



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Question of the day

One year later, do you think the Scottish government's decision to release the Lockerbie bomber was right?

Vote online at wsj.com/polls

Previous results

Q: Will you use Facebook's new feature that allows you to share your physical location online?

Yes

11%

No

89%

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

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Telephone: +44 (0) 20 3426 1234. Calling time from
8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com.
Website: www.services.wsje.com

ADVERTISING SALES worldwide through Dow Jones
International. Frankfurt: 49 69 29725 390;
London: 44 203 426 1111; Paris: 331 40 17 17 01.
Printed in Belgium by Concentra Media NV. Printed in
Germany by Dogan Media Group / Hürriyet A.S. Branch
Germany. Printed in Switzerland by Zehnder Print AG WIL.
Printed in the United Kingdom by Newsfax International
Ltd., London. Printed in Italy by Telesampa Centro Italia
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M-17936-2003.
Registered address: Boulevard Brand Whitlock, 87, 1200
Brussels, Belgium

NEWS

Swedes start, drop probe of Assange

By IAN EDMONDSON
AND JEANNE WHALEN

WikiLeaks founder Julian Assange, already embroiled in a feud with the Pentagon after he published a trove of secret military documents, was pulled into another fracas when Swedish prosecutors initiated and then dropped an investigation into rape allegations against him.

The Swedish Prosecution Authority said Saturday that it was halting a rape investigation of Mr. Assange, an Australian citizen, just hours after confirming that it was pursuing one. Prosecutors are still looking into a separate allegation of "molestation" against Mr. Assange, a spokeswoman said.

In an interview with a Swedish newspaper, Mr. Assange denied any wrongdoing. He also warned that opponents of WikiLeaks, which publishes secret government and corporate documents, would attempt to use the accusations against the organization.

"There have been headlines all over the world that say I am suspected of rape. And I know from experience that WikiLeaks' enemies will continue to trumpet them even after they have been denied," Mr. Assange said, according to a report published in the Aftonbladet newspaper Sunday.

Mr. Assange and WikiLeaks did not respond to emailed requests for additional comment.

Karin Rosander, the prosecutors' spokeswoman said that as more information became available, the prosecutor in charge of the case "decided Mr. Assange was no longer suspected of rape." She said the prosecutor would decide next week whether to pursue a molestation case against him.

Under Swedish law, molestation can refer to anything from groping someone to inappropriate, non-sex-



Swedish prosecutors opened, and then dropped a rape investigation of WikiLeaks founder Julian Assange, shown in Stockholm earlier this month.

ual behavior such as speaking loudly in public. The rape and molestation accusations came from two different parts of Sweden, Ms. Rosander said.

Aftonbladet quoted Mr. Assange as saying: "Nobody has asked me about my version of the story. I want to know more about what I am accused of before I say anything about it." He continued: "I don't

know who's behind this but we have been warned, for example, that the Pentagon plans to use dirty tricks against us."

Defense Department spokesman Bryan Whitman said suggestions that the Pentagon was behind any smear campaign were "absurd."

The allegations against Mr. Assange were revealed Friday by

Swedish tabloid Expressen. Prosecutors confirmed he was a suspect.

The prosecution spokeswoman, Ms. Rosander, said it wasn't normal for prosecutors to name a suspect, and declined to comment on how the newspaper learned of the investigation. "Swedish law prevents us from asking where they got the information," she said.

Some WikiLeaks servers are in Sweden, which has stringent press freedom and protection laws.

WikiLeaks last month published 76,000 classified U.S. military documents about the war in Afghanistan. The Pentagon has criticized Mr. Assange, saying his actions could put the lives of soldiers and civilians at risk.

WikiLeaks moves to guard funding information

Continued from first page
tion "is not an operational concern, it can't be sued for doing anything. So the donors' money is protected, in other words, from lawsuits," Mr. Assange said.

The German foundation is only one piece of the WikiLeaks network.

"We're registered as a library in Australia, we're registered as a foundation in France, we're registered as a newspaper in Sweden," Mr. Assange said. WikiLeaks has two tax-exempt charitable organizations in the U.S., known as 501C3s, that "act as a front" for the website, he said. He declined to give their names, saying they could "lose some of their grant money because of political sensitivities."

Mr. Assange said WikiLeaks gets about half its money from modest donations processed by its website, and the other half from "personal contacts," including "people with some millions who approach us and say 'I'll give you 60,000 or 10,000,'" he said, without specifying a currency.

Retrieving money from the Wau Holland Foundation is a complicated task, he said. WikiLeaks must submit receipts to the foundation, which issues grants to reimburse them. Because German law requires the foundation to publicly disclose its

expenditures, WikiLeaks uses "other foundations" to aggregate its bills and send them to Wau Holland, so that some of the companies WikiLeaks does business with remain anonymous, Mr. Assange said. This prevents anyone from seeing whom, for example, WikiLeaks pays for Internet infrastructure, or where that infrastructure is located.

To operate, the website needs several powerful computers linked to high-speed Internet connections. WikiLeaks particularly tries to obscure payments for "basic infrastructure that could be attacked," for "servers that are engaged in source protection," and for "security engineers," Mr. Assange said.

So far, Wau Holland has distributed €50,000 (\$64,000) to a WikiLeaks account in Germany, strictly in exchange for receipts, according to Daniel Schmitt, spokesman at WikiLeaks, and Hendrik Fulda, deputy board chairman of the foundation. Mr. Schmitt controls the account.

The average donation to WikiLeaks via the Wau Holland Foundation is about €20, Mr. Fulda said. The largest donation through the foundation—€10,000—arrived from a German donor after the publication of the Afghan war documents, he said, declining to reveal

Money maze

Some of the ways WikiLeaks seeks to protect its funding by shrouding donors and payments in secrecy.

- WikiLeaks encourages donors to contribute to its account at Germany's Wau Holland Foundation—established in memory of a hacker—which by law can't publicly disclose the names of donors.
- WikiLeaks controls an archipelago of operating units all over the globe. It is registered as a library in Australia, as a foundation in France, and as a newspaper in Sweden, says founder Julian Assange.
- WikiLeaks has two tax-exempt charitable organizations in the U.S., known as 501C3s, that 'act as a front' for the website, according to Mr. Assange.
- The site uses 'other foundations' to aggregate its bills and send them to Germany's Wau Holland so that companies with which WikiLeaks does business remain anonymous, says Mr. Assange.

Source: WSJ research

further details.

Mr. Schmitt said WikiLeaks needs about \$200,000 a year to cover its operating expenses—mainly network fees, rent and storage costs for the sites where the servers are, and some hardware and travel expenses. Should it decide to pay salaries to its five staff members, as it is now considering, it would need about €600,000 a year, he said.

Paying salaries is a "sensitive subject," he said, noting that outsiders might question the need for

them.

Mr. Fulda of the foundation said WikiLeaks needs €10,000 to €15,000 a month to maintain its Web presence. Late last year, when donors were contributing only €2,000 to €3,000 per month, WikiLeaks was struggling to survive, he said. So it shut down its website in December, leaving up only an appeal for donors to transfer money to the group via the Wau Holland Foundation. Soon, donations per month increased 20-fold.

WikiLeaks reopened its website in May, but "within days ... donations dropped back to near their former level," Mr. Fulda said.

The fluctuation caught the attention of Wau Holland's banking partners including eBay Inc.'s PayPal, which demanded explanations for the surge and fall in donations. "I explained it wasn't money laundering, just WikiLeaks donations," Mr. Fulda said.

A PayPal spokeswoman said the company is "still processing payments for WikiLeaks." She said that she couldn't comment further on a specific account but that in general, PayPal is required by anti-money-laundering laws and its own anti-fraud regulations to investigate accounts when they exceed certain limits.

WikiLeaks has tried to diversify away from PayPal by adding other payment options to its site, including Flattr.com, a payment system based in Sweden, and Moneybookers, a system based in the U.K.

A spokeswoman for Moneybookers said the company used to provide services to WikiLeaks but "as they don't adhere to Moneybookers' standards, the agreement was terminated." She declined to comment further. Flattr didn't respond to a request for comment.

EUROPE NEWS

German industries rebuke Merkel

By VANESSA FUHRMANS

Germany's ruling center-right coalition, struggling to reverse its declining approval ratings, is losing support from one of its traditional constituencies—big business.

In a rare public rebuke, dozens of Germany's corporate leaders, including the heads of **Deutsche Bank AG**, **BASF AG** and **Bertelsmann AG**, signed an open letter to German Chancellor Angela Merkel's government, warning that proposed new energy taxes threaten the economy.

"A lot is at stake: Securing our livelihood for tomorrow and Germany's future as a place of business. That concerns us all," said the letter, which was published as a full-page advertisement in major German newspapers and magazines over the weekend. "A policy that seeks to balance the budget with new energy taxes blocks critical investments in the future."

The appeal marks the latest and loudest signs of growing dissatisfaction among German companies with a governing coalition that many industry leaders thought would usher in a wave of more business-friendly policies when it was elected last fall.

Business has grown frustrated with Ms. Merkel's move to shelve promised tax cuts to help reduce Germany's budget deficit. Industry is also impatient with what it sees as government inaction as well as bickering within the coalition on health care and other reforms.

One of the biggest causes of industry's ire, though, has been the government's recent energy proposals, which lawmakers plan to present in final form by the end of next month. A plan to levy a nuclear-fuel tax to raise an additional €2.3 billion (\$2.95 billion) a year has become particularly contentious. Last week, the country's biggest utilities, which include **RWE AG** and **E.ON AG**, threatened to shut down their nuclear reactors after negotiations over an alternative way to raise the revenue stalled, arguing a tax would render operations unprofitable.

Power companies and other industries are also worried about how long an extension the government



European Pressphoto Agency

Angela Merkel visited an energy exchange Thursday before releasing a comprehensive plan in coming weeks.

plans to give the country's nuclear reactors to continue operating. The coalition agreed in 2009 to reverse the previous government's plans to phase out nuclear energy by 2021 and, instead, to extend them until renewable energy sources became a more viable and affordable substitute—a move cheered by big business, which argued that already-high energy prices would otherwise rise faster.

The government has, however, repeatedly delayed setting a precise time frame for extending the reactors' lives, and the environment minister, Norbert Röttgen, has become a forceful advocate for only a short extension. In an interview with Focus magazine this month, Hans-Peter Keitel, head of the **BDI Federation of German Industries**, said that "even Mr. Röttgen knows that he's not the head of Greenpeace."

The open letter is unusual not

Disenchanted allies

Among the issues dividing German business and the government:

■ **Taxes:** Berlin has shelved plans to cut taxes; German industry has long maintained that lower taxes would boost competitiveness, investment and sluggish consumer spending.

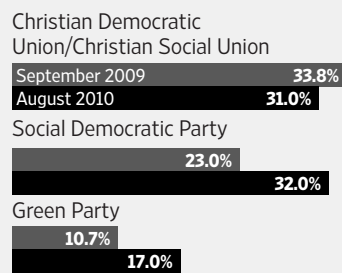
■ **Nuclear power:** The government hasn't decided how long to rely on the country's 17 nuclear reactors, which are slated to be phased out by 2021. German businesses say they need more time to rely on nuclear energy to meet carbon-reduction emission targets.

■ **Energy tax rates:** The German government has proposed increasing certain reduced-energy tax rates for

energy-intensive sectors.

Businesses say the lower tax rate helps to offset high German energy prices and is necessary for companies to stay competitive.

Who would you vote for if a new election was held?



Source: Allensbach Institute for Public Opinion Research for Frankfurter Allgemeine Zeitung

only for its public nature—German lobbying typically is done discreetly by trade groups and not in the media by individual executives—but

also because of the united front it displays across a range of companies. Its 41 signatories include Deutsche Bank's Josef Ackermann;

Eckhard Cordes, chief executive of retail giant **Metro AG**; Gerhard Cromme, chairman of both **ThyssenKrupp AG** and **Siemens AG**—as well as the manager of the national football team, Oliver Bierhoff.

On Friday, Ms. Merkel's spokesman, Steffen Seibert, dismissed the idea that the letter should be seen as an industry attack or a shot across the government's bows. "The chancellor regards this as a completely legitimate contribution to the discussion; there's no objection to that," he said. The government still intends "to find an energy mix that enables this country to continue ... producing the prosperity we have become used to."

In an interview Sunday with public television broadcaster ZDF, Ms. Merkel appeared unbowed by the initiative and held firm to plans to raise the €2.3 billion by taxing the nuclear-power sector in some form. Utilities would pay the tax in exchange for the extra profits they stand to recoup if the lifetimes of nuclear power plants are extended, she said. "As long as there is no other suggestion on the table, then a tax remains the plan."

She remained "firmly convinced" that it was necessary to extend nuclear power beyond the scheduled phase-out to allow more time to cultivate renewable energy sources.

After weeks of debate, both within the government and in meetings with industry chiefs, many executives felt now was "the decisive moment for a more public message."

BASF spokesman Thomas Nonnast said Chief Executive Jürgen Hambrecht's decision to sign the letter wasn't intended as an attack on the government. "It's about contributing to a factual discussion [about energy policy], not about getting involved in party politics."

A Bertelsmann spokesman said Chief Executive, Hartmut Ostrowski, endorsed the appeal because while "renewable and carbon-free energy sources are key to the future, a clean and affordable energy supply is vital for Germany as a business place and domestic companies."

—Andrea Thomas
contributed to this article.

Britons worry about finances

By ILONA BILLINGTON

LONDON—U.K. household finances remained under pressure in August amid concerns that government spending cuts, which have already hit the public sector, could affect jobs in the private sector.

Markit, the global research firm, said its latest survey of household finances reflected Britons' continued concerns over high inflation, low wage growth and worries about job security.

The pace of the decline, at a balance of -24.3, was slightly slower than the record drop of -25.5 in July. The balance represents the number of respondents who are confident about their household finances, minus the number who aren't.

"Stronger growth in the U.K. economy has done little to put a floor under the downturn in household finances," said Tim Moore, an economist at Markit. "Household finances continue to suffer from a backdrop of squeezed disposable income, stubbornly high inflation and ongoing public-sector spending

cuts," Mr. Moore said.

U.K. consumers' views over job security in the private sector had already fallen in July, though not as sharply as in August. The balance now stands at -15.8, compared with -13.1 in July. The steep decline in confidence over job security in the private sector suggests that the renewed bout of employment concerns has reverberated beyond the public sector.

The government's emergency June budget unveiled spending cuts expected to result in 600,000 public-sector jobs being axed over the next five years. Further details of where and when the cuts—intended to reduce the U.K.'s record budget deficit—will be implemented will be announced in the comprehensive spending review due in late October. Public-sector job security also remained weak in August, although the balance, at -24, was less negative than July's -33.3.

This trend is in line with consumer-confidence surveys reporting consecutive declines since the June budget. The Gfk measure of con-

sumer confidence slipped in both June and July in response to the government's austerity measures.

Moreover, the 2.5-percentage-point sales-tax increase that will take effect in January 2011—bringing value-added tax to 20%—is also likely weighing on Britons' minds when they consider their financial prospects into 2010.

A separate survey by investment bank Schroders PLC, published over the weekend, found a third of U.K. consumers have dipped into savings and investments over the past 12 months to supplement a shortfall in their income. Britons have collectively spent £60 billion (about \$93 billion) of their savings over the past year, with more women than men struggling to make ends meet, the asset-management firm said.

"The amount of capital being drawn down suggests that it is not just rainy-day funds that are being drained, but a significant proportion of individuals' long-term savings," said Robin Stoakley, managing director at Schroders' U.K. intermediary business.

France dims outlook, commits to deficit goal

By WILLIAM HOROBIN

PARIS—French President Nicolas Sarkozy downgraded the government's forecast for 2011 growth, but he said cutting the public deficit to 6% of gross domestic product next year remained a major objective whatever the level of growth.

The government now expects economic growth of 2% in 2011, down from a previous forecast of 2.5% that was considered unrealistic by many economists.

The new 2% forecast for 2011 is in line with the view taken by the Organization for Economic Co-operation and Development, Mr. Sarkozy said in a statement. His statement didn't explain why the government itself has decided to lower the forecast, which is still above the International Monetary Fund's expectation of 1.6% GDP growth for 2011.

"The reduction of the deficit should be obtained by cutting spending as a priority. Neither in-

come tax, nor [value-added tax], nor business taxes will be raised," the statement said.

The government targets cutting the public deficit from an expected 8% of GDP in 2010 to 6% in 2011 and 4.6% in 2012, before reaching 3% in 2013.

The statement followed a meeting at Mr. Sarkozy's summer residence Friday with key members of the government, including Finance Minister Christine Lagarde, Prime Minister François Fillon and Budget Minister François Baroin, to discuss the still-sluggish economy and the need to shrink a gaping public-sector deficit. The deficit has been inflated in recent years by substantial stimulus spending to counter the global economic crisis.

In a French radio interview, Mr. Baroin said the requirement for additional savings in the budget is perfectly attainable as ministers deliberate over the 2011 budget, which will be unveiled late next month.



TURN ON TOMORROW

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U.S. NEWS

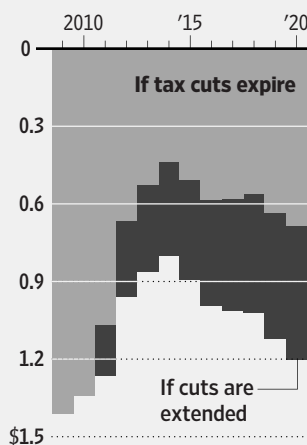
Taxing question | Impact of allowing the Bush-era tax cuts to expire

Change in average tax burden by annual income*



Note: Includes provisions affecting alternative minimum tax, tax credits and taxes on individual income, capital gains, dividends and estates
*Average income for each income percentile in 2012. Sources: Tax Policy Center (tax burden); Congressional Budget Office, August Budget and Economic Outlook (deficit)

Projected federal budget deficit, in trillions



Some taxpayers plan for increase

BY GARY FIELDS

Arch Brown has converted his traditional retirement accounts into plans with better tax advantages. Andrew Ahrens has been buying gold and silver and selling stocks. Archie Anderson might speed up the sale of two equities himself. Mike Henry is considering selling timber.

The four are among a growing group of high-income taxpayers who assume they will see higher taxes next year, no matter what the U.S. Congress does to address the expiring tax cuts from the George W. Bush administration. More than four months before the expiration date, they are making plans to mitigate any impact.

Mr. Brown, a Tucson, Ariz., businessman, said he is working on the assumption that "the tax rates for people like me who have income over \$250,000 will go up."

The maneuvering ahead of Dec. 31 has confounded traditional tax preparations and spawned feverish activity among higher earners, a trend reported by tax planners and financial advisers across the country.

Michele Knight, of Knight Accounting and Technology in Colorado, said she is fielding numerous questions from people who want to know the tax implications of starting a small business. She is advising them to create limited-liability partnerships, one way to organize a new company that might have more favorable tax rates for some. Others are interested in learning about changing their retirement accounts.

Jim Kirby, a tax partner with PMB Helin Donovan LLP in Dallas, estimates that 70% of his clients are calling about the potential tax increases.

"The third quarter is coming around, and people are getting concerned about what they should do to mitigate tax increases next year," he said.

Greg Rosica, a tax partner with Ernst & Young's Personal Financial Services practice in Tampa, Fla., said the looming increases were turning tax planning around 180 degrees. The pattern is normally to defer income until the following year, ever in hopes of avoiding or lessening the tax on it. Now "with higher income and capital-gains taxes [in

store], it's accelerating income," he said.

It isn't clear exactly what will happen to the Bush tax cuts. President Barack Obama and most Democrats in Congress want them extended only for households with less than \$250,000 in income and individuals making less than \$200,000 a year. Republicans and a small group of Democrats say the cuts should continue for everyone. One option would see current tax rates extended for a shorter period, such as a year.

Then there's the default, if Congress can't reach agreement: Everyone's taxes will rise. Should the cuts be discontinued for the top-two income brackets, the rate would go from 33% to 36% and from 35% to 39.6%.

Mr. Ahrens, of Ahrens Investment Partners in Lafayette, La., said 90% of the investment advice his firm is now giving centers on taxes. The firm is advising clients on how to defer income well beyond next year—for example, in annuities and retirement accounts, for when a client may have less income to tax—or bring it into the current tax year.

The investment manager is taking his own advice, in a number of ways, "to avoid the tax freight train coming our way." In April, among other steps, he "pulled out of equities and moved into hard assets like gold, silver and land." He said he will take other steps once the tax code is clearer.

Mike Henry, of Henry Wealth Management in Natchez, Miss., said he is trying to move up income that would normally be carried over into the next year. One idea is to sell timber growing on 500 acres of land he owns in Louisiana. He is considering that option even though timber prices have been dismal because of the prolonged downturn in housing construction.

Waiting for a better price on timber next year is "speculative at best," he said. "Even if the price does go up on timber, that increase will likely be eaten up anyway by the tax increases," Mr. Henry said. He said he is looking at other possibilities as well, including cutting back on his work hours and reducing his income.

"This is not tax evasion," he said. "This is year-end planning."

Program to modify loans loses steam

BY NICK TIMIRAOS

The Obama administration's loan-modification program appears to be running out of eligible borrowers who can qualify for restructured loans.

The number of homeowners who began government-sponsored loan-modifications in July grew by the slowest rate since the program began nearly 18 months ago and was dwarfed by the number of borrowers whose modifications were canceled.

Half of the 1.3 million modifications have been canceled since the program began, and around one-third, or around 422,000 borrowers, have received permanent loan modifications.

So far, the Home Affordable Modification Program, or HAMP, has helped hold back the shadow inventory of more than seven million loans that are delinquent or in some stage of foreclosure, which has helped home prices to stabilize.

In July, nearly 17,000 new trial modifications were started. More than five times as many borrowers saw their reduced-payment programs canceled, either because they failed to make payments, didn't provide necessary documents, or didn't meet qualification guidelines.

Still, it isn't clear how many of those borrowers will ultimately go through foreclosure. Among the top eight mortgage-servicing companies, around half of all borrowers who exit the government program end up receiving a modification or become current; just 15% are in some stage of foreclosure.

Under HAMP, lenders receive incentives to help troubled borrowers avoid foreclosure by reducing their mortgage payments through a com-



A foreclosed home in Chicago in June.

ination of a longer term and a lower interest rate. Homeowners must make at least three "trial" payments before the modification can become permanent.

In an effort to scale up the program quickly, officials initially prodded banks to begin trial modifications without supporting documents to make sure borrowers were eligi-

ble. That has produced a high rate of modifications that are ultimately canceled, and the U.S. Treasury Department earlier this year began requiring banks to qualify borrowers before beginning the trials.

The Treasury warned on Friday that cancellations will exceed the number of new modifications for the next few months as banks "clear their backlog of aged trials."

Officials said it was unfair to write off HAMP as a failure because they say it has forced the mortgage industry to focus its efforts to provide sustainable loan modifications. "This program has actually been transforming the mortgage-servicing industry," said Herbert Allison, assistant Treasury secretary.

For example, prior to HAMP, most modifications left borrowers with loan payments that were the same or higher than what they were paying. HAMP is designed to substantially lower monthly payments.

Critics say that is little comfort considering the massive amounts of time and effort that have been put into the program, which officials initially said would help at least three million homeowners.

—Darrell A. Hughes contributed to this article.

Opposition to mosque called 'hate of Muslims'

BY THOMAS CATAN

WASHINGTON—A leader of a planned Muslim community center near Manhattan's Ground Zero compared opposition to the project to the persecution of Jews, in comments that could add to the controversy over the center's proposed site.

"We are deeply concerned, because this is like a metastasized anti-Semitism," said Daisy Khan, who is spearheading the project with her husband, Imam Feisal Abdul Rauf. "It's beyond Islamophobia. It's hate of Muslims."

Ms. Khan, appearing on ABC News's "This Week" on Sunday, vowed to push ahead with plans to build a 15-story complex two blocks from the site of the 9/11 terrorist attacks in lower Manhattan, saying there was "too much at stake."

The words could further inflame an already angry debate about the proposed location of the community center. Rival protests for and against the \$100 million center were planned in Manhattan on Sunday.

Some politicians, including New York Governor David Paterson, have called for the project to be moved further from the area where the World Trade Center collapsed. On Sunday, Senate Minority Leader Mitch McConnell (R., Ky.) also suggested moving the center.

"I hope the people of New York, who can actually make the decision, will take into account public opinion not only locally but around the country," he said in an interview with NBC's "Meet the Press" on Sunday.

Ms. Khan said planners weren't considering moving the center, but she didn't rule it out. "Right now it's not [being considered] until we consult with all our stakeholders."

Appearing with the head of the Jewish Community Center in New York, on which her project is modeled, she said a prayer space would only be part of a broader center.

"There will be schools, you know, small education forums, conferences, and it's basically become a place where ideas can be exchanged, but tolerance, mutual respect can also be extended," she said.

Project backers are holding talks with the families of those who died in the 9/11 attacks to calm the controversy, Ms. Khan said.

The imam behind the project is described by many as a moderate who has long called for reconciliation between religions. But critics have focused on comments he made shortly after the 9/11 attacks.

They point to comments by Imam Faisal Abdul Rauf that while the U.S. didn't deserve what happened on 9/11, its policies were "an accessory to the crime." Asked Sunday about those comments, Ms. Khan said they had been part of a wider interview that addressed support by the Central Intelligence Agency for Osama Bin Laden and the Taliban in the 1980s—when the U.S. was fighting a proxy war against Soviet occupation of Afghanistan.

—Luca Di Leo contributed to this article.

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WORLD NEWS

Australia faces a hung parliament

Labor and Liberal-National compete for independents' support; fate of mining tax hangs in the balance

By RACHEL PANNETT
AND ENDA CURRAN

SYDNEY—Australia's main political parties competed for the backing of a handful of independent lawmakers as they struggled to gain enough votes in parliament to form a government after weekend elections ended in an apparent dead heat.

The outcome of the vote is likely to fuel a bout of uncertainty over the direction of government policy, including the fate of the left-leaning Labor party's controversial plan to impose a significant new tax on the country's mining industry, a critical part of the national economy.

Labor and its main rival, the conservative coalition of the Liberal and National parties, had each won 71 spots in the 150-seat House of Representatives, with 80% of the votes counted. Independent politicians won three seats, and the Greens party won one. The results for four seats remained too close to call.

Neither side appears likely to have the 76 seats needed to form a majority government. So both are courting non-party politicians, who range from rural conservatives to environmentalists and are likely to hold the keys to power.

Labor Prime Minister Julia Gillard said Sunday that her party was in talks with the unaffiliated lawmakers and intends to form a government. Until a new government takes office, Labor, which has controlled parliament since 2007, will remain at the helm of a caretaker administration.

"I enter these negotiations with the nation's interest as my compass," Ms. Gillard told reporters. "There is no uncertainty over the continuity of stable government during this period."

Tony Abbott, who leads the Liberal-National bloc, is also seeking the upper hand in negotiations with nonparty lawmakers, saying on Sunday that Labor had lost its majority and its legitimacy to govern. Mr. Ab-



Australian Prime Minister Julia Gillard and opposition Leader Tony Abbott are vying for independent lawmakers' support.



ott said he had spoken briefly with the three independents as well as the leader of the Greens.

"The important thing now is Australia has stable and competent government for the next three years," he said.

Saturday's elections marked the first time since the 1930s that a first-term government has failed to clearly win re-election in Australia. And the split in the electorate in part reflects serious divisions over

Labor's mining-tax plans.

Former Labor Prime Minister Kevin Rudd in May proposed a 40% tax on mining-company profits, saying that the miners were earning handsome income from exploiting resources that, under the Australian constitution, are owned by all the country's citizens.

Mr. Rudd and his backers argued that the mining companies' success, which has drawn massive domestic and international investment and

contributed to a strong Australian dollar, was hurting other would-be Australian exporters.

The tax proposal provoked an outraged response from the nation's powerful mining companies, which took out newspaper and television ads criticizing the plan. Labor fought back, but there was growing dissension in the party ranks.

Mr. Rudd soon faced a rebellion from within among Labor politicians unhappy with his leadership and

fearful that their party would lose a national election with him at its head.

Mr. Rudd stepped down in June, and Ms. Gillard took over as prime minister and negotiated a reduction in the mining tax with the big mining companies. The planned tax is now 30%, kicks in at a higher level of profits, and is restricted to iron ore and coal.

After the election, Ms. Gillard said Labor remains committed to the tax plan and other policies, saying her party offers the best deal for rural Australia. Crucially, newly elected Greens lawmaker Adam Bandt, who won his party's first-ever lower-house seat, has said he will support Labor.

The Greens' party leader has said he favors expanding the mining tax to boost government revenue, so the party could push Labor to reformulate the tax plan again if it wants to keep Mr. Bandt on its side.

At least one nonparty lawmaker, Tony Windsor, from the state of New South Wales, said Sunday that stability of government must be central to any decision on forming the new administration.

Rarely are minority governments a recipe for decisive action and they can cause the postponement of difficult decisions.

Australia could be forced to go to the polls again soon if a fragile power-sharing deal leads to a legislative impasse.

Bob Katter, an independent elected in Queensland, said Saturday that he will meet with other independents in coming days to thrash out a position for negotiation with the major parties.

Tony Crook, who stood for the Liberal-National bloc's junior partner in Western Australia, has said he might not support the conservative bloc if he is elected. Another potential wild card is Andrew Wilkie, an independent with some ties to the Green movement, who could win in the state of Tasmania.

Iran unveils unmanned bomber

By FARNAZ FASSIHI

Iran unveiled its first domestically built drone on Sunday in a ceremony to mark national defense day, and said it would begin production on Monday of two high-speed vessels, one capable of launching missiles and torpedoes.

The announcements capped a series of recent military advances that Iran has showcased in recent weeks, ranging from submarines to long-range missiles.

On Saturday, Russian engineers loaded nuclear fuel into Iran's first nuclear-power plant in the southern city of Bushehr, in a ceremony attended by Russian and Iranian officials and journalists.

Iranian officials said the plant would be operational within a month, fulfilling Iran's long-held goal of producing its own nuclear energy.

The timing of the military announcements and the opening of the Bushehr plant, analysts say, is aimed at defying international pressure to isolate and sanction the country amid suspicions that it might be pursuing nuclear weapons. They

also are meant to deter recent talk of a possible military strike on Iran's nuclear plants by Israel or the U.S.

In the past few weeks, Iranian officials have stepped up their rhetoric, promising mayhem in the Middle East and beyond if anyone dares strike Iranian soil.

The announcement's timing and the opening of the Bushehr plant, analysts say, is aimed at defying international pressure over Iran's nuclear program.

Iran's Supreme Leader Ayatollah Ali Khamenei said in a recent speech that American troops in neighboring Iraq and Afghanistan wouldn't be immune from Iran's retaliation.

President Mahmoud Ahmadinejad hailed the unmanned aircraft, named "Karrar," which means striker, as a military accomplish-

ment aimed at "detering foreign aggressions against Iran."

The drone has the capacity to carry a 200-kilogram bomb or rockets, and has a range of up to 1,000 kilometers, according to Iranian state media.

"This jet is a messenger of honor and human generosity and a savior of mankind, before being a messenger of death for enemies of mankind," Mr. Ahmadinejad said after unveiling the Karrar at a ceremony with defense officials.

Russia's assistance in Bushehr is part of a \$1 billion agreement signed with Iran in 2005 to help make the plant operational. Russia and the U.S. both say they hope the cooperation will help bring Iran to the negotiating table and offer it an incentive to curb its uranium-enrichment program.

Iran says its nuclear program is for peaceful purposes, though Western countries suspect it wants to gain nuclear-weapons capability. The U.S., the European Union and the United Nations have recently imposed a series of tough economic sanctions on Iran over its nuclear program.

U.S. general is confident Iraq forces can take over

By LUCA DI LEO

WASHINGTON—The top U.S. commander in Iraq said it would take a "complete failure" of Iraqi security forces for the U.S. to restart combat operations there.

Gen. Ray Odierno, speaking days before an Aug. 31 deadline to withdraw all U.S. combat troops from Iraq, said such a scenario was unlikely because Iraqi security forces were in good shape now.

"They've been doing so well for so long now that we really believe we're beyond" the point in which there could be a complete failure of Iraqi security forces, Gen. Odierno told CNN's "State of the Union" show broadcast on Sunday.

Confidence in the competence of the Iraqi security services was shaken by a string of recent attacks, the latest on Aug. 17, when a suicide bomber killed at least 46 people and wounded more than 60.

Meanwhile, Iraqi political leaders continue to bicker over formation of the next government, after March

parliamentary polls failed to produce a clear winner. They have yet to agree on how to share power, or whether to replace Shiite Prime Minister Nouri al-Maliki.

Overall levels of violence continue to be low compared with the worst periods of Iraq's sectarian violence. Prime Minister al-Maliki's caretaker government has blamed the attacks on insurgents eager to take advantage of Iraq's political wrangling and of the imminent departure of U.S. fighting forces.

The U.S. is set to reduce the number of troops to 50,000 at month's end, from a peak of 170,000 in 2007. These troops will remain in the country until the end of 2011 as a training and assistance force.

Gen. Odierno said the U.S. could maintain some military presence beyond 2011 if the Iraqi government were to request further assistance, similar to agreements the U.S. currently has with Saudi Arabia and Egypt. But he sounded an optimistic note in terms of the country's ability to stand on its own.

WORLD NEWS

Meeting to clarify North Korea path

Pyongyang watchers say step toward collective rule is possible at rare political-party gathering next month

BY EVAN RAMSTAD

SEOUL—The biggest meeting of North Korea's ruling political party in 44 years, expected to be held next month, may give the world its first look at the country's potential next leader, Kim Jong Il's third son Kim Jong Eun. But some North Korea watchers think the meeting may reveal a bigger surprise: a step away from dictatorship to collective rule.

The representatives meeting of the Workers Party of Korea—likely to begin around Sept. 6, though an official date hasn't been announced—will mark a turning point in a drawn-out succession process occurring out of view of most North Koreans, let alone the rest of the world.

Any revelations about the secretive regime's future shape will be watched from South Korea, which has lived for decades under martial threats from the North, to the U.S., which wants Pyongyang to stop building nuclear weapons.

The meeting, called in June, appears in some ways similar to the 1980 event in which Kim Jong Il made his public debut. But it's even rarer: The last meeting of party representatives occurred in 1966 with thousands in attendance, while Kim Jong Il's debut occurred at a smaller party congress, six of which have been held since the country's start in 1948.

"If Kim Jong Eun's name doesn't come out in this meeting, he is not going to make it" as the next leader of the country, says Yoo Dong-ryul, a North Korea analyst at the Police Science Institute in South Korea. "Given Kim Jong Il's poor health, Kim Jong Eun should join at least one of the important state organs."

Kim Jong Il hasn't been seen in video images for several months. On



North Korean officials in July 2009, above, mark 15 years since leader Kim Il Sung's death. His son Kim Jong Il, center, may pass power to Kim Jong Eun, seen at left in an undated school photo.

Friday, Seoul-based Open Radio for North Korea reported that the two French doctors who treated Mr. Kim for a stroke-like illness in 2008 spent 12 days with him this month.

Mr. Kim's grip on power has weakened in the past two years, creating a vacuum that led officials to become uncertain about their future and resort to the regime's most extreme conventions of isolationism and paranoia, diplomats in the U.S. and elsewhere believe.

That resulted in confrontations with outsiders, including a nuclear test last year and March's sinking a South Korean warship, which Seoul-led international investigators have blamed on Pyongyang. Addressing perceived internal threats, the regime clamped down on private market activities earlier this year.

Analysts believe Mr. Kim early last year began positioning his son as his successor, just as he was to his father, North Korean founder Kim Il Sung. Kim Jong Il's brother-

in-law, seen as a potential regent for Mr. Kim's son, in June took an important post in the National Defense Commission, considered North Korea's most powerful body.

Yet North Korea's information lockdown gives prognosticators little further information to work with. International observers of its authoritarian regime must base judgments on what information trickles out from the North's often-bombastic official media, the few people allowed to leave the country to do business in China, and informants who are in touch with defectors in South Korea.

The youngest Kim has never been mentioned in the North Korean media. Outside the country, he has been seen publicly only in photographs taken more than a decade ago when he attended a private Swiss high school.

South Korean and Japanese news media have reported that North Korea's propaganda agencies have

printed millions of pictures of Kim Jong Eun to be distributed to the homes of ordinary citizens, who already keep photos of the older Kims.

That the family is attempting another generational succession has become accepted wisdom among North Korea observers, but some have recently started to express doubts about the regime's ability to pull it off.

They point to a recent personnel exodus in a propaganda office that was believed to be working on Kim Jong Eun's behalf and chatter among North Korean traders in China that the son, at age 26 or 27, is perceived by many people as too young to hold power.

"Kim Jong Il believes that the only way for him to maintain his power is to establish the hereditary succession of his son," Kang Chol-hwan, a defector who wrote a book about growing up in a North Korean prison camp, wrote in South Korea's

Chosun Ilbo newspaper this week. "But it is doubtful the entire party agrees."

Rudiger Frank, an economist and professor at the University of Vienna in Austria who follows North Korea, said he doesn't think North Koreans will accept a third generation of Kim leadership because the country's economy is in shambles, its elites want power and common people won't believe a new set of superlatives and myths about another Kim.

"I don't think a third 'great leader' will work," Mr. Frank said. "You cannot endlessly pour water into wine and have it still taste good."

Instead, he said the party is likely to set up a collective leadership structure that may involve the younger Kim but not as a supreme leader, a type of control he said was common in communist countries.

—Jaeyeon Woo
contributed to this article.

Southeast Asia tries to link up to compete

[THE OUTLOOK]

BY PATRICK BARTA
AND ALEX FRANGOS

China's rising labor costs represent an opportunity for other developing countries, as producers scour the globe for cheaper places to make things.

But China's wage increases are already rippling to some of those new frontiers and have contributed to worker unrest recently in countries such as Cambodia and Bangladesh.

All that means these markets will have to do more than compete on wages. They will have to upgrade basic infrastructure and other parts of their economies to be viable alternatives to China.

Only about a fifth of major U.S. and European firms surveyed recently by Credit Suisse said it would be easy to switch sourcing of goods from China to other countries, thanks to China's robust network of suppliers and shipping infrastructure. Roughly 90% said relocating would be very costly.

As China becomes more

expensive, though, economists believe investment will inevitably flow to other areas, accelerating work to improve supply chains and manufacturing infrastructure.

"China sort of pushed everyone aside for 15 years" as investors flocked there for cheap labor, says Frederic Neumann, senior Asia economist for HSBC in Hong Kong. Now, he adds, China's move up the value chain "opens up room again for other countries to jump in at the lower end of the scale."

A key example is Southeast Asia, a region of nearly 600 million people that was once one of the world's investment darlings until it was eclipsed by China. The average factory worker in Vietnam made about \$136 a month last year, in Indonesia, \$129 a month, well below the \$413 a month in China.

But Southeast Asia also faces enormous hurdles, including underdeveloped legal systems and problems with corruption. There is also the possibility that costs could spiral more than expected as workers learn more about wage gains in China and press for raises.

"Most of the countries, if not all, look to China for pricing

direction," said Bruce Rockowitz, president of Hong Kong-based trading company Li & Fung at a recent press conference. Even so, Li & Fung Ltd. has been able to mitigate some of its rising costs by shifting business to places such as Indonesia and Vietnam.

As China becomes more expensive, economists believe investment will flow to other areas.

Several Southeast Asian countries—including Cambodia, Vietnam and Indonesia—lack sufficient infrastructure to support much larger manufacturing industries, even though their wages are cheaper than China's. Individual Southeast Asian countries also lack the scale to single-handedly absorb a massive influx of jobs from China.

Leaders in the region are pressing ahead with plans to stitch together the patchwork of nations into a common market and

production platform by 2015. If fully realized, the project will include fewer restrictions on the movement of skilled labor from country to country and streamlined customs procedures.

Southeast Asian countries are also making headway on road and rail investments. Efforts funded by the Asian Development Bank and others have created three major overland trade corridors, with improved highway connections across Cambodia, Thailand, Vietnam and Laos.

Many companies are pursuing the same goals on their own. In the garment industry, more than a dozen Southeast Asian suppliers have reached agreements recently to more-closely integrate their supply chains by linking stitching companies in places such as Cambodia with raw-material makers in Thailand or other nearby countries. The companies effectively agree to market goods jointly so that they appear similar to suppliers in China, which often offer all the steps needed to make a whole garment, including access to yarns, fabrics, buttons and sewing, in the same area.

The long-term goal is to make Southeast Asia operate like one country with many states, rather than a region of 10 nations, says Van Sou Ieng, chairman of the Garment Manufacturers Association in Cambodia. "We have huge differences, but we have to make it happen" to grab more business from China, he says.

One of the companies involved, Malaysia's PCCS Group, has operations in both China and Cambodia. In China, the firm's two factories have seen wages shoot up roughly 50% in the past six months, with labor shortages leaving the factories operating at less than half-capacity, says Yik Thong Choon, a PCCS assistant general manager.

In Cambodia, by contrast, the company gets more job applications than it needs. That will change over time, but any pressures may be eased by the company's recent push to team up with a Thai fabric producer to jointly pitch for business with garment retailers in Hong Kong, allowing it to leverage a bigger regional labor pool to complete a finished product.

WORLD NEWS

'Feeble' security is blamed in art heist

Associated Press

CAIRO—None of the alarms and only seven out of 43 surveillance cameras were working at a Cairo museum where a Vincent van Gogh painting was stolen, Egypt's top prosecutor said Sunday.

Thieves made off with the canvas, known by the titles of "Poppy Flowers" and "Vase with Flowers," on Saturday from the Mahmoud Khalil Museum in the Egyptian capital.

Prosecutor-general Abdel-Meguid Mahmoud told Egypt's state news agency Sunday that the thieves used a box cutter to remove the painting from its frame. He blamed the heist on the museum's lax security measures, calling them "for the most part feeble and superficial."

The museum guards' daily rounds at closing time were inadequate and didn't meet minimum security requirements to protect internationally renowned works of art, he said.

This is the second time this particular Van Gogh painting was stolen from the Egyptian museum.

Mr. Mahmoud added that his office had warned Egypt's museums to implement stricter security controls after nine paintings were stolen last year from another Cairo institute, the Mohammed Ali Museum. Similar security lapses were to blame in that theft.

Fifteen Egyptian officials, including the director of the Khalil museum, Reem Bahir, and the head of the fine arts department at the Ministry of Culture, have been barred from leaving Egypt until the investigation into the painting's theft is complete, Mr. Mahmoud said. He didn't elaborate.

The Khalil museum declined to comment on the prosecutor-general's statements, saying only that the investigation was still under way.

On Saturday, Egypt's minister of culture, Farouk Hosni, said that police had confiscated the painting from an Italian couple at Cairo airport hours after it was stolen.

But Mr. Hosni later backtracked, saying his announcement was based on "false and incorrect" information. He said authorities were still searching for the missing painting, which he said is valued at an estimated \$50 million. It wasn't clear what caused the confusion over the artwork's fate.

This is the second time this painting by the Dutch-born postimpressionist has been stolen from the Khalil museum.

Thieves first made off with the canvas in 1978, before authorities recovered it two years later at an undisclosed location in Kuwait. Officials have never fully revealed the details of that theft.

The 30-by-30-centimeter canvas, believed to have been painted in 1887, resembles a flower scene by the French artist Adolphe Monticelli, whose work deeply affected van Gogh.

The Monticelli painting also is part of the Khalil collection.

Israelis, Palestinians set to talk

Israeli Prime Minister Benjamin Netanyahu and Palestinian President Mahmoud Abbas agreed to a U.S. proposal that they meet in Washington on Sept. 2 to launch long-stalled direct peace talks, a gamble that will put the credibility of all three parties on the line.

By Charles Levinson in Jerusalem and Adam Entous in Washington

U.S. officials said they hope to have a peace deal in a year and appear to have set a high bar: Secretary of State Hillary Clinton, speaking Friday in Washington officially inviting the sides to talk, said negotiations would seek to resolve "all final-status issues." That refers to the most sensitive issues, including the borders of a Palestinian state, the fate of millions of Palestinian refugees and the status of East Jerusalem, which Palestinians claim as the capital of their future state.

Mr. Netanyahu said Sunday a future Palestinian state would have to be demilitarized, recognize Israel as the homeland of the Jewish people and respect Israel's vital security interests, the Associated Press said. He outlined his opening position for talks and said a peace agreement would be "difficult but possible."

A resumption of talks would end a 20-month hiatus. But the Obama administration faces political obstacles on both sides of the negotiating table that will make clinching a meaningful deal difficult. U.S. officials are concerned about the motivations of Mr. Netanyahu as well as the bitter splits among the Palestinian leadership.

Still, a deal to restart talks marks a notable achievement for the Obama administration, whose diplomats have toiled to bring together two leaders who have appeared to show little interest in talking to each other.

The end game should come in late 2011, just as the 2012 presidential campaign begins in earnest. The announcement could also provide a small lift ahead of November midterm elections. Mr. Obama has taken heat from U.S. Jewish groups, and many evangelical Christians, who say he has been too tough on Israel. Pushing ahead with talks now is



Israeli Prime Minister Benjamin Netanyahu attends a weekly cabinet meeting in Jerusalem on Sunday.

"a high-risk gamble," said Matthew Brooks, executive director of the Republican Jewish Coalition, an advocacy group. "This is a big push of the chips into the middle of the table by this administration."

Mrs. Clinton said the U.S. believes a deal could be completed within a year, but stopped short of saying the U.S. was setting a deadline. She sought to reassure both sides, meeting a key Israeli demand by saying renewed talks would begin without preconditions. Her plan to address final-status issues addresses Palestinians' concerns about following a piecemeal approach.

Mr. Abbas accepted the invitation after a late-night meeting Friday with his leadership in the West Bank city of Ramallah.

The talks will begin with a dinner in Washington on Sept. 1, Mrs. Clinton said, for which invitations have been extended to Messrs. Abbas and Netanyahu, Jordan's King Abdullah and Egyptian President Hosni Mubarak. The talks will officially launch the next day. Details of how they will proceed after that remain unclear.

From the first days of his administration, Mr. Obama promised a sustained effort to reach a peace accord. That effort has flagged, and Mr. Obama has faced new tensions over the U.S.'s traditional support of Israel amid that country's new housing construction in East Jerusalem, its use of lethal force against a Turkish flotilla seeking to break a blockade of Gaza and its tough line on Iran.

The White House also faces deep skepticism, including among some Obama administration officials, about Mr. Netanyahu's commitment to a peace deal.

Some top ministers from Mr. Netanyahu's Likud party have suggested Mr. Netanyahu is entertaining peace talks mostly to maintain a smooth relationship with Washington, especially at a time of heightened concern over Iran's nuclear program.

The top seven cabinet ministers who comprise the decision-making circle within Mr. Netanyahu's government don't believe it is possible to reach a final peace deal with the Palestinians in the near future, ac-

ording to cabinet ministers and Netanyahu administration officials.

"No one really thinks the peace talks will succeed. But this is how the world judges us, and so we have no choice but to go through with the dance," said a senior minister in Mr. Netanyahu's government.

White House peace envoy George Mitchell has said he believes Mr. Netanyahu's commitment is genuine, both in public and in private meetings with Western diplomats, say people familiar with the matter. And Mr. Netanyahu has vowed to surprise those who doubt his commitment to peace.

Mr. Netanyahu opposes the establishment of East Jerusalem as the capital of a Palestinian state; insists Israeli must retain large swaths of the West Bank, including parts of the Jordan Valley, as part of any peace deal; and opposes even a limited token right of return for Palestinian refugees. All these positions are nonstarters for the Palestinians, Palestinian leaders say.

—Jonathan Weisman in Washington contributed to this article.

Floods spread further south in Pakistan

By ZAHID HUSSAIN

The flooding in Pakistan has spread further south, forcing tens of thousands more people to flee and stretching aid efforts on the ground.

More than \$800 million has now been pledged to help the country cope with the flooding, and the relief situation has begun to improve with the arrival of international help, but officials say it is still inadequate to cope with the scale of the devastation.

The floodwaters are expected to recede around the country in the next few days as they empty into the Arabian Sea to the south, officials said.

Government officials said Sunday that floods have ravaged at least four districts in Sindh province, including urban areas, forcing about 200,000 people to flee to higher ground. Dozens of villages have been marooned by the Indus river, which breached dykes in Hyderabad and Thatta districts on Sunday.



A child gets care at a medical center in Pakistan's Punjab province on Saturday.

"We have diverted our resources for rescue operations to the south," said Saleh Farooqui, director general of the disaster-management authority in southern Sindh province. Floodwaters broke through em-

bankments on Sunday and entered Shadadkot, in northern Sindh, forcing thousands to flee their homes and seek shelter in the highlands.

More than 20 million people have been affected by the flood-

ing—the worst in the country's history—which started three weeks ago in northern Pakistan. More than one-fifth of Pakistan's territory has been affected by the floods.

The waters have receded in many areas in the southern part of Punjab province, and people have started returning to their villages. Pakistani and international aid groups estimate that millions of dollars will be needed to help some nine million people displaced by the flood. Most have lost everything and must restart their lives from scratch.

The United Nations warns that about 4.5 million people living in cramped makeshift camps and school buildings are at risk because of poor hygiene and sanitation. The destruction of farmlands and crops has raised fears of an acute shortage of food in the coming months.

The government's response has stoked anger against President Asif Ali Zardari, who has been criticized for going on a foreign trip at the height of the devastation.

INTERVIEW

Betfair weighs up the odds for a punt on the markets

The online gambling firm is moving beyond sports and into finance with the launch of a new trading platform

[David Yu]

BY WILLIAM LYONS
AND JAVIER ESPINOZA

David Yu is in his element. The chief executive of U.K. online betting company Betfair is standing in front of a digital presentation re-running this year's Cheltenham Gold Cup. Four horses: Imperial Commander, Kauto Star, Coolidge and Denman are being tracked in a digitized bar chart that shows their odds throughout the race. It's a slightly surreal experience as the race is being relayed in slow-motion. Even more so as Mr. Yu, whose background is in the dot-com world of Silicon Valley, has no real interest in the race. His interest is in the platform.

"I think this is Britain's greatest dot-com success story," he says pointing to one of the many price indicators showing the live trading on the race. "On the surface we are very much a betting company, but what I see is a technology business. When I think about the business, we wouldn't be here today if it weren't for the technology platform. Like other great internet businesses, whether it is **Amazon.com Inc.**, **eBay Inc.** or **Google**, they all rely on their technology platform. Technology is at the core of this business."

Attention turns to the race as the favorite, Kauto Star, makes a mistake at the eighth fence. Immediately, his price falls as the odds on him winning drop. This is Betfair's unique selling point: the ability to allow punters to bet after a race has started right up to the finishing line. It has revolutionized betting on British horse racing and enabled the company to grow from one that took just 36 bets at its launch in June 2000 to one that now processes more than 5.5 million trades a day—more than on all European stock exchanges combined.

"Ten years ago, betting was a really inefficient market and was not a good deal for customers," he says. "The prices were inefficient; there wasn't the chance for customers to express their view on what the real value should be. There wasn't the ability to bet in play and there was nowhere to trade your positions."

"We changed that by inventing the exchange. A lot of people who were quite sophisticated and knowledgeable about sport were sitting on the sidelines because there was no facility for them to bet into. Now we have more than 1 billion page views per day and on average £3,000 is deposited every minute via our site."

Later this year, Betfair will move beyond the world of sports betting and into finance, with the launch of LMAX, a financial trading platform that will allow punters to trade on the movement of a company's share price without actually owning the underlying stock.

Based in London, LMAX will hold a separate management team under the direction of Chief Executive Robin Osmond, a former senior investment banker.

Mr. Yu says the launch of the financial exchange, of which Betfair is the majority shareholder, fits the company's long-term goal of diversification. "We have built a high-performance, highly reliable transaction engine and we have applied it to sports betting." The LMAX business, he says, "is going to be bringing those advantages into the financial trading world so we can extend the use of our core platform into



David Yu says the launch of LMAX fits Betfair's long-term goal of diversification.

other domains over time."

Betfair, which is privately owned, chose to publish its results earlier this year, posting a 29% jump in earnings before interest, tax, depreciation and amortization to £72 million in the year to the end of April, from revenue up 27% to £303 million.

It was the decision to publish its results that helped fuel speculation that the company is preparing to float on the London

stock market, joining a sector that already boasts PartyGaming, 888 Holdings and **Sportingbet**. It would also provide a large pay-out for its founders, Andrew Black and Edward Wray, who hold a combined 22.5%. Japanese telecommunication company **SoftBank** owns a further 21.5%, with the rest owned by private equity, private investors and employees.

"There was a lot of noise on their pro-

spective IPO early this year," says Nicholas Batram, a gaming industry analyst with **KBC Peel Hunt**. "Cash generation is very strong and they have no debt. The market is a distinct possibility for Betfair."

"I think the rumors have been going ever since I started," says Mr. Yu. While he is reticent on the subject of a potential IPO, which analysts say could happen as early as this year, he doesn't dismiss it outright.

"If we think that it [an IPO] is the right thing for us then we will certainly consider it," he says. "We are in a great position because we do not have to go public. The company has no debt and is very cash-generative. We have a very strong balance sheet, therefore a lot of options are open to us. But we will continue to look after our shareholders, their best interests and monitor the market at all times."

An IPO would also rule out a move offshore. Betfair has tentatively suggested in the past that it might move all its operations to Malta if the disadvantage of paying tax in the U.K. worsened.

"If a company is offshore they pay less tax but can still advertise and still address the U.K. market just the same way we do. So it [being based in the U.K.] does in its current framework put us at a commercial disadvantage," Mr. Yu says.

At present, offshore gaming companies can target U.K. gamblers online and not pay U.K. tax. Betfair is lobbying for a change in the law so that every company that provides betting to U.K. gamblers has to be licensed and therefore pay U.K. tax.

"So we embrace regulation. We think it is good for the industry," he says. "Italy is a good example. Not that long ago Italy was trying to prohibit online gaming, now the government has a licensing framework for betting companies that want to enter Italy."

"The government found the best way to control and regulate consumers is to have a well-regulated framework. We want a regulated environment because it is then a level playing field and it ensures companies can operate fairly and consumers are protected."

One option for developing the business in the U.S., a market with which Mr. Yu is familiar, as he grew up in Silicon Valley and started his career in technology working for start-ups before AltaVista brought him to the U.K. in 2000.

Last year, Betfair bought an interactive horse-racing betting business, TVG, for \$50 million, a move spurred by renewed hope that U.S. lawmakers will lift the ban on internet betting. In July, the financial services committee voted by 41-22 to approve a move to repeal the Unlawful Internet Gambling Enforcement Act, paving the way for legal gambling in one of the world's biggest potential markets.

"The U.S. is an interesting market as it develops," Mr. Yu says, noting that TVG's business—online betting on horse races—is the only legal form of internet gambling in the U.S.

But he insists that though there is potential in markets such as the U.S. and Asia, there is still enormous growth left in the U.K. and Europe, away from the traditional sports like horse racing.

"Horse racing is such a deep, traditional sports betting model," he says. "But what we are seeing is that more people are coming in and having their first bet on football as the game expands globally. Over time, football could certainly be bigger than horse racing."