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# THE WALL STREET JOURNAL.

VOL. XXVIII NO. 143

EUROPE

Tuesday, August 24, 2010

DOW JONES  
A NEWS CORPORATION COMPANY

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## Bank debt reports turn muddy

BY DAVID ENRICH  
AND SARA SCHAEFER MUÑOZ

LONDON—A primary goal of Europe's recent stress tests of its banks was to clarify their holdings of potentially risky government-issued debt. But subsequent bank disclosures about those portfolios have muddied the waters.

Regulators across the European Union conducted the stress tests of 91 banks last month, hoping to dispel investor anxiety about the health of the continent's banking system.

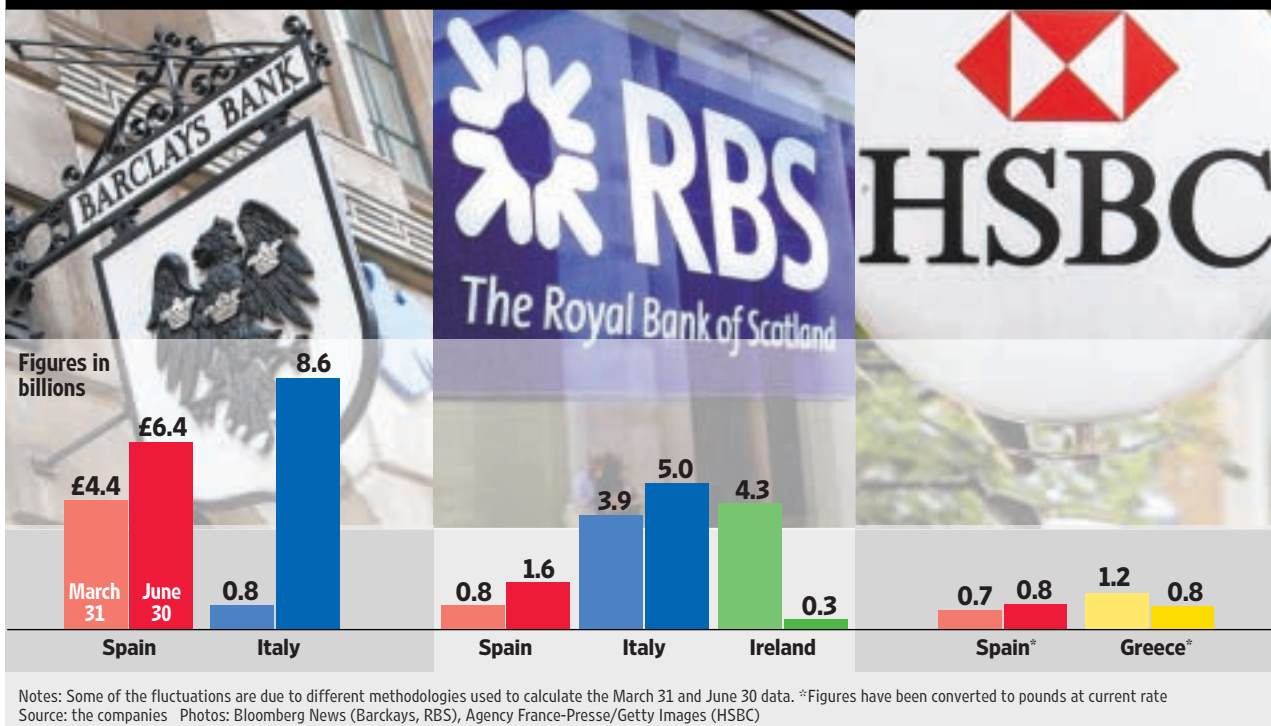
In addition to gauging the banks' abilities to withstand an economic downturn, the tests also required banks to reveal the amounts of sovereign debt—debt issued by national governments—that they were holding as of March 31.

Only seven banks flunked the tests, leading many experts to question the rigor of the exams. But investors did applaud the greater transparency that came from banks disclosing their sovereign-debt portfolios, a nagging source of market angst due to the fiscal challenges facing countries on the periphery of the euro zone.

The banking openness, however, has proved somewhat fleeting. Some banks won't continue to provide

### Wild swings

U.K. banks' holdings of various countries' sovereign debt. The reasons for the big changes are largely a mystery.



sovereign-debt details. Others are using different methodology to calculate sovereign-debt exposure, without providing comparisons to the stress-test data. And with wild swings in the reported debt exposures among key

banks, the lack of uniformity in disclosure is adding investors anew.

"It is incumbent upon the banks to give good disclosure on sovereign exposure," said Leigh Goodwin, a banking analyst at Citigroup. "They have

mostly done that, but there certainly could be clearer alignment on how these two disclosures stack up."

Among banks not providing sovereign-debt data going forward are France's **BNP Paribas SA** and **Société Gé-**

**nérale SA**, whose exposures to Europe's periphery have unnerved investors.

This month, the U.K.'s three largest banks provided investors with data showing their sovereign-debt holdings for fiscally challenged coun-

tries such as Greece, Ireland, Portugal, Italy and Spain as of June 30. But these disclosures varied widely from the data released as part of the stress tests two weeks earlier.

**Barclays PLC**, which earned the highest marks of any bank in the EU tests, reported in the tests that it was holding £787 million (\$1.22 billion) of Italian sovereign debt as of March 31, the cutoff date for the stress tests. More-recent disclosures from the bank, dating to June 30, indicate that Italian sovereign-debt holdings had ballooned to £8.6 billion. The bank's Spanish sovereign-debt holdings leapt 50% from March 31 to £6.4 billion on June 30.

Meanwhile, **Royal Bank of Scotland Group PLC's** holdings of Irish government debt appeared to shrivel to £327 million as of June 30 from the roughly £4.3 billion it reported in the stress tests on March 31. Its Spanish government-debt portfolio roughly doubled from March 31 to £1.6 billion on June 30.

It isn't rare for such portfolios to shift as banks' investment appetites and business strategies evolve, but that doesn't fully explain some of the substantial moves in reported holdings.

Please turn to page 5

## Feinberg called too restrictive in getting BP cash to victims

The terms for handing out \$20 billion of BP PLC funds to victims of the Gulf of Mexico oil spill came under a new attack from U.S. officials and lawyers, who say Kenneth Feinberg, who is in charge of disbursing the money, will be too restrictive in doling out the cash.

The fresh wave of criticism came as Mr. Feinberg, a prominent Washington lawyer, officially began the post of independent administrator over

the Gulf Coast Claims Facility. Before Monday, BP was handling claims itself, and had disbursed a total of nearly \$400 million.

Officials and business owners in states affected by the spill are unhappy with a formal set of rules that Mr. Feinberg says will guide the payment of emergency claims to the individuals and businesses hit by the spill.

Mr. Feinberg has given spill victims until Nov. 23 to

file for temporary payments for losses suffered. Payments could cover as much as six months of losses. After that, people will have three years to file for a final settlement. Critics counter that the timetable is unrealistic, and doesn't allow ailing businesses enough time to assess the long-term damages potentially caused by the spill.

■ Rules are causing uproar in tourist hub Florida ..... 7

### The Quirk



Uri Geller's latest mind-bender: Ancient Egyptian loot on a Scottish island. Page 29

### Editorial & Opinion

Britain's NHS straitjacket. Page 11

## Potash Corp. eyes white-knight bidder

The chief executive of **Potash Corp. of Saskatchewan Inc.** said Monday the fertilizer company has received "exceptional" interest from a broad range of companies, amid word that a consortium led by Chinese private-equity fund **Hopu Investment Management Co.** is considering a bid for the Canadian company.

Potash CEO Bill Doyle said in an interview that the price offered by potential bidders will be the most important

factor in deciding whether the company should sell itself. He again called **BHP Billiton Ltd.'s** hostile \$38.6 billion bid made last week "inadequate."

Meanwhile, a person familiar with the matter said a consortium led by China's Hopu is studying a potential rival bid for the potash miner.

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■ In Saskatoon, BHP's approach stirs hope—and fear ..... 20

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## PAGE TWO

# HSBC has gone on the Civets trail

## [ Agenda ]

BY PATIENCE WHEATCROFT



It was back in April that Michael Geoghegan, the chief executive of HSBC, announced his interest in CIVETS. He was not referring to the cat-like mammals but to a group of countries which he believed had exciting prospects for the decade ahead. The Civets, he suggested, might be poised to replicate the dynamic growth of the BRICs.

The search for a good acronym dictated the order in which the countries were listed: Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa. As HSBC moves on Geoghegan's analysis, it is the last that has come first. The majority stake in Nedbank which it is negotiating to buy would not only give HSBC a significant presence in one of the Civets; it would also enable it to strengthen its involvement with the Asian customers which are increasingly its focus. China's appetite for African assets seems insatiable and this deal would mean that HSBC would be even better placed to help meet it.

Although he would not then confirm suggestions that he was looking at Nedbank, Geoghegan said of South Africa in July that "It's geographically well positioned, has high influences from China and India and is the gateway for doing business in Africa."

There is a willing seller in the form of Old Mutual, South Africa's biggest insurer which owns just over half the bank. Having clambered back into profit in the first half of this year, Old Mutual is pledged to further reduce its debt following the sale of its U.S. life business. Through an offer to all shareholders, HSBC would intend to take a stake of around 70% in Nedbank.

Yet much as HSBC investors might share Geoghegan's



A worker passes the Nedbank sign in Sandton, Johannesburg, on Monday.

enthusiasm for Civets, they will be wary of it leading him to be overly helpful in reducing Old Mutual's debt. That Standard Chartered has apparently been pushed out of contention for Nedbank by HSBC might raise qualms since Standard Chartered knows that market well. If it is being outbid, is it because its caution is well-founded?

Nedbank, in common with

**That Standard Chartered has apparently been pushed out of contention by HSBC might raise qualms.**

South Africa's other major lenders, has been hit with a surge in bad debts as even this Civets country struggled to cope with the world's economic downturn. Problems largely in home loans meant that in 2009, defaults rose by 56.3%. Recent comments from the bank indicated that the improvements in impairments were proving slower than had been expected.

That news should have resonated with HSBC, which knows all about home loans that go wrong. Last year it finally pulled out of the US sub-prime market, effectively drawing the shutters on Household, the business it bought for \$14.8

billion in 2003. After a succession of massive write-offs, HSBC chairman, Stephen Green conceded that the business was effectively worthless. Summing up the experience, he said: "It's an acquisition we wish we hadn't done with the benefit of hindsight, and there are lessons to be learned."

This is the time to recall those lessons.

**Swanning into the top job at Marks & Spencer**

The next chairman of Marks & Spencer, the U.K. retail chain, will have no need of an induction course. Robert Swannell knows the business well from his time as an investment banking advisor to the group. He played an important part in helping M&S rebuff overtures from retail magnate, and now government advisor, Sir Philip Green in 2004.

Although a formal bid never materialized, some investors may recall wryly that Green was mooting an offer of £4 a share, a level which, apart from a few days in January, has eluded the M&S price for a couple of years. The stock closed Monday at 336p. Swannell was then leading Citigroup's European investment banking operations but he has since made a smooth transition into corporate life. His current portfolio includes non-executive directorships of private equity group 3i, and property company

British Land and the chairmanship of music and book retailer, HMV.

Despite the experience he has gained in the latter role, however, there is no risk of him believing, as the current chairman did, that he could handle the chief executive's role as well. Sir Stuart Rose's decision to do both jobs himself was a mistake which soured relations with some of his investors. It was surprising that his advisors did not prevent the move.

Private shareholders, however, remained largely devoted to the man whom they saw as the saviour of M&S, irrespective of the share price. They will be watching to see where he turns up next, for there seems little chance of him heading into retirement. Private equity, and the chance to make a sizeable amount of money away from the public stage, is a likely option.

Robert Swannell, a barrister and accountant, will find it hard to emulate the showmanship which Rose brought to M&S's annual meetings but his old-school charm is certain to go down well with those loyal investors.

**The bank that likes to give and keep giving**

An interesting appointment is on offer for "a shop manager with a difference." A financial institution is seeking what it calls a "Corporate Gifts Co-ordinator."

The role involves researching, sourcing and providing gifts which the generous employer can then hand out. It is a complicated task, since there need to be different gifts for so many different occasions. The employer explains that its requirements include: "golf merchandise, corporate stationery, sports kits, toiletries, executive bespoke gifts, silverware, novelty gifts for exhibitions and personalized items."

Customers of Investec, the bank and asset manager, may appreciate such largesse. Alternatively, they may just wonder who is paying for it all.

## What's News

■ **HSBC is in talks to buy a majority stake in South Africa's Nedbank**, in a move that could help it expand its operations in African markets where Chinese and other investors are active. 17, 32

■ **H-P made a \$1.6 billion offer for storage firm 3PAR**, launching a bidding war with Dell as H-P tries to resume business as normal in the aftermath of CEO Hurd's resignation earlier this month. 17

■ **The euro-zone purchasing managers' index eased in August**, suggesting a slower but still relatively robust pace of economic growth. 4

■ **Abbas warned the U.S.** that the Palestinians would abandon direct peace negotiations with Israel if settlement expansion continues in the West Bank. 10

■ **Swedish Chief Prosecutor Eva Finne** said she will investigate the allegations against WikiLeaks founder Julian Assange this week. 4

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**'So if they [pilots] are minded to go on strike they could cause huge problems for an airline.'**

**Kaveri Niththyananthan** on issues Virgin Atlantic may face if pilots strike



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### Question of the day

**Vote and discuss: Do you think WikiLeaks should keep its financial infrastructure secret?**

Vote online today at [wsj.com/polls](http://wsj.com/polls)

### Previous results

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

Yes

12%

No

88%

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

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Germany. Printed in Switzerland by Zehnder Print AG WIL.  
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NEWS

# Chilean miners face wait for rescue

*First verbal contact is made with 33 men trapped underground; next step is sending down water and nutrition*

BY MATT MOFFETT  
AND CAROLINA PICA

SANTIAGO, Chile—Rescuers but-tressed a 10-centimeter-wide lifeline on Monday to 33 miners who have been buried deep underground for 18 days in northern Chile, and girded for a painstaking extraction operation that could last through Christmas.

The miners—trapped about 700 meters underground in the San José mine since Aug. 5—sent up notes attached to a drill on Sunday that they were all right, sparking a wave of euphoria throughout Chile. But big risks lie ahead, both to the stability of the rickety mine and the mental and physical health of the entombed miners, who have already been underground longer than all but a handful of known mining-accident survivors.

Rescuers said Monday that they had used the reinforced hole connecting them to the miners to make verbal contact via an intercom. The next step is sending down water and nutrients. Chilean Health Minister Jaime Mañalich cautioned that rescuers would move gradually, sending down small amounts of water and then fortified liquid nutrients, because there is a limit to how much the miners can safely ingest after such a long period of deprivation.

“We are seeing a rather unique historical situation,” Mr. Mañalich said.

The miners, who are holed up in a small chamber 660 meters underground, indicated Sunday that they had dug a canal to obtain water. But rescuers doubt that the men have had much to eat since the accident.

Chile’s national copper company, Corporación Nacional del Cobre, known as Codelco, began preparations for the extraction of the miners by transporting a giant drill to the mine site, 800 kilometers north of the capital, Santiago. The drill will take a day and half to get to the San José mine and is being hauled on three trucks, a Codelco representative said. The drill will be used to dig a new shaft to the miners, whom rescuers then hope to lift out on pulleys.

Codelco engineer André Sougarret said the drilling could take three



to four months, because rescuers must be extremely careful to avoid provoking further cave-ins. “Before we begin with the new drill, we have to complete design and topographical studies,” Mr. Sougarret said Monday.

John Pennington, a mining and safety specialist for Houston-based DXP Enterprises Inc., an industrial machinery and equipment company, says the news that the Chileans are alive is heartening. But he cautions that they aren’t home free. “The risk is the tunnel itself,” says Mr. Pennington, who trains workers on the use of his company’s mine-rescue equipment and participates in rescues.

In a 2007 rescue that Mr. Pennington was involved in, at the Crandall Canyon mine in Utah, three rescuers died trying to reach six trapped miners. “The mine kept collapsing” as rescuers went in, he

said. Eventually the search for the miners was called off.

The Chileans, working for a mine operated by Chile’s **Cia. Minera San Esteban Primera**, are likely to have a unique place in the annals of mining accident survivors. In October 2009, three Chinese miners were rescued after 25 days in a mine in Guizhou province. The men said they had chewed on coal to try to sate their hunger. Two Australian miners were rescued from a mine in Tasmania after 14 days in 2006.

“It’s very rare,” says Rob McGee, a retired miner who is secretary-treasurer of the United States Mine Rescue Association. “Oh my goodness, I can’t imagine what they’re going through and the prospect of being there for four more months!” he added. “They’re going to be under extreme stress and until they appear on the surface, everything is in question.”



At top, rescue workers prepare a tube to send supplies to the miners on Monday; above, a letter sent up by miner Mario Gómez, who has been trapped with 32 others in a shelter in the mine since Aug. 5. Engineers say it could take three to four months to reach the miners and rescue them.



The toppled trunk of the tree which comforted Anne Frank during World War II.

## Storm topples Anne Frank tree

Associated Press

AMSTERDAM—The monumental chestnut tree that cheered Anne Frank while she was in hiding from the Nazis was toppled by wind and heavy rain on Monday.

The tree, now diseased and rotted through the trunk, snapped about one meter above the ground and crashed across several gardens. It damaged a brick wall and several sheds, but nearby buildings—including the Anne Frank House museum—escaped unscathed. No one was injured, a museum spokeswoman said.

“Someone yelled, ‘It’s falling. The tree is falling,’ and then you heard it go down,” said museum spokeswoman Maatje Mostart. “Luckily no one was hurt.”

A campaign to save the chestnut,

widely known as The Anne Frank Tree, was launched in 2007 after city officials deemed it a safety hazard and ordered it felled. The tree was granted a last-minute reprieve after a battle in court.

The 150-year-old tree suffered from fungus and moths that had caused more than half its trunk to rot. Two years ago workmen encased the trunk in a steel support system to prevent it from falling, but that failed under windy weather Monday.

The Netherlands’ Trees Institute, one of the most prominent supporters of the preservation project, said in a statement, “It had been calculated that the tree could live several more decades,” with the support structure. “Alas, in the event it seems that nature is stronger.”

The institute said it didn’t know

why the support structure had failed.

Anne Frank made several references to the tree in the diary that she kept during the 25 months she remained indoors in hiding until her family was discovered and arrested in August 1944.

“Nearly every morning I go to the attic to blow the stuffy air out of my lungs,” she wrote on Feb. 23, 1944. “From my favorite spot on the floor I look up at the blue sky and the bare chestnut tree, on whose branches little raindrops shine, appearing like silver, and at the seagulls and other birds as they glide on the wind.”

Anne Frank died in Bergen-Belsen concentration camp in March 1945. Her diary has become the most widely read document to emerge from the Holocaust.



## EUROPE NEWS

# Turkey is warned about spending

By JOE PARKINSON

ISTANBUL—Ratings agency Standard & Poor's Corp. on Monday warned on Turkey's future creditworthiness amid signs that the government is steering an expansive fiscal policy that will lead to bigger budget and current-account deficits.

The warning comes amid growing market concerns over Ankara's spending plans in the run-up to national elections likely to be held next summer.

Standard & Poor's report, titled "Will Turkey Make the Most of the Resurgence in Growth?" adds to the worries over the economic policy of the Turkish government, which earlier this month backpedaled from plans to implement a fiscal rule aimed at reducing the budget deficit to 1% of gross domestic product in 10 years.

"Ahead of general elections in July, the Turkish government appears reluctant to leverage off of the current recovery in domestic demand to build up fiscal buffers for the future," said Standard & Poor's credit analyst Frank Gill.

"Instead, we believe authorities are leaning toward operating a more accommodative medium-term fiscal stance, which we think will tend to exacerbate the ongoing widening of Turkey's current-account deficits, raising questions about the coun-

try's competitiveness and creditworthiness amid mounting twin deficits."

The ratings agency, which rates Turkey two notches below "investment grade," stresses that Turkey's economic recovery is gathering steam, but expenditure figures suggest the government isn't taking advantage of the gains to "front-load fiscal retrenchment," raising questions over whether Ankara will overshoot the 2010 primary deficit target of 0.8%.

Turkey's fiscal rule legislation, due for presentation to parliament later this year, had been highlighted by some ratings agencies as a potential reason for lifting Turkey's sovereign credit rating to investment grade.

Economists have stressed that the delay is aimed at giving policy makers budgetary flexibility ahead of national elections due next year. "I guess the electoral calendar, with parliamentary elections due by July 2011, got the better of policy makers in the end," said Tim Ash, an economist at the Royal Bank of Scotland in London.

Standard & Poor's stressed that if the Turkish government avoids a spending spree and puts counter-cyclical policies in place, it "considers that Turkey's long-term creditworthiness could continue to improve, as could the sovereign rating."



Agence France-Presse/Getty Images

German Chancellor Angela Merkel arrives at a leadership meeting of the Christian Democratic Union in Berlin on Monday.

# Euro-zone data show slow August growth

By ILONA BILLINGTON

LONDON—The preliminary euro-zone purchasing managers' index eased a little in August, suggesting a slower but still relatively robust pace of economic growth in the third quarter of 2010, a survey by global research firm Markit showed Monday.

The high point came from the German services sector, which was boosted by a surprising increase in domestic demand.

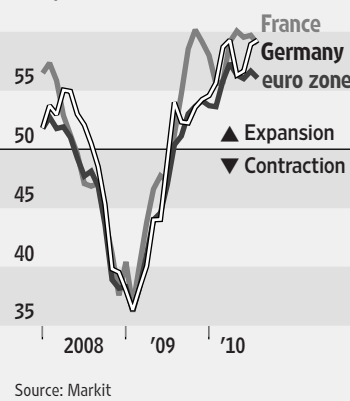
But growth throughout the euro zone may fall short of preventing credit-rating agencies from downgrading some member countries if their economies begin to suffer in the face of tight austerity budgets, said a Moody's Investors Service Inc. report also out Monday.

The euro-zone composite PMI—which measures activity across the private sector, including the key manufacturing and services sectors—slipped to 56.1 in August, the lowest level in two months and down from 56.7 in July. Both the manufacturing and services PMIs also slid in August to 55 and 55.6, respectively, despite pickups in Germany and France, suggesting that other countries implementing strict fiscal plans to narrow large budget deficits have seen a sharper slowdown in their economies.

"The recovery lost only slight momentum compared to the bumper

## Expansion narrows

Purchasing managers' composite indexes



Source: Markit

growth seen in the second quarter, with the flash euro-zone PMI for August consistent with gross domestic product for the region growing at a quarterly rate of 0.7%," said Chris Williamson, chief economist at Markit.

Euro-zone GDP expanded 1% quarter-to-quarter and by 1.7% year-to-year in the second quarter of this year, with the quarterly figure the sharpest rise in four years.

"However, the robust headline number masks some worrying developments. Of greatest concern, the upturn continued to be all too dependent upon France and Germany.

Growth in the rest of the euro area slowed to near stagnation, and services even contracted again as austerity measures bite," Mr. Williamson said.

It is those countries where harsh belt-tightening is taking hold that could be at risk of credit downgrades, Moody's said. The ratings agency said that while growth throughout the world is expected to remain pressured by the financial crisis, Europe is more vulnerable because of the continuing process of reducing debt and the simultaneous austerity moves in most countries.

The semiannual European Sovereign Outlook report said slowing economic growth poses a danger to sovereign credit ratings "given the magnitude of the fiscal challenge and the need to sustain tight fiscal policy for several years."

Despite the continuing financial turmoil experienced by some countries, the composite PMI for Germany rose unexpectedly to a four-month high of 59.3 in August from July's 59, boosted by a two-point rise in the services index.

"A number of German surveys suggest that domestic demand is stepping up significantly, and the service PMI is certainly adding to this impression," said David Mackie, European economist for J.P. Morgan Chase Bank.

—Art Patnaude  
contributed to this article.

# Sweden continues WikiLeaks probe

By GUSTAV SANDSTROM

STOCKHOLM—Swedish Chief Prosecutor Eva Finne will investigate this week allegations brought Friday against WikiLeaks founder Julian Assange, she said Monday.

The prosecution authority Friday issued a warrant to detain Mr. Assange to stop him leaving the country following allegations of rape and molestation, but it said Saturday he

was no longer suspected of rape. It said it would decide this week whether to pursue the molestation case. The two cases originated in different areas of Sweden.

Mr. Assange denied any wrongdoing, saying WikiLeaks critics would attempt to use such accusations to damage its reputation.

Under Swedish law, molestation is defined broadly and can refer to anything from groping someone to

inappropriate, nonsexual behavior, such as disrupting public order.

The suspicion of rape was dropped Saturday because new information regarding the case became available, Ms. Finne said in an interview Monday without providing further details.

WikiLeaks.org has been criticized after last month posting 76,000 classified U.S. military documents about the war in Afghanistan.



## UDUPI POWER CORPORATION LIMITED

Regd. Office: Prestige Opal, Unit 202, 2nd floor, #146, Infantry Road, Bangalore - 560 001

### INTERNATIONAL COMPETITIVE BIDDING INVITATION FOR BIDS

FOR 1320 MW (2 X 660 mw) EPC CONTRACT OF UDUPI POWER PROJECT, YELLUR VILLAGE, UDUPI DISTRICT, KARNATAKA, INDIA

- Udupi Power Corporation Limited (UPCL) has installed a 1200 MW (2 x 600 MW) imported coal based power plant at Yelluru Village, Udupi District, Karnataka State, India about 35 km from Mangalore City. The first unit was synchronized with the state grid on 03.06.2010 and the second unit is expected to be commissioned in October 2010. The plant uses sea water to meet the water requirements. The power generated is evacuated at two levels i.e. at 220 KV and 400KV through the transmission lines of Karnataka Power Transmission Corporation Limited (KPTCL)
- UPCL now intends to build, own and operate a new coal fired power station (Units 3 & 4) to be located in near proximity to the existing units. The new Power Station shall comprise two supercritical units each having capacity of 660 MW and shall utilize a blend of imported and indigenous coal in the ratio of 70:30 (70% imported, 30% indigenous on energy basis). MOEF has issued the Terms of Reference (TOR) for Environmental Clearance. The Government of Karnataka has issued 'In Principle' clearance for the establishment of the above 2 x 660 MW Thermal Power Project. The new Power Station will be independent of the existing power station
- Udupi Power Corporation Limited now invites sealed bids from eligible Bidders for EPC Contract with scope encompassing the design, engineering, manufacture, procurement, supply, transportation to site, storage, installation, testing and commissioning, conducting Performance Test and handing over the 1320 MW (2 x 660 MW) Power Station in reliable operating condition within 36/42 months for unit 3 & 4 respectively from effective date.
- The bidding is open to all eligible bidders who meet any one of the 'Qualifying Requirements' defined below:
  - Bidders who have executed an EPC contract for constructing thermal project having capacity of 300MW and above
  - Bidders having experience of large construction projects and having achieved Rs. 3000 crore annual turnover in any one of the last three years
  - Bidders having experience in executing coal handling system of at least 1000 t/hr capacity
- The decision on selection of EPC Contractor will be conveyed to the successful bidder. However, Notice to Proceed (NTP) for the execution of the project will be issued after the receipt of statutory clearances.
- A complete set of bidding documents may be purchased by interested eligible bidders upon payment of non-refundable amount of US Dollars twenty five thousand only (for a Foreign Bidder) or Indian RS 10,00,000 (Indian Rupees ten lakhs only) (for Indian Bidders), towards the cost of bidding documents by way of Bank draft in favour of Udupi Power Corporation Limited, payable at Bangalore. The bidding documents shall be available from 21st August 2010 to 27th August 2010 from the office of:
 

Director - Technical, Udupi Power Corporation Limited, Regd. Office: Prestige Opal, Unit 202, 2nd floor, #146, Infantry Road, Bangalore - 560 001, Tel: 0091- 80-40254025 Fax: 0091-80-40254000, Email: mulla.ra@lancogroup.com
- The bids shall be prepared and submitted in two covers viz (i) Technical and (ii) Commercial as per the schedule given in the bid document.
- Udupi Power Corporation Limited reserves the right to reject any or all the bids without assigning any reason.



## EUROPE NEWS

# French unions plan pension protest

By WILLIAM HOROBIN  
AND NATHALIE BOSCHAT

PARIS—France's leading trade unions on Monday set down details for big protests against government plans to overhaul the national pension system.

In a joint statement, seven unions called on public- and private-sector employees as well as on retirees to stage a "day of massive strikes and demonstrations" on Sept. 7, the day Parliament starts discussing the government's pension plans.

Unions claim that the government's proposals will make employees bear most of the brunt of pension reform amid persistently high unemployment, while stressing that employees will pay a heavy toll from the government's recently announced budget cuts.

That is adding to the pressure mounting on President Nicolas Sarkozy as he tries to overhaul the pension system, a move that could define his presidency and the reputation of France's public finances.

Demonstrators already took to the streets against pension reform on June 24, with unions estimating their number at two million, although the Interior Ministry's official count was around 800,000.

Changing the pension system is crucial to France because the country must show it can undertake structural reforms to help reduce its swelling public deficit.

Government proposals, which include increasing the minimum retirement age to 62 from 60, will go to Parliament in September. The bill also includes some tax increases and raising the age at which workers can retire with full entitlements to 67 from 65.

The government's task of pushing the pension overhaul through Parliament could be made even trickier with latest polls showing that the popularity of the right-wing ruling party has plummeted to historic lows. According to a poll published by French daily newspaper



Steelworkers demonstrate in Marseille, southern France, in June. New protests are planned for Sept. 7.

Liberation on Monday, 55% of voters want the left to win the next presidential election in 2012.

Mr. Sarkozy held an emergency budget summit Friday after it became apparent that growth forecasts were proving too ambitious, jeopardizing planned tax intake this year and next. The government has since cut its growth forecast for next year to 2% from 2.5%, and has said it plans a spending freeze over the next three years as well as the closure of €10 billion (\$12.7 billion) in tax loopholes as of 2011 in order to meet planned deficit targets.

The government aims to cut its budget shortfall from an expected 8% of gross domestic product in

2010 to 6% in 2011 and 4.6% in 2012, before reaching 3% in 2013.

Ratings agency Moody's Investors Service said in a recent note that France's pension reform is materially relevant to help France bring back its deficit within the 3%-of-GDP limit stipulated by euro-zone treaties.

France is a big spender on pensions, with costs to the public totaling 12.5% of GDP in 2007 compared with 7.5% on average for members of the Organization for Economic Cooperation and Development, the Paris based think tank said in a recent report.

If nothing is done to change the system, the pensions deficit will rise

to €70 billion in 2030 and €100 billion from 2050, the government said.

"Pushing through Parliament a pension reform that's not widely different from the government's draft project will be crucial for financial markets and credit rating agencies. ... The government has that in mind," said Frédérique Cericisier, economist at BNP Paribas.

Success for the government would overwrite Socialist president François Mitterrand's 1982 law that set minimum retirement at 60, and it is Mr. Sarkozy's last chance for major reform before he has to decide whether to face and prepare for re-election in 2012.

## Tough times ahead

Nicolas Sarkozy has a lot on his plate as he returns from vacation.

■ A poll shows that more than half of French want to see the left win the 2012 election.

■ Unions are planning street protests for Sept. 7, the day parliament debates a plan to raise the retirement age to 62 from 60.

■ Parliament starts debating the 2011 budget on Oct. 19, amid pressure from markets for the government to meet deficit goals to secure its triple-A rating.

Source: WSJ research

## U.K.'s Labour weighs deficit

By LAURENCE NORMAN

LONDON—The U.K. opposition Labour Party is engaged in a fresh battle over the issue that dominated the election campaign that saw the party put out of office after 13 years: how far and how fast to reduce the U.K.'s £155 billion (\$241 billion) budget deficit.

Amid a tight campaign to become the next Labour leader, the five candidates—David Miliband, Ed Miliband, Ed Balls, Andy Burnham and Diane Abbott—have split on the deficit issue, with some now opposing the pre-election Labour government's promise to halve the deficit over four years.

Slightly over a quarter of that reduction was to come from the resumption of economic growth, which would boost tax revenues and cut welfare spending. Of the remainder, two-thirds was to come from spending cuts, and one-third through tax increases.

The issue is key for Labour. It could rebuild or blight the party's reputation for economic policy, and would help define the extent to which the party sticks with or rejects the pro-market identity created

by former leaders Tony Blair and Gordon Brown.

It is also a crucial part of the looming battle over Conservative Prime Minister David Cameron's austerity plans, which are much more ambitious than those Labour had planned.

If Labour's position on the deficit resonates with voters, it could bolster its poll position and undercut Mr. Cameron's argument that there is no alternative to deep spending cuts. But if it falls flat, it will strengthen the hand of the Conservative-Liberal Democrat coalition government, leaving opponents of spending cuts in the unions and parts of the public without an effective mainstream political voice.

In his emergency budget on June 22, Treasury Chief George Osborne promised a £113 billion fiscal consolidation over the next five years. That is £40 billion more than former Chancellor of the Exchequer Alistair Darling pledged in his March budget, according to the independent Office for Budget Responsibility.

While the Conservatives were aiming for an 80/20 split between spending cuts and tax increases, Mr. Osborne's plan calls for 74% of the

consolidation, about £83 billion, to be made through spending cuts.

Labour was aiming for £52 billion in spending cuts, according to the OBR.

Among the five Labour candidates, four of whom were senior ministers in the last government, only the front-runner, David Miliband, has stuck by the main points of the Darling plan. Mr. Miliband, the U.K.'s former foreign secretary, said in a statement that Mr. Darling's plan "balances the need to reduce borrowing and the importance of promoting jobs and growth."

That is a view enjoying backing among senior Labour figures.

Still, an alternative view has gained increased currency as the leadership debate has gathered pace. Labour members, lawmakers and union members vote from Sept. 1 to Sept. 22, with the winner announced on Sept. 25 ahead of the party conference.

The clearest opposition to Mr. Darling's plan has come from Ed Balls, former education secretary and a longtime economic adviser to former Prime Minister Brown. Mr. Balls has called for a longer timetable to cut the deficit.

## Debt reports turn muddy; banks change methodology

Continued from first page

A Barclays spokesman, Richard Treadwell, said the London-based bank calculated its June 30 figures using a different methodology than what the Committee of European Banking Supervisors used to conduct the stress tests.

Mr. Treadwell said he didn't have a full explanation for the different numbers and that Barclays didn't have apples-to-apples data showing the bank's sovereign-debt exposure using the same criteria as the CEBS tests.

RBS spokeswoman Claire Gorman also said the differences between the bank's March 31 and June 30 numbers were partly due to different methodologies. For example, the stress tests counted local government debt, which she said RBS didn't include in its June 30 tabulations.

Adding to the opacity, RBS reported its March 31 stress-test data on "an immediate borrower basis." That means that if the bank's exposure to a country is collateralized with bonds issued by a different

country, the exposure would still show up in the original country's column. For the June 30 figures, Ms. Gorman said, RBS tallied its exposures based on where the ultimate risk resides.

Ms. Gorman wouldn't comment on what the figures would be if RBS had used the same methodology as CEBS.

In a presentation to analysts, Dutch bank **ING Groep** NV produced a slide with side-by-side charts comparing its holdings of sovereign debt from a dozen countries at March 31 versus June 30. The chart highlighted how ING whittled down its total exposure to Greek and Portuguese sovereign debt by more than half over those three months.

The two Irish banks that underwent stress tests, **Bank of Ireland** and **Allied Irish Banks PLC**, also provided investors with comparable data.

While the Irish lenders are under siege, their problems stem primarily from Ireland's ailing economy. Their holdings of other countries' debt are minimal.



## U.S. NEWS

# Money flows, mud flies in Florida

BY VALERIE BAUERLEIN

MIAMI—Voters go to the polls Tuesday to decide whether a long-time legislator or a billionaire newcomer will be the Democratic nominee in one of the most closely watched and unusual U.S. Senate primaries in the nation.

U.S. Rep. Kendrick Meek is a political scion from Miami. Both President Barack Obama and former President Bill Clinton stumped for him last week. Jeff Greene is an entrepreneur who made his fortune partly by betting that the subprime mortgage bubble would burst, and who has spent an estimated \$24 million of his own money blanketing the state with TV ads.

Mr. Meek, who is leading Mr. Greene by seven points in a Quinnipiac poll out last week, has gained momentum in the polls as he has described Mr. Greene as a meltdown mogul who is cozy with troubled professional boxer Mike Tyson, the best man at Mr. Greene's lavish wedding. Mr. Greene said he believed in redemption and even drove Mr. Tyson to rehab, which he also paid for.

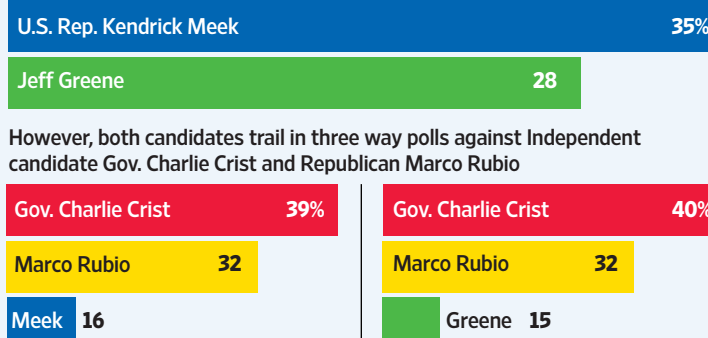
Mr. Greene has attacked Mr. Meek as a failed career politician who is tainted by his association with a failed contractor who sought federal money and hired his mother, former U.S. Rep. Carrie Meek, as a consultant. Mr. Meek said he and Ms. Meek acted appropriately, and has questioned the strategy of criticizing a rival's mother.



Associated Press (2)

## How Florida leans

Recent polls show U.S. Rep. Kendrick Meek with an advantage over newcomer Jeff Greene in Florida's Democratic Senate primary



Source: Quinnipiac poll of 907 likely voters conducted Aug. 11-16 with a margin of error of +/- 3.4 pct. pts (democratic primary); Quinnipiac poll of 1096 registered voters conducted Aug. 11-16 with a margin of error of +/- 3 pct. pts. Photos: Associated Press (2)



On Tuesday, Florida's Democratic primary for U.S. Senate will feature U.S. Rep. Kendrick Meek, left, against businessman Jeff Greene.

Whoever wins Tuesday's contest not only has to reunite the party after a bruising primary, but also must square off against two better-rested rivals: Gov. Charlie Crist, who is running as an independent, and former state House Speaker Marco Rubio, who faces only nominal opposition in Tuesday's GOP primary.

Neither Democrat fares well in a putative three-way race. Polls show Mr. Crist and Mr. Rubio in a dead heat and either Mr. Greene or Mr. Meek trailing by double digits.

Florida has been a recent harbinger of national sentiment, a swing state carried by George W. Bush in 2004 and Barack Obama in 2008

and where now the politics seem as disjointed as those across the nation. Last spring, it looked like the action in the open Senate race would be in the Republican primary, with Mr. Rubio, a tea party favorite, ready to pummel Mr. Crist, who angered the Republican base by supporting the economic stimulus.

That changed April 29, when Mr. Crist abandoned the party and the primary to mount an independent bid. Mr. Rubio became the de facto nominee, but the political math has been muddied, as Mr. Crist is positioned to peel off centrists both parties need to win elections.

On April 30, the last day for fil-

ing, Mr. Greene jumped into the Democratic primary, promising to spend whatever it took to win the nomination.

Brian Boyington, a 2009 University of Florida graduate from Miami, finds Mr. Meek unexciting. He likes Mr. Greene's entrepreneurial bent and the rags-to-riches story told in his near-constant ads. "The guy with the most ads on TV almost always wins, right?" said Mr. Boyington, 25 years old.

Mr. Meek, 43 years old, said Friday in a statement that Mr. Greene has outspent him seven-to-one, and reiterated that he was the only real Democrat in the race—a reference

to Mr. Greene's unsuccessful 1982 bid as a Republican congressional candidate in Los Angeles. Mr. Greene, 55 years old, has said he was briefly a Republican, before returning to his Democratic roots.

Mr. Greene's ubiquitous TV ads focus on job creation, and his experience as a self-made man.

Mr. Meek has run a traditional campaign, traversing the state's recreation centers and senior halls for more than a year. He has been campaigning on his legislative experience, especially an effort to lower class size that some critics, including other Democrats, say has limited schools' flexibility.

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THE WALL STREET JOURNAL.

## Engineering firm settles with victims of bridge collapse

Associated Press

ST. PAUL, Minn.—An engineering firm that consulted on the Minneapolis bridge that collapsed in 2007 has agreed to pay \$52.4 million to settle the last major piece of litigation brought by victims, attorneys said Monday.

San Francisco-based URS Corp. had been sued by more than 100 people who accused the company of missing warning signs on the Interstate 35W bridge before its rush-hour collapse into the Mississippi River. Thirteen people died and 145 were injured.

The settlement averts a trial that had been set for next spring and relieves URS of the uncertainty of facing possible punitive damages.

URS had argued that its engineers didn't know about a design flaw in the bridge that made it vulnerable. In a statement, the company said the settlement was necessary to avoid protracted litigation and said it admitted no fault.

The two sides had argued in court last month over the victims' request to seek punitive damages. Hennepin County District Judge Deborah Hedlund, who had yet to rule on that request, worked with the two sides on the final terms of the settlement, the victims' attorneys said.

Chris Messerly, one of the attorneys for victims, said individual pay-



A Minneapolis bridge collapsed in '07.

ments would be determined by following a process the state of Minnesota used in compensating victims from a special fund set up after the collapse. He said the amounts wouldn't be made public.

URS was the last of the major players to fight lawsuits by victims seeking compensation. The state paid out \$37 million from a special fund in exchange for an agreement that it wouldn't be sued. A paving company that had been resurfacing the bridge, **Progressive Contractors Inc.**, reached an undisclosed settlement last fall with about 130 victims and survivors.



U.S. NEWS



Associated Press

Kenneth Feinberg answers a question about the oil-spill compensation process last week at a civic center in Houma, La.

# Terms for claiming spill damage draw fire

By NEIL KING JR.

Kenneth Feinberg's effort to set the terms for handing out BP PLC's money to Gulf oil spill victims came under fresh attack Monday from state officials and private lawyers who said he planned to be too restrictive in deciding who gets paid.

"Mr. Feinberg seems to be completely tone-deaf to the concerns of people along the Gulf Coast," said Alabama Attorney General Troy King.

Criticisms rolled in Monday as Mr. Feinberg began his first day as the official independent administrator of the Gulf Coast Claims Facility, formed as part of BP's \$20 billion compensation fund. Before Monday, BP was handling damage claims itself, and had doled out \$375 million in payments to businesses and individuals hit by the massive spill. The new facility took in over 5,000 claims on Monday, compared to 78,000 claims that BP had processed since early June.

The White House and BP picked the prominent Washington lawyer in

June to head the claims process. Since then, Mr. Feinberg has spent two months seeking input on how to run the fund from communities and policymakers along the Gulf Coast.

But the dozens of town-hall meetings he has held from the Florida Panhandle to the Mississippi Delta haven't shielded him from accusations of secrecy and coziness with BP. Top state officials from Louisiana, Mississippi, Alabama and Florida have all raised alarms that Mr. Feinberg is laying down the rules for the claims fund with little input from the states most affected.

State officials and business owners took particular issue with a formal set of rulings Mr. Feinberg says will guide the payment of emergency claims to the tens of thousands of shrimpers, fishermen, property owners, restaurants and other businesses hit by the spill.

Under the guidelines, Mr. Feinberg has given aggrieved parties until Nov. 23 to file for temporary payments for losses suffered as a result of the spill. Payments could cover as much as six months of losses. After

that, people will have three years to file for a final settlement. Critics complain that the time table is unrealistic, and allows ailing businesses little time to assess the long-term damages potentially caused by the spill.

State officials are also raising alarms over Mr. Feinberg's plans to base payment decisions, at least in part, on how close a business is to the oil-slicked coastline.

The proximity issue is big in Florida, where tourism has taken a serious hit because of anxiety over the spill, even in places far from where any oil came ashore. Florida Attorney General Bill McCollum blasted Mr. Feinberg's approach as "completely unacceptable."

In response, Mr. Feinberg said in an interview Monday that he "respectfully disagreed" with the criticisms from the state attorneys general. He underscored that his program "is entirely voluntary" and added that "if someone feels that they are better off fighting their claim for years in court, I say, 'Go ahead.'"

# Research links chronic fatigue to retroviruses

By AMY DOCKSER MARCUS

Researchers said Monday they had identified a family of retroviruses in patients with chronic fatigue syndrome, a finding likely to spur patients with the condition to seek treatment with drugs used to fight HIV, the virus that causes AIDS.

The report, published in the Proceedings of the National Academy of Sciences, was accompanied by a call for new clinical trials to test HIV drugs in patients with chronic fatigue syndrome, which afflicts an estimated one million to four million Americans and as many as 17 million people world-wide.

Although HIV and the newly identified virus group are different, both are retroviruses. Based on other recent research linking CFS to a retrovirus called XMRV, some doctors are already prescribing drugs approved for HIV for CFS patients. The syndrome has no known cause and there aren't any effective treatments.

The group of viruses, called murine leukemia virus-related viruses, or MLV, are known to cause cancer and neurological problems in mice, but whether they cause any diseases in humans isn't known. XMRV is among several different members of the MLV family, researchers said.

In the new study, researchers said they found at least one of four different MLV-like viruses in 32 of 37, or 86.5%, of patients with chronic fatigue syndrome, compared with just three of 44, or 6.8%, of apparently healthy blood donors.

The paper is the latest in a series of reports about a possible link between CFS and a virus. Previous studies have focused on XMRV and have turned up conflicting evidence. Indeed, the just-published study was held back from publication in June because it was at odds with a report from the Centers for Disease Control and Prevention, which found no evidence of XMRV in chronic-fatigue-syndrome patients.

The current paper didn't find XMRV either—one reason it isn't likely to resolve a brewing debate over the role that XMRV may play in

the syndrome. But researchers said the variants of MLV-like viruses closely related to XMRV that they found in CFS patients was evidence of a link between the virus family and the syndrome.

Andrew Mason, a University of Alberta professor, co-wrote the commentary in PNAS calling for trials testing anti-retrovirals in CFS patients who are positive for one of the MLV-related viruses. "If the patients improve, after a certain point you stop debating whether it causes the disease and say the treatment works and we're going to use it," said Dr. Mason.

But until further evidence establishing that the virus causes CFS is developed, a large-scale clinical trial testing HIV drugs against the syndrome isn't likely. Norbert Bischofberger, chief scientific officer at Gilead Sciences Inc., the leading maker of HIV drugs, said the company might consider a small pilot trial but would like to see stronger evidence that the viruses cause CFS before launching a large trial. But "I'm very open and this would be a great opportunity," he said.

A spokesman for Merck & Co., another major manufacturer of HIV drugs, said: "A clinical trial program would be possible to develop only after further substantial evidence of an association with CFS."

Some doctors and patients are already testing the idea.

Jamie Deckoff-Jones, 56 years old, a doctor and CFS patient in New Mexico, has been blogging about her experiences and those of her 20-year-old daughter. They both tested positive for XMRV and are taking a combination of three anti-retrovirals.

Dr. Deckoff-Jones said a year ago she could only get up for short periods during the day. After five months on the drugs, she flew last week to Reno for an XMRV conference. Her daughter was able to go to a party and is enrolling in community college.

"This is all very new and there is no way to know if improvement will continue," Dr. Deckoff-Jones wrote in an email, "but we appear to be on an uphill course."

# Protests, rhetoric feed Jihadists

By JONATHAN WEISMAN

Islamic radicals are using protests against a planned Islamic community center near Manhattan's Ground Zero and other anti-Muslim rhetoric as an opportunity to step up anti-U.S. chatter and threats.

One jihadist website vowed to conduct suicide bombings in Florida to avenge a threatened Koran burning, while others predicted an increase in terrorist recruits as a result of such actions.

"By Allah, the wars are heated and you Americans are the ones who...enflamed it," says one such posting. "By Allah you will be the first to taste its flames."

Jihadists tend to look for any

chance to make their points, and White House homeland-security adviser John Brennan told reporters Friday he had seen no evidence that the debate over the proposed Islamic center in Lower Manhattan, other mosque protests or the planned Koran burning had affected U.S. counterterrorism efforts.

A White House official on Sunday stressed that Mr. Brennan was addressing the narrow question of whether the debates in the U.S. over Islam were having an impact on U.S. counterterrorism efforts and that Mr. Brennan specifically declined to address whether those debates were energizing the jihadists.

A U.S. official on Sunday said the administration was taking the up-

swing in anti-U.S. chatter seriously.

Many opponents of the planned Muslim community center say they have no bias against Muslims but that putting the building so close to Ground Zero shows an insensitivity toward the victims of the Sept. 11, 2001, terrorist attacks.

Critics of the proposed Islamic center said their right to speak out shouldn't be influenced by the possibility of jihadist threats. "We will never win a war when we are afraid to even name our enemies," former House Speaker Newt Gingrich said in an email Sunday.

The most violent threats stem not from the debate over the Islamic center but more fringe issues, such as a declaration by Terry Jones,

pastor at the Dove World Outreach Center, a megachurch in Gainesville, Fla., that Sept. 11 be an "International Burn a Koran Day."

In an interview Sunday, Mr. Jones said he planned to go ahead with the Koran burning on the evening of Sept. 11, despite the local fire department's denial of a permit for the event.

Threats have been posted on Jihadist web sites in response to such planned actions as Mr. Jones's Koran burning. "Now, I wish to bomb myself in this church as revenge for the sake of Allah's talk. And here I register my name here that I want to be an intended-martyr," wrote a poster identifying himself as "Abu Dujanah."



A proposed mosque in Lower Manhattan has drawn protests.



## U.S. NEWS



Bloomberg News

New data suggest losses from mortgage fraud in the U.S. rose 17% last year. Above, homes in Las Vegas.

# Mortgage fraudsters working around rules

BY ROBBIE WHELAN

New data suggest that mortgage fraud—which got tougher to pull off after the collapse of the U.S. real-estate market—is coming back.

Data prepared for The Wall Street Journal by research firm CoreLogic, examining about seven million home loans made by hundreds of lenders, estimate that losses from mortgage fraud—ranging from falsified credit reports to identity theft—rose 17% last year after declining 57% in the two years after its 2006 peak.

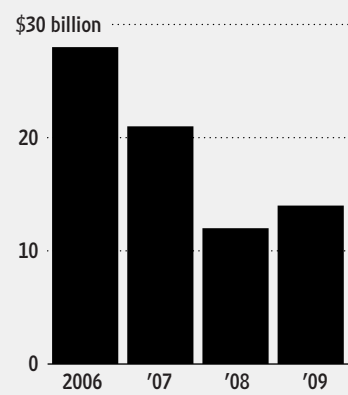
In 2009, \$14 billion in loans, or about 0.7% of all mortgage loans made in the U.S., were originated with fraudulent application data, CoreLogic estimates.

That's a fraction of the mortgage market, but the increase is sharp. The Federal Bureau of Investigation in June indicted a Phoenix man they said was preparing to steal a house from his landlord. In June, federal prosecutors in New Jersey charged 29 defendants—including 12 real-estate agents, four mortgage consultants, an appraiser, a bank employee and a mortgage broker—in an alleged scheme involving 17 properties and losses of \$5.5 million.

"Even though we have certain compliance measures in place, people will adapt whatever scheme,"

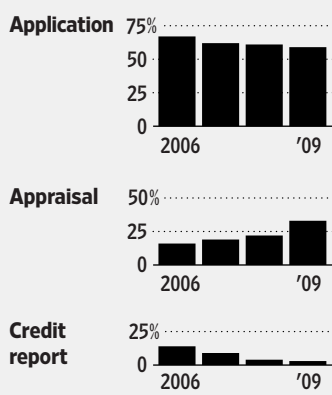
## Swindlers spreading

Estimated value of U.S. mortgage fraud originations



\*Most incidents contain more than one type of fraud.

Select types of U.S. mortgage fraud, by percentage of incidents\*



Sources: CoreLogic (originations); Lexis Nexis

said Sharon Ormsby, the FBI's section chief for financial crimes. "It doesn't matter if the market is going up or down."

The kinds of fraud that contributed to the mortgage crisis and the collapse of the housing market were relatively simple. Crooks took advantage of the size of mortgage loans and lax rules governing who qualified for them.

Since the mortgage crisis, banks and the government-sponsored entities that underwrite or insure mortgages have tightened lending standards. Many lenders now require borrowers to furnish proof of employment, tax forms, bank statements and other documents.

Fraudsters have adapted to the new restrictions. With banks less apt to lend to borrowers with shaky finances, criminals rely more on falsifying documents, recruiting loan officers and other bank insiders to work for them, and stealing identities to get loans.

In the Phoenix case, prosecutors allege, Jose Victor Buencamino used all three methods.

Gary Weaver, who rented a home to Mr. Buencamino last year, says the Arizona businessman tried to

snare him in an elaborate mortgage scheme.

According to a federal indictment unsealed in June, while Mr. Buencamino was renting Mr. Weaver's house, he intercepted mail intended for Mr. Weaver and obtained his social-security number, then applied for a driver's license in Mr. Weaver's name.

Then, the indictment says, with the help of a friend who worked as a loan officer at Compass Bank, a unit of Spanish bank Banco Bilbao Vizcaya Argentaria SA, Mr. Buencamino obtained a \$245,000 cash-out mortgage on the property. A homeowner using a cash-out mortgage refinances the home loan for more than the mortgage is currently worth and pockets the difference.

A Compass Bank spokesman didn't respond to requests for comment. Mr. Buencamino couldn't be located for comment.

"Fraud continues to be a pervasive issue, growing and escalating in complexity," said an April report from LexisNexis's Mortgage Asset Research Institute, which cited as reasons easy access to records via the Internet and the vulnerability of cash-strapped homeowners.

## Speed bumps, and an exit, on Iran's nuclear highway

[ Capital Journal ]

BY GERALD F. SEIB



Think of Iran's nuclear program as a car chugging down a highway, moving relentlessly ahead but with miles to go before reaching its destination.

Now think of U.S. policy as an effort to slow that car down and make it increasingly expensive to drive—while also building an exit ramp off the highway. The great question to be answered in the next few months is whether Iran has any interest at all in taking that exit ramp.

Right now, the effort to increase the cost of Iran's nuclear journey is going reasonably well. International sanctions to stop Iran before it can develop nuclear weapons are having a deeper bite than skeptics expected when the United Nations Security Council imposed a new round of them in early June. The European Union and Canada have since joined the U.S. in imposing additional restrictions on doing business with Iran; American officials say Japan and South Korea will follow suit shortly. Most notably, the sanctions seem to be limiting Iran's ability to import badly needed refined gasoline. So Tehran's drive is getting more costly.

But are the U.S. and its allies also succeeding in slowing it down? That's harder to tell.

Iran's enrichment effort certainly seems to be hitting some technical problems. At the big uranium-enrichment facility at Natanz, U.S. officials say, only about half the installed enrichment centrifuges appear to be operating, with others broken or held in reserve.

Whether that's the result of technical deficiencies or sabotage is anybody's guess. In either case, the pace of enrichment isn't what was once feared. Iran probably has enough low-level uranium to produce two nuclear weapons, if it were to clear the considerable hurdles to turning raw material into arms—something Tehran insists, of course, it isn't interested in doing anyway.

So there's some good news on making Iran's journey slower and costlier. That's where the exit ramp comes into play.

U.S. and European officials realize that if the economic pressure now being applied has any chance of succeeding in changing the game, Iran needs to be given a face-saving way to back away from its current nuclear program into one more clearly designed for peaceful purposes. Much of the conversation in coming weeks with America's allies in this effort—the other four permanent members of the Security Council, plus Germany—will be devoted to this topic.

The latest Security Council sanctions resolution starts to sketch out what this exit ramp would look like. Iran would suspend enrichment activity and



Iran's Bushehr nuclear power plant.

its work on a heavy-water nuclear research reactor, and cooperate with the International Atomic Energy Agency to answer a host of questions about its previous, often secretive nuclear activities. Then sanctions would be lifted.

But the U.S. and its allies know that, if only to retain the diplomatic high ground, they will need to offer something more to make it clear that a truly peaceful nuclear program will be acceptable. That was the point of the offer the allies made to Tehran last fall, proposing to take a good chunk of its low-enriched uranium, process it further for use in a medical-research reactor in Tehran, and then ship it back to Iran strictly for that purpose.

Look for further offers to show Iran, and the world, that the world would accept a legitimate nuclear-energy program, and that Tehran has no need to enrich uranium to have one. That's why Russia's move this month to provide the fuel to start a new nuclear power plant at Bushehr wasn't all bad. By providing the fuel, and taking away spent fuel, the Russians have undercut Iran's argument that it has to do its own enrichment.

Beyond calling Iran's bluff, there's a genuine need to find out whether Iran's leaders—at least some of them—might actually be interested in a way out. Nobody thinks the odds are very good, but the economic pressure now is real enough to test the possibility.

Signals from Iran are typically mixed. Last week, President Mahmoud Ahmadinejad said he was interested in talks with the West this fall, while supreme religious leader Ali Khamenei promptly ruled them out until sanctions are lifted. Then, over the weekend, President Ahmadinejad said in a Japanese newspaper interview that he was ready for talks with no preconditions.

Meantime, an important new IAEA report on the status of Iran's program is only weeks away. As they wait, U.S. officials console themselves with the knowledge that Iran's dithering serves at least one useful purpose.

"If they refuse to talk," says Gary Samore, the White House official in charge of nuclear issues, "that obviously makes it easier for us to make the case that Iran is the obstacle, and that there is a need to increase the pressure."

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## WORLD NEWS

# Eight killed in Manila bus standoff

BY JAMES HOOKWAY

A dismissed policeman apparently sprayed gunfire into a bus of foreign tourists in the Philippine capital, Manila, Monday, killing at least eight people he had held hostage before authorities swept in and ended the standoff.

Rolando Mendoza was shot in the head and killed by police when they stormed the bus amid torrential rain late in the evening. The bus driver, who escaped before officials took control, said Mr. Mendoza had begun shooting at 15 passengers, vacationers from Hong Kong, who were still aboard the bus.

Philippine officials and China's foreign ministry later confirmed that at least eight tourists were killed, apparently by Mr. Mendoza, a 55-year-old Filipino former police officer attempting to be reinstated to his job.

After authorities stormed the vehicle, four individuals appeared to leave the bus unassisted; the condition of the other passengers aboard during the incident remains unclear.

The bloody melee risks damaging the Philippines' efforts to build its tourism industry, especially in the lucrative east Asian market. The administration of recently elected President Benigno Aquino Jr. has identified boosting tourism as one of its primary goals to create jobs in a country where one in 10 members of the work force seeks employment overseas.

Monday's killings also set back Mr. Aquino's efforts to rein in the violence and lawlessness that afflict much of the Philippines, especially its remote southern provinces, and demonstrate that the country is a safe place for investors and tourists. Compounding the president's problems, the Philippine News Agency reported that in a separate incident Monday, attackers shot and killed a South Korean national and abducted two compatriots after stopping their van in another part of Manila. The two survivors were later released.

East Asia—encompassing places such as China, Japan, Hong Kong and South Korea—is one of the Philippine government's primary tour-



Philippine policemen take up positions Monday as they close in on a tourist bus that was hijacked in Manila. At least eight hostages died in the 12-hour standoff.

ism targets, making up 42% of total tourist arrivals this year from January to April. Nearly half a million tourists from the region visited the Philippines during that period, up 16% from the year-earlier period. Tourism drives about 6% of the country's gross domestic product.

Philippine Tourism Secretary Alberto Lim had been anxious to see the drama peacefully resolved earlier in the day. "We should really resolve this quickly so that it will not have a wider effect," Mr. Lim told a Manila radio station.

In Hong Kong, local television channels interrupted regular broadcasts to carry live coverage of the standoff, which began in the morning and lasted for roughly 12 hours. The tourists caught up in the violence were part of a four-day tour to the Philippines organized by Hong Thai Travel Services Ltd., one of the city's biggest package-tour operators.

Hong Kong's chief executive Donald Tsang in a late-night news conference expressed anger and distress at the loss of life. "This is a major tragedy. It is disappointing that Hong Kong residents trying to make a pleasure trip to Manila ended up with deaths and casual-

ties," Mr. Tsang said, holding back tears at times. "The way it was handled, and especially the outcome, I find it disappointing."

Monday's drama began at about 10 in the morning local time when Mr. Mendoza, a former senior inspector who spent much of his career in the police force, boarded the bus near the historic walled city of Intramuros in the center of Manila. Mr. Mendoza, who was wearing camouflage and armed with an M-16 semiautomatic rifle, then announced that he was taking the people on board hostage.

Before Mr. Mendoza boarded, there were a total of 25 people on the bus: 21 tourists from Hong Kong, a Filipino driver and three Filipino individuals escorting the tourists.

He instructed the driver to park the bus near the Quirino Grandstand, a local seaside landmark near the U.S. Embassy, less than a mile from Intramuros.

Authorities then began negotiations to secure the hostages' release after Mr. Mendoza issued his demand to be reinstated to the police force. Mr. Mendoza, once decorated as one of the Philippines' 10 most outstanding policemen, was removed from his post as a senior in-

spector last year after being found guilty of extortion. A chef in a Manila hotel in 2008 accused Mr. Mendoza and four other officers of robbery and extortion.

Mr. Mendoza was in the process of appealing that verdict, but was apparently frustrated by the slow progress of his case, local government officials said.

Manila's Vice-Mayor Isko Moreno approached the government's ombudsman—an independent arbitrator—to speed up a hearing into Mr. Mendoza's appeal in order to buy time during the hostage-taking.

Police communicated with Mr. Mendoza through the bus-driver's mobile phone; occasionally, he wrote notes and held them up to the windows of the bus.

At first it appeared the mediation efforts were bearing fruit. Mr. Mendoza released nine people, including two women, three children, one individual who has diabetes and three Filipinos who were traveling with the tourist group.

Chinese diplomats also urged restraint on the part of Philippine law-enforcers as talks progressed. The Associated Press reported Bai Tian, deputy mission chief at the Chinese Embassy in Manila, as saying he

wanted every step taken "to secure the safety and security of our Chinese nationals."

But as dusk fell, Mr. Mendoza appeared to have become increasingly anxious. His brother, who initially was called in by police to help with negotiations, was taken into custody for reasons that are still unclear.

Then Mr. Mendoza told a live broadcast on the local Radio Mindanao Network that he could see special police teams mobilizing.

"I know they will kill me," Mr. Mendoza said. "They should all leave because I will do the same here." Later, Mr. Mendoza told the same radio station he had killed two of the Hong Kong hostages.

Shortly after, the bus driver escaped, telling police that Mr. Mendoza had begun shooting at the 15 Hong Kong residents still on board.

Armed police wearing helmets and flak jackets then surrounded the bus, using sledgehammers to smash windows and firing tear gas inside as gunshots continued to ring out. Curtained windows and a driving rain appeared to hinder the police's view of the situation inside the bus.

—Jeffrey Ng, Kate O'Keefe and Joanne Chiu in Hong Kong contributed to this article.

## Australia braces for weeks of deadlock after vote

BY RACHEL PANNETT  
AND ENDA CURRAN

CANBERRA—Australia is hunkering down for a long wait after parliamentary polls resulted in a deadlock that could take weeks to resolve, testing the patience of voters and investors.

The center-left Labor Party held a slight lead Monday with 72 lower-house seats, ahead of the conservative opposition Liberal-National coalition and its 70 seats, a spokeswoman for the Australian Electoral Commission said. Independent politicians won two seats, and the small environmentalist Greens party one.

Five seats remained in doubt. In Hasluck, Western Australia, Liberal candidate Ken Wyatt—who, if elected, would be the first indigenous Aboriginal member of the Lower House—led incumbent Labor member Sharryn Jackson by fewer than 400 votes, or 50.3% to 49.7%.

Talks with the major parties on the next government could take days, if not weeks, as postal votes



An Australian election official checks voting records in Melbourne on Monday.

are counted.

Prime Minister Julia Gillard has said she will run a stable caretaker government while the outcome of the election is still being deter-

mined. But she and Liberal-National coalition rival Tony Abbott have both begun wooing independents to gain the upper hand in the 150-seat parliament.

Australia's markets reacted calmly to the latest election results on Monday, but a prolonged period of political uncertainty could test consumer confidence and raise questions on economic policy. And if neither the Labor nor Liberal parties can succeed in forming an alliance for a minority government, Australians could find themselves returning to the polls soon.

"Uncertainty about the structure of the new government and the functioning of a minority government will probably unnerve business," said Bill Evans, chief economist at Westpac.

Australian mining shares gained after the election failed to produce a clear winner. The sector had risen in recent days on hopes that a planned tax on mining profits would be suspended if the conservative party wins. The weekend's outcome makes it unlikely that Ms. Gillard's government will be able to go ahead with its proposed 30% tax mining profits without some modification.

In London, shares of Anglo-

American gained 1%, and Rio Tinto rose 0.6%. BHP Billiton advanced 0.5%.

Australia's benchmark S&P/ASX 200 Index ended flat Monday after opening lower. The Australian dollar traded lower in Asia on Monday before regaining some ground, fetching 89.07 U.S. cents against the U.S. dollar, down from 89.40 cents Friday. Australian bonds traded a touch lower at the open before ending unchanged.

Australia could theoretically wait as long as three months before the outcome of the closely fought election is known, according to constitutional-law experts.

Under electoral rules, Parliament must meet within 30 days of the return of the election writs, which is on Oct. 27. That could allow Ms. Gillard to convene the lower house, which forms the government, as late as Nov. 26, said Don Rothwell, a legal expert.

—Cynthia Koons in Sydney and Barbara Kollmeyer contributed to this article.



## WORLD NEWS



Associated Press

Ugandan troops parade after a peacekeeping mission in Somalia in 2007. Uganda and Burundi are sending fresh troops to the troubled country.

## New troops sent to Somalia

BY SARAH CHILDRESS

NAIROBI, Kenya—Two African nations are sending fresh troops to Somalia, in an effort to turn the tide against an insurgency that poses a growing threat to the region.

The troop increases come a month after Somali militant group al Shabaab launched a bloody attack on the Ugandan capital, which the militants said was retaliation for Ugandan involvement in Mogadishu. The majority of African Union troops in Somalia—currently about 6,000—come from Uganda and Burundi.

On Monday, Wafula Wamunyinyi, deputy head of the African Union mission in Somalia, known as Amisom, said that Uganda had begun to send more troops to Mogadishu, and that the first group of new soldiers had arrived on Friday. Burundi also plans to send a battalion, he said, which is around 1,000 troops. Mr. Wamunyinyi declined to offer a total figure for the new troops, or their arrival dates, citing security reasons. But the African Union hopes to boost its forces by about 2,000 to

fulfill the original mandate of 8,000 troops that was set when Amisom first deployed in 2007.

The move to bolster troop levels comes as the government appears to be under serious threat from the militants. On Monday night, al Shabaab attacked all major Amisom positions in Mogadishu—the government's main defense—in what it declared was a “final war” to overthrow the government and oust the Amisom troops, which it has branded as occupiers. The militants had pledged to step up their attacks during the Muslim holy month of Ramadan, which began this month.

The new Amisom troops are expected to bolster the mission's plan to take back Mogadishu from al Shabaab, which controls swaths of the city.

“We are going to expand and move the insurgents out of Mogadishu,” said Mr. Wamunyinyi. “We will make major, major strides with the 2000” additional troops. Amisom officials have long expressed frustration that the mission has struggled to accomplish its goals without enough troops.

After the July bombing in Uganda, African Union officials hoped more nations would be encouraged to contribute. The west African nation of Guinea, and Somalia's tiny neighbor, Djibouti have both promised troops, but no date has yet been set for their deployment.

The mission has become more difficult this year because foreign fighters—about 2,000, according to Amisom—have flooded the country to aid al Shabaab. According to African Union officials, the militants have established training camps in the city for foreign fighters. Over the weekend, at least seven foreign militiamen were killed when a bomb they were building exploded prematurely in a Mogadishu house, the Somali government said. Among them were three Pakistanis, two Indians, an Afghan and an Algerian, the government statement said.

Al Shabaab's proximity to Amisom posts has also allowed the militants to draw African Union fighters into retaliatory shelling that has killed civilians. The killing of civilians, in turn, has fueled debate

about whether more African troops are actually stirring public resentment toward their mission and the Somali government they have been sent to support. Al Shabaab said that it had planned the July attacks in Uganda, which killed 76 people, to avenge Somali civilian casualties.

Amisom says more troops could push al Shabaab out of the city and move the fighting away from residential areas. The additions would also allow troops to hold territory while battling for new ground—something they struggle to do now.

On Monday, Mr. Wamunyinyi said that Amisom troops were being given additional training on the rules of engagement, and ordered not to shell civilian areas in an attempt to minimize casualties.

In recent weeks, Ugandan officials arrested four men, all Ugandans, for their alleged involvement in the July attack. The men have confessed to participating in the plot and face trial.

Kenyan authorities have extradited four other suspects to Uganda for their alleged involvement in the attack.

## Deadly blasts hit northwest Pakistan

BY REHMAT MEHSUD AND TOM WRIGHT

ISLAMABAD—A suicide bomber killed at least 26 people at a mosque in the Pakistan tribal region of South Waziristan, including a Sunni cleric who had pushed for a peace deal between Islamist militants and the military.

It was the deadliest of three bomb attacks in northwest Pakistan on Monday. Another bomb, targeting a school in Kurram, killed seven people, the Associated Press reported. A third killed the leader of an anti-Taliban militia and two aides on the outskirts of Peshawar, a town that is a gateway to the tribal regions.

Noor Mohammed was about to give a sermon in a mosque in Wana, the provincial capital of South Waziristan, one of Pakistan's seven semiautonomous tribal regions bordering Afghanistan, when the bomber struck, a Pakistan intelligence official said. Some 25 others were injured in the blast, which could be heard more than three miles, or about five kilometers away, eyewitnesses said.

“There was a big explosion, which turned the mosque into rubble,” said Azeem Wazir, a local tribesman, who reached the scene shortly after the blast.

No one claimed immediately responsibility for the attack, but suspicion fell on the Pakistan-based Taliban led by Hakimullah Mehsud, analysts said.

The attack breaks a fragile peace in Wana, which has escaped the worst of the violence in South Waziristan since Pakistan's military launched a fierce war in the area last year against Mr. Mehsud's faction. Violence in the region continues despite earlier indications the Pakistan military, aided by U.S. drone strikes, had secured most of South Waziristan.

The area around Wana is controlled by a competing Pakistan Taliban faction run by Maulvi Nazir, a militant who last year struck an undeclared peace deal with the government, said Imtiaz Gul, director of the Islamabad-based Center for Research and Security Studies.

Mr. Mohammed, the cleric, who is a former independent member of parliament linked to Jamiat Ulema-e-Islam, a radical Sunni Islamic party, played a role in mediating between the government and Mr. Nazir's faction in that peace deal. Such deals have been unpopular with U.S. officials, who say Pakistan's military looks the other way if militants aid the Afghan Taliban across the border, but renounce attacks on Pakistan targets.

In 2007, Mr. Mohammed supported Mr. Nazir's attempts to force al Qaeda-linked Uzbek militants to flee Wana.

The foreign militants, who fled Afghanistan amid the U.S.-led war there, later settled in areas of South Waziristan controlled by Mr. Mehsud.

A local tribesman, requesting anonymity, says Mr. Mohammed had received threatening letters ordering him to shut his mosque or face the consequences.

## Palestinians: no talks if settlement freeze ends

BY JOSHUA MITNICK

TEL AVIV—Palestinian President Mahmoud Abbas has warned U.S. President Barack Obama that the Palestinians would abandon recently announced direct peace negotiations with Israel if settlement expansion continues in the West Bank.

The message was included Sunday in a letter from the Palestinian side officially accepting the U.S. invitation to participate in a two-day summit next week to kick off the peace talks, according to Palestinian negotiating chief Saeb Erekat.

The threat adds to the uncertainty about whether the talks—the first direct negotiations between the sides in 20 months—will survive much beyond the early-September summit planned in Washington between Mr. Abbas and Israeli Prime Minister Benjamin Netanyahu.

When U.S. Secretary of State Hillary Clinton on Friday formally invited Messrs. Abbas and Netanyahu to a two-day summit in Washington, she sought to reassure both sides on key concerns. Mrs. Clinton said renewed negotiations would begin without preconditions, addressing a

key Israeli concern, and said talks would seek to resolve all “final-status issues”—referring to sensitive points of concern to the Palestinians, such as the borders of a future Palestinian state and the fate of millions of Palestinian refugees.

But the two sides quickly rolled out opening positions on what are certain to become core issues in the negotiations. The Palestinians' move comes a day after Mr. Netanyahu reiterated his demand for Palestinians to recognize Israel as the “national state of the Jewish people,” underscoring Israel's resistance to accept-

ing Palestinian refugees.

A spokesperson for the U.S. embassy in Tel Aviv declined to directly comment on the Palestinians or Israeli positions. “We want to see this get off to a good start,” said the spokesperson. “And if either side wants to take a negotiating position the place to do that is in the talks.”

Mark Regev, a spokesman for Mr. Netanyahu, said the issue of settlements should be a subject for the peace talks. “All the issues are on the table, and the settlement issue along with a lot of other core issues will be discussed,” he said.