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THE WALL STREET JOURNAL.

VOL. XXVIII NO. 145

EUROPE

Thursday, August 26, 2010

DOW JONES
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Sarkozy outlines G-20 agenda

BY NATHALIE BOSCHAT
AND DAVID PEARSON

PARIS—French President Nicolas Sarkozy called on the world's 20 largest economies to work together to reform global monetary order.

"We must define a new framework for discussing currency movements," Mr. Sarkozy said, adding that it is "nonsense" to talk about exchange rates without including China, which has accumulated huge foreign-exchange reserves.

He said stabilizing erratic foreign-exchange and commodity markets will feature high on France's agenda when it heads the Group of 20 from November. He added there is a need to reduce the U.S. dollar's dominance as the reserve currency of choice and called for a greater role for alternative currencies.

Mr. Sarkozy was speaking in front of the nation's ambassadors to outline France's priorities for the G-20 and the G-8 meetings. France starts presiding over the G-20 in November and will be head of both the G-20 and G-8 summits as of next year.

Better coordination of global economic policies aimed at unwinding world imbalances is key to reducing foreign-exchange volatility, Mr. Sarkozy said. Another way to achieve better currency stability will be for the G-20 to try to prevent the accumulation of excessive foreign-exchange reserves among its members, he added.

South Korea, which currently is chair of the G-20, is pushing for the institution of financial safety nets aimed at preventing massive capital



French President Nicolas Sarkozy said he would press the G-20 to limit excessive exchange-rate and commodity-price volatility when France heads the group.

outflows such as the those witnessed in emerging countries during the recent financial crisis and the Asian crisis of the late 1990s.

This involves strengthening some of the International Monetary Fund's insurance mechanisms in order to deter emerging countries from accumulating excessive foreign-exchange reserves with a view to protecting themselves

against potential financial crises, and should in turn contribute to currency stability.

Mr. Sarkozy said he wants the G-20 to deepen South Korea's work when France heads the group and added the G-20 should also examine ways to allow countries that are highly reliant on outside capital flows to "temporarily regulate their capital markets" in times of trouble.

Mr. Sarkozy said he isn't calling for a reversal to a global monetary system based on fixed rates, which existed before the Bretton Woods agreement, the conference held in the U.S. that moved the world economy off fixed exchange rates after World War II.

However, he suggested that a conference could be held, possibly in China, to discuss the future of the monetary

system without "taboos." "Since the 1970s, we've been living in a nonexistent international monetary system," he said.

Monitoring global exchange rates has until now been the exclusive remit of the group of the world's seven most industrialized countries, which doesn't include China.

Another focus of France's G-20 leadership will be

strengthening the oversight of global commodities markets.

"Why should we only regulate derivative markets in the financial sphere?" Mr. Sarkozy asked.

"Extending regulation to raw materials is possible and desirable. That way we will limit speculation,"

■ France aims to harmonize tax system with Germany's..... 4

Santander suspends analyst accused of insider trading

Banco Santander SA, which has vastly expanded its global retail presence in the wake of the financial crisis, suspended a Madrid-based

By Santiago Pérez
in Madrid and
Sara Schaefer Muñoz
in London

analyst after U.S. regulators charged him with trading on inside information related to a large takeover that the Spanish bank is helping to

fund. According to the Securities and Exchange Commission, the suspended employee, Juan José Fernández García, allegedly made \$576,000 in illegal profits by making a large bullish bet on Canadian fertilizer and feed company Potash Corp. of Saskatchewan Inc. After Mr. Fernández García, an analyst in Santander's European Equity Derivatives Research division, made the bet, Anglo-Australian mining company BHP Billiton Ltd. made a

\$38.6 billion offer for Potash on Aug. 17.

The SEC also said Luis Martin Caro Sanchez, 36, a Madrid resident who doesn't work for Santander, allegedly made nearly \$497,000 in illegal profits using the same trading pattern that Mr. Fernández García, also a Madrid resident, used during the same period.

Mr. Fernández García didn't return calls seeking comment, and Mr. Caro Please turn to page 18

The Quirk



Coffins made with brotherly love have undertakers throwing dirt. Page 29

Editorial & Opinion

Obama's combat troop withdrawal threatens Iraq's future. Page 12

Berlin plans tighter employee privacy law

German lawmakers want to make it illegal for employers to check job candidates' private postings on social networking websites.

The proposed law on employee data security is the latest attempt to address privacy concerns about online social networks and Google "Street View."

The plans, which were endorsed by the German cabinet on Thursday but have still to pass through parliament, follow a string of scandals in re-

cent years involving German companies spying on employees.

"Private social networks are... not gateways to gaining information on job applicants," said German Interior Minister Thomas de Mazière.

However, some legal experts warn that changing existing laws restricting the use of personal information could create confusion.

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PAGE TWO

A crusade to protect the baguette?

[Agenda]

BY PATIENCE WHEATCROFT



There should have been little shock value in Standard & Poor's single notch downgrade of Ireland's credit rating. Another of the major ratings agencies, Fitch, had already marked the country down to that level. The markets' horrified reaction was more a symptom of general queasiness over economic prospects than surprise over Ireland's dire finances.

A succession of bad tidings has stoked fears that, while a double-dip recession may not be about to hit, the way ahead looks long and hard and potentially still dangerous. So the flight to safety is gathering momentum, with the Swiss franc hitting a record high against the euro and the gold price jumping up toward the record highs it hit in June.

Figures just released by the World Gold Council show how investment demand for the metal has ballooned this year, reaching 36% more in the second quarter than in the year-earlier period. Sales of exchange-traded funds backed by gold were 414% up from a year ago.

Inevitably, such increases in demand fuel prices. Now it seems that President Nicolas Sarkozy of France wants to find a means to curb such market forces. Addressing the annual gathering of ambassadors in Paris, he voiced his concerns over the volatility in exchange rates and in commodity prices and indicated that he intended to use his country's forthcoming leadership of the G-20 group of industrial countries to try to limit price swings.

Fighting low popularity at home, Mr. Sarkozy is resorting to what many see as populist pronouncements. There has been much publicity over his determined bulldozing of Roma encampments and the expelling of



President Sarkozy at the ambassadors' conference in Paris on Wednesday.

their inhabitants from France. The move has won high levels of support among the French public, unlike the president's move to make cuts in public spending. Now he is once again mooted the idea of a tax on financial transactions.

He may well see a crusade to protect the euro and the price of a baguette as further moves to endear him to voters. However, since he insists that he is not

Fighting low popularity, Mr. Sarkozy is resorting to what many see as populist pronouncements.

seeking a return to fixed exchange rates, he is unlikely to be able to shield the currency from fluctuations, although he is advocating involving China in the discussions. Keeping commodity prices in check, when grain is at the mercy of the weather, looks equally problematic. He would make a start, he hinted, by regulating commodity derivatives.

Such rhetoric may have little impact on the script for a movie about the president. The actor to play him is said to have been cast. Denis Podalydès played a major role in the 1996 film: "My Sex Life ... or How I Got Into an Argument." That might give the president's ratings a boost.

Boardroom balance

Governmental pressure on firms to increase the number of women on boards has become commonplace. Figures from the EU show that by last month, the hectoring has had little impact. Examining a collection of the largest companies from each of the 27 countries, a total of 606, the European Commission found that only 11% of board members were women.

By far the highest score was from Norway, but the 42% female presence in the boardroom there is the result of legislation rather than corporate commitment to the cause.

Boardroom dynamics, it is argued, are different if there is a female contingent present. Whether this produces enhanced performance is far from proved. The right mix of experience, skills and personality might arguably be more important than gender. Yet if governments do believe that organizations benefit from having a mixed-sex boardroom, they should surely be applying that thinking beyond the corporate sector.

Perhaps they could start with central banks, in part accomplices in the financial crash that has enveloped us. Not one of the EU's 27 central banks has a female governor and of the 293 members who sit on their key decision-making bodies, only 18% are women. Although much of the

work of euro-zone central banks has now been taken over by the European Central Bank, national banks still have a role in banking supervision.

Would they have done that better if more women were involved? Probably not. But before pushing a requirement for greater female representation on the private sector, governments might try to demonstrate the efficacy of the concept in the public sector.

Internet optimists

The Facebook phenomenon has seen a bright idea turn into a website with more than 500 million users in just six years. Punters are now buying the stock in the unofficial market at prices that attribute a value calculated at almost \$34 billion on the business. That is close to a quarter of the value of the mighty Google, which notched up \$1.8 billion of profits in the second quarter of this year alone, and even that number was judged disappointing by the market.

These Facebook fans have faith because they certainly don't have figures to come anywhere near justifying such a value. The company declared in September 2009 that it had turned cash positive but its revenues remain a matter for speculation and will do so until founder Mark Zuckerberg decides that he is ready to float the business. As for outgoings, keeping those 500 million users happy is a costly operation.

Facebook may turn out to be a long-term business with the capacity to generate significant profits. Equally, it could be vulnerable to its aficionados fickle following friends to the next big thing in social networking.

Ocado is just the most recent warning that websites may be wonderful but profits matter. The Internet grocery business had mooted a float price of 200 pence to 275 pence.

In the event, it came to market this summer at 180 pence and the shares languished Wednesday at 138.75 pence.

What's News

■ **BHP posted a solid rise** in fiscal-year profit, further building up its cash as it pursues a \$38.6 billion offer for Potash. CEO Marius Kloppers said he will be "disciplined" in bidding for the fertilizer maker despite rumblings of possible rival offers. 17, 32

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

SUBSCRIPTIONS, inquiries and address changes to:
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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
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Printed in Belgium by Concentra Media N.V. Printed in
Germany by Dogan Media Group / Hürriyet A.S. Branch
Germany. Printed in Switzerland by Zehnder Print AG WIL.
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M-17936-2003.
Registered address: Boulevard Brand Whitlock, 87, 1200
Brussels, Belgium

NEWS

Super-yachts that tug at VIP hearts

By TARA LOADER WILKINSON

"The moment I saw her, I fell in love with her. I felt it was my duty to save her," declares Vincenzo Onorato, owner of Moby Lines Ferries and the president of Mascalzone Latino, the Americas Cup Challenge sailing team.

He is talking about his passion, a dilapidated tugboat that he had lovingly restored—to the tune of around €17 million (\$21.4 million).

The 53-year-old Neapolitan entrepreneur chanced upon the neglected old ship, at the time called the Henry Morgan, several years ago, at the back of an Italian boatyard. Dating from 1932, and used for commercial haulage during World War II, the 40-meter boat lay rusting and ready to be dismantled for parts.

Fast forward three hours, a few phone calls and €1 million, and the Henry Morgan, soon to be renamed the Mascalzone Assai—Quite A Rascal, in English—had taken its place as one of Mr. Onorato's most prized possessions.

Mr. Onorato is not alone in his passion for revamping rusty ships. Rather than splashing out for an off-the-peg yacht, a growing number of the world's rich and famous are buying into this unusual craze.

Princess Caroline of Monaco was one of the original trendsetters, with the 36-meter Pacha III, a tugboat built by English shipyard-owner Camper & Nicholson in 1936, which she had restored complete with on-deck hot tub.

Franco Polti, the man behind Italy's best-selling vacuum cleaner brand, Vaporella, converted a 44-meter tug dating from 1967, the Ariete Primo, into an elegant four-deck cruiser, complete with a mosaiced spa offering chromotherapy and aromatherapy, a gym, a hammam and a whirlpool bath.

And fashion designers Renzo Rosso, owner of the Diesel jeans company, and Alberta Ferretti have also tapped into the trend. Two years ago, Mr. Rosso refitted the Lady May, a 31-meter tugboat dating from 1929. Ms. Ferretti owns Prometej, a 44-meter ice-breaker from World War II. The hull, superstructure, fore winch and capstan of Prometej are original, with the gym and steam rooms recent additions.

Re-vamping a tugboat isn't a cheap hobby. Costs can run to €20 million, says Barbara Tambani, president of Floating Life, a Swiss-based yacht-management company. By comparison, an off-the-peg, 40-meter super-yacht could cost less than €5 million, according to yachting website Superyachts.com.

The whole process from hull improvement to the finishing flourishes of design and furnishing can



The Ariete Primo, a former tug owned by Franco Polti, has been transformed into a four-deck cruiser.

take two-and-a-half years and involve around 100 experts, says Veronica Careri, director of CNP-Cantieri Navali di Pesaro, the super-yacht builder that worked on Ms. Ferretti's tugboat.

First, the boat's superstructure must be overhauled and restored, which, depending on its condition, could cost €7 million, says Ms. Tambani. Spare parts and machines are sourced directly from the original producer or from distributors all over the world. Sometimes the yard will build a bespoke part that can't be purchased.

"Refitting is a complicated job, divided into two parts," says Ms. Careri. "During the first stage you are repairing an old boat, a delicate job rewiring existing parts on board. The second stage is more or less equivalent to constructing a new boat."

She adds that it is usually necessary to rebuild the superstructure of the boat, as the owner will probably want a new large saloon and several extra cabins. The engines are often moved to the bottom of the vessel to create more room for the lower-deck cabins.

The boat is housed in a yard while the designers and architects make their transformation. Requests for gyms, bars, whirlpool baths and spacious sun decks are common.

The designers face their own hurdles. "The main challenge is to preserve the original spirit of the boat on an aesthetic and structural level, whilst keeping in mind this 80-year-old ship needs to be made seaworthy for another several decades," Ms. Careri says.

The high cost and lengthy construction process is enough to put off many a would-be yachtee, but others insist the refitted tugs provide an experience that can't be matched.

"Very wealthy people want spectacular one-off boats," says Ms. Tambani of Floating Life. "At the Monaco Boat Show they don't want to moor up alongside an identical

yacht. It's the equivalent of getting a suit made to measure."

She adds that the potential for creative interior design within the historical shell is compelling. "It becomes a very personal space and they feel they are contributing a part of history too."

Mr. Onorato says that when it comes to a project like this, cost is immaterial. "There are objects that

should live for ever, and the Mascalzone Assai is one of those," he says. "Money is a mere detail."

Owners can recover some of their costs through chartering. A standard 40-meter super-yacht might realize charter fees of €100,000 a week in the Mediterranean high season, while Mr. Polti's Ariete Primo has a charter fee of €130,000 per week, partly because of its high-specification fittings, including its own water-filtration system, which can produce 320 liters of fresh water an hour.

The other factor is devaluation. Piers Brown, director of fractional ownership company Fractional Life, says new super-yachts lose around 15% of their value every year, and annual running costs can be as much as 10% of the initial value.

Although no one has tried reselling a refitted tugboat yet, Mr. Brown says they will probably sell well on the secondary market because of their scarcity.

Mr. Onorato is hoping to spend time aboard the Mascalzone Assai with friends and family later this year, and will be putting it up for charter in 2011.

However, he hopes it won't become just another short-lived craze. "I am not the first and will not be the last to breathe new life into a historic ship destined for demolition," he says. "The important thing is that it never becomes a trend."

"These ships of yesteryear must be respected. Just like an elderly lady of a certain age!"



Sand People Communication (2)

The sun deck of the Ariete Primo which also features a gym.

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EUROPE NEWS

France aims for convergence with Germany on tax system

The French government is keen to bring the nation's fiscal system closer to Germany's, the French budget minister said Wednesday, suggesting that France's wealth tax would be closely examined in the process.

By *Nathalie Boschat in Paris*
and *Andrea Thomas in Berlin*

French Budget Minister François Baroin said France and Germany fully agree on instituting a bank levy. His comments came after Germany's cabinet Wednesday approved a bank-restructuring bill, designed to provide a toolbox for handling troubled banks without relying on state bailouts.

French president Nicolas Sarkozy is keen to accelerate the harmonization of both fiscal systems, on corporate as well as personal income taxes, Mr. Baroin said, a day after visiting his German counterpart Wolfgang Schäuble in Berlin to discuss tax and budget issues.

"There is no longer a wealth tax and hence no tax shield [in Germany]. ... As you know there has been a lively debate on the issue of the tax shield among French political parties on the right and on the left for a while. ... It's a source of inspiration," Mr. Baroin told radio Europe 1 in an interview Wednesday.

The tax shield stipulates that no individual should pay more than 50% of their income in taxes, and is one of the hallmarks of Mr. Sarkozy's presidency. It has been fiercely criticized by France's Socialist opposition, which has called for the cap to be scrapped, claiming it benefits only the wealthiest. But so far the government has been adamant it will be maintained.

Germany had abolished its wealth tax in 1997, after a court ruled that the method used to evaluate the tax was unconstitutional. The wealth tax generated about €4.6 billion (about \$5.8 billion at current exchange rates) in revenues in 1996,



German Chancellor Angela Merkel arrives with Economy Minister Rainer Brüderle at Wednesday's cabinet meeting.

the year before it was scrapped.

Mr. Sarkozy told France's Court of Audit this month to put together a survey of the French and German tax systems in order to help the government make decisions aimed at fostering fiscal consistency between the countries. The Court of Audit report is due by year-end.

Harmonizing tax systems is one way of closing gaps in competitiveness within the region, which is part of the new fiscal-surveillance framework that European Union states are looking to implement in the wake of the sovereign-debt crisis in Europe.

Mr. Baroin said there is consensus between France and Germany on taxing bank profits. "Our difficulty

is to make sure that it's everywhere in the euro zone and eventually at the global level. ... France and Germany are on the same page."

The bank restructuring bill approved by the German cabinet includes plans for a bank levy, with proceeds going into a bank restructuring fund that would be used only in the event of future crises.

The tax will be paid by all banks based in Germany posting an annual net profit, and will be calculated based on a bank's total equities and liabilities minus its own capital and customer deposits—meaning it will be more of a burden for investment banks than for retail banks.

The German government estimates proceeds of about €1.2 billion

annually.

The aim is to spare taxpayers from having to bail out systemically relevant banks, as was the case during the recent global financial crisis.

The world's 20 largest economies failed to reach a consensus on a global bank levy at their last summit, in Toronto in June—though France, Germany and the U.K. vowed to press ahead with a tax in order to reduce systemic risk. France has yet to unveil details of its own bank tax and should do so in its coming 2011 budget. Unlike Germany, the French government wants the bank levy to feed into the general budget instead of going into a dedicated fund.

—Adam Mitchell in Paris contributed to this article.

Portuguese auction sees strong demand

By EMESE BARTHA

Portugal on Wednesday sold €1.3 billion (\$1.65 billion) in Treasury bonds at only modestly higher yields than at previous similar auctions, surprising some skeptics who thought the euro-zone periphery country would face a tough auction.

The successful auction came despite a recent spike in credit-default insurance costs for Portugal and a Standard & Poor's Corp. downgrade of Ireland Tuesday evening.

Aro Razafindrakola, strategist at Société Générale SA in Paris, called demand "good," especially considering the current environment.

Portugal raised more money than it estimated before the auction, when it provided an offering range of €750 million to €1.25 billion for a mix of six- and 10-year bonds.

The average yields were only marginally higher than at the previous auctions, while the bid-to-cover ratios were higher or unchanged. The 4.2% October 2016 bond, reopened for the first time after 3 1/2 years, was sold at an average yield of 4.371%, compared with 4.128% at its previous auction in January 2007. The 4.8% June 2020 bond, the current 10-year benchmark, was sold at an average yield of 5.312%, compared with 5.225% at the previous tender in June. The coverage ratios were 2.1 compared with the previous 2.0 for the shorter-dated bond, and an unchanged 1.8 for the 10-year benchmark.

Analysts say Portugal is in a good financing situation for the rest of the year.

Despite the auction's strong reception, Portuguese credit-default-swap spreads widened more than those of other euro-zone peripheral peers, according to data provider Markit.

CDS are tradable, over-the-counter derivatives that function like a default insurance contract for debt. If a borrower defaults, the protection buyer is paid compensation by the protection seller. Swap buyers may be protecting investments they own or simply making bearish bets against companies or countries.

Analysts say Portugal is in a favorable financing situation for the rest of the year.

"Portugal is now comfortably positioned with its 2010 financing needs, as it has completed almost 80% of its 2010 bond issuance target," said Natixis's Paris-based strategist Jean-François Robin, who calculates using the upper end of the Portuguese debt agency's €20 billion to €22 billion issuance target. "It's also positive that there are no redemptions and coupon payments for Portugal by the year-end," he added.

Standard & Poor's downgraded Ireland's rating Tuesday to double-A-minus from double-A as the projected fiscal cost for the government to support the Irish financial sector has increased significantly.

German business sentiment grows

By GEOFFREY T. SMITH

FRANKFURT—Business confidence in Germany rose again in August, defying recent indications of a global slowdown that could dent demand for the country's exports, research institute Ifo said.

Ifo said its closely watched business-climate index rose to 106.7 in August from 106.2 in July, the highest level since the middle of 2007, before the first warning signs of the financial crisis. Analysts polled by Dow Jones Newswires had forecast an index reading of 106.0.

"The German economy is on a stable summer high," Ifo said. "As regards developments in the next six months, [business] is only slightly less optimistic than previously."

The euro strengthened and German bond yields rose initially as markets absorbed the news, which was more upbeat than the prevailing mood. Financial markets have

been increasingly concerned in recent days by a string of weak economic data out of the U.S., as well as signs of a slowdown in growth in China.

However, the data weren't strong enough to force a lasting rethink and the euro fell back to \$1.2688, off an intraday high of \$1.2718 and almost unchanged from before the release.

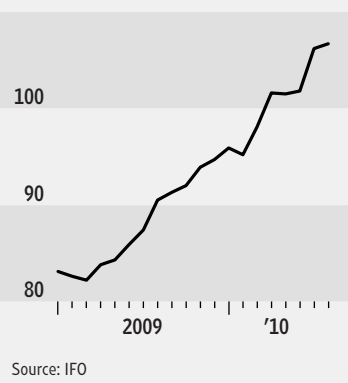
Ifo said the subindex tracking estimates of current conditions rose to 108.2 from 106.8 in July, while the subindex for expectations fell to 105.2 from 105.6.

The survey results were slightly more optimistic than this month's purchasing managers' survey by research firm Markit, which had indicated a modest slowdown in manufacturing activity this month. Markit's overall index had been supported by a robust reading from the services sector.

Ifo was also substantially more upbeat than the ZEW research insti-

Steady climb

Germany's business-climate index rose again in August.



tute's survey of financial-market experts, which showed a sharp deterioration in expectations in August.

"At the end of the day, the Ifo index probably won't continue to rise

and the expectations reflected in the ZEW index will probably materialize," said Ulf Kraus, a senior economist with Landesbank Hessen-Thüringen in Frankfurt. He argued that ZEW's survey-based readings are faster to absorb developments in the global economy.

Ifo said the key export sector, which has driven Germany's recovery so far this year, "expects that the impulse will be not quite as strong as it was in recent months." All the same, the sector intends to add jobs in the next six months, Ifo said.

The institute also noted that the mood among its respondents in the retail sector continued to improve. The subindex for retail rose to 9.1 from 3.8 in July, which had been its first positive reading in over a year.

By contrast, it said the construction sector's expectations, and its assessment of current business, had fallen after a very strong few months.

EUROPE NEWS

Germany prepares staff privacy law

BY CHRISTOPHER LAWTON
AND VANESSA FUHRMA

BERLIN—The German government, seeking to address growing concerns that Germany's privacy laws haven't kept pace with the Internet age, plans to tighten personal data protections with a new law that would make it much harder for companies to monitor employees and gather information on job candidates.

The proposed law, which was endorsed by the German cabinet Wednesday but has yet to pass through parliament, includes provisions that would make it illegal for companies to secretly film workers and would prohibit employers from using social-networking sites such as Facebook to research prospective employees.

"Private social networks are private social networks and not gateways to gaining information on job applicants," Interior Minister Thomas de Maizière told reporters.

The legislation, a reaction to a string of scandals in recent years involving German companies spying on employees, reflects growing worry in Germany that the country's decades-old privacy protections are ill-suited to deal with the realities of the Internet. Those protections, a legacy of Germany's authoritarian past, are seen by many as the bedrock of the country's democracy.

The privacy debate has intensified in recent weeks following Google Inc.'s announcement that it would launch its Street View mapping service in 20 German cities by

the end of the year. The program, which allows users to view detailed photographs of streets, including residential areas, prompted a wave of protest from citizens across the country who consider the service an invasion of privacy.

Google Street View won't be affected by the law, but the government has said it is looking for ways to address concerns about such services. A number of German legal experts, however, warn that tinkering with existing laws, which prohibit the use of personal information without an individual's consent, could create even more confusion.

Critics point to a number of exceptions in the new draft law that could make it difficult to determine whether a company is complying with the rules.

Employers may monitor and control the use of telecom equipment for accounting or corruption purposes, for example, but the content of such communication remains privileged. Employers may also monitor an employee's Internet traffic for illegal content but only on a random basis. But this part of the law is a gray area because it doesn't spell out what it is considered "random," said Stefan Seitz, labor specialist and partner at law firm Schluetter Bornheim Seitz. Labor lawyers also predict that enforcing the law will be difficult. A job candidate may suspect an employer of using Facebook and other social tools in a job search, but unless the employer freely admits it, it is hard for the candidate to prove it, he added. "The question here should be



Interior Minister Thomas de Maizière seeks to curb companies' spying on staff.

how the government expects to prevent a personnel chief from using his private Facebook account to view the private photos or entries of a job applicant," Mr. Seitz said.

"In my view, the importance of this issue has been exaggerated because many companies are not at all interested in candidates' Facebook entries and understand how to distinguish between business and the private sphere."

Such views have opened the government up to accusations that the law is little more than a placebo to calm the public's concerns, rather than a substantive response to the issue of workers' privacy. Sebastian Edathy, legal expert for the Social Democratic Party, labeled the draft

bill inadequate in German newspaper Handelsblatt, and called on the governing coalition to come up with a more precise law that threatens "compensation and criminal consequences for employers" who infringe on the privacy of workers. According to the draft law, violations could result in up to two years in jail or monetary penalties.

Though the proposed legislation would prohibit employers from posing as "friends" or using other means to gain access to an otherwise restricted social-media network, employers would still be permitted to conduct Internet searches and access any generally available information about a prospective job candidate online.

Need to tighten up

Some recent corporate lapses

■ **March 2008:** Authorities found grocer Lidl Stiftung & Co. guilty of using cameras and detectives across Germany to spy on its employees and fined it €1.5 million. Separately CEO Frank-Michael Mros resigned from the company in April 2009 after acknowledging that it collected records on the diseases of its employees in a database.

■ **May 2008:** Deutsche Telekom AG said it found indications wireless and fixed-line telecom data had been used illegally in 2005 and 2006 after allegations that the company monitored phone calls between journalists and its executives and board members.

■ **March 2009:** Deutsche Bahn CEO Hartmut Mehdorn resigned amid allegations the company misused employees' personal data in a bid to root out corruption. Supervisory board members admitted the company monitored staff emails to learn if they had contacted journalists or politicians.

■ **May 2009:** Deutsche Bank AG said it had found efforts involving 'questionable investigative or surveillance activities' directed by its corporate security department and outside contractors. In July 2009, the bank said it had identified several incidents of spying between 2001 and 2007.

Wall Street Journal research

Missing British spy found dead One Assange allegation to be probed in Sweden

Associated Press

LONDON—Detectives searching for a missing British spy said they launched a murder investigation after a body matching the man's description was discovered stuffed in a bag in his apartment near the headquarters of the MI6 spy agency.

British authorities who spoke on condition of anonymity because of the sensitivity of the investigation said Wednesday that the body of the man in his 30s was found in the bathroom Monday.

Scotland Yard declined to say whether there were signs of a struggle or how the man may have been killed, but said suicide had been ruled out. An autopsy and formal identification was expected later Wednesday.

The man had been working for MI6 on temporary assignment from GCHQ, Britain's eavesdropping agency, said several British officials.

They declined to say exactly what work the man was doing or how long he had been employed with the government, but officials said initial indications didn't suggest his death was related to his job or to national-security issues.

Neighbor Rob Mills, a 35-year-old who lives two doors away from where the body was found, said people in the expensive London neighborhood of Pimlico knew little about the victim or his work.

"It's not like you'd tell your neighbors if you were a spy," he said.

Police cordoned off the area and were restricting access to residents, some of whom said they were told by investigators that the man could



The London house where the body believed to be that of the spy was found.

have been killed two weeks ago. Scotland Yard declined to confirm that.

"His windows were always shut and curtains were often closed," said neighbor Laura Houghton, 30. "I could never tell if anyone was in. It was strange that we never saw him come and go." Ms. Houghton said the man was friendly and spoke with a Welsh accent.

Britain has been known as a den of spy activity since the Cold War. About 2,500 British intelligence specialists work for MI6, around 5,200 for GCHQ and 3,500 for the country's domestic security agency, MI5.

The Russians are thought to have hundreds of agents in London. In 2006, the world was gripped by the story of the poisoning death of former Russian spy Alexander Litvinenko, who wasted away in a London hospital after ingesting a radioactive substance. On his deathbed, Mr. Litvinenko blamed then-

Russian President Vladimir Putin for the poisoning. Mr. Putin denied that the Kremlin had any role.

His death harkened back to the notorious 1978 killing of Bulgarian dissident Georgi Markov, who died of blood poisoning after he was stabbed with an umbrella at a London bus stop. The tip of the umbrella was said to contain poison.

Last month, the largest spy swap since the Cold War made headlines when four people convicted of betraying Moscow for the West were pardoned in exchange for 10 Russian agents who had infiltrated suburban America. Two of them were flown to Britain.

Last month, a 21-year-old was arrested in connection with a parcel bomb being sent to MI6's fortress-like headquarters near the River Thames. Authorities said on Wednesday it appeared that incident was unrelated to the discovery of the body.

BY JEANNE WHALEN
AND DAVID CRAWFORD

A Swedish prosecutor said she would open a formal investigation into an allegation that WikiLeaks founder Julian Assange engaged in "molestation" of a woman.

Chief Prosecutor Eva Finne, in a statement on the prosecutor's website, said she has asked police to bring in Mr. Assange for questioning. Under Swedish law, molestation is defined broadly and can refer to anything from groping someone to inappropriate nonsexual behavior, such as disrupting public order.

On Saturday, Swedish prosecutors dropped an investigation into a separate allegation that Mr. Assange raped a woman, saying there were no grounds to suspect him of that.

The investigation is the latest instance of intensifying scrutiny facing Mr. Assange and WikiLeaks, which angered the Pentagon last month by publishing 76,000 classified U.S. military documents about the war in Afghanistan. U.S. federal prosecutors are investigating whether WikiLeaks acted illegally by releasing the documents.

The Swedish allegations against Mr. Assange sprang up separately last weekend. Leif Silbersky, a lawyer for Mr. Assange, said his client is innocent, and "waiting for the prosecutor to get in touch."

"We are very certain there will be nothing left [to the investigation] when he gives his story," Mr. Silbersky said by telephone.

A lawyer representing the two

Swedish women who made the allegations didn't respond to a request for comment Wednesday.

The molestation investigation comes as Mr. Assange attempts to strengthen WikiLeaks' foothold in Sweden, which provides strong protections to whistleblowers and the media. It is unclear whether the investigation will affect WikiLeaks' position in Sweden. Mr. Silbersky said he couldn't comment on WikiLeaks' work.

WikiLeaks keeps some of its servers in Sweden, and Mr. Assange told the Associated Press this month that WikiLeaks planned to apply soon for a publishing certificate in Sweden.

Daniel Schmitt, a spokesman for WikiLeaks, said Wednesday that WikiLeaks has sought registration as a media organization in Sweden. He said it is unclear if or when the application will be complete. In an interview last month, Mr. Assange said that WikiLeaks was "registered as a newspaper in Sweden."

Mr. Assange has called the allegations against him in Sweden a "dirty trick" and has suggested that the Pentagon may be involved. A Pentagon spokesman called that idea "absurd."

Pentagon lawyers believe that WikiLeaks acted illegally in disclosing classified Afghanistan war reports and other material, and federal prosecutors are exploring possible criminal charges, officials familiar with the matter have said.

—Johan Anderberg
contributed to this article.

U.S. NEWS

Nine states and D.C. win race for school aid

By STEPHANIE BANCHERO
AND NEIL KING JR.

The Obama administration awarded \$3.4 billion to nine states and the District of Columbia in a national competition to encourage school reform that spurred far-reaching changes in many cash-starved states, but left some losers bitter over the murky standards.

The awards unveiled Tuesday are part of the administration's \$4.35 billion "Race to the Top" competition, a program that set in motion a national effort to tie teacher evaluations to student achievement, increase the number of charter schools and overhaul low-performing schools.

The states named to receive sums from \$75 million to \$700 million each were Hawaii, Rhode Island, Maryland, Massachusetts, Ohio, North Carolina, Georgia, New York and Florida.

The program, a signature initiative of President Barack Obama that has won support in both parties, spurred many states to take decisive steps to improve K-12 education. Colorado passed a teacher evaluation law making it more difficult for teachers to earn tenure and easier for them to lose it.

Illinois and New York lifted limits on the number of charter schools. Thirty-five states adopted a set of common learning standards setting out what students should know at each grade level in math and language arts.

Education Sec. Arne Duncan called the process a leap forward. "These states show what is possible when adults come together to do the right thing for children," he said. "Every state that applied showed a tremendous amount of leadership and bold commitment to education reform." Charles Barone, director of federal policy for Democrats for Education Reform, a lobbying group, said the program "sends

a message to all states that it is politically possible to adopt dynamic reforms."

But jilted states and other observers questioned the validity of a scoring system that left out states such as Colorado and Louisiana—which many had considered shoo-ins based on their reform efforts—while awarding money to Hawaii, which made few changes to strengthen its application. Some observers noted that six of the nine winners have governors who are Democrats.

Critics also pointed to a clear tilt toward Eastern states with big cities and states in which teacher's unions signed on to the applications.

"The administration's unwillingness to reward the real reform states shows a complete lack of political courage," said Mike Petrilli of the Thomas B. Fordham Foundation, a non-profit group that pushes for higher educational standards. "The rhetoric of Race to the Top has turned into a farce."

Some questioned whether the support of teacher unions may have influenced the outcome. States received extra points if they persuaded local or state union leaders to sign their applications. Neither Colorado nor Louisiana was able to garner many signatures. Hawaii, however, got widespread teacher support.

Precisely what propelled each state into the winner's circle wasn't clear because the Education Department declined to release final score cards until Wednesday. The department used a panel of outside judges to score each application based on 19 criteria, including willingness to open charter schools and efforts to link teacher evaluations to student achievement. States were graded on a scale of zero to 500 points. Judges were selected by the department for their expertise in education policy. Their names have not been made public.

Mr. Duncan was authorized to overrule the panel and select states he deemed worthier than others, but he declined to do so. He said he felt the process was "fair and impartial," and that political leanings played no role in the selection process. He said he couldn't point to specific reforms that helped states win, but most toughened teacher evaluations and relaxed restrictions on the growth of charter schools, which are public schools run by non-government groups. Mr. Duncan said union support was important, but not the only factor in the awards process.

Alex Da Silva, spokesman for the Hawaii Board of Education, said his state deserved to win, pointing to the academic growth students are making, quick adoption of the standards adopted by 35 other states and the District of Columbia, and a promise to tie teacher evaluations to student gains. Hawaii was in such dire financial straits last year that it cut the school year from 180 to 163 days, he said.

Colorado, which finished 17th among 19 finalists, had been widely viewed as the top contender in the competition, and Mr. Duncan said Tuesday that he wished he could have funded the state. Dwight Jones, Colorado Commissioner of Education, said he was "shell-shocked" that his state didn't win and he pointed to the lack of teacher union support as one reason.

"There is a real disconnect for me because we did exactly what the administration urged us to do—adopt significant reforms," Mr. Jones said. "So we adopt the ambitious reforms and create the conditions to make dramatic changes, but we don't win because not everyone signed on. That worries me."

Deborah Fallin, a spokeswoman for the Colorado Education Association, said the union supported Colorado's application in an earlier Race

Winning the jackpot | How the top 10 fared

The Obama administration awarded \$3.4 billion in a national competition designed to transform schools. Below, the winners, their awards

	Amount awarded	Some education initiatives that helped state win points on application:
1. Massachusetts	\$250 million	Adopted the Common Core standards, a national blueprint of what students should know at each grade level in math and reading.
2. New York	700	Lifted its cap on the number of charter schools allowed in state; tied teacher evaluations to student test scores.
3. Hawaii	75	Garnered the support of the teachers' union.
4. Florida	700	Garnered support of the state teachers' unions, superintendent and school board associations.
5. Rhode Island	75	Tied teacher evaluations to student success and barred districts from assigning students to ineffective teachers two years in a row.
6. District of Columbia	75	Tied teacher evaluations to test scores.
6. Maryland (tied with D.C.)	250	Adopted common core standards and promised to overhaul low-performing schools.
8. Georgia	400	Garnered support of the teachers' union, implemented tougher academic standards and increased the number of charter schools.
9. North Carolina	400	Overhauled process to transform the lowest-performing schools.
10. Ohio	400	Garnered widespread support from school districts and tied students' academic progress to teacher evaluations.

Note: Top 10 states above account for \$3.325 billion, with remainder held for adjustments later.
Source: WSJ research

to the Top round, but the state didn't win then, either. The union withdrew support in the second round after lawmakers passed a teacher evaluation law that make it easier to get rid of low-performing teachers. "They want to blame us no matter what," she said.

Dennis Van Roekel, president of the National Education Association, the nation's largest teachers union, said teacher support of the applications should have played a role in the judging, noting that, in addition

to Hawaii, winning states Florida, New York and North Carolina enjoyed teachers' backing.

Race to the Top was launched last year. Delaware and Tennessee, which both have Democratic governors, won a total of \$350 million in a first round. Thirty-five states and Washington, D.C., applied for the second round awarded Tuesday. Another \$350 million has been set aside for a race to improve student assessments; that money has yet to be awarded.

Durable orders weak; new-home sales reach nadir

By SUDEEP REDDY
AND NICK TIMIRASO

Weakness in durable-goods orders and a drop in new-home sales to historic lows offered more signs that the economy is losing momentum.

Orders for durable goods, products such as autos and appliances

designed to last three years or more, rose 0.3% in July from June, largely due to aircraft orders, the Commerce Department said Wednesday. Excluding the volatile transportation sector, orders tumbled 3.8%.

The figures provided the latest evidence that the rebound in manufacturing, which propelled the early stages of the economic recovery, is unlikely to remain strong enough to offset weakness in consumer spending and waning support from federal stimulus.

A key gauge of future business investment—orders for nondefense capital goods excluding aircraft—fell 8% from a month earlier. That drop, the worst decline since January 2009, offset the gains seen in May and June.

While the durable-goods data can be volatile, they raised doubts about whether the underlying strength of businesses can keep the economy expanding in the second half of the year.

"The recovery has been relying so heavily on the industrial side of

Raising doubts

Month-to-month change in nondefense capital goods orders excluding aircraft, a gauge of future investment



the economy for support, and it seems as though that support has now all but disappeared," said Ellen Beeson Zentner, an economist at Bank of Tokyo-Mitsubishi UFJ.

July's drop in new-home sales—down 12.4% from June to a seasonally adjusted annual rate of

276,000 units, the lowest since the data series began in 1963—underscored the troubles facing the housing sector in the coming months.

Many potential purchasers appear to be sitting on the sidelines following the April 30 expiration of a federal tax credit for home buyers. The reluctance also contributed to the sharp drop in existing-home sales reported this week.

The supply of new homes held stable at 210,000 units, but the sharp drop in sales pushed the months of available supply up to 9.1 months from 8 months in June.

Low mortgage rates are offering only modest support to offset the housing market's slowdown. Applications for home-purchase mortgages increased last week by 1%, as average rates on 30-year fixed-rate loans fell to 4.55%, down from 4.6% during the previous week, according to the Mortgage Bankers Association.

Housing economists are revising down their forecasts for U.S. home prices, according to the latest survey from MacroMarkets LLC. Just

21% of economists and housing analysts surveyed this month expect prices to increase this year, down from 48% in May.

On average, analysts now believe prices will grow nationally by just 8.4% over the next five years. That means average annual price appreciation would run slightly below the average rate from 1987 to 1999, said Terry Loebs, managing director of MacroMarkets, a developer of investment and hedging products based in Madison, N.J. "Stubbornly high unemployment and anemic income growth are driving the sentiment," Mr. Loebs said.

The survey was conducted earlier this month, before a series of increasingly negative reports on July home sales.

The Federal Housing Finance Agency said Wednesday that home prices rose 0.9% in the second quarter from the first three months of the year, but the gains slowed as the quarter progressed. For June alone, the agency's index of home prices fell 0.3% from May, following a 0.4% gain in May from April.

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U.S. NEWS

Ex-official stands by drilling policy

BY SIOBHAN HUGHES

The former head of the disbanded U.S. Minerals Management Service, who left her job in May, stood by the Obama administration Wednesday and declined to challenge its offshore-drilling policies.

Liz Birnbaum, the former director of the agency, said she had provided Interior Secretary Ken Salazar "with every piece of information I could" before the department in March announced a plan to expand offshore drilling in the Atlantic Ocean and the Gulf of Mexico, and off the coast of Alaska.

"I cannot tell you the number of meetings we had," she told a presidential panel investigating the BP PLC oil spill. "In the end, I supported the administration's decision."

It was Ms. Birnbaum's first public appearance since she abruptly left the job in late May. Her job had been at risk since Mr. Salazar responded to the oil spill by announcing plans to break up the agency.

With the service no longer in existence, the Bureau of Ocean Energy Management now oversees offshore drilling and is led by a former Justice Department inspector general, Michael Bromwich.

Also Wednesday, environmental officials within the Obama administration said they weren't consulted before the White House announced the plan to expand offshore drilling.

The comments from the heads of the Council on Environmental Quality and the National Oceanic and Atmospheric Administration, or NOAA, prompted the co-chairs of the presidential commission investigating the spill to call for overhauling off-



Elizabeth Birnbaum, who headed the U.S. Minerals Management Service, testified before lawmakers in May.

shore-drilling decision making to give scientists more influence.

"There isn't a culture—and this crosses administrations—that naturally reaches out to the scientists for their participation," said former Florida Senator Bob Graham, a co-chair of the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling. "It would be appropriate to ask Congress to change the process."

Nancy Sutley, the chair of the White House's Council on Environmental Quality, told the panel that

when the Obama administration in March announced plans to expand offshore drilling, "we weren't asked and wouldn't expect to be asked ahead of time."

Jane Lubchenco, the administrator of NOAA, said she "was not directly involved in reviewing the plans." The White House referred questions to the Interior Department. The Interior Department didn't comment.

The drilling expansion was part of an effort to reach Republicans who would be crucial to passing

broader energy and climate legislation.

Meanwhile, a BP official told the panel that undocumented changes to a vital piece of safety equipment slowed the company's efforts to shut down the blown-out oil well.

After spending days trying to use underwater robots to trigger the blowout preventer, a stack of valves on the sea floor designed to seal the well in an emergency, workers discovered that it had been modified, Harry Thierens, a BP vice president overseeing the effort, said.

The controls that the robots were trying to use that were supposed to close the valves were actually connected to a testing device that couldn't shut off the well, he said. It isn't clear whether the modifications to the blowout preventer extended the oil spill. Even after they learned of the modifications, workers still couldn't make the blowout preventer work.

But experts have said that the valves could have been eroded by oil and debris over several days, raising the possibility that the blowout preventer might have worked if workers could have triggered it sooner. The blowout preventer was owned and maintained by **Transocean Ltd.**, the Swiss-based contractor hired by BP to drill the well. BP has said that Transocean bears at least partial responsibility for the Gulf disaster, and the companies have been trying to blame each other.

Documents show that BP ordered Transocean to install the testing device in 2004. But Mr. Thierens said there appeared to be other changes that BP hadn't ordered and said Transocean struggled to provide blueprints showing the updated design of the blowout preventer.

The modifications don't explain why the blowout preventer failed to stop the initial disaster. They affected underwater controls operated by remotely controlled submarines, not the controls aboard the rig itself. Another witness, Transocean's Mark Hay, said the blowout preventer was overdue for maintenance and had several leaks, although he said the leaks shouldn't have prevented the device from working.

—Ben Casselman contributed to this article.

Newcomers make inroads with primary wins

BY VALERIE BAUERLEIN
AND NAFTALI BENDAVID

Republican Sen. Lisa Murkowski, whose family has long been a dominant force in Alaska politics, is in an unexpectedly close contest to retain her Senate seat against a tea-party-backed candidate who says Ms. Murkowski is insufficiently conservative.

Ms. Murkowski trailed her primary-election challenger, Joe Miller, by 2,555 votes Wednesday morning in incomplete returns. With 84% of precincts reporting, Ms. Murkowski had 48.6% of the vote to 51.4% for Mr. Miller, an attorney and former judge whose candidacy had been considered a long shot.

The outcome may be unknown until next week. The Associated Press reported that more than 16,000 absentee ballots won't be counted until Aug. 31.

The race may become the latest case of voters choosing political newcomers over familiar incumbents. In other balloting on Tuesday, Florida Republicans rejected Attorney General Bill McCollum, who was also a longtime congressman, as the party's nominee for governor, instead nominating former hospital-chain executive Rick Scott.

Several other veteran lawmakers won their primary races Tuesday. Florida Rep. Kendrick Meek soundly defeated billionaire Jeff Greene for the Democratic nomination for U.S. Senate. And Sen. John McCain (R., Ariz.) won re-nomination to his Sen-

ate seat in a contest that at one time was viewed as a serious threat to his career. In Georgia, voters narrowly chose long-serving U.S. Rep. Nathan Deal as the GOP gubernatorial nominee over Karen Handel, who campaigned against the "good ol' boy" network and had the backing of Sarah Palin.

The race between Ms. Murkowski and Mr. Miller had become a contest of Alaska Titans.

Ms. Palin, the former Alaska governor and tea-party favorite, backed Mr. Miller and argued recently in a "robo-call" to voters that Ms. Murkowski had sided too often with President Barack Obama and his Democratic Party. Mr. Miller, she said in the call, had "the backbone to confront Obama's radical agenda."

Mr. Miller also drew support from the group Tea Party Express, which called him a "tea party hero" and urged people to send him money.

According to his campaign website, Mr. Miller, originally from Kansas, is a West Point graduate who earned a Bronze Star in the first Gulf War. He is a graduate of Yale Law School and holds an economics degree from the University of Alaska. He has served in state and federal judicial posts, the website says.

He wants to repeal the health-care measure that Mr. Obama signed into law, calls himself pro-life and opposes the TARP banking bailout and "cap and trade" energy policy,



Sen. John McCain won re-nomination to his seat in Arizona.

according to his campaign materials. He argues that his position sets him apart from that of Ms. Murkowski.

Ms. Murkowski, in her campaign, stressed her work on behalf of Alaskans.

In Florida, Mr. Scott carried 47% of the vote to win the GOP gubernatorial nomination, topping Mr. McCollum's 43%.

Messrs. Meek and McCollum have been in elected office most of their adult lives, and both spent a fraction of the millions of dollars that their rivals invested in the race. They struggled to offset their opponents' heavy TV-advertising campaigns that promised jobs and a

fresh approach.

In the Senate race, Mr. Greene carried professional and personal baggage that weighed heavily as voters paid more attention in recent weeks. Mr. Greene made his fortune betting against the subprime-mortgage market and was often on the defensive about his 145-foot yacht, *Summerwind*, which was accused of damaging a reef, serving as a site for wild parties and making a trip to Cuba.

Mr. Greene said he knew nothing about the reef and other dust-ups, and that the Cuba trip had been blown out of proportion.

Mr. Meek's victory opens the

next chapter in one of the most closely watched races in the country. Mr. Meek now faces Republican nominee Marco Rubio and Gov. Charlie Crist, who dropped out of the Republican primary last spring for an independent bid.

Mr. Crist has been wooing centrists, setting up committees of environmentalists and teachers who support him, and taking increasingly left-leaning positions on schools and abortion.

Mr. Meek, who is black and the son of a longtime congresswoman, has deep allegiance among Democratic activists and has had former President Bill Clinton and President Barack Obama stumping for him.

The ultimate beneficiary of Mr. Meek's win may be Mr. Rubio, according to a poll of likely voters released Tuesday by Public Policy Polling of Raleigh, N.C. Mr. Rubio and Mr. Crist would have been virtually tied in a race that included Mr. Greene, who has less loyalty among core Democrats.

But Mr. Rubio polled better (40% to Mr. Crist's 32%) in a race that included Mr. Meek (17%).

The results in Florida were closely watched, as Florida has been a recent bellwether for national sentiment, a swing state carried by George W. Bush in 2004 and Barack Obama in 2008.

Tuesday night's vote was just the latest in a volatile season that has seen the ouster of incumbent senators such as Robert Bennett (R., Utah) and Arlen Specter (D., Pa.).

WORLD NEWS

Refugees fill Karachi, fueling strife

By Tom Wright

KARACHI, Pakistan—Hundreds of thousands of refugees from Pakistan's devastating floods are seeking refuge in this city of 18 million, exacerbating ethnic strife that has already escalated this year and threatens to destabilize the government of President Asif Ali Zardari.

Most of the refugees are ethnic Sindhis from areas outside Karachi, the capital of Sindh province, whose homes and livelihoods have been destroyed in the flooding that began more than three weeks ago.

The United Nations says 800,000 people are stranded by the flooding, which has severed major roads in Sindh and nearby Baluchistan province. Some 1,500 people have been killed and six million made homeless by the deluge, which started in the north but swept south along the Indus River and continues to threaten to submerge towns and villages in Sindh and Baluchistan.

Sindh's provincial government has set up camps on the outskirts of Karachi, where 30,000 people are trying to keep their families together under tarpaulins in the searing heat.

The local administration says it is expecting and can cope with up to one million of the refugees. But many others who have made it to Karachi say they are being turned away from shelters on the outskirts and are pouring in to the city, deepening ethnic rivalries with Karachi's majority ethnic community that



Refugees from Sindh packed up their belongings Tuesday to leave apartment buildings where they had been squatting after Pakistan's devastating flooding. The day before, police had shot three of the squatters dead and injured 16.

have simmered for years.

Police and paramilitary forces opened fire Monday on hundreds of mainly Sindhi refugees who, aided by a Sindh nationalist party, had begun squatting in 200 unoccupied, private apartments in a northern suburb of the city. Three people were killed, including a young boy, and 16 injured when the police fired live ammunition and tear gas into

the crowd to disperse them after some refugees began throwing stones, eyewitnesses and local government officials said.

On Wednesday, police raided the house of a Sindh nationalist politician, Safdar Sarki, who organized the refugees' settling in the apartments without permission from the builder, one of the largest in Karachi. Mr. Sarki, in an interview, said

he had sent the refugees there.

For Karachi's dominant group, the Urdu-speaking Muhajirs, the influx of Sindhi refugees poses a threat to the established order.

"If they come in hundreds of thousands, how will they survive?" says Khawaja Izhar ul Hassan, a member of the provincial assembly from the Muttahida Qaumi Movement, or MQM, which is largely a Muhajir political party and forms part of Sindh province's ruling coalition government.

The refugee crisis is adding a new dimension to a running struggle for control of Karachi between the MQM and ethnic Pashtuns, a group with origins in northwest Pakistan. The number of Pashtuns in Karachi has swollen in the past few years as many have fled fighting between the Pakistan Taliban and the military in their homelands bordering Afghanistan.

Almost 1,000 people have died in Karachi since the start of the year, many in violence largely between Muhajir and Pashtun armed groups. Mr. Zardari's administration has been unable to stem the violence.

The MQM has cast its opposition to the wave of Pashtun migration as a necessary push-back against the Taliban's growing influence in Karachi. As evidence, officials point to a number of arrests in the city, including the detention in February of the Taliban's operations chief, Abdul Ghani Baradar.

The wave of Sindhi flood migrants may be harder to counter. Sindhis are Karachi's indigenous ethnic group. The Muhajirs, Muslims of various ethnicities from India, arrived in the city after the 1947 partition of the subcontinent.

Sindh nationalist parties battled the MQM in the late 1980s over control of land in Karachi but in recent years have largely stayed out of the violence. While the MQM has joined in coalition with Mr. Zardari's Pakistan People's Party—in both the Sindh provincial and national governments—Sindh nationalist politicians largely boycotted elections and pushed for greater rights for the Sindhi community.

Ethnic Sindhis number about four million people, smaller than the Muhajir community. But Sindhis dominate in rural areas of the province. Mr. Zardari is an ethnic Sindhi and the PPP draws large votes from

farming communities that have been affected by the floods.

The provincial government has set up 30 camps around Karachi. In the largest, in the northern suburb of Gulshan-e-Maymar, some 10,000 refugees are sheltering, 10 to a room on average, in unused government-owned apartments. Outside, local volunteers have started primary school classes for 450 children. The government has set up a water filtration plant and hooked up the apartments to a generator.

At another camp, in Bin Qasim Town to the east of the city, thousands of refugees lie under makeshift tents in the searing heat. They receive water from large trucks and two meals a day. On the outskirts of the camp, newly arrived refugees carrying children with distended bellies shelter beneath plastic bags strung together over branches.

Deen Mohammad, a 30-year-old farmer from Jacobabad, a town in northern Sindh, lost his house and goats when the Indus River burst its banks. His sister is still missing, he says.

"Nothing is left behind," said Mr. Mohammad, who made his way to Karachi with his wife and four children on a train service provided by the government. "There's no livelihood there. We'd prefer to stay here."

Others have found refuge where they can. Mr. Sarki, president of Jeay Sindh Tehrik, the Sindh nationalist movement, sent his cadres to the train station to direct refugees to the unoccupied apartments in a Sindh area of the city.

They were meant to be there temporarily, he said. But the police action has shown the city government, which has been dominated by MQM for 25 years, is worried about an influx of Sindhis changing the balance of power in Karachi, Mr. Sarki said. "If one million Sindhis came here, the demography would be changed," he said. "These people are trying to get rid of Sindhis and dominate Karachi to show that Karachi belongs to them. It's totally immoral."

At the site of the killings, bullet marks pocked the walls and blood was smeared over the ground. A former makeshift medical clinic lay destroyed, with hundreds of pills trampled into the ground. Even after the violence, a few refugees continued to live in the flats.

"Where can we go?" asked Mai Dini, a middle-age refugee from Jacobabad, as others piled their meager belongings on colorfully decorated trucks.

In a nearby hospital, Sohrab Sarki, a laborer from a bakery in Jacobabad, recovered from a bullet that passed through his left side but missed his major organs. He said the incident was an attack on Sindhis. "They don't want others to come," he said.

Mr. Hassan, the MQM politician, says the police should have acted with more restraint. The MQM, he said, welcomes refugees on a temporary basis and if they are settled in official government camps or relatives' houses.

The Sindh nationalist parties aren't contributing to the relief efforts and are using the refugees to further their political agenda, Mr. Hassan said. "They are looking for places to capture. We will not allow them to use private property in the name of refugees."

—Shahid Shah
contributed to this article.

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Reuters

The bombing attack on a police station in Kut, Iraq, a city southeast of Baghdad, was one of the deadliest.

String of attacks in Iraq kills at least 55 people

By BEN LANDO

BAGHDAD—At least 55 people were killed in about two dozen bombings and shootings, most of them targeting police, across Iraq on Wednesday, a day after the U.S. said it had met an end-of-month deadline for the withdrawal of combat forces.

The attacks, the latest in a series of high-profile and seemingly coordinated bombings and targeted shootings, have shaken confidence in Iraq's security forces as they prepare to take over from the U.S., which officially ends its combat mission here on Aug. 31.

The Obama administration has said remaining American troops will still be ready to fight when necessary. But Washington also has repeatedly said the end-of-month deadline underscores its belief that Iraqi commanders are ready to take over responsibility for the country's security. A bilateral agreement between Washington and Baghdad calls for the withdrawal of all U.S. troops by the end of next year.

U.S. commanders and the caretaker government of Prime Minister Nouri al-Maliki repeatedly have blamed the attacks on a hodgepodge of insurgent groups, including extremist groups linked to al Qaeda

and, separately, to Iran. They allege the groups are trying to take advantage of a political vacuum—politicians have yet to form a government after March polls—and sow fear amid the U.S. withdrawal.

Iraqi and U.S. officials say security is still much better than the worst of the sectarian violence that flared in the years following the 2003 U.S.-led invasion. Those gains are clear, with Baghdad returning to some semblance of routine city life over the past two years.

"The ISF took a blow, but they are not on the ropes and will meet these challenges head on," said Maj. Gen. Stephen Lanza, spokesman for the U.S. Forces-Iraq.

But insurgents have obscured any gains with a series of high-profile attacks that started in the summer of 2009 and have struck Baghdad and other cities ever since—at times killing more than 100 people in a single day. The targets often have been symbols of the state: government buildings, army installations and police officers, including traffic police.

On Wednesday, almost all of the 18 incidents appeared to target police. Car bombs and roadside bombs exploded in crowded downtown areas of Baghdad, in major cities stretching south to the oil capital

Basra and north toward insurgent-heavy strongholds of Mosul, Baquba and Fallujah, according to security officials.

In addition to the scores of dead Wednesday, the bombings injured at least 253 people. There was no immediate claim of responsibility for any of the attacks.

In one of the bloodiest attacks, 20 people were killed and 80 injured in Kut, 160 kilometers southeast of Baghdad, by a car bomb targeting a police station, according to an official at the Interior Ministry.

Earlier in the morning in Baghdad's busy Cairo neighborhood, security officials say that a car bomb detonated near a police station during rush-hour traffic, killing at least 15 and injuring 57.

Meanwhile, in restive Diyala province, explosions targeted police in attacks on a local police patrol, as well as at individual homes of police officers, according to local police officials. Together, the attacks killed at least three people and injured at least 18 more, they said.

Iraqis also are suffering through daily power outages and long gas-station lines, which have plagued postinvasion Iraq. Protests over the lack of power have turned to violence this summer amid sweltering temperatures.

U.S. may intensify strikes in Yemen

By ADAM ENTOUS
AND SIOBHAN GORMAN

WASHINGTON—U.S. officials believe al Qaeda in Yemen is now collaborating more closely with allies in Pakistan and Somalia to plot attacks against the U.S., spurring the prospect that the administration will mount a more intense targeted killing program in Yemen.

Such a move would give the Central Intelligence Agency a far larger role in what has until now been mainly a secret U.S. military campaign against militant targets in Yemen and across the Horn of Africa. It would likely be modeled after the CIA's covert drone campaign in Pakistan.

The U.S. military's Special Operation Forces and the CIA have been positioning surveillance equipment, drones and personnel in Yemen, Djibouti, Kenya and Ethiopia to step up targeting of al Qaeda's Yemen affiliate, al Qaeda in the Arabian Peninsula, known as AQAP, and Somalia's al Shabaab—Arabic for The Youth.

U.S. counterterrorism officials believe the two groups are working more closely together than ever. "The trajectory is pointing in that direction," a U.S. counterterrorism official said of a growing nexus between the Islamist groups. He said the close proximity between Yemen and Somalia "allows for exchanges, training." But he said the extent to which AQAP and al Shabaab are working together is "hard to measure in an absolute way."

Authorizing covert CIA operations would further consolidate control of future strikes in the hands of the White House, which has embraced the agency's covert drone program in Pakistan's tribal areas.

Congressional officials briefed on the matter compared the growing relationships to partnerships forged between al Qaeda's leadership in Quetta, Pakistan, and increasingly capable groups like Taliban factions and the Haqqani network, a group based in the tribal areas of Pakistan that has been battling U.S. forces in neighboring Afghanistan.

"You're looking at AQAP. You're looking at al Qaeda in Somalia. You're looking at al Qaeda even in Afghanistan and Pakistan, and you see a whole bunch of folks and a whole bunch of activity, as ineffec-

tive as it may be right now, talking about and planning attacks in the U.S.," said Rep. Pete Hoekstra of Michigan, the top Republican on the House intelligence committee.

White House officials had no immediate comment.

Defense officials have long seen links between al Shabaab and al Qaeda as an emerging threat, but some in the CIA were more skeptical. Those disparate views appear to have converged during a recent White House review of the threat posed by the Somali group.

Some lawmakers and intelligence officials now think AQAP and al Shabaab could pose a more immediate threat to the U.S. than al Qaeda leaders now believed to be in Pakistan who were behind the Sept. 11, 2001, attacks but have largely gone into hiding. AQAP and al Shabaab have increasingly sophisticated recruitment techniques and are focused on less spectacular attacks that are harder for U.S. intelligence agencies to detect and to stop.

"It's very possible the next terrorist attack will see its origins coming out of Yemen and Somalia rather than out of Pakistan," Mr. Hoekstra said.

AQAP was behind the failed bombing of a U.S.-bound jetliner last Christmas Day, and has gained in stature in Islamist militant circles in large part because of the appeal of Anwar al-Awlaki, a U.S.-born, Internet-savvy cleric who some officials see as the group's leader-in-waiting.

U.S. officials have seen indications that al Qaeda leadership is discussing with AQAP an expanded role for Mr. Awlaki, who was allegedly involved in the Christmas bombing attempt and had communicated with Fort Hood shooter Maj. Nidal Hasan.

Al Qaeda's leadership and affiliates in Yemen and Somalia are increasingly strengthening their ties and have even discussed efforts to attack U.S. interests, U.S. officials say.

Mr. Hoekstra said he was particularly concerned about communications between al Qaeda in Yemen and Shabaab in Somalia. "We get indications their goals are more in alignment in terms of attacking American and western interests and doing it in Europe and the [U.S.] homeland," he said.

Afghan policeman kills Spanish soldiers

By MARIA ABI-HABIB

KABUL—An Afghan policeman shot and killed two Spanish soldiers and an international interpreter before security forces shot him dead during an army training exercise in northwestern Afghanistan on Wednesday, Afghan and international officials said.

The deaths are the latest in a string of incidents in which Afghan forces have fired on their international mentors during training exercises.

Hundreds of Afghans poured into the streets after rumors spread of the death of an Afghan during the exercise, setting fire to government buildings in Badghis province's Qalay-I-Naw district and attacking a nearby military base operated by

Spanish troops, local officials said.

The shooting occurred at about 9:20 a.m., officials said. The nationality of the interpreter wasn't known.

In a statement, the North Atlantic Treaty Organization said the cause of the shooting was still unclear, though it said reports indicate a member of the Afghan national police fired several rounds and NATO forces returned fire.

The Afghan policeman involved in the shooting may have been a Taliban insurgent, said Sharafuddin Mujadidi, a spokesman for the provincial government of Badghis. A spokesman for the Taliban couldn't be reached for comment.

Mr. Mujadidi said hundreds of Afghan civilians, chanting antigovernment and anti-NATO slogans,

tried to enter the base after the gunbattle. "Afghan security forces quickly reacted and cordoned the base, dispersing the mob," he said.

A NATO official said there were still hundreds of Afghans demonstrating around the military base in Badghis province in the afternoon.

Taliban infiltration among the Afghan police and army is still a major concern despite efforts by Afghan and coalition forces to more thoroughly vet recruits, recently implementing biometric registration to weed out possible insurgents and criminals.

But last month, an Afghan soldier shot and killed two U.S. civilian army trainers and one Afghan during a training exercise, one of several similar incidents throughout the country.

The deaths Wednesday bring to 30 the number of Spanish fatalities in the nine-year U.S.-led war, out of 2,030 international troops, according to icasualties.org. So far this month, 52 members of coalition forces have died, with 30 of those fatalities American.

Violence has picked up in northern and western Afghanistan, which were considered to be quiet by coalition forces who have focused the majority of their troop surge in the southern and eastern parts of the country.

U.S. President Barack Obama ordered 30,000 U.S. troops to be deployed in the country in December as U.S. forces draw down from Iraq.

—Habib Zahori
and Habib Totakhil
contributed to this article.



Afghan police stand guard near a truck set on fire Wednesday by a mob in Badghis, Afghanistan.

WORLD NEWS



Israeli Prime Minister Benjamin Netanyahu, right, consults with Foreign Minister Avigdor Lieberman, in Israel's parliament, the Knesset, in Jerusalem this year.

In Mexico, 72 bodies are found

By DAVID LUHNOW
AND JOSÉ DE CÓRDOBA

MEXICO CITY—Mexico's increasingly violent war on organized crime hit a new low Wednesday with the discovery of 72 bodies at a remote ranch near the U.S. border.

The gruesome discovery of 58 men and 14 women came after a firefight between presumed gunmen from a drug cartel and Mexican navy marines. One marine and three drug-gang members were killed in the two-hour battle, the navy said in a statement late Tuesday.

The bodies were discovered in a warehouse on a ranch in Tamaulipas state, about 150 kilometers from the Texas border, the navy said.

A federal official said the victims may have been migrants from Central and South America making their way to the U.S. who were killed by the drug gang, according to the Associated Press.

Mexican newspaper El Universal, quoting a federal official, said the migrants may have been captured by a drug gang and were killed after refusing to work for the cartel, either as gunmen or in other areas of organized crime such as prostitution. Excelsior newspaper said investigators believed the victims were killed at roughly the same time—raising the possibility that they were slain in a single massacre.

The incident began when an unidentified man approached a nearby navy checkpoint and asked for help, saying he had been shot in a nearby ranch. The man is being treated at a hospital and is cooperating with authorities, the navy said in its statement.

About 28,000 people have been killed in Mexico's war on organized crime since President Felipe Calderón took power in December 2006 and declared an all-out battle against drug-trafficking gangs that were challenging the Mexican state.

The death toll is rising fast, including more discoveries of mass graves. Tamaulipas has become one of Mexico's bloodiest states since the dominant local cartel, the Gulf cartel, split with its former allies, a gang called Los Zetas. Mexican officials believe the Zetas are responsible for the recent assassination of a gubernatorial candidate in Tamaulipas and the killing of a local mayor.

Netanyahu pressured on building

By JOSHUA MITNICK

TEL AVIV—Israeli Prime Minister Benjamin Netanyahu faces rising pressure from members of his government, including within his own Likud party, to reject any compromise with the U.S. and the Palestinians to extend a building moratorium in the West Bank.

A partial moratorium on West Bank settlement construction expires next month, just weeks after direct Israeli-Palestinian peace talks are set to begin in Washington next week. The Palestinians have said that they won't engage in talks if an extension isn't granted.

Mr. Netanyahu hasn't ruled out an extension. But in recent days, at least four Likud cabinet ministers and the party's parliament whip have said publicly that the prime minister must resume building in Jewish settlements, making any concession by the prime minister a difficult political move.

"We shouldn't be taking any additional steps," said Culture Minister Limor Livnat in an interview with Israel public radio on Wednesday, referring to the 10-month moratorium, which expires Sept. 26. "We are entering direct negotiations without any preconditions...we need to stand up for our demands."

Foreign Minister Avigdor Lieberman, a key coalition partner, also has said extending the moratorium should be ruled out. The partial moratorium doesn't include East Jerusalem, which is considered part of the West Bank.

The pressure comes a week before Mr. Netanyahu is set to participate in a Middle East summit with U.S. President Barack Obama and Palestinian President Mahmoud Abbas.

In addition to Mr. Livnat, Likud party members in Mr. Netanyahu's cabinet who oppose an extension include Vice Prime Minister Silvan Shalom, Communications Minister

Moshe Kahlon, and Public Diplomacy Minister Yuli Edelstein.

Mark Regev, a spokesman for Mr. Netanyahu, said that "the prime minister's position is that status of the settlements will be determined in the peace negotiations. The Palestinians will bring their positions to the table and we will bring ours."

A U.S. diplomat in Israel said, "This seems like an internal Israeli political question. We are concentrating our efforts on getting both sides to direct talks. We urge both sides to act in such a way to improve the atmosphere."

Mr. Netanyahu in December pledged to resume regular building at the end of the moratorium, but hasn't publicly affirmed that position recently. Several weeks ago, he predicted that an extension would destroy his coalition government.

The Palestinians say that continued settlement-building is a sign of bad faith because it predetermines Israeli authority over territory they

claim as a future state.

"We cannot play a game of deception," said Palestinian spokesman Yasser Abed Raboo. "We want an extension of the moratorium."

Moderate Likud ministers have suggested a compromise whereby Israel would freeze building in smaller settlements deep in the West Bank while continuing to build in large settlements nearer the border with Israel. The idea has been rejected by both Palestinians and hardline members of Likud.

Naftali Bennett, a top aide to Mr. Netanyahu when he was opposition leader and now director general of the settler leadership organization, the Yesha Council, expressed concern that Mr. Netanyahu will allow the moratorium to lapse but will enact a de facto freeze on building.

The settler council on Wednesday released an open letter to Mr. Netanyahu calling on him to approve building permits before departing for the Washington summit.

Carter seeks U.S. teacher's release in North Korea

By SE YOUNG LEE

SEOUL—Former U.S. President Jimmy Carter arrived in Pyongyang on Wednesday on an apparent mission to secure the release of a U.S. citizen held by North Korea, the second such trip by a former U.S. president since last year.

Mr. Carter was greeted at Pyongyang's Sunan airport by Kim Kye Gwan, North Korea's vice minister of foreign affairs, according to Korean Central News Agency, the nation's official news service. The former U.S. president also met with officials at the Supreme People's Assembly, the nation's parliament.

KCNA released photos showing Mr. Carter at the airport being offered white flowers by a young girl.

KCNA didn't release additional details, and further information was difficult to come by.

Mr. Carter made the trip to seek the release of Aijalon Mahli Gomes, a U.S. citizen from Boston convicted in April of entering the country illegally through China. Mr. Gomes is the fourth American detained for similar offenses over the past year.

U.S. officials declined to comment in detail on Mr. Carter's unofficial visit. "We do not want to jeopardize the prospects for Mr. Gomes to be returned home by discussing any details related to private humanitarian efforts to get him released and back here safely to the United States," said U.S. State Department spokesman P.J. Crowley.

Mr. Carter's visit comes after

months of rising tensions between North Korea and the U.S.-backed South. South Korea has blamed the North for the March sinking of one of its naval ships, the Cheonan, that killed 46 sailors. North Korea has denied the allegations.

Since then, the U.S. and South Korea have held naval drills in nearby waters, while the North has ratcheted up its rhetoric and has filed artillery shells near a contested maritime border.

At the same time, North Korean officials have held talks with the U.S.-led United Nations command group that oversees the armistice between the two Koreas about ways to ease the tension, highlighting the push-and-pull that characterizes North Korea's relations with the U.S.

and South Korea.

Mr. Carter traveled in an unofficial capacity, and it isn't clear who would meet with him and whether he would discuss subjects beyond Mr. Gomes.

Mr. Gomes, an English teacher working in South Korea, was sentenced by Pyongyang in April to eight years of hard labor for crossing into the North illegally and committing an unspecified "hostile act," the Associated Press said.

Although it is unclear why he did it, Mr. Gomes is described by friends as a devout Christian who had attended rallies in Seoul in support of a fellow Christian who crossed into North Korea from China in December to call attention to the North's human-rights record, AP said.



Former U.S. President Jimmy Carter accepts flowers at Pyongyang airport.