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THE IRAQ TRANSITION 10-11

# THE WALL STREET JOURNAL.

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### Fugitive Nadir hands himself in



Getty Images

Asil Nadir, who fled Britain for Cyprus 17 years ago to avoid fraud charges after the collapse of his Polly Peck business empire, returned to London Thursday and gave himself up to police. Mr. Nadir, seen Thursday at his Mayfair home, is to appear at the Old Bailey on Sept. 3. **Article on page 5**

# Rosneft eyes oil refineries in Germany

By GUY CHAZAN

In a coup for the Kremlin, Russian oil major **OAO Rosneft** is close to acquiring stakes in four German refineries, marking one of the largest purchases of assets in Western Europe by a state-controlled Russian energy company.

The deal would have positive implications for **BP PLC**, the U.K. oil major that has been badly hit by the Gulf of Mexico oil spill.

Rosneft is in "advanced negotiations" to buy a 50% stake in **Ruhr Oel GmbH** from the Venezuelan state oil company **Petroleos de Venezuela SA** for between \$1 billion and \$2 billion, according to people familiar with the matter. These people said it could be several weeks before a deal is concluded.

Ruhr Oel is a 50-50 joint venture between **PdVSA** and **BP**. Formed in 1983, it has stakes in several German refineries—**Bayern Oil**, **Gelsen-**

**kirchen**, **MiRO Karlsruhe** and **PCK Schwedt**—which together account for about a quarter of German oil-refining capacity.

The deal would be a boon for **BP**, the embattled U.K. oil major that has a right of first refusal on **PdVSA's** stake. In exchange for waiving that right, **BP** has been offered a lucrative deal by **Rosneft** to explore for oil in the Arctic Ocean, according to people familiar with the matter.

### Warning signs

■ On rig's last day, a divisive change of plan..... 14-15

Such an agreement would be a big vote of confidence in **BP**, whose reputation has been battered by the Gulf of Mexico oil spill. Industry observers have speculated that the **Deepwater Horizon** disaster could deter state-controlled oil companies in Russia, Africa and the Middle East from

wanting to work with **BP**, badly crimping its growth prospects.

**Rosneft** and **BP** already have close ties. The U.K. major bought around \$1 billion worth of **Rosneft** shares when the company listed in London in 2006. The two are partners in a clutch of oil exploration projects off Russia's far eastern island of **Sakhalin**. And in 2006, they signed an agreement to jointly bid for and develop oil and gas fields in the Russian Arctic.

The **Ruhr Oel** deal will build on that arrangement, "taking it to a new level," a person familiar with the matter said. The person said it would relate to a specific area of the Arctic, and might involve **BP** and **Rosneft** being given a license to jointly explore for oil there.

Russia's Arctic seas are thought to contain billions of barrels of oil and gas. But the hurdles to actually producing hydrocarbons in this harsh, *Please turn to page 5*

# Consumer boost cheers Berlin, EU

By EMESE BARTHA

FRANKFURT—Germany's long-dormant domestic demand, a major source of tension between Berlin and its European neighbors, may be strengthening more than many economists have predicted, a German research group said.

A larger-than-expected rise in the monthly consumer confidence index calculated by market research group **GfK** adds to evidence that the country's recent strong economic performance is persuading recession-weary Germans to open their wallets.

"Consumers clearly do not believe the recovery of the German economy to be a flash in the pan, but rather expect it to continue," **GfK** said.

**GfK** said its consumer confidence index edged up to 4.1 points for September, and was also better than previously thought in August, with that month's figure revised up to 4.0 points from 3.9. Economists surveyed by **Dow Jones Newswires** forecast a reading of 4.0 points for September.

"Falling unemployment and the decrease in the use of reduced working hours have probably also contributed to a positive trend in the consumer mood," **GfK** said.

The news follows word on Wednesday that German business confidence rose in August to its highest level since the middle of 2007. Unemployment, meanwhile, has fallen for 13 consecutive months to its lowest level since mid-2007.

The German economy grew 9% on an annualized basis in the second quarter, its fastest pace in decades. The **Bundesbank** subsequently raised its forecast for GDP growth for the year as a whole to 3.0%.

Taken together, the surveys and economic data offer hope that Germany's rebound will become self-sustaining and lift the growth prospects of other countries in Europe. Germany, which accounts for about 30% of the euro-zone economy, came under fire during Greece's credit crisis for not doing more to correct the economic imbalances in Europe by stoking demand at home with measures that would encourage Germans to spend.

German labor, set to push

for a bigger share of in the country's recent economic gains, could also trigger a boost in consumer spending. German steelworkers are the first major labor group to begin collective wage bargaining talks since the scale of the economic rebound became clear. They plan Friday to demand a pay increase of between 4.5% and 8%, a spokesman for the union **IG Metall** said.

The steelworkers' talks are expected to be the first of a wave of pay demands broadening into other sectors.

Last year, the union settled for a 2% increase, after a 5.2% increase in 2008 just before the financial crisis struck.

**GfK** cautioned that

cuts and the expiration of some stimulus programs could damp consumers' mood in coming months. Yet many economists say the economy may have already gathered enough momentum to withstand those headwinds.

"If Germans were able to spend in a period of uncertainty and fear, why shouldn't they continue in the second half of the year?" said **Carsten Brzeski**, economist at **ING Financial Markets**.

"The improvement of the labor market and particularly the increase in employment bode well for a further pick-up in private consumption in the second half of the year," **Mr. Brzeski** said.

■ A nation facing a long-term skills shortage..... 5

### The Quirk



Don't hold your breath, kabaddi is planning to go global. **Page 29**

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## PAGE TWO

# If Sweden is worried about a recovery in the U.S., so should the rest of us

## [ Agenda ]

By TERENCE ROTH



A tense week in world financial markets now rolls up to two scheduled events with the potential to turn the latest bout of risk aversion into a rout.

The first will be Friday's news of a possible revision of U.S. second-quarter output, with a cut in the preliminary reading of 2.4% growth seen by some as a very real possibility. Then Federal Reserve Chairman Ben Bernanke will speak at an economic symposium at Jackson Hole. In their sum, the outcomes likely will frame market analysis and policy debate for the weeks ahead.

On Aug. 10 the Fed decided the U.S. economy needed another nudge and moved to reinvest expiring mortgage-backed securities into U.S. Treasury bills, a sign that the Fed was concerned about a soft jobs market and low inflation. That eye-opener was followed in the interim by still more signs of a deteriorating recovery.

Does the state of the U.S. economic recovery still really matter that much for the rest of the world? Sweden's Riksbank thinks so. And if the central bank of the country enjoying a near 4% economic growth rate and Europe's soundest government finances is worried, so should be the rest of us.

Svante Oberg, a Riksbank deputy governor, noted in a speech after the Fed's August decision that the U.S. economy was weakening and highlighted the significance of the U.S. central bank's postponing its exit from monetary stimulus, a process that already has begun in parts of Europe. Mr. Oberg introduced slowing U.S. and Asian trends as a



Investors on the New York Stock Exchange will be watching events closely.

caveat to the Riksbank's own economic outlook.

News of a fall in the number of U.S. workers claiming jobless benefits last week was offset by another rise in the longer-term

**That eye-opener was followed in the interim by still more signs of a deteriorating recovery.**

average. That explains falling home sales and slowing growth in purchases of durable goods. U.S. businesses remain retrenched on hiring.

After seesawing between hope and doomsday theories, markets animated mostly by foreboding will watch Washington and Jackson Hole for their next heading.

### Stress in Athens

Greece's long-suffering treasury just isn't getting any relief; nor is speculation that the

country will be forced to restructure its debt unless market sentiment turns around. The reason is that treasury officials in Athens hadn't reckoned on having to pay breathtaking interest on Greek government debt.

After the EU and IMF bailout for a Greek government faced with insolvency in May, the government agreed to painful cost-cutting plans and promised good behavior. Surely, they thought, the combined rescue and fiscal overhaul would be rewarded in capital markets with lower premiums demanded for its debt.

To a certain, but hardly celebrated, extent this did in fact happen. The interest that the Greek government has to pay on its 10-year government bonds over what Germany has to pay for equivalent debt slipped from an asphyxiating nine percentage points to a high, but endurable, 4.6.

That was just about the level that Greek officials deemed affordable. Anything more was unsustainable over time and risked forcing the government to

endure the unendurable and open talks to restructure its sovereign debt, an event that would shake Europe's banking system, the euro and even the integrity of the euro zone itself.

All those fears were revived again in the latest dose of global risk aversion. Greek news of a deepening recession and speculation of missed tax targets have brought it all back.

Greece's spreads by this week had blown back out to more than nine percentage points over their German counterparts, bringing the total yield on Greek bonds to 11.6%. The cost of insuring Greek debt against default also has shot up to crisis levels.

It's a bad time for Greek officials, who are frustrated that they haven't been able to secure market confidence in its determination to reform and regain solvency. As demanded by the IMF and the EU, fiscal cuts have dutifully hauled down its deficit enough to earn the second installment of its €110 billion (\$140 billion) rescue package.

Yet the Greek government bond market is near-dead, with precious few buying in and those who have left staying out. The short-date treasury bills Greece is selling are small in volume and high in price to the public purse.

What's going to snap the spell? Greece would welcome suggestions, knowing the likely outcome of slipping deeper into a hole carrying unaffordable debt services costs. Greece's creditors see that too and worry how deeply a restructuring will carve into their holdings.

The European Commission's economics and monetary czar, Olli Rehn argued in a letter to this newspaper this week that Greece needs to press ahead with reforms that will open "huge potential" for economic growth in the future.

Down in the Greek treasury they'll be wondering if they can hold out that long.

## What's News

■ **Lawyers for the U.S. SEC** received court approval to continue a freeze on \$1.1 million in assets held by an employee of Banco Santander and another Madrid man who are suspects in an insider-trading case. 17

■ **Russia's Medvedev** ordered the government to suspend the clearing of a forest on the edge of Moscow for construction of a toll road, a rare nod to critics who have long fought the project. 4

■ **Dell raised its bid** for data-storage company 3PAR to about \$1.53 billion in cash, slightly higher than an offer from H-P earlier this week. 19

■ **Nestlé plans to train** thousands of farmers and provide them with new trees in a push to increase the quantity and quality of its coffee. 17

■ **Jacques Chirac** is negotiating an out-of-court settlement with the city of Paris, in a bid to avoid the civil part of a trial due soon. 4

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## ONLINE TODAY

### Most read in Europe



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### The Source

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'Egypt needs to act quickly and develop new energy sources, if the country's lights are to stay on.'

**Tim Falconer** on why Egypt's wind ambitions could help electricity needs



### Continuing coverage



**On Wine:** Get incisive criticism and advice on the global world of wine at [blogs.wsj.com/wine](http://blogs.wsj.com/wine)

### Question of the day

**Vote and discuss:** Which currency do you think is a safer haven—euro, yen, U.S. dollar or Swiss franc?

Vote online at [wsj.com/polls](http://wsj.com/polls), and get an inside look at [wsj.com/marketbeat](http://wsj.com/marketbeat)

### Previous results

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32%

No

68%

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## NEWS

# Airship industry prepares for liftoff

BY DAVID PEARSON

CARDINGTON, England—Say the word “airship” to most people and it conjures up pictures of huge, lumbering, cigar-shaped aircraft that had a tendency to crash.

But that negative image is about to change, thanks to new technology and the U.S. troop drawdown in Afghanistan.

The turning point has been the U.S. Army’s award earlier this year of a contract to **Northrop Grumman Corp.** to design and build up to three football field-sized airships that will sit high over Afghanistan, watching everything that moves over hundreds of square miles with an unblinking stare.

The military already use unmanned aerial vehicles for surveillance, intelligence and combat operations. However, the unmanned long endurance multi-intelligence vehicle, or LEMV, will patrol for three weeks at a time, sending a constant stream of data to operators below, at a fraction of the operating cost and with a much larger payload than UAVs in service today.

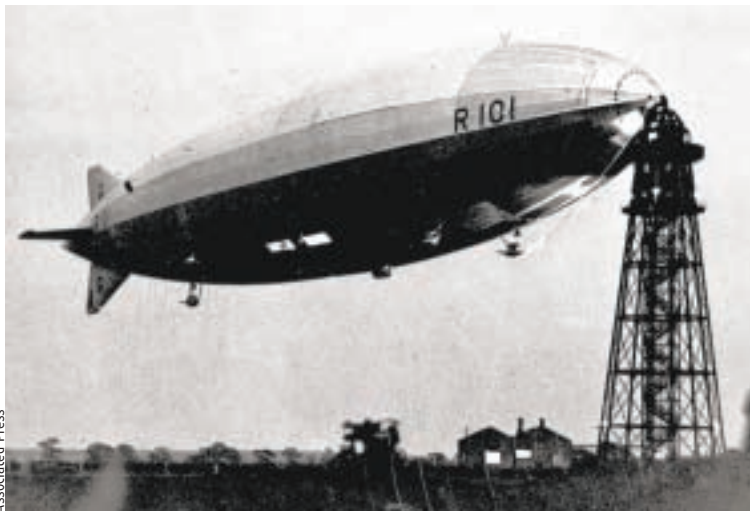
The Army’s sudden interest in technology which it pioneered in its basic form as the spotter balloon is, in part, related to the need to step up surveillance and intelligence to compensate to some degree for the reduction in troop numbers. “We’re exchanging technology for people,” said Alan Metzger, head of the LEMV program.

The \$517 million that the Pentagon is spending on the LEMV surveillance airship prototype, two follow-up planes and support over 18 months is the largest sum of money spent on airship technology in decades, and is acting as a pump primer for a new type of airship technology. Northrop will supply the sophisticated on-board surveillance systems, while it has selected **Hybrid Air Vehicles Ltd**, a tiny English company whose team has decades of experience in airship technology, to build the craft. HAV was chosen because it has developed new hybrid technology that gets over the problems that have thwarted the widespread use of airships up to now.

Airship industry enthusiasts—the more extreme are referred to as “helium heads”—say the contract is the breakthrough they’ve been waiting for. “What’s been lacking is the money,” said Trevor Hunt, a long-time airship pilot and consultant. “Like everything in aeronautics, building a prototype is hugely expensive, and no one has been willing to come forward. We haven’t found a Count Ferdinand von Zeppelin who’s going to say, ‘Great, let’s go for it.’”

Von Zeppelin was the father of Germany’s airship industry before World War I and the company he founded later built the ill-fated *Hindenburg*, the world’s biggest airship, that crashed in 1937 in a giant fireball at Lakehurst, New Jersey.

Coming after a string of airship crashes in the 1930s—including the British R101, built in the huge hangars at the Cardington, Bedfordshire, base from which HAV operates—the *Hindenburg* disaster left airships with a toxic reputation the industry has tried to shake off ever since. The replacement of highly flammable hydrogen, which inflated airships such as the *Hindenburg*, with helium, an inert gas, has eliminated the fire risk. But airship technology has never really caught the imagination of an aerospace industry that’s



An artist's impression of how one of the U.S. Army's long endurance multi-intelligence vehicles will look when in service, above, and the scale of how a hybrid air vehicle with a 200-ton payload capacity would appear alongside other aircraft, below. Hybrid Air Vehicles, a tiny English company, will build the craft, which will be a far cry from the R-101s of the 1930s, left.

**‘We’re exchanging technology for people.’**  
— Alan Metzger, head of the LEMV program.



been more focused on flying machines that are less unwieldy and can carry heavy loads of people and cargo quickly over long distances. Such are the negative connotations the words “airship” or “blimp,” have carried over the decades that officials at HAV wince when they hear them.

“The problem with airships is that they float and fly beautifully, but they’re really terrible on the ground,” says HAV’s head of sales and marketing Gordon Taylor. Being lighter than air, they want to head off into space after they’ve completed a long journey, burnt off most of their fuel and unloaded passengers or cargo. They require sig-

nificant ground handling infrastructure, including a strong-armed and well-trained ground crew to hold on to ropes. And often, to get down on the ground and stay there they need to vent expensive helium.

The system used for HAV’s planned hybrid SkyCats—the name comes from “sky catamaran”—is heavier than air, getting only 60% of its lift from the helium inside the envelope. The remaining upward thrust comes from its aerodynamic shape; the LEMV looks like two airships squashed together—although civilian SkyCats will use tri-lobe hulls—with a flat surface underneath that provides lift when it’s moving forward, unlike a traditional

circular hull section. Four diesel-powered vectored thrusters that swivel are used to propel the craft, raise it up or push it down on the ground. And a fourth technology, a hovercraft-type skirt, can be used to suck the craft on to the ground and keep it immobile while loading and unloading, or keep it off the ground during a short, rather than vertical, take-off over land or water.

While surveillance may be the most concrete application up to now for a new breed of airships, HAV sees the LEMV contract as a stepping stone to leverage its technology into civilian applications, especially transporting heavy cargo point-to-point in areas that are dif-

ficult to access by road, rail or air. A SkyCat will be able to land virtually by itself and needs no elaborate infrastructure and only two or three people on the ground. A LEMV-sized vehicle would be capable of lifting 20 tons, but it would be relatively easy—and the operating economics improve with size—to scale up to 200 tons, or 10 times the payload of a C130J Hercules military airlifter.

Mr. Taylor says it’s not being a helium head to think of the day when a convoy of several SkyCats—only the lead one would be manned—might carry freight between central China and central Europe in a trip that would take only four days. A 20-ton SkyCat 20 could cruise at about 90 miles per hour, a bigger SkyCat 200 with a 200-ton payload capacity at 110mph. Potential civilian applications could include carrying 55-meter wind turbine blades that can’t be transported by road or rail, supplying heavy equipment to oil drilling operations in inhospitable areas, and providing assistance to populations where infrastructure is either non-existent or has been destroyed.

HAV chief executive Gary Elliott says the chance to build a full-sized aircraft is a massive boost both in terms of publicity and legitimizing its technology for his three-year-old company. Privately-owned HAV had just 20 employees in the spring but is now in a massive hiring mode.

Since the LEMV contract was announced, HAV is being showered with expressions of interest from potential investors, and Mr. Elliott doesn’t exclude going public. “One option for us is to list on the AIM,” he says, referring to the London Stock Exchange’s market for small, growing companies that need access to growth capital.

With virtually no interest in investing in airships on the civil aviation side, the U.S. military order may be the catalyst that kick-starts the slumbering industry. “There aren’t many individuals or private institutions willing to do that, so the obvious place to look was the defense market,” says Mr. Elliott.

“We’re in discussions with HAV about a long-term relationship,” Northrop’s Mr. Metzger says.

Mr. Taylor says the firm hopes to ink another contract by year-end with a risk-sharing customer, and sees potential orders for several aircraft from lessors or end-users.

But Tom Crouch, senior curator of the National Air and Space Museum in Washington D.C. and an authority on lighter-than-air flight, remains skeptical. “There have always been great problems landing and taking off, ballasting and dealing with bad weather,” he says. “Modern materials might help a bit, but some difficulties will remain.”

Carrying heavy loads also means airships can’t fly very high and are, therefore, affected by the weather. “However, flying passengers is another matter,” Mr. Crouch says, adding that he can envision a time when a small fleet of large airships on the scale of the *Hindenburg*—800 feet long with sleeping cabins and a dining room—might be carrying passengers across the Atlantic in a throwback to the 1930s.

“The reason airships fascinated everyone was because they were so large and flew slow and low, making a huge impression when they appeared in the sky,” Mr. Crouch says. “The attraction would be to people who could say, ‘I flew the Atlantic and survived.’”

## EUROPE NEWS

# Medvedev suspends clearing of forest to build a toll road

BY RICHARD BOUDREAU

MOSCOW—Russian President Dmitry Medvedev ordered the government Thursday to suspend the clearing of a centuries-old oak forest on the edge of Moscow for construction of a toll road, a rare nod to grass-roots critics who have fought the project for years.

The issue had gained prominence as a test of the government's responsiveness to civic protest. But Mr. Medvedev's decision, rather than scrapping the project, called for "extra public and expert discussions" of its advantages and drawbacks.

"It would be right to dot all the i's," he said, speaking on his video blog against a background of foliage. He said his decision was spurred by the "high public resonance" surrounding the issue but added: "I'm not prejudging the results."

Opposition to the route of the 10-lane toll road arose three years ago. It gathered steam in recent months as loggers began cutting a path through the 2,500-acre Khimki forest, prompting clashes between police and protesters keeping round-the-clock vigil there.

A protest concert in Moscow on Sunday drew at least 2,000 people. They included Russian rock stars and leaders of opposition parties and human-rights groups whose own rallies rarely get so big and are routinely broken up by the police.

In what appeared to be a choreographed appeal, the ruling United Russia party asked Mr. Medvedev on Thursday to stop the forest clearing until the highway plan can be reassessed. The statement gave the president political cover for his announcement later in the day.

"This is a reaction to the fact that Russian civil society had weighty words to say," said Igor



Russian police officers detain an environmental activist during protests near the town of Khimki in August.

Chestin, head of the World Wildlife Fund-Russia. He added that the forest could recover from the damage inflicted this summer while authorities reconsider its fate. "While there is no cutting, it's possible to have a normal conversation."

The planned toll road would relieve pressure on the Moscow-St. Petersburg highway and create a faster route to Moscow's Sheremetyevo Airport. Environmentalists say the clearing would remove about 15% of the forest, fragmenting it into pieces, and create large tracts for commercial development.

Protests against the project challenged powerful officials in the Moscow region, which surrounds the capital but does not include it. The editor of a newspaper in the town of Khimki who reported on the

issue was severely beaten in 2008 and left crippled.

Last year Prime Minister Vladimir Putin issued a decree canceling the forest's status as a publicly protected green space. In March, the Supreme Court rejected a citizens' appeal to overturn the decree.

Nikolai Petrov, a political analyst at the Moscow Carnegie Center, said the Kremlin must now decide whether to resume clearing the forest or accept an alternate route for the toll road offered by Moscow Mayor Yuri Luzhkov.

Commercial interests weighing on the Kremlin favor the forest route, he said, but the alternate route could draw tens of millions of dollars in financing that was withdrawn from the project by European

banks in response to protests against the cutting down of the forest.

"Both options are on the table," Mr. Petrov said. "The Kremlin could change the route. Or it could wait until this wave of social protests dies down and come back with the same route."

Environmental groups have had some success at changing the Kremlin's mind. As president, Mr. Putin in 2006 ordered a multibillion-dollar oil pipeline rerouted far from Siberia's Lake Baikal after months of appeals from environmentalists who warned that the original route was too close to the water.

The decision also benefited oil companies in the region by bringing the new pipeline closer to their fields.

## Chapman accused of copyright violation

BY RICHARD BOUDREAU  
AND GREGORY L. WHITE

MOSCOW—A celebrity magazine accused deported Russian spy Anna Chapman of copyright violation after she posed for a photo spread and then posted one of the shots on Facebook more than a week ahead of the spread's scheduled publication.

The photo, showing the red-haired femme fatale in a low-cut white dress seated by a window overlooking the Kremlin, marks her return from two months' seclusion following her arrest and the much-publicized U.S.-Russia spy swap. The photo, posted earlier this week, drew rave reviews from her Facebook friends and circulated widely before the flap with its owner, Zhara (Russian for Heat) magazine.

On Thursday she took down the photo without explanation and posted a new profile picture on her Facebook page—in a high-necked white dress. That photo wasn't part of the magazine spread that is due to be published Wednesday.

Zhara's editor in chief, Maxim Korshunov, said its legal complaint against Ms. Chapman was proceeding because the photo was all over the Internet. Ms. Chapman didn't respond to a request to comment, and her American lawyer, Robert Baum, said he knew nothing about the photo arrangement.

Russia's spymasters have kept the 10 agents out of public view since their deportation from the U.S. in July. But Ms. Chapman is widely expected to capitalize on her celebrity.

Mr. Korshunov said Ms. Chapman had agreed to "an exclusive interview and an exclusive photo shoot," but said she was paid nothing for the mid-July session that produced about 200 photos.

"There were no financial obligations to her," he said. "We weren't expecting to pay her anything and I got the sense she wasn't expecting anything from us." The magazine has a circulation of about 150,000.

In the end, Ms. Chapman didn't give an interview. The editor said she told him, without elaboration, that Russia's Foreign Intelligence Service was against it. An agent for the service accompanied Ms. Chapman and waited in the hotel lobby during the shoot, the editor said.



Associated Press

Anna Chapman in an undated photo

# Chirac, Paris discuss settlement

BY DAVID GAUTHIER-VILLARS

PARIS—Former President Jacques Chirac is negotiating an out-of-court settlement with the city of Paris, in an attempt to avoid the civil part of a trial due in the next few months, according to Mr. Chirac's lawyer and the city.

Investigating magistrate Xavière Simeoni last year ordered Mr. Chirac to stand trial on criminal charges of embezzlement relating to his time as mayor of Paris from 1977 to 1995. She alleged Mr. Chirac paid 21 aides using city funds, even though the aides were working on projects not useful to the city.

In parallel, the city of Paris has filed a civil complaint to recover €2.2 million (\$2.8 million)—the estimated amount spent to remunerate the 21 aides plus legal and other fees. The criminal and civil proceedings were merged into a single case.

The trial risks tarnishing the reputation of President Nicolas Sarkozy's ruling party, the Union pour un Mouvement Populaire. While the case of Mr. Chirac, a founding member of the UMP, con-

cerns the alleged misuse of public money, UMP members have recently been accused of obtaining campaign funds by improper means.

In particular, a French prosecutor in July launched a preliminary probe into allegations that cash belonging to Liliane Bettencourt, heiress to the founder of French cosmetics group L'Oréal SA, was

**Prosecutors recommended that charges against the former president be dropped, saying there was no evidence he deliberately attempted to circumvent regulations.**

illegally given to the UMP. The funds were said to have been used to help Mr. Sarkozy's victorious 2007 presidential election campaign. Mr. Sarkozy and other UMP members have denied taking any illegal campaign funds.

Mr. Chirac's lawyer Jean Veil

said Thursday that his client denied the criminal charges and that all the aides had done jobs that were useful to the city. He added, however, that Mr. Chirac "wishes that the city of Paris be reimbursed, purely and simply, for the contested amounts."

Paris City Hall spokeswoman Stéphanie Véron said the city would withdraw its civil complaint if it recovers the €2.2 million.

Mr. Chirac would still face trial on charges of embezzlement, which can carry a prison sentence of up to 10 years and a fine of up to €150,000. But in court, he will have an important ally: public prosecutors. They have recommended that charges against the former president be dropped, saying there was no evidence that Mr. Chirac deliberately attempted to circumvent regulations.

The investigation began in the late 1990s. Mr. Chirac was put under formal investigation only three years ago because he benefited from judicial immunity while he was president, from 1995-2007.

During the probe, investigators looked into the activities of more

than 400 aides of Mr. Chirac when he was mayor, according to people familiar with the matter. Among the cases investigators looked at, these people said, were payments by the city for a union leader's bodyguard.

City Hall spokeswoman Ms. Véron said that under terms of a draft settlement, Mr. Chirac would pay €550,000. The UMP would pay the balance of €1.65 million, she said.

Mr. Veil, Mr. Chirac's lawyer, declined to comment on the amount that the former president might pay out of his own pocket and on the possible involvement of the UMP.

UMP spokesman Dominique Paillé said that "as of today," the party wasn't involved in any talks or negotiations with Mr. Chirac and the city of Paris.

In July, French satirical weekly *Le Canard Enchaîné* reported that Mr. Sarkozy had told Mr. Chirac the UMP was ready to help him reimburse the city of Paris. A spokesman for Mr. Sarkozy referred calls on the matter to the UMP.

A Paris court has scheduled an Oct. 1 hearing to set a date for Mr. Chirac's trial.

## EUROPE NEWS

# Germany lacks skilled labor

By VANESSA FUHRMANS

BERLIN—The surprising strength of Germany's economic rebound is exacerbating an already worrying problem for legions of its companies: a dearth of skilled workers.

Industrialists and economists long have warned of a looming shortage of skilled German labor, a consequence of the country's declining birth rate and an exodus in recent years of engineers and other highly trained workers, to around the European Union, the U.S. and elsewhere. But the rapid recovery of Germany's export-fueled economy in recent months has suddenly brought the problem home for many domestic companies, which fret that the shortage could restrain their ability to respond to the nascent rebound.

Though German unemployment still hovers around 7.6%, about 70% of German companies report they are having trouble finding enough master craftsmen, technicians and other skilled labor, according to a survey released this week by the DIHK Association of German Chambers of Industry and Commerce. Companies haven't been able to fill some 36,000 engineering jobs open across the country, the Association of German engineers reports.

Bitkom, Germany's largest information-technology industry association, says the same goes for 43,000 IT posts.

"And this is happening just barely out of the severe recession of 2009," said Hans Heinrich Driftmann, DIHK's president. "As the economy improves and companies need to hire more people, it's only going to get more severe."

For now, Germany's marquee corporations, such as **Siemens AG** and **BMW AG**, have enough skilled job applicants, thanks to aggressive recruiting and generous training programs. But many of the country's Mittelstand, the thousands of small to midsize companies that are the backbone of its export-led economy and provider of 70% of German jobs, are struggling to find needed employees as demand picks up.

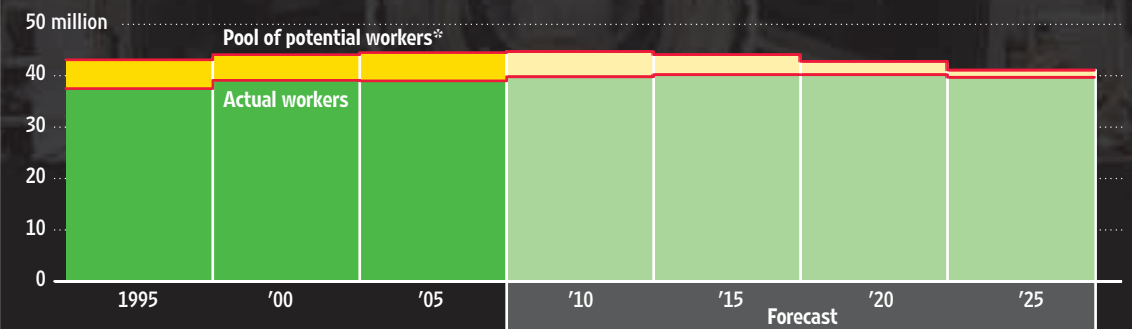
One is **DELO Industrie Klebstoffe GmbH**, a Bavarian maker of industrial adhesives. With €30 million (\$38 million) in sales and 230 employees, the family-owned firm is looking to hire 60 more highly skilled workers this year as orders from the electronics, auto and other industries take off. But so far, filling the posts has been difficult.

"We're troubled most of all by the search for technicians and engineers," said DELO Executive Director Sabine Herold. Located near Munich, the company says it is tough to compete for skilled job candi-

**Looming shortage** | Germany's work force is shrinking, and with it, its pool of highly skilled workers.



A German factory worker assembles a component for gas turbine propellers.



\*Comprises the entire work force, ages 20 to 65, who are either looking for work or have jobs already  
Sources: German Federal statistics office; Institute for Job Market and Vocational Research Photo: Bloomberg News

dates with better-known companies in the area, so Ms. Herold has been trying to forge closer ties to universities and vocational-training institutes, and sponsoring business programs at local high schools.

"If we're going to expand further, we need smart people right away," Ms. Herold said. "But a lot of school graduates don't know us."

Behind the growing shortage is a combination of demographic trouble spots. Like in many European countries, Germany's declining birth rate—at 1.38 children born per woman on average in 2009—isn't enough to keep its population stable. And since 2008, more people have been leaving Germany than immigrating to it. That tendency is particularly strong among those with university or vocational training degrees. Last year, some 27,500 post-secondary-school graduates came to Germany from other European countries, for example, while 32,000 left for elsewhere in the European Union.

Economists estimate the skilled worker shortage is resulting in annual economic loss of between €15 billion and €20 billion, and with that, more potential jobs. "If there isn't enough skilled labor, then there

can't be more production," said Klaus Zimmermann, president of the DIW German Institute for Economic Research.

Major companies are acting to counter the trend longer term. **BMW** and **Siemens**, for example, have expanded in recent years programs that train apprentices in specialized technical fields as they pursue post-secondary degrees at universities or technical colleges, thereby compressing the training time before they can fully join the work force.

"They don't have any difficulties getting hired. They're in great demand," said Günther Hohlweg, head of Siemens's training programs, who adds that 90% remain with Siemens.

Others are using older workers. German auto-supplier giant **Robert Bosch GmbH** maintains a reserve of several hundred semiretired skilled employees between ages 60 and 75 that it taps when it has to ramp up production and can't find enough qualified labor on short notice.

**Daimler AG**, which manufactures Mercedes-Benz cars, anticipates that within 10 years half of its workers will be older than 50 years, compared with 25% now. To accommodate them, it has introduced more flexible shift rotations and installed

strength-training equipment near plant assembly lines. According to this month's DIHK survey, 21% of the 1,600 companies polled said they would take steps to draw more older workers.

As Germany's economy has gathered strength in recent months, the skilled worker shortage has reignited a debate about its immigration policies, a new source of tension within Germany's center-right governing coalition.

This month, the country's economics minister, Rainer Brüderle, proposed introducing cash "welcome" payments to lure more skilled foreign workers to Germany, as well as lowering the minimum income level it requires for skilled workers to be eligible for extended immigrant status. The current annual income level is €66,000, which many economists and companies say is too high.

The proposals were quickly rejected by labor leaders, as well as a spokesman for Chancellor Angela Merkel, who said the government just introduced immigration policies in January 2009 aimed at making it easier for foreigners trained in Germany to find work there, and their effect had yet to be felt.

## Fugitive tycoon returns to Britain

Associated Press

LONDON—A tycoon who fled Britain almost two decades ago following the collapse of his business empire returned to London on Thursday to face charges of fraud.

Asil Nadir's chartered jet touched down at London's Luton Airport at about 1:30 p.m. local time Thursday. It was the first step in the Turkish-Cypriot businessman's attempt to turn the page on a 1980s boom-and-bust story that tarnished the reputation of the ruling Conservative Party—to which he was a major donor—and made him a fugitive from British justice for 17 years.

Speaking earlier from the plane in Turkey, where he was stopping on his way to London, Mr. Nadir told Sky News television that he wanted to "go back and hopefully get a closure to this sad affair."

Mr. Nadir, 69 years old, never faced the prospect of being taken back to Britain by force: The self-proclaimed Turkish Republic of Northern Cyprus isn't recognized by Britain and has no extradition treaty with the U.K. Britain's Serious Fraud Office said it had worked out bail conditions with Mr. Nadir's lawyers—including a £250,000 (about \$386,000) surety, a ban on travel and the requirement that he hand over his passport.

Asked why he was giving up a comfortable life in northern Cyprus with his 26-year-old wife to face trial, Mr. Nadir told Sky that he was eager to see justice done.

"My innocence is sufficient security for me," he said. Mr. Nadir, the son of a wealthy Cypriot, came to England in the 1960s. In 1980, he took control of the ailing British textile company Polly Peck and used it as his stock-market vehicle for expansion.

Mr. Nadir became one of Britain's richest people in the process, although his fortune crumpled when his company's stock collapsed after investigators began probing irregularities in Nadir family trusts.

Mr. Nadir denied charges he had stolen from his company. His company still filed for bankruptcy protection in late 1990. Mr. Nadir fled the country in May of 1993, four months before he was scheduled to face trial.

Mr. Nadir is scheduled to appear at London's Central Criminal Court on Sept. 3 for an initial hearing.



Rosneft workers at a Russian facility.

## Rosneft eyes refinery stakes

Continued from first page  
remote environment are huge. The most advanced project—the vast Shtokman gas field in the Barents Sea, which OAO Gazprom is developing with **Statoil ASA** of Norway and France's **Total SA**—has faced repeated delays. Also, BP and Rosneft have had little success in their exploration campaign off Sakhalin.

Russian oil companies have long been on a mission to expand beyond Russia's borders, showing particular interest in refineries in Western Europe, many of which are heavily dependent on Russian crude. OAO Lu-

koil, one of Russia's largest oil producers, has been more successful than its peers, buying a stake in a Dutch refinery from Total last year and a stake in Italian refiner **ERG's** Isab di Priolo refinery in 2008.

TNK-BP, BP's 50-50 Russian joint venture, eyed Ruhr Oel in 2003, but at the time BP opposed the deal.

The 50% stake was originally thought to be worth at least \$2 billion. But low profit margins, overcapacity in the industry and falling demand for petroleum products in Europe have severely depressed refinery valuations.

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## U.S. NEWS

## The disabled in the labor force

Some metrics for disabled and nondisabled workers; annual averages for 2009

	NONDISABLED	DISABLED
Population	208.8 million	27 million
Employed	134.7 million	5.2million

## Unemployment rate

	NONDISABLED	DISABLED
Total	9.0%	14.5%
Men	10.1	15.1
Women	7.8	13.8

## By educational attainment

Less than a high school diploma	14.4%	18.7%
High school graduates, no college	9.5	13.4
Some college or associate degree	7.7	13.5
Bachelor's degree and higher	4.5	8.3

Photo: Matt Nager for The Wall Street Journal  
Source: Labor Department



John Grant, who has hearing loss, has been unemployed since last summer. Mr. Grant says potential employers often refuse to interview him using a system that helps him follow the conversation.

# Disabled workers face higher rate of joblessness

BY SARA MURRAY

The government's first detailed look at disabled workers' employment shows they are far more likely than the overall work force to be older, working part-time or jobless.

The average unemployment rate for disabled workers was 14.5% last year, the Labor Department said, well above the 9% rate for those without disabilities. By the Labor Department's count, there were roughly 27 million Americans 16 years or older with a disability last year.

The employment situation doesn't appear to have improved this year: The unemployment rate for those with disabilities had risen to 16.4% as of July.

This is the first time the government has looked closely at the employment situations of such workers. The study, for instance, found those with disabilities were three times as likely as those without to be 65 or older. Nearly a third of workers with disabilities worked only part-time, compared with about a fifth of those without disabilities.

Disabled workers with more education were more likely to be employed than those with less—a characteristic they share with the larger work force. But at all levels of educa-

tion, people with disabilities had higher unemployment rates. The jobless rate for workers with disabilities who had at least a bachelor's degree was 8.3%—higher than the 4.5% rate for college-educated workers without disabilities.

Kathy Martinez, assistant secretary for the Labor Department's office of disability employment policy, says some employers are hesitant to hire disabled workers because they fear added costs to provide special accommodations or additional training. In some cases this could be considered discrimination, which is ille-

## The number of people receiving disability benefits jumped sharply during the recession.

gal. "The biggest barrier for us is attitude and fear—the misconception of what hiring people with a disability might mean," she said.

John Grant, 50 years old, has had a difficult time finding work as a computer programmer since his contract at a vocational and technical school in Oklahoma City wasn't renewed last summer. Mr. Grant, who has had hearing loss since birth, said interviews in the corporate world have been "ruthless." If a company calls to speak with Mr. Grant and he is having difficulty hearing, he asks if he can call them back using a third-party transcription service. The service provides real-time captions of what the caller is saying so Mr. Grant can more easily follow the conversation. Often, Mr. Grant says, employers simply say no and hang up.

Mr. Grant has relocated to Dallas, where he is applying for jobs and taking classes to update his skills. He said he had more success with interviews for government and university jobs, though he still hasn't found a position.

Some 15.8% of people with disabilities worked for the government last year, compared with 15.2% of those without disabilities. Disabled workers were also more likely to be self-employed, according to the report.

That the overall jobless rates tend to be higher among workers with disabilities is partly a symptom of the recession and partly the result of a system that places income support—such as disability benefits—over employment assistance, said Andrew Houtenville, an economist and the research director of the Institute on Disability at the University of New Hampshire.

"We have really low expectations for the population with disabilities as a system," said Mr. Houtenville. "We want to provide people with financial support...but we have to do a better job providing employment services in a very timely fashion."

The number of people receiving disability benefits jumped sharply during the recession. The number, which includes disabled workers and their eligible spouses and children, reached nearly 10 million in August, according to the Social Security Administration, up 14% from the same month in 2007, before the recession.

Some workers who have considered applying for disability say they have found few other options in a tough job market.

Nicholas Kasper, 37, suffered a back injury that prohibits him from standing for longer than roughly 20 minutes at a time, ruling out jobs in his former fields of construction and communications-equipment installation. His position as a contract engineer, a desk job, came to an end in August of 2008. The Newton, Kan., resident hasn't been able to find work since 2008.

Both the state program and employment service center he has worked with have encouraged him to apply for disability. But "I want to be a taxpaying American," he said. "I want to be able to have a job."

## Primary colors: bright red, neon blue, no shades of gray

## [ Capital Journal ]

By GERALD F. SEIB



Ask people from both parties why Washington is so polarized—why it's so hard to find common ground on tough issues—and you often will get the same one-word answer. Primaries.

What that means is simply this: It's become increasingly dangerous for lawmakers of either party to compromise with the other side on a big issue, because politicians who do so increasingly face harsh, well-funded challenges from the ideological wings of their own parties in primary elections. It's easier just to toe the party line and avoid that kind of internal battle.

If anyone needed proof of this dynamic, 2010 is providing it.

A couple of graphic new examples arose in Tuesday's primary elections. Alaska Republican Sen. Lisa Murkowski may well have lost her job in the voting, not to a Democratic foe but to little-known Joe Miller, who challenged her from the conservative right of her own party. The race is so tight that the verdict won't be known until absentee and challenged ballots are counted, but Sen. Murkowski trails.

If Sen. Murkowski loses, she will be the third sitting senator to lose to a primary challenger this year. It's been three decades since more than a single senator lost in a primary in the same year, according to nonpartisan congressional analyst Rhodes Cook. If you think politicians don't notice that sort of thing, you don't know many politicians.

This dynamic isn't felt just in the Senate, or among Republicans, or among losers.

On the same night Sen. Murkowski saw her political life pass before her eyes, so did Rep. Allen Boyd of Florida, a centrist Democrat. He spent more than \$2 million to save his seat in a primary election and then barely beat state senator Al Lawson. Mr. Lawson came after Rep. Boyd from the left, criticizing the congressman for vacillating in his support for this year's big health overhaul and promising "progressive solutions."

In addition to the Senate casualties so far this year, four House incumbents have fallen to primary challenges. Not a large number, obviously, but that's already more than have fallen in primaries in five of the last eight elections, and primary season isn't over yet.

More than that, Mr. Cook says, an unusually large number of incumbents from both parties have survived close calls this year. He identifies more than a dozen, with the number still rising, who have won primaries with less than 60% of the vote.

There's nothing wrong with vigorously contested elections, of course; that's what democracy is about. The difficulty arises when those races are translated into



Murkowski, challenged from the right.

governing.

These days, primary fights almost always push lawmakers toward the ideological edges of the spectrum, not toward the middle. Few lawmakers are challenged from within their own parties for being too ideologically true; it's almost always for not being true enough. "There's an ideological purity exam going on, and it's called the primary, in both parties," says Kenneth Duberstein, who was White House chief of staff for President Ronald Reagan. "And there's a cleansing unless you are doctrinaire. If you compromise, you are targeted."

Thus, Republican Rep. Bob Inglis of South Carolina went down in a primary earlier this summer to a foe who charged he was too willing to compromise on his conservative beliefs.

That effect is even more pronounced now because of the computer-aided art of drawing congressional districts that group together like-minded voters, to keep incumbents safe from challenges from the other party. Many members come from districts so heavily populated with voters from their own party that they have to worry more about a challenge from within than a challenge from the other side.

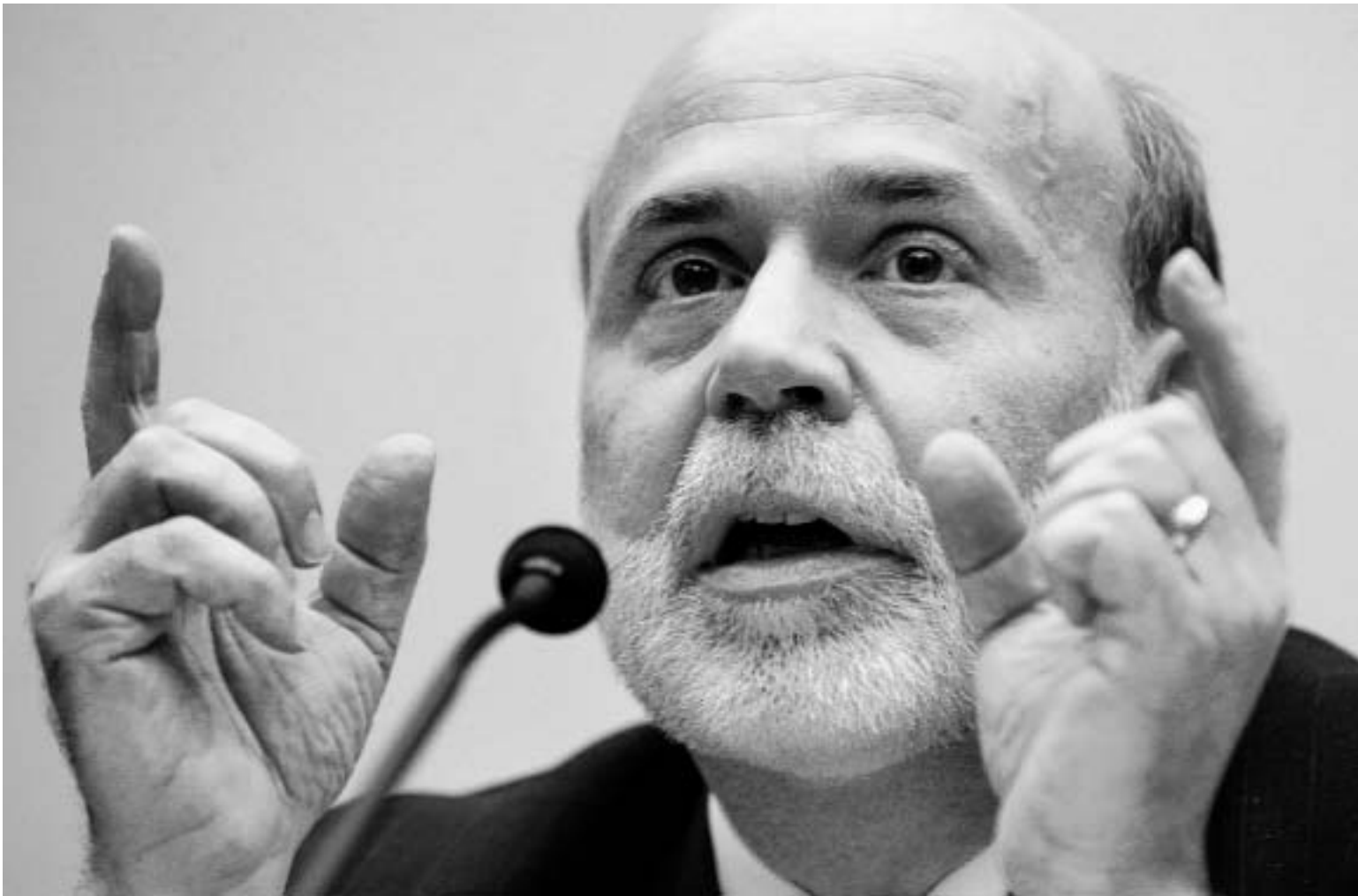
And in Senate races, there now is often a lot of outside money that flows in to fuel ideological challenges. In Arkansas earlier this year, labor groups poured in \$10 million in a nearly successful attempt to unseat Democratic Sen. Blanche Lincoln as punishment for, among other sins, not backing the "public option" government health alternative that liberals favored.

On the Republican side, the Tea Party Express, an organization that raises funds to support conservatives favored by the tea party movement, boasted of sending \$400,000 into Alaska to defeat Sen. Murkowski. Similarly, economic conservative activists swept into Utah this year with big ad buys to help a GOP challenger defeat Republican Sen. Robert Bennett.

It will be tough finding middle ground if this year's voting produces, as seems likely, a Congress full of Democrats who have been pushed left and Republicans who have been pushed right.

"Politics, we must always remember, is the art of the compromise," says Mr. Duberstein. "And right now, compromise is a four-letter word."

## U.S. NEWS



Associated Press

Federal Reserve Chairman Ben Bernanke, shown earlier this year testifying before lawmakers, could elaborate on his views about the economy in a speech Friday.

## Fed bumps notables at retreat

By JON HILSENATH

Ahead of an important speech by Federal Reserve Chairman Ben Bernanke on Friday, the buzz at this year's annual Fed retreat in Jackson Hole, Wyo., is who's here and who isn't. To make room for more foreign dignitaries, the Kansas City Fed, which organizes the event, has left out some of its own top officials and some Wall Street notables.

The Kansas City Fed has scratched top staffers from the 12 regional Fed banks to make room in the conference meeting room at the bucolic Jackson Lake Lodge, which seats a little more than 100 people. Keeping things intimate has meant saying no to officials such as Brian Sack, who runs the New York Fed's markets group and has played a key

role strategizing about the Fed's unconventional policies.

Research directors from most of the 12 regional banks are also out, though a few are attending to stand in for their bosses. The New York Fed had no comment.

Newcomers include Ardian Fullani, governor of the central bank of Albania; Grigori Marchenko, governor of Kazakhstan's central bank; and Haroutioun Samuelian, the Central Bank of Lebanon's vice governor. The Wall Street contingent includes economists from Morgan Stanley and Bank of America Corp., but not Goldman Sachs Group Inc.

Diane Raley, a spokeswoman for the Kansas City Fed, said this year's invitation list required "difficult decisions," particularly with respect to the New York Fed, which she said

had a "special role" within the Fed system, and regional-bank research directors.

There is also a long list of invited no-shows from the Fed, including Daniel Tarullo, a Fed governor, and Bill Dudley, Richard Fisher, Janet Yellen, and Sandra Pianalto, heads of the regional Fed banks in New York, Dallas, San Francisco and Cleveland.

The Fed has been coming to Jackson Hole every August since 1982 to discuss big issues in the economy and policy. The last few years have had an added air of drama because of the financial crisis. In 2008, Mr. Bernanke and his top lieutenants spent much of the conference in a side room plotting strategies for a worsening situation. Last year, Mr. Bernanke learned

just before the conference that he would be nominated to a second term as Fed chairman by President Barack Obama, a secret he had to keep all weekend.

This year's conference won't be short of drama, either, with the economy slowing and Fed officials debating what steps, if any, to take next.

At a divisive Aug. 10 policy meeting, Mr. Bernanke pushed the Fed to take new steps to prevent the Fed's securities portfolio from shrinking in the months ahead, which could passively tighten monetary policy. That could be a prelude to more aggressive steps by the Fed to ease financial conditions.

Mr. Bernanke could elaborate on his views about the economy and what to do next in Friday's speech.

## Fewer homeowners overdue on mortgages

By NICK TIMIRAO

A survey found that the number of U.S. households that missed consecutive mortgage payments or were in foreclosure fell more during the second quarter than anytime since the mortgage crisis began four years ago.

But the data, released Thursday by the Mortgage Bankers Association, showed that the crisis is far from ending. One worrying sign: The number of newly distressed borrowers increased, raising the prospect that foreclosures and delinquencies could resume their rise.

Overall, some 14.4% of mortgages had missed one payment or were in foreclosure at the end of June. That was down from 14.7% at the end of March, but up from 13.5% one year ago.

The improvement came because fewer borrowers fell 60 days or more delinquent on their mortgages.



A bank-owned house for sale in the Spring Valley area of Las Vegas on Sunday.

But the number of households that were 30 days delinquent increased. "We're past some of the worst

problems with these loans," said Jay Brinkmann, chief economist of the Mortgage Bankers Association.

But with more than seven million homeowners behind on payments or in foreclosure, he added, "The bar for good news is being set very low."

The improvement was seen in almost every state, with the biggest declines coming in those that have been hardest hit by the foreclosure crisis: Arizona, Michigan, Nevada, Florida and California.

The bad news in the survey on the growing number of borrowers who have missed one payment—which had fallen for two straight quarters—reflects the high unemployment rate and the difficulty some borrowers are having making payments on modified mortgages.

While the mortgage crisis was driven at first by adjustable-rate mortgages that reset to higher payments, the majority of deteriorating loans are now being driven by unemployment.

## Jobless claims fall, reversing a trend

By SARAH N. LYNCH  
AND DARRELL A. HUGHES

U.S. jobless claims fell last week, reversing most of the recent deterioration and easing worries about a downward turn in the labor market.

Initial unemployment claims declined 31,000 to 473,000 in the week ended Saturday, the Labor Department said Thursday.

The four-week moving average, which aims to smooth volatility in the data, rose 3,250 to 486,750, the highest level since Nov. 28, 2009.

Claims are well below their high of 651,000 in March 2009 but remain elevated—indicating a weak job market but no longer signaling a worsening in labor demand.

Claims appeared to be on a steady decline earlier in the year but began creeping upward again. For the week ended Aug. 14, claims stood at 504,000, their highest level in nine months.

"Although claims are still uncomfortably high, the reversal after three weeks of large gains is a very encouraging sign," said Nomura economist Zach Pandl.

"In our view, the better-than-expected result significantly lowers the probability of a large decline in private payroll employment during the month," he said.

Claims are well below their high of March 2009 but remain elevated—indicating a weak job market but no longer signaling a worsening in labor demand.

More than a year after output started to grow again in the U.S., the unemployment rate remains at 9.5%.

Other economic indicators also point to sluggish growth in the months ahead.

Recent data showed new- and existing-home sales plunged in July and durable-goods orders remained weak, heightening concern that broader economic activity is deteriorating.

In the Labor Department's claims report Thursday, the number of continuing claims—those drawn by workers for more than one week in the week ended Aug. 14—fell by 62,000 to 4.46 million. Continuing claims are reported with a one-week lag.

The unemployment rate for workers with unemployment insurance for the week ended Aug. 14 was 3.5%, a 0.1 percentage point decline from the prior week's revised rate of 3.6%.

The report's breakdown of new claims for the week ended Aug. 14 showed that Puerto Rico had the largest increase in claims, with a rise of 2,190. No details were provided.

The largest decrease in unemployment claims came from California—the state saw a drop of 5,275 because companies made fewer layoffs in the service and manufacturing industries.

## WORLD NEWS

# Unlikely allies call for political change in Egypt

*Muslim Brotherhood, ElBaradei join forces*

By ASHRAF KHALIL

CAIRO—Two of the biggest opposition players in Egyptian politics have joined forces as unofficial campaigning kicks off for parliamentary polls later this year—though neither will be on the ballot.

Mohamed ElBaradei, former head of the United Nations nuclear watchdog and Egypt's most prominent advocate for political change, has quietly joined forces with the Muslim Brotherhood, an Islamist group that is officially banned but tolerated here.

In 2005, the Brotherhood, banned from running as a party, instead fielded a slew of independent candidates who captured 20% of the seats in parliament.

Now Mr. ElBaradei, who has refused to join one of Egypt's government-licensed parties, and the Brotherhood have teamed in a nationwide signature drive aimed at winning popular backing for constitutional change.

As the late November polls approach, 82-year-old President Hosni Mubarak's ruling National Democratic Party and supporters of Mr. Mubarak's son and heir apparent, Gamal Mubarak, have stepped up their response, orchestrating an aggressive public-relations campaign aimed at consolidating their position.

The NDP has dominated Egyptian politics for decades, and the older Mr. Mubarak has ruled for 29 years. Complicating their calculus now is Mr. ElBaradei's emergence on the political scene, after he stepped down in December 2009 as head of the International Atomic Energy Agency.

The Nobel laureate returned to Egypt this year to a hero's welcome, promising to campaign for political change.

His organization, the National Association for Change, is pushing a seven-point list of demands, that includes repealing Egypt's longstanding state of martial law and altering the constitution to eliminate obstacles to an independent presidential candidacy.

Mr. ElBaradei has said he may run for president against Mr. Mubarak in 2011 if changes to the electoral system are put in place. Such a candidacy remains a long shot, requiring changes to the constitution unlikely to happen before the 2011 vote.

The Brotherhood has quietly backed Mr. ElBaradei's group from the beginning. In June, Brotherhood leaders said they would become more directly involved with his reform campaign.

The Islamist organization says it has already gathered more than 500,000 signatures for a petition backing Mr. ElBaradei's demands for a constitutional overhaul.

In an interview this summer with Jazeera Live, a sister satellite news channel to Al-Jazeera, Brotherhood Secretary-General Mahmoud Hussein said the two camps "share some sort of common ground ... re-

garding political reform" and that the Brotherhood would work to "coordinate and collaborate" with Mr. ElBaradei's campaign.

There are risks in the ElBaradei-Brotherhood union. Recent opposition efforts in Egypt to open the political system have foundered amid the longstanding ideological divide between the Islamist and secular camps.

Mr. ElBaradei's reserved style has also raised questions about how hard he would campaign in any real candidacy—and could limit any boost the Brotherhood may get from associating with him.

Senior ElBaradei deputies have complained publicly that he travels overseas too frequently, and the bookish former diplomat has said repeatedly that he is uncomfortable cast in the role of Egypt's political savior. And Brotherhood leaders say they are still debating whether to boycott or participate in the parliamentary election.

**Risks to the union remain. Recent opposition efforts to open Egypt's political system have foundered amid the divide between the Islamist and secular camps.**

Mr. ElBaradei's group has endorsed a boycott if its concerns aren't addressed and if it can get more opposition parties to join.

Still, the potential threat from an ElBaradei-Brotherhood movement has triggered a stronger response from the NDP in recent weeks.

NDP spokesman Ali Eddin Hillal, in remarks that appeared targeted at Mr. ElBaradei's constitutional campaign, said in July that rewriting any country's constitution based on the demands of one person or one small group would be "a mockery."

Parliament Speaker Fathi Sorour, in an interview with state-owned newspaper Al-Ahram in July, charged that Egypt's opposition knows "only how to destroy, not to build." He didn't mention Mr. ElBaradei by name.

"All the big guns are being brought onto the battlefield," says Hassan Nafaa, the coordinator for Mr. ElBaradei's group.

The issue of Mr. Mubarak's health looms over the polls. The president had gall-bladder surgery in Germany this year, and rumors that his health is failing have dogged him since. Government representatives suggest that he won't announce whether he will run for president until the spring.

In the meantime, posters have appeared around Cairo urging Gamal Mubarak to run for president next year. The group responsible, the Popular Coalition for the Support of Gamal Mubarak, says it has no formal connection to either Gamal Mubarak or the NDP.



Associated Press

Posters urging President Mubarak's son to run in next year's poll have sprung up in Cairo. Above, a poster promotes 'Gamal for all Egyptians.' The group responsible says it has no formal connection to either Gamal Mubarak or the NDP.

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## WORLD NEWS

# Kim's China trip evokes past

*Symbolic visit to school attended by Kim Il Sung seen aimed at solidifying succession plans*

BY EVAN RAMSTAD

North Korean dictator Kim Jong Il traveled to northeastern China—his second trip in four months to Pyongyang's chief ally—to visit a school attended by his father, in a symbolic move that appeared aimed at solidifying plans for his own succession.

Thursday's visit, disclosed by South Korean officials and confirmed by local Chinese residents informed of it, comes about two weeks ahead of a major political gathering in North Korea, where Mr. Kim is expected to appoint his third son, Kim Jong Eun, to a position that would publicly signal he will eventually become the country's next top leader.

South Korean media reports said that Kim Jong Eun accompanied Mr. Kim to China Thursday, but that couldn't be confirmed.

Mr. Kim left North Korea apparently without meeting former U.S. President Jimmy Carter, who arrived Wednesday in Pyongyang to retrieve an American teacher who walked into North Korea from South Korea in January.

Mr. Kim's travel to China during Mr. Carter's visit is a sign that the succession issue is now at the top of the North Korean leader's agenda. North Korea's Workers Party will hold a meeting of party representatives next month, the first since 1966, and some say that even if Mr. Kim's son is appointed to an official post at the gathering, his rise is far from guaranteed.

For Mr. Kim to embark on this trip to China now could be a way of invoking the Kim family mythology to attach some legitimacy to his son.

The son, Kim Jong Eun, has never been seen in public or in the media in North Korea. And Kim Jong Il's poor handling of the country's economy, recently illustrated by severe shortages after a move to suppress market activities, has weak-



Kim Jong Il waves from a train window during a visit to China in May.

ened support for his regime.

Mr. Kim visited Yuwen Middle School in the Chinese city of Jilin approximately 250 kilometers, or about 155 miles, from the border with North Korea, Jilin residents and neighbors of the school said. Students at the school were given a one-day holiday, the residents said. They were unsure if Mr. Kim's son was also there.

With the trip, Mr. Kim may be trying to remind North Koreans of the importance of his father—North Korea's founder Kim Il Sung, who led the country for 46 years until his death in 1994 and is still referred to as "eternal president"—and to build support for another generation of Kim family leadership.

Kim Il Sung attended the school as a teenager, and it is said to be the place where he first learned commu-

nist ideology. The story of Kim Il Sung's journey from Pyongyang to Jilin in 1925 is a staple in North Korean education, key to the mythology of him as a liberator of the country from Japanese colonial rule. People and groups who re-create the trip are occasionally mentioned in its state-run media.

It was unclear whether Mr. Kim planned to travel elsewhere in China. Chinese officials declined to comment on Mr. Kim's visit. Beijing hasn't confirmed past visits until after Mr. Kim's return to North Korea.

China is North Korea's chief economic benefactor and main political ally, but it is unclear what role Beijing plays in the succession process.

While some analysts have pointed to signs of Chinese frustration toward Mr. Kim's regime, Beijing is certain to want to see an or-

derly transition of power to prevent chaos on its border.

Despite China's importance to North Korea, this trip is just Mr. Kim's sixth visit to the country as North Korean leader. A visit in May was his first since 2006. During that visit, Mr. Kim met with Chinese Communist Party chief Hu Jintao and other top leaders.

Because he fears planes, Mr. Kim typically travels by train and his movements are easily monitored by spy satellites used by South Korea, the U.S. and other countries. Word of his trip first came from the South Korean government, which said Thursday it had detected signs of movement by the train used by Mr. Kim.

—Kersten Zhang, Sue Feng and Gao Sen contributed to this article

## Price curbs prepared in Vietnam

BY JAMES HOOKWAY

HANOI—Vietnam is enacting measures allowing it to slap price controls on foreign and private companies starting Oct. 1 in a move designed to contain inflation but that risks stifling business sentiment.

An official at Vietnam's Finance Ministry confirmed Thursday that the measures will come into effect Oct. 1. The orders will let the Vietnamese government intervene and impose controls if it believes that prices on a variety of items—ranging from cement and steel to sugar and rice—are moving unusually or out of step with the cost of other component goods.

So far, there is no indication Vietnam will move to control prices in the immediate future. But its frequent bouts with inflation suggest the measures might be imposed on at least some goods at some point.

The ministry caused a furor in the local investment community late last year when it said it was considering introducing the price-control measures on a range of goods and commodities produced by foreign and private companies in the country. Previously, Vietnam's Communist rulers applied price caps only to state-owned enterprises.

The move is likely to produce a fresh outcry among investors about state intervention. It also comes after a series of problems at state-sector companies have damaged Vietnam's reputation as one of the standout success stories in a new wave of frontier emerging markets.

A wide range of products is included under the order, known as Circular 122, including cement, construction-grade steel, liquefied petroleum gas, commercial water, chemical fertilizers and animal vaccines. Goods such as salt, children's powdered milk, sugar, rice, animal feeds, coal, paper, textbooks and railway fares also fall under the new price-control regime.

The measure's origins appear to lie in 2008, when Vietnam suffered severe inflation, lifting the consumer price index 28% from a year earlier at one point. Meanwhile, the trade deficit widened amid the global economic slump, helping trigger a series of currency devaluations.

The new power to impose price controls seems designed to limit any social tensions from any further rising prices. But the downside is that Vietnam risks becoming a less attractive place to do business, strangling foreign investment, encouraging locals to invest overseas and worsening its balance of payments.

The price-control powers are also being introduced at a time when local and foreign businesses are growing increasingly concerned about the influence of large state-owned enterprises. Economists say state firms get access to cheap credit and take up a disproportionate share of resources but are often inefficient and represent a burden on the economy.

The nation faces other economic pressures. Last week it devalued its currency, the dong, for the third time in nine months, as Vietnam's high inflation erodes the local purchasing power of the currency, making the U.S. dollar an attractive alternative domestically.

—Nguyen Anh Thu contributed to this article.

## Leadership bid threatens Japan stability

BY YUKA HAYASHI

TOKYO—A senior lawmaker's surprise bid to unseat Prime Minister Naoto Kan could undermine Japan's drive to achieve political stability, raising the prospect of a sixth new top leader in five years, and frustrating efforts to fix Japan's economy and a host of other fundamental problems.

Less than three months after taking office, Mr. Kan faces a serious threat from Ichiro Ozawa, an influential power broker of the ruling Democratic Party of Japan. Mr. Ozawa said Thursday he would challenge Mr. Kan's position as party leader during the DPJ's internal election on Sept. 14. With the title comes the seat of prime minister.

While the scandal-tainted Mr. Ozawa is unpopular with Japanese, he has tremendous clout among the party members who will decide the contest, making it too close to call, according to many analysts.

Messrs. Kan and Ozawa stepped up their efforts to woo endorsement from the party's lawmakers and supporters, a move that could deepen the division within the party and even lead to a split. "The DPJ

now lives with a deep fissure in its foundation," said Minoru Morita, an independent political analyst. "Even a small tremor could cause the party to break up."

Mr. Morita predicts legislative deadlocks would force the DPJ to call a general election next year, pushing some to quit the party.

The latest turmoil underscores how far Japan is from political stability a year after the DPJ swept to power in historic elections and ousted the conservative Liberal Democratic Party that ruled the nation almost continuously for more than a half century.

In July, the DPJ lost control of the upper house of Japan's parliament, leading to increased criticism of Mr. Kan by Mr. Ozawa and lawmakers close to him. Even before Mr. Ozawa's move, the party was expected to face tough challenges from opposition parties that now have power to vote down most legislation as parliament reconvenes next month.

The lack of a stable government has cost Japan opportunities to craft effective policies to battle numerous fundamental problems, including the aging and shrinking of



Ichiro Ozawa in Tokyo on Thursday.

its population, soaring government debt and slow economic growth.

More immediately, critics say political instability has distracted policy makers during the yen's rise to 15-year highs against the U.S. dollar. The stronger currency threatens the recovery of Japan's export-oriented economy and has pushed its stock

market to new lows.

"This is no time for playing a tempest in a teapot," said Tadamori Oshima, secretary-general of the opposition LDP. "Our country is facing a crisis. [The DPJ] needs to realize that and start taking steps."

Mr. Ozawa's strong support among DPJ members comes from his role for years as the party's election strategist, when he helped many younger lawmakers get elected. Analysts say Mr. Ozawa and former Prime Minister Yukio Hatoyama control roughly half of the party's 412 lawmakers. Mr. Hatoyama expressed his support for Mr. Ozawa on Thursday.

Mr. Ozawa said few words as he announced his candidacy Thursday, except that what prompted his entry was Mr. Hatoyama's promise for support. "So I made up my mind to throw my humble self in the race," Mr. Ozawa told reporters.

According to a Nippon News Network survey this week, 79% of respondents said they wouldn't support Mr. Ozawa's return to an important party post, and 61% said they favored Mr. Kan's re-election.

—Makiko Segawa contributed to this article.

## THE IRAQ TRANSITION

# In Baghdad, relief mixes with grief

BY SAM DAGHER

BAGHDAD—Sheikh Fawzi Abdullah looks back with relief on the peace that has settled over the capital's Amil neighborhood.

Once-shuttered markets are bustling. Iraqi security forces control the enclave's streets. Displaced families have returned home to reclaim lives.

"God willing, the 'fitna' will never return," says Mr. Abdullah, imam of the neighborhood's Sunni Ashra Mubashara mosque, using the Arabic word often conjured up by Muslims to describe internal discord.

As little as three years ago, at the height of the sectarian bloodshed that followed the 2003 U.S.-led invasion, Amil—one of several mixed Sunni-Shiite neighborhoods in southwestern Baghdad—was at the front lines of some of the worst fighting between Sunni and Shiite Muslim armed groups.

As the U.S. this week cut down the number of its troops in Iraq to less than 50,000, the neighborhood, like the rest of Iraq, is watching with mixed emotions—dominated by anger and a sense of letdown and plunging into the unknown.

Still, many—Sunni and Shia—are happy to see Saddam Hussein's regime gone. They've welcomed the uncertain emergence of long-denied civil liberties, such as the right to vote in free elections. They credit a recent surge of U.S. forces into Baghdad and surrounding provinces with taming violence that engulfed the neighborhood.

But they also blame early missteps by Washington for setting the two sects against each other in the first place, triggering three years of bloody, near-civil war that touched most residents' lives here.

Many Iraqis blame American policy-makers for clumsily dismantling Mr. Hussein's power structure, which promoted members of his Sunni Arab clan at the expense of Iraq's majority Shiite population and other ethnic groups, like the Kurds. The U.S. backed a new, ruling elite of mostly expatriate Shiite politicians.

The new system triggered bitterness and revenge among Sunnis who felt disenfranchised. As violence escalated, residents were inflamed by U.S. tactics—from mass arrests, door-ramming surprise raids and fatal shootings at checkpoints to images of tortured Iraqis at U.S.-administered Abu Ghraib prison.

Over the past seven years, U.S. officials have acknowledged missteps. U.S. military commanders have investigated and prosecuted

cases of inappropriate conduct and the use of disproportionate force. Still, as Baghdad's residents try reassemble their shattered lives, many say they feel betrayed by a speedy U.S. troop withdrawal and an ineffective government trying to fill the void.

## Saadiya Sadiq

In the predominantly Sunni section of the Jihad neighborhood, next to Amil, Saadiya Sadiq says sectarian affiliations were never an issue for most Iraqis before 2003. She's a Shiite married to a Sunni. Some of her children, technically Sunnis, are married to Shiites.

"We were one big blend," says Mrs. Sadiq, 69 years old, a widow.

Amid a Sunni insurgency against the weak U.S.-backed Shiite-led government, violence spiraled to neighborhoods including Jihad, where armed rivals battled each other.

In 2006, an empty lot opposite Mrs. Sadiq's home became the site of executions and a dumping ground for tortured bodies. She lived there with her two sons and a daughter.

The family fled in early 2007 to a safer neighborhood in Baghdad after her sons became targets for both warring sides. Later that year, U.S. troops blew up her home, along with two adjacent homes, on suspicion they were being used by al-Qaeda-linked insurgents.

On a recent afternoon, Mrs. Sadiq's son Haidar Alwan stood amid the rubble of the family's flattened house, which he said was built with all their savings in 2002. Tree branches protruded from the debris.

"We wanted a democracy that could have propelled our country forward, not taking it back to the Middle Ages," said Mr. Alwan. He said that before 2003, there was one, main source of fear: Mr. Hussein's regime. Now, the sources are multiple. "It's truly the law of the jungle," he said.

## Abdul-Jawad Farhan and Ahlam Salman

Abdul-Jawad Farhan and his wife, Ahlam Salman, have been waiting for more than three years to find out whether their youngest son, Ahmed, is dead or alive.

The family was home one late evening in April 2007 when they heard heavy gunfire outside. Someone shouted that their predominantly Shiite section of Amil was under attack by Sunni gunmen from the opposite side, according to the couple.

Ahmed, at the time 17, rushed out with his rifle. He was part of a neighborhood watch group, his family says. Two other men from a



Scott Nelson for the Wall Street Journal ©

Saadiya Sadiq, shown above standing in the rubble of her destroyed home, says sectarian affiliations were never an issue for most Iraqis before 2003. Ali Majid's construction business flourished during the U.S. occupation.

neighboring house also ran out, followed by their mother pleading with them to come back in.

A U.S. military helicopter emerged and opened fire, killing the two men and their mother and wounding Ahmed, say Mr. Farhan and his wife. At the time, a U.S. military spokesman said the victims were "anti-coalition forces" with "hostile intent," responsible for shooting at a U.S. combat outpost earlier that evening—allegations rejected by the family.

The unit stationed in the neighborhood—a company from the 1st Battalion, 28th Infantry Regiment—returned to Fort Riley, Kan., one month ago after another tour in Iraq. An officer with the battalion reached by telephone couldn't provide immediate comment on the case.

Mr. Farhan said an officer with the 28th Infantry told him the day after the incident that his son was at a military hospital in Baghdad. The family checked the hospital and several U.S.-run prisons at the time but couldn't track Ahmed down.

Months before his son's disap-

pearance, Mr. Farhan says, he lost a brother to the sectarian strife. He was shot dead outside the secondary school where he taught for 12 years, Mr. Farhan says. He was a Shiite working in a predominantly Sunni neighborhood near Amil.

Mr. Farhan says that like most Iraqis, he welcomed U.S. troops at first as "liberators" from Mr. Hussein's regime. But he said they quickly turned into "harsh occupiers."

"I blame the Americans for my misery and that of tens of thousands of people like me," he said. He quickly added that Iraqis would "forget the misery" if America were to leave behind a positive legacy, such as major infrastructure projects.

"America rebuilt Japan, Germany, South Korea," he said.

## Ali Majid

In a predominantly Shiite section of Jihad, Ali Majid says he is considering expanding his family home, which was built with money he made as a subcontractor for American companies involved in U.S. gov-

ernment-funded projects in Iraq.

Mr. Majid's company, Steps to Success, is now working on an Iraqi government electricity project south of Baghdad and two private-sector hotel projects in the capital. He owns several homes, drives an SUV and travels frequently abroad, including to China, where he says he does a lot of business.

Before 2003, Mr. Majid juggled odd jobs to make ends meet. During the height of the sectarian conflict in 2006, he moved his wife and five children to neighboring Syria, while he worked on an American base in Baghdad. The family returned in 2008.

Now, he's worried again. With the departure of the bulk of U.S. troops from Iraq, Mr. Majid says he has no confidence in the future of the country's feuding political leaders. Even as he mulls a new addition to his home, he is making plans to leave if security starts to deteriorate. "The question will be whether we can make it to the border fast enough," he said.

—Munaf Ammar and Jabbar Yaseen contributed to this article.



Ahlam Salman prepares a Ramadan iftar meal with her daughter-in-law.