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Sanofi gives Genzyme 'bear hug' offer

By Gina Chon, Dana Cimilluca and Jeanne Whalen

French pharmaceutical company **Sanofi-Aventis** SA on Sunday went public with its $18.5 billion all-cash bid for **Genzyme** Corp., ratcheting up the pressure on the biotechnology firm.

Sanofi sent Genzyme a "bear hug" letter in which Sanofi Chief Executive Chris Viehbacher described his frustration at Genzyme CEO Henri Termeer's unwillingness to engage in discussions.

The move underscores the eagerness with which Sanofi—one of the world's largest drug concerns—is eager to secure Genzyme's drugs used in serious conditions such as chronic kidney disease and blood cancer. Like other big pharmaceutical companies, Sanofi is finding it difficult to replenish its drug pipeline at a rate that can sustain long-term growth. Sanofi joins other companies, such as miner **BHP Billiton** Ltd., that have made unsolicited bids in recent weeks, hoping to capitalize on depressed share prices while calling on their own ample cash reserves.

Mr. Viehbacher said Sanofi had been trying to meet with Massachusetts-based Genzyme for the past few months and because those requests were rejected, Sanofi sent a proposal on July 29.

Mr. Termeer turned down that proposal on Aug. 11, but after repeated requests, he did allow financial advisers from both companies to meet on Aug. 24 on a "limited scope," Mr. Viehbacher said.

"But the meeting simply served as further confirmation that as throughout you remain unwilling to have constructive discussions," he said in the letter.

Sanofi said it is "prepared to consider all alternatives to successfully complete this transaction," leaving the door open to going hostile if necessary. Such a move would mean taking an offer directly to Genzyme shareholders. A "bear hug" is a somewhat less aggressive step, leaving open the possibility of discussions

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A memorial service in Shell Beach, La., on Sunday commemorates the fifth anniversary of Hurricane Katrina, which killed more than 1,800 and devastated the Gulf Coast.

Associated Press

New Orleans remembers Katrina

Five years after the storm, President Barack Obama celebrated New Orleans's revival from Hurricane Katrina on Sunday and pledged common purpose with residents in the continuing struggle to protect and rebuild the Gulf Coast.

Mr. Obama declared to those who dedicated themselves to their city's recovery: "Because of you, New Orleans is coming back." And he pledged: "My administration is going to stand with you and fight alongside you until the job is done." Implicit in his remarks was an indictment of sorts against his predecessor's administration for its handling of the crisis.

—Associated Press

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U.K. growth set to slow, business group cautions

By Ainsley Thomson

LONDON—The pace of the U.K.'s economic growth will slow sharply over the medium term as the coalition government's tough measures to reduce the deficit set in, the British Chambers of Commerce said Sunday.

The business group said the government's focus on curbing public spending to tackle the deficit must be coupled with a successful growth strategy in order to support the economy's productive potential.

"Business accepts that reducing the deficit, with a clear focus on spending cuts, is vital in order to restore confidence, international credibility and stability. However, deficit reduction on its own will not deliver a sustainable recovery," said David Frost, director general of the BCC. "We need policies that rebalance the economy towards wealth-creating businesses, and enable the private sector to invest, export and create new jobs. Failure to get this right poses the biggest risk to recovery."

Tackling the budget deficit is the Conservative-Liberal Democratic coalition government's central domestic policy promise. Prime Minister David Cameron views cutting the deficit as critical to rebuilding economic confidence. In the June 22 budget, the government set a £113 billion ($175 billion) fiscal consolidation plan for the next five years and outlined plans for spending cuts of up to 40% from central government departments. However, the opposition Labour Party and some economists have warned that hasty action to cut the deficit could cause a double-dip recession.

Despite its cautious view of the U.K.'s medium-term economic growth, the BCC has upgraded Britain's short-term economic prospects, raising its forecast of gross-domestic-product growth for 2010 to 1.7% from the 1.3% it pre-

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Does the French government really believe its own economic forecasts?

[Agenda]

By Irwin Stelzer

With the summer vacation period coming to an end, and a new policy-making season beginning, this is a good time for a reality check on the French government's economic forecasts.

Finance Minister Christine Lagarde predicts the French economy will chalk up growth of 2.0% next year, and reduce the budget deficit from 8% of GDP to 6%. The basis for her optimism is unclear. France's plan to preserve its threatened triple-A bond rating by cutting its deficit to 6% next year and 3% by 2013 will require austerity measures, if implemented—no sure thing since 2011 is a presidential election year—that will lop 1.4% off next year's growth. That, plus the dampening effect on French exports of slowing growth in China and America, prompted Jean-Christophe Caffet, economist at Natixis, to forecast that France will grow in 2011 at only a 1% rate.

Add the facts that in half of the past 12 years France has failed to achieve 2% growth, and that the Paris-based Organization for Economic Co-operation and Development notes that "France has a poor track record in meeting the deficit targets in its stability programs," and one has to wonder whether the government actually believes its projections.

Still, Ms. Lagarde's optimism is easier to understand than President Nicolas Sarkozy's view that he has found the perfect substitute for Anglo-Saxon capitalism. Mr. Sarkozy relentlessly trumpets the French model of active state intervention as an alternative to "Anglo-Saxon neoliberalism."

The Economist Intelligence Unit notes that Mr. Sarkozy continues to establish and preserve national champions, and to promote "Franco-French" mergers to prevent foreigners from acquiring French companies.

Reuters

French Finance Minister Christine Lagarde pictured at a Paris meeting in June.

President Nicolas Sarkozy relentlessly trumpets the French model of active state intervention.

He has announced that when he takes the presidency of the G-20 in November he will continue his drive to reduce the role of the dollar as the world's reserve currency, and press for greater intervention in currency markets. Former president Valéry Giscard d'Estaing once told me that Americans are ruled by "the law of the jungle." Mr. Sarkozy apparently sees himself as the essential animal tamer.

Consider roughly comparable data available from Eurostat and the Congressional Budget Office. Over the past dozen years (full-year 2010 data not yet available) the unemployment rate in France has averaged 9.15%, and has never fallen below 7.8%. In that same period, the U.S. unemployment rate has averaged 5.35%, and in no single year has ever reached French levels.

French critics who hurl the charge of racism at America might note that unemployment rates for native- and foreign-born American workers are generally quite close, while in France the unemployment rate among immigrants is 1.7 times that of native-born French.

Then there are those increasingly problematic deficits. In the 10 recent years for which data are available, France's budget deficits averaged 3.25% of GDP, while those in America averaged 2.05%, even including in the U.S. average President Barack Obama's 9.9% for 2009.

Finally, since GDP per capita in America is approximately 40% higher than it is in France, and since "France's economic performance has deteriorated in recent decades relative to that of many of its peers," according to the EIU, one has to wonder why Mr. Sarkozy wants to export his high-unemployment, low-growth, high-deficit model to innocent citizens in other countries.

Because France's welfare system creates disincentives to work, it has one of the lowest labor-force participation rates in Europe, and its workers put in fewer hours than in any developed country outside of Scandinavia. Fewer productive hours and an ageing population are a combination that threatens the affordability of the French welfare state.

The relatively poor prospects for improved performance of the French economy have important implications for the euro zone. It is prompting French policy to turn even more protectionist than it now is, reflected in its efforts to decrease the competitiveness of its trading partners rather than to increase its own.

Britain's decision to raise VAT and income taxes is widely applauded in the French bureaucracy, and Germany's greater competitiveness is dismissed as due to excessive thriftiness, and a system of labor-management cooperation that neuters the trade unions. It does, of course, preclude the sort of strikes that periodically stifle the French economy: France lost more than five times as many days to strikes as did Germany in 2007, the last year for which France will release data.

With 16 of the 18 members of the euro zone in aggregate contributing nothing to growth, the burden of moving the zone forward falls to France and Germany, which together account for about half of euro-zone GDP.

Germany is growing faster than France, no surprise: a leading French politician explained to me that France's policy focus must be more on redistributing the existing pie than on growing the pie, hardly a recipe designed to realize Ms. Lagarde's expectations. In which case the entire euro zone will be the loser, and Mr. Sarkozy will have a more difficult time selling his alternative to "neoliberalism" and German economic management.

What's News

■ **Price-to-earnings ratios** are shrinking in the U.S. stock market in both size and significance, as investors fixate on the global forces whip sawing the market. The S&P 500's average P/E ratio has declined to 14.9 from 23.1 last September. 17

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'Iraq has had plenty of time to prepare an army and police force and manage their own government.'

Reader **Joe Boogles** on 'Iraqis Face Uncertain Future as U.S. Ends Mission'

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New Orleans still a work in progress

By Jennifer Levitz
And Mike Esterl

NEW ORLEANS—In some ways, Nilima Mwendo's life is the best it's ever been.

Five years after the floods unleashed by Hurricane Katrina, her memories of the "smell of death and mold and mildew" are receding. Her freshly painted pale green house looks better than it did before the storm, thanks in part to a federal program that offered funds to repair historic houses.

Her four grown children have moved back to New Orleans, to be close to family and part of the city's rebuilding.

"We're a bunch of bad-ass, strong, committed people," said the 56-year-old Ms. Mwendo. She lives on the 800 block of Jourdan Avenue in the Holy Cross neighborhood, which borders the Mississippi River. The damage was heavier there than in many parts of the city, though not as severe as in the rest of the devastated Lower Ninth Ward.

Before Katrina, Ms. Mwendo's block had 11 occupied houses. Now there are seven. Two homes are boarded up, one is being repaired but is unoccupied, and one burned down after the storm. Four households that lived on the block when Katrina hit moved back. In three houses, there are newcomers.

Across the street from Ms. Mwendo, Ann Schexnyder, a 51-year-old dental lab technician, is still trying to reclaim her old life. She moved back into her house last year after three years in a Federal Emergency Management Agency trailer in her backyard, but work on the house is far from finished. She has running water—cold only—in one room, minimal electricity, and sleeps on a mattress on the bathroom floor, the one part of the house not cluttered with construction supplies.

She, too, received federal aid to rebuild, but says she has had bad luck with contractors and is overwhelmed trying to oversee the renovation by herself. "For the first time, in the last month, I've thought about giving it up and cutting my losses and just leaving," she said.

The contrast between the neighbors' recovery illustrates that five years on, New Orleans is a work in progress. While city residents are returning—the population is back up to 78% of pre-Katrina levels—there are still streets where refurbished homes sit next to ones with boarded windows and shin-high grass.

Some people have been inspired to rebuild or even move to New Orleans for the first time, while others are still trying to get back to where they were. Still others have given up altogether, leaving their homes for new cities.

"We didn't realize it would take so long," said Loretta Harrison, 54, a candy-shop owner who frets that in her neighborhood of New Orleans East, the hospital that closed after being ravaged by the storm hasn't been rebuilt.

In the Lakeview neighborhood, which was deluged after a massive levee break at the 17th Street Canal, Roy Arrigo, a 54-year-old sales manager for an air-conditioning company, has rebuilt his home. He has also erected a sign excoriating the Army Corps of Engineers over the levee failures and comparing the disaster to the Chernobyl meltdown. "Me and all of my neighbors are at a level of bitterness like you've not ever seen," he said.

Meanwhile, in the verdant Gentilly section, in northeast New Orleans, Laurie Watt, a 51-year-old hotel human-resources director, said neighborhood spirit is up since Katrina. "In a weird funky way, I really think the disaster brought us together," she said. The neighborhood was submerged under eight feet of water in some places.

Ms. Schexnyder was one of the first to return to the 800 block of Jourdan Avenue. She snuck in after the storm to check on her historic house, made of wood from barges, and once a music and dance club.

The floodwaters, which reached six feet or more on her block, had receded, but gray mud caked the street, cars were overturned, and her house stank of rotting food.

A friend helped her move her fridge, filled with decomposing food, out of her house. Hearing rumors that the city was going to bulldoze the neighborhood, she spray-painted in red on plywood covering the front window: NOT 4 SALE (at) ANY $ I'M STAYING PUT! After living in an apartment subsidized by FEMA, she moved into a government-issued trailer on her property in May 2006, around the same time neighbor Dianne Blackwell, a 60-year-old widow, took up residence in a FEMA trailer two doors down. Ms. Schexnyder gave her a plastic whistle, a souvenir of a Mardi Gras parade, and kept one next to her own bed so the women could alert one another if danger arose. Surrounded by the clutter in her own home, Ms. Schexnyder estimated she's received more than $100,000, in insurance, federal Road Home and historic grant funds. But she's hit one snag after another, between contractors who did little, to termite wood damage discovered in the rebuilding. Her father, who she says might have been able to help, died in January 2007.

Mike West and his family chose not to stay put. A French Quarter folk musician who once lived across the street from Ms. Schexnyder with his family and a flock of chickens, Mr. West decided post-Katrina New Orleans was too rough. In November 2005, the family landed in Lawrence, Kan., a city where they knew no one.

Although they still own their Jourdan Avenue home and rent it out, they have no plans to move back. They have made friends in their new city. Mr. West says his children enjoy the local public pools and other recreation facilities, which he says his New Orleans neighborhood lacked even before the storm.

It would be too "psychologically hard to take my kids from living in a safe Midwestern town and move them back to a city which is beautiful and wonderful but which can also devour you," Mr. West said.

But post-Katrina New Orleans is a draw for young idealists coming to work for nonprofits or in urban redevelopment.

This spring, Mary Ellen Stitt and Blake Hansen bought the house next door to Ms. Schexnyder, paying $18,000. The new home for the recent graduates of Carleton College in Minnesota is full of holes, has no running water, and a compost toilet in the backyard.

Mr. Hansen wants to do urban gardening. Ms. Stitt, 24, works at a local nonprofit. "The city just has this energy that captivated me," she said.

Daymon Gardner for the Wall Street Journal

The rebuilding continues on the 800 block of Jourdan Avenue for Nilima Mwendo, left, and Ann Schexnyder.

Push for world-wide accord on bank rules

[The Outlook]

By Damian Paletta

Global politics and complicated risk management formulas will collide in Switzerland next month as regulators from around the world try to reach an agreement on new banking rules aimed at preventing another financial crisis.

The stakes are so high that the leaders of the U.S., France, Germany and Japan have become involved, elevating what might otherwise be dismissed as a technocratic exercise. The outcome is bound to affect the profitability and structure of the world's largest banks, many of which have put decisions on hold until the new rules are in place.

Negotiators want to hammer out most of the details by a mid-September meeting in Basel, Switzerland, so they can deliver a package that the leaders of the Group of 20 largest industrialized nations can bless at a summit in South Korea in November.

The nub of the negotiations: How much capital should banks be required to hold to absorb losses if loans or other investments go bad? Think of a family's finances.

Global banking rules

Officials from around the world meet in Switzerland twice next month to seek a consensus on new banking rules known as Basel 3.

	Basel 2	Basel 3
Participants	13 countries	27 countries
Negotiating window	6 years	1 year
Implementation	Never fully adopted	Could take five years or more to be implemented
Expected outcome	Could have led to less capital in banks	Likely to require much more capital in banks

Source: WSJ Research

Capital is similar to the family's savings account. It's the money the family can use to pay the bills if the roof collapses without warning. Many regulators believe the financial crisis proved that large banks didn't hold enough capital in reserve to protect against the roofs caving in all around them.

Determining the proper level of capital turns out to be a surprisingly difficult calculation. While banks operate globally, they have different structures and follow rules set by domestic regulators.

Officials at the Basel Committee on Banking Supervision don't expect each country to adopt exactly the same standard. Rather they want the countries to harmonize the rules they adopt, meaning that they apply them in a way that doesn't give an advantage to one set of banks.

Sounds fair, but the French didn't like the way the U.S. wanted to design the rules. Neither did the Germans. The Japanese and Danish had their own concerns.

Meanwhile, the Australians and the Canadians, who saw their banking sectors emerge from the financial crisis relatively unscathed, were wary of subjecting their institutions to new, untested rules that were mostly designed to address problems in Europe and the U.S.

The difficulty of the task became especially clear in December, when officials issued a lengthy proposal for new rules that offended almost everyone, known as Basel 3.

The proposed rules would have driven capital requirements up for all banks, forcing the quality and quantity of these capital cushions to grow. Bankers warned higher capital requirements would inhibit economic growth. Regulators were doubtful but agreed to make some changes.

When regulators met July 26 in Switzerland, they culled some controversial elements and modified their proposal. For example, they eased their rules on what could be defined as capital, allowing a limited portion to consist of things like deferred tax assets, mortgage investments and investments in things such as insurance firms. A partial agreement struck last month stipulated that taken together these variables couldn't make up more than 15% of a bank's capital.

Two big issues remain for the September meetings: size and timing.

First, regulators will have to agree on the precise level of capital needed to buffer against risk. Basel officials have suggested this should be 5%, or $5 in capital for every $100 in assets like loans and investments. They also want to add a 2.5% buffer on top of that, which banks would be able to dip below during tough times.

The negotiations seem headed for a deal, people involved in the process say, where banks are required to hold a capital level of 7% or 8% after factoring in the buffer. Reaching that level could be more problematic for European banks, which tend to hold less capital than their U.S. counterparts.

Second, regulators must agree on how long to give banks to adopt these new rules. Some countries have pushed for a delayed implementation, with the process stretching toward 2020. Others feel a shorter time frame would help force banks to guard against the next crisis. Negotiators are likely to compromise on a schedule of around five years for adoption.

French Gen. Gallois dies at 99

By David Gauthier-Villars

Pierre-Marie Gallois played a key role in defining France's nuclear-deterrence doctrine in the 1950s.

Gen. Gallois, who died Aug. 23 at age 99 in Paris, was an advocate of "peace through fear" at a time when public opinion was generally mistrustful of weapons that had caused mass deaths in Hiroshima and Nagasaki. According to French historians, Gen. Gallois in the 1950s helped convince Gen. Charles de Gaulle that France needed its own nuclear deterrent, independent of that of the U.S.

Gen. Gallois was born in 1911. He studied arts and history in Paris, and then worked for an architect. He also worked for a company that created large-scale lighted ads that hung on the Eiffel Tower.

Worried that a conflict with Germany lay ahead, he joined the French air force in 1935 and was dispatched to Algeria, then a French colony. After war broke out and Nazi Germany defeated France in 1940, he reached London, where Gen. de Gaulle had called on the French to resist the German occupation. He was enrolled in a Royal Air Force bomber squad and took part in many missions over Germany.

Gen. de Gaulle realized the importance of nuclear weapons immediately after the U.S. dropped a pair of atomic bombs on Japan in 1945. Three months after the explosions, he ordered the creation of France's Atomic Energy Commission, the CEA.

At the time, most French officers though atomic weapons would be used like extreme versions of conventional weapons. Gen. Gallois was among the few who thought they could serve as deterrents and allow a small country to keep a much bigger one at bay. In 1955, he attended a U.S. nuclear test in Nevada.

Agence France-Presse/Getty Images

Gen. Gallois, shown in a photo from 1967, thought nuclear weapons could allow a small country to keep a much bigger one at bay.

"Gen. Gallois had been traumatized by the 1940 debacle," said Christian Malis, author of a biography of Gen. Gallois. "He saw a lifeline in the atomic bomb."

Although he thought Gen. de Gaulle, out of power in the mid-1950s, had no political future, Gen. Gallois briefed Gen. de Gaulle about his nuclear theories during an informal meeting. In 1958, Gen. de Gaulle became president—and fast-tracked France's atomic-bomb plans. France tested its first atomic bomb in the Sahara in 1960.

After retiring from the army, Gen. Gallois worked for airplane maker Dassault Aviation, where he helped develop France's first nuclear bomber.

Gen. Gallois stayed in the public eye with books and essays on geopolitics, and in the 1990s he sparked controversy when he publicly defended Iraqi leader Saddam Hussein and Serbian President Slobodan Milosevic.

Email remembrances@wsj.com

U.K. growth set to slow, business group cautions

Continued from first page

dicted in June. It has also increased its forecast for GDP growth for 2011 to 2.2% from 2%.

Data from the Office for National Statistics on Friday showed that the U.K. economy grew at its fastest pace in nine years in the second quarter, with GDP upwardly revised to 1.2% in the April-to-June period. From the year-earlier period, the economy grew 1.7%.

Unemployment is expected to increase over the next 18 months, the BCC said, forecasting it to peak at 2.65 million—the equivalent of 8.3% of the work force—in the first half of 2012. The group said it expects the deficit to fall faster than planned, as tax receipts have shown a surprising buoyancy in recent months.

Public-sector net borrowing is expected to decline to £144 billion in 2010-11; £110 billion in 2011-12, and £83 billion in 2012-2013.

Meanwhile, inflation will remain above the Bank of England's 2% target until the end of 2011, but it is likely to fall below 3% over the next year, the BCC said.

"However, threats of a setback to growth remain more serious than risks of a surge in inflation," said BCC Chief Economist David Kern. "Given the balance of risks facing the economy, we urge the BOE's Monetary Policy Committee to keep interest rates at 0.5% until the second quarter of 2011 at the earliest, and to consider further increases in the quantitative easing program if the economy weakens."

Separately, a survey by property website Rightmove to be published Monday found that the proportion of first-time home buyers in the U.K. is expected to sink to a new low over the coming year, accentuating the challenges facing the U.K. housing market.

The poll showed that of people who were expecting to buy a property over the next 12 months, only 22.2% were first-time buyers in the third quarter, down from 30.8% the same time last year.

"This is around half the proportion traditionally required to give the market a healthy balance," said Miles Shipside, director of Rightmove. "With the number of prospective buyers at the bottom of the chain being half of normal levels, the question sellers further up the chain will be asking is: 'Who will be at the bottom of my chain?' "

U.K. house prices have staged a

Meanwhile, the proportion of first-time home buyers in the U.K. is expected to sink to a new low.

surprise rebound starting from the second half of 2009, as the supply of residential property on the market remained thin. But prices have begun to stabilize as the number of properties coming to the market outstrips demand, and some economists say that government austerity measures could help tip prices lower ahead.

A smaller number of first-time buyers could exacerbate that trend, as it would make it harder for existing home owners to upgrade.

Rightmove described the results of the survey as "cause for concern."

The survey was conducted between July 5-19, with 22,010 responses to an online questionnaire, Rightmove said.

—Natasha Brereton contributed to this article.

EUROPE NEWS

Italian models praise Gadhafi

Associated Press

ROME—Libyan leader Col. Moammar Gadhafi gave a lesson on Islam and copies of the Quran to a few hundred young Italian women Sunday as he arrived in Rome for his fourth visit in a year.

It was the second time the Libyan leader, who travels with female bodyguards and says he is a feminist, had staged such an event for Italian women, who were recruited by a modeling agency and were paid an undisclosed sum to attend.

One of them, Michela, who asked that her last name not be used, told Associated Press Television News that three of the participants converted to Islam on the spot.

"It was a really beautiful meeting and went very well," she said. "He is very easygoing and he gave us a copy of the Quran. Three girls converted themselves to Islam during the ceremony. It was a beautiful event."

Other participants, who identified themselves as Roman Catholics in this overwhelmingly Catholic country, said Col. Gadhafi had urged others to convert and had dismissed Christianity as unimportant.

As many as 500 young women attended, arriving 10 buses at the Libyan ambassador's residence just as Col. Gadhafi's plane was landing at Rome's Ciampino airport at the start of a two-day visit.

The visit comes amid steadily improving business ties between Libya and its former colonial ruler and marks the second anniversary of a friendship treaty in which Italy agreed to pay Libya $5 billion in compensation for its 30-year occupation, which ended in 1943.

When Col. Gadhafi was in Italy in November for a United Nations food summit, he hosted 200 young Italian women who had been recruited and paid €50 (about $75) by the same modeling agency to attend. Then, too, he gave a lecture on Islam and handed out copies of the Quran. This time, the women didn't say how much they had been paid, only that they had received a small "reimbursement."

As part of the friendship treaty anniversary celebrations, 30 Libyan horses were arriving in Rome for a joint demonstration with Italy's carabinieri equestrian forces on Monday, news reports said.

Despite the colonial past, Italy and Libya have long had good ties, and major Italian corporations such as oil giant Eni SpA have invested heavily in the oil- and gas-rich country. Libya's central bank holds a 4% share in Italy's largest bank, UniCredit SpA, which earlier this month won the first international license to operate in the North African country.

Reuters

Libyan leader Col. Moammar Gadhafi leaves his private plane with his bodyguards at Ciampino airport, Rome, on Sunday.

Bettencourt drops defendant from will

By David Gauthier-Villars

PARIS—Liliane Bettencourt, the heiress to the **L'Oréal** SA cosmetics empire, has written out of her will a photographer friend accused of having abused her trust, Ms. Bettencourt's spokeswoman said over the weekend.

The move by France's richest woman could affect the trial of the photographer, François-Marie Banier, on charges that he exploited the mental weakness of the 87-year-old Ms. Bettencourt to obtain money and lavish gifts with a total value of about €1 billion ($1.27 billion). In addition, a 2007 will made by Ms. Bettencourt said Mr. Banier would get a large chunk of the heiress's fortune when she dies.

Mr. Banier has acknowledged receiving the gifts, but denies having abused Ms. Bettencourt's trust.

The trial, which was delayed indefinitely pending further investigation, has embarrassed President Nicolas Sarkozy and his ruling party, the Union pour un Mouvement Populaire. Evidence being prepared for the trial includes conversations relating to Ms. Bettencourt's donations to the UMP and Mr. Sarkozy's 2007 presidential campaign.

A prosecutor is looking into the legality of Ms. Bettencourt's political donations. Ms. Bettencourt has said all her donations were legal. The UMP has said all the money it collected was legal and Mr. Sarkozy has said talk of illegal financing was an attempt to tarnish his reputation. But the probe has drawn attention to his close relations with the wealthy at a time of government cutbacks amid a weak economy.

Mr. Banier's case follows a complaint made three years ago by Ms. Bettencourt's only child, Françoise Bettencourt-Meyers. She accused him of having abused Ms. Bettencourt's mental weakness to get assets from her that total €920 million, in the form of life-insurance policies and art works. In 2007 Ms. Bettencourt agreed to leave Mr. Banier an estimated €1.25 billion, or 8% of her fortune, after her death, according to Marion Bougeard, Ms. Bettencourt's spokeswoman.

A Saturday statement on behalf of Ms. Bettencourt indicated that Mr. Banier was no longer in line for the €1.25 billion. "I have given a lot to François-Marie, and I think it's enough," Ms. Bettencourt said, according to Ms. Bougeard. "Other people need my help."

Writing Mr. Banier out of Ms. Bettencourt's will could make it harder for prosecutors to show he abused her trust. The case shook Mr. Sarkozy in June after Ms. Bettencourt-Meyers' legal filings cited recordings of conversations between Ms. Bettencourt and her financial adviser, Patrice de Maistre. In the conversations—secretly recorded by a former butler of Ms. Bettencourt's—Ms. de Maistre alludes to donations to UMP politicians, including Labor Minister Eric Woerth.

Ms. Bettencourt is considering how to reallocate the 8% tranche of her fortune that won't now go to Mr. Banier, Ms. Bougeard said.

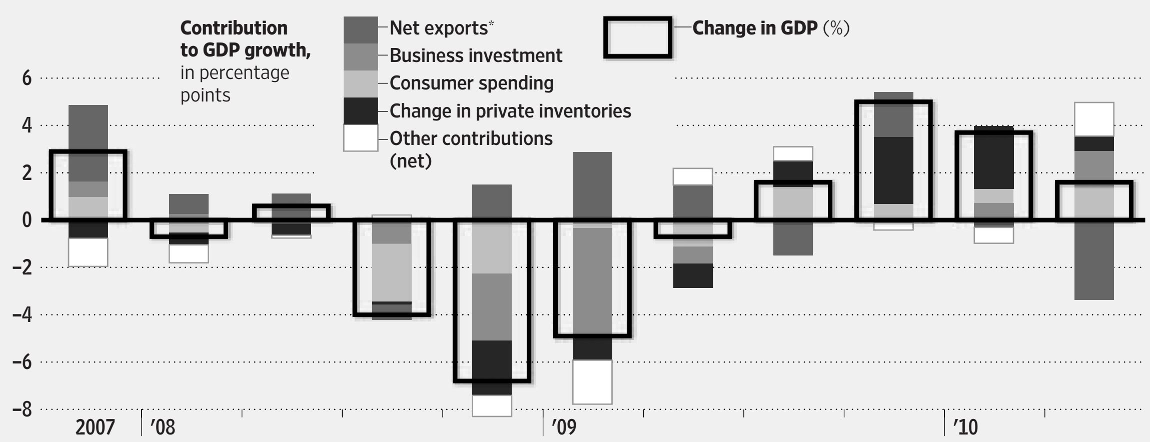
U.S. NEWS

The Fed and the economy

Ben Bernanke laid out the next steps the Fed could take, but they all come with drawbacks

OPTION	Buy Treasury or mortgage debt	Promise to keep short-term interest rates low	Lower the interest rate banks get on reserves they keep with the Fed	Raise the Fed's annual inflation target to a bit more than 2%
PROS	Drives down long-term interest rates and calms deflation anxiety	Could encourage borrowing by households and business, help to lower long-term rates	Would give banks an incentive to lend rather than park money at the Fed	Carefully managed, higher inflation could lower inflation-adjusted interest rates, spurring activity
CONS	Might be less effective now than when used in 2009 and could make it harder to raise interest rates later	The Fed has already effectively done this by saying it expects rates to be low for an 'extended period'	The rate is 0.25%, so the Fed can't lower it much more	Mr. Bernanke doesn't want to do this. It would risk an unwanted inflation surge and more inflation volatility

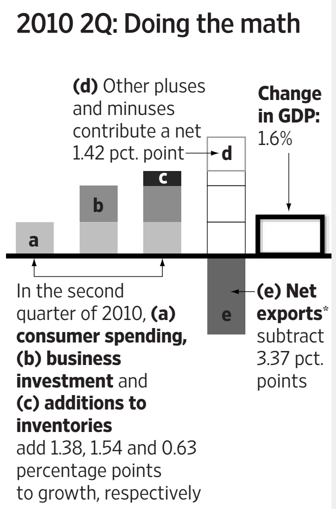
Second-quarter 2010 GDP growth has been revised down to 1.6%.



*Imports of goods and services minus exports

Note: GDP data are seasonally adjusted at an annual rate

Source: Commerce Department (GDP)



Bankers say recovery still on track

By Jon Hilsenrath And Luca Di Leo

JACKSON HOLE, Wyo.—Current and former central bankers from around the world said an uneven global economic recovery was likely to stay on track despite worries about the vitality of the U.S. economy.

At an annual Federal Reserve retreat, angst, not panic, was the order of the day among officials and economists chastened by a deep recession and a disappointing rebound. "We'll slog our way through this," said Thomas Hoenig, president of the Federal Reserve Bank of Kansas City, which sponsored the symposium, summing up two days of presentations, discussions, dinner-table conversation and hiking.

Several foreign central bankers said they were struck by the unusual degree of pessimism they had witnessed in the U.S., a contrast to typical American optimism. "I can't wait to get back to my side of the world," said Alan Bollard, governor of the Reserve Bank of New Zealand. Growth in New Zealand, seen at around 3% this year and next, has been underpinned by strength in Australia and China.

Fed officials are consumed by a debate about whether they should do more to support growth and to prevent already-low inflation from falling further. The top option—laid out by Fed Chairman Ben Bernanke in a speech Friday—would be to resume buying long-term bonds to drive long-term interest rates down more. The Fed's traditional lever of pushing short-term interest rates down is a weak option because it has already pushed them to near zero. The Fed already has purchased $1.7 trillion worth of government bonds and mortgage debt and long-term rates are at their lowest levels in decades.

In a spirited panel discussion Saturday, Charles Bean, deputy governor of the Bank of England, which tried a similar program last year, made the case that such purchases can be an effective way to push down interest rates and spur growth. But he said they were best used only at dire moments. "Asset purchases are probably best kept in the locker marked 'For Emergency Use Only,' " Mr. Bean said.

Alan Blinder, a Princeton University professor and former Fed vice chairman, shot back, "We're not stuffing this crazy aunt back in the closet that quickly," he said, referring to the Fed purchases, which he predicted would restart in the months ahead. Mr. Blinder said they were needed given the weak state of the economy.

Other officials said behind the scenes that they weren't sure resumption of the Fed program would be much help. Michael Mussa, former chief economist of the International Monetary Fund, said central bankers, by so aggressively managing the economy's ups and down, might have made the patient too sick for their own medicine.

Most others at Jackson Hole endorsed Mr. Bernanke's view that the U.S. economy would resume moderate growth in 2011 after a sluggish second half of this year. "The most likely outcome is that the world is on track for a moderate recovery," said John Lipsky, the IMF's deputy managing director.

The IMF expects to make only minor adjustments to its forecast, currently being reviewed ahead of IMF meetings in early October. "We had always anticipated there would be somewhat of a slowdown in the second half," he said. "Emerging markets are, if anything, stronger than we had anticipated and the latest data out of Europe is better."

A nagging worry among central banks is the heavy burden of debt weighing on governments around the world. Jacob Frenkel, former head of the Bank of Israel, termed it the "gorilla in the room." Added Armínio Fraga, partner at Gavea Investimentos and former head of Brazil's central bank: "This is the issue for the next 10 years."

State tax revenue sees continued gains

By Conor Dougherty

State tax revenue rose in the second quarter, as higher taxes and the slowly improving economy led to an increase in collections.

Overall tax revenue increased 2.2% in 47 states that have reported their receipts for the three months ended June 30, compared with the same period a year ago, according to a report to be released Monday by the Nelson A. Rockefeller Institute of Government at the State University of New York.

This marks the second quarter in a row of recovering tax collections—and follows five straight quarters of declines in state and local revenue that hammered government budgets during the recession. The latest figures are still a mixed bag: Some states continue to see declining revenue, but those were offset by states that saw increases.

States continue to face financial pressure for the rest of this year and into next year, in part because tax collections still remain below the levels of two years ago. In addition, aid to state income provided by federal stimulus funds is starting to fall away. And signs that the economy is flagging add to the gloomy outlook for state coffers.

"Most states still show a mismatch between revenue and spending trend lines," said Robert B. Ward, deputy director of the Rockefeller Institute. "It's not time to put away the red ink yet."

Declining expenditures by state and local governments shaved 0.1 percentage point from second-quarter gross domestic product, according to a Commerce Department report on Friday. The nation's 89,000 local governments, everything from states to cities and school boards, have seen persistent layoffs over the last two years.

State and local governments shed 48,000 jobs in July, the biggest number in a year, according to the Labor Department. The sector, which now employs about 19.5 million people, has cut 169,000 jobs in total this year, including 102,000 over the past three months. President Barack Obama recently signed legislation that will provide some $26 billion in budget assistance for states. Still, many economists think crimped local-government budgets will continue to drag on growth through this year and next. Most state and local governments require a balanced budget, so weak revenue forces spending cuts or tax increases.

"Federal help will buy them more time, but doesn't change the fact that they've got to cut expenses, including employment," said Nigel Gault, chief U.S. economist at forecasting firm IHS Global Insight.

The second-quarter gains were driven by growth in sales and income taxes, both of which have been raised in many states.

Politicians differ over meaning of big rally

By Brent Kendall And Bob Davis

WASHINGTON—Politicians across the spectrum on Sunday differed over the significance of the rally that drew throngs of conservatives and tea-party supporters to the National Mall.

Republicans said the rally was a reflection of the country's objections to the policies of the Obama administration, while Democrats said the tea-party movement had created a deep split in the Republican Party that could hurt the GOP in the November elections.

Attendees on Saturday packed nearly a mile of the National Mall at the foot of the Lincoln Memorial. Many at the event said in interviews they were drawn by a sense of deep disenchantment over the country's direction, alarm over government spending and a sense that the country's political system was broken.

The rally, which was organized by Glenn Beck, a conservative radio broadcaster, featured three hours of religious and patriotic speeches but offered few details on how to fix the country's problems.

Mississippi Gov. Haley Barbour, a former chairman of the Republican National Committee, said President Barack Obama and Democrats in Congress "have taken the biggest lurch to the left in policy in American history."

"Those hundreds of thousands...on the Mall yesterday were reacting to that," he told CBS's "Face the Nation."

Mr. Barbour downplayed the effect of tea-party primary challenges to established GOP candidates, including in Tuesday's contest in Alaska. Joe Miller, a tea party-backed candidate, continues to hold a slight lead over incumbent Sen. Lisa Murkowski in the Republican Senate primary. Republicans in Alaska and other states have the right to pick their own nominees, Mr. Barbour said.

Rep. Debbie Wasserman Schultz (D., Fla.), also speaking on "Face the Nation," said there was a "raging battle" going on for the soul of the Republican Party. "It's hard to know where the Republican Party ends and the tea party begins," she said, adding that the GOP has struggled to elect moderate, mainstream candidates.

Mr. Beck, speaking on "Fox News Sunday," estimated that as many as 650,000 people attended Saturday's rally. "Whether you're a Democrat, Republican or independent, it doesn't matter—we all know the country is in trouble," he said. The National Park Service didn't provide its own estimate of crowd numbers.

Associated Press

Rally organizer Glenn Beck Saturday.

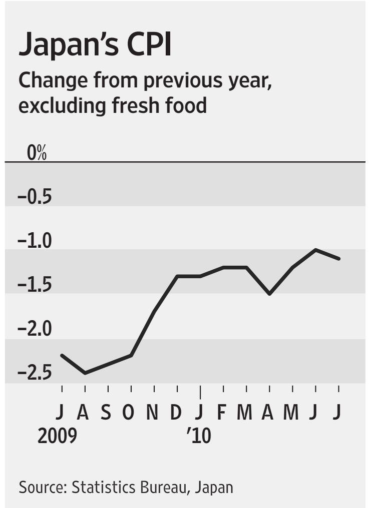
WORLD NEWS

Bank of Japan plans urgent session

By Megumi Fujikawa
And Tomoyuki Tachikawa


Reuters

Bank of Japan Governor Masaaki Shirakawa at Jackson Hole Economic Symposium in Wyoming on Saturday



TOKYO—The central bank is expected to hold an emergency meeting early this week to inject new money into the banking system, and the prime minister plans to unveil a modest package of fiscal-stimulus measures, as Japanese policy makers launch a coordinated response to contain the strong yen's damage to the economy.

Japan's finance minister over the weekend had given more veiled hints of intervention in currency markets if the yen continues to rise sharply.

While the Bank of Japan for weeks has resisted calls to loosen further an already-loose monetary policy with rates near zero, officials in recent days have grown increasingly worried that the yen's acceleration is clouding the outlook for the export-dependent Japanese economy, and started to hurt business sentiment, according to people familiar with the situation.

Spooked by the yen, Japan's stock market has dropped about 20% since its peak earlier this year, heading into bear-market territory.

Any monetary-policy move, such as more cheap loans for banks, likely would be timed to come out about the same time as new government stimulus measures, to maximize the impact on market players looking for signs that Japan is serious about policies, and addressing the yen's impact.

"It's important [for the BOJ] to coordinate with the government's action," one of the people involved said, referring to Prime Minister Naoto Kan's plans to announce additional measures to try to offset the impact of the surging yen on the domestic economy.

Japanese finance officials have hinted in recent days that they may consider intervening directly in currency markets to halt the yen's rise. Finance Minister Yoshihiko Noda said during meetings in Beijing on Saturday that he will take "decisive" steps against the yen if it becomes necessary—language often used by officials to signal that intervention could be imminent.

Japan's central bank has a regularly scheduled meeting set for Sept. 6 and 7, but officials are now expected to move sooner than that, with Prime Minister Kan meeting with Bank of Japan Governor Masaaki Shirakawa as soon as the central bank chief returns from his trip to the U.S.

Mr. Shirakawa attended the Jackson Hole, Wyo., economic-policy symposium held by the Federal Reserve Bank of Kansas City over the weekend.

BOJ policy-board members might get together as early as Monday, when the governor is slated to return to Japan, or Tuesday, when the government is scheduled to announce an outline of the possible stimulus measures. The stimulus package is expected to draw on 920 billion yen, about $11 billion, in a reserve fund from the current budget, aiming at creating more jobs and demand. If more is needed, the government may consider a supplementary budget bill to use an 800-billion-yen surplus from the previous fiscal year.

But lawmakers also have vowed to keep the package limited to that small level and to avoid doing anything that would require issuing new bonds and further expanding Japan's mammoth outstanding debt.

Given the urgency of the situation and limited policy options from the fiscal side, politicians have stepped up pressure on the Bank of Japan over the past few days. Finance Minister Noda said during the meetings in Beijing Saturday that "specifics of monetary policy should be considered by the BOJ, but there is room to be creative in using monetary policy to help improve the current [economic] situation." Prime Minister Kan said Friday he expected the central bank to "flexibly implement monetary policy."

Bank of Japan officials also are worried the yen's steep rise may damage sentiment in the corporate sector and drag on Japan's already decelerating economic recovery. In a survey of 200 firms released Friday, the Ministry of Economy, Trade and Industry found 65% of large manufacturers said their profits have been hurt by the yen's strength against the dollar, up from 16% in a previous survey in May.

The central bank has been saying that the domestic economy is showing signs of moderate recovery thanks to a pickup in exports and industrial production, but some officials lately expressed more caution because of instability in financial markets and an uncertain overseas economic outlook. Rocked by the strong yen, the Nikkei Stock Average last week fell to a 16-month low, dropping below 9000.

The dollar fell to as low as 83.58 yen early last week as the lack of action by the Japanese government against the rising yen disappointed the market, with concerns over the slowing U.S. economy also weighing on the dollar. The U.S. currency recovered some ground afterward and stood around 85.23 yen Sunday.

For now, an expansion of a three-month 0.1% emergency loan facility, which the Bank of Japan set up in December and doubled in March, would be "the easiest choice" for the BOJ to loosen monetary conditions, a person familiar with BOJ officials' thinking told Dow Jones Newswires.

The central bank could consider increasing the supply of three-month funds from the current 20 trillion yen or extending the duration of such loans to six-months.

A flood of low-rate funds into the market would send term-fund rates, such as interbank rates, for the yen lower. In theory, if Japanese rates are significantly lower than those of other countries, that would reduce the relative rate of return on investments pegged to the Japanese currency compared with assets in other currencies—and thus cap the yen's rise.

A main factor that has driven the yen higher in recent weeks has been the fact that the Federal Reserve has been more aggressive than the Bank of Japan in promising easier monetary conditions. That has worked to narrow the interest-rate gap between the U.S. and Japan, to reduce the relative value of dollar-denominated assets and to put upward pressure on the yen against the dollar.

Indeed, while the Bank of Japan is now moving to follow in the Fed's recent tracks, the Fed seems poised to do more. U.S. Fed Chairman Ben Bernanke said Friday the Fed "will continue to monitor economic developments closely and to evaluate whether additional monetary easing would be beneficial," and that the Federal Open Market Committee "is prepared to provide additional monetary accommodation through unconventional measures if it proves necessary, especially if the outlook were to deteriorate significantly."

That could offset the impact on the yen of any BOJ move this week. Thus, an expansion of the three-month loan program by the central bank may not be enough to satisfy the foreign-exchange market, and the central bank may be forced to take more-aggressive steps. The BOJ may also have to buy more government bonds and cut its interest-rate target, said another person familiar with BOJ thinking.

—Takashi Nakamichi in Beijing contributed to this article.

Poll boosts Japan's embattled leader Kan

By Yuka Hayashi

TOKYO—Japanese Prime Minister Naoto Kan received a boost in his bid to hold on to office, with a public-opinion poll showing an overwhelming majority of voters favor him over challenger Ichiro Ozawa.

Reflecting concern that escalating infighting within the ruling party would hamper the government's ability to cope with deepening economic woes, 70% of voters surveyed by Kyodo News late last week said they wanted to see Mr. Kan stay in office, compared with just 16% who hoped for Mr. Ozawa's victory in a Sept. 14 internal vote of the Democratic Party of Japan.

Since the party election is open only to DPJ lawmakers and registered supporters, the general public's view isn't a strong predictor of its actual outcome. Indeed, Mr. Ozawa is believed to have a strong lead among the parliamentarians who hold two-thirds of the votes in the contest. Still, Mr. Kan's camp hopes such poll results will influence the decisions of party members and give him enough votes to stay as leader of the ruling party and continue to serve as prime minister.

If Mr. Kan loses, Mr. Ozawa, a powerful lawmaker who stepped down as a top party official in June amid a campaign-finance scandal at his fund-raising organization, would be the third prime minister since the DPJ took power in September. That would make him the seventh national leader in less than four years.

"It's not like the DPJ to allow a gap between what the public wants and what the party's insiders want," said Manabu Terada, Mr. Kan's aide, in a Sunday political talk show on NHK, the state network. "To avoid that kind of gap, we need to do a lot of talking among ourselves." The 33-year-old lawmaker is quickly becoming the face of Mr. Kan's campaign as it meets a tough, and increasingly contentious, fight with Mr. Ozawa and his big power base in the party.

Since Mr. Ozawa's surprise announcement of his bid on Thursday, Mr. Kan has kept himself busy playing the role of a concerned national leader battling a crisis. The current market turmoil has sent the yen to a 15-year-high against the dollar and threatens to undermine the recovery of Japan's export-oriented economy.

On Friday, the prime minister visited a Tokyo neighborhood known for its struggling small-parts factories and warned of possible government intervention in the currency market to curb extreme moves. Mr. Kan is expected to unveil a new economic-stimulus package Tuesday and to meet with Bank of Japan Gov. Masaaki Shirakawa to discuss a coordinated policy strategy to respond to the yen's rise.

Mr. Ozawa, meanwhile, has focused on courting key party officials to organize votes of lawmakers, many of whom blame Mr. Kan for the party's defeat in July upper-house elections. Mr. Ozawa seems to have an edge over Mr. Kan at this point in securing lawmakers' votes, according to the Japanese media.

Mr. Ozawa is, however, deeply unpopular with the general public, in part because of his image as a behind-the-scenes deal maker. Mr. Ozawa also could be indicted in coming weeks soon if a court-appointed citizen's panel looking into his case reaches a ruling calling for such action. He has denied any wrongdoing in the matter, and prosecutors dropped the case weeks ago.

Mr. Ozawa's aides say that if Mr. Kan is allowed to stay in power, the DPJ, its parliamentary presence weakened, will struggle to pass legislation and be forced to hold untimely general elections. Mr. Ozawa, with his close ties to opposition parties, is more suited to guide the party, they say.

The growing divide within the ruling party and a specter of potential political chaos worry many Japanese business leaders and citizens. Asked in the Kyodo poll to name the next DPJ leader's most urgent tasks, 52% cited jump-starting the economy and securing employment.

The survey, conducted Friday and Saturday and released Saturday, also showed that the confrontation with Mr. Ozawa has helped shore up the sluggish support rating for Mr. Kan's cabinet to 48.1%, up 9.4 percentage points from early August.

Strike hampers South Africa growth

By Peter Wonacott

JOHANNESBURG—Even the dead can't escape South Africa's labor unrest.

A major public-service strike that began earlier this month has left relatives of the deceased ensnared in a bureaucratic netherworld as they wait at an understaffed morgue for the bodies of their loved ones to be released.

The strike has pulled teachers from classrooms and customs officials from border points. Nurses have walked out, and the military has been called to 42 hospitals nationwide to plug gaps in essential services.

Camouflage-clad soldiers roam the halls at Johannesburg's Chris Hani Baragwanath Hospital, but at the hospital morgue, some families have huddled for days outside the bank of refrigerated lockers, waiting for paperwork to be completed before bodies are released.

"The whole process is delayed," says Leonard Mapote, who has been trying for a week to retrieve his brother's body. "We have to wait."

Hospital officials didn't respond to interview requests or emailed questions about the strikes.

The walkout is a threat to the nascent recovery of Africa's biggest economy and a jolt to the South African government, which had been reveling in its success hosting the football World Cup. Now the focus has turned to the labor tensions roiling the country.

Thousands of municipal workers defied a court order and staged a one-day sympathy strike Friday that slowed garbage collection in major cities, Reuters reported.

"We were at the forefront of supporting the World Cup, but it's our democratic right to strike," says Vuyisile Mabaya, a union leader standing with hundreds of protesting health workers outside the Chris Hani hospital. "People need to feed their families."

Demotix Images

Striking public-sector workers, including nurses and teachers, demanded higher wages in Cape Town last week.

The work stoppage has boiled down to a battle of wills. Some 1.3 million members of affiliated unions have demanded the government lift public-service wages 8.6% and extend employees a 1,000-rand ($137) monthly housing allowance.

The government says it can't justify such a steep pay raise while it is faced with other demands. The government this month proposed a "final" 7% annual increase with a 700-rand monthly housing allowance—an offer the unions rejected.

The union demand would cost the government eight billion rand over its budgeted for next year, says Themba Maseko, a government spokesman. "Now it's an issue of affordability more than anything."

If the wage spat isn't settled soon, the Congress of South African Trade Unions has warned that mining and manufacturing unions will take to the streets in sympathy. "South Africa has been one of the most unequal societies in the world. There are bound to be efforts to redress that," says Patrick Craven, national spokesman for the umbrella union, known as Cosatu.

As the strike drags on, some observers warn of significant damage to the economy.

The immediate risks are more government borrowing and spending cuts to pay for salary increases.

Another risk is that investors will come to regard South African labor as high-priced and unreliable, and curb job-creating expansion plans or divert capital to other countries.

The wage increases threaten to "make South Africa less and less competitive and less relevant on the world stage," said David Brown, chief executive of one of the world's largest platinum producers, **Impala Platinum Holdings** Ltd. He blamed a wage strike at his company for contributing to a decline in net profit in the financial year that ended in June.

South Africa has exited last year's recession that was brought on by the global downturn. The economy grew 3.2% in the latest quarter from the previous three months, but that pace was slower than the first quarter's 4.6% growth. Unemployment still hovers at 25%.

Despite that, public-sector wages have surged. From 2006 through 2009, salaries have jumped 34%, according to Ettienne le Roux , chief economist for Rand Merchant Bank in Johannesburg.

"Many countries we compete with have embarked on wage constraints," he says. "What we see here is quite the opposite."

The wage impasse has forced President Jacob Zuma into a delicate spot. Unions have provided critical support to his government. But during a visit to Beijing last week, Mr. Zuma broadcast South Africa's ambitions to join the ranks of major developing economies Brazil, Russia, India and China—known as the BRIC countries—and ramp up annual economic growth to 7%. Achieving those goals will require new infusions of capital, and investor confidence.

The strike has weighed heavily on those who can't afford private education or health care. "The education of our children has been held back," said Megan Mokoena, a Soweto resident with two elementary-school children. "They're at home, not doing any schoolwork." Following threats, some private schools have shut their doors, too.

South African newspapers have reported strikers turning away gravely ill patients and pregnant women from hospitals. Mr. Mabaya, the union leader demonstrating at Chris Hani hospital, says his union has apologized to the community for such incidents.

Military shuffles in Myanmar

By a WSJ Staff Reporter

Myanmar's military junta is believed to have carried out its biggest leadership shuffle in more than a decade, a move that could free top army officers to run as civilians in November elections for a new government.

It was unclear whether the top leader of the country's ruling military junta, Senior Gen. Than Shwe, would resign his military post as part of the changes, in which more than a dozen senior army officers are expected to retire.

If the general—who has ruled Myanmar since 1992, and whose government is accused of widespread human-rights abuses—does give up his military title and succeeds in winning an office in the election, some political analysts said this weekend that he could remain in power for years to come.

Other analysts said Gen. Than Shwe is unlikely to seek any elected office, and will probably retire after the vote, which will be the first in Myanmar in 20 years.

Officials in Myanmar couldn't be reached for comment. The shuffle wasn't formally announced but was reported by the Associated Press, Reuters and other news agencies, which cited military and government officials in Myanmar that they didn't name.

The U.S. and many other foreign governments have expressed deep concerns over the coming election, saying they fear the vote won't be free or fair.

Opposition leaders easily defeated Myanmar's military regime in the last election, in 1990, but army leaders ignored the result and locked up many top critics, including Nobel laureate Aung San Suu Kyi.

She remains under house arrest in a lakeside villa in Yangon, the former national capital.

Analysts believe the junta is now trying to use the new vote, scheduled for Nov. 7, to restore its reputation by shifting control of government positions held by soldiers to elected civilians. Although 25% of the seats in Myanmar's parliament will be reserved for soldiers, the rest are expected to go to civilians.

But Myanmar's main opposition party, the National League for Democracy, is boycotting the polls, and exile groups have denounced the process as a sham designed to disguise the junta's continued control in civilian garb.

If former military officers wind up winning most of the seats in parliament, "you'll get a structure that is completely dominated by the military," says David Mathieson, a Thailand-based researcher for Human Rights Watch. "It's not as if it's a genuine transfer of power."

More than a dozen military leaders are retiring, the AP reported, including Myanmar's third- and fourth-ranking generals, as well as key regional commanders.

Those positions wield immense power in Myanmar, a resource-rich nation of 48 million people in which the military asserts tight control over most aspects of the national economy and severely restricts the media and public debate.

The resignations will allow a new generation of soldiers—most of whom aren't well-known to outsiders—to assume key positions in the military hierarchy.

The shuffle follows an earlier mass resignation of military officials in April, when Prime Minister Thein Sein and several other senior leaders gave up their military titles to form a new political party to contest the election.

Although the plans of the newest crop of retired officers aren't yet known, analysts and exile groups believe many will run for office.

Most likely they would seek election as members of the Union Solidarity and Development Party, the party created by Mr. Thein Sein and his allies, or in a handful of other parties that are believed to be proxies for the military.

More details are likely to emerge in the coming days, because political parties are supposed to submit their lists of candidates to the government by Aug. 30.

Probe seeks changes in U.N. climate panel

By Jeffrey Ball

A group investigating the United Nations' Intergovernmental Panel on Climate Change will recommend in a report Monday that the scientific organization beef up its capacity to ferret out errors in its scientific assessments, a member of the investigating body said.

But the group, appointed by the InterAcademy Council, a consortium of national scientific academies, won't pass judgment in its report on the state of knowledge about global warming and its causes. It also won't address whether IPCC Chairman Rajendra Pachauri should resign—a step that some critics have called for and that the chairman has said he doesn't intend to take.

Reuters

The panel won't address whether IPCC chief Rajendra Pachauri should resign—a step some have called for.

The IPCC and the U.N. requested the probe in March, under mounting public pressure following the disclosure of a handful of errors in a roughly 3,000-page scientific report the IPCC published in 2007.

The IPCC is a sprawling organization in which thousands of scientists volunteer their time to help write massive reports about every six years assessing climate science.

The groups of scientists who produce each IPCC report disband once the report is published. And the IPCC, which was founded two decades ago, has only a few dozen paid staff members. That makes it difficult to look into alleged errors that later arise and to fix them, Mario Molina, a member of the InterAcademy Council panel, said.

Among the mistakes in the IPCC's 2007 report was an erroneous projection that Himalayan glaciers would melt by 2035. The IPCC expressed "regret" for that claim, which IPCC officials say lacked scientific basis. But IPCC officials have said those mistakes don't impugn the main conclusion of the 2007 report: that climate change is "unequivocal" and "very likely" caused by human activity.

A spokesman said Mr. Pachauri wouldn't comment on the report until it is issued Monday.

Shootout in Russia's Caucasus kills 17

By Gregory L. White

MOSCOW—Islamist fighters raided the village of Chechnya's strongman leader early Sunday, spurring a three-hour firefight that left five law-enforcement officers and 12 militants dead, according to officials and news reports.

Officials said between 15 and 30 fighters attacked Tsenteroi, home of Chechnya's Moscow-backed regional chief, Ramzan Kadyrov, setting off a gun battle with police and members of Mr. Kadyrov's security force.

The attack follows a wave of violence in the restive North Caucasus region in recent weeks, and came after Russian officials marked what they called victories against separatist fighters in the region.

On Saturday, President Dmitry Medvedev congratulated the head of the Federal Security Service on what he called "rather successful" operations in recent weeks that there have left dozens of suspected Islamists dead, according to official accounts. Last week, authorities said they had killed the organizer of the March Moscow subway bombings.

Following Sunday's attack, Mr. Kadyrov told Russian media he had commanded the operation, adding that authorities had advance warning of the attack.

"We let them into the village so they couldn't escape," Mr. Kadyrov told state television. "We forced them into a place where they could be eliminated."

State television showed footage of intense fighting involving armored-personnel carriers and rocket-propelled grenades. TV reports also showed burned-out homes. Mr. Kadyrov was shown inspecting bodies of what state television said were the dead attackers, which had been dragged onto a street.

An Associated Press reporter at the scene saw fire-ravaged and bullet-ridden homes, with body parts lying among the rubble.

Resident Vargan Edelgeriyeva, 48, said the gun battle started at about 3 a.m. at a construction site about 150 meters away from Mr. Kadyrov's residence, the AP reported. Militants entered local homes but were quickly surrounded, Ms. Edelgeriyeva said. In one house an insurgent detonated explosives, perhaps a grenade, killing himself and a 30-year-old resident, she said.

Official reports made no mention of civilian deaths, saying only that seven residents had been wounded. The Kadyrov government denied early reports that put the civilian death toll at five.

Authorities said 17 law-enforcement agents were hurt.

Mr. Kadyrov has repeatedly declared that the Islamist underground was all but defeated, but those statements have proved to be premature. What started in the 1990s as a separatist struggle has taken on an Islamist cast in recent years and spread from Chechnya to neighboring regions.

In Dagestan, east of Chechnya, security forces early Sunday killed four suspected militants when they failed to stop at a police checkpoint, officials said.

More on move as floods spread

By Zahid Hussain

Associated Press

Families carry food and children across a flooded area to reach their homes, in Sultan Kot, southern Pakistan, Sunday.

THATTA, Pakistan—Hundreds of thousands more Pakistanis fled their homes and scores of villages were inundated as floods that began in the north of the country almost a month ago spread to southern regions near the Arabian Sea.

On Friday, floodwaters burst through the banks of the Indus River, which has swollen to 40 times its usual volume, inundating large swaths of Pakistan's southernmost Sindh province.

The sea of water has forced one million people in the province to leave their homes since Wednesday, the United Nations said, adding to the six million people already made homeless. The floods have killed more than 1,500 people and significantly affected 17 million others, the U.N. said.

The fresh damage was centered on the southern Sindh town of Thatta, which is just 48 kilometers from where the Indus River flows into the Arabian Sea.

While floodwaters have begun to recede in northern areas of the country, high tides in the Arabian Sea mean they still pose a threat to Sindh, the government said.

About half a million people fled their homes in the district early Friday as waters began to rise. People, scared of losing their property, had ignored earlier government warnings to evacuate.

"We don't want to leave our homes and livestock. We will see when the water comes here," said Ali Mohamed, a farmer from an area of the district that is under threat but has yet to be submerged.

Floods cut off Kot Almoon, a town of 10,000 people in the area. Scores of other villages were inundated and the floodwaters threatened Thatta, home to 300,000 people.

Buses, cars, trucks and carts packed with refugees streamed out of Thatta, choking the highway.

"The situation is very alarming," said Riaz Ahmed Soomro, Sindh province's relief coordinator. The army has been put on high alert as the flooding threatens more towns.

Many of the refugees headed to the provincial capital, Karachi, a city of 18 million people some 96 kilometers away. Sindh's provincial government has set up more than 30 camps on the outskirts of Karachi and is housing more than 30,000 refugees.

Last week, police and paramilitary forces in Karachi killed three refugees from Sindh and injured 16 others who were staying in unfinished apartments illegally.

City officials said they are concerned about refugees coming without jobs and settling in a city already rife with ethnic violence and unemployment.

The U.N. said it has raised more than two-thirds of its $460 million appeal and an additional $600 million has been pledged outside that appeal.

The U.S. has donated $200 million, including speeding up some long-term aid for Pakistan to help with the flooding.

Some U.S. business groups are urging the government to do more.

Thomas Donohue, president of the U.S. Chamber of Commerce, has urged the Obama administration to quickly push through Congress legislation that would allow Pakistani exporters, especially from the garment sector, better access to U.S. markets.

The legislation to set up free-trade zones in Pakistan, first proposed by the Bush administration in 2006, has been held up in Congress due to disagreements between the Senate and House over strict labor standards in the House's draft bill.

Mr. Donohue, in a letter Aug. 25 to Secretary of State Hillary Clinton and U.S. Trade Representative Ronald Kirk, wrote: "In light of the devastating floods that recently struck Pakistan, we need to work together to secure Congressional approval of this legislation on an urgent basis."

The chamber supports widening the scope of the legislation to allow duty-free export of cotton trousers and shirts from the free-trade zones. Currently, the legislation excludes these items due to opposition from U.S.-based garment manufacturers.

The floods are Pakistan's worst-ever natural disaster in terms of damage and the number of people affected.

"An area as large as England has now come under water and it will take massive effort to deal with this monumental crisis," said Rune Stroem, country director for the Asian Development Bank.

The massive devastation of farmland and crops have raised fears of starvation.

Even before the floods, Pakistan's economy was fragile. The floods have damaged at least 3.2 million hectares of cropland—about 14% of the country's entire cultivated land—according to the U.N.'s Food and Agriculture Organization. The total cost in crop damage is believed to be about $3 billion.

Pakistani food ministry officials said the government was likely to cancel plans to export two million tons of wheat, adding to shortages of the crop caused by Russia's wildfires and drought this month.

Some analysts say Pakistan, which has lost much of its stored wheat and may not be able to plant the winter crop because of flooded farmland and lack of seeds, could be forced to import wheat.

Already, the rice harvest has been wiped out, meaning exports from Pakistan, the world's third-largest supplier, will fall by a fifth this year, to three million tons, putting pressure on global rice prices, the FAO said.

—Tom Wright contributed to this article.

Afghan prosecutor says he was ousted

By Alan Cullison

KABUL—Two of Afghanistan's top prosecutors were abruptly forced into retirement last week after pushing high-level corruption cases touching on the administration of President Hamid Karzai, one of the prosecutors said Sunday.

The dismissals come amid a showdown between the Karzai government and two American-backed investigative units whose work lately had led to charges against a close Karzai aide and investigations of numerous ministers.

The U.S. has been pressuring Mr. Karzai to back an anticorruption campaign as a means of boosting his government's sagging legitimacy among the Afghan people. But recently, officials close to Mr. Karzai have characterized the work of the major-crimes unit and a sensitive investigations unit as an infringement on the country's sovereignty.

Fazel Ahmed Faqiryar, who was dismissed last week as Afghanistan's deputy attorney general, said that more than two dozen top Afghan officials are now under investigation by the two units, including cabinet ministers and governors.

But he said that cases against most of them remain stymied by Attorney General Mohammed Ishaq Aloko, who was appointed by the Afghan president and who Mr. Faqiryar said is "taking orders directly from Mr. Karzai.

"I am willing to arrest people," said Mr. Faqiryar in an interview at his home. "But Aloko is only willing to release them."

Mr. Karzai's administration responded sharply, with the Afghan president's top security adviser dismissing Mr. Faqiryar as a loose cannon who has been irresponsibly spreading corruption allegations.

"He is a big liar, he is lying now, and he needs to be investigated himself," said Rangin Spanta, Mr. Karzai's national-security adviser and one of the officials who Mr. Faqiryar has previously said is under investigation. "As an Afghan citizen I would like to see in court what evidence he has against me that proves any corruption."

A spokesman for the attorney general's office denied any political element to the dismissals, saying that Mr. Faqiryar, 74 years old, had reached retirement age.

The other prosecutor, Amrodin Wafa, 65, who had worked closely with Mr. Faqiryar, may have mistakenly been dismissed, and his case is under review, the spokesman said. Mr. Wafa declined to comment.

The U.S. Embassy in Kabul declined to comment Sunday. U.S. officials have declined to talk about the investigative units since Mr. Karzai's government stepped up criticism of them this month.

Mr. Faqiryar said he and his colleague were dismissed last week after tensions rose over the arrest of one of Mr. Karzai's closest aides, Mohammed Zia Salehi, who Mr. Faqiryar said had been wiretapped while soliciting a bribe from another Afghan seeking his help blocking a separate corruption investigation.

Mr. Faqiryar said the investigation into Mr. Salehi was largely the work of the U.S.-backed major-crimes task force, whose staff has been mentored by U.S. Federal Bureau of Investigation agents, with some receiving training in the U.S.

Mr. Karzai's attorney general, Mr. Aloko, initially supported the investigation into Mr. Salehi, but gradually backtracked as evidence against the aide mounted, said Mr. Faqiryar.

A top adviser to the Afghan president initially denied Mr. Karzai had any connection to the release. But later Mr. Karzai told a U.S. television network that he intervened strongly because Mr. Salehi's civil rights were violated during his arrest.

Mr. Karzai has laid blame for much of the corruption in Afghanistan on the U.S. and its allies, which he says have been pouring billions of aid into the country with little forethought or oversight.

INTERVIEW

Bloomberg News

Francesco Trapani, pictured in Bulgari's headquarters in Rome, wants customers to see the company as 'a whole and self-sustaining world, a kind of style advisor.'

Bulgari recovers its luster

The high-end jeweller is back in the black and a rejuvenated watch division will drive profit further, says its CEO

[Francesco Trapani]

By Chiara Vasarri

ROME—Before leaving the workshop where **Bulgari** SpA makes its high-end jewelry, employees and the rare visitor must put their feet in a shoe-scrubbing machine.

The machine isn't there to give shoes a final polish before their wearers exit onto one of Rome's most ancient streets, but to collect gold dust.

The rising price of gold is a worry, says Bulgari Chief Executive Francesco Trapani, a scion of the family that founded the company in 1884. Wholesale gold prices rose to $965 a troy ounce last week, four times higher than in 2001.

But with rising costs comes creative opportunity. The surge "has made some form of combination of materials, such as gold and ceramic, or gold and steel, more strategic than before," as it allows Bulgari to sell them for less, says 53-year-old Mr. Trapani, elegant in a lightweight suit and distinctive Bulgari tie.

He points enthusiastically to items such as a new version of Bulgari's best-selling B.zero1 ring in gold and ceramic, which has a selling price of around €800 ($1,000). In contrast, jewels in its high-end range start at €70,000. Many of the high-end products will make their first public appearance this week at the Venice film festival.

The lower-priced products are the biggest source of Bulgari's jewelry revenue, which accounted for almost half the company's €443.3 million total revenue in the first six months of this year. Though jewelry lies at the heart of Bulgari's business, Mr. Trapani's decision to diversify into watches, perfumes and accessories over the past 20 years has "radically changed" the company he joined in 1981, he says. These lines now account for almost 50% of the company's sales.

But the watch division—once a star performer—has been losing ground. In the first half of 2010, sales fell 1.2% on the year. Mr. Trapani acknowledges this trend, saying Bulgari's watches sold well in the 1990s because the designs were appealing, but "we were making quartz watches and weren't identified as part of the high end." This, he says, left the company vulnerable to competition from fashion labels, such as Gucci, which also moved into mid-priced watches.

In response, Mr. Trapani says, his strategy has been to control the whole watchmaking process, acquiring companies such as prestigious Swiss watch-makers Daniel Roth and Gerald Genta. From September, these names will co-branded on Bulgari watches. This is the latest step in Bulgari's long-term strategy to raise the artisanal component of the watch division by several notches. It has also involved shedding "a bunch of low-end products," he adds.

"Watches have been a disappointment but we have clear ideas about where to go," Mr. Trapani says. "We're halfway there, and have yet to profit fully from the new focus on high-end products."

New products include a remake of Bulgari's classic Serpenti watch for women, he adds. Though the new ranges may not have a big impact on this year's financial results, "in 2011 Bulgari will benefit from a product assortment significantly larger than in 2009," he says. In future, though, Mr. Trapani says he expects watches and accessories to grow more strongly than jewelry or perfume, because the latter have already seen a big expansion. Bulgari's jewelry sales rose almost 15% in the first half, to €202.5 million.

One key rule in jewelry design is to not create items so expensive that customers can't afford them. The risk, Mr. Trapani says, "is that one ends up making beautiful objects for museums" rather than for clients.

"If you mix together some precious stones but don't add some brilliant pavé to the structure, you are being stupid," he says. "Doing it properly adds only modestly to the production cost while the outcome is much more appealing and [being cheaper] easier to sell."

Mr. Trapani says he is confident about Bulgari's prospects even if his uncle, the company's 72-year-old chairman and creative force Paolo Bulgari, retires.

He says he wants customers to see Bulgari as "a whole and self-sustaining world, a kind of style advisor." And while the company doesn't tailor products to local markets, it is highly aware of their differing tastes, he says.

"Russian people love flashy jewels," he muses. The Chinese, he says, are more focused on a product's craftsmanship than customers in Japan.

And variations can be even more local. In Italy, where Bulgari makes 11% of its total revenue, residents of Milan and the north of the country "tend to be minimalist; they like white gold more and also classical styling," he says. In contrast, "more flashy products are in vogue around Rome," Mr. Trapani says.

India and Brazil are proving tougher markets to crack. "Importing into Brazil is impossible because with import duties and luxury taxes, the cost [to the customer] almost doubles, and the lack of infrastructure in India makes it hard to find locations for new stores," Mr. Trapani says. For now, he adds, Bulgari will focus on trying to sell perfumes in those markets.

Despite the regional variations, "the [financial] crisis hasn't changed anything in jewelry purchasing trends," Mr. Trapani says, though clients are better-informed and demand more in terms of quality and price—a trend bolstered by the Internet, in his view.

Mr. Trapani is steering Bulgari back into the black, after a tough 2009, when it posted a €47.1 million loss and cut its dividend. The company returned to a modest net profit in the second quarter of this year, and if everything goes in the right direction, Mr. Trapani says, Bulgari should see an "aggressive rise in profits" in the full year, even if its total revenue rises only modestly. The consequent strong cash generation should also allow Bulgari's board to raise the dividend on its shares, he says.

Mr. Trapani acknowledges that Bulgari is often reported to be a potential acquisition target; this year, for example, Swatch Group AG was said to be interested. He says other luxury groups might be more logically interested than Swatch but that there have never been concrete talks.

"Nobody has ever made an offer," he says. "The company is not for sale. The family has no intention of selling this company we have proudly built and managed for 125 years."