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## Visiting Gadhafi's proselytizing irks Italians



Reuters

Libya's Moammar Gadhafi, left, and Italy's Silvio Berlusconi held talks aimed at promoting the nations' economic ties, but public attention remained focused on Mr. Gadhafi's efforts to persuade Italians to convert to Islam, which angered many in the predominantly Catholic country. **Article on page 3**

# IMF to increase loans available prior to crises

By Bob Davis

WASHINGTON—The International Monetary Fund on Monday said it would broaden the kinds of loans it offers to encourage a large swath of developing countries to get financial help before they are engulfed in crisis.

Under a new "precautionary credit line," the IMF said it would lend countries whose policies it generally endorses a substantial amount of money in advance of the nation's running into trouble. The loan would operate like a line of credit, so a country wouldn't have to use the money, and rack up interest charges, unless it needed the financing.

The program would offer loans of as much as five times a country's quota, meaning its financial stake in the IMF, with the possibility of doubling that after a year. Indone-

sia, for instance, has a \$3.1 billion quota, so it could be eligible for a credit line of as much as \$31 billion.

But it is far from clear that many of the IMF's 187 members will be interested in the new credit line, or, if so, whether they would be eligible. That is because the credit line is aimed at countries with policies that the IMF generally applauds, but which it views as having serious weaknesses in one or two of five areas: openness to trade, fiscal policy, monetary policy, financial-sector soundness and availability of financial data.

If the IMF judges that a country's financial sector is weak, for instance, it could insist that the country make changes as a condition of the loan—perhaps boosting regulation or selling off unprofitable state-owned banks. All the precautionary credit lines would require some policy

changes on the part of borrowers.

Potential borrowers may worry that such a loan would signal weakness to markets rather than strength. The IMF has long had trouble persuading Asian nations, in particular, to borrow from it in part because they believe IMF loans carry a "stigma" in the marketplace.

IMF officials wouldn't disclose which countries it is considering for the precautionary credit lines or whether any member nations had expressed interest in the lending arrangement. The new credit lines are for "countries with strong track record but areas of vulnerability," a senior IMF official said.

Essentially, the IMF is creating a hierarchy of borrowers. For those countries whose policies it wholeheartedly endorses—the A list—it provides

*Please turn to page 5*

# Climate group needs overhaul, report says

By Jeffrey Ball

A group investigating the United Nations' Intergovernmental Panel on Climate Change released a report Monday saying the IPCC needs to make several changes to reduce errors and the chance of bias in its reports, including fundamentally reforming its management structure.

The investigation by the InterAcademy Council, a consortium of national academies of science, said the IPCC has been "successful overall" but

called for the widely watched organization to enforce its existing procedures more, and to ensure that "genuine controversies" about climate science are reflected in the IPCC's reports.

The IPCC also should establish an executive committee that includes people from outside the climate-science community, and it should limit its chairman to one term, the report said.

The current limit of two six-year terms for the chairman "is too long," the press release about the report said.

The reforms would aid in seeing that "due consideration was given to properly documented alternative views," according to a news release about the report issued Monday morning.

In addition, the news release said, the IPCC's guidelines for dealing with sources that aren't peer-reviewed are "too vague" and should be made more specific to try to minimize errors from the use of such sources.

The report called on the IPCC to better characterize uncertainty in particular as-

pects of climate science.

The report also called on the IPCC to develop a conflict-of-interest policy for participants.

The investigation was requested by the IPCC in March, following the disclosure of a handful of errors in the IPCC's 2007 report on climate science.

Among the errors was a projection that Himalayan glaciers would melt by 2035. The IPCC later said that projection lacked scientific basis.

The 2007 IPCC report called climate change "un-

equivocal" and "very likely" caused by human activity. The IPCC shared the 2007 Nobel Peace Prize with former Vice President Al Gore Jr. for its efforts on promulgating information about climate change.

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

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For sale: T. Rex, good condition, woolly mammoth, needs repair. **Page 29**

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## PAGE TWO

# Rules are no good without regulation

## [ Agenda ]

BY PATIENCE WHEATCROFT



Sweden's **HQ Bank** boasted that it was "a creative and ideas-driven bank." Perhaps a little too creative. Its doors remained firmly shut Monday, following a decision by the Swedish financial regulator to put the bank into involuntary liquidation.

The explanation from the regulator was explicit and damning: "HQ Bank has overvalued its trading portfolio for a long time. The bank's financial position has also been reported inaccurately. A correct valuation would have shown that the bank was under capitalised since December 2008."

This statement will leave investors more than a little perplexed, particularly those who bought the shares in late 2007, when they peaked at 265 kronor (\$35.50) each. Even as recently as April this year they were trading at 140 kronor. They had been sinking since and news of the liquidation wiped out most of what was left, to put them at just 9.65 kronor.

The hundreds of depositors who had trusted HQ with more than the amount covered by government guarantees, and for whom the prospect of recovering their entire investment was immediately unclear, will also be pondering the implications of the regulator's damning verdict. For if the bank was overstating its financial strength, guilty, according to the regulator of having "grossly breached the most central provisions of Swedish legislation," then why had it been allowed to keep trading? And why had the auditor, the Swedish branch of KPMG, given a clean report to the bank's 2009 accounts?

That HQ had problems became clear earlier this year when it admitted to escalating losses as it



Charles Bean, deputy governor of the Bank of England.

attempted to exit from its trading operations. Despite its vaulting ambitions, it wasn't a big bank and its demise isn't going to rock financial markets. But it does have significance beyond Scandinavian shores.

Sweden is one of the countries that will be meeting in September to try to thrash out the details of the Basel 3 accord on banking rules. Tougher capital requirements are central to their deliberations. Yet Sweden had the rules. Rules will not work without the appropriate regulation to ensure their implementation.

## Auditors are better placed to spot the most egregious 'creativity,' whether or not they did so at HQ.

Speaking at the recent gathering of central bankers in Jackson Hole, deputy governor of the Bank of England, Charles Bean, pointed to the failure of regulation as one of the factors in the slide from what he termed "The Great Moderation" to "The Great Contraction." He said: "A nonexhaustive list of micro-economic factors includes: the incentive to shift loans off banks' balance sheets to avoid capital requirements; the reduced incentive for care in the

origination of loans, when those loans are then securitized; the distorted incentives facing ratings agencies; pay packages encouraging the pursuit of short-term returns ... and the moral hazard arising from financial institutions that are too big or too systemically important to fail, together with inadequate supervision of the same."

In the U.K., his organization is to take on that supervisory role after the perceived failings of the Financial Services Authority to police the markets adequately. If Mr. Bean has his way, the bank will be a very powerful regulator indeed, with powers that go far beyond those of the FSA.

Although monetary policy was the theme of his paper to the annual conference in Wyoming, Mr. Bean made it clear that interest rates alone were not the ideal lever with which to manage credit and asset booms and their tendencies to lead to crashes. There was, he said, a case for "leaning against the wind" and setting interest rates higher during a boom in order to curb rising asset prices. "But, at least most of the time, monetary policy does not seem like the most appropriate instrument to call on—it is not targeted at the key friction and involves too much collateral damage to activity."

Nevertheless, he was certainly not advocating a return to the policy of "benign neglect" toward

asset price booms that had previously been apparent. He cited the requirement of higher capital ratios, and better quality capital, as already under discussion at Basel. He also suggested that regulators might be able to demand higher capital for the riskier lending that inevitably arises during booms. He then went a step further, querying whether the regulator should be able to impose lending thresholds to cool incipient booms.

Although the banks are now placing a damper on the housing market by insisting on hefty deposits, at the height of the boom some were prepared to lend more than 100% of the value of the property. If the regulator had had the ability to insist on no loan of more than 75% of the value of a property, the market would have cooled very rapidly.

Yet spotting when a buoyant market may be heading into a dangerous boom may not always be easy. The regulators weren't the only ones who failed to prevent the crash. As Mr. Bean admitted: "Central bankers, as guardians of overall financial stability, need to understand the risks building up in the financial system better than we did during the run-up to the present crisis."

Better informed, policy makers can then draw up their plans for keeping financial markets in line. But regulating financial institutions is no easy task. Like HQ, many banks take pride in being innovative and "creative." Thus the role of the auditor is something to which the central bankers and regulators might give some attention.

Regulators can lay down capital requirements but they will find it difficult to police them adequately. Auditors are better placed to spot the most egregious "creativity," whether or not they did so at HQ.

Perhaps it is time to re-examine their role, as some in the profession are suggesting, so that they might be more effective at raising alarm bells when there are signs of danger ahead.

## What's News

■ **Germany's Bundesbank** distanced itself from a board member accused of racism as it scrambled to contain the damage from a furor that officials fear could hurt the central bank's reputation. 4

■ **Swedish investment bank** HQ said it is entering liquidation after its license was revoked last weekend, sending its shares down 84%. 17

■ **Intel will buy** the wireless unit of Infineon Technologies for \$1.4 billion as the firm looks to expand beyond the computer-chip business. 19

■ **Chrysler and Fiat** rolled out an ambitious strategy to address the U.S. auto maker's need for a small car and the Italian firm's absence from the American market. 17

■ **The International Cricket Council** pledged to take prompt action amid newspaper allegations that some of Pakistan's players were paid to fix incidents in a match against England last week. 8

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### Previous results

**Q:** As the U.S. combat mission ends, are Iraqi security forces ready to take over?

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16%

No

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## NEWS

# Gadhafi causes upset over conversion

By STACY MEICHTRY

ROME—Libyan leader Col. Moammar Gadhafi, who holds increasing sway over the Italian economy, upset some Italians by urging conversion to Islam during a three-day visit to the home of Roman Catholicism.

Col. Gadhafi held a series of private meetings on Sunday and Monday with some 800 Italian women and a small group of young men organized by a hostess agency and paid for by the Libyan government.

Some women who took part in a meeting late Sunday told reporters the Libyan leader lectured them on Islam, and then presided over a ceremony in which, they said, a handful of women converted to Islam. The attendees left the meeting carrying bound copies of the Quran that, they said, were a gift from Col. Gadhafi.

The meetings have become a ritual accompanying Col. Gadhafi's frequent visits to Rome since the signing of a "friendship" accord in 2008. Rome then pledged €5 billion (\$6.37 billion) to Tripoli as reparations for Italy's decadeslong occupation of

Libya that ended in the 1930s.

Under the treaty, Col. Gadhafi agreed to crack down on undocumented immigrants using Libya as a gateway to Italy and the rest of Europe. Since then, oil-rich Libya has become one of Italy's biggest investors, snapping up stakes in Italian companies such as oil giant Eni SpA. Libya is now the single largest shareholder in Italy's biggest bank, UniCredit SpA, after backing a capital increase that helped to shore up the bank's finances.

It is unclear exactly what purpose the meetings with young women serve. The women are recruited by the Rome-based casting agency Hostessweb, and are paid for by the Libyan government, said Alessandro Londero, the agency's president. Mr. Londero, who also attended the lectures, said that the Libyan leader addressed the women "a bit like a prophet," urging them to convert to Islam.

The Italian public don't like the displays. "Every time Ghaddafi returns to Rome it's worse than the last time," said Emma Bonino, a senator in a left-wing opposition party.



A woman hired to meet Col. Gadhafi at the Libyan Cultural Institute in Rome.

Several newspapers, including Italy's largest daily, Corriere della Sera, quoted Col. Gadhafi telling the women "Islam should become the religion of Europe." Leftist daily La Repubblica headlined a front-page editorial, "A Humiliating Circus."

A spokesman for the Libyan Embassy in Rome declined to comment on whether any conversions took place during the meetings. He also

declined to provide a copy of Col. Gadhafi's address to the women, saying that the leader's "speech on Islam was very clear and requires no explanation."

Col. Gadhafi arrived in Rome Sunday with an entourage aboard a flotilla of four jets that carried hundreds of guests and dozens of purebred Berber horses that paraded during an equestrian exercise Mon-

day. Col. Gadhafi disembarked clad in traditional Bedouin robes and flanked by two of his "Amazon women," personal bodyguards clad in military fatigues and berets.

He took an impromptu stroll through the city's piazzas Sunday evening, snapped by paparazzi as he stopped for gelato and cappuccino. On Monday, he toured a photo exhibit with Italian Prime Minister Silvio Berlusconi. They were scheduled to dine later with 800 guests.

The Italian women who came to the meetings were recruited over Hostessweb's Internet site and paid between €80 and €150, depending on their proximity to Rome, according to Mr. Londero. Hostessweb then bused the recruits to the Libyan Academy adjacent to the Libyan Embassy. Mr. Londero organized a similar meeting during Col. Ghaddafi last visit, in June 2009, that produced a smaller turnout.

So far, Mr. Berlusconi hasn't made any statements on the meetings. Carlo Giovanardi, an Italian government undersecretary, called Col. Gadhafi's lecture "remarks made during a private meeting."

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## EUROPE NEWS

# Bundesbank board feels heat

BY DAVID CRAWFORD

BERLIN—The Bundesbank distanced itself from a board member accused of racism as it scrambled to contain the damage from a growing furor that officials fear could hurt the German central bank's international reputation.

Statements by Thilo Sarrazin, a Bundesbank board member with a history of stirring controversy, have "damaged the image of the Bundesbank," the central bank said in a statement issued after an emergency board meeting. "The Bundesbank is an institution that has no space for discrimination," it added.

In a new book and in numerous interviews, Mr. Sarrazin, a veteran politician and longtime member of the left-leaning Social Democrats, warned that Germany's low birth rate threatened to make Germans "foreigners in their own country." He has also argued that the nature of Islamic culture has prevented Muslims from becoming more integrated into German society.

The outcry over his statements intensified over the weekend after Mr. Sarrazin said in a newspaper interview that "all Jews share a certain gene." Though he was making a broader point about ethnic identity—that people of different ethnic groups have different genetic make-ups—many Germans found that his linkage of Judaism and biology echoed the racial theories posited by the Nazis.

The Bundesbank statement, which some observers see as a first step toward pursuing Mr. Sarrazin's ouster, followed a chorus of calls by German politicians, including Chancellor Angela Merkel, urging the Bundesbank to take decisive action against the central banker.

The Bundesbank board is expected to confront Mr. Sarrazin directly over his actions at a meeting this week.

The fury over Mr. Sarrazin's remarks has left the Bundesbank, a



The Bundesbank has distanced itself from Thilo Sarrazin, center, presenting his book in Berlin on Monday.

symbol of Germany's postwar revival and one of its most respected institutions, in a difficult position. No board member has ever been expelled and the Bundesbank's board doesn't even have the power to remove a member on its own.

Under the Bundesbank's charter, the board can make a recommendation to the German president that a member be fired for "fundamental and sweeping misconduct." What constitutes such a breach and whether Mr. Sarrazin's comments and his writings meet that threshold is unclear, however. The board is expected to make that determination later this week after its meeting with Mr. Sarrazin.

At a news conference Monday to present his new book—"Deutschland Schafft Sich Ab," or "Germany Abolishes Itself"—Mr. Sarrazin said he

had done nothing to violate his Bundesbank duties and intended to keep his position. He rejected the notion that his views were discriminatory, saying that critics of his book haven't read it.

The growing controversy is particularly awkward for Bundesbank President Axel Weber, a leading candidate to become the European Central Bank's next leader when Jean-Claude Trichet, the ECB's current president, retires next year.

After Mr. Sarrazin said in an interview last fall that immigrants serve "no productive function beyond fruit and vegetable sales" and referred to female Muslim children as "little headscarf girls," Mr. Weber persuaded the Bundesbank board to take away some of Mr. Sarrazin's responsibilities.

At the time, Mr. Sarrazin issued

a public apology in which he said that the strong public reaction to the interview "made him aware" of the "sensitivity" associated with his public position at the Bundesbank, even when he spoke his personal opinion.

Mr. Sarrazin, 65 years old, rose through the ranks of the German finance ministry beginning in 1975. As a member of the Social Democratic Party, he served as a deputy state finance minister in the 1990s and as senator for financial affairs, a cabinet-rank position, in the Berlin state government from 2002-09.

Many of his party colleagues have responded with dismay to his recent comments. The SPD said on Monday that it had initiated proceedings to expel Mr. Sarrazin, a member of the party for about 40 years.

# Gunman kills eight in Slovak capital

BY LEOS ROUSEK

BRATISLAVA—A gunman killed seven people and wounded 14 in the Slovak capital before committing suicide, in the country's first-ever shooting rampage, a Slovak official said Monday.

The shootout started inside an apartment in a high-rise building in Devinska Nova Ves, a residential district just outside the center of the Slovak capital, Justice Minister Daniel Lipsic said.

Six of the dead were Roma, or Gypsies, members of a large and often ostracized Slovak ethnic minority. Mr. Lipsic said it was likely that the six victims were all members of one family.

The seventh victim "was a woman who was shot when standing on a balcony of her apartment and who subsequently walked back inside where she died and her husband found her there when returning home later in the day," Mr. Lipsic told reporters in a televised news conference.

The number of people injured in the shooting incident included two policemen, he said.

The unidentified gunman killed himself after he was surrounded by police.

Slovak Health Ministry officials said one man remains in a critical condition and a 3-year-old baby was slightly injured.

Mr. Lipsic reiterated that the possible motives of the shooting are unclear and are being investigated. "Policemen effectively limited further killings when they cornered the shooter running out of the building," Mr. Lipsic said.

Police Chief Jaroslav Spisiak said that five people were shot dead inside the apartment and one more was shot dead in the building's hallway.

The gunman, described only as a man around 50 years old, used a machine gun and two other single-shot guns, Mr. Spisiak said. As the gunman was running out of the apartment building, he started firing at anyone within range, Mr. Spisiak added.

"Police officers prevented the gunman from getting onto the main street or hiding on a side street by quickly surrounding him. When realizing he was cornered, the gunman shot himself dead," Mr. Spisiak said.



Agence France-Presse/Getty Images

The gunman, standing in the street.

# Euro-zone confidence keeps rising

BY BRIAN BLACKSTONE

FRANKFURT—Hopes that the euro zone can withstand slowdowns in the U.S. and Japan were boosted by an influential business and consumer survey that found that the currency bloc's recovery continued into August.

The European Commission's index of economic sentiment, which includes both industry and households, rose to 101.8 in August from 101.1 in July, the third consecutive increase. Consumer confidence "improved markedly" last month, the European Commission said, rising by three points.

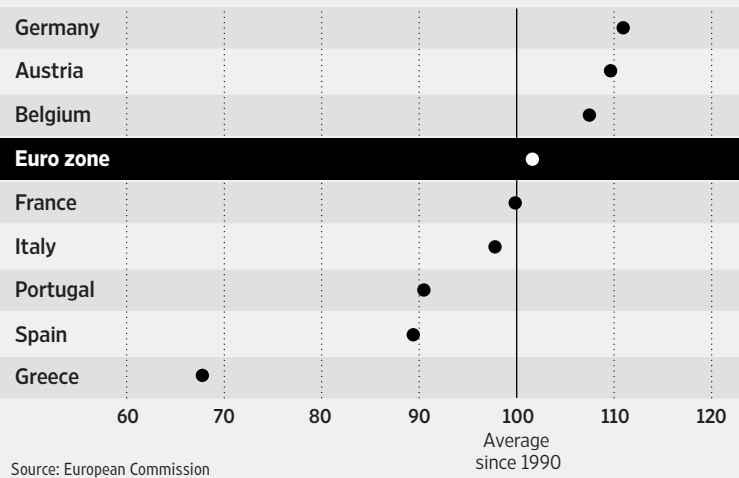
"Widely felt optimism about the general economic situation as well as further considerable easing of unemployment fears set the tone," the commission said, adding that sentiment held steady among industries.

The survey offers the latest evidence that Europe's positive economic development in the second quarter, when the euro zone expanded at an annualized 3.9% rate, has continued.

The figures appear to vindicate, for now at least, Europe's decision to pursue budgetary austerity over

## Growing apart

Confidence is up in Germany and other northern European countries, but remains weak in the south. Economic Sentiment index in August



further stimulus.

European officials reason that any decline in output from higher taxes and lower spending will be offset by the boost to confidence from a more stable long-term fiscal outlook.

In contrast, U.S. officials have ar-

gued that stimulus needs to stay in place to safeguard the recovery. Despite those efforts, the U.S. grew just 1.6%, at an annualized rate, during the second quarter, and isn't expected to do much better in the third quarter.

In a reminder of the persistent

problems in euro-zone fringe countries such as Greece and Portugal, the survey found that Germany and other northern European countries were far outpacing their southern partners.

As a result of that continued weakness, the European Central Bank, which meets on Thursday, is expected to keep its monetary stimulus through unlimited cheap loans to commercial banks in place through the end of the year. The ECB is expected to keep the its main policy rate at a record 1% low well into next year.

Even if the slowdown in the U.S. doesn't derail the European recovery, many economists predict that the pace of growth in the euro zone will decelerate in the second half as exports, in particular to Asia, lose steam.

A boom in exports helped Germany, the euro-zone's biggest economy, achieve 9% annualized growth in the second quarter. But several factors, including China's efforts to rein in its economy, make it likely that German growth will slow.

Nevertheless, many economists say that Europe's recovery is turning out to be more robust than they anticipated.

## EUROPE NEWS

## On the road

Russian Prime Minister Vladimir Putin's trans-Siberian journey

## Aug. 27

8:41 a.m. Mr. Putin sets out from Khabarovsk in a canary-yellow Lada Kalina.

1:30 p.m. At the Moscow-Vladivostok monument, Mr. Putin meets local residents for tea and cakes.

2:08 p.m. Mr. Putin attends the cornerstone ceremony for a new hydroelectric plant

## Aug. 28

1:01 p.m. Mr. Putin unveils a plaque marking the start of construction of a new space center.

5:47 p.m. After 791 kilometers on the road, Mr. Putin meets with truck drivers at a truck stop.

## Aug. 29

9:20 a.m. Mr. Putin speaks at the opening ceremony for the Russian section of a Russia-China oil pipeline.

11:15 a.m. Mr. Putin speaks with road workers at the Kamdstroy Amur base, 1,371 kilometers into the trip.

12:41 p.m. At Aksyonovo-Zilovskoye village, Mr. Putin meets local residents.

7 p.m. Mr. Putin arrives in Chita.

Photos: Agence France-Presse/Getty Images (top); Associated Press (bottom)



Mr. Putin refuels Aug. 27



Mr. Putin autographs a photograph Aug. 27

# Putin shows he is still at the wheel

BY GREGORY L. WHITE

MOSCOW—Over a string of media appearances during a four-day road trip across Siberia, a confident Vladimir Putin made clear he is still Russia's dominant politician and kept open the possibility he might return as president in 2012.

Mr. Putin reaffirmed that he will decide jointly with President Dmitry Medvedev who will run for the top job in the next elections.

"When the time comes, we'll determine how to act," Mr. Putin told the Komsomolskaya Pravda newspaper, speaking from behind the wheel of the canary-yellow Lada Kalina compact he drove for part of the trip.

"The main thing is [to make sure] these problems around 2012 don't pull us off the path of this stable development," Mr. Putin told the Kommersant newspaper.

Asked if he had any regrets about mistakes made during his decade in power, he said no. "What we're doing convinces me that we're on the right track." The two leaders' tight control of the political system virtually guarantees victory for the Kremlin's chosen candidate.

Mr. Putin, who became Russia's most popular politician during two terms as president, stepped down because of term limits in 2008, backing Mr. Medvedev, a longtime protégé. Mr. Medvedev promptly appointed Mr. Putin as prime minister. Mr. Putin is widely regarded as the more powerful figure even now, though Mr. Medvedev has shown signs in recent months of greater autonomy.

But in Mr. Putin's weekend appearances, which were heavily covered in state media, the prime minister showed little deference, weighing in on traditionally presidential issues. He questioned Washington's commitment to "resetting" relations with Moscow, though he said he believed President Barack Obama's desire for a new approach is genuine. He also defended violent crackdowns on unauthorized opposition demonstrations, saying concessions by the authorities would only encourage what he called "provocations."

At a lunch with Russian reporters on Monday outside the city of Chita, Mr. Putin dismissed as "complete baloney" suggestions that he is still running the country.

"Dmitry Anatolievich [Medvedev] is doing a quality job. Why should I interfere? It's not a hobby. I don't see anything that would cause concern or alarm," he said, adding that the two frequently consult. He said he is "bored" with foreign policy—a key presidential prerogative.

But in the interview with Kommersant, Mr. Putin weighed in on the "reset" in relations with the U.S.

In contrast to his more cerebral protégé, Mr. Putin, 57 years old, has cultivated an image as an active, hands-on leader. This month, he was shown piloting a fire-fighting plane and chasing whales with scientists in a rubber boat in the Pacific. Mr. Medvedev last week was at his seaside residence in Sochi, meeting foreign leaders and having tea with Bono, from the rock group U2.

But even by Mr. Putin's standards, the weekend road trip was remarkable. The route stretched over 2,000 kilometers from Khabarovsk, near the Pacific Coast, to Chita, an industrial city north of the Mongolian border. Mr. Putin was behind the wheel of the Russian-made car about half the distance and in a minivan for the rest, his spokesman

said. He traveled a soon-to-be-completed stretch of a highway that he touted as "historic"—the first paved road linking eastern and western Russia.

"He's showing that he's not going anywhere," said Alexei Makarkin, a political consultant at the Center for Political Technologies in Moscow. "That in one form or another he will remain in power."

Mr. Makarkin said the two leaders appear to be able to agree on most major issues and that differences in emphasis aren't signs of tension but of a division of labor.

"They're not competitors," Mr. Makarkin said. "They're playing to different audiences." Mr. Medvedev's calls for modernization play better with the urban middle class and elites, while Mr. Putin's message of stability appeals to the broader masses, where his support remains strong.

At a meeting Sunday with the workers building the road, one asked hopefully if he would return as president in 2012. Mr. Putin thanked him for his support but didn't answer.

Though the trip bore the hallmarks of Western-style campaign

tours, a spokesman denied any political motivation. "It's connected to the work of the prime minister," spokesman Dmitry Peskov said, noting that Mr. Putin wanted to inspect the road construction, which he has supported for years, as well as to "talk to the people" along the route.

There was plenty of chances for that. At a roadside monument, a group of women invited Mr. Putin for tea and buns—and questioned him about when they would get permanent housing. At a truck stop, Mr. Putin let a trucker take his Lada for a spin before he climbed around the cabs of the big rigs parked there. He also gave a sales pitch for locally produced trucks. But the drivers were more concerned about the lack of repair shops and cellphone service along the remote road, where winter temperatures drop to minus 50 degrees Celsius.

Mr. Putin also made stops to tout his government's work on infrastructure projects. He opened an oil pipeline to China, unveiled a plaque marking the start of construction of a space center and, in what local officials said was a tradition, threw his watch into the wet cement for a new hydroelectric dam.

## IMF to increase loans available prior to crises

Continued from first page funds through what it calls a "flexible credit line," and doesn't insist on the recipients making any change in policies. Also Monday, the IMF doubled the duration of those lending arrangements to two years and said the credit lines would no longer be limited to some multiple of a country's quota. Only three countries

have taken out flexible credit lines: Mexico, Colombia and Poland.

The B-list countries would be eligible for the new precautionary credit lines.

The rest of the nations would borrow under traditional credit arrangements, which entail regular detailed reviews and requirements that borrowers make significant changes

in policy. During the global financial crisis, many countries were required to slash budgets and rework pension systems.

The IMF is working on yet another new loan, the "global stabilization mechanism," which would be available for groups of countries, as a way to overcome the stigma of borrowing from the IMF. The IMF is

even considering approving countries for such loans without having to apply for the money.

South Korea, in particular, is pushing for the regional loan proposal as a way to patch up relations between the IMF and Asian nations, which have eschewed the IMF since it the Asian financial crisis of a decade ago. The Koreans have made

the proposal part of their agenda for the Group of 20 leaders summit in November in Seoul. But Germany and other nations are resisting the effort because they are concerned the IMF won't be tough enough with borrowers whose economic policies may need reform.

—Tom Barkley  
contributed to this report.

## U.S. NEWS

# Legal tactics emerge at oil hearings

BY BEN CASSELMAN  
AND RUSSELL GOLD

HOUSTON—For five days last week, federal investigators grilled witnesses to answer key questions about the disastrous explosion of the Deepwater Horizon drilling rig: Why did it happen? How can we make sure it never happens again?

But in their questions to witnesses, lawyers for the companies under scrutiny—BP PLC, Transocean Ltd., and Halliburton Co.—focused on another question: Who will pay?

The April 20 blast, which killed 11 workers and set off the worst offshore oil spill in U.S. history, has prompted hundreds of lawsuits against more than a dozen companies and individuals.

Nominally a fact-finding investigation led by the Coast Guard and Interior Department, the hearings, which began last spring outside New Orleans and continued last week in a nondescript hotel conference room here, have previewed the years of legal drama to come.

BP has seized on the hearings to deflect attention back onto its contractors, especially Transocean, which owned the rig, and Halliburton, which performed cement jobs on the well.

BP lawyers have focused on the rig's blowout preventer, which is designed to shut down a well in an emergency. What caused the failure of the device, which is owned and maintained by Transocean, remains



At an oil-spill hearing in Houston on Friday, BP drilling engineer Brett Coteles, front, with his lawyer Philip Hilder.

a mystery in the Gulf disaster.

Transocean witnesses have testified to problems with the blowout preventer, though they have said the device had been tested repeatedly and was in good working order.

Still, BP scored points on Wednesday when it got Transocean officials to say the blowout preventer had not gone through an extensive certification process as required by federal regulations. BP

quickly distributed copies of the regulations to the press.

Transocean lawyers, for their part, tried to show that BP made most of the decisions on the well, either on the rig or from the company's Houston offices.

The battle between BP and Halliburton has also been intense. Halliburton designed and pumped a cement seal that experts believe may have failed and allowed explosive

natural gas to enter the well.

On Tuesday, BP cited emails by Halliburton workers saying the cement operation had been successful. Jesse Gagliano, a Halliburton engineer, testified the emails referred to the process of pumping the cement and did not predict whether it would form an effective seal.

By Thursday, Halliburton lawyer Donald Godwin was accusing BP deepwater operation manager David

## Hinting at tactics

The key firms involved in the Gulf oil spill have dueled at the government's fact-finding hearings:

### ■ BP PLC

Oil and gas producer

**Key testimony:** A BP engineer testified he never opened a report from Halliburton explaining that the cement job could allow gas to enter the well.

### ■ Transocean Ltd.

Oil and gas drilling

**Key testimony:** A Transocean manager acknowledged it is responsible for "well control."

### ■ Halliburton Co.

Oil and gas equipment and services

**Key testimony:** Halliburton acknowledged emails from its engineers saying the cement operation had been successful, though evidence indicates there was a problem with the cement.

Sims of "lying" during questioning.

A BP spokeswoman said the company "will continue to cooperate with this and other government sponsored investigations into this tragedy." A Halliburton spokeswoman said the company was confident it completed its work in accordance with BP's specifications and that Halliburton continues to cooperate with all investigations. Transocean declined to comment.

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THE WALL STREET JOURNAL.

## Drilling debate puts regulator in hot seat

Michael Bromwich, the nation's new chief offshore-oil regulator, is at the center of an escalating debate over the reshaping of rules that govern offshore oil and gas exploration in the Gulf of Mexico.

By *Stephen Power*  
in Washington  
and *Naureen S. Malik*  
in Port Fourchon, La.

As BP PLC prepares to put the final plug in its broken Macondo well, which leaked oil into the sea for months, oil-industry officials and pro-drilling political figures say that if Mr Bromwich adds too many requirements, thousands of jobs could be lost in the region. If he doesn't add enough, say environmentalists, the Gulf could suffer another major accident.

The Obama administration is fighting in court to maintain until Nov. 30 a moratorium on new drilling in waters deeper than 500 feet. The White House and Mr. Bromwich, who became head of the Bureau of Ocean Energy Management, Regulation and Enforcement in June, say the halt is necessary because the oil industry hasn't shown that it has the safety systems in place to avoid a repeat of the BP disaster.

But Mr. Bromwich also is leaving the door open to an early relaxation of the moratorium. In a letter last week to a presidential panel investigating the BP accident, Mr. Bromwich said the administration could let some rigs resume deep-water drilling before Nov. 30, should it de-



Michael Bromwich this month attends a New Orleans forum on drilling.

termine that certain categories of rig "present fewer risks than others."

By his agency's reckoning, the deep-water-drilling halt puts nearly 23,000 jobs at risk. Mr. Bromwich has met with industry executives, and listened to groups on both sides of the drilling debate at a forum earlier this month in New Orleans.

Mr. Bromwich, 56 years old, is a lawyer, not an oil-industry veteran. He worked from 1994 to 1999 as inspector general for the U.S. Justice Department.

Mr. Bromwich said the bureau he now runs had been too deferential to oil companies in the past, and said he planned to institute rules to change that.

U.S. NEWS

# Changes would overhaul military-export system

By NATHAN HODGE

President Barack Obama will announce a series of initiatives this week aimed at streamlining the system that governs the export of weapons but also commercial products that have a potential for military use.

The policies are part of a broader effort to boost the competitiveness of U.S. manufacturing and technology sectors.

Mr. Obama, in videotaped remarks to be delivered Tuesday to an annual Department of Commerce conference on export controls, is expected to outline measures aimed at laying the foundation for a new export-control system to replace a decades-old system that critics say is burdensome and outdated.

Among other steps, government agencies would revise their lists of items requiring export licenses to create a tiered system. It would distinguish between the "crown jewels" of military technology—such as stealth aircraft technology—and other more mundane and less sensitive items such as vehicle parts.

Such changes "will allow us to build higher walls around the most critical items to be exported, while allowing other items to be exported under less restrictive conditions," a senior administration official said in a briefing.

The U.S. defense industry, which is looking to expand sales to overseas markets in the face of a flattening U.S. defense budget, has generally welcomed the administration's push. **Raytheon Co.** Chief Executive William Swanson said in a recent interview that the current system was "trying to protect too much, and if you protect everything, you protect nothing."

The measures the White House is announcing this week will be carried out primarily by executive order. The administration has outlined additional plans to create a single licensing agency, a measure that would require congressional action.

The U.S. export control system was originally designed to prevent the Soviets from getting their hands



William Swanson, of Raytheon, says the export-controls regime needs change.

on sensitive U.S. technology.

The U.S. government now maintains two primary lists of items subject to export control. The Munitions List, administered by the State Department, covers weaponry. The Commerce Department maintains a second list of commercial items that have possible military applications.

Officials describe the Munitions List as more open-ended, which means that every nut, bolt or screw on a weapon system may be subject to formal licensing requirements, even if similar items are commercially available. Thus, the brake pads on an Abrams tank require a license to be exported, even though they are virtually identical to the brake pads on a fire truck.

Mr. Obama also plans to sign an executive order creating an export-enforcement coordination center at U.S. Immigration and Customs Enforcement, which would work with other enforcement agencies that have overlapping authorities.

In addition, federal agencies involved in the process are supposed to move toward a unified IT system.

Secretary of Defense Robert Gates has backed the initiative, saying in an April speech that the "decades-old, bureaucratically labyrinthine system does not serve our

21st-century security needs or our economic interests."

U.S. defense manufacturers, which have long complained that the current system undercuts their competitiveness, are likely to welcome the move.

"You will find a lot of enthusiasm in the business community for the whole enterprise," said Bill Reinsch, president of the National Foreign Trade Council, a business group advocating an open global trading system.

Remy Nathan, assistant vice president for international affairs at the Aerospace Industries Association, a U.S. trade group, said industry has been calling for change for years. But now "it's the apparatus that's responsible for our national security taking a good hard look at the mechanism for export control."

Clif Burns, an export-control attorney at the law firm Bryan Cave LLP in Washington, D.C., expressed doubt that the next phase of the administration's plan would get through Congress.

"For people on both sides of the aisle, export reform is dynamite, because it's less understood than most things by voters," he said.

"But it's easily characterized as, 'Rep. so-and-so made it easier to send things to the Russians.'"

## Beneath the Iraq strategy, as so many others, is Iran

[ Capital Journal ]

By GERALD F. SEIB



When President Barack Obama speaks to the nation Tuesday night about Iraq, he'll be marking the removal of American combat troops from that nation, an important milestone. But his address will signify something much broader as well.

This week's Iraq moment means that Mr. Obama now has, to steal a term he used last year to refer to Russian relations, hit the reset button on all four important areas of American policy in the region: Iraq, Afghanistan, the Israeli-Palestinian conflict and Iran.

Administration officials think they have at least improved the chances for success in each spot, and they probably have. As always in the Middle East, the chances of failure remain high on each front, too.

Whatever the odds of success, though, a common thread runs through Mr. Obama's moves in Iraq, Afghanistan and the Palestinian territories. In each case, one important goal is to clear the decks in order to concentrate more intensely on the paramount challenge posed by Iran and its Islamic extremist friends.

The Bush administration invaded Iraq in 2003 because it was worried about precisely this kind of threat to American security in the post-9/11 era: a marriage between Islamic extremists in al Qaeda and a hostile state potentially armed with weapons of mass destruction. Since then, though, the threat has evolved in a significantly different direction. Al Qaeda has splintered and now is dangerous not because it is sponsored by a powerful state, but because it has burrowed underground in states too weak to counter it, in Pakistan, Afghanistan, Yemen and Somalia.

Meantime, there is indeed a threat from a hostile state potentially armed with weapons of mass destruction. But that threat now arises not from Iraq but from its next-door neighbor, Iran, and from Iran's extremist friends in Hezbollah in Lebanon, in Hamas in the Palestinian territories, and among other groups getting support or inspiration from Tehran.

American policy maneuvers in the region—starting in the last year of the Bush administration, continuing into the first two years of the Obama administration and culminating in tonight's Iraq address—represent an effort to adjust to this new reality.

The move to end combat operations in Iraq is, on its face, simply an attempt both to reduce American troops' exposure and to prove the point that America can create a stable, secular democratic state to counter the instability created by theocratic, undemocratic forces. Likewise, the concurrent surge of additional military troops in Afghanistan is



U.S. soldiers return from Iraq.

an attempt to prove the same point in a land that is even more threatened by Islamic extremists and even further away from establishing a stable central government friendly to the West.

This week's relaunch of Israeli-Palestinian peace talks—which begins when Mr. Obama hosts Israeli Prime Minister Benjamin Netanyahu and Palestinian President Mahmoud Abbas for dinner Wednesday night—is an attempt to reduce the danger of a traditional flashpoint, the plight of the stateless Palestinians.

Finally, the administration continues its efforts, begun with a United Nations Security Council resolution earlier this summer, to ratchet up economic pressure on Iran, in hopes of somehow coercing it to back away from its worrisome nuclear program.

But each of the other moves is directly tied to that overarching concern about Iran and its influence in the region. In Iraq, the effort to consolidate power in a credible central government also is an attempt to block neighboring Iran's ability to exert influence there. Similarly, stabilizing Afghanistan would demonstrate the ability of the West to bolster moderate Muslims as a counter to the rise of Iran-like extremism.

And restarting Israeli-Palestinian talks is an effort not just to seek peace on the Palestinian front, but also to remove a political sore point in the Palestinian problem—one that Arab leaders say inflames their people and reduces their ability to cooperate with the U.S. and Israel in countering Iran's nuclear ambitions. More directly, a successful Palestinian peace process also would reduce the influence of Iran's allies in the Hamas movement, which seeks to undermine Mr. Abbas and other moderate Palestinian leaders.

Of course, it could all go terribly wrong. A disintegration of the fragile government that U.S. forces leave behind in Iraq would only widen the playing field there for Iranian trouble-making. Palestinian talks could collapse quickly over the question of new Israeli settlement activity, strengthening the hand of Iran's radical friends in the Hamas and Hezbollah Palestinian movements.

So the risks are as great as the opportunities in the Obama policy reset. The good news is that this is a rare area where the president actually has a degree of bipartisan support, which he may need if the various gambles don't pan out.

■ Biden lands in Iraq to mark end of combat mission ..... 9

# Consumer spending edges up

By JUSTIN LAHART

U.S. consumers remained cautious last month, with spending growth modestly outpacing inflation.

Consumer spending rose 0.4% in July from the previous month, the Commerce Department said Monday, after staying flat in June. Adjusted for rising prices, spending grew 0.2%.

"It's pretty sluggish, but it's not a collapse," said James O'Sullivan, an economist at MF Global in New York.

He calculates that July's increase puts consumer spending on track to grow at a 2% annual rate in the third quarter—the same pace as in the second quarter.

But companies' willingness to hire workers and increase wages will hold the key to how consumer spending, and the economy, progresses in the months ahead, Mr. O'Sullivan added.

Economists polled by Dow Jones

### Cautious growth

Wage and salary income, in trillions (seasonally adjusted at an annual rate)



Source: Commerce Department

Newswires expect Friday's employment report from the Labor Department to show that U.S. payrolls fell by 110,000 in August, a drop driven by the loss of 116,000 temporary

census jobs.

Stocks moved lower in the U.S. as the spending report added to investors' worries over the health of the economy.

Monday's report showed that personal income grew 0.2%. Private-sector salaries and wages grew 0.5%, but that increase was offset by a 10.6% decline in unemployment benefits, the result of Congress letting long-term benefits lapse in June. With those benefits reinstated, that drop will likely be reversed in August.

With spending outpacing income, the saving rate—the share of after-tax income that isn't spent—slipped to 5.9% from 6.2% in June.

The price index for personal consumption expenditures excluding food and energy prices, an inflation gauge closely watched by the Federal Reserve, rose 0.1% in July from June.

Year-over-year, that index increased 1.4%.

## WORLD NEWS

# Critics accuse Saudis over activists

BY MARGARET COKER

JEDDAH—Saudi Arabia's crack-down on alleged Islamic militants has resulted in recent years in thousands of arrests and scores of convictions, drawing praise from Washington for the kingdom's commitment to battling terrorism.

But critics contend the government is using its security forces to silence a growing group of Saudi political activists seeking liberal reform inside the authoritarian kingdom. Saudis who simply hold political views different from those of their rulers have been arrested and detained as security suspects under the counterterrorism efforts, according to human-rights advocates, family of the detained and U.S. officials. They say as many as 50 reformers have been arrested since 2005.

"Using the antiterror campaign has been the conspicuous Saudi policy to arrest and harass political reformists and human-rights activists," says Mohammed al-Qahtani, co-founder of the Saudi Civil and Political Rights Association, which has become the most public face of a maturing national civil-rights movement. "It is a serious threat to those dedicated to nonviolent change in the nation."

Mr. Qahtani represents one controversial detainee: Suliman al-Reshoudi, a 73-year-old former judge turned activist, known for his criticism of the security forces, his calls for democracy in Saudi Arabia and his criticism of America's Mideast policy.

On Feb. 2, 2007, Mr. Reshoudi and a handful of other activists met in Jeddah to discuss advocating for a constitutional monarchy and political parties, lawyers for the men say. The group also discussed a class-action lawsuit planned against the Ministry of Interior, the lawyers say, on behalf of those believed wrongfully detained.

That night, security forces, firing stun grenades, stormed the house, according to an account by Mr. Reshoudi in a 2009 letter smuggled from prison to his lawyers. Later, officials accused them of financing terrorism, membership in an illegal



Suliman al-Reshoudi is detained.

organization and illegal contacts with foreign powers, according to one of Mr. Reshoudi's attorneys. The arrests sparked the first nationwide hunger strike in the kingdom the following year, fueled by activists writing on the Internet.

Now, 3½ years after the arrest, Mr. Reshoudi and his colleagues are still held without trial, according to lawyers. Mr. Reshoudi's legal team says it has been denied a clarification—or even a written account—of the charges.

In an unusual case of legal activism, lawyers last year sued the interior ministry, run by the king's brother, for the arbitrary arrest and false imprisonment of Mr. Reshoudi. They argue his detention was intended to silence a meddling political dissident, not to battle a militant.

On Saturday, a judge threw out their case against the ministry, citing lack of jurisdiction, despite his court's mandate to handle complaints against government institutions, according to Mr. Reshoudi's lawyers. The judge gave no public explanation.

The case opens a window onto the secretive practices of Saudi's antiterror forces and justice system. "In Saudi, the rule of law is arbitrary," Mr. Qahtani said earlier. "Forget a written law. If someone powerful doesn't like you, they can put you away. How is that the basis for a just government?"

The U.S. State Department



Saudi security forces, under the control of the Ministry of Interior, train north of Riyadh in June.

named Mr. Reshoudi in its 2009 human-rights report for Saudi Arabia. "We find the Reshoudi case troubling," said one U.S. official. The official said Washington wouldn't have included Mr. Reshoudi in its report if it had any evidence he had terrorist links.

Saudi interior-ministry officials declined to comment or to answer questions emailed by The Wall Street Journal about their counterterrorism campaign or Mr. Reshoudi. "We do not comment on ongoing legal cases," a spokesman said.

The oil-rich country remains an absolute monarchy that prohibits demonstrations, political parties and nongovernmental organizations, despite a new openness ushered in by King Abdullah bin Abdulaziz al-Saud when he took power in 2005. The changes included judicial standards for arrest and detention, and looser media controls that allowed some public discussion of social issues, such as child brides and abuses by Saudi morality police.

The king also beefed up security forces, demolishing al Qaeda cells

responsible for deadly attacks in the kingdom. The Saudi Ministry of Interior, the agency responsible for counterterrorism, says more than 9,000 security suspects were detained between 2003 and 2007. Last year, the government completed the trials of 331 of 991 men charged with joining or supporting radical Islamist groups.

At least 3,000 suspects, however, are still held without charge, according to human-rights groups.

The civil-rights movement in Saudi Arabia began after the first Gulf War in 1991. A national debate arose about the role religious and government leaders might play in fostering extremism. It heated up a decade later, fueled by outrage over two events: a 2002 fire in which 15 students in a girls' school died when religious police kept rescuers from pulling them out because they weren't in proper Islamic attire; and the 2003 killing of 35 people by al Qaeda bombs in the capital, Riyadh.

The face of activism now includes students blogging on social restrictions, housewives publishing

antigovernment poetry and religious scholars arguing that Koranic teaching has gone awry. Bloggers such as Fuad Farhan and scholar Mikhliif Al-Shammari have been arrested numerous times, friends say, for controversial political views.

Mr. Reshoudi represents the older generation of activists. He has been in and out of trouble with the government since the 1990s, when he and a handful of other intellectuals were jailed for forming what is regarded as the nation's first human-rights organization, now defunct. He had become an activist, according to a profile compiled through documents and numerous interviews, after working for two decades as a judge in Riyadh.

Walid Abu-Alkheir, a colleague of Mr. Reshoudi, says he applauds the Saudi regime's efforts to fight al Qaeda. But he says police have lumped together religious militants and activists as common threats.

"We stand for nonviolent reform," he says. "Our efforts are all about working with government for reform."

# Crisis hits cricket amid allegations of fraud

BY TOM WRIGHT  
AND JONATHAN CLEGG

LONDON—The genteel world of cricket was engulfed in crisis Monday as an alleged betting scandal prompted one of the biggest fraud inquiries in the game's history.

The International Cricket Council on Monday pledged to take "prompt and decisive action" amid newspaper allegations that some of Pakistan's leading players were paid to fix incidents during the country's heavy defeat in the fourth Test against England at Lord's.

The Pakistan captain Salman Butt, bowlers Mohammad Asif and Mohammad Amir, and wicket-keeper Kamran Akmal were questioned by British police at the team's hotel in London on Sunday following reports that players had been paid to deliver "no-balls"—an infringement when the bowler oversteps his mark—during last Thursday's opening day of the fourth Test, which Pakistan lost in its worst defeat in 58 years of international cricket.

The ICC, the governing body of world cricket, said that its Anti-Corruption and Security Unit was investigating the spot-betting allegations, which represent the biggest test of credibility for this centuries-old sport since Hansie Cronje, the for-



Mohammad Amir on Monday.

mer South Africa captain, was found guilty of match fixing in 2000 and banned from cricket for life.

"The integrity of the game is of paramount importance," ICC Chief Executive Haroon Lorgat said in a statement Monday. He said action

will be taken against those who seek to harm it.

Yousuf Raza Gillani, the Pakistani prime minister, said: "Our heads are bowed in shame."

Pakistan's Interior Minister Rehman Malik said the government had sent a team of top federal investigators to help Greater London Metropolitan police examine the allegations, which first appeared in a British newspaper on Sunday.

"This issue has already hurt our image and that of Pakistan cricket and we want to know the truth," Mr. Malik said.

The News of the World, which is owned by News Corp., publisher of The Wall Street Journal, on Sunday published a story and video from what it said was an undercover reporter posing as a gambler. The story alleged that Messrs. Asif and Amir were paid to deliberately bowl no-balls last Thursday, in the final game of the four-match Test series between England and Pakistan.

The newspaper said it paid

cricket agent Mazhar Majeed £150,000 (\$233,000) in return for predicting exactly when three no-balls would be bowled during the game. Mr. Majeed was released on bail Sunday after being arrested on suspicion of conspiracy to defraud bookmakers.

British police also confiscated the mobile phones of three members of the Pakistan team on Sunday, as well as other documents and possessions. Police with knowledge of the article searched hotel rooms and questioned players late Saturday as part of the probe.

A joint statement issued by the ICC, the England and Wales Cricket Board and Pakistan Cricket Board underlined that no player or team official had been arrested.

Pakistan's team has faced allegations of throwing matches in the past. Delivering no-balls is a subtler way of cheating and benefits betting syndicates involved in "spot fixing."

—Rehmat Mehsud contributed to this article.

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## WORLD NEWS

## Japan ponders increasing fuel tax

By MARI IWATA

TOKYO—Japan's Ministry of Economy, Trade and Industry said it plans to propose raising taxes on fossil fuels to fund initiatives to fight climate change, beginning in the fiscal year starting April 2011.

The tax plan, which is at its earliest stages and would need to be passed by lawmakers, could accelerate the decline in Japan's energy demand by spurring consumers to cut back on fossil fuels.

That would be a significant result. Japan is the world's third-largest consumer of crude oil after the U.S. and China, and its imports of other fossil fuels, such as thermal coal and natural gas, are an important source of income for regional trade partners, including Indonesia and Australia. Already, Japan's energy demand is falling sharply as its population ages, as industry moves offshore in search of lower costs and new markets, and as the use of energy-efficient technologies becomes more widespread.

The plan, however, would likely be a boon to makers of green technologies. METI has signaled it would use all the revenues to expand production subsidies and make renewable energy cheaper for consumers to buy. This would not only help them expand their share of the domestic market, but also help Japan compete with lower-cost neighbors like South Korea to export products such as solar panels.

"Green technologies are important to achieve economic growth," said Masayuki Naoshima, METI minister. "What we want to do is to generate money to fund initiatives to combat climate change."

If passed, such a move would mark a significant change in Japan's tax policy. METI has opposed higher fossil-fuel taxes, to avoid hurting oil refiners and utilities. The Ministry of Environment, on the other hand, has been a strong proponent of taxing fossil fuels to combat global warming.

Separately, Mr. Naoshima said METI also will request that the Ministry of Finance accept a five-percentage-point cut in the corporate tax to invigorate the economy.

Japan isn't alone in wanting to increase taxes on fossil fuels. China raised its consumption tax on a range of oil products at the start of 2009 in an effort to improve energy efficiency and cut the pollution that has made its cities among the smoggiest in the world.

According to a METI official on Monday, a government tax committee will discuss the possible creation of the tax and decide on it by year end.

Details of the tax proposal haven't been decided. "We'll put together the plan carefully, as this is going to ask the nation to share the costs" of fighting global warming, Mr. Naoshima told reporters, instead of putting the entire burden on the shoulders of fossil-fuel importers, such as utilities and oil refiners.

According to BP PLC's statistical review of world energy, Japan's energy demand peaked in 2006, and last year fell 8.6%.

# Overtures precede Mideast talks

By CHARLES LEVINSON

JERUSALEM—Palestinian and Israeli leaders, on the eve of direct peace talks in Washington, jockeyed for position Monday with last-minute messages that they were committed to peace.

But both sides have sent different messages to assure their domestic constituencies their leaders won't concede too much, and a disagreement over Israeli construction in the West Bank emerged as the first major test of the talks, which begin Wednesday.

Top Palestinian leaders, in cooperation with an Israeli peace group rolled out an unusual U.S.-funded Hebrew language ad campaign on Monday in which they apologized to Israelis for past mistakes and reassured them that Palestinians are committed to peace alongside Israel.

Palestinian President Mahmoud Abbas, who is facing stiff criticism at home for agreeing to enter direct talks with what many Palestinians see as insufficient guarantees from Washington and Israel, gave a passionate speech late on Sunday on Palestinian television in which he pledged to withdraw from the talks if Israel doesn't extend a freeze on building in Jewish West Bank settlements that expires on Sept. 26.

Israeli Prime Minister Benjamin Netanyahu, meanwhile, told his Likud Party that he is "ready to seek a real peace" and that only Likud could lead the country to a deal with the Palestinians.

## A Palestinian ad campaign and a speech by the Israeli leader called for peace, but disputed West Bank building emerged as an early test of talks beginning Wednesday.

He also assured party members, many of whom oppose extending the building freeze, "you have nothing to worry about." The comments were interpreted by those present and analysts as an assurance that he would allow building to resume in



Israeli Prime Minister Benjamin Netanyahu, addressing his Likud Party Monday, said the party was key to a peace deal.

the settlements.

Mr. Netanyahu has repeatedly sought to reassure members of his conservative governing coalition that he won't extend the moratorium, but hasn't said so outright.

"You can't both build and not build and that's what Netanyahu appears to be trying to do," said Hebrew University political science Professor Gadi Wolfsfeld. "He's trying to find some sort of compromise where technically they allow building but don't actually build anything and it's hard to see how he's going to succeed at that."

The \$250,000 Palestinian ad campaign, funded by the U.S. Agency for International Development, was unveiled on Israeli websites on Monday. It was produced in cooperation with Palestinian officials by the Geneva Initiative, an Israeli group that mediated an unofficial model peace agreement between Israelis and Palestinians in 2003.

The campaign includes a series of video clips featuring members of

Mr. Abbas's inner circle of advisers reaching out directly to Israelis, speaking Hebrew or English. The ads are running on Israeli websites with plans in coming days to include billboards in Israel and Hebrew language newspapers, the campaign's organizers said.

Each 30-second video clip begins with the speaker telling Israelis, "I am your partner." In one of the clips, Saeb Erekat, the lead Palestinian negotiator throughout the past two decades, begins by saying, "Shalom to you in Israel."

"I know we have disappointed you," Mr. Erekat continues. "I know we have been unable to deliver peace for the last 19 years. ... I know that peace is doable. I know that we can make it. ... We need you all to join us in becoming a partner in saving lives of Israelis and Palestinians."

Mr. Erekat concludes, "I am your partner. Are you mine?"

A U.S. official said USAID had funded the campaign as part of a se-

ries of grants it gives out aimed at conflict resolution. The program also funds an Israeli-Palestinian dialogue forum and the All for Peace Radio Network, which broadcasts in Israel and the Palestinian territories in Arabic, Hebrew and Russian and aims at encouraging peace between the two parties.

Organizers said the campaign is aimed at the significant percentage of Israelis who doubt the Palestinians are a genuine partner for peace.

Members of Mr. Netanyahu's government were unimpressed. "It's just rhetoric that's not backed up by actions," a senior government official said. "The Palestinians are very good about speaking to the international community about their hope for peace, but that's not a substitute for something tangible."

The official said the Palestinian threat to pull out of talks if building continued in West Bank settlements was an example of the Palestinians seeking an escape route from the negotiations.

# Biden in Iraq to mark end of combat role

By SAM DAGHER

BAGHDAD—U.S. Vice President Joe Biden landed in Baghdad late Monday, one day before Washington officially ends its combat mission here.

Mr. Biden, the Obama administration's point man on Iraq, arrived in a capital gripped by a grinding political crisis and amid heightened fears that a cut in the number of American soldiers in the country to below 50,000—a milestone reached last week—could create a security vacuum that insurgent groups will seek to exploit.

In a statement issued by the White House, Washington said Mr. Biden will meet top Iraqi politicians, who have failed so far to agree on a new government following inconclusive March parliamentary polls. In addition to Iraqi Prime Minister Nouri al-Maliki and other officials, Mr. Biden is scheduled to meet former Prime Minister Ayad Allawi, whose coalition narrowly beat out Mr. Maliki's.



U.S. Vice President Joe Biden, left, with Gen. Ray Odierno in Baghdad Monday.

Mr. Biden will "urge Iraqi leaders to conclude negotiations on the formation of a new government," the White House statement said.

The Obama administration has sought to portray the drawdown of

U.S. forces in Iraq as a fulfilled campaign promise and as evidence of the readiness of Iraqi forces. But some U.S. military commanders on the ground sought to manage expectations on Monday.

"We are still here, we still have 50,000 U.S. forces, and we still have a mission to do," said Brig. Gen. Ralph Baker, deputy commanding general of the 1st Armored Division, now responsible for Baghdad and the western Al-Anbar province.

Gen. Baker said U.S. "advise and assist brigades" will work with their Iraqi counterparts to improve their ability to manage intelligence, carry out precision raids and operations, maintain and repair equipment, and conduct route clearance.

The commander said the U.S. military would share 15 bases with Iraqi forces in Baghdad and Anbar province, but maintain some of the largest American installations as U.S.-only bases. The latter include Taji, northwest of Baghdad, and Liberty, part of the sprawling Camp Victory near Baghdad's airport.

All remaining U.S. troops in Iraq are scheduled to leave by the end of 2011, in accordance with a pact between Baghdad and Washington, signed in November 2008.

## WORLD NEWS

# China, North Korea emphasize bond

By EVAN RAMSTAD

SEOUL—North Korean dictator Kim Jong Il met Chinese President Hu Jintao during his five-day visit to northeast China, the Chinese government confirmed Monday night as Mr. Kim left the country, in a surprise get-together that underscored the two nations' bond as they cope with pressure from the U.S. and others to act more responsibly.

The meeting wasn't expected to lead to any substantive change in North Korea's isolationist behavior. Instead it highlighted Mr. Kim's dependence on China, his country's chief political ally and economic benefactor, as he pursues more time and money for his regime—and the possibility of transferring power to his son—while dealing from a position weakened by his own illness, internal strife and international condemnation over weapons testing and other provocations.

The announcement that Messrs. Kim and Hu had met led what appeared to be a coordinated public-relations push by China on Monday, with stories in several media outlets praising the China-North Korea relationship while also saying Beijing shouldn't be held responsible for Pyongyang's actions.

The meeting happened Friday, though China, as has been its practice with Mr. Kim's previous visits, waited until the North Korean leader left to say he had been in the country for all.

In reports of the Kim-Hu meeting, China's state media said that Mr. Kim wanted a resumption of the six-nation talks aimed at aimed at persuading North Korea to give up its pursuit of nuclear weapons. The reports also hinted that Mr. Kim was interested in the economic overhauls that opened China to the world, though they didn't say he endorsed or would follow them.

Mr. Kim for years has resisted requests of Chinese leaders to open up North Korea's economy. Late last year, his regime tried to clamp down on market activities, such as North Koreans running food stalls and other small businesses, but halted the effort when the government couldn't feed people.

Mr. Hu, in turn, said on state TV that China should expand its eco-



North Korean leader Kim Jong Il, left, shakes hands with Chinese President Hu Jintao in Changchun, China, Friday.

conomic cooperation with North Korea. Since Mr. Kim's entourage was spotted in China on Thursday, analysts have speculated that one reason he made the trip was to seek more money and assistance for the impoverished North. In addition to chronic food shortages, summer floods hit especially hard this year.

Analysts also speculated that Mr. Kim brought his heir apparent, son Kim Jong Eun, to meet Chinese officials ahead of a political meeting in Pyongyang next week that may be the son's public debut in North Korea. The Chinese news reports about the visit didn't mention the son, however. Mr. Kim began to pursue a succession scheme after suffering a stroke-like illness two years ago.

Mr. Kim's entourage twice during the trip stopped in places associated with his father, North Korean founder Kim Il Sung, in moves that were likely intended to highlight the importance of the Kim family as another potential succession looms.

For outside diplomats, the greatest significance of the trip is the symbolism of Messrs. Kim and Hu going to great lengths to meet each other in the aftermath of criticism

both countries faced following the sinking of a South Korean naval ship this year, an incident that South Korea, the U.S. and others blame on a North Korean attack.

China has refused to blame North Korea publicly for the sinking, which killed 46 South Korean sailors, or to examine the results of the South Korea-led investigation.

Instead, North Korea and China have, since late May when the probe first produced the accusation against North Korea, called for the resumption of the six-party denuclearization talks. The talks began in 2003, producing two agreements that North Korea dragged out and ultimately failed to keep. Pyongyang formally walked away from the talks last year.

Japan, South Korea and the U.S. have said North Korea damaged the potential for the talks with its attack on the South Korean ship. As well, the U.S. wants North Korea to live up to the agreements it previously made in the talks.

"Vague references to the six-party talks have little persuasive power from a U.S. perspective," says Gordon Flake, a Korea specialist and executive director at the Mansfield

Foundation, an independent organization in Washington that promotes dialogue between the U.S. and Asian countries.

Mr. Flake said Mr. Kim's regime, in statements made in its internal media, defines the denuclearization effort differently than the other countries in the talks. In a stance that Washington rejects, North Korea wants recognition as a nuclear power and wants the talks to cover America's own disarmament and the removal of U.S. protection and troops from South Korea.

Some observers have little hope that China will change its approach to Pyongyang. "China is backing this regime to the bitter end and then supporting the transition to Kim's successor to ensure China's interests," says Victor Cha, a former U.S. negotiator in the talks who is now a professor at Georgetown University.

Others note that China may have been able to obtain new terms from North Korea for resuming the talks, though it made no mention of them, and that time is on North Korea's side since diplomats generally prefer talks to no talks.

"The bar for diplomacy in other

regions is performance. In Northeast Asia, attendance, just getting the parties together, is achievement itself," said John Park, Asia analyst at the U.S. Institute for Peace, a government-funded research center in Washington. He added, "We're very, very far away from denuclearization."

The message to restart the talks was also given last week by a different North Korean official to former U.S. President Jimmy Carter when Mr. Carter went to Pyongyang to retrieve a U.S. teacher who entered North Korea illegally in January. Mr. Kim skipped the chance to meet Mr. Carter to go to China instead.

Mr. Kim's trip was unusual for the secretive leader, who, before a trip to China in May, hadn't ventured from North Korea since 2006. He doesn't like to fly and travels by a train that is easily monitored by satellite by foreign governments. His entourage is typically tracked on the ground by reporters who follow the highly visible security cordons that go up along his route.

On Monday, South Korean and Japanese news agencies reported the action as Mr. Kim's train traveled from Harbin, the capital of China's most northeastern province, Heilongjiang, to a smaller city called Mudanjiang and then down to the border crossing at Tumen.

Mr. Kim called himself a "witness" to the success of China's "reform and opening up." Chinese television reported, but it was unclear whether that meant the North would follow that model. Last year, Chinese Premier Wen Jiabao, in a visit to Pyongyang, proposed development projects valued at several billion dollars to North Korea, but none have gotten off the ground.

Monday, Chinese state media rang with praise for North Korea.

One nationalist newspaper, the Global Times, in an editorial called the China-North Korea relationship both "special" and "normal."

"The biggest negative impact the China-North Korea relationship has on China is that the U.S., Japan and South Korea all request that China be responsible for North Korea's 'irrational behaviors,'" the newspaper wrote. "However, China has no ability to shoulder such responsibility."

—Kersten Zhang and Bai Lin  
contributed to this article.

## Tensions flare in Australian political talks

By ENDA CURRAN

SYDNEY—Discussions to form a minority government in Australia have grown tense after a key independent lawmaker Monday detailed allegations of intimidation tactics by members of the opposition coalition—including a phone call allegedly placed to a lawmaker's wife by someone claiming to be the devil—in what he said is a bid to derail talks and force fresh elections.

The claims have their roots in acrimony that exists between three nonparty lawmakers who could hold the balance of power in the lower house—Robert Oakeshott, Bob Katter and Tony Windsor—and some lawmakers in the opposition Liberal-National coalition. The sniping could influence which side the independents support.

The three lawmakers are all former members of the rural-based National Party, the junior member of

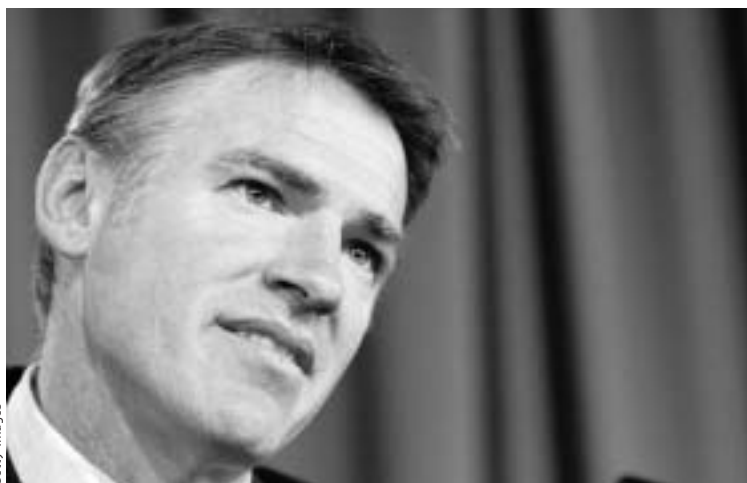
the coalition.

With Prime Minister Julia Gillard of the ruling Labor party and opposition leader Tony Abbott separately courting the independents in a bid to form a government, the public airing of the accusations could prove a distraction to negotiations.

Some have been predicting a government could be formed by this weekend. But the latest developments raise the potential for a delay or for negotiations with both sides to collapse, which could mean Australians are forced to return soon to the polls.

While the chaos could in theory favor the center-left Labor government, there are potential stumbling blocks with some independents to navigate, including Labor's plan for a tax on mining-sector profits.

At the center of the row is an allegation by Mr. Oakeshott that a lawmaker placed a phone call to his wife Friday, claiming to be the devil.



Robert Oakeshott, a nonparty lawmaker, giving a speech in Canberra.

Mr. Oakeshott said the call, alongside other calls and a "smear" campaign he said the National Party has been running against him, is part of an effort to disrupt negotia-

tions and force a new election.

Mr. Oakeshott didn't name the lawmaker, but said a lawmaker had called to apologize for the incident. A spokesman for the lawmaker

wasn't immediately available for comment.

Fellow independent Mr. Windsor said his office had been subjected to a barrage of abusive phone calls, while one Liberal lawmaker had called his office in a threatening manner.

Mr. Abbott has said he expects coalition lawmakers to act in a respectful fashion.

National Party leader Warren Truss said he wasn't aware of any smear campaign against Mr. Oakeshott and said he hadn't been party to spreading any rumors.

The Aug. 21 election has—on a provisional vote count—left Labor and the conservative opposition with 72 seats apiece in the 150-seat lower house, short of the 76 needed to govern outright. There is one Greens Party lawmaker, one Nationals lawmaker who has declared himself independent, and there are four nonparty lawmakers.