



BlackBerry makers unveil new touchscreen smartphone

BUSINESS & FINANCE 17

BP offloads its Colombian assets for \$1.9 billion

BUSINESS & FINANCE 20

THE WALL STREET JOURNAL.

VOL. XXVIII NO. 129

EUROPE

Wednesday, August 4, 2010

DOW JONES
A NEWS CORPORATION COMPANY

europe.WSJ.com

Israel-Lebanon clash kills four

A border clash between Israeli and Lebanese soldiers on Tuesday left at least four people dead and raised the prospect of further fighting on a border that had seen an uneasy quiet since a 2006 war.

By Charles Levinson
in Jerusalem and
Nada Raad in Beirut

This first major flare-up on the border since a 34-day Israel-Lebanon war in 2006 comes as tensions have been escalating, with a reported arms buildup by Iran-backed Hezbollah, which largely controls southern Lebanon, the arrests of dozens of alleged Israeli spies in Lebanon in recent months, and the looming indictments of Hezbollah officials over the 2005 assassination of former Lebanese Prime Minister Rafiq Hariri.

The Israelis and Lebanese offered different accounts of the midday skirmish, which involved Lebanese army regulars and a Israeli border patrol. Both sides blamed one another for the deadly exchange along the rugged, hilly border zone.

Heated words by military leaders on both sides heightened the possibility of an extended conflict, instead of an isolated lethal encounter.

The head of Israel's northern command, Maj. Gen. Gadi Eisenkot, accused the Lebanese army of staging a "planned ambush," in an interview with Israeli television.

The accusation suggested Israel wasn't looking to calm tensions in an incident that appeared to broaden a border conflict long limited to Hezbollah to include Lebanon's national army.

"It was a planned ambush



A Lebanese soldier tries to clear a road for U.N. peacekeeping forces in a southern Lebanon border town Tuesday, following clashes with Israel.

by a sniper unit ... a provocation by the Lebanese army," Maj. Gen. Eisenkot said.

Lebanese President Michel Suleiman said he gave orders to top defense officials "to confront any violation of Lebanese territory or against our people and army, using any available means and whatever the sacrifices are." Prime

Minister Saad Hariri said in a statement he had spoken with Egyptian President Hosni Mubarak to discuss "ways of confronting the Israeli aggression."

Syrian President Bashar al-Assad said Syria would "stand by its sister Lebanon in the face of the criminal Israeli aggression," according to the of-

ficial Syrian Arab News Agency.

Hezbollah didn't appear to have been directly involved in the attack, but the Lebanese army has a contingent of soldiers from the country Shiite sect, from which Hezbollah also draws its support. After the 2006 war, Hezbollah was accused of dragging the coun-

try into a war with Israel.

Hezbollah is likely to use the incident to justify its claim that the struggle against Israel is a Lebanese struggle, and not just Hezbollah's. "This reaction by the Lebanese Army will suit Hezbollah very well and serve as a justification for their weapons arsenal," said Hilal Kha-

shan, a political-science professor at the American University of Beirut.

The United Nations Security Council began closed-door deliberations after the clash, with top officials at the international body appealing for calm.

Details of the clash
Please turn to page 9

The Quirk



The town that is proud to celebrate America's biggest oil spill. Page 29

Editorial & Opinion

Washington has learned nothing from the financial crisis. Page 11

Fuzzy link between capital rules, lending

By DAVID ENRICH

In trying to water down proposed rules that would force lenders to hold more capital, banks have deployed a powerful argument: Such requirements would cause them to curtail lending, jeopardizing the fragile global economic recovery.

But at least three recent studies cast doubt on that assertion, which is regarded as virtual gospel within the banking industry. This countervailing research suggests that requiring banks to hold thicker capital cushions is un-

likely to have a major effect on the availability or price of loans, especially if those rules are phased in over a few years.

"The industry has very significantly exaggerated the likely impact of the capital changes," said Douglas J. Elliott, a fellow at the Brookings Institution and a former J.P. Morgan investment banker.

Mr. Elliott argued in a paper earlier this year that even a steep rise in minimum capital requirements would have a relatively muted impact on lending levels. Capital is less expensive than the industry

generally argues and has only a modest influence on banks' willingness to provide affordable loans, he said.

Research like Mr. Elliott's has done little to curtail the industry's contention that new banking regulations will cause tremendous economic damage. Banks are lobbying especially hard in the Swiss city of Basel, where officials from 27 countries are negotiating a far-reaching agreement that would force banks to hold more capital and "liquid" funds on hand. The package, which is expected to be completed ahead of a key No-

vember meeting of leaders from the Group of 20 industrialized and developing nations in South Korea, is intended to reduce risk across the global banking system in the hope of avoiding a repeat of the recent financial crisis.

And that argument has won some battles. The Basel Committee on Banking Supervision, which is coordinating the international banking talks, has eased some of the proposals that the industry found most onerous and delayed full implementation of some provisions until as late as 2018. Now negotiators are

grappling with the crucial question of how high a capital threshold they should set.

The Institute of International Finance, a lobbying group for many of the world's largest banks, published a study in June that attempted to gauge the collective economic impact of regulatory changes that include the Basel proposals before they were lightened. Their conclusion: The rule changes would knock three percentage points off the collective gross domestic products of the U.S., the euro zone and Japan by 2015 and

Please turn to page 5

THE WALL STREET JOURNAL.
 Bahain BD 150 - Egypt \$175 (CIV)
 Jordan JD 2 - Kuwait KD 1 - Oman OR 2
 Qatar QR 4 - Saudi Arabia SR 14
 £1.50
 3.1
 9 7792 19 9869 3

PAGE TWO

Business pays the price of Bribery Act

[AGENDA]

By PATIENCE WHEATCROFT



Bribery should not be condoned. Few business people would dare take issue with this statement, hence the dearth of voices being raised against the U.K. Bribery Act 2010, which is now on the statute book and due to come into force in April 2011. Taking issue with a piece of legislation that is intended to toughen up the existing law against bribery doesn't look like good corporate citizenship.

Nevertheless, plenty of reservations about the act are being aired privately and with good reason. This is a piece of legislation with huge implications for the conduct of businesses and not just those that are British. The territorial ambitions of the act are so far reaching that any company with operations in the U.K. could fall foul of it, wherever in the world the alleged offense may be committed. And so extreme is the act in its attempt to wipe out corrupt practices that it does not even allow the exception for "facilitation" payments that exists under the United States Foreign Corrupt Practices Act.

That sensible exception ensures that in countries where officials demand and expect a payment for doing their jobs, such as processing customs forms or issuing visas, it is possible for U.S. companies to operate without falling foul of the FCPA. The Bribery Act makes no such concession.

Claire Ward, a member of the Labour government that brought forward the act, acknowledged in Parliament that "we recognize that many U.K. businesses still struggle with petty corruption in some markets, but the answer is to face the challenge head-on, rather than carve out exemptions that draw artificial distinctions,



BAE Systems paid heavy fines over bribery allegations.

are difficult to enforce, and have the potential to be abused."

Ms. Ward is no longer a member of Parliament, having been voted out in the May election, a poll perhaps influenced by the fact that she featured in the MPs' expenses scandal that recently enveloped Westminster. She had in five years claimed over £90,000 in allowances for a second home near Parliament

It raises questions of whether a decent meal, never mind a hefty cash bung, constitutes a bribe.

when her main home was less than 30 miles away. When it came to "facilitation" payments for business, however, she advocated a policy of zero tolerance, as enshrined in the act. The new administration has indicated that prosecutorial discretion will be applied and that there may not be an appetite for prosecuting minor offenses. There is little comfort for business, though, in hearing a message that says, "Go ahead and break the law and we may not choose to prosecute you." It would not be wise to take the risk.

Brian McDonnell of lawyers Olswang describes the new law as "wider reaching and more draconian" than the FCPA.

Facilitation payments, he says, are "de rigueur" in many parts of the world. They are, however, almost certainly illegal in the countries where they are used but the law is just not applied.

One corporate chief tells the story of what happened after he decided that he would stop the long established practice of paying small facilitation payments for everyone of his trucks that passed a certain point in a Latin American country. The trucks were confiscated and the drivers jailed.

In theory, the U.K. law might help wipe out such endemic corruption. In practice, any change is likely to take a long time, during which those who choose to play by the new U.K. rules risk being heavily disadvantaged.

The move to tighten up the law came in the wake of allegations that BAE Systems paid massive bribes to secure deals with Saudi Arabia, offenses for which it eventually paid fines of £286 million. The new law, according to the Ministry of Justice "will ensure the U.K. is at the forefront of the battle against bribery."

To this end, it raises questions of whether a decent meal, never mind a hefty cash bung, constitutes a bribe. Corporate hospitality, both to public officials and to potential customers, is part of normal business practice, a fact that Ms. Ward conceded. She said

the act wasn't intending to discourage such practices unless the level of hospitality was "excessive or unreasonable." Again, prosecutorial judgment will apply. Again, businesses might rightly feel nervous of trying to guess what a court might decide is reasonable hospitality to offer to an Indian government official or a U.S. corporate chief.

Another aspect of the act causing concern is that it creates a new corporate offense of failing to prevent bribery. A company based in Paris, with operations in the U.K., could be found guilty of failing to prevent bribery if one of its minor officials was found to have bribed a customs officer in Colombia. Such is the long reach of the new law.

Will Kenyon, a forensic audit partner with PricewaterhouseCoopers, says that the legislation is generating "quite an elevation in anxiety levels" among companies. One organization's anxiety, though, is another's opportunity and for a raft of firms such as his, the new law is generating plenty of extra business. For to the new corporate offense of failing to prevent bribery there is a defense if a company can demonstrate that it has put in place adequate procedures to prevent bribery.

How does a company demonstrate that? "It is about risk management and behavioral issues, and embedding the right culture," says Mr. Kenyon. A company may believe that it already has a culture that is absolutely opposed to bribery and that all its staff are aware of the rules, yet will that be sufficient to persuade a court that it has taken adequate steps to prevent bribery? Perhaps what is required is elaborate audits, new processes, plenty of teach-ins, all of which can be provided by experts, at a cost. Regular monitoring will then be obligatory.

In short, the new law may end up forcing companies to hand over cash if they are to be confident of avoiding prosecution. Ironic, isn't it?

What's News

■ **The high temperatures and dry skies threatening Russia's wheat harvests have also been beating down on Western Europe, which is forecasting lower output of crops from French wheat to Italian tomatoes. 5**

■ **The U.S. blacklisted 21 Iranian firms as part of an international effort to undercut Tehran's ability to use units in Europe and Asia to facilitate financial transactions and weapons development. 7**

■ **BMW said quarterly profit leapt amid booming demand for luxury cars in China and a recovery of the U.S. market, and reiterated that growth is expected to continue in the second half. 17**

■ **BP agreed to sell its Colombian oil and gas exploration and production business to Ecopetrol and Talisman Energy for \$1.9 billion. 20**

■ **Spain's labor market continued to show signs of improvement in July. 4**

Inside



The workplace dilemma over medical marijuana. 27



Cricket tries to conquer the toughest frontier—France. 28

ONLINE TODAY

Most read in Europe



1. Microsoft Quashed Bid to Boost Web Privacy
2. Petraeus Resets Afghan Airstrike Rules
3. Hungary Does Without EU, IMF
4. Titanic-Style Problems for Euro Zone
5. Global Wheat Shortage Feared

Most emailed in Europe

1. Opinion Europe: Danny Ayalon: The Flotilla Farce
2. Web's Gold Mine: Your Secrets
3. The New Credit-Card Tricks
4. Hungary Does Without EU, IMF
5. Fed Mulls Symbolic Shift in Bond Strategy

Reader comment

europe.wsj.com/community

'This is feeling more and more like 2008. I don't think we learned any lessons from past mistakes.'

Steve Benard on fears that a drought in Russia could lead to grain shortages



Continuing coverage



Follow developments on European politics as Italy's Berlusconi faces a key test at europe.wsj.com

Question of the day

Vote and discuss: Should a mosque be built near the former site of the World Trade Center in downtown Manhattan?

Vote online and share your thoughts with other readers at wsj.com/polls

Previous results

Q: Do you think the euro-zone economy is on a solid road to recovery?

Yes

38%

No

62%

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

SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 20 3426 1234. Calling time from
8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com.
Website: www.services.wsje.com

ADVERTISING SALES worldwide through Dow Jones
International. Frankfurt: 49 69 9714280;
London: 44 203 426 1111; Paris: 331 40 17 17 01.
Printed in Belgium by Concentra Media N.V. Printed in
Germany by Dogan Media Group / Hürriyet A.S. Branch
Germany. Printed in Switzerland by Zehnder Print AG WIL.
Printed in the United Kingdom by Newsfax International
Ltd., London. Printed in Italy by Telesampa Centro Italia
s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland
by Midland Web Printing Ltd. Printed in Israel by The
Jerusalem Post Group. Printed in Turkey by GLOBUS
Dünya Basinevi.

Registered as a newspaper at the Post Office.
Trademarks appearing herein are used under license from
Dow Jones & Co. ©2010 Dow Jones & Company. All
rights reserved. Editeur responsable: Patience Wheatcroft
M-17936-2003.
Registered address: Boulevard Brand Whitlock, 87, 1200
Brussels, Belgium

NEWS

Farmers imperil Munich Olympics

By WILLIAM BOSTON
Special to the WSJ

GARMISCH-PARTENKIRCHEN, Germany—Under the shadow of the Zugspitze, a snowy peak in the Bavarian Alps, a modern-day peasant revolt has broken out that could cost Munich its bid to host the 2018 Winter Olympics and huge investments in local infrastructure.

The leader of the uprising is Josef Glatz, a stocky, dark-haired 50-year-old farmer whose family has tilled the fields and tended livestock in the verdant Alpine pastures above this valley for centuries. As his son and sister prepared to lead a small herd of young calves from the town up to the mountain pastures for the summer, Mr. Glatz said he and other local farmers refuse to cede their land to make room for temporary housing and offices for the thousands of athletes, journalists, officials and guests who would reside in Garmisch-Partenkirchen during the Olympic Games. He lifted his good arm—the other, damaged in an accident, hung limp at his side—and slapped the white-washed wall of the farmhouse.

“This house has been here since the 16th century,” he says. “But we haven’t always lived here. We moved here from Spring Street about 200 years ago. You don’t sell your homeland.”

Garmisch-Partenkirchen hosted the 1936 Olympics, then a showcase for the Nazis and the first time downhill skiing was held as an Olympic sport. Mr. Glatz says local farmers gave Hitler a hard time as well.

“Back then, a lot of farmers lost their land,” he says.

Today Garmisch-Partenkirchen is showing its age, and in contrast to rival Alpine resort towns like Davos, St. Moritz, or Cortina d’Ampezzo, Garmisch-Partenkirchen has no high-street shops with exclusive outlets from top-line luxury brands. The streets are dotted with discounters and mass retailers like H&M, Zara, and local crafts shops.

Local officials in Garmisch-Partenkirchen see hosting the Olympics as a catalyst to modernize local infrastructure, upgrade hotels, tourist facilities and retail, and make the town more competitive with rival Alpine resorts. A master plan, designed by Charles Fessel, a Swiss tourism expert, includes a new tunnel to ease traffic in the town and



Tourists walk near the Bavarian state sign on Germany’s highest mountain, the 2,962-meter Zugspitze, near the resort of Garmisch-Partenkirchen, in October.

three tourist centers. The first would be a spa resort with new four- and five-star hotels, a casino and convention center. A second cluster would have new swimming pools, wellness facilities, an indoor climbing gym, a multipurpose auditorium and a three-star hotel. Rounding out the plan, the town would upgrade the area around the Olympic ski jump to create a winter sports park, with additional facilities for families and another three-star hotel, as well as a cafe and lounge in the Olympiahaus, one of the remaining historic buildings.

Additional improvements under consideration include a new express train to Munich to cut commuting time to an hour from about 90 minutes now, which would also improve the connection to Munich’s international airport, a huge boost for attracting tourists.

“None of this will be possible without the Olympics,” says Jutta Griess, 58, who runs the local Rheinischer Hof hotel and heads the local hotel-owners association with some 400 members. Ms. Griess is a vocal local advocate for hosting the 2018 Winter Olympics.

In June, the International Olympic Committee narrowed the competition for the 2018 Winter Games to three cities: Munich; Annecy in the French Alps; and Pyeongchang, South Korea. The Olympic Committee will make the final choice in July 2011.

But Munich’s chances will likely be hurt if Mr. Glatz and other landowners refuse to cooperate. Local and state politicians failed to recognize the opposition to their Olympic bid brewing in the Bavarian hinterland. Munich’s Olympic organizers just assumed that local residents

would wholeheartedly back the bid for the Games. But the organizers never bothered to ask local residents. “It was an insult,” says Gustav Graber, 60, a local butcher, as he laddles out a serving of Leberknödel, a local dumpling, for a waiting customer. “How would you feel if someone sold your house without asking you?”

The farmers, backed by local environmentalists, oppose hosting the Olympics because they fear that once the farmland is zoned for construction, they will lose the land forever. To calm local fears about permanent negative effects from temporary Olympic buildings, Bavarian Gov. Horst Seehofer last week met with his entire cabinet in the town and offered farmers a binding guarantee to return their land in its original condition.

“We have to win the hearts of the

people here,” Mr. Seehofer told reporters. “The people of Garmisch-Partenkirchen are not pieces on a chessboard. We have to take them seriously.”

Still, Mr. Glatz remains skeptical. He insists that the farmers aren’t just holding out for more money. For the farmers, the battle is about a way of life, holding on to the remaining bits of agriculture in a region that once lived from farmers but now no longer needs them.

Mr. Glatz points up toward the hills across the valley, noting that the green pastures below the massive peaks were first mentioned in local records 600 years ago.

“Who’s going to take care of the meadows when we’re gone?” he asks. “This isn’t about money; it’s about our land. This land was passed on from generation to generation, and we won’t just give it away.”

Auction houses see rebound in art market

By KELLY CROW

It looks like the art market’s Blue Period is over. A year and a half after art prices plunged, the world’s chief auction houses say they have recaptured much of their prerecession momentum.

Christie’s International PLC said it sold \$2.57 billion of fine and decorative art in the first half, up 43% from the year-earlier period and the second-highest in the company’s history. Christie’s total includes \$274.1 million in art it sold privately, up by more than a third from a year ago.

Rival auction house Sotheby’s will release its six-month sales totals on Thursday.

Collectors who stayed home during the worst months of the economic

crisis say they are feeling increasingly optimistic about the values of their artworks compared with other assets. That boost in confidence made it easier for auction houses to persuade sellers to auction off their trophies throughout the spring and summer.

“We’re not going to lull ourselves into a false sense of security,” said Christie’s chief executive, Ed Dolman, “but the art market does seem to be recovering more quickly than anyone here expected.”

Art buyers remain divided over how quickly the market should catch up, though. Longtime collectors in the U.S. and Europe are still seeking potential bargains, but they are facing tougher competition from new Asian bidders who are more willing to splurge.



Picasso ‘Nude, Green Leaves and Bust’

So far this year, the clash in attitudes—one cautious, the other giddy—has created an unpredictable

marketplace in which artworks tend to fly or flop without warning.

Christie’s had its biggest success in the first half with Pablo Picasso, whose 1932 “Nude, Green Leaves and Bust” sold for \$106.5 million in May, the highest price ever paid for a work of art at auction.

The work squeaked past Sotheby’s top seller in the first half, Alberto Giacometti’s “Walking Man I,” which sold for \$104.3 million in February.

Both houses capitalized on collectors’ growing interest in modern sculpture. Christie’s sold Giacometti’s bronze bust of his brother, “Big Thin Head,” for \$53.2 million and Amedeo Modigliani’s limestone bust of a woman, “Head of a Caryatide,” for a record \$52.6 million.

Other top sales at Sotheby’s in-

cluded J.M.W. Turner’s “Modern Rome—Campo Vaccino,” which the J. Paul Getty Museum bought for \$45 million. Sotheby’s also sold Edouard Manet’s “Self Portrait of Manet, A Bust (Manet and a Palette),” for \$33.2 million in June.

At Christie’s, overall prices were up for nearly all of the auction house’s major art categories.

There were disappointments. Christie’s expected to get more than £30 million (\$47.7 million) for a Claude Monet waterlily work, “Nymphs,” in June but got no takers, and Edvard Munch’s “Fertility,” a field-couple scene that was expected to sell for at least \$25 million, also went unsold at Christie’s in May.

Sales remain relatively flat at Christie’s for Russian, Old Masters and 19th-century art.

EUROPE NEWS

Spanish town's nuclear dream

BY JONATHAN HOUSE
AND JOE ORTIZ

VILLAR DE CAÑAS, Spain—Mayor José María Saiz believes he has a shot at re-energizing this dying town in central Spain. On a site just beyond its old white houses, amid fields of barley and sunflowers, he envisions building Spain's first centralized depot for nuclear waste.

"When a once-in-a-life opportunity like this comes along, you grab it," says Mr. Saiz, 45, who is also the owner of a small farming-equipment manufacturer.

Spain's decadelong construction boom brought new houses, employment and prosperity to places like Villar de Cañas. Now, the country's fiscal meltdown—double-digit budget deficit, an unemployment rate of 20% and a troubled banking system—has quickly reversed all that, leaving the town's dwindling population of 450 with few prospects for growth.

Mr. Saiz's town is among eight finalists battling for the dubious privilege of storing waste from the country's eight nuclear reactors. Spain's Industry Ministry, which is set to name the winner in coming weeks, had expected to field applications from towns close to nuclear-power plants, a spokesman said.

Instead, all but three of the original 13 applications came from towns that had no local plant—but were drawn by a project that would bring €700 million (\$910 million) in investment over 20 years, €7.8 million in annual direct payments and hundreds of jobs.

Town residents, in a twist on antinuclear protests, are rallying for nuclear waste. In May, Mr. Saiz led some 50 people from Villar de Cañas to Madrid to present supporting documents for the town's official bid, which boasted that 68% of its 357 registered voters supported hosting a nuclear-waste facility. In front of the Industry Ministry building, residents unfurled green and white banners to press their desire for an *Almacén Temporal Centralizado*: "Yes, we want the ATC in Villar de Cañas."

Town resident Caridad Saez Olmo, a 70-year-old housewife, is in the minority when she says she has doubts about the proposed dump's safety. When she hung a banner from her balcony that read "We Don't Want ATC," a neighbor tore it down, she said.

The mayor's office says that was



Villar de Cañas Mayor Saiz, center, on the proposed site for the nuclear-waste dump his town is hoping to attract.

because part of the banner was attached to the neighbor's house.

Others here have taken on the out-of-towners who have descended on this and other candidate towns, often bearing coffins that symbolize the "nuclear cemetery."

Nuria Saiz, the mayor's cousin and an advocate for the dump, says environmentalists from several groups tried to frighten them during a public information session in March, warning of possible accidents and deaths.

"This town is already dead!" Ms. Saiz says she told the meeting.

Villar de Cañas has seen its population dwindle from 2,000 inhabitants in the 1970s, as machines started replacing Spain's farmhands. While Spain's rural towns have generally been less hard-hit by the crisis than those along the coast or near big cities, where the country's recent building activity was most intense, the end of the building boom could represent an existential threat here.

During the second half of this decade, many newly prosperous offspring of Villar de Cañas started returning to build homes for retirement or vacations. Revenue from building permits and central government transfers surged. The

local government paved dirt roads, put up housing for low-income families and built a swimming pool and playground. It put up new street lamps and restored the church's 250-year-old organ.

Five crews of five or six construction workers set up shop in the small town. Many bought homes.

But now, budgeted 2010 revenue is down about 10% to €300,000 from 2009 and the regional government of the Castilla-La Mancha region is delaying payment for services the town provides on its behalf. Villar de Cañas has reined in spending.

Construction-equipment operator Miguel Millán, 47, who like most of the town's builders is unemployed, has pinned his hopes on the waste dump. "If we don't get it, I don't know what I'm going to do," he said.

Villar de Cañas has picked out a spot of agricultural land about two kilometers outside town on which to erect the massive structure, which will be 83 meters long, 78 meters wide and 26 meters high.

The first of its kind in Spain, it would store the country's nuclear waste for 60 years. After that, another use will have to be found for the spent fuel or another storage installation built.

Mr. Saiz said the waste dump fa-

city alone would employ 120 people. But the project also includes plans to build two business parks, one for nuclear-energy companies and another for other types of companies. The new workers would need more services, which would create more jobs.

Environmental group Greenpeace says transporting waste to a centralized facility creates the possibility of accidents during transit.

Said Mr. Saiz: "All the experts say there is no danger."

Villar de Cañas, like many of its co-competitors, faces powerful opposition in its bid from its regional government. Castilla-La Mancha President José María Barreda has said he doesn't want a waste dump in his region. Catalonia President José Montilla has said the same, possibly tarnishing the credentials of Ascó, widely considered a front-runner in the process because it is located next to a nuclear plant and a train line.

Rafael Vidal, the 57-year-old mayor of Ascó and technical auditor at the nearby nuclear-power plant, said he was caught off guard by the opposition of the Catalonia regional chief. "The bidding criteria didn't say we needed approval of the regional governments," he said.

Berlusconi appears set to maintain government

BY CHRISTINA PASSARIELLO
AND MARGHERITA STANCATI

ROME—Lawmakers who broke away from Italian Prime Minister Silvio Berlusconi's coalition government are likely to abstain from a critical vote slated for Wednesday, a development that would ease pressure on the prime minister before the summer legislative recess.

The probable abstention makes it likely that Mr. Berlusconi will maintain his grip on the government at least until September, surviving the most serious political crisis he has faced since his People of Freedom party, or PDL, formed a ruling coalition in 2008.

Until last week, Mr. Berlusconi's center-right coalition enjoyed a solid 26-vote majority in the lower house of Parliament. That evaporated late last week after the prime minister split with PDL co-founder Gianfranco Fini and his roughly 30 followers in the lower house, accusing Mr. Fini of clashing with the party line. Under Italian law, if a government loses a parliamentary vote, that means it has lost its official majority, and the president can order a government shuffle or call a general election—long before the next general election, scheduled for 2013.

But the leader of Mr. Fini's breakaway faction in the lower house, Giorgio Conte, said Tuesday that the group of lawmakers is leaning toward abstaining from the vote on a motion to dismiss Undersecretary for Justice Giacomo Caliendo, which would allow Mr. Berlusconi's coalition to defeat the motion.

"Abstaining—which is still being discussed within our [parliamentary] group—stems from a sense of responsibility toward our electorate," Mr. Conte wrote in an email to *The Wall Street Journal*. Mr. Conte added that the lawmakers have "no intention whatsoever of putting the Berlusconi government in crisis."

On Tuesday, Rome buzzed with negotiations. Mr. Fini's followers met with several opposition parties including the centrist Union of Center party. Lower-house members of various parties agreed to abstain from voting, meaning the motion stands a slim chance of passing.

By abstaining, Mr. Fini is walking a tightrope between distancing himself from his former allies and not declaring war. Though he is avoiding deepening the government crisis, he is also standing his ground on one of the issues that divided Messrs. Fini and Berlusconi—the criminal probe of party members. Mr. Fini has criticized party members close to Mr. Berlusconi on "grounds of public ethics," and suggested that politicians under investigation—as many of Mr. Berlusconi's allies are—should resign.

Mr. Caliendo, the focus of Wednesday's vote, is under investigation by prosecutors in Rome for allegedly belonging to a secret society aimed at influencing political decisions and business deals. He has denied all charges and has rejected calls to resign. Mr. Berlusconi has publicly defended Mr. Caliendo.

After Wednesday's vote, Parliament breaks for its summer recess.

Spain's dim jobs picture brightens

BY JONATHAN HOUSE

MADRID—Spain's labor market continued to show signs of improvement in July as the country's tourism sector added jobs for the summer-vacation season.

The Spanish Labor Ministry said registered jobless claims fell by 73,790, or 1.9%, to 3.9 million in July from June, the fourth consecutive month of declines. July jobless claims were up 10% on the year.

The ministry doesn't provide an unemployment rate, but data last week from Eurostat showed Spanish unemployment stood at 20% in June, twice the 10% rate for the 16 nations that share the euro.

Seasonally adjusted jobless claims fell by 37,910 in July from

June, pointing to a broad-based improvement in the job market as the economic recovery gained traction. Ministry data showed jobless claims fell by 1.9% in the services sector including tourism, by 2.2% in construction and by 2.6% in industry.

Prime Minister José Luis Rodríguez Zapatero recently said growth in Spain's gross domestic product accelerated in the second quarter. Spanish GDP returned to a meager quarter-on-quarter growth of 0.1% in the first quarter after six consecutive periods of contraction. Mr. Zapatero's government recently overhauled labor-market rules in a bid to encourage hiring and lower high unemployment.

Spain is grappling with the fallout from the collapse of a decade-

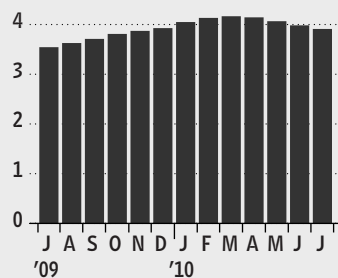
long housing boom. With much of the world in recession, the country's tourism industry, which accounts for about 11% of GDP, has suffered from a drop in visitors.

Tourism executives say they expect revenue to stabilize in July, August and September after two years of steep declines, according to a July survey by industry association Exceltur. The survey found that 71% of respondents expect third-quarter revenue to either rise or stay at the same level as in the year-earlier period. More than 86% said they plan to maintain or increase staffing.

Economists and union leaders, however, warned that Spain's economy and the job market face headwinds as the government reins in spending in the year's second half.

Some improvement

Spain's sky-high jobless-claims figures fell for the fourth consecutive month in July. Number of jobless claims, in millions



Source: Spanish Labor Ministry

EUROPE NEWS

Heat wave and drought slam Europe

The scorching temperatures and dry skies threatening Russia's wheat harvests have also been beating down on Western Europe, which is forecasting lower output of crops from French wheat to Italian tomatoes.

By Terence Roth in London and William Mauldin in Moscow

Russia's Agriculture Ministry on Tuesday cut its forecast for the country's 2010 grain output to between 70 million and 75 million metric tons, down from earlier estimates of as much as 90 million tons.

Weather forecasts don't see any imminent relief from record Russian temperatures of up to 40 degrees Celsius (104 degrees Fahrenheit). The weather has prompted wildfires that so far have claimed 40 lives, authorities say.

Western Europeans also expect their own markedly dry summer to cut a swath through the production of grain, fruit and vegetables this year. Economists forecast a boost in seasonal food prices, with the German government reporting a 12% to 15% rise in July.

Ben Lloyd-Hughes, a climate scientist at the University of Reading's Walker Institute in England, says pockets of Western Europe also are being affected by drought, but that southwest Russia, Ukraine and Belarus are hardest hit.

"It is the lowest rainfall and the highest temperatures that the area has seen in the last 30 years or more," he said. "Droughts at this time of year in that region tend to reinforce themselves because the soil dries out, which subsequently makes the drought worse. ... The weather forecast for the next week is for more sun."

Russia's expected wheat shortfall has sent world prices of the grain soaring. France, Western Europe's biggest wheat producer, also could take a big hit.

"There were some problems of



A farmer harvests wheat in Blécourt, northern France, on Tuesday.

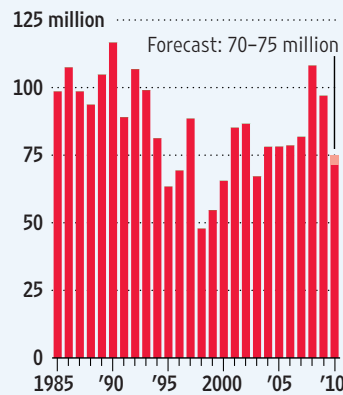
drought in June, but not nearly as serious as what we are seeing in Russia," said Michel Potier of Agritel, a company that gauges price risk in agriculture. "We estimate a 10% fall in the French soft wheat harvest compared to last year, but

don't forget that last year was a very strong harvest."

The impact on foodstuffs stretches beyond grain. A farmers' association expects Italy's tomato crop to come up 10% to 15% short this year because of the intense

Grain drain

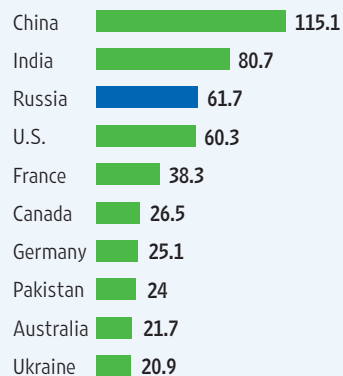
Drought is cutting into Russia's grain harvest. Yield, metric tons:



Source: Russian Federal State Statistics Service via Thomson Reuters

Amber waves

World's top 10 wheat-producing countries. In millions of metric tons, in 2009



Source: International Grains Council

Polish orchards expect this year's fruit harvest to be down by nearly a fifth from 2009, with cereals and vegetables forecast to fall 10%.

Problems with the weather this year started with the winter, which was colder for longer than farmers would have liked.

The dearth of rain in June affected yields of early crops, although July brought some rain. Germany's weather office reported rainfall was at only 42% of normal levels in June.

The U.K. Met Office reported a similar drop in southeast England. Dutch water authorities have increased inspection of the country's system of dikes, which can sustain damage if they become too dry.

In the Lincolnshire region of England's East Midlands, farmer Tim Elwess is worried about his crop of beans, wheat and barley.

With hay and grazing grass in short supply, sheep breeders are selling their flocks early, he said. "It's certainly very dry, although not as dry as Suffolk: A friend I have there is pulling his hair out," he said.

The high-pressure fronts that settled over northwest Europe in most of June and July have all but killed off production of wind power in Germany. Of the 26,000 megawatts of installed wind capacity in Germany, there was less than 1,000 megawatts being produced at times, according to RWE Power.

While European consumers face higher grocery bills, the global impact of the European heat wave will come through the wheat market. The major source of uncertainty is the supply from the Black Sea region, especially from Russia, Ukraine and Kazakhstan.

Russian President Dmitry Medvedev on Monday declared a state of emergency in seven regions, including around Moscow. Some 300 to 400 new blazes are starting every day, said Vladimir Stepanov, head of the Emergency Situations Ministry's crisis center.

U.K. leader pushes austerity

By Laurence Norman

LONDON—U.K. Prime Minister David Cameron kicked off a summer offensive to sell the government's austerity plans, promising that tough decisions now will deliver economic benefits within a few years.

After two weeks dominated by foreign news and trips, Mr. Cameron hit the airwaves, held a public meeting with voters and wrote to his ministers to push the message that the government must tackle the deficit, which totaled £155 billion (\$246 billion) last year.

Speaking to the British Broadcasting Corp.'s regional WM Radio, Mr. Cameron said of the austerity measures, "it is a difficult thing to do but I think the British people understand it's necessary."

"The deficit is sapping confidence in the British economy. It's building up debts for our children," he said. "There'll be a stronger, better, a more balanced British economy ... at the end of this process."

Recent polls have shown Mr. Cameron's Conservatives still enjoying a bump in the polls after May's election but the junior coalition partner, the Liberal Democrats, have



David Cameron at the Institution of Engineering and Technology on Tuesday.

seen their backing almost halve since the vote. The opposition Labour Party has picked up much of the lost Liberal Democrats support.

Labour argues that the government's planned spending cuts could send the economy back into recession, but Mr. Cameron said failure to address the deficit now would lead to bigger problems in the future.

Mr. Cameron and Deputy Prime

Minister Nick Clegg on Tuesday wrote to ministers to stress the "important decisions to be made to deal with the legacy of the previous government and restore health to the public finances and confidence to our economy."

They wrote that "deficit reduction and continuing to ensure economic recovery is the most urgent issue facing Britain."

Linking capital rules, loans

Continued from first page
cost nearly 10 million jobs.

The IIF's reasoning: To meet some of the new requirements, banks would need to raise large amounts of capital. Heightened global demand for capital would cause the costs of that capital to rise. Banks would compensate for those higher costs by charging more to borrow money.

Many banks have voiced similar concerns. Deutsche Bank AG, for example, warned in April that the proposed rules would require capital-raising that would have "a significant impact on lending, businesses and ultimately growth and employment."

Charles Dallara, the IIF's managing director and an author of its report, acknowledged in an interview that its assumptions and methodology, specifically as they relate to the impact of capital levels on lending, "are by no means tried and tested and true. They represent early efforts ... to deal with something that is not at all well-developed in the academic literature."

Recent studies, however, suggest that the relationship between capital levels and the costs of loans isn't nearly as straightforward as the in-

dustry often contends.

In a paper last month, three researchers at Harvard University and the University of Chicago examined data about bank-capital levels and loan trends stretching back to the 1840s. Their analysis showed what the researchers described as a "surprising, even paradoxical" phenomenon: There isn't a statistical correlation between lofty capital buffers and pricier loans.

The paper doesn't attempt to explain why there isn't more of a relationship between capital levels and loans. Jeremy Stein, a Harvard economics professor who co-wrote the paper, said it might be because as long as banks have time to adjust to higher capital requirements, they won't need to raise outside capital. Instead, they can fill any holes by cutting costs and retaining profits rather than doling them out in the forms of shareholder dividends and employee compensation.

Mr. Elliott, the Brookings fellow, reached a similar conclusion by modeling the connection between capital and loan prices. He found that a four-percentage-point increase in capital ratios might cause loan prices to rise by 0.2 percentage points, "which is essentially trivial."

U.S. NEWS

Tenants who get state subsidies score amid bust

By Dawn Wotapka

HENDERSON, Nev.—When Shawnetta Newburn left her drug-infested St. Louis neighborhood in search of a better life for her family in Las Vegas, she didn't expect to live in a house with frills worthy of a McMansion.

But Paradise awaited. That's the name of the gated community where Ms. Newburn, a single mother who makes \$10.50 an hour as a pawnshop cashier, rents a three-bedroom townhouse with soaring ceilings, a gas-fueled fireplace and an oversize walk-in closet in the largest bedroom. The master bath even includes an enclosed toilet room, a feature popular in mini-mansions.

"The only time I ever saw that was on TV or something," she says during a tour of the approximately 2,000-square-foot home. "I never thought I'd have anything like this."

Her previous apartment in St. Louis resembled public housing, she says, and her three sons were crammed into one bedroom. After her refrigerator caught fire, her landlord replaced it with an outdated brown model. She now has gleaming-white appliances.

Ms. Newburn can thank the housing bust. She participates in a government program for low-income families that subsidizes about half of her \$1,400 monthly rent. The program, known as Section 8, has for decades put families in functional but basic homes.

But overbuilding during the housing boom has left so many homes available that landlords, desperate for renters, are wooing Section 8 recipients, whose government subsidies, delivered electronically, guarantee the landlord gets paid. As a result, Section 8 recipients suddenly have a housing smorgasbord.

Plenty of average housing stock remains in many places, but in certain markets, there are also more upscale selections. On the website GoSection8.com, landlords nationwide tout boom-era showpieces—replete with "great rooms," backyard swimming pools and built-in stainless-steel barbecue grills—that once sold for hundreds of thousands of dollars. Las Vegas has been one of the hardest-hit real-estate markets.

Some renters are getting pickier. "More and more, I'm seeing tenants turn down places," says Arman Davtyan, owner of seven Las Vegas



Shawnetta Newburn, right, who works as a cashier in a pawn shop, moved with her sons into a gated community Nevada.

properties rented to Section 8 tenants. Instead, they're going for "another property that's either bigger or in a better area or has more bedrooms," he says.

Though some neighbors have long contended that government-subsidized tenants increase crime and depress property values, some now say that having a house occupied is better than leaving it vacant, which attracts vandalism.

In Antioch, Calif., a San Francisco bedroom community where the number of Section 8 listings has skyrocketed in recent years, resi-

dents have mixed emotions about the new tenants. "I would concede, I wouldn't be happy with an empty house," says Walter Ruehlig, a longtime resident of Antioch.

But resident Natalie Wilson says Section 8 tenants brought big changes to Antioch, including fights, loud parties and litter. "If a block has five Section 8 homes, are you going to want to move into that neighborhood? No," says the middle-school registrar.

Tensions have run high in Antioch. Section 8 tenants complained they were being harassed by police

and filed a lawsuit in 2008, which is still winding through the courts.

In Paradise, officially known as Paradise Court, relations between neighbors are more peaceful, Ms. Newburn says.

The change marks one of the most dramatic shifts since the 1974 creation of Section 8. The \$18.1 billion Housing and Urban Development program offers more than 2 million families the chance to live outside of housing projects. Recipients pay a certain percentage of their income, typically no more than 30%, each month.

Creative Academy

opens the enrollment to the

Eighth Edition of the

Master of Arts in Design

January 2011 - November 2011

Reserved to 20 students only, with a degree or an equivalent qualification in the design field

International postgraduate school opened in Milan by the Richemont Group, the holding company which owns several of the world's leading luxury goods companies such as Cartier, Van Cleef & Arpels, Piaget, A. Lange & Söhne, Jaeger-LeCoultre, Vacheron Constantin, Officine Panerai, IWC, Baume & Mercier, Roger Dubuis, Montblanc, Dunhill, Lancel, Chloé, Alaïa, Purdey, Shanghai Tang.

The Master of Arts in Design - specializing in jewellery, watchmaking, hard products and fashion accessories - is made in collaboration with the Poli.design, a consortium of the Politecnico di Milano, and SDA Bocconi School of Management.

For further information please visit our website:

www.creative-academy.com

Further information:
Via Giovanni da Udine 32, 20156 Milano Italia
Tel: + 39 02 3026269 Fax: +39 02 3026705
contact: info.italia@creative-academy.com
website: www.creative-academy.com

Deadline for applications 20th September 2010

Consumer spending, home data are weak

By SUDEEP REDDY

A gauge of pending home sales dipped in June, continuing a decline tied to the expiration of a tax credit for home buyers.

Separately, U.S. consumer spending and personal incomes, key drivers of economic growth, were both flat in June, according to the Commerce Department on Tuesday, pointing to a weaker economy.

The National Association of Realtors' pending homes sales index, a leading indicator for the housing sector, fell 2.6% to 75.7. The measure, down 18.6% from its June 2009 level, tracks transactions for existing homes in which a contract has been signed but the deal hasn't yet closed. Closings tend to occur a month or two after a signing.

The index tumbled 30% in May after the government's April 30 deadline for contract signings to be eligible for the federal tax credit. Those sales must close by Sept. 30 to receive the tax break.

Because home buyers rushed to sign deals ahead of the deadline, sales activity was expected to weaken this summer.

"There could be a couple of additional months of slow home-sales activity before picking up later in the year, provided the job market continues to improve," said Lawrence Yun, chief economist for the Realtors group.

Pending home sales were worst in the Northeast U.S., which dropped 12.2%. The Midwest fell 9.5%, while the West slipped just

0.2%. The South, the area with the most housing activity, rose 3.7%.

Ample inventories and high unemployment are likely to keep the housing market under pressure in coming months.

The Commerce Department's consumer spending figure was unchanged last month after growing a revised 0.1% in May. The May figure was originally reported as a 0.2% rise. Personal incomes were also flat in June, as private wages and salaries fell. Incomes in May rose 0.3%, slightly less than what the government had previously reported.

Although the U.S. economy began emerging from the recession in the second half of 2009, the high unemployment rate has taken a toll on consumer purchases and weighs heavily on the recovery.

With the economy looking weak, Americans are saving more. The report showed that U.S. consumers boosted savings in June and May. Americans last month saved \$725.9 billion as the national saving rate rose to 6.4% from 6.3% in May. In April, the savings rate stood at 6%.

Meantime, Commerce said factory orders fell in June for the second-straight month. New orders for U.S. manufactured goods declined 1.2% to \$406 billion, in part as a result of fewer orders for construction machinery and defense communications equipment. But a key gauge of investment by business—nondefense capital-goods orders excluding aircraft—rose 0.2% from May to June. —Luca Di Leo and Sarah N. Lynch contributed to this article.

U.S. NEWS

U.S. blacklists 21 Iranian companies

By JAY SOLOMON

WASHINGTON—The U.S. Treasury blacklisted 21 state-owned Iranian companies as part of a growing and coordinated international effort to undercut Tehran's ability to use units in Europe and Asia to facilitate financial transactions and weapons development.

The Obama administration's point man in its financial war on Iran, Stuart Levey, also announced Tuesday U.S. sanctions against key leaders in Iran's elite military unit, the Islamic Revolutionary Guard Corps, as well as measures targeting Iranian foundations accused of supporting militant groups in Lebanon, Afghanistan and the Palestinian territories.

"As its isolation from the international financial and commercial systems increases, the government of Iran will continue efforts to evade sanctions, including using government-owned entities around the world," said Mr. Levey, the Treasury's undersecretary for terrorism and financial intelligence. "Today's identifications will mitigate the risk that such entities pose."

The Treasury's moves mark the latest in an escalating response from the U.S., its overseas allies, and the United Nations to Iran's continued pursuit of nuclear technologies. Tehran says it is seeking to develop civilian nuclear power, but the U.S. alleges Iran is covertly developing atomic weapons.

In June, the U.N. Security Council passed its fourth round of economic sanctions against Tehran aimed at curtailing its nuclear work. The U.S. Congress followed by pass-

On the list

These 21 companies, including ones based in Europe, have been identified as being ultimately controlled from Iran

■ **Iran-based:** Export Development Bank of Iran; Sina Bank; Iran Foreign Investment Co. (IFIC); Iranian Mines and Mining Industries Development and Renovation Organization (Imidro); Industrial Development and Renovation Organization of Iran; Machine Sazi Arak Co.; Mahab Ghodss Consulting Engineering Co.

■ **Belarus-based:** Onerbank ZAO, owned or controlled by Bank Refah Kargaran, Bank Saderat Iran, and Export Development Bank of Iran; Bank Torgovy Kapital ZAO, owned or controlled by Bank Tejarat, an entity identified as being owned or controlled by the government of Iran.

■ **Germany-based:** IFIC Holding AG, owned by IFIC, an entity owned by the Iranian government aimed at managing and expanding Iranian holdings abroad; IHAG Trading GmbH, owned by IFIC; Ascotec Holding GmbH, owned by Imidro; Mines & Metals Engineering GmbH; Ascotec Steel Trading GmbH; Ascotec Mineral & Machinery GmbH; Ascotec Science & Technology GmbH; Breyeller Stahl Technology GmbH; West Sun Trade GmbH, owned by Machine Sazi Arak Co.

■ **Italy-based:** Irasco SRL owned or controlled by Ascotec Holding GmbH

■ **Luxembourg-based:** Metal & Mineral Trade SarL, owned or controlled by Ascotec Holding GmbH

■ **Japan-based:** Ascotec Japan, owned by Ascotec Holding GmbH

Source: U.S. Treasury

ing extensive legislation targeting Iranian banks and energy companies. And the European Union last month banned any new investment in Tehran's oil and gas sector and significantly limited European companies' ability to do business with Iranian financial, insurance and transportation firms.

Mr. Levey said Tuesday that Iran has increasingly utilized foreign front companies to try to conduct financial transactions and facilitate Iran's development of military technologies as the sanctions have mounted.

Included on the new U.S. blacklist are nine Iranian companies based in Germany. Mr. Levey said the Treasury notified Germany and all other countries affected by the

sanctions ahead of the announcement. A spokeswoman for the German Embassy in Washington declined to comment.

The list also includes two companies in Belarus and one each in Japan and Italy. Some of these firms are owned by Iranian entities previously sanctioned by the Treasury, said Mr. Levey.

Onerbank ZAO of Belarus, for example, is owned by the previously designated Bank Saderat, according to the Treasury. Bank Torgovoy Kapital ZAO is owned by Iran's Bank Tejarat, it says.

U.S. individuals and companies are banned from conducting any business with the companies listed on the Treasury's Iranian Transactions Regulations list, which has

now grown to 58. But Mr. Levey said the bigger impact is that foreign governments and firms will also be pressured to cease business with these Iranian companies for fear of running afoul of growing U.S. and U.N. sanctions.

"What we have found is that in many circumstances ... the financial institutions will say they do not wish to do business with anyone identified on this list," said Mr. Levey, who noted that thousands of global firms are being notified of the new Treasury actions. "This allows us to take action and create a multilateral coalition to enforce it."

The Treasury on Tuesday also sanctioned four leaders of the Revolutionary Guards' Qods Force, which the U.S. believes oversees Tehran's

financial support for militant groups such as Hezbollah in Lebanon, Hamas in the Palestinian territories, and the Taliban in Afghanistan.

Among those targeted were Hushang Allahdad, whom the Treasury says is the Qods Force's chief financial officer, and Gen. Hossein Musavi, believed to head the Qods Force's Ansar Corps, which is active in Afghanistan. The sanctions freeze any assets they might have in the U.S. and bans them from conducting U.S. dollar transactions. U.S. companies and business are also prevented from doing business with them.

The Treasury also sanctioned two Iranian-controlled foundations that the U.S. believes facilitates the flow of arms and money into Hezbollah's operations inside Lebanon. These include the Iranian Committee for the Reconstruction of Lebanon and the Imam Khomeini Relief Committee-Lebanon Branch.

The U.S. and its allies have made the Islamic Revolutionary Guard Corps a principal target of its growing sanctions campaign. The EU last month banned all business dealings with the guard corps and the U.N. blacklisted a number of IRGC businesses, including the Khatam al-Anbiya business conglomerate.

Mr. Levey said the IRGC is increasingly dominating Iran's business sector and pushing out many smaller Iranian merchants and companies. The Iranian people are becoming more and more victimized by the IRGC, Mr. Levey said.

U.S. and European officials have said in recent weeks that they believe the international sanctions are having an increasing impact on Iran's ability to conduct business.

Senate begins Kagan debate

By SHAYNDI RAICE AND COREY BOLES

WASHINGTON—The full U.S. Senate began debating Elena Kagan's nomination to the Supreme Court on Tuesday, with Republicans continuing to say she was a political nominee who would seek to advance a liberal agenda.

The Senate Judiciary Committee voted 13-6 in favor of Ms. Kagan last month, and there is little doubt she will be confirmed when the full Senate votes, likely on Thursday. Already, five Republicans have declared they will vote for her, ensuring she will have more than the 60 votes required to close off debate on her nomination.

But the majority of Republicans are expected to oppose her, citing what they describe as her lack of qualifications and other reasons.

Republican criticism of Ms. Kagan has centered around her policy work in the Clinton White House and her decision to limit military recruiters' access to Harvard Law School students because of the military's "don't ask, don't tell" policy on gays.

Sen. Jeff Sessions (R., Ala.) said Tuesday on the Senate floor that she lacks "real world" experience and would be tempted to engage in "political spin" from the high court.

"Her testimony [before the Senate Judiciary Committee] lacked clarity, accuracy and the kind of intellectual honesty you would look for from someone who sits on such a high court," Mr. Sessions said. Senate Judiciary Committee



A vote on Elena Kagan, above during her hearings in June, is likely Thursday.

Chairman Patrick Leahy (D., Vt.) defended the nominee, saying she had "reflected an understanding of the judicial role and a traditional view of deference to Congress and judicial precedent."

"She indicated that she will not be the kind of justice who would substitute her personal preferences and overrule congressional efforts designed to protect hardworking Americans pursuant to our constitutional role," said Mr. Leahy.

Virtually every Democratic senator is expected to support Ms. Kagan, with the exception of Sen. Ben Nelson (D., Neb.), who said last week he would oppose her. Republicans said Ms. Kagan would be the first nominee put forward by a Democratic president to face opposition from a Democratic senator

since 1968.

Mr. Nelson said Ms. Kagan's lack of a judicial record made it impossible for him to support her.

On the other side of the aisle, Maine Republicans Susan Collins and Olympia Snowe were joined by Lindsey Graham of South Carolina, Judd Gregg of New Hampshire and Richard Lugar of Indiana in saying they would support Ms. Kagan.

In May, President Barack Obama nominated Ms. Kagan to succeed John Paul Stevens as an associate justice. Justice Stevens, 90 years old, is retiring after more than three decades on the Supreme Court.

Her likely confirmation isn't expected to change the current conservative majority on the court, as Justice Stevens was seen as the leader of the liberal justices.

Mississippi leads states in rate of adult obesity

By MAYA JACKSON RANDALL

Colorado has the lowest rate of obese adults and Mississippi has the greatest, according to a new government survey that underlines the growing girth of many Americans.

The report, released Tuesday by the Centers for Disease Control and Prevention, found that 18.6% of adults age 18 and over in Colorado were obese in 2009, making it the only state, along with Washington, D.C., with an obesity rate below 20%. By contrast, 34.4% of adults in Mississippi were obese.

Ten years ago, 28 states had obesity rates of below 20% of their adult population, the CDC said. In the latest survey, Colorado is the only state, along with Washington, D.C., that fits that description. Also,

no state had an obesity rate above 30% in 2000, whereas nine states are above that threshold today, it said. Those states are Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and West Virginia.

Overall, the report found that 26.7% of adults nationwide are obese. That's up from 25.6% in a 2007 survey, and suggests that an additional 2.4 million Americans joined the ranks of the obese in the two-year interim. In 2000, the comparable number was 19.8%.

But the CDC said the overall obesity rate today is probably much higher; it said the study relied on telephone surveys with about

400,000 adults who were asked to self-report their height and weight, information that people often misrepresent. Indeed, the CDC pointed to a report it issued in January that found the prevalence of obesity was 33.8% nationwide (32.2% for men and 35.5% for women). The earlier study was based on actual measurements of height and weight among 5,555 adults in 2007 and 2008.

"Obesity continues to be a major public health problem," said CDC Director Thomas Frieden. "We need intensive, comprehensive and ongoing efforts to address obesity. If we don't, more people will get sick and die from obesity-related conditions such as heart diseases, stroke, Type 2 diabetes and certain types of cancer."

THE WALL STREET JOURNAL.
EUROPE

Executive Travel Program

Guests and clients of 320 leading hotels receive The Wall Street Journal Europe daily, courtesy of

THINK MEDIA

OUTDOOR

www.thinkmediaoutdoor.be

U.S. NEWS

Gates takes lead in push to trim defense costs

By NATHAN HODGE

U.S. Secretary of Defense Robert Gates met with more than a dozen top defense-industry executives last week to deliver a message: Start delivering cost savings, or the government will do it for you.

The meeting raised the stakes for a sweeping initiative launched by Mr. Gates this summer to trim the fat from the \$700 billion U.S. military budget. Mr. Gates aims to realize savings of \$100 billion over the next five years, freeing up money to ensure troops overseas are properly equipped and supported even as military budgets flatten.

The moves come amid continued concern about the federal budget deficit, especially as fall political campaigns approach. Some lawmakers, such as Reps. Barney Frank, a Massachusetts Democrat, and Ron Paul, a Texas Republican, have called for shrinking the military budget. After entitlement programs such as Medicare and Social Security, the military is the next biggest source of government spending.

At a news conference Thursday, Mr. Gates described the July 29 meeting as "routine." But a person familiar with the meeting said Mr. Gates made it clear he was personally invested in the cost-savings drive and wanted industry leaders to support him. "It is his attempt to

lead this reform, rather than have somebody else do it," the person said.

Loren Thompson, an analyst with the nonprofit Lexington Institute and a consultant to the industry, said the effort to wring more efficiency out of the Pentagon budget might spare industry from more draconian cuts. "Although industry doesn't much care for the efficiency drive, it's beginning to realize Gates is the best protection it has against much deeper cuts coming from the White House," he said.

In late June, Ashton Carter, the Pentagon's acquisition chief, held closed-door sessions with top defense industry executives to explain the new initiative, which is supposed to achieve 2% to 3% in annual savings by increasing productivity and efficiency. The Pentagon's belt-tightening has caused consternation within the industry about the potential impact on profits. Defense officials have suggested they might encourage changes in how defense contracts are structured, perhaps moving away from those that guarantee a fixed profit in favor of riskier, fixed-price contracts.

Some companies are already realigning their business strategies in response to this new age of austerity. Most recently, Northrop Grumman Corp. said it would consolidate Gulf Coast shipyard operations and



Associated Press (2)

Defense Secretary Robert Gates, seen in Washington in June, wants to save \$100 billion over the next five years by having U.S. defense contractors find efficiencies and increase productivity. At right, Lockheed Martin unveiled its Joint Strike Fighter on July 7 in Fort Worth, Texas.



might consider exiting the shipbuilding industry entirely. Industry executives say more such job-sapping moves may be in the offing.

Pentagon spokesman Geoff Morrell said the Pentagon wasn't planning to cut its budget but instead was "trying to live with the minimal real growth that we are likely to have over the next several years." Mr. Gates is concerned about what Congress may do to tackle the looming budget crunch, he said.

Some attendees were encouraged by Mr. Gates's remarks that he didn't want to hurt their profitability. One person familiar with the meeting paraphrased defense officials as saying: "We are not going to zap your profits. We will reward you if there are efficiency gains."

Mr. Gates has already undertaken serious efforts to scale back on big-ticket weapons systems. Last year, he rolled out a budget that ended production of the F-22 fighter and termi-

nated a Navy destroyer program.

The Aerospace Industries Association, the main U.S. defense trade group, presented industry concerns at the meeting. The group outlined priorities such as revamping export-control regulations to make U.S. firms more competitive and re-evaluating a move to replace contractors with government workers.

"The good news is that the DoD is not in broadcast-only mode," said Michael Strianese, the chief executive of L-3 Communications Holdings Inc.

Within both the Pentagon and the defense industry, some worry about the repetition of a historical pattern: A dramatic reduction in Pentagon spending makes it difficult to ramp up military production the next time a national security crisis arises. Andrew Koch, senior vice president at Scribe Strategies & Advisors, a defense consulting firm, said the potential

downturn for the industry would be serious. And he predicted that affordability would become a more major factor in future defense-procurement contests: "We're at the top of the mountain, and downhill is going to be steep."

Price has become a big factor in a \$35 billion contest to build a fleet of aerial refueling tankers for the U.S. Air Force. Boeing Co. is in the running with the European Aeronautic Defence & Space Co.

Dennis Muilenburg, chief executive of Boeing's Defense, Space & Security segment, said the challenge is striking the right balance. "We're very focused on helping our Air Force customer meet their future warfighter needs, and we're going to give them a very effective and efficient proposal," he said. "But we're also going to do something that's financially responsible, something that meets the needs of our shareholders."

Ground Zero mosque gets OK

By MICHAEL HOWARD SAUL

The New York City Landmarks Commission unanimously voted Tuesday to deny landmark designation to the site of the proposed mosque near Ground Zero, paving the way for the controversial community center and worship space to rise two blocks from the site of the Sept. 11, 2001, terrorist attacks.

The commission's chairman, Robert B. Tierney, said the building at 45-47 Park Place "does not rise to the level of an individual landmark." The 11-member panel is appointed by Mayor Michael Bloomberg, who has defended the mosque as an example of religious freedom.

The proposed community center has become the center of an intense national controversy, prompting opponents to call on the commission to grant landmark status in hopes of blocking the plan.

The commission's vote—taking place under heavy police presence at a theater at Pace University in Lower Manhattan—is viewed as the principal municipal hurdle for the mosque, which is now free to move forward.

Commissioner after commissioner said the building, constructed in 1857-58, isn't unique and lacks the characteristics necessary for a landmark. Manhattan has more than 11,000 landmarked properties.

Manhattan resident Linda Rivera sat in the audience holding a sign that read "Don't glorify murders of 3,000—no 9/11 victory mosque."

As the commissioners left the



Activists outside the New York City Landmarks Commission's meeting Tuesday.

room, another audience member, Andy Sullivan of Queens, asked if any of them had lost a loved one during the terrorist attacks. He said commissioners should look into the television cameras and "apologize for this disgrace."

Mr. Sullivan, who is in the construction business, predicted that some construction workers will refuse to build the mosque. "You're going to have a problem getting labor there because everybody I talked to—they will not lift a finger to construct that disgrace."

Megan Pugney, a New Jersey res-

ident who works for the Muslim Consultative Network, a local advocacy organization, came out Tuesday to support the mosque. She praised the commission's decision.

"Regardless of their personal opinion of what they believe of a community center being built, they made the decision based on fact," Ms. Pugney said.

Asked what she would say to families who lost loved ones on Sept. 11, she said, "I know your pain. I know many of the people who also passed... I feel your pain. It was not real Muslims who did that."

Grid vulnerable to holes in security, report warns

By SIOBHAN GORMAN

Computer networks controlling the electric grid are plagued with security holes that could allow intruders to redirect power delivery and steal data, the Energy Department warned in a recent report.

Many of the security vulnerabilities are strikingly basic and fixable problems, including a failure to install software security patches or poor password management. Many of the fixes would be inexpensive, according to the Idaho National Lab, an Energy Department facility that conducted the study.

The report reinforces concerns that intelligence officials have raised in recent years about growing surveillance of the electric grid by Chinese and Russian cyber-spies, which The Wall Street Journal reported last year.

One worry is that a foreign country could shut down power in parts of the U.S.

The report's release comes hot on the heels of a report from Siemens AG, the German engineering firm, which said it had detected an attack targeting critical infrastructure, the collective term for systems such as electric grids, subways and air-traffic control. Siemens issued a tool to detect and fix the security gap July 22, an unusual acknowledgment of the threat. The company said none of its customers has sustained damage.

"The Siemens attacks from a couple weeks ago, in addition to evidence from several private firms that utilities are being attacked...change the imperative," said Alan Paller, director of research at SANS Institute, a cyber-security training group. He suggests the U.S. needs to adopt a more urgent response.

The Energy report is based on the findings of 24 assessments of computer-control systems performed between 2003 and 2009. It was completed in May, released July 22 on the Energy Department's website and first noted by Steven Aftergood, a government secrecy specialist at the Federation of American Scientists.

The security gaps highlighted include "well-known insecure coding practices" for software used by these control networks; and permitting an "excessive" number of portals access into the networks.

"Poor code quality leads to vulnerabilities and bugs in the code that not only make it vulnerable to attack, but also fragile and unstable," the report said.

Ineffective passwords are also a major problem, the report said. That issue was borne out in the Siemens attacks, because the attack software took advantage of preset passwords that Siemens advised clients not to change.

"Passwords are often the weakest link," the report said.

WORLD NEWS

Anticorruption drive rankles Karzai

By YAROSLAV TROFIMOV

KABUL—The U.S.-led coalition's new focus on rooting out corruption in the Afghan government has sparked a confrontation with President Hamid Karzai, who was incensed by last week's arrest of a senior aide and retaliated by ordering an investigation into the operations of a recently established anticorruption force.

The aide, Mohammed Zia Saleh, had been the head of administration at Afghanistan's National Security Council, a highly sensitive position that gave him knowledge of President Karzai's attempts to negotiate with Taliban insurgents. He was arrested on charges of receiving as a bribe a vehicle valued at about \$10,000, and is still in custody, coalition and Afghan officials familiar with the matter say. It hasn't been possible to reach Mr. Saleh's lawyer or representative.

The nighttime raid on Mr. Saleh's home, one of several carried out by the Major Crimes Task Force in recent weeks, which is "mentored" by U.S. and British law-enforcement officers, infuriated Mr. Karzai, Afghan

officials say. The Afghan president viewed the raid, and the MCTF's desire to move against some senior members of his cabinet and relatives, as an affront to Afghanistan's sovereignty and to his authority, they said.

Shortly after Mr. Saleh's arrest, Mr. Karzai issued a presidential decree creating a commission to investigate whether MCTF operations conform to Afghan law and to decide on the agency's future—reopening a conflict with the international community.

While pledging to clean up his government, Mr. Karzai in recent months has also repeatedly accused the U.S. of abusing the corruption issue as a political tool to pressure him, and has said most corruption in Afghanistan is perpetrated by the Westerners themselves.

"The president has ordered the commission to look into the overall practices of the MCTF because it seems that there are some aspects of where they went beyond the Afghan legislation and the constitution of Afghanistan," Mr. Karzai's chief spokesman, Waheed Omar, said in an interview Tuesday.

In particular, Mr. Omar said, the Afghan president is concerned that the MCTF used an "illegal way" of arresting suspects with "harassment, force and violence," and that it also wiretapped government officials without following proper procedure. Cabinet ministers enjoy special protection under Afghan law. The presidential commission's ultimate goal, Mr. Omar added, is to bring the MCTF into the framework of Afghan law and government.

While the MCTF is theoretically led by Afghan investigators appointed by the Ministry of Interior and the National Directorate of Security, people close to Mr. Karzai view the task force as essentially run by the foreigners. The interior minister and the chief of NDS, Afghanistan's spy agency, both of whom had a hand in creating the NTCF, have since been fired by Mr. Karzai over disagreements on how to pursue the war against the Taliban. One aide said the MCTF's raids, carried out without the knowledge of the president, undermined the effort to build up an Afghan government, and reinforced the Taliban's propaganda about the foreigners being in charge

of the country.

Eavesdropping is an especially sensitive issue, especially as Afghan law is unclear on what kinds of wiretaps are admissible as evidence, he added.

Federal Bureau of Investigation Director Robert Mueller personally inaugurated the MCTF's headquarters at Camp Falcon in Kabul in February. A U.S. Embassy news release at the time said the task force is meant to provide Afghan investigators focusing on public corruption and organized crime with on-the-job mentoring by FBI agents, the Drug Enforcement Agency and Britain's Serious Organised Crime Agency, with "an eventual turnover to full Afghan MCTF independence." Part of these mentors' mission was described as providing "real-time law enforcement and intelligence analysis to support targeting or apprehending special interest groups and or criminal networks."

Coalition officials say Mr. Saleh's arrest was an Afghan matter, that it had been approved by Afghan judges and that the task force acted correctly.

A U.S. Embassy spokesperson in

Kabul, queried on Mr. Omar's comments and the new commission of inquiry, said the U.S. "very much welcomed President Karzai's commitment made at the Kabul Conference last month to strengthen the MCTF and to provide it with enabling legislation." At the July 20 conference, Mr. Karzai promised representatives of the international community to "ensure that our other anticrime and anticorruption institutions, such as the Major Crimes Task Force and anticorruption prosecutors and judges have the legal basis and resources required to act swiftly and decisively."

Since arriving in Afghanistan last month, the new coalition commander, U.S. Gen. David Petraeus, has emphasized combating corruption within the Afghan government and the security forces.

A court in Kabul Tuesday sentenced Afghan police Brig. Gen. Malham Khan, who oversaw the frontiers with Iran and Turkmenistan, to 10 years in prison for collaboration with drug smugglers.

—*Maria Abi-Habib and Habib Zahori contributed to this article.*

Afghan women's shelters come under fire

By MARIA ABI-HABIB

KABUL—The images shown earlier this year on one of Afghanistan's most popular television shows were stark: several women wailed in a bare room while the host implied that international aid workers had forced them into prostitution.

Acting on a tip from viewers, the show, "Sarzamin-E-Man," or "My Homeland," devoted a multipart series to investigating the place, which the host, 27-year-old Nasto Nadiri, said was an unauthorized women's shelter masquerading as an orphanage.

Mr. Nadiri's report didn't say for sure what was going on at the orphanage, or what the women were doing there. But the show has helped to spark a popular backlash against all shelters, including those registered with the government.

Mr. Nadiri, who is running for Parliament in September, says he wants a clampdown on women's shelters in Afghanistan. The TV host wields considerable power in shaping the national debate here, and has been using it to rail against women's rights and foreign aid organizations.

The shelters are "not acceptable for our people, who have fought 30 years to put the word 'Islam' in front of Afghanistan," he says, referring to

the country's full name, the Islamic Republic of Afghanistan. "We live in an Islamic country. ... But some NGOs come and want to make another way for our country."

The emergence of a free media is one of the few successes in the nine years since the U.S. overthrew Afghanistan's hard-line Taliban regime, which banned television. The Ministry of Culture and Information says there are 26 TV stations based in Kabul and nine more in outlying provinces. Noorin TV, which broadcasts Mr. Nadiri's hourlong show six nights a week, is among the most popular broadcasters here.

But that media freedom has also been used to stir up xenophobic and fundamentalist sentiments that seek to roll back some of the social liberties that more moderate parts of Afghanistan have enjoyed since 2001.

The government closed another station, Emroaz TV, last week, claiming it stoked sectarian tension by accusing Afghan Shiite politicians of working for Iran. But critics say this is a rare exception.

In a sign of the influence of Mr. Nadiri's show, the government expelled two aid groups from Afghanistan earlier this year, after the host broadcast footage purportedly showing them converting Afghans to Christianity, a crime punishable by death under Afghan law.



Momina, above, lives in one of Afghanistan's women's shelters, which have been targeted by some of the country's conservatives.

The two groups, the Norwegian Church Aid and the Church World Service of the U.S., denied allegations of proselytizing and challenged Noorin TV to provide evidence linking them to the videos, which showed Afghans in a dim room praying frantically while others were baptized.

In Afghanistan's deeply conservative society, foreign aid groups are often looked at with suspicion, especially if they champion women's rights. Greater still is the scrutiny on women these shelters serve.

Many women in Afghanistan are

thrown into the country's female prisons for broadly interpreted "moral crimes," which can include adultery or running away from one's family to avoid a forced marriage. Some aid workers say Afghanistan's police force often put women in prison when shelters are a more suitable place for them.

Momina has lived in shelters since escaping three years ago with three children—a 10-year-old boy and two girls, aged 3 and 6—from a husband she says was violent and heroin-addicted. Living in a cramped room in a registered Kabul shelter

with seven other women and their children, Momina, 34, learned to read, write and sew. She earns \$10 a month as a seamstress in one of Kabul's bazaars, a meager income in Afghanistan, but manageable within the shelter.

"Now, when I read street signs I feel proud of myself. I feel in charge," says Momina, who like many Afghans has just one name.

Mr. Nadiri says he hasn't visited any of the 17 shelters officially registered with the government, which serve 1,430 women. He says he plans to air another multipart series on the shelters.

Aid groups still working in Afghanistan say they fear Mr. Nadiri's focus on women's shelters will sway President Hamid Karzai's government, which is increasingly eager to bolster its Islamic credentials in an effort to blunt the Taliban influence.

A government commission is investigating the shelters, which are often operated by local and foreign nongovernmental organizations, to monitor their quality—and to look into accusations of prostitution and harboring female criminals and drug users.

Mr. Nadiri says he received hundreds of inquiries from Afghans "suspicious that most of the women are misused sexually" at the shelters they are staying in.

Lebanon, Israel clash in worst fighting since 2006

Continued from first page couldn't be independently verified. The Lebanese Army said the fighting began after an Israeli patrol crossed the border into Lebanon to cut down a tree that was blocking the line of sight of Israeli observation cameras.

After Israel refused to withdraw, Lebanese soldiers fired warning shots toward the Israelis, Lebanese security officials told local media.

Israeli military officials said Israeli officers told the Lebanese they

wouldn't withdraw because they were on Israeli territory. Shortly after, snipers shot and killed Lt. Col. Dov Harari, a 45-year-old battalion commander, and seriously wounded platoon leader Capt. Ezra Lafia, according to Israel.

"The snipers ignored the soldiers who were actually doing the work and appeared to specifically target the commanders. This was planned in advance," said Lt. Col. Avital Leibovitch, an Israeli military spokeswoman.

Israel responded with shells, either from a tank or from artillery, according to Israeli military officials. About 30 minutes later, Lebanese soldiers fired a rocket-propelled grenade at an Israeli tank but missed, the officials said.

The Israeli response expanded to helicopter airstrikes and artillery shells against Lebanese Army positions, including the army's local battalion command center, according to Israeli military officials.

Two Lebanese soldiers and a Leb-

anese journalist were killed and 15 people were wounded, including civilians and military personnel, a Lebanese Army spokesman said.

Israel said it was trimming shrubbery on the Lebanon side of the fence it has built along much of the border, but on the Israeli side of the U.N. demarcated "blue line." Israel said it had coordinated with UNIFIL, the U.N. peacekeeping force in Lebanon. Alain LeRoy, the head of U.N. peacekeeping, confirmed that Israel had notified UNIFIL in ad-

vance of their border activity.

Vitaly Churkin, Russia's U.N. ambassador and president of the Security Council for August, declined to say on which side of the border the incident occurred or to provide further details.

He called it a "complicated situation" that was still under investigation by UNIFIL. Mr. Churkin said the incident showed "how brittle" the situation was on the border.

—*Joe Lauria at the U.N. contributed to this article.*

WORLD NEWS

Flood-relief efforts in Pakistan



Getty Images

Families line up for water-relief supplies from a local charity near Nowshera, northern Pakistan, on Tuesday. At least 1,500 people have died in the flooding.

Gunmen kill 47 in Karachi rioting

By ZAHID HUSSAIN

Gunmen and rioters went on a rampage in Karachi, Pakistan's largest city, killing at least 47 people in what appeared to be retaliation for the assassination of a lawmaker.

Rioters set fire to shops, markets and dozens of vehicles, bringing the country's financial hub to a halt. The apparent revenge attacks spread to other urban centers of Sindh province, forcing daily business to shut down.

The violence broke out late Monday after unidentified gunmen killed Raza Haider, a senior member of Muttahida Qaumi Movement, a po-

litical party that controls the city government.

Mr. Haider and his security guard were shot dead inside a mosque in the middle-class neighborhood of Nazimabad, where he had gone to attend a funeral.

Tensions have been mounting for the past several months in the sprawling port city, which has a population of more than 16 million and a history of ethnic and sectarian violence.

Mr. Haider's MQM represents Mohajirs, the descendants of migrants from India who settled in Pakistan when it was created in 1947. Mohajirs constitute the major-

ity of the population of Karachi, the capital of Sindh province.

The MQM has been locked in conflict with the Awami National Party, which represents the large Pashtun population.

Scores of people have been killed in the conflict between the two groups in recent months.

Waseem Ahmed, the city police chief, said Mr. Haider had received death threats and had been provided with security. He alleged the predominantly Pashtun Pakistani Taliban were behind the killing.

The conflict between Pashtuns and Mohajirs who support the MQM has intensified with the influx of a

large number of Pashtuns fleeing army offensives against Taliban havens in northwest Pakistan, along the Afghan border. Police said many Taliban commanders have also taken refuge in the city.

On Tuesday, paramilitary troops were patrolling the worst-affected areas of Karachi.

All business centers, offices and educational institutions were closed and public transport was absent from the streets as fear gripped the city.

The MQM, which is a partner in the federal as well as the Sindh provincial governments, appealed for peace.

China reports progress on fuel efficiency

By SHAI OSTER

BEIJING—China's energy efficiency improved in the second quarter of this year, according to new government data, following a crackdown on wasteful industries initiated earlier this year to reverse a decline in efficiency that alarmed the country's leadership.

The data issued Tuesday hardly paint a rosy picture. China's consumption of energy relative to economic output increased for the first half of the year by 0.09% from the year-earlier period, the National Bureau of Statistics said. But that pace was much slower than the 3.2% increase in energy intensity—or the fuel used per dollar of gross domestic product—China reported for the first quarter, suggesting an improvement in the April-June period.

Observers are looking at China's ability to meet its energy-efficiency targets as a test of its commitment to curb emissions of global-warming

gases. China last year promised to cut the amount of carbon emissions per dollar of economic output by 40% to 45% by 2020 compared with 2005 levels, although Beijing rebuffed calls to cap the absolute level of carbon emissions. China's energy efficiency and greenhouse-gas emissions are closely linked because China relies heavily on coal, which releases carbon into the atmosphere when burned.

The impact of China's performance on the rest of the world has grown with its booming economy. China surpassed the U.S. in 2007 as the largest emitter of carbon, and last month the International Energy Agency said China passed the U.S. in 2009 as the top energy consumer. China disputed the IEA's findings, but even its own figures put it only slightly behind the U.S.

China's government pledged to improve energy efficiency by 20% from 2005 to 2010. By 2009, the government said it had reduced en-

ergy use by nearly 16% relative to economic output, revising an earlier figure of 14.4%.

But the efficiency goals were put into question after China's economic stimulus sparked a housing and infrastructure boom, leading to a jump in energy consumption by less-efficient sectors, such as steel production. According to investment bank UBS, heavy industry accounts for 56% of China's energy consumption, and only 28% of GDP.

Many feared China would drop its promises while it tried to maintain economic growth. UBS estimates reaching the 20% efficiency target could require a reduction in GDP of as much as two percentage points.

After the poor numbers for the first quarter were reported, Premier Wen Jiabao in May vowed to use an "iron hand" to reach the targets, and the government announced it would shut down inefficient factories in more than a dozen sectors,

including steel, cement, leather and even the food additive monosodium glutamate.

Part of the latest easing of energy use appears related to an overall economic slowdown following tightening measures by the government. Economic growth slowed to 10.3% in the second-quarter from a year earlier, down from 11.9% in the first quarter. When growth is more rapid, factories are more likely to use their least-efficient machinery to fill orders.

The sudden improvement reported Tuesday also could fuel doubts about the reliability of China's official data. "Even if China's latest numbers are reasonably accurate—and we believe they are—China still has some work to do to convince international analysts of this fact," wrote Arthur Kroeber and Rosealea Yao of consultancy GaveKalDragonomics.

—Jing Yang in Shanghai contributed to this article.

Ex-police chief of South Africa is sentenced for corruption

Associated Press

JOHANNESBURG—A judge sentenced South Africa's former national police chief to 15 years in prison on corruption charges Tuesday, saying he was an embarrassment to the crime-plagued country and the police officers who had served under him.

Jackie Selebi, 60 years old, was convicted in July after a nation beset by crime heard months of testimony about its top cop going on designer shopping sprees with a convicted drug smuggler.

The case against Mr. Selebi, a onetime president of Interpol, has been a chief exhibit in a national debate over whether corruption and political meddling are undermining the fight against crime.

The court freed Mr. Selebi on bail Tuesday to file an appeal, and his lawyers said they would do so.

Mr. Selebi, once an important official in the governing African National Congress party, had pleaded innocent. He claimed evidence was fabricated for the charge that he accepted money and gifts in exchange for meeting a drug smuggler's business associates and tipping him off to investigations into his crimes.

Mr. Selebi argued he was targeted by enemies who wanted to punish him for his criticism of an elite crime-fighting unit. The unit was disbanded in 2008 after it tried to prosecute Jacob Zuma on corruption charges before he went on to become South Africa's president.

Mr. Selebi said he was targeted by enemies for criticizing an elite crime-fighting unit.

Judge Meyer Joffe, in delivering the verdict last month, said Mr. Selebi's conspiracy theory had no basis, and that the former police chief showed "complete contempt for the truth" during the trial.

Mr. Selebi was a former schoolteacher who in his youth was twice detained without trial for his anti-apartheid activism. He went into exile in Tanzania and later the Soviet Union, where he underwent military training. After apartheid ended in 1994, he was a member of South Africa's first all-race parliament, and later served as the envoy to the United Nations in Geneva.



European Pressphoto Agency

Jackie Selebi arrives for sentencing.