



Coming to a cinema near you:  
The worst movie year ever

WEEKEND JOURNAL

Mystery over why China is suddenly buying U.S. corn

NEWS 4

# THE WALL STREET JOURNAL.

VOL. XXVIII NO. 131

EUROPE

Friday - Sunday, August 6 - 8, 2010

DOW JONES  
A NEWS CORPORATION COMPANY

europe.WSJ.com

## Questions in bomber's release

By PAUL SONNE

GLASGOW—Scotland released the convicted Lockerbie bomber from prison in August 2009 on the grounds he likely had three months to live, even though there was no consensus among specialists treating him that his prognosis was so dire, according to publicly available documents and people familiar with the case.

Abdel Baset Al-Megrahi

was released from prison on Aug. 20, 2009, on the grounds that he qualified for a "compassionate release" because he would soon die from prostate cancer, with three months being a reasonable estimate of the remainder of his life.

The prognosis was made by Andrew Fraser, a doctor who administers Scotland's prison health service, and became the basis for Justice Minister Kenny MacAskill's

controversial decision to set Mr. Megrahi free.

The release of Mr. Megrahi—the only man ever convicted in the 1988 bombing of Pan Am Flight 103 over Lockerbie, Scotland, that killed 270 people—set off an international furor that continues today in part because Mr. Megrahi remains alive and free in Tripoli. The U.S. Senate Foreign Relations Committee is investigating the circumstances behind Mr. Megrahi's

release.

In his report, Dr. Fraser portrayed his conclusion as the outcome of a detailed consultation with Mr. Megrahi's doctors and other specialists. But an examination of the report shows that one key group never explicitly assented to Dr. Fraser's conclusion: the specialists from the U.K. National Health Service who treated Mr. Megrahi's cancer.

While there was no ques-

tion that Mr. Megrahi's cancer was terminal, there is no evidence that any of those doctors—two urologists and two oncologists—gave or signed off on a three-month prognosis, a review of the records and interviews with people familiar with the case indicate. According to people familiar with the matter, neither of the urologists offered any prognosis or were asked for one.

Dr. Fraser's report says

"no specialist 'would be willing to say'" whether Mr. Megrahi had more or less than three months to live. Instead, the report cites the observations of Mr. Megrahi's primary-care physician at Greenock prison, a young doctor who reported that Mr. Megrahi's clinical condition "declined significantly" during a

Please turn to page 3

■ No consensus Megrahi had three months to live ..... 14-15

## Trichet says 'double dip' not a danger

European Central Bank President Jean-Claude Trichet said a double-dip recession "is totally out of scope for the present moment" as he defended the central bank's handling of Europe's credit crisis. "We will have a very good second quarter, I trust, and we will have a third quarter that will be better than was originally anticipated," he said.

Meanwhile, the Bank of England's Monetary Policy Committee left its key interest rate and bond purchases unchanged amid indications that the economic pickup is slowing, even as price pressures continue to mount.

In the U.S., Friday's employment report will be closely watched for signs of whether the economic recovery can be sustained, a focus of next week's Federal Reserve meeting.

■ Trichet defends ECB's purchase of bonds ..... 6

## Protesters fight stoning sentence by Iranian court



Getty Images

A demonstrator at the Brandenburg Gate in Berlin, dressed as a victim of a stoning execution, joins Iranian exiles protesting against the possible execution of Sakineh Mohammadi Ashtiani in Iran. Ms. Ashtiani has been sentenced to death by stoning by an Iranian court for allegedly committing adultery.

## Cap on oil-spill payouts set to rise in U.K.

By GUY CHAZAN

The U.K. oil industry is to consider doubling the cap on payouts for oil spills in the North Sea, amid concerns that the current system is inadequate to deal with an incident on the scale of the Deepwater Horizon disaster in the Gulf of Mexico.

Members of the industry's voluntary compensation plan for oil spills in the U.K. are meeting later this month, and people familiar with the matter said the current \$120 million cap was likely to be "con-

siderably increased" and possibly doubled.

North Sea operators were generally unfazed by the proposed change. "We'd be supportive," said Simon Lockett, chief executive of Premier Oil PLC. "I think the government needs to set its policy and the industry has to work with it." He added that the cap was "ripe" for a review.

Currently, oil companies in the U.K. are fully liable for cleaning up spills from their installations. But if they default on payments, a backup fund kicks in that is under-

written by all U.K. North Sea operators. The fund limits payouts to \$120 million per incident.

In the wake of the Gulf of Mexico oil spill, however, that figure is widely seen as too low. At one point, BP PLC was paying roughly that amount every day to deal with the leak. Its total bill for the cleanup now stands at close to \$4 billion, not including a \$20 billion liability fund BP has promised to raise over the next 3½ years.

Scrutiny of safety regimes for offshore drilling has inten-

sified globally since the Deepwater Horizon rig caught fire in the Gulf last April, killing 11 people and triggering the world's worst marine oil spill.

In the U.S., legislators have been seeking to remove a \$75 million cap on liability for offshore oil spills, a move fiercely opposed by smaller oil companies that fear higher insurance costs would squeeze them out of the Gulf. That effort has lost steam in recent weeks, with the Senate declining to act on a bill that would have eliminated the cap ahead of the summer recess.

Meanwhile, European Union Energy Commissioner Guenther Oettinger has urged a moratorium on new deep-water drilling until the causes of the Gulf disaster are known. Similarly, the Italian government has expressed concern about BP's plans to begin drilling offshore of Libya, only a few hundred miles south of Italy.

The U.K. government—which is heavily reliant on tax receipts from North Sea oil operators—has been more circumspect. In June, Please turn to page 9

### The Quirk



Nonprofits aren't so charitable when their slogans are at stake. Page 29

### Editorial & Opinion

Playing with fire in Lebanon. Page 13

£1.50  
 Bahrain BD 1.50 - Egypt \$1.75 (CV)  
 Jordan JD 2 - Kuwait KD 1 - Oman OR 2  
 Qatar QR 4 - Saudi Arabia SR 14  
 THE WALL STREET JOURNAL.  
 3.1  
 9 779219 986935

## PAGE TWO

# Something can come of nothing

## [ Agenda ]

BY BRUCE ANDERSON

King Lear warned Cordelia that "Nothing comes of nothing." David Cameron is trying to prove Lear wrong. He wants to demonstrate to the British electorate and the wider world that a smaller, less expensive state could not only be a better and more efficient state. It would also create more room for personal freedom and individual initiative. As a result, it would promote social and economic growth. When you cut the cost of government, something can come of nothing.

The British public is still trying to decide what to make of its new prime minister. Few politicians have ever caused as much confusion and been so misread. There is a simple explanation for this: a four-letter word—Eton, the grandest school in Britain, the most famous school in the world. There is a widespread assumption that old Etonians such as Mr. Cameron must be trapped in the past. Nothing could be further from the truth. Eton may be an ancient institution but—like much else in Britain—it has survived by adapting itself to new challenges.

That is Mr. Cameron's message to his own Tory party. When he became leader, the Tories were in a slough of unelectability. Many Tory MPs wanted to cower under the comfort blanket of the past. Mr. Cameron, who had not come into politics to be a loser, ripped that blanket away and forced his fellow Tories to face the future. In so doing, he risked defacing the Tory party's most sacred household deity, Margaret Thatcher. He believed that it was time to move beyond Thatcherism and deal with the social problems that Premier Thatcher had failed to confront.

Again, this was widely misunderstood. Mr. Cameron was accused of lacking the courage to be a Thatcherite. But no one is saying that now.

In his first three months in



David Cameron is governing with a vigor not seen since Clement Attlee.

office, Mr. Cameron has set about governing with a radical vigor that we have not seen since Clement Attlee in 1945. He has been far bolder than Margaret Thatcher was in her early days. To deal with a deficit of around one-eighth of GDP, he is planning the deepest public-spending cuts in British history. He is proposing dramatic reforms in education, which will bring to an end the state's monopoly in the provision of state-funded schooling. He also intends to implement drastic reforms in the U.K.'s welfare system.

At present, the welfare budget is nearly £200 billion a year, an unsustainable burden. But welfare does not only waste money. It wastes people. It traps many of its recipients into lifelong clienthood, which cuts them off from the culture of work. In many families, welfare has become a hereditary entitlement. We have a welfare-funded underclass, for whom the welfare state has become an ill-fare state.

If Mr. Cameron succeeds in

dealing with the deficit, education and welfare, this will be one of the most momentous Parliaments in British history. But that is not all. In so doing, he will have forced through a revolution in government. He will be the first post-social democratic leader in modern Europe.

**If Mr. Cameron succeeds ... this will be one of the most momentous Parliaments in British history.**

The 20th century witnessed the inexorable growth of the state. This began in response to social problems, but it was greatly accelerated by war. The battlefield created war socialism, in which almost every asset—and most people—became the state's property for the duration of hostilities. Peace did not bring about a return to the status quo antebellum. Taxes remained high:

regulations, onerous. Although there were plenty of Conservative governments and Christian Democrat governments, the names didn't matter. As a proportion of GDP, they all spent like social democrats. That was even true of Margaret Thatcher.

Early on, Mr. Cameron didn't seem very different. He spoke about "sharing the proceeds of growth," which implied the acceptance of an ever-growing state, with some conservatism at the margins. Now, we can no longer afford such a state. All the proceeds of growth will be needed to pay for social democracy's excesses.

Instead, Mr. Cameron is talking about the "big society." That is not a mellifluous phrase, but it could be an exciting goal. Mr. Cameron believes in rolling back the state, while rolling society forward. His big society is merely a collective noun for Burke's little platoons.

If the state ceased to control education, while welfare payments ceased to subsidize idleness and all government departments had to live on short commons, Britain would be transformed and the rest of Europe would take notice. Throughout mainland Europe, the big state has become an encumbrance. Forty percent youth unemployment in Spain, endemic corruption in Italy, mass unemployment among Muslim youngsters in French ghettos: despite its idealistic intentions, an overtaxing, overregulating, overspending state is undermining civil society and shoring up social problems, often in countries whose democratic institutions have shallow roots. The tinder of mass discontent awaits the spark of crisis. If we British could tame the social democratic state, Europe could profit from our example.

A lot of people are beginning to realize that the new British prime minister is an interesting figure. Most people do not yet know the half of it.

—Bruce Anderson  
is a London-based writer.

## What's News

■ **Wheat futures prices** soared to their highest levels in two years after Russia said it would ban grain exports due to a severe drought, a move that heightens concerns about global supplies of the grain and the possible impact on food prices. 4

■ **Greece met all targets** under an austerity plan mapped out by the EU and IMF, but the external agencies monitoring the program warned of some overspending. 5, 32

■ **Rio Tinto's profit** more than tripled in the first half as iron-ore prices rose early this year, and the miner said it plans to boost spending in Australia and Africa. 17

■ **GM's Opel division** is introducing a lifetime warranty for new cars in an effort to win back customers. 17

■ **Barclays reported** a 29% rise in first-half profit on lower bad-debt charges, adding to a string of positive results for U.K. banks. 19

## Inside



From NYPD to jetBlue: Lessons from the beat reach the airliner. 27



Setting sail for the world's oldest yachting regatta. 28

## ONLINE TODAY

### Most read in Europe



1. How Gangsters Are Saving Euro Zone
2. Heard on the Street: Time for Lloyds Boss to Move On
3. Republicans Take Aim at Kagan
4. Warren Buffett on the World's Growing Wealth
5. Anonymity in Name Only

### Most emailed in Europe

1. Rome's Graffiti Pits Clean-Up Crews Against Artists
2. Anonymity in Name Only
3. U.S. Super Rich to Share Wealth
4. The Salt Hiding in Your Diet
5. Opinion: Pepper ... and Salt

### The Source

[blogs.wsj.com/source/](http://blogs.wsj.com/source/)

'As befits any serious operation, he gave it a code name—'Project Galvanize.'

Simon Zekaria on the Ladbrokes CEO's attempts to change the betting firm



### Continuing coverage



Tracking the human and financial cost of Europe's drought and Russia's fires.

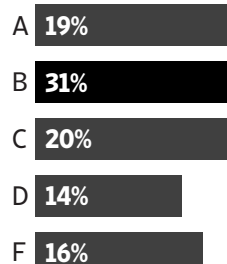
### Question of the day

Q: How do you feel about targeted advertising based on your Web activity and personal data?

Vote online today at [europe.wsj.com](http://europe.wsj.com)

### Thursday's results

Q: How would you grade BP's overall handling of the Gulf of Mexico oil spill?



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](mailto:subs.wsje@dowjones.com).  
Website: [www.services.wsje.com](http://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 Basınevi.

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

# Model testifies she got 'dirty stones'

BY CHARLES FORELLE

Naomi Campbell told a war-crimes court trying former Liberian President Charles Taylor that she received a strange gift of a bag of stones, which she said she later supposed might be uncut diamonds, from two men after a charity dinner in 1997, according to wire-service accounts of her testimony.

But the model, who was compelled to testify under threat of prison, didn't directly link the gift to Mr. Taylor, whom she met at the dinner.

The star witness was a magnet for publicity—reporters and television cameras crowded the courthouse in a suburb of The Hague, though Ms. Campbell secured an order forbidding them from shooting her entering or leaving—if not a critical participant in the long-running trial.

Prosecutors allege Mr. Taylor, who is charged with 11 war-crimes counts, directed brutal armies during the civil war in neighboring Sierra Leone in the mid-1990s and early 2000s. The prosecutors say Mr. Taylor financed the fighting through trade in so-called blood diamonds. Mr. Taylor has said he didn't have access to diamonds, so Ms. Campbell's gift—if it came from him—would stand to contradict that.

Mr. Taylor, 62 years old, who could spend the rest of his life in prison if convicted, has denied the charges.

The 1997 dinner party, thrown by Nelson Mandela in Pretoria, was also attended by actress Mia Farrow, and Ms. Farrow told the war-crimes prosecutors that at breakfast the morning after the dinner, Ms. Campbell revealed to other guests that she had received a "large diamond" as a gift in the middle of the night, according to Ms. Farrow's statement to prosecutors last year.

It came from two or three men who had awakened her in her hotel room and "presented her with a large diamond which they said was from Charles Taylor," Ms. Farrow said.

On the stand Thursday, Ms.

Campbell told a different version: The men awakened her and gave her a pouch. She didn't open it until the morning.

"I saw a few stones, they were very small, dirty-looking stones," Reuters reported her as testifying. "If someone had not said they were diamonds, I would not have known they were diamonds."

Ms. Campbell said either Ms. Farrow or her then-agent suggested the stones might be diamonds—and that they had "obviously" come from Mr. Taylor, Reuters reported. She said she didn't know whether they did or didn't.

What happened next to the stones isn't clear.

Ms. Campbell said she gave them to Jeremy Ractliffe, then the director of Mr. Mandela's children's charity. Mr. Ractliffe didn't respond to messages seeking comment.

The spot of celebrity panache has drawn unprecedented attention to a legal process that has chugged along since 2003, when the tribunal's chief prosecutor indicted Mr. Taylor while he was still in office; that helped push him from power later that year.

The prosecution, which began its case in 2007, has called scores of witnesses to testify that Mr. Taylor funded, aided and directed rebel groups in Sierra Leone during the war. Witnesses said the rebels made regular use of child soldiers, tortured civilians, chopped off limbs and confined women and girls in camps where they were raped by night and made to do housework by day. Prosecutors also introduced witnesses who said Mr. Taylor was in regular contact with the rebel leaders.

"It's a slow, deliberate, circumstantial building of the case, brick by brick, around Charles Taylor," says David Crane, a Syracuse University law professor who as the court's prosecutor in 2003 indicted Mr. Taylor.

Mr. Taylor and his defense team, have broadly denied that Mr. Taylor was involved in the civil war, and that the war-crimes indictment was contrived by the U.S. to force him from power in Liberia.



Naomi Campbell answers questions at the U.N.-backed Special Court for Sierra Leone in a suburb of The Hague Thursday.

## Megrahi questions raised

*Continued from first page*  
one-week period in late July and early August last year.

Dr. Fraser and Mr. MacAskill declined to comment.

Scotland defends its prognosis, but declines to say whether any doctor agreed with Dr. Fraser's crucial assessment. "Dr. Fraser drew on expert advice from a number of cancer specialists in coming to HIS clinical assessment that a three-month prognosis was a reasonable estimate," a spokeswoman for the Scottish government said in an email.

Meanwhile, in his application for compassionate release, Mr. Megrahi said he was planning to begin chemotherapy at his doctor's suggestion. That, according to prostate cancer experts, would suggest Mr. Megrahi wasn't three months from death: For patients such as Mr. Megrahi—with advanced metastatic prostate cancer resistant to hormone treatment—the median life expectancy from the start of chemotherapy is 19.2 months, according to a recent study. Dr. Fraser didn't address the planned chemotherapy in his report.

The case has attracted scrutiny because of suspicions that U.K. political and commercial interests, or the influence of troubled oil giant BP PLC, played a role in securing Mr. Megrahi's release. BP, for example, has acknowledged pushing for a controversial prisoner-transfer accord that was struck between the U.K. and Libya, which could have been used to send Mr. Megrahi home. But Mr. Megrahi won his "compassionate release" because of his illness, not the prisoner-transfer agreement—and Scotland, the U.K. and BP all say the oil giant had nothing to do with it.

Families of Lockerbie victims have long been suspicious of the three-month prognosis, which has received little scrutiny against the backdrop of the BP allegations.

"It was a scam," said Eileen Walsh of Glen Rock, N.J., in an interview Thursday. Her father, brother and pregnant sister died on Pan Am 103. "The man may have cancer, but the condition and the extent of it were greatly exaggerated." She added: "Release his medical records and prove me wrong."

PURE BREITLING

The Chronospace

WWW.BREITLING.COM

INSTRUMENTS FOR PROFESSIONALS™

BREITLING 1884

## NEWS

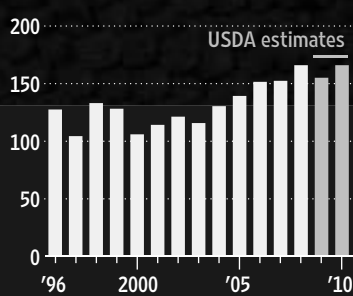
## Corn boom | China has started buying large shipments of U.S. corn again



A farmer piles up corn in front of her house in Changzhi, China

## China's corn production has grown rapidly...

Total corn production, in millions of metric tons



## ... But exports are shrinking, while imports have started to rise.

Exports and imports\*, in millions of metric tons



## Much corn is used for livestock feed, and China's appetite for meat is growing

Pork output, in millions of metric tons

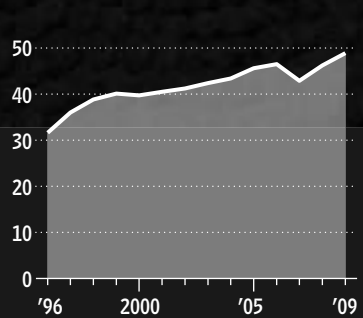


Photo: Reuters

# Why is China buying corn from U.S. again?

China's first big purchases of U.S. corn in more than a decade have triggered a debate over whether exports of America's biggest crop are entering a new golden era. But the one party that could potentially settle the question—China's government—is hardly talking.

By *Brian Spegele in Beijing* and *Scott Kilman in Chicago*

Excitement was sparked in June when a ship loaded with U.S. corn arrived at the port of Longkou on China's eastern coast, the first ship fully loaded with U.S. corn to dock in China in about 15 years. It was followed by four more.

China has now imported about 1.2 million metric tons of corn this year from the U.S., the world's largest producer, compared with total imports from all countries of less than 100,000 tons in previous years.

Farmers, traders, and agricultural economists are divided over the implications of this surge. Some see it as the arrival of a long-anticipated age of big corn exports to China to feed its increasingly wealthy population. Others think it's probably a short-term blip caused by recent droughts.

"Whatever is happening, this year is definitely quite different from anything" occurring in recent years, says Jay O'Neil, an economist with Kansas State University's International Grains Program.

He added that China's recent corn imports "means there are fewer countries supplying the needs of a growing world and the potential for crop production shortfalls is a greater risk to everyone." The change "obviously leads to more un-

certainty in the world commodity markets and tends to lead to higher commodity prices and greater price volatility."

Predicting China's corn demand is complicated by the Chinese government's intense secrecy. The Communist Party has long considered grain self-sufficiency a core element of national security, and the leadership reaffirmed earlier this year that China aims to produce at least 95% of the grain it consumes through 2020. But details of the policy are closely guarded.

Self-sufficiency is widely believed to have been the reason China imported almost no corn in the past, even when domestic prices were higher than global prices.

No one outside the Chinese government is certain whether the shipments allowed in this year are temporary or indicate a longer-term shift. The government keeps the size of its grain reserves secret, and some observers question the accuracy of the statistics it does publish on production and consumption, says a western industry official who watches Chinese grain policy.

The confusion over corn is indicative of a larger clash between China's growing economic clout and government practices that in some respects have changed little during three decades of market reforms. China is expected to surpass Japan this year as the world's second largest economy after the U.S., but major policies are still set in secret by a small group of party leaders. Outside experts frequently complain about the lack of transparency in official data, and uncertainty over Beijing's policies has roiled global markets for other commodities like oil.

Seeking greater clarity can be risky: Vague state-secrets laws have

been used to imprison some analysts for collecting commercial information that China deems sensitive. Last month, U.S. geologist Xue Feng was sentenced to eight years in prison for his research on the location of oil wells.

China's Ministry of Agriculture declined an interview request on corn policy, saying the subject is too sensitive. The Ministry of Commerce and the National Development Reform Commission, China's main economic planning agency, also declined interview requests. Even Western experts in China refused to discuss the issue publicly.

Reflecting the sensitive nature of China's corn situation, the Obama administration has purposefully said little about the recent U.S. shipments to China, even though the administration has made expanding exports of U.S. goods a big part of its economic strategy.

In a rare statement on the subject on its website last week, the NDRC played down the recent corn imports. It said the recent imports were driven by higher domestic prices for corn, but stressed that they wouldn't hurt Chinese corn farmers and that China's grain reserves are adequate. The statement didn't address how long the recent influx of corn imports would last.

Most analysts agree China's corn supplies have been strained by the appetite of its growing middle class, who consume increasing amounts of pork, milk and eggs from animals that eat corn feed—as well as colas and other soft drinks that use corn-based sweeteners. Severe droughts across China's northeastern corn belt over the past two years exacerbated supply concerns.

—*Sue Feng and Gao Sen in Beijing* contributed to this article.

# Wheat prices surge as Russia bans exports

By TOM POLANSEK

Wheat futures prices soared Thursday to their highest levels in two years after Russia said it would ban grain exports due to a severe drought, a move that heightens concerns about global supplies of the grain and the possible impact on food prices.

September wheat futures at the Chicago Board of Trade were up the exchange-imposed daily limit of 60 cents at \$7.8575 a bushel in late trading, an 8.3% rise and the highest level since Aug. 29, 2008. U.S. wheat futures have gained nearly 85% from a nine-month low in June amid expectations that demand for U.S. wheat will increase.

The export ban by Russia, a major producer and supplier to other countries, comes after several weeks of deteriorating prospects for the Russian wheat crop. Market participants had speculated in recent days that an export ban was likely, but the full effect of such a possibility clearly hadn't been priced in.

While most market participants don't foresee the kinds of problems that sparked food riots in 2008, the increase in prices and the uncertainty over future supplies of the grain have forced buyers and sellers to recalibrate their plans.

Switzerland's two largest food retailers—**Migros-Genossenschaftsbund** and **Coop Schweiz**—said Thursday they are considering price increases for products that contain wheat. The announcements from the companies, which also own food-manufacturing facilities, follow a similar warning Wednesday from the U.K.'s **Premier Foods PLC**, which also said that the division that sells its flagship Hovis bread will post lower profits in the second half.

The Russian export ban, which affects wheat, corn, barley, rye and flour, is set to run from Aug. 15 until the end of the year, according to a spokesman for Russian Prime Minister Vladimir Putin. Traders with existing contracts may ship only through Aug. 15.

"Due to the abnormally high temperatures and drought, I consider it expedient to introduce a temporary ban on the export from Russia of grain and other agricultural products produced from grain," Mr. Putin said at a government meeting.

The ban is "a big deal" because the former Soviet Union has

emerged as a major exporter on the world market, said Jerry Gidel, analyst at North America Risk Management Services, a brokerage in Chicago. Russia was the major supplier to Egypt, the world's largest importer, in the crop year that ended in May.

The chairman of Egypt's Grain Chamber, Ali Sharaf El Din, said Thursday that Egypt has six months of wheat supplies should shipments of Russian wheat be disrupted.

Ukraine, another major exporter, also has canceled several wheat export contracts due to lack of supply from farmers and other issues, trading executives said. The news heightened fears about tightening supplies because export restrictions in the former Soviet Union helped shove prices to record high prices in early 2008.

The former Soviet Union has been struggling with scorching heat and dryness for weeks, and no significant relief is in sight. The outlook for continued dryness sparked worries that conditions will still be unfavorable when farmers plant their next crop this autumn.

Agribusiness giant **Cargill Inc.**, whose operations include grain sourcing, processing and transport, expressed concerns about trade barriers following news of the Russian export ban. "Such trade barriers further distort wheat markets by making it harder for supplies to move from areas of surplus to areas of deficit, and by preventing price signals from reaching wheat farmers," the Minneapolis-based company said in an emailed statement.

The Food and Agriculture Organization confirmed the bleak supply situation this week, cutting its 2010 global wheat production forecast. It pegged production at 651 million metric tons, down 3.7% from its previous estimate, but said that figure represented an adequate supply.

However, the situation doesn't appear to be as dire as in 2008, when crops failed world-wide and wheat prices rose to more than \$13 a bushel. The latest projection from the U.S. Department of Agriculture says there will be almost 30 million tons of wheat in U.S. stockpiles at the end of next May, a 23-year high.

—*William Mauldin, Nour Malas, Goran Mijuk, Sameer Mohindru, Paul Ziobro, Ian Berry and Caroline Henshaw contributed to this article.*



Associated Press

A firefighter battles a blaze in Russia, where 600 fires were burning Thursday.

## EUROPE NEWS

# Greece's loss becomes Turkey's gain

*Tourists turned off by Greek strikes and strong euro are flocking to country's longstanding rival across the Aegean*

In the big money world of mass tourism, Greece's woes are proving a boon for Turkey as vacationers vote with their flip-flops to avoid a country in financial crisis.

*By Alkman Granitsas  
in Athens and Joe Parkinson  
in Antalya, Turkey*

Greek hotels and tour operators have been slashing prices and scaling back staff in an effort to recoup, after TV images of street riots coupled with a strong euro earlier this year persuaded holiday-makers to book elsewhere.

For Greece, already struggling with declining growth and budget deficits, that spells bad news. Tourism makes up about 15% of the country's gross domestic product, and many economists say this summer's tourist season will be critical for a weakened economy that is forecast to shrink around 4% this year.

So far, tourism revenues are down almost 9% this year compared with the same period in 2009—itsself a bad year—according to the latest Bank of Greece data. In May, Athens hoteliers saw some 30,000 cancellations after deadly protests rocked the capital and left three bank workers dead.

Meanwhile, just across the Aegean Sea in Greece's longstanding rival Turkey, 2010 is shaping up to be a record year for tourism. Popular beach resorts such as Antalya are straining to cope with overflowing hotels and bars. Revenues in the second quarter for the industry as a whole were up 7.4%, compared with last year, while passenger arrivals in the first half were up by a quarter, according to Turkey's airport authority.

"For years we'd holiday for two weeks in Greece," said George Lowe, a retired electrician from Manchester, in northern England, as he browsed through souvenir shops with his wife in Antalya's old town. "But this year, with the bad headlines and the expense, it made us want to try somewhere else. Turkey seemed the logical option."

The good news for Greece is that the worst appears to be over as price cuts and a calmer news cycle persuade late bookers to visit. Tour-

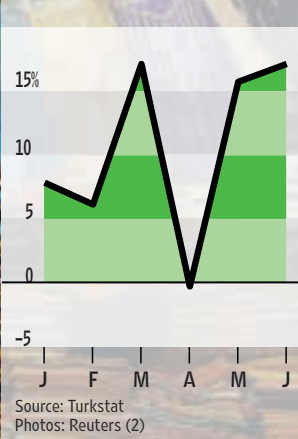


Above, a vendor waits for customers in Istanbul. Below, tourists wait in the port of Piraeus near Athens during a strike.



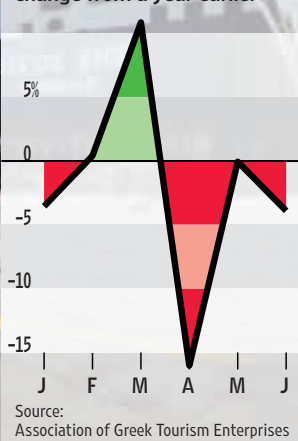
## Turkish delight

Tourist arrivals to Turkey, change from a year earlier



## Greek drama

Tourist arrivals in Greece, change from a year earlier



ist arrivals have been ticking up lately, and for the first half to June are off just 3% from last year's levels. Preliminary data for July show arrivals in select tourist hot spots, like the islands of Corfu and Rhodes, are up between 6% and 10% compared with last year. Tourism officials hope annual tourism numbers will match 2009's by the end of the year.

But tourist arrivals don't tell the whole story. Hotel prices at Greek resorts are down anywhere from 20% to 30%. Prices at other tourist-oriented businesses—from rental-car shops to souvenir stands—are

also lower. Greeks themselves, their pockets hit by the government's austerity measures, are cutting back. "If you take into account the roughly 12% revenue decline we saw last year, Greek tourism in these two years has seen a 20% reduction in income. That's a very big number," said Andreas Andreadis, president of the Panhellenic Hoteliers Federation.

With its ancient monuments and sunny Mediterranean climate, Greece is one of the world's top 20 tourist destinations, attracting some 14.9 million tourists last year.

But holiday-makers can find the

same blue waters, ancient Greek ruins and similar food just a few miles away from many of the Greek islands, in Turkey, which is riding a wave of benign economic news. In 2009, Turkey attracted 27 million tourists, a roughly 3% increase, according to official statistics. This year, Turkey's economy is forecast to grow 5% to 6%, and its resorts see an opportunity in the crisis experienced by such tourism hot spots as Greece, Spain and Portugal.

"We have everything the other European resorts have here: sunshine, history and tourism infrastructure, only cheaper," says Erdem

Yilmaz, a restaurant owner in this ancient city's old town. Antalya was settled by Greeks, Romans and before them Hittites, a civilization that occupied much of modern Turkey.

Tourist associations say Istanbul and smaller cities near the border with Syria also are profiting from a doubling of the number of free-spending tourists from the Arab world, a consequence of Ankara's warmer relations and newly minted visa-free regimes with its Middle Eastern neighbors, analysts say.

Also arriving in record numbers are holiday-makers such as Mr. and Mrs. Lowe from the United Kingdom, who saw the pound plunge against the euro late last year—when many summer bookings are made—causing euro-zone destinations to look expensive and Turkey, by comparison, cheap.

This tourism trend appears to have more than made up for the loss of revenue from Israeli tourists, who are avoiding Turkish resorts in the wake of the clash on board a Gaza-bound aid ship on May 31, in which Israeli commandos shot dead nine activists from Turkey. According to figures posted on Turkey's Tourism and Culture Ministry website Thursday, only 2,600 Israelis visited Turkey in June, compared with just over 27,000 in June 2009.

Turkey has other challenges to overcome, including a reignited domestic conflict with Kurdish insurgents, who have threatened to hit Turkish urban centers and tourist resorts. That threat hasn't materialized yet, but the pace of terrorist attacks along Turkey's borders has risen significantly since the spring.

Still, owners of Turkish tour businesses are hopeful they can turn Europe's economic woes into an opportunity. Arman Zehnder, a cosmetic surgeon from Bern, Switzerland, agrees. He's planning to open a business in Antalya for the rising number of wealthy Turks and foreign tourists. "If you look at Spanish resorts there's declining demand and cosmetic-surgery businesses everywhere," said Mr. Zehnder, contrasting that with Turkey's growing economy. "It could be a lucrative market."

—Costas Paris in Athens and Erkan Öz in Istanbul contributed to this article.

# All targets reached in Greek austerity plan

By GEOFFREY T. SMITH  
AND NICK SKREKAS

Greece met all of its targets under an austerity plan mapped out by the European Union and International Monetary Fund, according to the external agencies monitoring the program, but they warned that overspending by local governments, hospitals and social-security funds was offsetting a better-than-planned fiscal performance by the central government.

The assessment means Athens should receive the next portion of financial aid as scheduled under a €110 billion (\$144.8 billion) rescue package agreed to in May, subject to final reviews, a joint statement from the European Commission, European Central Bank and the IMF said Thursday.

"On the basis of the two-week visit by the IMF and EU and their recent statements, their assessment of our progress is absolutely positive and the second tranche of aid will be paid in September," Greek Finance Minister George Papaconstantinou said at a joint news conference in Athens.

"Greece has made a good start on the program, having acted vigorously and ahead of schedule in some aspects," said Servaas Deroose, a senior official at the European Commission, the EU's executive arm.

However, officials said the government wouldn't regain access to financial markets anytime soon.

Greece is due to receive a second payout of €9 billion in September from the rescue package, of which the IMF is to provide €2.5 billion, with the rest coming from other

member states of the euro zone.

However, the statement said that in the future "it is critical to tighten expenditure control and monitoring, in particular at subnational levels." It said another key challenge is to further strengthen tax administration, "including to reduce tax evasion by high-income and wealthy individuals."

The agencies reaffirmed their forecast of a 4% contraction in gross domestic product in Greece this year, followed by a 2.5% contraction in 2011. They revised upward their 2010 inflation forecast to 4.75%, on increases in indirect taxes, but said inflation would "decline rapidly" afterward.

They also sounded a relaxed note on the health of the banking system, saying that the decline in its capital was only "moderate," and that the

rise in banks' bad loans was in line with expectations.

Klaus Masuch, head of the ECB's EU countries division, welcomed a government review of public-sector banks, and said it wanted the government to continue to guarantee local bonds issued by banks.

Poul Thomsen, the IMF's Greece mission chief, said: "Markets understand the reforms are serious, but it needs to be a sustained period of implementation. Spreads will then eventually come down. But we don't expect any return to the markets very soon."

The delegation said they expected Greek budget revenues to accelerate in the second half of the year as more of the government's indirect tax increases come into effect, enabling targets to be met by the end of the year.



Minister George Papaconstantinou

## EUROPE NEWS

# Trichet defends ECB bond purchases

BY BRIAN BLACKSTONE

FRANKFURT—European Central Bank President Jean-Claude Trichet praised the ECB's handling of Europe's credit crisis, including one initiative—its purchases of debt of troubled countries—that critics say has undermined the central bank's credibility.

"Since we have seen a very significant improvement of the overall market situation, it is not surprising at all that the level of activity of that particular program has been very meager," Mr. Trichet said at a news conference Thursday after the ECB's monthly meeting.

The central bank said on Monday that it bought €81 million (\$106.8 million) of bonds from euro-zone countries last week, down from a peak of €16.5 billion during the program's first week in May.

Speaking after a meeting in which the bank held rates at 1%, Mr. Trichet sounded much more upbeat on the economy than in recent months. After a sluggish start to the recovery in late 2009 and early this year, the 16-nation currency bloc is expected to have expanded last quarter by as much as 3%, at an annualized rate, led by growth in Germany that is likely to be 5% or higher, some forecasters say.

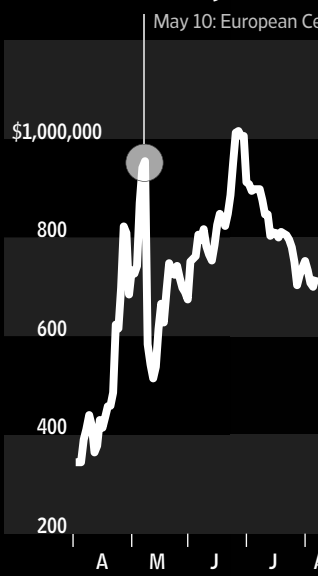
"We will have a very good second quarter, I trust, and we will have a third quarter that will be better than was originally anticipated," Mr. Trichet said. A double-dip recession, he said, "is totally out of scope for the present moment."

The ECB began buying bonds amid signs that Greece's crisis was spreading to other countries. The decision, which came just days after Mr. Trichet suggested that the ECB wasn't considering such a step, drew fire from politicians and economists who worried that the purchases would raise doubts about the central bank's independence from politics.

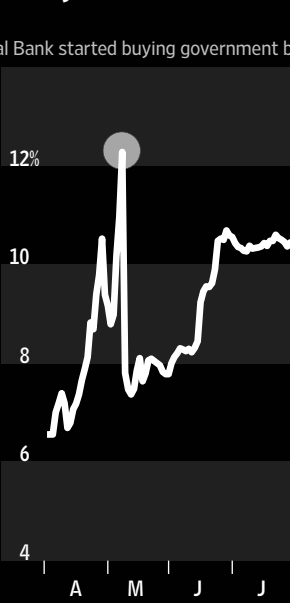
Buying government debt is a tool of last resort for a central bank, many economists say. Such intervention—called "the nuclear option" by some—can calm markets by showing investors that policy makers are prepared to take radical action. However, the purchases also risk stoking inflation by pumping new money into an economy and

Prayers answered? | ECB bond buys have stabilized some markets, though others remain strained.

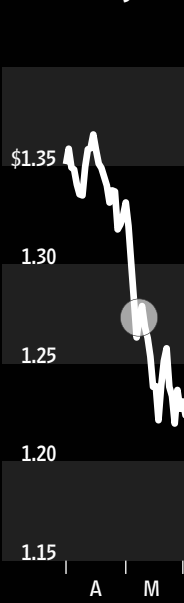
Annual cost to insure against a \$10 million Greek government bond default for five years



Greece's 10-year government bond yields



How many dollars one euro buys



Sources: Markit; Thomson Reuters via WSJ Market Data Group

Photo: Reuters

Jean-Claude Trichet, president of the ECB

risk encouraging fiscal recklessness with the perception of a backstop.

Until this year, the ECB had drawn largely favorable marks for its stewardship of the euro zone through the debt crisis. However, the central bank's flip-flop on buying bonds shook confidence in its ability to read the situation accurately and react swiftly and decisively.

"The first time pressure came, they gave in," says Charles Wyplosz, a professor of international economics at the Graduate Institute in Geneva. "That credibility has been shattered."

ECB officials say privately that by holding off on the bond-purchase decision, they forced European politicians to deal with the region's credit crisis by establishing a nearly \$1 trillion rescue fund. Instead of caving to political pressure, these officials say, the ECB jolted politicians into action.

Supporters of bond-buying say the purchases—which amount to only about 1% of total euro-zone debt—could have accomplished more if carried out on a wider scale.

"The perception is it was a reluctant commitment forced on the

ECB," says Ken Wattret, an economist at BNP Paribas.

Other economists say the central bank's decision to back away from bond purchases indicates a less-than-whole-hearted commitment to the program.

"It seems they will slowly bring the program to an end because they realize they made a mistake, at least to their reputation, particularly in Germany," says Manfred Neumann, a professor at the University of Bonn.

ECB officials reject such criticism, saying that they took the best among limited options amid a crisis. "We had the responsibility to avert the worst," ECB Governing Council member Yves Mersch told *The Wall Street Journal* recently.

On Thursday, Mr. Trichet said that over time the central bank is likely to be vindicated for how it has handled the crisis.

"If it appears," he said, "that we could go through this difficult period with the real economy not being dramatically negatively influenced...perhaps part of the credit could come to the central bank."

When Greece's woes erupted late last year, the ECB initially seemed

unperturbed. After the country's credit rating was downgraded in December, the ECB pushed ahead with a plan to slowly withdraw the hundreds of billions of euros it had pumped into banks at the height of the financial crisis—even though those funds had been a lifeline for Greek banks.

By January, all three ratings firms had downgraded Greece.

Mr. Trichet gave the embattled government in Athens little support. He told reporters that the ECB would make no concessions for Greece if its rating fell below the minimum needed to secure ECB loans, emphasizing that his pledge was "crystal clear."

By March, with markets in disarray, Mr. Trichet changed his strategy, offering a strong endorsement of Greece's efforts to bring its budget under control. Greece's actions, he said, "are convincing in our eyes."

Greece's rating downgrades continued and the cost of insurance to protect against a Greek default skyrocketed. Europe's failure to get the crisis under control prompted calls for intervention by the International Monetary Fund—an idea Mr. Trichet

initially rejected outright.

In late March, with Germany pushing for a strong role for the IMF, Mr. Trichet lowered his resistance, calling the EU-IMF €45 billion bailout of Greece a "workable" solution. However, the deal wasn't enough to keep more downgrades at bay.

By the end of April, Greece became the first euro-zone country to have its debt cut to "junk" status. If other agencies followed suit, banks would be unable to post Greek debt as collateral to the ECB for loans. That threat forced the ECB to renege on Mr. Trichet's earlier vow not to give Greece special treatment. On May 3, the ECB exempted Greece from its eligibility rules. The pressure on Greek and other markets persisted.

Mr. Trichet indicated Thursday that he is taking bank watchers' second-guessing in stride. "I have been a central banker for 17 years," the 67-year-old French native said. "It's not a job where you have no criticism; it's one of the jobs where you have the most criticism. Coming from a country which is legendary for its capacity to engage in criticism, I had a formidable training."

## BOE holds rates steady as recovery slows

BY NATASHA BRERETON

LONDON—The Bank of England's Monetary Policy Committee left its key interest rate and bond pur-

chases unchanged at its meeting Thursday, amid indications that the economic pickup is slowing, even as price pressures continue to mount.

The decisions the central bank faces are getting more difficult. While the exact implications won't become evident until harvests are in, analysts say that hot, dry weather conditions in Russia and Western Europe, which have already seen wheat prices rise astronomically, could push up the prices of goods in U.K. supermarkets.

Also of concern will be the intention of clothing retailers to raise prices in the coming months in response to the higher cost of cotton, lower spare capacity and a rise in the sales tax to 20% from 17.5% on Jan. 4.

But counteracting that is the continuing fragility of the U.K. recovery: While the economy grew at its fastest pace in more than four

years in the second quarter, analysts are doubtful it can maintain that performance as constrained credit, weakness in the U.K.'s major trading partner, the euro zone, and fiscal austerity weigh on activity.

"On balance, we believe rates are likely to remain on hold for some time yet," said Andrew McLaughlin, chief economist at Royal Bank of Scotland.

"There are still ongoing concerns about the strength of the recovery. U.K. firms have plenty of spare capacity and high rates of unemployment are holding down domestic demand, while signs of a slowdown in the global recovery suggest exports are unlikely to come to the rescue just yet."

The MPC—joined by National Institute of Economic and Social Research Director Martin Weale as its new external member—voted to keep its key interest rate at its 0.5%

record low for the 18th consecutive month, as analysts polled by Dow Jones Newswires had unanimously predicted.

The committee also opted to leave unchanged its £200 billion (\$317.9 billion) policy of quantitative easing—buying U.K. government bonds with freshly created central bank money—as a majority of economists had forecast.

The growing divergence between prospects for economic activity and prices is heightening the dilemma faced by BOE officials. Many analysts expect the central bank to raise its near-term inflation view and cut its forecasts for growth in its quarterly report next week.

MPC member Adam Posen said last month that while the current forecasts indicate a "more than 50% likelihood" that the next move will be to loosen policy, "the possibility still exists of it being right to raise

interest rates before too long."

Minutes from the MPC's July meeting show members considered arguments in favor of both a modest loosening in monetary policy and a small tightening, while Andrew Sentance voted for a rate rise.

Brian Coulton, Fitch Ratings' head of sovereign ratings for Europe, the Middle East and Africa, said Thursday that the BOE should be worried that inflation has been above target for a long time, and that the bank should start signaling its exit strategy from its loose monetary policy within six months.

Annual consumer-price inflation eased to 3.2% in June, but has been at least a percentage point above the target since the start of this year. The latest inflation reading brought the average annual rate over the second quarter to 3.5%—higher than the BOE's 3.3% central projection in May.

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

EUROPE NEWS

# Cameron, Zardari to talk behind closed doors

[ The Source ]

BY LAURENCE NORMAN

Pakistani President Asif Ali Zardari and U.K. Prime Minister David Cameron won't be getting an opportunity to show the world they've kissed and made up after they meet during Mr. Zardari's visit to Britain.

Mr. Cameron's office says there are no plans for a news conference following their meetings at the prime minister's country residence in Chequers, outside London. Mr. Cameron got into hot water in Pakistan last week after saying during a trip to India that some elements in Pakistan continued exporting terror and were playing both sides in the war in Afghanistan.

The comments sparked protests in Pakistan and led to calls from opposition Pakistani politicians for Mr. Zardari to cancel his trip to the U.K. Mr. Cameron also faced criticism from some quarters in Britain. The prime minister has stood by his remarks, saying he simply gave a "clear and frank answer to a clear and frank question."

Mr. Cameron made a fresh foreign-policy slip Thursday, saying that Iran has a nuclear weapon. Asked about his backing for Turkey joining the European



Protesters gather this week outside a London hotel where Pakistani President Asif Ali Zardari was staying.

Union, Mr. Cameron said, "I think they'll be a good political influence because they can help us solve some of the world's problems, like the Middle East peace process, like the fact Iran has got a nuclear weapon."

A spokesman for Mr. Cameron

said the prime minister "meant to say 'like the fact that Iran was pursuing a nuclear weapon.'"

Given the reaction to his comments on Pakistan, Mr. Cameron has in recent days acknowledged the price that country has paid in combating

terrorism and complimented Pakistani authorities on stepping up their efforts.

Mr. Cameron was scheduled to sit down with Mr. Zardari for an informal dinner including other politicians Thursday evening at Chequers. Formal talks were

scheduled for Friday morning.

Friday's talks are expected to cover a range of issues from the situation in Afghanistan to the Pakistani economy and the international response to the floods in northern Pakistan. Mr. Cameron's spokesman said. The two leaders will also discuss "cooperation in countering terrorism and violent extremism," he added.

The meetings come at an important time. Rising casualty rates for British and U.S. troops in Afghanistan have put that conflict back in the headlines and renewed questions about the war's direction.

Meanwhile, Mr. Cameron has moved swiftly since taking office in May to signal an exit plan. Mr. Cameron says he wants all combat troops out of Afghanistan by 2015 and hopes to start the drawdown next year.

Clearly, it is important for Mr. Cameron to strengthen business ties with India. And while his comments about Pakistan wouldn't have been news to anyone, to have uttered them while on a trip to India seems unwise.

It's hardly the "pragmatic" diplomacy Mr. Cameron promised.

That said, the sooner Messrs. Zardari and Cameron make up, the better. For everyone.

—More at [blogs.wsj.com/Source](http://blogs.wsj.com/Source)

## Italian government could face early poll

BY MARGHERITA STANCATI AND CHRISTINA PASSARIELLO

ROME—Italian Prime Minister Silvio Berlusconi's break with a key political ally could pave the way for early elections, his spokesman said Thursday.

"The prime minister warned everyone ... to 'get ready' for possible elections," Paolo Bonaiuti said on Italian television.

Pushing for an early vote could allow Mr. Berlusconi—who is still Italy's most popular politician as head of the conservative government—to solidify his grip on power, by getting rid of rebel lawmakers in his coalition. Italy's center-left opposition coalition, meanwhile, is considered too weak to win an election.

"I doubt left-wing parties are enthused by the prospect of early elections," said Franco Pavoncello, dean of John Cabot's University in Rome.

The possibility of early elections follows Mr. Berlusconi's split last week with longtime ally Gianfranco

Fini. Mr. Fini and the roughly 30 lawmakers aligned with him are essential to ensuring the government's majority in Parliament. On Wednesday, Mr. Berlusconi's coalition was able to defeat a motion to dismiss a junior minister only because Mr. Fini's followers, who say they now will decide whether to back the government on a case-by-case basis, abstained from the vote.

Had the vote to dismiss the official succeeded, Mr. Berlusconi's ability to govern could have been called into question.

According to Italian parliamentary procedures, if a government loses a parliamentary vote, Italian President Giorgio Napolitano must examine whether it has lost its official majority and can then order a government shuffle or call a general election—long before the next scheduled vote, which is slated for 2013.

Italy's Parliament is in its summer recess until Sept. 8 and Mr. Napolitano is on holiday.

## Alleged spy loses appeal

Associated Press

WARSAW—A Polish appeals court on Thursday upheld a lower court's decision to hand over to Germany an alleged Mossad agent wanted in the slaying of a Hamas leader.

The decision means that the alleged agent, known as Uri Brodsky,

must be handed over to Germany within 10 days. The decision is final and cannot be appealed.

Mr. Brodsky was arrested in Warsaw in June on a European warrant charging him with espionage and helping to falsely obtain a German passport, allegedly used in connection with the Jan. 19 slaying of a Hamas commander in Dubai.

### F.P. JOURNE

Invenit et Fecit

*Entirely invented and manufactured in-house*

18K Gold movement

Octa Automatique Lune - Platinum or Red Gold case

NEW WEBSITE

## FPJOURNE.COM

## U.S. NEWS

# Senate confirms Kagan for high court

BY NAFTALI BENDAVID

WASHINGTON—The Senate on Thursday confirmed Elena Kagan on a 63-37 vote to become an associate justice of the U.S. Supreme Court, with a handful of Republicans joining almost all Democrats in making her the fourth woman to serve on the court.

When the court's new term starts in October, Ms. Kagan, 50, will join Justices Ruth Bader Ginsburg and Sonia Sotomayor to make up the first three-woman bloc in the court's history.

Fifty-eight Democrats and independents, as well as five Republicans, voted for Ms. Kagan. Thirty-six Republicans and one Democrat, Sen. Ben Nelson of Nebraska, voted against the nominee.

The five Republicans who supported Ms. Kagan were Sens. Susan Collins and Olympia Snowe of Maine, Lindsey Graham of South Carolina, Richard Lugar of Indiana and Judd Gregg of New Hampshire.

With the Senate vote, President Barack Obama continues to put his stamp on the Supreme Court, following last year's confirmation of Justice Sotomayor, another relatively youthful woman who could serve for decades.

Supporters hope Ms. Kagan, a former dean of Harvard Law School, will serve as a counterweight to Justice Antonin Scalia, whose fiery conservative opinions have long been a hallmark of the court.

Neither Ms. Kagan nor Justice Sotomayor is expected to shift the court's ideological makeup, however, since both succeeded liberal justices—John Paul Stevens and David Souter.

Ms. Kagan's confirmation battle at times shifted into a broader debate on how much deference the Senate should give a president's Supreme Court picks. The votes in recent years have divided more along party lines than they once did, at least for relatively noncontroversial picks.



Supreme Court nominee Elena Kagan fielded senators' questions in June.

The fight unfolded against the backdrop of recent federal-court decisions on the hot-button topics of immigration, health care and gay marriage. All three cases are almost

certain to end up at the Supreme Court, and judicial nominations and social issues could become a factor in the November congressional elections.

"I think these opinions, and these serious constitutional issues that are bubbling up out there, definitely will make the appointment of federal judges a campaign issue this year and probably even a bigger issue in the presidential election," said Sen. Jeff Sessions (R., Ala.), the top Republican on the Senate Judiciary Committee and a strong opponent of Ms. Kagan.

Ms. Kagan joins a court that is likely to resolve all three questions tackled by the lower courts: whether Mr. Obama's sweeping new health law is constitutional, whether states can enact tough immigration laws and whether gays have a constitutional right to marry.

The outcome of Ms. Kagan's confirmation battle had been clear for weeks, but that didn't quiet the debate over the nomination. Republi-

cans used the fight to argue that Mr. Obama has been improperly expanding the role of government, warning that Ms. Kagan would rubber-stamp his actions.

"The public has watched Washington's growing disregard for the Constitution and its limits on government power," Sen. Richard Burr (R., N.C.) said on the Senate floor Thursday. "I'm concerned that Ms. Kagan doesn't seem to understand the limits the Constitution places on the federal government."

Democrats criticized what they see as an activist Supreme Court headed by Chief Justice John Roberts. They accused the court's conservatives of finding dubious justification for reaching preordained conclusions. Beyond that, the two sides clashed over Ms. Kagan's qualifications, with Republicans contending she is a political rather than legal figure. Democrats emphasized the prominent positions she has held and the support she received from prominent conservatives.

# Opponents of health law get win in Missouri

BY GARY FIELDS

Opponents of the Obama administration's health-care overhaul said Missouri voters' rejection of a key plank could re-energize the push in other states to challenge the measure.

Missouri's Proposition C, which passed with 71% of the vote Tuesday, establishes a state law that says Missouri can't force people to pay a penalty or fine if they fail to carry health-insurance coverage. That requirement for coverage is one of the most controversial components of the federal health-care law that President Barack Obama signed in March.

"Rank-and-file voters" around the country "are on fire and chafing at the opportunity to have their say" on similar measures, Missouri Lt. Gov. Peter Kinder said in an interview. Mr. Kinder, a Republican, was one of the key supporters of Proposition C.

Supporters of the federal law noted that the Missouri outcome came in an election with low turnout and GOP voters significantly outnumbering Democrats.

Nathan Newman, executive director of Progressive States Network, a group that supports the health-care overhaul, said many states have declined to oppose the federal law. A total of 26 states have "said we're not going for this" challenge, he said.

The federal health-care law has run into opposition for months, with some state attorneys general challenging the insurance mandate as unconstitutional. This week, a federal judge in Virginia let that state's challenge to the federal law go forward.



Proposition C opponent Mark Matzeder, right, debates Trevor Hanso, a supporter of the measure, in Kansas City, Mo., last week. The proposition, which passed Tuesday, says Missouri can't penalize people for failing to carry health insurance.

ward.

The Missouri vote is largely symbolic. If federal courts uphold the health-care law, it would take precedence over any state law that contradicts it. If federal courts throw out the mandate, there would be no need for states to challenge it.

Missouri's election was the first in which voters had the opportunity to decide directly whether they op-

pose the federal law's mandate. Arizona and Oklahoma have similar referendums on the November ballot, and Colorado may have one as well. A Florida proposal was pulled off the November ballot last week by a state judge but that is expected to be challenged.

With Missouri's move, six states now have laws on the books opposing the federal law. The others—in

Idaho, Utah, Virginia, Georgia and Louisiana—were approved by state legislatures.

Christie Herrera, health task-force director of the American Legislative Exchange Council, a group of conservative state lawmakers, said if other states have election results like Missouri's, it will likely spur state lawmakers elsewhere to consider placing the proposal before

voters.

"It's one thing to say I support repealing the individual mandate," Ms. Herrera said. "It's another thing to say more than 70% of voters in an election agree with me."

"Missouri sent a clear message to Democrats and the Obama administration that government-run health care is a gross overreach of the federal government that needs to be repealed and replaced," said Republican National Committee Chairman Michael Steele.

Supporters of the federal law said its implementation was moving forward, even in states run by Republican governors, and they questioned whether Americans want to repeal a law that includes popular provisions such as the right to obtain coverage after becoming ill.

Meanwhile, according to a government report released Thursday, the health-care law will extend the solvency of the Medicare trust fund for 12 years, so that the fund now is projected to run out in 2029.

Obama administration officials touted the projections in the annual report from Medicare and Social Security trustees as evidence of improvements brought about because of the health-care law. They also noted that the improved outlook rests upon the successful implementation of the law. Specifically, the trustees assumed that productivity growth in the health-care sector will keep up with the economy as a whole, something that hasn't happened in the past.

—Naftali Bendavid and Martin Vaughan contributed to this article.

# Scientists find new way to regrow mammal tissue

BY GAUTAM NAIK

Chop off a newt's tail and it regenerates. Carve out a piece of a zebra fish's heart and it grows back. Why can't humans do similar tricks?

Some scientists believe that mammals once had such newt-like regenerative ability but lost it as they evolved. Now, by taking a leaf

from nature's book of oddities, scientists have shown that mammals can also be coaxed into using the newt's unusual technique to make fresh tissue.

In a study being published Friday in the journal *Cell Stem Cell*, scientists at Stanford University describe how they got muscle tissue in mice to regenerate, essentially re-awak-

ening what had been thought lost over evolutionary time. Such mature tissues normally don't divide and proliferate.

The Stanford scientists hope this novel approach will one day offer a way to make fresh tissue and help repair damaged organs. The research is at a very early stage and years away from any potential hu-

man application.

For years, scientists have tried to figure out why mammals can't regenerate body parts in the same way that, say, salamanders can. The reason is that most mature mammalian cells are locked into a steady state that prevents them from dividing. Without cell division there's no regeneration.

"The trick was to get them to go back into the cell cycle" and kick-start the regenerative process, said Helen Blau, a stem-cell biologist at Stanford University and senior author of the *Cell Stem Cell* paper.

The Stanford scientists now plan to make functional cells in large quantities and see if they can repair tissue-related injuries in animals.



## WORLD NEWS

# Groups criticize claims most oil in Gulf is gone

BY LESLIE EATON  
AND ELIZABETH WILLIAMSON

Politicians, environmentalists and lawyers along the Gulf Coast reacted with skepticism to a report from the Obama administration saying that about three-quarters of the oil spilled by a BP PLC well in the Gulf of Mexico has broken down or been cleaned up.

The report, which was released at a White House press briefing Wednesday, said that "robust federal response efforts" had removed much of the spilled oil from the Gulf or broken it into tiny particles.

Natural forces such as evaporation accounted for the rest of the clean-up job, according to research by independent scientists and the National Oceanic and Atmospheric Administration.

It contained good news for Gulf Coast residents who, based on a recent government estimate that 4.9 million barrels had leaked from the blown-out well, feared a new influx of crude was headed their way.

But critics immediately noted that more than one million barrels of crude remained in the water by the administration's own reckoning, along with a lot of oil that had been broken up but not necessarily dissolved.

"It's still too early to declare victory," Louisiana Gov. Bobby Jindal said in a statement. "We must remain vigilant about the oil that remains a threat to our coast."

In Mississippi, Robert Wiygul, a lawyer involved in several environmental lawsuits against both BP and the government, said that he hoped the report's optimistic tone was justified. But, he added, "any pronouncement that things are OK smacks more of political science than hard science."

The NOAA report came as BP said it had finally gained control over the blown-out well, and could soon seal it for good. The well was temporarily capped July 15, almost three months after the Deepwater Horizon drilling rig burned and sank, killing 11 and unleashing the worst offshore oil spill in U.S. history.

Stan Senner, director of conservation science for the Ocean Conservancy, an environmental group, said he was concerned that the administration's report could mislead Americans into thinking that the fallout from the oil spill was over.

"The government says that the oil is almost gone," said Mr. Senner, who worked for the state of Alaska for years responding to the Exxon Valdez spill. "Wow. What a sigh of



Eddie Forsythe and Don Rorabough dumped a box of blue crabs onto a sorting table in Yscloskey, La., on Tuesday.

relief. Let's move on."

Mr. Senner and other environmentalists said that the ecological impact of the spill remained unclear and probably wouldn't be tallied for years.

The new report may sway public opinion, but it is unlikely to carry much sway in courts where a mountain of spill-related litigation is pending. That's because it deals with clean-up efforts, not environmental impact.

"The crux of the issue with respect to litigation is, what were the actual damages," said Margaret R.

Caldwell, a professor specializing in environmental law at Stanford Law School.

The administration acknowledged that it was still assessing the cost of environmental and economic damage from the gusher.

President Barack Obama said that the federal response was not over.

"We have to reverse the damage that's been done, we will continue to work to hold polluters accountable for the destruction they've caused, we've got to make sure that folks who were harmed are reim-

bursed," Mr. Obama said during remarks to the AFL-CIO Wednesday in Washington.

In a briefing on the NOAA report, White House press secretary Robert Gibbs declined to estimate BP's total liability in the spill. But he suggested that under the Oil Pollution Law of 1990, with its per-barrel fines, the company would pay a fine upwards of \$20 billion.

"I think it's \$4,300 per barrel per day that BP will be liable for," Mr. Gibbs said. "They will get a bill and a penalty for the amount of pollution emitted into the Gulf."

## U.K. oil firms are set to raise spill-payout cap

*Continued from first page*  
the U.K.'s Department for Energy and Climate Change said it was increasing its inspection of drilling rigs in light of the disaster and that it would review the indemnity and insurance requirements for companies operating offshore. But it said the country's existing safety provisions were "fit for purpose."

The process of indemnifying oil spills in the U.K. is handled by the Offshore Pollution Liability Association, an industry body that administers a voluntary compensation plan called OPOL. The plan is mainly focused on the U.K., but an OPOL member can apply it to its offshore operations in other European countries. Under OPOL, a firm is fully responsible for the cost of spills from its offshore facilities. But if it can't meet its liabilities—for example due to bankruptcy—other OPOL signatories step in to guarantee payment of costs up to \$120 million.

A U.K. government spokesperson said the Energy Department was reviewing this figure with OPOL and the industry "to ensure that the sum available actually aligns with the revised estimates that may result from a Gulf-type incident."

The review would look at compensation costs associated with "a range of different oil-spill scenarios, from minor leaks to major incidents," said Paul Dymond, operations director at Oil & Gas UK, the main trade association for Britain's offshore oil and gas industry.

# Real-estate firm sues Halliburton

BY ROBBIE WHELAN

St. Joe Co., a large Florida real-estate developer that owns resorts on the Gulf of Mexico, filed suit against oil-services company Halliburton Co., seeking more than \$1 billion in damages related to the Deepwater Horizon oil-rig explosion and subsequent oil spill.

In a complaint filed in state court in Delaware Wednesday, St. Joe said that Halliburton, which provided key structural work on the oil well, "ignored multiple warning signs" that could have prevented the disaster.

St. Joe, which owns 577,000 acres of land in Florida mostly within 15 miles of the Gulf and is the biggest landholder in the Florida Panhandle, said the April disaster resulted in

huge losses for the company when hundreds of tourists canceled vacation plans to stay at its resorts.

The company's stock price fell by 40% in the weeks after the blowout, resulting in a \$1 billion decline in market capitalization. The shares have remained depressed even since BP PLC stopped the gushing oil on July 15.

Although Halliburton had workers aboard the rig the day of the explosion, it was not responsible for making most decisions on the well.

Halliburton, in a statement, said it has not seen the lawsuit yet, but from what it has seen in the media, "it appears to be without merit and we will vigorously defend it."

Gulf Coast residents, businesses and environmental groups have filed

hundreds of lawsuits against Halliburton, BP, which operated the well, Transocean Ltd., the rig's owner, and others, seeking compensation for damage from the spill. The suit by St. Joe is one of the first by a publicly traded company claiming damages, in part, due to a loss of investor equity.

St. Joe sued Halliburton first, rather than BP, because it was the quickest way for the company to recoup the majority of its losses, said William Brewer, a partner with Dallas-based Bickel & Brewer, who is representing St. Joe. The company hasn't sued Transocean because Transocean has asked a federal court to cap its liability at \$27 million, Mr. Brewer added. St. Joe said it still may file claims against BP,

Transocean and other companies involved in the disaster.

In June, BP agreed to establish a \$20 billion claims fund to address losses for Gulf Coast residents and business owners. Mr. Brewer said St. Joe wasn't seeking compensation from that fund because doing so might require the company to release BP from liability for any other claims. Mr. Brewer said St. Joe chose to target Halliburton because it considered it equally responsible with BP for the blowout.

"Our market cap has stayed depressed, our sales are impacted, and there is certainly an interruption in our business," Mr. Brewer said, adding that investors will avoid the Florida Panhandle for some time because of a perceived heightened risk.

# U.S. jobless claims increase unexpectedly

BY JEFF BATER  
AND LUCA DI LEO

The number of U.S. workers making new claims for jobless benefits unexpectedly increased last week to the highest level in nearly four months, raising concerns about the labor market's recovery.

Initial unemployment claims climbed by 19,000 to 479,000 in the week ended July 31, the Labor Department said in its weekly report Thursday. The last time claims were this high was the week of April 10.

The increase defied the expectations of economists surveyed by

Dow Jones Newswires, who had predicted filings would dip by 2,000 to 455,000.

The four-week moving average, which aims to smooth volatility in the data, rose by 5,250 to 458,500. New claims for the previous week, ending July 24, were revised up, to 460,000 from the originally reported 457,000.

While down significantly from a year ago, new jobless claims remain relatively high, reflecting continued strains in the job market. On Friday, the Labor Department will report on unemployment in July. Economists surveyed by Dow Jones Newswires

forecast the data will show joblessness rose to 9.6%, from 9.5% in June.

"The July employment report should reinforce recent evidence of an anemic labor market recovery," IHS Global Insight economists Brian Bethune and Nigel Gault said.

High unemployment is holding back the U.S. economy's recovery. The saving rate rose in June and consumer spending was flat, government figures this week showed.

In the Labor Department's claims report Thursday, the number of continuing claims—those drawn by workers for more than one week in the week ended July 24—decreased

by 34,000 to 4,537,000 from the preceding week's upwardly revised level of 4,571,000. Continuing claims are reported with a one-week lag.

The unemployment rate for workers with unemployment insurance for the week ended July 24 was 3.6%, unchanged from the prior week.

The report has a state-by-state breakdown of new claims for the week ended July 24. The largest decrease in claims occurred in California, which saw a drop of 19,107 because of fewer service-industry layoffs. No states saw an increase of more than 1,000 new claims.

## WORLD NEWS

# Karzai targets anticorruption groups

Afghan President Hamid Karzai stepped up tensions with the U.S. on Wednesday by asserting control over two American-backed anticorruption task forces, ordering a handpicked committee to review all their investigations.

By Yaroslav Trofimov  
in Kabul  
and Matthew Rosenberg  
in Washington

U.S. officials see Mr. Karzai's decision as a way for the Afghan president to limit the inquiries that may touch his inner circle. A senior U.S. official described the move, which followed last week's arrest of a senior presidential aide on corruption charges, as "a huge blow" to U.S.-backed efforts to clean up corruption in Afghanistan.

The disclosure came as new details emerged about the evidence against the arrested aide, Mohammed Zia Saleh, who had headed the administration of Afghanistan's National Security Council.

According to Western officials, U.S.-backed investigators taped a conversation in which Mr. Saleh was negotiating a bribe in the form of a car in return for quashing an inquiry into the **New Ansari Exchange**, a money-transfer outfit. New Ansari has connections with members of the Afghan government and the Karzai family, and, according to investigators, is suspected of links to Taliban insurgents and narcotics smugglers. The car was alleg-

## Cleanup effort | Afghanistan's struggle to contain corruption



Voting at a Kabul mosque in August 2009

■ **June 2008:** The international community confronts the Afghan government at the Paris Conference, one of the first big public pushes to get Afghan officials to improve their governance.

■ **July:** President Hamid Karzai issues a decree to establish the High Office of Oversight and Anti-Corruption.

■ **August 2009:** Karzai wins the presidential election amid accusations of mass fraud.

■ **November:** Transparency International ranks Afghanistan 179th out of 180 countries in its Corruption Perceptions Index, ahead of only Somalia.

■ **February 2010:** FBI director Robert Mueller inaugurates a major facility for Afghanistan's



French President Sarkozy, right, with President Karzai in 2008 at the Paris Conference.

Major Crimes Task Force, which will see the U.S. mentor Afghan officials in fighting crime.

■ **April:** Afghan officials ask Interpol to help arrest Sediq Chakari, a former acting minister, on corruption charges. Mr. Chakari, who is accused of siphoning cash from Afghans making the pilgrimage to Mecca, Saudi Arabia, remains at large.

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

edly a small part of a larger proposed payoff, the officials said.

Mr. Karzai's chief spokesman, Waheed Omar, said he wasn't aware of the details of the case or whether Mr. Saleh, who is unavailable to comment, has said he is not guilty.

One of the anticorruption task forces raided New Ansari's Kabul of-

fices in January. U.S. and Afghan investigators say the company has been instrumental in the massive exodus of money through Kabul's airport. New Ansari's manager, Haji Muhammad Khan, has denied any wrongdoing by the company.

The Obama administration has made rooting out corruption in the

Afghan government a key goal. Coalition commanders have said Afghan citizens' anger at the predatory behavior of Afghan officials is the main reason the Taliban insurgency has been able to spread.

Mr. Karzai has responded to coalition pressure by pledging to crack down on graft, while at the same

time claiming that most corruption in Afghanistan is perpetrated by the international community.

Asked about Mr. Karzai's decision, a spokeswoman at the U.S. Embassy in Kabul said the U.S. looks forward to working with the Afghan government to assist in the implementation of Mr. Karzai's pledges "to undertake all necessary measures to increase transparency, accountability and tackle corruption."

Over the past several months, the U.S. helped create semiautonomous law-enforcement bodies that could tackle financial crimes and target senior Afghan officials implicated in graft and the drug trade. One, the Sensitive Investigative Unit, which focuses on drug traffickers, raided New Ansari's offices in January. The second, the Major Crimes Task Force, deals with government corruption and organized crime. Mr. Saleh was arrested in a joint MCTF and SIU raid.

Mr. Karzai viewed the arrest of such a senior official as an affront to Afghanistan's sovereignty, Afghan officials said. He appointed a special commission of inquiry to examine the operations of MCTF and SIU.

At a meeting Wednesday headed by Mr. Karzai, the commission reported that the two units have repeatedly violated human rights. He ordered the commission to review all investigations. Mr. Omar, the president's spokesman, said Mr. Saleh's arrest "was not the only reason why the government wants MCTF to be monitored closely."

**sibos**

The world's premier  
financial services event

**Sibos 2010  
Amsterdam  
25-29 October**

Regulation, rebuilding  
trust, recovery

96% of last year's participants  
recommend you attend.

"Sibos is always worth attending.  
It's probably the best conference  
in all aspects, year after year."

"You learn more, meet more  
people and do more business in  
four days than many do in a year."

"It's the best conference in the  
world. Unique."

— SWIFT's Sibos 2009 participant survey

One week, one place, one Sibos.

Every year Sibos brings together the financial industry for one week to create opportunities for individuals, organisations and the community as a whole. It is a unique forum to meet, discuss, promote, and do business. Facilitated and organised by SWIFT, Sibos creates the stimulus for learning, collaborating, and taking the collective action that shapes the future of our industry.

Find out more at [www.sibos2010.com](http://www.sibos2010.com)



## Poll shows China's growth is slowing

By ANDREW BATSON

BEIJING—China's growth is slowing from double-digit rates to around 8% as the government dials back its extraordinary economic-stimulus policies to more normal settings, a new poll by The Wall Street Journal shows.

The poll, the latest in a quarterly series by the Journal, asks economists for their estimates of China's growth in the same seasonally adjusted quarter-to-quarter terms used by other major economies. China officially reports changes in gross domestic product only relative to the year-earlier period, which can make it harder to discern turning points in the economy.

The current slowdown appears to be viewed largely positively by Chinese policy makers, who since early this year have been taking measures to reduce the risk to the economy from surging house prices and rapidly expanding debts. Markets seem largely unfazed as well: Chinese stocks have been rallying in recent weeks, as many investors expect the government won't take additional steps to cool the economy and may even take new measures to support growth.

"It is highly likely that the economy will slow down and stabilize in the future, but a 'double dip' is not very likely," China's central bank said in its quarterly report on the economy last month. "The current economic slowdown is a correction of the excessively rapid expansion in earlier periods...[and] helps the

structural adjustment and sustainable growth of China's economy."

Given the strong start to the year—official figures put economic growth in the first half at 11.1%—China is still likely to be one of the fastest-growing economies in the world in 2010. The World Bank is expecting growth for the full year to average 9.5%. Though most expect the slowdown in the second half to be moderate, the cooling-off could still be challenging for a country accustomed to a long run of double-digit growth.

According to the median estimate of the 13 economists surveyed, China's GDP in the second quarter expanded 8.4% from the previous quarter on a seasonally adjusted, annualized basis, slowing from the first quarter's estimated 10.4% growth. Those calculations suggest a sharper deceleration than the official figures, which show 10.3% year-to-year growth in the second quarter following the 11.9% gain in the first quarter. The second-quarter slowdown was also more pronounced than economists had forecast in the previous poll.

Economists expect the slowdown to continue, with forecasts centering on annualized growth of 7.9% in the third quarter and 8.3% in the fourth though they generally expect growth to pick up again to about 9% over the course of 2011. Forecasters were divided over when growth will pick up, with some expecting that to happen as early as the fourth quarter of 2010 and others not until the second quarter of 2011.