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# THE WALL STREET JOURNAL.

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Tuesday, July 13, 2010

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## Golden moment for Spanish football players and fans



Spain's captain Iker Casillas lifts the World Cup trophy as the team parades before hundreds of thousands of adoring football fans in Madrid on Monday following the national side's first ever victory in the final. Spain beat the Netherlands 1-0 in extra time in South Africa on Sunday night. **Articles on pages 27 and 28.**

# Sarkozy challenges allegations

BY DAVID GAUTHIER-VILLARS

PARIS—France's President Nicolas Sarkozy went on prime-time television Monday evening to fight back against allegations that the nation's richest woman helped finance his 2007 victorious campaign.

Last week, a French prosecutor launched a preliminary probe into allegations that cash belonging to Liliane Bettencourt, heiress to the founder of French cosmetics group L'Oréal SA, was given to Mr. Sarkozy's UMP party through party fund-raiser Eric Woerth.

Mr. Sarkozy said he attended two or three lunches or dinners at Ms. Bettencourt's house in the upscale neighborhood of Neuilly-sur-

Seine, near Paris, but rejected allegations of illegal financing.

"Can you imagine? I arrive in front of other guests and I leave with cash?" Mr. Sarkozy said in an interview with state TV channel France 2. "This is slander."

Ms. Bettencourt, whose Neuilly home was searched by police Monday as part of the preliminary judicial probe, has said she helped finance the UMP within legal limits.

Mr. Woerth, who is also France's labor minister in charge of conducting an overhaul of the pension system, has denied collecting Ms. Bettencourt's cash.

With two years left in his term, Mr. Sarkozy is seeking to distance himself from what

has become known as "the Bettencourt affair" and a series of expense scandals that have pushed his approval ratings to record lows.

Only about a quarter of French adults approve of his policies, according to a recent poll by TNS Sofres. The recent resignations of two ministers over expense scandals involving business jets and cigars have done little to quell public outcry over the wealthy.

On Sunday, Mr. Sarkozy's party lost one of its traditional strongholds near Paris when a UMP candidate was defeated in a legislative election by a leftist-green rival.

"The president is struggling to reconnect with the French," political analyst Stéphane Rozès said. "At the

Sunday legislative ballot, his supporters were a no-show."

Mr. Sarkozy said he was victim of a defamation campaign because he was trying to fulfill his electoral promise of modernizing France, notably by cutting public spending and asking the French to retire later.

"I am shaking some interests, challenging some fortresses," Mr. Sarkozy said.

Mr. Sarkozy said that, as part of his effort to reduce the budget deficit, he wouldn't raise taxes, but wouldn't scrap France's wealth tax either. "If we stay on this crazy path of always raising taxes, France won't have a single entrepreneur left and France won't have a single consumer left," he said.

Mr. Sarkozy said he continued to trust Mr. Woerth to present his planned pension overhaul to Parliament in September. Still, the president said he advised the minister to drop his duties as treasurer of the UMP to avoid any appearance of conflict of interest.

Several potential conflicts of interest have sparked outrage from the opposition Socialist Party. Mr. Woerth's wife was one of Ms. Bettencourt's wealth managers until she resigned in June. Both Mr. Woerth and his wife deny any conflict of interest.

—Christina Passariello contributed to this article.

■ President storms away from Bastille Day celebrations ..... 4

## iPhone 4 gets more heat over reception

Influential U.S. magazine Consumer Reports raised more red flags about Apple Inc.'s popular iPhone 4, saying its tests show a hardware defect causes the device to lose reception when held a certain way—and calling into question Apple's claim that the phenomenon is rooted in a software problem.

The findings led the product-testing watchdog to say it can't recommend the newest iPhone despite otherwise high marks. It was the first Apple phone Consumer Reports has failed to recommend.

Apple didn't respond to a request for comment. The company said on July 2 that reception will suffer when almost any mobile phone is gripped in certain ways and that it is sending out a patch for a software glitch that caused inflated readings of signal strength.

Consumer Reports said none of the other phones it tested, including the iPhone 3G S and the Palm Pre, presented similar problems.

■ Why Consumer Reports can't recommend the iPhone 4 ... 19

## The Quirk



Razor burn: A flood of fancy shavers leaves some men feeling nicked. **Page 29**

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## PAGE TWO

# BP needs new leaders to counter bids

## [ Agenda ]

By PATIENCE WHEATCROFT



Speculators piled into BP shares Monday, sending the stock up more than 9% in London. Their excitement was based not on the prospects that this week could see a cap successfully fitted on the leaking well but on hopes that there may be a bid for the company.

They could be disappointed. Despite the recent battering of the share price, still mired almost 40% below the level it hit before the crisis despite Monday's bounce, BP still has a market capitalization of about £75 billion (about \$113 billion). That is less than half that of the mighty ExxonMobil but, with the bid premium that would undoubtedly be demanded, it would be a big mouthful even for that giant.

Put aside the price though and ask what board would possibly countenance a bid for a company facing such uncertainties as BP. The ultimate bill for the Macondo disaster is, as yet, unquantifiable. It would be a brave company that volunteered to take on such unlimited liabilities.

Any potential bidder would also surely want to wait until the various inquiries into the causes of the oil spill had reported. Was this a one-off occasioned by human error or evidence of the results of rampant cost-cutting that might be expensive to rectify? The first of the U.S. investigations is due to be completed by September. BP's own inquiry, the results of which it intends to make public, should have some preliminary findings to release before the fall with the final report scheduled for October.

In the meantime, the company is seeking to raise cash through asset sales and apparently finding plenty of interest. But the board cannot dismiss the prospect of a bid further down the line. It needs



Carl-Henric Svanberg, chairman of BP, speaking at the White House last month.

to be asking whether, in that event, it would be well placed to mount a defence and the answer has to be "Not with the current leadership."

Neither the chairman nor the chief executive have acquitted themselves well in this affair. Carl-Henric Svanberg may have been told by his chief executive early on in the affair that his presence in the U.S. was not

## Ask what board would possibly countenance a bid for a company facing such uncertainties as BP.

required. If so, it was advice he should not have heeded. It has left him looking as if he was not up to the job, no matter how he has since tried to reassure investors to the contrary.

As for Tony Hayward, the picture of him stone-walling as he was subjected to a congressional grilling will linger embarrassingly long after the well is capped. This disaster happened on his watch and he is going to have to pay the price, however much he would like the chance to try to stay long enough to redeem his reputation.

BP now has at its helm a couple of lame ducks. This is an unsustainable situation and there seems little point in delaying the

action that is required to put it right. There are potential successors close at hand. Paul Anderson, the former chief executive of BHP Billiton, who joined the board as a non-executive director in February, is being talked of as a suitably qualified successor to Mr. Svanberg. Bob Dudley, who had been a contender for the chief executive's role before it was handed to Mr. Hayward, would be a reassuring choice to take over from him now. He has already been charged with over-seeing happenings in the Gulf of Mexico and could continue to do so while wearing the chief executive's hat.

The BP board has much to occupy it at the moment, not least the prospect of legal actions being launched against individual directors. It may argue that it would be premature to make any changes ahead of the results of the inquiries. Yet if a predator were then to come sniffing around the company, it would be too late to change the top team.

There seems little to be gained by not taking action soon and much to be lost.

## Take down the ring fence

The U.K.'s Conservative party made an election pledge that the drastic public expenditure cuts to come would leave the National Health Service unscathed. It is continuing to insist that this is the case and that the treasured

NHS. would be spared the pain to be inflicted elsewhere. Yet there are clearly savings to be made.

The restructuring that Health Secretary Andrew Lansley has announced, stripping out tiers of bureaucracy and handing more power to general practitioners, should yield significant savings in the longer term, even if there is short-term disruption.

More immediately, the Department of Health itself could surely yield up some sacrifices for the national economic health. Its Web site lists a dizzying array of press officers, media advisors and speech writers. They may each be excellent at their jobs but is it really necessary, in an age of austerity, to have so many people employed in the publicity machine rather than the operating theatre?

## Kremlin seeks cash

Perhaps his timing could have been better. Just days after ten Russian spies had been flown out of the U.S., President Dmitry Medvedev decided to make a plea for the U.S. and the European Union to invest more in his country.

"We need special alliances for modernization," said the President in a speech to Russian ambassadors. He listed "Germany, France, Italy, the EU in general and...the United States" as preferred partners.

Tacitly acknowledging that there are some qualms about the business climate in Russia, the president said "We believe in the triumph of law and that we can stamp out corruption...for the success of modernization." But those words may not be sufficient to quell fears of those who are nervous about the strength of property rights in the country or the scale of corruption.

It is to help with the modernization of the country's infrastructure that the president is particularly anxious to secure foreign investment. Perhaps the ten spies would have been more productive for the country had they been acting as investment advisors.

## What's News

■ **The U.K. government** announced an overhaul of the state-funded health system that it said would put more power in the hands of doctors and save as much as \$30.12 billion by 2014. 6

■ **More signs emerged** that the private-sector recovery the U.K. government is counting on to fuel growth could be slow in coming. 6

■ **Insurance-broker Aon** agreed to buy human-resources firm Hewitt Associates in a \$4.9 billion cash-and-stock deal. 20

■ **Banco Santander** will buy SEB's German retail network for \$701.5 million, expanding its retail-banking services in the country to include mortgages and deposits. 21

■ **Bombings killed** an estimated 76 people in Uganda and underscored the ambitions of a militant group that seeks to topple Somalia's government and is now hitting out at other targets. 9

## Inside



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## ONLINE TODAY

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'The private-sector recovery the U.K. coalition is hoping will fuel growth could be slow in coming.'

**Laurence Norman** on what the U.K. must do to avoid seeing growth sink



### Continuing coverage



Follow the latest as BP attempts to install a new well cap at [wsj.com/us](http://wsj.com/us)

### Question of the day

**Vote and discuss:** Do you agree with Switzerland's decision to reject a U.S. extradition request for Roman Polanski?

Vote and discuss at [wsj.com/polls](http://wsj.com/polls)

### Previous results

**Q:** Should governments use data that may have been stolen to pursue tax evaders?

Yes

44%

No

56%

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## NEWS

# Swiss free Polanski, reject extradition

By DEBORAH BALL  
AND TAMARA AUDI

Swiss authorities rejected a request from the U.S. to extradite Academy Award-winning director Roman Polanski, clearing the way for his release 10 months after his surprise arrest opened a new chapter in a 33-year criminal saga.

The Swiss decision, and Mr. Polanski's release from custody Monday afternoon in Switzerland, represents a surprising blow for U.S. authorities who have been trying since the late 1970s to bring him to justice in a high-profile criminal misconduct case.

Monday's decision doesn't prevent prosecutors in the U.S. from continuing to pursue Mr. Polanski, but likely lessens the probability that other governments would cooperate in extradition proceedings.

Mr. Polanski, director of films such as "Rosemary's Baby" and "Chinatown," has been at the center of a legal drama dating to 1977, when he pleaded guilty to unlawful sexual intercourse with a 13-year-old girl. Before his sentencing, however, Mr. Polanski fled to France, where he has lived primarily since.

Last September, acting on a request from U.S. authorities, Swiss police arrested the 76-year-old French-Polish director when he arrived in Zurich to receive a lifetime career award at a film festival, setting off a political and cultural firestorm in the U.S. and Europe.

In December, Mr. Polanski won a request to be moved from a Swiss jail to house arrest in his chalet in the Swiss resort of Gstaad, pending a final decision on the extradition request.

On Monday, the Swiss Justice Ministry rejected the extradition request in a decision that turned on the Swiss government's inability to determine whether Mr. Polanski had already served the full sentence for his crime before he fled the U.S.

Mr. Polanski's lawyers have argued that the California judge in charge of the case in 1977 assured them that the 42 days served by the filmmaker in the psychiatric unit of a California jail was all the prison time he should expect to see. Instead, suspecting that he would receive a longer term at his sentencing, Mr. Polanski fled the country.

In recent months, Mr. Polanski's lawyers have asked a State Superior Court in Los Angeles to sentence Mr. Polanski in absentia, in order to determine whether the director had in fact served out his sentence in 1977. But the court denied the request as long as Mr. Polanski remained a fugitive.

In a statement, the Swiss Justice Ministry said it had requested the records of closed-door 1977 hearings to determine whether Mr. Polanski had effectively served his full sentence, but the U.S. Department of Justice decided in May that the records had to remain secret. As a result, the Swiss couldn't determine whether Mr. Polanski had already served his full term. If so, "the proceedings on which the U.S. extradition request is founded...would have no foundation," said a statement from the Swiss Justice Ministry.

Bern said no appeal to its decision was possible.

At a press conference, Swiss Justice Minister Eveline Widmer-Schlumpf said this decision was "not about deciding whether he is guilty or not guilty."

On Monday, spokeswoman for the Los Angeles District Attorney's office, which originally filed the charges against the director, and the Justice Department declined to comment.

The surprising decision throws into doubt the long pursuit of Mr. Polanski by U.S. authorities. The director, who has dual Polish-French citizenship, has largely lived in France since fleeing the U.S., but

France and the U.S. don't have an extradition treaty and France generally refuses to extradite its citizens.

Shortly after noon on Monday, Swiss police went to Mr. Polanski's luxury, three-story chalet in Gstaad to remove the electronic-monitoring device he has worn on his ankle since beginning house arrest last December. Several hours later, Swiss media reported that he had left the house, although Swiss authorities were unable to confirm Mr. Polanski's whereabouts. Gstaad is about a two-hour drive from France. Mr. Polanski's lawyers in France didn't respond to requests for comment.



Mr. Polanski, who was freed Monday, at the Cannes Film Festival in 2008.

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## EUROPE NEWS

# Sarkozy storms away from Bastille fête

## [ Letter From Paris ]

BY MAX COLCHESTER

PARIS—Every year on July 14, France's ruling elite mixes with thousands of ordinary citizens in the president's garden to toast Bastille Day and the birth of La République. Not this year.

As part of his austerity drive, President Nicolas Sarkozy has abolished the annual garden party. The official reason is that the party isn't an appropriate use of money at a time when the government is pushing belt-tightening measures.

But another factor is Mr. Sarkozy's battle to change his image as the bling-bling president who spends too much time hosting parties. With his popularity ratings at record lows and allegations of illegal campaign financing—which he denies—Mr. Sarkozy is under pressure to lead by example.

In dumping the get-together, Mr. Sarkozy won't be the first president to meddle with France's national day of celebration. The country's leaders have long sought to transmit their own vision of the republic to the masses through the July 14 festivities.

"Bastille Day is a mirror which reflects whatever image a French president wants to create," say Olivier Ihl, a professor at French university Sciences-Po Grenoble. "Over the years, the image has varied enormously."

The daylong party, which kicks off with a military parade followed by village fêtes and fireworks, was born out of political necessity in the late 19th century.

In 1880, following a stinging defeat at the hands of the Prussians, French politicians decided to create a day of national

celebration to boost morale.

There was debate over which date to pick. The storming of the Bastille prison in July 1789 was a bloody affair at the start of the French Revolution. However fêteing the beginning of a brutal popular uprising was deemed too controversial by some. As a result, politicians plumped for July 14, 1790, a date when people from all over France came together to celebrate the creation of a short-lived constitutional monarchy.

"That day no one can say that a drop of blood was spilt, or that there was any division amongst the country," concluded French Senator Henri Martin in an 1880 speech. "It was the total unity of France." The Marseillaise was selected as the official French national anthem and a republican tradition was born.

At first, Bastille Day had to compete with other national days of celebration, notably Joan of Arc Day and May Day. However, July 14 got a boost after it was banned following France's invasion by Germany during World War II, says Mr. Ihl.

After the country's liberation, Bastille Day again became a symbol of French resistance and pride.

Politicians were quick to harness the event to serve their own needs. In the 1960s, France tried to present itself as a "third voice" by distancing itself from both Russia and the U.S. The then-president, Gen. Charles De Gaulle, used Bastille Days to promote his vision of a unified and independent France. The ceremonies under Gen. De Gaulle were famed for large military parades and grandiose speeches.

The general's successor took a softer line. In the 1970s, Valéry Giscard d'Estaing presented a younger and more inclusive image

of France. He created the Bastille Day garden party and instigated an annual July 14 televised address to the people.

In the two decades that followed, French presidents sought to reconcile the country with its tumultuous past and build ties with their European neighbors. Under President Jacques Chirac, foreign nations were increasingly invited to parade down Paris's Champs Élysées. France's former colonies were also encouraged to play a more important role in events.

In 2007 Mr. Sarkozy was elected on the premise of a "rupture" with past governments. Accordingly, he did away with the annual presidential televised July 14 interview. He also shunned the presidential grace, which often saw speeding tickets rescinded and prison sentences shortened.

During the economic downturn, the revamped July 14 celebrations seemed out of place. Last year, his glamorous wife, Carla Bruni-Sarkozy, invited cameras into the gilded presidential palace for a private tour, while Mr. Sarkozy welcomed guests in the garden.

Now the president can ill-afford to publicize this glitzy existence.

"He wants to do away with this image of bling," says Mr. Ihl. "He wants something more in tune with the national mood."

Some question whether cutting the €700,000 (\$884,380) garden party will have any real effect on the country's budget. In 2008, the French president had a €112 million annual budget to spend on his palace, travel and staff, said Jean Launay, a Socialist Party politician who publishes an annual review of the president's expenditures.

Canceling the garden party "seems like a small sacrifice to me," said Mr. Launay.



French President Nicolas Sarkozy and his wife, Carla Bruni-Sarkozy, arrive at Paris's Hotel Marigny on July 14, 2008, to attend the Bastille Day garden party.

## EU firms up plans for debt monitoring

BY GEOFFREY T. SMITH

BRUSSELS—A task force set up to improve economic coordination in the euro zone and avoid fresh Greece-style debt crises said European Union governments with high debts should face greater pressure to cut budget deficits.

The proposal—from a team led by EU President Herman Van Rompuy—would put more of a focus on high debts as a warning signal than in the past.

Several countries, including Italy, Belgium and Greece entered the euro zone with debt levels far above the supposed government debt ceiling of 60% of gross domestic product.

Rather than enforce that target, more attention was paid to keeping annual budget deficits below 3% a year—though no sanctions were ever brought against governments, including France and Germany, that breached that limit either.

The presidential task force, concluding a third meeting, said in a communique that the new procedures would start to apply from next year.

They would need to be formally adopted by EU governments to take effect.

The communique set a start date



Jean-Claude Trichet, right, greets Spain's Elena Salgado in Brussels

of 2011 for the so-called European semester—a proposal of the European Commission, under which the governments of member states would share information on their "stability and convergence programs."

The idea goes in the direction of allowing either partner states or a central review body to amend budgets deemed as destabilizing for the

EU before they are voted into reality by national parliaments. However, it falls well short of the suggestions of the European Central Bank, which wants far greater pre-emptive powers transferred to a central monitoring body.

Other proposals from the commission have called for a cancellation of EU farm, fishing and other grants for a euro-zone country that

failed to heed warnings to get its budget deficit in line. Non-euro zone nations such as Britain say they wouldn't be subject to the sanctions.

The task force's proposals seem headed in the same direction—though the statement wasn't specific about what sanctions would be introduced.

One possible nonfinancial sanction would be to prevent an errant country from voting in EU institutions. Some officials believe that would involve a change in EU treaties, a lengthy procedure with no guarantee that all the 27 EU nations would agree to ratify it.

The presidency also said that "a broad consensus" was in favor of creating a mechanism for monitoring the competitiveness of member states. It cited a three-stage monitoring process including an alert mechanism based on how countries score on an as yet unspecified range of key indicators; if this mechanism triggers warning signs, a more thorough examination of the situation will be carried out. Ultimately, the communique said, there would be the possibility of recommendations made within the framework of an "excessive imbalance procedure."

The U.K. government supports closer economic policy oversight within the European Union and

wants to see the Growth and Stability Pact strengthened but won't agree to allow financial sanctions to be imposed on the U.K. in the future, Chancellor of the Exchequer George Osborne said.

Mr. Osborne, who will attend Tuesday's meeting of EU finance ministers in Brussels, also said the U.K. government is happy to participate in stronger EU-wide macroeconomic surveillance efforts.

But that cannot curtail the rights of national parliaments, he said.

"For the U.K., this will mean that the U.K. budget is presented first to the U.K. parliament," he said.

The European Commission Monday separately proposed a reform package to boost consumer confidence in European Union financial services in the face of the global economic crisis.

"European consumers need reassurance that their savings, investments or insurance policies are protected no matter where in Europe they are based," said Michel Barnier, Internal Market and Services Commissioner.

The package includes EU-wide measures to protect bank-account holders, investors, and policyholders in the case of bank or insurer failure, including expanded compensation plans and faster payouts.

## EUROPE NEWS



Associated Press

Yuri Samodurov, left, and Andrei Yerofeyev hear the court verdict on Monday.

# Russian court fines curators over art show

By RICHARD BOUDREAUX

MOSCOW—In a closely watched case of censorship backed by the Russian Orthodox Church, two prominent Russian curators were convicted Monday of inciting religious hatred by staging an art exhibition that included an image of Jesus Christ appearing to his disciples as Mickey Mouse.

But a Moscow court ordered the curators to pay fines rather than serve three-year prison terms demanded by the prosecution.

The 14-month trial's outcome displeased both sides: The curators said it advanced a return to Soviet-era cultural censorship with rules now dictated by a conservative, politically powerful church. Orthodox Christian activists voiced anger that the defendants avoided prison, and a church official said the fines, totaling the equivalent of \$11,340, were too low to dissuade new artistic offenses against the Christian faithful.

**The defendants avoided prison but claimed Soviet-style censorship over work that angered church groups.**

Both defendants, Yuri Samodurov, 58 years old, and Andrei Yerofeyev, 54, said they would appeal the verdict, which condemned what Judge Svetlana Alexandrovna called their "cynical, devil-may-care attitude to the religious feelings of Orthodox believers." She said she took the men's ages and families into account in deciding against prison.

Their 2007 exhibit, titled "Forbidden Art," highlighted the theme of censorship in post-Soviet Russia and comprised works banned from shows at major Russian museums. Although religion was not central to the theme, it quickly became the focus of controversy. The works included the Mickey Mouse image and another depicting the crucified Christ, his head replaced by the Or-

der of Lenin medal, the Soviet Union's highest award. A few days after the works went on display, a group of altar boys defaced some of them and the exhibit closed. An ultra-nationalist Orthodox Christian group, the People's Assembly, filed suit and, backed by a church hierarchy that claims more than 100 million followers, pressed the state to prosecute the curators over objections by the minister of culture and the country's leading artists.

Rival groups of demonstrators scuffled briefly outside court Monday. Religious activists chanted "Disgrace! Disgrace!" The defendants' backers responded with shouts of "Bravo!" and "Freedom!"

Mr. Yerofeyev, former curator of contemporary art at the Tretyakov Gallery, called the verdict "a loss to obscurantists." Speaking to Interfax news agency, he added: "Savagery has won."

Mr. Samodurov, who headed the Sakharov Museum when it displayed the exhibit, had apologized to church authorities for any offense to Christians but defended the right of artists to use religious symbols in their work. The Mickey Mouse as Jesus painting, he said, was meant to illustrate the confusion in the mind of a child who hears about the Bible from his parents while watching cartoons.

"The verdict negates the secular nature of Russia's constitution," he said, by affirming the state's authority to enforce religious standards in secular spaces, such as museums, "that are not a believer's business."

Church officials said last week that a guilty verdict and a fine would be sufficient. But Achimandrite Tikhon Shevkunov, executive secretary of the Patriarch's Council on the Arts, told Interfax that the fine imposed Monday was "purely symbolic," not enough to discourage what he called "the next phase of this foul pastime."

Oleg Kassin, head of the religious group that initiated the case, also called the sentence too light and said he would consider suing the curators on the additional charge of hooliganism.

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## EUROPE NEWS

# U.K. to revamp health system

Coalition leaders plan to cut NHS bureaucracy, give doctors more sway in budget decisions

By JEANNE WHALEN

The U.K.'s new coalition government, grappling with weak public finances and rising health-care costs, announced an overhaul of the state-funded health system that it said would put more power in the hands of doctors and save as much as £20 billion (\$30.12 billion) by 2014.

The revamp essentially involves cutting huge swaths of bureaucracy and reinvesting the savings in urgent health-care services. As a result, the government said, it will still increase National Health Service spending in real terms every year for the next five years.

In one of the biggest changes, the government said it plans to eliminate a layer of financial managers and ask doctors instead to decide how the bulk of the National Health Services' £105 billion annual budget should be spent.

A central committee will allocate budgets to groups of general practitioners in each region, who will decide how the money is spent on the local population.

The government didn't say how many management jobs will be cut, but said the plan would reduce management costs by more than 45% over the next four years.

In a 60-page document outlining the overhaul, the government said the changes "will cause significant disruption and loss of jobs...but it has rapidly become clear to us that



Prime Minister Cameron, center, and Health Secretary Lansley, left, speak with nurses at a hospital in London on Monday.

the NHS simply cannot continue to afford to support the costs of the existing bureaucracy; and the government has a moral obligation to release as much money as possible into supporting front-line care."

The NHS says it has more than 1.3 million employees.

Health-care experts called the plan one of the biggest shake-ups in the NHS's 62-year history. "It is a very radical program. We have never

seen anything like this since the inception of the NHS in 1948," Chris Ham, chief executive of the King's Fund, a health-care think tank, told BBC television. He said giving general practitioners more control over finances could lead to better patient care, but cautioned that not all doctors want the extra responsibility, or have the necessary management or financial skills.

The government said it plans to

change the way the health system pays drug companies, "moving to a system of value-based pricing." It didn't elaborate on what this means. Currently, the U.K. government doesn't set prices but caps the amount of profit that drug companies can make on sales to the NHS. A government body reviews the efficacy of each new drug, along with its company-set price, to determine whether the NHS will pay for it.

## Government will continue plans for levy and pay rules

By LAURENCE NORMAN

LONDON—The U.K.'s new coalition government will stick to its plans for bank taxes and new remuneration rules, a Treasury minister was due to say Monday.

In a speech at the British Bankers' Association annual dinner late Monday, Mark Hoban, the financial secretary to the Treasury, will announce the government is to publish Tuesday a consultation paper on the bank levy announced in last month's budget.

He is also due to say the government is still considering an additional financial activities tax on profits and remuneration and that the Treasury will ask the Financial Services Authority to consider fresh rules on bank pay and bonuses.

"We will explore the costs and benefits of a financial activities tax on profits and remuneration, and we will ask the FSA to examine further options in the forthcoming review of its remuneration code," he is due to say, according to extracts of the speech.

Chancellor of the Exchequer George Osborne announced in his emergency budget on June 22 that his government will introduce a levy on larger banks' balance sheets from January 2011. The tax is expected to bring in more than £2 billion (\$3 billion) a year over the next few years.

Tuesday's publication of the consultation paper will give the first details of the plans and will allow the industry time to submit their responses. It is expected the government will legislate on the bank levy toward the end of the year.

In his remarks, Mr. Hoban planned to insist the U.K.'s banking sector could rebuild its public reputation if it takes the lead on issues like reform of bank pay and bonuses and ensures that healthy smaller businesses can get the access to finance they need.

"It is in the hands of banks themselves to determine the new role they will play," he is due to say.

However speaking on behalf the financial industry, BBA Chief Executive Angela Knight, was expected to push back at the government over the bank levy and tighter rules on pay and bonuses. "Banking is an international industry operating out of the U.K. This industry sells around the globe but pays tax and creates jobs here," she is due to say according to a text of her remarks.

"It requires international agreements on the framework in which it operates if its competitiveness is not to be harmed. Bank levies and pay structures are international issues. Minister, there is no international agreement on either bank levies or pay structures," Ms. Knight is expected to say.

She will acknowledge continued hostility among the public to the banks, although she is due to say bankers may now be "a little more popular than the English team" which flopped in the recent World Cup.

Ms. Knight was set to press the government over its broader reform plans for the sector, including the creation of a new banking commission that has a year to report on issues like whether to split up retail and investment banks.

# Doubts over private sector grow

By LAURENCE NORMAN

LONDON—There were more signs Monday that the U.K.'s private-sector recovery the coalition government is counting on to fuel growth could be slow in coming.

Recent surveys have already suggested the government's plans to slash spending and raise taxes is hurting confidence. The final estimate of first-quarter growth raised fresh worries about the state of the private sector before the fiscal tightening was announced and data due to be released Tuesday showed U.K. house prices—crucial to the mood of British consumers—rising at a sharply slower pace in June than a month earlier.

Prime Minister David Cameron and Chancellor of the Exchequer George Osborne have made their central economic argument that the U.K. must deal with its huge budget deficit or risk a downgrade to the

country's triple-A credit rating and eventually a Greek-like debt crisis. Crucially, they have argued that tackling the budget deficit, which reached £155 billion (\$232 billion) in the last financial year, will improve private-sector confidence and that job losses in the public sector will be more than offset by growth—and job creation—from private businesses.

By contrast, the opposition Labour Party has argued that spending cuts should be delayed until 2011, giving the private sector more time to find its strength. The pressure on the government to rein in spending came from Standard & Poor's Ratings Services, which on Monday kept a negative outlook on the United Kingdom's triple-A rating.

While Monday's estimate of gross domestic product showed un-revised growth of 0.3% on the quarter and 0.2% on the year, the details weren't cause for optimism.

The Office for National Statistics raised its estimate of the contribution government spending made to growth in the first quarter, with the public-sector expenditure growing by 1.5% in the new figures versus the 0.5% reported previously. Private consumption—household expenditure—fell 0.1% despite a 0.4% increase in real disposable incomes.

Retail figures due to be released on Tuesday showed a rise in spending in June compared with May, although the British Retail Consortium attributed that mostly to good weather and discounting.

U.K. house prices also rose at a sharply slower pace in June from a month earlier—and at the lowest pace since July 2009—as the num-

## Awkward growth

The government was a major contributor to the U.K.'s growth in the first quarter.

How elements of the U.K. economy rose and fell, change from previous quarter

|   |       |
|---|-------|
| Household final consumption expenditure | -0.1% |
| Government expenditure                  | 1.5   |
| Gross capital formation*                | 4.5   |
| Exports                                 | -1.7  |
| Imports**                               | 1.6   |

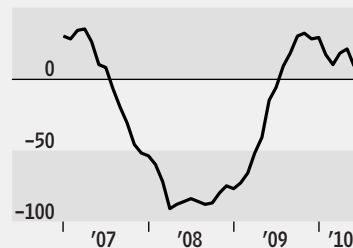
\*Business investment, including inventory drawdown or replenishment

\*\*A rise in imports will decrease overall GDP.

†The balance represents the proportion of surveyors reporting a rise in house prices exceeded the proportion reporting a fall.

Sources: The Office for National Statistics (U.K. economy); The Royal Institution of Chartered Surveyors (housing price balance)

Meanwhile, the housing market is slowing down. U.K. monthly housing price balance†



ber of new properties coming on to the market increased, but the number of new buyer inquiries fell for only the second time since the end on 2008, the Royal Institution of Chartered Surveyors said in a report Tuesday.

Monday's GDP data revealed two other key points. Revisions to past figures showed the recession took an even greater toll on the economy than previously thought—knocking 6.4% off output versus the 6.2% previously reported.

Meanwhile, the first-quarter expansion was subdued by a significant worsening in the U.K.'s net trade position in the first three months of the year as imports grew and exports fell 1.7% despite the

weaker pound.

That figure again suggests that the export-led recovery of the type that pushed the U.K. out of the last recession in the early 1990s remains far off.

Howard Archer, chief European and U.K. economist at IHS Global Insight, said the prospects for the recovery remain shaky.

"Indeed, we suspect growth will be both bumpy and gradual over the coming months in the face of serious headwinds, including major fiscal tightening increasingly starting to impact, the problems in the euro zone and serious constraints on consumers," he said.

—Ilona Billington contributed to this article.

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## U.S. NEWS

# Louisiana pushes for fishermen aid

By KRIS HUDSON

SLIDELL, La.—Louisiana fisheries regulators are pushing a plan to lure thousands of idled commercial fishermen back onto the water by getting BP PLC to pay them a bonus on their catch.

While BP says it likes the plan, it is balking, explaining that it would rather wait until its leaking oil well in the Gulf is capped and more of Louisiana's coastal waters are re-opened to fishing as to avoid overcrowding.

"The program is not dead, but it's still probably a month or half a month off," said Harlon Pearce, chairman of the Louisiana Seafood Promotion & Marketing Board, part of the state's Department of Wildlife and Fisheries.

The program, called Back to the Docks, proposes that BP pay Louisiana fishermen a percentage bonus in excess of the market price they get for their catch of fish, crab, shrimp or other seafood in the state's waters.

In theory, the program would benefit several parties. It would return fishermen to what they prefer to do, allow BP to pay less than it would otherwise by fully reimbursing fishermen who aren't working and bolster the flow of Gulf seafood to U.S. restaurants. Louisiana fishermen annually catch one billion pounds of seafood worth roughly \$272 million.

The size of the bonus hasn't been determined, though Mr. Pearce



Darren Frickey prepared to get his shrimping boat under way last week at Rigolets marina in Louisiana.

of the seafood board mentioned 30%. BP spokesman Larry Thomas confirmed that 30% has been discussed, but added, "No one has agreed to a number."

BP said it liked the concept of incentive programs to get fishermen fishing again, but it didn't want to spark a rush of hundreds of boats to the few fishing areas that

remained open. "There was some concern that there wouldn't be enough fisheries open to fully realize the opportunity," Mr. Thomas said.

Currently, 57% of Louisiana's Gulf waters are closed to fishing, including most waters three miles into the Gulf and connected bayous and inlets. That number jumped be-

yond the 50% threshold when early July storms pushed tar balls, oil sheen and oil slicks into new areas, such as the Rigolets waterway leading into New Orleans's Lake Pontchartrain. Some state regulators and fishermen say some of the closed waters are off-limits as a precautionary measure, and they will be ripe for fishing as soon as

the restrictions are lifted.

Meanwhile, fishermen such as Jesse Vannenborre of Slidell sit idle. Mr. Vannenborre, a 26-year-old who has fished commercially since he was 14, cites several reasons he doesn't take his skiffs onto the water and start dropping crab traps. Primarily, he says there isn't enough fishing area open to justify the \$3,000 expense of prepping his boats and cages and hiring deckhands because the areas that are open are overrun.

Despite the reduced harvesting, Gulf seafood prices are at about the same levels they were last summer because demand from across the U.S. has declined due to contamination fears, according to the seafood board. The exception is oysters, which cost at least 50% more.

Piloting one of his skiffs across part of Lake Pontchartrain open to fishing on Saturday, Mr. Vannenborre points out several rows of buoys marking other fishermen's crab traps that are 120 feet apart. He said he typically would place his traps 800 to 1,200 feet apart.

Mr. Vannenborre hasn't harvested crabs since the state extended its fishing restrictions last week to parts of the lake and the Rigolets.

In recent weeks, BP has reimbursed him for about 75% of what he would have earned in normal conditions. That, as well as the fishing restrictions and the cost of rigging his boats to fish, has kept him on the sidelines.

## Investigators join Alamo fray

By PERRY STEIN

SAN ANTONIO—Defenders of the Alamo are under fire again, and they are doing all they can to defend their posts.

The Texas Attorney General's Office is investigating the Daughters of the Republic of Texas—an organization of 7,000 women who can trace their lineage back to the origins of the Texas Republic—who have been the stewards of the Alamo since 1905. They manage, operate and maintain the state-owned historic site at no cost to taxpayers.

The probe began after Sarah Reveley, a member of the group, filed a complaint alleging that the Daughters weren't keeping the fort in "good order and repair," as they are bound to do under a 1905 state law.

On Thursday, a team from the attorney general's office sifted through 48 sets of documents at the Alamo, including financial, engineering and personnel files that the Daughters had prepared. The attorney general's office declined to comment on the probe, but the Daughters have confirmed it is under way and say they are fully cooperating.

The Daughters say they have gone above and beyond their charge. "I think at the conclusion of the investigation that will all show," said Tony Caridi, marketing director for the group.

One focus of criticism has been the Daughters' handling of the 83-year-old, leaking roof over the fort's main structure. A recent report said the roof didn't pose an imminent danger, and the group says it is prepared to replace it if further analysis shows that is necessary.

Ms. Reveley said in an interview



The Alamo in San Antonio attracts up to 8,000 visitors a day, free of charge.

the Daughters had "literally done nothing" for preservation and were now "trying to go back and justify their nothingness."

Built in the 18th century by Spanish missionaries looking to convert local Indians, the Alamo catapulted to fame in 1836, when about 200 Texan settlers were killed defending the fort from Mexican forces. It is now the most visited site in Texas and perhaps is the most recognizable symbol of the state's heritage.

The Daughters have historically relied on revenue generated from the Alamo's gift shop to provide more than 90% of the roughly \$5.5 million budget. There is no admission fee.

Virginia Van Cleave, the Daughters' Alamo Committee chairwoman, says the group receives many grants in addition to budget allotments that are specifically intended for preservation.

Ms. Reveley's allegations of "neglect and incompetence" on the

Daughters' oversight of the Alamo apparently gained the attention of officials in the office of Attorney General Greg Abbott.

The investigation by the attorney general's office coincides with an order by Gov. Rick Perry's office for the Daughters to speedily hand over a structural review of the buildings in the Alamo's 1.68-hectare complex, including a report on the roof.

According to Ms. Van Cleave, the Daughters' 24-member board voted to conduct a more in-depth analysis of the roof even before receiving the requests.

Critics have accused the Daughters of being slow to move in the face of such problems. But Ms. Van Cleave said that when dealing with a building as old as the Alamo, everything must be meticulously investigated before any action is taken.

"We don't rush into anything, because we want to make sure we do it right," Ms. Van Cleave said.

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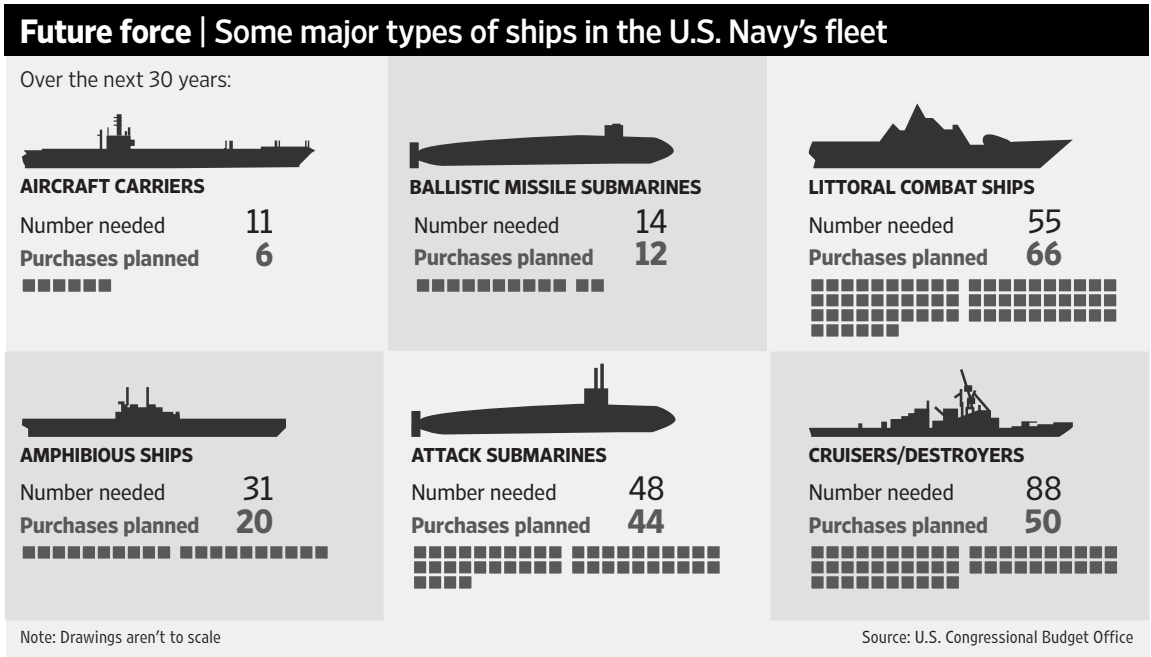


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U.S. NEWS



# Navy weighs ship design, along with its own future

BY NATHAN HODGE

WASHINGTON—This summer, the Navy expects to choose between two competing designs for the Littoral Combat Ship, a fast, shore-hugging warship that will take on 21st century missions such as chasing pirates and intercepting drug smugglers.

At issue is more than a ship-building contract. The contest underscores a broad discussion taking place inside and outside the Navy about the future size and shape of the service's fleet.

U.S. naval power is built in large part around carrier-strike groups, a costly armada of nuclear-powered aircraft carriers and escort ships that project American power around the globe. Littoral Combat Ships are pint-size in comparison. They will be roughly the size of a frigate—smaller than a destroyer, larger than a patrol boat—but with more automation.

Fully loaded for combat, they will have about 75 people aboard, about a third a frigate's crew. In often outsize Pentagon terms, the craft will be relatively cheap: roughly half a billion dollars each. A new carrier is projected to cost around \$10 billion (€7.9 billion).

The Navy is choosing between designs offered by **Lockheed Martin Corp.** and the U.S. unit of Australia's **Austal Ltd.**, which has teamed with **General Dynamics Corp.** Both models have innovative features. The Lockheed variant, 115.2 meters long and built at **Fincantieri Marine Corp.** shipyard in Marinette, Wis., has a high-speed steel hull that lets it travel at more than 40 knots (about 80 kilometers an hour).

The Austal/General Dynamics

ship is built around an aluminum trimaran design, a configuration never before used in a U.S. warship. Derived from a high-speed commercial ferry, the 127.7-meter ship features a 657-square-meter flight deck and a spacious mission bay for combat equipment.

One of each ship design is already in service, and the Navy expects to award a fixed-price contract to a single winner for 10 of the new warships. Another order of five ships is to be awarded to a competing shipyard sometime in 2012.

The Littoral Combat Ship award comes at a crucial time for the sea service. An austerity drive at the Pentagon, fueled in part by slowing growth in the Defense Department's budget, is placing new pressure on Navy spending and raising questions about whether the service will have to scale back an ambitious long-term shipbuilding plan.

In a speech, the Navy's top admiral, Adm. Gary Roughead, pointed to the "potential for a procurement squeeze," saying operations, maintenance and manpower costs had the potential to cut into money available for equipment purchases.

Further adding pressure, Secretary of Defense Robert Gates has publicly asked whether the Navy needs to stick with plans to keep 11 aircraft carrier strike groups for the next three decades, saying the U.S. already enjoyed "massive overmatch" against any other navy.

In a recent analysis of the Navy's current 30-year shipbuilding plan, the Congressional Budget Office warned the Navy wouldn't be able to afford all the ships on its wish list, even if it continues to receive the same amount of funding for ship construction—an average of about \$15 billion a year in 2010 dollars.

Maren Leed, a senior fellow at the Center for Strategic and International Studies think tank in Washington, says the Navy faces a much tighter budget in coming years, which might force it to make choices, trading purchases of expensive ships like carriers for more investment in ships like the Littoral Combat Ship.

The smaller and cheaper Littoral Combat Ship might help the Navy stick to a goal important to its top officials. For several years, it has argued publicly for a program that would allow it to build out to a 313-ship fleet, up from 288 ships today.

Lawmakers involved in the defense-spending process are also keen to boost ship numbers. Rep. Ike Skelton (D., Mo.), chairman of the House Armed Services Committee, told reporters "numbers make a difference" when it comes to maintaining a global naval presence, and the current fiscal-year 2011 budget request includes nine new ships that count toward that 313-ship goal. But Rep. Gene Taylor (D., Miss.), chairman of the seapower subcommittee of the Armed Services panel, said the Navy was retiring older ships more quickly than it was buying new ones.

"This is the third CNO [chief of naval operations] I've dealt with who's said the 313 ship is a floor, not a ceiling," he said in an interview. "And yet they send over a ship-retention plan that goes the wrong way."

The service also canceled two earlier shipbuilding contracts for Littoral Combat Ships, because the prices had become too high. The Navy's decision to pare down the Littoral Combat Ship to a single design is supposed to yield a more affordable ship.

# Tea-party surge might give Republicans shot at Senate

[ Capital Journal ]

By GERALD F. SEIB



Here are two big questions hovering over this year's congressional elections: How radical is the mood out there, and do Republicans have a real chance of taking back control of the U.S. Senate?

And here's a simple way to track the answer to both: Simply keep an eye on four tea-party amigos chasing Senate seats in the key states of Nevada, Kentucky, Florida and Colorado.

In those four states, candidates with tea-party inclinations and the support of tea-party activists have either won the Republican nomination or, in Colorado and Florida, are making serious runs for it. A couple of those candidates are people who would have been given little chance six months ago of winning a nomination, much less a general election.

In each case, Democrats and some outside analysts think Republicans may be shooting themselves in the foot by nominating candidates who can be painted as extremists with conservative views outside the mainstream, in a year when simply nominating safe, garden-variety Republicans would be good enough to win.

But are these candidates really going to be a drag for Republicans? Or are they canaries in the national coal mine, telling us that the disenchantment, fear and anger that have developed in the wake of the worst economic recession in 75 years are driving voters to seek out-of-the-box candidates and ideas they wouldn't have embraced before?

Those questions are being tested in Kentucky by Rand Paul, ophthalmologist, political novice and son of libertarian Republican Rep. Ron Paul of Texas. In Nevada, it's former state representative Sharron Angle who has won the nomination by pushing a brash populist message.

In a Colorado race that's gotten less attention nationally than it deserves, Ken Buck, a little-known former county prosecutor who made a mark by targeting illegal aliens for prosecution, is challenging Republican establishment favorite and former Lt. Gov. Jane Norton. And in Florida, conservative former state House Speaker Marco Rubio marshaled enough energy from tea-party supporters to drive Gov. Charlie Crist out of the GOP nomination fight and into a candidacy as an independent.

Both Florida and Colorado have August primaries; Mr. Rubio is virtually certain to win the nomination, and Mr. Buck is rising fast.

What's interesting about these four is that they are running in states where it isn't obvious that a hard-edged, tea-party conservative approach is a

winner. Instead, each state hangs in the balance between the two parties this year, making them especially good testing grounds.

They also happen to be test cases crucial to the national political balance of power. The Cook Political Report, a well-respected independent newsletter that tracks congressional races, rates all four Senate races as toss-ups in November.

So far this election cycle, most attention has been focused on Republicans' chances of taking back control of the House, which appears a much easier feat than winning the Senate. But increasingly Republicans think winds are blowing so strongly in their direction that they have at least a shot at taking the Senate as well.

If Republicans are to pull off that trick, though, they may well have to win all four states where the tea-party amigos are running strong. A quick look at the math explains why.

Republicans need to pick up 10 Senate seats now held by Democrats to win full control of the Senate. They appear to be leading in North Dakota, Delaware and Indiana, states where incumbent Democrats are

**So far this election cycle, most attention has been focused on Republicans' chances of retaking the House, which appears a much easier feat than the Senate.**

retiring and the Republicans appear to be on the rise.

That would leave the GOP needing seven seats. To get there, they would first need to avoid losing any of the five seats of their own where the incumbent Republican is retiring and where Democrats have a reasonable chance of turning the seat their way. That list includes Kentucky and Florida, as well as Missouri, New Hampshire and Ohio.

If Republicans hold onto those, their best shot then would require picking up all six seats where the Democrats' hold appears shaky—a list that includes Nevada and Colorado, as well as Washington, Pennsylvania, Illinois and Arkansas.

After all that, Republicans would still have to find at least one more state where a safer Democratic seat could be put into play, such as Connecticut, California or someplace else.

The bottom line, then, is that it's hard to imagine a scenario in which Republicans pull off a surprise conquest of the Senate without winning at least three of the four states where tea-party candidates are surging.

Tea-party activists insist they aren't linked to the Republican party. But at least on this important front, the Republican party, for better or worse, is linked to them.

Write to Gerald F. Seib at [jerry.seib@wsj.com](mailto:jerry.seib@wsj.com)

# Obama pushes use of hiring tax credit

BY DEBORAH SOLOMON

The Obama administration, stymied by a deficit-wary Congress reluctant to replenish stimulus spending, hopes to combat unemployment by using existing programs that haven't been fully implemented.

Key among them is an expiring tax credit that rewards companies

hiring unemployed workers. The Joint Committee on Taxation estimated the stimulus program would cost \$13 billion. The Treasury Department estimates the initiative so far has cost less—about \$8.5 billion—because it hasn't been fully taken advantage of, though that number could grow if more companies use the program before the end

of year.

The move comes as Washington has reached an impasse over whether it should authorize more spending to goose the economy.

Because the program originally was budgeted to cost \$13 billion, the administration wouldn't necessarily add to the budget deficit if it gets wider participation in the effort.



## WORLD NEWS

# Somali militants hit Uganda capital

Three coordinated bombings killed an estimated 76 people in Uganda late Sunday and underscored the ambitions of a shadowy Somali militant group that seeks to topple Somalia's government and is now hitting out at other African targets in the same way as its al Qaeda allies have sought to destabilize Afghanistan and Pakistan.

By Peter Wonacott  
in Johannesburg  
and Nicholas Bariyo  
in Kampala, Uganda

Those objectives appear to have converged in Uganda. On a mild Sunday night, three separate blasts, targeting crowds that gathered to watch the final World Cup football match, dealt a blow to a Somali government ally, Uganda, which has contributed troops to a regional peacekeeping force in Somalia.

The attack also raised the regional profile of the group, al Shabaab, which analysts say hasn't previously struck outside Somalia.

"This is really an unpleasant confluence of goals between the nationalist and international wing of al Shabaab," said Roger Middleton, a Somalia analyst at London-based think tank Chatham House.

Al Shabaab spokesman Sheikh Ali Mohamud Rage said Monday the group was responsible.

"We have carried out the holy blasts that massacred many Christians last night," he told reporters. He said the attacks would continue until African Union peacekeeper troops are pulled out of Somalia.

The attack poses a challenge to a continent that has struggled to police and pacify its own hot spots. The U.S. pulled out of Somalia in 1994, after encountering fierce resistance that was depicted in the movie "Black Hawk Down." United



A bomb victim at a Kampala hospital Sunday. With the Uganda attack, Somali militants widened their fight.

Nations peacekeepers followed.

Africa's own peacekeepers have had their own struggles stabilizing the war-torn and clan-riven country. The Somali government controls only a section of the capital, with most of the rest of the country under the sway of al Shabaab, clans, other militants and pirates.

The Uganda attack could signal a tide turning against them as well, say analysts. "It's sending a message: Don't come here propping up the Somalia government," said Rashid Abdi, Horn of Africa analyst in Nairobi for the International Crisis Group.

Uganda's deputy foreign affairs minister, Okello Oryema, said the at-

tack wouldn't force his government to withdraw troops from Somalia. "It would be a cowardly act to withdraw and we won't do that," he said.

With the support of African peacekeepers, Somalia's government has gone on the offensive against militants in the capital of Mogadishu, although progress is hard to determine. President Sheikh Sharif Sheikh Ahmed, who has been on the front lines of the offensive, has been trying to maintain support of neighboring countries to help buttress what remains a fragile government protected by a weak and poorly paid collection of security forces.

"Somalia mourns with the broth-

erly people of Uganda," he said. "Neither the region, nor the international community, will tolerate the spread of insecurity."

Uganda, buoyed by an emerging middle class, newly discovered oil reserves and flows of foreign tourists, has carefully stepped into a broader regional role.

Uganda is scheduled to host a summit of African Union leaders in Kampala this month, a meeting that—if it goes forward—will likely touch on ways to curb the threats coming from Somalia.

For these efforts, Uganda has also drawn ire from al Shabaab. For weeks, al Shabaab had threatened the Uganda government to force it

to withdraw peacekeeping troops from Somalia. The militants renewed those threats last week, after East African nations, including Uganda, pledged to send 2,000 more troops to Somalia.

On Sunday, tourist-heavy crowds had gathered in front of televisions to watch the World Cup finals. Around 10:30 p.m. local time, explosions hit an Ethiopian restaurant, a rugby club and a packed pub, killing scores of locals and 11 foreigners, including one American.

"Most people who died were just in front of me. The blast was so loud—the next thing I saw were body parts flying over," says Ugandan musician Bebe Cool who was performing at the rugby club but escaped with minor injuries.

At least 70 people were injured, among them six members of a Pennsylvania church group who were at the Ethiopian restaurant. Ian Clarke, the director of International Hospital Kampala, said a number of the victims from the Ethiopian Restaurant sustained head injuries; some were in critical condition.

Uganda security forces said they suspected al Shabaab suicide bombers carried out the attacks. A police spokeswoman said the Ugandan police requested assistance from the U.S. Federal Bureau of Investigation and other foreign intelligence agencies. The police haven't yet made any arrests.

The U.S. State Department offered U.S. assistance on the investigation, spokesman P.J. Crowley said. "We'll be helping them in coming days," he said.

Uganda's President Yoweri Museveni vowed to fight back. "We shall defeat them as we have done in the past," he said. "This is a cowardly act of terrorists. If they want to fight, why don't they go for the army?"

# Conservation plan draws fire in Indonesia

By Patrick Barta

JAKARTA, Indonesia—A widely hailed new project to restrict forest-clearing in Indonesia over the next two years is turning out to be more complicated than expected and could

leave large areas of the country unprotected, as environmentalists and industry groups fight over terms of the deal before it takes effect in January.

Announced by President Susilo Bambang Yudhoyono at a conference

in Oslo in late May, the plan was part of an international agreement aimed at reducing Indonesia's greenhouse gases by curbing deforestation. Indonesia is among the world's biggest sources of greenhouse gases, largely because of rampant burning

of peat and forest land for palm oil plantations and other industries.

Norway pledged to invest up to \$1 billion in Indonesian conservation projects and local authorities agreed to boost forest-monitoring efforts and other steps in addition to the two-year moratorium. Advocacy group WWF called the partnership "a huge step" toward saving Indonesia's forests, and Greenpeace hailed it as "a great start" toward reducing greenhouse-gas emissions.

But the letter of intent underpinning the plan was vague about which forests would be covered, environmentalists and industry officials now say. It indicated the moratorium would cover "all new concessions" for clearing of peat and natural forest but didn't specify what constituted "natural" forests or whether unused permits in virgin areas would be honored.

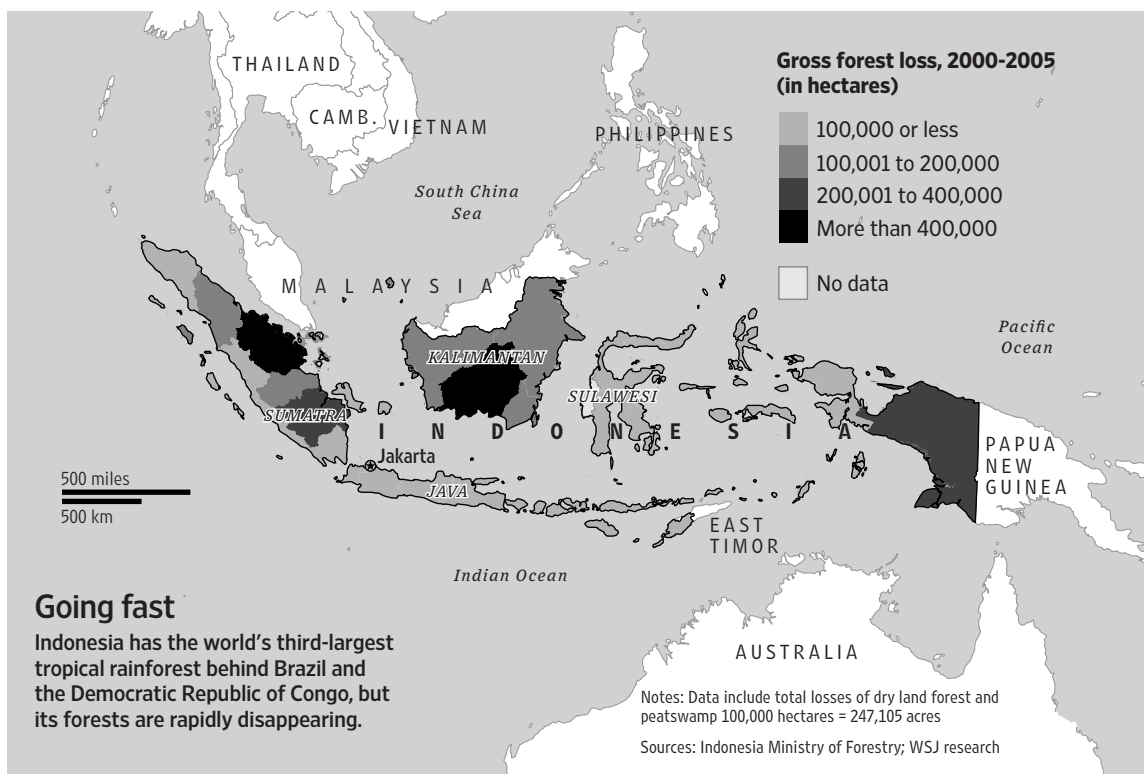
Government officials have since said that some areas, including lands around important infrastructure and renewable energy projects, won't be covered. Other forested areas may not be included because of power-sharing rules between the central government and local provincial officials, environmentalists say.

Meanwhile, industry leaders are gearing up to make sure they retain the right to clear areas they were already planning to develop.

"We could still see quite a lot of

deforestation happening over the next two years" despite the moratorium, says Moray McLeish, a project manager for the Washington-based World Resources Institute, an environmental think tank.

Government officials acknowledge the program may not cover as much land as environmentalists had hoped and that many elements remain uncertain. But they argue—with some agreement from environmentalists—that the program still represents major progress in a country famous for out-of-control logging.



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## WORLD NEWS

# Israel cites flawed planning in flotilla raid

By CHARLES LEVINSON

TEL AVIV—An Israeli military report blames faulty intelligence and poor planning for the botched raid of a Gaza-bound aid ship, but praises the “heroic” commandos who carried out the raid and concludes that the ship’s passengers likely fired first, using at least one gun the report says was already on board.

This is the first internal Israeli report into the May 31 incident, which left eight Turks and one Turkish-American dead and triggered an international uproar. A separate government-appointed commission investigating the incident is conducting a broader investigation and is expected to announce its findings within weeks.

The degree to which the international community, including Washington, perceives the Israeli investigations as independent and credible

could help determine whether the United Nations proceeds with an investigation of its own into the incident.

After the raid, Washington demanded Israel ease the blockade of Gaza, which Israel has taken some steps to comply with, while Turkey withdrew its ambassador from Tel Aviv and canceled three joint military exercises.

A spokesman for the Turkish Foreign Ministry said his government hadn’t formulated its response to the results announced by the Israeli military investigation. A senior U.S. official said Washington would wait to pass judgment after the independent government commission completes its probe.

Huseyin Oruc, an executive board member of the Humanitarian Relief Foundation, or IHH, the Turkish aid organization that sponsored the aid flotilla and whose members attacked

the Israeli soldiers as they boarded the ship, dismissed Israeli charges that passengers had firearms and fired the first shot.

“Why did they wait 42 days to say this? If there was a single gun on the ship, why didn’t they tell it to the world from the first minute?” he said.

The investigation, headed by retired Israeli Maj. Gen. Giora Eiland, faulted “underestimation of the resistance on the ship” because of flawed intelligence and poor cooperation between the navy and Israel’s intelligence services, a senior Israeli military official involved in the investigation told reporters in a briefing at Israel’s military headquarters in downtown Tel Aviv.

It also faulted a “lack of understanding of the means that would be more effective” to deal with the ship and its passengers, the official said. The commission found mistakes

were made at a senior level, but avoided pinning blame on individual officers, at least according to those conclusions that were shared publicly. The majority of the investigation’s findings are classified.

The official commended the commandos who carried out the raid, calling their conduct “professional and courageous.”

“In all events where Israeli soldiers decided to shoot, it was because they were facing immediate danger to their lives or had decided they had to rescue soldiers who had been captured,” he said. “There is a good chance that the first shot was not by an Israeli soldier.”

He said passengers fired between four and six shots at Israeli soldiers, using guns that were taken off Israeli soldiers and at least one firearm that was already on board. A bullet removed from the knee of an Israeli commando wounded during

the raid was from a gun that wasn’t issued by the Israeli military, he said. Israel found a stockpile of light weapons on the ship, including knives, steel pipes and slingshots, but found no firearms.

Since the May 31 incident, one additional aid ship has tried to run the blockade but was stopped peacefully. Pro-Palestinian activists say they are planning to send additional aid ships, including one that has already set sail from Libya and could approach Gaza as soon as Wednesday.

“If tomorrow we face a similar ship, we’ll be able to stop it,” the official said. “If there are dozens of people on board with cold weapons and they are committed to kill soldiers and committed to be killed, we can’t guarantee they won’t be killed.”

—Erkan Oz in Istanbul contributed to this article.

# Russian pipeline challenges OPEC

*New \$27 billion conveyor will take oil 4,857 kilometers from Siberia to Pacific and threaten existing Asian deals*

By ANGELA HENSHALL

A new \$27 billion pipeline transporting oil from the depths of Siberia may see Russia supplant the Organisation of Petroleum Exporting Countries as the preferred oil supplier to the world’s fastest growing economic region.

“One of the long-term strategic changes is that [the pipeline] will prove a direct threat to OPEC in the big three consumer markets in Asia—China, Japan and Korea,” said Andrew Reed, an analyst for **Energy Security Analysis, Inc.**

Until now, Far Eastern markets haven’t had their own large, local source of crude. The Eastern Siberia-Pacific Ocean pipeline, known as ESPO, which began construction in 2006 after more than a decade of planning and negotiation, is already revolutionizing the way refiners do business in the region, giving them more choice and therefore bargaining power to cut deals with OPEC.

In its heyday, OPEC’s tight grip on supply made developed economies cower, but it’s long been losing market share to independent producers such as Russia, and former Soviet nations. The group’s weaker position was underlined last year when it asked independent producers for production cuts to help prop up sagging global prices.

Reed says ESPO crude will displace Middle Eastern grades not just because of its much lower transportation costs, but also because of its quality. Most Asian refineries are technically better geared to process the lighter, sweeter ESPO crude rather than the heavier sour crude from the Middle East.

“ESPO crude is the perfect replacement for China’s own declining supply,” Reid said.

The crude is a blend of oil from the Verkhnechonsk, Talakan and Vankor fields in Eastern Siberia. When construction is finished, the pipeline will be 4,857 kilometers in length, running from Taishet near Lake Baikal, to the Pacific Ocean port of Kozmino in Russia’s Far East. Currently only the first section of the pipeline, 2,757 kilometers in length from Taishet to Skovorodino, is open, the oil finishing its journey



A ship passes by Kozmino oil-loading port in the bay of Kozmino, a link in the new Siberia-Pacific pipeline.

to the coast by rail. The remaining 2,100 kilometers of the pipeline is scheduled for completion in 2012.

Russian oil production slumped during the post-Soviet Union era, but flows through ESPO are already helping revive Russia’s oil production with output hitting a record high in June, above 10 million barrels a day.

The first phase is ramping up to reach a capacity of 600,000 barrels a day, but 1 million barrels a day could be flowing by 2013, an amount comparable to Saudi Arabia’s current exports to China. This output is eventually expected to climb to 1.6 million barrels a day by a later date.

Also of importance is a 1,000 kilometer spur of the pipeline from Skovorodino to Daqing in China, which will divert half the 600,000 barrels a day to provide 300,000 barrels-a-day dedicated supply to China, scheduled to complete end of the third quarter this year.

The spur itself is a game changer for China, securing it a substantial share of Siberian oil, delivered to its



doorstep. Crude oil traders say availability of a short-haul good-quality crude has already changed China’s buying tactics, Clarence Chu, oil trader at **Hudson Capital** in Singapore said: “Resources are scarce and China definitely wants to secure as much oil as possible as their demand is growing 3-5% per annum.”

China “will keep buying as long as oil is at a desired price level even

though they currently have ample supply. Chinese crude buying continues to provide support to global crude prices,” he said.

ESPO’s coming on-stream and slowly building up supply in the past few months has taken markets by surprise. “There was some skepticism over when, if ever, ESPO crude would come to market and therefore the market wasn’t well

prepared to take barrels when they appeared,” said Olivier Jakob, an analyst at **Petromatrix**, a consultancy.

Western Siberian oil has been exploited since the 1970s with most piped through the Druzhba pipeline to Central and Eastern Europe. Lack of infrastructure, however, has left Eastern Siberian reserves largely untapped. Developing East Siberia is key to Russia’s plans to boost oil production in coming years as existing fields in West Siberia mature.

“Russian crude will be important,” said Amrita Sen, Barclays Capital commodities analyst in London, pointing out that a lot more OPEC crude is now earmarked for the Far East, with far less shipped to the U.S. and Europe.

Trading activity this quarter illustrates ESPO oil’s growing popularity globally. In recent weeks the grade’s value surged to its strongest level since the first cargo was shipped in November.

Russia is the world’s largest crude-oil producer, although it’s the No. 2 exporter after Saudi Arabia. Russia’s output has stalled in recent years after a dramatic recovery following a collapse that accompanied the fall of the Soviet Union. In this case, what’s good for Russia is bad for the OPEC, which is already grappling with a well-supplied market.

“There’s certainly a case to be made that this will weaken OPEC exporters’ control [of the Asian market],” said Julian Lee, senior energy analyst at the **Center for Global Energy Studies** in London.

OPEC ministers have so far not acknowledged ESPO crude poses a significant threat, although price cutting will inevitably further weaken OPEC’s grip on global prices and may increase volatility.

ESPO’s target customers—Asian refiners—are, so far, taking a conservative approach. Japan and China, the region’s largest oil consumers, haven’t processed much yet, although there’s strong buying interest from Thailand, Malaysia and the Philippines. And the oil spill in the Gulf of Mexico may temporarily boost demand for ESPO if the slowdown in deepwater drilling pulls more West African crude to the Gulf Coast, Mr. Lee said.