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Gulf oil leak may be halted permanently

By Angel Gonzalez

HOUSTON—Testing of a new containment system on the leaking **BP** PLC well could continue indefinitely, raising the possibility that no more oil will gush into the Gulf of Mexico until the Deepwater Horizon spill is permanently killed by a relief well in mid-August, a company official said Sunday.

The test, originally scheduled to last 48 hours, has cut off the flow of oil since Thursday, and was extended on Saturday to allow for additional monitoring of the sea floor for signs of new leaks.

BP Chief Operating Officer Doug Suttles said in a teleconference that results so far were encouraging, with pressure continuing to build up slowly—a sign that the oil wasn't escaping the shut-in Macondo well. Both BP and U.S. government scientists are closely monitoring the test.

"We're hopeful that if the encouraging signs continue we'll be able to continue the integrity test all the way to the point we get the well killed," Mr. Suttles said. "Right now there is no target set to open the well back up to flow."

Mr. Suttles said reopening the well remained a possibility if problems emerged, but so far there were no issues. "We're just taking this day by day," he said.

U.S. President Barack Obama cautiously welcomed BP success in halting the flow of oil into the Gulf but warned that only a relief well BP was digging would provide a lasting solution.

Mr. Obama said he didn't "want us to get too far ahead of ourselves." He told reporters in the White House Rose Garden: "We won't be done until we actually know that we've killed the well and that we have a permanent solution in place."

Nevertheless, the cap is a breakthrough in BP's efforts to deal with the worst offshore oil spill in U.S. history, after a run of partial or failed solutions that put a question mark over the U.K.-based energy company's future.

BP's shares rose in London Friday as investors began to hope the company will now be able to draw a line under the spill and focus on the cleanup.

For more than two months, Americans have endured live television footage of oil billowing from the underwater leak. That image finally disappeared Thursday evening, as valves on the new seal were gradually closed, choking off the flow from the ruptured well.

"This is a landmark event," said Dan Yergin, chairman of HIS Cambridge Energy Research Associates. "It means that an infinite problem has become finite."

The first of two relief wells being drilled to perma-

Please turn to page 7

Oosthuizen's Open arms

Associated Press

The smile of a winner—South Africa's Louis Oosthuizen hugs his trophy after winning the British Open Golf Championship on the Old Course at St. Andrews, Scotland, Sunday. **Article on page 32**

Siemens, Nokia eye Motorola network

Motorola Inc. is nearing a sale of the bulk of its wireless-network equipment business to Nokia Siemens Networks for $1.2 billion, people familiar with the matter said. An announcement could come as early as Monday, the people said.

NSN—a joint venture of Nokia Corp and Siemens AG—has made no secret of its ambitions to enter the U.S. market. Last year, it bid for two units of the bankrupt Nortel Networks Corp., only to lose the bulk of the wireless-equipment business to Ericsson and Nortel's metro ethernet unit to Ciena Corp.

Motorola's network would give NSN an installed base at the top U.S. wireless carriers and cable companies, including Verizon Wireless and Sprint Nextel Corp.

Motorola would still keep its so-called "push to talk" technology used in phones with two-way radios, but the sale of the network-equipment division would mark Motorola's departure from a business that took off largely thanks to inventions it originated.

■ Motorola had been pressed to invest in the division 23

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To protest hiring of nonunion help, union hires nonunion pickets. Page 33

World Watch

A comprehensive rundown of news from around the world. Pages 34-35

Editorial & Opinion

Peggy Noonan: The world could use some wise old men. Page 12

AIG looks to ex-Pru head to ready AIA for listing

American International Group Inc. is planning to name Mark Tucker, a former chief executive of Prudential PLC, as the new head of overseas life-insurance unit AIA Group Ltd., according to people familiar with the matter.

AIG is aiming to raise as much as $23 billion from share sales of AIA to strategic investors and to the public in a Hong Kong offering by late October or early November, the people said. The cash will go to the Federal Reserve Bank of New York, which holds a stake in AIA and has been AIG's top creditor since a federal bailout of the insurance giant in 2008.

Mr. Tucker helped build out Prudential's Asian franchise in the 1990s and was group chief executive of the U.K. company from early 2005 until September 2009.

Separately, AIG Friday agreed to pay $725 million to settle a long-running securities lawsuit alleging that the company several years ago engaged in insurance bid-rigging and inflated its stock price and insurance reserves.

The settlement, which requires the approval of a federal judge in New York, requires AIG to pay $175 million within 10 days of gaining preliminary court approval for the deal. The other $550 million would be paid later — it is unclear if AIG will be able to raise the $550 million before the settlement gets final court approval. The settlement includes a stipulation that the company has to pay the $550 million if it raises that amount on behalf of the U.S. Treasury.

The agreement with the lead plaintiffs in the lawsuit, a group of Ohio pension funds represented by the state's attorney general, ends a protracted legal fight that began after former New York Attorney General Eliot Spitzer in 2005 accused AIG and then-Chief Executive Maurice "Hank" Greenberg of a variety of misdeeds, leading to Mr. Greenberg's departure.

Full article on page 23

PAGE TWO

Investors will soon be stressing growth rather than euro zone's stress tests

[Agenda]

By Irwin Stelzer

"Europe will certainly overcome its difficulties," says Chinese Premier Wen Jiabao, a man who should know a thing or two about how to get a tired old economy moving. "The poor old euro area has hardly got going," says David Owen, Chief European Financial Economist at **Jefferies International**, a man who has his finger on the pulse of the euro-zone economy.

It's not easy to come up with a definitive view of the state of things in the European economy (or economies, if you prefer a disaggregated view). One reason is that the powers-that-be issue studiedly optimistic reports about the progress being made to cope with the problems unleashed by the discovery that Greece had been economical with the truth in reporting its deficits.

Take the stress tests now being conducted on 91 banks in 20 countries, with the results, or at least some of them, to be published on Friday after the markets close. Somehow, before the results are in, International Monetary Fund Managing Director Dominique Strauss-Kahn has divined that Europe's "banks are solid enough to resist shocks that could result from a state in crisis." Any shot big enough to matter — the heads of the European and Italian Central Banks among others — is equally confident that the banks will meet the still-secret soundness criteria set out in these still on-going tests. To his credit, Olli Rehn, European economic and monetary affairs commissioner, concedes that the stress tests might reveal "pockets of vulnerability."

European Pressphoto Agency

Reasons to be cheerful: Angela Merkel, left, and Wen Jiabao, center

There is some reason for optimism. The financial seas are undoubtedly calmer than they were a few months ago, in part because of backup financing that might be made available by newly established EU facilities. But a look ahead is hardly reassuring. For one thing, it is hard to imagine there will not be several shocks to an already stressed financial system. A partial default by Greece, unless or perhaps even if its €110 billion multilateral support package is renewed in 2012. Or more bad news about the state of the U.S. recovery. Or an uprising by German voters tired of financing the profligacy of their euroland colleagues. Or a conflagration in the Middle East if Israel decides to damage Iran's bomb-making facilities.

> **There is some reason for optimism. The financial seas are undoubtedly calmer than they were.**

Such shocks are not the only worry. Europe's banks have to roll over some €1.5 trillion ($1.9 trillion) in debt by the end of 2012, and will be competing for investor favor with U.S. banks that must refinance $1.3 trillion, and sovereign governments that must raise billions more. It is one thing for investors to cough up the odd billion, as they did recently when they bought some short-term Greek debt (€1.625 billion of six-month Treasury bills at an average yield of 4.65%), and €3 billion of Spanish 15-year government bonds, albeit at high premiums. It is quite another to make trillions rather than billions available to these troubled financial institutions.

Indeed, banks in Spain and elsewhere have had to rely on the European Central Bank for funding. Spain's prime minister, José Luis Rodríguez Zapatero, has tried to reassure markets by predicting that his economy will grow next year, and announcing, in another exercise in prescience, that the stress tests "will reestablish the confidence of capital markets, thus permitting the normalization of credit." Meanwhile, banks in several euro-zone countries have been frozen out of the interbank lending market, and the risk premium investors are demanding for lending money to Spain is at the highest level since 1999, when the euro replaced the peseta and other national currencies.

In the end, the stress tests will fade in importance as the summer passes, to be replaced by a more important factor: expectations concerning the performance of Europe's economy. Mr. Wen is among the optimists, and backed his words with a €400 million purchase of 10-year Spanish bonds, encouraged in part, he says, by the bounce in the euro.

But he is a special kind of investor. Like others, he has invested in euroland debt for a return that the market feels compensates for the risk. But unlike other investors, he gets three bonuses: political goodwill that he can spend when circumstances warrant; a stronger euro (boosted 6% say some analysts) that increases the value of China's massive euro holdings, guesstimated at €630 billion; and increased competitiveness of his country's exports in European markets.

Other, less-politicized investors have fewer reasons to hop on the pro-euro bandwagon. Both the Economist Intelligence Unit and Jefferies are guessing that overall area growth will come in at an uninspiring 0.7% and 0.8% this year and next, respectively, as austerity reduces demand and a stronger euro reduces exports. That makes debt service and repayment more difficult. So ordinary investors with none of the pluses available to Mr. Wen might demand sky-high rates in return for their cash, and certainly will if the stress tests prove to be as straightforward and transparent as Greek accounting practices have been.

—Irwin Stelzer is a director of economic-policy studies at the ***Hudson Institute.***

What's News

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■ **U.K. house prices fell** in July from June, while retail sales in London rose at the strongest annual rate in more than 3½ years in June. 4

■ **Global funding to combat** AIDS flattened in 2009 as governments in major industrialized countries scaled back their contributions, according to a new report. 5

■ **Deutsche Bank's CEO** said Asia's importance as a profit center for financial services could gain even more momentum because of the regulatory moves against banks in Western nations. 25

■ **The strong rally** in the Dow industrials at the start of earnings season last week was quickly snuffed out as worries about the U.S. economy took hold. 27

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The Source

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'The pound has staged a nearly relentless rally since Cameron walked into 10 Downing Street.'

Nicholas Hastings on investors looking for a safe haven amid economic fears

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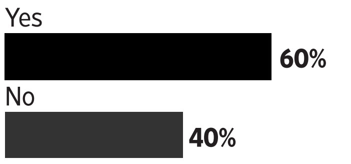

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NEWS

Designer drugs baffle European authorities

By Jeanne Whalen

Europe is grappling with a flood of powerful and sometimes lethal new narcotics that are often legal when they first appear because authorities have never seen or banned them before.

With catchy nicknames like Meow Meow, Spice and NRG-1, the drugs are often sold online as "legal highs." They typically come in powder form and can be snorted, licked or packed into tablets and create highs that mimic drugs ranging from cocaine to ecstasy, which some narcotics experts say has become less available amid a world-wide effort to blunt production.

The drugs have been blamed for the deaths of two young people in the U.K. and Sweden, and authorities say they may have contributed to as many as 30 deaths in the U.K. in recent years. With some drugs selling for about €15,000 ($19,000) a kilogram, producers and dealers stand to profit.

"Some of these compounds have been known for quite some time in scientific literature but not on the streets," said Simon Brandt, of Liverpool John Moores University in the U.K. Many of the new compounds are quite pure, suggesting that the people making them are sophisticated chemists with modern equipment, he said.

European countries are scrambling to crack down. The U.K., Sweden and Germany all recently banned one of the most popular drugs, mephedrone, or Meow Meow, which first appeared in 2007. The U.K. last week announced a ban on naphyrone, or NRG-1, which surfaced after the mephedrone ban.

But authorities are having a hard time keeping up with all the new concoctions. As soon as one is banned, another appears, they say. Last year, 24 new "psychoactive substances" were identified in Europe, almost double the number reported in 2008, according to the European Monitoring Centre for Drugs and Drug Addiction, which keeps European Union policy makers informed on the state of drug use.

European authorities say some of the drugs are cooked up in China, where they say lax control of chemicals makes it easier for manufacturers to obtain the raw ingredients.

Yan Jiangying, of China's State Food and Drug Administration, said China classifies mephedrone and naphyrone as chemical products, not as narcotics. Materials classified as narcotics are controlled by the SFDA, she said, with regulations over their export. The agency publishes a list of regulated drugs but doesn't have responsibility for regulating all chemical products.

Ms. Yan said the SFDA is aware of reports on the concerns about substances such as mephedrone and naphyrone. She said the SFDA keeps in close contact with international narcotics-control authorities and will continue to cooperate in the fight against drug crimes.

European dealers and users buy the new drugs online, paying by credit card, before receiving them in the mail. Les Iversen, chairman of the U.K. government's Advisory Council on the Misuse of Drugs said this month customs officials at Heathrow Airport recently seized shipments of white powder from China that were labeled as glucose but turned out to be mephedrone. The packages were addressed to private homes in the U.K., he said.

A number of firms describing themselves as Chinese offer mephedrone and other so-called designer drugs for sale online. Before they are banned, some of the new drugs can be found in Europe in shops selling drug paraphernalia. To protect themselves from possible liability, many sellers advertise the products as "plant food," "bath salts" or "pond cleaner" not meant for human consumption, but buyers know this is a ruse.

Gareth Balmer, who works for a charity in Dundee, Scotland, that counsels users about the harms of drugs, said he started hearing about mephedrone in 2007. "Very quickly we heard about people getting in trouble with it—palpitations, rapid heartbeat, anxiety," he said.

Once mephedrone was banned in April, use dropped off among young teenagers, but older teens don't seem bothered by its illegal status, Mr. Balmer said.

—Kersten Zhang in Beijing contributed to this article.

Deadly highs | European authorities are fighting an influx of new drugs


Zuma Press


AFP/Getty Images

Mephedrone ▲
Also known as Meow Meow, Drone and M-Cat. Similar to amphetamines. Responsible for at least two deaths in Europe. Now banned in most European countries.

Spice
A synthetic cannabinoid, similar to cannabis. It is sprayed on herbal leaves and smoked. Banned in most of Europe.

Naphyrone
Also known as NRG-1. Similar to amphetamines. The U.K. this week announced a ban on it.

MDAI
First developed as an experimental antidepressant by scientists at Purdue University. Never licensed for medical use. Similar to MDMA, better-known as ecstasy.

BZP
Manufactured from piperazine, a substance used to treat intestinal roundworm infestations. BZP was investigated in the 1970s as a potential antidepressant, but the work was abandoned when it was found that the drug had stimulant properties similar to amphetamines.

Sources: European Monitoring Centre for Drugs and Drug Addiction; U.K. Advisory Council on the Misuse of Drugs

EUROPE NEWS

IMF pulls out of Hungary loan talks

BY GORDON FAIRCLOUGH

Negotiators for the International Monetary Fund and European Union walked away from talks with Hungary over the weekend, saying Budapest needs to do more to shrink its budget deficit before it can get any more bailout money—in a move likely to alarm markets already suspicious of the new populist government's pledge to cut spending.

After almost two weeks of meetings with senior Hungarian officials, the IMF and EU teams on Saturday called an abrupt halt to the discussions and said Hungary couldn't have access—for now, at least—to the remaining funds in a 20 billion euro ($25.9 billion) loan package secured in late 2008 to rescue the country from a financial meltdown.

The rebuke to Hungary represents a stern warning to governments across Europe that the IMF and EU don't intend to tolerate backsliding by borrowers on budget-cutting measures. The decision, which effectively withdraws the international safety net under Hungary's still-tentative recovery, also risks unsettling currency and debt markets.

"It's surprising that the IMF is willing to play such hard ball," said Timothy Ash, London-based head of emerging-market securities at Royal Bank of Scotland. "It's a potentially dangerous strategy. The global recovery is looking fragile and the European economy in general is having difficulties."

He said he expected investor reactions to "get pretty ugly."

Analysts predicted sharp drops in the value of the Hungarian currency, the forint, as well as in Hungarian bonds once markets reopen Monday.

The selloff could extend to assets of other countries in the region, such as Romania, that are struggling to contain deficits and the euro.

Reuters

Hungary's Prime Minister Viktor Orban presents his government's economic program to Parliament in Budapest June 8.

Observers had been predicting that the IMF and EU would reach a deal with Budapest, if only for the sake of stability. In early June, remarks by Hungarian politicians that the budget deficit could balloon and send the country following in the footsteps of Greece, roiled markets, pushing the euro to a four-year low against the dollar and driving up the cost of insuring government debt.

As the government in Budapest sought to restore confidence after that blowup and pledged to stick to budget-deficit targets set in its international loan agreements, IMF and EU officials moved to reassure markets that Hungary's finances were sound.

Olli Rehn, the European commissioner for economic and monetary affairs, at that time dismissed worries, saying: "The Hungarian crisis is shadow boxing. It's not a real crisis."

But Saturday, Mr. Rehn's rhetoric toughened. He said that for Hungary to correct its "excessive deficit by next year will require tough decisions, notably on spending."

The IMF and EU believe "fiscal prudence is even more important now, with all the euro-zone issues," said one official involved in the Hungary negotiations. "It's not the time to backtrack. It's very, very clear. They need to stick to their targets."

Euro-zone countries, along with the EU and IMF, have agreed to set up a 750 billion-euro bailout fund to restore confidence after major debt problems in Greece threatened to spread. The ability of the EU and IMF to enforce fiscal discipline on its borrowers is seen as important in restoring investor confidence.

One of the IMF's main tools for encouraging compliance is to suspend talks with borrowers and allow a punishing market reaction to increase the pressure on recalcitrant governments. Both the IMF and EU said they remained open to resuming talks with the government at a later date, after more progress had been made in formulating a sustainable fiscal policy.

Hungary's economy minister, Gyorgy Matolcsy, said in a statement that, "the government will, of course, continue talks with international organizations, including the IMF and EU."

Hungary had been considered an IMF success story. The fund, along with the EU, kept the country afloat amid a financial crisis in 2008, when the government in Budapest was unable to raise money on its own. Under the terms of the loan, Hungary moved to sharply reduce government spending. It cut pensions, raised the retirement age, froze wages for government employees and pared various state-subsidy programs.

The country hasn't drawn any money from IMF or EU credit facilities so far this year, even though it was qualified to do so. The country also doesn't need to raise more funds this year, people familiar with the situation said. And the Hungarian economy is set to grow this year, albeit by a small 0.6%, according to the IMF.

After the markets' punishing reaction in June, Prime Minister Viktor Orban backed away from suggestions of fiscal easing and pledged to stick to the 2010 deficit target set with the IMF and EU of 3.8% of gross domestic product.

Hungary is still expected to more or less meet the target this year, analysts and officials said.

Mr. Orban laid out a plan to keep the budget gap under control by further trimming state spending and levying a hefty temporary tax on financial institutions. The government also said it intended to seek a new standby lending agreement when the current one expires later this year.

But the IMF and EU weren't satisfied with the ability of Mr. Orban's plans to deliver durable results. Christoph Rosenberg, the IMF's mission chief for Hungary, characterized some measures being pursued by the government, such as the bank tax, as "ad hoc."

—Margit Feher in Budapest and Bob Davis in Washington contributed to this article.

■ The m,an at the top of Hungarian banking—and football 10

U.K. house prices decline

BY ILONA BILLINGTON AND NICHOLAS WINNING

LONDON—U.K. house prices fell in July from the previous month as new sellers outnumbered potential buyers, adding weight to forecasts that after gaining in the first half of 2010, house prices will end the year little changed from January, according to a survey by Rightmove due to be published Monday.

Separately, retail sales in London rose at the strongest annual rate in more than 3½ years in June, a sign that shoppers in the capital are more upbeat about the economy than in the rest of the U.K., according to the British Retail Consortium.

But the trade association warned that the powerful increases in retail sales were unlikely to be sustained due to uncertainty about the strength of the economic recovery, the planned January 2011 increase in sales tax and looming public-sector job cuts.

The joint BRC and KPMG survey showed the value of sales in comparable stores in central London was 14.4% higher in June than in the corresponding month last year, the sharpest rise since October 2006 and far stronger that the 1.2% increase seen across the U.K.

In May, sales were 10.8% stronger on year in London and 0.8% higher across the U.K., the BRC said. Central London like-for-like sales were 10.1% stronger in the second quarter than in the year-earlier period, but were unchanged for the U.K. as a whole.

"These are impressive results," said Stephen Robertson, the director-general of the BRC.

"Customers in the capital are less pessimistic than the rest of the U.K. and significantly less so than this time last year," he added.

The BRC said June's hot weather and sports events, such as the football World Cup and Wimbledon tennis tournament, meant fewer people were out shopping in central London, but the people who did hit the stores spent more each visit.

Clearance sales helped pull in the shoppers, while the comparative weakness of the pound also continued to attract tourists, the trade association said.

But Mr. Robertson added a note of caution. "Economic uncertainty combined with the [value-added tax] increase and public-sector job cuts on the way, suggest growth of this magnitude is unlikely to continue," he said.

The steep spending cuts and tax rises announced in the British government's recent emergency budget are broadly affecting consumer sentiment and it appears that fears over jobs and earnings—following a public-sector pay freeze as well as huge number of expected job reductions in the sector over the next five years—are making Britons think again before deciding to make a large purchase such as buying a house, economists say.

House prices in mid-July fell 0.6% on the month and were 3.7% higher from a year earlier, according to Rightmove's latest index. The latest data compare with a 0.3% rise on the month and a 5% increase from a year earlier in June.

The decline in asking prices comes as around 30,000 new properties on average are being put up for sale every week, a 45% increase from July 2009. The number of potential buyers, meanwhile, remains low by comparison, with analysis for the first six months of 2010 showing sellers outnumber mortgage approvals by 5 to 2.

The decline in asking prices is a result of mixed pressures, with the typical U.K. seasonal summer lull weighing on prices as well as the current oversupply of property on the market, the survey says.

Governor resigns, in a blow to Merkel

A Wall Street Journal Roundup

A German state governor from Chancellor Angela Merkel's party announced his resignation on Sunday, becoming the sixth conservative state leader to leave office in the past 10 months.

The resignation will take effect August 25, said Ole von Beust, the mayor of the northern port city of Hamburg. Interior Minister Christoph Ahlhaus is set to succeed him.

The 55-year-old's resignation comes as another blow to the chancellor, who has been rocked by several abrupt resignations in the past two months, among them the conservative president and two state governors who also were deputy chairmen of her Christian Democrats. Mr. von Beust led the first coalition between Ms. Merkel's Christian Democratic Union and the Greens at the state level over the past two years, which was widely seen as a test for a possible coalition at the national level.

Hamburg's opposition leader, Social Democrat Olaf Scholz, said the coalition experiment has failed and the time has come for new elections.

Mr. von Beust, mayor since 2001, announced his resignation hours before the results of a referendum on his government's controversial education overhauls were due to be announced. The latest polls indicated voters may reject the overhauls. Mr. von Beust said culture minister Karin von Welck, who was responsible for the changes, is also stepping down. However, the outgoing governor said he was resigning because it was time to leave, after 32 years in politics, and not because of the referendum.

For Ms. Merkel, his resignation could be a new headache, and might revive questions about her leadership. Her center-right coalition had a wobbly first months in office, struggling to cope with the European sovereign debt crisis as the government seemed paralyzed by infighting.

Meanwhile, thanks to buoyant domestic and international demand, Germany's industry should continue to see positive development in the coming months, the Economics Ministry said.

EUROPE NEWS

AIDS fight shifts focus to prevention

BY BETSY MCKAY
AND ROBERT A. GUTH

The global fight against HIV and AIDS is moving into a new phase as the high cost of treating millions of people is forcing governments and donors to focus more aggressively on the difficult challenge of prevention.

That transition, already contentious, will be the crux of discussions this week in Vienna where government officials, health workers and AIDS-advocacy groups will plan AIDS policy for the coming years.

Over the past seven years, the U.S. government has spent most of $32.3 billion to put record numbers of AIDS patients world-wide on life-lengthening drugs, along with some other disease efforts. But budget pressures are forcing the Obama administration to slow increases in spending on AIDS and begin reworking a program started by former U.S. President George W. Bush know as the President's Emergency Plan for AIDS Relief.

That program's attention on treatment hasn't slowed the number of new infections world-wide: 2.7 million people contracted the HIV virus in 2008. More than five million people are receiving drugs, and an additional 10 million people need treatment but can't get it, according to UNAIDS Executive Director Michel Sidibe, who is calling for a simplified and less-costly form of treatment.

"We're not going to treat our way out of this problem, so we do have to focus on prevention," Ezekiel Emanuel, senior adviser for health policy to the director of the Office of Management and Budget, said in an interview.

Two of the main themes at the Vienna conference will be how to cut the cost of treating patients while expanding efforts at preventing its spread, according to attendees.

On Monday, philanthropist Bill Gates will propose goals for revamping the delivery of AIDS treatment drugs, because delivery costs for these programs exceed costs of the drugs themselves. "We need to apply new innovation to get even more out of every dollar of funding that's available," he said. Mr. Gates will also be among high-profile AIDS donors trying to focus on prevention, a relatively neglected side of the AIDS battle that has historically proved difficult.

Several recent positive developments are sparking optimism that prevention methods can work. Three studies in 2005 and 2006 showed that male circumcision can reduce a man's risk of HIV infection by about 60%.

Health experts in Zimbabwe are expected to detail Tuesday an approach to circumcising larger numbers of men more efficiently by using an assembly line. South African researchers are expected to present the results of a trial of a gel designed to help women prevent HIV infection. Meantime, results of a Canadian study published online Sunday by the British medical journal Lancet found that new infections plummeted in parts of Canada as more people went on AIDS drugs, which lowered the amount of virus they had and the chances they would spread it.

For every 100 people with HIV who started taking AIDS drugs, new infections dropped 3% in British Columbia, where the study was done. Results were being presented at the conference.

The focus on costs and prevention is rooted in pressures the tough economy has put on major economies and other large donors to global health. Also at work is an emerging shift in how the U.S.—the largest funder of AIDS programs—is approaching the disease.

The past seven years have been a golden period in the fight against AIDS. Launched in 2003, the Bush program poured billions of dollars into getting antiretroviral drugs to HIV/AIDS patients around the world.

But that has left the Obama administration in a bind. Maintaining the program in its current form means a cost to the U.S. that would grow each year by amounts that many health and government officials say are unsustainable, especially in the tough economy.

A new report shows global funding to combat HIV/AIDS essentially flattened in 2009 as the economic crisis forced governments in major industrialized countries to scale back their contributions.

The Group of Eight nations, the European Commission, and other donor governments donated $7.6 billion for AIDS treatment efforts in 2009, down slightly from $7.7 billion in 2008 in dollar terms but closer to flat given currency fluctuations, according to a report prepared by the Kaiser Family Foundation and the Joint United Nations Program on HIV/AIDS (UNAIDS).

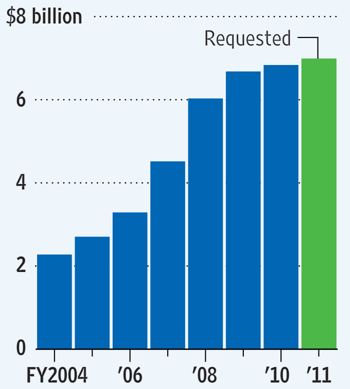
Under the U.S.'s new global health plan, which seeks to spend $63 billion between 2009 and 2014 on global health, the U.S. has slowed increases in funding for HIV/AIDS programs while devoting more dollars and attention to improving maternal and child health, attacking neglected tropical diseases and implementing other initiatives. Many activists say that maternal and child health can't be improved in Africa without bringing down HIV/AIDS rates in mothers and preventing them from transmitting the disease to their children.

The Obama administration faces an ethical obligation to continue current patients' treatment and is under pressure to expand the program to include millions more people with AIDS. "It's a great dilemma and it's already causing problems in the administration," said Princeton Lyman, a former U.S. ambassador to Nigeria and South Africa.AIDS activists plan to press the administration in Vienna to meet HIV/AIDS funding targets laid out by the 2008 Lantos-Hyde Act, which authorized the government to spend $39 billion between 2009 and 2013.

In particular, many are calling for the U.S. to contribute $6 billion to the Global Fund to Fight AIDS, Tuberculosis and Malaria between 2012 and 2014.

Cash flow

Funding from the U.S. President's Emergency Plan for AIDS Relief



Note: Fiscal year ends Sept. 30
Source: PEPFAR

Demotix Images

Spectators gather at the start of Life Ball 2010 — an AIDS charity event held Saturday in the center of Vienna.

U.S. NEWS

N.Y. town awaits Clinton wedding

Or does it? Conspiracy theories abound on whether Rhinebeck will indeed host Chelsea's coming nuptials

By Erica Orden

RHINEBECK, N.Y.—Chelsea Clinton is not getting married here. At least, that's the word among some residents on the quaint streets of Rhinebeck, where the former first daughter and her fiancé, Marc Mezvinsky, are expected to wed at the end of the month.

"My wife thinks this is a decoy location, and the wedding will be held on Martha's Vineyard," in Massachusetts, says a Rhinebeck police officer, Steven Hanaburgh.

Mayor Jim Reardon says he hasn't heard a peep from anyone associated with the nuptials. "I'm upset," Mr. Reardon said. "My biggest concern is traffic and emergency response, and I want to make sure this kind of stuff is secure."

And the town has not received any official notification, according to Rhinebeck Councilman Dan Staley. A spokesman for the Clinton family declined to comment.

But most signs around this sleepy hamlet point to the orchestration of a lavish affair—and a bump for the local economy.


Amy Sussman for The Wall Street Journal

Former first daughter Chelsea Clinton and her fiancé, Marc Mezvinsky, at an event in New York earlier this month

On Rhinebeck's streets and in its restaurants, nearly every conversation is peppered with people who speak of the Clintons more with a sense of familiarity than awe.

At candy store Samuel's of Rhinebeck, employee John Traver rattled off a list of previous sightings, including the time he spotted former President Bill Clinton and U.S. Secretary of State Hillary Clinton holding hands outside the restaurant across the street two years ago. The Clinton home in Chappaqua is about 120 kilometers away.

"The fact that they chose Rhinebeck says something about our rural community," Mr. Staley said. "People respect other people's space around here, for the most part."

The wedding-day festivities are expected to take place under a large tent on the property of Astor Courts, the John Jacob Astor IV-commissioned estate, where workers were recently repairing the stone wall at the entrance. The owners could not be reached for comment.

But there are signs that perhaps the cynics are right, and the plans are a charade. At the Beekman Arms & Delamater Inn, rumored to be the hotel of choice for wedding guests, owner George Banta said he has not communicated with anyone associated with the nuptials. "I've heard that this event is going to take place, but I haven't talked to anyone. Nobody's told me anything," he said.

Either way, come July 31, Ms. Clinton and Mr. Mezvinsky can expect to see signs like the one Mr. Staley plans to hang outside his real estate firm: "Congratulations, Chelsea and Marc." Said Mr. Staley: "I'll be manning my office, hoping someone brings their checkbook."

White House turns up heat on Republicans

By Jonathan Weisman
And Naftali Bendavid

The White House is intensifying its attacks on Republicans, after Democratic leaders on Capitol Hill publicly criticized the administration for not doing more to help Democrats trying to retain their congressional majorities.

In his Saturday radio address, President Barack Obama accused "a partisan minority in the Senate" of blocking legislation aimed at helping small businesses and the unemployed. Vice President Joe Biden, discussing November's midterm elections on ABC's "This Week" on Sunday, declared: "We're going to shock the heck out of everybody. I am absolutely confident."

"What I believe, what the president believes—we're going to win the House and we're going to win the Senate," he said.

The approach was a marked contrast to comments by White House press secretary Robert Gibbs last week that enough seats were in play this fall that it could possibly cost Democrats their large House majority. House Speaker Nancy Pelosi (D., Calif.) and other Democrats publicly berated Mr. Gibbs for these remarks and pressured the White House to take a more active role in helping Democrats vying in November's races.

President Obama last week held a peace-making meeting at the White House, during which he assured Democrats that he was strongly behind their re-election efforts.

White House Chief of Staff Rahm Emanuel said in an interview Sunday that the shift was long-planned and wasn't prompted by the blowup. He said the White House would try to back the president's pledge with events focused on themes appealing to the economically battered electorate. The president and his team will emphasize policies that he said would keep jobs in the U.S.—in energy and manufacturing—while arguing that Republicans are backing practices that would send work overseas.

In the coming weeks, the president will expand his push to create clean-energy jobs in more-traditional industries, and the automobile and high-speed rail sectors. "Made in America" will become the "big theme," Mr. Emanuel said.

On Monday, the president will publicly press the Senate to pass an extension of expired unemployment benefits, appearing with unemployed workers to put a face on the issue, White House officials said Sunday. On Wednesday, he is set to hold a large-scale rally at the Ronald Reagan building in Washington where he will sign the newly passed financial regulations bill.

Mr. Obama will also seek Senate passage of proposals to change tax provisions that he says encourage businesses to ship jobs overseas, Mr. Gibbs said on Sunday. Businesses say the provisions are necessary to keep them internationally competitive. The president will hold a big-dollar fund-raiser late this month in New York City

"You can call it tough, but there's a clarity of choice there," Mr. Emanuel said. "One party wants to go forward and tackle these problems. One wants to repeal and repeat the problems of the past."

Republican aides on Sunday said voters have already turned against the president's health-care and economic stimulus plans, and that they didn't think the just-passed financial regulatory bill would change any opinions. They said they wanted to extend expired unemployment benefits too, but they wanted to pay for it with budget-cutting elsewhere.

"The White House doesn't seem to realize it's not their rhetoric that's gotten them into this position. It's their job-killing agenda," said Michael Steel, spokesman for House Minority Leader John Boehner (R., Ohio).

Republicans continue to hold the whip hand, with the country's unemployment rate at 9.5%, surging government debt, disheartened Democratic voters and energized conservatives.

In a debate on NBC's "Meet The Press" on Sunday, the heads of the Democratic congressional campaign committees, Sen. Robert Menendez (D., N.J.) and Rep. Chris Van Hollen (D., Md.), pressed Republicans to say what policies a GOP majority in Congress would push.

Their Republican counterparts, Sen. John Cornyn (R., Texas) and Rep. Pete Sessions (R., Texas) didn't offer specifics. Mr. Sessions said Republicans would balance the budget, read bills before the House and "empower the free enterprise system." Mr. Cornyn said they would repeal the health-care law and replace it with "commonsense health-care reform."

Instead, the two focused on the Democratic record under Mr. Obama. "To all the bad ideas [voters] hear coming out of Washington today, 'no' is a good start," Mr. Cornyn said.

Republicans have pounced on what Mr. Boehner called "a full-scale civil war" between the White House and Congress. They depicted Democrats as in panic and disarray last week, even as Democrats approved the most far-reaching overhaul of financial regulations since the Depression, handing Mr. Obama the fourth piece of his ambitious domestic agenda.

The White House is moving to repair the breech with congressional Democrats.

"There's an awful lot of shared anxiety and it feeds on itself," White House adviser David Axelrod said in an interview. "Every once in a while you've got to break the fever, and I think the meeting was very good."

Some House Democrats have speculated privately that Mr. Obama wouldn't mind if Republicans took over the House, since it could help his re-election prospects to run against a GOP Congress. Former President Bill Clinton effectively targeted House Republicans in a political comeback that enabled him to handily win re-election in 1996.

"I wanted to put an end to a growing rumor that the president doesn't want the House, only the Senate, and feels he can get more done with a split Congress," Rep. Bill Pascrell (D., N.J.) said, explaining his public criticism last week of what he called White House callousness. "I don't believe that's true for a moment, and I thought it should be brought to a head."

Mr. Van Hollen on Sunday said the November elections would be interpreted as a referendum on the president, "whether they like it or not."

Anxiety is running particularly strong in the House, because the Democratic majority there is more endangered and because many House members perceive they have been mistreated by the Senate. House members passed a top item on the president's agenda—a bill to cap carbon emissions and force carbon dioxide polluters to trade carbon-emissions credits—last year. It has gone nowhere in the Senate.

More recently, House Democrats have passed a series of bills aimed at helping the jobless, from extending now-expired unemployment benefits to boosting small-business lending, only to see them stymied in the Senate.

"There is a sense that we've been doing everything we can to pass the White House's agenda, but then the White House doesn't provide the muscle to close the deal in the Senate," said a House leadership aide.

By the end of the week, relations between the White House and Democrats appeared to be on the mend. Mr. Biden projected a level of confidence that some analysts dismissed as wishful thinking. He said the most vulnerable moment for an incumbent is when he or she doesn't have an opponent.

Now, Democrats, such as Senate Majority Leader Harry Reid (D., Nev.), are beginning to draw contrasts with their Republican rivals as the fall races begin to take shape. The most recent polling from Nevada showed Mr. Reid leading his Republican challenger, Sharron Angle, for the first time. Mr. Biden offered to bet on Mr. Reid's victory.

"I don't think the losses are going to be bad at all," he said of the overall landscape. But tensions continue to run below the surface.

"I'm very, very hopeful that the administration gets the message," said Mr. Pascrell, the Democratic lawmaker from New Jersey, in an interview. "We don't want to be spoon-fed. We don't want to be treated like children. And I think we were being treated like children."

—Laura Meckler contributed to this article.

Scotland to aid U.S. inquiry into release of jet bomber

By Paul Sonne

LONDON—The Scottish government said it is prepared to assist with a coming U.S. Senate hearing on its release last summer of convicted Lockerbie bomber Abdel Baset al-Megrahi, although it says it has yet to receive any specific requests from the Senate Foreign Relations Committee on the inquiry.

"We would always look to assist any properly constituted inquiry," the Scottish government said Sunday, in response to questions about the Senate hearing, scheduled for July 29. The committee plans to explore the circumstances surrounding Mr. Megrahi's August 2009 release, focusing in particular on the convicted bomber's medical assessment and on lingering suspicions by U.S. politicians and victims' families of involvement by embattled oil company **BP** PLC.

Nearly a year after Mr. Megrahi's release, the complex circumstances surrounding his return to Libya have come back into the spotlight thanks to the BP oil spill in the Gulf of Mexico and a Libyan oil official's recent suggestion that Libya might buy into BP. Those events have stoked interest in the fact that three years ago, BP lobbied the U.K. government to complete a prisoner-transfer agreement with Libya at a time when the U.K. was moving to revive its commercial relationship with Libya.

However, Mr. Megrahi wasn't released because of any deal between the U.K. and Libya, according to the Scottish and U.K. governments, which had sole authority over the matter. Instead, Scotland said, it granted Mr. Megrahi a so-called compassionate release on the grounds that he was suffering from terminal prostate cancer and had no more than three months to live.

But the convicted bomber remains alive in Libya almost 11 months after his discharge. A Libyan national and former security agent, Mr. Megrahi is the only person convicted in the 1988 bombing of Pan Am Flight 103, which killed 270 people, including 189 Americans, when it exploded over Lockerbie, Scotland.

News of the hearing comes ahead of Prime Minister David Cameron's first official visit to Washington this week. Ahead of that visit, both the Scottish and U.K. governments have denied suggestions that BP influenced Scottish Justice Secretary Kenny MacAskill's decision to release Mr. Megrahi in August 2009. BP has said it had no role in Scotland's decision to grant Mr. Megrahi a compassionate release.

The Scottish government reiterated on Sunday that negotiations between the U.K. and Libya over the prisoner-transfer agreement had no bearing on Scotland's separate decision to release Mr. Megrahi on compassionate grounds.

In a public letter to Secretary of State Hillary Clinton, U.K. Foreign Secretary William Hague said on Saturday that Scotland's decision to release Mr. Megrahi was already "extensively investigated" by the Scottish Parliament's Justice Committee, which determined that the Scottish government followed the law. Mr. Hague also said BP wasn't involved in Mr. Megrahi's release.

Feinberg braces for bad-guy role

By Neil King Jr.

BILOXI, Miss.—Along the Gulf Coast, people call Kenneth Feinberg the $20 billion man.

The government-appointed administrator who will run the huge oil-spill compensation fund starting next month has assured thousands of business people and fishermen that he is here to heal their pain and make them whole. He has hugged distraught crabbers and slipped his business card to boat captains.

He has been welcomed everywhere as he has toured communities stricken by the worst offshore oil spill in U.S. history, from the Florida Panhandle to the Louisiana bayou.

In a series of meetings this week, Mr. Feinberg heard pleas from business owners and fishermen, and reassured them with the declaration: "You have a claim."

Soon, though, he is going to start telling people they don't have a claim.

"I'm going to have to lay down some lines," says the Washington-based lawyer, talking backstage before a town-hall meeting Thursday, his fifth such meeting along the coast in two days. "That means some people will be excluded—and unhappy."

Mr. Feinberg has put most of his energies so far into explaining the process and getting as many people as possible to apply for help. He has shown only occasional flashes of the skepticism he says will kick in once he actually takes over the unwieldy claims process and begins issuing rules to clarify who stands to get money from the escrow account funded by **BP** PLC, and who doesn't.

Many who want money from the spill fund—from realtors and bankers to inland motel owners and most people along Florida's west coast—could be left empty handed.

The White House and BP picked Mr. Feinberg in June to administer what is known as the Gulf Coast Claims Fund. His mission, as he describes it: Compensate individuals and businesses hit by the spill, and minimize litigation against BP.

In scope and complexity, Mr. Feinberg's task on the Gulf Coast dwarfs what he and others grappled with after the Sept. 11th terrorist attacks or the 2005 Hurricane Katrina.

Melanie Burford for the Wall Street Journal

A crab-processing factory in Slidell, Louisiana, has been cutting worker hours to 20% of regular hours because of the spill.

Unlike the federal 9/11 victims' fund, or insurance payouts following Katrina, Mr. Feinberg has no legislation or contracts to steer him as he determines who is entitled to money and who isn't.

Some potential questions he faces: Do you reimburse only those businesses within a mile of shore? Do all businesses potentially qualify, from barber shops to fish-processing factories? What do you say to the crabber with no proof he ever earned a salary?

"The law provides little certainty on who should be eligible and who shouldn't," said Marshall Shapo, a tort-law expert at Northwestern University. "What comes out the other end of his sausage maker won't be pretty."

Mr. Feinberg says he will weigh three key criteria: proximity to the coast, dependence on the natural resources harmed by the spill and the hierarchy of industries most clearly affected.

The upshot, he said, is that businesses and individuals who are once—or twice—removed from the spill could be out of luck. And that, he said, would likely exclude all of Florida south of Panama City.

"In my business," he said, "there is no such thing as happy or grateful. All I want to do is help people get compensation."

Mr. Feinberg first plans to enlarge and speed up the emergency payments that BP has already been making to individuals and businesses. Then he will begin to weigh much larger lump-sum offers to those harmed.

Dressed in a blue suit and polished wingtips and fielding questions in a cavernous civic center in Houma, La., on Thursday, Mr. Feinberg urged nearly every questioner to file a claim.

When the head of the Houma Nation, Chief Thomas Dardar Jr., stepped forward to say that his tribe's "very existence is being threatened" by the spill, Mr. Feinberg shot back: "Absolutely you have a claim."

He urged the tribe to file for damages to habitat and scenery, and for each member of the tribe—which numbers around 17,000— to file individually.

Danny Babin, owner of Gulf Fish Inc., said his shrimp-processing plant eked out a "meager profit" in May and June, despite its shrinking inventory, which was now barely 15% of what it was last year. And yet BP would only make up for lost profits, not diminished inventory.

Mr. Feinberg made a spot ruling.

"If you are out of inventory, you have already suffered losses," he told Mr. Babin. "You have a claim."

On the thorny issue of people making claims with no firm documentation to prove lost earnings, Mr. Feinberg came close to laying down a firm line.

"You will have to offer some form of corroboration," he told the crowd in Houma. But lacking all paperwork, he said, people should at least bring in their "priest, mayor or sheriff" to vouch for them.

But in Biloxi the next day, Mr. Feinberg faced real-estate agents asking to be made whole for house sales that had fallen through, and a local banker seeking reimbursement for a series of busted loan deals.

Mr. Feinberg was dubious. To one out-of-work Realtor he said, "Too bad you're not a ship's captain."

Oil leak in the Gulf might be halted for good

Continued from first page

nently kill the leaking Macondo well by flooding it with cement could reach its target by late July, Mr. Suttles said. But the kill operation, which involves flooding the leaking well with cement, could last until mid-August, he said.

BP will conduct a "ranging run" to determine the location of the first relief well, and will insert the last string of casing into the well, an operation that may take a week to complete, Mr. Suttles said. Then the company will resume drilling to finally intersect the Macondo well, a very slow process scheduled to begin in the last week of July.

"All things are looking good at this point," Mr. Suttles said. BP still has to drill 30 meters vertically and more than a meter horizontally to reach its target, he said.

The capped well was estimated to be gushing between 35,000 and 60,000 barrels of oil a day into the Gulf, beginning shortly after the blast aboard Transocean Ltd.'s Deepwater Horizon rig, which BP had leased to drill a well in its Macondo prospect.

The spill has had a severe impact on fishing and tourism along the Gulf Coast. BP has paid more than $200 million in damage claims to residents and businesses, and has set up a $20 billion fund to pay for damages related to the spill.

'All things are looking good at this point,' said BP Chief Operating Officer Doug Suttles.

Mr. Suttles said that as of Sunday morning, the well's pressure was at 6,778 pounds per square inch, and rising at a rate of 1 or 2 psi per hour. The pressure reading, which has climbed more slowly than expected, is a sign that the reservoir is partially depleted.

Mr. Suttles reported the presence of bubbles in the area. He said BP didn't believe the bubbles were related to hydrocarbons, but they were being closely watched, he said.

BP officials came up with the idea of the new cap within a week of the blowout that destroyed the Deepwater Horizon drilling rig on April 20. It was among seven or eight options put forward by BP engineers as they scrambled to fix the leak.

The idea was to construct a device similar to a blowout preventer, the stack of valves that normally sits atop a well and is supposed to control unexpected surges of oil or gas. They called the 5.5-meter-tall, 73-ton structure a "capping stack," and carefully plotted how it could be fitted tightly on top of the blowout preventer above BP's leaking well.

The device had to be designed and built from scratch, a process that took two months. The job was handled by **Cameron International** Corp., which built the blowout preventer for BP's rogue well. Cameron fabricated the capping stack at its facility in Berwick, La.

Some well-control experts have wondered why BP didn't try to make this new device right at the start, instead of wasting precious time on earlier, failed procedures like the "top kill," in which heavy drilling mud was pumped into the leak to try to overwhelm it.

"There were ideas presented to them right from day one that are being used now," said Bill Abel, a veteran well control expert. He said BP was too conservative initially, fearing that the current cap solution could cause "an underground blowout" by creating too much pressure in the well.

BP officials said they have moved as quickly as possible and that such short lead times for creating new equipment like the capping stack are unheard of in the industry.

—Brian Baskin and Guy Chazan contributed to this article.

WORLD NEWS

Polls predict close Australian vote

By Rachel Pannett
And Lyndal McFarland

Australian Prime Minister Julia Gillard launched her election campaign over the weekend, as polls indicated a close vote and a tough test of the ruling Labor party's fortitude after a number of political setbacks.

Ms. Gillard on Saturday set an Aug. 21 election date as she seeks to take advantage of a rebound in the Labor party's popularity following the ouster in June of her predecessor, Kevin Rudd. But polls suggested the opposition has gained ground again in recent days while Labor continues to struggle with political baggage that includes a proposed tax on the resource industry, a retreat on climate-change legislation and a surge in asylum seekers from other countries.

A poll conducted by Galaxy Research for Australia's Nine television network showed Ms. Gillard's Labor party and the rival Liberal-National Coalition each with 50% when including all the votes the parties would win under Australia's preferred-voting system.

On a straight match up, or primary-vote basis—which counts only voters' first preferences and doesn't include votes redirected from smaller parties and independent candidates—Labor's rating dropped to 38% versus the opposition's 44%, Nine network said.

The results follow another Galaxy poll for News Ltd. newspapers from just before the election date was set showing Labor with a narrow 52% to 48% lead on a two-party preferred basis. News Ltd. is owned by News Corp., which also owns The Wall Street Journal.

Still, Ms. Gillard holds an edge in popularity over opposition leader

Agence France-Presse/Getty Images

Australian Prime Minister Julia Gillard laughs as she holds five-month-old Hope Gibson in Brisbane Sunday after she kicked off campaigning for the national election.

Tony Abbott, despite taking office less than a month ago. The Nine poll showed respondents preferred Ms. Gillard as prime minister over Mr. Abbott by 44% to 35%.

Both Ms. Gillard and Mr. Abbott have said they expect a close, hard-fought five-week campaign. Earlier Sunday, Ms. Gillard described the campaign as being "on a knife's edge," while Mr. Abbott told SBS television that he believes his opposition coalition can win.

"This is a winnable election, but we are in a position from which we can improve," he said.

Labor currently has a 16-seat majority in the 150-seat lower House of Representatives, where governments are formed. The Liberal-National coalition may need to win as many as 17 seats to take office, based on electoral boundaries redrawn since the 2007 election.

Ms. Gillard kicked off her campaign holding babies in Brisbane, Queensland, and during an address at a public-policy think tank stressed issues facing workaday Australians, such as long waiting times for health services, overcrowded public transport and long peak-hour commutes.

Mr. Abbott visited a home in Western Sydney where, over tea and scones, he discussed similar issues.

The campaign stops signal that the race will be more about who can win the hearts and minds of everyday Australians than about sweeping policy initiatives.

The ruling Labor Party has moved to neutralize issues where the conservative Liberal-National coalition enjoys an advantage among voters, moving toward more-populist stances on issues such as immigration and population growth. Both sides agree on some issues, including Australia's commitment to the U.S.-led war in Afghanistan and encouraging the economic relationship with China.

Ms. Gillard said her top priority upon becoming prime minister was to end the fight over plans for a new 40% tax on so-called super profits in the resources sector. Mr. Abbott is determined to keep the issue on the agenda.

World Cup lends Africa needed confidence

[The Outlook]

By Peter Wonacott

When it comes to trading partners, African countries have long looked beyond their neighbors. And when inadequate infrastructure makes transporting a car across the continent about triple the cost of importing it from Japan, it's not hard to understand why.

But the paltry level of trade among African countries—now only about 12% of total African trade—could be in for a big boost. The catalyst isn't a new sea port or a highway system. It's a soccer tournament.

Hosting the World Cup has given the continent's largest economy a huge shot of confidence, which the government and South African companies are expected to parlay into a bigger role reshaping trade and investment across the continent.

"It's not so much the new infrastructure, the tourist and credit-card spending. The World Cup offers the intangible effect of giving South Africa the benefit of the doubt," says Razia Khan, regional head of research at Standard Chartered in London. "South Africa, like the rest of Africa, has really suffered from perceptions."

South Africa now could be in a position to help change those views by helping to pull African countries and markets into a stronger, more cohesive continental market.

South Africa's trade ministry is now promoting an Africa trade zone that will stretch from Cape Town to Cairo, with the goal of knitting together three different regional trade groups over the next year. The Johannesburg Stock Exchange, by far the largest on the continent, is targeting company listings from other African countries rather than those from Europe and the U.S. And South African companies have ramped up investment in other African countries as an alternative to the traditional expansion route outside the continent.

"We have had insufficient cooperation," Rob Davies, South Africa's trade minister, said in an interview. "There needs to be a bigger agenda."

Since it began to dismantle its white-minority regime in the early 1990s, South Africa's socialist-leaning government has struggled to win the trust of investors. Debates over nationalization of local and foreign-owned mines haven't helped. Nor have race tensions, corruption scandals and high rates of violent crime.

But South African officials believe it has changed a lot of minds during the World Cup, including those of its own people. The month-long tournament was free of significant security lapses or major organizational mishaps. South Africans are now aglow with that achievement.

"All those prophets of doom have seen the light," says Russell Loubser, chief executive of the Johannesburg Stock Exchange.

South Africa's new optimism is important for Africa. It's long had the continent's most liquid markets, among its richest resources and superior infrastructure. What it's lacked is the chutzpah to take a more active leadership role on the continent, and to push plans for economic integration.

Lots of obstacles stand in the way of tighter trade ties among African countries. High transport costs in Africa add about 25% to the price of goods, according to the World Bank, making it often cheaper to import from Asia and Europe than sell to nearby countries.

Indeed, most of Africa's roads and rail systems are along the coast, but even those are overburdened. Last year, AngloGold Ashanti Ltd.'s mine in Tanzania lost close to 50,000 liters of fuel after dozens of people raided storage tanks and fled on bicycles. The fuel had to be trucked in from Kenya because Tanzania's port at Dar es Salaam was too congested.

Much of what Africa exports are mineral resources and much of what it imports are finished goods. That also explains why Africa's interregional trade is such a small portion of the total, according to Standard Chartered's Ms. Khan. From 1999 to 2008, she says, the volume of Africa's trade with China multiplied by 10. Over the same period, South Africa's trade with the rest of the Africa only multiplied by four.

But beyond South Africa's ambitions, there are other reasons why African-to-African trade is poised to take off. Unlike Europe and the U.S., Africa has largely shaken off the global economic turmoil. The International Monetary Fund recently raised its growth forecast for sub-Saharan Africa to 4.5% from an earlier projection of 4%, a pace that trails only China and India for major economies.

At the same time, the economic and business climate in African countries are generally improving. Many African governments have improved transparency, reduced trade tariffs and simplified tax regimes.

The challenge for these governments—as well as African and foreign companies—is how to tap this potential. South African officials and executives would like to position the country as a gateway for investors.

Other African countries won't necessarily follow South Africa's blueprint. Earlier this month, neighboring Namibia blocked a bid by South Africa's Absa Group Ltd. to acquire the country's biggest bank. The central bank expressed concern about foreign control of its financial industry.

The move is unlikely to deter Absa. Absa has operations in Tanzania, Mozambique and, like South Africa's other big banking groups, it's been eager to expand on the continent. Its top executive, Maria Ramos, says the World Cup has only underscored why investors want to be in Africa.

Now it may be a matter of South Africans persuading other African economies how much there is to gain from doing business together.

—Robb M. Stewart contributed to this article.

WORLD NEWS

Agence France-Presse/Getty Images

Pakistani Prime Minister Yousuf Raza Gilani greets U.S. Secretary of State Hillary Clinton in Islamabad Sunday. Mrs. Clinton is expected to unveil $500 million in new U.S. development projects for Pakistan.

China's reactors plan concerns U.S.

By Jay Solomon

ISLAMABAD—The U.S. State Department is voicing growing concern about China's proposed sale of two nuclear-power reactors to Pakistan, an issue that could complicate Washington's latest efforts to strengthen cooperation with Pakistan.

Secretary of State Hillary Clinton, who is visiting Islamabad for two days as part of a broader Asia trip aimed at buttressing U.S. alliances in the war in Afghanistan, is expected to unveil $500 million in new U.S. development projects for Pakistan in meetings with senior Pakistani officials Monday, U.S. officials said.

She may also raise the expected nuclear sale with Pakistani officials. It is a deal that U.S. officials fear could undermine the Obama administration's broader nonproliferation campaign, senior U.S. officials said.

These officials said the State Department has also intensified discussions with China about its proposed nuclear sale and whether it would violate Beijing's commitments to the major international body regulating nuclear trade, the Nuclear Suppliers Group.

With Pakistan and China insisting the deal is legitimate and vowing to go through with it, the issue could prove an irritant in U.S.-Pakistani relations, as Mrs. Clinton and other senior U.S. officials gathered Sunday for the second U.S.-Pakistan strategic dialogue, which end Monday.

China joined the Vienna-based Nuclear Suppliers Group, or NSG, in 2004. But Beijing has argued that the proposed sale by **China National Nuclear** Corp. of two 320-megawatt nuclear reactors to the Pakistan Atomic Energy Commission wouldn't violate its NSG commitments, as the deal was brokered before 2004. China has developed two civilian reactors in Pakistan under this initial deal, Chinese and Pakistani officials said.

The State Department is challenging China's use of the grandfather clause inside the NSG for the two new reactors. It says China would need a special waiver from the group's 46 member states to go ahead with the multibillion-dollar sale.

"Based on what we know, the export appears to extend beyond those projects that were grandfathered when China entered the NSG," a State Department official said. "[It] would therefore require a special exception granted by the consent of the NSG, as was done for India in 2008."

Neither Pakistan nor India is a signature to the United Nations' principal nonproliferation treaty, nor are these countries' nuclear facilities completely under U.N. safeguards.

Any NSG member states seeking to sell nuclear technologies to these countries must get special waivers. In 2008, the Bush administration secured a waiver from the NSG to allow U.S. companies to sell nuclear technologies to India.

Pakistani officials on Sunday said President Asif Ali Zardari's government remained committed to purchasing the two new Chinese reactors, despite Washington's concerns. One Pakistani official said the Chinese reactors were central to Islamabad's goal to generate 8,800 megawatts of electricity from nuclear power by 2030. He declined to say when the sale might be completed, but Mr. Zardari visited Beijing last week to discuss economic issues.

"This cooperation isn't something new and has been going on for years," said the official. "We don't need additional approval from the NSG."

During Mrs. Clinton's Pakistan visit, U.S. officials hope to highlight what they describe as significantly improved coordination between the two sides in the fight against al Qaeda, along with advances on other security and economic issues over the past year. In October, Congress passed legislation authorizing $7.5 billion in development aid for the South Asian nation over the next five years. U.S. officials on Sunday said this aid has allowed Washington to show Pakistani people that the U.S. was focused on more than just fighting al Qaeda and the Taliban.

It is "producing a change in Pakistani attitudes, first within the government and gradually, more slowly, within the public," said Richard Holbrooke, the State Department's point man on Pakistan and Afghanistan.

Development projects to be unveiled by Mrs. Clinton will focus on helping Pakistan address the country's chronic water and power shortages, as well as on strengthening Islamabad's educational and judicial institutions. In addition to President Zardari, Mrs. Clinton is scheduled to meet with Pakistan's foreign minister, Shah Mehmood Qureshi, and Army chief Gen. Ashfaq Kayani.

U.S. officials remain wary of Pakistan's history of nuclear proliferation and the potential threat the Chinese reactor sale could pose to President Barack Obama's broader nonproliferation agenda.

U.S. and U.N. officials allege that Pakistani scientist A.Q. Khan had run the world's biggest black market in nuclear technologies before his arrest in 2004. The U.S. views Pakistan as among the world's most-prolific producers of the nuclear fuels required for producing atomic weapons.

Mr. Obama has pushed to tightly control the spread of nuclear technologies through the NSG and other global bodies. His administration has also pressed nations to better monitor and safeguard their fissile materials.

U.S. officials worry that if China were to sell the reactors to Pakistan without the NSG's approval, it could further erode the ability of the international system to stanch the flow of nuclear technologies. They argue the system is already under stress due to alleged efforts by Iran, Syria and North Korea to clandestinely develop nuclear weapons.

Pakistani officials counter that the U.S. is practicing a double standard by supporting the sale of nuclear technologies to India, but not Pakistan. Islamabad has been pressing the Obama administration to support a civilian nuclear-cooperation deal for Pakistan similar to India's, but has so far been rebuffed.

"You shouldn't just make exemptions for certain countries," said the Pakistani official. "You need a criteria-based approach, not a country-specific approach."

Pakistan and Afghanistan sign trade pact

Pakistan and Afghanistan signed a cross-border trade agreement, decades in the making, that the Obama administration hopes will significantly reduce tensions between the historic rivals and aid the war against al Qaeda and the Taliban.

By Jay Solomon in Islamabad and Alan Cullison in Kabul

The transit-trade pact could bolster Afghanistan's war-ravaged economy by opening dozens of new roads into Pakistan and two new ports, through which Afghan farmers and merchants can export their products to the region, said officials involved in the negotiations.

U.S. officials view the deal as much as a strategic asset as an economic one, facilitating greater cooperation between Islamabad and Kabul on issues related to the military campaign against the Taliban.

The Obama administration, however, remains skeptical of Pakistan's activities inside Afghanistan, particularly Islamabad's believed links to the Haqqani Network of militants. The Haqqanis are accused of working with Pakistan's intelligence agencies to launch attacks on coalition and Indian assets inside Afghanistan. Afghanistan historically has charged Islamabad with seeking to destabilize Afghanistan by supporting insurgent groups.

Still, the new pact could provide economic incentives for the two neighbors to pursue a broader regional peace, said U.S. officials Sunday.

"Bringing Islamabad and Kabul together has been the goal of this administration from the beginning," said Richard Holbrooke, the White House's special envoy to Pakistan and Afghanistan. "This is a visual display of the two countries coming together."

Pakistan and Afghanistan haven't updated their cross-border trade agreement since 1965. This has led to inflated transports costs and extended shipping times, according to Afghan and Pakistani officials.

Afghan's parliament and Pakistan's cabinet need to pass the agreement.

Currently, Afghan traders have to offload all their products at two border crossings, where Pakistani trucking companies move the goods to the port of Karachi. Under the new agreement, 18 border crossings will be opened, and Afghan products will be allowed to move through the Gwadar and Qasim ports.

"It's in the interest of Pakistan to have a stable Afghanistan," Pakistan's prime minister, Yousuf Raza Gilani, said ahead of the signing ceremony.

U.S. officials hope the agreement could eventually help ease tensions between India and Pakistan as well. Pakistan's military specifically refused to allow India to engage in the talks as part of a broader regional agreement.

Afghan truckers are still barred from entering India through Pakistan soil under the agreement. Instead, they must offload their cargo at a border crossing in Pakistan's Punjab province.

—Maria Abi-Habib contributed to this article.

INTERVIEW

Hunting down a winning return both on and off the football field

The head of Hungary's biggest bank—and its soccer federation—revels in his numerous roles

[Sándor Csányi]

By Margit Feher
And Veronika Gulyas

Ferenc Redei for The Wall Street Journal

Sándor Csányi agrees that stricter banking regulation is necessary for the sector, 'but the regulations shouldn't limit business activity and taking risks.'

BUDAPEST—It's been quite a journey for Sándor Csányi. The son of a carpet-weaver mother and a father who worked in the local farm cooperative, who left home in Jászárokszállás, a small town on Hungary's Great Northern Plain at 14 to go to high school in Budapest is now, at 57, one of Hungary's richest men, with a fortune estimated at more than $500 million.

Mr. Csányi has been in charge of the country's largest financial institution, **OTP Bank** PLC, as chief executive and chairman, since 1992. With such an important role in the country's financial system for nearly two decades, it's hardly surprising that he has immense clout as a businessman and is well acquainted with the most powerful political figures, including newly elected Prime Minister Viktor Orbán.

His talents are not confined to just running his bank. The day before this interview he was negotiating with a delegation from the International Monetary Fund, attempting to get them to agree to a higher-than-planned 2011 budget deficit target to boost Hungary's ailing economy, in exchange for a government commitment to reduce the size of the public sector. Then there is also the matter of Hungarian football; he has just been elected president of the country's national federation.

"I like doing this," he says of his multiple roles in Hungary's national life, as he sits in his office in Budapest. "It's like when I play chess. I sit there for hours and I want to see whether a move is successful or not. However, I'm happy when I win."

Hungary's economy, like most in the euro zone, hasn't been winning of late. A combination of lax fiscal policy and a large external debt hit the economy hard. In October 2008 it was forced to sign a €20 billion ($26 billion at today's rate) financing agreement with the International Monetary Fund and the European Union to avoid financial catastrophe.

Under the terms of the deal, Hungary must cut its deficit to 3.8% of gross domestic product this year, which the government hopes to achieve by imposing a new tax on the financial sector to raise an extra €710 million in revenue.

The tax, if approved in Hungary's parliament this week, will be levied at 0.45% on banks' adjusted total assets, far larger than the 0.15% tax on net liabilities planned in the U.S. and the 0.07% on assets levied in the U.K. It will also, controversially, affect insurance firms and leasing companies. An association of Hungarian insurance companies has warned that some smaller insurers could go belly-up as a result of the tax, while the Hungarian Leasing Association said the tax will drive the country's leasing market into collapse.

Hungary's six largest foreign-owned banks have already appealed to the IMF, but Mr. Csányi remains warmer to the government's plan than his competitors.

"Naturally, we aren't happy about the tax but it's of extreme importance for me how Hungary's risk assessment [among investors] and risk premiums develop," he says. "Keeping the budget deficit goal is of prime importance since we [OTP] are the first to feel it when market confidence in the country disappears. Deterioration in [investor] confidence and the introduction of the bank tax are equally negative developments; that's why I was a bit more accommodating to the idea of the tax."

Mr. Csányi says the tax should only be imposed with a strict time limit; to retain it longer than two years would hurt economic growth. The independent Fiscal Council overseeing budget developments has projected that the tax would result in increased charges for banking services, which would be passed on to retail clients.

Furthermore, "when banks must decide about capital and liquidity allocation, the parent banks could decide to put their money elsewhere [rather than Hungary]," Mr. Csányi says.

Even without the extra levy, the bank sector's profitability is expected to fall around 15-20% this year, partly because of the weaker business climate, and partly because of regulatory investigations that have forced banks to increase loan loss provisions, Mr. Csányi says.

However, "analysts' forecasts—which are usually cautious—do come true," Mr. Csányi says, when asked about OTP's second-quarter operating profit before making loan-loss provisions. The forecasts range around 100 billion forints ($458 million).

In his office in the bank's headquarters, built in the late 19th-century Succession style, with stained-glass windows and hand-carved dark wood furniture, Mr. Csányi, keeps a series of bronze statuettes. They depict wild game and hunting scenes, reflecting one of his favorite pastimes. These days, however, it seems the banking sector itself is caught in the cross-hairs—facing stress tests and extra levies.

Mr. Csányi seems unflustered by the test results, noting his bank's Tier 1 capital adequacy ratio was the fifth highest, at 17.5%, in the Bloomberg European Banking Index at the end of last year, after Credit Suisse, UBS, Sberbank and Danske Bank.

"I agree that stricter regulation is necessary for the sector, but the regulations shouldn't limit business activity and taking risks." However, he adds, "Banking products should be completely transparent, not involving hidden risks to the clients. Because if a product is risky for the client, that product will sooner or later become risky for the bank as well."

Mr. Csányi argues that banking sector profitability in the Central and Eastern European region will persist in the medium term. That is because the region will continue catching up with Western Europe and that will be reflected in the rise of gross domestic product and wages. But for the time being, the penetration of banking products is lower than in Western Europe.

Mr. Csányi has transformed OTP, Hungary's communist-era banking monopoly. Today it is ranked at 162 in the world's top 1,000 banks by The Banker magazine with branches in Bulgaria, Slovakia, Romania, Ukraine, Russia, Croatia and Montenegro, as well as Hungary.

Mr. Csányi expects OTP to expand over the next 10 years, but, in the shorter term, an efficiency drive is under way. OTP will aim to retain its almost 30% market share in attracting deposits while it expects to see a significant rise in fund management activity. Following a government ban on foreign currency-denominated lending, Hungary's returning to forint-denominated lending, a traditional OTP strength, will significantly improve the bank's market position. OTP will also rely on its branch network with its offers for small and medium-size businesses, Mr. Csányi says.

For OTP, the economic downturn is over in Ukraine and Russia and organic growth rather than acquisitions is the way forward there. Elsewhere, OTP's strong capital position allows it to go cherry picking for acquisition targets in Serbia, Slovakia, Romania and Croatia. Mr. Csányi says 8% to 10% of the market in those countries would be an optimum size.

He also sees the future in what OTP is good at—turning old-fashioned, stodgy retail banks into lean, up-to-date, competitive financial institutions. But now OTP may be looking outside its geographical home turf; Mr. Csányi cited Vietnam as a possible area of expansion.

Amid the IMF negotiations, consulting with Hungary's government and running his bank, Mr. Csányi has not forgotten his duties toward the football federation. The question is, can he restore the fortunes of a federation that last saw success in the 1950s when the famed "Golden Team" led by Ferenc Puskás beat England 6-3 at Wembley and were runners up at the 1954 World Cup? "There'll be many battles," he says. One suspects he will enjoy them.