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Change at the top



Bob Dudley arrives at BP headquarters ahead of a board meeting at which directors were expected to discuss a plan for Dudley to succeed current CEO Tony Hayward. Article on page 17.

Document leak sparks probe by U.S. officials

The U.S. government is investigating the leak of thousands of classified military documents as the Obama administration sought to damp concerns over a large cache of secret documents posted online that is raising questions about the viability of the war in Afghanistan.

White House Press Secretary Robert Gibbs said the leaks of thousands of military field reports by Wikileaks.org "poses a real and potential threat" to U.S. soldiers and allies at war.

He said it is a "breach of law" for people to release classified documents as he announced the U.S. is investigating leaks of secret information.

Military investigators are investigating computers used by Bradley Manning, a U.S. Army intelligence analyst charged this month with leak-

ing classified information, to see if he is the source of the documents.

Deputy National Security Adviser Benjamin Rhodes, Mr. Gibbs and assistant press secretary Tommy Vietor met with representatives of the New York Times on Thursday, White House aides said. The Times, along with the U.K.'s Guardian and Germany's Der Spiegel, had early access to the leak and published their own analyses Monday.

The officials also tried to reach leaders of WikiLeaks, but their emails and calls weren't returned. Instead, Mr. Gibbs passed on a message through the Times to have names and other compromising information redacted before the documents were posted.

White House aides said they made no effort to talk the Times out of publication

because they knew WikiLeaks would put the information on its website regardless.

U.S. officials had moved to contain the political damage from the leak, reaching out to Pakistani officials in advance to their publication. U.S. envoy to Pakistan and Afghanistan Richard Holbrooke called Pakistani President Asif Ali Zardari on Sunday with a direct message: The Obama administration didn't condone the leak.

Both governments worry that the leaks of documents will erode shaky domestic support for counterterrorism operations against al Qaeda and related militant groups.

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- Updates and analysis at WSJ.com/US

Germany balks at new Basel accord

Germany refused—at least for now—to sign on to parts of an agreement on the latest round of an evolving international accord on bank-capital standards being negotiated by the Basel Committee on Banking Supervision, according to officials close to the talks.

Central-bank governors and top bank supervisors from around the world, meeting in Basel, Switzerland, announced progress on a number of fronts Monday.

But a footnote to the news release said: "One country still has concerns and has re-

served its position until the decisions on calibration and phase-in arrangements are finalized in September." That one country wasn't identified in the release by the Basel Committee.

On several issues, the U.S., U.K. and Switzerland have been at odds with Germany, France and Japan. Two major issues to be resolved later this year are precisely how much capital banks will be required to hold and how many years they will be given to reach that new minimum level.

Germany has pushed for regulators to be given discretion over how rigidly to enforce the new ratio, rather than having binding global rules. Others have said that would undermine the intent of the rule.

In order to win over reluctant countries, negotiators who were gathered in Basel agreed to a weaker version of some rules than proposed in December, called for prolonged phase-ins of other provisions, and temporarily shelved proposed rules on the components of bank borrow-

ing that had provoked the fiercest reaction from the banking industry.

Still, the tentative agreement, hammered out by the Basel Committee on Banking Supervision, is a big step forward in achieving a global accord that will require banks to hold thicker capital buffers and deeper pools of funding, an attempt to safeguard the banking system from another crippling crisis.

The group backed away in part from narrow definitions proposed in December of what constitutes capital, mak-

ing it easier for certain banks to comply with new requirements without having to raise funds. That addresses a key source of friction among France, Germany, Japan and the U.S., all lobbying for ways to protect their local banks. But the compromise sharply limits how much banks can count such assets as minority interests, mortgage-service rights and deferred taxes toward new capital requirements.

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Wetsuit-wearing daredevils angle to change the sport of fishing. Page 29

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PAGE TWO

An imperfect CEO readies his exit

[Agenda]

BY PATIENCE WHEATCROFT



When he testified to Congress in the middle of last month, an apologetic BP Chief Executive Tony Hayward declared: "To be sure, neither I nor the company is perfect." There seems to be a strange determination to prove as much.

When things go as badly wrong as they have at BP, someone has to take the blame. The buck stops with the chief executive, although in this case the chairman, Carl-Henric Svanberg has not acquitted himself in total glory either. Mr. Hayward's departure looked inevitable, the only questions being over timing and compensation. Once those were settled, Bob Dudley could be installed in his place and the company could begin to rebuild.

But instead of a well-orchestrated announcement of Mr. Hayward's resignation, allowing him to leave with a degree of dignity, and the board to look as if it was in control of the situation, BP's headquarters has proved to be as leaky as its Gulf of Mexico oil well.

The discussion over money should have been brief. Mr. Hayward has been well-rewarded during his time with BP and there can be no quibbling over the accrued pension package that he would take with him. It may be generous but it is his. That, though, is surely where the generosity should stop. Although Mr. Hayward was lauded for his cost-cutting, he leaves with continuing question marks over the safety regime, a slashed value of the business, and investors deprived of dividends. His brand has become toxic in the crucial U.S. market.

However unfair he may believe it to be, the honorable thing for him to do would be to resign. In which case, his salary would stop



BP's Tony Hayward

when he walked out of the door. If he chose not to resign, and had to be pushed out by the board, then they may argue that they were contractually bound to pay out a year's notice period. If that is the case, then shareholders might rightly resent him taking a parting gift of more than £1 million of their money. The price for that should surely be an absence of weasel words in the

On Tony Hayward's future, BP's headquarters has proved to be as leaky as its Gulf of Mexico oil well.

statement announcing his departure. Over the weekend, a BP spokesman fended off media queries with the insistence that Mr. Hayward continued to have "the full support of the board and senior management." So we must assume that he has decided to resign, retain a degree of dignity and forgo any compensation for loss of office.

And it seems that BP does still value Mr. Hayward's expertise as an oilman, since it is planning to make him a nonexecutive director of the Russian joint venture TNK-BP. The Russians, presumably, do not share Barack Obama's views on BP's departing chief executive. It was the U.S. president who

opined that he would not employ him. Mr. Hayward will certainly need more diplomatic skills than he exhibited in recent weeks if he is to play a part in TNK-BP.

Those investors who relied on the BP dividend for an important slice of their income will, no doubt, be intrigued to learn what a non-executive director of a subsidiary is paid. Expect protests if they suspect the fee amounts to compensation for loss of the chief executive role in disguise.

Making the cash flow

Periodically, U.K. governments perceive that they have spotted an "equity gap" and go about finding ways to bridge it. That has happened again. Vince Cable, the LibDem minister now in charge of the Department for Business, Innovation and Skills, launched Monday a consultation document aimed at getting banks to boost their lending to businesses, and the "equity gap" featured.

The document suggests that small and medium-size businesses (those with revenue under £25 million) find it difficult to raise equity finance of between £250,000 and £5 million. Help is to come in the shape of an Enterprise Capital Fund, announced in the emergency budget last month. But with just £37.5 million in equity finance to share out, this is clearly not going to solve the problem. That is one reason why Mr. Cable is so keen

to put pressure on banks to do more to help.

Smaller firms account for 99.9% of U.K. businesses, providing over half of private-sector employment. If the private sector is to generate the growth necessary to regenerate the economy as public-sector cuts bite, then these are the businesses that must motor. Private-equity investors have the funds to power them, with around £1 trillion uninvested at the moment, says the document. But they tend to be unenthusiastic about smaller firms and the lack of leverage available to them at the moment is making potential returns look less attractive than they once were. The value of private-equity deals in 2009 was, according to the industry, just 15% of its pre-crisis peak.

Mr. Cable would like to encourage the private-equity industry to invest its cash but he has few means to do so. Hence the main focus of his attention is the banks, over whom he is determined to wield influence. He has long been critical of what he sees as the banks' failure to lend to business, and Bank of England figures show that net lending to business has continued to fall since the financial crisis hit. The question that is harder to answer is the extent to which this is due to lack of appetite for debt. The latest report from the Bank of England's agents was that demand for finance was "muted."

Nevertheless, Mr. Cable believes that there is an unmet appetite and he is threatening that if the bankers don't start to shovel the money out, then he might seek retribution where it hurts, attacking their bonuses. He quotes figures from the Financial Stability Report that show that if U.K. banks limited their bonus and dividend payouts to pre-crisis and 2009 levels respectively, they could generate around £10 billion of additional capital over 2010 that could sustain £50 billion of new lending. He will be watching for some of that extra lending to take place—or bankers will pay.

What's News

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'Putting a more acceptable face at the top will help, but BP's problems run too deep to be fixed by shuffling chairs.'



Continuing coverage



See reaction to WikiLeaks' release of thousands of documents on the Afghan war at wsj.com/world

Question of the day

Vote and discuss: Do you think Robert Dudley will be a good leader for BP?

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

Previous results

Q: Do the results of bank stress tests reassure you about the health of the European banking sector?

Yes

27%

No

73%

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NEWS



Agence France-Presse/Getty Images

A Russian man tries to cool down in a Moscow fountain on Monday.

Heat and smoke beset Moscow

By WILLIAM MAULDIN

MOSCOW—Wreathed in smoke from underground fires, Moscow recorded its hottest day ever Monday as large parts of Russia endured severe drought.

The temperature rose to a record 37.4 degrees Celsius, breaking the previous record of 36.8, according to official data. A southeast wind wafted smoke from smoldering underground peat into central Moscow, reducing visibility and veiling its onion domes and Stalin-era skyscrapers.

"It's very difficult to extinguish peat fires," which smolder beneath the surface but above the groundwater and rocky, mineral-rich earth, said Gennady Eliseev, deputy science director of Russian forecasting agency HidroMetTsentr.

The Emergency Situations Ministry dispatched aircraft to fight 60 forest and peat fires affecting about 59 hectares of land outside the city, pouring 550 metric tons of water in the past day.

Meanwhile, the concentration of airborne particles was well above normal, officials said.

Muscovites may be smelling smoke from nearby peat fires through early October, depending on

the weather, a Greenpeace Russia director told local newswires on Monday.

"I'd rather enjoy that strong peat fire smell from a large glass of Scotch whisky rather than from the window of a Moscow apartment," said Alexander Zakharov, head of institutional equity sales at the Otkritie brokerage. "Wherever you go, it is all about that terrible smell and how much rain is needed to bring it back to normal."

And peat isn't the only thing heating up underground: A week ago a consumer watchdog group sued the Moscow metro for failing to alleviate the heat in subway cars. Air conditioners have been sold out for days at major shops and Internet retailers.

Crops covering an area the size of Portugal have perished in Russia, leading parts of southern Russia, the Volga River region, the North Caucasus Mountains and the southern Ural Mountains to declare states of emergency.

Russia is seeking to produce enough grain to satisfy domestic demand of 75 million tons and still have some left over for export. Official estimates for 2010 grain output have fallen to as little as 80 million tons.

Sarkozy confirms death of French aid worker

By DAVID GAUTHIER-VILLARS

PARIS—France's President Nicolas Sarkozy said Monday that an ailing French aid worker had been executed in North Africa by an al Qaeda offshoot, which had claimed his kidnapping three months ago.

Al Qaeda in the Islamic Maghreb, a group of militants who pledged allegiance to al Qaeda in 2007, said Sunday that it had killed Michel Germaneau to retaliate against France's failed attempt at freeing him, according to an audio message sent by the group to Qatar-based news station Al-Jazeera.

"They killed a 78-year-old in cold blood, a man who was sick and to whom they had refused to provide the medicines he needed," Mr. Sarkozy said from the Élysée presidential palace. The president didn't

say how French authorities confirmed Mr. Germaneau's death.

Last week, France said it participated in an operation aimed at freeing Mr. Germaneau, a retired engineer kidnapped in Niger in April. France's Defense Ministry said the military operation was led by Mauritania's army and conducted in neighboring Mali. Participants in the operation failed to find Mr. Germaneau. Mr. Sarkozy said French authorities opted to intervene alongside Mauritania's army because they were convinced that Mr. Germaneau was "condemned to death."

On Friday, France's Defense Ministry said the AQMI members holding Mr. Germaneau had refused to engage in talks about his release and hadn't provided evidence that the Frenchman was still alive.

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EUROPE NEWS

Russia jailhouse probe stalls

BY GREGORY L. WHITE

MOSCOW—More than seven months after the jailhouse death of lawyer Sergei Magnitsky prompted Russian President Dmitry Medvedev to order a full investigation, official probes into the case appear stalled, according to members of a Kremlin watchdog group monitoring the case.

“According to our information, the president’s orders to conduct a full investigation of all the agencies involved haven’t been fully implemented,” said Kirill Kabanov, an anticorruption activist who is part of the working group set up by the Kremlin’s human-rights advisory panel to follow the case. The group sent a report to President Medvedev on the issue early this month, but there has been no public reaction.

“They’re dragging their feet because some very important figures are implicated,” said Valery Borshchev, head of an oversight panel that, by Russian law, monitors the prison system and investigated Mr. Magnitsky’s death. In December, the panel determined that inhumane treatment—possibly deliberate—led to Mr. Magnitsky’s death.

A Kremlin spokesman said Monday he had nothing to add beyond a 2009 statement that an investigation had been ordered.

President Medvedev has pledged to fight corruption and abuse of power by law-enforcement authorities since he came to office two years ago. How this case is resolved will send strong signals about the business climate, as much as about human-rights issues in the country.

“This is a test for the Russian authorities,” said a spokeswoman for European Parliament President Jerzy Buzek, who raised the Magnitsky case with Mr. Medvedev and other top officials during a recent visit to Moscow.

Mr. Magnitsky, an adviser to a major Western investment fund, died at age 37 on Nov. 16 in Mos-



Sergei Magnitsky was held in cell No. 61 in the fall of 2009 before his death.

cow’s Matrosskaya Tishina prison after nearly a year in pre-trial detention. He said—and it was confirmed by prison records—that he had been healthy when he was jailed on charges of tax evasion, but that he was subjected to steadily worsening conditions. He and his supporters allege that he was deliberately denied medical care by investigators and prison officials in an effort to force him to recant testimony he had given alleging major corruption among high-level police and other officials. In addition to official statements to prosecutors before his arrest and formal complaints about his treatment, Mr. Magnitsky kept detailed diaries while in jail.

In the wake of Mr. Magnitsky’s death, Mr. Medvedev shook up the ranks of top prison officials and vowed a complete investigation. Though preliminary inquiries are still open, no charges have been filed, and several officials implicated in allegations of corruption by the accused appear to have been promoted. Prosecutors declined to com-

ment on the case.

The slow-moving probes are an effort to “create the impression a real investigation is taking place,” said Sergei Nasonov, a prominent lawyer working with the Kremlin advisory panel on the case. “Once public attention to the case fades a bit, they’ll find a way to put it to bed gently.”

Some observers see the slowness of the inquiries as a sign of tension between powerful government factions over how to handle the case.

Mr. Magnitsky was a lawyer working for Hermitage Capital Management, one of the largest foreign portfolio investors in Russia until its chief, U.S.-born investor William Browder, was denied a Russian visa in 2005. Until then, Mr. Browder had been one of the most prominent foreign defenders of the Kremlin against critics in the West. Russian officials later charged Mr. Browder, along with Mr. Magnitsky, with tax evasion. Mr. Browder, who now lives in London along with a number of staff members from his fund, denies

Stop and Go

Official probes into the jailhouse death of Sergei Magnitsky have moved slowly.

Nov. 16, 2009: Magnitsky dies in Moscow’s Matrosskaya Tishina jail

Nov. 24, 2009: After pressure from human-rights groups, Medvedev orders investigation.

Dec. 11, 2010: Medvedev fires or reassigns 20 top prison officials.

July 20, 2010: European Parliament President Jerzy Buzek raises case in meeting with Medvedev.

those charges.

Mr. Browder and other former colleagues of Mr. Magnitsky have conducted an international campaign to keep pressure on Russian leaders, with websites detailing the corruption charges and the alleged wealth of some of the policemen involved in the case. They also lobbied the U.S. Senate to block U.S. visas for several dozen Russian officials they allege are involved.

As the campaign has expanded in recent weeks, the usually taciturn investigators have begun to respond. Alexei Anichin, head of the Interior Ministry unit that has led the case against Messrs. Magnitsky and Browder, complained early this month in a radio interview that “we suffered most from his death,” because the case was closed without going to trial.

Shortly afterward, one of the police officers Mr. Browder accused of corruption filed a slander complaint with the prosecutor-general. Prosecutors haven’t responded. A major Moscow newspaper in recent days published a series of articles reiterating investigators’ tax-evasion charges against Mr. Browder and denounced his allegations against police as a smoke screen.

British charity is scolded for politics

BY AINSLEY THOMSON

LONDON—The Charity Commission has ordered Atlantic Bridge—a charity founded by U.K. Defense Secretary Liam Fox to foster the relationship between the U.K. and the U.S.—to immediately stop promoting political policy associated with the U.K.’s Conservative Party.

The Charity Commission began investigating Atlantic Bridge in August 2009 after a member of the public complained that the charity was “engaging in inappropriate political activity.”

Educational charities in the U.K. are prohibited from promoting political points of view. Mr. Fox set up the project in 1997—with the charity subsequently formed in 2003—in order to encourage the “special relationship” between the U.K. and the U.S.

Mr. Fox couldn’t be reached for comment.

The charity’s website lists a number of U.K. politicians on its honorary advisory council, including Conservative Party lawmakers Chancellor of the Exchequer George Osborne, Foreign Secretary William Hague, and Education Secretary Michael Gove. It also includes U.S. politicians such as Arizona Republican Sen. Jon Kyl, South Carolina Republican Sens. Jim DeMint and Lindsey Graham, and Connecticut independent Sen. Joe Lieberman.

The Charity Commission, an independent regulator of charities in England and Wales, said its 10-month investigation had established that Atlantic Bridge was a legitimate charity capable of operating for the public benefit.

The commission ruled, however, that the charity’s educational objectives weren’t being met by its promotion of the “special relationship” between the U.K. and the U.S.

The commission found that the charity had focused on former Conservative Prime Minister Margaret Thatcher’s personal contribution to the “special relationship,” which it said suggested that the charity was promoting a political policy closely associated with the Conservative Party.

“The Commission also concluded that the activities of the Charity may lead members of the public to call into question its independence from party politics,” the report said.

Atlantic Bridge said in a statement on Monday that it was “disappointed” by the commission’s ruling on its use of the “special relationship.”

But the group said that it accepts the commission’s ruling and that it will work over the coming months to identify “suitable educational projects and appropriate language” to continue to promote the relationship between the two countries.

The commission has ordered Atlantic Bridge to carry out a governance review over the next 12 months and report back within two months of its completion.

The Charity Commission’s findings don’t involve the U.S. organization, Atlantic Bridge Inc.

—Alistair MacDonald
contributed to this article.

U.K. details plan for finance rules

BY NATASHA BRERETON
AND LAURENCE NORMAN

LONDON—The U.K. government provided more details on a sweeping plan to consolidate and enhance its financial regulatory structure by transferring more powers to the Bank of England.

The key functions of the Financial Services Authority will be moved inside the Bank of England as the central bank’s Prudential Regulatory Authority. A separate consumer-protection agency and a new Financial Policy Committee also will be formed.

Aimed at avoiding a repeat of the 2007-2008 crisis, the committee will be responsible for identifying potential problems in the financial system and taking action to protect the economy.

The crisis exposed “real and significant failings” in the regulatory structure, including the fact that no one body was responsible for monitoring the financial system as a whole, the Treasury said in a statement outlining the changes.

The proposed shakeup builds on the government’s commitment to replace the so-called tripartite system of regulation, set up by the pre-

vious Labour government, which divided financial oversight among the Bank of England, the Treasury and the FSA. The FSA is to be dissolved.

Bank of England Governor Mervyn King will head the 11-member FPC, putting him in charge of the regulatory regime for Europe’s largest banking center, as well as monetary policy.

“There is a rationale for each piece of the proposed re-allocation of responsibilities between statutory bodies...The proposals provide a framework for relationships to work,” said Julie Patterson, director of authorized funds and taxes at the Investment Management Association.

The Treasury said the FPC will meet at least four times a year. It will release minutes of each meeting within six weeks, as the Bank of England’s interest rate-setting Monetary Policy Committee does.

The committee’s new tools could include: capital requirements gauged on the strength of the economy, or used to control certain types of lending; leverage limits; forward-looking loss provisioning; collateral requirements; credit controls; and reserve requirements.

The Prudential Regulatory Au-



The shakeup would widen the role of the Bank of England’s Mervyn King.

thority will implement policy changes on the FPC’s behalf.

“Given the global nature of financial markets, the government believes these policy tools are likely to prove more effective if adopted at the international level and will continue to work with international counterparts to deliver such a system,” the Treasury paper said.

In the fall, the government will also examine the possibility of giving regulation of consumer credit to

the proposed consumer regulator, the Consumer Protection and Markets Authority, including rules on personal loans and credit card loans. Overseeing consumer credit currently is split between the FSA and the Office for Fair Trading.

Financial Secretary to the Treasury Mark Hoban said Monday that the government will consult on detailed legislation in late 2010 or early 2011, which means it may not pass until well into next year.

EUROPE NEWS

East London seeks Olympic revival

By CECILIE ROHWEDDER

LONDON—Two years before the 2012 Olympic Games open in London, a huge stadium, a wave-shaped aquatics center and other venues have risen from an industrial wasteland in the depressed East End. But George Mulonda, playing soccer in a dusty park nearby, is doubtful the Olympics will make a difference in the rough neighborhood.

“New buildings are good but that’s not enough,” he says.

Changing the lives of East Londoners such as 16-year-old Mr. Mulonda was the centerpiece of London’s bid to host the 2012 Games. “The most enduring legacy,” Britain promised in the bid, would be “the regeneration of an entire community for the direct benefit of everyone who lives there.”

Yet while building progresses on schedule in the future Olympic Park, locals fear the broad urban renewal so central to the bid could become a lesser priority. Since winning the right to stage the Games five years ago, London has gone through a deep recession and a collapse in the real-estate market.

Now a new government, grappling with the biggest peacetime budget deficit in British history, is drastically cutting public spending. The £9.3 billion (\$14.3 billion) Olympic budget itself has been cut by only £27 million so far—a small portion. But East Enders fear that once the Games end, the government’s generosity will, too.

Legacy in an age of austerity | Ahead of London’s 2012 Olympic Games, questions remain



Olympic Stadium in London, July 21

What’s been completed...

- Outer structures of five main venues, media center and athletes’ village
- Renovation of Stratford subway and train station
- Construction of Stratford International train station
- Structure of Westfield shopping mall
- Government agreement to transfer debt-free Olympic land to legacy planners

... and what hasn’t

- No permanent tenant for Olympic stadium yet
- Detailed legacy plan delayed
- No international trains stopping at Stratford before and during Games
- Budget cuts hurt community programs such as free swimming for youth and seniors

Source: WSJ reporting Photo: Getty Images

The U.K.’s looming budget cuts could slow the envisioned revival of an area that is already economically challenged. “I don’t think this government is as committed to the regeneration of East London as the old government,” says Chris Robbins, council chief for Waltham Forest, one of the five areas of London surrounding the Olympic site.

Last October, Mr. Robbins and the mayors of the other four districts laid out the long-term benefits they were hoping to reap from the

Olympics. “The true legacy of 2012,” they wrote in a 90-page paper, would be that within 20 years the communities hosting the Games would be as well-off as the more affluent parts of West London.

The government says it shares the ambition to improve East London living standards and will announce its plans for the Olympic legacy after the results of an overall spending review are published Oct. 20. Anthony Wright, a spokesman for the U.K. Department for Culture,

Media and Sport, said he rejected any suggestion that the government wasn’t committed to the Olympic legacy. Of each pound spent on the Olympics, he noted, 75 pence go toward infrastructure improvements.

Open questions include the Olympic stadium, for which no permanent tenant has been found. Eurostar, the fast train connecting London with Paris and Brussels, won’t stop at the new Stratford International train station by the stadium during the Games, and it is un-

clear whether it will afterwards.

At the Olympic Park Legacy Company, in a high-rise with a sweeping view of the future Olympic Park, Chief Executive Andrew Altman said the financial pressure is forcing the public-sector group to be more creative about attracting private investors. But he warned against dismissing what has already been achieved. “The Olympics has already delivered a huge legacy. It has accelerated the infrastructure regeneration in this part of London by decades,” he said.

The group will get the keys to the Olympic Park in 2013. It recently breathed a sigh of relief when the government said it would honor a promise by the previous administration to hand over the Park’s land after the Games without the debt from the purchase. Debt-free land will make it easier to find promising buyers and tenants.

A tangible legacy is the £1.45 billion shopping and leisure complex being built by Australia’s Westfield Group next to the Olympic Park. The mall, local leaders hope, will provide jobs and training programs even for low-skilled residents. Westfield bought the land before the Olympics bid, drawn by the size of the market, lack of retail competition and good traffic connections. Yet without the Games, the company said, it wouldn’t have built so quickly. “As soon as we open the shopping center, the largest piece of the legacy will have started,” says its director, John Burton.

French police query heiress on financing

By DAVID GAUTHIER-VILLARS

PARIS—French police questioned the nation’s richest woman on Monday as part of a preliminary investigation into allegations of illegal campaign financing that have roiled President Nicolas Sarkozy and his government for two months.

Liliane Bettencourt, the 87-year-old heiress to the founder of French cosmetics company L’Oréal SA, was interrogated at her home as prosecutors look into allegations she helped support Mr. Sarkozy’s victorious 2007 campaign with illicit cash donations. A former accountant for Ms. Bettencourt told police earlier this month that she withdrew cash that she was told would be handed to Eric Woerth, now France’s Labor minister, in his capacity as treasurer of Mr. Sarkozy’s conservative UMP party. After two hours of questioning, police also searched Ms. Bettencourt’s house in Neuilly-sur-Seine, near Paris.

Ms. Bettencourt’s lawyer, Georges Kiejman, said the heiress told police that financing politicians was never “her hobby but rather that of her husband.” Ms. Bettencourt has said that after her husband’s death in 2007, she kept up political contributions, which she has said were legal. Mr. Sarkozy has said allegations of illegal financing were an attempt to smear him. Mr. Woerth, who Mr. Sarkozy has asked to overhaul France’s debt-laden pension system, has denied collecting illegal donations.

A prosecutor in the Nanterre



Liliane Bettencourt in 2005.

suburb near Paris is looking into Mr. Woerth’s ties to Ms. Bettencourt and trying to determine whether the minister intervened to help his wife Florence get a job with the L’Oréal heiress.

Asked whether she knew Mr. Woerth personally, Ms. Bettencourt told police that she had a “vague recollection” of having had dinner with him once, her lawyer said. The lawyer said he didn’t attend Monday’s interrogation, but said Ms. Bettencourt briefed him on it. Ms. Bettencourt told police that she had little to say about Ms. Woerth, “who wasn’t a close collaborator,” the lawyer said.

Mr. Woerth has said his wife applied and obtained a position as wealth manager for Ms. Bettencourt without her husband’s assistance.

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U.S. NEWS

Bush tax cuts are likely issue in fall campaign

By JOHN D. MCKINNON

Democrats are aiming to push legislation extending Bush-era middle-class tax cuts ahead of midterm elections. But with Republicans and several Democrats advocating a similar extension for high-earners, too, prospects for passage before the November balloting appear to be uncertain.

So Democrats already are planning to turn the issue into a campaign theme—by blaming Republicans if the legislation fails. The looming battle over taxes and spending is likely to be a dominant one in Washington, stretching into next year, as the government begins to address chronic budget deficits while trying to maintain economic growth.

“The Senate will move first, and it will be a test to see whether Republicans filibuster” to block the bill in a bid to also win tax cuts for higher earners, said Rep. Chris Van Hollen of Maryland, head of the House Democrats’ re-election effort.

“If you can’t get it out of the Senate, then you take it to the election,” Mr. Van Hollen said in a recent interview. “You say to the American people that Republicans want to

continue to hold middle-class tax relief hostage for an extension of tax breaks for [the well-to-do]. That will be the debate.”

A spokesman for Senate Majority Leader Harry Reid confirmed on Sunday that the Nevada Democrat “intends to take a bill [to extend middle-class tax cuts] to the floor in September.”

The Democrats’ emerging tactic is a risky one, necessitated by the difficulty of the policy choices and internal party divisions on the issue.

Given the uncertainty of the Senate outcome, the strategy offers the GOP a chance to accuse Democrats of planning to raise taxes on most Americans, by allowing all the Bush tax cuts to lapse. The cuts, passed in 2001 and 2003, will expire on Jan. 1, 2011, unless Congress passes legislation to extend them.

“Washington Democrats are poised to allow the largest tax increase in American history to take effect next year,” Rep. Mike Pence of Indiana said Saturday in the GOP’s weekly address.

Democrats reject the idea. Taking to the talk shows Sunday, Treasury Secretary Timothy Geithner reiterated the Obama administration’s support for extending middle-class

Tax takes | What’s owed on typical returns?

	INCOME	TAXES OWED	
Single parent, one child	\$25,000	-\$1,881 -\$2,281	
Married couple, one earner, two children	50,000	688 -112	■ Taxes if Bush-era tax policies were still in effect in 2011
Married couple, two earners, two children	85,000	5,383 4,583	■ Taxes in 2011 under Obama’s proposed tax policies
Single, no children	60,000	7,484 7,084	
Married couple, two earners, two children	150,000	19,268 18,468	
Married couple, two earners, two children	300,000	61,292 65,287	
Married couple, two earners, no children	500,000	123,900 130,342	
Married couple, two earners, no children	1,000,000	254,167 307,342	

Source: Tax Foundation

U.S. Representative Chris Van Hollen (D-MD), Chairman of the Democratic Congressional Campaign Committee



Reuters

breaks for families making less than \$250,000 annually, while allowing those for higher earners to lapse, as part of a bid to tackle deficits.

Allowing the Bush-era tax cuts for high-income taxpayers to expire would raise taxes for 3.4% of households in 2012, according to the non-partisan Tax Policy Center.

Already, Republicans have been warning that Democrats are ignoring a “ticking tax bomb.”

A GOP research group plans to release new poll results Monday showing voters in 12 swing states might punish Democratic incumbents for failing to take action on the expiring tax cuts ahead of the election.

The poll by Resurgent Republic says 55% of voters in those states would be less likely to vote for Democratic congressional candidates if Congress doesn’t stop or delay next

year’s scheduled tax increases before Election Day.

Even if the tax-cut bill manages to pass the Senate, it could expose Democrats to the charge that they are raising taxes on higher earners in the midst of a weak economy, and hurting small-business owners.

“We are eager to oblige our friends on the other side of the aisle who want to have this debate,” Sen. Orrin Hatch (R., Utah) said in a statement Sunday. “This is about stopping a job-killing tax hike on small businesses during tough economic times.”

Still, the Senate-first strategy feeds into one of the Democrats’ broader themes—that Republicans are clinging to policies of former President George W. Bush.

The strategy also could mute Republican criticism that Democrats are doing nothing to address the tax

cuts’ expiration. And by having the Senate move first, it might allow vulnerable House Democrats to avoid politically risky votes to raise taxes on higher earners, or add to future budget deficits.

Members of the tax-writing Senate Finance Committee held a series of closed-door meetings last week to begin negotiating the outlines of an extension bill. But already, four senators whom Democrats normally would count on have said they have concerns about letting the upper-income breaks lapse while the economy is weak.

If the Senate ultimately is unable to muster the votes to pass a tax bill, some knowledgeable Democrats predict the House still might try a short-term middle-class extension bill ahead of the election.

—Michael M. Phillips | contributed to this article.

At Canadian border, a bridge to prosperity

By JEFF BENNETT

DETROIT—Billionaire businessman Manuel “Matty” Moroun is poised to move a step closer to tightening his control of traffic across the Detroit River, one of North America’s busiest and most economically vital border crossings.

Mr. Moroun, whose **Detroit International Bridge Co.** owns the Ambassador Bridge connecting Detroit and Windsor, Ontario, is expected this week to win approval from Canadian customs authorities for a key part of his plan to build a second span over the same stretch of water. By contrast, plans for a competing, publicly owned bridge have stalled amid concerns over the potential cost to taxpayers.

At stake are tens of millions of dollars of annual toll revenue and a critical link in the U.S. auto industry’s supply chain.

Customs authorities’ go-ahead for a new bridge plaza to be developed by Mr. Moroun—including toll booths and customs-inspection buildings—would all but clear the way for his company to seek a final environmental permit from the Canadian transportation department to build the new six-lane bridge, adjacent to the existing one. The permit is one of the few regulatory hurdles remaining before construction can begin.

“This was the big enchilada,” Mr. Moroun’s son Matt, vice chairman of the bridge company, said in an interview. “We are now 80% of the way there.”

Some \$1.2 billion worth of goods cross the U.S.-Canada border each day, a quarter of that over the Am-



A U.S. Customs officer at the Ambassador Bridge in Detroit in 2008. Its owner is expected to build a second span.

bassador Bridge. Much of the traffic is trucks carrying auto parts or finished vehicles between the two countries.

Last year’s traffic flow of 6.4 million cars and trucks generated about \$60 million of annual toll revenue for the Morouns’ bridge company.

The public project, meanwhile, has broad backing from U.S. and Canadian officials and from the Michigan Department of Transportation. But despite pleas from Michigan

Gov. Jennifer Granholm and an offer from Canada to subsidize the state’s construction costs, Michigan’s Senate adjourned this month without voting on a bill to advance the plan.

Political and business leaders on both sides of the border see a new bridge as an essential backup to the Ambassador. Their preferred route is the six-lane Detroit River International Crossing, or DRIC, a project that would cost about \$5.3 billion. The DRIC would be built and oper-

ated by a public-private partnership.

Backers of the DRIC say it would open in January 2016 and generate \$70 million of toll revenue during its first year, while speeding the flow of goods between the U.S. and Canada. The Morouns’ twinning plan, they say, wouldn’t add enough capacity because it would involve mothballing the older span.

But the DRIC can’t move forward until Michigan’s state Senate passes a bill authorizing the creation of the

public-private company. Only then can Michigan’s transportation department begin acquiring land and building infrastructure.

Republican state Sen. Jud Gilbert, chairman of the transportation committee, said he won’t bring the bill to a vote until it sufficiently protects the state if toll revenue falls short.

That puts the Morouns’ timeline well ahead of the DRIC. They control huge swaths of land in Southwest Detroit and have already invested \$500 million in upgraded access roads and toll plazas on both sides of the border.

The Morouns propose to build a new six-lane span and then close the old four-lane span for refurbishment. It would reopen only to accommodate overflow traffic. Matt Moroun says his company would cover all construction costs and could open the new span in as little as three years after receiving Canadian approval.

With the bridge-plaza go-ahead in hand, his company could seek the final environmental permit within a couple of months.

James Kusie, spokesman for the Canadian transport minister, said there is no specific time frame for a permit approval. He added that the Canadian government favors the DRIC.

Mr. Gilbert said he hasn’t given up on the DRIC either. He said he is continuing to work on a revised bill, but declined to say when it might be introduced. He added that if Mr. Moroun begins erecting a second span before the DRIC project gets moving, the issue of a new bridge would be up for reconsideration.

WORLD NEWS

Europe adopts new Iran sanctions

By DAVID CRAWFORD
AND STEPHEN FIDLER

European Union foreign ministers set the seal Monday on tough new sanctions aimed at Iran's suspected nuclear-weapons program—but at the same time unexpectedly lifted curbs restricting supplies to a nuclear-power plant Russian engineers are building in the country.

The new European sanctions target Iran's trade, financial services, energy and transport sectors, according to a review of the document agreed on by the ministers.

Among other things, they extend travel bans and asset freezes, stop new medium- and long-term trade finance, bar the provision of insurance services, end cargo-only flights, and prohibit the supply of equipment and technology for the oil and natural-gas industries.

While the measures take aim directly at Iran's missile programs and aspects of its nuclear program, they also contain an apparent contradiction: an explicit reversal of a bar introduced in 2007 on supplies to a light-water reactor at the Iranian coastal town of Bushehr.

The Bushehr exemption follows strong lobbying from Moscow, which insisted that EU sanctions shouldn't impair delivery of equipment to the lucrative reactor project. Russia says it will complete construction of the billion-dollar plant next month.

European officials familiar with



Agence France-Presse/Getty Images

the Iran-sanctions discussion said the provision to legalize shipments to the Bushehr plant was necessary to ensure Russian co-operation with the international effort to increase pressure on Iran over its nuclear program, which Tehran says is for peaceful purposes.

Russian agreement was required to secure a resolution at the United Nations Security Council last month that tightened international sanctions on Iran.

William Hague, Britain's foreign secretary, said the EU sanctions—which go beyond those agreed to at the U.N.—sent a clear message to Tehran that the longer it refused to

come clean about its nuclear ambitions “the greater the pressure and isolation Iran will bring upon itself.”

In a joint statement, U.S. Secretary of State Hillary Clinton and Treasury Secretary Timothy Geithner welcomed the EU measures, along with sanctions implemented by Canada. They said the U.S. remained committed to a diplomatic solution with Tehran.

However, Shahin Gobadi of the National Council of Resistance of Iran, an exile group, said the Bushehr concession “was just the type of loophole that we have been complaining about. It gives too much discretion to people in the

Turning the Screws

Among the EU's sanctions on Iran:

- Extends travel ban and asset freezes beyond those cited in United Nations resolutions
- Prohibits equipment and technology that could contribute to Iran's nuclear or missiles program
- Calls for restraint in entering new short-term commitments to finance trade with Iran
- Bars all cargo-only flights from Iran

In a 2009 image, a security guard stands outside a building at Iran's nuclear-power plant in Bushehr.

ports and in customs to decide themselves” what's legal and what's not.

Russia began building the Bushehr plant prior to the imposition of U.N. Security Council sanctions against Iran in late 2006. A series of U.N. Security Council resolutions imposing sanctions on Iran specifically exclude light-water reactors. A European official said Monday's decision aligned the EU's position with that of the U.N. but noted the exemption applies only to “light-water reactors begun before December 2006”—in other words, only to Bushehr.

Britain, France and Germany lob-

bied for the concession to Russia, diplomats said. In September the three EU nations plan to renew their discussions with Russia, China and the U.S. on how to nudge Iran into serious negotiations aimed at resolving questions about its nuclear program.

If the talks with Iran remain at a stalemate, discussions on a new round of U.N. Security Council sanctions could begin by the end of the year, diplomats said.

Mr. Gobadi said the new EU sanctions are helpful but not sufficient to curtail Iran's nuclear program.

The NCRI's military wing, the Mujahedin e-Khalq, is considered a terrorist organization by the U.S., though a federal appeals court last week ordered the State Department to re-evaluate the designation.

A spokesman for the Russian Foreign Ministry declined to comment on the EU decision. But he noted that Moscow has been striving since the last U.N. sanctions resolution to ensure that international restrictions don't affect Russia's deals with Tehran, in particular the Bushehr reactor.

Despite those efforts, the Kremlin's hardening rhetoric about Iran's nuclear ambitions seems to have alienated the government in Tehran, with President Mahmoud Ahmadinejad denouncing his Russian counterpart over the weekend as the “mouthpiece” of Iran's enemies.

—Charles Forelle and Greg White contributed to this article.

Report faults China's policies

By ANDREW BATSON
AND JASON DEAN

BEIJING—China's drive to support domestic technologies—which has already resulted in a high-profile confrontation with foreign businesses over government-purchasing policies—is likely to continue to cause trade disputes and political tensions with the U.S., says a new report from the U.S. Chamber of Commerce.

“Indigenous innovation is a massive and complicated plan to turn the Chinese economy into a technology powerhouse by 2020 and a global leader by 2050,” says the report, to be released this week. “What is worrisome for the business community is that these indigenous innovation industrial policies are headed toward triggering contentious trade disputes and inflamed political rhetoric on both sides.”

The report, which was commissioned by the U.S. Chamber and written by James McGregor, a long-time journalist and executive in China who is now senior counselor for APCO Worldwide, says China is becoming increasingly aggressive in using its vast market to push foreign companies to transfer leading-edge technologies. That tactic, it says, is “forcing foreign technology companies to anguish over balancing today's profits with tomorrow's survival.”

The report, from one of the world's biggest business groups, adds to the increasingly vocal concerns of foreign companies and governments about the business environment in China, including top executives from firms such as Siemens AG, General Electric Co., and Microsoft Corp.

China's handling of those concerns “has become a litmus test for many companies, particularly in the IT sector, for how China is currently treating investment and how it might treat investment in these sectors going forward,” Myron Brilliant, the U.S. Chamber's vice president for Asia, said in an interview.

Chinese officials have strongly defended the indigenous innovation policies, saying they don't discriminate against foreign companies and noting that investment continues to pour into the country.

“Currently, there is an allegation that China's investment environment is worsening. I think it is untrue,” Premier Wen Jiabao said this month in a meeting with German executives and officials.

China's leaders began emphasizing what they call “indigenous innovation” in 2006, but it emerged as a major issue for foreign businesses after the publication in November of rules for creating a national list of products containing indigenous innovation. Foreign companies feared that would shut them out of tens of billions of dollars in government procurement contracts.

The Chamber report says that concerns over the “indigenous innovation” policies aren't limited to government procurement. It cites recent revisions to patent legislation that it says make it easier for Chinese companies to use domestic patents to block foreign competitors, as well as a standard-setting process that it says is tilted toward domestic products.

Another example is China's push to develop a homegrown passenger jet through a state-owned company. Major U.S. firms including GE and Eaton Corp. have been selected to

supply systems for the jet project but are doing so through Chinese partnerships.

Once their key technologies have been transferred to China, “the foreign aerospace firms may find themselves sidelined and competing globally against the Chinese companies they are now creating,” the Chamber report says.

To address the multiple issues arising from China's innovation drive, the U.S. has started a broader dialogue with China on the issue. John Holdren, director of the White House Office of Science and Technology Policy, met with China's Minister of Science and Technology Wan Gang and other officials last week in Washington to open those talks. U.S. officials also raised their concerns about the innovation policies at talks in Beijing in May.

“The Obama administration and Congress should understand this is not just another run-of-the-mill China policy dispute that can be addressed through new rounds of bilateral diplomatic discussions and bombastic legislative initiatives,” the Chamber report says.

The Chamber report says that, given China's rapidly aging population and the erosion of its low labor-cost advantage, “the pursuit of a high-tech economy and genuine homegrown science and technology breakthroughs is understandable and laudable.” But it says that aspects of the policy are “increasingly perceived as anti-foreign and regressive.” As a result, it says, the 2006 document that initiated the indigenous innovation policy is “considered by many international technology companies to be a blueprint for technology theft on a scale the world has never seen before.”

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THE AFGHANISTAN FILES

Washington moves to contain leak

By SIOBHAN GORMAN
AND JONATHAN WEISMAN

WASHINGTON—White House officials moved to contain the political damage from the leaking of tens of thousands of secret military documents about the war in Afghanistan, reaching out to Pakistani officials in advance of their publication out of fear that the leak would unsettle a key ally.

The U.S. and Pakistan worry that the mass of field reports, in particular those that appear to link Pakistan's spy agency to militant activity in Afghanistan, will erode shaky domestic support for counterterrorism operations against al Qaeda and related militant groups, senior U.S. and Pakistani officials said.

U.S. envoy to Pakistan and Afghanistan Richard Holbrooke called Pakistani President Asif Ali Zardari on Sunday with a direct message: The Obama administration didn't condone the leak, so "please don't see this as some great conspiracy," a senior Pakistani official said. U.S. Ambassador to Pakistan Anne Patterson placed a follow-up call.

"The biggest American concern yesterday was: How will the Pakistanis take it?" a senior Pakistani official said. "Their concern was not what the leaks said but what the effect would be on the allies."

Coming at a time when U.S. President Barack Obama's Afghanistan strategy has come under increasing criticism, the documents will feed an already roiling debate among Democrats in Congress about the war.

Antiwar lawmakers said they hoped the leak would accelerate their colleagues' growing doubts. "When you have these thousands and thousands of documents that further support the notion that it's a tough road with little prospect of, quote unquote, success, it will add to the growing discontent," Rep. Jason Chaffetz of Utah, one of the few Republicans to publicly question the war.

The political response was somewhat muted, however, and the Dem-



A U.S. soldier takes an eye scan of an Afghan villager in Kandahar province on Monday.

ocratic leadership in Congress echoed the White House's line that the documents were both old and not surprising in the details they revealed.

This week will bring some early tests of the leak's impact. The House is set to consider a \$60 billion Afghan war-spending bill as early as Tuesday. Although it is being pushed by the White House and Democratic leaders, the measure will likely require significant Republican support to pass, given many Democrats' unease with the conflict, and the new documents will not help the cause.

"The reports reinforce what many of us believe—the war is not going as well as hoped and some in Pakistan are playing both sides," said Rep. Jane Harman (D., Calif.).

On Sunday, WikiLeaks, a Web-based group dedicated to publishing state secrets, released 76,000 of 91,000 reports in its possession. It is vetting the rest. Although many of the broad themes of the reports

were familiar to people following the war, and security experts say the information in the field reports isn't necessarily reliable, the voluminous nature of the leak, coming at a time of growing doubts about the war, could stoke public opinion.

One big focus of the reports is how the Pakistani military's Inter-Services Intelligence agency provided the Taliban with havens in Pakistan, even as Islamabad was aiding the U.S. war effort. That charge has often been made privately by U.S. officials and is one element of the tangled relationship between Pakistan and the U.S. But it is now on public display.

The leak may further damage any cooperation the U.S. has been receiving from the Pakistanis, says Brookings Institution scholar Bruce Riedel, a former Central Intelligence Agency officer who ran the Obama administration's Afghanistan-Pakistan policy review last year.

"The leaked documents will discourage intelligence sources from

trusting American intelligence can keep a secret," he says. "It will add more strains to the already strained ties with the Pakistani army. A tough intel challenge has been made harder still."

The Afghan government expressed hope the leak would convince the White House to put more pressure on Pakistan.

One surprise from the reports was that the Taliban have used sophisticated heat-seeking missiles against aircraft operated by the North Atlantic Treaty Organization. The reports also paint a new picture of how Iran might have been aiding al Qaeda and its militant allies in the region.

The New York Times, the U.K.'s Guardian and Germany's Der Spiegel had early access to the leak. White House aides said they made no effort to talk the Times out of publication because they knew WikiLeaks would put the information on its website regardless. The Times reported the leak on its website Sun-

day.

U.S. officials tried to reach leaders of WikiLeaks, but their emails and calls weren't returned. Instead, White House press secretary Robert Gibbs passed on a message through the Times to have names and other compromising information redacted before the documents were posted.

Over the weekend, White House officials began reaching out to key lawmakers and the foreign affairs and defense committees on Capitol Hill to warn them of the coming release. Mr. Gibbs said that outreach wasn't meant to contain political damage but to notify lawmakers and officials of the security breach.

"No doubt this is a concerning development in operational security," Mr. Gibbs said.

White House aides, however, dismissed the significance of the information contained in the leaked documents.

Congressional reaction was largely muted. Democratic supporters of Mr. Obama's Afghanistan policy said the documents reflected the stumbles of the Bush administration, rather than Mr. Obama's approach. The reports "pre-date our new strategy in Afghanistan and should not be used as a measure of success or a determining factor in our continued mission there," said Rep. Ike Skelton (D., Mo.), chairman of the House Armed Services Committee. He added, "We now have the pieces in place to turn things around."

Mr. Skelton stressed the importance of not evaluating Pakistan's cooperation based on the leak. "Since these reports were issued, Pakistan has significantly stepped up its fight against the Taliban," he said.

One senior Democratic leadership aide in the Senate said the disclosures weren't likely to complicate the politics surrounding the war—partly because the politics are "very messy already."

—Laura Meckler, Naftali Bendavid, Maria Abi-Habib, Yaroslav Trofimov and Jeanne Whalen contributed to this article.

Leaks bolster Kabul's stance on Pakistan

By MARIA ABI-HABIB
AND YAROSLAV TROFIMOV

KABUL—The Afghan government, in its initial reaction to the leak of more than 75,000 internal U.S. military documents about the war, zeroed in on reported Pakistani support for the Taliban-led insurgency. It hopes the disclosures, and the resulting public outcry, would force

Washington to turn up pressure on Islamabad.

Kabul also used the leaked reports of previously undisclosed civilian casualties to demand further restraints on coalition rules of engagement. The documents were posted by WikiLeaks, an organization dedicated to public disclosure, shortly before the Afghan government said Monday that "up to" 52

Afghan civilians have been killed in a coalition rocket attack on a village in southern Helmand province.

"The recent documents leaked out to the media clearly support and verify Afghanistan's all-time position that success over terrorism does not come with fighting in Afghan villages, but by targeting its sanctuaries and financial and ideological sources across the borders," Afghan

President Hamid Karzai said.

Most of the civilian deaths described in the documents happened before the former U.S. and coalition commander, Gen. Stanley McChrystal, drastically tightened the rules of engagement last year—a fact noted with appreciation at a Monday news conference by President Karzai's spokesman, Waheed Omar.

The U.S.-led coalition said Mon-

day it is sending a team to look into the latest "allegations of significant civilian casualties" in Helmand's Sangin district, which is overseen by British troops.

Though much of the information in the WikiLeaks documents is already known, Mr. Omar said the Afghan government is "shocked" that such a huge amount of classified data has been made public.

Former Pakistan spy chief is in spotlight

By ZAHID HUSSAIN
AND TOM WRIGHT

ISLAMABAD—To some, Hamid Gul, a former Pakistani spy chief now in the spotlight because of his appearance in leaked U.S. military documents, is a puppet master controlling militant attacks against U.S. and Indian forces in Afghanistan.

To others, he is little more than a conspiracy theorist who rants on Pakistan TV talk-shows against the U.S., India and Israel.

U.S. intelligence reports published by WikiLeaks paint a picture of Mr. Gul and the Inter-Services Intelligence military spy agency that he headed in the late 1980s as working in recent years to attack American interests in Afghanistan.

Mr. Gul, 73 years old, said the reports about him were "completely baseless" and part of a U.S. conspiracy. "I am their favorite whipping boy and it is not the first time that such allegations are made against me," Mr. Gul said. "It is almost two

decades since I am retired from the ISI, but they keep accusing me for everything."

The leaked documents are mostly raw field reports, many of them the kind of low-level reports that some intelligence experts consider the equivalent of second-hand rumors. The reports couldn't be independently verified.

A spokesman for the ISI, Zafar Iqbal, declined to comment on reports about the agency's activities until he has seen the reports. He

said of Mr. Gul: "He hasn't worked for the ISI in any capacity since he left the organization."

Pakistan officials on Monday reacted angrily to the documents. Farahnaz Isphani, a spokeswoman for President Asif Ali Zardari, said they were "unsubstantiated and do not have any credibility."

Senior U.S. officials working on Pakistan said they were skeptical about the allegations that Mr. Gul is still playing a prominent role in Islamabad's intelligence activities.

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THE AFGHANISTAN FILES

Like in Nixon's time, papers feed war doubts

[Capital Journal]

BY GERALD F. SEIB



It was a summertime sensation: A trove of classified Pentagon materials about a troubled

war was made public with a splash. Much of the information was dated—even outdated—and illuminated tactics and strategies that already had been changed. Still, the documents had an immediate impact, serving to crystallize underlying public doubts about the war.

That may sound like a description of the big story that broke late Sunday, when some 91,000 internal military documents spanning six years of fighting in Afghanistan were made public by the WikiLeaks website. In fact, it's a description of a strangely similar release of classified military documents 39 years earlier—the publication of the so-called Pentagon Papers during the Vietnam War.

The parallels between the Pentagon Papers then and WikiLeaks disclosures now set off a lively debate in Washington about how similar the two episodes are.

The parallels between the Pentagon Papers then and WikiLeaks disclosures now set off a lively debate in Washington Monday about how similar the two episodes are, with the White House dismissing the comparison. Certainly there are some key differences alongside the parallels. The Pentagon Papers was the name popularly attached to a lengthy classified history of the conflict in Vietnam assembled by a team of high-level researchers working at the Defense Department. The WikiLeaks document trove, by contrast, consists of brief dispatches from troops in the field struggling with realities on the ground in Afghanistan, far removed from policy making.

Nor do the Afghan documents reveal much in the way of new problems. Most of the issues they raise have long been acknowledged and discussed, and in many cases addressed in the new war-fighting strategy President Barack Obama unveiled in December.

The question for policy makers, though, is whether the impact of the new disclosures, like those in the Pentagon Papers, lies elsewhere. The Pentagon Papers' impact came less from important new details as from the way they fed pre-existing doubts about the war and officials' honesty in describing it. They didn't create new questions so much as legitimize lingering ones.

That's also the danger now for those who support the effort in

Afghanistan, the one Mr. Obama now must try to nip in the bud. Doubts about the Afghan conflict tend to focus on two general concerns: first, that no counterinsurgency strategy can really stamp out popular support for the Taliban, and, second, that the U.S. has, in the Afghan and Pakistan governments, a pair of highly unreliable partners.

Those doubts are reinforced by the episodes recounted in the new documents. In them, Taliban fighters intimidate the citizens U.S. forces are trying to protect; Afghan soldiers give covert help to the Taliban fighters they are supposed to be battling; and the leader of Pakistan's Inter-Services Intelligence agency heads an organization that helps the Afghan insurgency even while Pakistan's government claims it's helping the U.S. fight it.

Such concerns are hardly new, but gritty first-hand reports from the field have a way of crystallizing such problems in readers' minds. In particular, the documents "add up to a pretty clear picture of Pakistani support of the Taliban," says Leslie Gelb, who was a Pentagon official during the Vietnam War and later president of the Council on Foreign Relations. "Did we know that before? Sure we knew it. But the difference is that those were news stories, and these are secrets."

The Pentagon Papers were particularly irksome to then-President Richard Nixon because, while they chronicled events in Vietnam that predated his arrival in office, they stirred up doubts that complicated his effort to fix the war. Historian William Manchester wrote later that the Pentagon Papers were a problem for the Nixon administration because they "opened old wounds and raised again the ugly issue of the government's credibility" precisely as the White House was redefining Vietnam policy.

Similarly, most of the newly released documents describe problems and struggles that predate the Obama effort to restart the war effort with a new strategy and a new infusion of troops. Much of the Obama strategy was designed to address head-on some of those problems: a lack of manpower and equipment that has sometimes undercut American efforts to build and hold support among Afghan citizens; unnecessary civilian casualties that help generate popular support for the Taliban; and the ineffective and sometimes feckless behavior of badly trained Afghan army and police forces.

Those problems also represent some of the difficulties that prompted Mr. Obama to spend several months last year rethinking the war strategy—indeed, the very worthiness of the war effort itself. He emerged arguing the Afghan conflict was both worth continuing and possible to turn around. Whether the WikiLeaks story is a two-week wonder that blows over like a summer thunderstorm, or fuels deeper doubts, may depend on how well the president makes that case now.

U.S. investigates analyst in WikiLeaks data probe

BY JULIAN E. BARNES

WASHINGTON—Military investigators are checking computers used by Bradley Manning, a U.S. Army intelligence analyst charged this month with leaking classified information, to see if he is the source of thousands of military documents published Sunday by WikiLeaks.

The material released by WikiLeaks relates entirely to the war in Afghanistan, while Pfc. Manning, 22 years old, was stationed in Iraq. But investigators are trying to determine what material he was able to get access to and what material he transferred.

Col. Dave Lapan, a Pentagon spokesman, said investigators are looking broadly to determine where the material was taken from, but acknowledged that Pfc. Manning was a person of interest in the investigation. "He is someone we are looking at closely," Col. Lapan said.

WikiLeaks on Sunday published thousands of secret U.S. military documents spanning more than five years. The information is in part humdrum and also dramatic, showing in raw detail the intelligence reports sent from personnel in the field. Among other things, the documents discuss civilian casualties, Pakistan's role in aiding the Taliban and the weapons capabilities of the Afghan insurgency.

WikiLeaks founder Julian Assange, at a news conference in London Monday, declined to comment on who leaked the documents, or on how the source was able to copy and leak them. Asked about Mr. Manning, Mr. Assange said: "There is no allegation as far as we can determine" that the documents posted on WikiLeaks Sunday are "connected to Bradley Manning."



WikiLeaks founder Julian Assange at a news conference in London Monday.

He said WikiLeaks has nonetheless "committed funds" to Pfc. Manning's legal defense, offering his military-appointed legal team money in

case it wants to hire civilian counsel. Mr. Manning's military defense team didn't respond to requests seeking comment.

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WORLD NEWS

Khmer Rouge jailer is found guilty

By PATRICK BARTA

PHNOM PENH, Cambodia—A long-awaited verdict in the first major international trial of Cambodia's notorious Khmer Rouge regime disappointed many Cambodians who thought its sentence was too light, even as some legal analysts praised the court for at least bringing the Khmer Rouge atrocities to light.

The United Nations-backed tribunal, which was more than a decade in the making, found 67-year-old Kaing Guek Eav guilty of crimes against humanity for his role in overseeing Phnom Penh's infamous Tuol Sleng prison, where more than 12,000 prisoners were tortured before being killed during the brutal years of Khmer Rouge rule from 1975 to 1979. The court sentenced Mr. Kaing Guek Eav, better known as Duch, to 35 years in prison.

But the court said he is eligible for 11 years' credit for time already served in detention, as well as an additional five-year credit for the fact that some of his previous incarceration was determined to be illegal under Cambodian law. That would bring his prison term to roughly 19 years, and raises the possibility that he could be set free before he dies.

It was unknown following the trial if Mr. Kaing Guek Eav planned to appeal. Prosecutors had sought a 40-year term, while many victims groups had hoped for an even tougher sentence that left no chance the accused would ever walk free again.

But the court said it was influenced by a number of mitigating factors in his defense, including the fact that Mr. Kaing Guek Eav cooperated with prosecutors and ex-



Hong Sa Vath, center, cries in shock on Monday after hearing that Kaing Guek Eav received just a 35-year sentence.

pressed remorse, unlike other accused Khmer Rouge leaders. Mr. Kaing Guek Eav earlier acknowledged his role in overseeing some atrocities but denied personally killing or torturing any victims and said he was only following orders from more senior Khmer Rouge leaders.

Victims groups in Cambodia immediately criticized the ruling.

The verdict "is just not acceptable," said Theary Seng, a human-rights activist in Phnom Penh whose parents were killed by the Khmer Rouge. If prosecutors weren't able to secure a longer sentence after the accused admitted a role in the atrocities, she said, it is hard to

imagine they will be able to win tough sentences in future cases in which accused Khmer Rouge leaders are expected to dispute the charges.

"The court fell into the trap of the accused," said Chum Sirath, a member of a victims' association who also lost several relatives during the Khmer Rouge years. "We are not happy."

Prosecutors acknowledged the verdict wasn't as tough as they had hoped and said they would consider whether to appeal in the coming weeks.

Still, the prosecutors and several international legal experts credited the tribunal for at least establishing the truth about Mr. Kaing Guek

Eav's crimes and otherwise characterized the verdict as a victory for the rule of law in Cambodia. The tribunal has faced numerous setbacks in recent years, including funding shortfalls and allegations of political interference from Cambodian authorities that delayed its work, and some legal experts feared it would never render a verdict.

"What happened today was very significant in that it shows the court can work," said Clint Williamson, a U.S. ambassador-at-large for war crimes issues.

The tribunal is still deciding whether to take other Khmer Rouge officials to trial, including several former government ministers and

other members of the group's central planning organization who are now in their seventies and eighties. The court is expected to decide whether to proceed with further cases by September.

Legal analysts have argued those cases are ultimately more important than the Duch case because they involve more senior figures who crafted Khmer Rouge policy with the group's No. 1 leader, Pol Pot, who died in 1998.

The Khmer Rouge rose to power during the Vietnam War and occupied Phnom Penh in 1975. At first, residents welcomed the rebels. But the euphoria quickly turned to terror as the group forced most residents to evacuate the city and herded them into agricultural collectives that ultimately failed.

Some 1.7 million people died of starvation, illness or were killed before the regime was toppled by invading Vietnamese forces in 1979.

A former math teacher who joined the Khmer Rouge in the 1960s, Mr. Kaing Guek Eav eventually became chief jailer at Tuol Sleng, a converted elementary school in Phnom Penh where prisoners were taken after being accused of disloyalty to the regime. Many were electrocuted or asphyxiated with plastic bags before being hauled away to their deaths. Fewer than 15 prisoners are known to have survived.

After the Khmer Rouge fell, Mr. Kaing Guek Eav moved to northwestern Cambodia and lived quietly under an assumed name until he was discovered and arrested a little more than a decade ago. Dressed in a light blue dress shirt Monday, he showed little emotion as his crimes were read out to him.

Aquino outlines growth plans

By CRIS LARANO

MANILA—Philippine President Benigno Aquino III, who came to power on a platform of clean government, said that renewed investor confidence in the country will help his administration create jobs and bolster the economy, despite a widening budget deficit.

In his first State of the Nation Address, delivered Monday in Tagalog before a packed Congress, Mr. Aquino outlined some of the excesses of former President Gloria Macapagal Arroyo's administration.

He said the budget deficit in the first half of the year reached 196.7 billion pesos (\$4.24 billion)—51.5 billion pesos beyond the government's target ceiling—due to excessive spending and poor revenue generation.

"Our budget for 2010 is 1.54 trillion pesos. Of this, only 100 billion pesos, or 6.5% of the total budget, can be used for the remaining six months of the current year," Mr. Aquino said. "Where did the funds go?"

He cited several cases of "extravagance and profligacy" and pledged to stop "wasteful" use of government funds.

"We will eradicate projects that are wrong," Mr. Aquino said.

Mrs. Arroyo, who was elected congresswoman in her province of Pampanga when she stepped down as president, didn't attend the joint session of the House of Representatives and Senate. She flew to Hong



President Aquino after his first State of the Nation address on Monday.

Kong on Sunday to accompany her husband for a medical exam.

Mr. Aquino reiterated his plan for a "Truth Commission" to look at alleged wrongdoing in the nine years of the Arroyo administration. He said the executive order creating the commission will be issued within the week.

The government has forecast economic growth of 5%-6% this year.

Despite the lack of funds, Mr. Aquino, who took power June 30, said he remains optimistic that his administration can achieve its economic goals.

"If the answer to justice is accountability, the answer to the dearth of funds is a new and cre-

ative approach to our longstanding problems," Mr. Aquino said. "I am heartened because many have already expressed renewed interest and confidence in the Philippines. Our solution: public-private partnership."

He said some foreign and local investors have expressed interest in building expressways, while other groups want to lease navy stations to help fund various projects.

Mr. Aquino said the government would streamline the process of build-operate-transfer programs to help private investors quickly address infrastructure problems and create jobs.

"A reminder to all: Creating jobs is foremost on our agenda, and the creation of jobs will come from the growth of our industries," Mr. Aquino said.

"Growth will only be possible if we streamline processes to make them predictable, reliable and efficient for those who want to invest," he added.

He said fiscal incentives will be reviewed to collect more tax money and urged Congress to pass an anti-trust law.

Marcelo Ayes, senior vice president at Rizal Commercial Banking Corp., said many of the proposals Mr. Aquino set out Monday aren't really new.

"It's the same message, but the difference is that this messenger is believable. What is new is the sincerity," he said. "Obviously, the devil will be in the details."

Labor's lead narrows ahead of Australia vote

By RACHEL PANNETT

CANBERRA—Australia's ruling Labor government holds only a slim lead over the main opposition Liberal-National coalition of center-right parties, with less than four weeks to go until a general election, according to a voter poll published Monday.

The widely watched Newspoll, published in the Australian newspaper, shows Labor leads the coalition by 52% to 48% on a two-party preferred basis—down from a 55%-45% lead a week ago. The Australian, like The Wall Street Journal, is owned by News Corp.

The poll comes as Prime Minister Julia Gillard is struggling to shake off the perceived policy shortcomings that led to the ouster of her predecessor, Kevin Rudd, in a party mutiny a month ago. Labor is at the same point that it was on the weekend before Ms. Gillard succeeded Mr. Rudd on June 24. Australians are due to go to the polls Aug. 21.

Illegal immigration, sustainable population strategy and climate change remain thorny political issues for Labor. Adding to the pressure, small to midsize miners resumed an advertising campaign against the Labor government's proposed mining-profits tax Monday.

The decision revives a controversial issue Ms. Gillard thought she had dealt with earlier this month

when she sealed a deal with the nation's three biggest mining companies—BHP Billiton Ltd., Rio Tinto Ltd. and Xstrata PLC—to soften the impact of the tax proposal.

The Association of Mining and Exploration Companies, which represents mainly smaller miners, said it will start a three-week advertising campaign against the proposed tax changes, even after the government agreed on July 2 to lower the headline tax rate to 30% from 40% and exempt all minerals, except iron ore and coal, from the new levy.

The bruising campaign with industry over the tax played a role in Mr. Rudd's downfall, after he steadfastly refused to negotiate over the terms of the tax. The Liberal-National coalition strongly opposes the mining tax, arguing it will penalize one of the country's strongest export sectors.

Monday's Newspoll of 1,720 voters was taken July 23-25 and has a margin of error of plus or minus 2.4 percentage points.

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 was 40%, compared with the opposition's 42%, Newspoll said. Ms. Gillard still leads Liberal leader Tony Abbott as preferred prime minister, by 50% to 34%.