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Hope lost in airplane's wreckage



Pakistani rescue workers search the remains of an airliner that crashed into densely wooded hills on the outskirts of Islamabad on Wednesday, killing all 152 people on board. The domestic flight from Karachi, operated by Airblue, came down in heavy rain and poor visibility. **Article on page 10**

Mobile battle ends in win for Telefónica

By SANTIAGO PEREZ AND JASON SINCLAIR

MADRID — Spain's **Telefónica SA** won full control of a Brazilian wireless joint venture it had with **Portugal Telecom SGPS SA** after a sweetened bid of €7.5 billion (\$9.75 billion) ended months of struggles between the two Iberian telecoms.

Portugal Telecom said it would use some of the proceeds from the sale of its stake in **Vivo Participacoes SA** to buy a 22.4% stake in **Oi**, another major Brazilian wireless carrier.

Telefonica and Portugal Telecom said Wednesday their boards had approved the Vivo transaction, which was earlier blocked by the Portuguese government.

Portugal's prime minister, Jose Socrates, warmed to Wednesday's deal, though. "The agreement is excellent for PT and its shareholders, but mainly because it allows

us to defend the strategic interests of Portugal," Mr. Socrates told reporters.

Brazil has become a battleground for Portugal Telecom and Telefónica, with both companies drawn to the high-growth region as revenue declines in their mature home markets.

The country's young population and relatively low mobile penetration rates also make it a prime market to pick up new wireless and Internet customers.

Portugal Telecom's agreement to buy a stake in Oi for up to €3.7 billion will allow it to keep its exposure in Brazil while Telefónica will take full control of the cellular operator Vivo. Telefónica wants full control of Vivo so it can merge it with its fixed-line telecommunications company Tresp.

"Brazil has the conditions to be an even more profitable market than it has been up until now," Portugal Telecom

Chief Executive Zeinal Bava said in a meeting with journalists Wednesday in Lisbon. "The country has an even better growth outlook than when we first started investing there."

Brazil has about 183 million cellphone accounts, and Vivo is the market leader with a market share of 30%. But rivals are close behind. Claro—the local unit of Carlos Slim's America Movil SA—Oi, and Telecom Italia SpA's TIM Participacoes are all moving to offer combined fixed-line, Internet, television and cellphone services to extend their grip on the market.

Vivo, which is based in Sao Paulo, Wednesday reported a second-quarter profit of 236 million Brazilian reals (\$133 million), up from 181.7 million reals last year. Revenue rose 10% to 4.4 billion reals from four billion reals a year ago.

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The Quirk



Meet the mini-Donald Trump and his collection of tiny skyscrapers. **Page 29**

World Watch

A comprehensive rundown of news from around the world. **Pages 30-31**

Editorial Opinion

Israel's deputy foreign minister on the Gaza flotilla hypocrisy. **Page 13**

Russia's DST plans IPO for 2011, hires Goldman

By WILLIAM MAULDIN

MOSCOW—Russian Internet firm **Digital Sky Technologies Ltd.** has hired investment banks to organize an initial public offering in 2011, a person familiar with the plans said Wednesday.

DST chose **Goldman Sachs Group Inc.**, which has a stake in the company, and two other investment banks for an IPO on a global stock exchange, most likely in London, the person said. In the offering, DST investors may sell stakes and the company may also issue new shares. The exact timing and the target market valuation are unknown. DST, which is valued at

about \$4 billion, this month bought up the remainder of Mail.ru, a Russian email, gaming and social-networking website, in a transaction that brought in a \$388 million investment from South African media company **Naspers Ltd.**

In April, DST agreed to purchase the ICQ instant-messaging system from **AOL Inc.** Also that month, Chinese Internet company **Tencent Holdings Ltd.**, a much larger company that DST emulates, invested \$300 million in the Russian company.

DST's affiliated international investment vehicle, **DST Global**, has gained attention by investing in Facebook, gaming company Zynga and

other Internet firms.

DST, part-owned by billionaire Alisher Usmanov as well as Goldman and Tencent, seeks to focus on its core audience of Russian speakers in the former Soviet Union as it tries to monetize Internet traffic from Mail.ru's 50 million unique monthly visitors.

Mail.ru's revenue grew by two-thirds to \$126.4 million in 2009.

A spokeswoman for Goldman declined to comment on DST's IPO plans. A spokesman for DST said that "an IPO was always in DST's strategic agenda" but that "no details or timetable of the possible transaction have been agreed upon."

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PAGE TWO

Basel III, economic certainty nil

[Agenda]

BY PATIENCE WHEATCROFT



Bank shares bounced earlier this week when details of the latest Basel rules on capital and liquidity were revealed. Investors were relieved that they were less stringent than had been feared. But had they looked at the reasons why the central bank governors had loosened their approach, they might have been less exhilarated.

Fear was the motivation that toned down the terms of Basel III; fear that many of the world's economies are still extremely fragile and that unless the central bankers trod extremely carefully, they could kick those economies back into recession.

One of those central bankers, the U.K.'s governor, Mervyn King, chose his words carefully to avoid scare-mongering when he addressed the Treasury Committee on Wednesday, but his message was clear. The gathering in Basel, he said, had been conscious of the importance of setting a long timetable for the changes it planned "because bank balance sheets are still recovering from the current crisis." He explained that "continuing concerns about the ability of some countries to achieve necessary fiscal consolidation are affecting confidence in the ability of banks to repair their balance sheets."

Then, just in case there was anyone on the committee still minded to be optimistic, he had this grim warning: "The key underlying causes of the crisis—in terms of the imbalances in global demand—have still not been tackled. Those imbalances are likely to be larger this year than last, and will probably still be around three-quarters of their level at the peak immediately prior to the crisis."

Beyond exhorting the Chinese to drastically revalue their



BOE Governor Mervyn King

currency and then spend it on Western goods, there seems a shortage of ideas on how those imbalances are to be addressed. Until they are, however, Mr. King believes that uncertainty over the world economy will remain.

Jim Rogers, the veteran investor, does not do uncertainty. In an interview on CNBC this week he was adamant that there would be another recession in

earlier in the year seems to have come to a halt in recent months," he said.

Against this background, to race to ratchet up the capital and liquidity requirements on banks would be foolhardy. So the restraint at Basel is to be welcomed but not seen as a signal of good times ahead.

Bright ideas please

To compete against the thriving economies of the East, the Eest needs innovation. The European Union this month announced a €6.4 billion investment in research and innovation in 2011 with some pretty ambitious targets.

According to Marie Geoghegan-Quinn, the EU's commissioner for innovation and science, the money is for "cutting-edge projects focusing on big economic and societal changes: climate change, energy and food security, health and an ageing population." She expects the package to create more than 165,000 jobs.

The planned investment has risen significantly above the 2010 figure. Some of the schemes that won backing from that money may well go on to create hundreds of jobs. Microscopic chemical robots, delivering ingredients around the human body may one day be seen as invaluable, although the Czech scientist being backed to develop them admits that it is "very challenging."

Governor's grim warning: 'The key underlying causes of the crisis ... have still not been tackled.'

2012. The phrase "double-dip" would not cross a central banker's lips but it was the specter that clearly loomed over the Basel deliberations.

It could also be sensed lurking around data produced by the European Central Bank, showing lending to businesses slowing down and lending criteria tightening in the second quarter of the year. The key factors in leading the banks to tighten their credit policy, explains the ECB, are constraints on the banks' own access to funding and their own liquidity management.

Mr. King echoed the problem. "The gradual improvement in credit conditions that was evident

Projects to develop cleaner fuels have obvious potential commercial application and various ideas for fighting cancer in its various forms have also won backing.

Some of the recipients of the grant money have, however, ventured into more unusual territory.

For instance one project plans to have a car arrive in Shanghai on Oct. 10, having traveled 13,000 kilometers from Italy. The novelty about this is that it will be a driverless car.

According to the Italian behind the idea, it will show that "intelligent cars" equipped with a sophisticated system of sensors, can travel through different environments and reach their destination, powered, of course, by green energy. If it works, the implications for travel and distribution could be huge. In the meantime, those using roads this autumn between Italy and China may wish to keep a particularly careful look out of their rear-view mirror.

It is harder to imagine why the EU may have decided to back a project submitted by a German from a university in Bonn. He explains that he is investigating "What is the role played by our brain in the 'money illusion' phenomenon?"

His thesis is that people view a rise in their income as a good thing, even when it is completely wiped out by inflation. By investigating the thought processes that underlie economic decisions, he hopes to work out why the brain represents money as "nominal" and not "real."

The scientist sums up his aims in these terms: "The results may help explain why nominal wages rarely sink, whereas true wages, in contrast, fall in value in period of inflation."

But in a later sentence, he appears to answer his own question. "People like to be seduced by large numbers," he says. And EU commissioners are as susceptible as any others to that failing, particularly when talking about job-creation targets.

What's News

■ **Conoco's earnings** more than quadrupled and the company agreed to sell about two-fifths of its Lukoil stake for \$3.44 billion to the Russian oil giant and plans to sell all of its 20% stake by the end of 2011. 21

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'Germany's anemic domestic economy still isn't generating cheer at home, or among governments around the bloc.'



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Question of the day

Vote and discuss: Do you agree with Catalonia's ban on bullfighting?

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Previous results

Q: What effect will the leak of documents have on public support for the war in Afghanistan?

Will increase support **8%**
Will undermine support **58%**
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NEWS

Warmer seas harming marine plant life

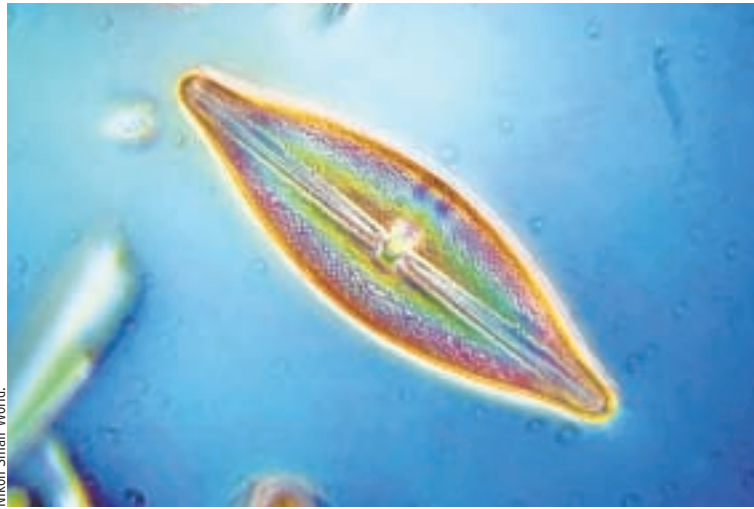
BY GAUTAM NAIK

Rising sea temperatures can harm the tiny plant life that forms the base of the oceans' food chain as well as affect the diversity of marine life, two new studies have found.

In research published Wednesday by the journal *Nature*, scientists found a strong link between higher sea-surface temperatures and a major decline over the past century in marine algae, or phytoplankton, the microscopic plant life that generates roughly half of all organic matter—the building block of life—on the planet.

A second study, also published in *Nature*, concludes that warmer seas can influence marine diversity, in the long term potentially rearranging the global distribution of ocean life.

Over the years, humans have affected the oceans by pollution and over-fishing and through habitat alteration caused by dredging. Less understood is the role of higher sea temperatures, which many scientists believe is linked to global climate



Phytoplankton, the base of the marine food chain, is under threat.

change. Scientists estimate that the oceans have warmed a total of roughly half a degree Celsius on average over the past 100 years.

Oceanographers have been unable to determine, however, whether the oceans are losing or gaining phytoplankton, which forms the base of the marine food chain, from

crustaceans to fish and ultimately to humans.

In many coastal areas the marine algae has increased, as greater runoff from rivers—caused by, for example, greater levels of farming and deforestation—brings nutrients that the algae flourish on.

But no one has measured the

long-term abundance of phytoplankton in the oceans. Consistent satellite-based measurements exist only from 1997, so scientists at Dalhousie University in Nova Scotia, Canada instead used data obtained with a simple oceanography device known as a Secchi, used by scientists since the late 1800s.

By collating and analyzing about half a million Secchi observations, plus other direct measurements of algae, the Dalhousie team estimated that phytoplankton levels declined by about 1% of the global average each year from 1899 onward. The data are more carefully maintained and more reliable for recent decades, translating into a 40% decline in algae since 1950.

The team investigated several factors that could have caused the decline, including wind intensity, cyclical climate changes and sea-surface temperature. “We found that temperature had the best power to explain the changes,” said Boris Worm, a marine biologist at Dalhousie and co-author of the study.

Mike Behrenfeld, an expert on phytoplankton who has read the Na-

ture paper, said it was similar to a 1992 study which also used Secchi data to show a long-term decline in marine algae in the north Pacific. “But this paper covers the globe,” said Dr. Behrenfeld of Oregon State University. “And the scientists also took the next step of relating the [algal decline] to sea temperatures.”

Another team of scientists, including Dr. Worm, mapped the diversity of marine life on a broad scale. One surprise finding was that while coastal marine species showed greater diversity at the equator, the diversity of oceanic species peaked in the mid-latitudes. That's unlike terrestrial diversity, which largely peaks at the tropics.

The researchers also analyzed possible links between the global distribution of 11,000 marine species—big and small—to such environmental factors as temperature, oxygen levels and habitat availability.

For all species types, only one factor showed a consistent correlation to diversity: sea temperature.

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EUROPE NEWS



Associated Press; Agence France-Presse/Getty Images

Above left, Aldi has more than 8,200 stores world-wide, about half of them in Germany; at right, co-founder Theo Albrecht, shown in December 1971.

Theo Albrecht, of Aldi, dies

By VANESSA FUHRMANS

Aldi patriarch Theo Albrecht, one of two reclusive brothers who founded the German discount supermarket giant and helped to revolutionize shopping world-wide, died Saturday, the company said Wednesday. He was 88 years old.

From a bare-bones food store handed down by their mother in 1946, Mr. Albrecht and his older brother, Karl, built an international retail empire of no-frills grocery shopping that was a discounting pioneer and forerunner to **Wal-Mart Stores Inc.** and others. The brothers' business, which includes Aldi stores across Europe, the U.S. and Australia and the Trader Joe's grocery chain, generated about €53 billion (\$69 billion) in revenue last year.

For more than half a century, the Albrechts wavered little from their big-discount formula. By cutting out costly extras such as large marketing budgets and fancy displays and selling a limited assortment of mostly nonperishable goods, they were able to undercut competitors—and attract droves of thrifty German shoppers in the postwar decades. Their success gave rise to dozens of copycat discounters at

home and elsewhere in Europe.

It also made the Albrecht brothers among the richest men in the world. With a fortune of nearly \$17 billion, according to Forbes, Theo Albrecht was ranked the world's 31st-richest person in 2010. (He fell from ninth place in 2009.) Karl Albrecht, 90, was ranked 10th, with an estimated net worth of \$23.5 billion.

In Germany, the Albrechts were known as much for their rags-to-riches story as their reclusiveness. Both brothers lived in near-total seclusion and remained secretive about even basic biographical information, such as their birth dates. One of the last rare public photos of either brother was of Theo Albrecht in 1990—and that was taken surreptitiously.

One reason for the secrecy was the 1971 kidnapping of Theo Albrecht, who was abducted by two men in the northwest German town of Essen and held for 17 days before being freed on a ransom of seven million marks (about €3.3 million), an amount that Mr. Albrecht was said to have haggled down. The kidnappers were caught and prosecuted shortly after but the episode pushed the already-private Albrechts further into seclusion.

Theo Albrecht, who hadn't been

active in his company's operations for years, had been ill for some time. A private family funeral was held Wednesday.

"The retail industry has lost a huge figure," said Stefan Genth, head of the German Retail Trade Association. "There are few people who have shaped an entire economic sector as Theo Albrecht has."

Born in 1922, Theo, with his brother, grew up in their mother's shop in Essen. Their father developed emphysema and could no longer work in the mines. After serving in World War II, the brothers expanded the shop into a chain of more than a dozen stores. By 1961, they had changed the name to Albrecht's Discount, or "Aldi" for short.

Soon after, the brothers decided to split their empire, reportedly over a dispute about whether to sell cigarettes, and to stay out of each other's territory. Theo took charge of the stores in the northern part of then-West Germany, Aldi Nord, expanded in Europe and acquired Trader Joe's in 1979. Karl took on the southern German stores and expanded Aldi into the U.K., Australia and the U.S. Combined, Aldi has more than 8,200 stores world-wide, about half of them in Germany.

Theo Albrecht ran Aldi Nord until the mid-1990s. Though he withdrew from the day-to-day operations after that, he attended board meetings until a few years ago when his health began to decline.

His two sons, Theo Jr. and Berthold Albrecht, have positions at the company, but its top management is from outside the Albrecht family.

A look at Aldi

- Founded after World War II by the Albrecht brothers, Karl and Theo, who become Germany's richest men

- Operates more than 8,200 no-frills stores world-wide, half in Germany, selling fewer products than typical supermarkets at low prices

- Aldi Nord operates in northern Germany and countries including Belgium, the Netherlands, France, Spain and Denmark

- Aldi Süd operates in southern Germany, the U.S., the U.K. and elsewhere

Source: WSJ research

ECB sets 'haircuts' on bonds from banks

By GEOFFREY T. SMITH

FRANKFURT—The European Central Bank on Wednesday announced increases to the discounts it will impose on low-rated and illiquid bonds when it accepts them as collateral for its lending operations.

The new discounts, or "haircuts," which will come into force Jan. 1, will make it harder for banks to borrow from the ECB using low-quality bonds. This affects in particular bonds that have only theoretical valuations, meaning bonds for which banks say they can't find a reliable market price.

The ECB expanded the range and quality of paper it would accept as collateral in the wake of the financial crisis, to ensure that banks retained access to funding as the wholesale money markets seized up.

The central bank said the new rules won't lead to an "undue decrease" in the overall volume of eligible collateral.

ECB data show more than a quarter of the collateral it loaned against last year was "uncovered" bank bonds—that is, bonds without the backing of any special collateral pool of their own. Banks can currently borrow 88.5 cents on every euro of such bonds with a 10-year maturity and a fixed coupon, or 83 cents if the bond is rated below A3/A-minus. From next year, they will be able to borrow only 86 cents on the euro if the bond's rating is above the A3/A-minus threshold, and 61 cents if the rating is lower.

Most of the extra haircuts apply to bonds rated below the A3/A-minus threshold.

Lawmakers in Catalonia ban bullfights

By BERND RADOWITZ AND JASON SINCLAIR

MADRID—Spain's northeastern Catalonia region Wednesday banned bullfighting, a big blow to a symbol of Spanish tradition in one of the country's most populous areas.

The ban, which will take effect Jan. 1, 2012, passed by a 68-55 vote in Catalonia's parliament, with nine lawmakers abstaining.

Catalonia is Spain's second-most-populous region after Andalusia and one of its wealthiest. It becomes the second Spanish region to forbid bullfighting; the Canary Islands outlawed it in 1991.

The ban in Catalonia follows a popular initiative in which antibullfighting activists had collected 180,000 signatures, arguing that bullfighting is cruel to animals. Bullfighting supporters have said the so-called corridas are part of Catalonia's cultural heritage.

The vote also follows a decision last month by a Spanish court to water down parts of a charter that would have expanded Catalonia's autonomy, a ruling that has rekindled nationalist sentiment and prompted massive protests in the region.

Hungary unveils economic-growth plan

By MARGIT FEHER

BUDAPEST—Hungary's financial state is stable, predictable and looks secure even without the International Monetary Fund's support, Hungarian Prime Minister Viktor Orbán said Wednesday, as the government announced a plan to boost economic growth and create jobs.

"Hungary's external ties are strong enough that our financing is secure without the IMF," Mr. Orbán said in a speech.

Talks between the Hungarian government and the IMF and European Union broke down this month, after Hungary refused to implement further austerity measures and modify its punitively high financial-sector tax in exchange for access to the remainder of its €20 billion (\$26

billion) standby credit line.

Credit-rating agencies Moody's and Standard & Poor's warned in response that they could downgrade Hungary's debt ratings.

Mr. Orbán said "one or two" such steps from rating agencies are still in the pipeline. He has repeatedly said that Hungary plans not to rely on IMF support any longer, getting financing from the markets instead.

On Thursday, Hungary faces its first long-term debt sale since the collapse of IMF-EU talks. The government-bond auction will likely attract high demand and is expected to be successful, mostly because of favorable market sentiment, a local bond trader said.

But Raiffeisen Bank warned Wednesday that the forint may face a fresh wave of selling and that its

recent recovery was due solely to a rise in global risk appetite. In contrast, the risks associated with Hungary have risen significantly since the IMF talks came to a halt, it added.

Due to its lax fiscal policy and high external debt, Hungary was the first EU state to secure financial help from the IMF and the EU.

As Hungary's previous, caretaker Socialist government carried out strict austerity measures, investor sentiment toward Hungary recovered.

The country hasn't drawn on its IMF-EU credit line this year as it has been able to find financing through markets. Due to its reserves and issuance so far this year, the country's financing appears secure for the rest of this year.

Mr. Orbán repeated Wednesday that Hungary will stick to its target of a 2010 budget deficit equivalent to 3.8% of gross domestic product.

Hungary's Fidesz party government, which swept to power in a landslide victory in April, on Wednesday published its economic plan, which focuses on supporting small and midsize companies to boost growth and create more than one million jobs over the next 10 years.

The plan "will be based on shared risks among businesses, local councils and the government," with the latter financing its part from EU support money, the National Economy Ministry said.

■ European currency swings sting borrowers and banks 14-15

EUROPE NEWS

Cameron urges India to lower trade walls

By SUBHADIP SIRCAR
AND DHANYA ANN THOPPIAL

BANGALORE, India—British Prime Minister David Cameron asked India to lower barriers to foreign investment in financial services and defense and pushed to further expand trade relations to create more jobs in both countries as part of his effort to establish a new “special relationship” with the U.K.’s former colony.

“We want you to reduce the barriers to foreign investment in banking, insurance, defense manufacturing and legal services, and reap the benefits,” he said Wednesday in a speech in the southern Indian city of Bangalore. Foreign investment in those areas is strictly limited or prohibited in India now.

Mr. Cameron was leading a trade delegation that the British described as the biggest in living memory in an effort to pursue business opportunities for British companies in India and attract Indian investment in Britain. India has become a favorite travel destination for Western leaders looking to tap its rapid growth to boost their own ailing economies. India’s gross domestic product is expected to grow about 8.5% this year.

Mr. Cameron has been calling for the U.K. to dramatically step up its engagement with India, which got its independence from Britain in 1947. “Attracting more foreign investment to our shores. Making more things for the world again. Selling ourselves to the world with more vigor than ever. I’m not ashamed to say that’s one of the reasons why I’m here today,” Mr. Cameron said.

Underscoring his commitment to improving economic links, the U.K. prime minister began his India visit in Bangalore—the country’s outsourcing hub—rather than New Delhi, its seat of government.

India is set to order an additional 57 Hawk trainer jets from the U.K.’s **BAE Systems PLC** for its air force and navy, the chairman of state-run **Hindustan Aeronautics Ltd.** said Tuesday. The order is valued at more than £700 million (\$1.1 billion), of which more than £500 million would go toward purchasing the planes from BAE and the remainder to **Rolls-Royce Group PLC** for engines, according to Chairman Ashok Nayak.

More than 180 Indian information-technology companies have invested in the U.K. **Tata Group** is the largest manufacturing employer in Britain, having acquired steelmaker Corus as well as marquee auto brands Jaguar and Land Rover.

The U.K.’s new coalition government is trying to shore up jobs and pull the country out of the global economic crisis, even as it had to resort to early and deep spending cuts in its budget for fiscal probity.

Mr. Cameron is on a two-day official visit accompanied by six U.K. government ministers and a delegation of 58 leaders spanning fields such as business, sports, education, arts and local government.

Mr. Cameron also called for wider trade relations between the European Union and India, saying he wanted to conclude an EU-India free trade agreement before year-end.

U.K. Business Secretary Vince Cable said that the government plans to allow the export of the

U.K.’s civil nuclear technology and expertise to India for the first time.

It is expected that Mr. Cable Thursday will announce a series of multimillion-pound deals between U.K. and Indian companies.

Mr. Cameron’s stance on immigration into the U.K. threatened to detract somewhat from the positive messages of the trip. He said his coalition government would push ahead with its plan to cap non-EU immigration but said the government would consult as widely as possible to prevent the policy from hurting Britain’s economy. He said he wants to see immigration reduced to tens of thousands a year—the average levels seen in the 1990s. Mr. Cameron has faced criticism from Indian officials over his new government’s plans to tighten immigration rules.

—Laurence Norman in London
contributed to this article.



David Cameron delivers a speech in Bangalore on Wednesday.

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BOE’s King sounds note of caution on recovery

By NATASHA BRERETON
AND LAURENCE NORMAN

LONDON—Bank of England Governor Mervyn King said that the central bank could either ease policy further in coming months or reduce its stimulus somewhat, depending on how conditions evolve, but that the debate isn’t about “applying the brakes.”

Answering questions from lawmakers, Mr. King said he didn’t believe that the government’s fiscal-austerity plans posed a “significant” risk to U.K. growth, and the biggest threats were external. Global economic problems underline that “we cannot be confident” that recovery in demand, output and employment in the U.K. will continue, he said.

He cautioned that while the stronger-than-expected 1.1% estimate of second-quarter gross-domestic-product growth was encouraging, it was important not to “read too much into one number,” and reiterated that the BOE was ready to loosen policy further if activity disappointed in future.

The BOE’s Monetary Policy Committee in February suspended its £200 billion (about \$310 billion) quantitative-easing policy of buying U.K. government bonds with freshly

created central-bank money. Its key interest rate has remained at a record low of 0.5% since March 2009.

In the minutes of its July meeting, the MPC warned that there were some signs the outlook for growth might have weakened.

“We judge that at present it is right to keep our foot firmly on the accelerator in order to stimulate the economy,” Mr. King said, adding that there was a debate about the degree of stimulus that was appropriate. “In the months ahead, it may be that the MPC judges that the inflation outlook warrants pushing down even harder or that we should ease back somewhat. The debate is about the appropriate degree of stimulus, not about applying the brakes,” he said.

There is likely to be a “considerable distance to travel” before “normal” monetary policy will be appropriate, Mr. King said, adding that the U.K. economic recovery would be a “long haul.” Mr. King also noted that the improvement in credit conditions seen earlier in the year had “come to a halt” in recent months, and that financial markets had generally become more volatile.

There is no immediate sign that wage growth is accelerating, Mr. King added.

U.S. NEWS

Efforts doubled to clean up Michigan spill

By MATTHEW DOLAN

BATTLE CREEK, Mich.—An oil spill from an underground pipeline connecting the U.S. to Canada has spread across roughly 20 miles (32 kilometers) of the Kalamazoo River in south-central Michigan, prompting the pipe's Canadian owner and U.S. officials on Wednesday to double their resources to contain and clean up more than 800,000 gallons of crude.

The spill, with an estimated volume of 19,500 barrels, of oil is believed to be one of the largest in the history of the Midwest, but, unlike the BP PLC oil gusher in the Gulf of Mexico, this spill was capped relatively quickly after its owners were able to shut down the line soon after its discovery.

The pipe rupture has already forced the evacuation of several

dozen residents who live near the Kalamazoo River, forced the river's closure to the public and raised questions about whether the pipeline's owner reported the spill in a timely way. The line, owned by **Enbridge Energy Partners LP**, is a 30-inch pipe that moves light synthetic, heavy and medium crude oil northeast about 1,900 miles from Griffith, Ind., through Michigan and just over the border to Sarnia, Ontario.

After the leak was discovered on Monday morning near the company's pump station in Marshall, Mich., the pipeline was shut down and its isolation valves closed off, according to officials at the parent company, **Enbridge Inc.**, of Calgary, Alberta.

But some media reports said local residents first reported strong odors near the spill site in emergency calls as early as Sunday. Fed-

eral officials said Wednesday that the timeline involved in the spill remains under investigation by several agencies. Officials said it would be weeks before an official cause of the pipe break is determined. Feedback from the initial portions of the investigation in the next few days are expected to provide clues about the origins of the leak, company officials said.

Patrick Daniel, Enbridge's chief executive, told reporters in a news conference Wednesday morning that his company is doubling its 150-person work force in Michigan and will increase the size of oil-corralling booms to about 31,000 feet from its current 14,000 Wednesday. The company has as much as 45,000 feet worth of boom on hand.

"Our intention is to return your communities" to how they were before the spill, said Mr. Daniel, who

had previously apologized for the spill. "We still have a lot of work to do."

The company now plans to unearth the pipeline at the breaking point near Marshall, Mich., in an effort to determine the cause of the rupture, repair the line and restore the oil flow in coming days, according to Enbridge officials.

State and federal officials said they are attempting to stop the penetration of the oil down the river before it reaches a nearby lake and are worried about the threat of rain on the river's already swollen levels.

Mr. Daniel said he met Tuesday with Gov. Jennifer Granholm, who took an aerial tour of the affected site and called Enbridge's initial cleanup response anemic.

He told reporters Wednesday that he and the governor had a frank conversation and that Enbridge re-

mains committed to doing everything it can to contain the spill and clean up the recovered oil.

Ralph Dollhopf, the on-scene coordinator for the Environmental Protection Agency, which is leading the government's efforts, said the spill doesn't yet appear to have fouled air quality or groundwater to levels considered dangerous. Local health officials said they would continue to monitor air and water quality, and reminded local residents that large swaths of the river remained closed to all public activity.

Meanwhile, Enbridge reported second-quarter net income of 138 million Canadian dollars (\$133.2 million), down 65% from a year earlier.

Enbridge's adjusted earnings, which strip out the effect of currency hedges and other one-time items, rose 19% to C\$232 million, or 63 Canadian cents a share.

Ansel Adams trove, or a pile of glass?

Negatives purchased for \$45 a decade ago at a garage sale stir controversy over authenticity; 'It could be anyone'

By LAUREN A. E. SCHUKER

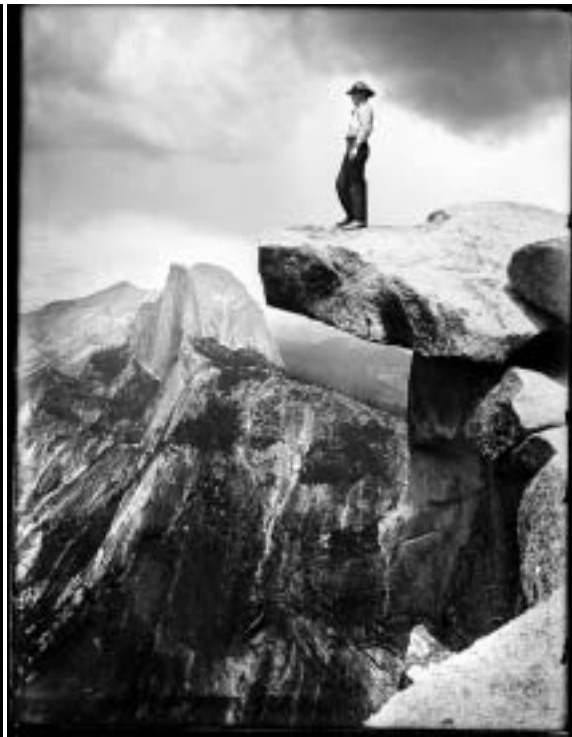
A set of 65 glass photographic negatives was identified Tuesday as vintage work of Ansel Adams by a team of experts enlisted by the owner, eliciting cries of skepticism.

If authentic, the negatives, purchased for \$45 at a garage sale 10 years ago, would represent a major addition to the body of work attributed to the iconic American photographer.

But an heir who remains involved in curating Mr. Adams's work said he was doubtful. And Bill Turnage, the managing trustee of the Ansel Adams Publishing Rights Trust, said he didn't believe the photographs were the work of Mr. Adams.

"We don't think they look like Ansel's work," he said. "Do you have any idea how many people were photographing Yosemite in the 1920s and 1930s? Millions! It could be anyone."

The experts included a photographer, an art adviser and handwriting analysts, though no Adams experts per se. They concluded that the negatives were early works by Mr. Adams, who died in 1984 at age 82 and is best known for his black-and-white photographs documenting landscapes of the American West. Some of Mr. Adams's work from the 1920s and 1930s was destroyed in a



Experts enlisted by the negatives' owner said the images were early works by Ansel Adams, famous for photos of California's Yosemite Valley and the U.S. West.

darkroom fire in 1937. The newly revealed negatives would represent rare works from that period.

An appraiser estimated the negatives' value at around \$200 million, though no plan to sell the collection has been announced.

"The negatives aren't worth anything, even the 44,000 at the University of Arizona, because Ansel isn't around to print from them," said Mr. Turnage of the Adams trust said. "The only authentic Ansel Adams works of art that are around are the ones that he printed."

Arnold Peter, a lawyer the negatives' owner hired to assemble the team of experts, said: "It is such an uninformed response on his part. Of course Ansel is no longer with us, and part of his magic is the way he developed photographs. But it doesn't make them any less valuable or mean that they are not worth anything. You can still produce great prints."

The trove was found a decade ago by Rick Norsigian, a 64-year-old building painter for the Fresno, Calif., public school system. Mr. Norsigian, who does not have a college

degree, said in an interview he has never formally studied photography but collects antiques in his spare time. He noticed the negatives at a local garage sale initially because of their unusual material—they were made out of glass rather than film—and bought them for \$45 after negotiating down the \$70 price tag.

The \$200 million estimate includes forecast sales, prints and other licensing arrangement, based on auction prices and previous sales of Adams works. The most expensive Adams work ever sold was "Clearing Winter Storm, Yosemite National Park," from 1938, sold at Sotheby's in New York last month for \$722,500. The second-most-expensive was the well-known "Moonrise, Hernandez, New Mexico," which sold in October 2006 for \$609,600, also at Sotheby's.

Mr. Norsigian brought the negatives home and, over time, noticed that they resembled some of the photographs he had seen by Adams of Yosemite National Park.

"My buddies would come over and we'd be having a beer and start making jokes: 'That looks like Ansel

Adams,'" he recalled. "I had seen his work at hospitals, businesses, that kind of thing. I was never a big fan, but I got curious. So I went to the library and got a biography and started doing some research."

Seven years—and many biographies—later, Mr. Norsigian hired Mr. Peter. Mr. Peter said he and his team used handwriting analysis to show that the labels on envelopes encasing the negatives were written by the photographer's wife, Virginia.

"We have plenty of evidence that clearly establishes that these negatives belong to Adams," Mr. Peter said in an interview Tuesday. "There is really no dispute about it."

But Matthew Adams, the artist's grandson, who runs the Ansel Adams Gallery, said in an interview Tuesday that he remains "skeptical." "All of the evidence presented is circumstantial at best," Mr. Adams added in a lengthy statement, calling that evidence little more than "hopeful supposition." He called the \$200 million figure "ludicrous."

Mr. Adams said that one area of discrepancy emerges from misspellings on many of labels, presumably

written by Virginia, who lived in Yosemite for much of her life. Mr. Adams said he was surprised that, after so many years in the region, she would misspell names such as Bridalveil, one of the most prominent waterfalls in the Yosemite Valley.

Mr. Peter said such mistakes were often made in haste. "It's normal to have some typographical errors, and we've done extensive research to verify the handwriting," he said.

Mr. Adams said that when Mr. Peter presented images of the negatives and the evidence to him in November, he suggested using carbon dating to determine the period from when the negatives were made, but that procedure was never done. Mr. Peter said Tuesday that "there is really no reason to do carbon dating, because we have plenty of other evidence," but added that he would consider it if Mr. Adams agreed that it would serve as definitive proof.

Mr. Norsigian is currently storing the negatives in a vault in Fresno. Fresno State University will display the negatives in their first public showing in mid-October.



Rick Norsigian, a building painter, bought the negatives at a garage sale.

U.S. NEWS



Associated Press

Inmates seen Tuesday in tents set up to house as many as 110 illegal immigrants at the Maricopa County Sheriff's Office jail in Phoenix. Arizona would need the federal government's cooperation to deport illegal aliens.

Arizona immigration law partially blocked by judge

BY MIRIAM JORDAN

A federal judge blocked key sections of Arizona's tough new immigration law on Wednesday, granting the Obama administration's request for an injunction based on the belief that immigration matters are the purview of the federal government.

U.S. District Judge Susan Bolton agreed to enjoin several provisions, including one that required police officers to check the immigration status of a person stopped for other violations, such as speeding, if reasonable suspicion existed that the individual was illegally in the U.S.

Arizona lawmakers passed the law to compel illegal immigrants already in the state to leave and to stem the flow of illegal immigrants into the state from Mexico. Arizona is the busiest human- and drug-smuggling corridor in the U.S. It is home to 460,000 undocumented immigrants, according to the Department of Homeland Security.

The judge also enjoined sections that required immigrants to carry papers at all times proving their right to live in the U.S. and another that banned undocumented workers from congregating in public places, such as street corners or outside stores, to solicit employment.

Other provisions of the law, which are less controversial and weren't the target of attacks by opponents, will take effect Thursday.

Supporters of the law said it sought to fill a vacuum left by the federal government's failure to rein in illegal immigration, which has burdened the state. Critics said it would lead to racial profiling.

While local police can arrest illegal immigrants, only the federal government can deport them.

Because the federal immigration-enforcement agency has suggested it won't necessarily cooperate in helping to meet the Arizona law's goal, local police could be forced to choose between holding detainees in their own jails or releasing them.

On Tuesday, Matthew Chandler, a spokesman for the Department of Homeland Security—which houses U.S. Immigration and Customs Enforcement—said the priorities for federal enforcement apply to recent border crossers, felony re-entry cases and serious criminals who pose a public-safety risk.

Police officers in Arizona and across the U.S. currently have the capability to contact ICE to verify the immigration status of people they stop. The agency then confirms whether a person is deportable. If the person doesn't fall into a priority category, they might be issued a notice to appear before an immigration judge but wouldn't be detained by the federal government. That means the individual could remain in the country for months or years while they fight their removal.

Without the federal government's cooperation, police likely would have to release suspects, because the law doesn't give them the authority to detain an individual indefinitely based on suspicion of unlawful presence in the U.S.

To achieve the law's stated goal of attrition through enforcement, "ICE needs to play with us," said John Harris, president of the Arizona Association of Police Chiefs. "Without ICE, it makes it much more difficult for us to arrest people."

Asked about its plans regarding Arizona's new law, the agency said that "ICE is focused on smart, effective immigration enforcement that focuses first on criminal aliens who pose a threat to our communities." It added that the outcome of the Justice Department's challenge to the law "will inform the government's actions going forward."

ICE now works with local law enforcement in Arizona and other states. For example, illegal immigrants who have committed serious crimes normally are turned over to the agency after completing sentences for state crimes. The agency also has agreements with more than 70 localities that empower about 1,200 personnel, who have received special training, to verify the status of immigrants.

—Laura Meckler
contributed to this article.

Durable-goods orders decline

BY JEFF BATER
AND MEENA THIRUVENGADAM

Demand for U.S.-manufactured durable goods slid in June for a second consecutive month, another sign the manufacturing sector expansion is slowing.

Durable-goods orders fell by 1% to a seasonally adjusted \$190.5 billion, the Commerce Department said Wednesday. Economists surveyed by Dow Jones Newswires expected a 1.1% gain.

A barometer of capital spending by businesses rose. Orders for non-defense capital goods excluding aircraft increased by 0.6%, after rising 4.6% in May. Capital equipment demand seems to be strengthening slowly, a trade group says. "Based on our data, the equipment finance industry continues to show gradual but steady growth," said William G. Sutton, president of the Equipment Leasing and Finance Association.

But other economic data have showed weakness in manufacturing.

Federal Reserve data two weeks ago said production by industries in the U.S. last month barely increased.

And the Fed said in a report Wednesday that U.S. economic activity rose only modestly in June and the first half of July. In its latest beige book report, the Fed said economic conditions continued to improve in most of its 12 regional districts, but the advances were modest.

—Luca Di Leo
contributed to this article.

What Congress might do to defuse tax time bomb

[Capital]

BY DAVID WESSEL



President George W. Bush left behind a ticking time bomb that is set for Dec. 31, 2010. If

Congress does nothing, taxes on wages, capital gains and dividends will leap, the estate tax will be resurrected at a 55% rate and the pesky alternative minimum tax will hit an additional 21 million taxpayers on 2010 returns.

Neither Democrats nor Republicans have an interest in letting that happen. Doing nothing would, Goldman Sachs economists estimate, amount to a tax increase equal to 2.5% of gross domestic product, the value of goods and services produced each year. But what Congress will do and when...well, as one official puts it, this has become a gigantic Rubik's cube that everyone is twisting at the same time.

This is Washington, so take the politics first.

Despite misgivings from some Democrats, the Obama administration is pressing to extend the Bush tax cuts for everyone with an income under \$250,000 a year and to raise taxes on those above. Taxing the rich is red meat to the Democrats' left. Energizing them for the November congressional elections is key for the White House and House Speaker Nancy Pelosi. A recent Pew/National Journal poll found that only 11% of Democrats favor extending all of the Bush tax cuts.

Republicans are happily staking out the no-new-taxes turf, playing to their traditional constituency. Pew says 52% of Republicans favor extending all the Bush tax cuts. Republicans are convinced they can win votes by simultaneously blaming Democrats for the deficit and accusing of them of being tax raisers.

House Democrats are torn between taking a vote before the elections (so members can boast of having stopped a middle-class tax increase) and waiting for the Senate (so Democrats from rich suburban districts don't get stuck voting to raise taxes on over-\$250,000 voters only to find the Senate will extend them for everyone.) Senate Democratic leaders promise a September vote, but it's far from clear they have the needed 60 votes.

The smart money in Washington says nothing gets done before a postelection lame-duck session.

Given the distressingly sluggish economy recovery, few see this as a propitious moment to raise taxes on anyone. But given the pressure to do something to reduce the budget deficit and the political appeal to Democrats of socking it to the rich, the argument is over how much damage raising upper-bracket taxes would do.

"Extending the tax cuts would provide some demand-side

stimulus," says Donald Marron, who sat on the Bush Council of Economic Advisers and now heads the Urban-Brookings Tax Policy Center. "All else equal, the cuts that go to middle- and low-income taxpayers are likely to provide more demand-side stimulus in the near term, because they are less likely to be saved."

Republicans focus less on consumer demand, and more on the impact of taxes on business hiring and investment. They observe loudly that raising upper-bracket tax rates hits ever-popular small businesses, whose profits show up on their individual returns. John Boehner, the House Republican leader, accuses President Barack Obama of pushing "job-killing tax hikes." But Leonard Burman, a Syracuse University economist who worked in the Clinton Treasury, counters that academic evidence "suggests strongly that higher marginal income-tax rates on high-income entrepreneurs are unlikely to result in significantly less employment or risk taking."

In fact, fewer small businesses would be hit than the rhetoric implies. The congressional Joint Committee on Taxation estimates that only 3% of taxpayers who show business income on their returns would be touched by the Obama tax increase, though these 750,000 taxpayers account for half of the \$1 trillion in business income reported on personal tax returns.

And then there's the deficit. Raising taxes on the over-\$250,000 crowd isn't going to cure it. The price tag on the Obama-backed extension of Mr. Bush's middle-class tax cuts and stopping the alternative minimum tax from reaching down into the middle class is \$2.5 trillion over 10 years, the Joint Tax Committee says. Unofficial estimates circulating on Capitol Hill say that's about 85% of the price tag for extending all the Bush tax cuts.

The administration argues that symbolism matters as much as dollars. It'll be hard for the U.S. government to persuade anyone that it takes the long-term deficit seriously if it won't even let a tax cut on the best-off Americans expire on schedule. Though he doesn't say so explicitly, Mr. Obama knows he is unlikely to wrestle down the deficit without also raising taxes on folks making less than \$250,000 at some point.

So what happens? Political gridlock, wavering Senate Democrats, deficit angst and a gnawing sense that the tax code is due for an overhaul could combine to make a one- or two-year extension of the Bush tax cuts—perhaps all of them, perhaps only those Mr. Obama likes—likely.

This could tee up a massive tax and deficit package after the 2012 presidential elections. But one problem with that politically expedient solution: It would exacerbate the already overwhelming uncertainty hanging over the economy and discouraging business hiring and investment.

WORLD NEWS

Turkey says Iran is giving ground

Iran has said it could suspend a part of its uranium-enrichment program and is ready to resume nuclear talks with the major powers without setting conditions, in what Western officials said Wednesday were signs that Tehran has been taken aback by the scale of international sanctions launched against it.

By Marc Champion
in Istanbul
and Jay Solomon
in Washington

Tehran's moves mark the latest in a seven-year international tug-of-war over its nuclear ambitions. Iran denies international allegations that it is pursuing nuclear weapons.

U.S. and European diplomats welcomed the Iranian offers, though with skepticism, given the tortuous history of Iran's nuclear negotiations.

Speaking in Istanbul Wednesday, Turkish Foreign Minister Ahmet Davutoglu said his Iranian counterpart, Manouchehr Mottaki, had pledged on Sunday to stop enriching uranium to the higher grade needed for a medical-research reactor, provided that world powers agree to a fuel-swap deal Tehran outlined earlier this year with Turkey and Brazil.

United Nations Security Council members imposed fresh sanctions against Iran last month despite the fuel-swap deal, in part because Iran

then insisted it would continue enriching nuclear fuel to 20%. Under the fuel swap, Tehran would receive the 20%-enriched fuel rods needed for the research reactor. The U.S. and others feared the higher level of enrichment—nuclear reactors require fuel enriched only to around 3%—was a step toward creating nuclear weapons.

Mr. Mottaki said "there will be no need for Iran to continue 20% enrichment if the Tehran Agreement was realized and the country gets the fuel it needs," Mr. Davutoglu told a joint news conference with German Foreign Minister Guido Westerwelle on Wednesday.

A spokesman for Iran's foreign ministry couldn't be reached for comment.

U.S. officials Wednesday said they were studying Iran's recent discussions with Turkey as well as a letter Tehran sent Monday to the U.N.'s nuclear watchdog, the International Atomic Energy Agency.

Tehran said in the letter it was ready for talks with the European Union's foreign-policy representative, Catherine Ashton, in September, "without conditions," said a U.N. official. Ms. Ashton would represent the five permanent members of the U.N. Security Council, plus Germany, in the talks.

"We have clearly indicated that we are prepared to engage Iran along

with the rest of the P5+1 regarding the international community's concerns about Iran's nuclear program," said a senior U.S. official Wednesday. "There are contacts under way with Catherine Ashton regarding a possible meeting."

U.S. and European diplomats said they believe the rash of new economic sanctions imposed on Tehran over the past two months has rattled the Iranian leadership. They said they have heard from Iranian officials, through interlocutors, that financial penalties the EU imposed this week were much more expansive than Tehran anticipated. They said that there are already signs that the combination of new U.N., EU and U.S. sanctions are starting to have an impact on the Iranian economy.

More than a dozen Iranian cargo ships have been stuck in Iranian ports in recent weeks, said a European official, due to their difficulties in obtaining insurance.

European air-traffic controllers have also grounded Iranian airliners due to their failure to meet safety regulations.

"We've been getting more messages than usual that they'd like to get involved in talks," said the European official in Iran. "For the Iranians to be serious, they'd need to agree to stop enriching to 20% and display a willingness to discuss their nuclear program in its entirety."

A unit of Iran's powerful Islamic Revolutionary Guard Corps said last week it was backing out of its involvement in a large, natural-gas project. The guard corps cited the fresh international sanctions, though didn't give specific reasons for pulling back.

Top Iranian officials in recent days have publicly dismissed the sanctions, saying they will be ineffective.

"By imposing sanctions they [can] not block the way of Iranian nation," President Mahmoud Ahmadinejad said Wednesday, visiting the site of two petrochemical complexes in southern Iran, the country's national broadcaster reported.

Western officials were skeptical of the Turkish-Brazilian fuel-swap deal when it was brokered in May, seeing it as a ruse by Tehran to forestall sanctions.

Turkey and Brazil voted against the U.N. sanctions, arguing the fuel-swap agreement should be given time to build confidence between the two sides.

A spokesman for Turkey's Mr. Davutoglu said Wednesday it was too early to say whether or at what point Turkey would expect the latest rounds of sanctions to be dropped should a deal now be struck on a fuel swap.

—Joe Parkinson in Istanbul
contributed to this article.

All signs point to warming, according to climate report

Associated Press

WASHINGTON—Scientists from around the world provided more evidence of global warming, in the annual State of the Climate report.

Compiled by more than 300 scientists from 48 countries, the report said its analysis of 10 indicators that are "clearly and directly related to surface temperatures, all tell the same story: Global warming is undeniable."

The 2000s are the warmest decade on record, says the report, which didn't specify a cause for the trend.

Concern about rising temperatures has been growing in recent years as atmospheric scientists report rising temperatures associated with greenhouse gases released into the air by industrial and other human processes. At the same time, some skeptics have questioned the conclusions.

The new report, the 20th in a series, focuses only on global warming and does not specify a cause.

"The evidence in this report would say unequivocally yes, there is no doubt," that the Earth is warming, said Tom Karl, the transitional director of the planned NOAA Climate Service.

Deke Arndt, chief of the Climate Monitoring Branch at the National Climatic Data Center, noted that the 1980s was the warmest decade up to that point, but each year in the 1990s was warmer than the '80s average.

But each year in the 2000s has been warmer than the '90s average, so the 2000s are now the warmest decade on record, he said.

The new report noted that continuing warming will threaten coastal cities, infrastructure, water supply, health and agriculture.

"At first glance, the amount of increase each decade—about a fifth of a degree Fahrenheit—may seem small," the report said. "But," it adds, "the temperature increase of about 1 degree Fahrenheit experienced during the past 50 years has already altered the planet. Glaciers and sea ice are melting, heavy rainfall is intensifying and heat waves are becoming more common and more intense."

The new climate report, released by the National Oceanic and Atmospheric Administration and published as a supplement to the Bulletin of the American Meteorological Society, focused on 10 indicators of a warming world.

Rising over decades are average air temperature, the ratio of water vapor to air, ocean heat content, sea surface temperature, sea level, air temperature over the ocean and air temperature over land. Indicators that are declining are snow cover, glaciers and sea ice.

The 10 were selected "because they were the most obviously related indicators of global temperature," said Peter Thorne of the Cooperative Institute for Climate and Satellites, who helped develop the list when at the British weather service, known as the Met Office.

AU troops struggle with Somali casualties

By Sarah Childress

African and U.S. officials reaffirmed their support this week for the African Union-led battle against al Shabaab, the Islamist militant group that controls much of Somalia. But these international efforts are being hobbled as AU troops come under criticism for indiscriminately shelling Somali civilians.

One site of civilian deaths has been Mogadishu's largest market, where Somalis have been caught amid an ongoing battle to bring stability to their long-lawless country.

Al Shabaab militants effectively run Bakara market, where Somalis buy vegetables, spaghetti, clothing and fuel. From positions within, they fire mortars toward troops from the African Union Mission in Somalia—or Amisom, as the AU troops are known.

Amisom troops have fired back even when civilians are at risk, according to a U.S. official and some AU officials. AU officials said privately that Amisom shelling of populated areas like Bakara market had resulted in civilian casualties.

"We have a problem with return fire," said one AU official. "It's be-



A militant standing guard in May near Bakara market in Mogadishu, where civilians have been caught in crossfire.

come a real, serious issue."

The issue emerged at this week's African Union summit in Kampala, where U.S. and African officials confirmed their support for Amisom troops and their view of al Shabaab as a threat to broader regional security. Al Shabaab claimed responsibility for a July 11 triple suicide bombing in Kampala, Uganda, that killed 76 people. U.S. and African officials have alleged the group has personnel and funding links with al Qaeda.

U.S. officials raised the issue of civilian casualties with Amisom officials this week in Kampala, said Johnnie Carson, the top U.S. diplomat on African affairs. The U.S. is Amisom's biggest donor.

Mr. Carson said they discussed how the troops might use technology to increase accuracy in its counterattacks, as well as using better intelligence to preempt attacks. He and other U.S. officials declined to

offer any specifics on how the U.S. might assist with those efforts. The U.S. so far hasn't offered additional funding, Mr. Carson said.

Another U.S. official said the focus for now was to encourage Amisom to avoid shelling civilian areas. "We're not making threats at this point," the official said. "Our course is to try to get them to show more restraint."

So far, Amisom has said little about what plans it might have to address the problem. A spokesman declined to make anyone else from Amisom available for an interview.

U.S. officials hope that an increased number of Amisom troops—the west African nation of Guinea pledged nearly 2,000 more this week—would allow the force to push al Shabaab out of heavily populated areas, including Bakara.

Al Shabaab moved into Bakara market two years ago. The militants levy a high tax on traders who sell

their wares there. Those who refuse have been murdered, their severed heads left next to their bodies in the dusty streets as a warning to others who might defy the militants.

The market still bustles with people who gather to buy, sell and use money-transfer services. Goods are cheaper here, and it is often the only place to buy medicines and other necessities in this wartorn city. When shells hit, the devastation is great. Residents hold both sides responsible for the carnage.

"We are like insects to Amisom," Farhia Ali Nur, a 42-year-old vegetable grocer in Bakara market, said by telephone.

Mrs. Nur said she lost her oldest son last year after a mortar shell landed on her house near the market. In the blast, shrapnel ripped through her husband's leg, making him unable to work.

—Abdinasir Mohamed
contributed to this article.

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WORLD NEWS

Accidents plague China's workplaces

BY JAMES T. AREDDY

SHANGHAI—A deadly gas explosion and a chemical leak on Wednesday are the latest in a string of accidents to demonstrate China's problems with industrial safety.

The explosion of a propylene-gas line at a plastics factory in a densely populated section of the Chinese city of Nanjing killed at least 12 and injured scores outside the plant, state media said, illustrating the risks of placing manufacturing sites in crowded urban areas—a widespread practice.

The same day, in the latest water-pollution scare near the northern city of Jilin, chemical containers flooded into a river, prompting authorities to cut access to tap water in the area. The cutoff, in turn, spurred a run on water in supermarkets, just as a major chemical spill in almost the same place five years earlier did.

Mishaps that threaten lives and the environment are an everyday occurrence in China's workplaces—in coal mines, fireworks plants or at ports. In the first half of this year, an average of 187 people died per day in industrial accidents, China's government reported this month. While that figure marked an 11% drop from the first half of 2009, it was a stark reminder of China's dismal record on workplace safety as industries grow.

Beijing's decadeslong emphasis on economic growth has overshadowed efforts to ensure safe workplaces and a clean environment. The Communist Party's singular role in setting policy leaves little room for counterweights, such as corporate gadflies or an activist press, that might alter the equation. Corruption and collusion between, for example, factory owners and local inspectors limit the likelihood that laws protecting workers and the environment will be enforced.

The largest factor, perhaps, is



A blast at the site of a Chinese plastics factory in Nanjing on Wednesday killed at least 12 people. Factories are often situated in crowded residential zones.

that for many in the world's largest population, even dangerous jobs are enticing.

The environmental problems are complicated this year by China's particularly heavy rainy season. The water-pollution disaster in Jilin is blamed on rains that sent containers of a chemical used in explosives into the Songhua River.

State-run Xinhua news agency said more than 1,000 containers filled with 160,000 kilograms of trimethylchlorosilane, a colorless, flammable liquid with a pungent odor, were washed into the river. Xinhua said the chemical would give off hydrochloric acid after reacting with water, and quoted officials as saying a cleanup would take place if contamination were found.

This month in Fujian province,

Zijin Mining Group Co. said floods led to the collapse of a basin containing wastewater near its copper facilities, which caused a major fish kill as it spilled into a river. Later, the miner acknowledged its own role, saying company failures also were to blame.

In another accident this month, a firefighter in the northeastern city of Dalian died during cleanup of an oil spill that followed a pipeline explosion.

Also compounding the risks are patchy zoning rules in Chinese cities, which sometimes mean homes closely surround factories. The 66-building compound of the Nanjing No. 4 Plastics Factory, where Wednesday's blast occurred, sits in an industrial-residential area, near a furniture shop and doctor's office,

not far from government offices downtown and the city's major park.

The midmorning blast sent as many as 300 people to area hospitals and clinics, filling the emergency rooms of five major downtown hospitals, which were running short of blood, the Xinhua news agency said. The death count may rise. China Central Television put the toll at 12 and said dozens are critically injured.

Television footage showed how the initial blast damaged an area hundreds of feet away, leaving behind the charred twisted frames of a city bus and car, toppled brick walls and broken windows. Bloodied witnesses said the area shook like an earthquake. Firefighters spent four hours trying to seal the gas pipe, as orange fireballs spewed from a fac-

tory building roof.

The propylene pipeline was damaged when workers dismantled buildings at the factory, said a statement from the State Administration of Work Safety. The spark was from a car engine, it said.

Many Chinese cities aim to relocate industry. Numerous development zones encircle most Chinese cities, and town planners encourage companies to go. Factory owners often respond positively to take advantage of cheaper land, better transport and financial incentives. But the process can be slow going. In a notice posted on a local government website where companies advertise to potential investors, No. 4 Plastics said it started production in 1975.

—Bai Lin
contributed to this article.

Beijing insists trains use local technology

BY SHAI OSTER

BEIJING—China's powerful Ministry of Railways dismissed foreign concerns about the transfer of technology from foreign companies participating in its enormous high-speed rail building binge, saying the country doesn't force such transfers and that it is developing its own technology.

The comments Wednesday, by a senior official during a rare news conference by the normally secretive ministry, came as the World Bank issued a report praising China's high-speed rail plans but also warning that they will be difficult to pay for.

China plans to spend some two trillion yuan, or around \$295 billion, by 2020 to build a high-speed rail network totaling 16,000 kilometers that connects all its major cities.

The World Bank report called the project, begun in 2007, "perhaps the biggest single planned program of passenger-rail investment there has ever been in one country," and said it could help China's economy grow by speeding up passenger traffic, freeing up overloaded freight routes

and reducing dependency on automobiles.

China's rail plans have meant billions of dollars of contracts for foreign companies such as **Bombardier Inc.**, **Siemens AG**, and **Alstom SA**. But foreign companies were allowed to enter China's market only as joint-venture partners after China abandoned efforts to develop its own independent super-fast trains in 2003, and foreign executives say their companies were required to transfer technology as part of those ventures to gain market access.


He Huawu, chief engineer at the Ministry of Railways, acknowledged Wednesday that China's trains are based on foreign technology, but said they had been greatly modified by Chinese engineers to increase speeds. Calling China's policies "forced" technology transfer "is inaccurate," Mr. He said.

Foreign executives and analysts have raised particular concerns about the technology transfers because they fear the transfers could be helping Chinese rivals develop into global competitors.

—Sue Feng contribute
to this article.




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WORLD NEWS



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An Indonesian woman walks through a traffic jam in Jakarta, where vehicles' average speed falls every year by about a kilometer an hour. Vehicles now move at an average of 13 to 15 kilometers an hour.

Indonesia fights gridlock with subway plan

BY PATRICK BARTA

JAKARTA—Indonesian leaders are battling their capital's deepening traffic woes with plans to build the world's next major subway system.

Southeast Asia's largest economy has long suffered from big deficiencies in power, road and other infrastructure, but a succession of governments have repeatedly failed to deliver projects to fill those needs. The subway plans are a test for the government in its fight against the country's reputation for inefficiency. President Susilo Bambang Yudhoyono has vowed to make headway in fixing Indonesia's infrastructure problems before his second and final term ends in 2014.

Analysts say Indonesia's infrastructure shortcomings drive up the cost of doing business and are one reason the country is growing less rapidly than China and other Asian economies. Indonesia's economy is expected to grow 6% this year, compared with 9% to 10% in China.

In Jakarta, the world's 11th-largest city with more than 10 million people, vehicles move at an average

of 13 to 15 kilometers an hour, according to Danang Parikesit, chairman of the Indonesian Transportation Society, a think tank and advocacy group. Average speeds are declining by about one kilometer an hour each year, analysts say.

Bangkok, known for its gridlock, bottomed out at around 12 kilometers an hour before it opened a pair of urban train lines over the past 12 years; traffic has since improved.

"If we don't make a breakthrough, the public cost of congestion will be enormous," Mr. Parikesit says. Traffic problems already cost businesses and commuters more than \$3.1 billion a year in wasted fuel and lost work time, according to the University of Indonesia.

"Business could be better if the traffic in Jakarta wasn't as bad as it is now," says Tri Anggraeni, corporate secretary at DHL Supply Chain Indonesia, a unit of **Deutsche Post AG**. She says the logistics company has little choice but to brave the roads, and that gridlock extends well beyond the city center of the city—it now takes three days to transport goods by truck from

Jakarta to Surabaya, about 470 miles away, for example.

Officials say the planned \$1.6 billion train system will help. The first phase, to begin construction next year, is expected to cover a 15.5-kilometer route in roughly 30 minutes, with 13 stops in the central city, including one near the iconic Hotel Indonesia. Some stops will be underground, others elevated. The city-owned company MRT Jakarta, which is managing the train project, says the line will be able to handle as many as 300,000 passengers a day after it opens in 2016.

Mr. Yudhoyono has made repeated efforts since taking office in 2004 to attract foreign investors to fund infrastructure projects, but most have steered clear, blaming regulatory confusion, corruption and multiple local, provincial and national jurisdictions with complex power-sharing rules.

A plan launched in 2005 to build 1,000 kilometers of toll roads is incomplete but edging ahead, in part due to problems with land acquisition. A \$600 million monorail project in Jakarta that started construc-

tion in 2004 and was to begin operating as early as 2006 has ground to a halt amid disputes among its backers over financing and other issues, leaving a line of unfinished concrete pillars snaking through the central city.

"It's a disgrace that Jakarta is the only major city in Southeast Asia, in fact in Asia now, that does not have a subway system or a mass transit system" with trains, says Nick Cashmore, an analyst at investment bank CLSA in Jakarta. "I think you will find there's a general assumption that nothing will change."

More optimistic analysts point to recent infrastructure successes. Mr. Yudhoyono set up a special unit last year to clear red tape for infrastructure projects and appointed a well-regarded technocrat who helped manage successful reconstruction efforts after the 2004 tsunami to head the group.

Jakarta officials have made significant progress in improving flood control in the city, residents say, and developers are making headway on a massive power-plant-building program launched by the government

in 2006, though analysts warn more capacity will be needed.

The "Mass Rapid Transit" idea dates back 20 years. But initial enthusiasm for the MRT cooled after officials determined that ticket revenues wouldn't cover the cost of private financing. In recent years, as traffic in the capital worsened, interest in the project has revived.

In 2008, officials set up MRT Jakarta to manage the train project. In 2009, Indonesia secured low-interest loans from the Japan International Cooperation Agency that are expected to cover as much as 85% of the cost of the project. The government promised to fund the rest.

Eddi Santosa, a civil engineer who is chief corporate and planning officer for MRT Jakarta, says MRT is on track to begin choosing contractors later this year, with construction starting by the end of 2011. The government already owns most of the land along the project, he says, and is developing plans to keep construction from closing down major transportation arteries.

—Yayu Yuniar
contributed to this article.

Pakistan plane crash near capital kills 152

BY ZAHID HUSSAIN

ISLAMABAD—An Airbus A-321 operated by Pakistani carrier **Airblue** Ltd. crashed into heavily forested hills near Islamabad in thick fog and heavy rain on Wednesday, killing all 152 people on board, civil aviation authorities said.

The plane was at the end of a two-hour flight from Karachi to Islamabad, Pakistan's capital. It crashed after being asked by airport traffic control to bank around before landing. There were 146 passengers and six crew aboard, au-

thorities said. Two American citizens and one Austrian were among the dead.

Airblue spokesman Raheel Ahmed said the plane "was in excellent condition and there was no technical fault when it took off from Karachi." The aircraft was commissioned in 2000 and in use by Airblue, a privately owned carrier, since 2006, he said.

Interior Minister Rehman Malik said the possibility of sabotage couldn't be ruled out. "We are investigating the crash from all aspects," he said. He said the plane

had strayed into a no-fly zone.

Many other flights into Islamabad had been canceled or diverted from the airport on Wednesday morning because of bad weather. The visibility had improved slightly when the Airblue flight was allowed to land. Junaid Amin, the head of the Civil Aviation Authority, said the flight lost contact with the control tower a few minutes before the crash.

Witnesses said the aircraft appeared to be flying very low before it crashed with a huge explosion. "It hit the hill with a bang," said Anjum

Rehman, who saw the crash from the balcony of her house.

An army battalion, scores of relief workers and three helicopters aided the recovery operation, which was hampered by a heavy downpour and difficult terrain. TV footage showed twisted metal wreckage hanging from trees and scattered across the rocky ground.

Pakistan's airline industry has expanded rapidly in recent years to cater to a growing middle class. That expansion has caused safety worries, which led to the European Union partially banning state-owned

Pakistan International Airlines Corp. from flying in EU airspace in 2007.

The ban came after a PIA aircraft crashed in June 2006 after taking off from the city of Multan, killing all 45 people on board. That was the last major air crash in Pakistan. The ban was lifted later in 2007 after PIA made safety improvements.

Airblue was started in 2004 by Pakistani businessman and politician Shahid Khaqan Abbasi, and has quickly grown into the nation's No. 2 carrier behind PIA. Mr. Abbasi was a former chairman of PIA in the 1990s.