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THE WALL STREET JOURNAL.

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A productivity tool for the palace?

AFP/Getty Images

Queen Elizabeth visited a Research In Motion plant and received a BlackBerry as part of her visit to Canada to celebrate the country's 143rd birthday and to mark the Canadian navy's centennial. Separately Buckingham Palace revealed some of the cuts it is making to its budget. Article on page 7

BP gets a lift from Libya

By Tahani Karrar-Lewsley

DUBAI—**BP** PLC is becoming something of an investment darling once again, as its battered shares start to draw increasing interest.

On Monday, the oil giant's shares marched higher, gaining 3.5% after Libya's top oil official called the company's stock a bargain.

BP's shares have risen 12% since hitting 14-year lows late last month.

Shokri Ghanem, chairman of Libya's National Oil Co., said he will recommend BP to the Libyan Investment Authority, the North African state's sovereign-wealth fund. "BP is interesting now with the price lower by half, and I still have trust in BP," Mr. Ghanem said.

BP's stock is down almost 50% since April 20, when an explosion on **Transocean** Ltd.'s Deepwater Horizon drilling rig—leased by BP in the Gulf of Mexico—killed 11 workers and triggered one of the worst oil-spill disasters in U.S. history.

Given the rising costs related to the spill—already topping $3 billion—BP could benefit from a strategic, sovereign-wealth fund investment. Such an investment might also ease its path to raising the $20 billion earmarked for spill claims.

"If people want to buy BP shares, we always welcome new shareholders," said John Pack, a spokesman for BP in London.

Mr. Pack stressed that BP isn't selling assets right now, but it is making plans to raise $10 billion in the next 12 months through the sale of noncore assets.

Separately, BP said its standby loan facilities had risen to $9 billion, with as many as nine banks committed to providing the energy company with funds, if needed.

Mohammed Layas, executive director of the Libyan Investment Authority, said he had no comment on Mr. Ghanem's recommendation. Among other sovereign funds, Kuwait Investment Authority owns 2.8% of BP and Norway's sovereign-wealth fund holds 1.3%, according to data provider FactSet.

Kuwait-based oil analyst Kamel Al Harami said, however, that BP may not be interested in further investments from Kuwait since the Kuwait parliament has become more interventionist in energy activities.

Libya has stepped up overseas investments since economic sanctions on the country were lifted in 2004. It has also attracted significant investments from oil firms including **Eni** SpA, **Total** SA and **Occidental Petroleum** Corp. in recent years.

BP and its Libyan partner, the Libya Investment Corp., in May 2007 signed an exploration and production deal with National Oil valued at at least $900 million for the onshore Ghadames and offshore Sirt areas.

■ BP may need a radical rethink to succeed 32

Probe backs U.N. panel on climate, airs concern

By Jeffrey Ball

A new review of the United Nations' Intergovernmental Panel on Climate Change supports the IPCC's warning that global warming presents a significant danger, but it says that some of the summary conclusions of a seminal IPCC report don't adequately discuss some "uncertainties" and "positive impacts" of climate change.

In the report released Monday, the Netherlands Environmental Assessment Agency, an institute that advises the Dutch government, found the summary conclusions of the portion of the IPCC's 2007 report dealing with how climate change might affect various regions of the world to be "well founded."

But the Dutch report said the summary conclusions it reviewed "tend to single out the most important negative impacts of climate change."

It also uncovered what it called "another significant error" in one of the underlying chapters in the IPCC report—a projected 50% to 60% drop in the productivity of anchovy

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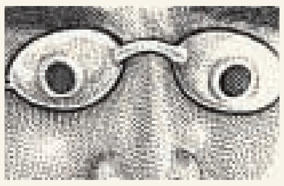
The Quirk



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PAGE TWO

Retailers next on Brussels' 'fix' list

[Agenda]

By Patience Wheatcroft

We are nearing the end of the lengthy battle fought by private-equity and the hedge-fund industry to ward off the worst of the damage that the European Commission has tried to inflict on them. The resulting legislation has given up some of its fiercest elements, but it is still seen by some, particularly in the U.K., as protectionist and unduly restrictive.

Already Michel Barnier, the Commissioner for the Internal Market, has found another apparently successful industry to put under scrutiny. Now it is retailers who should be fearful of potentially damaging restrictions and demands that could be heaped on them from Brussels. Monday, the Commission adopted a report that listed the perceived failings of the retail industry, and Mr. Barnier promised that he would be bringing forward "concrete proposals" in the autumn.

That timetable could spoil the holiday plans of some in the sector, since the deadline for responses to the report is Sept. 10. Since major retailers are likely to spot in the report several pointers toward potentially dangerous measures, they will want to respond vigorously.

Inhabitants of large parts of the European Union may not recognize retailing as described by the Commission. It is perturbed by "a lack of growth in e-commerce" and a "lack of information and transparency on pricing." Yet the younger generation has grown up accustomed to buying whatever it wants on the Internet. Price comparison sites make it easy for shoppers to see where the bargains can be found. A London shopper intent on buying his favorite designer jeans can easily do so without leaving his home and often at a price well below what he would pay in a store.

Bloomberg News

An employee sorts oranges at a Sainsbury's supermarket in London.

But while many stores, both international giants such as **Tesco**, and niche players such as **Abercrombie & Fitch**, have embraced the Internet, the picture isn't true across Europe. EU nations have very different histories, habits and cultures, and this is reflected in their retail industries as much as in any aspect of their lives. In the U.K., Internet sales are on track to account for 10% of retail sales by 2012, according to projections from financial services provider PayPal, but according to the Commission report, there are only four member states in which e-commerce currently accounts for more than 2% of retail sales.

> The report will make depressing summer reading for those who just want to get on running their shops.

The EU's stated aim is to create a single market, but to do so with markets that are at very different stages of development is difficult. Attempts to legislate for change that might be seen to benefit some countries could have the opposite effect in others.

The Commission report acknowledges the importance of retail as an employer: Around 17.5 million people work in the industry, and it accounts for a fifth of all small and medium-size businesses. Yet the shortcomings that it notes, and the remedies that it might seek to apply, could threaten some of those jobs.

For instance, the report cites "a lack of rules governing unfair commercial practices and contractual relations between the various parties in the supply chain and/or poor application of the rules where they do exist."

This will induce pains of horrible familiarity in U.K. retailers, whose relationships with suppliers have been the subject of numerous prolonged and expensive investigations. Changes have been imposed and there are codes of practice to which they must adhere. The threat now of an EU intervention in their relationships with suppliers would be one which they would resist.

The Commission's thoughts on the industry's failings in relation to sustainability also are likely to occasion palpitations among finance directors and those who labor over the logistics of the operations. It is concerned about everything from the sector's energy consumption to its creation of waste, its contribution to traffic flows and lack of energy efficiency. And where the Commission perceives failings, it will, inevitably, propose remedies.

What remedy it might dream up for the following problem it identified could be the stuff of nightmares: a "lack of a common life-cycle methodology for evaluating the environmental impact of products and services sold" in the transition to a more sustainable retail sector.

Labelling regulations clearly do not go nearly far enough to keep Mr. Barnier's colleagues happy. Yet talk of a "common life-cycle methodology" makes anguish over mere "traffic light" signalling of health ratings on food products look anodyne.

There are wide price differences from country to country. For instance, the Commission found a discrepancy of 28.4% on average between the price of food and non-alcoholic beverages in the Netherlands and Belgium. It acknowledges that there are many different factors that play a part in this. Nevertheless, in the interests of "fairness" for EU citizens, it seeks ways of enabling them to benefit from lower prices and to encourage them to buy across borders. It also is critical of suppliers that operate different price structures in different regions and restrict retailers on where they can purchase the goods. This seems to point to some changes that might make it easier for retailers to buy where they choose.

But the report is concerned that shoppers can't all buy where they would like. It contends that all citizens should have access to a varied range of retailers, even if they don't have a car, but that this is prevented due to failings in the planning system and the commercial property market.

The prospect of the EU wading into these fraught areas sounds like a recipe for muddle and confusion.

Like so much in this document, it seems to give Mr. Barnier wide scope to interfere in an area where much of Europe succeeds. It will make depressing summer reading for those who just want to get on running their shops.

What's News

■ **Komorowski's victory** in Poland's presidential election sets the stage for warmer relations between Warsaw and other European capitals, and could add another voice to calls for NATO to rethink its Afghan strategy. 4, 32

■ **Sweden's finance minister** said he expects the nation's economy to grow 3.3% this year, up from a forecast of 2.5% made two months ago. 4

■ **Toyota is extending** the time its new models are tested before they go into production and paring the number of outside engineers, in an effort to overcome quality problems. 19

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'You can't blame the global community for being confused about the health of the Irish economy.'

Quentin Fottrell writing in 'Irish Economy Is Still on Life Support'

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Question of the day

Q: Should FIFA change the rules so that a shot blocked by a non-goalie's hand at the net counts?

Vote and discuss at **wsj.com/polls**

Previous results

Q: Will the relationship between Merkel and Sarkozy damage efforts to repair the euro zone?

Yes **46%**

No **37%**

Not sure **17%**

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NEWS

Crises take toll on euro-zone leaders

Regional debt woes, local missteps sting governments in Berlin, Paris, Madrid; even 'Teflon' Berlusconi suffers

European political leaders are losing popularity and authority at home as they seek solutions for the euro zone's debt crisis and poor economic-growth prospects.

*By **Marcus Walker** in Berlin, **Sebastian Moffett** in Paris and **Jonathan House** in Madrid*

European Pressphoto Agency

Spain's Zapatero, left, France's Sarkozy, Greece's Papandreou and Germany's Merkel at a summit in Brussels in March.

Fallout from the crisis, together with homegrown missteps, is stinging governments in Berlin, Paris and Madrid, and even affecting the popularity of Italy's "Teflon" leader, Silvio Berlusconi.

French President Nicolas Sarkozy lost two junior ministers to expenses scandals on Sunday, at a time when his support is dropping amid a slowing economy and austerity measures. German Chancellor Angela Merkel is struggling to change the public's growing belief that her government, elected only last fall, is divided and directionless. And Spanish Prime Minister José Luis Rodriguez Zapatero is struggling to push through unpopular budget cuts without a stable majority in Parliament.

"All these governments are being driven to make unpopular cuts by an international financial crisis that is beyond the control of national authorities, and this is making governments look bad," says Jan Techau, an international political analyst at the NATO Defense College in Rome.

One of the saving graces for the leaders of major economies in the euro zone is that none of them are facing national elections before 2012.

Euro-zone governments have been plagued by a string of economic challenges, highlighted by the Greek debt crisis and its pan-European fallout. Strengthening the euro zone's fiscal rules, repairing battered public finances and improving some countries' economic competitiveness means tackling long-delayed overhauls of labor laws and benefit systems.

Across the zone, cuts to spending and entitlements are coming as a shock and sparking anger and action among labor unions.

Scandals and political fumbles have weakened some European leaders' ability to convince their citizens that the painful measures are part of a strategy that will create a stronger economy later.

One saving grace for leaders of major euro-zone economies is that none of them face national elections before 2012—and in Mr. Berlusconi's case, his opponents remain weak.

Mr. Sarkozy's government said last month it will cut French public spending by €45 billion ($56.5 billion) over the next three years, and raise the normal retirement age to 62 from 60. The measures led to heightened media scrutiny of French ministers' use of public money.

On Sunday, Alain Joyandet, state secretary for overseas development, resigned after admitting he hired a private jet for €116,500 to fly to the Caribbean for business when he could have taken a regular flight.

Christian Blanc, state secretary for the Paris region, also resigned after admitting he had spent €12,000 of taxpayers' money on cigars—and smoked a third of them himself. The government ordered him to repay the full bill.

Mr. Sarkozy is scrambling to give his government a more frugal look to help sell his budget cutbacks. This year, he has cancelled presidential hunts and the traditional July 14 garden party at the Elysée Palace. Although Mr. Sarkozy has another two years before facing re-election, analysts say he tends to water down proposed overhauls when public opposition is growing too strong, and might do so again.

In Italy, Mr. Berlusconi's approval rating has fallen to 41%, down from more than 50% last year, amid scandals over the premier's personal and legal affairs. Mr. Berlusconi's center-right coalition scored a convincing victory in regional elections in March, but discontent has grown since then over an austerity package that calls for about €25 billion in cuts by 2012.

Mr. Berlusconi suffered a blow Monday when his minister for federalism, Aldo Brancher, resigned just two weeks after Mr. Berlusconi appointed him, amid accusations that the minister was using his office to shield himself from a corruption trial. Mr. Brancher's departure, however, has helped clear the air among Mr. Berlusconi's rowdy governing coalition. "Silvio Berlusconi can now breath a sigh of relief," declared an editorial posted on the Web site Corriere della Sera just hours after the resignation.

German Chancellor Merkel, at the helm of Europe's biggest economy, has also seen her approval ratings fall to 40% from higher than 50% in early May, when she agreed to the European bailout of Greece. Ms. Merkel had previously reassured German voters that Greece didn't need rescuing.

German popular anger about having to aid struggling Southern European countries has damaged a government that was already beset by squabbles. Some in Ms. Merkel's coalition are demanding firmer leadership from the chancellor, whose low-key style they say is allowing divisions to flourish.

Last week, the coalition needed three rounds of voting to secure a majority of federal and state delegates for its own candidate for German president, Christian Wulff.

That was seen as a major embarrassment for Ms. Merkel, and as a symptom of a wider problem.

"Merkel doesn't inspire, she doesn't rally. She doesn't have a strategy, other than to stay in power and get things done as best she can," says Josef Joffe, a prominent political scientist and publisher of German newspaper Die Zeit.

One of the stronger political leaders in Europe is Greek Prime Minister George Papandreou, whose Socialist government holds an outright majority in Parliament, albeit slim. Despite pushing through deep budget cuts in the face of large street protests, the Greek Socialists are still more popular than their opponents, according to opinion polls.

Mr. Zapatero, Spain's Socialist leader, is looking less secure, since his government was able to pass budget cuts in May by only one vote in Parliament. Mr. Zapatero had assured the public no new cuts were needed, but the mounting euro-zone debt crisis and pressure from the European Union and the U.S. forced him to backtrack. Opposition leaders accused Mr. Zapatero of surrendering Spain's economic sovereignty to the EU. Spanish unions have called a general strike for Sept. 29 to protest overhauls aimed at making the labor market more flexible.

A majority of Spaniards would elect the center-right Popular Party if elections were held now, according to opinion polls.

Mr. Zapatero's next big test comes with Spain's 2011 budget, which Parliament must approve by year-end. His four-year term is due to end in 2012, but some analysts say the premier could call early elections if he can't pass the budget.

—Stacy Meichtry in Rome contributed to this article.

EUROPE NEWS

Clinton promises American support for Georgia

By Samantha Shields

TBILISI, Georgia—U.S. Secretary of State Hillary Clinton on Monday assured Georgia that it remains a key U.S. partner, using tough language to call for Russia to end its “occupation” of separatist territories in the Caucasus nation, while shying from criticism of President Mikheil Saakashvili’s democratic credentials.

Fears had been growing here that Georgia was lower on the U.S.’s list of priorities than it was during the presidency of George W. Bush, as the Obama administration pursues a “reset” policy on Russian relations aimed at easing tensions and strengthening economic ties.

“We continue to call for Russia to abide by the August 2008 cease-fire commitment…including ending the occupation and withdrawing Russian troops from South Ossetia and Abkhazia to their preconflict positions,” Mrs. Clinton said at a joint news conference with Mr. Saakashvili. “The United States is steadfast in its commitment to Georgia’s sovereignty and territorial integrity.”


European Pressphoto Agency

Mikheil Saakashvili and Hillary Clinton toast after their meeting in Tbilisi, the Georgian capital, on Monday.

Mr. Saakashvili said there had been concerns about the closer relationship between the U.S. and Russia after U.S. President Barack Obama and Mrs. Clinton’s meetings with Russian President Dmitry Medvedev, but said they were being put to rest. “Ultimately if reset leads to a more modernized Russia that’s only good for all of us,” the Georgian president said.

Mr. Bush called Georgia a “beacon of democracy” on his 2005 visit to Tbilisi, two years after the Rose Revolution that swept Mr. Saakashvili to power on promises of Western-style democracy. Since then, the Georgian leader has been criticized at home and abroad for using tear gas and rubber bullets at a 2007 demonstration that led to a snap election, and for cracking down on media freedom.

Mrs. Clinton said there were “still shortcomings” in Georgia, though she said it had made real progress reducing corruption and building one of the fastest-reforming economies in the world in difficult circumstances.

“We want to urge Georgia to continue the work of the Rose Revolution. The United States will do everything we can to assist our partners inside and outside the Georgian government as they strive to strengthen democratic institutions and processes,” she said.

Before Mrs. Clinton left on her five-day tour of Ukraine, Poland, Azerbaijan, Armenia and Georgia, State Department officials said the trip would focus on promoting democracy and firming bilateral ties. In public, at least, Mrs. Clinton focused more on the latter.

In Azerbaijan, a key oil and gas producer and transit route, where the authoritarian regime last November jailed two bloggers who had ridiculed the government on charges of “hooliganism,” Mrs. Clinton said Sunday that there had been a lot of progress on human rights in the last 18 years. When pressed by a local reporter to cite some, she talked instead about the economy.

Mrs. Clinton didn’t meet with opposition leaders in Baku, but in Georgia, she went straight from her meeting with Mr. Saakashvili to a 25-minute talk with two key opposition leaders, Irakly Alasania from the four-party Alliance for Georgia and the Christian Democrats’ Giorgi Targamadze.

Mr. Alasania said the primary focus of the discussion was democratization.

“They will allocate more money to support democratization and building the environment to conduct a fair election in 2012,” he said, referring to the coming parliamentary elections.

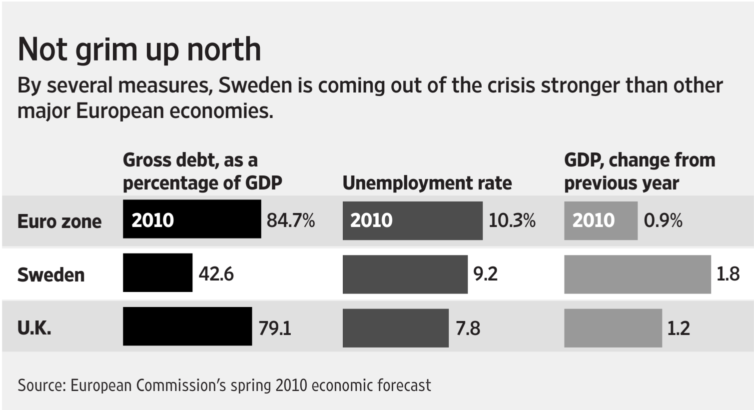
Sweden raises growth forecasts for 2010, 2011

By Erik Durhan

STOCKHOLM—Sweden’s economic recovery is becoming increasingly evident, and public finances have been strengthened by a resurgence in the labor market and a better economic outlook, Finance Minister Anders Borg said Monday.

“The Swedish economy stands strong and looks to be a beacon of light in Europe, where many countries have big problems,” Mr. Borg said at a press conference in Visby, on the country’s western coast.

He said he expects Swedish gross domestic product to expand by 3.3% this year and 3.8% next year, a significant change from the 2.5% estimate for 2010 included in the spring budget on May 15. Unemployment is expected to edge up to 8.9% this year and then fall to 8.4% next year, from the current 8.8%.



“The trend in the labor market is a sign of strength of the Swedish model and a development to safeguard,” Mr. Borg said.

Expected growth for 2010 has been revised higher at nearly every new reading since late 2009, partly because of a stronger-than-expected resurgence in employment. In the government’s autumn 2009 outlook, it forecast an unemployment rate of almost 12%.

Mr. Borg attributed the positive developments to a forceful response from the government as well as financial discipline in the years before the financial crisis.

Striking a similar tone to Sweden’s central bank, Mr. Borg said the main risks to Swedish growth stem from weaker growth in the rest of Europe, as Sweden is heavily dependent on exports.

Strong growth means there is limited scope for further financial stimulus during next year, but there also is no room in the short term for extensive tax cuts, Mr. Borg said. He emphasized his desire to reduce the country’s deficit further and predicted a debt-to-GDP ratio of just 30% by 2014, which would give Sweden “a good ability to handle any future crises,” he said.

Sweden’s **Skandinaviska Enskilda Banken** said it didn’t find the improved outlook surprising considering the strong economic growth during in the first quarter and continued improvement in economic data.

“Compared to our forecast, the government is more optimistic for growth next year (our forecast is 2.5%). Considering the shaky outlook for European growth, the GDP forecast for 2011 looks a bit too optimistic,” the bank said.

The bank also noted that despite the stronger outlook for public finances, the government was signaling that it intends to be careful with fiscal policy and continue to prioritize the targets for public finances.

Poland’s vote moves it nearer Europe

By Gordon Fairclough

WARSAW—Bronislaw Komorowski’s narrow weekend victory in Poland’s presidential election sets the stage for warmer relations between Warsaw and other European capitals, and could add another voice to calls for NATO to rethink its strategy for Afghanistan.

Mr. Komorowski, of the market-oriented Civic Platform party, won 53% of the popular vote in Sunday’s balloting, defeating Jaroslaw Kaczynski of the socially conservative Law and Justice party, who captured 47%.

Mr. Kaczynski views Poland’s interests as seen as more closely aligned with those of the U.S.

Poland’s newly elected president “wants to cement Poland’s position as a European player,” said Marek Matraszek, founding partner of political consultancy CEC Government Relations in Warsaw. “He’s more Brussels-focused as opposed to looking more to Washington.”

One result is that Mr. Komorowski and his ruling Civic Platform party are becoming increasingly vocal about wanting to withdraw the country’s forces from Afghanistan, where about 2,500 Polish troops are now deployed.

Poland is the seventh-largest contributor of troops to the U.S.-led war effort there, and is the dominant allied force in Ghazni province, southwest of Kabul. Eighteen Polish service members have been killed in the conflict.

During a televised debate ahead of the election last Wednesday, Mr. Komorowski urged a “smart pullout” from Afghanistan.

He said Poland had joined in the war effort to “strengthen the faith in us being a credible ally,” but that Warsaw doesn’t have “any other interests” in Afghanistan compelling it to stay. Mr. Komorowski has said Polish troops should start coming home next year. Canada and the Netherlands have already said they plan to withdraw their forces next year.

Poland’s decision to follow a similar path underscores the flagging political support for the conflict, even as the U.S. moves forward with a surge in forces and an intensified counterinsurgency campaign.


Associated Press

Bronislaw Komorowski greets supporters on Sunday

Poland’s military undertaking should be “scaled to fit our realistic capacities and not the world’s expectations,” said Mr. Komorowski, the speaker of parliament, who has served as acting president since the country’s late head of state was killed along with dozens of others in an April plane crash.

—Marcin Sobczyk contributed to this article.

EUROPE NEWS

U.K. coalition's latest challenge

Government announces big changes to voting process in a move that could cause divisions

By Alistair MacDonald

The U.K. government outlined plans for ambitious changes to the country's electoral system, a move that could lead to clashes between the coalition's Conservative and Liberal Democrat parties.

Since forming a ruling coalition after the May election, the Conservatives and Liberal Democrats have presented a surprisingly united front, pushing past potentially incendiary issues, such as an increase in sales tax. But an overhaul of the U.K. electoral system, a long-sought goal of the Liberal Democrats, promises to be a thornier issue.

On Monday, Deputy Prime Minister Nick Clegg, the Liberal Democrat leader, unveiled a long wish list of electoral changes, including the date of a public vote on whether the U.K. should scrap its first-past-the-post system in favor of the "alternative vote," a system the Liberal Democrats feel is fairer.

When the public votes on the proposed electoral changes next May, the Liberal Democrats will tell them to vote yes and the Conservatives will urge them to say no. The referendum, and other proposals announced Monday, must first clear Parliament before it can be put to a public vote.

"It could cause a lot of problems for the coalition," said Prof. Mark Wickham-Jones, a politics Professor at Bristol University. He thinks if the referendum on the alternative vote and other electoral changes doesn't get to a public vote or if the referendum fails, the Liberal Democrats will face pressure from within their party to exit the coaltion.

Under the alternative vote, or AV, voters rank candidates in order of preference. The winning candidate must eventually net more than 50% of the vote, which can come about through a series of runoffs that take into account how voters rank the candidates. In first past the post, the leading vote-getter wins, regardless of what percentage of the vote the candidate has received.

On Monday, Mr. Clegg also announced the government wants to shrink the number of lawmakers to 600 from 650 and redraw the boundaries of Britain's parliamentary constituencies to make them more equal in size in terms of population. If passed, the proposed electoral changes could represent the most sweeping changes to Britain's electoral system since women won the vote in 1918.

The plan, however, faces a big challenge in Parliament, where much of the Conservative party favors the current system, arguing that it has provided the U.K. with stable government. Moreover, the public has shown little appetite to enact sweeping changes to how the Parliament is chosen.

"[AV] in essence replaces a system which has worked pretty well over the course of a couple of hundred years," said David Davis, a senior Conservative MP.

Liberal Democrats say the current system doesn't reflect voter's preferences. Typically, their party wins one in four of the votes but only one in 10 of the seats. Still, many Liberal Democrats argue the party should have insisted on a referendum on proportional representation, rather than AV, before joining the Conservatives in government.

Jane Watkinson, a student in the northern city of Leeds, recently resigned her Liberal Democrat membership and joined the Green Party, citing a long list of disagreements with the Tories. "The coalition was the total abandonment of what they stood for, and what I helped campaign for," she said.

The coalition has passed a number of unity tests. It has brought forward an aggressive program of spending cuts and tax increases the Liberal Democrats had railed against during the campaign. Only a handful of Liberal Democrat MPs voted against what the party had called the Tory Tax Bomb—a sales tax increase to 20% from 17.5%. Mr. Clegg also can point to key concessions from the Tories, including exempting the poorest from income tax.

But the government also has had to backtrack on some proposals following Tory complaints. Mr. Clegg also announced Monday that only a simple majority, rather than 55% of lawmakers, will be required to bring down a government.

For Conservative Prime Minister David Cameron, the Liberal Democrats make it easier to argue the tough budget cuts are necessary to tame a deficit rather than to follow party ideological preferences."Like any coalition, nothing is perfect, but a large number of people are supportive of what is happening," said Norman Baker, a Liberal Democrat government minister.

Reuters

U.K. Prime Minister David Cameron, left, and Deputy Prime Minister Nick Clegg at a Gay Pride reception in June.

Weale to join BOE body that decides interest rates

By Paul Hannon

LONDON—The head of the U.K.'s leading independent economics research institute will join the Bank of England's Monetary Policy Committee in time to participate in its August policy meeting, the U.K. government said Monday.

Martin Weale, director of the National Institute of Economic and Social Research for the last 15 years, will become one of four members on the rate-setting committee who don't work full time for the central bank.

Mr. Weale will succeed Kate Barker, a long-serving external member of the MPC who stepped down after the May policy meeting. Mr. Weale is unlikely to press for a major shift in policy.

Chancellor of the Exchequer George Osborne said Mr. Weale's "experience of economic forecasting and data analysis...will be extremely valuable to the committee."

NIESR has close links with the MPC. Five of the 15 members of the NIESR governing council, excluding Mr. Weale, have served on the central bank's rate-setting body since it was established in 1997.

Weale in motion

Previous statements by Martin Weale on the U.K. economy

■ "I would never say that fears of inflation are groundless but at the moment the concern is much more about maintaining demand than about the risks of excess demand." — November 2009

■ "We are starting to see evidence of a slowing economy, with consumption growth limited by weak disposable income... What's the rush?" — July 2007

The Times of London

One of those former MPC members is Tim Besley, chairman of NIESR's governing council. An economics professor at the London School of Economics, Mr. Besley was also one of the three men appointed by the U.K. Treasury to recommend a successor to Ms. Barker.

According to the Treasury, 38 applications for the position were received.

Four of the applications were from women; Mr. Weale's appointment means that there are now no women among the MPC's nine members.

In its most recent forecasts for the U.K. economy, published in April, NIESR predicted slower growth than the Bank of England. It saw gross domestic product expanding by 1% this year and 2% in 2011.

NIESR also forecast that the annual inflation rate would average 3.1% this year, before easing back to just below the BOE's target of 2% in 2011 and 2012.

That suggests Mr. Weale is unlikely to argue for an early tightening of the BOE's monetary policy.

The MPC next meets Wednesday and Thursday, and is expected to leave its key interest rate at a historic low of 0.5%, while maintaining its stock of government bond purchases at £200 billion ($303.94 billion).

U.K. services sector still lagging

By Nicholas Winning And Ilona Billington

LONDON—U.K. economic growth strengthened in the second quarter, but a lackluster recovery in the key services sector is heightening the risk of a setback, the British Chambers of Commerce is set to say Tuesday. That followed a survey of purchasing managers in the services sector released Monday that showed activity in June expanded at the slowest pace since August 2009, as the new coalition government's emergency budget caused sentiment in the sector to fall.

The chamber's quarterly survey of about 5,600 businesses showed that although manufacturing sales surged between April and June, the service sector registered only modest increases. Business confidence in the services sector also weakened.

"We still have concerns about sluggish growth in the service sector, which emphasizes why the government must continue to promote the best possible business environment, in order to help companies invest and grow," David Frost, the chamber's director general, said in the survey. The balance for domestic manufacturing sales jumped to +30 in the second quarter from +1 in the first, the strongest reading since the fourth quarter of 2008. The balance is the difference between the percentage of firms registering a rise and those registering a fall.

While manufacturers' confidence in revenue and profitability rose to its strongest level since the first three months of 2008, the service sector's profitability confidence fell four points to +16.

"This quarter's poor cash-flow data, in both manufacturing and services, indicates that many businesses are still facing serious financial difficulties," David Kern, the chamber's chief economist, said.

Research group Markit and the Chartered Institute of Purchasing & Supply said Monday the services Purchasing Managers Index slipped to 54.4 in June from 55.4 in May. A reading above 50.0 indicates the sector is expanding. However, the sentiment measure registered the largest monthly fall since the survey began in January 1997, dropping to 64 from 72.1, largely in response to Chancellor of Exchequer George Osborne's emergency budget in June. This included various tax increases as well as government-spending cuts, many of which will hit the private sector.

The manufacturing rebound was reflected in the labor market, with the sector's employment balance surging 35 points to +19 in the second quarter, the highest level since the autumn of 2007 when the global credit crisis began to hit the economy. The service employment balance rose one point to +4.

"The service sector, which accounts for the bulk of GDP [gross domestic product] in the U.K., is not recovering at an adequate pace and this heightens the threat of an economic setback," Mr. Kern said.

EUROPE NEWS

U.K. monarchy finds savings to better fit age of austerity

Associated Press

LONDON —Queen Elizabeth II will have to cut spending and put off palace repairs as royal finances are being squeezed by Britain's budget crisis.

Accounts published Monday by Buckingham Palace reveal the total public cost of supporting the monarchy was £38.2 million ($57.8 million) in the 52 weeks ended March 31, the equivalent of 62 pence per person. The total is more than £3 million less than in 2008-2009.

The 84-year-old queen receives £7.9 million of public money each year to pay for staff and other costs, an amount that hasn't risen in 20 years. The accounts show the queen also drew an extra £6.5 million from a reserve fund built up over the years by saving portions of her allocated budget.

Britain's public sector is facing cuts as the government tries to eliminate a record deficit, and Alan Reid, Keeper of the Privy Purse, said the royal household "is acutely aware of the difficult economic climate" and will be cutting costs and putting off essential maintenance.

If the queen continues to use money from her reserve at the current rate the fund will run out by 2012—the year she celebrates her 60th year on the throne.

She had been expected to ask for an increase in basic funding this year, but the government—which is bringing in deep cuts to welfare payments and spending programs—imposed a freeze until at least next year.

The accounts show the government spent more than 15 million pounds on the upkeep of royal residences including Buckingham Palace and Windsor Castle, and almost £4 million on royal travel. Both amounts were down from the previous year.

Mr. Reid said the royal household would be cutting its property-services budget by half a million pounds, "implementing a headcount freeze and reviewing every vacancy to see if we can avoid replacement."

He said "the necessary cuts in public expenditure will have an impact on the backlog of essential maintenance which it is hoped can be addressed in the longer term."

"In the meantime, the household is continuing to pursue opportunities to reduce costs and generate income from the estate's assets, including commercial lettings and management charges," he said.

News of the royal cost-cutting didn't satisfy the antimonarchy group Republic, which held a protest outside Buckingham Palace on Monday. Campaign manager Graham Smith said Britain's monarchy was the most expensive in Europe, and "continues to waste many millions of pounds of taxpayers' money when front-line services are being threatened."

"It's time to slash the budgets without reservation or sentiment," he said.

John Galliano's garden blooms

Reuters

Paris's fall/winter haute couture shows kicked off with Dior's collection Monday.

U.S. NEWS

Strapped police patrols go to pot

California's law enforcers have to forget other crimes to 'win' federal money by chasing marijuana growers

By Justin Scheck

IGO, Calif.—Shasta County Sheriff Tom Bosenko, his budget under pressure in a weak economy, has laid off staff, reduced patrols and even released jail inmates. But there's one mission on which he's spending more than in recent years: pot busts.

The reason is simple: If he steps up his pursuit of marijuana growers, his department is eligible for roughly half a million dollars a year in federal anti-drug funding, helping save some jobs. The majority of the funding would have to be used to fight pot. Marijuana may not be the county's most pressing crime problem, the sheriff says, but "it's where the money is."

Washington has long allocated funds to help localities fight crime, influencing their priorities in the process. Today's local budget squeezes are enhancing this effect, and the result is particularly striking in California, where many residents take a benign view of pot but federal dollars help keep law-enforcement focused on it.

To make sure his office gets the federal funds, Sheriff Bosenko since last year has spent about $340,000 of his department's shrinking resources, more than in past years, on a team that tramps through the woods looking for pot farms. Though the squad is mostly U.S.-funded, the federal grants don't cover some of its needs, such as a team chief and certain equipment. So, Mr. Bosenko has to pay for those out of his regular budget.

He doesn't doubt the value of pursuing pot farming, which he says is often the work of sophisticated Mexican gangs and leads to other crimes like assault. But other infractions, like drunken driving and robbery, may have a bigger direct impact on local residents than pot growing, he says.

The pot money is "$340,000 I could use somewhere else in my organization," he says. "That could fund three officers' salaries and benefits, and we could have them out on our streets doing patrol." His overall budget this year is about $35 million.

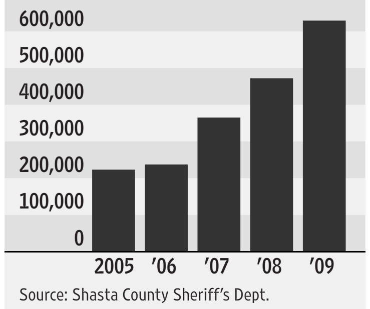
The U.S. Justice Department is spending almost $3.6 billion this year to augment budgets of state and local law-enforcement agencies. In addition, the federal government last year set aside close to $4 billion of the economic-stimulus package for law-enforcement grants for state and local agencies. The White House also is spending about $239 million this year to fund local drug-trafficking task forces.


Justin Scheck/The Wall Street Journal

A member of the Shasta County Marijuana Eradication Team inspects an illegal pot garden in the woods outside Redding, Calif.

Weed eater

Marijuana plants eradicated by the Shasta County, Calif., Sheriff's Department



Source: Shasta County Sheriff's Dept.

Much of the federal money helps local agencies go after sophisticated criminal gangs and hard drugs like methamphetamine. Even staunch supporters of legal pot don't dispute the value of that.

The Obama administration's approach to federal anti-drug efforts is evolving. The federal government no longer is pursuing a "war on drugs," as declared by the Nixon administration 39 years ago, but is taking a less combative approach focusing more on stemming addiction, according to a comment by the head of the White House Office of National Drug Control Policy, Gil Kerlikowske, in May 2009. Last fall, a high-ranking Department of Justice official told federal prosecutors not to target people who comply with state laws permitting medical use of pot, which exist in California and 13 other states.

But the administration continues to support federal aid to fight drugs, including marijuana, says a Justice Department spokesman. This is "supplemental" funding for local agencies and shouldn't skew their priorities, says Arnie Moorin, assistant deputy director of the White House Office on National Drug Control Policy. "It's not to get into the city or the county's or the state's business."

Even so, in California, budget realities mean federal money ends up supporting priorities sometimes out of sync with public sentiment. About 56% of California residents support full legalization of marijuana, polling shows. The issue will be on this fall's ballot as a voter initiative.

Tight budgets prompted sheriffs' departments in the state to cut more than 800 positions in the first three months of this year, out of about 30,000. Support for local law enforcement from the strapped state government will fall by $100 million this year, the California Association of Counties expects.

Shasta County supervisors told Sheriff Bosenko last spring that his budget this year would be about $2 million less than last year's $38 million.

The sheriff laid off 26 people last July, more than 10% of his staff, among them 11 deputies. He eliminated a major-crimes investigator and cut nighttime patrols to two cars from four.

That slowed responses to emergencies, especially after midnight, when an estimated 20% of drivers in the largely rural county 150 miles north of Sacramento have been drinking. The county has higher rates of assault, burglary, drunken driving and domestic violence than big California cities.

To save still more, Mr. Bosenko closed a floor of the county jail and gave early release to 185 inmates, among them 30 convicted drunk drivers. "Those people will probably go out and drink and drive again and hurt people," the sheriff says. "The criminals know that there's very limited offender accountability due to our releases at the jail."

With nowhere to lock people up, the county saw more felony defendants skipping their first court appearance. The percentage not showing up doubled to 35% after the inmate release, according to the district attorney, Jerry Benito.

While freeing inmates, the sheriff still had several hundred thousand dollars of federal money to spend on pot patrols, such as an operation that began at 4:30 one morning in May. The target was a camp far up on a steep hillside covered in Manzanita brush, discovered earlier in response to a tip.

As the sun rose, team leader Steve Solus sent a group of officers to approach the camp from the uphill side, using a Gold Rush-era cemetery as their base. The team included two federal agents working with the county pot team, along with Phoebe, a pot-sniffing Belgian Malinois.

At the bottom of the hill, other team members reached their starting point, a nudist retreat bordering the woods. Unable to reach the manager, officers snipped the chain on the retreat's gate so the other agents could approach from downslope.

Over two hours, the team members slowly surrounded the camp. They found it unoccupied. But someone had dug a 10-foot-by-12-foot hole in the hillside, lined it with plastic tarps and threaded a black hose to it from an uphill creek, creating a reservoir. Other hoses led from the reservoir to water nearby pot plants.

Only about 70 had sprouted so far. Areas for many more were cleared. "This could have 15 to 20 thousand" plants, Mr. Solus said. The deputies pulled up all they could find. It was a routine raid, with no arrests. Only 10% to 15% of outdoor raids result in arrests, Mr. Solus said.

Such federally funded efforts have ripple effects, beyond the sheriff's department. When the pot busts nab suspects, they are fed into the criminal-justice system. Mr. Solus says his team referred about 75 cases to the local district attorney last year. The D.A. doesn't get federal cash to help handle them.

If convicted, some are headed to California's prisons. But these are so overloaded that a panel of federal judges has ordered the system to release 43,000 inmates. (It has released more than 4,000 so far.) About 17% of state-prison inmates are there for drug offenses. In California, more people are arrested for drug crimes than any other offense, according to state data.

In Northern California's rural Lake County, which applied for $275,000 in federal anti-pot funding this month, Denise Rushing, a county supervisor, says it is "a vexing problem" whether to accept such money. She worries that doing so causes local sheriff's offices to skew their priorities toward pot busts and away from things that more directly affect residents, like property crime. At a meeting last month, Ms. Rushing opposed applying for the federal anti-pot funds but was outvoted.

Lake County's sheriff, Rod Mitchell, says that while the debate over federal pot funding has grown heated in his county recently, he believes it should pursue federal anti-drug money because marijuana growers continue to populate rural areas. He says his department spends a small amount of its own money on administering the federally funded pot team, and he also pays a detective to work on pot cases out of his local budget.

In Fresno County, it's an easy call for Sheriff Margaret Mims: She views her $275,000 or so in annual federal funding for anti-pot efforts as a clear good, "a force multiplier" that "adds to our ability to fight marijuana, especially when it's on public lands." Far from seeing the money as skewing her law-enforcement priorities, Sheriff Mims says it allows her to put more effort into pot probes she would try to do "even if we didn't get this money."

Mr. Solus in Shasta says marijuana growers are turning both publicly and privately owned woodlands into pot plantations. He contends that if the ballot initiative to legalize pot passes, "California will just become one big narco state, and the majority of the weed that gets grown here will be sold in other states." Determined "to go out and arrest people," he plans to use some of the federal funds for helicopter flights to spot pot-growing sites.

One sheriff's department member he can draw on is Ray Hughes, a deputy who normally works regular crime-fighting patrols in Shasta Lake City, north of Redding. Spending for that patrol has been cut, and there's no money in the departmental budget to pay officers overtime. But the federally funded pot team does have money for overtime, so Mr. Hughes has started going on outdoor raids with Mr. Solus's squad.

U.S. NEWS

Building a new agency

The staff

Much of the staff for the Consumer Financial Protection Bureau would be drawn from existing agencies. Among them:

- Federal Reserve System
- Federal Trade Commission
- Federal Deposit Insurance Corp.
- Department of Housing and Urban Development
- Office of the Comptroller of the Currency
- Office of Thrift Supervision
- National Credit Union Administration

The mission

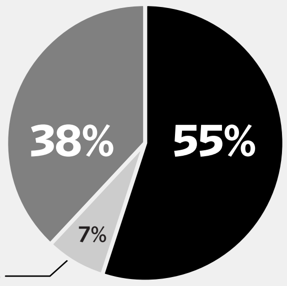
The new consumer-protection agency would be charged with regulating practices across a swath of the economy, including:

- Banks that issue consumer loans, checking accounts, credit cards
- Mortgage lenders, servicers, brokers, appraisers, settlement firms
- Payday lending, check-cashing firms
- Student-loan companies
- Credit-counseling firms
- Debt collectors, consumer-reporting agencies

Reading the public mood

Thinking about efforts in Congress to regulate financial markets and institutions, which would concern you more?

Going too far, limiting investment opportunities for investors and curbing the country's ability to compete in financial markets.



Not doing enough to protect consumers, rein in excesses of Wall Street and their risky investment activities.

Other/neither/not sure

Source: May 2010 WSJ/NBC News telephone poll; margin of error, +/– 3.1 percentage points

First chief will set path of new consumer bureau

By Sudeep Reddy

More than 400 pages of legislation detail the duties and powers of the Consumer Financial Protection Bureau that Congress is set to create. But the first director of the powerful new agency will play a critical role in determining how it works.

"Whoever is in command will determine the agency's path," said Kathleen Engel, a Suffolk University law professor who sits on the Federal Reserve's Consumer Advisory Council. "When you have a lot of power vested in an agency, everything depends on how effectively they carry out their rulemaking authority."

Once under way, the agency is likely to be the most visible manifestation to consumers from the extensive financial regulatory legislation expected to clear Congress next week. It will write rules on checking accounts, credit cards and mortgages. It will field complaints from the public about lending practices. It will enforce its rules across the economy, from big banks to credit counselors—though not auto dealers, which won't fall under the agency's supervision, after much lobbying.

The president's choice of a director, subject to Senate confirmation, is almost certain to be controversial, given the power of the position and the fight over whether to create the agency in the first place. Like Joseph Kennedy Sr., the first chairman of the U.S. Securities and Exchange Commission, the new director will shape the powerful agency's public image, initial priorities and starting lineup.

Top congressional Democrats said their top pick for the post is Elizabeth Warren, the high-profile Harvard law professor and an outspoken critic of what she sees as a too-cozy relationship between government and bankers.

Other potential candidates include Michael Barr, a Treasury assistant secretary and University of Michigan law professor with a long-standing interest in consumer finance; Democratic state attorneys general Martha Coakley of Massachusetts, Lisa Madigan of Illinois and Lori Swanson of Minnesota; Susan Wachter of the University of Pennsylvania's Wharton School, who served in the Clinton Department of Housing and Urban Development; and Nicolas Retsinas of Harvard's Joint Center for Housing studies, a former bank regulator and a low-income housing specialist.

The new director won't build an agency from scratch. Some, perhaps most, of its thousands of employees will come from existing agencies—including the Federal Reserve's consumer-affairs division, Federal Trade Commission, Comptroller of the Currency and Federal Deposit Insurance Corp.

During a transition of up to 18 months, some employees will continue to work for their existing bosses to write and enforce consumer regulations. "The transition is going to be awkward," said Cornelius Hurley, a former Fed lawyer who directs Boston University's Morin Center for Banking and Financial Law. "The music doesn't stop just because they pass the law," he said.

The pending legislation puts the new bureau inside the Federal Reserve, though it would operate independently of the Fed on policy and enforcement matters. It would be financed by the Fed—not by congressional appropriation, giving it unusual latitude—to satisfy concerns from Senate Republicans about creating an entirely new federal bureaucracy. Former Fed Vice Chairman Alan Blinder called the arrangement the "single dumbest thing in the bill. It's going to be unworkable."

The law, not the Fed, sets the bureau's initial budget at about $500 million. That's less than half the size of the SEC's $1.1 billion budget, which supports almost 4,000 full-time employees.

The legislation says the bureau's purpose is to "regulate the offering and provision of consumer financial products or services." Details are left largely up to the new director, who would serve a five-year term. The law creates offices for research, tracking consumer complaints, consumer financial literacy and fair lending, among others.

Among the director's first tasks will be refining the agency's mission. Critics and supporters, though agreeing on the importance of the new agency, differ on what will constitute success.

"Is this an agency that's designed to provide clear information and crack down on fraud?" said David Hirschmann of the U.S. Chamber of Commerce, a leading opponent. "Or is this an agency designed to make decisions for consumers? It could be either of those."

One of the biggest questions hanging over the bureau is what effect it will have on the cost and availability of credit. "How they do it will matter a lot," Mr. Hirschmann said. "I think costs will go up and availability will go down."

Susan Weinstock of the Consumer Federation of America, a consumer-advocacy group, said the effect is hard to know at the outset. "We want to make sure that loans are affordable and that consumers get into loans they can afford rather than getting into loans that get them in trouble," she said.

Some consumer advocates acknowledge that certain borrowers—particularly low-income consumers—are likely to find less credit available as products are regulated more closely than they were before. They maintain that modestly higher costs will be a worthwhile trade-off to thwart dangerous lending practices.

—Luca Di Leo contributed to this article.

Obama, in Reagan fashion, focuses on economic growth

[Capital Journal]

By Gerald F. Seib

The great economic debate emerging in Washington—simple and a bit simplistic—goes like this: Should the U.S. government be spending more money to stimulate the sagging economy, or should it be saving money because of the giant budget deficit?

That's an important question, to be sure, but something has gone missing in the argument: What about economic growth, which could help stimulate the economy and fight the deficit at the same time?

This week, the Obama administration is trying to shift the discussion back to economic growth.

There are obvious economic reasons to do so. President Ronald Reagan, faced with a similar toxic mix of high deficits and a wheezing economy in the early 1980s, found a relentless focus on economic growth to be a magic elixir that simultaneously pulled the economy, the deficit and his policies out of the danger zone.

There are equally obvious political reasons to shift the conversation to growth. Simply put, both stimulus and deficit-fighting have become politically problematic.

Economists will argue for years about how much good stimulus spending has done to ease the ravages of the deep recession, but many voters aren't convinced of its worth.

In a recent Wall Street Journal/NBC News poll, 42% said they didn't think the big stimulus legislation passed last year would help the economy. Any legislation called an "economic-stimulus bill" has become toxic in Congress.

And while a growing number of Americans say they want spending cut to address big deficits, that message is equally problematic. Much as people say they want lower spending, they are a lot less happy when a program they like is cut than they are when somebody else's pet program gets the knife.

Beyond that, a strong pushback is emerging on the left wing of President Barack Obama's Democratic party, whose denizens argue it's wrongheaded to focus on fighting deficits right now, when the recovery is stumbling and in need of additional juice from government spending.

So the current debate isn't a great one for the administration. Growth is a better message.

That's where Mr. Obama is trying to take the discussion this week, administration aides say. The push started Saturday, when he devoted his weekly radio address to talking about $2 billion in Energy Department grants going to two solar-energy companies: a solar-power plant in Arizona and a Colorado plant making solar panels.

Spending money on the solar plants puts the president on the wrong side of the deficit-cutting impulse, but it also allowed him to talk about creating more than 5,000 jobs, at a time when overall job-creation numbers are frail. In the same vein, Mr. Obama this week will visit a Kansas City facility that makes electric delivery vehicles, with help from a $32 million grant from stimulus-bill funds.

Next, the White House will try to move on to expanding American exports, a theme that was big in Mr. Obama's State of the Union address this year but which has gotten lost in the shuffle in recent months. Mr. Obama will meet this week with a recently created "export council" of business leaders who are supposed to help find ways to expand American exports.

More substantively, administration officials are working behind the scenes to write legislation that will lift some Cold War-era controls on exports of American technology. That's a particularly important step for business with China; Chinese leader Hu Jintao recently told Mr. Obama that U.S. exports to China could be ramped up if some of those controls went away. The legislation is likely to be finished within the next couple of weeks, and congressional hearings are expected by month's end.

White House officials are seeking to lift some Cold War-era controls on exports of U.S. technology, a particularly important step for business in China.

All that continues a recent fixation on trade. In recent days, the president also promised Russian President Dmitry Medvedev that he'd push to get Russia into the World Trade Organization—and in return got a Russian pledge to resume imports of U.S. chickens, a trade-off that might be worth a billion dollars annually to the American poultry industry.

Mr. Obama also has revived a languishing U.S.-South Korea free-trade agreement, a move that risks riling his organized-labor allies but which could be a winner if he gets South Korea to open the door to more American auto and beef exports.

Beyond that, watch for the president to find a way down the road to signal to Colombia and Panama that he's interested in reviving free-trade deals with them.

Republicans will look askance at much of this growth push, arguing that, now as in the Reagan era, tax cuts are the surest tool for cranking up growth. It's an argument with resonance. Even so, growth still may be a better topic than either stimulus or austerity for the White House right now.

Write to Gerald F. Seib at jerry.seib@wsj.com

Xue Min, second from left, listens to a court official in Beijing on Monday, before her brother, Xue Feng, was sentenced.

China sentences U.S. geologist

Washington expresses 'dismay' over eight-year term for trying to buy oil-industry data

By James T. Areddy

SHANGHAI—A Chinese court sentenced an American geologist to eight years in prison for trying to buy data about the Chinese oil industry, a heavy penalty that legal experts said is a warning to foreign businesses and a rebuke to Washington after a personal appeal from U.S. President Barack Obama.

The Beijing Number One Intermediate People's Court fined 44-year-old Xue Feng 200,000 yuan, or about $29,850, in addition to the prison sentence Monday, on charges of attempting to obtain and traffic in state secrets.

Tong Wei, Mr. Xue's lawyer, called the sentence—coming a year after the conviction—"harsh" and said few details of the allegations against Mr. Xue were made public. He said options for a possible appeal will be considered later. Three Chinese nationals also were convicted as accomplices, he said.

The U.S. Embassy in Beijing said Washington is "dismayed" at Mr. Xue's sentence, announced during the U.S. Independence Day holiday weekend. The Embassy called for Mr. Xue's "humanitarian release" and deportation.

The U.S. government has taken a strong interest in Mr. Xue's case. But it mounted a quiet diplomatic campaign to win clemency since he was first detained in late 2007.

President Obama last year urged Mr. Xue's release in a meeting with Chinese President Hu Jintao, and other U.S. government officials have raised the issue privately as well. U.S. Ambassador Jon Huntsman took an unusual interest in the case, visiting Mr. Xue in detention and attending Monday's 40-minute sentencing.

For foreign companies, Mr. Xue's case is the latest to highlight questions about the legality of conducting market research in China. Unlike more-celebrated allegations involving Chinese secrets, Mr. Xue's case stems purely from his attempt to purchase commercially available data on the oil industry, according to people involved in his defense.

The case illustrates China's sensitivity that certain data in the hands of foreigners may weaken national security, even while Beijing remains vague in its definitions of what constitutes secret information.

In comparison, this year's prosecution and conviction of four **Rio Tinto** PLC executives revolved around their alleged possession of steel-industry secrets, but their convictions also hinged on evidence they took millions of dollars in bribes.

The Rio Tinto case concerned mostly iron-ore pricing data. Less is known about the nature of the information Mr. Xue was trying to buy. Mr. Xue was seeking data on behalf of his then-employer, an information-services business now known as **IHS** Inc., based in Englewood, Colo. He had switched jobs shortly before he was detained for his work for IHS.

"IHS is extremely disappointed at the news and is very sympathetic to the situation," Ed Mattix, a spokesman for the company, said in a statement. "We are continuing to work with our advisers on the issue."

Like Stern Hu, the Australian national at the heart of the Rio Tinto affair, Mr. Xue was born in China, a reminder that ethnic Chinese may be more vulnerable to pitfalls of the country's legal system than other foreigners. In both cases, the men initially were denied contact with consular representatives, for

Associated Press (2)

Geologist Xue Feng in China in 1993.

months in Mr. Xue's case.

Mr. Xue obtained a doctorate in geology from the University of Chicago and lived in Texas, where he has a wife and two children, before returning to China for IHS to work in the natural-resources sector.

Monday's sentence "sends a very bad signal to the foreign business community if they care to examine what happened," said John Kamm, executive director of the Dui Hua Foundation, a San Francisco group focused on helping those detained in China that was involved in Mr. Xue's case.

Where is the damage to justify this?" asked Mr. Kamm, who himself is a former chemical-industry executive in China.

China's government appears to be taking a harder line with foreign nationals than it once did, according to legal experts who cite repeated instances of harsh penalties for foreigners in the face of calls for leniency by their governments.

In March, Rio Tinto's Mr. Hu was sentenced to 10 years in prison. In December, a British national was given a lethal injection for carrying drugs into China, and four Japanese men were executed on drug charges in April.

Mr. Xue's case has underscored the limits of the U.S. government's ability to influence the conduct and outcome of Chinese-espionage charges. The verdict's announcement over the U.S. holiday—a year after the conviction—appeared to be a calculated act of defiance.

"One notable aspect of this case was the Chinese government's thumbing its nose at the [U.S. government's] efforts to support Xue," said Jerome A. Cohen, a New York University law professor and authority on China's legal system.

But the case also raises questions about the effectiveness of Washington's decision to remain mostly quiet about Mr. Xue, despite concerns about how he was treated by Chinese authorities after his detention in November 2007. Although people close to Mr. Xue have lobbied the White House starting in 2008 to address it, the case wasn't publicly known until a November 2009 Associated Press report stating that Mr. Xue had been tortured in detention and that his case was otherwise mishandled by Chinese authorities.

China's Foreign Ministry didn't respond to a request for comment Monday.

Chinese security agents initially denied Mr. Xue the right to contact the U.S. Embassy and his whereabouts were unknown for weeks, while his extended detention, quick trial and alleged actions were likewise cloaked in secrecy. Detained in November 2007, Mr. Xue was formally arrested in April 2008 and tried in July 2009.

China, U.S. exchange barbs over steel deal

BEIJING—China's government-backed steel-industry association criticized a move by U.S. lawmakers that could threaten a plan by China's fourth-largest steelmaker to invest in U.S. steel mills, saying the action amounted to protectionism.

But the steelmaker, **Anshan Iron & Steel Group** Corp., sought to play down the dispute, which could exacerbate trade tensions between the U.S. and China.

In a letter Friday, 50 members of the Congressional Steel Caucus, which supports the American steel industry, wrote to U.S. Treasury Secretary Timothy Geithner urging the Committee on Foreign Investment in the U.S. to "thoroughly investigate" Anshan Iron's U.S. joint-venture plans.

The Chinese company in May said it planned to invest in a Mississippi-based steel plant owned by privately held **Steel Development** Co., as part of its ambitions to sell products directly to the U.S. market.

The CFIUS reviews foreign investment deals to ensure they won't pose a threat to national security. The committee can recommend that the U.S. president block a deal.

The lawmakers' concerns could most immediately affect a steel plant that SDCO has built in Amory, Miss., which is scheduled to begin production this year.

"We are researching the situation and mulling how to deal with it," said Li Jiangyu, secretary to the president of Anshan Iron.

He said the lawmakers' protest shouldn't be a major hurdle to the deal because Anshan Iron signed the agreement on its investment plan in line with the requirements of the U.S. government for its domestic stimulus program.

He said the deal isn't a "complicated case," as it doesn't involve resources or equity control. "No government is involved yet," Mr. Li said. He added that the letter expresses an opinion from "a nongovernment organization" with a different perspective.

Meanwhile, the more-vocal China Iron and Steel Association said the U.S. should keep a "proper attitude" toward the effects of globalization. CISA deputy secretary-general Qi Xiangdong said the deal is a commercial matter, and that any government-backed interference would indicate protectionism.

"A market-economy country like the U.S. shouldn't make administrative intervention to corporate behavior," Mr. Qi said.

Mr. Qi said that no matter how the Anshan deal concludes, China will still invest abroad. "The West should have proper attitude to the global trade and globalization of the world economy," he said.

Anshan Iron is one of 125 state-owned enterprises directly managed by the central government through the state-owned Assets Supervision and Administration Commission. Anshan Iron owns 67% of **Angang Steel** Co., which is listed on the Shenzhen Stock Exchange.

The U.S. lawmakers had written they were "deeply concerned" that Anshan Iron's "direct investment in an American steel company threatens American jobs and our national security. We believe that this investment allows the full force and financing of the Chinese government to exploit the American steel market from American soil."

—Yajun Zhang