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# Fed hints more must be done to aid economy

By LUCA DI LEO  
AND JEFFREY SPARSHOTT

When they last met three weeks ago, U.S. Federal Reserve officials considered making bond purchases and other steps to avoid falling prices, as they discussed ways to charge up the economy.

Minutes of the Fed's last policy-setting meeting Sept. 21 showed officials remained divided, but most thought new measures to jump-start growth would be needed, given that inflation is too low and unemployment too high.

Since the meeting, investors have been focusing on what the Fed's new bond-purchase program may look like. To keep borrowing rates low following the recession, the central bank has already bought \$1.7 trillion worth of U.S. Treasury and mortgage bonds. But the minutes showed Fed officials were also looking at several strategies for inflation.

"Meeting participants discussed several possible approaches to providing additional accommodation but focused primarily on further purchases of longer-term Treasury securities and on possible steps to affect inflation expectations," the minutes showed.

Because of the economy's weakness, inflation is running below the Fed's informal target of between 1.7% and 2.0%. The central bank's most closely watched indicator put underlying inflation, which strips out volatile food and energy prices, at only 1.4% in August.

The minutes also revealed the Fed's staff cut their projections for economic growth for the second half of 2010 and for 2011, and predicted the underlying inflation rate would slow further next year.

Though officials thought it unlikely the U.S. economy would fall into recession again, many were concerned

that growth would not be strong enough to reduce unemployment for some time.

Since the Federal Open Market Committee meeting, data have continued to paint the picture of a sluggish economy. The jobs market remained soft last month as meager hiring by firms failed to offset cuts in government workers, leaving the unemployment rate stuck at 9.6%.

Fed officials last month also discussed ways they could affect short-term inflation expectations, including providing more detailed information about the rates of inflation considered consistent with its dual mandate of stable prices and full employment.

"Targeting a path for the price level rather than the rate of inflation" was one of the strategies that officials considered, the minutes showed.

Some Fed officials have expressed concern that...  
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## Miners' families await news



Reuters

Relatives of the Chilean miners who have been trapped underground since early August spend time together a few hours before the start of a long-awaited rescue operation. Officials were hoping to have at least one miner out by the end of the day on Tuesday. Updates and photos at WSJ.com

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European regulators versus the imaginary bonus crisis. Page 13

# Iraqi production set to change oil market

By GUY CHAZAN

The revival in Iraqi oil production will be a "game-changer" for global oil supplies and a challenge for other big oil producers like Saudi Arabia, the International Energy Agency said Tuesday.

Fatih Birol, the IEA's chief economist, said in an interview that 20 years from now, Iraq could be pumping two to three times the 2.5 million barrels a day it currently produces—"comforting" oil markets worried about shrinking supplies, and possibly buffering against price jumps.

To achieve those levels, Iraq needs to repair its infrastructure, overcome a water shortage and improve its parlous security situation. "If Iraq addresses all these problems...it could be one of the few provinces where we'll see

net growth in oil production," Mr. Birol said.

He was speaking a week after Iraq's oil ministry raised the country's proven oil reserves by around a quarter to 143.1 billion barrels. If the figure is confirmed, Iraq would overtake Iran to become the world's second-largest holder of crude resources after Saudi Arabia.

The birthplace of the Organization of Petroleum Exporting Countries—formed in Baghdad in 1960—Iraq was once a titan of the oil industry, but its output and exports slumped as decades of war took their toll.

Optimism about Iraq's prospects has increased significantly over the past year, however, following two licensing rounds that resulted in a string of service contracts aimed at unlocking the vast

potential of some of its largest oil fields with major international companies such as BP PLC and Exxon Mobil Corp.

Officials say the deals will boost Iraq's oil-producing capacity to around 12 million barrels a day by 2017, putting it on a par with Saudi Arabia. That, said Mr. Birol, "may be a challenge to the other oil producers."

Iraq will be a "very important element for future [oil] supply," said Nobuo Tanaka, head of the IEA.

Peter Voser, chief executive of Royal Dutch Shell PLC, which was awarded one of the Iraqi contracts last year, said Tuesday that Shell has already increased production from Iraq's Majnoon field to 70,000 barrels a day from 45,000 barrels a day. The world "will need Iraq," he

said, to offset declining production from mature oil fields.

Others have poured cold water on Iraq's rosy projections. Shokri Ghanem, chairman of Libya's national oil company, said Iraq's oil output would likely only reach seven million barrels a day by the middle of this decade—not enough of an increase to affect world crude prices.

However, the increased reserves and forecasts of higher output could strengthen Iraq's position in OPEC. Iraq is currently exempt from OPEC's system of production quotas as it rebuilds its battered economy. But it has said it would rejoin the quota system once it hits output of four million barrels a day.

Analysts say that by upgrading its reserves estimate,

Iraq is ensuring that the quota it is awarded by OPEC is as high as possible. Mr. Ghanem appeared to endorse that aspiration Tuesday, saying that Iraq had "the right to have quite a good size of production."

Yet the challenges Iraq faces in reviving its oil industry remain huge. Tensions are simmering between some Iraqis and foreign oil companies operating in the country. Last month, officials backed by local police in Wasit province raided the al-Ahdab oil field, which is being developed by China National Petroleum Corp. They demanded to see contracts signed by CNPC and the oil ministry in Baghdad, but were turned away.

■ OPEC is expected to maintain output target..... 10



## PAGE TWO

# No argument, a 'two-speed Europe' is definitely coming down the line

## [ Agenda ]

By IAIN MARTIN



The notion of a "two-speed Europe" is not new. There have been various attempts in the past two decades to get such a concept going. Why should the countries of a continent as diverse as Europe—in terms of language, traditions and historical experience—move forward together in step? Is it entirely inconceivable that a group of states within the European Union might decide that they want to move over to the slow lane?

But the driving force of the European project is integration and the momentum must be maintained, it is said by its most passionate advocates. The accession states—such as Poland—even had to give a commitment that they would join the common currency. They have not done so yet, but are locked into an updated version of the Exchange Rate Mechanism in preparation for the great day. So, that is that: the 10 states in the European Union but not in the common currency will join, one by one, and only Britain will be left outside.

In the light of the sovereign-debt crisis in the euro zone, that must be a highly questionable assumption. Will a country such as Poland, looking at Ireland's experience in recent years, be more or less minded to join the common currency anytime soon? The answer is obvious: less so. The Poles were stalling on entry even before the crisis.

The old argument for joining up was that members would enjoy a unique blend of benefits, involving German interest rates, Greek-style national accounting and high spending with lavish



France's President Nicolas Sarkozy and German Chancellor Angela Merkel.

social programs. Now those in line to join can contemplate Ireland, its economic collapse exacerbated and recovery efforts hampered by its inability to devalue to make itself more competitive.

Several other things now seem relatively clear after the sovereign-debt crisis and the bailout that followed. First,

**Individual countries' budgets and spending decisions will have to be subject to federal approval.**

barring an unforeseen explosion, the common currency isn't going to come apart. Any country leaving would have its debts denominated in euros. If it tried to relaunch its own currency it would sink like a stone, its debts increasing dramatically. Such a country would be incapable of funding itself on the markets. And many of those left out of pocket in the resulting disaster would be bondholders in institutions in Germany or France. That will not appeal. These members are locked together.

Second, the countries inside the common currency will have to integrate their economies and entwine their finances much more closely. As Chancellor Angela Merkel has worked out, if German taxpayers are to carry the can then fellow members of the euro must live by German rules. In the end, individual countries' budgets and spending decisions will have to be subject to federal approval.

Emerging is a Europe of two blocs, with those in the common currency moving closer together and those outside it not. In time this will require a dispensation in the European Union, a reflection of reality in which the noneuro countries have a different set of arrangements from their partners who have opted for the fast lane. But for that to happen, a case would have to be made and some leadership shown.

Where might such leadership of those outside the common currency come from? In theory, the British and the Poles are well placed to provide it. But the U.K. government doesn't seem remotely interested in the arguments. Several weeks ago, ahead of the Conservative Party's conference, I wrote of "the Strange Death of Tory

Euroskepticism." A strand of thinking that had once threatened to split the Tory party and could, it was thought, cause David Cameron serious difficulty in Number 10 has all but disappeared.

Understandably, the Tory leader doesn't want Europe disrupting his coalition with the Europhile Liberal Democrats and their joint focus on deficit reduction. But he has shut down discussion on the future of the EU just as the subject threatens to get interesting.

## Off the record

The recently installed leader of the Labour Party hosted the first meeting of his new shadow cabinet in London on Tuesday. Top of Ed Miliband's "to do" list was a ban on off-the-record briefings. Members of his shadow ministerial team have been instructed to refrain from fighting their battles with colleagues via self-serving anonymous leaks to the media and underhand attacks.

In one sense this is terrible news for British journalists; it is bad for trade. But those keen to find out what is going on at Westminster shouldn't worry: the ban on illicit communication will not work. Politicians down the ages have relied on off-the-record briefings as much as journalists collecting information, no matter what they say in public.

Mr. Miliband is not the first leader, and he won't be the last, to try to prohibit these activities. It is traditional across the democratic world that in these circumstances the members of shadow cabinets, or cabinets, will be seated around the same table. At the appointed moment they must all look grave, nod their heads and murmur "hear hear" as the order is given by their leader. But how do we know that Mr. Miliband has banned anonymous briefings? Someone anonymously briefed journalists about it.

## What's News

■ **Pfizer agreed to buy King Pharmaceuticals** for \$3.6 billion, a deal that could modestly soften the blow of next year's expected loss of market exclusivity for Pfizer's cholesterol drug Lipitor. 19

■ **Singapore's Peter Lim** increased his offer for Liverpool football club to \$508 million, hoping to trump a bid by New England Sports Ventures. 19

■ **U.S. Secretary of State Clinton** visited Balkan capitals, urging leaders to set aside ethnic animosities and catch up with their neighbors on integration with the EU. 4

■ **Iran detained** two German journalists on charges of having ties to opposition networks abroad, prompting concerns they would be caught up in Tehran's confrontation with the West. 12

■ **A train crashed** into a bus in eastern Ukraine, killing at least 41 people and leaving seven hospitalized. 6

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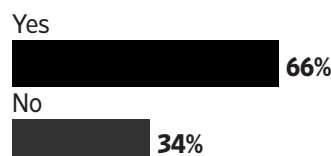
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NEWS

# French unions strike over pensions

By DAVID GAUTHIER-VILLARS  
AND MAX COLCHESTER

PARIS—French unions brought more than a million people into the streets to protest on Tuesday and vowed to press on with strikes and demonstrations against President Nicolas Sarkozy's plans to lift the retirement age, a measure aimed at cutting the fast-rising deficit of France's state-run pension system.

The one-day strike and marches, the fourth such mobilization in a month, disrupted transport and schools across France. Ports were shut, students blocked access to some high schools, and the Eiffel Tower was closed for most of the day.

Still, the real battle for Mr. Sarkozy lies ahead. The government says it doesn't plan to change the bill, which has already been approved by France's lower house and is now before the Senate. If unions garner enough support for an open-ended strike that lasts days, the president could face the toughest challenge to his authority since his election in 2007. Social-welfare bills have crippled French governments in the past; in 1995 a three-week nationwide general strike forced the then-administration to back down on a pension overhaul.

"Workers are going to voice their anger through a prolonged strike," said Fabien Monteil, a delegate with the Sud Rail railway union.

Drumming up an open-ended strike won't be easy. French union



Workers demonstrate Tuesday in Paris against a pension-overhaul bill that would raise the retirement age to 62 from 60.

membership is down, and Mr. Sarkozy has introduced rules on the organization of strikes that minimize their effectiveness.

The president is trying to fix a shortfall in the mandatory state-run pension system. The system has been under pressure for several years, because people are living longer and spend more years drawing pensions. But the shortfall widened sharply after last year's recession led to a sharp drop in payroll-tax

revenue. This year's shortfall could reach €32 billion (\$44.4 billion), according to government projections.

The key plank of Mr. Sarkozy's pension overhaul is to raise the standard retirement age to 62 years old from its current 60. Unions say they want the standard age to remain at 60, a level adopted in 1983 and that many feel represents an important social benefit, on par with universal health insurance and paid vacations. Unions say the distribu-

tion of wealth between corporate profits and salaries has tipped in recent years, and it is time to increase corporate taxes.

Mr. Sarkozy has ruled out raising taxes, saying France has among the highest levies in the industrialized world. In parliament Tuesday, Prime Minister François Fillon said that backing out of the pension overhaul would lead to "social catastrophe."

To extend the pension protest over the next few days, unions are

counting on support from young people. In 2006, the government retreated from plans to introduce a short-term labor contract for young people because of massive student demonstrations.

Some high-school students took part in the marches. At the Montaigne school in Paris, some students attended classes while about 200 pupils picketed in front of the main door as a Coca-Cola Co. marketing crew distributed free beverages. "We must join the movement," said Karim Boursali, a 17-year-old student at another nearby school and a delegate with the UNL high-school union. "If our parents don't retire at 60, we won't get jobs."

Still, student participation remained limited, with classes disrupted at about one in 10 high schools, according to unions and the education ministry. Mr. Boursali said he wasn't sure how many of his friends would continue to protest.

Sébastien Bordmann, a member of the pro-government UNI student union who for years has organized antistrike protests, says he too is having a hard time recruiting followers. Standing outside the Montparnasse train station in southern Paris at 7 a.m. Tuesday, Mr. Bordmann handed out fliers with the slogan "Stop the strikes." Though some weary commuters cheered him on, many others told him to get lost.

Said Mr. Bordmann: "Someone needs to stand up for the average French guy who just wants to go to work."

## Fed hints economy needs more help

Continued from first page  
cently suggested the central bank may have to do more than buy U.S. Treasury bonds to help the economy, such as declaring it wants inflation to temporarily rise above its informal target of just below 2.0%.

New York Fed President William Dudley has raised the possibility the central bank may allow inflation to run over target for some time to offset a price level that's been running below its objective.

Chicago Fed President Charles Evans, meantime, told The Wall Street Journal in an interview last week he was worried the bond purchases may not be enough to address his concerns about low inflation and high unemployment.

Fed Chairman Ben Bernanke and his new deputy, Janet Yellen, have spoken against raising the Fed's inflation target earlier this year, when the debate arose among top international economists.

However, Mr. Bernanke did recommend such an approach for Japan in 1999, when he was an economics professor at Princeton.

To fight the threat of a debilitating bout of deflation, when wages and prices fall on the back of the economy's weakness, Mr. Bernanke suggested Japan introduce an inflation target of 3% to 4%.

Moreover, a price-level target would be different, allowing the Fed to make up for when inflation undershoots its target, as it is now, by overshooting it later. That would help raise short-term inflation ex-



Fed Chairman Ben Bernanke

pectations, which are currently low.

In another sign that the Fed is looking beyond the market's attention on bond purchases, the minutes showed that officials believed any needed accommodation would be most effective if enacted "within a framework that was clearly communicated to the public."

—Jon Hilsenrath contributed to this article.

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## EUROPE NEWS

# France firm on Turkey EU bid

By MARC CHAMPION

ISTANBUL—France's top diplomat told Turkey on Tuesday that "the ball is in your court" if it wants to rescue its troubled bid to join the European Union, underscoring the tough challenge Ankara faces as it pushes to revive stalled negotiations.

France is a key opponent of Turkey's membership in the 27-nation bloc and has helped slow negotiations that began in 2005. In a televised joint news conference Tuesday, Turkish Foreign Minister Ahmet Davutoglu urged France to provide "active support" to accelerate the talks.

French Foreign Minister Bernard Kouchner promised to support Turkey in opening the three new areas of membership negotiations that it can. But he put the onus on Ankara to meet required conditions and made it clear that France hasn't changed its opposition to Turkey's ultimate membership.

The French minister is the latest in a series of EU leaders to visit Turkey as Ankara launches a new push to revive the talks. Turkish leaders from Prime Minister Recep Tayyip Erdogan down have become increasingly vocal in recent weeks in calling for the EU to unfreeze parts of the talks that have been frozen, arguing that Turkey is being unfairly discriminated against in a way that no previous candidate to join the EU has been.

Negotiations over the bid have broken down in large part over French opposition and objections from Cyprus over the continued closure of Turkish ports to Greek Cypriot ships. But broader fears among



French Foreign Minister Kouchner, left, and Turkey's Davutoglu in Ankara.

Europeans of mass migration by cheap Turkish labor have helped split the bloc over whether to admit a relatively poor, mainly Muslim nation of 73 million.

Ankara's push comes ahead of an annual progress report by the European Commission on Nov. 9 that could be tough on Turkey, and a decision by EU leaders in December on what action to take. Close observers say it would take a minor miracle for Ankara to succeed in getting the process unfrozen any time soon, while questioning the depth of Turkey's own commitment.

Some EU member states, as well as the U.S., believe that membership in the political and economic union would permanently anchor Turkey in the West and build a solid bridge with the Islamic world. Turkey has

recently seen strong shows of support from Britain's new Conservative government and signals from part of Germany's ruling coalition that it is open to Turkish membership.

Turkey raised some eyebrows in the EU when it voted against United Nations Security Council sanctions aimed at reining in Iran's nuclear fuel program earlier this year. But any concerns that Turkey is drifting east appear to have done little to change positions on its EU membership.

Almost from their start in 2005, Turkey's membership talks ran into hurdles thrown up by a dispute with newly minted EU member Cyprus, which insisted Turkey meet a commitment attached to the talks that it open its ports and airports to Greek Cypriot ships and planes.

The bloc as a whole, and separately France and Cyprus, have so far blocked negotiations in 18 of the 35 areas on which agreement must be reached for Turkey to become a member—so-called negotiating chapters. These cover areas such as free movement of goods, agriculture and financial services, three areas the EU has blocked, citing the ports dispute.

"If British Airways or Lufthansa starts flights to Ercan airport in Northern Cyprus, Turkey would then open her ports to Greek Cypriot planes and vessels," and so quickly unfreeze many of the blocked chapters, said Egemen Bagis, Turkey's top EU negotiator, in e-mailed responses to questions.

Close observers remain skeptical of any breakthrough. At a seminar Monday on Turkey's relations with the EU, part of a conference organized by the Istanbul-based Center for Economic and Foreign Policy Studies, there was little optimism about the future of Turkey's membership bid.

There is no sign of the EU moving to open up to Northern Cyprus, while Mr. Erdogan is unlikely to risk losing face by moving to open Turkish ports ahead of elections next June, said Katinka Barysch, deputy director of the Center for European Reform, a London-based think tank, attending the seminar. "I don't see any way out," she said.

Moreover, ordinary Turks are cooling on the EU. A recent survey by the German Marshall Fund found 38% of Turks favored joining the EU, down from 73% in 2004, in part due to resentment at opposition from countries such as France.

# Clinton urges end to enmity in Balkans

By GORDON FAIRCLOUGH

PRISTINA, Kosovo—U.S. Secretary of State Hillary Clinton visited Balkan capitals Tuesday, urging people and leaders to set aside ethnic animosities and catch up with their neighbors on the path to integration with the European Union.

In Belgrade, Mrs. Clinton met with Serbian President Boris Tadic and other officials as she sought to encourage progress in talks aimed at improving relations between Serbia and Kosovo, a former Serbian province that declared independence in 2008.

Under intense pressure from the EU, Mr. Tadic agreed to start talks with Kosovo and dropped plans for a challenge at the United Nations to an International Court of Justice decision in July upholding the legality of the country's statehood.

Mrs. Clinton said Serbia and Kosovo should engage "sincerely and creatively to resolve their differences once and for all." After meeting with Mr. Tadic she said, "It is very clear to me that Serbia is on a path toward greater partnership with the Euro-Atlantic community and stronger relations with its neighbors."

Mr. Tadic said, "We want Serbia to be a predictable partner. Only in that way will we rebuild trust."

Mrs. Clinton is due next to carry her message to Pristina, the capital of Kosovo, where she is scheduled to meet Wednesday with the prime minister and other leaders before traveling on to Brussels for meetings with EU officials.

Mrs. Clinton can expect a warm welcome here from the ethnic Albanians who make up 90% of Kosovo's population. Former U.S. President Bill Clinton backed a 1999 NATO military intervention that halted a Serbian crackdown on Albanian separatists in Kosovo.

After nearly a decade under international administration and unable to reach a negotiated settlement with Serbia, Kosovo decided to formally secede. Serbia says it can't accept such a "unilateral" declaration of independence by Kosovo, which Serbs consider the cradle of their culture and religion.

A statue of Mr. Clinton stands in downtown Pristina. In anticipation of Mrs. Clinton's arrival, a billboard with a smiling picture of the secretary of state has been erected, and American flags hang side by side with those of Kosovo.

Kosovo's prime minister, Hashim Thaci, is eager for the U.S.—viewed like the EU as a staunch ally—to be involved in the talks between his government and Serbia's.

The exact timing and nature of the talks, however, remains unclear. Complicating matters, Kosovo's president recently resigned. New elections are expected early next year, and Kosovo is unlikely to make any major moves before a new administration is in place.

Kosovo wants talks that respect its sovereignty and deal with issues such as phone service and road and rail transport between the two countries. Serbia would prefer talks ending in a broader political settlement acceptable to Serb voters.

# Aid worker's death sparks probe

British officials and the U.S. command in Afghanistan rushed out a statement over the weekend about the death of a Scottish aid worker before a full review of what went wrong on the mission to rescue her, coalition officials said, explaining that they feared news of the incident would spread before they had a chance to go public.

By Maria Abi-Habib in Kabul and Matthew Rosenberg and Julian E. Barnes in Washington

The result: Officials initially blamed her death on her Taliban captors but now are scrambling to find out why a U.S. trooper, during an attempt to rescue Linda Norgrove, tossed a grenade that likely killed her.

"If we remained silent, saying we need 48 hours to look into the footage, there would have been wild speculation," said a Western military officer. "At the time, there were no indications that U.S. forces had inadvertently done anything that led to her death."

The failed attempt to save Ms. Norgrove, a 36-year-old with years of experience in Afghanistan, and the incorrect initial statements about what killed her are indicative of a longstanding problem faced by allied officials and military officers when a mission—be it a rescue or a kill-or-capture operation—goes awry.

A senior U.S. officer said the U.S. and U.K. are investigating whether

the rescuers should have used a deadly fragmentation grenade instead of a nonlethal stun grenade, among other issues.

The U.S. officer said the team sent in to save the aid worker dropped in by rope from helicopters and expected fierce resistance.

British and U.S. officials said they knew the risks of trying to save Ms. Norgrove. Yet they have said the abductors made no meaningful effort to negotiate her release; the rescue mission was their only realistic option, and was authorized soon after her abduction, they said.

Ms. Norgrove worked for **Development Alternatives Inc.**, one of the largest U.S. State Department-funded contractors working in Afghanistan. She was traveling to one of the company's projects on a treacherous road in the eastern Afghan province of Kunar—an area long dominated by insurgents—when her unarmored car was ambushed Sept. 26 by a local Taliban faction with close ties to al Qaeda.

Soon after getting word of her abduction, the British Cabinet convened a special crisis group and began working to secure her release with U.S. and allied military officers and Afghan national security officials in Kabul. Leaflets offering a reward were dropped and plans for a military rescue prepared.

Ms. Norgrove's captors adhered to the particularly radical and ascetic Salafist school of Islam, and she was grabbed in an area close to Pakistan's tribal areas, where a res-



Linda Norgrove was killed on Friday.

cue is almost impossible to mount.

Britain's foreign secretary, William Hague, said Monday that it took almost two weeks to launch a rescue attempt because bad weather made it difficult to pinpoint Ms. Norgrove's location. She was located Friday and a Navy Seal team moved in to save her, U.S. and British officials have said.

A day later, British and U.S. officials said they believed she had been killed when one of her abductors detonated a suicide vest. That story was based on initial reports from the scene that didn't mention a grenade, and surveillance feeds from a drone aircraft, which can be unclear and at times grainy, said Rear Adm. Gregory Smith, the chief coalition spokesman in Kabul, in an

interview.

The commander in charge of the mission watched the rescue unfold via the satellite feed to his command center at Bagram Airbase north of Kabul and concluded the explosion seen near Ms. Norgrove was caused by a suicide bomber, Adm. Smith said. The initial statements were based on that conclusion.

But a subsequent review by the commander of video footage stored in helmet-mounted cameras—which provide a clearer picture than the live satellite feed—showed a grenade being thrown, Adm. Smith said.

The commander then "pulled the unit in and questioned them" as to whether "anyone had thrown an explosive device, and they said they had," he said.

It was 3 a.m. Monday in Afghanistan and the commander immediately called North Atlantic Treaty Organization headquarters in Kabul, Adm. Smith said. He then flew there to see Gen. David Petraeus, the top U.S. and NATO commander.

"We then had our first meetings at first light in headquarters on Monday. The commander showed us the tapes, all the material was reviewed," Adm. Smith said.

Soon after, Gen. Petraeus called British Prime Minister David Cameron's office, and Mr. Cameron disclosed the new findings at a news conference Monday morning in London.

—Paul Sonne in London contributed to this article.



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## EUROPE NEWS



Getty Images

High-profile universities such as Oxford could become significantly more expensive under the proposed overhaul.

# English students face jump in tuition fees

BY AINSLEY THOMSON

LONDON—University students in England face the prospect of a steep increase in tuition fees after a government-ordered report Tuesday recommended that a cap on fees should be removed.

The review, led by former BP PLC Chief Executive John Browne, said its “radical plan” would shake up higher education in England.

The plan would scrap the £3,290 (\$5,221) annual cap on fees, though institutions charging more than £6,000 a year would face a tapered levy to support poorer students.

Students won't have to pay any-

thing until they graduate and find jobs.

“Under these plans universities can start to vary what they charge, but it will be up to students whether they choose the university,” Mr. Browne said. “The money will follow the student who will follow the quality.”

The proposals are expected to raise tensions within the U.K.'s coalition government. The Liberal Democrats, the junior partners in the coalition, campaigned against higher fees during May's general election and the plan could spark a rebellion from some lawmakers.

Liberal Democrat Deputy Leader

Simon Hughes said the party's lawmakers were “very conscious” of their previous position and the policies they had campaigned for at the last election.

“Today will not be the last word on policy for funding higher education in England,” he said. “All MPs [lawmakers] should now engage constructively in questions, answers and debate in Parliament.”

The Institute for Fiscal Studies, a think tank, said the proposals would mean students would pay about £5,300 more for their degrees. However, it said the main beneficiary of the increase in fees would be the public purse, with taxpayers saving £6,000 a student over the course of a degree.

“Despite the proposed increase in tuition fees to £6,000 or above, universities would not be likely to see any benefit: they would need to charge fees of £7,000 or more in order to recoup their losses from proposed cuts in public funding,” the IFS said.

The University and College Union, which represents academic staff, said the proposals would have a “devastating effect” and would result in some universities closing, as well as a narrower curriculum.

“At an enormous cost of between £40,000 and £70,000 for one child's education, it would be the final nail in the coffin for an affordable university degree for many ordinary families,” said UCU general secretary Sally Hunt.

Richard Lambert, head of the Confederation of British Industry, welcomed the review but questioned how the government's spending cuts would affect the proposals.

“There is speculation that these [cuts] could take out more money from the system than is being proposed by Lord Browne, and that the trajectory of cuts will not give universities the time to rebalance in the way that the review has proposed,” Mr. Lambert said. “That would be seriously short-sighted and could cause lasting damage to higher education in England.”

# U.K. consumers' confidence slips amid budget cuts

BY PAUL HANNON

LONDON—U.K. consumers became more pessimistic about the outlook for the economy and the job market during September, and less willing to make major purchases, according to a monthly survey conducted by the Nationwide Building Society published Wednesday.

As a result, the lender's overall measure of consumer confidence slumped to 53 from 62 in August, its fourth drop in five months. It now stands at its lowest level in over a year, and well below the long-term average of 83.

The renewed weakening of confidence will worry policy makers, because it suggests consumers will reduce their spending in response to big cuts in government spending that were flagged in the June 22 budget and are to be detailed Oct. 20. With exports yet to pick up significantly, that could lead to a sharp slowdown in growth.

Separate data released Tuesday by the Office for National Statistics showed that despite the pound's big depreciation since the start of the financial crisis, exports fell to £21.7 billion (\$34.4 billion) in August, down by £400 million from July.

Sterling has had a mixed run in recent weeks, climbing against the dollar but falling against the resurgent euro and remaining some 25% below its 2007 peak, when measured against a basket of currencies from the U.K.'s major trading partners.

“Despite the manufacturing sector's recent strong performance, an overreliance on U.K. exports to drive the economic recovery may prove disappointing in the short term,” said Iain MacDonald, head of trade product at Barclays Corporate.

Opposition politicians, labor unions and some economists have warned that spending cuts and tax increases could push the U.K. back into recession if consumers and businesses curb their spending.

“It would seem that the pessimistic sentiments of a few months ago have been renewed and this has perhaps been driven by a realization of the true impact of the cuts announced in the emergency budget,” said Martin Gahbauer, Nationwide's

chief economist. “The government's impending spending review is likely to have a strong influence on consumer confidence in the coming weeks.”

Nationwide found that 22% of those surveyed expected the economic situation to be good in six months' time, down from 26% in August, while 31% expected it to be bad, up from 26%.

Some 20% expected there to be many or some jobs available in six months' time, down from 23% in August, while 58% expected there to be few jobs available, up from 54%.

Consumers became less willing to make a major purchase, such as a home or a car, with 25% judging that now is a good time to buy, down from 30% in August. The proportion of those judging it to be a good time to buy household goods fell to 35% from 40%.

That wariness was reflected in retail spending in September. The British Retail Consortium on Tuesday reported that the value of sales was up just 0.5% from the comparable month last year, and that higher food prices accounted for most of that increase.

Despite the weakness of consumer demand, U.K. inflation remains well above the Bank of England's 2% target. The ONS on Tuesday said the annual rate of inflation held steady at 3.1% in September, the ninth consecutive month that it has been at least one percentage point above the BOE's target. That makes it difficult for the BOE to provide extra support to the economy should it falter by resuming its bond-buying program.

Bank of England Monetary Policy Committee member David Miles said Tuesday that he sees risks both of not doing enough to address high inflation and of tightening too soon, underscoring the tricky balance that the central bank must strike.

In a speech in Dublin, Mr. Miles said he wasn't “blasé” about the high level of inflation, but added that the fast pace of current price growth didn't say much about where inflation was likely to be in the longer term.

—Ilona Billington, Natasha Brereton and Nicholas Winning contributed to this article.

# Ukraine crash kills 41

BY JAMES MARSON

KIEV, Ukraine—A train locomotive smashed into a packed passenger bus in eastern Ukraine on Tuesday morning, killing at least 41 people and leaving seven hospitalized, officials said.

The collision happened at about 9 a.m. at an unguarded crossing near the village of Maksymivka in the eastern Dnipropetrovsk region, according to the Emergency Situations Ministry.

Ukrzaliznytsia, the state railway company, said the locomotive driver had seen the bus, which was carrying around 50 people, from 500 meters away and sounded his siren.

The bus driver ignored the siren and a stoplight and began to cross the tracks. The locomotive was unable to brake in time.

President Viktor Yanukovich, who was on a working visit to the region, sent his condolences to the victims' families and dispatched First Deputy Prime Minister Andriy Klyuyev to the scene to lead the investigation into the crash.

Prime Minister Mykola Azarov pledged that the government would give the families of each of the victims 100,000 hryvnias (\$12,500). He also ordered the transport ministry to set up automatic barriers at crossings to prevent drivers from ignoring warning signals.



Reuters

John Browne's plan would remove the \$5,221 cap on annual fees.

## The cost of learning

Comparison of university fees in several countries in U.S. dollars

U.S.	up to 50,000*
<b>England</b>	<b>5,221</b>
Canada	3,693
Germany	up to 1,660**
Spain	1,275
Austria	821
Belgium	586
France	241
Finland	Free
Ireland	
Sweden	
Scotland***	

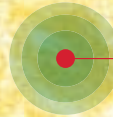
## Percentage of GDP spent on higher education

U.S.	3.1%
Canada	2.6
Finland	1.6
<b>U.K.</b>	<b>1.3</b>
Germany	1.1

\*For leading universities \*\*As of May, tuition fees for full-time students range from €0-500 per semester, additional registration fees of about €100 per semester. \*\*\*Tuition is free to Scottish students and those from elsewhere in the EU. Other British students pay \$2,895. Source: Reuters



Check he's in first.  
Popping to the shops  
means gone for a week.

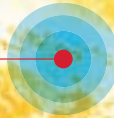


Documents to Marta on 1st floor, every-  
thing else to Johan in dispatch.

You've just gone through one of  
the highest traffic lights in Europe.



Wild thyme blooms  
May to September.



Use left lane – scooters shoot around this  
blind corner.

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## U.S. NEWS



Associated Press

Pennsylvania state Rep. Todd Eachus, in a race with Republican Tarah Toohil, considers outside money an intrusion.

## Redistricting battles draw interest, and cash

BY KEITH JOHNSON  
AND BRODY MULLINS

Republicans and Democrats, hoping to pick up seats in Congress through redistricting, are pouring money and political muscle into statehouse races in about 16 states.

State legislatures will next year redraw congressional districts based on the 2010 census. Cutting out a wealthy suburb or looping in an ethnic neighborhood can turn a district from Republican to Democratic, or vice versa. If done across the board, redistricting can tip a congressional delegation red or blue for a generation.

The key national organizations seeking to influence state elections will spend about \$200 million this year, double what they spent in 2006, the most recent comparable contest. The cash is allowing local candidates to adopt tactics more typically used by national politicians: time on cable TV, advanced polling and direct mailings.

All this is playing out in Baraboo, Wis., where a tiny state-house campaign is being bombarded by money and advice from national organizations such as the AFL-CIO labor union, Planned Parenthood and a Republican group run by former White House strategist Edward Gillespie.

The idea that Democrats and Republicans are banking on a win in districts like Wisconsin's 42nd "is a pretty humbling thought, for sure," said Fred Clark, the Democratic incumbent.

Republican and Democratic strategists are focusing on races in states that they believe could eventually swing as many as 25 to 30 seats in the U.S. House of Representatives. The top targets are Wisconsin, Indiana, Pennsylvania, Ohio and Texas.

Depending upon who draws the map in Texas, as many as four congressional seats could be at stake. Even though the GOP has carried Texas in every presidential election since 1980, the party has a scant two-seat majority in its state house. Other statehouses are similarly

divided. In Tennessee, which has been trending Republican in national elections, the GOP has a three-seat majority in the Senate and a single-seat advantage in the House.

Democrats have a four-seat majority in the Ohio house and three in Pennsylvania and Indiana.

In most states, the party that controls state government gets to draw boundaries of congressional districts to favor its interests. Only a handful of states leave the process to an independent commission.

The three main Republican groups that focus on statewide races plan to spend more than \$100 million on the November elections, about double the \$44 million they spent on state races in 2006.

Groups supporting Democratic candidates in state races will spend about the same amount.

**Republican and Democratic strategists are focusing on races in states they believe could eventually swing as many as 25 to 30 seats in the House of Representatives.**

The Republican State Leadership Committee created the Redistricting Majority Project, whose sole purpose is "dedicated to keeping or winning Republican control of state legislatures that will have the most impact on Congressional redistricting in 2011." The group is on pace to raise and spend \$40 million to help GOP candidates in state races.

The state races can be critical in determining control of Congress.

In 1980, California's congressional delegation was evenly split, 22 Democrats and 21 Republicans. After the 1980 census, which gave the state two additional congressional districts, Democrats took advantage of redistricting to create a huge majority that still endures. The 1982 election produced 28 Democrats and just 17 Republicans.

Texas leaned Democratic since Reconstruction, until Republicans used a statehouse majority won in 2002 to launch a mid-decade redistricting plan. The result: six additional Republican congressional seats in the 2004 election, which gave the GOP a majority of the state's congressional delegation for the first time since the U.S. Civil War in the 1860s.

The American Federation of State, County and Municipal Employees and the American Federation of Teachers have donated a total of \$900,000 to Democratic groups. Republicans draw big donations from business, including \$1.6 million from the U.S. Chamber of Commerce.

Republicans are also using GOPAC, a political-action committee founded in the 1970s, to wade into state races. GOPAC has donated about \$600,000 to roughly 250 candidates in close races around the country, an increase from \$150,000 in 2006. Last week, it donated \$100,000 to nine candidates in Pennsylvania. Republican candidate Tarah Toohil, running against the Democratic majority leader in a district south of Wilkes-Barre, had raised less than \$20,000 for her campaign. GOPAC's \$12,500 donation will help her buy local cable-television ads, she said.

Her opponent sees outside money as an intrusion. "A national right-wing group does not represent the working families of the greater Hazleton area," said Dave Georges, a spokesman for state Rep. Todd Eachus.

The fight is reaching a fever pitch at the pinnacle of state government—the governor's mansion.

Voters in 37 states will choose new governors this fall, the most ever in a single year. Governors in most states have to approve redistricting plans, giving them tremendous influence over the redrawing.

Both Republican and Democratic governors associations have raised record amounts of money by telling donors the 2010 races could help decide which party controls Congress for the next decade.

## More people balk at cost of medicine

BY JONATHAN D. ROCKOFF

Growing numbers of Americans with health insurance are walking away from their prescriptions at the pharmacy counter, the latest indication that efforts to contain costs may be curbing health-care consumption.

A review of insurance-claims data shows that so-called abandonment—when a patient refuses to purchase or pick up a prescription that was filled and packaged by a pharmacist—was up 55% in the second quarter of this year, compared with four years earlier. The phenomenon coincides with rising co-payments for many drugs and increasing enrollment in high-deductible insurance plans that require patients to pay hundreds or thousands of dollars out of pocket before insurance kicks in.

Patients are deserting prescriptions for the most expensive drugs most often, according to the review by Wolters Kluwer Pharma Solutions, a health-care-data company. Nearly one in 10 new prescriptions for brand-name drugs were abandoned by people with commercial health plans in the quarter, up 88% from four years earlier, when the data were first tracked and before the recession began. Abandonment of generic drugs was higher, too.

The trend is driven in part by higher out-of-pocket costs for covered medicines, pharmacists and Wolters Kluwer officials say. The average co-pays for brand-name drugs such as the cholesterol fighter Lipitor rose to \$28 a prescription this year, an 87% jump from 2000, according to the Kaiser Family Foundation. Some co-pays can be as high as \$100.

"More and more people are questioning spending that much money and whether it's going to make a difference, and rationalizing it's OK" to forgo prescriptions, said Anthony Conglio of OPUS Pharma Consulting, who advises drug makers on helping patients to get and take medicine. Doctors worry patients will suffer serious and costly consequences if they don't take medicine they need. Also, the failure to pick up prescriptions is likely to dent drug-company revenue.

The abandonment rates come from an analysis of 80 million claims that pharmacies make each month for payment, about 40% of the total market. Wolters Kluwer collects the data from more than 24,000 independent and chain pharmacies. Drug makers use abandonment statistics to assess the reasons for lost sales.

Prescription-drug use had long been considered immune from finan-

cial pressures because people get sick regardless of the economy. But growing evidence aside from the abandonment data suggests price is increasingly a factor. At City Drug Co. in Huntingdon, Tenn., shelves behind the counter are crowded with unclaimed prescriptions, said owner Tim Tucker. The pharmacy puts back more than 100 abandoned prescriptions each week, about a quarter of those it fills, up from seven a week just a half-year ago, Mr. Tucker said.

Many are for drugs crucial to people's health, such as antibiotics like Levaquin, and Nexium for bleeding ulcers, but customers balk when told their share of the price, Mr. Tucker said. Mark Spiers, chief executive of Wolters Kluwer, points to efforts by employers and health plans to control health-care spending by shifting more costs to consumers.

High-deductible health plans, with their lower premiums, are another factor. Nearly three times as many people enrolled in such plans in 2010 compared with four years earlier, the Kaiser Family Foundation found.

Among them: Sharalee Brockway, a bank teller in Great Falls, Mont. After switching employers in April, Ms. Brockway said, she chose a high-deductible plan for herself and her 12-year-old son because it took less out of her paycheck. The next month, when she went to pick up asthma medicine for her son and an antidepressant for herself, the pharmacist told her it would cost more than \$335. "I said, 'I can't afford that,'" recalled Ms. Brockway, who left the prescriptions at the pharmacy. She returned later and bought a less-expensive prescription for her son.

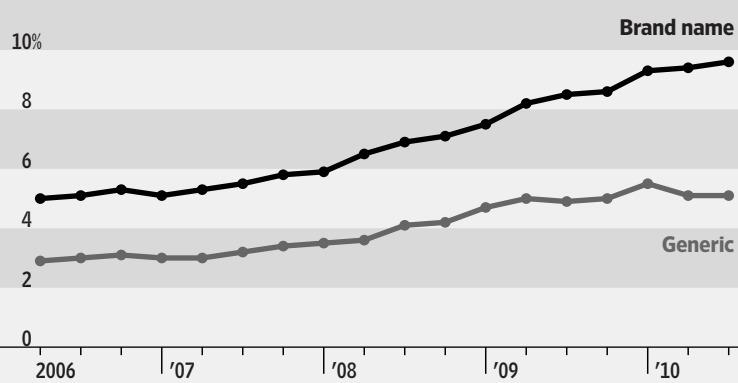
Since then, Ms. Brockway arranged to get help covering drug expenses through the HealthWell Foundation, which helps low-income patients with insurance.

The foundation, which receives funding from pharmaceutical companies, among other donors, received 55,135 applications from people seeking help with co-pays in the first six months of this year, up 23% from the same period last year, it said.

Volume is also increasing at drug makers' assistance programs. Companies that help patients with co-pays typically pay a quarter to half of the cost, said Mark Calabrese, who helps set up and run the programs. His firm, marketing consultant Cegedim Relationship Management, is processing more than 500,000 claims for discounts a month, up from 300,000 at the end of last year. Drug makers declined to comment.

### Deserted drugs

Percentage of new prescriptions filled that patients with commercial health plans refuse to pay for or pick up



Source: Wolters Kluwer Pharma Solutions



U.S. NEWS

# Ban on deep-water drilling is lifted

By **STEPHEN POWER**

WASHINGTON—The Obama administration said it is lifting a controversial moratorium on deep-water oil drilling, but it is unclear how quickly idled oil rigs can go back to work in the Gulf of Mexico.

Interior Secretary Ken Salazar, in a statement, said drilling in waters deeper than 500 feet can resume, as long as rig operators can demonstrate they comply with new safety regulations imposed since the April 20 Deepwater Horizon oil-rig explosion that began the three-month Gulf oil spill.

Among the new conditions on deep-water drilling: The chief executives of rig-operator companies must certify to the government that they comply with all safety regulations, and members of the industry must demonstrate they have the equipment necessary to contain a deep-water well blowout.

**The White House said the moratorium was necessary to give regulators and oil companies time to figure out how to prevent another oil spill following the Gulf leak.**

The Interior Department reiterated in its statement that it intends to institute more rules aimed at preventing deep-water blowouts—regulations some industry officials say could sharply escalate the costs of operating in U.S. waters.

The deep-water drilling moratorium, originally scheduled to end Nov. 30, has become an election-season political headache for the administration, drawing fire from the oil industry, Republicans and some Democrats who say the ban has added to the economic distress of the Gulf Coast region.

Michael Bromwich, director of the Bureau of Ocean Energy Man-

agement, Regulation and Enforcement, said earlier Tuesday at an industry event that his agency will need time to carefully vet companies' applications to ensure they comply with the new safety and environmental regulations. He emphasized that the pace of approvals will depend on the quality of companies' applications and whether they adhere to the new safeguards.

A decision to scale back the moratorium could help ease political pressures on the administration from Gulf Coast lawmakers, who complain the policy has cost their region thousands of jobs. Those pressures have grown with the recent move by Sen. Mary Landrieu (D., La.) to block the confirmation of Jacob Lew to serve as President Barack Obama's budget director.

Industry officials reacted to the administration's statements with a mix of relief and apprehension.

"The lifting of the formal moratorium is the important first step that Hornbeck and others have been fighting for in the courts, but what the industry really needs is clarity in the regulatory framework so we can get back to work," said Samuel Giberger, senior vice president and general counsel of **Hornbeck Offshore Services Inc.**, a company based in Covington, La., that successfully challenged an earlier version of the moratorium in federal court.

The Obama administration has defended the moratorium, imposed in response to the **BP PLC** Deepwater Horizon oil spill, as necessary to give regulators and oil companies time to figure out what should be done to prevent a repeat of the disaster. But the ban on new deep-water drilling quickly became entangled in the politics of jobs.

In July, Mr. Brownmich told Interior Secretary Ken Salazar in a memorandum that a six-month moratorium on deep-water drilling would cost about 23,000 jobs. The memorandum was made public by the Justice Department in August in response to litigation over the moratorium. A federal district judge in



Interior Secretary Ken Salazar said drilling can resume as long as operators show they are complying with new rules.

June ruled the original moratorium invalid, and an appeals court backed that ruling. The administration responded with a new ban.

The administration now says the effects have been less severe than first thought. A study published in September by the Commerce Department said about 2,000 of the 9,700 workers aboard the more than three dozen offshore rigs affected by the moratorium had lost their jobs or moved away from the Gulf since the moratorium was imposed in late May. Another 6,000 to 10,000 workers in related industries also lost work, the study found.

But overall employment in the five Louisiana parishes most depen-

dent on the offshore oil-and-gas industry has remained steady, the study found, partly because of the jobs created by the spill cleanup.

The oil industry and its advocates have challenged the administration's estimates as overly rosy. The administration's figures, they point out, don't include jobs lost because of a slowdown in shallow-water drilling.

Speaking at a conference in London Tuesday, David Williams, chief executive of driller **Noble Corp.**, said permitting would be much slower than before the Deepwater Horizon blowout. He added that regulators' "ability to generate permits is in question." Mr. Williams also said

drilling times could increase by 20% to 25% on normal deep-water wells because of expected changes in regulation in the U.S. That could lead to a 12% drop in total daily production from the Gulf of Mexico.

Bernard Duroc-Danner, CEO of oilfield-services company **Weatherford International Ltd.** said only companies with big balance sheets could afford to stay in the deep-water Gulf of Mexico.

"Do you really think that people who don't have a large balance sheet will risk the entire company on human error?" he said.

—*Siobhan Hughes and Guy Chazan contributed to this article.*

# U.S. Farm Belt bounces back on demand from Asia

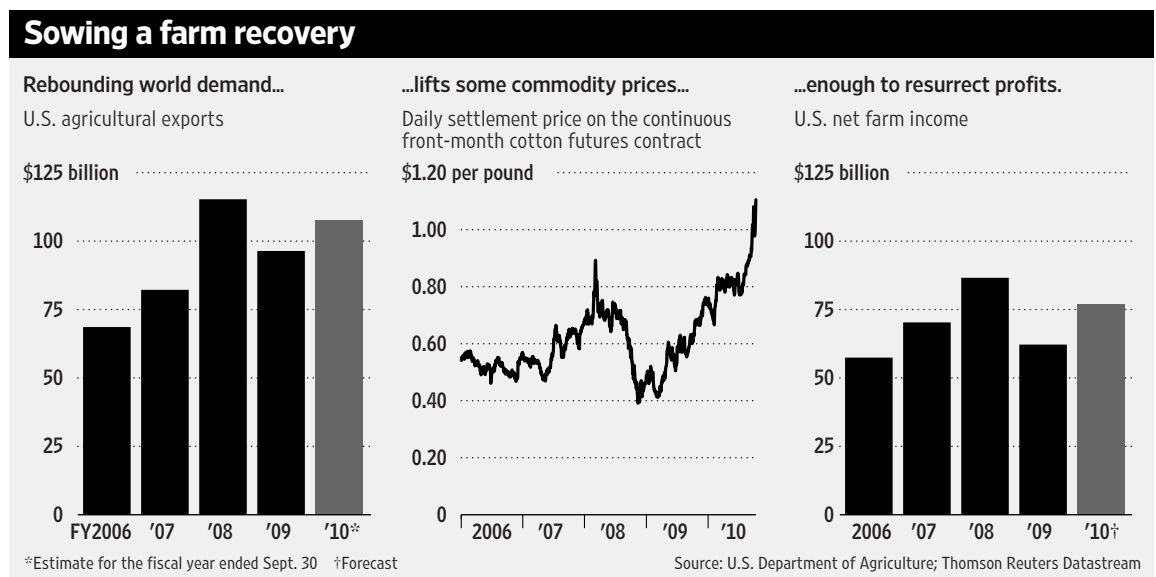
By **SCOTT KILMAN**

Major agricultural commodities continued their extended run-up in price, underscoring how much of America's Farm Belt is booming even as the overall economy continues to struggle.

Contracts for the delivery of corn and soybeans into mid-2011 jumped Tuesday by 4% and 2%, respectively, after rising their daily permissible limits on Friday, when the U.S. Department of Agriculture sliced production estimates by small percentages. Cash cotton prices, which rose 3.3% Monday after a 3.9% gain Friday, eased Tuesday. They are about 80% higher than a year ago.

For many crops, prices are climbing even as big harvests pile up, a rare combination. Farmland values are up while those for some other kinds of real estate languish. Debt on the farm is manageable. Incomes are rising.

And trade, of which many Americans are growing wary, is for agriculture a boon. Asia's economic vigor and appetites make the farm sector's reliance on exports—once



thought a vulnerability in some quarters—a plus today.

"The farm economy is coming out of the recession far faster than the general economy," said Don Carson, a senior analyst at Susquehanna Financial Group in New York.

Overall, the USDA projects net

farm income to rise 24% this year to \$77.1 billion, the fourth highest ever. In September, farmers were being paid 62% more for hogs than a year earlier, and 32% more for milk.

The higher prices probably won't sting consumers at the dinner table as much as did a crop-price surge in

2008, when the consumer-price index for food jumped 5.5%. With unemployment high and shoppers frugal, food executives are leery of trying to pass higher costs on. The USDA expects retail food prices to rise 0.5% to 1.5% this year, which would be the least since 1992,

though some economists see these prices climbing 3% to 4% next year.

Some of the price increases are from levels that were depressed by the financial crisis. The recession hammered demand for expensive cuts of meat, and therefore prices for cattle and hogs. Producers responded by thinning their herds. The resulting supply reductions helped set up today's higher prices.

But some of the forces lifting the agriculture economy today are powerful, such as the strength of Asia's appetite for commodities.

Asian economies are growing roughly three times as fast as America's, and their demand is bolstering U.S. farmers across the board. The USDA estimates farm exports climbed 11% during the fiscal year ended Sept. 30, to \$107.5 billion, and forecasts a further 5% rise in the new fiscal year.

Analysts think a quarter of this year's U.S. soybean crop could end up in China. The U.S. government expects American wheat exports to soar 35% to \$8.1 billion, partly because of the summer drought in Russia that knocked its farmers out of the export market.



## WORLD NEWS

## OPEC is set to maintain output

By SPENCER SWARTZ

When the Organization of Petroleum Exporting Countries meets Thursday in Vienna for the first time in seven months, it will grapple with an overriding question: Can it continue to simultaneously enjoy the benefits of high levels of production and high prices?

For months, the 12-nation oil cartel has been getting the best of both. Most of the group's members have been producing a lot more oil than prescribed under OPEC's production quota system.

Yet crude oil prices have increased despite the additional output. These twin factors have given OPEC members, anxious to shore up their economies, substantially more revenue.

OPEC officials and ministers, most of whom maintain a preference for oil prices between \$70 and \$80 a barrel, say the group will probably keep its formal production target unchanged, with prices in New York these days hovering around \$83 a barrel. The group kept its production policy unchanged in March and throughout 2009.

Late Tuesday in New York, oil traded at \$81.67 a barrel, down 54 cents.

Prices are up about 3% this year, although they have roughly doubled since OPEC announced the biggest production cut in its 50-year history in December 2008 to boost prices amid the global recession.

But prices this year have taken their direction largely from nonoil factors, such as currency and stock market movements, rather than the continuing giant surplus of crude inventory and other oil market indicators.

That is why OPEC ministers and delegates aren't convinced current prices will hold. "Will consumer demand pick up?" asks one senior OPEC delegate. "It looks less likely. A focus on fundamentals will re-

## Crude-oil futures

Daily settlement price on the continuous front-month contract



A deepwater rig in the Gulf of Mexico, off the coast of Louisiana.

Photo: Associated Press  
Source: Thomson Reuters via WSJ Market Data Group

turn." He added that the demand "outlook was even less positive" after the International Monetary Fund said recently it expects global economic growth in 2011 to slow to 4.2% from a projected 4.8% this year.

Mirroring that slowdown, the International Energy Agency, a Paris-based energy watchdog to big oil-consuming nations like the U.S., is currently estimating world crude demand next year to grow by 1.5%, down from 2.2% this year. That forecast is likely to be revised down, because IEA demand projections hinge on IMF growth forecasts. Total petroleum-product inventory in the U.S., the world's biggest oil consumer, is also near its highest level in almost 30 years.

Such bearish indicators are likely to prompt ministers this week to

make token calls for OPEC members, which supply about 40% of the roughly 87 million barrels of oil consumed globally daily, to improve their adherence to a series of late-2008 agreements to cut production. Those pacts remain in effect, although OPEC states—led by Angola, Iran, Nigeria and Venezuela—are collectively pumping about 1.9 million barrels a day above target.

That means OPEC compliance with its 2008 agreements is around 55%, according to industry surveys.

The lagging compliance is as much about opportunism as angst in various OPEC states, whose economies are still very much tethered to the price of oil.

Several members, including Venezuela and Iran, have sizable budget deficits or shrinking economies and

need a lot more oil revenue to make financial ends meet. PFC Energy, a Washington-based consultancy that monitors OPEC policy, estimates that most member states will need oil prices to increase at least \$3 a barrel, and in some cases double that amount, on average in 2011 versus 2010 to fund social outlays and maintain macroeconomic stability.

Those financial requirements underline why it won't be easy for OPEC states to throttle back production. But it is questionable whether taking chunks of oil off the market at this stage is necessary.

The added OPEC output has acted as a brake against even higher oil prices by keeping inventory brimming, and OPEC doesn't want to be seen injecting bullishness into an already buoyant oil market at a time of economic uncertainty.

## China gives warning on dealings with Liu

By JEREMY PAGE

BEIJING—China warned foreign politicians not to interfere in its internal affairs, as the U.S. urged Beijing to lift restrictions on the movements of the wife of Liu Xiaobo, the jailed Chinese dissident awarded the Nobel Peace Prize last week.

Chinese authorities continued to prevent his wife, Liu Xia, from meeting friends and journalists Tuesday, and only allowed her to leave her apartment in Beijing with a police escort, according to a friend who spoke directly with her.

Ms. Liu is unsure whether she will be able to fulfill her husband's request for her to collect the prize on his behalf at a ceremony in Oslo, the Norwegian capital, on Dec. 10, the friend told The Wall Street Journal. "I can't even get out my house, let alone the country," the friend quoted her as saying Tuesday.

Ma Zhaoxu, a Foreign Ministry spokesman, refused to say whether Ms. Liu would be allowed to collect her husband's prize, or to comment on her restrictions, but he accused foreign politicians of using the award to attack China.

"This is not only disrespect for China's judicial system, but also puts a big question mark on their true intentions," he said. "If some people try to change China's political system in this way, and try to stop the Chinese people from moving forward, that is obviously making a mistake."

Mr. Ma said that by supporting "the wrong decision of the Nobel committee, the Norwegian government has moved to hurt bilateral relations."

China has now canceled two meetings scheduled for Wednesday between Chinese ministers and the visiting Norwegian Fisheries Minister Lisbeth Berg-Hansen. Beijing calls the award a "desecration" of the prize, and part of a Western conspiracy to undermine its rising power.

The Norway-based Nobel Committee threw a fresh spotlight on China's human-rights record on Friday when it gave the prize to Mr. Liu, who was sentenced to 11 years in prison in December for "subversion of the state." After the announcement, police detained 17 activists trying to stage a celebratory dinner. Three of them are still in custody. Its heavy-handed response is now drawing even greater international attention to its treatment of dissent.

Ms. Liu says she has been under a form of house arrest since police came to her apartment on Friday evening and told her they would escort her to see her husband in his prison in the northeastern city of Jinzhou. She was allowed to meet him on Sunday. Since returning to Beijing, Ms. Liu has remained in "soft detention," according to friends.

Mr. Ma didn't explicitly criticize the U.S., which has joined several other Western governments in congratulating Mr. Liu and calling for his release. But his remarks came shortly after the U.S. embassy issued a statement saying it was closely following Ms. Liu's situation.

## Asia sea-dispute tensions appear to cool

By ADAM ENTOUS

HANOI, Vietnam—China and its Asian neighbors as well as the U.S. are taking tentative steps to ease tensions after months of escalating turmoil over competing territorial and maritime claims.

Vietnam said Tuesday that China had released nine Vietnamese fishermen it detained near disputed islands in the South China Sea, and U.S. officials said they believed Beijing may be rethinking its approach to the sensitive area.

The moves follow steps by China and Japan to ease tensions over a naval collision last month between vessels from the two nations near East China Sea islands both claim.

U.S. Defense Secretary Robert Gates, attending an Asia defense summit in Hanoi, said competing claims and disputes in the South China Sea appeared to be a "growing challenge to regional stability and prosperity," but pointed to what he called encouraging initial signs of progress toward setting binding ground rules to avoid miscommunication and conflict.

At Tuesday's gathering in Hanoi of defense chiefs from the Association of Southeast Asian Nations, or Asean, the U.S. and six other countries raised concerns about disputes



Robert Gates, left, reviews the honor guard at a Hanoi defense summit Tuesday.

in the South China Sea. But senior U.S. officials who attended the closed-door session said China's response appeared muted, at least initially, in contrast to a July session in which Beijing reacted with hostility to similar U.S. language.

A senior U.S. defense official said the Chinese, at least in some recent meetings, appeared to have "backed away" from characterizing the South China Sea as a "core" interest and may be seeking to find "other ways to articulate their approach" to the disputed waters.

Officials at China's Ministry of Foreign Affairs had no immediate comment. Chinese Defense Minister Liang Guanglie said in a speech to the Asean conference that Beijing is open to regional security cooperation. "China pursues a defense policy that is defensive in nature," he said, according to the state-run Xinhua news agency. Participants said he didn't directly refer to South China Sea disputes in the speech.

Vietnam, Taiwan, Malaysia, the Philippines and Brunei each claim parts of the potentially oil- and gas-

rich South China Sea. Beijing effectively claims almost the whole maritime area. The seven countries that raised concerns at the Asean meeting were Australia, Japan, South Korea, Malaysia, Singapore, the U.S. and Vietnam, U.S. officials said.

Earlier this year, Beijing had characterized the South China Sea as one of its "core national interests"—meaning it saw no room for compromise.

U.S. officials said they took China's participation in the summit as an encouraging sign that it may be taking a more open-minded approach, though they remained cautious. In the past, U.S. officials have acknowledged their limited ability to assess Beijing's intentions because of the government's secrecy and opaque decision-making process.

At Tuesday's Asean meeting, Mr. Gates said the U.S. will continue to exercise its right to operate in international waters and conduct military exercises with allies, a sore point for Beijing. But he stopped short of criticizing China directly.

In a meeting Monday with his counterpart, Mr. Liang, Mr. Gates appeared to seek to keep a lid on simmering U.S.-China tensions by not explicitly raising the South China Sea issue.