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BUSINESS & FINANCE 17

# THE WALL STREET JOURNAL.

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Liverpool FC's new owners begin with a defeat



European Pressphoto Agency

Fans of Everton Football Club have fun at the expense of their city rivals, Liverpool, during the teams' derby match, Sunday. It was Liverpool's first game since New England Sports Ventures took over the club from Tom Hicks and George Gillett. The new owners looked on as Liverpool lost 2-0.

## At Goldman, effort begins to alter ways

By ELIZABETH RAPPAPORT

**Goldman Sachs Group** Inc. is taking its first steps to change the way it does business after it weathered harsh criticism and paid a \$550 million fine tied to its actions before and during the financial crisis.

The Wall Street firm, which is trying to rehabilitate its public reputation with an ad campaign that, among other things, tries to show how it helps create jobs, is planning to make changes in the way it reports its finances and how it relates to clients, investors and analysts, people involved in the planning say. It has also gone outside the company and hired an executive who has been a vocal critic of Wall Street pay practices and weak corporate governance.

Goldman announced in May that it formed a Business Standards Committee, to reshape its business practices

and mend its reputation. CEO Lloyd Blankfein said at the time that "there is a disconnect between how we view the firm and how the broader public perceives our roles and activities."

Some large institutional investors have told the committee what they don't like about Goldman's business practices and what types of disclosures they would like. The firm also hired **Boston Consulting Group** to interview clients, according to a transcript of a voice mail Mr. Blankfein left for Goldman's staff on Aug. 31, which The Wall Street Journal has reviewed.

Goldman is reacting to widespread criticism of some of its business dealings before and during the financial crisis and to its settlement with the Securities and Exchange Commission, in which Goldman paid \$550 million and said it made mistakes in its handling of a complicated derivatives

transaction tied to subprime mortgages known as Abacus 2007-AC1. The SEC settlement mandated that Goldman improve its record keeping, its reviews of marketing materials, and its education and training, particularly with respect to its activities in the mortgage market.

The SEC is still pursuing its case against Goldman employee Fabrice Tourre, who was involved in the Abacus deal.

The changes in Goldman's business practices go beyond what is mandated by the SEC. Goldman spokesman David Wells declined to comment on changes at Goldman. The firm isn't expected to announce any changes when it reports earnings Tuesday.

The most concrete move so far has been the hiring of a new vice president in its investor-relations department who has publicly advocated some changes that Goldman

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## U.K. to unveil big cuts in its defense spending

By ALISTAIR MACDONALD

The U.K. government, which is readying its scalpel for aggressive spending cuts, is planning its most sensitive incision into its already stretched military.

On Tuesday, Prime Minister David Cameron will announce the results of a strategic defense review that will set the long-term direction for the U.K.'s armed forces and shave, said a person familiar with the matter, around 8% off its £37 billion (\$59 billion) military budget over the next five years. The following day, the government will unleash the most aggressive deficit-reduction plan among major

economies, hitting many government departments with 25% cuts.

In the short term, the cuts spell thousands of job losses for the country's armed forces and fewer orders for the U.K.'s large defense industry. In the long term, some military personnel fear the cuts may herald the end of Britain's position among the world's largest and most active militaries.

"Members of the armed forces are worried about their ability to do the job with the resources they are given and, of course, they are worried about their own careers," said Col. Richard Kemp, former head of British forces in Afghanistan. Col. Kemp said that

during his time in Afghanistan, the army was already being asked to operate without full resources. Going forward, there will be worries about Britain's ability and desire to take on such roles again if the armed forces are shrunk.

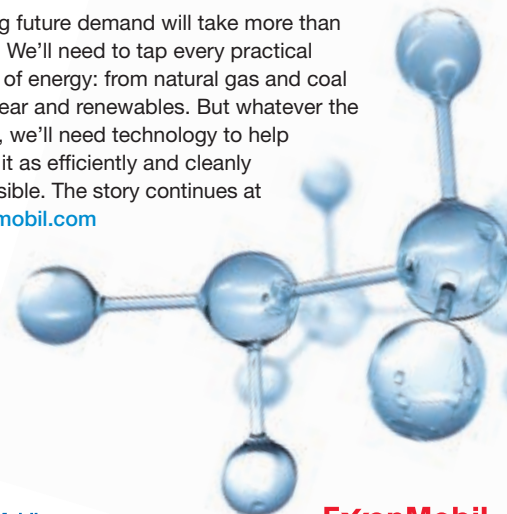
In a country whose military history is woven into its sense of identity, the potential defense cuts have proved controversial. As spending cuts go, only cutbacks at the country's beloved National Health Service could generate as much heat. The NHS, along with overseas development

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■ U-turn in U.K. as government embraces austerity ..... 14-15

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## PAGE TWO

# The fate of the euro-zone economy splits optimists from the pessimists

## [ Agenda ]

BY IRWIN STELZER



The near- and longer-term economic future of the euro zone is becoming clearer, and it is not a pretty sight. Or might not be. That depends on whether you believe the economists at the European Central Bank, or their equally esteemed counterparts at the International Monetary fund. The ECB crowd sees a bright future stemming from the new austerity programs being adopted by, or imposed on, the wastrel Club Med countries and Ireland, not to mention only slightly less profligate France. As deficits are brought down, private-sector confidence will return, and sustainable growth become the euro zone's future.

Don't bet on it, counter the IMF economists. Austerity-now will bring the current very fragile recovery to a screeching halt, reduce growth and tax receipts, making it even more difficult for Greece and other countries to reduce their deficits.

Meanwhile, the devaluation of the dollar—that is, after all, what the Federal Reserve Board's decision to launch QE2 comes to—is driving up the euro, making it less likely that an export-led strategy will prove a viable path to growth and prosperity. Especially since the Chinese have made it clear that abandonment of their manipulation of the yuan is not in the world's near-term future.

There seems broad agreement on some things. The first is that it is not certain that austerity programs will survive the electoral cycles in many countries. France's president, Nicolas Sarkozy, is facing mounting opposition to his plan to extend



Riot police clash with protesters at the Acropolis in Athens last week.

the retirement age from 60 to 62 years for some workers, and he might be turfed out of office, along with his relatively modest reform program when the 2012 elections roll around. Spain's socialist government now seems likely not to survive for very long, and its austerity program might be modified by its successor government. No surprise that there are riots in the streets of Athens. The unemployment rate has risen from 9.6% to 12% in the past year and, say the trade unions, is headed to Spain's level of 20%. That would make it extraordinarily difficult for the government to maintain its austerity program. Since tax revenues are falling, and interest payments are headed towards 8% of GDP in 2013, estimates Citigroup Global Markets, Greece will find it increasingly difficult to avoid bankruptcy. And it is unclear whether Ireland will avoid restructuring, now that its deficit exceeds 30% of GDP after its latest bank bailout.

Whether the modification of these and other austerity programs is a good or bad thing we leave to the economists at the ECB and the IMF. But there is general agreement that growth in

the euro zone and the larger EU will in any event remain puny. The Economist Intelligence Unit, in its just-released report, says, "Concerns about the economic health of the euro zone persist," and is forecasting that growth in Western Europe will reach only 1.1% next year, and at or below 1.7% at least through 2015, beyond which it wisely declines to look.

**There is general agreement that growth in the euro zone and the larger EU will in any event remain puny.**

Chris Williamson, chief economist at **Markit**, the financial information services company, is slightly less certain. Given a slowing in global trade flows and stagnation in labor markets in major countries, he wonders whether growth in the French-German core can offset "an increasing number of peripheral countries ... [that] appear to be sliding back into recession." With industrial production in France declining, and German exports under pressure from a falling

dollar, a manipulated yuan, Korea's intervention to weaken the won, and a faltering recovery in America, I can't help wondering just how powerful the German engine has to be to tow the European economy into positive growth territory.

Only Goldman Sachs economists remain determinedly cheerful. They feel that Germany is indeed the engine that could, and that German consumers will awaken from their decade-long slumber. As they put it, "We expect private consumption—which has been stagnant for 10 years—to develop more dynamically from here..." My inclination is to read "expect" as an optimist's substitute for "hope," especially since the Goldman Sachs team sprinkles its latest report with, "The German economy is set for a slowdown ... trade activity and manufacturing orders show a loss of momentum ... subpar growth for the remainder of 2010."

All is not gloom, at least in the longer-term. The Irish government is coming to grips with the fact creditors of its banks must share in the losses now being imposed entirely on taxpayers, and is resisting pressure to raise its corporate tax rate from a growth-inducing 12.5% to French, Belgium, German and Spanish growth-stifling levels of 30+%. Spain is forcing mergers and restructuring on its cajas, the small, politically controlled regional banks that were excessively generous to credit-craving property developers. The Italian economy continues to grow. The word "reform" is no longer the policy that dare not speak its name.

Small beer compared to the negative forces playing on the European economies, but not to be ignored.

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

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### Iain Martin on Politics

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**'A Democrat Secretary of State has given Labour a way into the argument.'**

Iain Martin on Hillary Clinton's concerns about U.K. defense cuts



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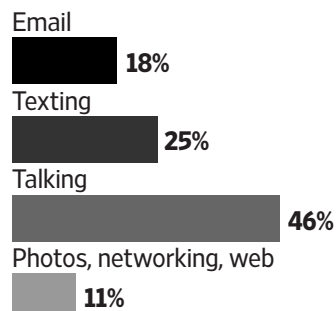
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## NEWS

# Hitler exhibition breaks final taboo

By **MARCUS WALKER**

BERLIN—Germany's many official efforts to remember the Nazi era, its victims and perpetrators have omitted one central subject: Adolf Hitler.

An exhibition on the Führer is almost the last taboo in a country that has museums on countless aspects of the Third Reich, from the Holocaust to the Nazis' summer-holiday schemes for workers.

The German Historical Museum in Berlin, the most important public institution on the nation's history, aims to go where postwar curators have feared to tread, with an exhibition called "Hitler and the Germans," which opened Thursday just off Berlin's showpiece boulevard, Unter den Linden.

The show focuses on the love affair between Hitler and large swathes of German society, and seeks to dispel the myth of Hitler as an evil genius who hypnotized an innocent public with propaganda.

The self-styled Führer was "a medium for contemporary expectations," says curator Hans-Ulrich Thamer. He was a screen onto which a crisis-battered society projected its yearning for salvation.

Exhibits such as lovingly illustrated fan mail from children on Hitler's birthday in 1932, or a huge tapestry mixing Nazi and religious imagery knitted by a protestant women's group from Hesse, tell of a spontaneous adulation that swept an unprepossessing figure from the far-right fringe to the center of power.

"We show the active Germans, not the seduced Germans," says curator Simone Erpel.

"Hitler and the Germans," which is already drawing high media and public attention in Berlin, pushes its argument so far that some visitors have suggested the title should be "Hitler was the Germans."

The show's generally positive public reception marks the latest stage in an increasingly frank process of national self-scrutiny. Over

the decades, Germans have assigned responsibility for Nazi horrors in widening circles—first the leadership was faulted, then all party members, later the full German army. The broader acceptance of society's role has been helped by the passing of time and the wartime generation.

"The societal context comes across very strongly," says Arnd Bauerkämper, a historian who saw the show at its packed opening. Even though the show breaks new territory for a public exhibition, he says, there is still something missing. "The seducer himself remains underexposed."

Germany's leading news magazine, *Der Spiegel*, has even accused the curators of being "afraid of their own courage," after they decided to minimize exhibiting items directly relating to Hitler, such as his jackets or original portraits.

The curators deny that, saying the show wasn't meant to be biographical.

Two factors leave Germany reluctant to confront Hitler, as opposed to his regime and its crimes, in official exhibitions and memorials. The first is a fear that putting the man himself on display could encourage revisionism and apologetics.

Personal items "could become a fetish for people who are looking for a personal connection," says Ms. Erpel. Exhibits that bring to life Hitler's own charisma could also revive the early-postwar excuse that his followers were victims of manipulation, she says.

Yet the exhibition's focus on German society in the 1930s, downplaying Hitler's personal characteristics, also reflects how German historians are increasingly writing about the period. Scholars such as Michael Wildt, Peter Longerich and Götz Aly have focused on how large parts of German society took part in, knew about or benefited from the Nazis' agenda, including the Holocaust.

The landmark two-volume biography of Hitler by British historian Ian Kershaw, which emphasizes the



Wartime uniforms are among the exhibits at Berlin's German Historical Museum.

social context that allowed Hitler's rise, has also been influential.

Mr. Kershaw, who advised the curators of the new Hitler exhibition, addressed hundreds of Berlin burghers at the museum Thursday night in a speech on Hitler's popularity. He said approval for the dictator varied over time, across society and by issue, but at his 1930s peak Hitler was "probably the most popular head of state in the world."

Official Germany's caution in

handling Hitler has long since fallen away in German popular culture, as media, movie-makers and comedians have broken through taboos against portraying him. "Downfall," a 2004 German movie, featured a lead performance by Swiss actor Bruno Ganz as Hitler that historian Mr. Kershaw called "chillingly authentic."

In the late 1990s the cartoonist Walter Moers shattered previous boundaries of taste with his bestselling comic book "Adolf, the Nazi

Swine," in which the former Führer emerges from hiding in Berlin's sewers, only to suffer constant humiliations in an unfamiliar modern world.

Madame Tussaud's attempt in 2008 to add Hitler to its Berlin collection of wax celebrities went too far for some, however: An angry German visitor decapitated the figure. The restored wax Hitler now sits behind protective glass.

—David Crawford contributed to this article.

## U.K. to unveil defense cuts

Continued from first page  
aid, has had its budget maintained.

On Thursday, worries over the looming military cuts spread beyond British borders, when U.S. Secretary of State Hillary Clinton said the North Atlantic Treaty Organization has to be maintained when asked about whether Washington was concerned over the scale of the prospective U.K. cuts.

The U.K. will spend 2.9% of its gross domestic product on defense in 2010, behind only Saudi Arabia, at 8.6%, and the U.S., at 4.7%, and far ahead of other Western European countries, according to Jane's International Defense Review.

People familiar with the matter said the review is likely to see only small reductions of troop numbers, given the military's commitments in Afghanistan, although some Cold War equipment such as battle tanks will be mothballed.

The Royal Air Force could take a big hit, however, with several squadrons of fast fighter jets being retired early and orders of the Joint Strike Fighter, being developed with the U.S., reduced, and with the U.K. likely aiming to go for a less-expensive version of the jet with the orders that remain.

The navy will get the two new aircraft carriers it is seeking, but smaller craft will be retired early.

The review has already come under fire. A U.K. cross-party parliamentary committee said the report was being rushed out and expressed concern that mid- and long-term threats could be obscured by operational requirements in Afghanistan.

In a recent letter to Mr. Cameron, Minister of Defense Liam Fox gave a dire warning that tough cuts would affect the U.K.'s ability to maintain a naval presence in traditional spheres of influence such as the Gulf, Indian Ocean and Caribbean. On the home front, he said, the armed forces will struggle to provide cover for crises such as firemen's strikes, Mumbai-style attacks and the 2012 London Olympics.

Adding to the Ministry of Defense's problems is the fact that, even before these cuts, it had to make up for a deficit of as much as £36 billion due to unfunded spending commitments from the previous government from ordering expensive new gear and cost overruns on large projects. That means it potentially must make cuts of around 19% over the next five years, said the person familiar with the matter.

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## EUROPE NEWS

# Turkish party recasts image

BY MARC CHAMPION

The leader of Turkey's main secularist opposition is tearing up the rule book of the party that Ataturk built, as he tries to build a credible alternative to the government of Prime Minister Recep Tayyip Erdogan.

Kemal Kilicdaroglu said in an interview with *The Wall Street Journal* that his traditionally left-of-center Republican People's Party, or CHP, is about to announce proposals for a flat tax to slash Turkey's massive underground economy, and has dropped its longstanding opposition to letting female students wear headscarves in universities.

Mr. Kilicdaroglu also called for improved relations between Turkey and Israel, badly damaged after a series of clashes between Mr. Erdogan and the Israeli government, and for more distance between Turkey and both the regime in Iran and the Palestinian Hamas movement.

"Washington is just beginning to wake up to the true nature" of Mr. Erdogan's government, which has a hidden religious and nondemocratic agenda, Mr. Kilicdaroglu said.

The government and Mr. Erdogan's ruling Justice and Development party, or AKP, have repeatedly denied such accusations. U.S. State Department officials have expressed concern over Turkey's foreign-policy direction, but say Turkey's government remains a close partner.

The CHP was launched by Mustafa Kemal Ataturk, modern Turkey's revered founder, but has struggled to remain relevant in recent years. Faced with Mr. Erdogan's confident and economically successful government, the CHP defended hard-line secularist and nationalist positions that drove away many voters, including secularists and liberals, analysts say. Opinion polls and many analysts suggest the CHP has



Kemal Kilicdaroglu, head of Turkey's main opposition Republican People's Party, greets a rally in Ankara in September.

a mountain to climb to win elections next year.

Western capitals concluded the CHP was a less attractive partner than the AKP, which appeared more committed to building a free market, improving civil rights and taking Turkey into the European Union.

"We're aware of this perception, but it is a misperception," said Mr. Kilicdaroglu, dubbed Turkey's Gandhi by some in the media for his modest demeanor and reputation in parliament for attacking corruption. He said the CHP was now more committed than the AKP to pursuing Turkey's EU membership and that "all political parties now support a free market."

CHP officials declined to give details on the flat-tax policy ahead of the formal announcement, but they said it would involve a single, low income-tax rate to replace the range of rates from 15% to 35% currently in place. Most estimates suggest that around half of Turkey's work force is unregistered, creating a weak ability to raise tax revenues that ratings agencies cite as a cause for keeping Turkey's sovereign-bond rating below investment grade. Mr. Kilicdaroglu hopes a single low tax rate would reduce incentives for such tax evasion.

The 61-year-old former accountant, has been trying to give the CHP a new image and platform since

he took over as leader in May, when a sex-tape scandal toppled his predecessor, Deniz Baykal. The new party head's biggest challenge, according to analysts and some CHP members, is to get the party's wider ossified leadership behind him.

When Mr. Kilicdaroglu recently reversed the CHP's position on headscarves, he first specified which style should be permitted on university campuses, ruling out the so-called turban style popular among AKP supporters, in what was seen as a nod to hard-liners in his party. The turban is worn under the chin and shows no hair. He dropped the distinction after being ridiculed in the media.

# Unions threaten new action in France

BY DAVID GAUTHIER-VILLARS

PARIS—Truck-driver unions threatened to block some of France's main roads this week and unite with oil-refinery workers who have halted fuel production, a move that would intensify nationwide protests against President Nicolas Sarkozy's proposed pension overhaul.

"We're ready to join the movement," Maxime Dumont, head of the truck-driver branch at the CFDT union, told French television.

Some public-transport employees, meanwhile, have been on a rolling strike for nearly a week, some gasoline pumps are running dry because of strikes at all 12 of France's refineries, while protest marches were organized on Saturday and more are scheduled for Tuesday.

French Transport Minister Dominique Bussereau played down the risk of a jet-fuel shortage at Paris's Roissy-Charles de Gaulle and Orly airports, saying deliveries—which had been stopped last week—had resumed. However, he said reserves were running low at the Nice and Nantes airports.

Despite the protests, Mr. Sarkozy has said he was determined to press ahead with plans to increase the pension age, a measure aimed at cutting the fast-growing deficit of France's state-run pension system. Less than two years before the next presidential elections, the proposed pension overhaul is a major test of Mr. Sarkozy's capacity to govern France and tame the chronic budget deficits in state institutions. The pension bill has been approved by France's lower house and is now before the Senate.

Unions, which brought more than a million people into the streets on Oct. 12 as part of the fourth nationwide march in a month, are counting on strikes that could last days to challenge the pension plans. Some high-school students took part in recent marches and have vowed to intensify their own protests.

Social-welfare bills have crippled governments in the past: In 1995 a three-week strike forced the then-administration to back down on a pension overhaul.

The president is tackling a shortfall in the nation's mandatory state-run pension system, which has been under pressure for several years as people live longer. But the shortfall widened dramatically after last year's recession led to a sharp drop in payroll-tax revenue. This year's shortfall could reach €32 billion (\$44.7 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 have said they want the standard age to remain at 60, a level adopted in 1983. They argue the distribution between corporate profits and salaries has tipped in favor of profits in recent years, and it is time to increase corporate taxes. Mr. Sarkozy has ruled out raising taxes, saying France already has among the highest levies in the industrialized world.

# Probe links European plot to Sept. 11

BY DAVID CRAWFORD

A terrorist suspect from Germany killed this month by a U.S. drone missile in Pakistan was in contact with 9/11 collaborators just days before the 2001 attacks, according to court records.

Ramzi Binalshibh, who allegedly helped to coordinate and finance the 9/11 attacks, placed a 34-second phone call on Sept. 5, 2001, to the home of Naamen Meziche, who Pakistani officials say was one of eight people killed by the drone.

That phone call and alleged contacts that followed represent a possible link between the attacks in the U.S. nine years ago and recent suspected terrorist plots to hit European cities, which the Oct. 5 drone strike was intended to disrupt. Reports of the recent plots prompted travel warnings by the U.S. and others, which are still in effect.

Three of the eight drone victims were part of a group of jihadists who left Hamburg in early 2009 for military training in Pakistan and to fight on behalf of the Islamic Movement of Uzbekistan, a terrorist organization with ties to al Qaeda, a German intelligence official said.

The eldest, Mr. Meziche, a 40-year-old French citizen of Algerian descent and longtime German resident, had been under investigation for nearly nine years in connection

with the Sept. 11 plot, court records show, though he was never charged with a crime, a spokesman for the office of Germany's Federal Prosecutor General said.

German authorities began investigating Mr. Meziche in late 2001 after they discovered telephone and email communications he maintained with suspected members of al Qaeda. Police asked dozens of witnesses to provide evidence against Mr. Meziche. Ultimately the investigation went nowhere, a spokesman for the office of Germany's Prosecutor General said.

Details of that investigation, gleaned from documents submitted as evidence in the trial of two other men accused of abetting the 9/11 attacks, underscore the struggles German authorities have had in putting together cases against homegrown jihadists.

Mr. Meziche, by the time of the 2001 attacks, was already well-established among Islamist extremists in Europe. A Hamburg security official said he had been friends with Mohammed Atta, one of the Sept. 11 hijackers. His father-in-law, Mohamed al Fazazi, was a religious leader who served as "the spiritual father of the Hamburg cell" that led the Sept. 11 attacks, according to police reports reviewed by *The Wall Street Journal*.

Mr. Fazazi is currently serving a



Ramzi Binalshibh, an alleged collaborator in the Sept. 11 attacks

30-year prison sentence in Morocco, where he was convicted of inciting the 2003 bombings in Casablanca that killed 45 people.

Mr. Binalshibh's call to Mr. Meziche, from a pay phone at an airport departure gate in Düsseldorf, was his last phone conversation before he fled Germany, court records show. Mr. Binalshibh—who was also allegedly selected to be a 9/11 hijacker but was unable to get a U.S. visa—was arrested in September 2002 in Pakistan and is being held at the U.S. facility in Guantanamo Bay on charges related to the Sept.

11 attacks.

In statements to police in 2002, Mr. Meziche denied he was home on that day and said he didn't receive a phone message from Mr. Binalshibh.

German investigators say their investigation of Mr. Meziche echoes frustrations they've had over the past decade in pursuing German jihadists recruited in mosques in cities such as Hamburg and Berlin and suspected of traveling to Pakistan or Afghanistan for terrorist training. On several occasions, suspects have been pulled off of airplanes just before takeoff, only to be released hours later.

To better counter the waves of jihad volunteers from Germany, U.S. and German intelligence officials this year launched "Operation Pandora," an effort to deepen cooperation on terrorist investigations, according to people familiar with the operations. As part of Operation Pandora, intelligence officers have exchanged information gleaned from the interrogations of two suspects who accompanied Mr. Meziche to Pakistan last year.

Rami Makanesi and Ahmad Sidiqi were captured there in June and July, intelligence officials say.

Since his arrest, Mr. Sidiqi, 36 years old, has told his interrogators about plans to organize attacks in Germany and other European countries, intelligence officials said.



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## EUROPE NEWS

# Little interest in Fed-style moves

## [ The Outlook ]

BY BRIAN BLACKSTONE

Policy makers at the European Central Bank face the same high unemployment and slow growth that dogs their friends across the Atlantic at the Federal Reserve. But don't expect the ECB to follow the Fed in taking extraordinary measures to try to get things moving again.

The Fed thinks it can and should use the tools at its disposal, in this case buying U.S. Treasury bonds to bring down long-term interest rates and goose growth, because doing so will bring the jobless rate down.

The Europeans won't have any of it. They view their unemployment problem as more structural, the result of rigid labor rules that discourage hiring of workers who won't move to the places where jobs exist or shortages of workers with skills employers demand.

To the Fed, by contrast, the problem at least in the U.S. is seen as more likely a collapse in demand. If that is true and if the Fed can reignite growth, it will mean a quick drop in unemployment.

"My assessment is that the bulk of the increase in unemployment since the recession began is attributable to the sharp contraction in economic activity that occurred in the wake of the financial crisis and the continuing shortfall of aggregate demand since then, rather than structural factors," said Fed Chairman Ben Bernanke in a speech Friday. As for monetary policy, "there would appear...to be a case for further action," he said, signaling more large-scale purchases of U.S. Treasuries as soon as next month's Fed policy-making meeting.

Mr. Bernanke's comments came just days after Germany's central-bank head, Axel Weber, largely rejected that same line of reasoning, at least for Europe's largest economy and the other countries in the euro zone. "My reading of what happened on the [euro zone] labor markets is that what we've seen in the crisis is



Ben Bernanke



Axel Weber

Reuters (Bernanke); Bloomberg (Weber)

### Similar problems, different paths

Despite almost identical unemployment and inflation, the Fed and the ECB seem to be taking vastly different paths

#### Slower inflation

Change from a year earlier in core consumer prices\*



\*All items excluding food and energy for the U.S.; all items excluding food, energy, alcohol and tobacco for the euro zone

#### High unemployment

Seasonally adjusted monthly rates



Sources: U.S. Labor Department; Eurostat

largely structural and we need structural policies," he said.

"Any additional impact that monetary policy can have is rather small in the euro area," he added.

Both views may be right, since they focus on two very different labor markets. But what if they're wrong? Many economists think Europeans should have more faith in the efficiency of their labor markets and use their monetary tools to shoot for a reduction in double-digit unemployment across the 16-member currency bloc, especially with inflation expected to remain below target for many months.

"I wish that there were more of a crisis mentality," says Laurence Ball, an economist at Johns Hopkins University.

According to the Organization

for Economic Cooperation and Development, in much of Europe, labor market reforms may have sliced the growth of long-term unemployment by as much as a quarter since the 1980s. In fact, with the exception of Europe's struggling periphery including Spain, Greece, Portugal and Ireland, structural unemployment is rising faster in the U.S. than it is in many parts of the euro bloc, according to OECD figures.

But there is a wide gap among nations in the euro zone. Unemployment in the vulnerable countries in southern Europe and Ireland has a big structural component, according to the OECD. The jobless rate is now falling in Germany, where reforms last decade brought long-term unemployment down and

government-funded wage subsidies during the most recent recession kept people in jobs. Euro-zone unemployment ranges from a low of 4.3% in Austria all the way to 20.5% in Spain.

"Having a pretty massive divide complicates this question a little bit more for the ECB than it does for the Fed," said David Mackie, economist at J.P. Morgan Chase.

U.S. policy makers, meanwhile, face a different set of nagging questions. For instance, there is growing concern that U.S. unemployment—even though the Fed believes it is mainly caused by a drop in demand—could morph into structural unemployment. Economists use the term "hysteresis" to describe this dynamic in which the longer workers are jobless, the more their skills erode. They become more accustomed to being out of work and adjust their behavior accordingly, making re-entry to the work force tougher.

The U.S. may be more at risk of hysteresis than in past recessions, said John Hopkins's Mr. Ball. "Hysteresis is a big, big danger" for the U.S., he said.

Marvin Goodfriend, a former Richmond Fed research director now with Carnegie Mellon University, said the increase in U.S. unemployment this time around has a bigger structural component, in part because people who owe more on their houses than they can sell them for are less able to move for a job. If that is the case, and with deflation not yet an immediate risk, "it's not completely clear to me what [the Fed] has in mind" when it comes to the rationale for further stimulus, he said.

"You could argue that being in less of a desperate situation, the Europeans are less inclined to kid themselves" about what more central banks can do to turn things around, said Barry Bosworth, an economist at the liberal-leaning Brookings Institution think tank.

It may be enough that the U.S. workers unaccustomed to lengthy periods of high unemployment see that something is being done, an urgency that Europeans lack.

# Ministers to debate hedge-fund regulation

BY FRANCES ROBINSON  
AND MATTHEW DALTON

BRUSSELS—Debate over regulation of hedge funds will take center stage at a meeting of European Union finance ministers this week, overshadowing previously planned discussions on new taxes for banks and an overhaul of the bloc's economic-policy rules.

The ministers will attempt to resolve an impasse over the hedge-fund rules, which would require funds to register with the EU and allow national supervisors and ultimately a new pan-EU regulator to limit the amount of leverage they can use to boost returns. The main obstacle now to an agreement is concerns from France that the new legislation would allow offshore hedge funds to operate freely throughout the EU without adequate regulation.

Euro-zone ministers meet Monday morning in Luxembourg, with a gathering of ministers from all 27 EU member states scheduled for Tuesday.

Officials from European Council President Herman van Rompuy's task force on economic governance will also meet Monday for the last time before they put their proposals to EU heads of state when they meet Oct. 28. The proposals aim to strengthen the bloc's budget rules and improve coordination of macro-economic policies across the EU.

No EU government has ever been fined under the EU's existing fiscal rules, which call for governments to keep their budget deficits below 3% of gross domestic product and total debt below 60% of GDP.

The European Commission, the EU's executive arm, last month proposed to levy fines of as much as 0.2% of GDP for countries that violate the rules. Fines proposed by the commission would automatically take effect, unless a super-majority of EU countries voted to overturn the commission's decision.

The idea is to prevent governments from interfering with commission efforts to enforce the bloc's budget rules. But some governments have worried about removing political control over the budget-enforcement process.

"It would be good to focus on more than just the sanctions and the new system with automatic triggers," one EU diplomat said. "Wider surveillance is necessary at the preventative stage."

Ministers are also expected to approve a report released by the commission this month exploring the options for taxing financial institutions. Some EU nations favor a financial-transactions tax, but the U.K., Sweden and a number of others say the idea risks pushing transactions to financial centers outside the EU. The commission's paper backed a tax on bank profits and wages, known as a Financial Activities Tax, over a transaction tax that isn't also adopted by other major economies.

Europe needs to reach consensus on the matter before next week's meeting of the Group of 20 industrial and developing nations in South Korea, an EU diplomat said.

# U.K. firms starting to hire again

BY NICHOLAS WINNING  
AND ILONA BILLINGTON

LONDON—The U.K.'s private sector may be able to create enough new jobs to make up for those lost in the public sector as a result of the government's austerity drive, the country's leading business organization said Monday.

But the Confederation of British Industry said some sectors will fare better than others, and the process will be characterized by occasional setbacks in the labor market.

"The last thing we want to do is give a gooe-eyed view of the prospects," said John Cridland, CBI Deputy Director-General. "It's two steps forward, one step back."

The U.K. government is scheduled Wednesday to give details of its planned spending cuts, having set out the broad parameters of its

five-year plan to eliminate its structural budget deficit June 22.

According to the Office for Budget Responsibility, those cuts could involve the loss of 600,000 public-sector jobs. Figures released this month showed that the number of people claiming unemployment benefit in the U.K. rose for a second consecutive month in September.

However, a CBI survey of 330 U.K. employers, carried out with recruitment and information-technology outsourcing firm **Harvey Nash Group PLC**, found some companies are gearing up for the recovery by targeting staff hiring in areas that will maximize growth.

The number of businesses operating a recruitment freeze has dropped to 7% from a high of 61% in the spring of 2009, when the country was suffering from a recession, the CBI said. But companies are tak-

ing a cautious approach to hiring in the year ahead, with 23% planning recruitment in areas including management, technical and sales, while 21% plan to add staff in some areas of the business and reduce numbers in others.

"I think the big worry has to be for the construction sector because it's particularly vulnerable to the level of cuts in public sector capital spend," Mr. Cridland said.

But while some private-sector companies are planning to hire more staff, workers who have spent their careers in the public sector may find it difficult to get those jobs, according to a separate survey by recruitment firm Hays. It found that of the 348 private-sector employers polled, 46% said previous private-sector experience was an important asset for job candidates, while over 90% said public-sector

experience is "not very important" or "not important at all."

The survey also found that 87% of private-sector employers believe candidates from the public sector need to better identify and convey their skills to potential employers.

"To make themselves attractive to the private sector, candidates must understand how their skills and experience are relevant and useful to potential employers, be ready to prove they understand the markets and companies they apply for and be capable of demonstrating how they can add value," said Mark Staniland, managing director of Hays Career Transition Services.

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

EUROPE NEWS

# FIFA probes allegations of bribery

By MATTHEW FUTTERMAN

FIFA, football's world governing body, Sunday said it is investigating an incident in which two members of its executive committee allegedly sought payments in exchange for support when the organization selects the locations for the 2018 and 2022 World Cups.

Reporters for the Sunday Times of London posed as lobbyists for the U.S. bid and allegedly caught Amos Adamu, a Nigerian member of FIFA's 24-member executive committee, requesting some \$800,000 of support for a project in exchange for his vote. Reporters also allegedly caught Reynald Temarii of the Oceania Football Confederation attempting to gain more than \$2 million.

Mr. Temarii couldn't immediately be reached for comment. The Nigerian Football Federation didn't respond to a request for comment on Mr. Adamu's remarks, and Mr. Adamu couldn't immediately be reached.

Sepp Blatter, president of FIFA, sent a letter to all members of the executive committee Sunday alert-

ing them to the situation and promising an immediate investigation. The letter, which FIFA made public Sunday, said, "I am sorry to have to inform you of a very unpleasant situation, which has developed in relation to an article published today in the Sunday Times titled 'World Cup Votes for Sale.'" The information in the article has created a very negative impact on FIFA and on the bidding process for the 2018 and 2022 FIFA World Cups."

FIFA said the organization and its ethics committee "have closely monitored the bidding process for the 2018 and 2022 FIFA World Cups and will continue to do so. FIFA has already requested to receive all of the information and documents related to this matter, and are awaiting to receive this material."

The allegations come at a sensitive time, as organizers of the U.S. bid are planning a final push before the vote on Dec. 2 and plan to meet with numerous members of the committee in the coming weeks. The U.S. is competing with Japan, Korea, Qatar and Australia for the 2022 World Cup. The U.S. on Friday



Agence France-Presse/Getty Images

Amos Adamu, a member of FIFA's executive committee, is a focus of a probe.

pulled out of the contest for the 2018 World Cup. That event will be held in Europe.

"The Sunday Times report today makes it clear, but it bears emphasis and repeating, that the USA Bid Committee had no involvement with

any aspect of the reporting that resulted in this story," said Sunil Gulati, chairman of the USA Bid Committee and president of U.S. Soccer.

The Oceania Football Confederation said it is "currently looking into the matter."

Video on the Sunday Times web site allegedly shows Mr. Amadu telling an undercover reporter that he wanted to build four artificial football fields at a cost of \$200,000 each and that the money could be paid to him "directly." When the reporter asked whether the payment would help Mr. Amadu make his decision in favor of the U.S. bid in some way, he responded: "Obviously it will have an effect. Of course it will have an effect."

In a separate video, Mr. Temarii, a former French football player, was allegedly shown explaining that he was looking for investment to fund a sports academy in Auckland, New Zealand. "Talking about your proposal, for sure, it's interesting," Mr. Temarii said. "For me I just tell you that when the people came to see me, I usually say: 'Okay, what will be the impact of your bid in my region?' If there's something concrete on the table, then it's interesting to discuss. If not, forget it, we have something else to do and so on and so on."

—Jonathan Clegg and Will Connors contributed to this article.



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## U.S. NEWS

# Democrats retrench on races

BY LAURA MECKLER  
AND JANET HOOK

Democratic strategists acknowledged they are abandoning a dozen House seats the party now holds, as they try to salvage their majority in the chamber by shoring up candidates with better chances.

With Republicans expanding their advertising to broaden the field of competitive races, Democrats are shifting resources to help such senior lawmakers as House Budget Committee Chairman John Spratt (D., S.C.), and to head off Republicans in usually safe Massachusetts, where a southeast district that includes Cape Cod is competitive for the first time in decades.

The emerging battlefield, two weeks before Election Day, is almost entirely in districts now held by Democrats. It includes about 40 districts where both the Republican and Democratic House campaign arms are running television ads or have reserved TV time.

Beyond those, Republicans are on the air in a dozen additional districts, while Democrats are running ads in two. Republicans need a net gain of 39 seats to win a majority in the House.

"The field is essentially expanding by the day," said Ken Spain, spokesman for the GOP's House campaign arm, the National Republican Congressional Committee.

A survey of voters in competitive House districts released Friday reinforced the point that Democrats face a tough road. The poll, for National Public Radio, found that in 58 Democratic-held battleground districts, 47% of likely voters preferred the Republican for Congress in their district, while 44% preferred the Democrat, a three percentage-point gap. The Republican lead was larger among voters with high levels of interest in the election. The GOP edge had been eight points in June.

Republicans candidates in the closest campaigns for the Senate have surged ahead of their Democratic rivals in the fund-raising race, according to reports released late Friday.

In the 10 closest Senate races, the Republican raised more than the



Sen. Reid (D, Nev.) at a rally on Saturday. He raised \$12 million less than challenger Sharron Angle in the third quarter.

Democrat during the three month period that ended Sept. 30, according to data reported to the Federal Election Commission.

The Democrats' House committee on Friday reported \$41.6 million in the bank, more than twice that of its GOP counterpart. Spending by non-party groups, such as labor unions and independent organizations, are backing up many candidates whose own bank accounts have run low.

Meanwhile, in the tight Nevada Senate race, GOP challenger Sharron Angle raised \$12 million more than Democratic Majority Leader Harry Reid in the third quarter.

The retrenching now under way happens in every election and is typically painful for the party running behind. Democrats are loath to admit that they are cutting off any of their candidates, but two Democrats familiar with the election strategy said that about a dozen seats now held by the party are lost. Ad-tracking data show that none of these districts are slated to receive

party-funded TV ads.

"Any good strategy is about what you do, but also what you don't do," said Democratic strategist Mark Mellman, referring to the party's lack of support for some candidates. "If you're playing defense, you want to focus intensely on those seats where you can make a difference."

Democrats are being forced to spend hundreds of thousands of dollars each week in districts that have long favored their party.

At the same time, Democrats are facing new efforts by Republicans to put more seats in play. The GOP House committee began airing ads recently against Democratic Rep. Charlie Wilson, who represents an eastern Ohio district that had been considered safe. Democrats followed and put up ads of their own.

Democratic leaders say all candidates will receive help with staffing and get-out-the-vote operations. But they acknowledge they have pulled back ad buys in several districts that seemed to be moving toward the GOP or were lost causes.

In total, they view a dozen or more Democratic House seats as now lost.

Among them are Reps. Suzanne Kosmas in Florida and Kathleen Dahlkemper in Pennsylvania, and open seats in Arkansas, Indiana, Kansas, Louisiana and Tennessee.

A Kosmas aide downplayed the significance of the move, and Rep. Dahlkemper's spokesman said the party was still supporting her in other ways to mobilize voters.

Some of the dropped candidates are pushing back. Rep. Steve Driehaus of Cincinnati made a fresh appeal for donations in a video posted online, saying it was wrong for the party committee to abandon someone who had stood with the president and the Democratic agenda.

Democrats say they still have a narrow path to retaining the House. Their plan includes picking up four or five seats that are now held by Republicans, winning all the other races that tilt their way and then taking the lion's share of the true toss-up contests.

## Axelrod challenges conservative donations

BY SIOBHAN HUGHES

WASHINGTON—White House political adviser David Axelrod on Sunday stepped back from the Obama administration's accusations that the U.S. Chamber of Commerce is using foreign money to fund election efforts, shifting the focus on conservative groups and challenging them to disclose the names of their contributors.

"I think that is not the main question," Mr. Axelrod said on CNN's "State of the Union" when asked why the White House was pushing the idea that the Chamber was using foreign money in campaigns, which would be illegal.

"Of the \$75 million they're spending on campaigns, how much comes from companies with foreign investments? How much comes from the insurance industry? How much comes from Wall Street? How much comes from the oil industry?" he said. "You don't know because they don't disclose."

The U.S. Chamber of Commerce has said it would spend as much as \$75 million this election cycle.

That brings the amount outside conservative groups, which also include the American Action Network and American Crossroads, could spend on television advertisements, campaign mailings and other efforts to elect Republicans to Congress this year to more than \$300 million, according to The Wall Street Journal.

Outside Democratic groups, by contrast, plan to spend about \$100 million on those activities. The largest labor unions say they will spend \$200 million combined, but most of their focus will be on rallying union voters.

On Thursday, a key pro-Democratic group, America's Families First Action Fund, said it hoped to raise \$10 million.

That is a fraction of the \$50 million that an alliance of GOP groups said Tuesday they would spend to help Republicans in dozens of House races.

Democrats have come up short in efforts to match the GOP's record fund-raising, and the White House has complained that conservative groups are taking money from foreign donors.

"We know that—we know, because the Chamber has said, that they take money from overseas," White House spokesman Robert Gibbs said last week.

"Let me be clear—the Chamber does not use any foreign money to fund voter education activities—period," Chamber President Tom Donohue said.

"We are seeing an attempt to demonize specific groups and distract Americans from a failed economic agenda," said Bruce Josten, executive vice president for government affairs at the U.S. Chamber.

"With two weeks until Election Day, it's time to return to the discussion that Americans care most about: job creation," said Mr. Josten. "The Chamber will stay focused on representing and advocating for an agenda of economic growth and speaking out against policies that are counter to those objectives."

# Hispanics' longevity confounds experts

BY MIRIAM JORDAN

Trinidad de Leon is 93 years old. After decades spent toiling in California's sun-baked cauliflower and strawberry fields, his skin has grown leathery, he has shrunk slightly and his hearing has declined. But according to his daughter, he is stronger than his eight children put together.

"He takes two walks a day" in his Oceanside, Calif., neighborhood, added 57-year-old Maria de Leon. "Alone."

Why Hispanics such as Mr. de Leon—often poor, uneducated and without health insurance—live long and strong has long confounded health professionals, scholars and other experts. Now, the first official life-expectancy data released for U.S. Hispanics show they outlive whites by 2.5 years and blacks by almost eight years.

The life expectancy for Hispanics is nearly 81 years, compared with 78 years for whites and almost



Trinidad de Leon, 93 years old, with his daughters Maria, left, and Ofelia.

73 for blacks. As a whole, people in the U.S. can expect to live 77.7 years, according to the report from the Centers for Disease Control.

"The findings can imply the His-

panic population is healthier overall" than whites and blacks despite its low socio-economic status, said Elizabeth Arias, lead author of the report.

Some experts warn, however, that as immigration slows and assimilation increases, the Hispanic advantage may not last forever.

While there is no conclusive explanation for Latino longevity, possible factors are related to migration, culture and lifestyle.

One theory holds that immigrants consist of a self-selected hearty group, who were prepared physically and mentally to journey to a new land and thus tend to be healthier than their brethren back home.

Indeed, U.S. Latinos live four years longer than Mexicans and two years longer than Cubans, according to Pan-American Health Organization data. About two-thirds of all U.S. Latinos are of Mexican origin.

Another theory holds that U.S. Hispanics live longer than whites and blacks because they are more likely to eat a healthy diet, get exercise and belong to a supportive social network.



## WORLD NEWS



Bloomberg News

Beijing launched free-market reforms in Shenzhen 30 years ago. Above, people walk past the stock exchange last month.

# Beijing uses Shenzhen as test case for reform

By JEREMY PAGE

SHENZHEN, China—An experiment with political reform in Shenzhen, the city where China pioneered its economic opening, sheds light on an ideological debate playing out within the Communist Party as it holds an annual meeting in Beijing that will help to chart China's political future.

In this former fishing village adjacent to Hong Kong, the party that has maintained an absolute monopoly on government since 1949 is taking small but significant steps to cede responsibility for social problems to independent civic organizations.

After more than six decades of stifling dissent—sometimes by force—the party is also using Shenzhen to test ways of strengthening public oversight of local government to root out corruption that the party itself admits has become the greatest threat to its grip on power.

It is a far cry from Western-style multiparty democracy, but this experiment—branded “small government, big society”—is seen by some leaders as a way to forge a new political model that maintains authoritarian rule while responding to the needs of an increasingly complex society.

At the forefront of the experiment is Sunny Lee, who runs a non-governmental organization in Shenzhen that teaches the children of migrant laborers.

His Ciwei Philanthropy Institute, which he founded in 2007, caters to children left alone when their parents work overtime at a nearby nuclear plant and in a factory making garments for **Polo Ralph Lauren Corp.**

After two years trying in vain to get the patronage of local officials, he was suddenly invited by the government to submit a report on his organization last year, and then to register legally this year, and to apply for state funding.

“Before, the government wanted to do everything itself. It thought it could solve every issue,” said Mr. Lee, who isn't a Communist Party member. “Now I think it realizes

that it needs help from society.”

The experiment lies at the heart of a debate that burst into the open when Chinese Premier Wen Jiabao made a surprise call for political reform during a speech in Shenzhen in August, marking the 30th anniversary of free-market reforms launched there.

Since that speech, many inside and outside China have been asking what motivated Mr. Wen—who is due to retire with other top leaders in 2012—to make such a bold public appeal.

His speech raised more questions than answers for those in China looking for signs of political change in what has been seen as a hard-line administration. Was he seriously reviving calls for democratic reform that were crushed by the army around Tiananmen Square in 1989? Is he paying lip service to the idea in the twilight of his career? Or is he promoting limited internal reforms designed to strengthen one-party rule?

Does he have the support of Hu Jintao, China's president and Communist Party chief, or of Xi Jinping—Mr. Hu's presumed heir—and other members of the next generation of leaders?

These questions have grown more pressing since Liu Xiaobo, a jailed Chinese dissident, won the Nobel Peace Prize this month, and a group of Communist Party elders published an open letter last week calling for media freedom.

More than 100 Chinese political activists also issued a statement online Friday calling on the government to release Mr. Liu and introduce democratic reforms.

The secretive four-day meeting of the 371-member Central Committee, which finishes Monday, is expected to discuss political and economic reforms, as well as personnel changes ahead of the 2012 leadership change.

One of the key questions is whether Mr. Xi will be promoted to the powerful Central Military Commission, thus confirming his status as heir apparent.

Shenzhen may offer clues on how the debate on political reform

is playing out behind closed doors at the party meeting. The city is one of the country's most populous and progressive, with a population of 14 million—about 10 million of whom are migrants.

It was here that Deng Xiaoping, China's former paramount leader, established the country's first Special Economic Zone, offering tax breaks and other perks to foreign investors, in 1980.

It was also here that he revived the economic program, which had been stalled by party conservatives after the 1989 Tiananmen crackdown, when he visited on a “southern tour” in 1992.

And it is here that local authorities, anxious to preserve Shenzhen's pioneering role, have been trying to develop a smarter, leaner form of authoritarian rule.

Since 2004, the city has slashed a third of its departments, transferring and retiring hundreds of officials, and forcing others to give up their parallel positions on business associations, charities and other civic organizations.

Since last year, it has eased legal restrictions on those civic organizations, allowing them to register without direct supervision by a party or government official, to seek private funding in China and overseas, and even to hire foreigners.

In addition, the city has started to buy services from these organizations on a contractual basis, to help address social problems such as the mental health of migrant laborers—an issue highlighted by a spate of suicides at a factory in Shenzhen earlier this year.

The Shenzhen reforms have met resistance within the party, say local officials and academics. Some oppose them because they stand to lose power or perks. Others have ideological objections, fearing that social organizations could challenge party rule.

“For government, giving up power is a painful process,” said Tan Gang, deputy head of the Communist Party School, the party's main think tank and training institution, in Shenzhen. “It is a selfish creature.”

## Chinese rescuers search for miners

By LAURIE BURKITT

BEIJING—Rescue workers were struggling Sunday to reach 11 coal miners missing underground after an accident that has triggered anguished comments on the Internet comparing China's woeful mine-safety record with the concern for human life displayed by the rescue of 33 miners in Chile.

The official Xinhua news agency said 26 miners were killed Saturday in an avalanche of coal dust triggered by a gas explosion at a mine in central Henan province.

It was the second deadly accident at the pit, owned by a consortium of companies including state-run **China Power Investment Corp.** A similar gas leak there in 2008 killed 23 miners.

Mine officials couldn't be reached to comment.

Twenty-one bodies were found Saturday, and Xinhua said five more were found Sunday, bringing the death toll to 26, with 11 miners missing. “Based on past experience, the remaining 11 miners could be buried in coal dust, so the survival chances are frail,” Xinhua quoted Du Bo, deputy director of the mine's rescue operations, as saying.

State media showed pictures of rescuers wearing yellow hard hats and gas masks. They have been working in shifts around the clock to dig through the coal dust that

suffocated the miners.

On websites and Internet discussion forums, thousands of Chinese citizens have criticized the government's failure to secure the health of China's coal-industry workers.

“It's almost a shameless joke compared to Chile,” read one comment on Sina.com.

Despite public criticism of Saturday's accident, Chinese officials have in the past gone to extensive lengths to save the lives of miners. In the country's biggest mining rescue to date, in April, 115 men were pulled out of a flooded coal-mine shaft in northern Shanxi province, where they had been trapped for more than a week. The government marshaled 3,000 rescuers to pump out more than 180 million liters of water during the dramatic rescue.

In recent years, the government has sought to close unsafe mines and hold local officials accountable for accidents. Last year, China reported the world's highest number of mining-related fatalities, totaling 2,631, according to the work safety administration. That was down from 6,995 fatalities in 2002.

On Friday, the day before the accident, Chinese officials had announced plans to conduct a 10-day nationwide inspection of mine operators to guarantee adherence to safety regulations.

—Juliet Ye  
contributed to this article.

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## INTERVIEW

# Chairman of Enel's green unit sees tailwinds in U.S. market

Company hopes to raise more than \$4 billion in an IPO on the Italian and Spanish stock exchanges this week

[ Luigi Ferraris ]

BY STACY MEICHTRY  
AND LIAM MOLONEY

ROME—Luigi Ferraris, chairman of Italian renewable-energy company Enel Green Power SpA, was driving recently with his wife in a sport-utility vehicle throughout the states from New York City to Maine when he spotted a business opportunity.

"I saw something like 3,500 miles, and very, very few wind power plants," Mr. Ferraris says. "In these areas there is margin to grow."

Mr. Ferraris is hoping to raise more than €3 billion, or about \$4 billion, in an initial public offering on the Italian and Spanish stock exchanges this week of as much as 32.5% of Enel Green Power, a unit of Italian energy giant **Enel** SpA. One of the main selling points of the IPO—Europe's biggest since the start of the financial crisis—is the company's plan to harness wind and other renewable sources of energy in the U.S.

The newly listed company will invest more than €1 billion over the next five years in U.S. and Canada, according to Mr. Ferraris. About 80% of the investment will be used to build wind farms along the windswept corridors of the Great Plains, California and the Northeast. The remainder will be invested in other renewable projects, such as geothermal plants in sun-baked western states like Nevada and Utah, using heat trapped underground to produce electricity.

Expansion in the U.S., where Enel has operated since 2000, could help EGP offset a slowdown in Europe's renewable-energy sector. Publicly funded incentives that helped fuel a boom in renewable-energy projects across Europe—including wind farms that mushroomed throughout Spain and rooftop solar panels that boomed in Germany—now are being reined in as a result of austerity measures prompted by the sovereign-debt crisis.

The U.S. "has all the key factors: wind, water, sun, geothermal," Mr. Ferraris says in an interview here.

To reap the potential benefits of the U.S. renewable energy market, however, EGP will also come up against high hurdles.

The U.S. lacks the kind of cushy political and regulatory environment that had allowed renewable-energy companies to flourish in Europe. The cost of generating electricity through wind, solar and geothermal plants in the U.S. remains much higher than the cost of plants that run on fossil fuels, such as coal and natural gas.

William Hederman, senior vice-president of energy policy at Deloitte & Touche LLP, says companies face the "monumental undertaking" of transmitting electricity generated in windy regions like the Great Plains states to markets in heavily populated cities on the East Coast. "Each state has its own approach" to regulating and charging companies to transmit electricity, he says.

In densely populated Europe, renewable firms don't need to transmit electricity over long distances. In the U.S., by contrast, **ITC Holding Corp.** plans to build a 3,000-mile power line, dubbed "The Green Power Express," to bring wind resources of about 12,000 megawatts across the Midwest to the homes and businesses that need it—at a cost of \$10 billion to \$12 billion.

To grow in the U.S., renewable firms rely on state governments to establish and raise quotas that require public and private utilities to buy power generated from renew-

Selling a stake in Enel Green Power is "not a debt solution for Enel, but a strategic one," Chairman Luigi Ferraris says in an interview.



able sources. But a recent report by Credit Suisse on EGP's offering notes that even markets with high quotas, like California, have sluggish bureaucracies that hinder renewable firms from doing business.

The U.S. has racked up a backlog of 300,000 megawatts of wind projects waiting to be connected to the state's electricity grid, Credit Suisse says. In California, "the administrative hurdles required to obtain the permits for building wind farms constitute a barrier in practice," the report adds, describing the struggle as a "potential risk" to investors eyeing EGP shares.

"The U.S. will never have a system for incentives for renewables as rich as the ones set up in Europe," says Gianpaolo Rivano, a fund manager with Gest-Re SGR SpA in Milan.

Publicly traded renewable energy firms have a lackluster record with the stock market. **Iberdrola Renovables SA's** shares currently trade around €2.40 (\$3.35) apiece, or roughly 60% less than what the IPO price was. Shares of **EDP Renovaveis SA** are currently trading at half their IPO price. Like EGP, Iberdrola Renovables has focused a large chunk of its operations in the U.S., only to struggle amid a sputtering economy.

Mr. Ferraris, 48 years old, joined Enel SpA in 1999, the same year the utility listed on the Milan stock exchange. As chief financial officer, he was one of the main architects of Enel's takeover of Spanish utility **Endesa** in 2007. The transaction gave Enel a slew of renewable-resources operations and a potentially crippling load of debt.

Mr. Ferraris set to work on a plan to pay

down Enel's debt by selling assets. At the time, several European utilities, such as Spain's **Iberdrola SA**, had spun off their renewable businesses for highly touted stock listings. Mr. Ferraris pooled renewable projects from across Enel's operations into a single unit, Enel Green Power, with a similar plan. With the EGP listing, Enel aims to retain control of a key business and cut debt to €45 billion by year-end from €53.89 billion at the end of June.

But some investors question whether an IPO is in the best interest of EGP—or Enel. All of the proceeds from the listing will go to Enel, which will maintain a controlling stake and draw further funds from EGP's generous dividend policy.

Selling a stake in EGP is "not a debt solution for Enel, but a strategic one," Mr. Ferraris says. EGP's ratio of net debt to earnings before interest, taxes, depreciation, and amortization of around 2.5% to 3% is less than that of peers, leaving the firm plenty of room to further leverage its balance sheet for future investments, he says.

EGP also is unique among other publicly traded renewable firms, Mr. Ferraris says, because more than half of its revenue comes from hydropower plants, which provide a steady revenue stream. Revenue from solar and wind plants, fluctuates with the weather.

Enel entered the U.S. in 2000 with the acquisition of the Connecticut-based renewables company **CHI Energy Inc.** Enel's assets include the Snyder Wind farm in Texas, which has 345-foot turbines.

EGP's new plan to invest \$1 billion in the

U.S. accounts for 20% of the total €5.1 billion investments the firm has penciled in through 2014. That will add 300 megawatts of installed capacity to EGP's U.S. operations, which currently can generate up to 788 megawatts per year.

In one project, EGP will erect wind turbines about 100 miles east of Wichita, Kan., as part of an agreement to sell 200 megawatts of electricity per year to the Tennessee Valley Authority, a federal power utility that oversees the transmission of electricity across Tennessee, Alabama, Mississippi, Kentucky, Georgia, North Carolina and Virginia. With a customer base of about nine million people, the deal is EGP's biggest in North America.

Construction of another EGP wind farm is underway at Castle Rock Ridge in Alberta, Canada. In Cove Forth, Utah, meanwhile, EGP miners are drilling deep into the earth's surface in search of heat that can power a geothermal plant. Geothermal technology has recently emerged as a lower-cost source of renewable energy.

Most of the new projects EGP will roll out in the U.S. in the coming years have already been cleared by regulators, Mr. Ferraris says. "The question is [whether] you have the commitment of the local and federal government, and it looks to me that this commitment is starting to show results," he says. A spokesman for the Tennessee Valley Authority confirms that its deal with EGP had received regulatory clearance.

The U.S. is "a laboratory for us," Mr. Ferraris says. "We are experimenting."