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Asian, European leaders convene in Brussels



European Commission President José Manuel Barroso welcomes Vietnam's Nguyen Tan Dung to a two-day summit that brings leaders including China's Wen Jiabao and Japan's Naoto Kan to Brussels.

U.K. to make prisoners work, paying victims

BY AINSLEY THOMSON AND LAURENCE NORMAN

BIRMINGHAM, England—In a move designed to appeal to the U.K. Conservative Party's grass-roots members, Justice Secretary Ken Clarke is expected Tuesday to announce plans to force prisoners to work 40-hour weeks, with a part of the money earmarked for compensating crime victims.

The new policy will involve private companies employing prisoners inside jails to do work such as sorting recycled trash and basic data entry.

Speaking at the Conservatives' annual conference in Birmingham—the first since the party took power in a coalition government with the Liberal Democrats—Mr. Clarke is scheduled to say that in order to raise funds to provide compensation for crime victims, the coalition government will instill a "regime of hard work" in U.K. jails.

"Most prisoners lead a life of enforced, bored idleness,

where getting out of bed is optional," Mr. Clarke will say, according to extracts of his speech.

Ministry of Justice figures show that 85,495 people were imprisoned in the U.K. as of Oct. 1. Most prisoners don't currently work.

Mr. Clarke—who earlier this year broke with years of Conservative orthodoxy by questioning whether prison always works and by saying that budget cuts mean the government should try to reduce the numbers of prisoners—is likely to win favor with Conservative supporters with who favor a tough stance on law and order.

A person familiar with the policy said the prisoners employed by private companies would be paid the minimum wage of £5.93 (\$9.39) per hour and about a fifth of that amount would be paid to victims. Compensation for victims is expected to total more than £100 million each year, according to Conservative Party estimates.

Mr. Clarke is also due to outline plans to introduce legislation to make sure victims receive compensation from all prisoner wages. Under current laws, victims receive a portion of prisoners' wages only if the work is done outside the prison, which means only around £1 million is generated each year by prisoners in open jails who are able to hold outside jobs.

The government will also explore a trial of a large-scale working prison and will consult with the private sector about how they might be prompted to pay higher wages to prisoners, which would subsequently mean victims receive more compensation.

Mr. Clarke is to highlight some companies—such U.K. shoe-repair and key-cutting chain Timpson, utility National Grid PLC and U.S. networking company Cisco Systems Inc.—that already work with prisons.

■ Conservatives' child-benefit cut draws ire 6

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The Quirk



Fantasy football to go: Net gain is a net loss as Bahrain entertains imposters. Page 33

World Watch

A comprehensive rundown of news from around the world. Pages 34-35

Editorial & Opinion

Douglas Murray on how long we can stay lucky in the war on terror. Page 15

Twitter names new CEO, as co-founder steps aside

BY AMIR EFRATI

Twitter Inc., which is trying to turn its popular microblogging service into a profit generator, on Monday announced that its chief operating officer, Dick Costolo, is now chief executive.

Evan Williams, a co-founder who has headed the closely held company for the past two years, said he would step down to focus on product strategy. "Building things is my passion," Mr. Williams wrote on the company's blog, adding that he asked Mr. Costolo to take the helm.

Mr. Costolo joined Twitter last year and has been leading its advertising initiatives. Mr.

Costolo was formerly a product manager at Google Inc. The Web search giant in 2007 purchased a company Mr. Costolo headed, called FeedBurner, which distributed podcasts, blogs and other Internet content.

Several marketers including Virgin America and Verizon Wireless have touted the success of advertising on Twitter, while others say it remains an experiment.

In recent weeks, Twitter began rolling out a redesign of its website in an effort to give advertisers a better platform to showcase photos or videos. As part of its efforts to woo marketers, Twitter in recent months hired experi-

enced advertising executives from Google and Facebook, among other companies.

Each day Twitter users post more than 90 million short messages, called tweets, a flood of brief messages that can be hard to sort through.

In its experimentation with advertising, Twitter offers "Promoted Tweets," where marketers pay to have their messages listed as the first result when a user searches on Twitter.com. The site handled about 130 million searches in August, according to comScore Inc.

Mr. Costolo previously said in an interview that the company's ad initiatives have exceeded expectations.

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Sants won't duck the culture question

[Agenda]

BY PATIENCE WHEATCROFT



Corporate culture is an amorphous concept, hard to measure and even harder, one might think, for an outsider to regulate. Nevertheless, Hector Sants is prepared to have a go. The head of the U.K.'s Financial Services Authority on Monday posed the question: "Should a regulator seek to regulate culture?" He answered in the affirmative.

His audience at the Mansion House in the City of London did not take issue with him on this somewhat controversial stance. A collection of senior bankers and others from the financial services industry, they were aware that they were there in the role of penitents. Criticizing, or even querying, the wisdom of the regulator would not have been an appropriate reaction.

They had already heard Marcus Agius, the chairman of **Barclays**, declare that, in the wake of the financial crisis, bankers had to show more contrition. "Far too many people believe the ethical standards of the City are inappropriate," he said.

Mr. Agius was giving a keynote address at a conference entitled "Values and Trust in the City: Beyond Law and Regulation."

It had been convened by the Lord Mayor of London because of a belief that although moves were now under way to deal with some of the failings that had precipitated the crash, such as insufficient capital ratios, there was an underlying legacy that badly needed to be addressed: a lack of trust in the financial world.

Although some institutions may be largely exempt from blame for the financial disaster, public distrust of the sector is sweeping. As Paul Tucker, the deputy governor of the Bank of England, put it, the public view was that, "There had been a failure of the



Hector Sants, the FSA chief executive, at the Mansion House, London, in June.

rules of the game; a failure of capitalism," which led to a lack of trust in the soundness of our financial institutions. This was not, he added, a problem restricted to the U.K.

Mr. Sants argued that while Basel III was dealing with capital requirements and the Seoul G-20 meeting next month will attempt to tackle the question of the "too big to fail" banks, the issue of

The idea of the regulator trying to regulate culture is one which will perturb many of his 'clients.'

trust was not receiving the attention it should. Some of the causes of the crisis were deeply rooted in corporate cultures, he said. They shaped behaviors and judgments, hence cultural change was, he declared, "essential."

Nevertheless, the idea of the regulator trying to regulate culture is one which will perturb many of his "clients."

Mr. Sants reflected that when he joined the FSA, he was told that "The FSA does not do ethics." But Mr. Sants does. He maintained that in its authorization process, which requires that practitioners should act "with integrity," the FSA is already recognizing the importance of culture. But how

will the FSA judge corporate culture?

Outcomes are an obvious reflection of culture but Mr. Sants indicated that he would want to look beyond. Character of senior staff would, he suggested, be taken into account. So would the actions that firms take to ensure that they have "the right culture."

That would certainly point to a need for firms to publish lots of statements on their ethics; hold regular briefings for staff and probably bring in outside consultants for regular training sessions. Whether it would actually change cultures is debatable.

What does change behaviors is remuneration. It remains, said Mr. Agius, "the toxic question," although there have been some moves by governments to tax or cap banker bonuses, to limit the amount that can be taken up-front in cash and gear bonus schemes to rewarding long-term performance, the scale of banker remuneration remains the cause of outrage among the general public.

The conference heard the familiar line that individual banks wouldn't move significantly to curb payments out of line with the industry because of the "first mover disadvantage" that would ensue as their top staff left for competitors.

But Mr. Tucker did suggest that he would like to see a move towards schemes which saw

bankers carry some of the cost of failure as well as collect the benefits of success. Mr. Sants wanted corporate cultures that rewarded "good behavior."

Yet a remuneration regime which is judged uncompetitive risks not only seeing a drift of bankers to new employers, it may presage a drift of banks, too. France, in particular, continues to court London-based institutions and entice them to move across the Channel with promises of a more accommodating environment.

Remuneration structures, although certainly a contributory factor in the crash, were not the sole cause. Paul Myners, a former Treasury minister, ventured another view. A number of banks failed, he suggested, not because of issues of value or trust but "because of a failure of competency."

The regulator failed to spot that. Some might fear that if the regulator now spends too much time trying to patrol corporate cultures, then it might again miss more obvious shortcomings.

Virtue of a company man

Terry Leahy has spent virtually all his working life at **Tesco**, the past 14 years as chief executive. That makes him a highly unusual business leader. Sir John Rose, who has just announced his departure from **Rolls-Royce**, has had a similarly long reign in the chief executive's office.

The average FTSE 100 chief gets barely a third of that time in the role and conventional wisdom is that after anything more than nine years, it is time for any director to be shown the door. Yet as Mr. Leahy explains in an interview (see page 12), the success of his company has depended on a long-term strategy. He has been prepared to instigate projects that would not deliver profit for years. Mr. Rose has done the same at **Rolls-Royce**. Perhaps boards should not merely criticize investors for short-termism but look also to their own decisions.

What's News

■ **The ECB stepped up** sharply its purchases of eurozone government bonds last week, reflecting rising fears over Ireland's solvency that are causing renewed financial-market tensions in Europe despite the region's economic recovery. 4

■ **AIA's share offering** this month will likely value the Asian life-insurance unit of **AIG** at between \$28.5 billion and \$30.5 billion, and could raise over \$15 billion cash to repay U.S. taxpayers. 25

■ **Iraq raised** its estimated proved oil reserves more than 24%, but some experts disputed the report. 10

■ **Volvo Cars' new CEO** said the Swedish company will streamline production and may trim its model lineup. 19

■ **Russia's VimpelCom** agreed to buy the telecommunication assets of Egyptian billionaire Naguib Sawiris in a \$6.5 billion stock-and-cash deal. 19

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Alen Mattich says central bankers hope this fear drives money from investors



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NEWS

Fertility pioneer wins Nobel Prize

By ROBERT LEE HOTZ

Robert Edwards, a feisty British embryologist who fundamentally transformed human procreation, received the 2010 Nobel Prize in Medicine Monday for the development of clinical in vitro fertilization.

"By a brilliant combination of basic and applied medical research, [Dr.] Edwards overcame one technical hurdle after another in his persistence to discover a method that would help to alleviate infertility," the Nobel Prize committee said in its award citation. "His contributions represent a milestone in the development of modern medicine."

In vitro fertilization so far has enabled the birth of four million children to infertile couples worldwide.

Dr. Edwards, 85, is in failing health and was too ill to make any public response to the award, his colleagues said. "He understood this morning that he was finally awarded the prize, and he was smiling plenty when his wife, Ruth, gave him the news," said embryologist Jacques Cohen, the senior editor of



Robert Edwards sat with two test-tube babies in London in 1998. The British in vitro pioneer won the Nobel Prize in Medicine on Monday.

Reproductive Biomedicine Online, which Dr. Edwards founded.

The basic techniques of human embryo creation that Dr. Edwards pioneered form the technical foundation of in vitro fertilization, human cloning techniques, genetic screening of human embryos and embryonic-stem-cell research.

Working in close collaboration with gynecologist Patrick Steptoe, who died in 1988, Dr. Edwards overcame entrenched political and religious hostility, as well as the disapproval of many other scientists at the time, to pioneer the basic techniques of human embryology that led to the birth of the first test-tube

baby, Louise Brown, in 1978.

"It took them 10 years and over 100 attempts," Dr. Cohen said. "It demonstrates tremendous tenacity."

Dr. Edwards and Dr. Steptoe worked with no public funding or direct research support at a time when the concept of a test-tube baby seemed the stuff of Orwellian science fiction.

The birth of the first human child who began life as an embryo outside the human body made headlines world-wide and, within a few years, spawned hundreds of commercial IVF clinics.

Dr. Edwards was tireless in his support of the fledgling field. He trained a generation of leading human embryologists, founded the field's first professional society and began a series of journals to spread its research findings. He never hesitated to debate the implications of his work.

Despite its widespread acceptance today as an infertility treatment, these embryo techniques have never strayed far from tabloid headlines or political controversy.

"He was one of the first scien-

tists to encounter moral opposition to his work at a research level," said University of Pennsylvania bioethicist Arthur L. Caplan.

"They were working against grave concerns from many quarters that it was not right to create life outside the body, that it was risky and dangerous and it was not part of God's will to let the infertile become fertile."

"Most of the time, the things that win the Nobel Prize are esoteric," said Marcelle Cedars at the University of California, San Francisco, who is incoming president of the Society of Reproductive Endocrinology and Infertility.

"This was something that had immediate real-world applications," she said. "It has touched the lives of so many people in such a profound way."

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ONLINE TODAY: Get updates on the Nobel Prize winners as they are announced, plus more information on their work, at WSJ.com.



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EUROPE NEWS

ECB increases its bond buys amid concerns over economy

By BRIAN BLACKSTONE

FRANKFURT—The European Central Bank sharply stepped up its purchases of euro-zone government bonds last week, reflecting rising fears over Ireland's solvency that are causing renewed financial-market tensions in Europe despite the region's economic recovery.

The ECB bought €1.4 billion (\$1.93 billion) of bonds of financially stretched euro-zone governments last week, the bank said Monday. The purchases were a 10-fold increase from the previous week and the largest amount of debt the ECB has bought since the end of June.

The central bank, which has purchased more than €63 billion in government bonds since starting the program on May 10, doesn't provide a breakdown by country. However, many analysts say they suspect that the ECB has been purchasing Irish debt, helping to keep Ireland's bond yields from rising even faster amid fears over the country's debt.

The ECB appears to be using its bond-purchase program to support "the weakest link" among euro-zone countries at a given time, says Carsten Brzeski, economist at ING Bank in Brussels.

Ireland said last week that the cost of recapitalizing its banking system will push its budget deficit this year to 32% of gross domestic product.

The rising volume of ECB debt purchases is "a clear recognition that things could degenerate" in the region's vulnerable countries, says Silvio Peruzzo, economist at The Royal Bank of Scotland in London.

ECB officials received some good news days before Thursday's monthly policy meeting: The worst European recession in decades ended in April 2009, according to an unofficial judgment by the Centre for Economic Policy Research, a London-based think tank.

That means Europe exited recession a bit sooner than the U.S., whose downturn ended two months later, according to the U.S. National Bureau of Economic Research, the semi-official arbiter of when U.S. recessions start and end.

In all, the 2008-2009 downturn sliced 5.5% off the euro-zone gross domestic product, compared with 4.1% in the U.S., meaning that while the U.S. housing collapse triggered the global downturn, the contraction was actually deeper in Europe.

Overall, the 16-country euro zone is recovering steadily, with growth reaching its fastest pace in four years during the second quarter. But weaker economies on the bloc's periphery—particularly Greece, Ireland, Spain and Portugal—are either still contracting or suffering recession-like symptoms of high joblessness and very weak inflation, making it even harder to reduce large budget deficits and control fast-rising public debt.

The ECB is widely expected to hold its key policy rate at 1% at this week's meeting, leaving the focus for financial markets on President Jean-Claude Trichet's post-meeting news conference, where he explains how officials view the economic and inflation outlook.

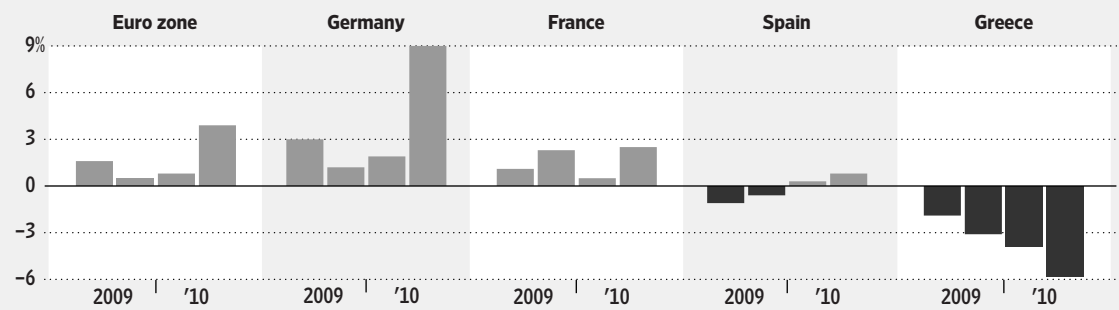
Later in the week, Mr. Trichet heads to the annual meetings of the



ECB President Jean-Claude Trichet heads to the annual meetings of the International Monetary Fund later this week.

Multi-speed recovery

Since exiting recession in the second quarter of 2009, euro-zone economies have taken divergent paths. Quarterly GDP growth, change from previous quarter



Note: Seasonally adjusted at an annualized rate
Sources: Eurostat, J.P. Morgan

International Monetary Fund in Washington, where finance and central bank officials from around the world meet to discuss the global economy. Mr. Trichet is expected to repeat his recent message that the euro zone's overall recovery is on a solid footing, while warning against overconfidence.

Much of the industrialized world is experiencing an uneven recovery with sluggish job creation, but central banks' policy response has varied. Though the ECB started buying government bonds in May, the amounts of debt it has acquired are a fraction of government-debt purchases by the U.S. Federal Reserve and the Bank of England in those banks' quest to hold interest rates down.

U.S. and U.K. central bank officials have signaled they are willing to take more steps if needed to guard against a renewed downturn.

ECB officials have instead emphasized recent signs of economic improvement, suggesting they will continue with plans to slowly end crisis programs that made unlimited loans available to European banks at low interest rates.

Last week, ECB board member Jürgen Stark said "we have seen a

turning point" in bank-credit growth and that some emergency programs won't be renewed. ECB officials have talked of a risk of higher-than-anticipated inflation even as the Fed, in its most recent policy statement, said inflation is below levels it considers consistent with its price-stability mandate.

Some analysts worry that, the latest spike in government bond purchases aside, the ECB is shifting gears too quickly toward unwinding its support to the banking system.

"There is a scope for a policy mistake which could be very dangerous," says Silvio Peruzzo, economist at Royal Bank of Scotland. "What they're doing wrong is giving this slightly hawkish message to the market, which is neglecting downside risks" to the recovery, Mr. Peruzzo says.

The euro has climbed on the ECB's tougher talk: It briefly exceeded \$1.38 against the U.S. dollar Monday, a 15% increase from its 2010 low around \$1.18 reached in June. That makes euro-zone exports more expensive in global markets, an added headwind particularly amid signs that global trade is weakening.

"If the ECB's rhetoric leads to a much stronger euro, you risk chok-

ing off the recovery," says Mr. Brzeski of ING Bank.

Meanwhile, the interest rate that euro-zone banks charge each other for loans spiked last week after the ECB reported that banks borrowed less from the central bank than analysts had expected. That in turn could raise borrowing costs for business and household loans.

Higher market interest rates and a rising exchange rate would make it even harder for Ireland, Greece and other peripheral euro members to cut their deficits and repair their economies and banking systems.

Ireland's central bank slashed its 2010 growth forecast Monday to 0.2% from a previous forecast of 0.8%. The central bank sees unemployment staying above 13% into next year.

Spain's labor ministry said jobless claims jumped nearly 50,000, or 1.2%, to 4 million last month. Though a rise in claims isn't unusual at the end of the tourist season, analysts said the sharp rise suggests broader economic weakness in the third quarter.

Last week, the European Union statistics agency reported Spain's unemployment rate at 20.2%, double the average for the euro zone.

Greece sets plan to cut its deficit to 7% in '11

By NICK SKREKAS

ATHENS—Greece would cut its budget deficit to 7% of gross domestic product, ahead of the 7.6% target sought by international lenders, under a draft 2011 budget announced Monday by the finance ministry.

The country's fiscal gap in 2011 would be €16.35 billion (\$23.53 billion), down from €18.5 billion this year, according to the documents.

"With this draft budget for 2011 we are taking a large step forward to reduce the deficit to 7% of GDP because our aim is to exit from the [crisis] tunnel as quickly as possible," said Prime Minister George Papandreou at an earlier cabinet meeting to approve the draft budget.

In May, the debt-strapped Mediterranean nation promised to cut its budget deficit to 8.1% by the end of this year from 13.6% of GDP in 2009 in exchange for a €110 billion bailout from the International Monetary Fund and the European Union.

The draft budget projects that the 2010 budget deficit will come in at 7.8% of GDP, better than the 8.1% target under the IMF-EU memorandum.

The Greek government has had to impose unprecedented austerity measures, including wage and pension cuts, in addition to increases in value-added tax and excise taxes. This has led to widespread protests.

The 2011 draft budget continues these austerity policies. It predicts revenue will rise 6.9% on a year-to-year basis to €56.3 billion, and expects spending will fall 5.9% to €67.5 billion.

The government will again impose an extraordinary tax on profitable Greek companies in 2011 for earnings derived within the country. This is expected to hit the bottom line of listed companies, but the state hopes the measure will raise €1 billion in revenue.

By widening the tax base and raising certain goods and services to higher VAT-tier ratios, the government expects to collect another €1 billion. New betting licenses and royalties are expected to bring in a further €700 million to state coffers in 2011.

On the cost side, public services are expected to cut a further €400 million. Savings from merging and streamlining local governments, and creating a unified civil-service payment agency are expected to save €500 million and €100 million respectively.

There will also be a €300 million cut in state funding to the public-investment program. Local businesses had hoped this program would inject cash and stimulus to the recession-hit economy and alleviate the impact of higher unemployment. The jobless rate is forecast to reach 14.5% next year and to peak at 15% in 2012.

Inflation is projected at 2.2% in 2011.

The budget forecasts that the Greek economy will contract 2.6% in 2011 after a fall of 4% in 2010. Private consumption is expected to fall 4.5%, public consumption to drop 8%, investments to be down 7% and imports to ease 6.6%, but exports are expected to rise 6.1%.

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EUROPE NEWS

U.K. treasury chief targets welfare cost

BY LAURENCE NORMAN
AND AINSLEY THOMSON

BIRMINGHAM, England—U.K. Chancellor of the Exchequer George Osborne on Monday said he was eliminating child benefits for more than a million British households, in a politically risky move aimed at driving down the country's welfare bill.

The move goes against pre-election promises by senior Conservative politicians.

The decision to scrap the benefit, worth thousands of pounds a year to some families, will take effect in 2013 and hit households with at least one adult earning more than £44,000 (about \$70,000) a year.

Mr. Osborne said the proposal would save £1 billion, contributing to the £11 billion in welfare savings he is targeting.

He pitched the move as a way of imposing "the British sense of fair play" on the welfare state and the policy, which aides said would save hundreds of millions of pounds.

The move went down well with rank-and-file Conservatives, but cutting the universal child benefit ran quickly into choppy political waters, giving the coalition government a taste of the political pain it could face as it pushes through deep spending cuts aimed at slashing the £155 billion budget deficit.

The opposition Labour Party attacked the move. Yvette Cooper, the work and pensions spokeswoman, said it would be "better to get the economy growing faster and raise more tax from the banks than to cut support for children in middle-income families."

Meanwhile, an influential think tank, the Institute for Fiscal Studies, pointed to the anomaly in the proposal—that a household with one adult earning £45,000 a year would lose the child benefit, whereas a household with two adults earning £40,000 a year each wouldn't.

The IFS, which estimates a family with two children receives some £1,750 annually in child benefits, on average, also said the measure "seriously distorts incentives for some families with children."

The think tank warned it would leave people who earn just below the threshold "considerably worse off" after a modest pay increase.

In his speech to the Conservatives' annual conference Monday morning, the party's first gathering since it returned to office as head of a coalition government in May, Mr.

Osborne also announced a fresh crackdown on welfare dependents, saying the government would cap benefits for any household where no adult worked at about £26,000 a year from 2013. That brings the cap in line with average household income.

The mood at the conference has been sober, with party activists and members aware that looming details on spending cuts, scheduled for Oct. 20, could see the party slide badly in the polls.

Mr. Osborne said the child-benefit decision was "tough but fair" in an era of austerity where "we've really got to focus the resources where they are most needed." Aides said the average income of those affected would be around £75,000 a year.

Senior Conservative aides acknowledged the decision would be politically difficult and that the new system wasn't "perfect" but they said the public would come around to their argument that high-income earners, as well as those living on welfare, should share the pain of austerity.

Conservative activist James Bates, a sales manager with three children, said he would take the policy "on the chin."

But he warned the move "won't be helpful" in trying to persuade voters in similar situations as his to support the coalition government.

"Everyone is aware that this is a tough time and tough decisions are being made," said Helen Whately, who was a losing Conservative candidate in the Kingston & Surbiton district in May's election. "This isn't a time to be popping open bottles of champagne."

In his speech, Mr. Osborne vowed to stick with his austerity plans, saying there would be no economic growth unless the government pares the country's budget deficit.

He attacked Labour for refusing to face up to the budget challenges.

Mr. Osborne acknowledged the spending cuts would mean "very difficult" decisions in areas such as defense.

But he said a new, balanced economy was "just over the horizon"—one that wouldn't be dependent on the financial sector or the "quick fix" of a debt bubble.

Mr. Osborne also warned U.K. banks that they won't be allowed to hand out "unimpeded" bonus payments if they don't step up lending to small businesses and hinted at further increases in the threshold at which income tax is paid.



Reuters

Britain's Business Secretary Vince Cable, speaking here in mid-September, called last week for discipline in the EU budget.

EU budget scrutinized, but cuts won't come easy

BY CHARLES FORELLE

BRUSSELS—Many of the European Union's member countries, blistered by a financial crisis that has forced them to compress budgets at home, are agitating to trim the tab for running the EU itself.

"No one can understand why the European budget is not being subjected to the same discipline," the U.K.'s business minister, Vince Cable, told the European Parliament on Thursday. "There is a big backlash on the way."

Complaining about the cost of Brussels is an autumnal event as regular as the changing of the leaves. But this fall, the battles are set to be unusually colorful.

A long-overdue budget review from the European Commission, expected in the coming weeks, is likely to raise passions by offering controversial new EU taxes as a possible way to raise more revenue. The principal players in the EU's legislative system are at loggerheads over the 2011 budget. And no one is quite sure how to pay for the European External Action Service, the EU's new diplomatic corps, which was formed without a clear budget.

But despite the desires of the U.K. and others, budget-watchers say, shrinking the bill will be an impossibly tall task. "For a large part of the EU budget, it's hard to find ways of changing it on a year-to-year basis," says Iain Begg, a professor at the London School of Economics who studies EU finances.

That is in part because much of the budget is built in seven-year "frameworks"—the current one ends in 2013—that fix the outlines of spending years in advance.

Also, the EU budget is a rickety accretion of goodies for different constituencies. "Cohesion" funds keep poor countries happy. A research budget of more than €8 billion goes largely to the rich countries with top-flight universities. Billions flow to Belgium and Luxembourg for hosting most of the EU's institutions.

In relative terms, the cost of the

EU is small. This year's budget is €141 billion, or about 1% of the union's gross domestic product. The 27 nations' governments had expenditures totaling nearly €6 trillion, or 50% of GDP, last year.

But the political liabilities are large, especially in countries including Denmark, the U.K. and the Netherlands, where euroskeptic currents run deep.

"[David] Cameron needs to show that he can flex muscles," Jorge Núñez of the Centre for European Policy Studies in Brussels says of the U.K.'s prime minister. In the coming negotiations, "the U.K. will make a lot of trouble."

But the U.K.'s position underscores the delicacy of seeking cuts. The country gets part of its contribution back—€5.7 billion last year—under a deal brokered by Margaret Thatcher. The U.K.'s past efforts to pare the EU budget have been met by requests that the country trim its own rebate. Former Prime Minister Tony Blair did just that, for which he took heavy criticism at home.

Much of the U.K.'s displeasure this year is expected to be directed at EU agricultural subsidies, budgeted for €58 billion next year. Like the €51 billion set aside for cohesion funds, agriculture payments are effectively a form of Europe-wide redistribution: Money comes in to the EU budget, then flows back out to farmers and landowners.

Big changes are, for now, "almost impossible," says Mr. Begg, since a deal on farm subsidies hammered out in 2002 is slated to run through 2013. Beneficiaries include France, which gets about €10 billion annually, as well as Spain, Italy and Poland—big countries with the sway to stall any shifts.

Poland is by far the biggest winner in the system as it is set up now; last year, Warsaw received €6 billion more than it sent to Brussels. Hungary netted about €3.5 billion, Greece €3 billion and tiny Lithuania some €1.5 billion, or roughly €1,000 for every Lithuanian household.

Even the EU's most strident crit-

ics admit the system is hard to budget. "There is no low-hanging fruit in the EU budget," says Mats Persson, the director of Open Europe, a London-based euroskeptic think tank. "Everything is politically complicated."

Mr. Persson says the EU's rich countries could keep giving subsidies to their poor peers, but agree in a sort of mutual disarmament to all stop receiving funds themselves. "It's Paris, London and Stockholm sending money to each other," he says.

Mr. Persson also suggests dumping the Committee of the Regions and the European Economic and Social Committee, two "consultative" bodies charged with offering their thoughts on legislation as it winds its way through the EU pipeline. Together, they cost about €200 million a year.

The biggest expense, staff salaries, is computed under a fixed formula, which has caused controversy in past years. But this year's salary adjustment under the formula is expected to be a decrease of 0.4%, the commission says, likely blunting much criticism.

Meantime, attention at the commission—not keen to dilute its own resources—has turned to how else the EU might raise money besides relying on national treasuries. They are currently the source of 80% of the EU's funding. Most of the balance comes from customs duties passed to the EU.

In recent media interviews, Budget Commissioner Janusz Lewandowski suggested anew a long-debated idea: that the EU should raise additional taxes related to, for instance, greenhouse-gas emissions or air travel—much as it skims from customs duties. That would, in theory, reduce the burden on national treasuries.

But it would also raise fears of broader EU taxation and, crucially, reduce big contributors' traditional sway over spending. Reaction from Germany and the U.K. was scathing. "The kite he was flying was shot down in flames," Prof. Begg says.



Agence France-Presse/Getty Images

Chancellor Osborne addresses the Conservative conference on Monday.

U.S. NEWS

Obama likely to scale back priorities

BY JONATHAN WEISMAN

President Barack Obama, facing at best narrower Democratic majorities in Congress next year, is likely to break up his remaining legislative priorities into smaller bites in hope of securing at least some piecemeal proposals on energy, climate change, immigration and terrorism policy, White House officials say.

In a series of recent campaign appearances, Mr. Obama has talked up the stakes in the November election as he seeks to energize supporters and retain Democratic control of Congress. At the same time, White House officials have begun revamping their legislative strategies.

They are talking about a new, more incremental approach, championed by former Chief of Staff Rahm Emanuel, to fulfilling campaign promises on energy, immigration and on closing the military prison at Guantanamo Bay. The new White House chief of staff, Pete Rouse, is far more steeped than Mr. Emanuel in the culture of the Senate, where comprehensive approaches to some of these issues have fared poorly. White House officials hope Mr. Rouse's expertise will help navigate smaller measures through the chamber.

"We weren't able to do a lot of those other things even with this Congress. That obviously calls for a new approach," one White House official said.

Mr. Obama, looking ahead to the



President Barack Obama at a rally in Wisconsin last week. He has been talking up the stakes in the November election.

2012 presidential campaign, has told people he is determined to make good on his 2008 campaign promises. And with the departure of Mr. Emanuel—who came to be mistrusted by the left—the president has a better chance to repair relations with the party's liberal base on issues such as Guantanamo even as he reaches out to Republicans on the deficit.

Mr. Obama has hinted at this new legislative strategy while promising to press forward on climate change and energy, immigration and

the Guantanamo Bay prison.

"One of my top priorities next year is to have an energy policy that begins to address all facets of our overreliance on fossil fuels. We may end up having to do it in chunks, as opposed to some sort of comprehensive omnibus legislation. But we're going to stay on this," he said in a recent interview with Rolling Stone.

White House officials haven't laid out their plan for moving energy legislation. But Rep. Edward Markey (D., Mass.), an author of the comprehensive climate change and

energy bill that passed the House but died in the Senate, offered this scenario: Democrats should be able to muster support for establishing minimum standards for the percentage of renewable energy that utilities must use to generate electricity, he said.

The administration could push separate bills on electric vehicle incentives and building-efficiency standards it contends could have an effect on climate change. What appears dead for now is the House plan to cap the emissions of carbon

dioxide and other greenhouse gases.

A senior Democratic Senate aide said White House officials have indicated a willingness to push through piecemeal changes to immigration law, instead of a comprehensive bill that combines border controls and immigration law enforcement with a path to citizenship for many of the 11 million illegal immigrants already in the country.

Under the incremental scenario, the White House would embrace Republican proposals to step up immigration law enforcement and border and port security in exchange for measures such as the DREAM Act, which would give illegal immigrant children a path to citizenship through military or public service. White House officials could add an agricultural-workers program to that bill but put off dealing with the bulk of illegal immigrants until later.

Retiring Rep. David Obey (D., Wis.), the longtime chairman of the House Appropriations Committee, said nothing would get done on immigration and climate change until the economy has fully recovered, and that the incoming class of Republicans would be in no mood to compromise on economic measures. "Woe to any Republican moderate who raises his head," he said. "The only thing they're going to support is tax cuts."

Michael Steel, spokesman for House Minority leader John A. Boehner, agreed that Republicans were focused on tax cuts.

High court rejects Adelphia, 9/11 cases

A Wall Street Journal Roundup

WASHINGTON—The Supreme Court, opening its term with Justice Elena Kagan on the bench, turned down hundreds of appeals, including one by the founders of former telecom giant **Adelphia Communications** and another from relatives of victims of the Sept. 11 attacks.

The high court refused to consider a bid by Adelphia's founder John Rigas and his son to have their prison sentences reduced.

A jury found John Rigas and his son Timothy Rigas, the company's former chief financial officer, guilty of securities and banking fraud in 2004. They were sentenced to 15 and 20 years in prison, respectively.

A federal judge in New York later reduced each term by three years after an appeals court threw out one count of bank fraud. Still, the Rigases argued that even with the three-year reduction, their sentences were too long.

The 2nd U.S. Second Circuit Court of Appeals last year denied a bid by the Rigases to have their sentences cut further, ruling the prison terms reasonable.

The appeals court also rejected the Rigases' bid for a new trial, as well as their efforts to force the government to turn over notes from interviews with a lawyer for Adelphia. The men said those notes could have bolstered their defense.

The Supreme Court let the appeals court ruling stand Monday without comment.

In another case, the relatives of

victims of the Sept. 11 attacks have lost their bid to get the Supreme Court to rule that New York City must provide a proper burial for material taken from the World Trade Center site because it could contain the ashes of victims.

The justices said they wouldn't hear an appeal from the families of some of those killed.

Lower federal courts had dismissed the families' lawsuit against the city, saying it acted responsibly in moving 1.6 million tons of materials from the site to a landfill and then sifting through the material for human remains.

No remains have been found for about 1,100 of the 2,752 people killed on Sept. 11, 2001. The families have said the landfill isn't a proper burial site. They also argue that 223,000 tons of the material was never sifted for remains.

In a third case, the Supreme Court asked the federal government to weigh in on whether military contractors can be sued for allegedly abusing Iraqis who were detained and interrogated at the Abu Ghraib prison.

An earlier ruling by a federal appeals court in Washington, citing wartime considerations, said lawsuits against **CACI International Inc.** and **L-3 Communications Holdings Inc.**'s Titan unit had to be thrown out.

The U.S. Solicitor General's office will respond with a brief in the case before the court reconsiders whether to accept the matter for arguments later in the 2010-11 term.

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U.S. NEWS

Many Americans sour on free-trade agreements

BY SARA MURRAY
AND DOUGLAS BELKIN

The American public, already skeptical of free trade, is becoming increasingly hostile to it.

Across the country, politicians are responding accordingly, and that is clouding prospects for congressional approval of pending free-trade pacts with South Korea and Colombia. It is also prompting concern among U.S. businesses reliant on the rest of the world for growth.

In the latest Wall Street Journal/NBC News poll, more than half of those surveyed, 53%, said free-trade agreements have hurt the U.S. That is up from 46% three years ago and 32% in 1999.

Even Americans most likely to be winners from trade—upper-income, well-educated professionals, whose jobs are less likely to go overseas and whose industries are often buoyed by demand from international markets—are increasingly skeptical.

“The important change is that very well-educated and upper-income people compared to five to 10 years ago have shifted their opinion and are now expressing significant concern about the notion of...free trade,” said Bill McInturff, a Republican pollster who helps conduct the survey. Among those earning \$75,000 or more, 50% now say free-trade pacts have hurt the U.S., up from 24% who said the same in 1999.

Worries about side effects of trade and outsourcing seem one of the few issues on which Americans of different classes, occupations and political persuasions agree. The recent House vote to arm the administration with more levers to pressure China to let its currency rise, and thus restrain its export machine, was bipartisan: 249 Democrats and 99 Republicans voted for it.

While the rhetoric may be heated by approaching congressional elections, the sentiment isn't likely to disappear after November. “We are entering a very dangerous period in which we could actually slip backwards and see the undoing of some of the progress that has been made in recent decades toward a more open world economy,” said William Galston, a former adviser to President Bill Clinton now at the liberal-leaning Brookings Institution think tank in Washington.

The rising hostility seems a delayed reaction to a slow economic recovery and high unemployment. To many, China has replaced Wall Street as the villain du jour. Opposition to trade is fueled by reports that many U.S. multinational companies, sitting on huge stockpiles of cash, are reluctant to invest in the U.S. and are looking overseas, and by the fact that China has pulled out of the global slump much faster than the U.S.

John Wallis, 50 years old, blames imports for the 2001 death of his 12-employee business that made small electronic prototypes for the telecommunications industry and the subsequent loss of his Chicago-area home. “Trade is fine and dandy in a scenario where everybody wins,” Mr. Wallis said. But the U.S. isn't winning, he said. Mr. Wallis now works in programming and design for an international manufacturer in Rhode Island, but doubts he'll ever be able to repay



Some blame high unemployment on outsourcing. A jobless man in Miami.

debts from his old business.

One beneficiary of trade has been Karen Scott, 33, who has a master's degree in global marketing and advertising. Though now home with her three children, she worked in sales for a multinational health and pharmaceutical company and plans to return. Yet Ms. Scott said she understood why there was so much angst. “I think it becomes more prevalent at this time when the economy is doing so poorly,” she said. “There are U.S. citizens that are out of work.”

In the recent Journal poll, 83% of blue-collar workers agreed that outsourcing of manufacturing to foreign countries with lower wages was a reason the U.S. economy was struggling and more people weren't being hired; no other factor was so often cited for current economic ills. Among professionals and managers, the sentiment was even stronger: 95% of them blamed outsourcing.

Generally, businesses and economists argue that free-trade pacts help America. “When we knock down barriers in those markets, we create jobs here,” said Myron Brilliant, senior vice president for international affairs at the U.S. Chamber of Commerce. “We've got to trade to create jobs in our country.”

Tramco Inc., a Wichita, Kan., conveyor manufacturer, worries about the public attitudes against trade. Much of the firm's growth strategy is tied to international markets, said Chief Executive Leon Trammell. Ten years ago, Tramco opened a factory in Hull, England, to ship goods tariff-free to Europe. The plant now employs 40 of its 140 employees. “If we had a trade agreement with France and I could ship from here same as I could ship from Hull, England, I'd be shipping from here,” Mr. Trammell said.

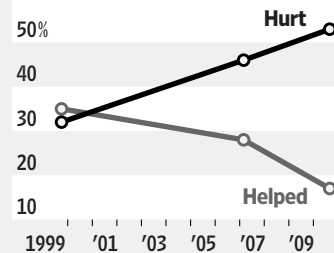
While some candidates are successfully making such arguments in this fall's campaign, it is an uphill climb. In northern Illinois, Democratic Rep. Debbie Halvorson is running ads slamming her opponent, Adam Kinzinger, for backing trade pacts that “ship our jobs overseas.” “China is cheating,” she said in an interview. “We need to send a message that they need to play by the rules.”

Mr. Kinzinger counters that 95% of all consumers are outside the U.S. He said the state's top manufacturers “say that in order to be successful and to hire people in Illinois to manufacture and put our stuff together, we've got to have trade.”

In the U.S. Senate race in California, Republican Carly Fiorina, former chief executive of Hewlett-Pack-

Rising anxiety

Q: Do you think free-trade agreements have helped or hurt the U.S.?



Source: WSJ/NBC News poll. Margin of error in Sept. 2010 poll is ±3.1 percentage points.

ard Co., is accused by her opponent, Democratic Sen. Barbara Boxer, of having “laid off 30,000 workers, shipped their jobs to China, India, Malaysia.” Ms. Fiorina's spokeswoman fires back: “Barbara Boxer's out-of-touch, job-killing policies of outrageous taxes and impossible regulations have pushed jobs in this country elsewhere.”

Some Republicans are reasserting their commitment to trade. The Republican candidate for U.S. Senate in Ohio, former U.S. Trade Representative Rob Portman, is leading in the polls. Others are quiet. The House Republicans' recent “Pledge to America” doesn't mention free trade. And of eight tea party Republican candidates for the U.S. Senate, only two mention support for free trade on their websites. In the Journal poll, 61% of those who identify themselves as tea-party supporters say trade pacts have hurt the U.S.

With the Democrats' union constituencies skeptical of free trade, and the public so hostile, the Obama administration hasn't made fostering free trade or changing Americans' minds about it as high a priority as President Clinton did.

Administration officials counter that they successfully resisted most protectionist pressures during the recession, and note the president's emphasis on the need to boost U.S. exports and his support for breaking the gridlock holding up approval of a U.S.-South Korea free trade agreement. U.S. and Korean officials held informal talks last month, but there appears little progress toward changing the provisions of the pact affecting U.S. beef and auto producers—a major stumbling block to congressional approval.

White House spokeswoman Jennifer Psaki said the White House's goal remains to resolve outstanding issues with South Korea before the Group of 20 summit in November.

—Louise Radnofsky and Jim Carlton contributed to this article.

Push to cut deficit runs up against politics as usual

[Capital Journal]

BY GERALD F. SEIB



Scott Rigell is running for a House seat in Virginia, and he talks passionately of the need to cut government spending. “If these trends are not unchecked, we are into some serious, truly catastrophic financial consequences,” the Republican contender said at a recent candidates' forum. “We are borrowing 42% of what we're spending.”

But there's one proposal for saving money that he opposes with equal passion: the Pentagon's proposed closure of the Joint Forces Command in Norfolk, which happens to lie in his congressional district. The proposed closure is a central element of a Defense Department plan to cut \$100 billion in overhead costs in coming years, freeing up money for other needs. When it comes to that cut, Mr. Rigell's main complaint is that his opponent, Democrat Rep. Glenn Nye, hasn't done enough to stop it.

For his part, Mr. Nye—who also fashions himself a fiscal conservative favoring legislation balancing the budget—says he is pushing back against the proposed cut as hard as he can. His campaign website includes both a section headlined “Stopping Wasteful Spending,” as well as a press release saying he was the first lawmaker to introduce a bill to prevent the closure of the command in Norfolk.

So it goes in Campaign 2010, where cutting the deficit is a big issue, but where support for doing some of the hard things to achieve that is running into politics as usual. In a campaign in which the tea-party movement has succeeded in making curbing government spending a national cause, some of this fall's campaign rhetoric actually will make that task harder after November.

Nowhere is that more apparent than in the debate—or lack thereof—on the nation's spending on big entitlement programs, particularly Social Security and Medicare.

Any serious talk of attacking the long-range federal budget deficit has to acknowledge the need to control the coming explosion in the cost of these programs. According to the latest projections from the Congressional Budget Office, spending on the federal government's big three entitlement programs—Social Security, Medicare and Medicaid—is to rise by 70%, 79% and 99%, respectively, over the next 10 years.

Yet Democrats are running TV ads across the country accusing Republicans who have dared to discuss changes in Social Security and Medicare of wanting to undermine those programs.

One notable ad running in South Carolina charges that Mick Mulvaney, a Republican state senator trying to unseat veteran

Democratic Rep. John Spratt, wants to make Social Security illegal. That ad comes complete with pictures of a granny posing for a police mug shot.

Mr. Mulvaney says the ad is based on a procedural vote he cast against killing off a nuisance amendment in the state legislature that would have declared Social Security unconstitutional. He says he, like some Democratic leaders in the legislature, wanted to allow the measure to come to a full vote only so it could be defeated.

He says he isn't surprised that Democrats are attacking on the Social Security issue—only that they have started this early. “We expected it later in October, when there's no time to respond to it,” he says.

But Republicans aren't doing much more to pave the way for curbing Medicare and Social Security spending. Their “Pledge to America,” a manifesto detailing stands their congressional candidates support, says nothing specific about reforming those programs. It declares only that Republicans will “protect our entitlement programs for today's seniors and future generations,” and will roll back the health-care overhaul President Barack Obama signed this year.

While the tea-party movement has made curbing government spending a national cause, some of the campaign rhetoric will make that task harder after November.

There are some exceptions to the trend. Kentucky Republican Senate candidate Rand Paul, a favorite of the tea party, in a weekend debate decried the tendency to “put our head in the sand” on entitlements and said the eligibility age for Medicare and Social Security may need to be raised.

More typical is the resistance from both parties to the plans to close the Joint Forces Command in Virginia, a resistance demonstrating what often happens when spending questions go from rhetoric to reality. Defense Secretary Robert Gates proposed the closure as part of a plan that he says is essential to free up funds to spend on maintaining troop levels and buying new weapons in a period in which federal deficits mean defense spending, which has roughly doubled over the last decade, is destined to grow only modestly.

Mr. Rigell, the Republican candidate, opposes the cut because “he simply does not believe in cutting defense in a time of war,” says a campaign spokeswoman. Moreover, she argues, some of the functions of the Joint Forces Command would be shifted elsewhere, “and that's not saving money.”

Mr. Rigell's opponent, Mr. Nye, simply calls the idea “short-sighted and without merit.”

WORLD NEWS

Ozawa's fall

May 2009: Ichiro Ozawa steps down as president of the Democratic Party of Japan, the leading opposition party, ahead of August elections amid accusations of fund-raising improprieties.

August: The DPJ takes power from the LDP in a landslide election that observers credit in part to Mr. Ozawa's organizing skills.

Feb. 4, 2010: Prosecutors investigating the fund-raising issue decide not to indict Mr. Ozawa.

April 27: A court-appointed citizens' panel rules Mr. Ozawa deserves indictment and reinstates the probe. Another such ruling would result in his forced indictment.

June 4: Mr. Ozawa steps down as DPJ secretary-general. Yukio Hatoyama resigns as prime minister, succeeded by Naoto Kan.

July 11: DPJ suffers a major defeat in



Ichiro Ozawa addresses reporters in January.

upper house elections, loses control of the chamber.

Aug. 26: Mr. Ozawa announces a bid to challenge Prime Minister Kan in a Sept. 14 vote for party leadership.

Sept. 1: Mr. Ozawa files his candidacy for the Sept. 14 DPJ election to

challenge Mr. Kan for party president and thus premiership.

Sept. 14: Mr. Kan defeats Mr. Ozawa in the vote.

Oct. 4: A citizens' judicial panel orders Mr. Ozawa indicted over the political-funding scandal.

Japanese power broker, Ozawa, to be indicted

By YUKA HAYASHI

TOKYO—The turbulent career of Japan's ruling-party power broker Ichiro Ozawa faced its worst crisis yet after a court-appointed citizens' panel ordered him indicted on charges of violating campaign-fund laws. The move creates another controversy for the country's unstable political system, buffeted in recent years by frequent scandals and constant turnover at the top.

The ruling came less than three weeks after Mr. Ozawa, 68 years old, lost his bid to unseat Prime Minister Naoto Kan in an internal party election as president of the Democratic Party of Japan, the job that comes with the premiership because the party controls parliament. A victory by Mr. Ozawa would have given him constitutional protection from criminal charges as long as he was prime minister, although he had said he would fight the case in court rather than use the privilege.

"I truly regret today's ruling," Mr. Ozawa said in a statement, according to the Japanese media. "I am convinced my innocence will be proved at the court."

Whether or not he wins in court, the case could effectively end the dramatic career of a powerful politician who has served as a kingmaker for two decades but never had his turn as national leader.

The panel's decision, which will automatically lead to Mr. Ozawa's indictment, introduces new uncertainty in Tokyo's politics, now marked by a deep fissure left after the bitter showdown between the ruling party's top two lawmakers. Mr. Ozawa likely will face pressure from fellow lawmakers to give up his job as a member of parliament, leaving rudderless scores of ruling-party lawmakers loyal to him. The order effectively weakens one of Mr. Kan's biggest rivals to power, yet casts a new cloud over a ruling party already struggling with multiple challenges, including public outrage over the handling of a tense standoff with China.

During the campaign for DPJ president last month, Mr. Ozawa had said he wouldn't leave the party or step down as a member of parlia-

ment if the citizens' panel ruled for his indictment.

Monday's order was generally expected, as the panel overturned repeated decisions by prosecutors not to press charges against Mr. Ozawa in a campaign-fund scandal in which he is accused of making false entries in financial statements of his fund-raising organization. The accusations are related to the purchase of a Tokyo property in 2004 for a planned dormitory for Mr. Ozawa's campaign staff. Prosecutors for the case earlier this year arrested three of Mr. Ozawa's close aides, including a member of parliament, but didn't charge the senior lawmaker himself, citing a lack of evidence.

Based on the ruling, a court-appointed lawyer will file Mr. Ozawa's indictment, though it wasn't immediately clear how long it will take to carry that out. Under the political-funds law, falsifying financial statements carries a penalty of up to five years of imprisonment and a fine of up to one million yen, or about \$12,000.

Monday's decision marked the first time a citizens' panel ordered a forced indictment of a lawmaker, overruling prosecutors. It follows a change in law last year that gave such panels more clout, as part of a broader overhaul of the nation's judicial system aimed at allowing average citizens a greater say.

The panels were initially created in the late 1940s by the U.S.-led occupational government; they were modeled after the grand-jury system in the U.S. Their purpose was to provide checks and balances to prosecutors, but their decisions didn't have binding power until last year.

Under the new system, a panel, made up of 11 randomly chosen citizens, can force an indictment after two consecutive rulings by ordering a court-appointed lawyer to file one, bypassing prosecutors. In a highly publicized case earlier this year, separate panels indicted a police official in the case of a deadly collapse of a pedestrian bridge, and railway executives in the case of a train crash.

Now the focus will be on

whether Mr. Ozawa will leave parliament, and how that might affect the internal politics of the ruling party and Mr. Kan's influence. In Japan, indictments usually force the accused to give up their jobs, as 99% of indictments result in guilty verdicts.

A big question will be how the latest development will affect many Ozawa loyalists in the party. They are mostly younger politicians who feel they owe their election victories to Mr. Ozawa's coaching, and are unhappy with Mr. Ozawa's defeat in the September party election and the subsequent "purge" of their colleagues from Mr. Kan's cabinet and top party positions.

It isn't clear whether the possible departure of their leader would prompt them to bolt or encourage them to seek peace with the rest of the party.

Katsuya Okada, secretary general of the DPJ—a job Mr. Ozawa held until resigning under the cloud of investigation in June—called Monday's ruling "surprising and very regrettable."

He declined to say what the party would do next, noting that Mr. Ozawa should "unveil his own thoughts" about the decision first.

But the pressure already is on Mr. Ozawa. Sadakazu Tanigaki, president of the Liberal Democratic Party, said Mr. Ozawa should give up his job. He also said his main opposition party would continue to grill Mr. Kan over political-funds issues during coming sessions in parliament. The prime minister is struggling with a so-called twisted parliament, after a defeat in July national elections caused his party to lose a majority in one of the two chambers.

Serving as the party's chief campaign strategist, Mr. Ozawa was instrumental in the party's landslide election victory last year. That win propelled the center-left DPJ to power, ending a half-century rule by the LDP.

Still, he carries with him an image of an old-school politician, skilled at back-room dealings and driven by money politics, in which politicians attracted votes with generous public-works spending.

Citizens' panels pushed prosecutors

By MIHO INADA

Here is a look at the allegations behind the order to indict longtime political power broker Ichiro Ozawa.

Earlier this year, prosecutors arrested and indicted three former top aides to Mr. Ozawa on the suspicion that they made false entries into political-fund reports for 2004, 2005 and 2007, which were compiled by his fund-raising organization, Rikuzankai.

Prosecutors suspect these financial reports were adjusted to hide illegal donations from construction firms.

The suspicions surround 400 million yen (\$4.8 million) in cash that Rikuzankai received from Mr. Ozawa in 2004, as well as land purchases that year.

The cash was allegedly used to purchase a plot of Tokyo land in 2004 for about 350 million yen.

Mr. Ozawa's aides are suspected of failing to record the two transactions—the income of 400 million yen as well as the outlay of 352 million yen, which included the land purchase—in the 2004 financial report.

The outlay was recorded in the 2005 report instead, prosecutors said, and the 400 million yen, which was returned to Mr. Ozawa in 2007, wasn't recorded in the 2007 report.

While accusing Mr. Ozawa's aides, prosecutors didn't indict Mr.

Ozawa himself, citing lack of specific evidence against him.

Mr. Ozawa and his aides have all denied wrongdoing.

But a group of citizens who were dissatisfied with the prosecutors' decisions not to pursue Mr. Ozawa filed complaints.

This prompted two court-appointed citizens' panels to launch reviews of the cases.

The Tokyo No. 5 committee looked into the 2004 and 2005 reports and the No. 1 committee looked into the 2007 report, to gauge Mr. Ozawa's involvement.

The No. 5 committee ruled in late April that Mr. Ozawa "merits indictments," which prompted prosecutors to reopen their probe, but they again chose not to indict him.

Public attention then focused on whether more than eight of the 11 members of the No. 5 committee would order an indictment against Mr. Ozawa for the second time, a ruling that was unveiled on Monday, forcing an indictment against him.

The No. 1 committee concluded in July that it was "unjust" for prosecutors not to have indicted Mr. Ozawa over the alleged falsification of the 2007 report.

Prosecutors decided once again last week not to charge Mr. Ozawa for the 2007 report.

Unlike the No. 5 committee's probe, that is widely seen as having closed the 2007 case.

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WORLD NEWS

China's army extends sway

BY JEREMY PAGE

BEIJING—Behind China's increasingly fractious relations with its neighbors, which most recently erupted in a territorial row with Japan, is a newly assertive Chinese military whose influence over foreign policy is growing in the run-up to a leadership transition.

On Sunday, China and Japan seemed to be edging past their worst dispute in five years, as Japanese leaders called for "mutually beneficial" ties after China thanked Japan's military for evacuating a sick Chinese sailor from a ship in the Pacific on Saturday.

But relations between Asia's two biggest economies remained tense as Japanese Prime Minister Naoto Kan set off on a hurriedly arranged trip to an Asia-Europe forum in Belgium, where he is expected to seek international support for Japan's position in the territorial dispute.

"It is important to thoroughly explain the stance of our country," Mr. Kan said Sunday.

A day earlier, in an unusual display of nationalistic fervor, thousands of demonstrators marched through Tokyo's central shopping districts, criticizing China and the Japanese government's handling of a recent territorial dispute.

It is unclear how much the sentiments of the crowd have been embraced by mainstream politicians. No prominent political leaders attended the event.

But the row over Japan's detention of a Chinese fishing vessel near the disputed islands in the East China Sea has reinforced concerns in Tokyo and other capitals that China's decisions are increasingly shaped by the People's Liberation Army, or PLA, analysts say.

The PLA's heavy-handed response to recent U.S. military exercises with South Korea and over U.S. statements on the South China Sea has already provoked a backlash across Asia, as Japan and several Southeast Asian nations look to shore up ties with the U.S.

The Chinese military's political clout is expected to grow as the Communist Party's ruling Politburo Standing Committee—whose nine members are all civilians and don't



Soldiers from China's People's Liberation Army take part in a training session in Shanxi province in July.

include a foreign-policy specialist—prepares for China's change to new leadership in 2012. That process begins in earnest with a party meeting starting Oct. 15, when attention will focus on whether Xi Jinping, the presumed heir to party chief and President Hu Jintao, is appointed vice chairman of the powerful Central Military Commission, which oversees the PLA.

It is unclear to what extent the PLA is unilaterally expanding its traditional role—to defend the party and Chinese territory—or being encouraged by party leaders to redefine China's broader national interests. But the military has become far more outspoken in recent months, frequently upstaging the foreign ministry and heightening concerns in the region and beyond about how China plans to use its economic muscle.

In one recent example, at a conference in Singapore on Sept. 24, Hitoshi Tanaka, a former Japanese deputy foreign minister, made a speech defending Japan's handling of the territorial dispute with China—but also announcing that Japan would release the captain of the detained Chinese fishing vessel.

In a question-and-answer session that followed, Mr. Tanaka was reprimanded by Maj. Gen. Zhu Chenghu, dean of China's Defense Affairs Institute, according to an account by the conference's organizer, the S. Rajaratnam School of International Studies. "Don't try to believe that the Chinese are so evil," Gen. Zhu was quoted as saying by Singapore's Straits Times. "I don't think this kind of announcement will be constructive to the establishment of more mutual cooperation."

In rebuking Mr. Tanaka directly, Gen. Zhu upstaged Tang Jiaxuan, a former Chinese foreign minister and state councilor who had just spoken at the conference.

The episode fits a pattern of recent outbursts by serving generals. At a meeting with visiting U.S. officials in May, PLA navy Rear Adm. Guan Youfei accused the U.S. of being a "hegemon" and treating China as an enemy, to the apparent embarrassment of Chinese diplomats present, according to people familiar with the situation.

In June, at another conference in Singapore, U.S. Defense Secretary Robert Gates was confronted by Gen. Zhu, as well as Gen. Ma Xiao-

tian, the PLA's deputy chief of the general staff, over U.S. arms sales to Taiwan.

Mr. Gates and other top officials have complained in recent months about what they see as a split in China—between a PLA that, they say, thwarts efforts to improve relations with the U.S., and a political leadership that favors more cooperation.

"I wouldn't undersell that there are real issues that separate the United States and China," said a senior U.S. defense official. "But we need to be able to deal with those issues in a productive way."

Gen. Zhu's presence was indicative of the prevailing attitude in Beijing. He was officially reprimanded in 2005 for telling journalists that China would destroy "hundreds" of U.S. cities with nuclear weapons if Washington intervened in a conflict over Taiwan.

He now frequently appears at conferences and in state media alongside other serving and retired officers—to the frustration of many Chinese diplomats and international-relations experts.

—Yoree Koh in Tokyo
contributed to this article.

World Bank chief warns on hurdles to growth

BY BOB DAVIS

WASHINGTON—The global economy is recovering at such a tepid pace, said World Bank President Robert Zoellick, that countries must guard against creating "tensions" that could undermine further growth.

Among the issues that warrant particular attention are foreign-currency fights, protectionism, asset bubbles and food-price volatility, he said in an interview with The Wall Street Journal.

"When you have slow growth and high unemployment [in wealthy countries] you run the risk of frictions, whether they be currency, trade and social issues like immigration" escalating into larger problems, he said on Monday, a few days before the 187 member nations of the World Bank and International Monetary Fund gather for their annual meetings. "It will be very important for leading countries to manage their differences."

At the top of the list, he said, was the economic relationship between China and the U.S., in which the U.S. is pressing China to revalue its currency as a way to cut its large trade deficit with China. Other countries in Asia have been intervening to keep their currencies low partly as a way to meet Chinese competition.

Mr. Zoellick didn't comment on Chinese currency practices, but said Beijing was slowly moving toward an economy that depends more on domestic consumption than on export-led growth.

Partly, he said, that involves re-making the structure of the Chinese economy, including freeing up heavily regulated service industries which are dominated by a few Chinese companies. "There is a strong interest on the part of the Chinese, that this is an area where it's in their interest to change," he said, because Beijing is looking to make its economy more productive.

Telecommunications, transportation and logistics, among other service industries, are strengths of U.S. and European firms, Mr. Zoellick noted, so "you can offset some of the tension through business arrangements."

Separately, the Institute of International Finance, a trade association of the world's largest banks, called on the U.S., China, Japan and euro-zone nations to develop international agreements on currency issues. "The world's major economies should convene urgently to broker agreement on a number of sensitive macroeconomic and exchange-rate issues," the group said in a letter.

Low interest rates in the U.S. and Europe are creating the prospect of asset bubbles in China, Brazil, India and other developing nations in Asia, many commentators have warned, as investors search for higher yields.

The currency issue is bound to be a topic of conversation at the IMF sessions this week as well as at the summit of the Group of 20 industrialized and developing countries in mid-November in Seoul.

—Ian Talley
contributed to this article.

Iraq raises estimate of oil reserves

BY HASSAN HAFIDH

Iraq dramatically increased the estimate of its proved oil reserves Monday, seeking in the first revision to its oil reserves since 2001 to reaffirm the strife-ridden country's place on the international energy scene.

Some energy experts, however, expressed skepticism that Iraq had undertaken sufficient recent exploration to justify the estimate, which hasn't been independently reviewed.

The latest estimates raise Iraq's total proved reserves more than 24% to 143.1 billion barrels of oil, up from 115 billion barrels, Oil Minister Hussein al-Shahristani said Monday. That would give Iraq the world's third-largest reserves, bypassing Iran, and placing the country well behind leader Saudi Arabia and No. 2 Venezuela.

The report comes as international oil companies proceed with their first significant oilfield opera-

tions in decades, in the aftermath of wars and United Nations sanctions. Iraq's oil revenues make up 95% of the country's national budget. Increasing its oil output could provide billions of dollars to rebuild infrastructure.

But the country's oil infrastructure remains challenged following decades of sanctions, war and neglect.

Mr. Shahristani said Iraq will inform the Organization of Petroleum Exporting Countries on the new proven reserves. A founding member of OPEC, Iraq hasn't been required to adhere to production quotas since the Iraq-Iran War in the 1980s. The ministry also plans annual updates of its oil reserves, another measure that communicates greater normalcy in the Iraqi oil industry.

"These aren't random figures, rather they were the results of deep surveys carried out by the ministry's oil reservoir company and international companies which signed con-

tracts with Iraq," Mr. Shahristani said.

Iraq has signed 12 deals with international oil companies to ramp up output capacity to about 12 million barrels a day from around 2.4 million barrels a day now. **BP PLC**, **Exxon Mobil Corp.**, **Royal Dutch Shell PLC**, **Lukoil Holdings**, **Eni SpA**, **Total SA**, **Japan Petroleum Exploration Co. Ltd.** and **China National Petroleum Corp.**, or **CNPC**, have signed on.

Issam al-Chalabi, a former Iraq oil minister, said he is "doubtful" of the figures. "Iraq hasn't carried out any new seismic surveys and hasn't drilled any new exploration wells for years in order to announce new reserves," he said.

The ministry's announcement is an effort by the Iraqi administration to win political support by showing concrete progress on oilfield and economic development, Mr. Chalabi said.

Richard Quin, lead energy re-

searcher at Wood Mackenzie, said it is "still too early" for international oil companies to have undertaken enough exploration to reassess the fields and offer updated reserves. But Mr. Quin said the recent figures are likely closer to reality than the 2001 estimate.

"I am not surprised," Mr. Quin said. "The figure reflects the progress made in Iraq and that new technologies including seismic imaging and modern production techniques will be employed going forward."

Technical hurdles and political uncertainty lie ahead. Iraqi politicians have been wrangling for almost seven months to form a government after the country's general elections in March.

Mr. Shahristani said the new reserve figure doesn't include the semiautonomous region of Kurdistan in northern Iraq. The region's authorities have estimated reserves in the Kurdistan region to be around 40 billion barrels.