



Learning to tread carefully in the world of corporate risk

THE JOURNAL REPORT

Tesco pledges to increase U.S. push as profits rise

BUSINESS & FINANCE 17

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Central banks take rescue steps

Japan's central bank, anticipating a move by the U.S. Federal Reserve to resume

By Megumi Fujikawa and Tomoyuki Tachikawa in Tokyo and David Wessel in Washington

large-scale purchases of U.S. Treasury bonds, launched a modest bond-buying program of its own Tuesday as central

banks around the world respond to a weak economic recovery and fears that an already-low inflation rate could keep falling.

The Bank of Japan, already pursuing what it calls "a virtual zero interest rate policy," will spend five trillion yen (\$60 billion) to buy government bonds, corporate IOUs, real estate investment trusts and stock funds—the latter a departure from past practice.

"If a central bank tries to seek greater impact from its monetary policy, there is no choice but to jump into such a world," said Masaaki Shirakawa, governor of the Bank of Japan.

In the past several days, central bankers in several developed countries have sent strong signals that they are, once again, preparing to rescue the global economy and are determined to reduce the

risk of a debilitating global deflation. The moves come as fiscal policy is either stalled or contracting amid angst over government debt burdens.

Global stock markets cheered the moves. The Nikkei Stock Average rose 1.5%, its biggest gain in about three weeks.

The central-bank maneuvering comes amid intense focus on foreign-exchange rates,

amplified by positioning before this week's gathering of finance ministers and central bankers from around the world at the International Monetary Fund's Fall meetings in Washington.

Nearly every major economy is looking to some degree to restrain the rise of its currency or even push it down to give exports some oomph, and central-bank easing generally pushes down a currency. The

Bank of Japan move was seen, in part, as a bid to restrain the yen's rise as well as to respond to domestic political pressures. The yen fell initially, but rebounded and ended the day 12% higher against the dollar than it was at the beginning of the year.

A joint move towards easing
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■ Fed official urges aggressive action to boost economy 7



A Hungarian soldier wearing chemical protection gear walks through a street flooded by toxic red sludge in the town of Devecser, Hungary, on Tuesday.

Toxic leak kills 4 in Hungary

Four people were killed and more were missing after a flood of toxic red sludge seeping from an aluminum plant in Hungary engulfed several villages and burned people through their clothes.

The government declared a state of emergency in three counties a day after a reservoir failed at the plant in Ajka, a town about 160 kilometers southwest of Budapest.

The sludge, laden with heavy metals, injured more than 100 people and threatened to contaminate the Danube, one of Europe's most important waterways.

■ Hungary declares environmental emergency 6

Former SocGen trader Kerviel convicted



Jérôme Kerviel was sentenced to three years in prison.

By DAVID GAUTHIER-VILLARS

PARIS—A French court sentenced former Société Générale SA trader Jérôme Kerviel to three years in prison for his role in one of the world's biggest-ever trading scandals and ordered him to repay his former employer €4.9 billion (\$6.71 billion)—a sum it would take him 180,000 years to pay at his current salary.

Tuesday's verdict won't go immediately into effect because Mr. Kerviel's lawyer is filing an appeal that will likely take another 18 months to go to trial.

Société Générale's attorney said the bank doesn't expect the former trader, who now

works for a computer-consulting firm, to reimburse the money or force him to give up his current paycheck or home.

Still, the ruling is a coup for France's second-largest bank by market value as it lays the entire blame of the 2008 trading debacle on Mr. Kerviel, a low-level trader who managed to hide years of risky trading so effectively that he once made an unauthorized bet of €50 billion.

Throughout the trial, Mr. Kerviel and his lawyers argued that Société Générale turned a blind eye on his illicit behavior as long as he was making money. The bank acknowledged in 2008 that it didn't have the right control systems in place to correctly

supervise Mr. Kerviel; for this lack of oversight, Société Générale has already paid €4 million in fines to France's banking regulator.

Though Société Générale wasn't a defendant in the trial, many had expected the court to pin some of the responsibility on the bank. Judge Dominique Plauthe, however, pointed his finger entirely at Mr. Kerviel, calling him "the unique mastermind, initiator and operator of a fraudulent system."

In convicting Mr. Kerviel of breach of trust, forgery and unauthorized computer use, the judge also handed Mr. Kerviel a lifetime trading ban. The prison sentence handed to Mr. Kerviel is for five years,

of which two years were suspended.

As the judge read the ruling before a packed court, Mr. Kerviel sat impassive. "Jérôme is disgusted," his lawyer, Olivier Metzner, later told reporters.

"This ruling says the bank is responsible of nothing and that Jérôme Kerviel is responsible for the excesses of the banking system," Mr. Metzner said.

For Société Générale, the ruling is likely to help bank executives' efforts to draw a line under the scandal and clean up its image. The bank's management team has changed since the scandal, and new control systems have
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When the stars align, Indian women say, it's a good time to have a C-section. Page 29

World Watch

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

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George Osborne, meet Ozzy Osborne. Page 11

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PAGE TWO

Cameron and Osborne must be careful or they'll scare off future Tory voters

[Agenda]

By IAIN MARTIN



The first annual conference of the U.K. Conservative Party since it came back to power was supposed to be a rather dull affair. The Tories are co-existing happily in coalition with the Liberal Democrats and David Cameron has made a confident start as prime minister.

It is the depressed Labour opposition that appears to be having an existential crisis, choosing an untried leader in Ed Miliband at its own conference last week. Labour had initially been rather pleased with its general election showing in May, losing but holding on to a relatively high number of parliamentary seats. Now it seems to have dawned on the party just how long the road back to government could be.

But the oddity that is the British party conference season, in which each party takes its turn to meet with members for almost a week in the glare of the media, often throws up twists and surprises. Almost by accident, with one policy announcement by the Chancellor of the Exchequer George Osborne, the Tory conference in Birmingham went from boring formality to a fascinating fight over taxation, family policy and the future direction of the new government.

The focus of the coalition is deficit reduction and scaling back the vast gap between income and outgoings that they inherited from Gordon Brown.

On Oct. 20, Mr. Osborne will unveil the results of the Comprehensive Spending Review. It will make real the departmental budget cuts (or often actually a slowing in the rate of increases) that have been so heavily trailed



George Osborne addresses the Conservative Party conference on Monday.

for month after month. The pain for voters will be considerable in all manner of areas.

To get the process moving, and to prove that he is not excluding those perhaps more likely to vote for the Conservatives, Mr. Osborne sprang a surprise cut in

It was not hard to find Conservative MPs and ministers who thought it a kamikaze act.

his speech to party members on Monday.

Child benefit currently goes to all mothers with children below the age of 19, almost £1,000 a year for the first child and slightly less for those thereafter. But from 2013 higher rate taxpayers, those earning more than £44,000, will have it removed.

The decision creates potential anomalies. For example, a couple both earning under the £44,000 threshold, but having a combined income of £86,000, will keep child benefit when their neighbor who earns £44,000, a single parent or a wage earner with a partner who has opted to stay at home, loses out.

The news has not gone down brilliantly. Only the rich will be hit, one minister told me—implying that a young man or woman with a family and probably a considerable mortgage is “rich” on £44,000.

The Conservative leadership, populated by genuinely wealthy young men, seemed somewhat taken aback by the rage with which they were attacked on various popular online forums by mothers with young children.

Some usually Tory-supporting newspapers opened fire, and at the conference it was not hard to find Conservative MPs and ministers who thought it a kamikaze act by Mr. Osborne and Mr. Cameron.

Critics of the policy say that it punishes the aspirational and ignores one of the basic operating procedures of British politics, as understood by Tony Blair and Margaret Thatcher.

In questions of income tax, it matters not just who pays a particular tax now. Below the threshold sit millions of middle-ground voters who have a reasonable expectation that if they work hard and knuckle down they will, in time, reach a level of income where they too will have to pay higher rate tax. They make judgements based in part on

whether a particular party wants to smooth their upward path, or set up obstacles on the way.

Others ask: If the government's intention is to obliterate Britain's system of universal benefits, why not say that straight out, build a case, scrap all of them and then realign and taper the tax system accordingly?

Into this storm on Wednesday steps Mr. Cameron with his leader's address. He had to spend much of Tuesday trying to defuse the child-benefit row in media interviews, but the subject is unlikely to form a major plank of his speech.

This is not one of those occasions on which he must make a prime ministerial speech of a lifetime; he is clearly in command. His party will also want to reveal a little in being addressed by the first Conservative PM for 13 years.

However, as his Tory tribe troops away from Birmingham it might want to ask itself a question or two.

Labour lost the election, but the Conservatives failed to win it. They fell short of an overall majority and scored 36.1% of the vote. Why?

The party's campaign was widely derided—senior Labour figures profess themselves amazed at how inept it was—and the Tories seemed to struggle to construct a coherent case that could be understood by aspirational middle-ground voters.

Some of those same voters who weren't convinced last time are now about to be hit by the changes in child benefit. After this, does the wealthy, metropolitan Conservative leadership think those people are more or less likely to regard Mr. Cameron's party as on their side?

The Tories will need such voters if they want to be sure of staying in government, either in coalition with the Liberal Democrats or alone with a majority.

What's News

■ **European policy makers** increased pressure on China to allow its currency to strengthen, claiming the weak yuan threatens Europe's economic recovery. 4

■ **The IMF warned** that risks to financial stability remain elevated due to a combination of slow global growth, high sovereign-debt burdens and continuing weakness in the banking sector. 7

■ **A CIA drone strike** in Pakistan is believed to have killed German and Arab militants in an intensified U.S. campaign aimed in part at disrupting terrorist plots in Europe. 9

■ **U.A.E. banks have** curtailed financial dealings with a handful of Iranian banks blacklisted by the U.S. Treasury, drying up one of Iran's financial lifelines. 10

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ONLINE TODAY

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‘Money markets on both sides of the Atlantic have now given a strong vote of confidence’ in the BP's solvency.



Continuing coverage



Follow Iain Martin's take on the Conservative Party conference at blogs.wsj.com/ianmartin

Question of the day

Does the punishment for former Société Générale trader Jérôme Kerviel fit the crime?

Vote online at wsj.com/polls

Previous results

Q: Have you changed your routine amid concerns of a terror attack in Europe?

Yes

14%

No

86%

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NEWS

Miu Miu steps out of Prada's shadow

By CHRISTINA PASSARIELLO

PARIS—Miu Miu, the little sister to Italian fashion house Prada, has grown up.

After living in Prada's shadow for years, the label is finding its moves to carve out an independent identity have paid off, catapulting Miu Miu into the top league of Europe's fashion scene. Sales at Miu Miu, which will unveil its spring/summer 2011 collection Wednesday in its largest venue yet, have more than doubled in the past four years.

Prada designer and founder Miuccia Prada founded the label, which takes its name from her nickname, in 1993. Four years ago, Miu Miu decamped from Milan to Paris to stage its biannual fashion show, creating a new showcase for its distinct style. Its frills presented a sharp contrast with Prada's minimalism.

"It's feminine and sexy but modern too," wrote Lorraine Candy, editor-in-chief of Elle magazine's U.K. edition, which together with three other magazines put the same Miu Miu look—a dress with flowers on the strap and a bow across the front—on their August cover pages.

Miu Miu's revamp is important to the future of Prada SpA, which owns shoe brands Car Shoe and Church's in addition to Miu Miu and

Prada. Prada's owners—Ms. Prada and her husband Patrizio Bertelli, who is chief executive—hope to list Prada on the stock market in the coming years. Analysts say the group would make a more compelling investment if it doesn't rely only on the Prada label. Of the group's €937 million (\$1.3 billion) in first-half sales, €159 million was generated by Miu Miu, which grew 40% for the period.

For three decades, many fashion houses have created less-expensive versions of their main collections as a way to expand their businesses. Giorgio Armani launched Emporio Armani and Armani Collezioni for consumers who couldn't afford the high price tags of his main line.

Prada has tried to do something different with Miu Miu. Though the brand is designed by Ms. Prada, the company's executives have gone to great lengths to fight the perception that Miu Miu is simply a more wearable and affordable spinoff of its bigger sister brand.

Miu Miu's first Paris runway show in 2006 featured clothes in expensive fabrics and elaborate techniques, such as hand-painted brocades. Flirty skirts replaced the simple shift dresses and dowdy sweaters that Ms. Prada had previously designed for Miu Miu.

While Miu Miu still generally costs less than the Prada label, in recent years, the company has pushed Miu Miu's prices high; a pair of cream and black patent pumps sell for \$650, compared with \$550 for Prada's classic black heels.

"Miu Miu and Prada do not cannibalize each other; they are friendly competitors," said Prada Chief Operating Officer Sebastian Suhl in a recent interview.

Mr. Suhl said that he wants Miu Miu to be sold only in U.S. department stores that will give the brand its own in-store boutique, rather than putting it out on the floor with other brands. Miu Miu long had its own boutique at Bergdorf Goodman and plans to open one at Bloomingdale's this month.

Next year, Miu Miu will have 20 such "shop-in-shops" in U.S. department stores, displaying a full array of clothing, shoes and bags.

"We have made clear that our strategy is to be a strong international brand," Mr. Suhl says.

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ONLINE TODAY: See updates and photos from Paris Fashion Week, including Wednesday's Miu Miu show, at blogs.wsj.com/Runway.



Agence France-Presse/Getty Images

Versions of this Miu Miu dress for fall 2010 were featured on four magazine covers in August. Its spring/summer 2011 collection will be unveiled Wednesday.

Oil-spill inspiration for Berlin designer

By LAURA STEVENS

BERLIN—The Gulf oil spill is starting to hit the catwalk.

As millions of barrels of oil poured into the Gulf earlier this summer, affiliated T-shirts, iPhone apps, beer, books and even condoms arrived on store shelves. Now, fashion designers starting to roll out spill-themed creations, from €459 (\$628) cocktail dresses to oil-stained boots.

Though the well was capped last month, oil is still washing ashore and the spill continues to threaten the Gulf's animal population, according to environment groups. Some scientists question how disruptive the spill will be to the Gulf's ecosystem in the long term, but activist groups are trying to keep public attention focused on the disaster.

Responding to such concerns, Bed Stü, a high-end, Brooklyn-based shoe maker, has created limited edition pairs of faux oil-stained "Gulf Coast Cleanup Shoes," which will be available in November.

Perhaps the most striking spill-related fashion item so far, however, originated in the Berlin studio of designer Mira Becker.

Ms. Becker digitally printed two different silk cotton fabrics with photos of the slick to create cocktail dresses. One of the prints is a burnt orange with blue flecks, while the other is navy blue with a gold streak of oil. The dresses are available in her CRUBA Berlin store. She plans to donate all of the proceeds to the U.S. National Wildlife Federation.



Anna Rosa Krau

Mira Becker's oil-spill cocktail dress

"The images of the oil in the water had a certain aesthetic," she said. "It's very absurd because it has a great beauty to it." Ms. Becker, 38 years old, says she was sitting at the dinner table with her family discussing the spill when her kids asked what she was going to do about it. "I thought, well, I could do something to help," she said.

Disasters such as the oil spill allow designers to identify their brands with a cause without getting caught in the political fray. Many consumers are drawn to disaster-themed merchandise by a desire to "grab back control" and show that they aren't oblivious to crises, says Gavan Fitzsimons, a marketing professor at Duke University.

Cartier

CALIBRE DE CARTIER
CENTRAL CHRONOGRAPH 9907 MC

18K PINK GOLD 45 MM CASE, BROWN ALLIGATOR STRAP. MANUFACTURE MECHANICAL MOVEMENT WITH MANUAL WINDING, CARTIER CALIBRE 9907 MC (II LINES 1/2, 35 JEWELS, 28,800 VIBRATIONS PER HOUR), CHRONOGRAPH WITH CENTRAL FUNCTION DISPLAY, COLUMN WHEEL, VERTICAL CLUTCH, TWO BARRELS, CARTIER C-SHAPED INDEX ASSEMBLY AND CÔTES DE GENÈVE FINISHING. MANUFACTURE MOVEMENT IN ACCORDANCE WITH WATCHMAKING TRADITIONS.

EUROPE NEWS

EU tech firm, unions raise cry over cheap Chinese exports

By MATTHEW DALTON

BRUSSELS—The European Union is under pressure to curb the rapid growth of Chinese telecommunications-equipment makers, amid mounting complaints that they have seized a big chunk of Europe's market with goods that critics say are unfairly subsidized by Beijing.

European workers' unions and a tech maker say two firms that produce a range of telecommunications equipment, China's **Huawei Technologies Co.** and **ZTE Corp.**, have suppressed prices thanks to government tax breaks, research grants and cheap loans from state-owned banks.

The allegations mark the latest European expressions of concern about China's growing muscle in industries from steel to green-energy technology to sophisticated telecommunications equipment. China has steadfastly denied charges that it unfairly subsidizes its industries, arguing that Europe's allegations are a cover for its own protectionism.

China's growing export domination will take center stage in meetings that begin Wednesday in Brussels between EU and Chinese officials and business leaders. But trade experts say little movement is likely from either side.

Beijing is expected to resist efforts to brake its companies' growth in the EU, China's biggest export market. "These subsidies are embedded in the Chinese economy and the way it operates for the last 20 to 30 years. They're not going to change just because the EU asks," says Duncan Freeman, senior research fellow at the Brussels Institute of Contemporary China Studies.

Europe's top telecommunications-equipment firms are expected to resist open confrontation with the Chinese, whose market is vital to their own growth.

Less restrained are workers' unions and a small EU-based company, which are raising a cry over Chinese companies' entry into increasingly sophisticated industries where they hadn't traditionally been major players.

"I have no problem when the Chinese produce toasters. We can give that away. Hair-dryers, OK. Vacuum cleaners, OK," said Peter Scherrer, General Secretary of the European Metalworkers' Federation, or EMF, which represents workers from European telecommunications-equipment makers. "But when it comes to very important industries, we should be much more aware."

In June, the European Commission, the EU's executive arm, said it would consider placing tariffs on imports from China of wireless modems, which bring mobile-telephone network signals to laptop computers.

The commission was responding to a complaint by **Option SA**, a Belgian company that says its European market share shrank to 5% last year from 70% in 2006 in the face of competition from Huawei and ZTE.

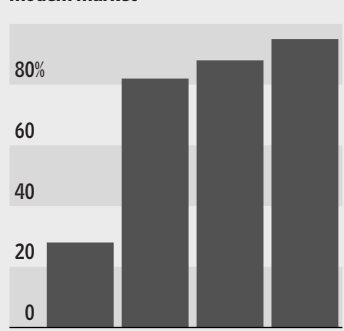
Option's complaint alleges that Huawei and ZTE are both controlled by the Chinese government, giving them special access to a mix of tax breaks and large research grants. The companies also received cheap credit from two state-owned banks, China Development Bank and the Ex-



ECB President Jean-Claude Trichet greets China Premier Wen Jiabao on Tuesday.

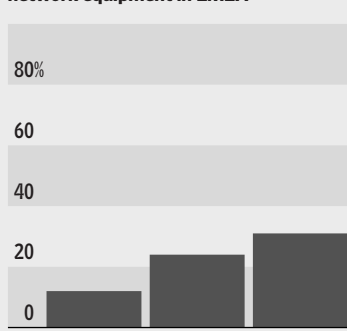
China's growing influence

Share of Chinese imports in EU wireless modem market



Sources: Option; European Metalworkers' Federation

Chinese share of the market for wireless network equipment in EMEA*



*Europe, Middle East and Africa

port and Import Bank of China, the complaint alleged.

Huawei, the complaint says, signed a cooperation agreement in September 2009 with the China Development Bank valued at \$30 billion—above its 2009 revenue of \$22 billion and the sort of funding line the complaint said wouldn't be extended in a market economy. It said the bank gave ZTE, with 2009 revenue of \$8.4 billion, got a \$15 billion credit line in March 2009. The complaint says these and other financing deals were provided with favorable terms, including three-year moratoriums on interest payments.

Option said such terms have allowed Chinese companies to sell wireless modems in Europe for as little as €20 (\$27) a device. Option would have to charge more than twice that much, it says, to earn a profit of 10% to 15% on its sales.

A person who answered the telephone at ZTE, which is majority-owned by the Chinese government, said a spokesman wouldn't be available to comment due to Chinese holidays this week.

Huawei isn't controlled by the Chinese government or military, according to Tim Watkins, Huawei's vice president for Western Europe. He said Huawei has beaten Option by anticipating a sharp rise in demand for the modems and providing superior service to large telecommunications companies.

"We were ahead of the curve in the developing the quality, function, speed and performance of these de-

vices," Mr. Watkins said, adding that the official support Huawei receives is comparable to subsidies that other governments provide. "Sure, there have been regional development incentives, as there are in any country," he said.

Complicating Option's complaint is the fact that it has a small factory in China. Huawei says this calls into question whether Option's modems are even European; Option counters that only a small percentage of its products' value is added in China.

Labor unions are growing anxious about the same two Chinese companies in the far larger market for network infrastructure.

Three big European companies—Telefon AB L.M. **Ericsson**, **Nokia Siemens Networks** and **Alcatel-Lucent**—are increasingly losing out to the Huawei and ZTE in contracts to supply European telecommunications companies. China's share of the network-infrastructure market in Europe, the Middle East and Africa rose to 31% in 2010 from 12% in 2008, according to company figures compiled by the European metalworkers' federation.

The unions say Huawei and ZTE benefit from unfair subsidies, but they aren't considering a complaint like Option's yet.

They are asking the EU to push telecommunications companies to take workers' rights, environmental practices and even security concerns into account when purchasing equipment. The unions also say the EU should consider the security threats

of allowing greater penetration of Chinese firms into the network-equipment market.

"The European trade commissioner needs to take a very strong stance against market penetration by Chinese players," said Caroline Jacobsson of the metalworkers' federation, after a meeting of union leaders from the three European companies last week. "It is worrying that the commission isn't more concerned about protecting jobs in this sector."

The office of the EU trade commissioner says it has repeatedly discussed telecommunications issues with the Chinese government. "Telecommunications are a European cutting-edge technology, and it is exactly for that reason that we put particular emphasis on this," said John Clancy, spokesman for trade commissioner Karel De Gucht.

Unions fear a repeat of what happened to Option, which in 2006 was a leading global supplier of wireless wide area network, or WWAN, modems. Profits were strong.

"Then all of a sudden we were confronted with a brutal force," said chief executive Jan Callewaert.

That force was Huawei, which started making the modems in 2005. Huawei has since grown to be the world's second-largest telecommunications equipment maker after Ericsson and sells about half of the world's wireless modems. Option has since laid off two-thirds of its once 750-person work force.

Option executives witnessed the growing presence of Chinese firms a few months ago from the windows of their half-empty headquarters in Leuven, just outside Brussels. **Belgacom SA**, Option's network provider, replaced wireless Internet equipment on its property made by Nokia Siemens with gear from Huawei. "Our parking lot is packed with Huawei equipment," Mr. Callewaert said.

China's Ministry of Commerce responded angrily to the anti-dumping investigation the EU launched following Option's complaints, calling the move protectionist, counterproductive to the EU's economic recovery and harmful to China's interests.

The big three European network-equipment companies aren't likely to bring trade complaints any time soon. All three operate in China and want to maintain good relations with the Chinese government.

"We are as much a Chinese company or an Indian company as we are a Western European company," said Ben Roome, spokesman for Nokia-Siemens. "As a genuinely global company we look to make sure that competition is fair in all the countries we operate."

While Huawei and ZTE have made major inroads into the European market, the U.S. market remains largely shut. The reason is a U.S. law that allows the government to block foreign investment due to national security concerns.

Most recently, eight Republican senators raised concerns with the Obama administration about a contract that Sprint Nextel awarded to Huawei, citing the Chinese government's push to develop cyber-warfare capabilities.

—Loretta Chao and Jason Dean in Beijing contributed to this article.

EU presses Beijing to let yuan strengthen

By ALESSANDRO TORELLI AND MATTHEW DALTON

BRUSSELS—European policy makers increased pressure on China to allow its currency to strengthen, claiming the weak yuan threatens Europe's economic recovery.

The remarks followed European officials' meeting with Chinese Prime Minister Wen Jiabao as part of the Asia-Europe summit in Brussels, and their comments marked growing support from Europe for U.S. efforts to offset China's export advantage from the weak yuan, also known as the renminbi.

Jean-Claude Trichet, president of the European Central Bank, departed from ECB practice of not singling out countries for criticism. "We noted that the evolution in terms of the effective exchange rate, also vis-a-vis the euro, was not exactly what we would have hoped ourselves," Mr. Trichet said Tuesday at a news conference. "This exchange-rate flexibility is very, very much in the interests of China."

Mr. Trichet said he thanked the Chinese premier for his announcement over the weekend that China would buy Greek government bonds when the country again attempts to obtain financing in commercial markets. At the same news conference, the European commissioner for economic affairs, Olli Rehn, kept up pressure for currency revaluation to be included among China's economic overhauls.

"These reforms should be complemented by an increased flexibility and thus by a broad-based appreciation of the renminbi exchange rate in relation to its main trading partners, including the euro area," Mr. Rehn said. "If the euro continues to bear a disproportionate burden in the adjustment of global exchange rates, the recovery of the euro-area economy might be weakened."

Europe's growing criticism of China's currency stance means Beijing will face intense pressure to revalue the yuan at this weekend's meeting of the International Monetary Fund and at a November summit of Group of 20 leaders in South Korea.

In the U.S., congressional leaders have stepped up criticism of China's currency policies ahead of next month's midterm elections, when the sluggish U.S. economy and weak job market are likely to spell trouble for incumbent politicians. The House of Representatives passed legislation targeting China and its currency policy on Wednesday. Treasury Secretary Timothy Geithner has warned that China's yuan advantage "is a serious issue for the American people."

The Asia-Europe meetings in Brussels also discussed U.S. proposals to overhaul the representation of the different governments on the IMF board, calling for a reduced European role and an increase for emerging economies such as China and India. European Union countries currently hold eight of the 24 seats. Italian Foreign Affairs Minister Franco Frattini said Monday that he doesn't see enough consensus at the coming G-20 meeting to change IMF board representation.

EUROPE NEWS

Duo's carbon work wins Nobel Prize

By GAUTAM NAIK

LONDON—Two Russian-born scientists will share the Nobel Prize in physics for their work on a material that has the potential to one day replace silicon as the base material for modern electronics.

The Royal Swedish Academy of Sciences awarded the \$1.5 million physics prize to Andre Geim, 51 years old, and Konstantin Novoselov, 36, for “groundbreaking experiments” on a new form of carbon known as graphene.

The scientists began their careers as physicists in Russia, and now work at the University of Manchester in Britain. Dr. Novoselov is one of the youngest Nobel Prize winners ever.

Their road to the physics prize began humbly—with a bit of Scotch tape and the graphite found in everyday pencils.

Several years ago, while investigating the electrical properties of graphite, the scientists needed thin pieces of the material. When filing didn't work too well, they tried peeling off extremely thin layers using



Andre Geim, left, and Konstantin Novoselov won the \$1.4 million prize Tuesday.

Scotch tape. It worked, so they kept peeling until they got to a material that was just one atom thick.

“Six or seven years ago, we stumbled on this new class of materials,” said Dr. Geim in a phone interview. “You can't imagine anything thinner than one atom. We found its properties to be amazing—very different

from any other standard three-dimensional material.”

Graphene is thought to be the thinnest and strongest material in the world, more than one hundred times as strong as the strongest steel. It is virtually transparent, extremely dense, and impermeable to gases and liquids.

“It's stiffer than a diamond. At the same time, you can stretch it like rubber,” said Dr. Geim.

In describing the science behind graphene, the Nobel committee on its website noted that a one-square-meter graphene hammock would be nearly invisible and also able to bear the weight of a four-kilogram (8.8 pound) cat. The hammock itself would weigh less than a single cat whisker.

Graphene also happens to be the best-known conductor of heat and electricity. Experiments have suggested that electrons travel about 100 times faster in graphene than they do in silicon.

According to Dr. Geim, that could make it an ideal candidate as a material for high-speed transistors used in cellular phones, for electrodes used in DNA sequencing machines, and other electronic devices.

Scores of scientific teams are already trying to harness the new nano-material. In February, researchers at International Business Machines Corp. published a paper in the journal *Science* demonstrating a radio-frequency graphene transistor.

Silicon transformed electronics and computing by allowing transistors to increase in speed while shrinking in size. But silicon and other existing transistor materials are believed to be approaching the smallest size at which they can be effective. Graphene has been tapped as the candidate that might replace silicon, though not anytime soon.

“This won't happen in the next 20 years,” said Dr. Geim. “Making integrated circuits from graphene is still far beyond the horizon.”

In its citation for the award, the Swedish academy said the duo had achieved their result “at a time when many believed it was impossible for such thin crystalline materials to be stable.”

Dr. Geim has Dutch nationality, while Dr. Novoselov is a British and Russian national.

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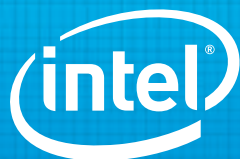
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EUROPE NEWS



Associated Press

The village of Kolontar, Hungary, was flooded by toxic mud released from an aluminum plant.

Hungary calls emergency as toxic sludge kills four

BY VERONIKA GULYAS
AND MARGIT FEHER

BUDAPEST—Hungarian authorities declared a state of emergency in three western counties after a flood of toxic sludge from an aluminum plant poured through a series of villages, killing at least four people, and threatened to contaminate the Danube, one of Europe's most important waterways.

More than 100 people were injured—some suffering chemical burns after they came into contact with the red mud—and seven people remained missing on Tuesday night, officials said. The sludge, laden with heavy metals, poured from a damaged storage pond at a factory in the town of Ajka, about 160 kilometers southwest of Budapest.

As firefighters and soldiers evacuated people from inundated towns, authorities scrambled to pour hundreds of tons of gypsum and other chemicals into the area and a nearby river, in an effort to neutralize and trap the sludge and prevent it from seeping into the soil or flowing into the Danube, which empties into the Black Sea.

Hungarian Prime Minister Viktor Orban said the government is investigating the causes of the accident. He said the spill, which started at midday Monday, had been contained by late Tuesday. It was unclear how long the cleanup would take, he said.

"There's no precedent for such a catastrophe," Mr. Orban said.

Emergency crews struggled with rains and high winds in the area on Tuesday night. Villages remained coated with the red mud, which burst into houses and carried away cars. Authorities said 1 million cubic meters of sludge were released when the reservoir broke.

Zoltan Illes, the government's junior minister for environmental affairs, said a 35-year-old man drowned when a wave of sludge overturned his vehicle.

An elderly man and two children were killed when their homes were flooded.

One witness told Hungarian news agency MTI that a two-meter-high wave of sludge hit his village.

Monday's spill revived memories of a chemical spill in 2000, when a waste reservoir at a gold mine in Romania gave way, dumping cyanide and heavy metals that spread through the region's rivers. That spill killed wildlife and poisoned drinking water in Hungary, Serbia and Bulgaria as well as in Romania.

Andreas Beckmann, director of the World Wildlife Fund's Danube program, said that ordinarily, the spill in Hungary probably wouldn't have posed a direct threat to the Danube. But because of heavy rains, the sludge "will spread faster and further," making it "likely inevitable" that some sludge would get into the Danube, he said.

The sludge, thought to contain arsenic, lead, cadmium and chromium, is extremely alkaline, accord-

ing to environmental groups, making it toxic to wildlife. Authorities have dumped acids into the Marcal River near Ajka in an effort to neutralize the alkalinity before the chemicals can flow into the Raba and Danube rivers.

"We've been calling the government's attention to this for years, but no one took it seriously," said Gergely Simon, a specialist in chemical contamination at the Clean Air Action Group, a nongovernmental environmental advocacy organization.

Mr. Simon said that when state-owned aluminum-making enterprises were sold to investors after the collapse of communism in Hungary, neither the government nor the newly private enterprises paid enough attention to environmental protection.

MAL Hungarian Aluminum Production & Trade Zrt., which owns the Ajka plant, issued a statement saying there was nothing it could have done to prevent the calamity, which it blamed on heavy rains.

"Company management could not have noticed the signs of the natural catastrophe nor done anything to prevent it even while carefully respecting technological procedures," the company said.

Environmental-protection experts said it could be necessary to remove contaminated soil, scraping away a layer ten to 15 centimeters deep, to remove the toxic sludge from affected areas.

Cameron to warn of impact of cuts

BY ALISTAIR MACDONALD
AND LAURENCE NORMAN

BIRMINGHAM, England—U.K. Prime Minister David Cameron will lay the groundwork Wednesday for a round of painful public-spending cuts, warning Britain that the biggest fiscal squeeze in decades will be "difficult" and hit all sections of society.

Mr. Cameron is trying to assure the U.K. that the cuts will be applied across British society—thereby fulfilling a campaign theme—without upsetting core middle-class supporters in his Conservative Party, which is holding its annual conference here.

As the conference got under way this week, the prime minister quickly found himself in trouble with those middle-class supporters following an announcement Monday that the U.K.'s new Tory-led coalition government plans to cut popular universal child-care benefits for higher-earning families.

That sparked unease within the party among members who think the move will damage the economic fortunes of middle-class Britons, dent the party's traditional pro-family image and ultimately hurt the Conservatives in local elections next May.

In his first conference speech as prime minister Wednesday, Mr. Cameron will seek to soothe that anger with assurances that he hasn't forgotten core Conservative values, such as economic aspiration, cutting regulation and trimming business taxes.

In two weeks, the coalition government will announce the results of a spending review that will cut an average of 25% off the budgets of some government departments.

In a debate that has dominated British politics and looms over this conference, the government wants to save £113 billion (\$178.9 billion) over five years to cut a budget deficit of 11.4% of the country's economic output.

"Reducing spending will be difficult," Mr. Cameron will say, according to a transcript of parts of the speech. "There are programs that will be cut. There are jobs that will be cut."

Mr. Cameron will highlight banking as a sector that needs to put its shoulder to the wheel, tapping into a still-powerful distaste for bankers in the U.K. in the wake of the financial crisis. "Taxpayers bailed you out—now it's time for you to repay the favor and start lending to Britain's small business again," Mr. Cameron will say, amid data that shows banks are still cautious on lending to businesses and mortgage lenders.

In doing so, Mr. Cameron also is suggesting there could be further taxation for bankers. On Monday, Treasury chief George Osborne said the government "will not allow money to flow unimpeded out of those banks into huge bonuses." Mr. Osborne has repeatedly said the government is still considering ways to tax banks.

Having spent his election campaign assuring the U.K. that the modern Conservatives care as much about the poor as they were always reputed to care about the rich, Mr. Cameron has been keen to continue the theme in his actions since the May election.

The party spent much of Tuesday, however, pulling back from one such legacy: its cut to child benefits that have been paid to all parents, regard-



Associated Press

U.K. Prime Minister David Cameron leaves hotel during party conference.

less of their economic status. Mr. Osborne announced Monday an end, by 2013, to child benefits for families with one adult earning over about £44,000. The move will affect an estimated 1.2 million families and could see a family with two children lose about £1,750 a year from the benefit cut. In his speech, Mr. Cameron will say the policy underscores how the cuts are "not going to be easy."

"But it's fair that those with broader shoulders should bear a greater load," he will add.

Many Conservatives at the conference believe the policy will undercut the party's image as pro-family and hurt it in May's elections.

The way the proposal is designed is "completely ludicrous and is going to lose us votes," said Lynne Coe, a Conservative activist from South Wales.

The party tried to burnish its traditional pro-family approach by suggesting married couples could get a new tax break to help compensate for losing the child benefit, and Mr. Cameron said in broadcast interviews that the government was looking at helping stay-at-home mothers with "some sort of transferable tax allowance" to help couples.

At one point, Mr. Cameron appeared to apologize in a broadcast interview for the fact that many senior Tories had said before the election that benefits would stay universal. In attacking the principle of "universal" benefits, in which payment comes regardless of the recipient's wage, the measure acted as a wake-up call to Britain's middle classes. Some delegates were asking whether Mr. Cameron would now stand by promises to keep other universal benefits, such as free bus transportation for pensioners and winter-fuel payments.

In the coming weeks, members of Britain's middle class will hear about other policies likely affect them. That includes the results of consultations on how much extra students will need to pay for their higher education and on reform to tackle the country's large pension deficit.

But a succession of Tory ministers took to the stage to say the country must make sacrifices if it is to curb a huge debt that will cost £46 billion in interest charges next year.

Among the more controversial budget cuts is one to the Ministry of Defense, which is currently undergoing a major strategic review, as well as looking at where it can make cuts.

On Wednesday, Defense Minister Liam Fox will say "never has a defense review been carried out under such extreme circumstances," according to excerpts from his speech.

Moody's warns on Irish rating

BY PAUL HANNON

LONDON—Moody's Investors Service said Tuesday it may cut Ireland's debt rating again, citing the increased cost to the government of repairing the stricken banking system, weak economic growth and rising borrowing costs.

A further downgrade could push Ireland's borrowing costs higher and make it more difficult for the government to meet its debt repayments without seeking help from the European Union.

But Moody's said it is still possible that Ireland will be able to bring its borrowing under control. "Even with elevated yields it is possible to stabilize the debt, but it would require additional [budgetary] efforts and meaningful growth," Dietmar Hornung, Moody's lead sovereign analyst for Ireland, said.

Last week, the Central Bank of Ireland said it would cost the government €50 billion (\$68.45 billion) in total to bail out banks that have suffered big losses as a result of property loans. The government

said that would push its budget deficit up to 32% of gross domestic product this year, the highest for any member of the euro zone since the currency was launched in 1999.

In July, Moody's cut the Irish government's rating by one notch to Aa2, citing similar concerns.

Moody's said that if it does cut Ireland's rating, it would likely be by one notch, to Aa3. However, it said the cut could be deeper, to single-A.

A one-notch downgrade would bring Moody's in line with Fitch Ratings and Standard & Poor's Corp.

U.S. NEWS

Fed official urges aggressive action



Chicago Fed President Charles Evans favors more monetary accommodation.

By JON HILSENATH

CHICAGO—Charles Evans, president of the Federal Reserve Bank of Chicago, called for the Fed to do more to charge up the economy, including a new program of U.S. Treasury bond purchases and possibly a declaration that it wants inflation to rise for a time beyond its informal 2% target.

“In the last several months I’ve stared at our unemployment forecast and come to the conclusion that it’s just not coming down nearly as quickly as it should,” Mr. Evans said Monday in an interview with *The Wall Street Journal*. “This is a far grimmer forecast than we ought to have,” he added. As result, he said, he favors “much more [monetary] accommodation than we’ve put in place.”

The comments are significant because Mr. Evans tends to reflect the broad center of gravity at the central bank. His prescription for aggressive action, though not uniformly held by his colleagues, suggests a shift in mood at the Fed.

On the heels of remarks by Fed Chairman Ben Bernanke and New York Federal Reserve Bank President William Dudley, it is likely to reinforce a growing conviction among investors that the Fed will restart a bond-buying program when it meets Nov. 2 and 3.

It also suggests Fed deliberations

are going beyond resuming bond-buying plans to contemplating new strategies for talking about inflation and for communicating the Fed’s stance to the public.

In recent months, Mr. Evans, a 52-year-old economist who has led the Chicago Fed since 2007, has become increasingly worried that the U.S. is falling into what’s known as a “liquidity trap,” in which banks don’t lend and firms don’t invest. He has grown frustrated with a lack of progress in bringing down unemployment and is now forecasting inflation of 1% in 2012 and below 1.5% in 2013, well below his own 2% goal.

The Fed is now considering whether to add to its \$2.3 trillion portfolio of securities and loans by ramping up purchases of U.S. Treasury bonds, in an effort to drive down long-term interest rates and boost growth. Mr. Evans says he favors that, but worries that alone “would not be enough” to address his concerns.

The Fed also needs to push down “real” interest rates, nominal interest rates minus inflation, to induce households and businesses to part with savings and borrow and spend more, he said. One way to push real interest rates lower is to get inflation higher. The Fed might aim to overshoot its informal 2% target for a time to make up for lost ground, Mr. Evans said. “That is a potentially useful policy tool at this point

and I definitely think we should study it more,” Mr. Evans said.

Mr. Dudley last week also raised the possibility that the Fed might try to catch up when inflation falls short of its objective by allowing it to run over the target by an equal amount later.

Mr. Bernanke has ruled out raising the inflation target altogether. He hasn’t weighed in on this catch-up approach for the U.S., though in the past he has recommended such an approach for Japan. The Fed’s policy statement in September noted that inflation was running below its objective.

Any further move to boost inflation would be highly controversial both inside and outside the Fed, which has preached the virtues of less inflation ever since then-Fed Chairman Paul Volcker put the U.S. economy through a wrenching recession to wring out double-digit inflation in the 1980s.

“There is nobody who would want, in any way, to lose what Paul Volcker won for the American people by fighting inflation and achieving price stability,” Mr. Evans said. “But the current circumstances are really extraordinary. It seems to me if we could somehow get lower real interest rates so that the amount of excess savings that is taking place relative to investment is lowered, that would be one channel for stimulating the economy.”

Global central banks take rescue steps

Continued from first page
ier credit by all the world’s central banks could prevent any one currency from gaining advantage. But the prospect of more monetary easing is contributing to the rise in the price of gold, which rose 1.79% to \$1,338.90 an ounce Tuesday, a new settlement high.

For emerging markets, many enjoying much stronger economies, the moves are putting unwelcome upward pressure on their currencies and triggering more-than-desired inflows of foreign money seeking higher yields. Brazil, in response, raised to 4% a tax on foreign fixed-income investments to try to slow the flow. China, meanwhile, came under renewed pressure, this time in Europe, for refusing to let its currency rise.

In the U.S., Fed officials are signaling that the \$1.7-trillion bond-buying effort they ended in March is likely to be resumed, perhaps as soon as its Nov. 2-3 meeting.

“The unemployment rate is too high; inflation is lower than what I think price stability is,” Charles Evans, president of the Federal Reserve Bank of Chicago said in an interview that echoed comments by Fed Chairman Ben Bernanke and New York Fed President William Dudley. “If we were to do more large-scale asset purchases, namely Treasuries, that would have a beneficial effect.”

In Australia, where the economy has been driven by a commodity boom, the central bank surprised markets Tuesday by keeping a key interest rate unchanged at 4.5%, though the governor, Glenn Stevens, cautioned that higher rates will be required at some point.

In the U.K., the Bank of England suspended its bond-buying effort in February, but left the door open to

restarting asset purchases if conditions deteriorate. Minutes of the September meeting of its Monetary Policy Committee revealed some officials are inclined to buy more.

“There remains a significant gap between what the economy could be producing at full employment and it currently produces. Thus, policymakers should not settle for weak growth out of misplaced fear of inflation,” committee member Adam Posen said recently.

The readiness to move swiftly contrasts with reluctance in most capitals to pursue more stimulus.

The European Central Bank has avoided the large-scale asset purchases, known as “quantitative easing” pursued in the U.S., the U.K., and Japan, but has spent €63.5 billion so far to buy government bonds issued by beleaguered members of the euro-zone. ECB officials in public are more upbeat about the economy than their counterparts elsewhere, and more focused on the upside risks to inflation.

The readiness of at least some central banks to move swiftly contrasts with reluctance in most capitals to pursue another round of fiscal stimulus. Alan Blinder, a Princeton University economist and a former Fed vice chairman, likened the situation to having “one engine firing in reverse—at least if “talking austerity” becomes “practicing austerity.”

“In normal times,” he said, “this would not be so bad because the central bank can always put in more aggregate demand than fiscal con-

traction takes out. But once interest rates are near zero, the central bank is down to weaker instruments—and it could use help, not hindrance, from the fiscal authorities. The Fed is most assuredly in that position now.”

Fed Chairman Bernanke, in a speech Wednesday night, said “pre-mature fiscal tightening could put the economy at risk,” but pressed the case for moving now to deal with longer-run budget pressures. “Failing to address our unsustainable fiscal situation exposes our country to serious economic costs and risks,” he said. Analysts say that a loss of confidence in the capacity of U.S. politicians to wrestle with the long-run budget deficit would greatly complicate the Fed’s ability to keep long-term interest rates from rising before the economy regains its health.

In Tokyo, which has debt worries of its own, the Bank of Japan has been under increasing pressure from politicians threatening to curb its independence if it didn’t do more to boost growth and also has been pressed to help the government pull down the yen, which has risen in part because other central banks have been more aggressive.

BOJ officials touted the fact that this time they acted before the Fed, but the move was small in scale and the central bank said it would buy long-term bonds “with a remaining maturity of about one to two years,” a contrast with the Fed’s past and likely future moves to buy longer-term bonds to reduce longer-term interest rates.

The Bank of Japan also nudged down the target for its key overnight rate to a range of between 0.0% and 0.1% from the previous 0.1% target, and, making its commitment to low rates more explicit, said

it would maintain a “virtual zero interest rates policy” until the deflation threat dissipates and “medium-to long-term price stability is in sight.”

Mr. Shirakawa called the new program “comprehensive easing.” Officials officials definted that as a combination of “quantitative easing” (bond purchases designed to pump credit into an economy in which short-term rates are already near zero) and “credit easing” (asset purchases designed to steer credit directly to companies without relying on banks.)

“The effects of each of these measures might not be so substantial, but we are thinking that if we present this as a package, that might result in some kind of tangible effect,” said a person familiar with the BOJ’s thinking. He added that the BOJ sees Tuesday’s announcement as the beginning of an experiment. “This is the starting point,” he said. “If this works, we may have a chance to increase the amount.”

Government officials, who have often been critical of the BOJ for being too conservative, expressed satisfaction with the new program. “The BOJ’s decision was appropriate and prompt” said Finance Minister Yoshihiko Noda. “I expect the BOJ’s move will have a favorable impact on the currency market and the economy,” he told reporters.

But with a relatively small amount on the table, most analysts were unimpressed. “There’s no doubt the BOJ tried its best today, but it’s hard to see how the measures as a whole will help the economy very much,” said Hirokata Kusaba, senior economist at **Mizuho Research Institute**.

—Brian Blackstone and Natasha Brereton contributed to this article.

IMF cites risks to bank system in new report

By NATHALIE BOSCHART AND IAN TALLEY

WASHINGTON—Risks to financial stability remain elevated because of a combination of slow global growth, high sovereign-debt burdens and continuing weakness in the banking sector, the International Monetary Fund warned in a report released Tuesday.

The IMF highlighted persistent risks to the banking system due to high debt levels in mature economies and resulting tensions on sovereign bond markets, particularly in Europe.

“Policy makers in many advanced countries will need to confront the interactions created by slow growth, rising sovereign debt indebtedness and still-fragile financial institutions,” the IMF said in the report, which was published during annual meetings in Washington.

Despite lowering the estimated cost of the global financial meltdown to the banking sector to \$2.2 trillion between 2007 and 2010 from \$2.3 trillion due to narrower securities losses, the IMF noted that progress toward financial stability has suffered a setback since its previous report in April, citing the outbreak of the public finances crisis in Europe. Credit woes in Europe have prompted governments to put in place tough debt-reduction programs, which in turn have heightened risks to the global growth outlook, the IMF said.

It said extraordinary support measures for the banking sector, as well as nonstandard monetary policy, may have to be maintained longer than initially envisaged.

U.S. NEWS

Times Square case yields life sentence

BY CHAD BRAY

NEW YORK—The man who tried to detonate a car bomb in Times Square in May will spend the rest of his life behind bars.

At a court hearing Tuesday, Faisal Shahzad, a U.S. citizen originally from Pakistan, told a federal judge in Manhattan that if given 1,000 lives "I will sacrifice them all in the name of Allah" before he was sentenced to life in prison.

"The defendant has repeatedly expressed his total lack of remorse, his desire if given the opportunity to repeat the crime," U.S. District Judge Miriam Goldman Cedarbaum said. Mr. Shahzad "has now announced and, by his conduct, has evidenced his desire is not to defend the United States or Americans, but to kill them."

Mr. Shahzad, 31 years old, pleaded guilty to a 10-count indictment in June, including charges of conspiracy to use a weapon of mass destruction and attempting an act of terrorism.

"Brace yourselves, the war with Muslims has just begun," Mr. Shahzad said prior to sentencing. "Consider me the first droplet of the flood that will follow." He then said the defeat of the U.S. is "imminent."

Mr. Shahzad, who was living in Shelton, Conn., has been in custody since his arrest on May 3, two days after the New York City bombing attempt. He was taken off of an international flight headed out of John F. Kennedy International Airport.

An unoccupied, smoking Nissan Pathfinder was found parked in Times Square on May 1. Mr. Shahzad allegedly purchased the vehicle in a supermarket parking lot in Connecticut for \$1,300 in cash, about a week before the failed bombing, according to prosecutors from the U.S. Attorney's office in Manhattan.

Inside the vehicle, the New York Police Department bomb squad found several bags of fertilizer, two red five-gallon gasoline canisters, 152 M-88 fireworks, three propane gas canisters and two alarm clocks connected to wires.

Mr. Shahzad told authorities after his arrest that he planned to detonate a second bomb in New York two weeks later if he had not been taken into custody, prosecutors said.

"If you call us terrorists, we are



Faisal Shahzad pleaded guilty in June.

proud terrorists," Mr. Shahzad said Tuesday. "And we will keep on terrorizing you."

Prosecutors have alleged Mr. Shahzad received explosives training in Pakistan in December from people affiliated with Tehrik-e-Taliban, a militant extremist group based there. He allegedly received about \$12,000 in cash to help fund the attack, prosecutors said.

In a sentencing letter last week, prosecutors said Mr. Shahzad accessed websites that provided real-time video of the crowds in Times Square in the weeks prior to the attack "as part of his effort to maximize the deadly effect of his bomb."

Mr. Shahzad wanted to select a time with the most pedestrian traffic "because pedestrians walking on the streets would be easier to kill and to injure than people driving in cars," according to prosecutors.

After he was sentenced, Mr. Shahzad said his sentence "will only be for the limit God has for me in this world."

The judge urged Mr. Shahzad to consider whether the Quran wants him to kill people. His response: "The Quran gives you the right to defend. That's all I'm doing."

As part of their sentencing submission, prosecutors submitted a video of a controlled explosion conducted by the Joint Terrorism Task Force of a bomb similar to Mr. Shahzad's in order to measure its explosive effects.

In the video, a Nissan Pathfinder is parked in a field, surrounded by four automobiles, two mailboxes, several newspaper boxes and figures representing people.



From left, Taunton, Mass., Mayor Charles Crowley, Bill Clinton and Democratic Rep. Barney Frank at a campaign rally last month. Below, Sean Bielat, a Republican challenging Mr. Frank in the Nov. 2 general election.

Frank's fight erodes help for fellow Democrats

BY DAMIAN PALETTA AND BRODY MULLINS

It's the kind of political year in which even Rep. Barney Frank is being forced to break a sweat.

The Massachusetts Democrat, one of Congress's most well-known members, usually wins re-election by steamrolling his opponents.

This year, he's campaigning aggressively to beat back Sean Bielat, an upstart Republican challenger who was five years old when Mr. Frank first won a House seat in 1980.

It remains highly unlikely Mr. Frank will lose. He remains popular in his Boston-area district. From his perch as chairman of the House Financial Services Committee, he has surpassed his own fund-raising record.

Internal polls show him with a 24-point lead with less than a month left; his opponent says the gap is closer to 10. Last time, Mr. Frank won by 43 points.

But the national mood is hostile, and conservative groups would consider his defeat a trophy for their wall. Mr. Frank is now spending more time on his re-election instead of pumping money into the campaigns of vulnerable Democratic lawmakers, the traditional role of a party grandee. As a result, Mr. Frank's focus on his own district will have reverberations in races across the country.

So far this election, Mr. Frank has dipped into his personal re-election account to donate just \$35,000 to 12 Democratic candidates, according to campaign-finance figures compiled by the nonpartisan Center for Responsive Politics, a fraction of his largesse two years ago, when he gave \$248,000 to 86 candidates. This year, he has given \$250,000 to the campaign arm of House Democrats, compared with \$650,000 in 2008.

Mr. Frank's opponent is a 35-year-old U.S. Marine Reserve officer and a business consultant from the Boston suburb of Brookline. His campaign has been focused on jump-starting the economy, taking



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on the political establishment in Washington and removing regulations he says hurt growth.

"People here are tired of Barney Frank," said Mr. Bielat. "He's been here for 30 years. He's gained a reputation for being arrogant to constituents, to the press, to whom-ever."

New England is hostile territory for House Republicans, and the 2008 election wiped the party off the map.

Mr. Bielat shocked many by raising \$400,000 in September, a large number for a neophyte, and he said money has poured in this month as well.

Last month, Mr. Frank, 70, drafted former President Bill Clinton to appear at a campaign event in Taunton, a sign of how seriously Mr. Frank takes the race.

As one of the chief authors of the new Wall Street regulatory law, Mr. Frank has become a target of business and conservative groups who dislike the legislation.

Mr. Frank said many of the attacks on his record, particularly related to housing policy and the growth of mortgage-finance giants Fannie Mae and Freddie Mac, were inaccurate.

"It's not my opponent that is the issue, it's the right-wing attacks," Mr. Frank said. "No matter how implausible things are, if people are saying them over and over again, you've got to respond to them or people will believe them."

New England is hostile territory for House Republicans, and the 2008 election wiped the party off the map. Massachusetts seemed particularly impenetrable until January, when Republican Scott Brown won the Senate seat previously held by Sen. Edward Kennedy. Mr. Brown won Mr. Frank's district easily, suggesting to some that Mr. Frank's seat could be in play.

Some Republicans believe they have a shot to win three House seats in Massachusetts alone, including Mr. Frank's.

Mr. Frank's district includes a large section of blue-collar neighborhoods that make up southeastern Massachusetts. It winds north through the state and includes parts of Boston suburbs Newton and Brookline.

Mr. Frank has more than \$1 million on hand to finish the race, and the support of many local business groups.

"It's much more of a race than it has been in prior years, but from our perspective, it would be a real loss to Massachusetts if Barney's not re-elected," said Daniel Forte, president of the Massachusetts Bankers Association, a trade group. Messrs. Frank and Bielat are scheduled to debate each other twice.

"When turnout is low, a 10% differential in a poll can evaporate quickly," said Roger Porter, a professor at Harvard's Kennedy School of Government. "While Frank clearly has the lead now, and he's very well funded and financed, he will undoubtedly put on a huge get-out-the-vote effort, but so will his challenger."

Service sector expands, easing fears of new dip

BY JUSTIN LAHART

The U.S. service sector expanded last month, allaying fears that the economy could slip back into recession as manufacturing cools.

An index based on a survey of U.S. purchasing managers at non-manufacturing firms rose to 53.2 in September from 51.5 in August, the Institute for Supply Management reported Tuesday. Anything over 50 indicates expansion.

Service-sector firms account for about two-thirds of gross domestic product and employ more than four of every five private-sector workers in the U.S.

"It's a good, strong report," said

Anthony Nieves, who oversees the report and is also senior vice president of supply management for **Hilton Worldwide**.

Of 18 industries tracked, 11 reported growing in September from August, including management firms, wholesalers and retailers. Three contracted—mining, public administration and educational services—and four were flat.

An employment sub-index showed that firms started adding to their payrolls again last month after reducing them in August. Another index showed that new orders piled up faster in September. Those increases offset slowing growth in current production.

WORLD NEWS

U.S. strike sought to disrupt plots

BY SIOBHAN GORMAN
AND ADAM ENTOUS

A Central Intelligence Agency drone strike Monday in Pakistan's tribal areas is believed to have killed a group of German and Arab militants in an intensified American campaign aimed in part at disrupting terrorist plots in Europe, U.S. and Pakistani officials said Tuesday.

"There's reason to believe a mix of Germans and Arab terrorists were killed," a Western official said.

It hasn't yet been determined whether the militants are connected to suspected European terror plots that prompted the U.S., U.K. and other countries to issue travel warnings in recent days, a Pakistani official said.

The CIA has rapidly escalated its drone strikes in Pakistan's tribal region along the Afghan border in the past month, in part to try to disrupt the European plots. Monday's strike, which local reports said hit a house in North Waziristan, was the 25th since Sept. 1, according to the New America Foundation think tank, which tracks the strikes.

A German foreign ministry spokesman said Tuesday it couldn't confirm Germans were killed Monday in a drone attack. "We don't have any reliable information," the spokesman said, adding that the foreign ministry and the German Embassy in Islamabad are in contact with the Pakistani authorities and are working to clarify the facts. Wire-service reports cited Pakistani intelligence officials as saying that up to eight Germans died when a missile struck in the town of Mirali.



Police in Marseille, above, and Avignon, France, arrested nine people Tuesday, part of a probe into radical Islamic groups.

The U.S. State Department has advised Americans to be vigilant when traveling to Europe, following an accumulation of what U.S. officials described as credible intelligence pointing to a possible attack in countries including the U.K., France and Germany. None of those three countries heightened their domestic threat alerts, but the U.K., Japan and Sweden also issued travel advisories.

A spokesman for the German interior ministry said the threat of terrorist attacks in Germany remains abstract and unchanged since early 2009, when Islamic extremists circulated a series of Internet videos threatening terrorist attacks in Germany and other Western countries. Officials elsewhere in Europe said they had no evidence of any disrupted plots in an advanced state of planning.

Dozens of Islamist militants from Germany have sought military training in Pakistan and Afghanistan since the 1990s, following a path once taken by members of the Hamburg Cell that led the Sept. 11, 2001, attacks in the U.S. German officials attempt to monitor travel by members of radical mosques in Germany, but "jihad tourism still flourishes," an intelligence official said.

Some German officials have criticized the quality of U.S. intelligence, which is driving much of the understanding of and response to the terror plots, saying it is overreliant on information from a German detainee, Ahmed Sidiqi, who was picked up in Afghanistan in July. U.S. officials strongly disagreed with that characterization on Tuesday. "It's simply wrong for anyone to suggest that information related to the Europe threat comes from one place," one U.S. official said. "We're talking about multiple streams of information that have been independently verified."

The U.S. official cautioned that it is unlikely that anyone other than al Qaeda has a full picture of the plots apparently in the works, because the group is good at covering its tracks.

In France, police and judicial authorities said three suspects were arrested Tuesday as part of a probe launched several months ago into an alleged network recruiting fighters in Europe for Afghanistan and Pakistan. They made no link between the arrests and the drone attacks.

French authorities said the three suspects were arrested because their names were found in the cellphone of another man who was arrested last month in Naples and who is suspected of having ties with the recruiting network. Recruiting networks have become a top concern of European antiterrorism investigators, French judicial officials said.

As part of a separate probe into radical Islamic groups, French police Tuesday arrested nine other people. Officials said the latter group may be connected to gang violence.

—David Gauthier-Villars, David Crawford and Stacy Meichtry contributed to this article.

Rare find: a new language

BY ROBERT LEE HOTZ

In the foothills of the Himalayas, two field linguists have uncovered a find as rare as any endangered species—a language completely new to science.

The researchers encountered it for the first time along the western ridges of Arunachal Pradesh, India's northeastern-most state, where more than 120 languages are spoken. There, isolated by craggy slopes and rushing rivers, the hunters and subsistence farmers who speak this rare tongue live in a dozen or so villages of bamboo houses built on stilts.

The researchers identified the language—called Koro—during a 2008 expedition conducted as part of National Geographic's Enduring Voices project, and announced their discovery Tuesday in Washington, D.C. World-wide, so many languages have vanished in recent decades that the naming of a new one commanded scientific attention.

"Their language is quite distinct on every level—the sound, the words, the sentence structure," said Gregory Anderson, director of the nonprofit Living Tongues Institute for Endangered Languages, who directs the project's research. Details of the language will be documented in an upcoming issue of the journal *Indian Linguistics*.

Prized for its rarity as an unstudied linguistic artifact, the Koro language also offers researchers a catalogue of unique cultural experience, encoded in its mental grammar of words and sentence structure that helps shape thought itself.

Languages like Koro "construe reality in very different ways," Dr. Anderson said. "They uniquely code knowledge of the natural world in ways that cannot be translated into a major language."

In an era of globalization, languages have been disappearing by the hundreds, edged out by English, Chinese and Spanish or suppressed by government practices.

Of the 6,909 known languages, about half are expected to disappear in this century; every two weeks, the last fluent speaker of a language dies. This newest, with only 800 or so speakers, may be no exception.

"Even though this is new to science, this language is on the way out," said linguist K. David Harrison at Swarthmore College outside Philadelphia. Many younger villagers, often educated at boarding schools where only Hindi or English are spoken, are abandoning their parents' language. "Young people are not speaking it in the villages," Dr. Harrison said. "If the process continues, Koro will almost certainly become extinct."

Even as languages disappear, many of them have never been identified or named. In search of that hidden diversity, linguists have been pushing deeper into remote regions and analyzing known language groups more thoroughly.

In China last year, researchers identified 24 languages in a region where previously only one had been reported. Recently, the scholarly compendium of known languages, called *Ethnologue*, added 83 previously unidentified languages from 19 countries.

As a matter of formal classification, Koro belongs to the Tibeto-Burman language family, a group of some 400 languages that includes Tibetan and Burmese, the linguists said. Some 150 Tibeto-Burman languages are spoken in India alone.

The language has no written form. Its only permanent monuments are recordings made by the researchers during the expedition, which they hope to use in compiling an online dictionary. The villagers so far, though, have no access to the Internet, so the dictionary and other digital records of Koro may only be of academic interest.

This newest addition to the global catalogue of known languages eluded notice until now because travel in the region is restricted by government permit and few linguists have ever worked there.

Moreover, it was masked by the unusual language diversity of the area, where so many languages are spoken that they seem to intermingle effortlessly in streams of thought. Indeed, the local Koro speakers themselves did not consider theirs a separate language, even though it is as distinct from those spoken by other villagers as English is from Russian, the researchers said.

The researchers hope their work will aid efforts to preserve the endangered language. "If we care about the diversity of ideas and knowledge, then we should be concerned about losing these languages," Dr. Harrison said.

Turkey set to launch spy satellite in 2012

BY JOE PARKINSON

ISTANBUL—Turkey's Prime Minister Recep Tayyip Erdogan set a date of 2012 for the launch of the country's first spy satellite, state-run news agency Anadolu Ajansi reported.

Mr. Erdogan told members of the ruling Justice and Development Party in Ankara on Tuesday that Turkish engineers were hard at work on the satellite—to be called Gokturk—and that he hoped it would be finished in 2012.

A successful launch of the satellite would ease Turkey's reliance on U.S. intelligence apparatus in its operations against the separatist Kurdistan Workers Party, or PKK, which has used bases inside mountainous northern Iraq to launch guerrilla raids against Turkish military targets. Turkey also this year took delivery of unmanned aerial vehicles from Israel to monitor the Iraqi border.

Turkey in recent years has been seeking to boost its domestic arms industry in a search for security independence and a potentially lucrative export business. Mr. Erdogan boasted at the weekend launch of a Turkish-built amphibious ship that by year end the country would produce 50% of all military equipment the Turkish military buys, up from 25% in 2001, Anadolu reported.

Mr. Erdogan said at the same event that Turkey has started to



Prime Minister Erdogan addresses lawmakers from his party Tuesday.

manufacture tanks, launched its own prototype of drone reconnaissance aircraft and was conducting test flights of its first national helicopters, while the country's first domestically designed infantry rifle would begin mass-production next year.

That development, he said, would bring Turkey's defense-industry revenues to \$3 billion by the end of 2010, from \$1 billion in 2002, when his ruling AK party swept to power.

WORLD NEWS

U.A.E., Malaysia target Iran banks

DUBAI—Banks in the United Arab Emirates have curtailed financial dealings with a handful of Iranian banks blacklisted by the U.S. Treasury, officials here said, drying up one of Iran's financial lifelines amid tightening international sanctions aimed at curbing Tehran's nuclear ambitions.

By *Chip Cummins in Dubai and Jay Solomon in Washington*

Washington has pushed many of Iran's Persian Gulf neighbors to close off financial access to Tehran's banks. The U.A.E.'s move is especially significant since Dubai has in recent years been an important re-export hub for Iranian importers, prohibited by previous sanctions from importing goods directly from the U.S. and elsewhere.

Stuart Levey, the U.S. Treasury's point man on sanctions, traveled in late August to the U.A.E., Bahrain and Lebanon to meet with officials and explain Washington's new financial-sanctions law.

Mr. Levey said he found a "new seriousness" among Middle East banking institutions in cooperating with the international banking sector over Iran sanctions. "I have found a real and intense interest, especially [among] financial institutions" in the region, he said in a telephone interview during the trip.

Malaysia also recently suspended the local unit of Iran's second-largest bank, **Bank Mellat**, which the



In a 2007 photo, workers in Dubai load bundles of goods on a shipping vessel bound for Iran.

U.S. and the United Nations said was involved in facilitating "millions of dollars" in transactions aimed at advancing Iran's nuclear program. Kuala Lumpur followed Japan and South Korea in suspending or closing Bank Mellat operations.

Bank Mellat officials have denied engaging in illicit business and have told Iranian state-owned media that

the U.S. has never provided any evidence to back its claims. Earlier this year, the bank's chairman, Ali Divandari, said Mellat's foreign-exchange reserves had doubled from a year earlier, despite the sanctions.

The moves make the U.A.E. and Malaysia the latest in a growing list of countries that have started enforcing financial penalties against

Iran in accordance with or beyond those mandated by the U.N. Security Council in June. The U.S. has blacklisted 17 Iranian banks for alleged involvement in supporting Iran's nuclear program and international terrorist activities. U.S. officials have pushed other governments to join in shunning them.

Earlier this week, Abdul Rahim

Al Awadi, head of the U.A.E. central bank's anti-money laundering unit, confirmed publicly that the country had frozen some Iranian accounts in accordance with the June U.N. sanctions. But the country has also long enjoyed significant commercial ties with Iran, and in the past, it has stopped short of going beyond U.N.-mandated measures.

"U.A.E. banks abide by U.N. sanctions," a senior U.A.E. central bank official said in response to emailed questions. But he added that, in addition, "they have stopped dealing with sanctioned Iranian banks on the U.S. list." The official declined to comment further.

Several executives at large banks in Dubai and Abu Dhabi, the two largest emirates of the seven that make up the U.A.E., declined to comment on their policy toward Iranian banks. A banking executive at one of the U.A.E.'s largest banks said commercial payments and transfers with some Iranian banks are still taking place, but the bank is being "very vigilant" on all Iranian transactions.

The U.A.E. central bank hasn't specifically ordered banks to fall in line with U.S. sanctions, officials here said. But last month, the central bank asked banks to report cash transfers to Iran, making it clear it was ratcheting up scrutiny.

The bank has also provided U.A.E. banks with an explanation of new U.S. sanctions enacted in July.

—Margaret Coker, Nour Malas and Mirna Sleiman in Dubai contributed to this article.

U.S. envoy to Iraq warns about Sadr

By SAM DAGHER

BAGHDAD—The U.S. ambassador to Iraq said Tuesday that any significant government role here for the anti-U.S., movement of cleric Muqtada al-Sadr could affect Washington's ability to maintain its commitments for a long-term strategic partnership with Baghdad.

The Iran-based Mr. Sadr gave his backing last week to Iraqi Prime Minister Nouri al-Maliki for a second-term in office, bringing Mr. Maliki much closer to the parliamentary majority needed to form the next government, following inconclusive March polls.

Mr. Sadr's political movement fared well in that election, winning 40 of the 325 parliamentary seats in contention. During a separate news conference Tuesday, Mr. Maliki said Mr. Sadr had a right to be in the next government, though he downplayed any significant role for the radical cleric.

Mr. Sadr and members of his political movement say they are linked to a militia that the U.S. accuses, among other things, of being behind a recent Iran-backed surge of rocket attacks against American installations in Iraq—including the U.S. Embassy in Baghdad.

"There is not clarity on whether the Sadrist movement is a political movement or it is an armed militia, which carries out political objectives through violent means, and a democracy cannot tolerate that," said Ambassador James F. Jeffrey during a news conference in Bag-



Radical Shiite cleric Muqtada al-Sadr

dad. "We would urge our Iraqi friends to be cautious in the kind of positions that they leave open to anyone who has not made clear their position," Mr. Jeffrey said.

Mr. Jeffrey described the Sadrists as "a problematic partner for a democratic process."

U.S. agreements with Iraq include plans for military, strategic, political, economic and cultural cooperation. However, Mr. Jeffrey said, "if a coalition contains elements that do not want a relationship with us, that impacts on the Iraqi side how they respond to our offers."

Mr. Maliki, in his news conference, said only "independents" would be selected for the sensitive portfolios of defense and interior and head of the intelligence service.

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