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Wen scolds EU over attacks on strong yuan

By JOHN W. MILLER

BRUSSELS—Chinese Premier Wen Jiabao asked European Union leaders Wednesday to tone down their attacks on Beijing in an escalating battle over the value of the world's key currencies.

"If the yuan is not stable, it will bring disaster to China and the world," he said in a speech to top EU officials and business people, who have recently joined the U.S. in publicly demanding that Beijing let the value of its currency appreciate. "I say to Europe's leaders: Don't join the chorus pressing to revalue the yuan."

The yuan was pegged to the dollar until June. It has since been allowed to fluctuate in a tight range but hasn't strengthened nearly enough to satisfy other economies confronted with slumping exports and massive trade deficits with China. A weaker currency helps a country's exports by making them less expensive.

To the dismay of Europe-

ans, the yuan has since strengthened by about 2% against the dollar but fallen close to 10% against the euro.

"Exchange rates should be as realistic as possible," German Chancellor Angela Merkel told reporters Tuesday.

Olli Rehn, the EU's monetary affairs commissioner, acknowledged that the Chinese currency had been allowed to fluctuate but now needed to be "complemented by an increased flexibility."

However, Mr. Wen, in promising to only "gradually" let the yuan increase in value, was repeating what he and other senior Chinese officials have been saying since June.

"It's the rest of the world that's now upped the ante," says David Bloom, global head of currency trading for HSBC. The combination of November's midterm elections in the U.S., a series of international meetings where new deals could get made, and slow economic growth has spooked the markets and put pressure

on political leaders, he adds. China, too, has much to lose by floating its currency, Mr. Wen argued.

"If we increase the yuan by 20% or 40%, as some people are calling for, many of our factories will shut down and society will be in turmoil," he said.

The currency tensions overshadowed an exceptional meeting among leaders of 46 Asian and European countries, as well as formal EU summits with China and South Korea, that have shut down the center of Brussels for most of this week.

EU leaders pressed China to respect intellectual-property rights and open public contracts to European companies.

The main Chinese demand at the summit was that they receive market-economy status.

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- IMF cuts global growth forecast amid turmoil 9



Chinese Premier Wen Jiabao, in Brussels, asked EU leaders to tone down their criticism of the yuan.

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Oil-spill panel faults Obama response effort

By STEPHEN POWER
AND TENNILLE TRACY

WASHINGTON—The Obama administration was slow to ramp up its response to the Gulf of Mexico oil spill, then overreacted as public criticism turned the disaster into a political liability, the staff of a special commission investigating the disaster says in papers released Wednesday.

In four papers issued by the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling, commission investigators fault the administration for giving too much credence to initial estimates that just

1,000 barrels of oil a day were flowing from the ruptured BP PLC well, and for later allowing political concerns to drive decisions such as how to deploy people and material—such as oil-containing boom—to contain the spreading oil.

"Though some of the command structure was put in place very quickly, in other respects the mobilization of resources to combat the spill seemed to lag," the commission investigators found.

The papers fault the administration for taking "an overly casual approach" in calculating, during the spill's second week, that between 1,000 and 5,000 barrels of oil

were flowing into the Gulf.

That estimate—which the government later revised to between 35,000 and 60,000 barrels a day—was based on a one-page document prepared by a government scientist within six days of the April 20 explosion of the Deepwater Horizon rig, according to one commission staff paper.

The scientist's estimate was based partly on an imprecise estimate of the speed with which the oil was leaking and didn't account for a leak from a kink in the riser above the rig's blowout preventer, according to the spill commission investigators.

"Despite the acknowledged
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PAGE TWO

Tories know the IMF has it right

[Agenda]

BY PATIENCE WHEATCROFT



The Western world is not pulling out of recession with any great vigor. The International Monetary Fund is clear why. "Strong policies to foster internal rebalancing of demand from public to private sector and external rebalancing from deficit to surplus economies are not yet in place," it declared in its latest assessment of the outlook on Wednesday.

Coming a day before Greek public-sector workers plan another full day's strike, the report was particularly apposite. And it resonated with members of the Conservative Party gathered for the final day of their annual conference in Birmingham. For while the Greeks continue to fight against the cuts that their government wants to push through to make a dent in its massive borrowing, in the U.K., the coalition government is trying hard to persuade voters that the IMF's analysis is right and that the economy has to be rebalanced.

In a succession of speeches, ministers have each outlined how they intend to do their bit to achieve that, through spending cuts and efficiencies and plans to make more use of private-sector expertise. Wednesday was the opportunity for Prime Minister David Cameron to sell the policies to his party and beyond. He painted a vision of a small state that would be an enabler of enterprise and innovation at every level; that would take power from the center and give it to the people. His audience loved it. But the country at large will share some of the Greek unrest about the cuts that are inevitable.

The IMF has given its approval to the plans for cutting the deficit which the U.K.'s chancellor, George Osborne, outlined in his emergency budget this summer, a



U.K. Work and Pensions Secretary Iain Duncan Smith at the Tory conference.

fact that was mentioned several times in speeches. The scale of the problem, and blame on the previous Labour government for amassing it, was the repeated chorus. Mr. Cameron reeled off the appalling statistics: this year the country will borrow more than it spends on the entire National Health Service; its debt interest payments for the year will be £43 billion. "That could take 11 million people out of income tax or every business out of corporation tax," he said, statistics that are eloquent advocates for cutting the deficit hard and fast.

But, as the Conservatives learned this week, as they announced plans to stop the child benefit payment for high-rate tax payers, individuals may find cuts fine in principle but they feel differently about them once they hit their own pockets. This is particularly the case when they can be seen to be "unfair," penalizing some more than others. Since the cut is not scheduled to come into effect until 2013, there may be a bit of tweaking here.

Mr. Cameron didn't get involved in such details. Rounding off the conference, his role was to persuade the faithful, and the Liberal Democrats who are now bound into the coalition government, that they can put the country back onto a path of which the IMF would approve and which would actually presage an upbeat future for the U.K.

The former leader, Iain Duncan Smith, is playing a pivotal role in this. Now in charge of Work and Pensions, he has determinedly pushed for a complete overhaul of the benefits system which will ensure that Britain's "claimant culture" changes. His mantra that "We will make work pay" will require a massive overhaul of the benefits system. This brings heavy upfront costs, but he has persuaded his colleagues that it is an investment worth making. Work will no longer be optional for those capable of earning.

Mr. Duncan Smith also announced at the conference that there would be a new scheme for helping the unemployed to set up their own businesses. This will provide a small amount of capital, a maximum of £2,000, but also mentoring.

Finding the mentors is crucial. The Prince's Trust, a charity that helps start-ups with advice as well as cash, has a far higher than average success rate for small businesses. According to the Federation of Small Businesses, which is keen to support the initiative, a similar scheme launched under a previous Conservative government created 36,000 businesses in one year and 74% of them were surviving after 18 months, by which stage 60% of start-ups have usually collapsed.

"We want to see 10,000 new businesses by next year," said Mr. Duncan Smith. But to progress

from being a small business to being a significant employer, those businesses will require more than £2,000.

The prime minister was keen to stress that, in his view, "wealth creators" were not "dirty words." Yet he had a message for the banks: taxpayers bailed you out, now return the favor and lend to Britain's small businesses.

The IMF knows cuts are only half of the story: without growth, the double-dip threat still lurks for many Western economies.

An auditor's report

As banks crashed and asset write-downs swept billions off balance sheets, some have queried why auditors' reports in company accounts gave no hint of what lay ahead.

Auditors aren't exactly pleading guilty for their role in the disaster but the profession is acknowledging that there may be a need to change.

Ian Powell, chairman and senior partner of one of the major global firms, **Pricewaterhouse Coopers**, is the latest practitioner to suggest ways in which the value of the auditor's message might be enhanced. Hosting a dinner on Tuesday for business leaders, he explained that auditors often had lengthy discussions with their clients, and audit committees in particular, about "risks of misstatement and areas of judgement in the financial statements." Perhaps some of that discussion should be published rather than remain private, he said.

Doing that might give investors a few sleepless nights but at least they would have a clearer idea of what was really going on in the business in which they had a stake.

Mr. Powell also recognized a major failing in corporate accounts. "Technical complexity and volume have grown in recent years at the expense of comprehensibility," he said.

He's right. But perhaps there are some companies that really don't want "comprehensibility."

What's News

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■ **Fitch and Moody's cut** Ireland's ratings after revelations about how much the banking-sector bailout could cost. 4

■ **The U.S. and China** deepened their confrontation over Beijing's foreign-exchange policies, prompting fears that the dispute could undermine economic relations between the world's two largest economies. 7

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The Source

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"The world is hoping that the political and economic brains on the planet can sort it all out. But why?"

Katie Martin on the forthcoming meetings seen as key for the markets



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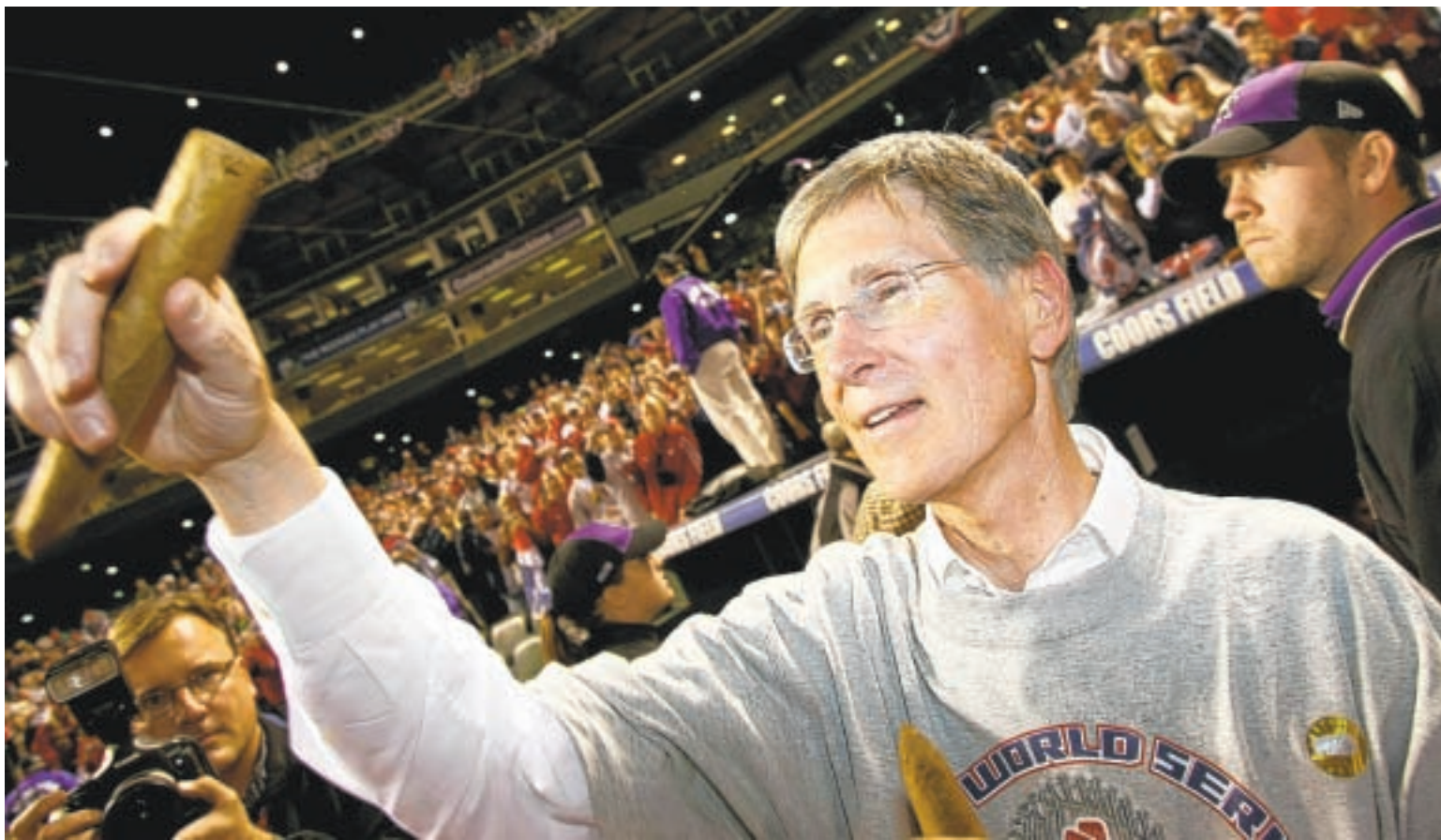
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NEWS



Getty Images

The football club's board accepted a bid from John Henry, shown celebrating the 2007 championship victory by the Boston Red Sox, a U.S. baseball team he owns.

Liverpool agrees to sell team

The board of England's storied Liverpool Football Club agreed to sell the team to the owners of the Boston Red Sox baseball team, but the deal's fate is uncertain because the football team's current owners remain opposed.

By David Enrich,
Gregory Zuckerman
and Matthew Futterman

After hours of negotiations, Liverpool's board voted early Wednesday morning to accept a roughly £300 million (\$477 million) bid from U.S. hedge-fund manager John Henry, whose **New England Sports Ventures** LLC owns the Red Sox, among other U.S. properties.

But Liverpool's American owners, Tom Hicks and George Gillett, are trying to block the deal, which they view as undervaluing the 118-year-old franchise. Trying to derail the sale, Messrs. Hicks and Gillett Tuesday evening attempted to oust members of Liverpool's board who supported a sale to Mr. Henry's group.

On Wednesday morning, however, the board's chairman, Martin Broughton, announced that he was "delighted that we have been able to successfully conclude the sale process" to Mr. Henry's group.

Later in the day, a spokesman for the owners retorted: "Broughton was not given authority to sell the club, the board has been legally reconstituted, and the new board does not approve of this proposed transaction."

Liverpool is struggling to repay its debts to lenders led by **Royal Bank of Scotland Group PLC**. Earlier this year, RBS appointed Mr. Broughton to be the team's chairman and hired investment bank Barclays Capital to search for someone to buy the team.

People close to the matter say bank lenders played a major role in encouraging a sale to Mr. Henry's group, which won out over an investment team from Singapore. "The banks finally said 'enough is enough' and gave the board encouragement to agree to a deal," said someone close to the negotiations.

Outside lawyers say it is unusual for a board of directors to act in opposition to its owners, but the situation is complicated by the fact that RBS is waiting in the wings and has different interests than Messrs. Hicks and Gillett.

In an interview Wednesday with Liverpool's official website, Mr. Broughton said the owners previously had told RBS in writing that he was the only person authorized

to make changes to the board and that "they would take no action to frustrate any reasonable sale. And I think they flagrantly abused both of those written undertakings."

The dustup now appears headed to court, where it could take at least a few weeks to resolve. Liverpool's board plans next week to seal the sale by seeking a ruling from a U.K. judge that the sale process was legitimate and binding, according to people familiar with the matter. Messrs. Hicks and Gillett also might seek an injunction blocking the deal from going through.

Messrs. Hicks and Gillett, U.S. financiers who have each owned professional sports teams in North America, bought Liverpool in a leveraged buyout in 2007. The deal saddled Liverpool with a huge debt load that has strained the team's finances. Liverpool fans have blamed the financial mess for undermining the team's ability to recruit and pay for top talent in England's elite Premier League, and the team this season has been struggling on the field.

Messrs. Hicks and Gillett originally supported the sales process, hoping to extricate themselves from the mess and nab a profit. But the club has been unable to find a bidder who would pay what the owners were seeking. Meanwhile, Messrs.

Hicks and Gillett have unsuccessfully tried to line up banks or hedge funds to help them refinance the club's debts.

A deadline is looming: If the team doesn't repay or refinance its loan by Oct. 15, RBS is likely to seize the team and then sell it to Mr. Henry's group, according to a person familiar with the matter.

Mr. Henry and his team, which include minority investors such as former Fidelity Investments executive Jeffrey Vinik and hedge-fund manager Seth Klarman, have been working on a deal for more than a month, according to someone close to the matter.

Mr. Henry, who is the controlling investor of the New England group, sees Liverpool as a team that can be turned around, much as his group did with the Boston Red Sox in the early 2000s, according to people familiar with his thinking.

On Wednesday, Liverpool's legions of fans, many of whom have been agitating to oust Messrs. Hicks and Gillett, were wary of another American financier taking the team's reins. The U.S. ownership of the club has rankled some fans, who have mounted intense protests outside the team's stadium.

—Sara Schaefer Muñoz
contributed to this article.

Liverpool fans, meet John Henry

Liverpool Football Club fans have wanted Americans to leave their club alone for years now. And while they won't get their wish if the proposed deal between the historic club and Boston Red Sox owner John Henry goes through, they may get much of what they are asking for—someone who will try to under-

By Javier Espinoza
and Jonathan Clegg in
London and Matthew
Futterman in New York

stand Liverpool's place in the history of English football and leave the football decisions to someone else.

After buying the Red Sox for \$690 million with partners in 2002, Mr. Henry oversaw the team's turnaround, bringing World Series titles to Boston in 2004 and 2007. That broke the supposed "Curse of the Bambino" that had stretched back to its last title in 1918—shortly after that championship the team traded Babe Ruth, one of the sport's all-time greats.

If Mr. Henry succeeds in buying debt-laden Liverpool, he may bring hope to disgruntled Liverpool fans given his track record of success with the baseball team.

Don Garber, the commissioner of Major League Soccer, the leading U.S. league, said that Mr. Henry had demonstrated "a tremendously robust understanding of the sports business and how to protect and enhance the legacy of a historic brand" as owner of the Red Sox.

"If you're a Red Sox fan, you love these guys. They've renovated the stadium, they've brought modern technology into the fan experience, they've put championship teams on the field and they've managed their enterprise with an eye towards profitability. ... I think it's a good thing for them to expand their interests outside the United States."

Dave Checketts, chief executive of **Sports Capital Partners Worldwide**, the New York-based investment firm that owns the National Hockey League's St. Louis Blues and Major League Soccer's Real Salt Lake, said Liverpool followers should be reassured by the prospective owner's track record of success. Mr. Checketts—whose investment firm unsuccessfully negotiated to buy Liverpool in 2008—said Mr. Henry has "invested in the club, buying good players, they're always in the race for the pennant in the American League East."

Ukraine code is tailor-made for scorn

By JAMES MARSON

KIEV, Ukraine—Opposition leader Yulia Tymoshenko faces a further obstacle to returning to power in fashion-conscious Ukraine—a new government dress code.

Ms. Tymoshenko, the glamorous former prime minister known for her love of designer dresses and high heels, called the code "laughable" Wednesday. Ms. Tymoshenko, who was featured on the cover of *Elle* Ukraine magazine in 2005, suggested it would prevent the queen of England and Libyan leader

Moammar Gadhafi from entering government buildings.

The new rules provided a rare common ground between Ms. Tymoshenko and a top aide to her rival, President Viktor Yanukovich. The aide, Hanna Herman, also known for her designer outfits, denounced the rules as "archaic."

"Every person should have a sense of moderation. If they don't have it, it's worth considering whether such a person should be employed in government service," she told Interfax-Ukraine news agency.

The cabinet of ministers published the new code this week, outlining a ban on miniskirts and high heels and calling on employees to maintain "a responsible appearance."

The code doesn't indicate what punishment could await any state employee whose clothes don't pass muster.

The instructions say they are aimed at "securing society's and citizens' trust in the state service"—something largely lacking in a country struggling with corruption and overwhelming bureaucracy.



Former Ukrainian Premier Yulia Tymoshenko called the new code 'laughable.'

EUROPE NEWS

Hungary orders investigation into aluminum-plant spill

By VERONIKA GULYAS

KOLONTAR, Hungary—Emergency workers struggled Wednesday to neutralize toxic sludge flowing down waterways in western Hungary after a waste spill from an aluminum plant that authorities said could take more than a year and cost \$50 million to clean up.

The sludge, a byproduct of aluminum manufacturing, poured from a broken containment pond Monday and flooded through villages including Kolontar and Devceser, bursting into homes and overturning vehicles. Four people were killed and more than 100 injured, 12 seriously, the government said.

Hungary's top police official has ordered a criminal probe into the spill by the country's highest law-enforcement agency. Investigators said they are looking into whether negligence on the part of employees led to the disaster.

The owner of the plant, **MAL Hungarian Aluminum Production & Trade Zrt.**, has denied any wrongdoing. The company has termed the accident a "natural catastrophe" and said the reservoir failed because of heavy rains.

However, Peter Szijjarto, a spokesman for the prime minister, said in a television interview Wednesday morning that the spill was likely caused by human error, and not due to bad weather.

In this small mountain-valley community about eight kilometers from the source of the spill, the red sludge remained knee-deep in some places on Wednesday evening. Workers in protective garb used earth-moving equipment to dig channels in an effort to drain what was left of the slurry.

"I was standing in my garden, when all of a sudden, a great rumbling noise came," said Ferenc Steszli, a retiree who lives in Kolontar. "I saw this huge red flood coming and just made it up the stairs" to safety in his house.

Thick red mud coats the floor in the nearby home of Zoltan Nagy, a retired miner. Outside, the walls are covered chest-high with red muck,



Residents return to check their homes in Kolontar, Hungary, on Wednesday.

an indication of the extent of the flood of the corrosive sludge, which contains heavy metals including arsenic and lead, officials said.

"We were afraid something like this would happen. But they told us there was nothing to worry about," said Mr. Nagy, breaking down in tears. "I won't come back here to live any more."

Emergency crews used tons of gypsum and acid in an attempt to trap and neutralize the highly alkaline sludge and minimize its destructiveness. The red slurry has been flowing down a local tributary and is expected to reach the larger Raba River by early Thursday.

Officials said that neutralization efforts appeared to be largely successful. By the time the sludge reaches the Raba, and later the Danube, they said, what is left would be so diluted and treated that it would be unlikely to cause significant environmental damage.

The sludge covering about 40

square kilometers of village land, however, is expected to pose a daunting clean-up challenge. Residents have been cautioned not to drink well water or to eat anything grown or caught in the area.

Troops and disaster-management officials wearing boots, coveralls and masks washed down homes and used shovels to scoop up sludge to be carted away for disposal.

The authorities have warned that the highly alkaline sludge can cause chemical burns. If it dries and becomes an airborne powder, it could also pose a health risk to anyone who inhales it, officials said.

On Wednesday night, dozens of Kolontar residents met with government officials and a representative of the aluminum company on the street near the local church, which, standing on a hill, had escaped the inundation.

Kolontar's mayor, Karoly Tili, said, "We've been sitting on a time bomb, and it blew up."



Some people jeered the company representative. "You should come out there and have a walk with us, barefoot," said one person in the crowd.

Jozsef Deak, MAL's technology director, said the company won't try to evade responsibility, but said he couldn't say more until the investigation into the cause of the accident had been completed.

Fitch cuts its rating for Ireland

By IRENE CHAPPLE

LONDON—Ireland and its stricken banking sector were hit by ratings downgrades Wednesday after revelations the bailout of the sector could cost the country up to €50 billion (\$69.18 billion), or around a third of its economic output last year.

The moves by Fitch Ratings and Moody's Investors Service Inc. come after the Irish government acknowledged that the costs of bailing out the banks—which have suffered huge losses as a result of property loans—will 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.

Fitch cut the Irish government's credit rating to single-A-plus from double-A-minus and said the outlook is negative, indicating it may lower the rating again if the economy fails to recover and political support for the budget cuts weakens.

The move came a day after Moody's said it may cut Ireland's debt rating again. Fitch now rates the government two notches below Moody's and one notch below Standard & Poor's Corp.

Fitch's move followed Moody's downgrade Wednesday of state-owned **Anglo Irish Bank Corp.**'s Lower Tier 2 debt to its lowest rating, C. The rating indicates expected default with little prospect of recovery. Moody's also cut **Bank of Ireland's** dated subordinated debt to Ba1 from A2, while Allied Irish Banks' subordinated debt was downgraded to Ba3 from A2.

Irish Minister of Finance Brian Lenihan last week said holders of Anglo-Irish's subordinated bonds will be required to share some of the cost of its failure.

Moody's said legislation being worked on to allow burden-sharing by subordinated bondholders could set a precedent for the treatment of such debt at other banks should they require government support.

■ Ireland's ghost housing estates start to see buyers 14-15

U.K. leader pushes deficit reduction, 'Big Society'

By ALISTAIR MACDONALD

U.K. Prime Minister David Cameron used a high-profile speech to sell his plans for aggressive deficit-reduction and social responsibility for individuals, a sign that the British leader is still trying to persuade the public on two key hallmarks of his new administration.

Mr. Cameron's speech at his Conservative Party's annual conference showed that he is still in sales mode on dramatically reducing public spending while engendering a "Big Society" in which individuals take on roles long played by the British government.

Mr. Cameron said he is right to make early, deep cuts to government spending and maintain investor confidence in the economy. As the size of government shrinks, he also warned that society is "not a

spectator sport" and that U.K. citizens must "step-up and own it."

Mr. Cameron will now return to No. 10 Downing Street to prepare for the release on Oct. 20 of a spending review that will cut an average of 25% off the budgets of some government departments and likely define his term.

"This is your country, it's time to believe it," Mr. Cameron said in a rousing finale that had his audience rising to their feet.

Though well received at the party's annual conference in Birmingham, much of the speech was an attempt to justify the government's direction to date, and Mr. Cameron offered no new policy or themes.

"It was everything he'd done before wrapped up in a package," said Tim Bale, a lecturer in politics at the University of Sussex and author

of a book on the Tories.

But Mr. Bale says he believes that Mr. Cameron's continued attempts to sell the idea of the "Big Society" could backfire, as it "keeps getting blank looks across the country."

Mr. Cameron tried to portray himself as a "radical" looking to free the country from government interference by empowering citizens to take control of local public services, such as law enforcement and education.

"We are the radicals now, breaking apart the old system with a massive transfer for power, from the state to citizens, politicians to people, government to society," he said.

But many Conservatives have complained that the Big Society message flopped during the election campaign and contributed to the party's failure to win a majority.

Watching the speech, Fanu Miah, 51, was reminded when Mr. Cameron called his cabinet on the stage that his party now has to share government positions with their Liberal Democrat coalition partners.

"Watching last year's speech I thought majority government was a sure thing," the lawyer from east London said.

Mr. Cameron's speech, and the conference in general, was light on new policy.

The only significant new announcement was from Treasury chief George Osborne on Monday, that higher earners would lose child benefits. This triggered anger among the party's core middle class base that has dominated the conference and continued to rumble on Wednesday.

—Ainsley Thomson contributed to this article.



David Cameron's speech offered no new policy or themes.

EUROPE NEWS

Turkey quietly rolls back ban on scarves in schools

By MARC CHAMPION

ISTANBUL—Turkey is quietly resolving an issue that has come to symbolize the country's bitter divisions and nearly toppled its government two years ago: Slowly, women are being allowed to wear Islamic headscarves on university campuses.

The head of Turkey's Higher Education Board confirmed this week that he ordered Istanbul University, one of the nation's biggest, to stop its professors from kicking students out of their classes for any reason. The directive followed a complaint from a student who was sent out of class last November for wearing a hat, worn by some students as a headscarf stand-in.

"Let alone a hat, we are against anybody being sent out of the classroom for any way of dressing," said education-board president Yusuf Ozcan, in comments to Turkey's NTV television channel. "We notified this [to Istanbul University]. If it is needed, we will notify other universities as well."

Istanbul University students say faculty members told them last month that headscarves would be permitted. Some women have started wearing them, but the ban's status remains confusing and differs widely between universities.

Turkey's de facto prohibition of student headscarves, strictly enforced after 1997, has become a talismanic issue in the country's so-called culture wars. Secularists, including many academics, support the ban out of fear that any dilution of Turkey's secular laws will open floodgates to the country's Islamization.

Religious conservatives and many liberals, meanwhile, say the rule is an abuse of individual rights that shouldn't be tolerated in a nation negotiating to join the European Union. The ruling Justice and Development Party, which has roots in political Islam, has long pushed to lift it.

In a sign of how power is shifting here, the Republican People's Party, or CHP, the main party of secularist opposition, has said in recent weeks that it, too, would support ending the ban in universities. The party of modern Turkey's founder, Mustafa Kemal Ataturk, says it still wants to limit the style of headscarf that would be permitted.

Passions remain high. Bekir Kocazeybek, the Istanbul University clinical microbiology lecturer who sent the hat-wearing student out of his class in November, declined Tuesday to talk about his reasoning. Speaking in his university office, he produced a clutch of e-mail printouts, one of which cursed himself and his Izmir ancestors in colorful terms. He said he had received numerous threats, including death threats, since a TV station made his name public this week.

A 19-year-old classmate of the girl who was sent out of class, meanwhile, says she was among about 20 conservative women in a class of 120 who had begun wearing hats last year and have now started wearing headscarves. "I want to be a doctor, to save lives," she said. "There's no politics involved here."

The headscarf ban is being enforced in a patchwork across the country, at the whim of university rectors, faculty heads and individual



Women protest in Ankara in July against Turkey's university headscarf ban.

Church and State

A sampling of laws on Islamic headware and robes:

■ **France.** In September, Parliament banned the burqa, niqab and other full-body robes in a law forbidding people to conceal their faces in public. The bill is scheduled to come into force after a six-month observation period but France's Constitutional Council will review it before it takes effect.

■ **Syria.** In July, Syria's Ministry of Education announced a ban on niqabs in all public and private universities.

■ **Belgium.** In April, the lower house of Parliament approved a ban on wearing a veil in public. The government collapsed before the Senate debated it. The issue has been postponed until the formation of the next government.

■ **Netherlands.** The new minority government, with the support of the anti-Islamist Freedom Party, has said it will propose a ban on the burqa and other full-body robes worn by some Muslim women.

■ **Switzerland.** The parliament in the canton of Aargau has voted to petition the federal government to ban the veil in all public places across the country.

professors, said Ozge Genc, head of the Religion-State and Society project at Tesev, a liberal-leaning Istanbul think tank. "The university ban for women is being removed silently, but this is not enough," she said, adding that women remain under pressure not to cover their heads.

"I take my headscarf off when I go to class but put it on when I go outside," said 18-year-old medical student Seher, who sat outside the Istanbul University medical faculty with her head covered. "I'm afraid it would cause problems if I kept it on."

Once the students leave university, they are excluded from working in the public sector so long as they wear a headscarf. The choice also constrains job prospects for women in Turkey in private-sector companies, according to a study about to be released by Tesev. Head coverings are often considered a liability for public-sector contracts or an embarrassment in front of outside clients, the study says.

Secularists, meanwhile, say that public servants no longer get promotions to senior appointments un-

less their wives do wear headscarves, a claim difficult to verify.

The university ban is specified nowhere in Turkey's constitution or laws. It was introduced after a military coup in 1980, and became strictly enforced only after 1997, when a coalition government headed by the Islamic Welfare party was forced from power.

Parliament passed legislation to lift the headscarf ban in 2008. The law was struck down by Turkey's top court on grounds that it conflicted with the constitution's secular guarantees. The court then came within a single vote of banning the AKP as a threat to Turkey's secular foundations.

That, however, is unlikely to be repeated. In a referendum last month, the government succeeded in driving through amendments to the constitution that will radically change the make-up of the Constitutional Court, likely ending its dominance by secularists. Turkey's Higher Education Board, too, was once a bastion of secularism. It is now dominated by government appointees, analysts say.

Stuttgarters rail against new station

By ANDREA THOMAS

BERLIN—A local protest over a rail project in southwest Germany has become a major political headache for Chancellor Angela Merkel and her center-right coalition.

What started as an outcry over the rising cost of revamping the city of Stuttgart's main railway station has become a lightning rod for broader disaffection with Ms. Merkel's government. Opinion polls suggest the issue could lead to an electoral backlash against the center-right in Germany's prosperous southwest, for decades a conservative bastion.

To its many critics, the ambitious revamping of Stuttgart's central station symbolizes government excess at a time when average Germans are facing tax increases and benefit cuts.

The construction site attracts daily crowds of protesters, often numbering tens of thousands, from students to retirees. A police crackdown on a demonstration last week that left over 100 protesters injured has added to public anger at the authorities' perceived high-handedness.

Ms. Merkel's Christian Democratic Union has dominated politics in the southwestern state of Baden-Württemberg—which has Stuttgart as its capital—for decades, but it is falling fast in opinion polls. With state elections due in March, only 37% of voters say they would vote for the CDU, according to the Forsa polling institute, down from 44% at the last state elections in 2006. The CDU's coalition partners, the pro-business Free Democrats, are currently so unpopular that they might struggle to win any seats, polls suggest.

Losing the state in March would strengthen the hand of Germany's left-leaning opposition parties in the national upper house of parliament, where the country's 16 states are represented. That would make it harder for Ms. Merkel to pass laws, and would likely fuel criticism of her leadership within the CDU.

"This can turn into a fateful question for Merkel," said Gerd Langguth, professor of political science at the University of Bonn and the chancellor's biographer. "Baden-Württemberg is not any state," he said. The CDU has ruled the state since 1953.

Ms. Merkel faces a total of six

state elections next year and she needs to score some victories to show her restless party that she can turn around the CDU's fortunes. The CDU and the Free Democrats won national elections just a year ago, but have seen their popularity slide since then due to a series of unpopular decisions, including tax increases and the bailout of Greece.

The so-called Stuttgart 21 rail project involves tearing down much of the city's beloved old train station so that trains can pass through, and under, what is currently a dead-end terminus. Proponents including the state government, Ms. Merkel and the national rail company Deutsche Bank AG say the new project will better connect Stuttgart to Europe's rail network.

What started out as a local protest over the cost of revamping a train station has become a lightning rod for dissatisfaction with the Merkel government.

Opponents say the project is a massive waste of taxpayer money that threatens one of the Stuttgart's only surviving prewar landmarks. A study by transport consultancy Vieregge & Roessler for the opposition Green Party claims the project will cost at least €10 billion (about \$13.8 billion), far more than the official estimate of €4.1 billion.

The ferocity of public anger about Stuttgart 21 has taken the CDU by surprise, since the project's existence has been public knowledge since 1994. Opposition to it was marginal until construction began this year.

The main political beneficiary is the Green Party, which political analysts say is eating into Ms. Merkel's middle-class base. A Forsa poll published Wednesday showed 23% of Germans would currently vote Green, making the once-fringe group Germany's strongest opposition party. The poll suggests the center-left opposition would trounce Ms. Merkel's coalition if elections were held now.

—Laura Stevens
contributed to this article.



Police used water cannons and pepper spray on protesters demonstrating against Stuttgart's controversial rail project last week.

Associated Press

U.S. NEWS



Associated Press

Vicki Sessions, right, stops to sign a marijuana-legalization petition for volunteer Terren Dubuque in Seattle on July 1.

Democrats look to grow marijuana vote in 2012

BY PETER WALLSTEN

Democratic strategists are studying a California marijuana-legalization initiative to see if similar ballot measures could energize young, liberal voters in swing states for the 2012 presidential election.

Some pollsters and party officials say Democratic candidates in California are benefiting from a surge in enthusiasm among young voters eager to back Proposition 19, which would legalize marijuana in certain quantities and permit local governments to regulate and tax it.

Party strategists and marijuana-legalization advocates are discussing whether to push for similar ballot questions in 2012 in Colorado and Nevada—both expected to be crucial to President Barack Obama's re-election—and Washington state, which will have races for governor and seats in both houses of Congress.

Already, a coalition of Democratic-leaning groups has conducted a poll in Colorado and Washington to test the power of marijuana measures to drive voter turnout.

Ballot measures typically don't increase turnout on a mass scale. Still, strategists in both parties argue certain ballot measures can help activate targeted groups of voters and campaign volunteers in numbers that can be significant in close elections.

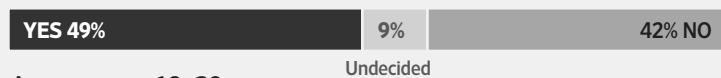
Democratic strategists liken the marijuana effort to the 2004 ballot drives to ban gay marriage in Ohio and 10 other states. Whether those measures helped then-President George W. Bush win that year remains a point of debate, as turnout was high even in states without the issue on the ballot. But many conservatives say the measure drove thousands to the polls in Ohio, the election's central battleground, where Mr. Bush won by just two percentage points, or about 118,000 votes.

Now, some Democratic strategists say marijuana legalization could do the same for their party. Should they move forward in 2012, they likely would have the backing of liberal philanthropist Peter Lewis, chairman of Progressive In-

Pot shots

Voter preferences regarding California's Proposition 19, the marijuana-legalization initiative

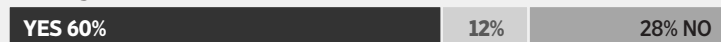
All voters



Among ages 18-39



Among Democrats



Source: Field Poll of 599 likely voters conducted Sept. 14-21; margin of error: +/-4.1 percentage points

urance Cos.

Anna Greenberg, a Democratic pollster, conducted a survey in late August to test the effect of the California measure on voter turnout. In her poll, a quarter of Democrats said they were "extremely interested" in voting in this year's elections for governor and senator. When told about the marijuana measure, the number jumped to 38%, she said. She found no effect on Republican turnout.

"Moving forward, these kinds of initiatives could have a coattail effect for Democratic candidates," she said. She declined to say who hired her to test on the marijuana issue, saying just that it was a pro-Democratic group.

Surveys by the Democratic firm Public Policy Polling suggest California voters under 30 years old are more likely to vote this year than their counterparts in other states. People in that age group make up 11% of California voters likely to turn out in November—compared with 8% of the likely electorate or less in Illinois, Connecticut, New Hampshire and Michigan, all of which have competitive statewide elections. In the last midterms, in 2006, voters under 30 were 6.5% of the California electorate, according to the nonpartisan Field Poll.

Tom Jensen, polling director for PPP, said the results suggest the marijuana initiative is driving voter interest among those under 30. He said the interest may be boosting Democratic candidates, particularly

Sen. Barbara Boxer (D., Calif.), who has built a lead over GOP challenger Carly Fiorina recently.

Blair Butterworth, a Democratic consultant in Washington state who works with legalization advocates, estimated a pot ballot measure could drive up youth turnout by two to four percentage points—enough to influence a tight race. "It's not like a home run. But with elections being so close these days, it's a big difference," he said.

Democratic pollster Andrew Myers found in a December 2009 survey in Colorado that 45% of Obama "surge voters"—people voting for the first time in 2008—said they would be more interested in turning out again if marijuana legalization were on the ballot. "If you are 18 to 29, it's far and away the most compelling reason to go out and vote," Mr. Myers said.

Still, these conclusions are under debate, even among Democrats. Roger Salazar, a Democratic consultant advising police chiefs and businesses on an anti-legalization campaign, called the evidence for increased turnout "largely anecdotal." "There are a lot of pot-smoking voters—but not that many," he said.

Few political candidates support marijuana legalization. In California, the Democratic and Republican candidates for Senate and governor oppose Proposition 19. Mr. Obama opposes legalization and would face political pressure to challenge the law if Proposition 19 passes.

U.S. economy needs tonic, not talk

[Capital]

BY DAVID WESSEL



From one camp, the cry is clear and certain: The only thing missing from the U.S. economy today is demand, and the answer is for the government to supply it.

From another, the cry is just as certain: We tried stimulus, and it didn't deliver. The Great Recession has bequeathed massive dysfunction—from the now-nationalized mortgage market to the 4.4 million Americans who have been looking for work for a year or more. The answer is targeted solutions, the "structural reforms" that rich countries used to prescribe when Latin American economies were chronically ill.

And from a third camp comes yet another cry: It's the debt, stupid. Only when the U.S. lays out a credible business plan to show it isn't going to become the world's largest subprime borrower will confidence and hiring rebound.

Which is it? President Barack Obama flits from one to the other depending on the day of the week. Mohamed El-Erian, CEO of money manager Pimco, who tends to be long on diagnosis and short on prescriptions, says it's all three. "It's not only inadequate demand," he says. "We have structural issues—things no longer work. And the debt overhang is freezing folks. It's like a massive cloud outside your door. You're reluctant to go out."

Optimists say the U.S. economy was just about to take off in the spring until Europe's sovereign-debt woes shook everyone up, and they see the much-hoped-for self-sustaining recovery just around the bend. Perhaps, but the risk that the recovery is faltering is uncomfortably large.

This week, the International Monetary Fund marked down its forecast for U.S. growth for this year and next, and payroll processor ADP said private payrolls fell in September. Gloomy Goldman Sachs economist Jan Hatzius outlined two scenarios for the U.S.: "a fairly bad one," in which the economy grows at a 1½%-2% rate through mid-2011 and unemployment rate rises to 10%, and "a very bad one," in which recession returns.

Watchful waiting doesn't seem prudent, and it will take more than soothing rhetoric to get businesses hiring again.

On the demand front, the differences between the White House (we've done all we can, given the political constraints) and the Federal Reserve (the only question is how much more we're going to do) are striking. Unfortunately, it's far from clear how much oomph another round of Fed bond-buying will provide. And Democrats and Republicans seem more interested in jockeying for position than in acting swiftly to give the economy a boost—whether to extend Bush tax cuts or embrace Mr. Obama's Republican-sounding business tax breaks or declare a broad payroll

tax holiday or spend more on roads, rails and runways.

The case that fiscal stimulus was tried last year and failed is sterile. It is, as the Bank of England's Adam Posen put it the other day, like saying, "We must have gotten to our destination, because I've been driving for hours and we've already used a full tank of gas." The issue isn't what was done wrong in February 2009; it's what should be done today.

On the structural front, solutions are neither simple nor costless, but neglect is anything but benign.

For mortgages, economists Mark Zandi of Moody's and Christopher Mayer of Columbia University are pushing for a mass government-sponsored refinancing effort for Fannie Mae and Freddie Mac loans, encompassing those with houses worth less than their current mortgages.

It would hurt some investors but give the homeowners a bit more spending power. Mr. Zandi calls it "the quickest and most effective way policy makers can help the economy" and says it could add one-quarter percentage point to the annualized growth rate next year.

For jobs, the political resistance to putting the jobless on public payrolls is severe, hence Mr. Obama's proposal to increase infrastructure spending and Washington's flirtation with a payroll-tax holiday. If those 4.4 million Americans who've been unemployed for a year or more aren't hired soon, they may never get hired again.

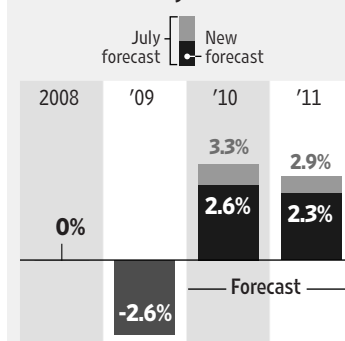
And then there's the daunting U.S. budget deficit, not today's but the one that looms in the future. Will Marshall, of the centrist Democrats' Progressive Policy Institute, complains of "a bipartisan plot to bankrupt America." Republicans won't raise taxes; Democrats won't cut spending on benefits. Partisan gridlock, in this instance, isn't welcome.

The best tonic—for the economy, markets and public confidence in government—would be combining more short-term stimulus with credible longer-term deficit-reduction, perhaps in Social Security or a coherent money-raising tax reform.

The economy isn't yet healthy. Debating the diagnosis is important, but at some point has to give way to another course of

Marked down

The International Monetary Fund Wednesday shaved its U.S. growth forecast for this year and next.



U.S. NEWS

Making do with less | How the recession has changed Americans' spending patterns, from 2007 to 2009

Among these income groups:	INCOME AFTER TAXES	FOOD AT HOME	ALCOHOLIC BEVERAGES	APPAREL AND SERVICES
All consumers	-0.17%	8.31%	-4.81%	-8.29%
Highest 20% (ABOVE \$91,290)	-0.65%	6.91%	-3.71%	-13.25%
Next 20% (\$57,944-\$91,289)	1.70	8.44	6.92	-11.66
Middle 20% (\$36,070-\$57,943)	0.04	0.66	-20.10	-15.24
Next 20% (\$19,301-\$36,069)	-0.53	9.41	-8.09	11.42
Lowest 20% (BELOW \$19,301)	-5.49	22.84	-3.41	14.12
	AVG. ANNUAL SPENDING	FOOD AWAY FROM HOME	HOUSING	EDUCATION
All consumers	-1.15%	-1.84%	-0.15%	13.02%
Highest 20% (ABOVE \$91,290)	-2.59%	-0.54%	-4.74%	16.73%
Next 20% (\$57,944-\$91,289)	-0.71	-1.72	-0.82	27.31
Middle 20% (\$36,070-\$57,943)	-3.06	-9.45	2.90	3.01
Next 20% (\$19,301-\$36,069)	0.74	3.29	3.85	6.65
Lowest 20% (BELOW \$19,301)	5.57	0.78	8.16	-6.68

Note: Income figures are before taxes. Source: U.S. Labor Department

Middle-class Americans slam brakes on spending

By SARA MURRAY

Middle-class Americans made their deepest spending cuts in more than two decades during the recession, slashing spending on such discretionary items as restaurant meals and alcohol.

Households in the middle fifth of the population sliced their average annual spending to \$41,150 in 2009, the Labor Department said Tuesday in its annual spending breakdown. That was down 3.1% from 2007 and 3.5% from 2008, the steepest one-year drop since record keeping began in 1984. The drop came even as those households' after-tax income remained relatively stable over the two years, at an average \$45,199.

Meanwhile, the poorest Americans spent more as prices for necessities such as food and rental housing climbed. Spending rose 5.6% from 2007 to 2009 for the poorest fifth of consumers, the most of any other income group, despite a 5.5% drop in after-tax income to an average \$9,956 a household. In some cases, the elderly and other low-income people dipped into savings or relied on credit to get by.

"What you're looking at here is people at the bottom trying to hang on," said Timothy Smeeding, public-affairs professor and director of the Institute for Research on Poverty at the University of Wisconsin in Madison. "You can't go below a certain level."

Average annual expenditures for people in all income groups dropped 2.8% from 2008 to 2009, the first

spending decline on record. The numbers don't account for inflation, which has been significant in areas such as food and rent. One consistently rising cost for all income groups was health care, for which spending rose 9.6% from 2007 to 2009 as costs climbed.

"I've become a lot more cautious," said Doug Pendery, who owns a small Cincinnati-based plastics maker and considers himself somewhere in the middle to upper-middle class. He said he has seen health care and taxes eat up a larger share of his income. "You're really not saving more," Mr. Pendery said. "You'd like to [but] your expenses and everything else continue to go up."

Middle-class households reined in spending mainly on discretionary items. On average, from 2007 to 2009, they cut spending 20.1% on alcoholic beverages, 15.2% on clothing and 9.5% on restaurants and other food away from home. They also spent less on some groceries, cutting back on items such as fresh milk and cream, as well as seafood.

Some of the change in spending could reflect a shift to cheaper alternatives, such as choosing McDonald's over sushi. Still, the relative austerity reflects a broader retrenching among consumers spooked by high unemployment and a sharp drop in the value of their homes and investments.

The lowest earners spent 15.4% more on food last year than in 2007, shelling out more for cereals, meat and vegetables. Since many in the lowest income group may already

rely on discount shops and make few discretionary purchases, it can be difficult for them to scrimp.

Among the poor, rent expenditures increased 5.3%. Those who managed to stay in homes they owned saw their mortgage payments rise 27.8%, suggesting that policy makers' efforts to reduce mortgage-debt burdens aren't reaching the most needy. Across all income groups, mortgage payments were down 7.6%.

Judy Sheppers, 69 years old, said she was doing her best to get costs down. Laid off as a receptionist at the end of 2008, she relies mainly on monthly Social Security of \$1,422, which will put her in the lowest income group when her weekly \$133 jobless benefits run out.

Ms. Sheppers said her group of friends in Aiken, S.C., who used to meet for cocktails and dinner every couple weeks, has created a more cost-friendly routine now.

"We've started doing more at-home entertaining, pot-luck-type things," Ms. Sheppers said. "Everyone brings a dish and someone brings a bottle of wine. In a way, that's nice."

Even the richest fifth of consumers responded to the recession by closing their wallets. Their spending fell 2.6% from 2007 to 2009.

"While their incomes are stable, their assets have declined," said Luigi Pistaferri, an economist at Stanford University in Palo Alto, Calif. "They're waiting to buy the boat or the expensive watches," and trying to rebuild wealth instead.

China, U.S. step up fight over currency

By DAMIAN PALETTA AND JOHN W. MILLER

The U.S. and China deepened their confrontation over Beijing's foreign-exchange policies, prompting fears that the dispute could undermine economic relations between the world's two largest economies. The broadsides came as top leaders prepare to gather in Washington for meetings at the International Monetary Fund. The increasingly hostile rhetoric suggests that leaders aren't moving closer to an agreement over how best to address the issue.

The fight over the value of the yuan has evolved into one of the most vexing challenges facing policy makers in the wake of the financial crisis. At issue: Emerging-market economies are now growing rapidly, while growth in the U.S. and other large economies remains sluggish.

U.S. officials believe a global "rebalancing" must take place, with countries, namely China, relying less on the U.S. to buy their goods.

But efforts to pressure China to allow its yuan to appreciate in value have so far been ineffective. A weaker currency helps a country's exports by making them cheaper.

U.S. Treasury Secretary Timothy Geithner on Wednesday called for a forceful global "mechanism" that has the power to push countries that run trade surpluses, like China, to revalue their currency and "abandon export-oriented policies."

He said a "damaging dynamic" existed that would lead more countries "to lean against the market forces pushing up the value of their currencies."

If it isn't resolved, Mr. Geithner said it could cause inflation and asset bubbles in emerging economies or push down growth.

Mr. Geithner took care to avoid singling out China by name, but at one point he made clear that it was

reluctant to act unless it was convinced others would take steps as well.

"China will be less likely to move, allow its exchange rate to appreciate more rapidly, if it is not confident other countries will move with it," he said.

The yuan was pegged to the dollar until June. It has since been allowed to fluctuate, but hasn't strengthened nearly enough to satisfy other economies confronted with slumping exports and massive trade deficits with China.

To the dismay of Europeans, the yuan has since strengthened by about 2% against the dollar but fallen close to 10% against the euro.

"Exchange rates should be as realistic as possible," German Chancellor Angela Merkel told reporters on Tuesday.

Olli Rehn, the EU's monetary-affairs commissioner, acknowledged that the yuan had been allowed to fluctuate but now needed to be "complemented by an increased flexibility."

Mr. Geithner said the IMF and a forum known as the Group of 20 that represents leaders from the 20 largest economies could work collectively to address some of the currency issues.

But the public tension between U.S. and Chinese officials has caused other countries to take steps to protect their own currencies.

South Korea, Brazil, and Japan have recently intervened in their currencies, a move that has raised foreign-exchange tensions.

Frustration with China has led to growing political unrest, with the U.S. House of Representatives last week voting to allow the Commerce Department to assess levies on Chinese imports if currency policies create an unfair subsidy.

—Natasha Brereton contributed to this article.



U.S. Treasury Secretary Timothy Geithner speaks in Washington on Wednesday.

Oil-spill panel finds fault with Obama administration

Continued from first page inaccuracies of the [government] scientist's estimate and despite the existence of other and potentially better methodologies for visually assessing flow rate...5,000 bbls/day was to remain the government's official flow-rate estimate for a full month until May 27, 2010," the staff paper says.

The paper adds that it is "possible that inaccurate flow-rate figures may have hindered the subsea ef-

orts to stop and to contain the flow of oil at the wellhead."

A White House spokesman didn't respond to a request for comment.

The working paper is one of several released by the commission that examines various aspects of the federal response to the Gulf spill. Another paper released Wednesday suggests the administration was in some ways slow to respond to the accident and then misdirected resources when it realized the Ameri-

can public viewed its response as being inadequate.

While Coast Guard personnel told the commission in interviews that they had enough equipment by the end of May, the president announced around that same time that he would triple the federal manpower responding to the spill. The paper calls this "the arguable over-reaction to the public perception of a slow response."

The tripling effort resulted in re-

sources being thrown at the problem in an inefficient way.

For example, the commission paper says, the National Incident Command staffers thought they needed to buy every skimmer they could find, even though they were hearing that responders had enough skimmers.

The commission staff also takes the administration to task for having characterized a federal report on the fate of oil in the Gulf as hav-

ing been subjected to "peer review" by independent scientists.

In fact, the commission staff paper says, it is unclear whether any independent scientists actually reviewed the paper prior to its release in August.

The paper said that about three-quarters of the oil spilled by the well had broken down or been cleaned up. Those estimates have been challenged as overly rosy by some independent scientists.

U.S. NEWS

Tea parties team up to push agendas

By NEIL KING JR.

RICHMOND, Va.—The tea-party movement is turning more professional.

Around the country, tea-party groups are building increasingly sophisticated political organizations and overcoming early bickering to push legislative platforms, elect their own delegates, shake up statehouses and even form alliances with the Republican Party establishment they profess to dislike.

Nowhere is this evolution more vivid than in Virginia, where a federation of more than 30 groups scattered across the state now has the ear of the Republican governor, top state legislators and the state's congressional delegation.

The Federation of Virginia Tea Party Patriots helped push legislation through the Virginia Statehouse earlier this year to blunt the impact of the new federal health-care law. It is now allying with like-minded lawmakers to champion an ambitious roster of bills.

In a show of strength, the group will host a two-day policy convention starting Friday in Richmond that looks set to be the largest state tea-party gathering of its kind to date.

Similar coordinating efforts are under way in states such as Michigan, Pennsylvania, Indiana, Virginia, Texas and Ohio.

For much of the past year, the meteoric rise of the tea-party movement has struck many as a threat to the Republican establishment. But in state after state, tea-party groups are putting the fireworks aside to form at least temporary alliances with the GOP as they strengthen their own organizations. Many of these groups are already looking beyond the November midterm elections and plotting strategies for legislative sessions and local elections next year. The result could help determine the tea party's longevity.

"What we are witnessing is a very authentic grass-roots movement," said Ned Ryun, president of Virginia-based American Majority, a group that trains conservative activists and candidates. "But without a lasting fabric, these groups will have trouble keeping the passion alive into the future."

Mr. Ryan's group has opened activist-training offices in Texas, Minnesota, Kansas, Missouri, Oklahoma and Arkansas.

The success of local tea-party organizations promises to transform the GOP and statehouses, regardless of whether the high-profile candidates who have stolen the headlines so far, such as Christine O'Donnell in Delaware and Sharron Angle in Nevada, win or lose.

Schisms and tensions still abound, both among tea-party groups and between various tea-party organizations and the GOP. In some contests, tea-party candidates have confounded Republican hopes, notably for Delaware's Senate seat. And the alliances could break down after November's midterm elections. But for now, the emerging picture in many parts of the country is one of pragmatism and cooperation.

These kinds of organizational alliances are likely to boost Republican efforts. Republicans have turned out in far higher numbers than Democrats in primaries across the country, while a Wall Street Journal/NBC news poll last month found that 71% of Republicans saw themselves as tea-party supporters.



The Richmond Tea Party's Jamie Radtke addressed a rally in Richmond, Va., in January. A federation of 30 Virginia groups now has the ear of top state lawmakers.

In Missouri, activist groups have backed seven-term Republican Rep. Roy Blunt in his bid for the Senate, despite his votes for legislation, including the 2008 bank bailout, which the groups usually abhor.

In Ohio, nearly all of the state's limited-government groups have banded together under the banner of the Ohio Liberty Council, a loose-knit federation of more than 50 groups. The group has formed a political-action committee to actively support candidates, and is pushing initiatives to block the health-care bill in the state and to end the Ohio estate tax.

The council has feuded openly with the state's Republican Party, which pulled out the stops in May to defeat a slate of candidates the council supported for positions on the party's central committee. "The Republicans hate us, just hate us," said Chris Littleton, the council's president.

Many tea-party groups are putting the fireworks aside to form at least temporary alliances with the GOP as they strengthen their own organizations.

Still, the group has decided to put the fight aside to support nearly all of the top Republican candidates, including John Kasich for governor and Rob Portman for Senate. The group is also operating phone banks and other get-out-the-vote efforts on behalf of half a dozen GOP House candidates.

In Pennsylvania, another statewide tea-party group, the Pennsylvania Coalition for Responsible Government, is backing Republican candidates across the board and has rallied activists to oppose several bills in the state legislature, with mixed results.

The group is marshalling support to overhaul the state's budget process and to reduce the amount of time the state legislature is in session.

"At first we focused on Washing-

ton, but now we are turning to what is wrong in Pennsylvania," said the coalition's president, Greg Wrightstone. (For the next elections, in 2012, that might include a number of Republican incumbents.)

Virginia's statewide tea-party alliance is perhaps the most advanced of any in the country, both in organization and in its own interactions with the GOP.

Its convention this weekend is expected to draw the cream of the state Republican Party and at least 3,000 participants. The state's top three Republicans—Gov. Bob McDonnell, Lt. Gov. Bill Bolling and Attorney Gen. Ken Cuccinelli—all agreed to attend and field questions, but as mere panelists, not keynote speakers.

"The party is trying to mollify the tea-party folks, if only as a protective measure," says Mr. Cuccinelli, who rose to office last year with the support of thousands of tea-party activists.

Messrs. McDonnell and Bolling see it differently. "I am going because I am driven, and the tea-party members are driven, by the same ideas," says Mr. McDonnell. Mr. Bolling says his message to the convention will be "that we stand with them and we appreciate their involvement in the political process."

Several events have helped to push Virginia to the vanguard of a national tea-party movement. A huge sales-tax increase in 2004, passed with the help of Republican votes, stirred a rebellion among the party's base and helped propel a new crop of conservatives to power last November, including Messrs. McDonnell, Bolling and Cuccinelli.

The 2009 state election, coming a year after Virginia helped elect President Barack Obama, was an early display of voter angst over Obama administration policies. The election also gave impetus and focus to the dozens of Virginia tea-party groups that sprang up last year.

By early autumn, many were eager to aim higher. "We realized we could stay local but still have more power if we worked together," says Jamie Radtke, a mother of three who has been a driving force behind the statewide organization as head of the Richmond Tea Party.

Meeting last October in the back room of a fishing-tackle shop in Ashland, Va., Ms. Radtke and the heads of a dozen other groups took the first steps to form a statewide tea-party federation. With each of the groups leery of losing its autonomy, they kept the organization loose—formal meetings once a quarter, conference calls once every two weeks.

By December they had a board, a set of leaders, and a mission: to pass legislation against the Obama administration's health-care overhaul, which was then struggling forward in Congress.

The federation found lawmakers to sponsor and move the bill. In January, hundreds of activists converged on Richmond to lobby for it. The bill, which seeks to block the federal mandate that all Virginians must buy health insurance, passed the General Assembly in March, with some support from Democrats.

The federation has had its setbacks and inner struggles. One bill the group pushed, to lift all restrictions on buying firearms made in Virginia, stalled in the General Assembly.

For months, one of its members, the Roanoke Tea Party, pushed for a proposal that would limit the federal government's ability to impose new rules and mandates on Virginia—an issue being taken up by similar groups across the country. But the Roanoke group wanted the act to include what is known as the right of interposition, a colonial-era doctrine first advanced by James Madison that argues individual states should preserve the power to block any federal law seen as objectionable.

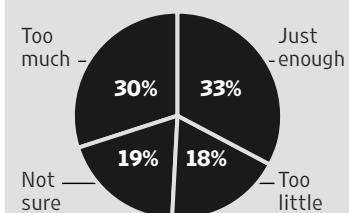
The federation objected, and Mr. Cuccinelli, in private consultations with the Roanoke group, agreed, noting how Southern states had unsuccessfully invoked the doctrine in the 1960s to resist federal civil-rights legislation.

"Interposition had a place in history, I told them, and it is not an exalted one," Mr. Cuccinelli said.

The federation, which ultimately nixed the interposition doctrine, plans to unveil its legislative agenda for next year at this weekend's convention. Topping the list will be a

Strong brew

Q: Does the tea-party movement have too much, too little or just enough influence on the Republican Party today?



Source: WSJ/NBC News poll of 1,000 adults conducted Sept. 22-26, with a margin of error of ± 3.1 percentage points

drive, also under way in a number of other states, to push a constitutional amendment that would allow states to overturn an act of Congress if two-thirds of states vote to oppose it.

The governor and other top Republicans have agreed to support the so-called Repeal Act after a series of back-channel discussions with the tea-party federation.

"We very much see eye-to-eye on the issue of federalism," said Mr. McDonnell.

The cooperation came after a bitter primary season. This spring, in the state's sprawling fifth congressional district, five tea-party candidates spent months blasting the Republican favorite, state Sen. Robert Hurt, as a tax-hiking career politician.

The day after Mr. Hurt won the Republican nomination in June, all but one of the vanquished joined Mr. Hurt for a unity rally in Charlottesville. The lone holdout, local businessman Jim McKelvey, issued his own endorsement two months later after Mr. Hurt pledged—in private talks between the two camps—to never vote for a tax increase, to steer clear of all earmarks, and to push for an audit of the Federal Reserve.

Bill Stanley, the Fifth District's new GOP chairman, helped broker the peace. The tea-party movement and the Republican establishment, he said, are essentially following the same tune, "but both sides are not yet dancing the same dance."

WORLD NEWS

Uganda
calls for
Somalia
buildup

By JOE LAURIA

KAMPALA—Ugandan President Yoweri Museveni called Wednesday for Western nations and wealthy African countries to support a significant troop buildup in Somalia, where al Qaeda-allied militants are seeking to topple the government.

Speaking to reporters, Mr. Museveni pledged enough troops from Uganda to bring the African Union peacekeeping mission in Somalia up to 20,000 soldiers. The current African Union troop deployment is about 7,200, with some 4,000 from Uganda. The Ugandan president said more financial support is needed from countries like Libya and South Africa to muster the numbers required to hold the capital of Somalia, Mogadishu.

"We have the troops, but we don't have that kind of money," Mr. Museveni told reporters following a meeting with ambassadors of the 15-nation U.N. Security Council visiting from New York. "That's why we want the international community to help us."

African Union peacekeepers are propping up a weak transitional government in Somalia that is fighting for its survival against the forces of Al Shabaab, an extreme Islamist sect that has pledged allegiance to al Qaeda. The government isn't able to administer much beyond a thin slice of Mogadishu.

The threat from Al Shabaab isn't confined to Somalia. In July, Al Shabaab militants claimed responsibility for a triple bomb attack in Uganda's capital, Kampala, that killed at least 76 people. They said at the time that Uganda was targeted because of its support of the Somali government and troops in the country. The militants have also spoken out against other countries, such as Burundi, that support the Somali government.

At a press conference, President Museveni played down the prospects of bringing immediate stability to Somalia. "In Somalia there is an evil chauvinism that should be pushed away," he said. "It may not solve problems overnight. But what is the alternative? Somalia should not be taken over by terrorists."

A senior Ugandan defense official said in an interview that Uganda could easily provide at least 12,000 troops from a standing army of 70,000. Though insurgents traditionally retreat to the countryside to continue wreaking havoc, the official said Somalia's topography isn't conducive to guerilla warfare. "There are not many places where they can hide," he said.

The U.S. hasn't made a military assessment of how many troops it would take to subdue Mogadishu, a Security Council diplomat said on a flight from Uganda to Sudan.

The Security Council's visit to Uganda was the first leg of a five-day journey that will also take it to Southern Sudan, Darfur and Khartoum, the Sudanese capital. The senior Security Council diplomat said Somalia was just one of several topics the council discussed with the Ugandan president in an hour-long, closed-door meeting at the presidential palace, set on a bluff overlooking Lake Victoria.

IMF lowers growth forecast

By IAN TALLEY

WASHINGTON—Global growth will slow down earlier than expected in 2011 as advanced economies slash budgets amid the sovereign-debt crisis in Europe, the International Monetary Fund said Wednesday.

While emerging markets such as China and India are forecast to remain growth champions, European public-debt problems will continue to undermine the recovery in industrialized nations.

All told, the IMF predicted the world economy will expand 4.8% in 2010 and 4.2% in 2011.

Expansion prospects for the U.S. took the IMF's largest downgrade, falling to 2.3% from an earlier estimate of 2.9%. China's growth is still expected to fall slightly in 2011, to a brisk 9.6%, from 10.5% this year.

Asia's economy as a whole is slated to expand 6.7% in 2011, slowing from 7.9% growth this year, the IMF said in its World Economic Outlook. The forecast for next year, down slightly from a projection of 6.8% in July, would still leave Asia as the fastest-growing region in the world, a result of a strong private-sector recovery. The IMF warned, however, that a hasty withdrawal of stimulus in countries with sound fiscal positions as well as strong, potentially destabilizing capital inflows were key risks to Asian growth.

The risks for economies to backslide are still high amid the fragile economic recovery, the IMF said. "The financial sector is still vulnerable to shocks and growth appears to be slowing as policy stimulus

Cautious recovery

Annual change in gross domestic product

	2009	2010 projection	2011 projection	2011 projection	
Euro zone	-4.1%	1.7%	0.7%	1.5%	0.2%
U.S.	-2.6	2.6	-0.7	2.3	-0.6
China	9.1	10.5	0	9.6	0
India	5.7	9.7	0.3	8.4	0
Germany	-4.7	3.3	1.9	2.0	0.4
U.K.	-4.9	1.7	0.5	2.0	-0.1
Spain	-3.7	-0.3	0.1	0.7	0.1
Russia	-7.9	4.0	-0.3	4.3	0.2

Source: International Monetary Fund

wanes," predominantly in advanced economies, the IMF said.

Renewed turbulence from the sovereign-debt crisis has the potential of "inflicting major damage on the recovery," a risk increased by the roughly \$4 trillion in debt that has to be refinanced over the next two years.

"Simultaneously addressing both budgetary and competitiveness problems in a deteriorating external environment is likely to take a heavy toll on growth," the IMF said.

While specific plans to cut budgets to reduce public debt are urgently needed, if growth slows significantly more than expected, the IMF recommended that some countries with fiscal room to spare should put off belt-tightening plans.

The IMF said medium-term plans for "growth friendly" fiscal consolidation promised by rich Group of 20 nations are still missing. "This task is now more urgent than it was six months ago," especially given the possibility that some countries may need to postpone their 2011 plans to cut budgets, the Fund said.

Weak real-estate markets, a jittery financial sector and slow inventory rebuilding are slowing the transition from government-stimulated expansion to a privately led recovery.

The IMF said a sustained recovery requires a careful rebalancing act, both domestically and globally. Rich nations that boast trade surpluses need to strengthen private demand, which would buy room for

budget cuts. Countries with trade deficits, such as the U.S., need to boost their net exports, while surplus countries, particularly Asia, must cut their net exports.

In a clear nod to the Chinese, the IMF said rebalancing can be done only with greater exchange-rate flexibility for undervalued currencies.

Rebalancing and foreign-exchange issues have been at the fore of IMF and ministerial talks in Washington this week, as concerns over the yuan and fiscal tightening have risen. "Unless financial and structural policies are significantly strengthened, potential output in advanced economies is likely to remain appreciably below precrisis levels," the IMF said.

Although domestic demand in emerging economies has become more robust, the IMF expects global demand rebalancing to stall as domestic consumption won't be strong enough to offset weaker demand from advanced economies.

Adding to recovery headwinds, the IMF warned that financial-sector overhauls need to be accelerated to restore healthy credit levels. "The financial sector remains the Achilles' heel of recovery prospects for private demand," the IMF said, calling restructuring efforts "painfully slow."

In many countries, the recovery is shaping into a jobless one: unemployment in advanced economies receded only modestly from peak rates, with an estimated 210 million people across the globe without work.

—David Roman
contributed to this article.

Nobel for 'great art in a test tube'

By GAUTAM NAIK

The Nobel Prize for Chemistry was awarded to a trio of scientists who came up with an elegant way to mesh together stubborn carbon atoms, an approach vital for the development of novel medicines, materials and electronics.

The Royal Swedish Academy of Sciences honored Richard Heck of the U.S. and Ei-ichi Negishi and Akira Suzuki of Japan for developing a sophisticated chemical tool known as palladium-catalyzed cross couplings.

The approach, which the Swedish committee described as "great art in a test tube," lets chemists fashion carbon-based molecules as complex as those found in nature. The three laureates did their fundamental research independently of each other, four decades ago.

"One of our dreams was to synthesize any organic compound of importance," said Dr. Negishi, 75 years old, in a video interview with reporters in Stockholm. "We believe our chemistry will be applicable to a wide range of compounds."

At the heart of the trio's work are carbon-carbon bonds, the basis of life. This aspect of chemistry is important enough that it accounts for a total of five Nobel prizes so far. When making an organic compound, chemists have to join carbon atoms together. Carbon is boringly stable, so scientists deploy chemical tricks to make the atoms more reactive, allowing them to bind.

The approach works fine when



Ei-ichi Negishi, one of the three scientists awarded the chemistry prize.

concocting simple molecules, but for complex molecules, it generates too many unwanted byproducts. That's where palladium comes in. The lustrous, silvery-white metal plays the vital role of catalyst. The three Nobel laureates showed that when the carbon atoms meet on a palladium atom, it can spark the chemical reaction.

"Palladium is a sort of matchmaker. It helps the atoms join hands and form a carbon bond," said Jeremy Berg, an inorganic chemist by training and director of the National Institute of General Medical Sciences, part of the U.S. National Institutes of Health.

The NIGMS has funded Dr. Negishi's research with \$6.5 million since the 1970s. It also supports other scientists involved in similar experiments.

Today, Dr. Negishi is a chemistry professor at Purdue University in West Lafayette, Ind. Dr. Suzuki, 80, is a retired professor from Hokkaido

University in Sapporo, Japan. Dr. Heck, 79, is a professor emeritus at the University of Delaware living in the Philippines.

The chemical tool kit devised by the three—known variously as the Heck reaction, the Negishi reaction and the Suzuki reaction—is now routinely used in labs around the world, as well as by industry.

"It's one thing to do chemical reactions in a lab, but when you scale it up, it gets expensive," said Joseph Francisco, president of the American Chemical Society. "The beauty of their work is that it's very clean chemistry, so you get lots of cost savings in terms of the energy used."

The cross-coupling technique has been used to optimize the blue light in organic light-emitting diodes, or OLEDs, devices that make use of organic molecules that emit light. One of the first OLED-based TV sets, with a monitor just millimeters thick, was recently unveiled in Japan, according to Dr. Francisco.

Some of the most powerful applications of the laureates' work are seen in medicine. The painkiller naproxen, sold in the U.S. under the brand name Aleve, is one of several existing drugs made possible by their work.

In the late 1980s, scuba divers discovered a Caribbean marine sponge that produces a poison in the form of complex molecules. Scientists found that the poison, discodermolide, could stop cancer cells from proliferating in a test tube, and they wanted to test it as a chemotherapy agent. But the marine sponge is rare and produces only small quantities of poison. To make sizable amounts for testing, chemists had to synthesize the compound in the lab, a major scientific challenge. They pulled it off by using the palladium-catalyzed technique.

The Nobelists' method has been used to synthesize various other experimental drugs, including one compound aimed at HIV and the herpes virus, and another being tried against colon cancer.

The technique also has a link to this year's Nobel prize for physics. The physics award was given for breakthroughs involving a novel material called graphene. According to the Nobel committee, "in spring 2010, scientists announced that they had attached palladium atoms to graphene, and the resulting solid material was used to carry out the Suzuki reaction in water."

"Their work has had such broad impact, it's nice to see it being recognized," said Dr. Berg of the NIH.

WORLD NEWS

Yemen blast injures Briton

BY OLIVER HOLMES

SAN'A, Yemen—A rocket attack Wednesday on a U.K. Embassy vehicle here injured one embassy staffer, the second attack this year on British diplomats in Yemen, which has been the focus of U.S. and U.K. anti-terrorism efforts in recent months.

Separately, Austrian oil and gas company OMV AG said one of its contractors was killed and another injured after a Yemeni security officer shot them. The attacks appeared unrelated, and the company said there was no apparent "political background" to the shooting.

There was no immediate claim of responsibility for the attack against the British diplomat, but Yemeni officials said investigators were proceeding on the assumption that it was the work of Islamic militants.

"The attack has the hallmarks of al Qaeda," an Interior Ministry official said. "The security apparatuses are continuing investigations to determine and seizing the perpetrators of this terrorist crime," the official added.

Washington and London have worked to bolster the Yemeni central government as it battles an increasingly sophisticated local affiliate of al Qaeda. A Nigerian man who allegedly tried to bomb a Detroit-bound flight on Christmas Day told U.S. investigators he received terrorist training in Yemen.

An embassy spokesman said militants fired a rocket-propelled grenade at an embassy car, which was on its way to the embassy carrying five staff members. The injured diplomat, a British national, suffered



People look at blood-stained pavement at the scene of the rocket attack.

"minor injuries" in the attack, which occurred at a little after 8 a.m. local time, officials said.

In London, British Foreign Secretary William Hague condemned the "shameful attack" and said it "will only redouble Britain's determination to work with the government of

Yemen to help address the challenges that country faces," the Associated Press reported.

He said Yemen was a difficult and dangerous place to work and the blast serves as "a reminder that we have some way to go" in efforts to make the country safer.

Yemeni authorities said that on April 26, Tim Torlot, the British ambassador to Yemen, narrowly escaped an attack on his convoy. A suicide bomber set off his explosive belt in front of a security guard's car in Mr. Torlot's convoy in San'a. The ambassador was unharmed.

In Wednesday's attack, two militants dressed as street cleaners fired rocket-propelled grenades from launchers concealed in trash bags, witnesses said. After the attack, the assailants fled the scene, leaving their weapons behind.

One woman and her child were injured, witnesses said. The woman was first hit by shrapnel and then by a swerving car. One witness said the woman's husband told bystanders the child wasn't seriously injured.

The road at the site of the attack was singed and blood-stained. The force of the impact shattered glass in nearby houses.

Meanwhile, OMV said the victim of the attack on oil workers—a Frenchman—died from his wounds at a hospital in San'a. He was working for the oil company as a contracted procurement officer. It wasn't clear where the attack took place. The second, injured contractor, a Briton, was recovering.

Yemeni authorities confirmed the attack, which took place around 9 a.m., and said the security guard was arrested and charged with the shooting. The suspect, Hisham Assem, was contracted to OMV through a private security company, the AP reported.

—Alistair MacDonald in London and Abdullah Al-Qubati in San'a contributed to this article.

Wen scolds EU leaders over attacks on currency

Continued from first page
tus, a recognition that would make it harder for the EU to levy special tariffs on inexpensive Chinese imports.

The EU has recently hit China with a number of these tariffs, including on aluminum wheels, steel and shoes.

Ms. Merkel promised help on market-economy status. However, many EU officials insist China isn't yet a true market economy and doesn't yet deserve the status.

Mr. Wen's remarks on currency were made to a crowd of several hundred top executives attending a parallel "business summit."

Europeans came hoping to improve their exposure to the massive Chinese market.

Chinese executives came to Brussels aiming to improve their image in a protectionist climate, while Europeans hoped to boost exposure to the huge Chinese market.

"It's important to get yourself in these conferences because the Chinese take the attendance lists home and examine every company name," says Lars Hansen, president of **Novozymes A/S**, a Danish biotech firm hoping to sell more of its biofuel-producing enzymes in the Middle Kingdom.

And Chinese executives came to Brussels seeking to improve their image in an increasingly protectionist climate. Europe remains key "to the development of the global economy," says Li Shufu, chairman of **Zhejiang Geely Holding Group Co.**, the auto maker that bought Volvo Cars from **Ford Motor Co.** in March. "We need to understand, to respect, the other party."

The business community also celebrated the signing a free-trade deal three years in the making, between the EU and South Korea. It links the world's biggest and 15th-biggest economies, and is considered the biggest bilateral agreement ever, rivaled only by U.S.-Australia and China-Australia deals.

Korean automobile and high-tech firms will gain access to the EU's 500 million consumers, while European firms will gain a foothold in what has been a closed but wealthy market. For example, Korean firms have a 97% share in their hard-liquor market, according to the European Spirits Organization. The FTA will remove over \$2 billion in import tariffs. The deal "also lays down fundamental intellectual-property rules to crack down on counterfeit spirits and to protect geographical indicators," such as Cognac and Armagnac, said Jamie Fortescue, the organization's director general.

Even better, Mr. Fortescue said, the agreement's wording on spirits will serve as a benchmark for other trade deals, such as one the EU is currently negotiating with India.

—Alessandro Torello and Natasha Brereton contributed to this article.

Talks seek ways to court Taliban

BY YAROSLAV TROFIMOV AND MARIA ABI-HABIB

KABUL—Afghan officials, retired Pakistani security chiefs and former Taliban leaders are meeting in Kabul, trying to find ways to open peace talks with the insurgents—possibly by dropping key Western-backed conditions to such a reconciliation.

The meetings, sponsored by the United Arab Emirates and held Tuesday and Wednesday in Kabul's luxurious Serena Hotel, don't involve insurgents. The Taliban's position is to refuse all peace contacts as long as U.S.-led international forces remain in the country.

President Hamid Karzai's aides and other officials said, however, that the Afghan government would be ready to abandon some previously announced "red lines," such as a demand that the Taliban recognize the Afghan constitution and lay down arms, in an attempt to kick start substantive negotiations.

"Peace means that all the conditions of one side cannot be accepted, and both sides must compromise," explained Mr. Karzai's Islamic affairs adviser, Nematullah Shahrani. In return for such government concessions, he said, the Taliban would be expected to abandon their demand for the immediate departure of all foreign forces as a precondition for talks.

The U.S. government has long insisted that insurgent acceptance of the Afghan constitution, which enshrines democratic freedoms and women's rights, is indispensable for

any reconciliation. Some other international officials and Afghan policy makers say, however, that democratic mechanisms already exist for rewriting the constitution if necessary. "The constitution is not a word of God—it can be changed," one Afghan official said.

This week's meetings in the Serena Hotel—a follow-up to a session held in Abu Dhabi in June—don't formally involve the 68-member peace council that Mr. Karzai appointed last month to try to open official talks with the Taliban leadership headed by Mullah Mohammed Omar. The Taliban have already rejected that council, describing Mr. Karzai as an American stooge and proclaiming that the insurgency's military triumph over U.S.-led troops is within sight.

The coalition's commander, U.S. Gen. David Petraeus, recently spoke of promising peace contacts initiated by "very high-level" Taliban members, and some military officials in Washington said they believe a reconciliation outreach to the insurgents might be helpful even absent a dramatic shift of momentum in the battlefield.

"You need all of the lines of operations running simultaneously. We like to think in phases but [military operations and peace talks] have to work in tandem," said a military official.

Administration officials, however, caution that any peace contacts are unlikely to produce results in the near future.

"We need to take the fight more aggressively and for a greater dura-

tion to the Taliban and other extremists in Afghanistan for them to feel the kind of pressure necessary to spark a movement of reintegration and reconciliation," Pentagon spokesman Geoff Morrell said Tuesday.

Some members of the newly appointed Afghan peace council hold similar views, saying the only thing the Taliban may be willing to discuss in the current security environment is a capitulation by Mr. Karzai's government.

"How can you have peace negotiations with people who believe neither in peace nor in negotiations?" wondered Mohammed Mohaqeq, a peace-council member and a strongman of the ethnic Hazara community.

Some of the people familiar with Mr. Karzai's thinking countered that view. "There's some realization on the Taliban's side as well that without a proper timetable and without proper security, it won't be possible to demand that international troops leave the country before negotiations can take place," one such person said.

Among the participants in this week's discussions are Mullah Abdul Salam Zaef, who served as the Taliban regime's ambassador to Pakistan in 2001 and was later incarcerated in the U.S. detention facility at Guantanamo Bay, Cuba, as well as the former head of Pakistan's Inter-Services Intelligence Directorate spy agency, Gen. Assad Durrani.

They also include prominent Pakistani politicians from the Pashtun nationalist ANP and PMAP parties in

regions bordering Afghanistan, a former Pakistani interior minister, the United Nations envoy to Kabul, and Mr. Karzai's senior adviser on peace and reconciliation, Mohammad Masoom Stanekzai.

"We're talking about Pakistan's involvement in Afghan affairs, Afghanistan being used against Pakistan by India, and where the Taliban is getting its arms from," one of the Afghan participants said.

Coalition and Afghan officials have frequently accused elements of the ISI and Pakistani security establishment of funneling money and weapons to the Taliban and the Taliban-affiliated Haqqani network. Pakistan is concerned by the prominent role arch rival India is playing here, alleging that New Delhi is fomenting the Baluch nationalist insurgency within Pakistan. India has denied conducting such activities.

"It's a trust-building meeting between the Pakistanis and Afghans," said one of the participants, Mirwais Yasini, the deputy speaker of the Afghan parliament.

Mullah Zaef described the meetings as "not a negotiation, but a seminar of individuals, not officials" that "may give ideas" to policy makers.

The participants in this week's Kabul discussions are working "to create a mechanism for peace talks with the Taliban," said Mukhtar Ahmad Khan Yousufzai, the Peshawar-based provincial chief of the PMAP Pakistani Pashtun political party.

—Habib Khan Totakhil and Julian E. Barnes contributed to this article.