



ECB's heir-apparent Weber finds himself on shaky ground

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North Korean pair viewed as key to secret arms trade

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Forex trades hit \$4 trillion daily

BY TOM LAURICELLA
AND DAVE KANSAS

The volume of currency trading around the world has hit \$4 trillion per day, spurred by an increase in global investing, especially in emerging markets and commodity-producing countries, and accelerated by computer-driven trading and hedge funds.

The \$4 trillion mark represents a 20% gain from the last time the global foreign-exchange markets were surveyed by the Bank of International Settlements in 2007. The BIS survey, taken every three years in April, this time provides a snapshot of the currency market during the height of the European debt crisis.

While the debt crisis likely increased trading volumes in the euro, the broader pattern of changes in trading volumes reflect the increased globalization of investing, traders say. In an environment where the big developed economies—the U.S., Europe and Japan—are struggling, investors are turning to other markets for investment returns and generating more foreign-exchange trading in the process.

This trend was evidenced in big increases in trading volumes between the U.S. dollar and Australian dollar, up 35% from 2007, and Canadian dollar, up 44%. Trading also jumped in the Indian rupee, Chinese yuan and Brazilian real. In contrast, trading in the U.S. dollar against the British pound, a mainstay of the currency markets, fell 6%.

“There’s been a change in the overall investor dynamic,”



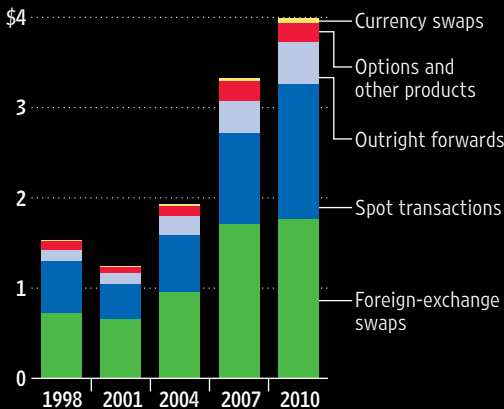
London calling | The U.K. expanded its role as the world's largest center for currency trading

Top currency trading centers
By market share in 2010

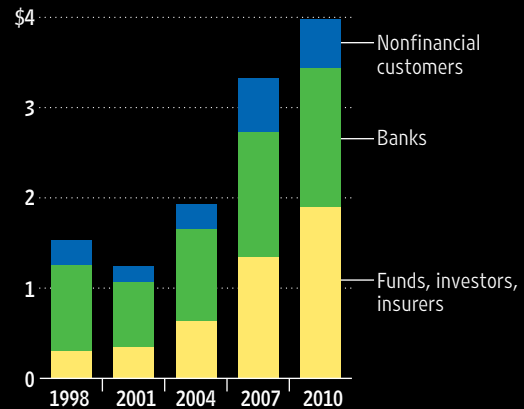
U.K.	36.7%
U.S.	17.9
Japan	6.2
Singapore	5.3
Switzerland	5.2
Hong Kong	4.7
Australia	3.8
France	3.0
Denmark	2.4
Germany	2.1

Note: All figures are based on daily averages for the month of April
Source: Bank for International Settlements Photo: Bloomberg News

Trading by instruments
In trillions of dollars



Traders by volume
In trillions of dollars



said Jeff Feig, a managing director in Citigroup’s foreign-exchange department. “There are more and more investors, especially U.S. investors, investing internationally.”

The sale or purchase of a stock or bond from another country results in money being changed from one currency to another. Mutual-fund managers overseeing portfolios of foreign stocks often

use currency derivatives to offset the impact of exchange-rate swings on those investments.

Individual investors, especially in the U.S., have usually paid little attention to the currency markets except in times of crisis. However, currency trading dwarfs U.S. stock trading, which in April averaged about \$134 billion per day, according to data

compiled by the Securities Industry and Financial Markets Association.

Trading in U.S. Treasuries, among the biggest markets in the world, averaged \$455 billion per day in April, down from an average of \$570 billion for all of 2007.

Now investors are piling into global-asset-allocation mutual funds, which make bets on currencies as a core

part of their strategy. More broadly, international stock mutual funds have taken in \$42 billion over the past year from U.S. investors, according to Morningstar Inc.

In addition, exchange-traded mutual funds, which trade as stocks, are making the currency markets more accessible to small investors. There are now 44 currency ETFs, up from 16 in April

2007, according to Morningstar. In 2004, there was only one.

Kevin Rodgers, global head of foreign-exchange derivatives at Deutsche Bank in London, said funds of all stripes—hedge funds, mutual funds and sovereign-wealth

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■ U.S. regulators finalize rules for retail currency traders . 24

Dutch hold two men in terror probe

BY EVAN PEREZ
AND JOHN W. MILLER

Dutch authorities Tuesday said they need more time to investigate the case of two men who were detained after setting off terrorism fears with their travel behavior and items found in at least one of the men’s luggage.

Ahmed Mohamed Nasser al-Soofi and Hezam al-Murisi are being “held in custody on suspicion of a conspiracy to a terrorist criminal act,” the Dutch prosecutor’s office said. “In a few days it will be made

public if they will be charged.”

U.S. authorities cautioned that the U.S. residents of Yemeni descent weren’t accused of any wrongdoing. The men set off red flags in part because a search of one of the men’s checked luggage turned up suspicious-looking items including mobile phones attached to a full Pepto-Bismol bottle, a knife and box cutter.

Both changed their travel itineraries when they arrived in Chicago on Sunday with itineraries to Dubai, a U.S. law-enforcement official said.

They were seated near each other on the Amsterdam flight, the official said.

One of the men’s luggage traveled to Washington’s Dulles airport, part of his original itinerary, and was found to contain the items considered suspicious, U.S. officials said. One of the men was carrying \$7,000 in cash, U.S. officials said.

U.S. officials say that security policies require matching checked bags to passengers on international flights only, in part because luggage is screened for explosives. That

explains how luggage belonging to one of the men traveled to Washington-Dulles without him. While the circumstances aroused suspicion among security officials, U.S. officials also cautioned that the matter might be a case of coincidences causing a false alarm.

A scheduling issue with the airline appeared to prompt the men to change their flights, a U.S. law-enforcement official said.

Arjen Klaas-Krikke, the lawyer for the two men, told a Dutch newspaper he was “very upset about all the in-

formation now released.” It has caused his clients “to be already condemned through the media.” Mr. Klaas-Krikke pointed out that U.S. authorities had determined that the materials on the plane were inoffensive.

This is the second time in less than a year that Schiphol Airport has been the scene of a terrorism-connected incident. Last Christmas Day, a Nigerian student was arrested after his Amsterdam-Detroit flight for packing explosives in his underwear. He is still in custody.

The Quirk



Failed search deepens the mystery of vanished Arctic explorers. Page 29

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Feeding the NHS, starving its patients. Page 11

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PAGE TWO

U.K. and France will have to bury those age-old animosities at sea

[Agenda]

By IAIN MARTIN



The history of Anglo-French cooperation in naval matters is not an entirely happy one. France and Britain have fought each other at sea with explosive results on plenty of occasions—most famously at the Battle of Trafalgar in 1805. Then there was the British attempt to negotiate a surrender of the French fleet in July 1940. Churchill didn't want it falling into German hands and was determined to send a signal that he intended to stay in the war.

The resulting brutal engagement at Mers-el-Kébir off the Algerian coast lasted only hours, cost more than 1,300 lives and resulted in the effective destruction of the French Navy. These are not natural naval bedfellows.

Seventy years later a new tide of cooperation on defense is flowing back and forth between Paris and London. Relations are so warm that the idea of the two countries pooling their aircraft carriers has even been floated in the British press. If it were to happen in those terms—shared crews, resulting in rows in the canteen over the cuisine on offer—it is not an initiative likely to prove popular with nationalistic public opinion on either side of the Channel.

But Ministry of Defence sources in London play down that specific idea, one saying the proposals have been misunderstood (possibly deliberately by the Royal Navy) and that it would be impossible to share aircraft carriers. Instead, the U.K. government hopes to negotiate an arrangement by which the partners agree to coordinate refits of their carriers so



The French aircraft carrier Charles de Gaulle at sea in an undisclosed location.

that there is always at least one, either French or British, available from the European theater. The Americans understandably look askance at a continent that could, conceivably, say “we're out of aircraft carriers, they're all being fixed right now,” if there was an emergency that required European involvement.

The French have long been enthusiasts for greatly increased Europe-wide, or EU, defense cooperation.

The conditions for the two countries working together now could not be better. France rejoined the NATO military command structure last year, President Nicolas Sarkozy reversing a decision taken by the ruggedly individualistic and anti-American President Charles de Gaulle in 1966. Mr. Sarkozy has attempted to reposition France after the rift with the U.S. over the Iraq war and the resulting

bitterness between President George W. Bush and President Jacques Chirac.

New U.K. Prime Minister David Cameron and President Sarkozy also have a very good relationship. Before the election, the Conservatives' then shadow defense secretary and now defense secretary Liam Fox, also traveled to Paris to lay the groundwork for improved relations with his counterparts.

Since the change of government the Ministry of Defence in London has found the Élysée Palace most cooperative, encouraging French defense ministers and officials to seek ways to work much more closely with their British counterparts. Remits for various new working parties are being drafted. Dinners are imminent. A summit between Messrs. Cameron and Sarkozy in November may produce the first fruit if talks between now and then go well. A formal treaty is not thought to be necessary, but is not being ruled out.

Both countries are also out of cash. They need to make drastic public spending savings in defense

and other areas. An improved degree of coordination between Western Europe's two largest military powers would surely seem to make sense in straitened circumstances? “We both want to look at what we can do combined. Can we buy in support services jointly? Together we have improved bargaining power,” says a person familiar with the talks.

What could possibly go wrong? There are obstacles, not least of which might be the French electorate. The opposition French Socialists are on the rise and closed their annual conference with promises to present a credible alternative in the presidential contest coming up in 2012. Both of their likely candidates—Dominique Strauss-Kahn and Martine Aubry—outscore Mr. Sarkozy, according to the most recent polling.

The British want to be sure that whatever is agreed now could reasonably be expected to survive a change in the French presidency.

It is also unclear whether the British and the French want the same thing. There is the potential for considerable misunderstanding. The U.K. government, peppered with moderately Euro-skeptic Conservatives in its upper reaches, wants to work closely with France on a sovereign basis—“but keeping the levers separate,” as one aide put it.

The French have long been enthusiasts for greatly increased Europe-wide, or EU, co-operation on defense. A fortnight ago, President Sarkozy again urged the establishment of a European Rapid Reaction Force to help deal with natural disasters such as that unfolding in Pakistan. Does the president hear the word co-operation from the British and think that they are signing up to more than they are?

But for now, it is early days, and they are talking. Just don't mention Mers-el-Kébir.

What's News

■ **France is calling** for closer oversight of commodity-derivatives markets in the EU to help reduce the volatility of commodity prices. The nation is striving to broker a common position on the supervision of derivatives ahead of its G-20 chairmanship later this year. 4

■ **Fed officials wrestled** with a slew of unanswered questions before deciding at their Aug. 10 meeting to alter their portfolio strategy, minutes from the meeting showed. 7

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‘Sovereign-debt woes have vanished from front pages, only to be replaced by the U.S. economy.’

David Cottle on analysts' challenges as they consider year-end forecasts



Continuing coverage



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Question of the day

Vote and discuss: Should Thilo Sarrazin resign from the board of Germany's Bundesbank over his controversial statements?

Vote online at wsj.com/polls

Previous results

Q: Should a skyscraper be built that would block the 360-degree view from the Empire State Building?

Yes

74%

No

26%

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NEWS

A scolding sets the Kremlin atwitter

By GREGORY L. WHITE

MOSCOW—Dmitry Medvedev may be Russia's first Internet-savvy president, but he showed the limits of his Web tolerance Tuesday, publicly scolding a regional governor for posting on Twitter during a government session.

"There's Nikita Yurievich Belykh sitting there and writing in Twitter right from the State Council session," Mr. Medvedev complained from his seat at the head of the table at the solemn Kremlin event. "Apparently, he's got nothing better to do."

According to Russian TV and news agency reports, the reaction was stoic from the more than 200 regional and federal officials gathered in the ornately vaulted Georgievsky Hall for the discussion of higher education.

Except in their microblogs. Mr. Belykh promptly blamed presidential economic adviser Arkady Dvorkovich for telling on him. "There you go ;(. Dvorkovich leaked my reports to the President. Such are the costs of the information society ;(



Dmitry Medvedev, right, and Kremlin adviser Vladislav Surkov at the session

Mikhail Men, governor of the Ivanovo region, chimed in that Mr. Belykh would pick up lots of new Twitter followers from the controversy. Dmitry Zelinin, who heads the Tver region, pointed out that "lots of govns are in Twitter."

Mr. Dvorkovich seemed chastened, saying in a post that the exchange had "strongly livened up the

proceedings. There won't be bad consequences."

After the session, even Mr. Medvedev seemed less stern, responding to Mr. Belykh with his own Tweet: "Yes, those are the costs of the information society. The important thing is that they don't distract from work, right?"

Mr. Belykh, a former opposition

Russian dispatch

Some of Kirov region Gov. Nikita Belykh's tweets from Tuesday's State Council meeting at the Kremlin:

- 10-15 people at the State Council are sitting with iPads. They used to sit with laptops. Darned stenographers ;)
- Or maybe they're doing other things? That couldn't be;)
- There you go ;(. Dvorkovich leaked my reports to the President. Such are the costs of the information society ;(

leader who is governor of a depressed industrial region northeast of Moscow, responded that he agreed completely—and that he had read in advance the speech that was being given when he was scolded.

A Kremlin official contacted for comment said the president was most concerned that officials weren't paying attention at the ses-

sion, not about the use of Twitter generally. Late in the day, Mr. Belykh posted again to explain that after the Twitter discussions had gotten attention in the national media, wireless Internet access in the hall was turned off, cutting off the participants. "At least somebody got interested in the State Council," he wrote.

The Soviet government was known for marathon congresses with thousands of delegates and multihour speeches. Even now, many official Russian events are highly scripted and formal, especially public sessions with hundreds of participants. At Tuesday's session, they were seated in a rectangle over 100 feet long to listen to speeches on education policy. Twitter reports, some with pictures, said many attendees were using phones or Apple iPads, which are the rage in Moscow even though they aren't officially on sale.

Mr. Medvedev, a 44-year-old former corporate lawyer, is an occasional tweeter and has his own video blog.

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Roger Federer attributes his many successes to an enduring love of tennis, to hard work and focus in the heat of competition. Through experience, Credit Suisse understands the many facets of success and the nature of successful people. The one thing common to them all is the motivation they derive from others. Credit Suisse, with Roger Federer all the way.

credit-suisse.com/rogerfederer

EUROPE NEWS

Rocky road to top of ECB

BY BRIAN BLACKSTONE

FRANKFURT—Germany's top central banker, Axel Weber, was once viewed as a shoo-in to become the next president of the European Central Bank.

But Mr. Weber's stock now is falling after divisive utterances that have raised doubts about whether he is the right person to succeed Jean-Claude Trichet as ECB head in a little more than a year.

Mr. Weber's blunt criticism of the ECB's controversial decision to buy the government debt of Greece, Ireland and others in Europe's vulnerable fringe—has led to lingering tension with others on the ECB governing council, according to people familiar with the matter.

Analysts say Mr. Weber made another misstep when he said in a recent interview with Bloomberg Television that the ECB should extend special lending facilities into 2011, declaring his preference publicly before the ECB decided the matter, which is on the agenda for its Thursday policy meeting.

The Bundesbank head is in the spotlight again now, as he weighs how to react to remarks by another top German central-bank official, Thilo Sarrazin, whose controversial comments about Muslims, immigrants and Jews have sparked public outrage in Germany.

Earlier this year Germany's government was widely seen as touting Mr. Weber, a career academic who has headed the Bundesbank since 2004, for the ECB's top job. When Chancellor Angela Merkel opted not to push German candidates for top European Union jobs in Brussels, observers assumed she was saving Germany's political capital for Mr. Weber.

German officials and economists believe that Mr. Weber, as ECB chief, would help cement the ECB's independence and strengthen its focus on fighting inflation. They also see Mr. Weber as someone who would raise the pressure on wayward eurozone countries to get their finances in order.

But Mr. Weber's recent difficulties appear to have opened the door to other candidates. Italy's central bank head, Mario Draghi, has long been viewed as the leading alternative candidate and has kept a low profile in recent months.

Mr. Draghi's experience as a top Goldman Sachs executive from 2002 to 2005 could work against him, because of the political ire the U.S. investment bank has attracted during the financial crisis.

Speculation is intensifying among ECB watchers that European leaders could weigh a compromise



Bundesbank President Axel Weber faces hurdles on the path to the top of the European Central Bank.

candidate from one of the smaller northern European countries. The ECB vice presidency recently went to Vitor Constancio of Portugal, and European officials tend to strive for geographic balance in top posts. However, central bankers from countries like The Netherlands, Austria or Luxembourg have yet to gain serious traction as a potential replacement for Mr. Trichet.

Mr. Weber is still the front-runner for the ECB presidency "but it is not at all as clear as it was a couple of months ago," says Stefan Gerlach, head of Frankfurt University's Institute for Monetary and Financial Stability. "I thought it was broadly settled, 80% or 90% done" in Mr. Weber's favor, he says.

Mr. Weber's colleagues were stunned when on May 10, just hours after the ECB announced its bond purchase program, Mr. Weber told a German newspaper that he viewed the decision "critically" and that it carried "substantial" stability risks. To some on the ECB, the comments were a breach of ECB protocol that struck at the heart of the young institution's consensus-driven culture, and spread doubts about whether Mr. Weber was suited to the top post.

"One concern this is underscoring, especially right now, is if you bring to the ECB someone who is not a consensus-builder, someone more likely to act on his own convictions, you have a higher risk of mistakes," says Marco Annunziata, chief economist at UniCredit Group.

In the Bloomberg interview, Mr. Weber made it clear that getting along with others would not be priority of any Weber-run ECB. "In my view it's important to be a diplomat for the diplomatic corps, it's not so important for a central bank," he said.

Skepticism among fellow eurozone central bankers won't necessarily prevent Mr. Weber from becoming their boss. Heads of eurozone governments pick the ECB president. However, ECB officials issue a nonbinding opinion on the nominee, and analysts say at least national leaders are likely to take the views of ECB members into account.

A Bundesbank spokesman declined to comment on the ECB presidency or on any rifts between Mr. Weber and others at the bank.

Mr. Trichet's eight-year term doesn't run out until October 2011, and the official process of finding a replacement is unlikely to start in earnest until early next year. Anointing a successor before then would make Mr. Trichet a lame duck at a time when the ECB's authority and credibility are still vital to restoring investor confidence in Europe's fragile banking system.

Still, with European financial markets stabilizing after months of intense volatility, economists are again handicapping the first real succession race the ECB has seen in its 12-year history. Mr. Trichet was long assumed to be the heir apparent of the ECB's first president,

Dutchman Wim Duisenberg, when Mr. Trichet headed France's central bank in the 1990s and early 2000s.

Despite the reservations about Mr. Weber, economists in the U.S. and Europe praise his skills as a monetary economist. His blunt manner, though annoying to some, would make him a forceful advocate on the global stage advancing Europe's interests.

Some analysts, particularly in Germany, say Mr. Weber was right to criticize bond purchases, and that it was the promise of a massive bailout fund by governments that shored up confidence in the euro.

And Germany's recent economic success—including a 9% annualized growth rate in the second quarter and rapidly falling unemployment—is strengthening its conviction that its high-productivity, low-inflation economic model should be replicated throughout Europe, a message that a German ECB president would drive home. "It's very hard to argue with success, and Germany has had success," Mr. Gerlach says.

The job is still Mr. Weber's to lose, but ECB observers are watching the Sarrazin affair closely. Outside Germany, the spectacle of a Bundesbank board member espousing theories on Jewish ethnicity, as Mr. Sarrazin has done, could evoke memories of the central bank's awkward connection to the Nazi era. Though the Bundesbank wasn't founded until 1958, its first president and much of its early leadership had been Nazi party members.

Moscow detains dissidents at protest

BY RICHARD BOUDREAU

MOSCOW—Police sealed off a central Moscow square and skirmished with anti-Kremlin activists Tuesday evening, detaining at least three Russian opposition leaders and dozens of followers who were part of a defiant, surging crowd that included observers from the European Parliament.

At least 160 protesters were hauled onto police buses in Moscow and St. Petersburg, police said, during the latest in a year-old series of rallies demanding freedom of assembly. That cause has become a focal point of political opposition, and the government's response is closely watched as a gauge of its tolerance for dissent.

Officers in bulletproof vests dragged away Boris Nemtsov, a leading opposition figure, after he started handing out copies of a report criticizing Prime Minister Vladimir Putin. Many of the 400 people gathered along three edges of Moscow's Triumphalnaya Square erupted in chants of "Shame!" and "Russia without Putin!"

Police made forays into the crowd and seized some of the more vocal protesters, carrying those who resisted or twisting their arms behind their backs. Most demonstrators stood their ground for more than two hours, chanting and taunting the police before drifting away on their own.

Police said they detained 70 demonstrators in Moscow and 90 of the approximately 200 who rallied in St. Petersburg. Those detained in Moscow included two other opposition leaders, Eduard Limonov and Ilya Yashin.

Rallies have been held at Triumphalnaya Square since July of last year on the 31st of each 31-day month, a date symbolizing the right to free assembly guaranteed by Article 31 of Russia's constitution. Authorities routinely deny permission for the rallies and send police to break them up. This month they declared the square closed for construction.

Prime Minister Putin defended the crackdowns in a newspaper interview published Monday, saying protesters need approval to gather. "If you go without permission," he said, "you'll be hit on the head with a club. That's all there is to it." The police presence in Moscow on Tuesday was bigger than at previous rallies. Officers didn't use clubs.

Russia's repression of the movement has drawn fire from the Obama administration in the U.S. and European governments.

"It is shocking that a state with political power firmly in place finds it necessary to crush these small demonstrations," said Thijs Berman of the Netherlands, one of three members of the European Parliament who watched from the crowd in Moscow.

Oleg Volotkovich, a 44-year-old merchant who took part in the rally, said the demonstrations would continue but needed to grow in size to be effective. "Unfortunately, we don't have the numbers Gandhi had in India or Martin Luther King had in America," he said.

France focuses on commodity derivatives

BY NATHALIE BOSCHAT

PARIS—France is calling for a tightening of the oversight on commodity-derivatives markets in the European Union to help reduce the volatility of commodity prices, the French finance ministry said Tuesday.

Three French officials—Finance Minister Christine Lagarde, Energy and Environment Minister Jean-Louis Borloo and Agriculture Minister Bruno Le Maire—have sent a letter to Michel Barnier, the EU commissioner for internal markets and

services, urging him to increase supervision of markets that trade commodity derivatives in Europe.

"Given ever closer links between financial and commodities markets, we consider European regulation of trading in commodity derivatives to be insufficient," the ministers wrote in the letter.

France is striving to broker a common position within the EU on the supervision of commodity derivatives ahead of its chairmanship of the group of the world's 20 largest economies at the end of November.

President Nicolas Sarkozy last

week said stabilizing erratic foreign-exchange and commodities markets, which can be a threat to global growth, would feature high on France's agenda when it heads the G-20.

Although the impact of commodity derivatives' price fluctuations on physical commodities markets remains unclear, there is concern that volatility in the derivatives could spill over to the physical markets, especially as the size of the commodity-derivatives markets has grown significantly in recent years. For instance, volumes traded on oil

futures account for 35 times the volume of contracts traded on physical oil markets.

Among its proposals, France has suggested that regulatory oversight should apply to all players on the commodity-derivatives markets, such as electricity and gas producers and traders specializing in commodities markets. Current regulations apply only to financial intermediaries operating in these markets.

France also is calling for enhanced transparency on over-the-counter commodity derivatives.

EUROPE NEWS



Associated Press

Stephan Ackermann, the bishop of Trier, announced new guidelines Tuesday on reporting abuse allegations against clergy.

German church updates guidelines on priest abuse

By VANESSA FUHRMANS AND JOHN W. MILLER

Germany's Roman Catholic bishops announced tighter standards for reporting and handling clerical sexual-abuse cases Tuesday but stopped short of adopting tough guidelines used by the U.S. Catholic Church, as the scandal surrounding priestly abuse flared up in Europe.

The German guidelines, which are intended to improve upon rules that German bishops implemented in 2002, come seven months after several decades-old abuse allegations at a Jesuit preparatory school in Berlin unleashed an outpouring of similar stories.

New initiatives to crack down on abusive priests and help victims seek justice are also forthcoming from the Belgian Catholic church. A church spokesman said this week that new efforts will be announced in two weeks.

The Belgian statement came after Belgian Cardinal Godfried Danneels apologized after Belgian newspapers published transcripts of tape recordings in which the cardinal allegedly sought to quiet abuse allegations against a top bishop.

The tapes were made secretly by

a nephew of Bishop Roger Vangheluwe, who has alleged the uncle abused him. "It would be better that you wait" for the abusive bishop to retire, the cardinal is heard saying. "I don't know whether it would be to your advantage to make a lot of noise about it. Neither for you, nor for him."

Through a spokesman, Cardinal Daneels said Monday he had taken the "wrong approach" to the matter.

The German church's new rules, which go into effect immediately, toughen the church's 2002 requirements for reporting abuse allegations to law-enforcement authorities but don't mark a radical departure.

Under the previous guidelines, church authorities were required to report any "established" cases of abuse to law-enforcement authorities, unless it was the wish of the victim not to take the case further—a policy some German lawmakers had criticized for giving the church too much latitude in determining whether abuse cases were valid.

Under the new guidelines, church officials must report any plausible allegation to prosecutors. Requests to the contrary by alleged victims must be weighed against whether other potential victims may have an

interest in pursuing prosecution.

Stephan Ackermann, the Bishop of Trier, was appointed to coordinate the revisions. He acknowledged that the new guidelines left the door open for exceptions. "We have to balance the interest in cooperating with authorities with a victim's possible wish for confidentiality," he added.

The revised rules stop short of the measures U.S. bishops implemented in 2002 that effectively ban any priest found to have committed abuse from further pastoral work. The German guidelines call for permanently removing abusive priests from posts that involve working with children. But such priests could return to other work within the church if a professional assessment determined they were suitable.

Abuse victim advocacy groups on Tuesday criticized the German effort for not going far enough. "For decades, nearly every diocese in which a major child sex-abuse scandal has emerged has adopted or tweaked written policies," Barbara Blaine, a member of the Survivors Network of those Abused by Priests, said in a statement. "It rarely makes any difference, other than mollifying some naïve parishioners."

France defends its policy on Roma

By MAX COLCHESTER

PARIS—The French government, faced with growing criticism over its mass expulsions of foreign Gypsies, is trying a two-pronged strategy to minimize the damage: Insist that continued expulsions are right, and put in diplomatic legwork to assuage critics.

On Tuesday, French government ministers met with European Union officials and a representative of the French Catholic Church to defend the expulsions and the dismantling of illegal Gypsy camps.

"We are not trying to stigmatize a community," Interior Minister Brice Hortefeux said after a meeting with the archbishop of Paris. "The evacuations of the camps are being done according to the law."

Since mid-July, France has deported some 1,000 Gypsies to Eastern Europe, according to the Interior Ministry. Each adult is given €300 (about \$380) and each child €100, and they are put on airplanes to Bucharest and other cities.

The crackdown is part of a wider law-and-order drive by President Nicolas Sarkozy, who has also pledged to strip French nationality from foreign residents convicted of major crimes. The moves have played well with many French voters. But an array of international organizations has criticized France for victimizing Gypsies, also known as Roma.

Last month, a United Nations anti-racism panel warned racism was on the rise in France and urged the country to avoid "collective repatriations." EU Justice Commissioner Viviane Reding said the recent rhetoric used by some member states had been discriminatory.

Agostino Marchetto, secretary of the Vatican's Pontifical Council for the Pastoral Care of Migrants and Itinerant People, called for France to

take a softer line toward Gypsies. Expulsions such as these hit "weak and poor people who have been persecuted" and who were also victims of the Holocaust, he said recently, according to the Vatican spokesman.

In France, the opposition Socialists had stayed quiet on the subject for much of the summer. Security is seen as one of Mr. Sarkozy's strong points among voters. But Socialist Party leader Martine Aubry addressed the policy in a recent speech, dubbing this "the summer of shame."

Mr. Sarkozy's policies are even drawing criticism from within his government, which contains several ministers from France's political left. Foreign Minister Bernard Kouchner, a former Socialist politician, told Radio France International on Monday that he had considered quitting the government over the expulsions. Fadela Amara, secretary of state for urban policies, has said on French radio that she was against the policy.

Of Mr. Sarkozy's closest allies, Mr. Hortefeux, the interior minister, has been the most hawkish. On Monday, he said that 20% of crimes in Paris were committed by people of Romanian or Bulgarian origin.

But Prime Minister François Fillon, in a speech Tuesday, called on Bulgaria and Romania to take responsibility "and better integrate these populations." Immigration Minister Éric Besson headed to Brussels to meet EU officials, including Ms. Reding, to discuss the expulsions. Mr. Besson said it was his job to put an end to "unacceptable caricatures" of France.

The EU guarantees freedom of movement to citizens of member states, but only on condition they can support themselves.

—Margherita Stancati contributed to this article.



European Pressphoto Agency

The EU's Viviane Reding with France's Éric Besson, right, in Brussels Tuesday.

WikiLeaks founder seeks to live in Sweden

By IAN EDMONDSON

STOCKHOLM—WikiLeaks founder Julian Assange has applied for residency in Sweden, the Swedish Migration Board said Tuesday, even as police questioned him over allegations that he molested two Swedish women.

"He has applied for residency but the application is still being processed," spokeswoman Bodil Sunden said.

Mr. Assange is expected to try to register WikiLeaks as a media organization in Sweden, a move that would protect the anonymity of the whistleblower site's sources and prevent them from being prosecuted.

Martin Valfridsson, a spokesman for Sweden's Ministry of Justice, said the site would have to be registered with the Swedish Radio and TV Authority and a responsible publisher appointed. "The publisher needs to be a physical person who is

a permanent resident of Sweden," Mr. Valfridsson said.

Mr. Assange has been under scrutiny since WikiLeaks in July released 76,000 classified U.S. military documents about the war in Afghanistan, but the focus on Mr. Assange took an unexpected turn more than a week ago, when the Swedish Prosecution Authority said it was seeking to arrest Mr. Assange over rape and molestation allegations.

The rape allegation was later dis-

missed by a Swedish prosecutor but is being reassessed after an appeal by the lawyer representing the women.

Leif Silbersky, a lawyer representing Mr. Assange, said his client was questioned by police in Stockholm on Monday. "He told the police he was totally innocent," Mr. Silbersky said. "Now we have to wait and see the outcome of the prosecutor's investigation."

A decision into whether to reopen

the rape investigation is expected Wednesday, the prosecutor's office said. Karin Rosander, a spokeswoman for the prosecutor's authority in Stockholm, said a decision in the molestation investigation would be released in the next few days.

Under Swedish law, molestation can refer to "discharging a firearm, throwing stones, making a loud noise or other reckless conduct," and carries a fine or imprisonment for up to one year.

U.S. NEWS

Ethics board suggests probes of 3 lawmakers

By JOHN D. MCKINNON
AND BRODY MULLINS

WASHINGTON—An independent ethics board has recommended further investigations into three lawmakers over fund-raising activity around the time the House was voting on new Wall Street rules.

At the same time, the House's independent ethics arm, known as the Office of Congressional Ethics, dismissed cases this week against five other lawmakers, according to the lawmakers' offices.

The three lawmakers who face recommendations for continued probes are Republicans Tom Price of Georgia and John Campbell of California and Democrat Joe Crowley of New York.

The eight cases that have been examined by the office differed in detail. But a focus in each has been whether lawmakers created the appearance of a conflict of interest by engaging in fund-raising activity in

December, around the time of a key House floor vote on the financial overhaul.

Most of the eight lawmakers who have been under scrutiny are members of the Financial Services Committee.

Of the two Republicans who face additional scrutiny, Mr. Price, the chairman of the conservative House Republican Study Committee, is perhaps the better-known. In a statement, Mr. Price expressed surprise and confusion over the ethics office's recommendation for further investigation of his case.

"How the OCE arrived at their recommendation is truly a mystery," he said. "There being no evidence of any wrongdoing or any inconsistency in my policy position, one can only guess as to the motive behind their decision or even why they chose to initiate a review in the first place."

An aide said Mr. Price opposed the government's financial bailouts following the crisis of 2008 and consistently opposed the regulatory overhaul bill as well, because he feared it would make bailouts a permanent fixture.

Mr. Campbell said in a statement that he was "perplexed by OCE's decision, as they have presented no evidence that would suggest wrongdoing." He added: "As one of Congress's most outspoken critics of the earmark system and the waste and corruption it engenders, I have worked to make Congress more transparent and accountable to the American taxpayer. Any suggestion to the contrary is baseless and unfounded."

A spokeswoman for Mr. Crowley said the congressman "has always complied with the letter and spirit of all rules regarding fund-raising and standards of conduct."

The investigations into possible

improper fund-raising activity are still at an early stage. Investigators eventually could conclude that none of the members did anything inappropriate.

The investigation has become an issue in some political races this year, and the damage might be difficult to reverse entirely for those who were cleared by the OCE this week.

Lawmakers who were cleared are Rep. Jeb Hensarling (R., Texas), Chris Lee (R., N.Y.), Rep. Frank Lucas (R., Okla.), Rep. Earl Pomeroy (D., N.D.) and Rep. Mel Watt (D., N.C.).

In a statement Mr. Lucas submitted to the OCE, he suggested that he had held only a general fundraiser—not one targeted at the financial industry—and that the timing of the fundraiser was coincidental.

"If holding a general fundraiser while Congress was in session voting on legislation that went through one of my committees is in violation of House Ethics Rules, then that is a broad new limitation on members' fund-raising activities," he said in his OCE statement, which his office released on Tuesday.

Mr. Lucas also chided the panel for conducting a broad investigation that was bound to become public knowledge, when a narrower inquiry might have settled the matter in some cases.

"The lack of confidentiality has led to all eight members involved in this inquiry having our reputations irreparably damaged by the viral press coverage," he said.

"We are pleased that the OCE board voted unanimously to recommend dismissal," Mr. Pomeroy's office said in a statement. "As we have said all along, the facts showed that Congressman Pomeroy stood up to Wall Street and stood up for the taxpayers of North Dakota."



Associated Press

Rep. Tom Price (R., Ga.), shown in 2008, could face additional scrutiny.

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Young women's pay exceeds male peers'

By CONOR DOUGHERTY

The earning power of young single women has surpassed that of their male peers in metropolitan areas around the U.S., a shift that is being driven by the growing ranks of women who attend college and move on to high-earning jobs.

In 2008, single, childless women between ages 22 and 30 were earning more than their male counterparts in most U.S. cities, with incomes that were 8% greater on average, according to an analysis of Census Bureau data by Reach Advisors, a consumer-research firm in Slingerlands, N.Y.

The trend was first identified several years ago in the country's biggest cities, but has broadened out to smaller locales and across more industries.

Beyond major cities such as San Francisco and New York, the income imbalance is pronounced in blue-collar hubs and the fast-growing metro areas that have large immigrant populations.

These women have gotten a leg

up for several reasons.

They are more likely than men to attend college, raising their earning potential.

Between 2006 and 2008, 32.7% of women between 25 and 34 had a bachelor's degree or higher, compared with 25.8% of men, according to the Census.

And men have been disproportionately hit by heavy job losses in blue-collar industries.

While these particular women earn more than their male peers, women on the whole haven't reached equal status in any particular job or education level.

For instance, women with a bachelor's degree had median earnings of \$39,571 between 2006 and 2008, compared with \$59,079 for men at the same education level, according to the Census.

At every education level, from high-school dropouts to Ph.D.s, women continue to earn less than their male peers.

Also, women tend to see wages stagnate or fall after they have children.

U.S. NEWS

Fed minutes offer detail on change in tactics

By Jon Hilsenrath

Federal Reserve officials wrestled with a slew of questions about the disappointing recovery before deciding at a fractious Aug. 10 meeting to prevent their securities portfolio from shrinking, according to minutes released Tuesday.

High unemployment was one issue. Several Fed officials argued that business was frozen by uncertainty about taxes, regulations and health-care costs. Others said the job market was paralyzed by structural changes, "such as mismatches between unemployed workers' skills and the needs of employers with job openings." Several agreed that the economy lacked sufficient demand from consumer spending and business investment to get firms to hire.

Officials concluded the U.S. "was operating farther below its potential than they had thought, that the pace of recovery had slowed in recent months and that growth would be more modest during the second half of 2010 than they had anticipated." Fed staff lowered the projection for 2010 growth but largely stuck to its call for a "moderate strengthening" in growth in 2011.

Officials concluded the U.S. 'was operating farther below its potential than they had thought.'

Officials disagreed before voting 9 to 1 to alter management of the Fed's \$2 trillion securities portfolio, as reported in *The Wall Street Journal*. Nearly \$400 billion of mortgage securities were set to mature or be prepaid by investors through 2011, Fed staff told policy makers. That would have drained money from the financial system and could have tightened financial conditions.

So the Fed decided to reinvest cash from those securities that were getting paid off into Treasury securities, a move officials believe helps to keep long-term interest rates low.

"A few members" of the Fed's policy committee "worried" at the August meeting that reinvesting cash "could send an inappropriate signal to investors about the Committee's readiness to resume large-scale asset purchases," the minutes, released after the usual lag, said. Indeed, if the economy falters, one step could be more Fed purchases of bonds, an option outlined by Chairman Ben Bernanke in a speech last week at Jackson Hole, Wyo.

But the minutes showed that Fed officials struggled to reach consensus on the causes of the economy's problems and on the way forward. That leaves its next step uncertain.

The conclusion that the economy is drifting even farther away from its long-run potential than previously thought is notable. At the Fed's June policy meeting, in which it formally updated its forecast, the central bank had already concluded that it might be five years or more before the unemployment rate, now near 9.5%, was likely to return to a more normal level near 5%.

Obama says Iraq work not done

By Jonathan Weisman

President Barack Obama, ahead of a key speech Tuesday night hailing the end of combat missions in Iraq, told troops at the Army's Fort Bliss that U.S. service members have given Iraq "an opportunity to create a better future" while making the U.S. a safer, more secure nation.

"There has not been a single mission that has been assigned to all of you in which you have not performed with gallantry, with courage, with excellence. And that is something that the entire country understands," the president told about 170 soldiers.

The quick trip to Fort Bliss in El Paso, Texas, marked the midpoint of a two-day commemoration of the end of combat operations in Iraq. Vice President Joe Biden touched down in Baghdad on Monday and declared Tuesday morning that "notwithstanding what the national press says," the nation of Iraq is "much safer" than understood.

"There's still a lot of work that we've got to do," Mr. Obama told the troops, acknowledging that just under 50,000 service members will remain in Iraq for another year, advising and training Iraqi forces.

"Our task in Iraq is not yet complete," he said. "Our combat phase is over, but we've worked too hard to neglect the continuing work that has to be done by our civilians and by those transitional forces."

Republicans have not let up on their criticism of the president's foreign policy, castigating him for opposing the U.S. troop surge into Iraq when he was a senator in 2007, and now failing to sufficiently credit the surge with stabilizing the country.

In a speech to the American Legion convention in Milwaukee Tuesday, House Minority Leader John Boehner of Ohio, seeking to burnish his credentials as a possible speaker of the House next year, muted his criticism, referring only to "some leaders who opposed, criticized, and fought tooth-and-nail to stop the surge strategy" who "now proudly claim credit for the results."

"I want to thank President Obama for setting aside his past political rhetoric and recognizing the importance of the surge and the diplomatic agreement signed by Presi-



U.S. soldiers at Camp Virginia in Kuwait get instructions as they wait for their flight back to the U.S. Tuesday.

dent Bush and Prime Minister [Nouri al] Maliki," he said, referring to the Status of Forces Agreement signed near the end of the Bush administration that established the timetable for withdrawing U.S. troops.

The White House tiptoed around that criticism. In truth, Messrs. Obama and Biden had hailed that Bush-Maliki agreement at the time as the driving force for ending the U.S. role in the conflict more than the surge. Mr. Obama phoned Mr. Bush briefly Tuesday morning to talk about the speech.

For Mr. Obama, the day's events offer a chance to showcase a promise made—to end U.S. combat in Iraq—and a promise kept. But he and his aides were careful not to declare "Mission Accomplished," a slogan that haunted Mr. Bush for much of his presidency. The U.S. has "no illusions" that violence has ended, Deputy National Security Adviser Benjamin Rhodes said. Instead, Mr. Obama will speak of an "enduring partnership" that will bind Washing-

ton and Baghdad for years to come. He will also address the war he is building up, in Afghanistan.

"We've seen casualties go up because we're taking the fight to al Qaeda, the Taliban and their allies," the president told the troops at Fort Bliss. "It is going to be a tough slog. But what I know is after 9/11 this country was unified... and we're going to go after those who perpetrated this crime and we are going to make sure they don't have safe haven."

Defense Secretary Robert Gates echoed Mr. Obama's comments in a speech to the American Legion in Milwaukee, warning that now is not the time for "premature victory parades." The uneasy peace of Baghdad, Mr. Gates said, had come at great cost, with 4,427 U.S. service members killed and an additional 34,265 wounded. And the mission, he said, was incomplete. Iraq is still without a coalition government months after its election and political compromise remains elusive.

"Sectorial tensions remain a fact of life, al Qaeda in Iraq is beaten, but not gone," Mr. Gates said. "This is not a time for premature victory parades or self-congratulations."

Mr. Gates drew a number of parallels between Iraq and Afghanistan, beginning with the skepticism that the Iraq surge was met with in 2007.

He acknowledged the U.S. public's "impatience about the pace of progress" this year in Afghanistan. But he noted that the full complement of additional troops ordered to Afghanistan by Mr. Obama is only now arriving.

In an attempt to counter that impatience, Mr. Gates made an unusual specific reference to the number of militants eliminated by U.S. forces and said 350 Taliban leaders had been killed or captured in the past three months. The Pentagon usually avoids focusing on enemy body counts, believing them an imperfect measure of progress.

—Julian E. Barnes
contributed to this article.

Home-price increases slackened in June

By Sudeep Reddy

U.S. home prices continued to rise in June, but housing-market turmoil since then suggests they could fall in coming months.

The S&P/Case-Shiller 20-city index of home prices gained 1% in June from a month earlier and was up 4.2% from a year earlier. But the annual rate of return slowed in June, "pointing to a possible deceleration in home-price returns," Standard & Poor's said Tuesday.

A broader Case-Shiller index, which covers the entire U.S. and is released quarterly, gained 4.4% in the second quarter from the first three months of the year and 3.6% from a year earlier.

The Case-Shiller data only cover the period through June. Sales of both new and existing homes plunged in July, leaving a high supply of homes with few buyers to pick them up.

"With recent news on housing

and home sales...it's not clear that we're going to continue this upward movement we've seen in the last few months," said David Blitzer, chairman of the S&P index committee.

The market's strongest rebound came in recent months, as home buying surged ahead of the April 30 deadline for signing contracts to receive a federal homebuyers' tax credit valued at as much as \$8,000. The deadline for contract closings was originally set for June 30 but was extended through Sept. 30.

The tax credit shifted sales to earlier in the year, creating a lull in purchasing activity during the summer months that is expected to stretch at least into the early fall. That is likely to push prices down again in many markets later in the year as a still-high rate of foreclosures adds to an already hefty supply.

Hesitancy among buyers, due to the weak economy and fears of another step down for prices, is creat-

ing substantial risks for the market.

"You've got a whole bunch of people who are sitting, waiting in the wings to get into house buying because they know it's cheap, they know interest rates are low, they know it's a highly subsidized investment," said Wellesley College economist Karl Case, who developed the house-price index with Yale University economist Robert Shiller. "If they stay out because they've become a little bit more nervous, it can mean the whole market moves."

Mr. Shiller said the overall economy also risks reverting back to recession due to weak confidence—among consumers and businesses—and high unemployment, which in turn holds back housing demand.

"It just kind of seems people are in a wait-and-see attitude so that we won't see a massive improvement in the job market," he said. And with support from fiscal stimulus waning, "it looks a little bit precarious right

now."

From mid-2006 to spring 2009, house prices tumbled 32.6%, according to the 20-city Case-Shiller index. With the recovery through June, prices stood 28.4% below the July 2006 peak.

In June, 17 of 20 metropolitan areas saw home prices increase from the prior month, while Las Vegas fell 0.6% and both Phoenix and Seattle were flat. The strongest monthly gains came in Chicago, Detroit and Minneapolis, each rising 2.5% from the prior month.

In the 20-city index, home prices were up about 48% since January 2000. Las Vegas has nearly returned to its January 2000 level, while Atlanta and Cleveland showed only small gains over that period and Detroit was down 30%. Prices in the Washington, D.C., area remained 86% above where they started in 2000, followed by a 76% gain in Los Angeles and 73% in the New York metro area.

WORLD NEWS

Australian leader says no to new vote

By Rachel Pannett

CANBERRA—Australian Prime Minister Julia Gillard on Tuesday rejected calls for an early return to the polls after the first inconclusive national election result in 70 years.

Instead, she argued, lawmakers need to explore new ways to achieve a consensus to avoid parliamentary gridlock after neither of Australia's two major political forces won enough votes in the Aug. 21 election to control the lower house of parliament. Ms. Gillard remains at the helm, but only in a caretaker role.

"Some are saying this situation is all too difficult and we should just return to the polls. I disagree," she said. "The Australian people have voted for this Parliament, and our job is to make it work."

A survey published in the Sydney Morning Herald newspaper Tuesday found that more than one in 10 Australians would have voted differently had they known the election would result in a hung Parliament.

The nationwide poll of 1,000 voters, taken Aug. 27-29, found that 13% would change their vote if another election were held today—"more than enough to result in a substantially changed federal Parliament," pollster Ogilvy Illumination said.

Ms. Gillard's center-left Labor Party and the conservative Liberal-National coalition, led by Tony Abbott, are courting independent lawmakers to control the lower house, a process that isn't expected to reach a conclusion until the end of this week, at the earliest.

For Ms. Gillard, who succeeded Kevin Rudd as prime minister in a June party coup, there is much at stake. If Labor loses office, she is likely to shoulder the blame and could be swiftly replaced by the same party power brokers who undermined Mr. Rudd, analysts say.

In the meantime, major policy issues such as a proposed tax on miners and plans for a high-speed national Internet network remain in limbo—with the coalition vowing to scrap both if it takes power.

The latest official tally has both major parties tied with 72 seats apiece, short of the 76 seats needed for even a narrow governing majority in the 150-seat lower house of Parliament. The numbers take into account a lawmaker who stood for the conservatives' junior coalition partner, the National Party, but is vowing to sit as an independent. There are four other independent



Prime Minister Julia Gillard at the National Press Club in Canberra. Without consensus, there will be gridlock, she said.

lawmakers and one Greens party lawmaker.

Ms. Gillard said that at a minimum, the major parties will need assurances from nonparty lawmakers that they will support bills to pay for the day-to-day business of government and won't bring a vote of no confidence against the government.

But to create an effective government, any coalition deal must see the government and nonparty lawmakers find common ground on broader policy areas, she added.

"If the new government is to be effective and make progress on the big challenges our nation is facing, then I believe we will need to go beyond the politics of 75 votes plus one," Ms. Gillard said. "If the new government doesn't find new ways to establish consensus and parliamentary support, then we will have gridlock."

These potential kingmakers range in political views from conservative-leaning rural-based independents to an environmentalist—a potentially volatile mix when it comes to finding common policy ground.

One independent, Bob Katter, is calling for a return to protectionist trade policies to help farmers—something Ms. Gillard rejected outright Tuesday. Another, Andrew

Wilkie, wants a government crackdown on the gambling industry, a position that potentially imperils the earnings of wagering firms such as **Tatts Group Ltd.** and **Aristocrat Leisure Ltd.**

Arguing the case for a second term for Labor at the National Press Club on Tuesday, Ms. Gillard said her government would provide "stability, certainty and continuity" amid an increasingly uncertain global environment.

"Continued uncertainty in the global economy puts a premium on the stable, experienced and responsible economic management that has been a hallmark of the Labor government," she said.

Australia sidestepped a recession last year, one of few developed countries to do so, in part because of some 70 billion Australian dollars (US\$62 billion) in fiscal stimulus that Labor unveiled, along with a stable banking system and swift action by the central bank.

Ms. Gillard, whose responsibilities under the previous Labor administration included the thorny portfolio of industrial relations, said Tuesday that her success in overhauling workplace laws over the past three years "convinces me that it's possible to find common ground on difficult issues if we're willing to

work hard enough at it and prepared to make reasonable compromises along the way."

She named infrastructure, education, the health system, climate change, water shortages and population growth among the major policy areas for a second-term Labor government.

Meanwhile, Australia posted its narrowest current-account deficit in more than eight years in the second quarter as a mining boom continues to reshape the economy, putting it on the path of unrivaled prosperity among developed economies even as the outlook for global growth remains murky.

At the same time, the Australian Bureau of Statistics reported a rebound in both retail sales and building approvals in July, pointing to a recovery in activity.

The current-account deficit narrowed to a seasonally adjusted 5.6 billion Australian dollars (US\$5 billion) in the second quarter from a shortfall of A\$16.46 billion in the first quarter, the bureau said. It was the narrowest deficit since the first quarter of 2002, it said.

Coal exports grew in value by A\$4 billion as prices rose 25% and volumes grew by 22%. Metal ore exports grew by A\$5.6 billion on a 39% price spike. The improvements

drove a A\$9.7 billion turnaround in trade of goods and services, it said.

Surging exports will add 0.4 percentage point to economic growth in the second quarter, the bureau said.

The bureau is set to publish the national accounts late Wednesday morning. Economists expect the economy grew by around 1.0% over the three months to June 30, putting it on track for a return to trend pace of around 3.0%-3.25% by the end of the year.

The trade data underscore Australia's close relationship with China and its ravenous demand for steel products and energy sources, leaving the A\$1.3 trillion economy potentially vulnerable if Chinese policy makers are unable to maintain the country's stellar growth.

Economists said stronger retail sales and building data suggest the economy may be regathering some momentum after a string of interest-rate rises between October 2009 and May this year put a brake on things.

Retail sales rose a greater-than-expected 0.7% to a seasonally adjusted A\$20.40 billion in July as discretionary consumption grew sharply, with spending in cafes and restaurants up 5.3% over the month.

"If the Reserve Bank board needed any reassurance about the state of the economy, it certainly got it in the shape of the latest round of data," said Craig James, chief economist at Commonwealth Securities.

"With interest rates on hold for the past few months, consumers have once again started to tentatively spend," he added.

Aggressive interest-rate rises earlier in 2010 took much of the steam out of consumer spending. But the central bank has been sidelined since May giving shoppers some breathing room and time to adjust.

Meanwhile, the total number of houses and apartments approved for construction rose a seasonally adjusted 2.3% in July from June, the bureau said Tuesday. The rise snapped a sharp contraction over recent months, easing fears that the sector could be headed for a deep correction.

Also Tuesday, capital city house prices rose a seasonally adjusted 0.4% in July from June, according to the RP Data-Rismark Hedonic Home Value Index. Prices fell in June for the first time in 17 months.

—James Glynn
contributed to this article.

IPCC chief defends his tenure

By Jeffrey Ball

In 2002, when Rajendra Pachauri was elected head of the world's top climate-science body, Al Gore and other environmentalists condemned him as a favorite of the fossil-fuel industry. Today, the 70-year-old chairman of the Intergovernmental Panel on Climate Change is under fire for the opposite offense: being a green zealot.

On Monday, the InterAcademy Council, a consortium of national scientific academies, released its report on its investigation into the IPCC under Mr. Pachauri's leadership. Though it said the organization is "successful overall," it suggested a number of changes to the IPCC's managerial structure and to its vetting process designed to re-

duce errors and bias creeping into the IPCC's widely watched reports.

Mr. Pachauri said the recommendations were in line with reforms he has tried to institute already. He was pressured to request the probe after mistakes were disclosed in an IPCC report that helped win the panel the 2007 Nobel Peace Prize.

Mr. Pachauri was an unlikely general in the war on global warming. He started his career in an Indian diesel-locomotive factory. As an academic, he staunchly defended his country's right to burn coal.

But over the years he underwent a transformation and became convinced of the dangers of global warming. He voiced strong convictions that later exposed him to a more intense backlash when the handful of problems with the IPCC's

work came to light. Mr. Pachauri said that the IPCC "is a very decentralized organization," and that the production of its reports is overseen by highly competent scientists who "wouldn't appreciate the chairman looking over their shoulders and trying to look for errors."

Mr. Pachauri receives travel expenses but no salary as IPCC chairman. His paid job is as head of a New Delhi think tank, The Energy Research Institute, or TERI. He has advised several Indian and Western companies during his IPCC tenure, but says he has given the money he has received for that work to TERI. A KPMG audit, reviewed by The Wall Street Journal, confirms that about most of the money. It doesn't address a small amount, which he says he gave to charity.



Mr. Pachauri's convictions about the risks of global warming later drew criticism.

WORLD NEWS

West Bank gunmen kill four Israelis

By CHARLES LEVINSON

RAMALLAH, West Bank—Unidentified gunmen shot and killed four Israelis late Tuesday in what appeared to be a drive-by shooting outside a Jewish settlement near the West Bank town of Hebron, according to Israeli officials.

The Palestinian group Hamas praised the attack, the most deadly against Israelis in years in the West Bank. The shooting comes on the eve of the planned resumption of peace talks between Israel and the Palestinians on Wednesday in Washington.

The attack significantly heightens tensions at a time when Palestinian and Israeli officials have tried to portray themselves on the international stage as ready for peace. At the same time, they have been assuring domestic audiences they aren't willing to concede too much in the talks.

The shooting 'impacts but shouldn't derail' peace talks that start Wednesday, an Israeli official said.

An Israeli police spokesman identified the gunmen as Palestinians, though he also said the gunmen fled the scene of the crime and hadn't been apprehended.

The shooting took place around 7:30 p.m. Israeli security forces cordoned off the area and were searching for the suspects, the police spokesman said.

An Israeli official said Prime Minister Benjamin Netanyahu, who was en route to Washington, had been informed.

An Israeli Embassy spokesman in Washington said the incident hadn't changed the Israeli government's intentions to restart talks this week. "It impacts but shouldn't derail the talks that are coming to fruition this week," the spokesman said.

Palestinian and U.S. officials weren't immediately available to comment.

China will ease curbs on the yuan

BELJING—A senior Chinese central bank official held out little prospect of a more rapid appreciation of the Chinese currency against the U.S. dollar to address a persistent trade imbalance between the countries, despite mounting frustration in Washington.

By *Rebecca Blumenstein,*
Andrew Browne
and *Dinny McMahon*

However, Hu Xiaolian, a deputy governor of the People's Bank of China, said that China will continue to ease controls on the use of the yuan, and will consider allowing companies to use the currency for cross-border investment as a next step.

"The yuan doesn't have a key role to play in rebalancing bilateral trade between the U.S. and China," Ms. Hu said in an interview with *The Wall Street Journal*. "I don't think excessive argument and criticism on this issue will help."

In mid-June, China rolled out a new currency policy that freed the yuan from its two-year de facto peg to the U.S. dollar. So far, that has resulted in a meager 0.3% rise by the yuan against the dollar, suggesting to some critics that the announcement—coming only a week before a summit of Group of 20 leaders—may have been an attempt to ward off censure at the meeting.

With the U.S. heading into mid-term elections, and voters worried about jobs and the economy, Washington may be unwilling to give Beijing more breathing space in which to demonstrate whether it is serious about a stronger yuan. And with world leaders convening for another G-20 meeting in November—and a preparatory gathering this weekend in Seoul—as well as possible visits to the U.S. by top Chinese leaders in the next several months, Beijing may find it more difficult to set its own timetable for exchange-rate appreciation.

Ms. Hu said China is making strides toward rebalancing its economy by stimulating domestic consumption. The country relies heavily on exports and investment for growth. But in a refrain now familiar among China's leaders, she also said that the U.S. must change, and in particular not rely so much on borrowing to fuel consumption.

"We've been taking concrete action and we hope there will also be some change in the growth pattern



Hu Xiaolian speaks in Hong Kong in July. The central-bank official says China is making strides to rebalance its economy.

of the U.S. economy," she said. "The U.S. economy should move away from overconsumption based on excessive borrowing, and savings should grow."

Ms. Hu held firm in rebutting criticism of China's exchange rate, saying that greater communication between the U.S. and China is needed on the issue. The new exchange-rate policy stressed that China would focus less on managing the yuan's value against the dollar, and instead chart the currency's course against a basket of currencies that would include all the country's major trading partners.

Ms. Hu pointed out that the nominal effective exchange rate of the yuan—a measure of the yuan's strength against the currencies of its trading partners—strengthened 3.6% over the first seven months of this year, according to data from the Bank for International Settlements. Still, even by that measurement, the yuan has moved relatively little since the June announcement.

Ms. Hu, who is in her early 50s, has spent most of her career with the central bank. She became a deputy governor in 2005 when she also became head of the State Administration of Foreign Exchange, which manages China's foreign-exchange

reserves. She left that role in the middle of last year to become the most senior of five deputy governors under central bank head Zhou Xiaochuan, and has since been the front person for the central bank's new currency policy.

In July, she wrote a series of five essays, published on the PBOC's website, explaining the rationale behind changes to the currency regime.

China has long restricted the free flow of funds in and out of the country, but SAFE has noticeably loosened those restrictions in recent months.

Last week, SAFE said it would allow overseas financial institutions to invest yuan accumulated outside the country in China's interbank bond market. It was the first measure allowing yuan that finds its way out of China to be invested back into the country's capital markets.

SAFE also recently launched a trial allowing Chinese firms to keep some of their foreign-exchange earnings outside the country, after long having required them to surrender all foreign exchange to the state to convert most of their overseas earnings into local currency. Last year, Beijing allowed the yuan

to be used to settle cross-border trade in an effort to break China's overreliance on the dollar.

"In the old days, when foreign exchange was in short supply, all trade and investment activities were required to be settled in foreign currencies. Now we want to assess the new situation, consider the real market need, and gradually lift these restrictions," Ms. Hu said.

Still, Ms. Hu damped expectations of the yuan playing a significant role in international trade anytime soon, noting that less than 1% of China's trade is currently denominated in yuan.

"The yuan has a long distance to go before it can become an international currency," she said.

Addressing questions about how China allocates its massive foreign-exchange reserves, which total nearly \$2.5 trillion, Ms. Hu said that China's central bank is a responsible global investor and that political factors don't influence its investment decisions.

"When SAFE invests China's foreign-exchange reserves, there's no difference with other central banks, that is, it focuses on safety, liquidity and return. These investment activities should not be politicized," she said.

South Africa's striking civil servants get new offer



Workers picket in front of the Albert Luthuli General Hospital in Durban.

Associated Press

JOHANNESBURG—The South African government has increased its offer to civil servants whose nationwide strike for higher wages has crippled hospitals and schools across the country, officials said Tuesday.

In a statement following late-night meetings held at President Jacob Zuma's insistence, the public-service ministry said it was raising its salary-increase offer to 7.5% from 7% and the housing allowance to 800 rand from 700 rand (\$95.70). The workers want an 8.6% raise and 1,000 rand for housing.

The government said unions were given time to put the proposal to members, and more meetings were set for Wednesday.

A spokesman for the National Education Health and Allied Workers Union, Sizwe Pamla, said it may take one or two days to hear back from members. He didn't say how he expected his members to react.

Nurses and other health workers on the picket line outside Helen Joseph, a major Johannesburg hospital, declined to comment early Tuesday, saying that their union representatives hadn't yet formally informed them of the offer. But the antigovernment songs they sang as they protested may be an indication that the government's offer may not be readily accepted.

Hospitals and schools have been hardest hit by the strike, which has been marred by sporadic violence and was entering its third week.

Infants have had to be evacuated

from intensive care units to private hospitals, and army medics and volunteers are helping out in public institutions.

Schools also have been affected, a worry for students in their final year who were preparing for crucial exams.

Court cases have been delayed, and work at passport offices and morgues has slowed.

Other unions that don't represent civil servants have said their members could hold a one-day sympathy strike Thursday, putting further pressure on the government.

But some teachers and medical workers have returned to work. Threats that police and soldiers would join the strike have subsided, and energy appears to be dissipating on the picket lines.

WORLD NEWS

Japan looks to 'eco-points' for boost

Government hopes extending subsidy plan for energy-efficient TV sets and appliances will rev up demand

By DAISUKE WAKABAYASHI

TOKYO—Japan's government, grasping for ways to rev up a deflating economy on the cheap, is extending a subsidy plan for consumers who trade in their old appliances and television sets for more energy-efficient models.

The government's plan to keep its year-old "eco-points" program running until March is part of a 920 billion yen, or \$10.92 billion, package of relatively modest measures meant to boost consumer spending.

Other elements of the plan—which is expected to be finalized by Sept. 10—include help for young job seekers, investment incentives for environmentally friendly industries and aid for small businesses.

Tokyo's reliance on eco-points and other narrow measures highlights the constraints faced by the government as it seeks to offset damage to the economy from a rising yen, which has made Japanese exports less competitive.

Japan's national debt is huge, after years of spending on highways, bridges and other large-scale projects that were part of previous economic-stimulus packages. That sharply limits the government's spending ability now.

Complicating matters, interest rates are already at a rock-bottom 0.1%, leaving the central bank little room for additional monetary easing.

Japan started the "eco-points" program in June 2009, as part of a package of measures aimed to keep the economy from collapsing in the



Shoppers in Tokyo look at 3-D television sets. The government's eco-boost program aims to encourage purchases of TVs.

wake of the global financial crisis. The program offers points for buying energy-efficient products. Those points can then be redeemed for other goods and services.

A person buying a flat-screen TV set for 270,000 yen, for example, would receive 36,000 eco-points.

Those points could then be exchanged for a 36,000 yen gift certificate for shopping at a department store or for 36,000 yen toward airplane tickets or hotel bills.

By the end of July, the Japanese government had issued about 268 billion yen, or \$3.18 billion, of eco-points for appliances.

By comparison, China spent 7.54 billion yuan, or \$1.11 billion, in 2009 subsidizing sales in rural areas of TV sets, washing machines, air conditioners and other products.

Television sales in Japan have surged since the program started. In unit terms, flat-panel TV sales rose 40% in 2009 and shipments are up

67% in the first seven months of this year, according to the Japan Electronics and Information Technology Industries Association.

Overall, retail sales in Japan fell 2.3% in 2009 and rose less than 4% in the first half of the year, according to the Ministry of Economy, Trade and Industry.

TV makers, however, said it was unclear how much a three-month extension of the eco-points program would help them.

"I don't know if it's a good thing or bad thing," said Yoshihisa Ishida, a Sony Corp. senior vice president, who runs the company's television business, at a news conference last week. "We're not taking any action."

Mr. Ishida said the surge in domestic television sales is largely due to consumers buying new sets ahead of Japan's scheduled July 2011 switch to digital broadcasting and its discontinuation of analog broadcasting.

New 3-D TV models are also driving sales, he said.

In a report last week, Barclays Capital analysts Yuji Fujimori and Maki Shinozaki said extending the program was unlikely to provide any extra incentive to buy televisions, which account for more than 80% of eco-point redemptions and would "simply front-load" demand before analog broadcasts end.

The extension of eco-points is likely to delay an expected last-minute rush to buy TV sets before the program finally does end.

It could also mean a more significant drop-off in future demand, as more consumers accelerate the purchase of televisions and other goods that they would otherwise have bought over the next several years.

In the first six to 12 months after the eco-points program is finished, "the drop-off could be steep. The withdrawal could have a massive negative impact," said Atul Goyal, an analyst at brokerage firm CLSA.

He estimates that domestic TV sales may fall as much as 50%, year on year, after the conclusion of the eco-points program.

—Andrew Batson in Beijing contributed to this article.

Manufacturing powers India's 8.8% growth

By ANANT VIJAY KALA AND MUKESH JAGOTA

NEW DELHI—Expansion in manufacturing and services drove India's economy to its fastest growth in more than two years in the April-June quarter, reassuring policy makers that they have leeway to tighten policy to cool rising prices.

The economy grew 8.8% year-on-year in April through June, the first quarter of the current fiscal year, the government said Tuesday.

The latest data outpace the 8.6% expansion in the final quarter of the fiscal year that ended in March. They also are stronger than the 6.0% expansion in last year's first quarter, when the economy was still feeling the global financial crisis.

The figures underscore the strong recovery in India's economy—Asia's third-largest and among the earliest to emerge from the crisis. The data will reassure authorities that the recovery is on a firm footing, giving the central bank confidence to accelerate its move away from easy monetary policy.

Finance Minister Pranab Mukherjee said that the first-quarter data are encouraging and that growth could exceed government projections of expansion between 8.5% and 8.75% for the fiscal year as a whole.

Mr. Mukherjee cited strong manufacturing growth, coupled with an expected improvement in farm output on the back of healthy monsoon

rains.

Not all economists are sanguine, because industrial growth has shown signs of running out of steam in recent months.

Industrial output in June rose 7.1% from a year earlier, the slowest pace in more than a year and the first time below double digits in nine months.

"We are skeptical about the next quarter [July-September], as we have seen deceleration in industrial output," said Sujana Hajra, an economist with Anand Rathi Financial Services.

In addition, recent rate increases by the central bank are likely to crimp local demand, the main driver for manufactured-goods output, from October, said N.R. Bhanumurthy, an economist at the National Institute of Public Finance & Policy, a state-run think tank.

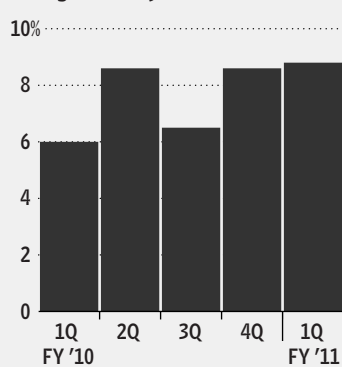
Montek Singh Ahluwalia, deputy chairman of the Planning Commission, India's top government think tank, said manufacturing output, which contributes about 16% to India's gross domestic product, may ease a bit in coming months.

The Reserve Bank of India has raised its key interest rates four times since March to restrict money supply and control inflation.

It had been trading cautiously, making small and gradual increases to ensure that growth doesn't slow. But the bank's last move was larger than many economists were expecting, signaling that continuing infla-

India's GDP

Change from a year earlier



Note: Fiscal years end March 31 of the year shown
Source: India's Central Statistical Organization



Empty oil containers are carried to a recycling plant in Kolkata on Tuesday.

tionary pressures could prompt the RBI to raise rates more quickly.

The central bank on July 27 raised its lending rate, or the repurchase rate, by 0.25 percentage point, as expected. But it raised the reverse repurchase rate, or the borrowing rate, by a larger-than-expected 0.50 percentage point.

The move takes the total increase in the repurchase rate to one percentage point so far this year, and in the reverse repurchase rate to 1.25 percentage points.

Economists say the RBI may raise the two rates by a further 0.50-0.75 point by the end of March. The RBI next meets Sept. 16 for its midquarter policy review.

India's wholesale price index-based inflation slowed to 9.97% on-year in July—its first drop to single digits in six months—compared with 10.55% in June. Still, it remains at uncomfortably high levels.

Economists say prices are unlikely to cool off until around October, when a summer crop that is expected to be robust following normal monsoon rains should boost food supplies.

In any case, price pressures that had been concentrated in food items are spreading rapidly to other commodities.

Tuesday's data show farm output, which constitutes about 16% of gross domestic product, rose 2.8%

during April-June, quicker than the 0.7% rise in the previous quarter.

Services such as trade, hotels and transport grew 12.2%, while manufacturing output rose 12.4% in the quarter.

The last time the economy grew at a faster quarterly pace was in October-December 2007, when GDP rose 9.7%.

India's economy averaged 9% growth in the four years to March 2008 but slowed to 6.7% the next year, hurt by the global crisis.

Since then it has rebounded, growing 7.4% in the fiscal year to March 2010. The government expects it to grow more than 8.5% this year.