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Another calamity for India's showpiece Games



Associated Press

Cranes remove debris of a collapsed bridge at the Jawaharlal Nehru stadium in New Delhi, site of the Commonwealth Games, which are due to open on Oct. 3. At least 25 workers were hurt in Tuesday's collapse as problems continue to pile up for the Indian organizers. **Related article on page 3**

Cautious Fed shows unease over economy

BY LUCA DI LEO
AND TOM BARKLEY

WASHINGTON—The Federal Reserve hinted it's becoming uneasy about the outlook for the U.S. economy, but deferred taking any new steps to boost the recovery amid intense internal debate about what to do next.

Suggesting more bond purchases to stimulate growth could soon take place, Fed officials said at the end of their one-day policy meeting they are uncomfortable with the recent, very low levels of inflation, adding they expect the economy's recovery from a deep recession to be modest in the near term.

"Measures of underlying inflation are currently at levels somewhat below those the Committee judges most consistent, over the long run, with its mandate to promote maximum employment and price stability," Fed officials said.

Central bank officials said in a statement they are "prepared to provide additional accommodation if needed to support the economic recovery and to return inflation, over time, to levels consistent with its mandate."

To combat the recession that started in December 2007 and ended in June 2009, the Fed first slashed short-term interest rates close to zero. When that wasn't enough, the U.S. central bank bought \$1.7 trillion in mainly mortgage-backed securities, a move that helped to keep mortgage and other long-term borrowing rates low.

Economic reports since the August meeting have pointed to a growth pace that remains sluggish. Inflation net of volatile food and energy prices last month was below 1%, which is well below the Fed's informal target of between 1.5% and 2%.

Unemployment is expected to remain close to 9% at the end of next year, according to the latest Wall Street Journal survey of economists conducted Sept. 3-7. Three in five economists predicted the Fed would resume buying bonds to stimulate growth.

The fading boost from the fiscal stimulus and growing business uncertainty about taxes and regulation are expected to keep the economy growing below trend in 2011.

The Fed's latest June forecasts see the economy growing by more than 3.5% in 2011.

That compares with private-sector economists' predictions, made earlier this month, that the economy would grow by 2.8% next year. The Fed will update its projections at its Nov. 2-3 meeting.

Fed Chairman Ben Bernanke said Aug. 27 that the central bank will do what it takes to support an economic recovery that lost momentum before the summer. Mr. Bernanke indicated he would favor additional purchases of U.S. Treasuries to kick-start the economy. He said he's still weighing different views on what might prompt new Fed action.

Some Fed officials—like San Francisco Fed President Janet Yellen, who is awaiting Senate confirmation to become Mr. Bernanke's No. 2—would likely favor more bond purchases since unemployment is well above the Fed's long-run target of between 5% and 6%.

But another camp, headed by Kansas City Fed President Thomas Hoenig, doubts that new asset purchases would do much to lift the economy and fears it might cause inflation further down the road because more money would flow into the economy.

U.K.'s Cable plans review of mergers, pay

BY AINSLEY THOMSON
AND ALISTAIR MACDONALD

U.K. Business Secretary Vince Cable on Wednesday plans to announce a review of takeovers, executive pay and other areas that he says can lead to "corporate short-termism," in what could further loosen Britain's once strict adherence to the idea of open markets.

British politicians have increasingly called for more regulation of financial markets and corporate governance after the country was hit hard by the financial crisis

and saw some of its most famous companies fall to foreign takeovers.

In another sign of the government's seeming willingness to intervene in corporate governance both Mr. Cable and deputy Prime Minister Nick Clegg said in broadcast comments that the government would take serious action if banks continue to pay big bonuses to their staff. Mr. Cable suggested that this action could include an increase in taxation for banks that pay high bonuses.

In a speech at the Liberal Democrat conference in Liver-

pool, Mr. Cable will question why good companies are hurt by short-term investors looking for a "speculative killing."

"Markets are often irrational or rigged," the Liberal Democrat lawmaker plans to say, according to excerpts from his prepared text. "So I am shining a harsh light into the murky world of corporate behavior."

In a statement, business lobby group the Confederation of British Industry asked whether it was "sensible to use such emotional language" and accused the business secretary of having "harsh things

to say about the capitalist system" without offering an alternative.

The coalition government's review, to be launched in October, will focus on the economic impact of takeovers, shareholder responsibility, corporate incentives and pay.

Messrs. Clegg and Cable are currently at the Liberal Democrats' annual conference where the party's leadership is trying to assure party members that their coalition with the Conservatives hasn't led to a rightward drift.

Greater barriers to takeovers and clampdowns on

corporate pay are likely to be less acceptable to Conservatives and could set up a clash in a coalition already riven with potential fault lines.

The takeover issue came to prominence following the £11.9 billion (\$18.5 billion) takeover of U.K.'s Cadbury PLC by U.S. company Kraft Foods Inc. In June the independent U.K. Takeover Panel launched a consultation on the regulation of takeovers.

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It's time to start imitating the Swedish economic model. **Page 13**

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PAGE TWO

Strange death of Tory Euroskepticism

[Agenda]

BY IAIN MARTIN



When David Cameron was leader of the opposition it was the widely accepted wisdom that he would, if he became Britain's prime minister, have the most terrible difficulties with the European Union.

His party, it was said, would be almost unmanageable on the issue. Remember that he encountered all manner of problems when he helped establish a new centre-right grouping in the European parliament, breaking away from the far-right EPP. Surely that was just a taster before the main course in government?

Relations with Chancellor Angela Merkel in Germany and President Nicolas Sarkozy of France were likely to be fraught, as the Conservatives forced their leader to block initiatives coming from Brussels. Britain led by Mr. Cameron would be on a collision course with its neighbors. The resulting impact might destroy Mr. Cameron's carefully calibrated attempts to present himself as centrist, moderate and reasonable.

Absolutely none of this has happened. Why?

Almost unnoticed, his MPs have voted for a list of measures that would a few years ago have triggered full-scale Tory war. There was the expansion of justice and home-affairs powers, involving the extension of the so-called European arrest warrant. The European External Action Service—or EU diplomatic service—was nodded through. New regulations for the City of London require the establishment of three pan-European supervisory bodies. This was accepted by the Treasury and if there were protests from the Conservative benches they didn't make much noise. A higher budget for the EU has also been approved.



German Chancellor Angela Merkel speaks with U.K. Prime Minister David Cameron at a G-8 meeting in Canada in June.

Ask senior Conservatives about all this and they point to the coalition with the Liberal Democrats, enthusiasts for integration. It necessitates compromise.

But that is the myth designed to make Lib Dem leader and Deputy Prime Minister Nick Clegg feel good. Mr. Cameron had decided long before he failed to win an overall majority at the general election that he was not going to die in a ditch over Europe. He prepared accordingly, removing his commitment to a referendum on the Lisbon treaty on the grounds that it was too late and would look ridiculous.

Mr. Cameron also put in a lot of effort into wooing Ms. Merkel and Mr. Sarkozy ahead of the election, reassuring them that he would be a good member of the European leaders' club. This work has continued since he took office.

He is aided by having William Hague at the Foreign Office. One of the most enduring myths of public life in Britain is that of Hague as Euroskeptic. He was once so minded, when he lost the 2001 election heavily pledging to "Save the Pound." Since then he has kept the reputation while moving steadily onto mainstream establishment territory. As a fellow Conservative puts it: "William has a couple of years ahead of him doing an agreeable job, and then a lifetime of book signings and profitable speech-

making afterwards. He's not going to do anything confrontational that puts all that at risk."

The prime minister is a relentlessly pragmatic sort and not particularly Euroskeptic. He liked to say in opposition: "Isn't it great that the Tory party hasn't had a row about Europe for ages?" Now he doesn't want any trouble that might destabilize his government and distract from its priority of eliminating the deficit by the next election.

Britons, more concerned post-crisis about the economy than Europe, don't seem particularly fussed either. They will tell pollsters that they are notionally sceptical of the EU and many of its works, yet recoil from leaders and parties that bang on about it. A campaign for a referendum on withdrawal began recently, but I wouldn't rate highly the chances of Mr. Cameron signing up.

What a tranquil scene. A subject on which Conservatives fought a civil war has faded into the background. If it is not the death of U.K. Tory Euroskepticism, it looks a lot like it.

Liverpool: sweetmeat

To the Liberal Democrat party conference in Liverpool on Monday. The third party is in government for the first time since World War II and isn't really sure how it feels about the experience. The conference was held in Liverpool, birthplace of

the Beatles and a city that has suffered as steep a post-industrial decline as any in Britain. But the impressive latest stages of the regeneration of the city's old docklands area suggest that it might, at last, be starting to find its feet again. The redevelopment is the familiar mix of conference center, hotels, museums, retail, restaurants, stylish bars and apartments. As a friend noted drily, all that is lacking is "any visible means of support."

The problem for Liverpool, as with many other old cities in Europe and the U.S. battling to reinvent themselves, is that once the shiny new development has been built you are still left with the crumbling old city center a stone's throw away.

Five minutes walk from the gleaming steel and glass, and burnished Georgian brick, is the other Liverpool. Beautiful historic buildings surrounded by down-market shops and boarded up buildings. What can one do with it all? It cannot be demolished.

This is known as the jam and the doughnut problem. The redeveloped area is the economic sweet spot, but it comes encased in an unappetizing dough. The theory is that the regeneration of one area will pull up neighboring parts of the city, rescuing them from decay and decline. Given time, and a spurt of sustained growth, perhaps that will be Liverpool's experience. I hope so. It all hinges on growth.

To that end, there will be those who say it and cities like it depend on public sector employment and should be spared cuts. That misses the point. What Liverpool desperately needs if its redevelopment is to be sustained is much more private-sector activity, which requires—among other things—confidence. I hope Nick Clegg had time for a walk about the city, and grasped that there should be more to life than cuts. A little hope and optimism about future economic prospects wouldn't go amiss. Places such as Liverpool could do with hearing what lies beyond austerity.

What's News

■ **Alessandro Profumo's** continued leadership of Uni-Credit was in doubt as the bank's board deliberated whether to accept the CEO's resignation amid controversy over Libya's increased influence at the bank. 19, 36

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■ **Spain's Zapatero** declared that the European debt crisis is over and said governments should work better together and with markets to stave off such events. 4

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■ **Italian prosecutors** have placed top officials at the Vatican's bank under investigation on suspicion that they failed to comply with laws against money laundering. 6

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NEWS

India takes hit from Games setbacks

By VIBHUTI AGARWAL

NEW DELHI—A footbridge under construction for the Commonwealth Games collapsed Tuesday, while international officials called new housing for athletes “uninhabitable,” as preparation for the high-profile event has been plagued by many of the problems that afflict India’s path to development.

The competition, which opens on Oct. 3, was seen as an opportunity to showcase the country’s modernity and competence in hosting a major sporting event, and a riposte to rival China’s hosting of the 2008 Olympics. But if China’s efficiency in preparing for the Olympics showcased the country’s rise as a superpower, India’s setbacks in the approach to the Games have called attention to its problems more than its strengths.

Jaipal Reddy, India’s minister for urban development, said the event would go smoothly despite the problems. “I am as confident, as cool as ever, about organizing Commonwealth Games in a very successful, comfortable way,” Mr. Reddy

said Tuesday. “I don’t think these matters will affect the image of the government or the country in the final analysis.”

On Sunday, two gunmen fired on a tourist bus in Delhi’s old town, injuring two tourists from Taiwan and reviving concerns that the 54-nation sporting event could become a target for a terrorist attack. The event has also faced construction delays, difficulties finding sponsors, and corruption allegations against Games officials.

On Tuesday, a 109-yard (100-meter) footbridge connecting a car park to the Games’ showcase Jawaharlal Nehru stadium collapsed, injuring at least 25 laborers seriously and possibly many more, according to H.G.S. Dhaliwal, deputy commissioner of police in charge of south Delhi.

A.K. Sinha, the chief engineer of the Public Works Department of the Delhi government—the agency responsible for constructing the bridge—called Tuesday’s incident a “setback,” but expressed confidence that the project would be completed before the Games begin.



A footbridge to Jawaharlal Nehru Stadium in New Delhi collapsed Tuesday, injuring workers and adding to setbacks before the Commonwealth Games.

“The mishap happened due to support failure, leading to the collapse of the footbridge onto the car park tarmac underneath,” Mr. Sinha said. “The engineers are investigating the cause of the accident.”

Earlier Tuesday, athletes’ representatives slammed the Games village—which local Games officials

had promised would outdo accommodations in Beijing.

The village is due to receive its first competitors Thursday. Officials who toured in the past few days found problems in some residential areas including in sanitation, plumbing, wiring, and Internet and mobile-phone connectivity.

“We are disappointed to find ourselves in this situation with just two days to go,” said Mike Hooper, the chief executive of the Commonwealth Games Federation, at a news conference in New Delhi. He called parts of the village “filthy” and “uninhabitable.”

The head of New Zealand’s mission for the Games, Dave Currie, said Tuesday the Games may be called off if the living conditions weren’t improved, according to news agency Press Trust of India.

Lalit Bhanot, secretary-general of the Organizing Committee, the local body responsible for the Games, said in a televised news conference Tuesday that the shortcomings at the village would be resolved before the athletes’ arrival.

Long delays and a last-minute rush to finish projects are common in India. But completing work as scheduled is sufficiently rare that the Delhi metro, a project closely associated with the Commonwealth Games, has been widely lauded and held up as a national example, simply for delivering its network on time and on budget.



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EUROPE NEWS

Euro-zone crisis on debt is over, Zapatero says

By SANTIAGO PÉREZ

NEW YORK—Spanish Prime Minister José Luis Rodríguez Zapatero declared that the European debt crisis is over but said that the governments have to work better together and with markets to stave off such events.

"I believe that the debt crisis affecting Spain, and the euro zone in general, has passed," Mr. Zapatero said in an interview with The Wall Street Journal on Tuesday.

One lesson learned from the market turbulence that hit the euro zone is that a single monetary policy isn't enough for the European Union, Mr. Zapatero said. "We require further convergence to boost competitiveness, and stronger principles to implement balanced economic and fiscal policies."

Mr. Zapatero, who said he expects no contractions in gross domestic product in coming quarters, offered a robust defense of Spain's economy and the austerity package he has pushed through Parliament.

Another lesson that emerged from the crisis is the need to push for greater economic policy coordination within the European Union.

Earlier Tuesday, the Spanish leader met with senior executives from major U.S. financial-services companies and investment funds to talk about Spain's economy, in an effort to shore up investor confidence on the country's fundamentals.

Mr. Zapatero said his message is that "confidence has been restored," particularly after the country released results of tests that evaluated the soundness of its banking system in late July. The risk aversion toward Spain has also subsided as the government has shown progress in reducing its deficit. Spanish banks' reliance on European Central Bank funding fell in August from record highs in June and July as international capital markets started opening up again for Spanish institutions.

Mr. Zapatero reiterated his government's commitment to economic reform and fiscal austerity, including plans to cut the country's budget gap to 6% next year and to 3% in

2011. The gap is forecast to be 9.3% in 2010.

Spain plans to cut spending at its ministries by 15% to 16% next year. Mr. Zapatero's government plans to submit its 2011 budget proposal to Parliament in coming days. Negotiations to pass next year's budget plan are well advanced in Parliament, he said.

A gaping budget deficit and weak economy left Spain vulnerable to the spread of the Greek-centered sovereign-debt crisis earlier in the year. As Spain's financing costs surged to levels not seen since the creation of the euro and credit dried up for many Spanish companies, Mr. Zapatero also is pushing a fiscal-adjustment plan that included spending cuts to reduce Spain's budget deficit.

Spain reported a total public-sector deficit equal to 11.2% of gross domestic product in 2009, nearly four times the 3%-of-GDP limit for European Union countries, coming under intense pressure from the EU and financial markets to rein in this deficit.

The Socialist prime minister abandoned an earlier pledge to not make any changes to labor laws not backed by unions and pushed in Parliament an ambitious overhaul of archaic regulations that economists say are a drag on growth.

The long-awaited overhaul of labor laws is expected to help cut unemployment and spur economic growth. The changes aim to encourage hiring by reducing Spain's high cost of dismissal and giving companies more flexibility to reduce working hours and staff levels in economic downturns.

The change has come at high political cost for Mr. Zapatero, who has seen his standing fall in opinion polls and who faces a general strike on Sept. 29 called by unions to protest the overhaul of labor laws.

The country is also grappling with the collapse of a decadelong housing boom that pushed the economy into a deep recession with an unemployment rate of 20%. Its economy returned to weak growth in the first and second quarters of this year after six consecutive quarters of contraction.



Bloomberg News

Employees at a factory in Plzen, Czech Republic, inspect material for use in a nuclear-power plant in Finland.

Czechs at crossroads for nuclear partner: Russia or the West?

By SEAN CARNEY AND LEOS ROUSEK

PRAGUE—The Czech Republic has a big choice to make as it moves to boost nuclear generating capacity: whether to align the country's energy sector with Russia or the West.

CEZ AS, the Czech state-controlled power utility, is preparing to choose a company to help it design, build, operate and possibly decommission two new reactors.

The "project is going to tie local industry with the winning bidder and its home power sector probably for several decades," says Vaclav Bartuska, the Czech government's special energy envoy.

Three companies are in the running: Westinghouse Electric Co., a U.S.-based unit of Japan's Toshiba Corp., France's state-owned Areva SA and Russia's state-owned Atomstroyexport.

CEZ said it expects to release details of the tender process in about a month, which will set the stage for bidding to begin in earnest.

The contract, which includes an option to build three additional reactors in the Czech Republic and neighboring Slovakia, could be valued at as much as \$25 billion.

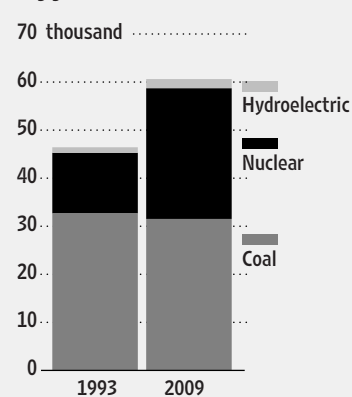
With that price tag, CEZ's tender is the largest nuclear project up for bid in Europe, making it an attractive prize.

Mr. Bartuska says the Czech Republic would benefit from getting non-Russian nuclear technology, because the country is now highly dependent on Russia for its energy needs.

"All three bidders have equal chance of winning, but the aspect of diversification will certainly play a role," said Mr. Bartuska, who is overseeing the bidding process for the government.

Energy equation

Electricity generated by the Czech Republic's CEZ utility*
In gigawatt hours



*Accounts for 70% of Czech Republic's power generation.
Source: CEZ

Russians are the exclusive suppliers of nuclear fuel to the Czech Republic's four existing reactors. The country also supplies more than 75% of the country's oil and natural gas.

Other senior Czech officials in the country's new, right-leaning government, including Foreign Minister Karel Schwarzenberg, have also said Prague should diversify its energy sources. There is also growing public wariness of overdependence on Russia, whose military occupied the Czech Republic from 1968 until the summer of 1990.

Spats between Russia and its neighbors Belarus and Ukraine resulted in interruptions of natural-gas supplies to the Czech Republic in the past two winters, raising questions about Russia's reliability.

Others, however, support the Russians, including some business leaders and politicians who argue that the Czech Republic's business

prospects are brighter in the East than in the West.

Jiri Paroubek, a former prime minister, wrote in a leading Czech business daily this month that if he were still in charge, the Czechs would be working much more closely with Russia.

Mr. Paroubek wrote that under a left-leaning government, officials "would be looking for ways to improve relations, namely of a business nature, with large nations to the East, such as Russia, China, India and others."

CEZ is aiming to have the first two new reactors, to be installed at its Temelin nuclear power plant in the south, in operation by 2021. The reactors will have a lifespan of 40 to 60 years. The government wants to increase its use of nuclear power because after 2020 it will become more expensive under EU emissions rules for it to use coal-burning power plants.

"It's a very long commitment," says Mike Kirst, Westinghouse vice president for strategy in Europe, noting the Czechs' dependence on Russian technology. "If they want to diversify, now is the time."

Atomstroyexport declined to comment for this article. Its Russian-controlled Czech partner in the tender, Skoda JS AS, didn't respond to requests to comment.

Thomas Epron, Areva's central European business development director, said, "We're a company with a very strong financial objective and we're here to win."

Aside from financing, "the biggest fight in the tender will be over technology and transfer of know-how," said Mr. Bartuska, the Czech Republic's energy envoy.

CEZ will likely seek to receive licenses for technical processes such as the handling of fuel casings before they are installed in reactors.



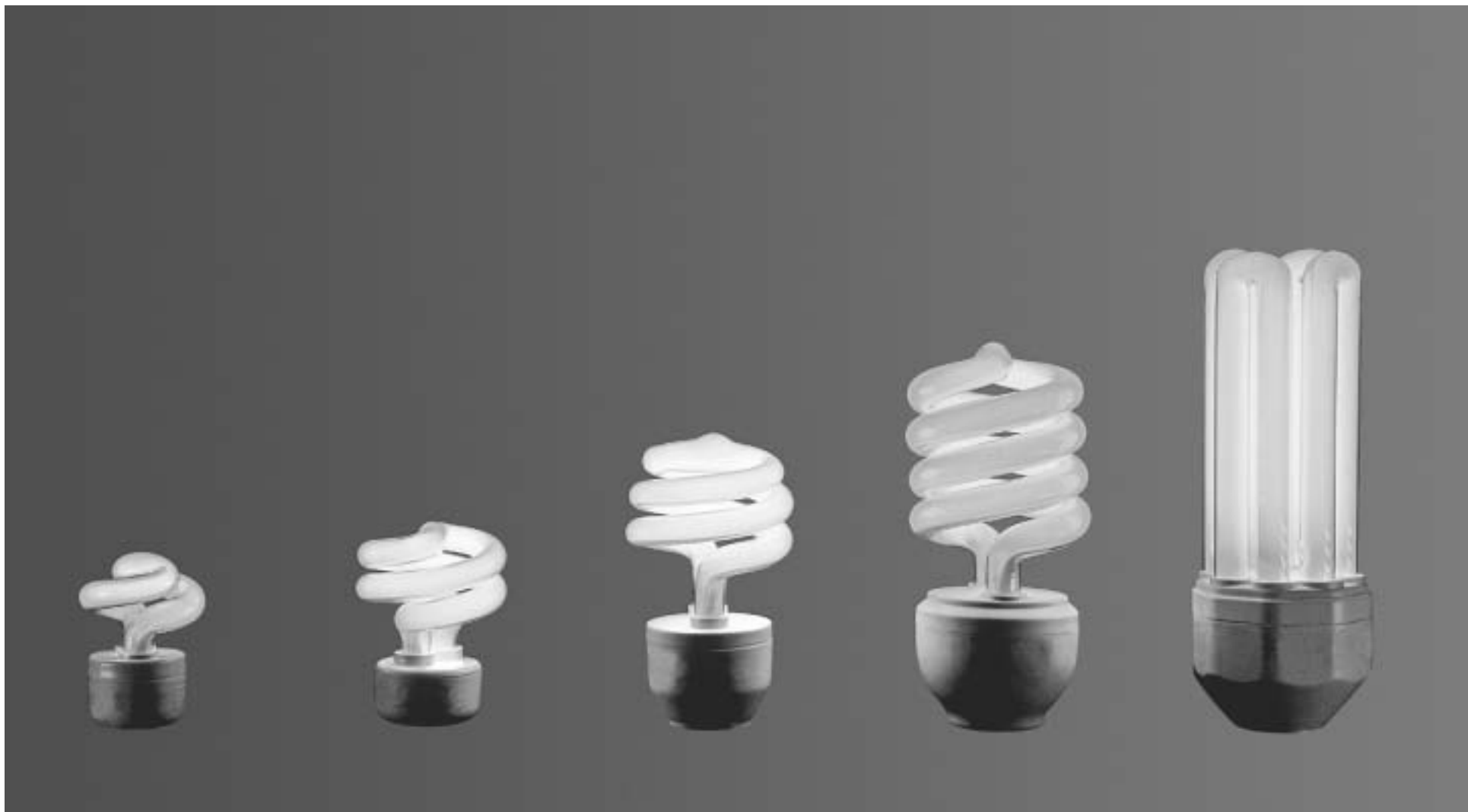
Reuters

Mr. Zapatero, speaking at a news conference in New York earlier this week.

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EUROPE NEWS

Vatican bank officials probed

BY STACY MEICHTRY
AND MARGHERITA STANCATI

ROME—Italian prosecutors have placed top officials at the Vatican's bank under investigation on suspicion that they failed to comply with laws against money laundering, the Vatican said Tuesday.

Prosecutors in Rome are investigating the alleged failure by bank officials to disclose the identity of clients—required under Italian law—said a person familiar with the matter.

The investigation comes as the Vatican struggles to shake off criticism that it failed to deal transparently with allegations of priestly sexual abuse. Pope Benedict XVI addressed the sexual-abuse scandal to an unprecedented extent during his recent U.K. visit.

The Vatican said it was “perplexed and amazed” by the prosecutor's decision to investigate Ettore Gotti-Tedeschi, chairman of the Vatican bank, which is formally called the Istituto per le Opere di Religione, or IOR.

“All the procedures aimed at preventing terrorism and money laundering have been taken,” the Vatican said Tuesday. It added that the IOR was cooperating with the Bank of Italy and the Organization for Economic Cooperation and Development to make sure their practices complied with international standards for



Italian prosecutors are investigating Vatican bank chief Ettore Gotti-Tedeschi.

preventing money laundering.

Italian prosecutors opened an investigation of money transfers from the IOR and Italian banks more a year ago, said a person familiar with the matter. The bank's main clients are Vatican officials and clergy, who receive salaries and other funds from the Holy See into their IOR accounts. For years, the IOR has transferred funds to its accounts at other banks on behalf of its clients without fully disclosing their identities. In 2007, however, Italy introduced tougher disclosure laws.

Still, a Vatican spokesman said the recipient accounts at the other banks involved in the investigation

are registered under IOR's name, and not under the names of IOR clients.

Because of the IOR's relative opacity, the Bank of Italy has over the past year reiterated that transactions between Italian banks and the IOR were subject to anti-money laundering regulations. The IOR is subject to such regulations as a foreign lender, because it is based in the Holy See, an independent state.

The investigation was triggered by activity at the IOR's bank account at Credito Artigiano, a unit of Credito Valtellinese SpA. The IOR ordered the transfer of €23 million (\$30 million) in funds from its account in early September—€20 mil-

lion to a branch of J.P. Morgan Chase in Frankfurt and €3 million to a small Italian bank, said a person familiar with the matter. But Credito Artigiano asked the Bank of Italy to suspend the transfer, said a person familiar with the matter.

Credito Artigiano told the anti-money-laundering unit of the Bank of Italy that there were “irregularities” in the transaction requested by the IOR, including the failure to disclose fully the reasons for the transfer and the identity of the account holders, this person said.

The Bank of Italy's anti-money-laundering unit suspended the transaction and reported it to Rome prosecutors on Sept. 15, this person said. Police froze the funds involved in the transaction during a Monday raid on the branch, this person said.

The office of Aldo Fumagalli Romario, chairman of Credito Valtellinese, and a spokesman for J.P. Morgan declined to comment on the investigation. Mr. Gotti-Tedeschi didn't respond to requests to comment.

Mr. Gotti-Tedeschi, formerly head of Italy operations for Banco Santander SA, was appointed chairman of the Vatican bank a year ago with a mandate to modernize its operations. The Vatican said it maintained the “maximum faith” in Mr. Gotti-Tedeschi.

—David Crawford in Berlin
contributed to this article.

Group gives mixed view on British economy

BY NICHOLAS WINNING

LONDON—The Confederation of British Industry said it raised its forecast for U.K. economic growth this year, but lowered its prediction for 2011 due to the government's efforts to cut spending and shrink the budget deficit.

In its latest quarterly economic forecast, the business group said it expects gross domestic product to grow 1.6% this year and 2% in 2011. In June, it had forecast growth of 1.3% this year and 2.5% next.

“While the outlook for growth in 2010 has been lifted slightly, due to somewhat faster economic activity in the second quarter of the year...the action to get the public finances back onto a sustainable footing will no doubt temper the recovery going into 2011,” Ian McCafferty, CBI chief economic adviser, said in a statement.

The U.K.'s coalition government has promised a fiscal consolidation of £113 billion (about \$176 billion) over the next five years, made up largely of spending cuts, to cut its large budget deficit.

The CBI said that although there was a high degree of uncertainty about the economic outlook, a double dip back into recession was unlikely. It urged the government to focus on areas that will galvanize growth, such as infrastructure and capital investment.

The CBI's new predictions are quite different from those of the U.K.'s Office for Budget Responsibility, an official body that makes independent assessments of the economy. It forecast in June that GDP would grow 1.2% this year and 2.3% in 2011.

But official data released since the OBR's forecast show the U.K. economy grew 1.2% from April to June, the fastest quarterly expansion in nine years and much stronger than many economists were expecting.

Mr. McCafferty said U.K. consumer spending will be constrained due to modest wage increases and higher inflation resulting from a sales-tax increase planned for January. “We do expect exports to grow at a faster rate than imports however, with net trade making a positive contribution to GDP growth during the coming 15 months,” he said.

The business group forecast public-sector net borrowing would amount to 9.5% of GDP in the 2010-11 financial year and drop to 7.6% of GDP the following year. In June, the OBR forecast that public-sector net borrowing would be 10.1% of GDP in 2010-11, falling to 7.5% in 2011-12.

Separately, the Office for National Statistics said the U.K. public sector borrowed significantly more than expected in August, as higher debt interest payments pushed central government spending sharply higher.

The public sector borrowed a record net £15.3 billion in August versus expectations of £13 billion. In August 2009, public-sector net borrowing was £13.5 billion.

—Laurence Norman
contributed to this article.

Irish debt sale brings sigh of relief

BY EMESE BARTHA
AND QUENTIN FOTRELL

Ireland's closely watched government-bond auction led a series of strong debt sales by Europe's fiscally challenged countries Tuesday, bringing some relief to the sovereign landscape.

The Irish National Treasury Management Agency sold the maximum intended €1.5 billion (\$1.96 billion) in two series of government bonds but paid sharply higher yields than in previous auctions, reflecting political and economic uncertainty.

Spain and Hungary, which isn't a member of the euro zone, sold more Treasury bills than planned, although the latter attracted higher demand because investors are afraid of putting money into longer maturities ahead of the Oct. 3 local elections.

Greece, which forms a category of its own within the euro zone's “peripheral” issuers—countries with a weaker fiscal stance or lower credit rating—sold €390 million of 13-week T-bills amid healthy demand and at a uniform yield of 3.98%, compared with 4.05% a quarter ago.

“Today's periphery auctions show that, while investors are ready to sell aggressively debt of troubled countries, they are also not scared of buying at the auctions,” said Chiara Cremonesi, strategist at UniCredit Bank in London.

Concern about Ireland's public finances has swelled recently amid signs of political uncertainty. Prime Minister Brian Cowen's position came into question after a widely criticized appearance on early-morning radio last week. Warnings from the Irish central bank Monday that the country's 2014 budget goals could be at risk also sent an unset-

Debt relief | Irish competitive bond auctions, year to date

Auction date	Treasury bond	Sales, in millions	Bid-cover ratio	Avg. yields
Jan. 19	4.0% Jan. 15, 2014	€500	3.9	3.114%
	5.4% March 13, 2025	€1,000	3.0	5.477%
Feb. 16	4.0% Jan. 15, 2014	€600	2.8	3.033%
	4.5% April 18, 2020	€890	2.3	4.745%
March 16	4.6% April 18, 2016	€500	4.5	3.479%
	4.5% April 18, 2020	€1,000	2.6	4.426%
April 20	4.6% April 18, 2016	€750	3.0	3.663%
	5.0% Oct. 18, 2020	€750	3.0	4.688%
May 18	4.0% Jan. 15, 2014	€750	3.1	3.110%
	4.5% April 18, 2020	€750	3.1	4.720%
June 15	4.6% April 18, 2016	€750	3.1	4.521%
	4.5% Oct. 18, 2018	€750	2.9	5.088%
July 20	4.6% April 18, 2016	€750	3.6	4.496%
	5.0% Oct. 18, 2020	€750	3.0	5.537%
Aug. 17	4.0% Jan. 15, 2014	€500	5.4	3.627%
	5.0% Oct. 18, 2020	€1,000	2.4	5.386%
Sept. 21	4.0% Jan. 15, 2014	€500	5.1	4.767%
	4.5% Oct. 18, 2018	€1,000	2.9	6.023%

Source: Irish National Treasury Management Agency

ting message.

The concerns drove 10-year Irish yield spreads, along with Portuguese ones, to new highs since the introduction of the euro, above four percentage points Monday. But the strong auction reception afforded some relief.

The Irish auction has enabled the NTMA to complete the €20 billion bond funding it planned for 2010. Oliver Whelan, the director of funding and debt management at the NTMA, said on a conference call that the overall cost of borrowing for Ireland over the course of the year has been “quite reasonable.” He

said the expectation is to continue auctioning in “the normal range” of around €1.5 billion, “but obviously that's not written in stone.”

Ireland has two more bond auctions scheduled for 2010, while its next auction of Treasury bills—a shorter-term form of debt—is due Thursday.

The NTMA sold €500 million of the 4% January 2014 bond at an average yield of 4.767%, compared with 3.627% at its Aug. 17 auction. The bid-to-cover ratio came in at 5.1 compared with 5.4.

The agency also sold €1 billion of the 4.5% October 2018 bond at an

average yield of 6.023% compared with 5.088% on June 15, at a bid-to-cover ratio of 2.9, the same as previously.

Mr. Whelan said he would expect an improvement in spreads over the next couple of months. “It's very difficult to put a precise time on that,” he said, “when stability and clarity has been brought to the various factors, the banks and the budget, when investors are confident that we've put a firm figure on the cost of the various measures.”

The Central Bank of Ireland is expected to give a figure for the cost of the restructuring of the nationalized Anglo Irish Bank Corp. before October. The bank is being split into a “funding bank” that won't do any lending and an “asset recovery bank” that will be wound down over time. The price tag is likely to exceed Anglo's previous estimate of around €25 billion.

Finance Minister Brian Lenihan also dismissed rumors of a liquidity crisis in Ireland and speculation that the country would have to seek external assistance. “It has been a difficult few weeks for Ireland. ... But there is no question of any imminent danger to the Irish sovereign,” he said in an interview.

Greece, meanwhile, has finished the first round of two-leg monthly T-bill auctions, to which it switched in September from quarterly issues. The results of the Greek auctions pleased Petros Christodoulou, the chief of the Greek Public Debt Management Agency.

“We are very happy with the auction,” he said, “because it shows confidence is slowly and steadily returning in Greek debt, and incidentally 72% of the issue was bought by foreign investors.”

—Nick Skrekas and Margit Feher
contributed to this article.

U.S. NEWS

Bid stalls to amend policy on gays in U.S. military

Republican senators derailed a Democratic effort to repeal the ban on gays serving openly in the military, successfully putting off a defense-funding bill and likely pushing back any further moves to end the so-called Don't Ask, Don't Tell ban until after November's congressional elections.

By Julian E. Barnes, Naftali Bendavid and Adam Entous

Democrats failed to garner the 60 votes needed to break a Republican filibuster, with 56 senators voting Tuesday in favor of proceeding with the legislation and 43 against.

Democratic senators Blanche Lincoln and Mark Pryor, both of Arkansas, voted with Republicans against proceeding. So did Senate Majority Leader Harry Reid (D., Nev.), in a procedural tactic that leaves him the option of reviving the bill at a later date.

Republicans objected to Mr. Reid placing restrictions on amendments to the bill and also said Democrats were loading the legislation with measures not central to defense. Republicans objected to Democratic plans to vote on a limited number of amendments, including a provision allowing certain children of immigrants to obtain legal status, which many Republicans oppose.

The successful filibuster is a setback for President Barack Obama, who had promised to end the 1993 ban on gays serving openly in the military.

Unlike gay marriage, allowing gays and lesbians to serve in the military has become a less divisive issue since 1993, when the current ban on allowing homosexuals to serve openly in the armed forces was put in place. A majority of the public supports ending the ban.

The issue has gathered more attention lately, in part because of efforts by pop star Lady Gaga, who Monday attended a Maine rally to push for the repeal.

But opponents of the repeal had lobbied sympathetic senators vigorously. Republican senators also opposed taking action to repeal the ban before a Pentagon review of the policy—which is currently under way—is completed.

"This is a victory for the men and women who serve our nation in uniform—at least for now they will not be used to advance a radical social agenda," said Tony Perkins, a Marine Corps veteran and president of the Family Research Council, which has led opposition to repealing the ban.

Advocacy groups that support ending the ban on gays serving openly complained that the vote had become ensnared in campaign politics.

"It was a major setback in treating all service members the same without regard to their sexual orientation," said Aubrey Sarvis, the executive director of the Servicemembers Legal Defense Network.

More broadly in Tuesday's debate, Republicans denounced Mr. Reid for not allowing more GOP amendments. Mr. Reid said the first three amendments would be a Republican move to strip out the "Don't Ask, Don't Tell" repeal; the immigration measure, called the DREAM Act; and a provision to bar

secret "holds" on legislation in the Senate.

The immigration measure would grant six years of legal residency to high-school graduates who have lived in the U.S. continuously for five years and arrived by the age of 15. They would become eligible for citizenship if they attend college or serve in the military for two years during the legal residency period. Sen. George Voinovich (R., Ohio)

said Mr. Reid had turned an important measure to fund the Armed Services into a "messaging bill" with the coming election in mind.

"If the Democrats are serious about passing this bill in a timely fashion, they wouldn't be attaching amendments that are not relevant to the common defense, in addition to making it impossible for Republicans to offer their own amendments," Mr. Voinovich said.



Pop star Lady Gaga Monday called for gays to serve openly in the military.

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U.S. NEWS

Low-key security plans for Guantanamo trial

BY DEVLIN BARRETT
AND SEAN GARDINER

The trial of the only Guantanamo Bay prisoner brought to the U.S. will soon start in New York City with virtually none of the elaborate security measures once envisioned by city officials for another terrorism detainee, Khalid Sheikh Mohammed.

Federal officials say the New York Police Department has asked for no financial help to buttress security around the federal courthouse in Lower Manhattan, in contrast to the \$200 million a year they wanted for the proposed trial of Mr. Mohammed, the self-professed mastermind of the Sept. 11, 2001, attacks.

The pending trial of Ahmed Khalifan Ghailani could reignite the debate over the wisdom and effectiveness of civilian criminal trials for Guantanamo detainees, an issue that forced the Obama administration to retreat from its goal of closing the detention center by January 2010.

The NYPD plans some behind-the-scenes security adjustments for Mr. Ghailani's trial, but there will be no street closures or extra officers assigned outside the courthouse.

Mr. Ghailani "does not nearly have as high a profile as Khalid Sheikh Mohammed and does not require the same security measures," said NYPD spokesman Paul Browne.

Mr. Ghailani, a Tanzanian, has lit-

tle of Mr. Mohammed's notoriety, but counterterrorism officials have long labeled him one of the most dangerous terrorists in U.S. custody. He spent years in the Central Intelligence Agency's "black sites" as one of about a dozen detainees of "high value" to intelligence officials.

The cost and expected security hassles of the proposed Sept. 11 trial were two major reasons the Obama administration backed off the planned New York trial for Mr. Mohammed and four other Guantanamo detainees. The administration has yet to make a decision on where and when to hold that trial.

Now, federal authorities are preparing to try Mr. Ghailani for his role in al Qaeda's bombings of two U.S. embassies in Africa in 1998. Juror questioning in that case is scheduled to begin next week.

One local leader who opposed a Lower Manhattan trial for the Sept. 11 suspects said Monday she has no qualms about trying a different Guantanamo detainee without massive security measures.

"We're talking about a very different trial where the NYPD has indicated that there will be no additional security dollars spent," said Julie Menin, chairperson of Community Board 1 in Manhattan. "The courthouse has for years handled trials for terrorists successfully."

Michael Prout, assistant director for judicial security with the U.S. Marshals, said the agency is working with local and federal officials. "Existing security measures around the U.S. courthouse and [federal jail] will be supplemented with visible as well as discreet security enhancements," Mr. Prout said.

He wouldn't describe those measures, but other law-enforcement officials familiar with the plans said they include additional screening inside the courthouse, extra guards on the sidewalk outside the courthouse, and barricades to prevent would-be car bombs.

Additionally, jurors will receive protection as they travel to and from the courthouse.

Mr. Ghailani is accused of conspiring in al Qaeda-directed attacks on U.S. embassies that killed more than 200 people, including a dozen Americans. U.S. authorities say that Mr. Ghailani, who used a bicycle to ferry bomb parts, later rose up through the ranks of al Qaeda.

He allegedly became a bodyguard to Osama bin Laden, and a skilled document forger. While working as a bodyguard, he met some of the Sept. 11 hijackers, according to U.S. investigators. Mr. Ghailani was captured in Pakistan in 2004.



Associated Press

Ahmed Khalifan Ghailani.



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U.S. NEWS

Corporate giving swings toward GOP

By Brody Mullins
and Alicia Mundy

Corporations have begun to send a majority of donations from their political-action committees to Republican candidates, a reversal from the trend of the past three years.

The change in corporate PAC giving is the latest sign Republicans are likely to make significant gains in November's midterm U.S. elections. Business PACs are notoriously cautious in deciding which party should receive a majority of their donations and nearly always give most contributions to candidates whose party is in power on Capitol Hill. According to the Center for Responsive Politics, business PACs gave 52% of their \$72.2 million in total donations to Republican candidates from January through July.

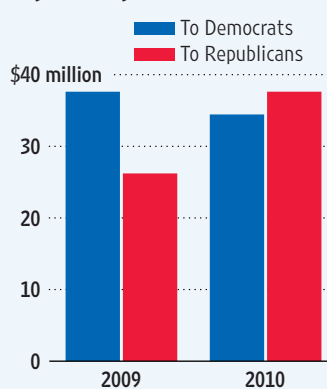
In the same period of 2009, corporate PACs had sent 59% of their \$64 million in contributions to Democratic candidates, according to the data. AT&T Corp. and GlaxoSmith-Kline PLC are among the companies whose PAC donations shifted this year toward GOP candidates.

The donations are given directly to candidates and are separate from contributions to independent political groups that are becoming a larger force in politics. The Journal reported last week that corporate and conservative groups plan to spend about \$300 million on TV ads and other efforts to elect Republican candidates this fall, rivaling efforts of labor unions and liberal-leaning groups to back Democrats.

Business PACs began shifting toward Democrats late in the 2006 midterm elections, when it became clear Democrats would win control of Congress. Democrats claimed a majority of business PAC donations for the three following years. Now, corporate money appears to be shifting again. Health care and pharmaceutical companies, for example, have given 51% of their \$14.7 million in donations to Democratic candidates through July of this year, after sending two-thirds of their contributions to Democrats in the same period last year, the data show.

Wall Street executives opposed new financial-services regulations passed by Congress this year,

Reversal of fortune
Contributions from corporate political action committees through July of each year



Source: Center for Responsive Politics

mainly with support from Democrats, and signed into law by President Barack Obama. Overall, big banks, securities firms and other financial-services companies gave 55% of \$18.5 million in campaign donations to Republicans in the Janu-

ary-through-July period. That is a reversal from the same period last year, when they gave 65% of PAC donations to Democrats.

Last year, AT&T divided its \$1.1 million in PAC contributions roughly evenly between Republican and Democratic candidates during the period from January through July. In the same period of this year, Republicans have garnered 56% of the \$1.1 million AT&T has given, according to the data. A spokesman for AT&T declined to comment.

Even amid the shift toward the GOP, AT&T has been a major donor to both political parties, ranking first among all corporate PACs in donations to Republicans and second in donations to Democrats so far in the 2009-2010 election cycle.

PACs run by labor unions give most of their donations to Democrats. Sixteen of the top 20 PAC donors to Democrats so far this election are operated by labor unions, according to the center, led by the International Brotherhood of Electrical Workers, which has given \$2.5 million, almost entirely to Democrats. None of the top 20 PAC do-

nors to Republicans have been labor unions in the current election cycle.

In 2009, drug-industry PACs gave Republicans 39% of their \$6.4 million in donations. Through July 2010, Republicans have captured 49% of the industry's \$4 million in PAC contributions, according to the data. A beneficiary has been Virginia Rep. Eric Cantor, the No. 2 House Republican. In March, at a Washington-area retreat for trade-group officials, Mr. Cantor told drug executives their embrace of Democrats and health-care legislation had hurt their relationship with Republicans. A spokesman for Mr. Cantor declined to comment. In 2008, Mr. Cantor wasn't among the top 20 recipients of drug-maker money. Now he is No. 10 on the list from the Center for Responsive Politics.

The Glaxo PAC gave 63% of its \$167,000 in donations to Democrats from January through July last year. Through July of this year, the company's PAC gave Republicans 53% of its \$212,000 in donations. Glaxo said its PAC contributions were evenly divided between Republicans and Democrats over the two-year cycle.



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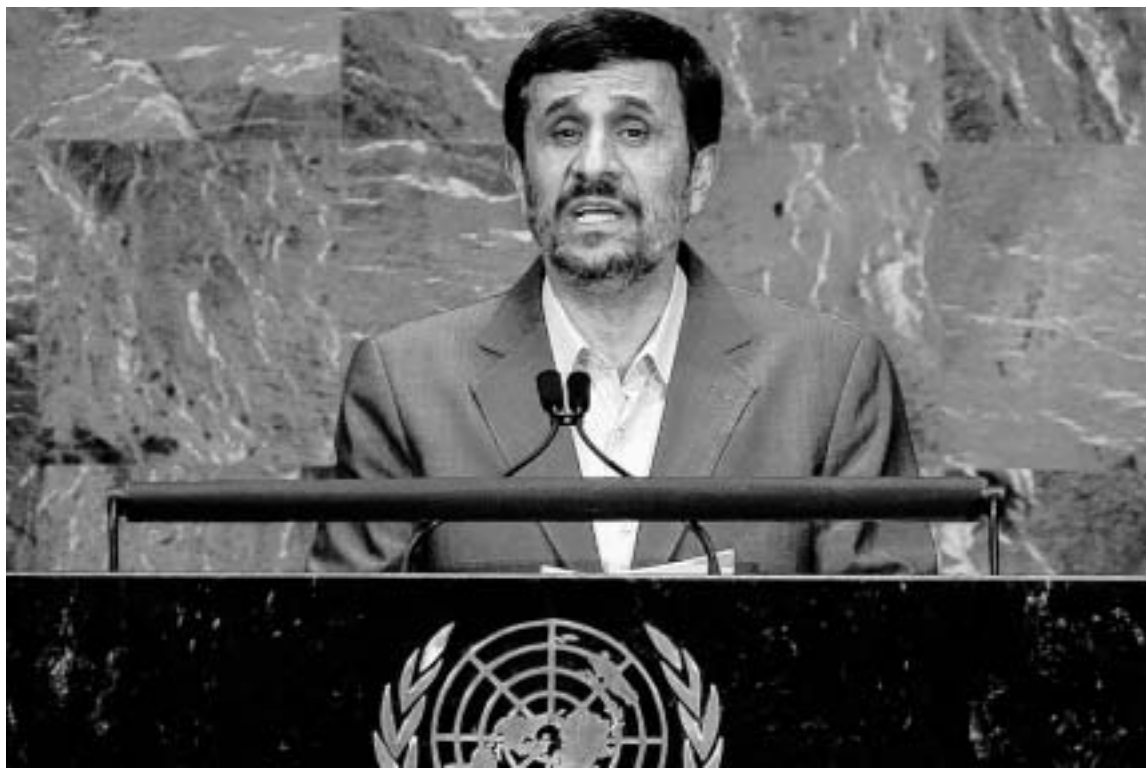
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WORLD NEWS



Speaking at the U.N., Iranian President Mahmoud Ahmadinejad blamed the world's problems on big capitalist nations.

Iran leader seeks renewal of negotiations with U.S.

By FARNAZ FASSIHI

NEW YORK—Iran's President Mahmoud Ahmadinejad called for renewal of negotiations between the U.S. and Iran on Tuesday at a breakfast meeting with American journalists and said the only path forward for the two nations was one of "dialogue based on respect and justice."

Mr. Ahmadinejad's comments lacked the usual fervor and mockery of American policies typically associated with his speeches and interviews. Instead, he appeared mild in manner and tone, repeating his offers of reconciliation while remaining vague and defensive about internal politics in Iran.

"We have always been ready for dialogue, and even now we are ready. I suspect negotiations will start in the near future," the Iranian leader said of talking with the Obama administration.

Mr. Ahmadinejad, who arrived in New York Sunday for the opening of the United Nations General Assembly, hosted the annual meeting with editors and reporters at the Warwick hotel in midtown Manhattan.

He sat at a large conference table, flanked by a delegation that re-

flected Iran's political rifts—on one side the foreign minister and ambassador to the U.N. and on the other two controversial senior advisers considered part of the new political elite.

In the past month, the president has faced growing criticism from conservative allies, many of whom now vocally blame Mr. Ahmadinejad for overriding the parliament, ignoring the wishes of the country's supreme leader and marginalizing the foreign ministry.

As Mr. Ahmadinejad made the rounds in New York Tuesday, a conservative parliament member and former speaker of the house, Ahmad Bahonar, threatened that the parliament could impeach the president if he continued acting unilaterally, according to Iranian news outlets.

In a speech on the second day of a U.N. antipoverty summit, meanwhile, Mr. Ahmadinejad also declared that capitalism faces inevitable defeat and called for the overhaul of "undemocratic and unjust" global decision-making bodies, the Associated Press reported.

The Iranian leader blamed capitalism and transnational corporations for "the suffering of countless

women, men and children in so many countries."

Mr. Ahmadinejad's speech to the 192-member General Assembly never mentioned the Millennium Development Goals—the U.N. targets set by world leaders in 2000 to combat global poverty by 2015—that are the focus of the three-day summit called by Secretary-General Ban Ki-moon to spur their implementation.

The U.N. chief has expressed satisfaction that the world is technically on track to cut extreme poverty by half, the No. 1 goal, though some critics say it is mainly because of the tremendous improvements in China and India. Many recent reports show that the world's poorest countries, especially in sub-Saharan Africa, have made little progress in eradicating poverty. In Africa, Asia and Latin America there also has been a lack of progress in meeting other major goals including reducing mother and child deaths and promoting women's equality.

While Mr. Ahmadinejad blamed the world's problems on powerful capitalist nations, German Chancellor Angela Merkel laid much of the blame on developing nations.

Toyota fine in China comes at tense time

By JEREMY PAGE
AND NORIHIKO SHIROUZU

BEIJING—Authorities in eastern China plan to fine the auto-finance unit of **Toyota Motor Corp.** for "commercial bribery," a move that comes in the midst of a heated row between Beijing and Tokyo over an incident near disputed islands in the East China Sea.

A local official and a person close to the Japanese auto maker both denied that the fine was a direct result of the diplomatic dispute, which was sparked by a collision between a Chinese fishing trawler and two Japanese coast guard ships on Sept. 7 and escalated further in the past few days.

The timing is sensitive as Japanese businesses are wary of any signs that the row is starting to damage the otherwise burgeoning commercial relationship between Asia's two largest economies.

There were no reports of similar action against other Japanese companies and the person close to Toyota said he suspected local officials were using the rising China-Japan tensions as an excuse to bolster their position in a long-running local dispute.

China cut off ministerial and provincial-level government exchanges with Japan on Sunday, and threatened further unspecified "countermeasures" after Japanese prosecutors extended the detention of the Chinese trawler captain.

There were small, sporadic protests outside Japanese diplomatic missions in Beijing, Shanghai and other Chinese cities on Saturday—the anniversary of Japan's invasion of China in 1931.

But Beijing has so far been careful not to allow the spat to provoke the kind of anti-Japanese violence that erupted during a similar row in 2005, or to seriously affect commercial ties with a key trading partner and investor.

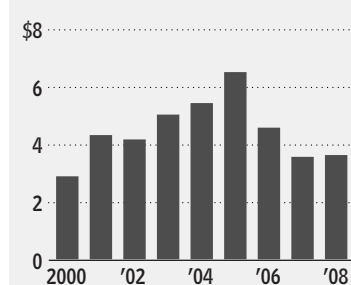
"China does not want the overall trend of improving relations to be disrupted by the territorial dispute," said Huang Dahui, an expert on relations with Japan at China's Renmin University.

Toyota Finance China was sent a notice on Monday from the industry and commerce administration in the eastern city of Hangzhou warning that it planned to fine the company, said a provincial official, Ye Jianhua.

The firm is accused of illegally

Financial ties

Japan's direct investment in China, in billions of U.S. dollars



Source: Global Insight

using rebates to entice dealers to push their customers to take Toyota car loans, according to Mr. Ye, head of the news center for the industry and commerce administration of Zhejiang province, which oversees Hangzhou. "This fine has nothing to do with the detention incident. We started the investigation early in April. We don't rule out the possibility that other car companies are also involved with similar behavior," he said.

Hitoshi Yokohama, a spokesman for Toyota, confirmed that the auto-financing unit in China received the notice Monday, saying, "Toyota Finance China is currently taking a close look at the content of the notice." He added that Toyota could appeal, but declined to elaborate.

A person close to Toyota described the bribery fine as "harassment" by the provincial commercial bureau, which he said had singled out Japanese firms in recent consumer-protection cases.

The person suggested that local officials might be seizing on the diplomatic row to move the local dispute forward, but said it was unlikely to affect its sales overall. "The last time this kind of diplomatic tiff happened, Toyota sales in China felt little impact from it," he said.

So far, anti-Japanese protests in China have been far fewer and lower-key than in 2005. Most Japanese businesses haven't felt any major impact from the dispute, according to an official from the Japanese Chamber of Commerce in China.

Carlos Ghosn, chief executive of **Nissan Motor Co.**, said Monday the diplomatic row hadn't had any noticeable effect on the working relationship with its Chinese joint venture partner, **Dongfeng Motor Co.**

U.S. aims to retain part of pivotal Afghan prison

By JULIAN E. BARNES

BAGRAM AIR FIELD, Afghanistan—The U.S. military is likely to retain control of a portion of its prison here even after it hands formal responsibility to the Afghan government next year, according to the top admiral in charge of U.S. detention operations in Afghanistan.

The move is a bid to prevent the release of detainees who could pose a danger to allied troops, said Vice Admiral Robert Harward. Such a carve-out could also be used to hold accused terrorists captured far from the battlefields of Afghanistan, according to U.S. officials.

The detention facility at Bagram Air Field is the only permanent U.S.

prison in Afghanistan, and is a central piece in U.S. counterterrorism efforts in the region: As the administration of President Barack Obama works to close the Guantanamo Bay prison, the U.S. currently doesn't have a facility to hold suspects captured in countries where the U.S. fears they may not be held securely.

Bagram prison is one of the first security institutions Kabul will take over as part of the White House strategy of giving security responsibility to Afghanistan, and its handover will mark a crucial first test of the U.S. strategy. It will also be a critical milestone for the Afghan government, which doesn't want significant numbers of its citizens in U.S. military custody.

The handover is complicated by another Obama administration imperative: retaining a secure facility where it can send suspected terrorists captured in places such as Yemen or Somalia. Early in the Afghanistan war, a handful of prisoners from outside Afghanistan were brought to Bagram, but no such detainees have been brought here under President Barack Obama.

Adm. Harward, the commander of Task Force 435, which oversees the prison, says a small number of prisoners will likely remain in U.S. custody after the handover. The U.S. would retain control of one of the hangar-like buildings where prisoners are held, U.S. officials say, adding they anticipate holding fewer

than 100 detainees.

Afghan lawmakers haven't commented on the prospects of a carve-out, but have said they don't want non-Afghan prisoners transferred to the prison from Guantanamo.

U.S. officials have said there are no plans to move non-Afghan detainees here from Guantanamo.

"I anticipate having a subset of unilateral U.S. detention operations, including Pakistanis we can't repatriate and enduring security threats," Adm. Harward said.

Transferring suspected terrorists to Bagram from outside Afghanistan would require the approval of Afghan President Hamid Karzai. A senior U.S. official said a final decision on whether to use the prison to hold

such prisoners wouldn't be made until the administration is confronted with an actual case.

To help build support for the handover, the U.S. military's detainee task force has been giving Afghan lawmakers tours of the facility, where detainees are held communally in large cages inside several hangar-like detention buildings.

On one recent visit, Afghan lawmakers were handed eyeglasses to protect them if the detainees threw feces. Detainees appeared more interested in pleading their case to the visitors than assaulting them.

Officials said the cells, which each hold about 24 men, are more culturally sensitive than confining the detainees two or three to a cell.