Minister battling for Ireland's economy—and his health
EUROPE NEWS 4

U.S. and Asian allies start China resistance moves
WORLD NEWS 9

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Westerwelle urges EU to engage Turkey

Thomas Meyer for The Wall Street Journal

Foreign Minister Guido Westerwelle, seen in Berlin this week, urged EU action on talks with Turkey.

By Marcus Walker
And Matthew Karnitschnig

BERLIN—German Foreign Minister Guido Westerwelle called on the European Union to step up its faltering talks with Turkey over the country's bid to join the bloc, saying Europe should send Ankara a positive signal in response to the country's latest political reforms.

Mr. Westerwelle's call to deepen Europe's engagement with Turkey could put him at odds with other European countries, led by France and Austria, which are opposed to Turkey joining the EU and want a more limited association with the large, mainly Muslim nation.

It could also reopen tensions with conservative supporters of Mr. Westerwelle's partner in power, German Chancellor Angela Merkel, who are also deeply skeptical about letting Turkey into the EU.

"Nobody should rashly snub Turkey by slamming the door in its face after all its efforts," Mr. Westerwelle told The Wall Street Journal in his first interview as foreign minister with an international newspaper. Europe, he suggested, can't afford to underestimate the country's rising economic strength and strategic importance.

In a referendum this month, Turkish voters approved a set of constitutional changes including amendments to strengthen individual rights and the authority of civilian courts over the military. The changes will also expand and reshape the country's top courts, currently bastions of secularist opposition to the country's Islamic-leaning ruling party. Critics fear the government will pack the courts.

Despite such doubts, Mr. Westerwelle said Turkey's constitutional overhaul "is a step in the right direction," adding: "It shows that Turkey wants a European future and has a European perspective."

The EU's nearly-frozen talks with Turkey are a source of concern for U.S. policy makers, who say they fear that a disillusioned Turkey is turning away from a pro-Western foreign policy.

U.S. Defense Secretary Robert Gates said in June that Turkey's recent "eastward" tilt, including overtures to Iran and deteriorating relations with Israel, were "in no small part because it was pushed...by some in Europe" who had rebuffed Turkey's EU aspirations.

Mr. Westerwelle's pro-business Free Democratic Party triumphed in Germany's elections last year in an alliance with Ms. Merkel's conservative Christian Democratic Union, but the coalition has since suffered from internal squabbles and a public perception of drift. The gov-

Please turn to page 3

The Quirk

Hump Day has a very special meaning in one Nevada town.
Page 29

World Watch

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

Editorial & Opinion

Ed Miliband and the contest to lead the Labour tribe.
Page 12

Iran is given new chance to discuss nuclear plans

By Richard Boudreaux

The U.S., the U.K., Germany, France, Russia and China on Wednesday offered Iran a new opportunity to enter negotiations over its nuclear program.

Their move came as Russian President Dmitry Medvedev in Moscow prohibited delivery of S-300 air-defense missile systems to Iran, explicitly halting a politically sensitive and long-delayed weapons deal with a longtime trading partner.

At the United Nations in New York, U.S. Secretary of State Hillary Clinton and the foreign ministers of the other permanent members of the United Nations Security Council plus Germany, along with European Union foreign-policy chief Catherine Ashton, urged Iran to come to the table for a new round of talks, the Associated Press reported.

They said it remained essential for Iran to prove that its nuclear program is peaceful, the AP reported. "We reaffirmed our determination and commitment to seek an early negotiated solution to the Iranian nuclear issue and focused our discussion on further practical steps to achieve it at an early date," they said, according to the AP.

Mr. Medvedev's action also barred Russia from supplying tanks, fighter jets, helicopters, ships and missile systems to Iran. It specifically mentioned the S-300s, a mobile, long-range air defense system that can detect, track and destroy ballistic missiles, cruise missiles and low-flying aircraft.

The U.S. and Israel had lobbied Russia to scrap plans to fulfill its 2007 deal to supply the S-300s, which Iran could use to protect nuclear facilities from attack. Western governments suspect some of those facilities are involved in developing a capacity to make nuclear weapons. In response to the lobbying, Russia had put the deal on hold but had given conflicting signals about whether it would continue a policy of restraint.

PAGE TWO

Cable posts a capital proposition

[Agenda]

By Patience Wheatcroft

Political party conferences are not so much about rational debate as about rallying the troops, reassuring the followers that they are in the right camp and giving them the determination to fight for the cause in the next election.

For the U.K.'s Liberal Democrats, that mission was destined to be unusually difficult this year, given that they are now in coalition with a Conservative Party for which, until recently, many LibDem supporters held a particularly visceral hatred. In his speech Tuesday, Vince Cable would certainly have warmed the hearts of many in the conference hall as he took some harsh swipes at banks, bankers and City short-termism.

Yet despite such playing to the gallery, the government's business secretary was not totally decrying capitalism. Indeed, he made one announcement which, although it attracted rather less attention than his banker-bashing, could amount to a significant boost for capitalist instincts. He declared that the government would proceed with the privatization of the **Royal Mail**, the U.K.'s postal service, and that as part of the deal Royal Mail workers would be offered at least a tenth of the business.

This would be the biggest slice of a business to be offered to workers in any privatization in 25 years. The leader of the Communication Workers trade union, which totally opposes the privatization, dismissed the idea as "patronizing" and "destabilizing", which probably means that he is fearful it could appeal to many of the Royal Mail's 150,000 work force.

Share ownership is now a minority habit in the U.K. In 1969, individuals owned 47% of shares in U.K.-quoted companies. By 2000, despite a rush of privatizations and Prime Minister Margaret Thatcher's proclaimed desire to create a "share-holding democracy," the proportion had dropped to less than 20%. By 2008, the latest figures from the Office for National Statistics show that individuals held just 10% of shares.

Reuters

HSBC Group Chief Executive Michael Geoghegan in Hong Kong in March.

Over the same period, the holdings of overseas investors in U.K.-listed companies have soared, from just 7% in 1969 to 36% in 2000 and 41% in 2008, where they have overtaken U.K. institutional investors. These numbers are worth noting since they show that when pundits and politicians lambast investors for their lack of proper stewardship, they are addressing an audience which in large part will pay no heed. Hence the business secretary said in his speech that he was keen to see an extension of employee share ownership and mutual ownership.

Privatizing the Royal Mail, however, will not be easy. Right now, a share in the business does not look an attractive offering and overseas operators are unlikely to be queuing up to grab a slice. This month brought publication of a report commissioned by the government which builds on work done two years ago. It characterizes the Royal Mail as under serious threat, having failed to modernize sufficiently and now trapped in a declining market and saddled with a pension deficit which at the last count in March this year had reached £8 billion ($12.5 billion).

The author of the report, Richard Hooper, is adamant that the deficit will have to be removed. Taking it directly onto the public books may not seem an attractive option, given the dire state of the national accounts, but it amounts to little more than a book-keeping exercise since the state is ultimately responsible for the pensions.

Then the Mail must speed up its modernization program. Mr. Hooper suggests that employees who had a newly-acquired stake in the business might be more amenable to that than have postal workers been in the past. He also calls for a change in the regulatory regime, bringing postal services under the auspices of Ofcom and doing away with the current regulator, Postcomm. Postcomm has in the past had a fraught relationship with Royal Mail, although Mr. Hooper says that it has improved over the past year. Critics, however, have queried the logic of public money—a budget of more than £10 million for 2009-10, although underspent—being handed to what they, perhaps unfairly, characterize as an organization overly keen to find fault with the struggling Royal Mail.

Even with a new, more accommodating, regulatory structure, Royal Mail faces huge challenges as digital communication continues to take market share. In the organization's last financial year, volumes dropped by 7% and Mr. Hooper says that worldwide, letter volumes are likely to decline between 25% and 40%. Yet it is possible for a postal organization to carve itself a profitable future. Moya Green, the recently installed chief executive of Royal Mail will, no doubt, have been eyeing the achievements of **Deutsche Post** with great interest.

The privatized Deutsche Post bought distribution and logistics business DHL. Through that acquisition it can now boast of doing all the non-pharmaceutical procurement for the U..K's National Health Service. Its printing operations produce the U.K. government's official publications. And it is rebuilding its communications business, pioneering a way of offering secure "letter" communication via e-mail.

With innovations like that, Royal Mail could eventually become an attractive investment proposition and a new tribe of employee shareholders could feel themselves enriched.

Truly irreplaceable?

Suggestions that Mike Geoghegan had threatened to resign as chief executive of **HSBC** have been dismissed as "offensive" and "nonsense" by the bank. The adjectives could equally have been applied to such a threat, had it been made. One of the most important tasks of any board of directors is to ensure that the best people are in the top jobs and any internal attempts to blackmail them into a decision must be resisted. If the fear of losing a particular person is so great, then the board has already failed in its task of succession planning. No one in a company should be truly irreplaceable.

Yesterday's Agenda referred to the EPP as a "far-right" party. This incorrect description was inserted during the sub-editing process. It is a centre-right party.

What's News

■ **Ukraine's president said** Kiev is determined to join the EU, but also needs to maintain strong ties with Moscow to ensure it can be a dependable conduit for Russian energy supplies to the West. 6

■ **Potash sued** in a U.S. court to block BHP's hostile takeover bid for the Canadian mining company. BHP said it plans to fight the lawsuit. 21

■ **The FDA approved** for sale a Novartis drug for multiple sclerosis that will be the U.S. market's first oral drug to treat that disease. 17

■ **Consumers in the euro** zone were more upbeat in September, but other data showed new industrial orders dropped sharply in July. 4

■ **The race to become** the next chairman of London-based HSBC could turn on whether the board is willing to post the assignment to Hong Kong, as both of the leading contenders have strong ties to Asia. 17

Inside

How to keep your cool during those angry moments. **27**

Badminton seeking to break into global mainstream. **28**

ONLINE TODAY

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2. RIM Readies Its Answer to iPad
3. Europe Debt Crisis Is Over, Declares Spanish Leader
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Iain Martin on Politics

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Iain Martin on the need for private sector to drive growth Britain needs

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Question of the day

Vote and discuss: Is the European debt crisis over?

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Previous results

Q: Should steps be taken immediately to reduce the U.S. deficit, or is the recovery too fragile?

Yes, we need action	64%
No, cuts would hurt	36%

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NEWS

India faces new setbacks on Games

Several countries are rethinking their participation in the Commonwealth Games and some top athletes have pulled out of the 54-nation sports competition as India struggled to finish preparations less than two weeks before the event kicks off in New Delhi.

The mounting problems are tarnishing the country's image and reinforcing the notion that it can't carry out large-scale infrastructure projects as well as economic rival China did in hosting the 2008 Summer Olympics.

*By **Amol Sharma** in New Delhi and **Andrew Browne** in Beijing*

Athletes and sports officials from around the world are set to arrive in New Delhi beginning Thursday even as Indian authorities scramble to address crumbling Games infrastructure, athletes' living accommodations that some foreign officials have called unhygienic, and questionable security preparedness.

With 10 days to go before the event begins Oct. 3, the preparations are fast becoming a national embarrassment. Far from burnishing India's credentials as an investment destination and heralding its rise as a global power, the Games are underscoring the country's struggles to do big-ticket construction work on time and at world-class quality.

Work has consistently been behind schedule, plagued by construction delays, widespread allegations of corruption and friction between officials of the Games Federation and the local organizing committee.

A heavier-than-usual monsoon made finishing the work even harder. Some completed venues sprouted bad leaks before they were opened. Through it all, Games officials in India insisted there was nothing to worry about and Prime Minister Manmohan Singh said he was confident Delhi would pull it off.

It may yet. But as the city has rushed to get ready, the safety of venues has become another major concern. In the latest blow on Wednesday, pieces of the false ceiling in a weightlifting arena collapsed. No one was injured. That followed the collapse Tuesday of a footbridge near the main track-and-field stadium, which injured at least 25 workers.

"Knowledgeable investors in India will be disappointed, but not surprised" about India's lack of preparation for the Games, said Arun Duggal, a veteran international banker who is a visiting professor at the Indian Institute of Management in the city of Ahmedabad. "They already know infrastructure is a problem in India."

Federation President Michael Fennell is expected to arrive in New Delhi Thursday evening to assess the situation, a Commonwealth Games official in India said. Mr. Fennell couldn't be reached for comment.

Delegations from 15 countries arrived in New Delhi Wednesday to begin registration. But some other countries are rethinking their participation. England wants assurances from India that its players will be safe in light of the construction accidents. Scotland's team has delayed its departure because of concerns about the state of the athletes' housing. The Northern Ireland Commonwealth Games Council said: "We must stress that the health and safety of our athletes is paramount and we will not deny that the next 48 hours are critical."

Wales said it had given the organizers a deadline of Wednesday evening to ensure that all venues and accommodations were ready. And New Zealand Prime Minister John Key said it would be understandable if some of his country's athletes decided not to go.

Some top athletes have already pulled out of the Games, including champion triple jumper Phillips Idowu of England and Australian discus thrower Dani Samuels.

Officials continue to say the Games will go ahead as planned and that the shortcomings can be fixed in time.

—Dana Cimilluca and Paul Sonne in London contributed to this article.

Associated Press

Laborers push a cart past a banner showing Shera, the Commonwealth Games mascot, in New Delhi on Wednesday.

Pressing Turkey's case

Continued from first page

ernment has since fallen so far in opinion polls that the FDP would likely struggle to get into parliament if new elections were held now.

Mr. Westerwelle's decision to champion Turkey's EU aspirations has added to tensions with the CDU over domestic policy. Ms. Merkel has proposed a "privileged partnership" for Turkey short of full membership, a concept that French President Nicolas Sarkozy also has taken up.

Mr. Westerwelle and his party have wavered on the question of EU membership for Turkey over the years. Since forming the government with the Christian Democrats, however, Mr. Westerwelle has made Turkey one of his signature foreign-policy issues. He insisted that the coalition agreement between his party and the Christian Democrats describe the outcome of the EU's talks with Ankara as "open," sending a positive signal to Turkey that many German conservatives opposed.

Many European conservatives view the EU as a club rooted in Europe's Christian civilization and Turkey as culturally too alien to join—even if it were to meet all EU standards on democracy and economics. Fears that letting in Turkey could trigger a wave of immigration, and Turkey's isolation in the Cyprus dispute, also have held up its EU bid.

Currently, Turkey has only opened talks with the EU about 13 of the 35 policy areas, known as "chapters," where it needs to adapt to EU law, while the EU has declined talks on many other areas.

The German foreign minister said he pushed hard to achieve the opening of two new "chapters" in the past year, and that the EU must maintain the momentum behind talks.

"Now we must act wisely and early enough so that we don't arrive at a dead end by the end of this year," when the EU's currently limited talks with Turkey could peter out entirely, he said.

Whereas many in Europe view Turkey as a poor supplicant to a rich Europe, Mr. Westerwelle warns that such a perspective underestimates Turkey's fast economic rise—its per-capita gross domestic product has roughly tripled in the last eight years—as well as the speed of change in global politics. Turkey's strategic importance means Europe's engagement with the country needs to go far beyond the nitty-gritty of the EU accession talks, he said.

"It sometimes amazes me how self-assuredly countries that are influential today assume that things will always be that way," he said, adding: "It's only a question of time before these young, dynamic societies [such as Turkey] are also among the political, cultural and intellectual centers of the world."

Mr. Westerwelle sought to a counter an impression among many foreign-policy analysts that relations between Europe and the administration of U.S. President Barack Obama are currently cooler than expected when Mr. Obama, who is popular in Europe, won election.

"We are very happy with the cooperative approach of the U.S. government," Mr. Westerwelle said.

For Irish finance chief, 2 wars

By Neil Shah

As Ireland's economic crisis again flares up, the man charged with fixing it is facing a war on two fronts: One against a troubled banking system and another against his own health.

Brian Lenihan, the 51-year-old finance minister who has so far guided Ireland through a financial minefield, is under pressure once more as Ireland returns to the center of Europe's debt crisis. Earlier this week, even as the country successfully raised funds from the capital markets, investors fretted about Ireland's cost of bailing out troubled **Anglo Irish Bank** Corp. On Wednesday, the cost of insuring the country's sovereign bonds against default hit an all-time high.

All the while, Mr. Lenihan has been fighting his own battle against pancreatic cancer. Since discovering his disease last December, he has undergone chemotherapy and radiation treatments that have so far allowed him to stay at the forefront of one of Europe's most painful property busts. He says doctors have stabilized his cancer for now.

That will let him focus on the heart of Ireland's latest woes: Anglo Irish, dubbed "builders' bank" for its reckless lending to property developers during Ireland's rollicking economic boom.

The finance minister has already pumped capital into the tottering lender, Ireland's third-biggest. Last year, the government seized the bank and started shifting its souring loans to a government-run "bad" bank at the taxpayer's expense. Even so, Anglo Irish and some other Ireland-based banks remain shut out of capital markets, forcing them to rely on emergency funding from the European Central Bank. Ireland-based banks got €95 billion ($125 billion) of ECB cash in August, according to research by Royal Bank of Scotland Group PLC.

Worries about the cost of bailing out Anglo Irish have roiled Ireland's bond market, where Ireland pays an interest rate that is roughly 4 percentage points higher than Germany—the euro-zone benchmark—the biggest so-called "risk premium" since the creation of the euro in 1999.

This month, aiming to ease investors' fears, Mr. Lenihan extended a key guarantee to prevent a potential run on Anglo Irish and proposed splitting up the bank. Before October, he says, Ireland's central bank will outline the expected cost of winding down Anglo Irish over time. That, in turn, will force Ireland to revise its budget deficit for this year, taking it from around 12% of the country's annual gross domestic product—already the biggest in the 16-nation euro area—to over 25%, economists say.

Agence France-Presse/Getty Images

Irish Finance Minister Brian Lenihan, left, with European Union Commissioner for Economic and Monetary Affairs Olli Rehn in Brussels this month.

Mr. Lenihan, dubbed "Iron Brian" by the press, says the latest storm will pass. "Ireland is being punished by the market for being upfront about what its losses are," he said in an interview.

While many observers declined to speak openly about the bearing of Mr. Lenihan's illness on his work, some say his pancreatic cancer—one of the most fatal of cancers, with very few sufferers surviving more than five years—has likely pushed thoughts of re-election to the back burner, indirectly allowing him to take politically unpalatable actions. Mr. Lenihan says his illness hasn't changed his approach to Ireland's financial problems.

To a great degree, Mr. Lenihan is admired across the political spectrum, and even opposition politicians speak highly of his abilities and thinking.

Mr. Lenihan became finance chief in May 2008, just as Ireland's decade-long real-estate boom was cracking. The U.S. subprime mortgage crisis was spreading through world markets, making it harder for Anglo Irish, which depended heavily on outside funding, to raise cash.

On Sept. 29, 2008, days after the bankruptcy of Lehman Brothers Holdings Inc., fears rose among Ireland's main banks that Anglo Irish would topple. Mr. Lenihan quickly guaranteed the debt and deposits of Ireland's six biggest financial institutions, a move many analysts now criticize as too hastily tying Ireland's fate to its banks.

Critics are especially tough on the way Mr. Lenihan's policies have protected Anglo Irish's creditors. "It's a pity they didn't put [Anglo Irish] out of the way some time ago," says John FitzGerald, an economist at the Economic and Social Research Institute, an independent Irish think-tank.

Mr. Lenihan disagrees. The 2008 guarantee "gave us a two-year period where we could do the work" of fixing our banks, he says.

Fears over Ireland's banks ebbed last year, allowing the finance minister to tackle another problem: Ireland's deficit. Last December, he delivered the most painful austerity budget in a generation, part of a plan to reduce the country's deficit to Europe's limit of 3% of GDP by 2014. Markets applauded. Ireland's borrowing costs dropped.

The same month, Mr. Lenihan felt stomach pains and visited a doctor. A week after the December budget, he experienced a bout of jaundice and was rushed to a Dublin hospital, where doctors installed a stent to allow drainage of bile and identified a cancer at the head of Mr. Lenihan's pancreas. He was diagnosed on Dec. 17 and announced his illness on Jan. 4, 2010.

Many investors and economists believe Mr. Lenihan has performed well and that Ireland's progress is being underestimated. The country has already funded its budget through the first half of next year, which means a Greece-style crisis is unlikely. It also has some €40 billion of funds it could draw on if needed.

Richard Batty, global investment strategist at Standard Life Investments in Edinburgh, Scotland, thinks Ireland is a good long-term bet because of its relatively flexible economy, strong trade ties with the U.S. and U.K., and reliance on exports. The Irish economy surged 2.7% on a quarterly basis in the first three months of 2010, the top performer in the 27-nation European Union. Ireland will announce second-quarter growth Thursday; economists expect an expansion of 0.2% to 1%.

Mr. Lenihan, meanwhile, says his therapies have stabilized his cancer. If anything, Ireland's banking crisis has meant more hours working in his Dublin office instead of meeting constituents, he says. "My energy levels are back to normal," he says. "But I was always able to perform, even when they weren't."

Tumultuous tenure

■ **May 2008.** Brian Lenihan becomes Ireland's finance minister.

■ **September 2008.** After Lehman Brothers' bankruptcy filing, Mr. Lenihan and the government guarantee all liabilities of Ireland's biggest financial institutions.

■ **March 2009**. With global financial crisis at a peak, the cost of insuring Ireland's bonds against default reach new high.

■ **December 2009.** Mr. Lenihan delivers austere budget.

■ **May 2010.** Ireland suffers collateral damage amid the Greek debt crisis and worries over Europe's finances.

■ **September 2010.** Concerns about Ireland's banking system return, sending Ireland's credit-insurance costs to fresh highs.

Euro-zone consumer confidence edges up

By Nicholas Winning
And Paul Hannon

LONDON—Consumers in the 16 countries that use the euro were slightly more upbeat in September, but other official data showed that new industrial orders in the currency area posted their sharpest monthly drop in 19 months in July.

In a monthly survey published Wednesday, the European Commission's preliminary estimate of consumer confidence rose to minus 11.2 from minus 11.4 in August. The scale of the pickup was smaller than expected; economists surveyed by Dow Jones Newswires last week had penciled in a rise to minus 10.

With many European countries implementing austerity measures to shrink their budget deficits, economists also doubt that the marginal improvement in sentiment would translate to significantly higher consumer spending.

"Any strengthening in spending over coming quarters is likely to be modest and will most probably be insufficient to meaningfully compensate for the slowdown in exports resulting from the weakening in global demand," Martin van Vliet, an economist at ING, said.

Consumer confidence fell sharply in May, when the implications of euro-zone efforts to bail out the Greek government began to sink in. But it began to recover in June and strengthened further in July and August.

The commission said consumer confidence weakened in the European Union as a whole, as its preliminary estimate fell to minus 11.8 from minus 11.2 in August. That suggests consumer confidence in the U.K. may have weakened during the month, because it is the largest member nation to remain outside the euro zone.

Separate figures released by the EU's Eurostat statistics agency showed new industrial orders dropped 2.4% in July from June, the sharpest monthly decline since December 2008. Still, industrial orders were 11.2% higher than in July of last year.

The July figures were weaker than the market consensus estimate of a 1.6% drop in orders on the month and 16.3% increase on the year. June's data were also revised down slightly to show orders rose 2.4% on the month and 22.7% on the year. The figures appear to support the view that the euro zone's economic recovery is likely to lose some steam in the second half of the year.

The latest survey of purchasing managers in the manufacturing sector by information firm Markit, published Sept. 1, showed that though new orders rose for the 13th consecutive month in August, the increase was the smallest year-to-date.

The Eurostat data showed a notable 5.1% slump in new orders for capital goods—such as machinery and equipment used in the production process—in July following a 3.8% rise in June. Orders for durable consumer goods, such as household electrical appliances and business equipment, dropped 3.2% after falling 1.3% in June.

Iceland cuts key rate to 6.25% as inflation eases

By Charles Duxbury

Iceland's central bank cut its key interest rate by 0.75 percentage point Wednesday, continuing a series of rate cuts amid easing inflation and a stabilizing currency.

The seven-day collateralized lending rate will be 6.25%, the central bank said, down from 7% previously. Iceland's key interest rate has been gradually cut from a peak of 18% in the fall of 2008.

"Inflation continued to subside in August, after a marked decline since March," the central bank said. "Weak economic activity and this year's appreciation of the krona continue to support disinflation."

The cut was "somewhat on the moderate side," said Jon Bentsson, senior economist at Islandsbanki, adding that forecasts had ranged from a reduction of 0.75 to 1.5 percentage points.

Second-quarter data showed that demand and output were developing in line with the central bank's forecasts from August and that a recovery was still expected to have begun in the second half of 2010, the central bank said.

Since the monetary policy committee's August meeting, the krona has appreciated by roughly half a percentage point, both in trade-weighted terms and against the euro, the bank added. It said regular purchases of foreign currency appear not to have affected the krona's stability.

Iceland's economic system was hit by financial turmoil after its highly leveraged banking system collapsed in late 2008, but its currency and inflation rate have since stabilized, allowing the central bank to reduce policy rates.

EUROPE NEWS

U.K. minister attacks fast-profit mentality

BY AINSLEY THOMSON

LIVERPOOL, England—U.K. Business Secretary Vince Cable on Wednesday maintained his attack against "gamblers" in the banking sector while seeking to rally his party, the Liberal Democrats, with a series of policies designed to appeal to its rank and file.

Speaking at the Liberal Democrats' annual conference in Liverpool, Mr. Cable told party members that being the junior partner in the coalition government with the Conservatives was the party's chance to demonstrate it had the "political maturity" to make difficult decisions and "wield power, with principle."

Mr. Cable used strong rhetoric about banks and the "murky world of corporate behavior," emphasizing that the government would take tough measures if necessary. He said irresponsible bankers had done more damage to the U.K. economy than some union leaders, like Rail, Maritime and Transport Workers union chief Bob Crow.

"I make no apology for attacking...gamblers who did more harm to the British economy than Bob Crow could achieve in his wildest Trotskyite fantasies, while paying themselves outrageous bonuses underwritten by the taxpayer," he said. "Tough interventions will be needed if capital which could be used to support business lending is frittered away in bonuses and dividends."

Earlier Wednesday, Mr. Cable had been forced to defend himself as being "pro-business" after extracts from his prepared remarks raised the ire of the business world.

Following his speech, Confederation of British Industry director-general Richard Lambert told the British Broadcasting Corp. the business world was "slightly surprised" to hear the language Mr. Cable was using.

The business secretary had been expected to use the speech to announce that the government will launch a review of takeovers, executive pay and other areas that can lead to "corporate short-termism." While Mr. Cable didn't explicitly mention the probe, he did raise some of the issues that concern him.

"We need successful business. But let me be quite clear. The government's agenda is not one of laissez-faire. Markets are often irrational or rigged. So I am shining a harsh light into the murky world of corporate behavior. Why should good companies be destroyed by short-term investors looking for a speculative killing, while their accomplices in the City make fat fees? Why do directors sometimes forget their wider duties when a check is waved before them?"

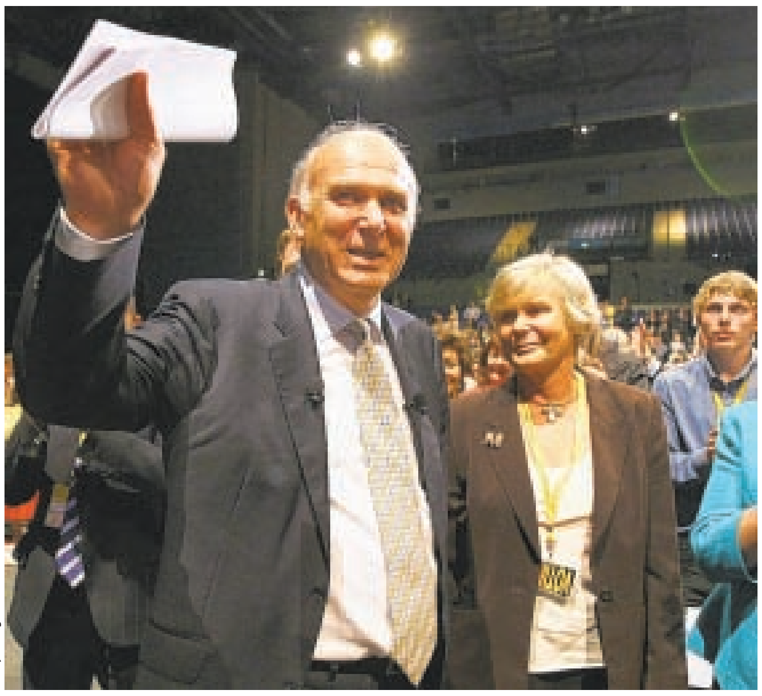
Mr. Lambert noted that Mr. Cable didn't mention the planned takeovers review. "We don't quite know what the next step is," Mr. Lambert said. "We'll await with interest and no doubt want to get stuck in there if there is going to be debate about this." However, a spokesman from the business department confirmed later Wednesday that the probe would go ahead.

Meanwhile, Paul Myners, the City minister under the previous Labour government, told the BBC that Mr. Cable's speech gave the impression of someone "who is tormented by the responsibilities" of being in office. "This sort of talk actually strikes at the heart of the economic recovery," he said.

The speech, delivered on the final day of the first Liberal Democrat conference since the coalition government was formed, was designed to realign the Liberal Democrats' leadership with the party's members. The speech was carefully calibrated—with touches such as Mr. Cable calling the delegates "comrades"—to provide reassurance over the party's identity, which some Liberal Democrats fear has been eroded by entering the coalition with the larger Conservative Party.

Mr. Cable said employees in state-owned Royal Mail would receive at least 10% of shares when it is privatized and that it would be the largest employee-share program of any privatization for 25 years.

He maintained the Liberal Democrats' view on the so-called mansion tax—a tax on property—saying he regretted the proposal didn't make it into the coalition deal. "We can and should maintain our distinctive and progressive tax polices for the future," he said.



Getty Images

U.K. Business Secretary Vince Cable gave a speech at the Liberal Democrats' annual conference in Liverpool seeking to rally the party's rank and file.

Reuters

French workers demonstrate over pension overhauls in Marseille on Sept. 7. More strikes are planned for Thursday.

French strikes expected to hit air, rail transport

By Nathalie Boschat

PARIS—France is bracing for more disruption on Thursday, with the country's eight leading unions calling for demonstrations and strikes that will hobble rail and air transport in protest at plans to raise the retirement age to 62 years old from 60.

The pension overhaul—seen as a cornerstone of President Nicolas Sarkozy's fiscal reforms—would also raise to 67 from 65 the age at which workers can retire with full benefits, and aims to balance the books of the pension system by 2018.

Unions are stepping up the pressure on the government as the pension bill, which was adopted by the National Assembly last week, heads for debate in the Senate starting Oct. 5.

Rail transport faces particular disruption, with the SNCF rail operator planning to cut its high-speed and regional train services by 50% Thursday. Air France-KLM, the French flag carrier, said some of its short and medium-haul flights will be canceled.

Mr. Sarkozy's government has staked its financial credibility on the pension reform as part of its efforts to cut the country's ballooning budget shortfall. France has committed to cutting the public deficit from a projected 8% of gross domestic product this year to 6% next year, 4.6% in 2012 and 3% in 2013—the maximum under euro-zone treaties.

Despite his record-low popularity, the French president is keen to demonstrate that his reforming drive is intact and aims to bring changes to a system that stands to swell deficits to unsustainable levels if an overhaul isn't accomplished.

"The pension reform is one of the most important reforms for France. At a time when one pension out of 10 is funded by debt, our goal is to make sure the pensions of French people and of their children are properly financed," Mr. Sarkozy told ministers in early September.

As part of the pension overhaul, the government also intends to raise taxes on the highest earners and scrap some benefits for civil servants. The government says it has little choice because the pension system will be in the red by €45 billion (about $60 billion) in 2020 and by €70 billion in 2030 from €32 billion currently if nothing is done.

But the reforms are hugely unpopular. Recent polls show a majority of French people oppose raising the retirement age to 62, saying it will penalize workers who already bear most of the brunt of the economic slowdown. Some unions wants the government to withdraw its bill altogether.

Mr. Sarkozy's right-wing administration could face trouble in the Senate, where it doesn't have an outright majority without the support of center-right senators.

The Senate president has recently suggested keeping the age at which workers can retire with full entitlements at 65 under certain circumstances—in particular for women who have had several children. This has fueled concerns senators could introduce changes to the pension bill that might significantly reduce the savings the government hopes to generate.

Unions are hoping to muster more people on the streets to protest against the pension law Thursday than during the previous protest on Sept. 7, when between 1.1 million and 2.7 million people took to the streets, according to rival estimates produced by the Interior Ministry and unions.

The government has made some concessions for those with long and arduous careers. But Labor Minister Eric Woerth ruled out backing down on raising the retirement age.

Kiev leader seeks to join EU

By Gordon Fairclough And Alix M. Freedman

NEW YORK—Ukraine's president said Kiev is determined to join the European Union, but also needs to maintain strong ties with Moscow to ensure his country can serve as a dependable conduit for Russian energy supplies to the West.

President Viktor Yanukovych, who has devoted considerable effort since his election earlier this year to mending Ukraine's badly frayed relations with Moscow, said Wednesday that Kiev is "already playing the role of a reliable bridge" between Europe and Russia.

"Ukraine is moving steadfastly along the road of European integration," Mr. Yanukovych told The Wall Street Journal in an interview ahead of this week's United Nations General Assembly meetings. But he said, "We don't want to insult anyone as we take that road."

Given Ukraine's location and its desire to profit from Russian energy shipments to the EU, "we are doomed to keep a good balance," he said. Ukraine has begun discussions with EU officials on the initial steps toward membership.

After Ukraine's Orange Revolution in 2004, which brought outspokenly pro-Western politicians to power in Kiev, relations between Ukraine and Russia deteriorated sharply. Spats between Kiev and Moscow led to serious disruptions in gas flows to Western Europe.

The protesting crowds of the Orange Revolution forced an annulment of Mr. Yanukovych's victory in a discredited election. But he won the presidency in February in a vote widely viewed as fair, as infighting among Orange coalition leaders alienated voters.

Mr. Yanukovych described Ukraine's previously acrimonious relations with Russia as "not only detrimental for our two countries, but for the rest of the world."

To cut or not? EU weighs deficits' impact on growth

[Brussels Beat]

By Matthew Dalton

The European Commission has been one of the most forceful proponents of the argument that governments both in the EU and elsewhere must cut their budget deficits.

Far from being an obstacle to economic expansion, "fiscal consolidation"—Europe's euphemism for deficit cutting—is actually a precondition for growth, the commission's leaders have argued.

As commission President José Manuel Barroso told the Hungarian prime minister, Viktor Orban, in June: "We shouldn't oppose fiscal consolidation to growth. Without fiscal discipline, we will not achieve growth."

Yet the commission's economic forecast for 2010, released last week, makes almost no mention of the growth benefits likely to arise from fiscal consolidation. Instead the forecast emphasizes the opposite point, predicting slower growth in the second half of the year, due in part to the phase-out of government stimulus programs around much of the world.

One downside risk to the outlook "relates to the fiscal consolidation under way in a number of member states," the commission said. "This should help dissipate market concerns about fiscal sustainability, but may weigh more on domestic demand in the short term than currently envisaged."

Spain, for example, has enacted tax increases and public spending cuts at the commission's urging. But the commission said these measures are likely to drag on the Spanish economy, which is expected to contract by 0.3% this year after a 3.7% slump in 2009.

On Poland, the forecast says: "Stagnating employment and real wages will weigh on real disposable income and, combined with necessary fiscal consolidation, limit the potential for a strong rebound of domestic consumption. Investment growth will mainly reflect robust public spending in capital expenditure, while tight financing conditions and excess capacity in certain sectors will hamper growth in private investment."

Except for the brief nod to "necessary fiscal consolidation," this sounds like an argument for maintaining strong public spending in the face of weakness in the private sector.

So, the commission's forecasting unit says ending stimulus programs will drag on growth and highlights the possible threat of fiscal consolidation to the recovery, even as Mr. Barroso and other commission leaders say deficit-cutting is a precondition for growth. Why aren't the commission forecasters giving more credence to the argument for austerity?

"They're acknowledging reality," said Simon Tilford, an economist at the Centre for European Reform in London. "This really does lend a lie to these claims that somehow fiscal retrenchment will be growth-positive."

Mr. Tilford and other economists say the commission's argument for austerity is in fact an exercise in magical thinking. Cutting deficits at a time when the economy is expanding strongly and demand for credit is high could help growth, because lower deficits will prevent the government from crowding out private investment. But with unemployment high and interest rates on the debt of the largest European economies at rock-bottom levels, slashing spending and raising taxes will only further depress the economy, they argue.

Commission spokesman Amadeu Altafaj Tardio said that some EU countries can and should continue their stimulus spending until the end of the year. "We are not dogmatic at all in this debate," he said. "It's a very delicate balance. We are very sensitive to the fact that growth prospects in several countries are fragile."

The commission trumpets deficit cuts, but it predicts slower growth as stimulus programs are phased out.

Nevertheless, the commission sticks to its line that all EU countries must cut their deficits as of 2011, Mr. Altafaj Tardio said.

"Other governments cannot afford stimulus anymore, such as Greece, Portugal, Spain, Ireland and the U.K.," he said.

That may be true for the weaker euro-zone members, Mr. Tilford said, but countries with solid public finances—Germany in particular—shouldn't be cutting their deficits. Yet Germany is moving to rein in stimulus spending starting next year, despite being able to borrow over 10 years at interest rates lower than 2.4%. German Finance Minister Wolfgang Schäuble has called this policy "expansionary fiscal consolidation."

However, German government bond yields don't suggest investors are worried about the German deficit, Mr. Tilford said. "Investors are screaming their lack of concern for Germany's fiscal position," he said.

The commission's forecast says that deficit reduction will improve the region's public finances. But it also makes the point—often ignored by EU leaders in their push for deficit cuts—that economic growth will also help. Critics of austerity measures note that deficit-cutting can be self-defeating because it reduces the size of the economy, potentially making remaining debt burdens even heavier.

The commission's next forecast, due in November, will provide a more comprehensive discussion of the EU's growth prospects. It remains to be seen whether the commission's economists will then explain how fiscal austerity in Europe, set to begin in earnest next year, will spark economic growth.

Agence France-Presse/Getty Images

President Obama speaks on health-care reform Wednesday at the home of Frances, third left, and Paul Brayshaw, right.

Obama goes on offensive on health law's benefits

By Jared A. Favole

WASHINGTON—President Barack Obama promoted Wednesday consumer-friendly provisions in health-care legislation passed six months ago, seeking to counter what the administration sees as a Republican-driven scare campaign.

Mr. Obama gave brief remarks about the law in the backyard of a family in Falls Church, Va., as part of a new push aimed at helping Democrats ahead of tough midterm elections. Republicans have criticized the health-care legislation as too expensive and said it distracted the Obama administration from dealing with the ailing economy.

Starting Thursday, the six-month anniversary of passage, insurance companies will have to abide by several provisions in the law, including allowing college students to stay on their parents' insurance policies until they are 26 and ending policy limits for people with chronic diseases.

Republicans have said they want to repeal the health-care law or chip away at certain provisions because they say it will only drive up costs to consumers.

Mr. Obama warned Republicans against such a move, saying they will have to explain it to voters who have benefited from the law. Citing statistics from the nonpartisan Congressional Budget Office, Mr. Obama said the law will lower health-care costs and the federal budget deficit over the next 20 years.

Several people at the backyard event asked the president questions about the law, and nearly all praised it. One woman, who said she was from Jacksonville, Fla., said she was surprised to find health insurance for her son despite his pre-existing condition.

The top Republican in the Senate, Mitch McConnell of Kentucky, said in a statement that Americans opposed the health law.

"It seems the more Americans say they want Democrats to stop what they're doing and focus on jobs and the economy, the more determined they are to press ahead with their various liberal agenda items while they've still got the chance," he said.

Some insurance companies have been raising the premiums they charge consumers and blaming it in part on the health-care law. The Obama administration has fought back against the rate increases, and said it would fight any "unreasonable" ones.

Mr. Obama had said Democrats would be able to campaign on the health-care law, but few have done so.

White House press secretary Robert Gibbs, when asked about why Democrats aren't touting the health-care law, said Tuesday, "We'll leave individual messaging to citizens [up] to individual candidates. As you see over the course of the next few days, these consumer protections kick in, I think you'll see and notice the type of protections that many Democrat and Republican had long wished for."

He added, "People ... can and should be proud" of the legislation.

Republicans have said that if they gain control of Congress, they would seek to block funding for the law.

Senior administration officials said they believed this would be politically difficult because of consumer-friendly provisions such as lower prescription-drug costs for seniors.

"The more people know what is in this law, the better they're going to feel about it," a senior administration official said.

U.S. plays down rifts over Afghan strategy

By Adam Entous And Yaroslav Trofimov

WASHINGTON—The White House sought to play down internal divisions over strategy in Afghanistan laid bare by a new book that describes President Barack Obama as fixated on finding an exit strategy and Afghan leader Hamid Karzai as a manic depressive.

"Obama's Wars," by journalist Bob Woodward, details policy and turf battles between many of Mr. Obama's top advisers as the administration reviewed its Afghanistan war strategy last year, a process that ended in December when Mr. Obama authorized sending 30,000 more U.S. troops to Afghanistan but set the goal of beginning to gradually bring them home starting in July 2011.

Some of these advisers continue to harbor doubts that the president's strategy will work, officials now say. Disagreements continue over implementing Mr. Obama's strategy, they say, particularly over how quickly to draw down forces come July, and how to deal with government corruption and with what some officials describe as President Karzai's erratic behavior.

The White House didn't respond to specific allegations in the book but said it was known that advisers had engaged in "vigorous debate" while formulating the strategy. A senior administration official said the process showed Mr. Obama as an "analytical, strategic, and decisive" commander in chief who was committed to finding the "right strategy" in Afghanistan.

"Obama's Wars," which will be released Monday—and portions of which were featured in the Washington Post, where Mr. Woodward worked for decades—says Mr. Karzai has been diagnosed with manic depression. It quotes the U.S. ambassador to Afghanistan, Karl Eikenberry, as saying: "He's on his meds, he's off his meds."

In private conversations, Kabul-based Western diplomats have been voicing concerns about the state of Mr. Karzai's mind since the country's controversial presidential election last year. Mr. Karzai viewed U.S. pressure for a runoff and its endorsement of complaints about fraud in the vote as a personal offense, if not a ploy to get rid of him.

Since then, Mr. Karzai made several erratic statements, including one in which he threatened to join the Taliban. In conversations with some European diplomats, Mr. Karzai has even expressed a fear that the U.S. may try to assassinate him, according to people familiar with these discussions.

Queried about the allegations about Mr. Karzai's mental state, Mr. Karzai's chief spokesman, Waheed Omar, said in a statement: "This is a baseless, inflammatory comment that has its roots in a defaming propaganda campaign against President Karzai's personal integrity, leadership and his stances on matters of Afghan national interests. The president is safe and sound. I can confirm that he takes no medication."

A spokeswoman for the American Embassy in Kabul declined to comment on Mr. Eikenberry's characterization of the Afghan leader.

In the book, Mr. Woodward quotes Richard Holbrooke, the president's special representative for Afghanistan and Pakistan, as saying of the strategy: "It can't work." The book also describes Lt. Gen. Douglas Lute, the president's Afghanistan adviser at the National Security Council, as skeptical.

—Julian E. Barnes contributed to this article.

Democrats may drop tax credit

By John D. McKinnon

President Barack Obama's signature tax policy, known as the Making Work Pay credit, might not continue past this year, just like the Bush-era tax cuts.

Senate Democrats struggled Tuesday to develop a plan to extend the Bush-era breaks for middle-class people, and it is doubtful the Making Work Pay credit would be included, according to several people familiar with the situation.

The tax break, an Obama campaign pledge first adopted as part of the 2009 stimulus legislation, has provided as much as $400 a year for working Americans who earn below $75,000, and $800 for couples earning below $150,000. But it has made little impression on the public, lawmakers of both parties say. In part, that's because the break came in the form of small adjustments to paycheck withholdings, rather than as a lump sum.

Now, as Democratic lawmakers look for ways to trim their tax package and differentiate it from the more-costly Republican version, they are weighing whether to exclude a long-term extension of the Making Work Pay credit, as well as a set of breaks for college students in the 2009 stimulus bill. The Making Work Pay credit has a 10-year price tag of about $600 billion.

Some people familiar with the situation say Senate Finance Committee Chairman Max Baucus (D., Mont.) prefers to leave those provisions out of the tax-cut extension legislation he hopes to roll out this week.

A senior Democratic aide said only that the 2009 Obama tax breaks "are something the chairman is looking at."

Democrats foreshadowed the likely end of the credit earlier this year when they adopted a budget rule that requires them to find offsetting spending cuts or tax increases to cover the cost of extending the credit beyond this year.

WORLD NEWS

Solution to debt woes eludes cities, states

[Capital]

By David Wessel

Bankruptcy has become an acceptable and, in many cases, successful way for debt-burdened companies and consumers to get a fresh start. Airlines do it. Auto companies do it. Retailers do it. More than 1.6 million American households are expected to do it this year.

But reneging on debts remains a rarity among U.S. state and municipal governments. Fewer than 250 of the nation's 89,000 local governmental units have filed for bankruptcy since 1980.

Recent close calls in Harrisburg, Pa., and Central Falls, R.I., spark predictions that the next phase of the financial crisis will be a tsunami of municipal bankruptcies and defaults. Muni-bond experts at rating agencies and bankruptcy lawyers assure us that isn't likely.

We've learned in the past few years to be skeptical of such assurances, but the experts probably are right on this one. Not because state and local finances are in good shape—they aren't—but because Chapter 9 of the bankruptcy code, the one that applies to local governments, is so unwieldy.

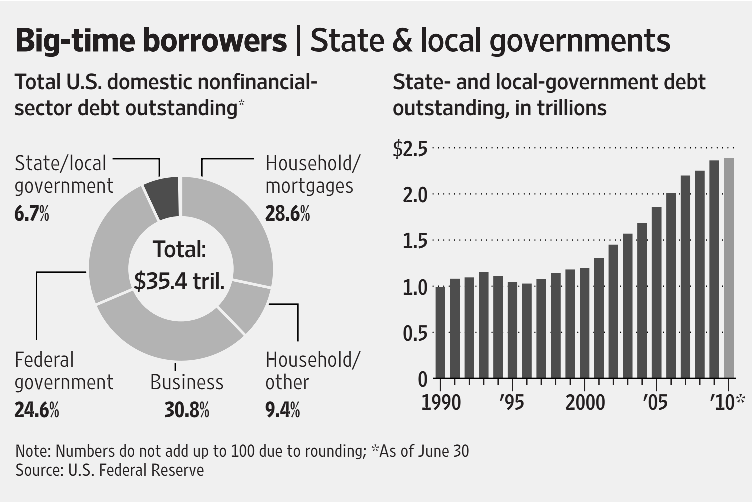
And therein lies the big problem: If not bankruptcy, then what? There is no obvious mechanism for state and local governments to resolve the coming collision between competing claims of taxpayers, retirees (both current and future) and bondholders.

A bit of history: Amid collapsing municipal finances in the Depression—in Detroit, 36% of the taxes were delinquent in 1932 and 76% of tax revenue that arrived went to debt service—Congress allowed cities and towns, municipal utilities and the like (though not states) to go into bankruptcy.

Several Supreme Court decisions and congressional amendments later, the threshold for a municipal filing is much higher than for companies, judges' role more limited and the process largely untested. Bridgeport, Conn., was blocked from filing under Chapter 9 in 1991 because a federal court said it wasn't truly "insolvent," a test companies don't have to meet.

After Vallejo, Calif., won a federal judge's OK to use Chapter 9 in 2008 to extricate itself from union contracts, there were widespread predictions that other cities would follow.

"Two and a half years later, that hasn't been the case," says Robert Kurtter, who oversees state- and local-government ratings at Moody's Investors Service. "What municipalities have discovered is that it is very expensive, the outcomes are uncertain because the rules are uncertain and it's not clear what you come out with."



Most municipal defaults and bankruptcies so far involve either behind-schedule, over-budget construction projects that didn't yield promised revenue or overstretched hospitals, not entire cities or counties.

The future, though, may not resemble the past. The magnitude of the problem is daunting. State and local governments have borrowed $2.4 trillion as of mid-2010, according to Federal Reserve data. That's up 35% from five years ago.

State and local governments—which employ more workers (19.5 million) than manufacturing and construction combined—have promised over $3 trillion in retirement benefits, more by some estimates. Their pension assets are at least $1 trillion shy of that, according to the Pew Center on the States.

"It doesn't seem like the current path is sustainable without a dramatic jump in economic growth," says Randal Picker, a University of Chicago bankruptcy-law scholar. And the odds of that are slim. Property- and sales-tax revenues aren't likely to grow rapidly enough to solve the problem.

So what next? Stiff workers to pay bondholders? Cut benefits for new workers to protect generous retiree benefits? Break promises made long ago to now-retired employees? Fund workers' benefits by raising taxes on residents whose own employers have been cutting benefits?

An air of crisis is prompting a number of state and local governments to pare benefits for new, existing or retired workers, prompting lawsuits from, among others, retirees in Colorado, Minnesota and South Dakota. Rising voter anger could push more unions to surrender generous benefit deals struck in better times. But the politics are treacherous, given public-employee unions' political power. And these one-at-a-time efforts may not suffice.

Optimists figure that state governments will rescue failing municipalities, essentially putting local governments into receiverships, if only because any municipal default increases borrowing costs for innocent-bystander municipalities in the same state. State government stepped in recently in Pennsylvania and Rhode Island. But some big state governments—California and Illinois in particular—are part of the problem.

So the talk inevitably turns to Washington, but the capital has bailout fatigue. It's hard to imagine Congress voting anytime soon to use taxpayer money to help states easily described as the most irresponsible. A more palatable solution may be an innovative public-pension authority that backstops state and local pension systems only if they agree to scale back benefits, an idea now floating around without much traction.

Bankruptcy is a last resort. To avoid it, state and local governments need an alternative that is less unappealing. They don't have one yet.

Bell tolls for California officials in pay scandal

By Tamara Audi

LOS ANGELES—The mayor and most city-council members in Bell, Calif., awaited their arraignments Wednesday a day after they and former officials were charged with defrauding constituents of $5.5 million in outsized salaries and perks.

The arrests, which landed all but one of the city's elected officials in Los Angeles County jails, came after revelations this summer that some part-time council members were paying themselves $100,000 a year. Former City Manager Robert Rizzo was the highest paid among those charged, taking home $1.1 million a year in salary and benefits.

The blue-collar municipality of 37,000 mostly Latino residents is one of a cluster of small cities southeast of Los Angeles that has been wracked by corruption scandals for years.

"This is corruption on steroids," said Los Angeles County District Attorney Steve Cooley, who filed the charges Tuesday. Mr. Cooley said more charges could be filed as the probe continues. He said the officials could face a range of sentences if convicted, and promised "substantial prison time for the worst offenders."

A state audit released Wednesday added more fuel the fire, saying that Bell mismanaged more than $50 million in bond money, levied illegal taxes and paid exorbitant salaries to its leaders.

The audit said Mr. Rizzo had total control of city funds and used some of the money to inflate his salary and pay off personal loans.

"Our audit found the city had almost no accounting controls, no checks or balances, and the general fund was run like a petty cash drawer," state Controller John Chiang said in a statement. "The city's purse-strings were tied to only one individual, resulting in a perfect breeding ground for fraudulent, wasteful spending."

Bell city-council member Lorenzo Velez, who hasn't been charged in civil or criminal court, was left to run the city with interim City Manager Pedro Carrillo.

Mr. Carrillo said in a statement released after the arrests that he was "prepared to double down our efforts to continue to restore order, establish good government reforms" and continue to run the city.

Mr. Rizzo was charged with 53 counts of misappropriation of $4.3 million of public funds. The district attorney's office said Mr. Rizzo "wrote his own employment contracts that were never approved by the city council."

Other former and current officials were charged with 24 counts of misappropriating $1.2 million of public funds. Arraignments were postponed Wednesday morning possibly till later in the day.

The criminal case also alleges that Mr. Rizzo, hired as Bell's chief administrative officer in 1994, gave nearly $1.9 million of unauthorized loans to himself, his former assistant, Angela Spaccia, two council members "and dozens of others."

'This is corruption on steroids,' said Los Angeles County District Attorney Steve Cooley, promising 'substantial prison time for the worst offenders.'

Mr. Rizzo's lawyer and lawyers for some of the defendants said their clients' salaries and loans were not a secret because elected officials approved them.

"Both of my clients intend to prove their innocence," said Stanley L. Friedman, the lawyer representing Mayor Oscar Hernandez and former city council member Victor Bello. "Given the general hysteria that is going on in Bell and the political environment in California, they're not surprised by the charges."

Bell officials used taxpayer dollars "as their own piggy bank, which they looted at will," Mr. Cooley said.

Mr. Cooley said most of the arrests were without incident. However, a battering ram was used to enter the house of Mayor Oscar Hernandez, who was "a little slow" in answering the door, Mr. Cooley said at the news conference. Bail for Mr. Rizzo, who stepped down in July after the scandal broke in the Los Angeles Times, was set at $3.2 million.

The criminal charges come on the heels of a civil suit filed against former and current Bell officials last week by California Attorney General Jerry Brown seeking to recover millions of dollars of salaries and pension benefits from Bell officials. Mr. Brown agreed to file civil charges while Mr. Cooley pursued criminal charges.

Both men are in the midst of political campaigns. Mr. Cooley is the Republican candidate to succeed Mr. Brown as attorney general; Mr. Brown is the Democratic candidate for governor. Each has been accused by opponents and lawyers for some of the defendants of using the Bell scandal to burnish their election campaigns.

Mr. Rizzo's lawyer, James W. Spertus, accused Mr. Cooley of grandstanding by allowing the media to photograph Mr. Rizzo being taken into custody outside his home. "The arrest of Mr. Rizzo in a public spectacle was inappropriate and done for campaign purposes," Mr. Spertus said.

The arrests were widely anticipated following this summer's revelations of inflated salaries. Angry residents had already managed to oust a few city officials, but had been clamoring for criminal charges, and mounted a recall campaign to unseat the city-council members.

"I'm so glad this day is finally here," said Mario Rivas, a Bell resident and a member of the Bell Residents Club, which has been pushing for investigations of city officials. On Tuesday, Mr. Rivas and other Bell residents held a celebratory lunch in downtown Los Angeles.

But Mr. Rivas said he and others are convinced "it's just the beginning." Mr. Rivas said he was disappointed that the former police chief, Randy Adams, whose salary was $457,000 a year, wasn't arrested. Mr. Adams was named in the civil suit.

WORLD NEWS

Wen urges improved China, U.S. relations

By Gabriella Stern
And Gordon Fairclough

NEW YORK—China's current differences with the U.S. are "very easy to resolve," Chinese Premier Wen Jiabao told top U.S. business executives Wednesday.

China wants a "strong and stable U.S., just as the U.S. needs a strong, stable China," Mr. Wen said at an event moderated by former Secretary of State Henry Kissinger. Mr. Wen also reiterated his government's longstanding position that China wants to improve and develop its relationship with the U.S., stating that the two countries' business interests are "inextricably connected."

Mr. Wen's discussion with business leaders comes as more Western corporate leaders have begun speaking out about the difficulty of doing business in China. At the event, chief executives of corporate giants such as **Microsoft** Corp. and **PepsiCo** Inc. and financial institutions as **J.P. Morgan Chase** & Co., former Treasury Secretaries Henry Paulson and Robert Rubin sat in an oval formation with Messrs. Wen and Kissinger at its head.

While noting that a trade imbalance exists between the U.S. and China, Mr. Wen said it isn't intentional. He also responded to criticism of China's non-market economic, trade and currency policies, stating that the yuan's exchange rate isn't the "main cause" of the bilateral trade imbalance.

China's currency policies have come under sharp criticism by some U.S. industry groups and unions that claim the yuan is artificially undervalued, which gives China an unfair trade advantage that costs the U.S. millions of manufacturing jobs.

Powerful voices in Congress have urged the Obama administration to put more pressure on China to allow the yuan to appreciate. Unless the yuan strengthens substantially against the dollar, a bipartisan group of lawmakers says it will introduce legislation that could penalize China for manipulating foreign exchange rates.

Mr. Wen said that China and the U.S. should "reject protectionism" and "embrace free trade," which is Beijing's stock answer to threats of punitive trade measures.

Wednesday's discussion covered a wide range of topics, from recent geopolitical disagreements between the U.S. and China to the global reputation of Chinese companies.

China is "not yet a strong creative or innovative country," Mr. Wen said. China needs to create its own brands and sees a "large gap" with the U.S. in this area.

In responding to a business leader's requests for equal treatment with Chinese rivals, Mr. Wen said that 50,000 U.S. companies operate in China and all "enjoy national treatment" equal to Chinese companies.

When answering a plea from a U.S. participant in the discussion for China to boost domestic consumption as well as social welfare programs and the services sector, Mr. Wen said expanding domestic demand is a "long-term strategic objective."

Bloomberg News

Hillary Clinton in Hanoi in July, right, brought up Chinese officials' assertion that Beijing viewed the South China Sea as one of its 'core national interests.'

U.S., allies resist China's tug

The U.S. and its Asian allies are starting to push back against China's growing assertiveness in the region, strengthening security ties and taking more robust positions in territorial disputes in the East and South China seas.

*By **Jeremy Page**, **Patrick Barta** and **Jay Solomon***

The newest evidence of the resistance is set to come on Friday when President Barack Obama is due to discuss the South China Sea—almost all of which is claimed by China—during a lunch in New York with leaders of the Association of Southeast Asian Nations, or Asean. The meeting will take place on the sidelines of the U.N. General Assembly in New York and will follow Mr. Obama's meeting Thursday with Chinese Premier Wen Jiabao.

Ahead of the meeting, Singapore Prime Minister Lee Hsien Loong told The Wall Street Journal on Tuesday he plans to tell Mr. Obama that the U.S. needs to maintain an activist presence in Asia to show it is "here to stay" as a power in the Pacific.

"America plays a role in Asia that China cannot replace," he said, which includes "maintaining peace in the region."

Japan—the main U.S. ally in the region—is leading the way in confronting China, taking an unusually firm line in a dispute over a collision between a Chinese fishing trawler and two Japanese coast guard ships near disputed islands in the East China Sea two weeks ago and Japan's continued detention of the trawler's captain.

The latest confrontation has quickly become the nastiest between Japan and China in years. Chinese Premier Wen Jiabao on Tuesday reiterated Beijing's threat to take further action if Tokyo doesn't release the captain, state-run Xinhua news agency reported.

Japan's Chief Cabinet Secretary Yoshito Sengoku called Wednesday for high-level bilateral talks between Japan and China to ease tensions.

Southeast Asian nations are also quietly pushing back against China, with several encouraging the U.S. to assert its own national interests, especially in the South China Sea, parts of which are claimed by Vietnam, the Philippines, Malaysia, Indonesia and Brunei.

South Korea, which has burgeoning commercial ties with China, has been alienated by Beijing's refusal to condemn the sinking of a South Korean warship in March, which an international investigation blamed on North Korea.

The simultaneous backlash suggests a broad failure of diplomacy from China, which has long strived to achieve balance in its foreign relations, and has poured aid and investment into Southeast Asia in the past decade.

One explanation by analysts is that China's diplomatic tone has become more arrogant as it emerges stronger than ever from the global economic crisis, reinforcing deep-seated anxieties in the region about how it will project its new power.

Others say that what appears to be a clumsier foreign policy reflects how the People's Liberation Army, unpracticed in diplomacy, is starting to call the shots on matters of key national interest, including the South China Sea. The PLA's influence in domestic politics is growing in the run-up to a leadership transition in 2012, as aspirants to top Communist Party posts court powerful generals for support.

Public opinion in China is also playing a role, as diplomats—already struggling to cope with multiplying international engagements—are now also under pressure to talk tough to appease nationalistic sentiment inflamed by populist newspapers and academics.

A newly invigorated U.S. foreign policy toward Asia is further stirring up diplomatic rivalries as Washington competes with China for regional influence.

"What you see here is Japan, South Korea and Southeast Asia, backed by the United States, trying to manage an emergent China that's pushing the envelope," said Ernest Bower, director of the Southeast Asia program at the Center for Strategic and International Studies in Washington.

On Friday, Mr. Obama and the Asean leaders will issue a joint statement in which Washington has proposed text reaffirming the importance of freedom of navigation in the South China Sea, according to the Associated Press. It said the statement would oppose the "use or threat of force by any claimant attempting to enforce disputed claims in the South China Sea."

The wording is significant—and provocative for China — because it mirrors that of a speech by U.S. Secretary of State Hillary Clinton at an Asean meeting in Hanoi in July.

That speech was a response to Chinese officials' assertion, in a meeting with U.S. counterparts in March, that Beijing viewed the South China Sea as one of its "core national interests"—on a par with Tibet and Taiwan—meaning it saw no room for compromise.

Several Southeast Asian nations are understood to have encouraged Mrs. Clinton to make the statement, which her Chinese counterpart, Foreign Minister Yang Jiechi, described as an "attack" on China.

Mr. Lee, the Singapore prime minister, said that Mrs. Clinton's remarks were a "useful reminder" of the U.S.'s crucial role in the region and the importance of freedom of navigation there.

Vietnam, meanwhile, which is leading Asean this year, held its first defense talks with the U.S. in August, 15 years after the two countries normalized relations.

Tensions between China and Vietnam, too, have been growing since last fall, when Hanoi accused Chinese military personnel of beating and robbing Vietnamese fishermen who sought shelter from a typhoon in the South China Sea.

Carlyle Thayer, a Southeast Asia expert and professor at the University of New South Wales in Canberra, says that some Southeast Asian countries look at China and think: "You've been telling us about your peaceful rise for years, but it does not look peaceful to us," he said. "This is not what we want."

On Monday, White House spokesman Ben Rhodes said Mr. Obama planned to use Friday's lunch to build on Mrs. Clinton's July meeting in Hanoi. "Secretary Clinton...articulated some very important views during her recent meetings with Asean," Mr. Rhodes said. "And so I do believe the president will follow on those discussions."

While several Asean members back the proposed text for Friday's communiqué, it will likely be toned down in order to avoid antagonizing Beijing, Asian diplomats say

The White House declined to comment on the discussions over the communiqué.

China has voiced its opposition to the U.S. proposals on the South China Sea.

"We firmly oppose any country having nothing to do with the South China Sea issue getting involved in the dispute," Jiang Yu, a Chinese Foreign Ministry spokeswoman, said Tuesday. "This will only complicate rather than help solve the issue."

—James Hookway and Andrew Browne contributed to this article.

WORLD NEWS

Associated Press (2)

Children, above and right, in Ganjuwa, in Nigeria's Bauchi State, watch this month as a health worker sprays a chlorine solution designed to kill cholera bacteria. Nigeria is struggling with a cholera outbreak.

Training epidemic-fighter detectives

BY BETSY MCKAY

Nigeria, Vietnam and dozens of other countries are stepping up efforts to respond to disease threats, as epidemics add to the burden on their health-care systems and new pathogens spread around the globe.

To fight Nigeria's worst cholera epidemic in almost two decades, an outbreak of lead poisoning that has killed more than 160 children, and an eruption of measles, officials are turning to public-health experts like Suleiman Haladu.

A veterinarian from northwestern Nigeria, Dr. Haladu is training to become an epidemiologist—a disease detective who probes the source of outbreaks and determines how widespread they are.

He is in an on-the-job program partly funded by the U.S. Centers for Disease Control and Prevention and modeled on the Epidemic Intelligence Service, the CDC's two-year program whose officers helped to eradicate smallpox, identify HIV/AIDS, and pinpoint a deadly strain of E. coli.

Last spring, Nigeria's federal Ministry of Health dispatched Dr. Haladu and other budding epidemiologists to two remote villages to crack the case of how gold-mining practices had poisoned homes with lead. Now, four more officers are tracking down cholera cases, treating patients, and teaching villagers how to avoid contaminated water to stem an epidemic that has killed more than 1,000 people.

Countries are now required by international law to report certain outbreaks or public-health events and to upgrade their disease surveillance and response capabilities.

"We need to have more people on the ground so if we have outbreaks we have an immediate investigation," said Henry Akpan, the Nigerian health ministry's chief of epidemiology and health emergencies and response. He estimates that each of Nigeria's states now has only one trained epidemiologist; he aims to double that figure over the next three years.

The Nigerian program, launched in 2008 with funding from the CDC and other organizations, also aims to strengthen laboratories and improve veterinary epidemiology, as new pathogens frequently jump from animals to humans. When a death from avian flu in 2007 showed the virus had been spreading in Nigeria undetected, "there was no capacity to address the problem; we had little understanding of the situation," recalled Dr. Haladu.

The CDC has established 35 programs since 1980, mostly in developing countries, with funding from several U.S. government agencies and nongovernmental organizations, and has 11 more in the works. Participants investigated 216 outbreaks in 2009, from H1N1 flu outbreaks in Thai schools, prisons, and temples to HIV among children in Kyrgyzs ration too.

"It may be the single most important thing we do in global health," said CDC Director Thomas Frieden in an interview. "We're all very attuned to the shortage of doctors and nurses in developing countries," he said, but the shortage of epidemiologists and other public-health workers is even more acute given the impact they can have.

He is pushing for expansion of the program, estimating that at least one epidemiologist for every 200,000 people is needed to adequately measure disease threats. The CDC programs have produced about 2,200 graduates over 30 years. Had H1N1 flu been detected in Mexico two months earlier, a vaccine would have been ready before the largest peak of disease in the U.S. last fall, saving thousands of lives, he said.

In China, program officers have screened children to identify infant formula tainted with melamine, and traced 300 mysterious sudden deaths that occurred over three decades to a toxic mushroom. "We need about 80 new officers every year," said Bob Fontaine, a CDC epidemiologist running the program. He hopes to reach that goal by 2015; this November, 32 new officers will start, he said.

Vietnam, plagued by severe acute respiratory syndrome in 2003 and the world's second-highest number of H5N1 flu deaths since that year, launched a new field epidemiology training program in 2008 with funding from the U.S. Agency for International Development, the World Health Organization and other groups. About 75% of the country's public-health workers lack training in epidemiology, according to Vice Minister for Health Trinh Quan Huan. "When an outbreak occurs, at the local level they do not have practical skills to collect data and respond," he said.

Pham Van Hau, an infectious-disease physician in central Vietnam, is studying possible links between dengue fever and climate. Other officers have investigated rabies prevention and transmission of flu viruses between humans, pigs and poultry in a rural community.

Program participants in Kazakhstan, Uzbekistan, and three other former Soviet countries are learning to more quickly detect Ebola, anthrax and other potential bioterror agents, funded in part by the CDC and the U.S. Department of Defense.

In a program in Addis Ababa, Ethiopia, launched last year, Million Tumato and a colleague dug into police log books to document health risks from an increasing number of motor-vehicle accidents. But local officials don't always welcome investigations that might reveal outbreaks damaging to tourism or trade, Dr. Tumato found. When he uncovered a suspected case of cholera last year and turned it over to local health officials, they didn't follow up, he said.

The programs also are costly, involving extensive oversight and mentoring as officers spend most of their time outside the classroom. To meet growing demand, the CDC is promoting shorter courses for local or regional officials that focus on more basic data-collection skills.

Cracking the case

Outbreaks being tracked by epidemiologists-in-training:

- **Nigeria:** Cholera epidemic that has led to more than 1,000 deaths
- **Nigeria:** Lead-poisoning outbreak that killed more than 160 children
- **Thailand:** Pneumonia in mushroom-farm workers
- **China:** Investigation into melamine-contaminated formula
- **Kyrgyzstan:** Outbreak of HIV among children in Bishkek
- **Ethiopia:** Acute-diarrhea outbreak sickened 10,000 in Addis Ababa
- **Ghana:** Rabies outbreak
- **Egypt:** H5N1 and H1N1 flu-outbreak investigations

Centers for Disease Control and Prevention

U.N. report: Israeli raid unlawful

Associated Press

GENEVA—A report by three United Nations-appointed human-rights experts Wednesday said that Israeli forces violated international law when they raided a Gaza-bound aid flotilla earlier this year, killing nine activists.

The U.N. Human Rights Council's fact-finding mission concluded that Israel's naval blockade of the Palestinian territory was unlawful because of the humanitarian crisis there, and described the military raid on the flotilla as brutal and disproportionate.

The Israeli Foreign Ministry responded late Wednesday by saying the Human Rights Council had a "biased, politicized and extremist approach."

Israel has maintained that its soldiers acted in self-defense when they shot and killed eight Turkish activists and one Turkish-American aboard the Mavi Marmara on May 31.

"The Human Rights Council blamed Israel prior to the investigation, and it is no surprise that they condemn after," said Andy David, a spokesman for the Israeli Foreign Ministry, referring to the 47-member body's resolution condemning the raid.

Israel refused to cooperate with the panel, preferring instead to work with a separate U.N. group under New Zealand's former Prime Minister Geoffrey Palmer and Colombia's former President Álvaro Uribe that is also examining the incident but has yet to publish its findings.

"Israel is a democratic and law-abiding country that carefully observes international law and, when need be, knows how to investigate itself," the Foreign Ministry said.

Fawzi Barhoum, spokesman for Hamas, the militant group that controls Gaza, said the report emphasized that Israel's occupation of Palestinian territories violates human rights "not only against Palestinian people but against innocent people who came to show their sympathy."

The Human Rights Council's report is scheduled to be presented to the council on Monday.

Three French workers kidnapped off Nigeria

BY GERALDINE AMIEL AND ANGELINE BENOIT

PARIS—French oil-services company **Bourbon** SA on Wednesday said three of its French employees were kidnapped from a vessel off the Nigerian coast.

The three were kidnapped when attackers in several speedboats raided the ship at an offshore oil field operated by Addax Petroleum during late Tuesday or early Wednesday, Bourbon said. Addax is a subsidiary of Chinese oil producer **China Petroleum & Chemical Corp.**, known as Sinopec.

Of the 16 crew members, the three French citizens were kidnapped while the 13 others remained on board, Bourbon said. No one has claimed responsibility for the attack, the company said, adding that more information will be disclosed when verified.

Bourbon is the third French company to suffer from security threats to its employees in Africa this month. **Areva** SA and **Vinci** SA evacuated all their expatriate employees working at mines in northern Niger last Friday after the kidnapping of five French nationals, a Togolese and a Madagascan.