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Venezuela goes to the polls



Reuters

Venezuelan President Hugo Chávez casts his vote during parliamentary elections in Caracas, Sunday. While most polls suggest his party will retain majority control, officials said they would wait until an 'irreversible' trend has emerged before announcing results. For more coverage visit WSJ.com.

U.K. finance sees business picking up

By NICHOLAS WINNING AND ILONA BILLINGTON

LONDON—Activity in the U.K.'s financial-services sector grew at the fastest rate since June 2007 in the third quarter, but companies are less optimistic about the months ahead than they were in June.

Meanwhile, another report showed that U.K. household finances remained under pressure this month as concerns over job security, government spending cuts and rising prices weighed on spending power and confidence.

The Confederation of British Industry's latest quarterly survey of the financial-services sector carried out with PricewaterhouseCoopers showed that although the growth in business volumes was weaker than expected, profitability in the sector improved for a fifth consecutive quarter.

Asked how business activity had fared in the three

months to September, 37% of respondents said volumes rose and 9% said they fell—resulting in a balance of +28 percentage points, the highest reading since June 2007 and higher than the balance of +9 this June. The balance is the difference between the percentage of firms reporting an increase and those reporting a decrease. The percentage that reported steady volumes rose to 54% in September from 33% in June.

"Activity picked up in the financial-services sector in the last three months at a pace not seen since before the credit crunch," Ian McCafferty, CBI chief economic adviser, said in a note.

But looking ahead, the balance measuring expectations for business volumes over the next three months eased to +24 in September from +63 in June.

"There is ongoing concern that prospective regulation may hold back business ex-

pansion in the coming year, but financial-services firms have become more worried that weak levels of demand will dampen growth prospects," Mr. McCafferty said.

The survey, carried out between Aug. 18 and Sept. 1, had 90 respondents.

Falling costs, faster growth in business volumes and widening spreads helped drive the profitability balance up to +23 in September, the strongest reading since June 2006. Companies expect a similar level of profitability in the fourth quarter.

Separately, U.K. household finances are continuing to be hit by concerns over job security and other factors, according to a survey from global information firm Markit.

Its monthly household-finance index rose to 40.2 in September from 37.9 in August, but remains well below the neutral 50 level, indicating concern over average household finances.

The Quirk



Meriwether Lewis's final journey still shrouded in mystery. Page 29

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Ed Miliband and the return of Old Labour. Page 11

U.S. to press allies to increase Afghanistan's training mission

By JULIAN E. BARNES

WASHINGTON—The top U.S. general in charge of training in Afghanistan will ask allied leaders on Monday for about 1,000 more specialized trainers, with the aim of speeding up the buildup of the country's security forces ahead of a transfer of control to the Afghan government.

In an interview before his speech to the North Atlantic Treaty organization's military committee in Brussels, Lt. Gen. William Caldwell said the additional trainers were critical to speed the growth of the Afghan police and army between December and May 2011. He said Afghanistan needed an additional 133,000 military personnel and police

officers to ensure a smooth handover of security responsibility to the Afghan government next summer, when the U.S. is scheduled to begin drawing down its forces.

"If we do not get the trainers we need, transition will be delayed," said Gen. Caldwell, who leads the training mission in Afghanistan.

He said high attrition rates in the Afghan security forces were the greatest challenge to the training effort. There are 256,000 people in the Afghan security forces. But U.S. planners believe they will lose some 83,000 security force members over the next 13 months because of deaths, desertion and low retention rates. That could make it difficult to achieve the goal of

building an army and police force of 305,000 by the end of 2011. Under the current counter-insurgency strategy, the training mission has taken on a renewed importance. President Barack Obama approved a surge of 30,000 additional troops last year, in part to help speed the development of the Afghan security forces. Military officials have boosted the number of trainers and increased the partnership between allied infantry units and Afghan security forces.

Gen. Caldwell said it was more important for the allies to send trainers with the right skill sets to develop discrete capabilities within the Afghan security forces, than to just meet the 1,000-trainers goal.

Please turn to page 4

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PAGE TWO

Euroland should prepare for more ups and downs in its yo-yo economy

[Agenda]

By IRWIN STELZER



Cheer at a bit of good news, and it is soon overtaken by bad news. That would seem to be the continuing story of euroland.

■ Ireland reassures the markets by bailing out its banks. Good news. Ireland goes to the markets to raise money and pays four percentage points over bunds. Bad news.

■ High earnings lift sentiment in Germany reports Commerzbank. Good news. Sentiment in the financial community in Germany drops again as a slump is expected, reports Commerzbank. Bad news.

■ Spanish Prime Minister José Luis Rodríguez Zapatero tells this newspaper, "I believe that the debt crisis... has passed." Very good news. Despite paying exorbitant interest rates, Portugal, which hasn't done very much to reduce its budget deficit, can persuade investors to buy only €750 million (\$1.01 billion) of its debt, the low end of its €1 billion goal and, along with Ireland, might have to join Greece in seeking emergency financial aid. Very bad news.

I could continue this yo-yo description of euroland affairs were it not that I will run out of good news to juxtapose against the bad. The slowdown in America means that this engine of worldwide growth is at least for now on the sidings. And any thought that Europe's economy had decoupled from America's is now seen as wishful thinking.

More important even than the bad news from America is the news coming out of euroland. It is not only that some countries—Portugal being the leading example—are having



José Zapatero offers some good news only for it to be outweighed by the bad.

trouble putting austerity plans into action. That would be bad enough. But the European Central Bank demands more spending cuts. "Credible and ambitious consolidation raises expectations of future economic growth..." it insists. Ireland, trying mightily to satisfy the ECB, is finding that cutting spending and raising taxes might just be producing the downward spiral that American

make it highly unlikely that Ireland will reach its goal of reducing its deficit from 11.6% of GDP (not counting bank bailouts) to 3% by 2014.

James Nixon, chief European economist for Société Générale, told the Times of London that unless Ireland gets an €80 billion bailout, its public finances are condemned to a "long, arduous, slow death."

There is worse. If Ireland and Portugal do queue up behind Greece, begging bowls rattling, they will be doing so at a time when their euroland colleagues, facing an EU-wide slow-down, will be most unhappy about bailing them out. Greece has already locked in a €110 billion rescue package from the European Financial Stability Fund, and estimates are that Portugal (€70 billion) and Ireland (€80 billion) would bring the demand on the EFSF to €260 billion—unless Spain, with unemployment above 20% and its regional banks, or cajas, reeling under the burden of duff property loans, joins the hand-out queue. That is not far from the limit of the guarantee capacity of the EFSF, once a

variety of mandated reserves and deductions from its theoretical €440 billion in available funds are factored in.

Most of these problems could be more easily resolved if only growth in the euro zone were as robust as it was only a few months ago. But the Purchasing Managers' Index for both the service and the manufacturing sectors dropped this month, although remaining about the 50 level that signals growth. So it is to be slow growth for the euro zone as a whole, with Germany pulling the area economy forward with less force, against the increasing drag created by problems in the peripheral economies.

The reasons for Germany's reduced ability to power euro-area growth are two. For one thing, its exports are likely to be hurt by the U.S. slowdown and the recent fall in the dollar. For another, German banks will have to reduce lending sharply, by an estimated one-third in the case of local banks—to conform to the new Basel III capital-adequacy rules.

But fear not. When (1) the task force headed by European Council President Herman Van Rompuy finishes reviewing (2) the proposals to fine fligate countries, to be unveiled next week by Olli Rehn, European commissioner for economic and monetary affairs, and (3) the proposals are debated in and presumably approved by the European Parliament, all will be well. Assuming of course (4) that Germany, which wants to revise the Lisbon Treaty to apply the new rules EU-wide, and France, which wants nothing to do with a re-opening of the Treaty and therefore wants the fines to apply only in euroland, can resolve their differences. The mills of Brussels grind slowly indeed.

—Irwin Stelzer is a director of economic-policy studies at the Hudson Institute.

Any thought that Europe's economy had decoupled from America's is now seen as wishful thinking.

President Barack Obama and Britain's shadow-chancellor-in-waiting Ed Balls have been warning about. Ireland is cutting spending, but either because of those cuts, or in spite of them, its economy is contracting at an annual rate of close to 5%. That reduces tax revenues, adds to social spending, and—as John Maynard Keynes might have advised were he still with us—will

What's News

■ **Ireland's ruling party**, grappling with a banking and economic crisis, faced mounting pressure as a poll showed less than one-fifth of the nation had confidence in the prime minister, and a member of the ruling coalition indicated he may not support proposed health-care cuts. 4

■ **U.S. investors** are wondering whether November's elections will affect the stock market, but the impact has probably already been felt. The market is on track for its best September since 1939. 21

■ **UniCredit's board** is expected to discuss the bank's governance structure, including the possibility of a duo of top executives. 17

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Reader **Andrew Boysen** on the movie about Facebook and Mark Zuckerberg



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NEWS

Ferré final bid emerges

By CHRISTINA PASSARIELLO

MILAN—American private-equity firm **Prodos Capital Management LLC** and South Korean conglomerate **Samsung Group** have emerged as the final bidder to buy Italian fashion house **Gianfranco Ferré**, which has been in bankruptcy protection.

Ferré's bankruptcy administrators have selected Prodos and Samsung as the most solid potential buyer, according to people familiar with the matter. The deal, which must be approved by the Italian government, could make Ferré the first major fashion label felled by the economic crisis to come out the other end of restructuring.

Prodos will have a majority stake; Samsung's textile division will be a minority partner and provide working capital to cover the expensive costs of inventory and production, according to one of the people. Prodos manager Doug Song attended Ferré's fashion show Friday in Milan.

Prodos has bid less than €15 million (\$20.2 million) for Ferré, but has committed to keep the company's 150 employees and a factory

in Bologna, Italy—a condition that was key because the government wants to maintain jobs.

In order for the deal to be finalized, Prime Minister Silvio Berlusconi or the industry minister, an unfilled post, must approve it, a step Ferré's bankruptcy administrators expect to happen within the next two weeks.

Ferré was part of Italian fashion group **IT Holding SpA** until it declared bankruptcy last year. The group's other holding—knitwear brand **Malo** and **Ittierre SpA**, the licensing and manufacturing business that produces for labels such as **Just Cavalli** and **John Galiano**—are being sold separately. **Ittierre** produces Ferré's secondary line.

Ferré has struggled since the death of its namesake designer three years ago. Even before the economic downturn, the house was in turmoil. It changed designers twice. The current designers, **Tommaso Aquilano** and **Roberto Rimondi** have been lauded by fashion critics, but their expensive designs have Ferré competing with more upscale labels such as **Chanel**. It is unclear if the current designers

will stay.

Five bidders made offers for Ferré since the auction process launched in June. Prodos and Samsung prevailed because of their deep pockets, necessary for the expensive relaunch of the fashion house, according to the people.

The brand has pulled out of many markets; in the U.S., only department store **Bergdorf Goodman** sells it. The new owners plan to open stores in Asia through franchise partners, according to one of the people.

Private-equity has had mixed results in the fashion industry. **Permira** purchased **Valentino Fashion Group** three years ago at the height of the market, and has been forced to take write-downs on its debt. **Apax Partners** sold **Tommy Hilfiger** to **Phillips-Van Heusen Corp.** earlier this year. Prodos, wanting to avoid loading Ferré down with too much debt, brought Samsung in to cover the major cash costs. Other bankrupt brands haven't had a second chance to grow.

French designer **Christian Lacroix's** fashion house was liquidated last year.



Getty Images; Reuters

Ferré was part of Italian fashion group IT Holding until it declared bankruptcy.

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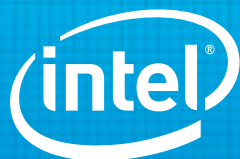
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EUROPE NEWS

Boy's suspected drug dealing prompts debate in Germany

BY JAMES ANGELOS

BERLIN—The tale of a refugee boy suspected of dealing heroin in the city's subway system has shocked residents of Germany's capital and fanned broader debates on how the country deals both with immigrants and juvenile justice.

Police say that over the past few months, on seven occasions they have caught the boy, who is believed to be an 11-year-old Palestinian refugee, selling heroin. During one run-in with the police, the youngster, whom German media have nicknamed "Jamal," swallowed his drug stash and had to be taken to the hospital, according to the authorities.

Despite the boy's alleged drug peddling, police aren't allowed to detain him. German law, like that in several European countries, stipulates that children under 14 can't be tried in the country's juvenile-court system. By contrast, in Switzerland and the U.K., the age of criminal responsibility is 10.

The story is unfolding as the country engages in an emotional discussion over how to integrate its growing non-German population. Some see the furor as a cynical effort by opponents of immigration to link minorities with crime. To critics who accuse the government of going easy on criminal foreigners, Jamal's case illustrates that Germany's system of immigration and asylum is broken.

For some, Jamal's story revives memories of "Christiane F.," a woman whose tale of heroin addiction and prostitution as a teenager in 1970s Berlin was recounted in a book and a movie.

Berlin officials say that drug-pushing minors, or "Kinderdealer," aren't a major problem and that cases such as Jamal's represent an "exception." In the first half of the year, only nine children under the age of 14 were caught selling drugs in Berlin, police say.

There is no evidence that refugee children are widely involved in the drug trade elsewhere in Europe, according to the United Nations refugee agency.

Refugee-aid officials say 3,000 unaccompanied refugee minors were known to have entered Germany last year. Very few, they say, become involved in drugs or crime.

German news reports often put the number of Kinderdealer far



The case of a boy, believed to be an 11-year-old Palestinian refugee, who is suspected of selling heroin in Berlin's subway has stirred debate about immigration policy and the juvenile justice system. Above, the Schönleinstrasse station.

higher than figures given by police. Bild, Germany's best-selling tabloid, ran a story about Jamal in late July under the headline: "Can't anyone stop this Kinderdealer?"

A recent report on German state television characterized the phenomenon of child dealers as "crime instead of integration," saying that most children caught dealing drugs this year were of "mainly Arabic origin."

Police, who say Jamal traveled to Germany from Lebanon, have been unable to verify his name, age or even his claim of Palestinian origin. He has no papers and says he has no family with him.

Lutheran Youth and Welfare Organization, a welfare group, is now housing Jamal, as well as two other "unaccompanied refugee children" caught dealing drugs. Siegfried Dreusicke, chairman of the organization, says, "These children are exploited by men behind the scenes for whom they sell drugs." He says these children are "more victims than perpetrators."

It isn't possible to return many such children to their native countries, says Kristina Tschenett, a spokeswoman for Berlin's Senate for the Interior, because some are state-

less, without citizenship or passports. "We can't send them anywhere else. We have to deal with the problem here," she says.

That can be difficult, however, with no power to detain delinquent children. Jamal, for example, was checked into a home in a leafy district of Berlin that temporarily houses unaccompanied child asylum-seekers, according to local media. On the numerous occasions that police caught him allegedly selling heroin, all they could do was return him to the home. Later, Jamal was moved to another facility but he ran away, according to news reports.

A best-selling book by an influential Berlin juvenile-court judge, Kirsten Heisig, has fueled the uproar over Jamal. Ms. Heisig claims, in "The End of Patience," that the "Arab drug mafia" in Germany is increasingly using juvenile dealers.

In her book, Ms. Heisig describes Berlin as a city afflicted by repeat offenders who are often less than 14 years old and many of whom have what Germans refer to as a Migrationshintergrund, or an immigration background. Some say she is exaggerating the problem. In Germany, she wrote, there are "nonnative people who never meant to blend in,

but have always lived in a parallel, in some cases purely criminally aligned structures, and in my view largely intend to keep at it."

Ms. Heisig, who as a judge advocated forceful sentences for juvenile offenders to maximize what she called the "learning effect," committed suicide in early July. Her book was published a few weeks later.

Recently, authorities in Berlin moved Jamal outside the city to a home surrounded by forests, where it is harder for him to run away and return to the streets. He is expected to have a court-ordered medical exam to confirm his age.

The boy is learning German and being tutored by Arabic-speaking employees, said Mr. Dreusicke, the head of the welfare organization caring for three child dealers. All three, Mr. Dreusicke added, want to return to the city and to their "income source."

The case has spurred some conservative German politicians to suggest that the age of criminal responsibility be lowered to age 12.

But Ms. Heisig, the juvenile-court judge, was against such a move.

"Please no!" she wrote in her book. "Then they'd start sending 10-year-olds."

Pressure mounts on Ireland's government

BY QUENTIN FOTTRILL

DUBLIN—Ireland's embattled ruling Fianna Fáil party, grappling with a banking and economic crisis, faced mounting pressure as a weekend poll showed less than one-fifth of the nation had confidence in the prime minister, and a member of the ruling coalition indicated he may not support proposed health-care cuts aimed at reducing the deficit.

Ireland, like other countries along the periphery of the euro zone, is grappling with large deficits, a sluggish economy and a more-challenging debt-financing market. Portugal is facing similar challenges; President Aníbal Cavaco Silva is planning to meet representatives of all parties on Tuesday and Wednesday to discuss the nation's fiscal crisis.

In Ireland, voters have been put on edge by the government's deep spending cuts—with more to come—even as a bank-rescue effort requires tens of billions of euros. The Sunday Business Post/Red C poll said only 19% of respondents had confidence in Prime Minister Brian Cowen, leader of the right-of-center Fianna Fáil party.

The weak poll showing comes after a performance in an early-morning radio interview this month where Mr. Cowen sounded groggy after being up late the night before at his party's annual "think-in" in Galway. Mr. Cowen later apologized.

Support for Fianna Fáil remained steady at 24% since a similar poll in June, placing the party in second place behind the Christian Democratic Fine Gael, which had 31% support, a fall of two points since June.

The Irish public is braced for a flagged minimum of €3 billion (\$4.05 billion) in cuts in Finance Minister Brian Lenihan's coming budget on Dec. 7.

The Sunday Business Post opinion poll comes on the back of growing disunity among some politicians who make up Fianna Fáil's already slim majority in parliament.

Parliamentary member Mattie McGrath—who is now an "independent" Fianna Fáil politician after voting against the government in a bill to ban stag hunting—told the Sunday Business Post he would withdraw his support for the Fianna Fáil-Green party coalition unless planned health cuts in his constituency in Tipperary were reversed.

U.S. seeks more trainers for Afghan mission

Continued from first page

Without specialized training, it will be difficult to make the Afghan security forces self-sustaining, Gen. Caldwell said. He will specifically ask for pilots to help train Afghanistan's air force, doctors to train medics, and European gendarmerie to supervise the national police forces. The U.S. will also ask NATO to send specialized military officers who can help the Afghans develop better intelligence analysis, equipment maintenance and logistics.

In all, the training command is seeking additional help to develop 15 different capabilities.

The allied military is trying to build logistics sustainment units, training hospitals, intelligence battalions and other organizations that require more training and education of Afghan security forces. The goal isn't just to offer the specialized trainers, but to train some Afghans so that they can eventually take over training in specialized fields.

Gen. Caldwell said he and other allied officers have overhauled the training effort over the past year, seeking to improve the quality of the instruction and increase the number of security forces put in the field. Previously, contractors hired

to provide initial training to local police didn't teach them how to drive or give lessons in marksmanship, a situation that Gen. Caldwell said his command has corrected. "There was no professional development or mentorship," he said.

In the past 10 months, NATO has trained nearly 100,000 people, four times as many as the U.S. military trained in a year, on average, between 2002 and 2009. Still, it needs to speed up the pace to meet its 2011 goal for the Afghan security-force buildup.

The training command is trying to reduce attrition by quickly identi-

fying units where soldiers are deserting or failing to re-enlist, then pressing Afghan leaders to make changes to the leadership of those units as needed to improve conditions. Gen. Caldwell said allied leaders are also looking at those units to make sure their partnership with international forces were strong. They also send out "mobile pay teams" to the units to make sure there are no problems with payroll.

He said trainers were also trying to change the attitude among Afghan security forces to the idea that their job was to "protect and serve, not to profit and be served."



Irish Prime Minister Brian Cowen

EUROPE NEWS

Unions sway Labour poll

By ALISTAIR MACDONALD

Ed Miliband was immediately met with two challenges after winning the U.K. Labour Party's leadership election with strong backing from unions: convincing Britain he won't steer the party too far left, and persuading David Miliband—the centrist brother he defeated to claim the leadership post—to join him in Labour's front ranks.

And as the U.K.'s new coalition government prepares for a round of tough cost-cutting meant to tame the country's huge budget deficit, the relatively unknown Mr. Miliband also faces an immediate demand to devise a credible deficit-reduction plan of his own. Mr. Miliband offered only vague plans during the campaign to replace Gordon Brown as Labour's leader, with the party out of power for the first time in 13 years.

Mr. Miliband's election was seen as a surprise. For most of the past few months, his better-known brother, former Foreign Secretary David Miliband, was seen as the front-runner to become Labour leader. Both men served in Mr. Brown's cabinet, but Ed Miliband had less high-profile roles.

The Labour leadership vote is divided roughly equally among the party's members of Parliament, its general membership and labor unions. Many supporters of David, the elder brother who narrowly lost by 1.3 percentage points on Saturday, were angry that the former foreign secretary had won the party vote but lost because trade unions voted for Ed.

"It didn't feel quite right, but a vote is a vote" and the party will rally behind Ed Miliband, said Denis MacShane, a former minister under Tony Blair.

The younger brother began his leadership in conciliatory mood, reaching out to David by repeatedly saying in public he loved him and telling middle-class Britons that he was also on their side.

Having been portrayed by some as "Red Ed" as he attacked the coalition government's deficit-reduction program, Mr. Miliband said in an interview that he wouldn't fight every government cut and was for the "center ground" in politics. Mr. Miliband admitted that if Labour had won May's general election, its austerity measures also would have led to public-sector layoffs.

In the summer-long leadership campaign, Ed Miliband advocated a clear break from the pro-market and pro-U.S. policies of Tony Blair's New Labour movement. He pitched himself as "the candidate of profound change," calling on the party to focus on winning back estranged traditional voters and reconnect with trade unions.

The Conservative Party leapt on the union backing Mr. Miliband enjoyed, saying he wasn't the choice of his party's membership and lawmakers but was put in to power by union votes.

In an interview with the British Broadcasting Corp. Mr. Miliband denied that the unions had got "their man."

"I am nobody's man. I am my own man," he said.

In a mark of how far Mr. Blair has changed the party, few are expecting anything but a slight leftward lean away from the formula that gave Labour a 13-year run in power.

"Ed very much has positioned himself rather cleverly [on the left]

but he left himself studiously ambiguous at all the right moments," said Prof. Steven Fielding, an expert on the Labour Party at the University of Nottingham. "It will be business as usual," he said.

Among Mr. Miliband's key positions are a promise to raise the U.K.'s minimum wage and to lower the threshold for the top tax bracket. Mr. Miliband also said Sunday that he would increase taxation on banks and maintain what was supposed to be a one-off bankers' bonus tax. But Mr. Miliband faces a five-year wait before he gets a chance of winning the power that

would allow him to enact such policies.

Few know who Ed Miliband is. His highest office in government was secretary of energy and climate change. But Mr. Cameron was an even greater unknown when he won the Conservative leadership contest in 2005. However, he was seen as a charismatic and skilled public speaker taking his party toward a more widely palatable centrist position. Mr. Miliband, a son of Marxist intellectual Ralph Miliband, lacks that charisma.

—Laurence Norman
contributed to this article.



Ed Miliband won the U.K. Labour Party's leadership election.

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U.S. NEWS



Meggan Haller for The Wall Street Journal

Brent deVilliers sets up umbrellas and beach chairs Friday in Orange Beach, Ala., for Suncoast Beach Services.

Alabama businesses irked by pace of spill payments

By Mike Esterl

Big gobs of oil have stopped washing up on Alabama's beaches since BP PLC plugged its runaway well, but tempers are rising in this Gulf Coast state amid allegations financial compensation isn't flowing fast enough after a lost summer.

Despite a sharp acceleration in payments in recent days, many tourism-dependent businesses said the oil-spill claims process hasn't improved and some said it has worsened since independent administrator Kenneth Feinberg took the reins of a \$20 billion BP-financed fund. Before that, the oil giant directly handled private-sector claims for lost income.

Boat-repair companies, beach-umbrella rental outfits and retailers along Alabama's 30-mile coast said they have been short-changed or not paid at all since filing claims after the April 20 spill sent revenue plunging. A local furniture store and a handful of restaurants have gone out of business in recent weeks, blaming fallout from the spill.

"Our businesses are hanging on by the skin of their teeth," said Tony Kennon, mayor of Orange Beach, a big tourist destination. He estimated tourism revenue was down 50% from last summer.

Recriminations also are flying between Gov. Bob Riley and Attorney General Troy King as BP withholds payment on the state's \$148 million claim for lost tax revenue from coastal communities, forcing Alabama to cut its September budget. Government entities continue to file claims directly to BP in the wake of the oil spill.

Mr. Riley said Mr. King, a fellow Republican, "recklessly" derailed negotiations with BP by filing a lawsuit last month against the oil giant. Mr. King said the governor hasn't been forceful enough with BP, acting like a "panhandler."

In an interview, the attorney general also called BP "dishonest and disingenuous" and Mr. Feinberg "a shill" for the U.K. company.

BP said in response: "BP remains committed to paying all legitimate government claims in Alabama."

Mr. Feinberg's private-sector

critics have been particularly vociferous in Alabama, whose coastal economy is more reliant on beach tourism than other affected states. Mr. King also is the only attorney general in the Gulf to file a lawsuit against BP; his counterparts in other states said they were sticking with negotiations for now.

Mr. Feinberg said in interviews Friday and Sunday that BP hasn't interfered with his work and pointed to a significant increase in payments in recent days.

As of Sunday morning, his Gulf Coast Claims Facility had distributed \$515 million to individuals and businesses in affected states since Aug. 23—up from \$349 million Thursday and eclipsing the \$396 million BP paid in the four previous months.

'In light of the criticism, I am accelerating payments,' said Kenneth Feinberg, who is in charge of the spill fund.

"In light of the criticism, I am accelerating payments and being more generous," Mr. Feinberg said on Sunday.

Mr. Feinberg said his fund was making processing of individual businesses more efficient by now grouping them in industry "clusters" such as fishing and tourism. He said thousands of claims in Alabama and other affected states have been held up because of "woefully inadequate" documentation of losses by claimants.

BP said it has made \$409 million in spill-related payments as of Friday to Alabama's government and private sector since April and "remains willing" to work with the state on outstanding claims while discussing its lawsuit. "These overlapping discussions have added to the complexity of the matter," BP said.

As of Saturday afternoon, Mr. Feinberg's fund had paid a combined \$66.7 million to 3,787 of the 5,958 businesses that filed claims in Alabama—up from \$45.6 million paid

as of Thursday. Some of these claims were rejected, but a greater number were under review or set aside because of inadequate documentation.

One of those recipients was Orange Beach Weddings, which specializes in beach nuptials. But co-owner Sheryl Lindsay says the company only received \$7,700 on Sept. 16 after putting in a claim for \$240,000, with no explanation for the discrepancy. "You can't talk to anybody," said Ms. Lindsay, adding she wasn't sure her company could pay a \$55,000 loan due in October.

Jeff Hardy, co-owner of Sand Dollar Lifestyles, said his clothing and shoe stores received \$5,000 from BP in June but nothing since then, despite providing more than 1,700 pages of documents. He hasn't been able to secure fall merchandise after suppliers cut off credit lines.

"I'm sitting here in the dark. I know nothing more than when I did June 15," after filing the first claim, said Mr. Hardy, who is seeking more than \$2 million in compensation. He has been told that his claim was taking time to go through all the documents he submitted.

Mr. Feinberg wouldn't comment on specific cases. He said he was implementing a more transparent process so claimants can get more information, including adding local staff in affected states. "I always said from Day One I would respond to criticism," he said Sunday.

Mr. Riley, the governor, said he was weighing options to help speed up the processing of private-sector claims, including sending the National Guard to coastal communities to provide extra manpower.

But he said it wasn't the right time to sue BP, even after slashing the state's education budget for September by \$116 million to around \$300 million because of lower tax revenue from coastal communities.

Mr. King said his relationship with Mr. Riley was deteriorating and that the governor hasn't spoken with him since the spring. "He prefers to send letters," Mr. King said.

Mr. Riley said he couldn't remember the last time he spoke with Mr. King. "It's nothing personal," he said.

An idea to stop the cycles that lead to economic busts

[The Outlook]

By DAMIAN PALETTA

Regulators have tried—and failed—for years to find a policy to prevent the tornado-like cycles that can turn a mild banking slump into an economy-shaking crisis.

Here's the problem: When borrowers default on loans, those losses eat into a bank's capital. The bank, under pressure from regulators to protect its eroded capital, stops lending. That, in turn, can force corporate borrowers to shrink and lay off workers. Those workers default on credit cards and other loans, further eroding bank capital. So banks lend even less. Next thing you know unemployment is up, access to credit is down, banks fail, foreclosures skyrocket.

It's called "pro-cyclicality"—a tendency of banks and the regulations that govern them to exacerbate the cycle, both the ups and the downs. It's a feature of today's international financial system that regulators have been unable to excise.

One solution: Get banks to arrange capital in good times that can be tapped in times of stress. This protects them from having to reach out to investors during times of stress, which usually makes the process much more costly. That is, make the system "countercyclical," muffling rather than amplifying the all-too-familiar cycle.

Forcing banks to raise a lot of equity capital in advance is one fix, but that has its costs, as it could dilute the value of existing investors' shares. So some regulators and academics think they have a clever compromise: hybrid debt known as contingent capital, or "coco." It's sold as interest-bearing debt that has to be paid back. But in tough times it automatically converts to equity with all the risks that implies, thus bolstering bank's balance sheet and avoiding urgent taxpayer bailouts.

The idea sounds good. But after more than a year of study, regulators are stumped on the details. Would coco work in a crisis? Or does it make sense on paper but at risk of disintegrating if subjected to market forces?

Here's why some like it:

Supporters believe requiring large banks to issue a certain amount of this convertible debt to investors would achieve multiple objectives. It asserts market discipline over banks: The cost of issuing this debt would rise if markets anticipated it would be converted to equity. It also serves as an emergency capital injection, pumping reserves into a bank to stabilize it and protect it from insolvency.

Large banks would be required to sell a certain amount of this convertible debt to investors. Investors would know the debt could be converted to equity—shares—in an emergency and would factor into the price they would pay for this convertible debt the risk that the investments could be wiped out.

If banks found themselves in desperate need of capital, they would convert this debt into equity. Banks wouldn't have to go to the market to sell shares or plead for government money. And banks could continue lending and sell shares in the equity markets after things stabilized.

Voila. Cycle broken, right?

Here's why some hate the idea:

Things get murky in the details. At what point does the debt convert to equity, and whose decision is that? Should there be a pre-specified trigger, such as the bank's stock price, that determines when the debt holders become shareholders?

Is there some secret formula regulators keep privately to prevent debt holders from bolting when a bank hits the rocks? Would a decision be in the hands of one regulator? Multiple regulators? Would it be up to the bank? Could shareholders sue? Could debt holders?

Could there be an industrywide trigger that somehow forced a swath of banks to convert their debt to equity all at once? And are banks allowed to count this hybrid debt as capital before they have converted it?

Perhaps most importantly, would it work? Would the market breathe a sigh of relief if a bank converted its debt to equity, or would everyone run for the exits because the bank seemed to be teetering? These are all questions that regulators are struggling to answer.

If contingent capital didn't work, regulators would have placed a lot of faith in a faulty tool, potentially leaving them less prepared to disrupt a down cycle through other means.

At this point, coco is much more than an academic exercise. The Dodd-Frank financial-rules overhaul gives the Federal Reserve the power to impose contingent-capital requirements on large banks if a study by a new council of regulators determines that the method can work.

The concept is getting international attention, too. The Basel Committee of Bank Supervisors this month described it as part of "a well-integrated approach to systemically important financial institutions," in other words, those banks deemed too big to fail.

Bankers are split on the concept: Some like it, including Goldman Sachs Group Inc. chief Lloyd Blankfein; many others don't. Some investors doubt there will be a market for cocos; academic proponents say at some price there is always a market. While many regulators are intrigued—among them Dan Tarullo, the Fed's banking czar, and William Dudley, president of the Federal Reserve Bank of New York—a few are skeptical behind the scenes.

But unless some alternative arrives, contingent capital could be a central part of changes to the financial system aimed at finding ways to put investors—not taxpayers—on the hook the next time a big bank goes to the brink.

WORLD NEWS

Settlement moratorium in West Bank set to end

By JOSHUA MITNICK

TEL AVIV—Jewish settlers marked the last day of Israel's construction moratorium in the West Bank with celebrations and vows to build at full steam on Monday, with no sign of a resolution to a dispute over settlement expansion that threatens to undermine the newly restarted Israeli-Palestinian peace talks.

Israel has said that it plans to allow new building in the West Bank settlements after the freeze expires at midnight. Meanwhile, the Palestinians warn that a resumption of construction would force them to pull out of the U.S.-sponsored negotiations on the creation of an independent state. Representatives of the three sides held talks throughout the weekend in New York with no sign of progress on a last-minute compromise.

Israeli Defense Minister Ehud Barak, who participated in the talks,

speculated that there is a "50-50" chance of reaching a deal on the freeze, in an interview with the British Broadcasting Corp. Prime Minister Benjamin Netanyahu in Jerusalem refrained from commenting on the freeze talks and asked pro-settler groups to tone down their celebration.

In an address to the United Nations General Assembly on Saturday, Palestinian President Mahmoud Abbas said that Israel must choose between the settlements or the peace negotiations. The Palestinians argue that settlement expansion amid negotiations is a sign of bad faith in the talks and infringes on the territory they claim as a future state.

David Axelrod, a senior adviser to President Barack Obama, urged both sides to remain at the negotiating table despite the deadline. In an interview with ABC's "This Week," he said that there's a "rare" and "unparalleled opportunity" for an agreement.

President Obama pressed Israel publicly last week to extend its moratorium to boost Palestinian confidence in the talks. At the same time, he has called on Mr. Abbas not to abandon the talks over the freeze.

At two festival-like ceremonies in settlements in northern central West Bank, supporters of the settlers counted down the end of the freeze, released blue and white balloons into the air, and laid the foundation of a new child-care center. Settler leaders and pro-settlement allies of Mr. Netanyahu said there is no plan to heed the U.S. request to extend the freeze.

A statement from Mr. Netanyahu's spokesman called on the settlers and political allies to show "restraint and responsibility today and on the path ahead."

If the compromise talks collapse, a potential wave of new construction starts could test the political will of both leaders in the coming weeks.



Jewish settlers lay the foundation of a child-care center in the West Bank.

Associated Press

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WORLD NEWS

Troubled waters | East China Sea collision sets off waves of tension

SEPT. 7: A Chinese fishing trawler collides with two Japanese coast guard patrol vessels in disputed waters in the East China Sea.

SEPT. 8: Tokyo lodges a complaint with China's ambassador to Japan over the incident. Beijing protests the detention of the captain and the crew.

SEPT. 13: Japan frees the Chinese crew, but continues to hold the captain.

SEPT. 14: Naoto Kan fends off a political challenge to remain as Japan's premier and leader of the Democratic



A Chinese fishing boat was seized near islands claimed by both Japan and China on Sept. 7.

Party of Japan.

SEPT. 18: The anniversary of a 1931 incident that led to the Japanese

occupation of China is marked by anti-Japan protests in several cities across China.

SEPT. 19: Japan extends the captain's detention. Beijing suspends high-level government exchanges with Tokyo.

SEPT. 20: Toyota Motor Corp.'s auto-finance unit is notified by local Chinese authorities it may be fined in a commercial dispute. China begins discouraging travel to Japan.

SEPT. 21: Chinese Premier Wen Jiabao urges the captain's immediate and unconditional release.

SEPT. 23: The Obama administration presses the two countries to resolve the dispute.

SEPT. 24: Japanese prosecutors say they will release the captain.



Chinese protesters march toward the Japanese Embassy in Beijing Sept. 8.

SEPT. 25: The captain leaves Japan on a plane sent by China. Japan's foreign ministry rejects China's demand for apology and compensation.

Photos: Agence France-Presse/Getty Images (ship); Associated Press (protesters)

Tensions rise in Japan over China rift

Tensions between Japan and China continued to simmer even after Japan bowed to Beijing's demands to release a detained Chinese fishing-boat captain, suggesting the episode could mark the start of a new period of friction between the Asian neighbors, with unpredictable consequences for regional stability.

By Ayai Tomisawa in Tokyo and Jeremy Page in Beijing

Opposition politicians and the Japanese media hammered Prime Minister Naoto Kan's government after prosecutors' decision to free the trawler captain, Zhan Qixiong, whose vessel rammed into Japanese coast-guard patrol boats near disputed islands. They accused the government of handling the incident in a way that portrayed Japan as weak and succumbing to pressure from China.

There were scattered signs of more extreme anger from Japan's small group of right-wing activists. On Sunday, a 20-year-old man was arrested after he threw what appeared to be a flare at the Chinese Consulate General in Nagasaki, police said. No injuries were reported. On Saturday, a 32-year-old man was arrested near the prime minister's office with a bag containing a kitchen knife, Kyodo News Service reported. The man told the police he had come to protest the captain's release, Kyodo said. That arrest couldn't be independently confirmed.

In China, nationalistic media fanned the flames. The Global Times

ran a blog post on its website by a political scholar at Fudan University, Yi Tianfeng, which portrayed the incident as part of a struggle for supremacy. "The gaming between China and Japan will be a protracted war," Mr. Yi wrote, arguing that an economically vibrant China eventually would gain an edge on a stagnating Japan both politically and militarily.

"The damage to the good momentum of China-Japan relations has once again exposed Japan's serious misunderstandings—and ignominious plots—in dealing with China," said a commentary in the People's Daily, the voice of the Communist Party.

China demanded Saturday that Japan apologize for the incident, suggesting that China's steadily intensifying actions against Japan over the past 2½ weeks—from curbing diplomatic exchanges to scaling back commercial activity—may not abate. "China of course has the right to demand Japan apologize and make compensation," Chinese Foreign Ministry spokeswoman Jiang Yu said in a statement.

Japan's foreign ministry rejected the demand using equally stern language. "The demand by the Chinese side for an apology and compensation is completely groundless and is utterly unacceptable to Japan," that statement said.

Earlier, Japan's new foreign minister had suggested that the incident had prompted Japan to re-evaluate its strategic priorities.

Seiji Maehara told The Wall Street Journal in an interview on the

sidelines of the United Nations General Assembly in New York that Tokyo would participate in a broader "strategic dialogue" with the U.S., "cooperating more closely" on policy toward China, North Korea, Iran and other countries. "Countries the world over watched how China reacted," he said.

The dispute centers around a chain of uninhabited islands known as Senkaku in Japan and Diaoyu in Chinese. The tiny archipelago is located between Taiwan and Okinawa in southern Japan, and is under Japanese control, though China and Taiwan also claim possession of the ter-

Japanese government officials denied any political influence on the prosecutors' decision.

ritory. Japan says its arrest and detention of the captain was the proper enforcement of domestic laws on domestic territory, while the Chinese have said Japan improperly punished a Chinese national who was in Chinese territory.

In the days following the captain's Sept. 7 detention, public reaction in Japan was considerably more muted than in China. But the captain's release has triggered harsh political criticism against the three-month-old Kan administration, raising new questions about the ruling Democratic Party of Japan's ability to

navigate choppy diplomatic waters.

An editorial Saturday in the Yomiuri Shimbun newspaper blasted the captain's release as "a political decision that put the mending of Japan-China relations as a priority." It added: "It is inconsistent, as investigative authorities cited the malign nature of the incident to explain the arrest and detention of the skipper."

Prosecutors decided Friday to release the captain without taking further legal action against him for now. The Naha District Public Prosecutors Office in Okinawa Prefecture, which was investigating the captain, said: "The impact on the people of this nation and the future of Japan-China relations were taken into consideration."

Japanese government officials, including Prime Minister Kan, denied any political influence on the prosecutors' decision, but local media said there was no doubt the issue was settled in a political decision with national government input.

"To begin with, prosecutors are not authorized to determine what kind of 'future Japan-China ties' are desirable," said Japanese business daily the Nikkei Shimbun. The Mainichi Shimbun shared that view in its editorial, saying it was "odd" for the prosecutors to refer to "diplomatic considerations" in releasing the captain and that it contradicted the government stance that the issue would be handled in accordance with the law.

The criticism by the Japanese papers was echoed by opposition party members on NHK, the public broad-

caster. "What message did Tokyo send to other Asian nations which have territorial disputes [with China]?" said Nobuteru Ishihara, secretary-general of the Liberal Democratic Party, the largest opposition bloc. He added that the decision would also confuse members of the Japanese coast guards who are on duty at sea. "What should they do if China again illegally enters our territorial waters?"

Several Chinese experts said they thought Japan had taken an unusually firm line against Beijing and delayed the captain's release as part of a broader regional trend, encouraged by the U.S., to stand up to an increasingly assertive China.

But they appeared divided on how China should respond, with some calling for stronger punitive measures against Japan, and others advocating a less confrontational approach toward foreign policy, especially territorial issues.

Li Guoqiang, an expert on territorial issues at the Chinese Academy of Social Sciences, said the captain's release was a victory for Chinese diplomacy, and showed that such crises were best resolved through dialogue. "The official protests and other actions taken by the Chinese government were successful," he said. "This already shows other countries in the region that there will be consequences for this kind of behavior. But I do not agree that it is necessary to take stronger measures against Japan."

—Sue Feng in Beijing contributed to this article.

Pipeline heralds new era for Russia, China

BY JEREMY PAGE

The leaders of China and Russia are due Monday to celebrate the completion of the first oil pipeline between the giant neighbors, heralding a new era of energy cooperation and another symbolic eastward shift in the global balance of economic power.

Hu Jintao, China's president, and his Russian counterpart, Dmitry

Medvedev, are scheduled to attend a ceremony in Beijing to mark the opening of the Chinese section of the pipeline, which stretches from Skovorodino in eastern Siberia to Daqing in northeastern China.

Russian oil is set to start flowing later this month to China, which will receive 300,000 barrels a day for the next two decades under a \$25 billion loan-for-oil agreement.

The pipeline's completion sym-

bolizes a new phase of relations between Russia and China after decades of mutual distrust dating back to a bitter row over Communist ideology in 1956.

It also reflects a shift toward closer commercial and political ties between two of the world's largest emerging economies after two decades in which relations were largely restricted to Russian arms sales to China, and opportunistic

anti-American cooperation in international bodies.

Driving the relationship now is Russia's desire to divert more of its energy exports away from Europe, its traditional market, and into China and other fast-growing Asian economies. Beijing wants to improve its energy security by diversifying sources and supply routes.

The pipeline is expected to double Russian oil exports to

China—now transported mainly via a slow and expensive railway route—and to make Russia one of China's top three crude-oil suppliers, alongside Saudi Arabia and Angola.

Messrs. Hu and Medvedev also are expected to discuss a gas-supply deal, which Russia says could be finalized next year, and an agreement last month to build a \$5 billion joint-venture oil refinery in China's eastern city of Tianjin.

WORLD NEWS

Food prices rise as Asia projects lag

By PATRICK BARTA

TUGUEGARAO, Philippines—Failure to boost farm investment in poor countries after a global food crisis in 2007 and 2008 could prolong a recent jump in food prices, contributing to inflation in the developing world.

In the wake of the 2008 crisis, governments of developing countries and donor nations, as well as private investors, proposed a wealth of new spending, and industrialized nations committed billions of dollars to promote sustainable agriculture and emergency food assistance, notes a report to be released Monday by the Asia Society and the International Rice Research Institute in the Philippines. The efforts included plans to develop unused or underused lands to farming in the Philippines, Cambodia and Indonesia and to expand farm roads and grain-storage infrastructure in India.

Some countries with well-developed agricultural markets, including the U.S., have significantly boosted production. But in Asia, the source of much of the world's new food demand, some projects aimed at increasing production have been dropped or delayed amid the financial crisis, limiting the gains. Disputes over land ownership, lack of capital and concerns over environmental issues have held back other investments.

After a drought led Russia to ban wheat exports, wheat and corn prices have climbed more than 40%



A farmer harvests rice in Thailand.

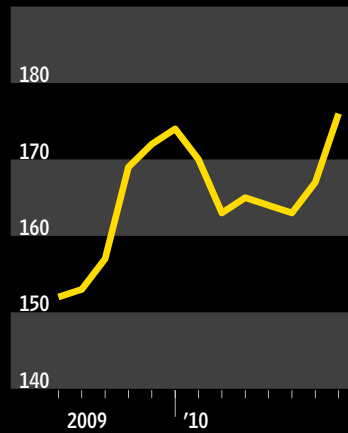
since late June. The price of rice is also rising, though not as dramatically. Economists say they doubt prices will get as far out of hand as in 2008, when rice prices were higher and food riots broke out in regions from Haiti to Cairo to Jakarta. Grain reserves are bigger now, and the weaker global economy is keeping inflation lower.

Still, the latest food-price increases are causing worry in some poor countries, where food comprises a larger part of consumers' budgets. On Friday, Vietnam said its consumer-price index rose 8.92% in

Lean harvest

Food prices are rising again...

FAO food-price index



Sources: Food and Agriculture Organization; U.S. Department of Agriculture

...While land for key crops in some areas continues to disappear...

Area harvested for rice in East Asia

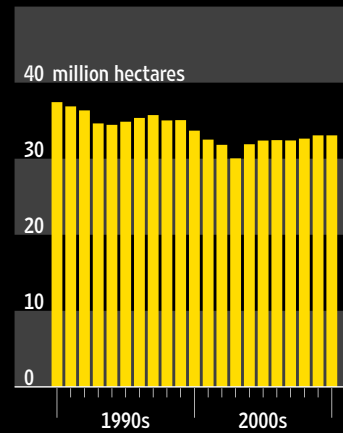


Photo: Bloomberg News

September from a year earlier, an acceleration from 8.18% in August, in part because of high food prices. Inflation has ticked up, in part because of food prices, in other Asian countries in recent months.

Analysts say that even if grain prices come back down, their climb—in a year of relatively weak global growth with expectations of the third-largest cereals crop on record—is a reminder that producers still aren't investing enough to keep up with demand in Asia.

"We have seen very little concrete investment in serious long-

term infrastructure in developing countries" since 2008, says Maximo Torero, an analyst at the International Food Policy Research Institute in Washington.

Developing countries will need to boost agricultural investment to \$209 billion a year, up 47% from the annual average between 1997 and 2007, to meet growing demand for food, the report from the Asia Society and the IRRI says.

That report comes on the heels of a special United Nations meeting on Friday in Rome, where delegates concluded that unexpected price

spikes "are a major threat to food security," although they said there was currently no indication of an impending global food crisis.

This year's surge in food prices shows that "2008 was not just a blip, this is the way things will be, with repeated shocks" in the years to come, says Robert Zeigler, director general of the International Rice Research Institute.

In Indonesia, progress has been slow on Merauke, a food estate on the remote province of Papua backed by a host of private-sector investors. Envisioned in 2007 and 2008 as a way to help Indonesia follow the lead of Brazil, a major food supplier to China, the Connecticut-sized farm project wasn't formally launched until February this year, and many of its major components have been delayed amid worries over their environmental impact and a lack of infrastructure.

The Philippines, the world's biggest rice importer, has extensive unused fertile lands, including forest areas cleared by loggers in earlier decades. Political leaders have vowed repeatedly to make the country self-sufficient in food, partly by utilizing those areas.

But after developing new land earlier in the decade, the area harvested for rice and corn has decreased slightly over the past two years. In 2000, the Philippines produced about 92% of its rice needs; today, it produces about 79%.

—Josephine Cuneta
contributed to this article.

Computer worm hits Iranian plant

By SIOBHAN GORMAN

WASHINGTON—Computer systems at Iran's first nuclear-power plant have been infected with a potent worm capable of taking the systems over, Iranian officials said, citing the most significant example to date of the potential danger posed by the so-called Stuxnet worm.

The development further fueled suspicions that the worm, which was discovered in July and has disproportionately hit facilities in Iran, was designed to attack Iranian nuclear facilities.

"Studies conducted show some personal computers of the Bushehr nuclear-power plant workers are infected with the virus," the facility's project manager, Mahmoud Jafari, told Iran's official Islamic Republic News Agency. He said the virus hasn't caused major damage and wouldn't affect the scheduled completion of the plant next month.

James Lewis, a cybersecurity specialist at the Center for Strategic and International Studies in Washington, said that while it isn't clear whether Iran was specifically targeted by the Stuxnet worm, leading suspects in mounting such an attack would include Israel, the U.S., and the U.K. In addition, Russia, France and Germany would also have the capability to conduct this type of attack, said Mr. Lewis, who frequently advises the Obama administration. "Bushehr is a good target for compromise," he said. "The Iranians should be worried."

Researchers at the U.S. computer

security company Symantec Corp. found that about 60% of the Stuxnet infections have hit computer systems in Iran. A large number of systems in Indonesia and India also have been affected.

There have been no reports of infections in the U.S. The U.S. Department of Homeland Security has been studying the worm since July, and in its tests so far hasn't seen the worm actually manipulate or destroy a computer control system, said Sean McGurk, who heads the department's control systems program.

The worm has targeted the Siemens industrial control systems that are used in Iranian and other countries' facilities, by exploiting a security gap in Microsoft Windows. Siemens and Microsoft Corp. have issued patches to close that gap.

The acknowledgment of the infiltration at Bushehr followed another revelation over the weekend that an Iranian investigation found that Stuxnet had infected 30,000 computers running industrial control systems, the director of Iran's Information Technology Council of the Industries and Mines Ministry told another Iranian news agency on Saturday. "An electronic war has been launched against Iran," the director, Mahmoud Liaii, said.

U.S. officials have said they are alarmed by the worm's emergence because it represents the first publicly acknowledged set of attacks targeting computer control systems. It has the capability to steal data about a system and adapt on its own to evade detection.

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Please join us in congratulating the newest members, and all members, of the Dow Jones Sustainability IndexesSM. To view the complete list of component companies, visit www.sustainability-indexes.com today.

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INTERVIEW

Taking hold of liquid assets

Suez Environnement's CEO taps opportunities amid escalating water shortages; a particular thirst for China

[Jean-Louis Chaussade]

By GERALDINE AMIEL

PARIS—Jean-Louis Chaussade, the chief executive of **Suez Environnement SA**, sees the world in terms of water: The map is becoming arid and full of opportunity.

As the world's population grows and migrates to cities, water shortages are happening in places where scarcity was unthinkable only five years ago, such as the Spanish coast. Even London, at the heart of notoriously rainy Britain, is described by the U.K. Environment Agency as "seriously water stressed."

And in March 2009, a report by the World Economic Forum, which organizes the annual Davos summit meetings of international business and financial leaders, said lack of water would "soon tear into various parts of the global economic system" and "start to emerge as a headline geopolitical issue."

The problem is one of arithmetic. The world's population, which was two billion at the start of the 20th century, is forecast to increase to nine billion people by 2050, while fresh-water supplies remain flat. Fragile zones are emerging," Mr. Chaussade says during an interview in his office in central Paris. "These are obvious drivers to keep developing Suez Environnement."

The company is eager for the new business. Suez Environnement, the world's second-largest water utility by revenue, after French rival **Veolia Environnement**, integrated Spanish utility **Aguas de Barcelona**, or **Agbar**, earlier this year.

Four years ago, 20% of Suez Environnement's revenue came from outside Europe. Last year, that climbed to 25% as the group expanded into the Asian-Pacific region. But Mr. Chaussade also is cautious. Because water is an essential resource, governments regulate the business heavily and sometimes make surprise decisions.

Last year the Paris city government decided not to renew its contract with Suez Environnement and Veolia, even though the companies had invested heavily in their networks. Suez and Veolia had serviced the Right and Left banks, respectively.

And in 2006, Suez Environnement had to abandon its business in Argentina when the government refused to allow tariff increases and then took over the company's assets without paying compensation. The company is seeking arbitration as it tries to recover from the debacle.

Despite the dispute, Mr. Chaussade says he is happy to have worked in Argentina. "Argentina gave me an unshakable faith in what we do," he says. "We brought water to two million people. You should have seen the 'water feasts,' when communities organized public parties to celebrate the arrival of water in their districts.

"We will keep growing aggressively," Mr. Chaussade adds, "but not without caution."

China is the country most prominent on Suez Environnement's radar. Mr. Chaussade says waste and water businesses typically expand about two to three percentage points above a country's growth in gross domestic product. Given China's extraordinary growth over the past 25 years, that represents significant potential for new water business. What's more, he says, after years of rapid industrialization, "the Chinese are more and more concerned by the quality of their environment."

Suez Environnement now has a network of about 30 joint ventures with a Chinese partner, **New World HK**. It prefers to take a management role in these ventures instead of investing heavily, because of uncertainties over the future regulatory environment. As a result, out of about €1 billion, or \$1.35 billion, in revenue from China, the



Jean-Louis Chaussade, Suez Environnement's CEO, in London earlier this year.

company's share is only about €250 million.

Mr. Chaussade, 59 years old, trained as an engineer and is a graduate of Harvard Business School. He worked for water company **Degrémont**, later acquired by Suez, before being appointed chief operating officer for the group in South America. He has led the entire company since 2008.

Suez Environnement, which supplies as many as 90 million people with drinking water, started as a local water and electricity company in Lyons, France, in 1880. It was acquired in 1974 by investment fund **Financière de Suez**, the successor of the company that dug the Suez Canal in the 1860s.

Suez merged with natural-gas operator **Gaz de France** in 2008, creating power company **GDF Suez** and Suez Environnement, which runs waste-processing and water operations. Suez Environnement's first-half revenue this year rose 10% to €6.6 billion. Net profit more than doubled to €386 million. Key contributions came from

acquisitions over the past 18 months, such as **Agbar**. Partly because of the legal and regulatory sensitivities of its business, Suez Environnement still has its biggest presence in Europe and North America, which represent about 85% of group revenue.

Water is an increasingly scarce resource. In 2008, Barcelona was so short of water it had to import emergency supplies by ship. Suez Environnement has since built in Barcelona one of Europe's biggest desalination plants. U.K. peer **Thames Water** adopted a similar solution at Beckton in East London, amid reduced flow in England's rivers, Mr. Chaussade says.

But desalination plants, which are energy-intensive, aren't the sole solution to water shortages. The preferred technology lies in reuse plants that filter and treat water for farming—which accounts for three-quarters of the world's consumption—without tapping fresh groundwater resources. A reuse plant built in Milan by Suez Environ-

nement in 2007 produces 350,000 cubic meters of fresh water per day. It is the biggest in Europe, has effectively ended Milan's annual summer water dearth.

Mr. Chaussade says one of the most important elements in maintaining water supplies is education about water's scarcity. In California, where Suez Environnement operates a water-treatment center for the West Basin, awareness of the need for water management is high, he says. "There's a 'water culture' there, a strong awareness that rivers are drying out." But on the U.S. East Coast, he adds, "people are used to having water—they don't think further, they don't think about future generations."

Mr. Chaussade says he prefers thinking for the long term. His main hobby is planting trees in his garden and watching them grow, imagining what people will think of them in 100 years. "The garden must be beautiful when you create it," he says. "It must remain so when you're gone."