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Blair says nations must confront Iran on nukes

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Venice rows back in time



Reuters

Citizens in historical dress row down Venice's Grand Canal on Sunday, led by the famous Bucintoro boat, from the Doge's Palace to the Rialto bridge. The Regata Storica takes place every September.

Deadly attack in Baghdad targets army

By SAM DAGHER

BAGHDAD—At least 18 people, including five suicide bombers and one other assailant, were killed and 36 others were wounded Sunday in what officials here called a sophisticated attack against Iraqi army facilities in central Baghdad, just days after the U.S. ended its combat mission.

The late-morning attack occurred in Maidan Square, where a suicide bomber blew himself up last month among crowds of young men lined up for an army recruitment drive. That attack killed nearly 50. The Islamic State of Iraq, a group linked to al-Qaeda, claimed responsibility.

In Sunday's attack, a "group consisting of five terrorists wearing suicide vests and on board an explosives-rigged Kia bus approached the back door of the old Ministry of Defense building," according to a statement by the Baghdad Operations Com-

mand, the government task force in charge of security in the capital.

The building serves as the headquarters of the 43rd Brigade of the Iraqi army's 11th Division, and includes Iraqi military and security installations, such as the command center for Baghdad's east side.

Soldiers staffing a checkpoint off the square shot and killed a suicide bomber who tried to approach them. They then killed two others inside the vehicle, including the driver, before the bus exploded, the statement said.

Two suicide bombers managed to flee to an empty building nearby. It was surrounded by Iraqi soldiers who fired at the bombers before "they were blown up" inside the building, the statement added. It didn't make clear the cause of the explosion.

The official version of events couldn't be immediately verified from other gov-

ernment sources. A spokesman for the Ministry of Defense said he had orders not to discuss the attack with Western media outlets.

There was no comment by U.S. forces in Iraq, nor any immediate claims of responsibility from the Islamic State of Iraq or any other group.

The attack comes four days after the U.S. military marked the official end of its combat mission in Iraq and the start of a new phase for the American presence here. American troop strength is now estimated at about 50,000 soldiers.

Under the new arrangements, Iraqi forces are to take the lead when it comes to security, while American diplomats will be in charge of implementing Washington's strategy in Iraq. All U.S. forces are scheduled to leave Iraq by the end of 2011.

"Violence, uncertainty and risks to our strategy are not Please turn to page 4

The Quirk



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Editorial Opinion

Jules Kroll on corruption and the business opportunities it presents. Page 12

Basque separatist ETA announces a cease-fire

By JONATHAN HOUSE

MADRID—Basque armed separatist group ETA has declared a cease-fire after several months in which political parties close to it have been calling on its members to renounce violence.

In a statement published Sunday by Gara, a daily newspaper that is a frequent mouthpiece for the group, ETA said it "made the decision several months ago to not carry out armed actions."

The new cease-fire would be the latest of many declared over the years. ETA is considered a terrorist organization by the European Union and the U.S., and is held responsi-

ble for the deaths of 829 people in more than 40 years of a violent campaign for the independence of the Basque region in northeast Spain and southwest France.

Spanish government officials declined to comment immediately. A spokesman for Interior Minister Alfredo Pérez Rubalcaba said the minister was studying ETA's statement and was consulting with other officials.

Leire Pajín, spokeswoman for the ruling Socialist Party, however, said ETA's move was "clearly insufficient." In an interview with Cadena Ser radio station, Ms. Pajín said: "Spanish society, in a democracy such as ours, demands that

ETA completely surrender its arms and dissolve itself."

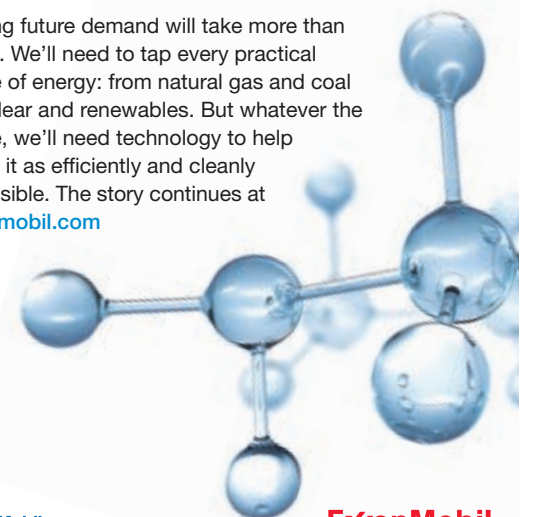
The Spanish government requires the group lay down its arms before any type of negotiation.

At a meeting with journalists, Rodolfo Ares, interior minister for the Basque regional government, also called the ETA statement "insufficient."

The group's last truce, in March 2006, raised high hopes of negotiating a peaceful settlement to the separatist conflict. It was broken when ETA placed a car bomb in a parking lot at Madrid's international airport in December that year, killing two Ecuadorean immigrants.

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PAGE TWO

European finance ministers should keep the champagne firmly on ice

[Agenda]

By IRWIN STELZER



Jean-Claude Trichet, president of the European Central Bank, has raised his forecast for growth in the

EU area for the rest of this year from 1.0% to 1.6%. But Europeans should not uncork the champagne just yet. Mr. Trichet expects the EU economy to grow more slowly in 2011, at a rate of 1.4%. Jürgen Michels of Citigroup Global Markets thinks that's a tad optimistic, and expects growth this year to reach only 1.4%, and in 2011 to fall to 1.2%. But economists at Goldman Sachs are more optimistic than Mr. Trichet. Their crystal ball shows growth of 1.7% and 2.4% this year and next.

In trying to wade through these at-times-conflicting forecasts, it is best to keep in mind that the total performances of the European and euro-zone economies are composites of what is going on in the 27 and 16 separate countries, respectively. Markit notes that euro-zone manufacturing production and new orders rose last month, although at a slower rate than in the recent past, but that "Marked disparities ... remained between the performances of the national manufacturing sectors." Which is one reason why Mr. Trichet's decision to keep interest rates at 1% will please sinking Spain but make soaring Germany, ever fearful of inflation, uneasy.

That is not the only reason Germany's rulers are unhappy. Indeed, in the unlikely event that Germany's super-serious Chancellor Angela Merkel was a fan of, or even heard of the "Carry On" movies, she might be chanting their most famous line, "Infamy, infamy, they've all got it in for me." She has piloted her economy



Jean-Claude Trichet, the European Central Bank President, in Italy on Saturday.

to a spectacular near-9% growth rate in the second quarter, and driven unemployment to a relatively low 7.6%. Yet polls

Markets are saying that their lack of confidence in Greece remains undiminished.

suggest that if an election were held today, the opposition would take the reins from Ms. Merkel's increasingly fractious coalition.

Ms. Merkel's woes haven't been relieved by forecasts that the German economy will continue to outpace those of its euroland partners. Which it will, for three reasons. First, earlier reports of a slowdown in China, an important market for German exports, proved to be unduly pessimistic. Second, growth in exports is for the first time being supplemented by growth in domestic consumption, suggesting that a feel-good factor is seeping through the hard shell of German frugality. Finally, Germany might, only

might, have found the formula for austerity-plus-growth.

German Finance Minister Wolfgang Schäuble says that a combination of spending cuts and carefully crafted tax increases (on airline tickets, financial transactions, and nuclear fuel rods) will reduce Germany's deficit while allowing the economy to remain "Europe's growth engine." Mr. Schäuble is so pleased with himself that he offered to share his recipe for success with U.S. Treasury Secretary Timothy Geithner, presiding over eye-watering budget deficits and stubbornly high unemployment. Mr. Geithner's response, if there was one, has gone unrecorded.

Mr. Schäuble's optimism extends to the EU area. He believes that "everyone in Europe" will be contributing to future growth. If that were true the finance ministers meeting in Brussels this week would have little to do except regale each other with tales of their vacation activities. That is not to be.

For one thing, it is not at all clear that the strong growth recorded in Germany and France can be maintained in the face of

weakness in Ireland, Spain, Greece, and Portugal, and the impending tightening of the spending spigots in Britain. Andrew Harker, economist at Markit, doubts that the recent modest improvement in Spanish manufacturing will be maintained at its current rate, and notes that three years of job shedding "highlight[s] the severity of the problems in the Spanish labor market," in which the unemployment rate has hit 20.3%.

So, too, with Britain, about to launch the mother of all austerity programs if its coalition government's spin doctors are to be believed. And Italy. True, Italy's manufacturing sector has grown for ten consecutive months, but that growth is definitely slowing, probably to an annual rate in the neighborhood of only 1%.

More important, the ministers, tanned, rested and believing themselves ready for anything after their summer respite, are about to learn, re-learn to be precise, that all of their ministerial cars, staffs, secret briefing papers and other symbols of office pale into insignificance in the face of markets, which do not take vacations.

Despite the massive bailout of Greece, and the promise of more support to come for the ailing members of euroland, the markets are saying that their lack of confidence in Greece remains undiminished, as does their fear that in the end the ministers will not be able to prevent Greece, its economy expected to contract by 4% next year, from restructuring its debt. With Spain perhaps next in line to do the same.

True, the International Monetary Fund says that such default is "unnecessary, undesirable and unlikely." Markets disagree, and fighting the market is rarely the road to riches.

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

What's News

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■ **Former H-P CEO Hurd** is in talks to join Oracle as a top executive, though discussions aren't complete and it is possible Hurd's hiring could still fall through. 17

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NEWS

Black days for the London taxi

BY JAVIER ESPINOZA

LONDON—London's black cabs might be as iconic as Big Ben, but in a city that has seen other much-loved symbols such as red telephone boxes and Routemaster double-decker buses almost disappear, being iconic is no guarantee of a future.

London's famous licensed taxis, whose origins go back 350 years, are, along with their drivers, facing stronger competition from rivals.

What make London's taxis so special are the tight restrictions on the kind of vehicle that can be used and the extremely rigorous exams on the city's topography that licensed drivers must pass. But new technology threatens both the distinctive purpose-built vehicles and their drivers who know every alleyway in Europe's largest city.

After the collapse of Metrocab in 2006, only one company, **London Taxis International**, a division of **Manganese Bronze Holdings PLC**, built a vehicle that met London's stringent Conditions of Fitness, which lay down standards vehicles must meet to be used as cabs. The hardest of these rules is a maximum 25-foot (7.5-meter) turning circle, which allows taxis to make U-turns in city streets laid out in the days of horse-drawn carriages. LTI, which has a 60-year history of cab-building, is the maker of the iconic London taxi, with its round contours and retro appearance—a shape that first appeared in 1958.

But in 2008, a new competitor based on the **Daimler AG**-designed Mercedes Benz Vito minivan was approved for use by the **Public Carriage Office**. This approval was controversial, since a traditional requirement of the Conditions of Fitness has been that taxis, for reasons of passenger safety, should be instantly recognizable and not easily mistaken for any other kind of vehicle. The Vito, however, is used in both the private-hire business and as a family people-mover. But in approving the Vito, Transport for London—which administers taxi licensing—said that provision of the orange “taxi” sign on the roof of licensed cabs is distinctive enough.

While the new minivan-based cabs might affront traditionalists, they seem to be a hit with drivers. The base vehicle is built by Daimler in Spain, then adapted as a cab in the U.K. Its distributor, **KPM U.K. Taxis**, says the Vito cab has achieved a 24% share of new-taxi sales in London since its launch. The company expects to have sold 1,000 vehicles by the end of this year.

It isn't that the Vito, as an adaptation of a mass-produced vehicle is significantly cheaper than an LTI cab, as both cost between £35,000 and £40,000 (\$54,000-\$62,000); rather that it's less expensive to run—with fuel consumption of 28 miles per gallon (eight liters per 100 kilometers) as opposed to the 20 mpg (12 liters per 100 km) offered by the LTI cab—and it's more comfortable for drivers and passengers, according to commercial vehicle insurance specialists **Staveley Head**.

“It is indeed sad that such an iconic vehicle [as the LTI cab] is being ousted by a new rival,” a **Staveley Head** spokesperson said. “However, this is clearly a superior vehicle which offers excellent safety features and comfort for passengers, as well as improved fuel economy.”

In July, **Manganese Bronze** posted a larger-than-expected loss



A Mercedes London taxi is seen beside a traditional London taxi, right. The new vehicle has one more passenger seat and is less polluting.

on the back of a drop in cab sales, which fell 12.9% for the first half of 2010 to 803 vehicles. The company also said at the time it doesn't expect to turn a profit this year. “The London taxi market has been tough for the last two or three years,” says **Manganese Bronze's** chief executive **John Russell**. “The basic problem is one of confidence. Taxi drivers hear about the troubles in the economy and that makes them feel less confident to invest in a new cab.”

But he doesn't think competition from the Vito will affect his business in the long-term. “We've always had very capable competitors but we continue to take 75% of the market in London, despite the qualities that the Mercedes has.”

These qualities are attractive. **Steve Sheehan** switched to a new Vito in April after having driven a LTI vehicle for over 30 years: “The Vito is far more advanced and comfortable vehicle for the passenger and the driver. I really enjoy driving it. The suspension on this vehicle is far smoother to the traditional taxi, there's a lot more room and it's more economical with fuel.”

But a decline in the use of its traditional vehicle is not the only change roiling the cab business. On the one hand are the licensed black-cab drivers, who must memorize 25,000 streets—known as “The Knowledge”—and are allowed to ply the streets for hire. On the other are minicabs, which can only be pre-booked or picked up at an office.

Minicab drivers used to have an unsavory reputation, with an average of one rape in a minicab per week and a judge saying in 2003 that nobody could use one “with any degree of safety.”

But licensing of the private-hire sector, which began after the judge's comments and involves criminal-record checks on drivers, and the widespread use of the satellite navigation systems have blurred these differences and eroded the competitive advantages of black cabs.

“Ever since the private-hire industry became licensed, people's doubts about using the service are now cleared up,” says **John Griffin**, founder and chairman of London-based minicab company **Addison Lee**. “We used to attract the wrong sort of person and had no controls; now we have the latest technology and have improved our customer service,” says **Mr. Griffin**, who founded the company in 1975 with one cab. Now the company has a 15% market share, although its

2,400 vehicles represent only 5% of London's 54,000 minicabs. According to **Mr. Griffin**, the company's sales have grown by 22% so far this year in a declining market. “The black cab, though an icon many tourists would like to experience, hasn't responded to the changes. It belongs to a museum,” he says.

Manganese Bronze's Mr. Russell disagrees with him: “You know when you get into a London cab you have a driver who knows where he is going and knows how to do his job properly and you are not going

to get ripped off on the fare.”

Jamie Townsend, a 33-year old who has been a minicab driver for 13 years thinks “The Knowledge” is a thing of the past. “I don't see the need to take the full knowledge test because I feel competitive enough and capable of earning a decent amount with the skills I have now,” he says. “You'll also find black-cab drivers use sat-nav nowadays.”

But while they are in the throes of challenge and change, London's taxis still provide one of the world's best services. A survey carried out

by **Hotels.com** in May among 1,900 travelers around the world, found 59% said the London cab offered the best service, followed by New York and Tokyo. Respondents said London drivers were knowledgeable and the nicest on the planet.

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ONLINE TODAY: See a video report with interviews of London drivers and their thoughts on the new cabs, at WSJ.com/Video.

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EUROPE NEWS

EU official's remarks draw criticism

By JOHN W. MILLER

BRUSSELS—European trade commissioner Karel De Gucht is drawing fire for comments about Jews he made in a radio interview last week, just as the Mideast peace talks were beginning in Washington.

On Friday, he said in a statement, "I did not mean in any possible way to cause offense or stigmatize the Jewish Community." He added that he wanted to "make clear that anti-Semitism has no place in today's world."

The controversy could have ripple effects in geopolitics, potentially hurting the EU's credibility in the Middle East. Such remarks "reduce the ability of EU officials to be effective because it leads Israelis to conclude that Europeans are implacably opposed to them," says Robert Danin, a senior fellow at Council for Foreign Relations.

Mr. De Gucht, a former Belgian foreign minister known for blunt commentary, told radio station VRT in an interview Thursday that peace talks would be difficult because "there is indeed a belief—it's difficult to describe it otherwise—among most Jews that they are right."

"And it's not so much whether these are religious Jews or not. Lay Jews also share the same belief that there are right," he said. "So it is not easy to have, even with moderate Jews, a rational discussion about what is actually happening in the Middle East."

Abraham Foxman, director of the Anti-Defamation League, called Mr. De Gucht's comments "anti-Semitism." He said that to assert "that a majority of the Jews are stubborn and irrational is a clear and negative

characterization of the Jewish people."

Dr. Moshe Kantor, president of the European Jewish Congress, said, "What sort of environment allows such remarks to be made openly by a senior politician?" He said, "This is part of a dangerous trend of incitement against Jews and Israel in Europe that needs to be stamped out immediately."

The controversy over Mr. De Gucht's remarks came as Germany considered dismissing Bundesbank board member Thilo Sarrazin over controversial comments on race and ethnicity.

In Mr. De Gucht's 14-minute interview about the Middle East, he blamed the "Jewish lobby" in Washington for blocking Mideast peace. "This is the best organized lobby in the states. And they have an influence on politicians, Republicans and Democrats," he said.

In response to Mr. De Gucht's followup remarks on Friday, EJC spokesman Orly Joseph said, "That wasn't an apology, that was a statement."

The European Commission on Friday distanced itself from Mr. De Gucht. Those were "personal comments," said spokesman Olivier Bailly.

Mr. De Gucht—the EU's top trade representative—has previously been in hot water for blunt comments. As Belgian foreign minister from 2004 to 2009, he ruffled feathers across the globe.

His remarks in Thursday's radio interview came at a sensitive time. Meeting in Washington on Thursday, Israeli Prime Minister Benjamin Netanyahu and Palestinian Authority President Mahmoud Abbas agreed to



EU Trade Commissioner Karel De Gucht blamed the 'Jewish lobby' in Washington for blocking Mideast peace.

meet Sept. 14 and 15, and every two weeks after that, with the goal of securing a situation where Israel and an independent Palestine live side by side in peace.

On Friday, the office of Germany's President said it has asked Chancellor Angela Merkel's government to weigh in on the Bundesbank's request to dismiss Mr. Sarrazin over his controversial comments.

"As part of the review process, the federal president's office has now requested the government's opinion," the statement said.

Mr. Sarrazin in his new book "Germany abolishes itself" made comments about the dangers of Muslim immigration, and said in an interview that Jews share "common genes."

Germany's president, Christian Wulff, is the only official with the power to dismiss Mr. Sarrazin from the Bundesbank's board, and requesting Ms. Merkel's opinion on the matter was a surprising move.

Since Mr. Sarrazin's comments first sparked an uproar last weekend, Ms. Merkel has stressed the

bank's independence and her distance from the process by which his fate would be decided. The Bundesbank formally asked Mr. Wulff to remove Mr. Sarrazin Thursday.

A spokesman for Ms. Merkel declined to confirm whether she had discussed the situation with Mr. Wulff or with the Bundesbank's president, Axel Weber.

"I can't accept [Mr. Sarrazin's] comments," Ms. Merkel said Friday. "They have an exclusionary effect."

—Patrick McGroarty
contributed to this article.

Bomb kills 5 Russian soldiers in Caucasus

By RICHARD BOUDREAUX

MOSCOW—A suicide bomber crashed a car packed with explosives on a military base in the southern Russian republic of Dagestan early Sunday, killing five soldiers and wounding 36 others in an attack blamed on the region's Islamic insurgency.

No group claimed responsibility for the blast. But the republic's governor, Magomedsalam Magomedov, speaking to Interfax news agency at

The insurgency has boiled for years in the mainly Muslim provinces in Russia's North Caucasus region, and Dagestan has become the epicenter of violence.

the military base, said the incident "suggests that militants in the republic still have the power to conduct such treacherous attacks" despite a recent series of deadly military raids on their hideouts.

The insurgency has boiled for years in the mainly Muslim provinces in Russia's North Caucasus region and occasionally strikes into the heartland, as when twin suicide blasts killed 40 in the Moscow subway in March. Dagestan has become the epicenter of the impoverished region's near-daily violence as sepa-



Soldiers stand watch at the site of the attack in Buinaksk on Sunday.

ratist fighters in neighboring Chechnya have broadened their goals and called for the creation of a pan-Caucasus state under Islamic law.

Russia's RIA Novosti news agency, citing Dagestan's Interior Ministry, reported that a small

Zhiguli sedan laden with about 100 kilograms of explosives smashed through a gate and onto a firing range where the Russian army's 136th Motorcycle Brigade had set up camp outside the town of Buinaksk.

Soldiers blocked the car's path

with a truck, preventing what authorities said would have been a higher death toll had the bomber reached the tents where hundreds of soldiers were sleeping. The explosion occurred as the car slammed into the truck at about 1 a.m., the Interior Ministry said.

Later, a roadside bomb blast just missed a car taking police investigators to the scene of the suicide bombing, RIA Novosti reported.

Russia's Emergency Situations Ministry said five soldiers were killed in the suicide attack. Five of the wounded soldiers were listed in critical condition.

In a later incident on Sunday, a policeman was shot to death by a man he had stopped for a document check in Kabardino-Balkariya, a nearby southern republic.

On Saturday, Dagestan's minister in charge of national, religious and foreign affairs, Bekmurza Bekmurzayev, was wounded and his driver was killed on their way to work by a bomb that had been planted in the minister's car.

Buinaksk, the town near Sunday's suicide bombing, was the scene of a 1999 car bombing that killed 64 people outside an apartment building for families of military officers.

That and three attacks on apartment buildings over the following two weeks were blamed on insurgents in Chechnya and cited by the Russian government in launching Russia's most recent war against them.

Deadly blast in Baghdad targets army

Continued from first page
over," warned America's new ambassador to Iraq, James F. Jeffrey, during his first briefing to Western reporters last month. He said insurgents could step up attacks to prove they are still capable of striking at will, to undermine confidence in Iraq's security forces and to take advantage of the political crisis. Iraq's political factions haven't been able to form a new government since March's inconclusive elections.

Last week, Brig. Gen. Ralph Baker, deputy commander of U.S. forces in Baghdad and the western Al-Anbar province, said Sunni insurgents and extremists were the leading threat to Iraq's security.

"Sunni rejectionists are probably the greatest threat to Iraqi security and stability because those particular organizations are targeting the political architecture," said Gen. Baker.

He said Shiite militias, backed by Iran, also were focused on attacks against U.S. troops. He blamed them for what he described as a significant rise in mortar and missile fire aimed at U.S. bases and facilities in Baghdad, including the American embassy compound over the past two months.

—Munaf Ammar in Baghdad
contributed to this article

EUROPE NEWS

Blair warns on Iran's nuclear program

BY ADAM ENTOUS

WASHINGTON—Former British Prime Minister Tony Blair on Sunday said the international community should be prepared to confront Iran with tougher sanctions, and possibly military action, in an effort to prevent Tehran from obtaining nuclear weapons.

U.S. officials have recently argued that newly imposed international sanctions are having a larger-than-expected impact on Iran's economy and appeared to be slowing the pace of its nuclear development. Tehran says its program is intended for peaceful power generation.

Taking military action against Iran is an option that shouldn't be taken off the table, Mr. Blair said.

Mr. Blair, speaking on "This Week" on ABC News, appeared not to rule out the possibility that a nuclear-armed Iran could be contained, but said it wasn't worth the risk. "I had someone say to me... 'Come on, look, supposing Iran gets the nuclear weapon, it's not the end of the world. I mean, why should they want to use it? Why would they want to cause all that destruction?'" Mr. Blair said. "It's a perfectly sensible argument you hear. And who knows, they may be right. All I know is, if I was a decision maker, I wouldn't take the risk."

He said the international community should opt for stronger action against Iran, rather than accede to it getting a bomb. "I would tell them they can't have it, and if necessary, they will be confronted with stronger sanctions and diplomacy."

Asked about the idea of taking military action against Iran, he said that option shouldn't be taken off the table. "I don't want to see it, but I'm saying I think you cannot exclude it because the primary—the primary objective—has got to be to prevent them from getting a nuclear weapon," Mr. Blair said.

President Barack Obama hasn't ruled out future military action against Iran, and the Pentagon has been updating its options for potential strikes. But senior U.S. military officials have at the same time cautioned that any strikes against Iran, by either the U.S. or Israel, could have unintended consequences that may be as serious as letting Iran go nuclear.

In addition to United Nations sanctions, the European Union approved expansive new penalties in July that forbid any new European investment in Iran's oil-and-gas sector. Mr. Obama signed into law new congressional sanctions that target any international firms doing business with blacklisted Iranian banks and Tehran's elite military unit, the Islamic Revolutionary Guard Corps.

Israel, which sees a nuclear-armed Iran as the biggest threat to its existence, has welcomed the new sanctions.

Strike to test French pension move

BY DAVID GAUTHIER-VILLARS

PARIS—Fabien Monteil, a delegate of France's Sud Rail railroad union, is planning to march at the head of a demonstration on Tuesday to protest the proposed rise in France's retirement age.

But he's already doubtful about the unions' tactics: Instead of an indefinite stoppage, unions have called just a one-day strike to protest a plan to raise France's standard retirement age to 62, from the current 60. After that, things might return to normal. "This protest is off to a bad start," says Mr. Monteil.

The sizing-up of union strength comes as President Nicolas Sarkozy faces a defining moment in his presidency. Parliament begins to debate his proposed rise in the retirement age on Tuesday, with unions and the opposition parties all against it.

This is risky for Mr. Sarkozy, who is already facing low approval ratings—between a quarter and a third of French adults approve of his policies, according to various recent opinion polls—less than two years from the next presidential election. Past attempts to shake up France's generous welfare system have led to mass protests and forced the government to back down.

But unions have their own weaknesses. French union membership is down, and Mr. Sarkozy has introduced rules on strikes that minimize their effects. As a result, unions are having a hard time persuading their members to take part in crippling, indefinite strikes that might defeat the government. Instead, they are increasingly staging one-day protests that attract a large turnout but are soon forgotten.

"They are in bind," says Dominique Andolfatto, a political-science professor at Nancy 2 University in eastern France.

French unions have a proud history of strikes and street protests that have yielded such benefits as universal health insurance, five weeks of annual paid vacation—and, in 1983, a lowering of the standard retirement age to 60 from 65.

In 1995, the government of newly elected President Jacques Chirac indicated he might call into question the special pension benefits of some workers, such as train drivers, who could retire at 50 or 55. In response, transport workers brought France to a three-week halt, and Mr. Chirac



Steelworkers in Marseille protest the pension overhaul at a June demonstration.

didn't dare try any other major changes for his next 12 years in office.

But recently workers have preferred to focus on local issues that are often neglected by national unions. For example, last year's rash of "bossnappings"—brief detention of executives by workers that rarely turn violent—to protest factory closures was often carried out independently of unions. So are other colorful protests, such as fishermen blocking ports to protest fishing quotas and farmers dumping milk in the streets over lower milk prices.

The Confédération Générale du Travail, one of France's biggest and oldest umbrella unions, has just 700,000 members today in a nation of 65 million; in 1946, it claimed five million in a nation of 40 million. In 2008, overall union membership stood at 7.7% of the French working population, compared with 12% in the U.S. and 27% in the U.K., according to the Organization for Economic Cooperation and Development.

Though plenty of nonunionized workers would like to keep the retirement age at 60, it's increasingly difficult to convince them to join a long protest, said Eric Aubin, the CGT's federal delegate in charge of pension issues.

"Tuesday's one-day protest is a necessary step to check whether workers have the stomach to launch themselves into a prolonged movement," he said.

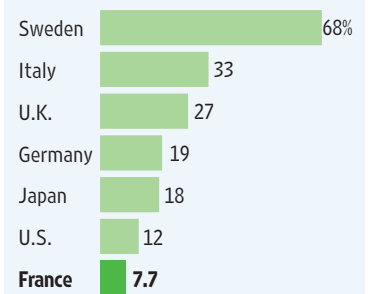
At the same time, the French government has become canner in dealing with protests.

Whereas other countries have announced large increases in the retirement age staggered over decades, Mr. Sarkozy is presenting a relatively small increase by 2018.

Mr. Sarkozy has also made strikes less effective. When teachers go on strike, local governments must now provide day care for schoolchildren. Rail workers must inform their employers of their intention to go on strike two days in advance. This helps transport companies plan reduced services, so

Worker fatigue

French union membership, as a percentage of the working population, is thin compared with other countries



Note: 2008 data

Source: OECD

that commuters still get to work.

And Mr. Sarkozy is trying to neutralize the threat from the rail unions that defeated Mr. Chirac, pledging that the new retirement age won't affect transport workers until 2018. That means many older rail workers would lose pay but gain nothing from going on strike.

The retirement plan comes as the French population ages and the government's debt rises. The budget deficit is projected at the equivalent of 8% of gross domestic product this year, well above the euro zone's 3% target. Germany, which has already decided to gradually increase its standard retirement age to 67 from the current 65, expects a budget deficit of less than 5% in 2010.

Mr. Sarkozy has said adopting measures aimed at balancing the pension system was essential to show foreign creditors that France would be able to keep its debt in check.

But unions say an increase in the retirement age will hit factory workers hardest, as they have shorter average life spans than managers. The unions are instead urging the government to increase payroll taxes. Mr. Sarkozy has ruled this out, saying France already has some of the highest payroll and corporate taxes in the industrialized world.

Mr. Monteil, the Sud Rail union delegate, says he plans to fight Mr. Sarkozy. But, speaking in his office above some rail tracks, the 32-year-old says he is pessimistic over the unions' chances in the pension battle. "I know I will have to work longer," he says.

Dutch try again to form a government

BY ROBIN VAN DAALEN

AMSTERDAM—A new attempt will be made to end the political deadlock in the Netherlands on Monday, with the nation's queen consulting with advisers and party leaders after an attempt to form a right-leaning government fell apart on Friday.

The country has been without a government since the previous coalition collapsed in February. The failure of talks Friday also means there is still no timetable for substantial cuts in government spending.

The Netherlands' fiscal shortfall is smaller than many in the European Union but rising. It is set to widen to 6.6% of gross domestic product this year from 5.3% in 2009, taking the country's public debt to 66% of gross domestic product.

The problems in the Netherlands

mirror those of neighboring Belgium, where King Albert II seeks this week to relaunch coalition talks, amid talk of threats to Belgian unity.

In the Netherlands, the center-right Liberal Party VVD, and the conservative CDA, which jointly have 52 seats in the 150-member parliament following June 9 elections, had been trying for more than three weeks to negotiate an agreement to form a government. Such a minority government would require backing from the populist Freedom Party to make sure it can count on a parliamentary majority of at least 76 seats.

The Freedom Party, with 24 seats, has taken a controversial stance on the role of Islam in the Netherlands, causing heartache for some members of the CDA, which favors religious tolerance.

The talks fell apart Friday after Freedom Party leader Geert Wilders said he didn't believe the CDA could

corral its members into working with the Freedom Party in a long-term deal to create a stable government, and that any coalition would collapse in a few months.

"The confidence in the stability within the Christian Democratic Party dropped to an all-time low. We had no confidence that we could count on a majority within parliament," Mr. Wilders said at a news conference.

When talks began, the parties said they would try to find €18 billion (\$23.1 billion) in budget cuts in a bid to close the country's deficit.

It isn't unusual for Queen Beatrix to play a role in forming a government in the Netherlands. Over the next few days, she will consult with advisers and leaders of major and minor parties to determine what the majority of parties thinks should happen next, and which majority is most likely to strike a coalition

agreement.

VVD party leader Mark Rutte said his advice to the queen will be that he writes a government policy plan. Other parties can then choose to support such an agreement if they see enough grounds to do so. "I think this is a logical next step," he said. "This country needs a government. This, of course, already is taking way too long."

Previous efforts to form a government with Labor, the Liberal Democrats and the Green Party failed. Analysts worry that the inconclusive June 9 elections may frustrate efforts to produce a strong government, potentially thwarting or delaying necessary reforms to fix public finances.

Job Cohen, leader of the Labor Party, known as PvdA, suggested he and Mr. Rutte write such an agreement. Labor holds 30 seats in parliament, compared with 31 for the VVD.

U.S. NEWS

Seven careers? Think twice, researchers caution

[The Numbers Guy]

BY CARL BIALIK

Do Americans really go through careers like they do cars or refrigerators?

As workers take in the latest round of monthly unemployment data over Labor Day weekend, Americans are focused on volatility in the job market. Much of what they hear points to growing job instability and increased autonomy of workers. Among the most-repeated claims is that the average U.S. worker will have many careers—seven is the most widely cited number—in his or her lifetime.

Jobs researchers say the basis of the number is a mystery.

“Seven careers per person sounds utterly implausible to me,” says Ann Stevens, professor and chair of the economics department at the University of California, Davis.

Yet the estimate has had extraordinary staying power. One reason is that no one knows for sure the true average number of careers. The U.S. Bureau of Labor Statistics, the Labor Department’s data arm, doesn’t track lifetime careers. Even so, the figure is erroneously attributed to BLS so often that the agency includes a corrective memo on its website, explaining that “no consensus has emerged on what constitutes a career change.”

What researchers do know is that job changes are common early in a person’s working years: Three in four workers age 16 to 19, and half between 20 and 24, have been with their current employers for under a year, the BLS says.

But early, frequent switches,

which can include jumps by students between summer jobs, aren’t what many people would consider career changes in the same way as a midlife switch after a decade or two in the same job. The latter type can entail major costs in retraining and pay cuts—plus, in the current job climate, the risk of not finding employment. It is difficult to imagine, researchers say, that the typical worker undertakes a major switch seven times.

Surveys of workers could be easily skewed by a small number of zealous career changers. Adding to the confusion, economists say, is that workers sometimes take on enough new responsibilities to meet a technical definition of a career change without leaving their general field.

“The problem is career change is tricky to define,” says Solomon Polachek, a professor of economics and political science at Binghamton University in New York, who nonetheless calls the seven-career figure “a considerable overestimate.”

Without hard data, anecdotal reports that point to an expanding career-change mentality in the U.S. have taken on a life of their own. The notion of continual career switches is repeated in particular by career-management experts, whose jobs involve spending a lot of time with occupation switchers.

“Based on my experience, I believe the typical person has six to seven careers, and the number is growing,” says Jeff Neil, a New York City career counselor, in an email. He describes one 30-year-old client, currently working as a manager of a doctor’s office, who is exploring a new professional



People attending an AARP job fair in New York City in April

Steady job

The amount of time U.S. adults have spent with the same employer hasn’t changed much in recent years.

	1996	1998	2000	2002	2004	2006	2008
9.0%							
20 years or more							10.3%
16.8							16.8
10 to 19 years							
19.8							20.2
5 to 9 years							
15.2							16.9
3 to 4 years							
13.3							13.0
1 to 2 years							
26.0%							22.9%
12 months or less							

Source: Labor Department Photo: Getty Images

path. Previously, she worked in real-estate sales, at a talent agency, a sports-car dealership and as a sales representative at top-end health clubs. Mr. Neil adds that while multiple shifts are more the norm than the exception, he couldn’t say for certain without formally researching the issue.

BLS economist Chuck Pierret has been conducting a study to better assess U.S. workers’ job

stability over time, interviewing 10,000 individuals, first surveyed in 1979, when group members were between 14 and 22 years old. So far, members of the group have held 10.8 jobs, on average, between ages 18 and 42, using the latest data available.

Dr. Pierret points out that these workers’ experience might not apply to entrants to today’s job market. The bureau is just

starting to track job changes for people born between 1980 and 1984. But in yet another example of the difficulty of measuring career stability, the recent recession may have skewed things so much that long-term trends will be masked.

Learn more about this topic at WSJ.com/NumbersGuy. Email numbersguy@wsj.com.

Economists draw battle lines over causes of unemployment

BY JON HILSENATH

Washington’s response to the country’s stubbornly high unemployment will depend in part on who wins an increasingly intense debate over its causes.

One side says more government spending to stimulate the economy can reduce joblessness. The other says it can’t.

The doubters say unemployment is high because of structural problems, such as people who can’t move to take new jobs because they are tied down to burdensome mortgages or firms that can’t find workers with the requisite skills to fill job openings. People in this camp say the Obama administration’s fiscal stimulus and low interest rates set by the Federal Reserve have had muted effects. They are less inclined to support more stimulus to counter a disappointing recovery.

“Firms have jobs, but can’t find appropriate workers. The workers want to work, but can’t find appropriate jobs,” Narayana Kocherlakota, president of the Federal Reserve Bank of Minneapolis, said in a recent speech. “Whatever the source, though, it is hard to see how the

Fed can do much to cure this problem.”

For the most part, those like Mr. Kocherlakota who believe structural factors are causing high unemployment are less inclined to use government programs to address the problem. One idea Mr. Kocherlakota does advocate would be to create an unemployment-insurance program in which benefits don’t run out after a set number of weeks, as they do now, to help people weather the gaps between jobs. The payments would be set low so they don’t provide an incentive to stay out of the labor force longer than necessary.

Those urging more government action say the problem is more straightforward: There just isn’t enough spending or investment in the economy to entice firms to hire workers. With more demand, this side argues, unemployment will come down. Obama administration officials largely share this view.

“Real [gross domestic product] is growing, but not fast enough to create the hundreds of thousands of jobs each month needed to return employment to its pre-crisis level,” Christina Romer, until Friday the chairwoman of the White House

Council Economic Advisers, said in a speech. “This shortfall in demand, rather than structural changes in the composition of our output or a mismatch between worker skills and jobs, is the fundamental cause of our continued high unemployment. Firms aren’t producing and hiring at normal levels simply because there isn’t demand for a normal level of output.”

Each side cites economic evidence for its view, though the truth likely resides somewhere in between. Mr. Kocherlakota has been watching the unusual relationship between unemployment and the speed at which firms fill open positions. In normal times, as unemployment rises, firms are able to fill open positions quickly because they have more people to choose from.

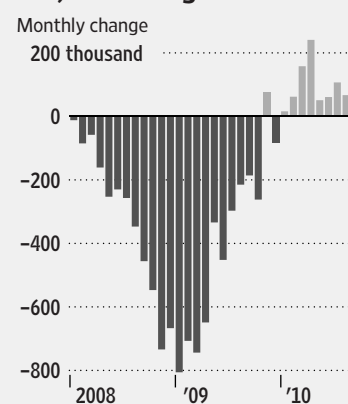
In the past 18 months, however, that hasn’t happened.

On one point, both sides largely agree: The longer unemployment stays high, the harder it could become to bring it down, because workers’ skills degrade. That is a particular concern given that 6.2 million workers have been without jobs for six months or more, the Labor Department said Friday.

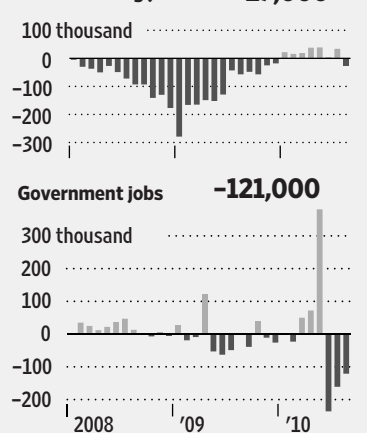
Long road back

The private sector is adding jobs...

Private-sector jobs
+67,000 in August



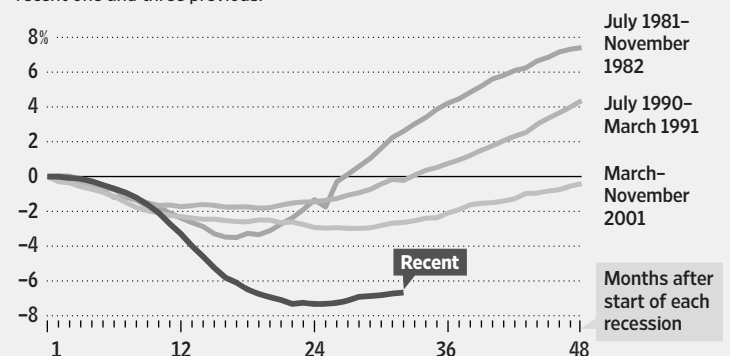
Manufacturing jobs **-27,000**



Government jobs **-121,000**

...but the recovery is slower than in past cycles.

Cumulative change in the private-sector jobs from start of each recession: the recent one and three previous.



Note: Data are seasonally adjusted
Sources: Labor Department; National Bureau of Economic Research

U.S. NEWS

Small-business proposal stirs debate

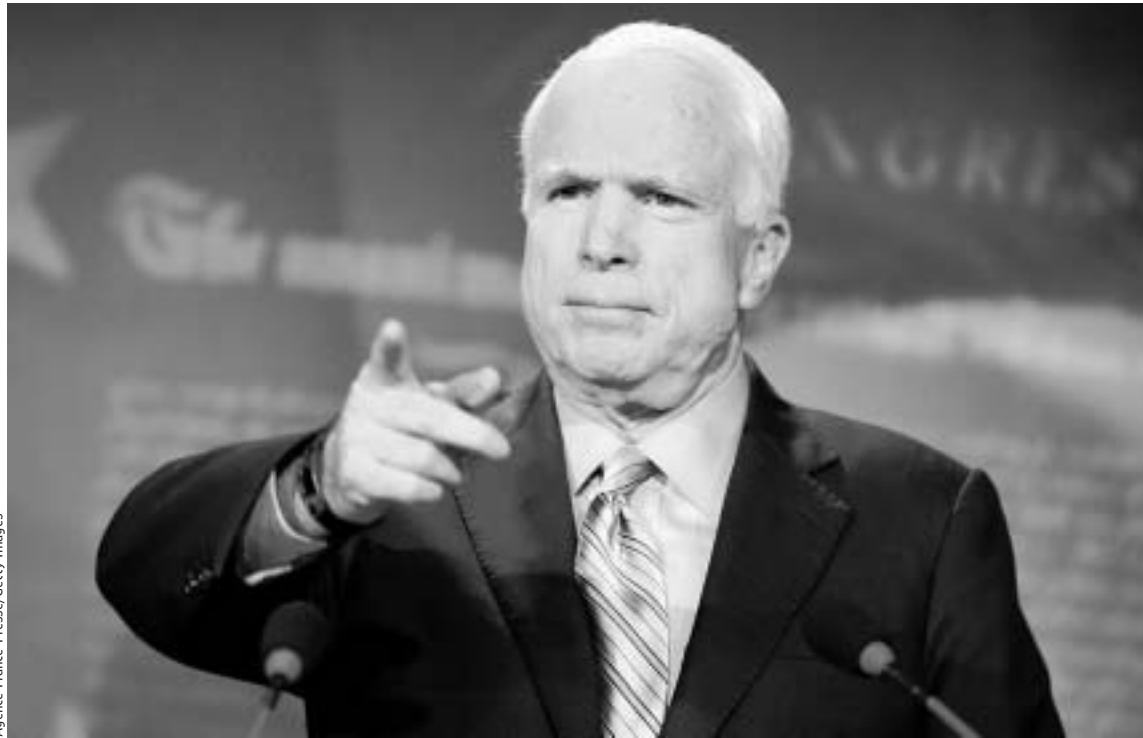
BY SARAH N. LYNCH
AND ADAM ENTOUS

WASHINGTON—Republicans and Democrats on Sunday sparred over the potential impact of an Obama administration proposal to provide tax cuts to small businesses, with critics saying it wouldn't be sufficient to turn around the struggling economy.

President Barack Obama has said he favors allowing Bush-era tax cuts for those making \$250,000 or more annually to expire at the end of the year. On Friday, administration officials said they were considering using the revenue from these expiring tax cuts to finance about \$35 billion of tax cuts for small businesses and workers.

In addition, Mr. Obama plans to ask Congress in the coming week to make a tax credit for business-research expenses permanent, an administration official confirmed on Sunday. The \$100 billion proposal would be paid for from revenues generated by ending other corporate tax cuts. The president is expected to announce the plan on Wednesday in a speech on the economy in Cleveland.

Sen. John McCain (R., Ariz.), speaking on "Fox News Sunday," suggested that the new proposals from the White House to spur small businesses wouldn't do the job. "It isn't going to resolve this incredible uncertainty out there that large and small businesses have about their financial future," he said.



Sen. John McCain, shown last month, says the White House proposal on tax cuts for small businesses is inadequate.

"The American people want us to stop spending, so let's just give them some certainty. Let's extend the existing tax cuts, and then let's give some more tax breaks to small businesses and large, and then maybe the American people will have some confidence," Mr. McCain said.

Sen. Lindsey Graham, a South Carolina Republican, argued that ex-

tending all expiring tax cuts could help create private-sector jobs. "If you increase taxes now at any level, it's going to make it harder to create jobs," he told NBC's "Meet the Press." "The idea of increasing taxes now makes no sense to most people."

National Small Business Association President Todd McCracken also expressed concerns about letting ex-

isting tax cuts for the wealthy expire. "The companies that do pay this tax—and there is a minority of small companies for sure—but the ones that do are the most successful ones, who are most likely to be growing jobs," he told CNN's "State of the Union."

Democrats said their goal—to replace tax cuts for the wealthy with more targeted credits for middle-

class earners and small businesses—would provide a bigger boost to the economy.

"The economic argument on this is: Tax cuts on the middle class and small businesses are the dollars that are most likely to be spent and create economic activity," Democratic National Committee Chairman Timothy Kaine told "Fox News Sunday."

He also welcomed the administration proposal to extend the research-and-development tax credit. "The president wants to continue to give businesses that incentive to continue that innovation and research that powers our economy," he said.

The debate over how to address the expiring tax cuts comes as the unemployment rate crept up to 9.6% in August from 9.5% the previous month. At the same time, concern is growing over the government's rising budget deficits.

The struggling economy and polls showing growing discontent with Washington have fueled concerns within the Democratic Party that Republicans could take back the House in November's midterm elections.

AFL-CIO President Richard Trumka, appearing on CNN, defended the job the Obama administration has done so far on the economy, saying many of the troubles were inherited from the Bush team. This is the result of "30 years of failed policy," he said. "When you give the tax cuts to the very rich, they don't buy much."

Rangel hearing to test party

BY DEVLIN BARRETT

Rep. Charles Rangel isn't the only one facing judgment at his planned trial before the House ethics committee. The hearings, coming about a month before Election Day, will also be a public test of Democratic vows to run a clean Congress.

The New York Democrat's day in court, likely to come at the end of this month or the beginning of October, will showcase a system of self-policing that hasn't faced such a test in nearly a quarter-century. It will feature the first use of new committee rules, as well as the equivalent of a rookie judge and a rookie prosecutor.

The risk for Democrats: the trial ends up reaffirming the general perception among voters that Washington's hidebound culture is more concerned with self-preservation than with dispensing justice.

"This is not a court of law—this is more like a condominium association meeting. You sit on the board, but you still want your neighbor to check your mail while you're away," said Jan Baran, a longtime Republican lawyer who specializes in government ethics. "They take on some of the trappings of the court without actually being one."

Attorney James Hamilton, a Democrat who has represented senators facing ethics charges, said the rules and expectations are difficult for both the politicians and the lawyers. "The nature of the process makes it somewhat unpredictable, and there's a lot of possibilities for controversy, and to some degree it can be good theater," he said.

The committee that probes House lawmakers' ethics hasn't held this type of hearing since 1987,



Rep. Charles Rangel after a rally for the unemployed last week in New York.

when Rep. Austin Murphy (D., Pa.) was reprimanded for misusing government resources and allowing another member to cast a vote on his behalf.

Since then, most lawmakers facing such a trial have resigned or cut a deal, and most committees have been reluctant to press on to public trials unless they are following work done by the Justice Department.

Technically, the Committee on Standards of Official Conduct tried Rep. James Traficant (D., Ohio) in 2002, but in that instance the panel simply entered into the official record the transcript of his previous federal criminal trial.

It will be their job to tackle the 13 separate ethics counts filed against Mr. Rangel, from his admit-

ted failure to pay taxes on rental income from a vacation property to his alleged use of congressional stationery to seek financial support for a college center bearing his name.

Mr. Rangel has admitted mistakes but said he never intended to violate any House rules. That distinction has been the main sticking point in pre-trial negotiations between the two sides.

Another key challenge for the committee will be the political calendar. The lawmaker faces a Sept. 14 primary, which in heavily Democratic New York City is tantamount to a contest for the general election. If Mr. Rangel wins his primary, as expected, he will have less incentive to reach a negotiated settlement with the committee.

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WORLD NEWS

Afghans mull Kabul Bank bailout

BY MATTHEW ROSENBERG

KABUL—Afghanistan's government inched closer to bailing out the country's largest bank, setting aside hundreds of millions of dollars that could be used to keep Kabul Bank solvent, officials said.

The move Sunday came as depositors continued to pull their money from the lender, mobbing branches in Kabul and other parts of the country. In the capital, police and soldiers were ordered to guard Kabul Bank branches and razor wire was strung outside the main branch to keep crowds in check.

Averting the failure of Afghanistan's largest bank, an institution with ties to President Hamid Karzai's administration, has become a priority for U.S. and Afghan officials concerned by the political and economic crisis that could result.

Yet U.S. officials worry at the same time that its woes and the government-financed bailout, brought on by allegations of corruption and insider dealing, will set back faltering Western efforts to restore confidence in President Karzai's administration, a pillar of the allied strategy for defeating the Taliban.

There were conflicting accounts of how much money the Afghan government was preparing to divert to Kabul Bank from its roughly \$4.8 billion in foreign-exchange reserves. A central-bank official said the bailout would likely be in the \$200 million range; a finance ministry official put the figure "closer to double that."

The central-bank official said several options were being discussed to recover the funds that are likely to be pumped into Kabul Bank. One option is forcing major shareholders who bought their stakes with loans from the bank to either repay what they borrowed or hand over their shares.

Another option is confiscating properties or businesses bought or built by bank insiders with loans from the lender.

Major shareholders include brothers of President Karzai and First Vice President Muhammad Fahim, U.S. and Afghan officials say. The "politics are delicate," the central-bank official said.

Experts from the U.S. Treasury Department are aiding the Afghan central bank's efforts to stabilize Kabul Bank. But Washington has said it won't finance a rescue of the lender, and even a \$200 million bailout would strain Afghanistan's finances.

Some U.S. officials say Afghanistan's fragile finances—the country collected less than \$1 billion in revenue last year and depends on donor nations for most of its annual budget—could result in U.S. and other donor funds indirectly assisting an Afghan-government bailout of Kabul Bank.

The bank was closed on Friday, the Muslim day of rest, and reopened Saturday.

Senior Afghan officials and one of the bank's major shareholders said the pace of withdrawals slowed over the weekend, compared with



A guard by the entry to Kabul Bank.

the rush to pull out money late last week. But neither the Afghan central bank nor Kabul Bank's management made public statements on how much had been withdrawn—and how much remains.

Finance Minister Omar Zakhilwal said the Afghan government Saturday transferred \$100 million to Kabul Bank to cover salaries for about 250,000 soldiers, police and teachers, who are paid through accounts at the lender.

Mahmood Karzai, the president's brother and Kabul Bank's third-largest shareholder with a 7% stake, says the lender's assets are roughly equal to the \$1.3 billion in deposits it held before last week. He said the situation is stabilizing.

In the Afghan capital, long lines outside many Kabul Bank branches and packed lobbies within suggested that depositors continue to try to

pull out their funds. At many locations, people were being told the branch had run out of cash, a situation that may have kept withdrawals down over the weekend.

At many locations, people were being told the branch had run out of cash, a situation that may have kept withdrawals down.

Shir Agha, a 30-year-old Afghan army soldier, said he had been waiting hours Sunday for his monthly salary of 15,000 afghanis, about \$340. "I went to the cashier. He told me that they don't have cash right now," Mr. Agha said.

U.S. officials say they fear that even the hint of failure at Kabul Bank, the largest of Afghanistan's 10 private banks, could prove destabilizing. Besides the police and army salaries paid through the bank, the Afghan government keeps many accounts there.

A U.S. military officer said the allied mission to train Afghan soldiers and police was trying to come up with alternate ways to pay the Afghan security forces if electronically transferring funds through the bank ceased to be an option.

For the moment, though, those concerns seemed unfounded amid the transfer of the salaries Saturday.

Mr. Zakhilwal, the finance minister, said money was deposited so soldiers, police and teachers would have money for the coming Muslim holiday, Eid ul-Fitr, which marks the end of the fasting month of Ramadan in a few days.

—Maria Abi-Habib
contributed to this article.

Australian politicians near a deal for support

BY ENDA CURRAN

SYDNEY—Australia's three independent lawmakers, crucial to determining the makeup of a new minority government, are close to deciding which party they will back.

An announcement is likely early in the week, though it is unclear how substantive any deal will be and whether the three will move in unison. A decision by the three—Rob Oakeshott, Bob Katter and Tony Windsor, who have been negotiating as a team—will end weeks of political and policy stalemate. An inconclusive Aug. 21 election left neither Prime Minister Julia Gillard's center-left Labor Party nor Tony Abbott's conservative Liberal-National coalition with a majority to govern alone, the country's first hung parliament since 1940.

Of critical importance will be whether the three lawmakers decide to create a bloc in backing Ms. Gillard or Mr. Abbott and whether their oath of allegiance to the chosen candidate extends beyond issues of supply—that is, funding for existing operations—and confidence to agreements on broader policy areas.

While the lawmakers have said they will be influenced by one another's decisions and that moving as a group will promote stability, they are divided on issues, including Labor's planned mining tax and plan for a carbon-trading system.

One measure that could ultimately bind them is Ms. Gillard's planned A\$43 billion (US\$39.43 billion) rollout of a national broadband network, which is high on the wish lists of all three, who represent rural electorates. The conservative opposition has pledged a cheaper, scaled-down broadband plan.

The three lawmakers, locked in frantic talks over the weekend with advisers and officials from both major parties, were tight-lipped on which side they would back.

"We're down to last-minute negotiations," Mr. Katter told Dow Jones Newswires. A spokesman for Mr. Oakeshott said an announcement should come Monday or Tuesday; Mr. Windsor concurred.

The momentum appears to be behind Ms. Gillard's Labor Party, which last week won the support of a fourth independent, Andrew Wilkie, and signed an alliance with the Greens, the party that holds the balance of power in the upper house.

The backing of the Greens' sole lower-house member, Andrew Bandt, means Ms. Gillard now controls 74 seats in the 150-seat lower house of Parliament, where governments are formed, against 73 seats for Abbott.

Opinion polls in national newspapers over the weekend found a majority of those surveyed backed a Labor government over Abbott's coalition.

The three independents, former members of the National party, have been critical of Mr. Abbott since a Treasury Department analysis of his party's election finances found an A\$11 billion gap. They have also accused conservative politicians of attempting to force their decision by making threats and hostile telephone calls.

New Zealand assesses quake damage

BY LUCY CRAYMER

New Zealand could spend at least \$1.4 billion on repairs following Saturday's 7.1-magnitude earthquake, which damaged more than 500 buildings and houses in the city of Christchurch and set off aftershocks that continued to shake the region.

No fatalities and only two serious injuries were reported, but efforts to assess damage were further hindered Sunday by gale-force winds. Christchurch's central business district was expected to be closed off for another day while the safety of buildings is assessed. Schools in the region are to be closed until Wednesday.

The earthquake struck 19 miles 30 kilometers west of Christchurch, New Zealand's second-largest city after Auckland, early Saturday morning. Power has been restored to about 95% of the city, although there are continuing power issues in rural areas, and some restoration may take longer as high winds complicate repairs. Damage to gas lines has yet to be assessed, and phone lines continued to be hampered by power outages, while clean drinking water continued to be limited.

Further evacuations were possible. The New Zealand army remained on standby Sunday night.

John Carter, New Zealand's minister of civil defense, called the quake a "significant natural disaster" and said New Zealand's Cabinet would meet Monday to discuss a government relief package. The Treasury's initial assessments suggest the total cost of repairing damage could be at least 2 billion New Zealand dollars (US\$1.4 billion).

New Zealand forecaster Metser-



A resident of Christchurch, New Zealand, on Sunday takes in some of the damage from Saturday's earthquake.

vice on Sunday issued a severe weather warning because of gale-force winds that are expected to be dangerous for structures already weakened by the recent earthquake.

The cost of the damage is still being assessed, with teams working through the central city to check on building soundness. The Earthquake Commission, which covers residential damage on properties insured for natural disasters, said it had received about 2,800 claims for damage to property but was expecting a significant increase in claims over the next few days.

Earthquake Commission Chief Executive Ian Simpson said the quake was going to result in hun-

dreds of millions of dollars worth of claims, "but it could be up to NZ\$1 billion." Around 100,000 claims are expected to come in over the next three months, he said.

The commission—a government-owned crown entity funded by insurance premiums—pays out the first NZ\$100,000 of a claim. The fund currently has around NZ\$5.6 billion and is backed by reinsurance from overseas groups and by a government guarantee.

New Zealand Insurance Council Chief Executive Chris Ryan said it was too early to tell what extent of exposure insurance companies would have to the earthquake. The cost of damage "will come into the

hundreds of millions of dollars, but there is no final figure available at the moment," he said.

The quake will likely be the "largest insured loss in New Zealand in many years," according to Risk Management Solutions, a firm that models the effects of disasters.

Foreign-owned insurers account for over 80% of premiums in the private market, RMS said. The two leading insurance companies are IAG NZ, a unit of Insurance Australia Group Ltd., and Vero Insurance NZ, a unit of the Australia-listed Suncorp Metway Group.

—Erik Holm in New York and
Rebecca Howard in Wellington
contributed to this article.

WORLD NEWS



Associated Press (2)

The bridge connecting North Korea to Dandong, China, above, has been the isolated nation's link to the world, carrying an estimated 70% of trade.

New crisis looms in North Korea

BY EVAN RAMSTAD

DANDONG, China—One evening last week in this Chinese border city, restaurants bustled and taxis honked. Tall buildings were clad in LED displays. Just beyond the din, an empty one-lane bridge extended across the Yalu river, to a darkened North Korean city on the other side.

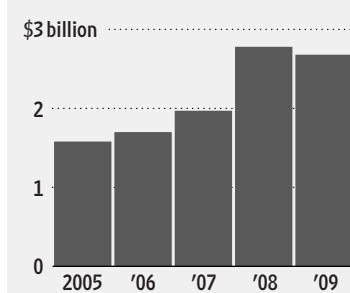
This narrow border bridge is North Korea's lifeline to the outside world, carrying what economists estimate is some 70% of the country's trade volume. Earlier in the day, roughly 100 trucks and four trains traveled across to the North Korean town, Sinuiju. That afternoon, traffic reversed direction. Most trucks returned empty.

Smoking a cigarette in the customs area after trip to Sinuiju, truck-driver Wang Quanguai said he had brought 20 loaves of bread to distribute to friends and strangers, his contribution to solving North Korea's most intractable problem.

This sleepy crossing speaks to North Korea's privations and economic malaise just as the country enters a season observers believe will bring its biggest political transformation in decades. The ruling Workers Party of Korea's first full gathering of party representatives since 1966 is expected to start this week, and to signal the successor to ailing leader Kim Jong Il.

North Korea's closed borders, state-controlled media and authoritarian rule make divining its leaders' and citizens' thoughts largely a guessing game. North Koreans who

Leaning on China
Value of two-way trade between China and North Korea



Source: Korea Trade-Investment Promotion Agency

traveled to Dandong last week for business declined to speak of conditions in their country.

But Chinese traders and recent defectors from North Korea, who have spoken recently with residents, say the backdrop of the coming meetings appears to be hunger with an edge of martial restlessness. Some of these people say that as fall approaches, North Korea is in the midst of its worst food crisis since its late 1990s famine.

The Workers' Party meeting in the capital, Pyongyang, is expected to run four or five days and is being closely watched by outside analysts and diplomats.

Most believe Mr. Kim will appoint his third son, Kim Jong Eun, to a post that would signal the start of a leadership transition, preserving family control of the country that

began with Kim Jong Il's father, Kim Il Sung, in 1948. A few analysts believe possible dissatisfaction among elites could result in a collective, Politburo-style leadership structure.

The economic decisions that emerge may be just as important. For the past decade, the government and party experimented with market reforms but stuck chiefly to its system of central control and isolation from the rest of the world—a policy made clear by the trickle of trade through Dandong.

The government's latest economic move came last winter, when it attempted to clamp down on market activities by issuing new, revalued currency and setting new prices for goods.

The decision spurred chaos. North Korean defectors and aid workers say new prices were ignored. Though North Koreans received small amounts of new cash, inflation set in, leading to hoarding as sellers of commodities like rice expected to receive more money later. The government rolled back the effort after food became scarce and protests grew, but the situation remains unstable, these people say.

In Seoul, a North Korean man who left the country in December said this week that his brother and parents in the North haven't eaten rice in months.

"Even if you have money, there's no rice to buy now because the people with rice don't sell," said the man, who asked only to be identified by his surname, Kim. He said he talks to his family using cellphones,

which are illegal for most North Koreans. "My brother has a small piece of land where he plants potatoes and barley. They can't afford rice. They don't even imagine it."

Mr. Kim said he knew collective-farm workers and even officials who stole corn from farms where they worked. He recalls older people, in their 80s, who lived in huts near farm plots "for fear of their corn or potatoes being stolen overnight."

Kay Seok, a Seoul-based researcher for Human Rights Watch, blames the currency revaluation for the latest round of hunger. Two months ago, she says, markets were operating at 10% to 30% of their pre-clampdown pace in some cities. She says she has heard that markets are now nearly back up to previous pace in some places.

Mr. Kim, the defector, said oppressed North Koreans "harbor a grudge deep inside" against those in the ruling class. The regime has crushed revolts in the past, and there is no indication more are in the offing.

But Mr. Kim said many in the country would welcome conflict with the outside world—not out of nationalistic fervor, but as a pretext for uprising. "North Koreans say in unison they want a war. ... I think if that happens, North Koreans will fight more between themselves than with South Koreans," Mr. Kim said. "Families say, 'OK, when a war breaks out, I will shoot this, this and this person to death.'"

—Jaeyeon Woo and Gao Sen contributed to this article.

Crashed UPS plane had smoke in cockpit

BY NOUR MALAS
AND ANDY PASZTOR

DUBAI—The United Parcel Service Inc. cargo plane that crashed Friday evening near Dubai, killing two pilots, reported smoke in the cockpit and was struggling to maintain altitude about 20 minutes after takeoff, according to a preliminary report published Sunday by the United Arab Emirates' General Civil Aviation Authority, or GCAA.

A GCAA team recovered the cockpit voice recorder six hours after the accident, according to the report posted on the website of the country's official news agency. A team from the U.S. National Transportation Safety Board was due to arrive in the U.A.E. Sunday to help in the investigation, the report said.

Investigators are likely to focus quickly on determining the cause of the smoke, and whether it originated in the cockpit or elsewhere. Based on early reports about some of the UPS crew's conversation with air-traffic controllers, the cargo plane's pilots may have been unable to see their instruments.

UPS flight number 6, a Boeing Co. 747-400 aircraft, was headed to Cologne, Germany from Dubai when, 22 minutes after takeoff, it indicated it was returning to the Dubai airport "with smoke in the cockpit, unable to maintain altitude and requested the airport for landing," the preliminary report said.

Radar contact was lost with the plane about 50 minutes after it took off at 7:15 p.m. local time, the report said.

The crash is the first fatal aircraft incident for package-delivery giant UPS. The GCAA said late Friday it had recovered the bodies of the two pilots, and UPS over the weekend identified the two as U.S. citizens.

The plane went down in a patch of unpopulated desert inside a military base. There were no reports of ground casualties.

According to early data gathered by air-safety officials, the pilots may have tried to land twice during the hour or so before the crash. Sometime during the reported sequence of two "missed approaches" to the airport, according to this information, the pilots declared a mayday, possibly due to smoke in the cockpit.

There were conflicting preliminary reports about whether the pilots lost control of the plane while attempting to circle back to the Dubai airport, or may have attempted to touch down inside a military base after battling an onboard emergency that could have obscured their view of cockpit instruments.

According to a person familiar with the investigation, the aircraft was flying at more than 400 kilometers an hour before impact.

Since the aircraft model is widely used to carry passengers, investigators and manufacturer Boeing are likely to put out additional preliminary findings as soon as the information is confirmed.

—Chip Cummins in Dubai,
Daniel Michaels in Brussels
and Jennifer Levitz in Atlanta
contributed to this article.

Seoul's foreign minister offers to resign

BY EVAN RAMSTAD

SEOUL—South Korean Foreign Minister Yu Myung-hwan offered his resignation over the weekend amid public suspicions he helped his daughter get a ministry job, making him the latest in a series of government officials or appointees to quit since President Lee Myung-bak declared last month that promoting

fairness would be a chief pursuit of the remainder of his term.

Like the others, Mr. Yu—who canceled his daughter's hiring and apologized for it—faced a shower of accusations but little evidence of illegality or wrongdoing.

Mr. Lee didn't immediately accept Mr. Yu's resignation, announced Saturday. But the president criticized the minister at a meeting

of cabinet officials Sunday, saying the controversy doesn't fit with his own vision of a "fair society."

Mr. Yu said Friday that he was "careless about the possibility that my daughter's employment... could prompt allegations about favoritism." Mr. Yu and his daughter couldn't be reached to comment Sunday. Mr. Yu said he wasn't directly involved in his daughter's hir-

ing. But the issue of favoritism has sparked criticism in the South Korean media and parliament.

South Korea's most pressing international issue at the moment is the consideration of sanctions against Iran over its nuclear program. A dispute with North Korea over the sinking of a warship continues to simmer, though at a lower temperature than earlier this year.

INTERVIEW



Agence France-Presse/Getty Images

Gérard Mestrallet says that following the International Power deal GDF-Suez has become 'the number one in volumes of gas handled in Europe.'

Building a flexible giant

GDF-Suez's chief executive says adapting to volatile markets is as important as topping the revenue rankings

[Gérard Mestrallet]

BY CARL MORTISHED

Gérard Mestrallet has created a colossus: the world's biggest utility by revenue. Last month's agreement to buy a majority stake in **International Power PLC** will put him at the helm of a greatly enlarged **GDF-Suez SA**, with its army of power stations, charging ahead of rivals such as **E.ON AG**, the German utility, or domestic competitor **Électricité de France SA**.

Being top dog in a quarreling pack of European mega-utilities is no doubt gratifying, but what really interests GDF-Suez chief executive Mr. Mestrallet isn't revenue rankings or even the 88 gigawatts of power that will soon be under his control.

Instead, he talks about "flexibility." What matters isn't wires but pipes. The key to the IP deal is, he says, the natural gas that powers turbines and supplies the expanding global trade in gas over which the French company is extending its influence. More than half of IP's power output is generated by burning natural gas, he explains.

"Thanks to the IP deal, we become the number one in volumes of gas handled in Europe—1,300 terawatt hours. In second place will be E.ON Ruhrgas."

This means purchasing power, and the point won't be lost on important people with gas to sell. In 2008, Mr. Mestrallet completed a merger of Suez, a company with a fast-growing trading business in liquefied natural gas, with France's monopoly supplier, **Gaz de France**, a marriage that caused a bell to ring in a distant capital. Last year, Russian Prime Minister Vladimir Putin summoned Mr. Mestrallet to Moscow.

"I'd never met him before," says the GDF-Suez chief. "His message was very clear, 'You are much bigger after the

merger. We are the largest gas producer. You know the markets in Europe... You are the largest importer of liquefied natural gas into the U.S. We have projects in the long term to penetrate the U.S. market. We would be pleased to cooperate more with GDF-Suez."

The first deal followed quickly—the French company took a 9% shareholding in Nordstream, a Russian pipeline stretching the length of the Baltic Sea, linking Siberian gas fields with the German coast. The IP deal brings with it a portfolio of U.S. power stations, another bauble to dangle in front of Russian state-controlled gas company **OAO Gazprom**.

The point about gas is you can turn it on and off, Mr. Mestrallet says. "Flexibility is key to our business model. It is a key instruction I give to our people, flexibility to be able to adapt in the short term and medium term."

Markets are volatile; demand for power collapsed in the recession and the U.S. natural gas price is below \$4 per million British thermal units, less than half its price before the financial downturn.

"If you have nuclear plants, they are not flexible at all. They are working 24 hours a day. Hydropower and [combined-cycle gas turbines] represent the best way to store electricity, because it cannot be stored except as water in a reservoir or as gas."

Fickle wind turbines are the least flexible. For every megawatt of wind, you need a gas turbine to back it up. "If you have no wind, you switch on the gas and if the wind is blowing at maximum you switch it off."

This is where GDF-Suez wants to be, switching the gas on and off around the world, using its flexible portfolio of fuels and power stations to have more power to sell as demand peaks.

The recent collapse in spot gas prices has brought simmering buyer-seller tension

to a boil as European governments rage over the long-term contracts that control the price of imported gas from Russia, Norway and North Africa. These contracts, which can last for two decades, link the gas price to the price of crude oil and, as a result, consumers haven't benefited from the collapse in demand for gas. Spot gas is about half the price of crude oil and the big utilities have been wrangling with exporters, such as Gazprom, Norway's **Statoil ASA** and **Sonatrach** of Algeria.

Mr. Mestrallet says he has done a deal with Gazprom over the oil-price linkage. While he won't say what it was, he hints that it was less about price than market share. "We have tried to get more flexibility in the volumes," he says. He defends long-term contracts, arguing that security of supply is better than short-term price gain.

French gas consumers were never cut off in the Russia-Ukraine dispute in January 2009, he says. "There is a strong link between long-term contracts and security of supply. If you trade on spot markets you are totally exposed to the risk of lack of volumes in winter."

And long-term contracts suit Mr. Mestrallet's business plan, which is about positioning GDF-Suez to win, not in the price battle next winter but in the war for market share over many winters to come. The gas bubble will subside, he argues, some time between 2012 and 2013 because of a hiatus in investment spending.

"Many investments have been delayed. The Qataris have decided to reduce the speed of investment. The Russians have delayed Shtokman [a gas project in the Arctic]. When the gas price was close to \$10 it was said the cost of [extracting] shale gas was [\$7 to \$8]; now the gas price is \$4."

Mr. Mestrallet is no follower of energy fashion. He seems happy to look on as the French government wrangles over the fu-

ture of its nuclear champions, EDF and nuclear-engineering company **Areva SA**. "There is a nuclear team with two players. We are not concerned," he says.

GDF-Suez has seven reactors in Belgium and plans to build a reactor in Romania, and one in the U.K. with **Iberdrola SA** and **Scottish and Southern Energy PLC**. But he isn't wedded to using the Areva-designed European pressurized reactor model, following concerns about cost overruns in Finland and at Flamanville in Normandy, where Areva is building EPRs. "The Rousely report [into the French nuclear industry] said we must draw the lessons of Finland and Flamanville before launching a new EPR. That is a wise decision," he says.

There is no doubt that one of IP's attractions for GDF-Suez is that it is one step removed from the company's government shareholder. "The government shareholder is at the upper stage. For them [IP] it is better; I manage the relationship with the state and I protect them. Their job is to produce electricity."

Having ruled himself out of the French nuclear-industry jockeying, Mr. Mestrallet is looking further afield, to Brazil. There, GDF-Suez is building Jirau, the biggest dam in the world, a \$5 billion investment that will generate 3,500 megawatts of hydroelectric power—more than twice the amount of power generated by an EPR. It will be part of IP's portfolio, and if it is built on time and to specifications, Mr. Mestrallet forecasts it will generate \$500 million of Ebitda profit every year for IP for 35 years, thanks to a concession from the Brazilian government and offtake agreements for 70% of the output.

"It is green power," Mr. Mestrallet says. "The desire to make electricity green is a reality here in Europe, but in many countries the first need is capacity. You have no economic growth without electricity."