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# THE WALL STREET JOURNAL.

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## Obama attacks Republicans over economy



Agence France-Presse/Getty Images

U.S. President Barack Obama walks on stage to deliver a speech on the economy at Cuyahoga Community College in Cleveland, Ohio, Wednesday. During the speech he attacked Republican opponents for 'riding fear ... and anger all the way to Election Day.' **Related article on page 7**

## BP faces furor as it doles out oil-spill blame

By BEN CASSELMAN AND SPENCER SWARTZ

BP PLC's long-awaited investigative report says a complex series of failures and bad decisions—by itself and other companies—led to the deadly Deepwater Horizon disaster in April, but the British oil giant was quickly assailed by critics and its partners in drilling the ill-fated well for failing to accept enough responsibility for the disaster.

The report, four months in the making, boils the investigation down to eight key findings, with BP accepting some of the responsibility for the disaster while pointedly fingering its partners for many of the mistakes made in key moments leading up to the explosion in the Gulf of Mexico.

Laying much of the blame on other companies may generate a new round of criticism of BP, but tactically it might help the oil giant dodge being pinned with gross criminal

negligence in the Deepwater Horizon debacle, a finding that could carry expensive consequences.

The British oil giant says that a cement seal designed and pumped by Halliburton Co. workers likely failed, allowing explosive natural gas to enter the well. Workers aboard the rig—from both BP and rig owner Transocean Ltd.—misinterpreted tests that should have warned them of the impending disaster, the report finds.

Transocean workers then missed key signs in the final 40 minutes before the April 20 blowout, BP said.

The BP investigation, led by company safety chief Mark Bly, has been billed as an objective examination of events leading up to the explosion of the Deepwater Horizon drilling rig that killed 11 workers and damaged a well, which unleashed nearly five million barrels of crude oil into the Gulf of Mexico.

But the report dismisses many of the other criticisms that have been leveled against BP by congressional investigators and outside experts. Mr. Bly's team, for example, concluded that the controversial "long-string" design of the well likely didn't contribute to the disaster.

The design provides fewer barriers against gas flowing up the sides of the well than an alternative design that is more widely used in deep-water wells. But the investigation found that gas likely flowed up the inside of the metal pipe lining the well, not up the sides, making the design irrelevant.

The findings, posted on BP's website at 7 a.m. Eastern time, also finger Transocean workers, which BP said, "failed to recognize and act on the influx of hydrocarbons into the well."

Transocean attacked the BP investigation shortly after *Please turn to page 6*

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How Stephen Hawking understated his case. **Page 12**

## Ireland to split up Anglo Irish as problems threaten economy

By NEIL SHAH AND QUENTIN FOTRELL

Ireland said Wednesday it will split troubled lender **Anglo Irish Bank Corp.** into two pieces to prevent depositors from fleeing, as the country's diseased banking system becomes the latest hot spot in Europe's ongoing economic crisis.

The government's move highlights how problems at Ireland's banks—which grew rapidly during the boom, fueled in large part by aggressive real-estate lending—will now be difficult to unwind, threatening the country's economy and government in the process.

Irish Finance Minister Brian Lenihan, days after

meeting with European Union officials, said state-owned Anglo Irish would be divided into a government-backed bank containing customer deposits and an "asset recovery bank" holding loans. The asset recovery bank could be sold in whole or part down the road. Mr. Lenihan said the cost of the restructuring would be announced in October.

Wednesday's move is Ireland's latest attempt to quash fears about its banking woes that threaten to destroy confidence in its government finances. Ireland has already spent well over 20% of its gross domestic product rescuing its banks. On Tuesday, officials said they would extend certain government guarantees for banks that were set

to expire this month.

Ireland's renewed banking problems are also sparking fears that the European Union's rescue of debt-laden Greece won't be its last. Earlier this year, the EU and the European Central Bank announced a raft of measures to stop a spiraling debt crisis in Greece from threatening all of the euro zone. Those concerns prompted a Europe-wide effort to purge fears by stress-testing the continent's 91 biggest banks, mimicking the U.S.'s success in restoring faith in its own banking system.

Those tests initially gave investors and analysts comfort. But in recent days, some of that confidence has fizzled amid deeper analysis of what *Please turn to page 4*

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## PAGE TWO

# BP will find commission far tougher

## [ Agenda ]

BY PATIENCE WHEATCROFT



It would have been unreasonable to expect BP's report into the Macondo well disaster to have been a mea culpa from cover to cover. Deep-sea drilling for oil involves many designers, contractors and suppliers and in a project on this scale, the scope for minor errors from any or all of the participants is wide.

Cynics are naturally greeting the report as an attempt to deflect blame rather than an effort to establish what really happened and it may be that external inquiries still under way come to harsher conclusions about the oil giant's culpability. Nevertheless, while the report concludes that "multiple companies, work teams and circumstances contributed to the accident," it by no means exonerates BP.

The list of recommendations for change made by the investigators provides a graphic insight into where BP's procedures should be improved. One of the most glaring states that in future the company should "establish minimum levels of redundancy and reliability for BP's BOP systems. Require drilling contractors to implement an auditable risk-management process to ensure that their BOP systems are operated above these minimum levels." Since BOP stands for Blowout Preventer, the reason this recommendation should be thought necessary should be a source of alarm.

Equally, the recommendation that the company should "strengthen BP's minimum requirements for drilling contractors' BOP maintenance management systems," strongly implies that those requirements haven't been strong enough.

Flawed cement may have played its part in creating the



Fire boats battle the blazing remnants of the Deepwater Horizon oil rig.

explosion that killed 11 people but the investigators also felt it necessary to recommend that BP "clarify and strengthen standards for well control and well integrity incident reporting and investigation. Ensure that all incidents are rigorously investigated and that close out of corrective actions are completed effectively."

If those standards weren't strong enough and incidents that threatened well integrity weren't being properly reported and rigorously investigated, then the company was courting danger. That crew from the rig owner,

**The risk for BP is that external investigators may not be minded to give it the benefit of the doubt.**

**Transocean**, and from BP should have been able to examine the results of a pressure test on the well's mechanical barriers and come to the "incorrect view" that it was a success does suggest a somewhat cavalier, or incompetent, approach to the security and safety of the well.

Bob Dudley, who succeeds Tony Hayward as BP chief executive, responded to the report with an assurance that the company would learn the lessons of Macondo and

improve the safety of its operations. "We will invest whatever it takes to achieve that," he declared Wednesday.

That is likely to mean that the \$20 billion BP has put into the fund to make reparations for the loss and damage the explosion has occasioned may not be the end of the expenses resulting from the failings in the Gulf of Mexico. Although Mr. Hayward has maintained that the cost cuts he pushed through at the company had no impact on safety, putting right the lack of rigorous process suggested by the 26 recommendations could require cash as well as management time.

In the interim, the company might consider whether its use of acronyms is overdone. Every industry has its own abbreviations but when many different parties are involved, might BP's liking for shorthand be a potential source of confusion? Apart from BOP, for instance, there is DWOP (drilling and well operations practice) and HAZOP (hazards and operability) and many others.

The National Commission established by President Barack Obama to report on the explosion may have needed an interpreter to help with its investigations. It is due to report in mid-January and the U.S. attorney general is also continuing his investigations into potential civil and criminal actions. They too will, no doubt, have encountered, as the BP

investigators did, some evidence that was "contradictory, unclear or uncorroborated." The risk for BP is that, confronted with such evidence, external investigators may not be minded to give it the benefit of the doubt.

## Indian poison pill

The Indian government may have no intention of trying to deter overseas companies from buying its businesses but its protracted tussle with **Vodafone** is likely to have that effect, or at least play a big part in negotiations over price.

The court in Mumbai ruled Wednesday that the telecom operator is liable for a potentially hefty tax bill over its 2007 purchase of Hutchison Whampoa's Indian mobile phone business, Hutchison Essar.

Vodafone continues to argue that the deal shouldn't be subject to tax in India since the assets that it bought were owned by a Cayman Islands company. The court has upheld the tax authorities' argument that the deal was taxable in India because that was the location of the operating assets. And the tax bill, which is thought to be around \$2 billion, falls on Vodafone rather than the vendor because India maintains that the buyer must withhold capital-gains tax liabilities from the seller and hand them straight to the government.

Vodafone is likely to take the case to the Supreme Court but, whatever the outcome, the fight is a warning to would-be buyers that India's unusual tax laws need to be factored in to the price of any potential deal.

## Belated banking split

The soaring cost of Irish debt has prompted the Irish government to split **Anglo Irish Bank** in two and announce the intention to sell what it can of the "bad bank." Quite why the government thinks this will reassure the market isn't clear. The ultimate cost of Anglo's adventures is still a crippling bill for the country.

## What's News

■ **An Indian court said** officials can seek taxes from Vodafone on its purchase of one of the country's largest cellular companies, potentially costing the U.K. company \$2.6 billion. A lawyer for Vodafone said the company will appeal the decision in India's Supreme Court. 17

■ **The resurgent economy** in Germany is giving workers something they haven't had since the country slid into recession two years ago: bargaining power. 5

■ **French unions vowed** to amplify protests against Sarkozy's plans to increase the retirement age as part of a pension overhaul. 4

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■ **Roche is increasing** its investments in China to accommodate the country's growing health-care needs. 17

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### MarketBeat

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'Ireland is losing the confidence of traders in the market for derivatives called credit-default swaps.'

**Neil Shah** on cost of insuring Ireland's debt against the risk of default



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NEWS

# From pâté to pizza, halal fare grows

By MAX COLCHESTER

PARIS—Fouad Darraz used to find it hard to get the food he wanted. Born and raised in France, he prefers European cuisine. But as a Muslim, he wants the food to be halal—or permissible under Islamic law.

Lately, Mr. Darraz has found what he has been looking for at Hal'shop, a new supermarket in a Paris suburb that stocks frozen Chinese food, lasagna and foie gras—all prepared according to Muslim dietary rules.

"Finding good halal food can be difficult," says Mr. Darraz, 30-year-old engineer whose parents immigrated to France from Morocco. "That's because basically I don't want North African food, I just want a pizza."

The rising number of Muslims in France has sparked an often-heated debate about Islamic influence in French society. French authorities have sought to curb some outward expressions of Muslim identity. Head scarves were banned in public schools, and parliament is considering a prohibition on donning burqas—concealing head-to-toe garments—in public.

But companies here see a potentially lucrative business in supplying religiously sanctioned food to France's growing ranks of young, professional Muslims, such as Mr. Darraz, who want to eat Western food that is halal.

"Until recently most major retailers viewed Muslims as exotic customers," says Abbas Bendali, director of Solis, a consultancy that specializes in marketing to ethnic minorities. "Now they are realizing that they consume like other French people and they are catering for them."

France has more Muslims—six million—than any other country in Europe. Sales of halal products totaled €4 billion (\$5.08 billion) in 2009. Solis forecasts the market will expand about 10% this year, compared with 2% growth in overall food sales, Mr. Bendali says.

Supermarkets, packaged-food companies and restaurants have all



Thierry Arduin/Tendance Floue for The Wall Street Journal (2)

A shopper picks up foie gras at Hal'shop, a French supermarket that offers halal versions of Western foods; at right, nonalcoholic 'champagne.'

been angling for a share of the halal market. Nestlé SA's French operations will bring out five or six new halal products next year, adding to a line that already includes soups and chicken sausages.

Last year, supermarket chain Groupe Casino SA launched its own brand of halal products called Wasila. And in April this year, Pierre Martinet, France's biggest prepared salad maker, launched a series of halal salads. Carrefour SA, the world's second-largest retailer by sales after Wal-Mart, is considering launching its own line of halal foods, a spokesman said.

On Tuesday, fast-food chain Financière Quick SA, whose menu includes hamburgers, chicken nuggets and salads, said it will open 14 new restaurants that serve only halal food, in addition to the eight all-halal outlets it already has.



The expansion of halal offerings is in some case provoking a backlash. Claude Capillon, the mayor of Rosny-sous-Bois, east of Paris, where Financière Quick has an all-halal restaurant, sent the company a letter saying it was discriminating against non-Muslim customers.

Some food companies are trying to give their halal products a low

profile because of such reactions. Labeyrie, France's biggest foie gras producer by revenue and a unit of food company Altesca, launched a halal foie gras. Afterward, some bloggers accused it of funding Islamic extremists. Now it sells its halal pâté in a few stores and doesn't advertise it on the company website.

Retailers in other European countries also sell halal food. But France is ahead of the curve, says Bruno El Kasri, the director of Nestlé's French ethnic-food division. Mr. El Kasri says the children of Muslim immigrants to France have acquired local tastes more than Muslims in other parts of Europe.

"Here it isn't about food which reminds people of their homeland," says Mr. El Kasri. "It's about local food which is compatible with their religion."

For food to be considered halal, it must be prepared following religious rules. Slaughtered animals, for example, must have their throats slit by a Muslim, while a prayer is intoned. Following the guidelines strictly can raise costs by up to 20%, estimates Mr. El Kasri.

But the new generation of Muslims, often better off financially than their parents, are willing to pay the higher prices.

They have acquired the nickname "bourgeois"—from the words bourgeois and beur, slang for Arab. Fancy restaurants, such as Les Enfants Terribles, where patrons can get French haute cuisine prepared from halal ingredients have sprung up.

Rachid Bakhalq opened Hal'shop in March this year because, he says, the marketing efforts of larger French supermarkets sometimes still fall short in their efforts to appeal to Muslim customers.

The stores "treat us like Arabs—but we are French," says Mr. Bakhalq. "They don't respect their customer."

Hal'shop, a spacious modern supermarket in Nanterre, sells only halal food—and plenty of French dishes. Top sellers include croissants stuffed with turkey and the lasagnas. Most of his clients are second-generation immigrants under 45 years old, he says.

Isabelle Boumi, 38, a health-care worker born in Morocco but raised in France, visits Hal'shop twice a week to stock up on food she can't find elsewhere.

"They have everything here," she says. "I especially come for the hamburgers and nonalcoholic beer."

## Marking Ramadan's end in a big way

[ Letter from Damascus ]

By DON DUNCAN

DAMASCUS—As Muslims prepare to celebrate Eid ul-Fitr, the holiday marking the end of the holy month of Ramadan, many restaurants across the Arab world boost their meat orders by a few crates. But every year, Damascus Gate restaurant—officially the world's biggest, in the outskirts of the Syrian capital—boosts its orders by the ton.

At 6,014 seats and occupying a seating area of 54,000 square meters, Damascus Gate holds the Guinness World Record for the largest restaurant in the world. And it is during Ramadan, which ends this week, and the festival of Eid that follows it, that the restaurant does its brisk trade.

During the month's dawn-to-dusk fasting, Damascus Gate remains sleepy. But once the sun sets, it springs to life with families and friends converging to break the fast together, in a meal called *iftar*. In a matter of 30 minutes, from around 7 p.m., Damascus Gate goes from no diners to full capacity.

"Normally in a day we have two tons of meat and 3½ tons of chicken," says restaurant manager Mohammed al-Samman, 25 years old. "Seafood, not so much," he says, adding with a grin, "when we say 'not so much,' we're talking half a ton."

Mr. al-Samman took over management of the restaurant in 2004 from his father, Shaker, a Syrian business tycoon based in Kuwait.

The Guinness accreditation process is rigorous and the criteria many, including total



Diners in 2008 gather at Damascus Gate, Video report at [WSJ.com/Video](http://WSJ.com/Video).

number of seats and a minimum space requirement between those seats. As a result, figures pertaining to the size of the establishment now roll off his

tongue: "40,000 spoons, 40,000 knives. Over 100,000 plates. Each day we go through 2,500 bottles of water, 7,000 cans of Pepsi, two tons of lettuce."

The restaurant, which has mostly outdoor seating, features waterfalls, fountains of various shapes and sizes, and replicas of archaeological ruins inspired by Syria's ancient city of Palmyra.

During Eid, when tables can turn over four times in a night, the rolling population of Damascus Gate can swell to well over 20,000 in an evening.

"It's like we have our own independent state over here," Mr. al-Samman says.

Handling these volumes is an army of 1,800 workers, 800 of whom work serving tables. "I know it's the biggest restaurant in the world, but that's not why I come here," says diner Mohammed Hussein el-Bash, 60, from Jordan. "I come because I'm very happy and comfortable here. And because it's the biggest restaurant, I know that whenever I come I'll be sure to find a table."

## EUROPE NEWS

# French unions plan protests

By DAVID GAUTHIER-VILLARS

PARIS—French labor unions vowed to amplify their protests against government plans to increase the retirement age after President Nicolas Sarkozy said he wouldn't give in on elements of a proposed pension overhaul.

A coalition of six unions called on workers to participate in another one-day nationwide strike and march on Sept. 23 to challenge Mr. Sarkozy's "unfair and unacceptable" proposal to raise the standard pension age to 62 from the current 60 years old.

Some unions that didn't sign Wednesday's call said a fresh one-day protest wouldn't be enough to defeat Mr. Sarkozy's plan. "Repeated demonstrations can certainly rattle the government but they won't force it to back down," said Didier Hotte, a spokesman for the Force Ouvrière union.

The showdown with unions is a key test for Mr. Sarkozy less than two years before the next presidential election. Past attempts to change France's generous welfare system have led to extended mass protests and forced governments to back down.

Mr. Sarkozy said Wednesday that he was ready to consider a number of concessions: Workers with even minor handicaps will be allowed to seek retirement at 60, and until 2015, women with three children will be allowed to retire if they can claim 15 years of activity in the public sector.

But the president ruled out the unions' request to scrap the proposed increase in the retirement age. "We can't go back on this," he said. "It's out of the question."

Unions held a mass one-day protest and strike Tuesday, timed to coincide with the start of a parliamentary debate on the retirement plan.

Unions said an estimated 2.5 million people took part in demonstra-



Nicolas Sarkozy is sticking to plans to raise the retirement age despite union plans for more strikes.

tions on Tuesday. Police put the figure at 1.1 million.

The lower house of Parliament, where Mr. Sarkozy's ruling Union pour un Mouvement Populaire party holds a majority, is expected to approve the pension bill on Sept. 15. The Senate, the upper house, could give final approval as soon as October.

Mr. Sarkozy is trying to fix a shortfall in the nation's mandatory, state-run pension system. The system has been under pressure for several years, because French people are living longer and thus spend more time drawing pensions. But the shortfall widened brutally after last year's recession caused a sharp drop in payroll-tax collection. The short-

fall for 2010 could reach €32 billion (\$40.6 billion).

The government has said balancing the pension system is essential to show foreign creditors that France will be able to keep its debt in check. France's budget deficit is projected at the equivalent of 8% of gross domestic product this year, well above the euro zone's 3% target.

# Ukraine questions opposition leader

By JAMES MARSON

KIEV—Ukraine's Security Service questioned a leading member of the political opposition Wednesday in a widening corruption probe focused on allies of former Prime Minister Yulia Tymoshenko.

The agency, a successor to the Soviet-era KGB, said it summoned Oleksandr Turchynov as a witness to the alleged abuse of state authority in a natural-gas-assets transfer when he was Ms. Tymoshenko's deputy prime minister.

Allies of Ms. Tymoshenko, who now leads the opposition, say the summons is the latest step in a campaign of political persecution under President Viktor Yanukovich, who defeated her in an election in February. "It pains me to see how the Security Service is being used as a political tool," Mr. Turchynov, a former head of the agency, said after the questioning.

Government officials say the probe is part of a promised crackdown on corruption. "The opposition is using the situation to attract society's attention and improve its rating," said Serhiy Lyovochkin, the president's chief of staff. He said law-enforcement bodies were working professionally and independently from the administration.

Opposition and civil-society groups say Mr. Yanukovich is leading Ukraine down an authoritarian path. He called last month for constitutional changes to strengthen the presidency at Parliament's expense.

The questioning of Mr. Turchynov came a day after rival lawmakers punched each other in Parliament over the government's decision to increase household gas prices by 50% and delay the retirement age for women to 60 from 55. During the session, pro-government lawmakers blocked an opposition attempt to freeze the measures, adopted to secure \$15 billion in International Monetary Fund loans.

At least five of Ms. Tymoshenko's allies are under criminal investigation; all deny wrongdoing. Former Economy Minister Bohdan Danylyshyn vanished from public view after a warrant was issued last month for his arrest on corruption charges. Four others who held positions in her government are in police custody pending investigations. They include the former head of the state customs service and the former deputy head of state-owned energy monopoly Naftogaz.

The biggest case under investigation involves a politically tinged dispute between Naftogaz and RosUkrEnergo, an energy company that in 2009 lost its role as an intermediary in the natural-gas trade between Russia and Ukraine. Naftogaz then collected a debt from RosUkrEnergo by appropriating 11 billion cubic meters of gas from the company. An international arbitration ruling obliged Naftogaz to return the gas and pay a penalty.

Ms. Tymoshenko said officials in Mr. Yanukovich's government are tied to RosUkrEnergo and are supporting the company against the state in the dispute. The government denies this.

# Ireland to split up Anglo Irish Bank

Continued from first page was disclosed, particularly in the area of banks' exposure to risky European government debt.

Until recently, Ireland was thought to be on course in tackling its financial problems, thanks to an aggressive program of spending cuts to reduce its budget deficit, the biggest in the euro zone. But as Ireland's problems have persisted, its credibility with investors has been eroded.

It is now serving as a cautionary tale for other indebted European economies on how difficult the road to recovery may be, even if they tackle out-of-control spending.

"It's a big hangover," says Alan McQuaid, chief economist at Bloxham, Ireland's biggest independent stockbroker. "Ireland is juggling too many balls at once, and the market thinks that they're going to drop one of them."

Ireland's banks pose the biggest threat to its recovery from a real-estate bust. At the height of the boom in early 2008, Ireland's construction sector fueled roughly 25% of its GDP. To support that boom, Ireland's banks supplied huge amounts of cheap credit to property developers and retail customers alike.

By 2008, Irish households were

carrying debt that represented roughly 175% of their disposable income, even higher than the U.S.'s 145%, according to Goodbody Stockbrokers.

Anglo Irish has turned into the worst egg in Ireland's basket. Investors fear that its increasingly expensive rescue will further enlarge Ireland's deficit, already at more than 14% of its GDP last year. In a disturbing sign, the cost of insuring Ireland's government debt against default using derivatives called credit-default swaps hit its highest ever early Wednesday.

The Irish government's move on Wednesday, which was applauded by Anglo Irish and the European Union, soothed some of those fears, though investors remain concerned, given the final cost of dealing with Anglo is unclear.

Late Wednesday in Europe, it cost \$370,000 a year to insure \$10 million of Ireland's bonds for five years, compared with more than \$400,000 earlier Wednesday and \$378,000 on Tuesday, according to data provider Markit. The premium that Ireland pays over Germany, the euro-zone benchmark, to borrow from investors in the bond market also fell significantly on the news, but remains near the highest level

## Expensive proposition

Annual cost of insuring €10 million of Ireland government bonds against default for five years



Source: Markit

since the euro was introduced in 1999.

"It's a small first step," said Dermot O'Leary, chief economist at Goodbody Stockbrokers in Dublin. "The wider issue is how much Anglo Irish is going to cost."

But Ireland's problems go beyond its ailing banks. A significant slowing in the global economic recovery could hurt Ireland's economic prospects more than other countries in Europe.

While the country's economy steamed ahead in the first quarter,

it is heavily reliant on exports, which fuel 50% of its GDP. If U.S. and German economic growth slow significantly, Ireland could feel the pain. Ireland's banks, meanwhile, are in a weak position to lend.

Any renewed fear over the global economy or Europe's financial system also tends to send investors flocking into safe assets like British and German government bonds. If investors decide to stop taking risk, they are likely to avoid Irish securities.

Indeed, several observers said that some of the tensions in Ireland's bond market have more to do with expectations that governments will sell a lot of bonds in coming weeks. Also, few bonds are actually trading hands. "There's very little trading," says Shahid Ikram, head of sovereign bonds at Aviva Investors in London.

Mr. Ikram says some investors have decided to sell euro-zone government bonds to take advantage of prices having risen over the summer.

With such little trading in the market, the sales are disproportionately affecting prices. "The situation has not deteriorated in any way," Mr. Ikram says. "It never really improved either."

EUROPE NEWS

# German workers push for higher pay

BY BRIAN BLACKSTONE

FRANKFURT—Germany's resurgent economy is giving workers something they haven't had since the country slid into recession two years ago: bargaining power.

Labor unions representing everyone from metal workers to public and service-sector employees are pressing for annual wage increases as high as 4% to 6%. If their bargaining is successful, Germany and

rate, German salaries increased just 0.4% from the same period a year ago, according to figures from Germany's statistics office Wednesday. That is less than the rise in consumer prices, reflecting the trade-off workers made to forgo higher paychecks to keep their jobs.

That may soon change. German unemployment has fallen for 14 consecutive months, bringing the unemployment rate back to its pre-recession level of 7.6%, the lowest since 1992. Unemployment in other big economies, particularly the U.S., is still stubbornly high, keeping a lid on wage growth.

For Europe's largest economy, "the period of ultra-low wage increases is coming to an end," says Jörg Krämer, chief economist at Commerzbank in Frankfurt. As a result, "Germany will be one of the first of the industrialized countries to experience an inflation problem" with average price gains "between 3% and 4%" once the damping effects of the financial crisis fully run their course, warns Mr. Krämer.

Germany's metals and engineering union, IG Metall, is asking for a 6% wage raise starting in September, a big increase from their previous 2% increase. Talks in North-Rhine Westphalia, the heartland of Germany's steel industry and home to companies such as **ArcelorMittal SA**, **ThyssenKrupp AG** and **Salzgitter AG**, ended in deadlock Monday.

"There is a stark contrast between the crisis-ridden situation in spring and now," says IG Metall del-

**German unemployment has fallen for 14 consecutive months, bringing the unemployment rate back to its pre-recession level of 7.6%, the lowest since 1992.**

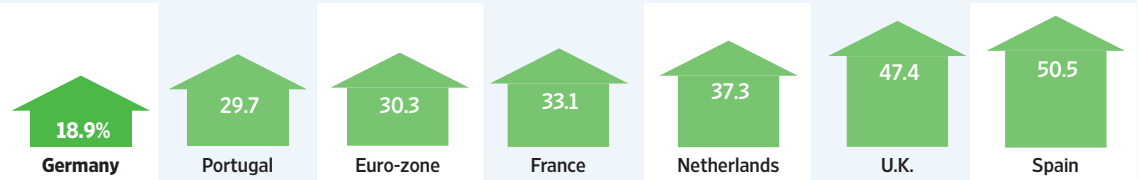
the euro zone could see inflation rates move higher and eventually above the European Central Bank's 2% target, economists warn, presenting a dilemma for ECB policy makers who must balance a strict anti-inflation mandate with a fragile recovery in Europe's periphery.

The favorable negotiating window for German workers may close soon, however. Data Wednesday including a drop in exports and sluggish production suggest the third quarter is off to a weak start.

Last quarter, despite sizzling 9% economic growth, at an annualized

**No pain, no gain**

Germany held labor costs well below others in Europe, giving it a competitive edge. Change in labor costs from full-year 2000 to first-quarter 2010



Source: German statistics office Photo: Agency France-Presse/Getty Images



A worker measuring flat-rolled steel at a steel firm in Salzgitter, Germany

egate Wolfgang Nettelstroth. "During the crisis, our wage policy focused on keeping employment levels stable, now the priority is more money," says Mr. Nettelstroth, who is on the supervisory board of pipe-maker **Europipe GmbH**.

Even some government officials agree Germans are due a raise. "Workers should benefit from the

upswing," Labor Minister Ursula von der Leyen recently told a German daily. Some employers call IG Metall's wage request "demanding."

"The steel industry is just about to recover from the worst crisis of its history," industry representative Helmut Koch says. Others have an even simpler message: Don't mess with success. Slow wage growth last

decade made Germany better able to compete globally, business leaders and economists say, helping its export-dependent economy withstand the effects of a higher euro that made German and other European products more expensive in global markets.

—Roman Kessler contributed to this article.

# U.S. falls in ranking of competitiveness

BY JON HILSENATH

The financial crisis and its aftermath may be taking a longer-term toll on the competitiveness of the U.S. economy, according to a study by the World Economic Forum.

The U.S. fell two spots, to rank No. 4 behind Switzerland, Sweden and Singapore in the Geneva-based organization's annual survey of global competitiveness.

Germany climbed two notches to end up in fifth place, while Japan was ranked No. 6.

**The business community 'considers that the government spends its resources relatively wastefully,' the group's report concluded.**

"The public does not demonstrate strong trust of politicians," while the business community "considers that the government spends its resources relatively wastefully," the group concluded from its study.

The report is based on surveys as well as a wide range of economic data.

"There is also increasing concern related to the functioning of private institutions, with a measurable weakening of the assessment of auditing and reporting standards as well as corporate ethics," the group

said.

The annual competitiveness study evaluates countries based on various criteria, ranging from their macroeconomic policies, the strength of their public and private institutions and the quality of their education and infrastructure, as well as the efficiency of markets for goods, labor and capital.

Among the American economy's strengths, the report's authors cited technological innovation, excellent universities and the ease and affordability of hiring workers.

With the unemployment rate lingering at 9.6%, the health of the U.S. economy has become the central issue in November's midterm congressional elections in the U.S.

Many business executives have said that they aren't hiring because of uncertainty about the fiscal and regulatory outlook in the U.S.

Republicans have seized on these complaints to argue that President Barack Obama's policies, such as an overhaul of the health-care system, have caused added economic uncertainty among business leaders.

Mr. Obama and the Democrats counter that they are shouldering the burden of fixing problems caused by eight years of Republican rule in the White House, during which the housing bubble blossomed.

China ranked 27th in the survey, up two notches this year.

Among other large developing countries, India ranked 51st, Brazil was 56th and Russia was in 63rd place.

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## THE BP REPORT



Associated Press

The Deepwater Horizon rig is seen burning in this photo taken April 21, a day after the disaster began.

# BP faces furor as it allots spill blame

*Continued from first page*  
its release, calling it “a self-serving report that attempts to conceal the critical factor that set the stage for the Macondo incident: BP’s fatally flawed well design. In both its design and construction, BP made a series of cost-saving decisions that increased risk—in some cases, severely.”

Halliburton said in a statement that it “noticed a number of substantial omissions and inaccuracies” in BP’s report.

Texas-based Halliburton said it remained “confident that all the work it performed” in the well’s operations was completed in accordance with BP’s specifications. Halliburton said it would provide additional comments about BP’s report as appropriate.

Criticism also came in from other quarters. “This report is not BP’s mea culpa,” said Rep. Edward J. Markey (D., Mass.), chair of the Energy and Environment Subcommittee and Select Committee on Energy Independence and Global Warming. “Of their own eight key findings, they only explicitly take responsibility for half of one. BP is happy to slice up blame, as long as they get the smallest piece.”

“There were multiple companies at fault, no doubt about that,” said Mark Lanier, an attorney representing fishermen and others suing BP over economic losses suffered because of the spill. “But there is a level of hypocrisy for BP to point the finger anywhere beyond itself.”

The report also contains 25 recommendations meant to prevent another disaster, in areas such as oversight of contractors.

Commenting on the report, BP’s outgoing Chief Executive Tony Hayward said the company’s investigation showed that “a series of complex events, rather than a single mistake or failure, led to the tragedy.” He noted that multiple companies, including BP, Halliburton, which was in charge of the cement job; and Transocean “were involved,” without explicitly blaming the firms.

In conducting the investigation, Mr. Bly marshalled a team of about 50 people, including BP employees and outside specialists, who were said to be walled off from the rest of

## Sequence of failures

BP identified eight main causes for the Deepwater Horizon disaster.

- Cement recently pumped into well casing didn’t stop oil and gas from leaking into the wellbore.
- Other protectors failed
- Engineers misinterpreted tests on the integrity of the well.
- Crew didn’t recognize flow until after it passed blowout preventer.
- Crew failed to divert flow via line that would send it overboard.
- Gas was diverted into ‘mud-gas separator’ and vented onto the rig.
- Ventilation systems may have sent gas to areas prone to igniting.
- Three methods for using blowout preventer to seal the well failed.

BP report

the company so they could be free of influence or pressure from top executives.

In a press briefing Wednesday morning in Washington, Mr. Bly defended the independence of the investigation. Its leaders came from outside BP’s Gulf of Mexico unit, he said, and more than half of the roughly 50 experts that it consulted came from outside BP.

Mr. Bly said the report was “not about apportioning fault or blame” and was instead an effort “to understand what happened and to the extent possible, why.” He said the team was able to analyze data from the rig and also conducted its own simulations and tests. But he said the team wasn’t able to interview all the third-party workers involved.

One immediate question likely to arise from BP’s account of the accident involves how much, if at all, it reflects the point of view of other companies involved in the well. A person familiar with the report said the inputs of Transocean, Halliburton and Cameron International Corp., maker of Deepwater Horizon’s blowout preventer, were of a “limited nature” in terms of shaping the

report.

Indeed, BP’s report cautions that its conclusions might not be universally accepted. The report says that BP recognizes that other investigations “could reach different conclusions or ascribe different weight to particular information.”

BP shares on the London Stock Exchange rose 2% to £4.14 a share. The company’s stock has recovered almost 40% of its value since late June, when it touched a current-year low of around £3, less than half its value prior to the accident.

The U.K. company’s report will be scrutinized by regulators, companies and lawyers not just for its explanation of the complex chain of events that led to the accident. Observers will also be looking carefully at how BP describes its own culpability in the accident compared to the role played by other companies, such as Transocean, which owned the rig and was hired by BP to do drilling work.

The report’s findings detail the sequence of events that led to the explosion.

Once the blowout began, according to the report, workers diverted the spewing gas onto the rig, rather than off the side, and systems meant to prevent a spark from igniting the gas didn’t work.

Finally, the rig’s blowout preventer, the huge stack of valves on the seafloor that is meant to shut down a well in an emergency, failed, “probably because critical components were not working.” Transocean owned and maintained both the rig and the blowout preventer.

The report doesn’t exonerate BP. Most significantly, it finds that BP workers on the rig misinterpreted a key “negative pressure test,” incorrectly concluding that the well was sealed against an influx of oil and gas.

But the report rejects the notion that BP’s well design was at fault, and also minimizes the importance of BP’s decision to use fewer centralizers—devices meant to keep pipe in the middle of the well to ensure a good cement job—than Halliburton recommended.

Halliburton has said it warned BP that using fewer of the devices could allow gas to flow through the cement. The report finds that BP didn’t follow proper procedures for

## Approaching disaster

Final 9 minutes prior to the explosion

21:40

Mud overflowed onto the rig floor.

21:41

Mud shot up through the derrick.

21:46

Gas hissing noise heard, and high-pressure gas discharged from vents towards deck.

21:47

First gas alarm sounded. Roaring noise heard and vibration felt.

21:49:15

Power lost on Deepwater Horizon

21:49:20

First explosion

21:49:30

Second explosion

Source: BP

# Market shrugs off firm’s take on disaster

By SPENCER SWARTZ AND BENOIT FAUCON

The financial community greeted BP PLC’s take on the causes of its U.S. oil-drilling disaster with equanimity, as the U.K. company’s share price barely budged Wednesday and various analysts held firm to their pre-report opinions about the company.

The report assigns much of the blame for the April 20 disaster to BP’s partners in the well, including Halliburton Co. and Transocean Ltd., with BP itself receiving a smaller slice of the blame. That has opened the company up again to criticism that it isn’t accepting responsibility for the accident, but it may help BP dodge potentially expensive gross-negligence allegations down the road.

Some analysts said they still weren’t sold on the notion that BP was out of the woods concerning claims from some companies and U.S. lawmakers that it was grossly negligent in the hours and days leading up to the Deepwater Horizon rig accident, which killed 11 workers.

The report “is not yet sufficient to counter our current concerns around the event,” said Oswald Clint, a London-based analyst at Bernstein, referring to the April 20 accident. Mr. Clint, who maintains a “market perform” rating on BP’s stock, equivalent to a “hold,” also noted that BP’s report warned that several other U.S. investigations could draw different conclusions from those in BP’s 193-page report.

## BP’s report would still be weighed against other U.S. government probes, which could take a more critical stance on the company.

BP shares on the London Stock Exchange were up slightly at £4.12 a share Wednesday, up about 5 pence. BP’s stock has recovered about 38% of its value since late June, when it touched a current-year low of around £3, less than half of its value prior to the April 20 accident.

Robert Talbut, chief investment officer at London-based fund Royal London Asset Management, which owns less than 1% of BP’s stock, said the report “matches our expectations” and could support BP’s defense against dozens of lawsuits it faces over the accident. Mr. Talbut noted that BP’s report would still be weighed against the other U.S. government investigations, which could take a more critical stance on the company’s responsibilities. Those investigations are continuing.

Jason Kenney, a U.K.-based analyst at ING, said he continued to believe BP wouldn’t be found grossly negligent for its role in the accident, and that the companies working with BP would eventually be forced to pony up their share of the costs, fines and penalties.

Many of BP’s partners have so far refused to make such payouts. Mr. Kenney reiterated his “buy” rating on BP’s stock on Wednesday.

—Dionne Searcey contributed to this article.

WSJ.com

ONLINE TODAY: See the full text of the BP report, plus related video, graphics and photos, at [WSJ.com/GulfSpill](http://WSJ.com/GulfSpill).

U.S. NEWS

# Obama sharpens aim at Republicans

By JONATHAN WEISMAN

President Barack Obama, in a combative, campaign-like speech in Parma, Ohio, conceded that his policies have “fed the perception that Washington is still ignoring the middle class,” even as he castigated Republican opponents for “riding...fear and anger all the way to Election Day.”

The speech was billed as a major economic address to unveil new proposals to kick-start a flagging economic recovery. The president did introduce three new policy proposals the White House has been rolling out for nearly a week: \$50 billion in additional infrastructure spending, a permanent and expanded research and experimentation tax credit and a measure allowing businesses to write 100% of their investment costs off their taxes through 2011.

But Mr. Obama’s speech was far more about politics than economics.

“If we’re willing again to choose hope over fear, to choose the future over the past, to come together once more around the great project of national renewal, then we will restore our economy, rebuild our middle class and reclaim the American dream,” he said.

The president singled out House Minority Leader John A. Boehner (R., Ohio) repeatedly, castigating him for proposing “the same [economic] philosophy that led to this mess in the first place.”

And he hit Republicans hard for opposing the administration’s economic policies.



Protesters line President Obama’s route Wednesday in Ohio, ahead of a speech on proposals to kick-start the economy.

economic policies.

“Instead of coming together like past generations did to build a better country for our children and grandchildren, their argument is that we should let insurance companies go back to denying care to folks that are sick, and let credit-card companies go back to raising rates without any reason. Instead of setting our sights higher, they’re asking us to settle for a status quo of stag-

nant growth, eroding competitiveness and a shrinking middle class,” Mr. Obama said.

Mr. Boehner countered with a proposal that he said should garner bipartisan support: Extend all of the tax cuts passed under George W. Bush for two years and cut spending on programs not tied to national security to 2008 levels.

“If we’re able to do this together, I think...we’ll be able to get our

economy moving again and get jobs growing,” Mr. Boehner said on ABC’s Good Morning America.

Mr. Obama wants to extend the tax cuts permanently for the middle class, but not for the wealthy.

The latest policy proposals, thus far, have gained little traction. Sen. Michael Bennet (D., Colo.), who is locked in a difficult election fight, said Wednesday, “I will not support additional spending in a second

stimulus package.”

Democrats have expressed some disappointment in the president’s choice of proposals. In a speech Tuesday, Rep. Joe Sestak, the Democratic candidate for Pennsylvania’s open Senate seat, said he welcomed Mr. Obama’s proposals, although he added they should have come 18 months ago.

But Mr. Sestak’s top priority, a 15% payroll tax credit for small businesses, was rejected by the White House, as was a proposed payroll tax holiday for new hires that Wisconsin Sen. Russ Feingold, another embattled Democrat, pressed on White House economist Larry Summers last Friday, according to a person familiar with the conversation.

But, a Democratic congressional campaign aide said, Mr. Obama’s combative tone in speeches this week has been helpful for Democrats, who are trying to turn the November midterm elections from a referendum on Democratic control in Washington to a choice between Democratic and Republican policy prescriptions.

For their part, Republicans were not dodging the charge that their responses to the president’s proposals have been a constant “no.”

Asked why Republicans should win in November, Mississippi Gov. Haley Barbour, a potential rival to Mr. Obama in 2012, said Republicans “in a very unified fashion have opposed bad policy. And the public appreciates it when a party fights against what it knows is bad policy.”

## Fed notes slowing of recovery in U.S.

By LUCA DI LEO

WASHINGTON—The U.S. economy hit a soft patch in the second half of July and through August as the housing sector continued to suffer after the expiration of a tax credit, the Federal Reserve said in a report released Wednesday.

In its latest “beige book,” the U.S. central bank said reports from its 12 regional Fed banks suggested that the economic expansion was continuing, albeit “with widespread signs of a deceleration compared with preceding periods.”

The five western Fed districts of St. Louis, Minneapolis, Kansas City, Dallas and San Francisco reported that economic growth was continuing at a moderate pace. The districts of New York, Philadelphia, Richmond, Atlanta and Chicago all highlighted mixed conditions or a slowdown in the economy. The remaining reports, from Boston and Cleveland, pointed to positive developments compared with previous beige books.

The one-year-old economic recovery has been losing steam in recent months, with housing and construction hit by the expiration of the home-buyers tax credit at the end of June. With short-term interest rates close to zero, there’s little more the Fed can do to boost the economy, leaving the burden on fiscal policy. After already spending huge sums to fight the recession, President Barack Obama’s administration is now offering new tax incentives for businesses and pledging some \$50 bil-

### A bland ‘beige book’

- For banks, little change from “existing low levels of commercial and industrial lending.”

- Upward price and wage pressures were very limited.

- New York reported “strong tourist activity” and busy hotels in Manhattan, where occupancy rates remained close to 90%.

Source: Federal Reserve

lion in infrastructure spending in an effort to stimulate the economy.

The U.S. central bank compiles the beige book eight times a year from anecdotal information collected by the dozen regional Fed banks. The report helps inform Fed officials as they decide the future course of monetary policy.

Home sales slowed further following an initial drop after the expiration of the tax credit, prompting a slowdown in construction activity as well, the Fed report said.

The latest beige book is based on information collected on or before Aug. 30 and is prepared for use at the central bank’s next policy-setting meeting Sept. 21.

At their last such meeting Aug. 10, Fed officials took a small step to support a slowing recovery by deciding they would prevent the central bank’s \$2.0 trillion portfolio from shrinking.

—Darrell A. Hughes  
contributed to this article.

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## U.S. NEWS

# Insurers blame new law for rate hikes

BY JANET ADAMY

Health insurers say they plan to raise premiums for some Americans as a direct result of the health overhaul in coming weeks, complicating Democrats' efforts to trumpet their signature achievement before the midterm elections.

Aetna Inc., some BlueCross BlueShield plans and other smaller carriers have asked for premium increases of between 1% and 9% to pay for extra benefits required under the law, according to filings with state regulators.

These and other insurers say Congress's landmark refashioning of U.S. health coverage, which passed in March after a brutal fight, is causing them to pass on more costs to consumers than Democrats predicted.

The rate increases largely apply to policies for individuals and small businesses and don't include people covered by a big employer or Medicare.

About 9% of Americans buy coverage through the individual market, according to the Census Bureau, and roughly one-fifth of people who get coverage through their employer work at companies with 50 or fewer employees, according to the Kaiser Family Foundation. People in both groups are likely to feel the effects of the proposed increases, even as they see new benefits under the law, such as the elimination of lifetime and certain annual coverage caps.

Many carriers also are seeking additional rate increases that they say they need to cover rising medical costs. As a result, some consumers could face total premium increases of more than 20%.

The rate increases are a dose of troubling news for Democrats just weeks before an election in which they are at risk of losing their majority in the House and possibly the Senate.

In addition to pledging that the law would restrain increases in Americans' insurance premiums, Democrats front-loaded the legislation with early provisions they hoped would boost public support. Those include letting children stay on their parents' insurance policies until age 26, eliminating co-payments for preventive care and barring insurers from denying policies to children with pre-existing conditions, plus the elimination of the coverage caps.

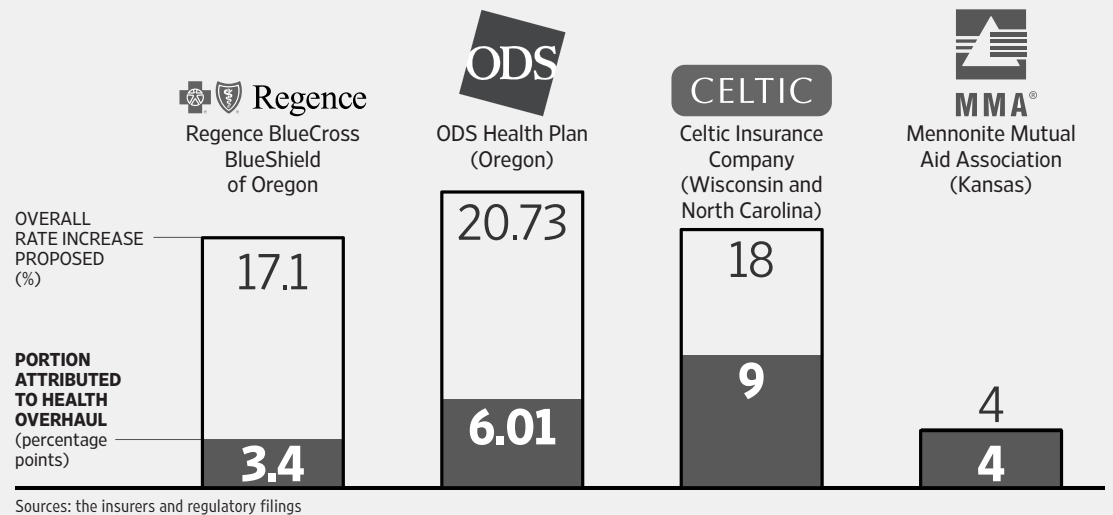
Weeks before the election, insurance companies began telling state regulators it was those very provisions that were forcing them to increase their rates.



Insurers say the U.S. health law mandates free preventive care that raises premiums. A Maryland man gets a flu shot.

## Rising rates

Some insurers are blaming the health overhaul for part of their premium increases, while others say the impact is small. A sampling of proposed increases for individual and small-group plans:



Aetna, one of the nation's largest health insurers, said the extra benefits forced it to seek rate increases for new individual plans of 5.4% to 7.4% in California and 5.5% to 6.8% in Nevada after Sept. 23. Similar steps are planned across the country, according to Aetna.

Regence BlueCross BlueShield of Oregon said the cost of providing additional benefits under the health law will account on average for 3.4 percentage points of a 17.1% premium rise for a small-employer health plan. It asked regulators last month to approve the increase.

In Wisconsin and North Carolina, Celtic Insurance Co. says half of the 18% increase it is seeking comes from complying with health-law mandates.

The White House says insurers are using the law as an excuse to raise rates and predicts that state regulators will block some of the

large increases.

"I would have real deep concerns that the kinds of rate increases that you're quoting... are justified," said Nancy-Ann DeParle, the White House's top health official.

Previously the administration had calculated that the batch of changes taking effect this fall would raise premiums no more than 1% to 2%, on average.

A small number of insurers have submitted plans to lower rates, citing new mandates in the legislation as the reason. HMO Colorado, a Blue Cross Blue Shield plan owned by WellPoint Inc., submitted a letter to state regulators saying small group rates would fall 1.8% starting Oct. 1 because of changes from the law.

After Regence mailed a letter notifying plan administrators of its intention to raise group insurance rates in Washington state, the White House accused company officials of inaccurately justifying the increase. Kerry Barnett, executive vice president for Regence BlueShield, said the insurer was changing the letter to more precisely explain the causes of the increase.

The industry contends its increases are justified. "Anytime you add a benefit, there are increased costs," said Karen Ignagni, president of America's Health Insurance Plans, the industry's lobbying group.

Regence BlueCross BlueShield of Oregon, which estimates its increase covers 57,000 members, said its goal is to "anticipate the financial needs of our members as accurately as possible and to collect just enough premiums to cover costs," said a spokeswoman. Other insurers offered similar explanations or declined to discuss their increases.

Massachusetts, which enacted universal insurance coverage several years ago, also has seen steadily rising premiums since then. Proponents of that plan attribute the hikes there to an overall increase in medical costs, while insurers cite it as a cautionary example of what can happen when new mandates to improve benefits aren't coupled with a strong enough provision to force healthy people to buy coverage.

Republicans, who have sought voter support by opposing the health law, say premium increases could help in November's congressional races.

"People are finding out what's in [the law], they don't like it, and I think it's going to play a big factor in this election," said Iowa Sen. Charles Grassley, the top Republican on the Senate Finance Committee.

## The shortlist for Obama's next chief of staff

### [ Washington Wire ]

BY LAURA MECKLER

Rahm Emanuel has not even said if he'll leave his job to run for mayor of Chicago, but Washington's favorite parlor game is already well under way: Who would succeed him as White House chief of staff?

The question was set into motion Tuesday when Chicago Mayor Richard M. Daley said he would not run for re-election, opening the way for Mr. Emanuel

to pursue a job he has openly coveted.

It's not known who President Barack Obama has in mind, but half a dozen names are on informed speculators' lists.

Ron Klain: Vice President Joe Biden's chief of staff would be a natural fit for the job, having worked in top jobs in the Clinton and Obama administrations, on Capitol Hill, at the Department of Justice and in the private sector. He's played a key role in moving some of Mr. Obama's legislative priorities, including confirmation of two Supreme Court justices.

He's also the only candidate to have been portrayed by actor Kevin Spacey, who re-enacted Mr. Klain's role in an HBO movie of the 2000 vote recount.

Pete Rouse: A senior adviser to Mr. Obama, Mr. Rouse would provide continuity for the White House staff. He is a trusted adviser, having first worked for Mr. Obama as his Senate chief of staff. A longtime Senate aide, he has long and deep connections to Congress that would be important in trying to move legislation with a Republican party that is certain to emerge more powerful from the

midterm elections.

Tom Donilon: A deputy national security adviser, Mr. Donilon has served three White Houses: Carter, Clinton and now Obama. He's also worked at the State Department and in the private sector.

Valerie Jarrett: A senior adviser, Ms. Jarrett's relationship with the Obamas is longer and tighter than any other. Mr. Obama has said she is like a sibling, Ms. Jarrett vacations with the Obamas, and no one doubts that the president trusts her instincts and advice. Unlike other

candidates, she does not have a deep Washington background.

Tom Daschle: A former Senate majority leader, Mr. Daschle was an early Obama backer and was in the mix for chief of staff when Mr. Obama was assembling his White House team.

John Podesta: A former Clinton chief of staff, Mr. Podesta ran the Obama transition after the 2008 election but then returned to his job as president of the Center for American Progress, a Democratic-heavy think tank. He would bring an outside-the-administration point of view.



## WORLD NEWS

## Tax probe roils race for Brazil presidency

By JOHN LYONS

SAO PAULO, Brazil—Ahead of nationwide elections next month, Brazilian Federal Police are investigating whether tax officials affiliated with President Luiz Inácio Lula da Silva's left-wing party illegally accessed the filings of opposition figures, including the daughter of the main opposition presidential candidate, José Serra.

Mr. Serra, whose campaign against Mr. da Silva's protégé Dilma Rousseff has been flagging, said during a campaign stop on Tuesday that the investigation "has to do with crimes against the constitution and use of the government for political, party and electoral ends."

Mr. da Silva and Ms. Rousseff have denied any knowledge of illegal tax record reviews.

"Trying to harm a woman of Dilma Rousseff's quality with lies and calumny is a crime against Brazil, and in particular, the Brazilian women," said Mr. da Silva, who is ineligible to run after two terms.

Ms. Rousseff, a 62-year-old former Marxist guerrilla affiliated with the Workers Party, has such a big lead the probe isn't likely to stop her from winning, analysts say. But opposition politicians want to avoid an embarrassing defeat in the election's first round Oct. 3 that could leave Mr. Serra's Social Democrat party in tatters. A Datafolha poll released last week showed Ms. Rousseff with 50% of the vote—enough to win in the first round—and a 22-point lead over Mr. Serra.

Mr. da Silva, a former union leader, has near 80% approval ratings, in part because his rise from poverty to the presidency has captivated a large constituency in a country with a big rich-poor gap. He has successfully transferred some of his popularity to Ms. Rousseff, a relative unknown who had never held elected office.

Five tax-agency officials are under investigation in three cities. At least two are Workers Party members, investigators say. The tax agency officials are under investigation for making unauthorized reviews of tax records of five people linked to José Serra, including his daughter and senior Social Democrat party officials.

Tax officials have denied the reviews were motivated by politics. In the case of the Social Democrat party's vice president, for example, tax officials say the review was made accidentally by a bureaucrat looking up the records of someone with the same name. In the case of Mr. Serra's daughter, officials say that a man posing as the woman's lawyer duped a tax official into unsealing the records.

Workers Party officials say they have no knowledge of the alleged transgressions and say that if a crime was committed, those responsible should be punished. The officials say that the Workers Party members involved were not senior members of the party.

Finance Minister Guido Mantega, who oversees the tax agency, told reporters that "no system is inviolable" and ruled out firing the head of the tax agency.

# Afghan surge is fully deployed

By JULIAN E. BARNES

SHARANA, Afghanistan—The final U.S. brigade sent to Afghanistan as part of President Barack Obama's surge strategy assumed authority for a swath of the country's eastern territory Wednesday.

The 4th Brigade of the 101st Airborne Division has only a short time to make an impact before the harsh winter of eastern Afghanistan, due to set in by November, makes travel and combat difficult.

Commanders are also under pressure to show progress ahead of a meeting of the North Atlantic Treaty Organization in November and the Obama administration's next strategy review, in December.

"The task is great and time is of the essence, as we face parliamentary elections and the future decisions of nations around the world and our own this fall," said Col. Sean Jenkins, at a ceremony in which his task force took charge of Paktika province.

The ceremony officially put in place the last of the 30,000 infantry troops ordered into the country by Mr. Obama in December. The 4th Brigade, known as Task Force Currahee, was the only large unit assigned to eastern Afghanistan as part of the Obama administration's troop buildup. The majority of the surge forces were sent to southern Afghanistan to participate in operations around Kandahar and Helmand provinces.

The first members of the brigade began arriving in Paktika in July. The majority of the forces arrived in the country in August and began a process of taking over from the 101st Division's 3rd Brigade.

The Taliban operate in much of the province, and the Haqqani network—an ally of al Qaeda—operates



A U.S. medic at Combat Outpost Nolen, in Kandahar province treats an Afghan boy who stepped on an IED Wednesday.

in the northern part, near its historic stronghold of Khost province.

Military officials in Washington and Kabul have said they hope building up conventional troops in eastern Afghanistan will help secure progress made by Special Operations troops.

Since the spring, Special Operations Forces have captured and killed dozens of militant leaders in eastern Afghanistan. But senior military officials say that without a larger troop presence to help improve security in population centers, they fear the mil-

itant networks will simply regenerate through new recruits.

The Taliban and the Haqqani network in recent years have taken refuge in Pakistan in winter months, but military officials believe the pattern could change this year because of the floods that have devastated much of Pakistan. Col. Jenkins said some groups of fighters may remain in Afghanistan, and could continue to fight or lay roadside bombs.

Even as military leaders push new units into position, they are

also under pressure to develop plans to draw them down. Mr. Obama has said the U.S. will begin to withdraw forces beginning in July.

Col. Jenkins said as security improves in areas he has placed troops, he will look to thin out those forces, moving his soldiers to other trouble spots.

Such thinned-out forces could also be used to replace other units who might be selected to be withdrawn from the country, according to military officials in Kabul.

## U.S., China avoid sensitive topics

By ANDREW BATSON

BEIJING—U.S. and Chinese officials wrapped up three days of high-level talks with bullish statements about their relationship that masked anxiety on both sides about the potential for conflict over a host of issues from China's currency policy to U.S. military strategy in Asia.

U.S. National Economic Council Director Lawrence Summers and Deputy National Security Adviser

**The positive tone reflects the determination of the two governments to keep relations on an even keel despite political pressures that both face at home.**

Thomas Donilon met with a range of Chinese officials, including President Hu Jintao and Premier Wen Jiabao. According to the White House, the talks covered issues including Iran, North Korea and "global rebalancing"—a shorthand term for efforts to reduce U.S. trade deficits and Chinese trade surpluses.

"China looks positively on the fresh progress made in China-U.S. relations, and we are willing to work together with the United States in promoting the advance of healthy

and stable China-U.S. relations," Mr. Hu told Messrs. Summers and Donilon in a meeting Wednesday morning.

Mr. Hu also said it is particularly important for the two countries to work together at a time of uncertainty over the global economic recovery and numerous international challenges, according to China's state-run Xinhua news agency.

"This visit advanced the goal of strengthening the U.S.-China relationship," the White House said in a statement Wednesday. "The United States seeks to expand cooperation in the many areas where our countries' interests coincide while we will speak frankly and with respect when we disagree."

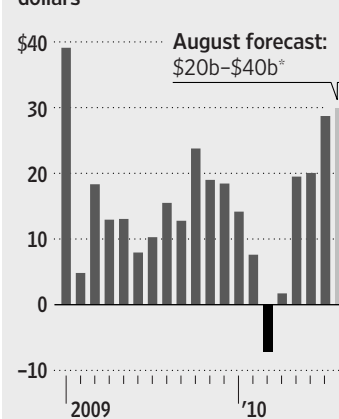
The positive tone of the statements reflects the determination of both governments to keep relations on an even keel despite domestic political pressures that each faces.

Both sides avoided specifically mentioning the contentious issue of China's currency policy, which will be the focus of two hearings in the U.S. Congress next week.

There is increasing concern in Washington that China's tightly controlled currency has moved little against the dollar, and that its trade surplus is rebounding. Critics say that China, by refusing to allow its currency to appreciate significantly, is giving an unfair advantage to its exporters and exacerbating America's unemployment problem. The

### Mounting surplus

China's trade balance, in billions of dollars



\* Thomson Reuters survey of economists  
Source: China's General Administration of Customs via Thomson Reuters

Obama administration is under growing pressure to take action.

At the same time, sections of the Chinese public have been ramping up their criticism of the U.S. for its naval exercises with South Korea on China's doorstep. A more assertive U.S. stand on disputed territories in the South China Sea, claimed by China and a number of its Asian neighbors, has drawn sharp responses from China.

In private, senior Chinese officials say they fear that the relationship with the U.S., often described

as the most important bilateral relationship in the world, could become hostage to extreme voices on both sides. They are at pains to distance official Chinese policy from the shrill nationalistic rhetoric coming from sections of popular media, as well as some influential academics.

The Obama administration has a lot riding on relations with China. It needs Beijing's help on global issues from North Korea's nuclear threat to trade liberalization. U.S. companies such as General Motors Co. and Caterpillar Inc. count on investment opportunities in China for growth, and the country is a key market for U.S. exporters of everything from soybeans to semiconductors.

In addition to Messrs. Hu and Wen, the two administration officials met with several high-level Chinese officials including Vice Premier Wang Qishan, State Councilor Dai Bingguo, and Foreign Minister Yang Jiechi, as well as Li Yuanchao, a member of the Communist Party's ruling Politburo. Mr. Summers also met separately with central bank Governor Zhou Xiaochuan and Finance Minister Xie Xuren.

The visit to Beijing sets the stage for an intense few months of U.S.-China diplomacy, including a visit by Mr. Wen to New York this month for the United Nations General Assembly, and a planned visit to the U.S. by Mr. Hu that could take place in January.

—Liu Li contributed to this article.

## WORLD NEWS

# Boat crash fuels China-Japan row

By YOREE KOH

TOKYO—A collision between a Chinese fishing vessel and Japanese Coast Guard boats near a chain of disputed islands in the East China Sea sparked an exchange of diplomatic protests between the two countries, marking the latest in a series of maritime tiffs stoking territorial tension among China and its neighbors.

The Chinese boat crashed into two Japanese patrol boats after it failed to heed authorities' warnings to leave Japanese waters north of the islands, according to reports from the Japanese foreign ministry.

Both countries claim authority over the uninhabited lands, known in Japan as the Senkaku Islands and in China as Diaoyu. 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 territory.

Japan arrested the captain of the Chinese fishing boat early Wednesday, despite demands from Chinese Vice Foreign Minister Song Tao that Japan stop "illegal interception" of Chinese boats, according to the state-run Xinhua news agency.

China's government summoned the Japanese ambassador in Beijing, Uichiro Niwa, for a second time on Wednesday, less than 24 hours after it lodged its first formal protest.

Tokyo lodged its own complaint with China's ambassador to Japan, Cheng Yonghua, by phone on Tuesday, according to Japan's Ministry of Foreign Affairs.

The Chinese captain was being questioned on suspicion of deliberately steering the fishing boat into one of the Japanese patrol boats, according to Japanese media reports. The vessel and its crew were moved to an area off Ishigaki island while the captain was questioned, the reports said.



Members of Japan's Coast Guard guide Chinese fishing-boat captain Zhan Qixiong onto Ishigaki Island after his arrest on Wednesday.

China's Assistant Foreign Minister Hu Zhengyue, meeting with Mr. Niwa on Wednesday, demanded the ship and its crew members be immediately released, Xinhua reported.

The actions came as a rift grows between the two countries over the islands. Earlier this year, Japan filed formal complaints with China following incidents in which a Chinese helicopter involved in military exercises near Japanese waters nearly

hit a Japanese naval vessel on two separate occasions. Tokyo filed a complaint to Beijing in May, after a Chinese ship chased a Japanese Coast Guard vessel that Tokyo says was conducting marine surveys within the Japanese zone.

The maritime spat also comes on the heels of jabs between the two economic powerhouses over business issues. Chinese Premier Wen Jiabao, during a visit by Japanese Foreign Minister Katsuya Okada,

suggested a recent wave of labor disputes in China was caused by relatively low pay for workers at Japanese factories. Mr. Okada shot back, warning that China risks losing foreign investments unless it introduces more transparency and consistency into its business rules, including its legal framework to deal with labor issues.

Regarding the past run-ins, China maintains it behaved appropriately and has reiterated its claim



to the archipelago.

Japan's Chief Cabinet Secretary Yoshito Sengoku advised the government to proceed with cool heads.

"We will handle the matter firmly in accordance with the law," he said, according to Japanese wire service Kyodo News. "It is important that in Japan we not get overly excited."

China has sparred with other nations, including South Korea and Vietnam, over territorial claims. The tensions spotlight mounting concerns over China's expanding military capability. Mr. Okada, Japan's foreign minister, has made pointed remarks to Beijing officials in recent months regarding China's growing nuclear arsenal and military might. Those worries underscore the disconnect in Japan-China relations, with security tensions persisting even as economic ties strengthen.

Some analysts say the incidents also highlight the importance of the U.S.-Japan security alliance as power in the region shifts, with China flexing its military muscle.

## Seoul guarded on Iran penalty

By EVAN RAMSTAD

SEOUL—South Korean officials, seeking some wiggle room between their traditional allies in Washington and their business partners in Tehran, unveiled measures tied to United Nations penalties over the Iranian nuclear program and squeezed an Iranian bank here without formally closing it.

For more than a month, the U.S. has promoted compliance with the latest U.N. resolution over Iran's nuclear program. The European Union, Japan, Australia and others responded with additional measures to pressure Iran into halting an atomic-energy pursuit they perceive as also weapons-oriented.

But in South Korea, which counts on Iran for about 10% of its oil needs and has other business ties with the country, government officials publicly expressed anxiety about the sanctions. Iranian officials made statements in local media promising retaliation for any sanctions Seoul imposed.

In a media briefing on the measures Wednesday, officials said they were trying to balance the need to comply with the U.N. sanctions with the country's interest in maintaining trade with Tehran that amounted to about \$7 billion in the first seven months of 2010.

"We are thinking about how Iran will react to this," said one official who spoke at the briefing, held on the basis that names and titles not be cited. "We are trying to minimize any damage that might be inflicted on our businesses and people."

In outlining its penalties, South Korean officials made clear that their biggest step would be disrupting the local office of **Bank Mellat**, Iran's second-largest bank by assets.

U.S. officials reportedly sought the closing of the branch, the only one Bank Mellat has outside Iran and Turkey. South Korea stopped just short of that but said it would prohibit the branch from any foreign-exchange transactions unless it gets permission from the Bank of Korea, the nation's central bank. "They can't do even a \$1 transaction without prior permission," said the official at the media briefing. Because of the large amount of trade between the two countries, foreign exchange is an important part of the bank's business.

In addition, the officials said the bank violated South Korean foreign-exchange laws and would be hit with a two- to six-month suspension of operations; the duration will be determined by a local regulatory agency in several months. That would allow Seoul officials to argue to the Iranian government that the

bank penalty isn't entirely tied to the nuclear issue.

South Korean officials acknowledged that Bank Mellat was cited by the U.N.'s July resolution as a facilitator of transactions for Iranian nuclear, missile and defense projects. Separately, the bank has been blacklisted by the U.S. Treasury, meaning that U.S. financial institutions are prohibited from working with any firm that works with Bank Mellat.

South Korea said it would try to help local businesses that have used Bank Mellat and other Iranian banks for foreign-exchange transactions with Iran-based customers and suppliers by setting up a won-based account in the Iranian central bank.

The U.S. Embassy in Seoul declined to comment, saying an official reaction would be issued later Wednesday from Washington. The Iranian Embassy in Seoul also declined to comment.

South Korean officials said that in addition to the measures against Bank Mellat, they would adopt financial sanctions against 39 other entities and one person cited by the U.N. as well as 102 other entities, including 15 banks and numerous companies related to **Islamic Republic of Iran Shipping Lines**, Tehran's largest shipping company.

—Jaeyeon Woo contributed to this article.

## Gates, Buffett promote philanthropy in China

Associated Press

BEIJING—Microsoft Corp. co-founder Bill Gates and billionaire investor Warren Buffett plan to sell the art of giving to China's super rich in a visit this month that has already sparked some soul searching among the world's second-largest number of billionaires.

Reactions to Messrs. Gates and Buffett's trip have been swift and varied: One prominent Chinese philanthropist quickly pledged his entire fortune to charity, while the head of a private foundation said Chinese businesses should be leery of emulating American-style donations before standards such as workers' rights are improved.

Many have pointed to shortcomings in China's charity system, which critics say lacks transparency.

The discussion underscores what experts say is the relatively immature state of philanthropy in China, where in just three decades economic changes have pulled millions out of poverty and created a generation of newly minted millionaires.

There are at least 875,000 U.S. dollar millionaires in China, according to Shanghai-based analyst Rupert Hoogewerf, who studies China's

wealthy and puts together the Hurun list. Among them, 130 are billionaires, second only to the U.S.

Mr. Gates and Mr. Buffett have been campaigning to persuade other American billionaires to give most of their fortunes to charity. Their campaign in China includes a private dinner in Beijing with a group of wealthy Chinese.

A "small number" of the more than 50 invited guests called to ask if they would be required to pledge a donation at the dinner, said Jing Zhang, press officer of the Bill & Melinda Gates Foundation, which is coordinating the Sept. 29 event. But Messrs. Gates and Buffett just want to talk, Mr. Zhang said Tuesday.

Still, that hasn't stopped one of their guests, multimillionaire Chen Guangbiao, from declaring in an open letter to Mr. Gates and Mr. Buffett that he would donate all of his fortune upon his death. "I'm a rich man, but I don't want to be a miser," he said.

Mr. Chen, 42 years old, a peasant-turned-chief executive of a renewable resources and recycling company, has an estimated fortune of 3 billion yuan (\$440 million) and is ranked 340th on the 2009 Hurun list of China's wealthy.