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# Egypt opposition picks a leader

CAIRO—The Egyptian government, with newly appointed military generals in top positions, struggled to impose order and present a show of unified strength on Sunday, but showed no signs of bending to demands that President Hosni Mubarak resign.

By Charles Levinson, Margaret Coker, Summer Said and Matthew Bradley

Meanwhile, the country's scattered and loose-knit opposition movements announced they were putting significant ideological, religious and political differences aside, at least for the time being, by throwing their weight behind Mohamed ElBaradei, the former head of the International Atomic Energy Agency, to represent them in any future negotiations with the government.

Mr. ElBaradei said in televised remarks that he was looking forward to working with the military to help establish order and to forge Egypt's new political future. As of late Sunday, however, neither Mr. Mubarak nor the

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Opposition leader Mohamed ElBaradei surrounded by supporters in Cairo. The Nobel Peace laureate was selected by a broad coalition to represent it in any talks.

army had issued to his movement an invitation to talk.

Mr. ElBaradei won a huge endorsement on Sunday when the Muslim Brotherhood, Egypt's largest and best organized opposition force, said it would back him, a historic display of unity between the

country's secular and Islamist opposition groups.

As the opposition solidified its ties, so apparently did the nation's enormous security infrastructure. Two days after Egypt's military deployed in the country's cities for the first time in a quarter

century, it dramatically increased its control over security and its political role.

State television showed footage of Mr. Mubarak with Omar Suleiman, the newly appointed vice president, meeting Egypt's top army commanders Sunday, apparently

in a bid to demonstrate that the command and control of the armed forces was still in the president's hands. Later in the day, two F-16 fighters buzzed the downtown districts of Cairo with multiple flybys.

Cairenes awoke to find

that the military had assumed control over the Ministry of Interior, which directs the country's massive internal security forces loathed by many Egyptians for their brutality. The ministry's headquarters, just a few block's off Tahrir

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Mubarak has few good options for retaining power. Page 11

## Ex-manager at Citi fund caught up in insider case

A former Citigroup Inc. hedge-fund manager has been drawn into the government's insider-trading investigation as a co-conspirator in the case, and his firm has been raided by Federal Bureau of Investigation agents, according to people familiar with the matter.

By Jenny Strasburg, Michael Rothfield and Susan Pulliam

The hedge-fund manager—Samir Barai, the 39-year-old founder of New York-based Barai Capital Management—didn't return calls for comment. Prosecutors haven't disclosed any

charges of wrongdoing against Mr. Barai in the still-unfolding investigation. FBI agents raided his fund in November, the people familiar with the matter say, but it has never before been made public. The FBI and Manhattan U.S. Attorney's office declined to comment.

The development broadens the known scope of a burgeoning criminal probe because it marks the first time a hedge-fund manager has been publicly revealed as a co-conspirator in the case. The investigation is examining whether hedge funds and other investors traded on inside information received from corporate employees

freelancing as consultants for "expert-network" firms.

Mr. Barai made his name at Citigroup in a high-profile hedge-fund position and he used that affiliation to help market his own fund, according to people familiar with the firm. His role in the investigation involves conversations and trading that took place after Mr. Barai left Citigroup in 2007, and there is no indication the bank is implicated in the probe. A Citigroup spokeswoman declined to comment.

A criminal complaint filed in the case against an expert-network consultant said FBI agents raided the offices of

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# End of central banking's golden age

## [ Agenda ]

BY ALEN MATTICH



If there's a holy writ in finance and economics, it's the one that says monetary policy needs to be free of political interference. In other words, that central banks be independent.

This dogma is ripe for reconsideration.

Gordon Brown won near universal acclaim when, as the U.K.'s chancellor of the exchequer in 1997, he unchained interest rates from ministerial control. It was his first act in government. And, according to many, it was the best decision he made in the 13 years he held high office.

One of the few notable dissenters was Mr. Brown's immediate predecessor, outgoing Conservative Finance Minister Kenneth Clarke. Mr. Clarke argued elected politicians should have the last word on monetary policy. Sure, finance ministers need to pay due consideration to central bankers' advice—which Mr. Clarke frequently, and correctly, ignored during his tenure. But ultimately, it's the people directly answerable to voters who ought to be calling the shots.

Mr. Clarke's arguments were quickly dismissed. The cast iron consensus was, and still is, that central bank freedom from the sort of short-termist populist policy making to which politicians are vulnerable is the surest route to price stability and thus healthy economic growth.

But that unanimity is now flaking at the edges. Mr. Clarke's dissent has gained substance as it has become apparent central banking technocrats are also prone to big mistakes with horrific economic consequences and yet are largely immune from democratic accountability.

Independent central banks, it was argued, would prevent a return to the rampant inflation of



Mervyn King, the governor of the Bank of England.

the 1970s. And up until the credit crunch, the consensus seemed right. Inflation had stayed pegged at or near historically low levels, while economic growth remained remarkably stable during the "Great Moderation" of the previous decade. Central bankers spent much of that time patting themselves on the back for doing such a great job.

But the financial crisis changed all that. It became obvious that those same independent central bankers had missed the most egregious private-sector debt binge in history, encouraged through moral hazard wholesale financial-sector recklessness, and fueled sequential asset bubbles.

In the wake of the bursting of the bubble, critics worry about central bankers' willingness to usurp powers to which they're not legally entitled, and, increasingly, about their ability to deliver price stability in the future.

In the U.S., the Federal Reserve's mission creep has rung alarm bells.

John Hussman, a fund manager, warned after the Fed's rescue of Bear Stearns that "unelected bureaucrats are committing public funds to facilitate private business transactions and selectively defend the holders of corporate securities." The Fed again overstepped the bounds by buying Fannie Mae and Freddie Mac securities as part of the first

round of its quantitative-easing policy, he argued.

By Fed Chairman Ben Bernanke's own admission, the purchases had "a fiscal component," a transaction that usurped Congress's powers and that was therefore unconstitutional, according to Mr. Hussman.

More recently, Philadelphia Fed President Charles Plosser noted the risks of the Fed's power grab: "Having crossed the Rubicon into fiscal policy and engaged in actions to use its balance sheet to support specific markets and firms, the Fed, I believe, is likely to come under pressure in the future to use its powers as a substitute for other fiscal decisions."

There's already a small but vocal core of Fed skeptics in Congress, led by Rep. Ron Paul, who heads the House Financial Services Subcommittee on Domestic Monetary Policy. As politicians become aware of just how far the Fed's reach has spread, more are bound to join in the campaign to clamp down on it.

On this side of the Atlantic, Governor Mervyn King all but admitted the Bank of England has unilaterally abandoned its official 2% inflation target in favor of lower unemployment. This has sparked outrage among savers and pensioners, who are being made to pay for the bank's past mistakes as it engineers a transfer of wealth from them to borrowers

and bankers.

What's more, the bank's singular failure at forecasting inflation correctly over even a few months has led some to question its ability or willingness to bring inflation down over the medium term of a couple of years. Politicians are taking note.

Ironically, the coalition government is expanding the bank's powers to include bank supervision and "macro-prudential" regulation. This is something it may well come to regret.

On the Continent, the European Central Bank has been more sensitive to its most powerful critics—the Germans. Over recent weeks it has reiterated its strong commitment to maintaining euro-zone consumer-price growth at a little under 2%. The ECB will stick fast to this target even as it pursues other support measures to ensure the euro doesn't fall apart, according to its president, Jean-Claude Trichet. Mr. Trichet is aware of German nervousness over the potentially inflationary consequences of central bank support for peripheral Europe's bond markets.

But chances are there will either be another sovereign crisis in the euro zone or inflation will run out of hand. In either case, the ECB will be a lightning rod for criticism.

To be sure, ruling governments can fire central bankers. But that's an enormous step to take. Politicians are terrified of the market turmoil such a move would incite. Economic circumstances would have to be pretty extreme before they pulled the trigger. So for now, independent central bankers' scope to do as they like remains huge.

But politicians won't forget they are vulnerable to the errors of these technocrats. In future, they're likely to scrape away at central bank independence wherever and however they can, tightening oversight here, establishing new rules there.

Which suggests the golden age for central bankers is probably over.

## What's News

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### Reader comment

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'Shutting down the Internet shows that the government knows it's got a big problem.'

Reader **Louis Ciola** on 'ElBaradei Under House Arrest'



### Continuing coverage



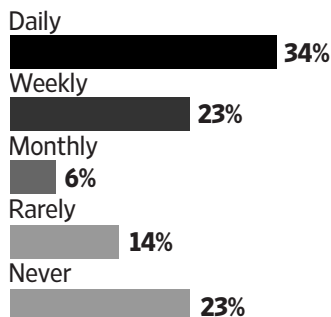
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## EUROPE NEWS

# Summit to focus on bailout funds

European leaders could announce broad outlines of a new deal to boost the euro zone's bailout funds at a summit on Friday, paving the way for a final agreement when they next meet in March, European officials say.

By Stephen Fidler and David Enrich in Davos, Switzerland, and Marcus Walker in Berlin

It's not yet clear whether enough agreement will emerge at the meeting to make an announcement over the rescue funds, but European officials said they expected discussions over the issue Friday as part of a two-step process that will be concluded in late March.

The summit will come days after euro-zone leaders and senior politicians took the opportunity at the World Economic Forum in Davos to try to convince top business figures, bankers and government officials of their commitment to the euro.

French President Nicolas Sarkozy said Germany and France "will never abandon the euro." German Chancellor Angela Merkel described the euro as "much more than a currency," saying: "If the euro fails, Europe fails."

Many bankers and economists, though, still argue that the weaker economies of the euro area remain at risk of financial or banking shocks. Many say Greece, at least, will have to restructure its debt, a prospect repeatedly denied by Greek Prime Minister George Papandreou.

If those risks are to be contained, a big part will be played by the rescue funds to be discussed Friday. Having bailed out Greece and Ireland in 2010, governments are seeking



Associated Press

## Bob Diamond

The crisis 'will be more chronic as opposed to acute,' he said, citing the likelihood of ongoing euro-zone market volatility 'from time to time.'

## Christine Lagarde

'I'd like to disagree with Bob Diamond,' she said, turning in her chair to face the CEO. 'The euro zone has turned a corner,' she said. 'Let's not short Europe, and let's not short the euro zone,' she added.



Reuters

ways to convince financial markets that they will stand behind Portugal, Spain and others.

Leaders will debate how to boost the lending capacity of the euro zone's current bailout fund from €250 billion (\$340 billion) to €440 billion, and ways of improving its design so it is better able to deal with debt crises. They are also discussing a permanent rescue fund that comes into being in 2013.

As a price for this deal—which

will likely require Berlin committing to lend more money to weak euro-zone states if needed—Germany wants what it calls a comprehensive agreement aimed at improving the competitiveness of euro-zone countries' economies. Berlin officials see a lack of competitiveness in some countries as the underlying cause of excess debts on the bloc's periphery, especially in Southern Europe.

Germany wants euro-zone members to sign up to higher retirement

ages, balanced-budget amendments, more flexible labor markets, and stronger alignment of national tax policies. It is also seeking an end to policies in some countries that automatically raise wages and pensions in line with inflation.

The different views of bankers and officials on the future of the euro zone were illustrated Saturday morning in Davos. A group of senior bank CEOs huddled with finance ministers and central bankers. Some

bankers pushed for a more muscular response, including buying hundreds of billions of euros of bonds issued by financially weak countries like Greece, Ireland and Spain.

Banks would be big beneficiaries of a bond-buying program because they own a lot of the bonds.

The government officials' response appears to have been chilly, based on remarks at a panel discussion immediately afterward.

"We've had too much discussion" about the euro zone's woes, said German Finance Minister Wolfgang Schäuble. "The situation in Europe is not so traumatic."

He said, "Outside the euro zone, people don't really understand" the area's common economic policy and currency. "We are ready and we are able to defend the euro zone."

Minutes later, Barclays PLC Chief Executive Bob Diamond said he thought the crisis could fester. "It will be more chronic as opposed to acute," he said, citing the likelihood of euro-zone market volatility "from time to time."

The remark clearly irked French Finance Minister Christine Lagarde. "I'd like to disagree with Bob Diamond," she said, swivelling to face the CEO. She said market confidence in the euro zone is rebounding, citing the recent oversubscribed bond sale for the European Financial Stability Facility. "The euro zone has turned a corner," she said.

Ms. Lagarde added, "Let's not short Europe, and let's not short the euro zone." The audience applauded.

As the session drew to a close, Mr. Diamond clarified his statement. "I think the question of the strength of Europe and will the euro stay together is last year's issue," he said.

—Geoffrey T. Smith contributed to this article.

## Deadly crash in Germany

By Patrick McGroarty

BERLIN—German authorities were investigating the cause of a head-on collision late Saturday between a freight and passenger train in northern Germany that killed 10 people and seriously injured more than 20 others.

The regional train was carrying about 50 passengers along a single track through farmland covered with dense fog Saturday night when it collided with a train hauling a load of lime near Magdeburg, about 160 kilometers west of Berlin.

The force of the crash was enough to push the passenger train off the tracks and into a field, federal police and regional authorities said at a news conference Sunday. They warned that many of the surviving passengers' injuries were so severe that the death toll could rise.

"We are still speechless and shocked by the images and the level of destruction," said Holger Hövelmann, interior minister for the state of Saxony-Anhalt, where the crash occurred.

It was the country's deadliest train accident since 2006, when 23 people died in a collision between a prototype magnetic levitation train and a service train in Elmsland. In 1998, 101 people were killed when a high-speed ICE train derailed near Eschede, south of Hamburg.

Authorities said they were moving quickly to determine what



Agence France-Press/Getty Images

Emergency personnel work on the overturned train Sunday in Saxony-Anhalt.

caused the collision, and the governor of Saxony-Anhalt speculated during a visit to the scene that one of the conductors may have driven past a signal light telling that train to stop.

"The investigation is ongoing—into the signal circuitry, into the technical equipment on the trains," said Ralph Krüger, who is leading the investigation for the federal police.

Among the dead were the conductor and another employee of the passenger train, which is owned by Veolia Verkehr GmbH, a private company that runs a network of re-

gional routes throughout Germany. The conductor of the freight train, owned by a subsidiary of Salzgitter AG, one of Europe's largest steel producers, survived with minor injuries but was being treated for shock and hadn't spoken to authorities about the accident on Sunday afternoon.

In a statement, Chancellor Angela Merkel thanked the hundreds of rescue workers who converged at the crash site and said she hoped the accident would be explained soon. "My thoughts are with the families of the victims," Ms. Merkel said.

## Police detain 10 at Belarus protest

Associated Press

MINSK, Belarus—Police detained about 10 people Sunday at a candlelight vigil outside Belarus's KGB headquarters in support of opposition leaders who have been jailed since election-night protests more than a month ago.

After the flawed Dec. 19 vote, mass protest rallies rocked the capital, Minsk, and more than 700 people were arrested in a violent crackdown.

Twenty-five people are still being held, including three men who ran against authoritarian President Alexander Lukashenko. They face up to 15 years in prison. Several dozen people took part in Sunday night's protest, which lasted for about five minutes before police arrived to break it up. Protesters stood quietly holding candles and pictures of those in jail.

"The repressions are continuing and this," said Antonina Khotenko, who was among those detained. "Lukashenko must get what he deserves."

The United States and European Union have raised the prospect of new sanctions against Belarus in response to the arrests.

EU foreign ministers meet Mon-

day in Brussels and are expected to discuss imposing travel restrictions on Mr. Lukashenko and other Belarusian officials.

Mr. Lukashenko has threatened to retaliate if they do.

In an apparent attempt to head off sanctions, former presidential candidate Vladimir Neklyayev and prominent journalist Irina Khalip were released Saturday from the KGB jail but remain under house arrest.

Ms. Khalip is the wife of candidate Andrei Sannikov, who remains in jail. The government had threatened to place their 3-year-old son in an orphanage, but then agreed to allow Ms. Khalip's mother to serve as legal guardian.

Under Mr. Lukashenko, Belarus has retained a Soviet-style state-controlled economy while also repressing opposition activists and independent news media. The West has pushed for reforms and offered economic incentives, but Mr. Lukashenko has rebuffed them, choosing to tilt strongly toward Russia, on which the country relies for oil and natural gas.

Mr. Lukashenko was declared the winner of the December election with nearly 80% of the vote, but international observers strongly criticized the count.



## TURMOIL IN EGYPT

# Syria's Assad sees 'new era'

BY JAY SOLOMON  
AND BILL SPINDLE

DAMASCUS—Syrian President Bashar al-Assad said grass-roots revolts in Egypt, Tunisia and Yemen are ushering in a “new era” in the Middle East, and he acknowledged that Arab rulers would need to do more to accommodate their people’s rising political and economic aspirations.

“If you didn’t see the need of reform before what happened in Egypt and Tunisia, it’s too late,” Mr. Assad said in a rare interview.

The Syrian leader’s comments are a stark indication of how the turmoil in Egypt, in particular, is shaking rulers across the region and forcing them to re-evaluate their own stability and practices. Mr. Assad’s regime, which between him and his father has dominated Syria for nearly 40 years, is considered by some observers a candidate for similar unrest. The Syrian economy has produced too few new jobs and allowed little space for free expression or political participation.

But the 45-year-old leader argued in a 90-minute interview that Syrians would give his government more time to implement reforms because his vocal opposition to U.S. policies and Damascus’s position as a front-line state contesting Israel better reflect popular opinion in his country and the Arab world than did the approach of the Egyptian government.

While insisting he is open to better ties with Washington and believes the U.S. has a role to play in regional issues, Mr. Assad argued that widening political turmoil in the region would likely diminish American influence, as popular opposition to alliances with Washington grows in places such as Egypt, Tunisia, Lebanon and Jordan. He cited as particular sources of America’s unpopularity the wars in Iraq and Afghanistan and Washington’s failure so far to broker an Arab-Israeli peace agreement.

“Syria is stable. Why?” Mr. Assad told The Wall Street Journal from his mountain offices above Damascus. “Because you have to be very closely linked to the beliefs of the people. This is the core issue. When you diverge...you will have this problem, this vacuum that creates disturbances.”

As Mr. Assad’s statements suggest, the political uprisings against Egyptian President Hosni Mubarak and Tunisia’s now-deposed leader, Zine al-Abidine Ben Ali, are shaping the outlooks of leaders across the Middle East.

Many diplomats and analysts believe Syria could serve as a barometer for the direction of the broader Middle East as the fallout from Egypt’s and Tunisia’s unrest continues. Damascus’s influence has grown in recent years as its alliance with Iran and the militant Islamist organizations Hamas and Hezbollah has opened the door to renewed influence in Lebanon, the Palestinian territories and Iraq. Still, Syria’s rigid one-party rule could leave it vulnerable to the rising calls for democracy in the region.

Mr. Assad’s government, and that of his late father Hafez al-Assad, have been criticized as among the region’s most repressive. This has stoked speculation in Western capitals over whether Syria could also face unrest. Damascus, like Cairo, maintains a decades-old emergency law that allows for the arrest and



President Bashar al-Assad, seen in December, says Syrians are likely to give his country more time to implement reforms.

detention of individuals without charges. Syria’s one-party political system and government-controlled media, meanwhile, are seen by many as even more rigid than Egypt’s or Tunisia’s. “Syria’s security agencies, the feared *mukhabarat*, continue to detain people without arrests, frequently refuse to disclose their whereabouts for weeks and sometimes months,” according to a recent report by Human Rights Watch.

Mr. Assad acknowledged in the interview that the pace of political reform inside Syria hasn’t progressed as quickly as he had envisioned after taking power in 1999, following his father’s death. Aware of the Middle East’s changing political landscape, the Syrian leader said, he is pushing ahead this year with long-stalled political overhauls aimed at opening up his country.

**‘If you didn’t see the need of reform before what happened in Egypt and Tunisia, it’s too late.’**

Mr. Assad cited legislation that would initiate municipal-level elections; promote greater involvement of nongovernmental organizations and a new local media law.

Still, Mr. Assad indicated that Damascus is unlikely to embrace the rapid and sweeping reforms being called for on the streets of Cairo and Tunis. He said his country needed time to build institutions and improve education before decisively opening Syria’s political system. The rising demands for rapid political

overhauls could be counterproductive if Arab societies aren’t ready for them, he said. “Is it going to be a new era toward more chaos or more institutionalization? That’s the question,” Mr. Assad said. “The end is not clear yet.”

Damascus emerged this month largely victorious after a long struggle against the U.S. for influence inside Lebanon. The standoff was sparked by the 2005 murder of Lebanon’s former Prime Minister Rafik Hariri; which some Western officials believed was ordered by Mr. Assad’s government. Mr. Assad has repeatedly denied any involvement.

Popular outrage in Lebanon that year forced Mr. Assad to remove nearly 30,000 Syrian troops from Lebanon and led to a United Nations-backed tribunal to investigate Mr. Hariri’s death. The investigation initially implicated Syria and opened a period in which the country struggled to maintain its influence in Lebanon. But this month, Damascus’s allies in Beirut, led by Hezbollah, overthrew Lebanon’s pro-Western government, restoring Syria’s status as kingmaker in Lebanese politics. The result has placed the U.N. tribunal in jeopardy as Lebanon considers whether to continue cooperating with and funding the tribunal.

Mr. Assad questioned the credibility of the U.N.’s probe, alleging it was based on “lack of evidence.” But Syria’s leader said he was now optimistic that a more stable environment could be established by a government he says is more representative of Lebanese society.

“What I’m pleased about is that this transition between two governments happened smoothly, because we were worried,” said Mr. Assad.

“It’s very easy to have a conflict of some kind that could evolve into a full-blown civil war.”

This month, the U.S. returned an ambassador, Robert Ford, to Damascus for the first time since Mr. Hariri’s murder.

Mr. Assad said that while he sought closer ties to Washington, he didn’t see this coming at the expense of his alliance with Iran. The Syrian leader said he shares the U.S. goals to target al Qaeda and other extremist groups, but that Tehran remains a crucial ally in Syria’s campaign to reclaim the Golan Heights.

Mr. Assad stressed that Damascus remained open to a dialogue with Israel to reclaim the Golan Heights region Israel occupied following the 1967 Arab-Israeli war. But he said he didn’t think Prime Minister Benjamin Netanyahu would engage in the same way as did his predecessor, Ehud Olmert.

The Syrian leader acknowledged his government is likely to continue to be at odds with the U.S. on key strategic issues. U.S. administrations have charged Damascus with smuggling weapons systems to Hezbollah, including long-range missiles that could reach most of Israel. The U.S. has subsequently put in place expansive economic sanctions against Syria.

Mr. Assad denied charges that his government directly arms Hezbollah. But he also stressed that Damascus wasn’t going to serve as a policing agent while it is still seeking to reclaim the Golan Heights.

“Sometimes you have to be explicit, and sometimes you have to be the police,” Mr. Assad said. “What if you want to be neither? We want to be neither.”

## Islamic leader returns to Tunisia

BY ANGUS McDOWALL

TUNIS, Tunisia—Thousands of supporters of Tunisia’s leading Islamic party, Ennahdha, packed the capital’s airport on Sunday to welcome their leader back to the country after two decades in exile.

The raucous welcome for Rachid Ghannouchi was seen as a show of strength by some Tunisians, who fear the newly resurgent party could take advantage of the fragile political situation to strengthen its hand in coming elections and push back against the country’s secular laws.

Ennahdha, or “the renaissance” in Arabic, was once considered Tunisia’s mightiest opposition force, but years of persecution by the regime destroyed its organization and pushed its members underground.

With the country’s political elite still deadlocked in disagreement between the interim government and opposition parties, Ennahdha is demanding seats on a committee that will decide how and when elections take place.

Some liberal Tunisians worry that the party’s big showing at the airport is evidence the Islamic movement is gaining strength, and allowing it a say on political reform will bolster its chances at the ballot box.

However, the main secular opposition groups, including the country’s powerful union movement, have agreed to work with Ennahdha in preparing for the coming poll.

Diplomats paint Mr. Ghannouchi as a moderate figure who would rather pursue the religious-inspired electoral politics of Turkey’s ruling AK Party than the direct action of Egypt’s Muslim Brotherhood.

On Saturday, Tunisia’s new central bank governor criticized ratings agencies for lowering the nation’s credit rating as newly appointed leaders race to stabilize the nation after its uprising.

Mustapha Kemal Nabli made an appearance at the World Economic Forum in Davos, Switzerland, to ask world leaders to give the nation some time.

He appealed to governments and institutions to do no harm. “Don’t disrupt trade and investment flows,” he said.

—Tracy Corrigan  
contributed to this article.



Sheikh Rachid Ghannouchi, front, was welcomed in Tunisia on Sunday.



TURMOIL IN EGYPT



Associated Press (top left); Agence France-Presse/Getty Images (far right); Reuters (3)

**DAYS OF PROTEST:** Clockwise from top left: An Egyptian family walks through the street of Cairo on their way to Tahrir Square in Cairo on Sunday. The banner reads 'Egypt is very valuable for me'; a protester hangs an Egyptian flag on the top of a traffic light post at Tahrir Square; Egyptians stand in front of army tanks as they pray in Cairo; a boy holds a defaced poster of Egypt's President Hosni Mubarak; President Mubarak, left, and Vice President Omar Suleiman hold a meeting with top commanders. **Updated photo galleries and video reports at WSJ.com.**

# Unrest could rattle trade world-wide

By CHIP CUMMINS

The violent clashes and looting in Egypt spawned by the standoff between protesters and President Hosni Mubarak are threatening economic repercussions across the region and around the world.

Egypt's economy is relatively small—the fourth-largest in the Mideast, with a gross domestic product last year of just under \$217 billion, according to International Monetary Fund estimates. But the country plays an outsize economic role as home to one of the world's most important trade and energy thoroughfares, the Suez Canal.

Egypt is also the world's largest buyer of wheat and a significant cotton exporter. And it hosts one of the region's most globalized financial markets, making the country's equities a popular play among emerging-market investors.

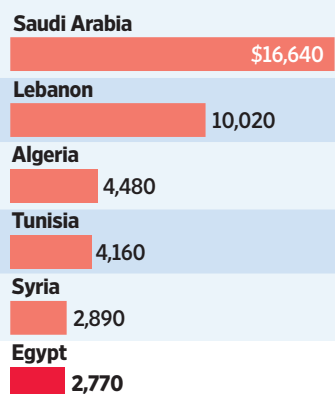
In the short term, the biggest global economic worry remains oil prices. Egypt itself isn't a big energy producer. But significant shipments of oil and petroleum products pass through Egypt each day on their way from the Mideast to European and U.S. markets.

About a million barrels a day of crude and refined products are shipped northward on the Suez Canal, according to estimates from the U.S. Department of Energy. A separate pipeline linking the Red Sea and the Mediterranean carries an additional 1.1 million barrels a day. Together, that is roughly 2% of global oil production.

If oil shipments through Egypt were disrupted, European supply—and global prices—would be "affected tremendously," said Dalton Garis, an associate professor in petroleum-market behavior at the Petroleum Institute, an energy-research center in Abu Dhabi.

## How Egypt stacks up

GDP per capita, 2010 estimates



Source: International Monetary Fund

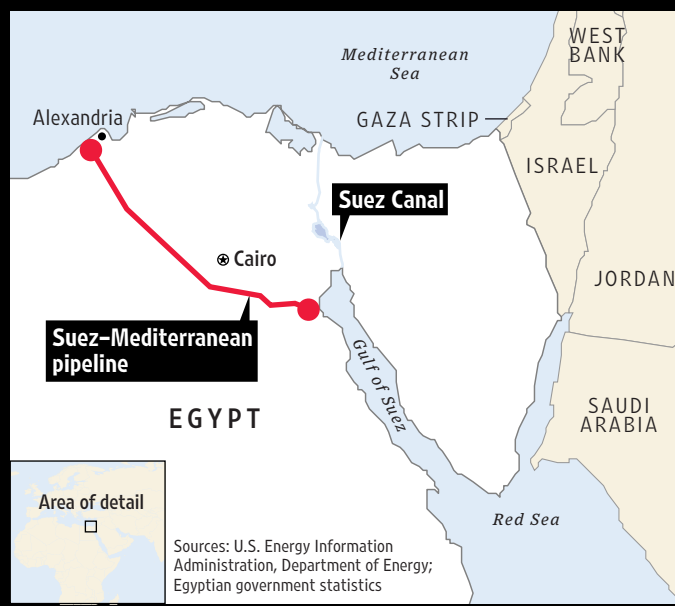
So far, oil flowing through both conduits appears unhindered. But shippers operating in the canal warned customers over the weekend of potential delays and difficulty in contacting shipping agents and pilots and arranging for spare parts. Including the oil flows, about 8% of the world's seaborne trade passes through the canal, according to Egyptian government figures.

"The protests have no effect on the shipping traffic," Abdul Ghani Mohamed Mahmoud, a spokesman for the Suez Canal Authority, said Sunday. "Everything is going as usual," he added. Officials at **Arab Petroleum Pipeline Co.**, which owns the Suez-Mediterranean pipeline, couldn't be reached to comment.

On Friday, U.S. benchmark crude futures leapt more than 4%. By contrast, oil markets barely budged through the summer of 2009 on the back of large antigovernment protests across Iran, one of the world's largest oil producers. The different market reactions underscore a very

## Energy crossroads

Energy flows through Egypt's Suez Canal and Suez-Mediterranean pipeline, 2009 data



### Suez Canal

- Accounts for about 8% of global seaborne trade
- Some of the industry's biggest oil carriers can't traverse the narrow canal
- Northward flows: 1 million barrels a day of crude and refined products
- Southward flows: 800,000 barrels a day of crude and refined products

### Suez-Mediterranean pipeline

- South-to-north pipeline running alongside the Suez Canal
- Runs from the Ain Sukhna terminal on the Gulf of Suez to Sidi Kerir on the Mediterranean
- Northward flows: 1.1 million barrels a day of crude

different global supply and demand picture: Crude demand has picked up recently, making markets more sensitive to possible disruptions.

Apart from Egypt's role as an energy transporter, fear that unrest could spread to bigger oil producers could exacerbate worries.

Algeria, a big oil and natural-gas producer, has been racked in recent weeks by antiregime protests similar to those buffeting Egypt. The most recent regional unrest began in Tunisia, culminating in the ouster of that country's longtime autocratic leader this month. Saudi Arabia and the rest of the energy-rich Persian Gulf have been spared demonstrations so far, but Arab leaders appeared over the weekend to be increasingly concerned about spillover.

On Saturday, Saudi Arabia's king

blasted Egyptian protesters and voiced support for Mr. Mubarak. In a statement Sunday, the state-run Saudi Press Agency reported that King Abdullah bin Abdulaziz al-Saud spoke to U.S. President Barack Obama by phone and told him that "Egypt's stability and the safety and security of its brotherly people cannot be bargained."

While Egyptian oil output isn't sizable, the country has become a significant exporter of natural gas. Some goes by pipeline to Mideast neighbors. But most of Egypt's gas exports are now shipped as super-chilled liquefied natural gas, on tankers bound for the U.S. and Asia.

So far, oil and gas field operations appear unaffected by the unrest. Regional gas producer **Dana Gas PJSC's** chief executive, Ahmad al Arbeed,

said Sunday that the company was continuing routine operations.

But international oil companies have shuttered their Cairo offices. Both **BP PLC** and **Royal Dutch Shell PLC** offices were closed Sunday, security officials at the companies said.

Other commodity markets can be extremely sensitive to Egypt. The country is the world's biggest wheat purchaser and a top cotton exporter.

On Friday in Chicago, wheat futures fell more than 2%, in part on worries that regime change in Cairo could hurt Egypt's ability to pay for wheat. The government's official wheat buyer said Sunday it had no plans to change orders.

—Shereen el Gazzar, Tahani Karrar-Lewsley and Nikhil Lohade in Dubai contributed to this article.



## TURMOIL IN EGYPT

# Moment of truth for U.S. foreign policy

## [ Analysis ]

BY GERALD F. SEIB



The outbreak of political violence in Cairo has imperiled America's 30-year grand bargain with Egyptian President Hosni Mubarak, and now the question for U.S. policy is whether the goal of that bargain—to keep Egypt moderate and secular—can be preserved.

From the day former President Anwar Sadat was assassinated by Islamic extremists three decades ago, with then-Vice President Mubarak at his side, the U.S. has maintained an implicit understanding with the Egyptian leader: Mr. Mubarak would be America's most stalwart Arab friend in the region and keep Islamic forces at bay at home. In return, the U.S. would occasionally prod him to open up his political system, but ultimately defer to his ability to keep things stable on the home front.

That understanding disintegrated when Mr. Mubarak unleashed first his forces on protesters, after cutting off their ability to communicate on the Internet—all despite explicit pleas from the Obama administration that he refrain from those steps. As a result, President Barack Obama strode to a lectern in the White House Friday night and escalated the tough talk aimed at changing the behavior of America's most important Arab ally. Mr. Obama said he wanted to be "very clear" that Egyptian authorities should avoid violence against Egyptian protesters.

Moreover, he said, there "must be reform, political social and economic reforms that meet the aspirations of the Egyptian people." And, in the latest effort to put his administration on the side of younger Arabs seeking democratic change, he declared: "In the Arab world, a new generation of citizens has a right to be heard." The words were the



Late Egyptian President Anwar Sadat, left, waves to a crowd, with then-Vice President Hosni Mubarak at his side.

toughest yet in a steady escalation of American rhetoric about the failings and shortcomings of Cairo's leaders.

U.S. officials still held some hope that Mr. Mubarak would heed Washington's calls to embrace rather than confront political reformers—a seemingly faint hope kept alive by Mr. Mubarak's announcement in his own televised speech Friday night that he is replacing his current set of government ministers.

Earlier, White House spokesman Robert Gibbs suggested the Obama administration is prepared to cut the \$1.5 billion in aid the U.S. provides Egypt if security forces continue to be used to suppress dissent. Now the U.S. will be watching closely to see whether the new government Mr. Mubarak forms beneath him will include some figures who seem open or have links to the reform movement.

The Obama administration's strategy is to openly empathize with what has so far been a secular protest movement, calculating that embracing it reduces the chances it will be

taken over by radical Islamic and anti-Western forces. Until Friday, U.S. strategists were hoping that they could coax Mr. Mubarak into joining in that strategy. Instead, Mr. Mubarak effectively spurned Washington's overtures and moved onto his own, different track.

Now U.S. policy has reached a dangerous inflection point. U.S. officials are pleased that so far the protests have remained secular rather than Islamic in nature, with Egypt's Muslim Brotherhood organization relegated to its margins. Indeed, there has been a notable absence of vocal anti-American sentiment, either in the Egyptian protests or the preceding ones in Tunisia. "We don't want to be in opposition" to such a movement, one senior Obama administration aide said.

But the Obama administration has limited ability to ensure the protests stay that way. While the administration has distanced itself from Mr. Mubarak's suppression of the protesters, it hasn't actually turned its back on him personally. That leaves the U.S. open to criticism both from those who will

charge that it has sent a bad signal to other friends by undercutting a longtime American ally, and from those who criticize it for failing to more directly denounce that ally as a dictator and cut him loose.

Moreover, because Mr. Mubarak has long resisted grooming any potential successors other than his own son Gamal—who has been at least as much a target of street anger as has the president himself—the U.S. has no obvious alternatives to turn to.

The man who has tried to step in to become the de facto leader of the reform movement, Nobel Peace Prize laureate Mohamed ElBaradei, has no history of widespread popular support in the country and maintained an up-and-down relationship with the U.S. while he was running the United Nations nuclear watchdog agency.

Another alternative if Mr. Mubarak were to exit the scene might be Omar Suleiman, the Egyptian president's head of intelligence, a respected figure who might be able to bridge the current situation and new

elections later. It's unclear, though, that opposition figures would accept a leader so central to the current government. On Saturday, Mr. Mubarak appointed Mr. Suleiman as vice president.

One obvious alternative power center is the Muslim Brotherhood, a party that Mr. Mubarak has banned officially but has unofficially allowed to function in the margins of Egyptian political life. The current version of the Brotherhood actually is a fairly tame Islamic force. The danger in any U.S. nod toward the Brotherhood is that it could help usher into power a force that would grow more radical once unshackled.

Another possibility is that the Egyptian army could seize power. The U.S. might like the stability army leaders would offer, and relations between the U.S. and Egyptian military are close. But blessing any military move likely would be seen as Washington turning its back on the very pro-democracy forces it is seeking to foster. Moreover, since the day in 1981 when Egyptian soldiers murdered President Sadat, there has been persistent fear that the Egyptian military is vulnerable to infiltration by Islamic extremists.

Indeed, it isn't clear that even the efforts the administration has made to embrace the protests have convinced those in the streets that the U.S. is with them.

For its part, the administration argues that President Obama has been talking about democracy in the Middle East ever since his speech to the Muslim world in Cairo early into his term. On Thursday, the president spoke of "legitimate grievances" in Egypt and said he has told Mr. Mubarak personally that he needs to open up the country's political system. He said "violence is not the answer."

Ultimately, the risk for American policy makers is that, whatever their ability to encourage a reform movement, it outstrips their ability to control it once it gets rolling.

—Jonathan Weisman  
contributed to this article.

## Clinton steps up U.S. call for democracy

BY JULIAN E. BARNES  
AND JONATHAN WEISMAN

WASHINGTON—U.S. Secretary of State Hillary Clinton called for an "orderly, peaceful transition" to a "real democracy" in Egypt, and said the U.S. wants to see "free and fair elections" in Egypt result from the antigovernment unrest.

Although U.S. officials have been careful not to call for the resignation of Egyptian President Hosni Mubarak, Mrs. Clinton's comments on Sunday morning news shows seemed to inch the U.S. government toward pushing the Egyptian president to let go of his grip on power.

"We have been consistent across those three decades in arguing that real stability only comes from the kind of democratic participation that gives people a chance to feel that they are being heard," Mrs. Clinton said on ABC News, referring to the time Mr. Mubarak has been in

power.

Mrs. Clinton, who appeared on a number of public-affairs programs Sunday, said the U.S. was ready to help with a transition that would lead to greater political and economic freedom. While declining to say whether she thought Mr. Mubarak should remain in office, she repeatedly said the "legitimate needs and grievances" of the protesters must be addressed.

The message, officials said, was meant to reinforce the White House's position that while the Obama administration wouldn't seek to dictate an outcome to the crisis, the Egyptian leadership must realize they need to take clear steps toward democratic reform.

"There needs to be a change in the political system," said a White House official.

In her appearances, Mrs. Clinton referred to the presidential elections in Egypt, currently scheduled for



Hillary Clinton, said the U.S. wants 'free and fair' elections in Egypt.

September. She noted that the U.S. has been calling for free elections in Egypt for years. With the protests, the Obama administration now hopes those elections will have a

greater chance of being open.

"We want to see free and fair elections," Mrs. Clinton said. "And we expect that will be one of the outcomes of what is going on in

Egypt right now."

But with the outcome of street protests unknown, it is far from clear whether those elections will be held, or whether either Mr. Mubarak's government or a caretaker regime can hold power until then.

Mrs. Clinton's comments echoed a statement Saturday from President Barack Obama calling for "concrete steps" toward reform.

Both the White House statement and Mrs. Clinton's comments denounced the looting and violence that accompanied the protests in Egypt and forced many businesses to remain closed.

Mrs. Clinton praised the Egyptian military, which she said had a "delicate line to walk" between keeping order and protecting the right of the public to protest. Mrs. Clinton said there was no discussion so far about cutting off military aid to Egypt, one of the largest recipients of U.S. military assistance.



## TURMOIL IN EGYPT

# Muslim group's centrists take stage

By MARGARET COKER  
AND SUMMER SAID

CAIRO—Egypt's Muslim Brotherhood's agreement to back the secular, liberal opposition leader Mohamed ElBaradei as lead spokesman for the country's opposition groups in reform negotiations suggests the group's once sidelined moderate wing is regaining strength.

The move marks the latest step by the venerable and controversial Islamic organization to subordinate its religious goals to what opposition groups are describing as a battle for democracy, in a country run under a state of emergency by President Hosni Mubarak for more than 30 years. It also suggests the movement may be positioning itself as a significant political actor in future Egyptian politics.

Mr. ElBaradei, 68 years old, is the former head of the International Atomic Energy Agency, who won the Nobel Peace Prize for the group's nonproliferation work. He returned to Cairo on Thursday from Vienna after a long absence, to join protesters and to offer to lead a transitional government.

Early last year, the longtime activist played a major role in re-energizing Egypt's opposition movement, helping to organize a signature drive for a petition demanding political reform, although he didn't play a role in organizing the latest protests. He had clashed with the Bush administration over Iraq and Iran policies, but later forged ties with the Obama administration.

The Brotherhood, founded in 1928, is thought to be Egypt's most popular unofficial political organization. It has a long fought to establish Sharia law in Egypt, an anathema to the military leaders that have run the country and a key reason given by Mr. Mubarak and his predecessors for soft-pedaling on political



Egyptian demonstrators clash with riot police in Alexandria, a port city that is a stronghold of the Muslim Brotherhood.

reform. The group's strict views on morality and religion also have traditionally alienated them from Egypt's other political movements, which are largely led by Western-leaning intellectuals.

One of the hallmarks of the massive national protests against Mr. Mubarak has been its secular tone. Supporters of the Brotherhood have joined the street demonstrations, but their footprint has been intentionally light, according to opposition leaders. Brotherhood members agreed with the umbrella of opposition groups organizing the protests to keep religious slogans out of the demonstration to minimize the risk that Mr. Mubarak's security agencies

could discredit the movement, organizers said.

Egypt's opposition groups have had a checkered past, with ideological divides and personal animosities sapping their strength against the might of the Mubarak regime. For now, their solidarity appears to be sticking.

The umbrella organization, called the National Association for Change, on Sunday formed a steering committee, with Mr. ElBaradei at the helm, to strategize further movements and pressure Mr. Mubarak and his military leaders for more political concessions, according to senior Brotherhood leaders.

That reflects the organization's

strategy that their religious goals need to be put on the back burner to achieve democracy, said Helmi Gazzar, the head of the Brotherhood's district party office in northern Cairo.

"What we want is what the people want; right now we should have a completely different regime. We should have freedom and free elections," he said. "We respect Mr. Baradei. He has the most potential" to achieve this.

Some Middle East analysts argue that Egypt's Muslim Brotherhood, the organization from which many of the region's Islamists have taken inspiration, has a more moderate theological profile than is some-

times feared.

Unlike the Palestinian political group Hamas in the neighboring Gaza Strip, the Muslim Brotherhood isn't considered a terrorist organization by Washington or by European capitals. Egypt has outlawed the group as a political party, but members of the movement sit in Parliament as independent lawmakers, and U.S. officials frequently meet with these parliamentarians.

Detractors, however, see the Brotherhood as an extremist organization, similar to the Islamic movement that overthrew the Shah of Iran in 1979. They point to a draft political manifesto published by the organization in 2007 in which the organization called for a religious guidance council to be set up in Egypt to approve all laws passed by the country's civilian institutions. The political platform also states that Christians or women couldn't become president.

The Brotherhood's moderate wing disagreed with the manifesto, but the document helped exacerbate rifts between the group and Egypt's leftist and liberal democracy activists. For that reason, it was seen as a significant development when Mr. ElBaradei forged the umbrella opposition movement last year with the approval and inclusion of the Brotherhood.

Not all of the group's secular detractors have lost their mistrust of the Brotherhood, but they say they understand the importance of the group to the overall goal of pushing for democratic change.

"I have some fears about the Muslim Brotherhood and their [future] intentions. But the situation is bigger than all of us now. You need them in the streets," said Ziad el-Alami, a senior aide for Mr. ElBaradei and a human-rights lawyer.

—Charles Levinson  
contributed to this article.

## Opposition chooses leader as protests continue

Continued from first page  
Square, was the site a day earlier of violent clashes between protesters and what appeared to be the last vestiges of internal security forces left on the country's streets.

Egyptian protests continued Sunday and reports of looting spread, as demonstrations entered a sixth day. The death toll rose sharply to 102, according to the Egyptian Organization for Human Rights. The U.S. Embassy on Sunday advised Americans to leave Egypt as soon as possible, and recommended not traveling to the country.

The army made no attempt, however, to disperse thousands of protesters gathered at Tahrir Square downtown. The demonstrators defied curfew orders since Friday in demanding the ouster of Mr. Mubarak's regime, which they blame for poverty, unemployment, widespread corruption and police brutality.

Mr. ElBaradei had appeared in the square around 7 p.m., telling the crowd, "You are the owners of this revolution. You are the future."

Meanwhile, U.S. Secretary of State Hillary Clinton called for an "orderly, peaceful transition" to a "real democracy" in Egypt, and said the U.S. wants to see free and fair elections in Egypt as a result of the antigovernment unrest.

Although U.S. officials have been

careful not to call for the resignation of Mr. Mubarak, Mrs. Clinton's comments on U.S. Sunday morning news shows seemed to inch Washington toward pushing the Egyptian president to let go of his grip on power.

"We have to...stand ready to help with the kind of transition that will lead to greater political and economic freedom," Mrs. Clinton said on CNN. She told ABC News there was no discussion so far about cutting off military aid to Egypt, one of the largest recipients of U.S. military assistance.

The message, officials said, was meant to reinforce the White House's position that while the Obama administration wouldn't seek to dictate an outcome to the crisis, the Egyptian leadership must realize it needs to take clear steps toward democratic reform.

Sen. Mitch McConnell, the Republican minority leader in the Senate, avoided criticizing the Obama administration in a televised interview, saying it was important for the U.S. to speak with "one voice" during the crisis. Like Mrs. Clinton, he declined to say explicitly whether he thought Mr. Mubarak should step aside.

"It's up to the Egyptians to determine what their leadership is," he said on NBC-TV.

In Egypt, security officials said

hundreds of inmates escaped prisons across the country, including at least one jail that housed Muslim militants northwest of Cairo, the AP reported. The prisoners escaped overnight from four jails after starting fires and clashing with guards, the AP said. The inmates were helped by gangs of armed men who attacked the prisons, firing at guards in gunbattles that lasted hours and killed several inmates.

Residents and shopkeepers in affluent neighborhoods boarded up their houses and stores against looters, who roamed the streets with knives and sticks, stealing what they could and destroying cars, windows and street signs. Gunfire rang out in some neighborhoods.

Tanks and armored personnel carriers fanned out across the city of 18 million, guarding key government buildings, tourist and archaeological sites. Among those singled out for special protection was the Egyptian Museum, home to some of the country's most treasured antiquities, and the cabinet building. The military closed the pyramids on the outskirts of Cairo—Egypt's premier tourist site.

In a highly unusual live televised address to the nation, an army general warned looters that the military would use "all necessary force" to impose order and enforce a 6 p.m.

curfew in the country, as protests continued to grow in size and intensity.

Mr. Mubarak appointed the intelligence chief, Mr. Suleiman, to the post of vice president, a move seen as a concession to his opponents, who long criticized him for failing to name a successor in his 30-year rule. The president also tapped former Minister of Civil Aviation Ahmed Shafiq to be the country's new prime minister and asked him to form a new cabinet, following through on a pledge made a day earlier to form a new government. Mr. Shafiq is a former commander of the air force, like Mr. Mubarak, who was under the president's command during Egypt's 1973 war with Israel.

Analysts said the appointment of Mr. Suleiman on Saturday could be a precursor to Mr. Mubarak's resignation, allowing the government to maintain the appearance of constitutionality in any transition. Mr. Suleiman, however, has long been one of Mr. Mubarak's closest aides and in the eyes of many Egyptians is known mostly for his visible role helping to mediate the Israeli-Palestinian conflict.

With little information being disseminated about the transition of power under way in Egypt, the army's role is vital. It was unclear

where the military command would throw its considerable influence—or even if it had the ability to restore the spiraling sense of disorder throughout the nation's capital.

By evening, residents of Cairo were questioning why the army hadn't deployed in sufficient numbers to take control of streets the police had vacated a day earlier.

Throughout the city, looting was a growing problem. As night fell Sunday, Cairo residents, armed with steel pipes and two-by-fours, organized neighborhood watch committees to fend off roving bands of looters. People in numerous districts reported seeing bands of young men riding around in pickup trucks.

Reports of vandalism and looting in the capital were widespread, with witnesses saying supermarkets and banks had been broken into and robbed.

In Tahrir Square, soldiers stood idly atop their tanks as protesters set a Hardees restaurant on fire. In Sixth of October city, a northeast suburb of Cairo, shop owners put metal shutters on their store fronts and armed themselves with metal rods to stand sentinel through the night.

—Julian E. Barnes  
in Washington  
contributed to this article.



## WORLD NEWS

# Rising trade outpaces elusive global pact

## [ The Outlook ]

BY JOHN W. MILLER

Global trade has doubled and bilateral pacts have sprung up since the stalled Doha Round began. While countries say they haven't given up on the decade-long world trade negotiations, the hurdles to a deal, already substantial, have increased recently.

A report issued at last week's World Economic Forum in Davos, Switzerland, warned that Doha, named for the Qatari capital where the talks began, would perish if not completed this year.

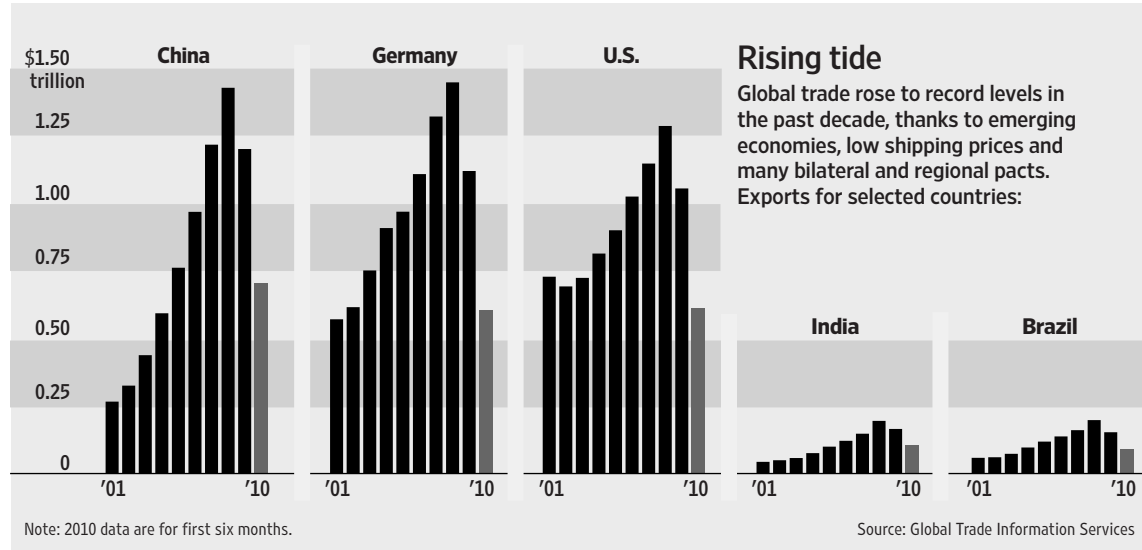
"It's time for heads of government to do more than simply repeat the rhetoric," said the report's author, Peter Sutherland, director of the World Trade Organization at the time of its founding in 1995.

Others echoed his warning. After all, the Uruguay Round, the second-longest, took a mere eight years, from 1986 to 1994. "If we don't get the deal done this year it is hard to see how the Doha process can have any further credibility," U.K. Prime Minister David Cameron said in a speech Friday in Davos.

To be sure, some of the dire talk may be intended to create momentum where none exists. Global trade deals routinely stretch on for more than a decade. No major country every truly gives up on a deal because to do so would be to signal that the global trading system—and the era of globalization—may have reached its limit.

Trade ministers from key countries, gathering in Davos over the weekend, said they would keep trying and would meet in July with an eye toward finishing the round by December. "There is a window available to conclude the deal this year," said India's commerce and industry minister, Anand Sharma.

But beneath the optimistic rhetoric, some officials heaped



even more demands on the negotiations. "We have to have a very balanced and ambitious package that's not currently on the table," said U.S. Trade Representative Ron Kirk. Developing countries needed to concede more on services, he said. European Union Trade Commissioner Karel De Gucht said that limits on state subsidies should be added to the deal—a direct swipe at China.

Messrs. De Gucht and Kirk's complaints underscore one reason why the talks have stalled. The Doha Round, launched in a spirit of international cooperation following the Sept. 11 attacks, had a simple premise: Rich countries would cut farm subsidies and tariffs; in exchange, emerging economies would open their markets for services and industrial goods. Poor countries interpreted that to mean they would have to do nothing but reap the benefits—a stance that rich countries find impractical and a political loser. In addition, some countries considered poor when the talks began—China and India—now are the world's fastest-growing large economies. The rich countries want a lot more out of them in terms of trade and investment

liberalization.

So far, the concessions offered by developing nations are considered so minimal, they haven't attracted the support of business and farm lobbies in the U.S. and Europe. Without their support, governments in the U.S. and Europe won't sign on to a deal.

A month after Doha was initiated in November 2001, China joined the World Trade Organization, just as a decade of record growth in global trade was unfolding. Total global annual exports doubled to \$13 trillion in 2010 from \$6.5 trillion in 2001. China's exports have grown to \$1.4 trillion a year from \$266 billion. All without Doha.

The trade growth isn't all thanks to China. Other factors include lower shipping costs and the rise of global supply chains. Bilateral and regional free-trade agreements also have made a difference—since 2001, more than 100 have been initiated.

The U.S. is close to concluding a pact with South Korea. The EU has deals on the table with India, Canada, South Korea and a group of Latin American countries. All these accords have whittled the estimated gains from the Doha Round's global pact, chipping

## Rising tide

Global trade rose to record levels in the past decade, thanks to emerging economies, low shipping prices and many bilateral and regional pacts. Exports for selected countries:

## India

## Brazil

away at the political motivation to pursue a deal. "Every study decreases the estimated benefits" of a world-wide trade agreement, says a senior EU official.

While these agreements serve the interests of the countries involved, they could harm the overall global trading system. "The problem [with bilateral or regional trade agreements]...is that it re-creates the mercantilism of the past," said Mr. Sutherland, the onetime WTO director.

These deals have given rise to the question: What if Doha fails?

The biggest risk, say trade officials, is not what will be lost in terms of cutting tariffs. It's in the loss of reputation that the WTO would suffer.

Just because trade prospered in the past decade without Doha doesn't mean it will continue to do so, many economists warn. "The status quo is not necessarily sustainable," says Jeffrey Schott of the Washington-based Peterson Institute. "If Doha failed, there would be serious institutional damage to the WTO," which is managing the trade talks.

Mr. Schott and others praise the court-like system the WTO uses to adjudicate trade disputes between the organization's 153 members. For example, on

Monday, the WTO is due to issue its latest report in the battle between the EU and U.S. over airplane subsidies.

Two economists, Aaditya Mattoo and Arvind Subramanian, say Doha has become irrelevant because the world has changed so much since 2001. They have called for a new trade round to succeed a failed Doha.

But what would such a round look like? It would, they say, include a "serious conversation about energy." Oil and gas have never been governed by the WTO, allowing oil-producing countries to establish cartels and set production quotas.

Currencies also have become part of the puzzle. Here, Messrs. Mattoo and Subramanian have proposed giving the WTO a role in making sure countries don't use their exchange-rate policies to distort trade. Trade officials could fight climate change by eliminating tariffs on biofuels and other environmentally friendly goods. The WTO's director-general, Pascal Lamy, regularly signals that he isn't interested in involving the organization in currency battles.

Many economists point out that tariffs are so generally low now that the biggest obstacles to trade are now nontariff trade barriers, such as safety standards and licenses. When EU and U.S. trade negotiators meet, they rarely discuss tariffs. Instead, they argue about issues such as toy-safety standards, genetically modified foods or the chemicals that go into beef or poultry feed.

For the past 10 years, the world's 49 poorest countries have had tariff-free access to the EU's 500 million consumers, the world's richest economic bloc. Yet trade hasn't taken off, because shipping to the EU means complying with a long list of regulations, something impoverished African farmers have a hard time doing.

All that means the WTO should focus on fighting nontariff trade barriers, they say.

## Rating cut trips up Japan's ruling party

BY TOKO SEKIGUCHI AND KANA INAGAKI

TOKYO—A senior Japanese government official raised questions Sunday over last week's surprise cut in the country's debt rating, while also seeking to use the cut to push a recalcitrant opposition to work with the government to get Japan's fiscal house in order.

The remarks by Senior Vice Finance Minister Mitsuru Sakurai represented the latest attempt by the government at a consistent line on the rating change by Standard & Poor's, following a series of missteps that included widely criticized initial comments from Prime Minister Naoto Kan suggesting he didn't fully understand the issues.

S&P had surprised the markets Thursday by cutting Japan to double-A-minus from double-A, criticizing the government for lacking a "coherent strategy" for tackling deepening fiscal problems. Japan's total government debt is now near

200% of its annual economic output, the worst among major industrialized countries.

"While we aren't in a position to comment on a rating decision by a private-sector company, I think there should be a debate on... whether this rating is really appropriate," Mr. Sakurai said on a television program.

Political analysts said the government should capitalize on the rating cut to get opposition backing for its fiscal overhaul, but instead it has largely been trying to defend itself from the storm that followed Mr. Kan's initial response. When informed by reporters of the downgrade, he said he was "unfamiliar" with the matter. Some news agencies translated his comments as saying he was "ignorant" of the matter.

Political critics, many analysts and a hostile local media jumped on the comments, portraying him as a leader ignorant of basic economic concepts

Mr. Kan tried to cover his tracks

on Friday in remarks at the parliament, which last week began its winter session, meant to hammer out the budget for the fiscal year that starts April 1. The proposed budget projects that for the second year running, borrowing will represent a larger part of overall revenue than taxes. "I used the word 'unfamiliar,' but I meant to say that information wasn't at hand at that moment," Mr. Kan said. He also said that his time as finance minister—five months—had given him the chance to gain full knowledge about credit ratings.

"Kan's statement will only become ammunition for the opposition to attack him in parliament," said Hirotada Asakawa, an independent political analyst. "The downgrade took the wind out of Kan's sails. It gave the impression that the DPJ has yet to act like the ruling party."

Mr. Sakurai attempted to push the issue onto opposition parties, calling on them to participate in the parliamentary debate on public fi-

nances as the government aims to pass a budget.

The government needs the support of the opposition parties to enact a fiscal overhaul, but the main parties have made clear that their legislative agenda is to push Mr. Kan out of office and return to power themselves. To that end they have raised a series of objections about various scandals, censured top government officials and then refused to cooperate with the administration on virtually anything.

"Regardless of what has been said by the ratings agency, both the ruling and opposition parties realize that we need to restore fiscal health," he said.

"We will take part in consultations if the prime minister prepares himself to go to the people," Sadakazu Tanigaki, the leader of the main opposition Liberal Democratic Party, said Wednesday in Parliament, implying that the opposition is open to talks only if Mr. Kan agrees to hold a snap election.



Japanese Prime Minister Naoto Kan spoke Friday in the Diet in Tokyo.



## WORLD NEWS

## In China, protests at a sentence seen as light

BY OWEN FLETCHER

BEIJING—A Chinese court handed a relatively light sentence to a police official's son whose hit-and-run killing of a college student sparked nationwide anger over the excesses of government officials and their families.

Wangdu County People's Court in Hebei province on Sunday sentenced 23-year-old Li Qiming to six years in prison for "crimes causing traffic casualties," Chinese state media reported, immediately sparking complaints on the Internet of leniency.

The state-run Xinhua news agency said Mr. Li pleaded guilty to prosecutors' charges. Neither Mr. Li's lawyer nor the court could be reached to comment.

Mr. Li was driving while intoxicated in October on the campus of Hebei University in Baoding, a city 150 kilometers southwest of Beijing, when his Volkswagen sedan struck two students, according to a government report on the incident.

He left the scene, but was eventually detained by university guards. Xinhua reported that one of the students he hit, 20-year-old Chen Xiaofeng, later died in the hospital from her injuries. The other was injured.

Mr. Li's father, Li Gang, was at the time deputy chief of a district police bureau in Baoding.

Witnesses to the incident said that when the guards detained Mr. Li, he dared them to charge him, shouting "My dad is Li Gang." The phrase quickly became a widely known catchphrase in China used to vent frustration at corruption among Chinese officials and their families, who often abuse their status to gain wealth and special treatment.

The six-year sentence is shorter than the seven-year maximum for the relatively minor charge of traffic crimes that Mr. Li faced. Some defendants in China found guilty in similar hit-and-run deaths involving drunk driving have been charged with more serious offenses and received much longer prison sentences—and even death sentences.

China Central Television, the state broadcaster, said the court lightened Mr. Li's punishment because his family had compensated the victims' families, and because he admitted to the charges and had a "penitent attitude."

The ruling drew immediate criticism online.

"Penitent attitude?" My dad is Li Gang!" wrote a user named Shi ZhiBu Yu on Sina Corp.'s microblogging service.

"What world is this, [where] just like that a life vanished, the perpetrator was so arrogant, and only got six years," wrote another user, Wei Yang.

Zhang Kai, an attorney who initially represented the family of Ms. Chen, the victim, said Mr. Li should have been charged with endangering public safety instead of traffic crimes.

"The criminal charge was wrong in the first place, so the ruling by no means can be right itself," he said.

—Yoli Zhang  
contributed to this article.

# Myanmar parliament to meet

BY A WSJ REPORTER

Myanmar is expected to convene its first parliament in more than two decades on Monday, setting the stage for the selection of a new president to head one of Asia's most secretive states.

Although analysts and residents say they doubt much will change in the near term in Myanmar, a resource-rich state controlled by the military since the early 1960s, the latest steps are being watched closely by foreign diplomats and investors for any sign the country is becoming more open to reform—an outcome investors hope could lead to a softening of Western economic sanctions.

The first order of business on Monday will be the formal opening of the massive new parliament building in the capital of Naypyitaw, a remote redoubt in central Myanmar far from major population centers and the prying eyes of most international and local observers. The parliament will be composed almost entirely of military allies—the junta-backed candidates who dominated November's national election, Myanmar's first in 20 years. The election was widely condemned by dissidents and Western governments amid reports of fraud.

A quarter of the parliamentary seats were already reserved for military nominees before the vote, and the government-backed Union Solidarity and Development Party won nearly 80% of the remainder. The main opposition party in the vote, the National Democratic Force, ended up with just 12 of more than 600 seats in the national parliament.

Anyone other than lawmakers found wandering into the parliament while it is in session will be subject to a one-year prison term, according to laws released by the government late last year. Attempts to reach the Myanmar government, which rarely speaks to foreign journalists, were unsuccessful.

The next step after the formal opening will be the selection of a new president by the parliament. The decision-making process has been shrouded in mystery, typical for Myanmar. Many analysts have long expected the country's current

## Meeting in Myanmar | Preview of the coming parliament

### Main issues

Myanmar opens its first parliament in more than 20 years this week. Although dissidents don't expect major breakthroughs, some hope to force discussion of several issues:

- Freedom for more than 2,100 political prisoners
- Curbs on monopolies led by politically connected businessmen
- Reforms of land-ownership rules to boost agricultural investment

Source: WSJ reporting  
Photos: Associated Press (Than Shwe, Thein Sein);  
Agence France-Presse/Getty Images (Shwe Mann)

### Some possible candidates for president



**Than Shwe:** Current top general and supreme leader of the nation. Approaching possible retirement at age 77 but may decide to stay in power.

**Shwe Mann:** Former No. 3 general shed his uniform last year in a military reshuffle. If not president, he may take a senior parliamentary post.

**Thein Sein:** Prime minister and representative of Myanmar at international summits and other events

leader, 77-year-old Gen. Than Shwe, to retire or at least drift into the background, controlling the new government from behind the scenes. But a growing number of analysts and dissidents have said in recent weeks that the strongman may choose to have himself declared president to ensure he isn't sidelined by ambitious younger generals.

Others cited as possible presidents include Shwe Mann, until recently the junta's third-ranking general, and Thein Sein, Myanmar's prime minister and head of the Union Solidarity and Development Party.

"I'm a bit surprised at how unclear it all still is—we have no idea who is going to be president," said Sean Turnell, a Myanmar expert at Macquarie University in Australia.

Those who see Myanmar's recent path as a slow road to democracy say they are still hopeful the launch of a new parliament could lead to positive changes in the long term, especially if the military decides it wants to improve relations with Western governments in a bid to lift the economic sanctions.

Leaders of the 10-country Association of Southeast Asian Nations, which includes Myanmar, have said that they believe Myanmar is mak-

ing progress and that the U.S. and Europe should reward its government by loosening the sanctions.

Pro-democracy dissident and Nobel laureate Aung San Suu Kyi has indicated since her release from seven years of house arrest in November—just days after the vote—that she may be open to rethinking her longtime support for sanctions. In a taped address to the World Economic Forum in Davos on Friday, Ms. Suu Kyi said she "looks forward" to the day when more foreign investors can operate in the country, though people familiar with her thinking say she first wants to see more meaningful concessions, such as the release of more than 2,000 political prisoners.

Other opposition leaders say they intend to use the new parliament to see how far they can push the new government. Khin Maung Swe, a former political prisoner and a leader of the National Democratic Force, said in an interview with The Wall Street Journal last week that his party intends to introduce two motions: one an antitrust bill to encourage more competition at a time when the government is selling off many state assets to politically connected businessmen; and the other a call to release political prisoners.

"We have to be patient," he said. "We want to build up political confidence and build trust among our national groupings."

Other possible legislation could seek to give residents greater legal rights in buying and selling land—a reform backed by many economists who believe better land laws are needed to encourage more investment in the country's beleaguered agricultural sector.

If the parliament agrees to hear such bills, it could be a sign the regime intends to allow at least some measure of debate on sensitive issues—a step forward in the mind of some analysts.

Other analysts are more pessimistic.

"If the NDF thinks proposing a few bills on land tenure and competition in the economy are going to constitute what they consider a small but significant policy progress, they are delusional," said Maung Zarni, a Myanmar research fellow at the London School of Economics. "Introducing a few bills in the rubber-stamp parliament is not going to make a dent—it would be like applying first-aid tactics to a patient with advanced cancer."

—Celine Fernandez  
contributed to this article.

## U.S. asks Pakistan to free diplomat

BY ZAHID HUSSAIN  
AND TOM WRIGHT

ISLAMABAD, Pakistan—The U.S. called for the immediate release of an American diplomat who was arrested by Pakistani police for killing two armed men allegedly trying to rob him, saying his detention was unlawful under international law.

U.S. officials have been angered by the treatment of the official, whom Pakistani authorities have identified as Raymond Davis, a security officer at the U.S. Consulate in Lahore, the nation's second-largest city. Mr. Davis shot dead two men on a motorcycle in Lahore on Thursday after they allegedly tried to intercept his car. A third person, a bystander, was killed by a consular vehicle that was attempting to extricate Mr. Davis from the situation.

Protests have broken out since Thursday calling for Mr. Davis to be tried in Pakistan. A section of Pakistan's media, which in the past has claimed U.S. aid workers are spies,



U.S. diplomat Raymond Davis is escorted to a court in Lahore on Friday.

also has called for a local trial.

On Sunday, a rally in Lahore drew some 15,000 people to hear two hard-line Islamic leaders who warned the government against releasing Mr. Davis, according to the

Associated Press.

The U.S. Embassy in Islamabad, the capital, said in a statement Saturday that Mr. Davis's subsequent arrest and detention by police in Lahore was in violation of a 1961

treaty, the Vienna Convention on Diplomatic Relations, which grants immunity from prosecution to diplomats serving overseas. The embassy said the U.S. official identified himself to police as a diplomat and repeatedly requested immunity. The statement said the diplomat acted in self-defense when confronted by two men who had criminal records.

A spokesman for Pakistan's Foreign Ministry declined to comment on the matter while an investigation by the Punjab police is continuing.

The incident is likely to exacerbate strains in the relationship between the U.S. and Pakistan.

Washington has pumped billions of dollars in civilian and military aid in to Pakistan but remains deeply unpopular here for its campaign of unmanned Central Intelligence Agency drone strikes against Taliban fighters operating from Pakistani soil.

Pakistan could still release Mr. Davis under pressure from the U.S. once public anger dies down.



## INTERVIEW



Reuters

Veolia Environnement's chairman and chief executive Antoine Frérot says waste and water management will soon pose a crucial test to civilization.

# Keeping our cities livable

*The head of the world's biggest water and waste management company says private sector involvement is crucial*

[ Antoine Frérot ]

BY GERALDINE AMIEL

"All the great cities of the United States make me dream," says Antoine Frérot wistfully. But it isn't the traditional fascination of European intellectuals for America's urban landscapes that interests the chairman and chief executive of **Veolia Environnement** SA, the world's biggest waste and water utility by revenue. What engages Mr. Frérot is the more prosaic, but perhaps more important question of where Americans get their water.

Currently Mr. Frérot is particularly interested in California, as the state faces a possible fourth year of drought, with some local agencies already issuing mandatory rationing. "We are certain we could help them do better. We hope to convince them," he said, in the comfort of his Paris office, few steps from the Arc de Triomphe.

The group already handles Milwaukee's water network.

Veolia, unlike most Western industrial groups these days, is not so focused on emerging markets to become new drivers of growth. As human beings pile into ever growing urban clusters, issues such as waste management, water and energy supply and transportation, become more important. And the more sophisticated the city, the greater the problems and the bigger both the need and desire to find a more comprehensive solution. Veolia's business is therefore a long way away from traditional garbage dumps and simple water-treatment plants. The company sells sophisticated solutions, such as energy-generating waste incinerators.

Waste and water management needs will soon pose a crucial test to our civilization, says Mr. Frérot, and the involvement of the private sector, of companies like Veolia, will be crucial to being able to make our cities continue to be livable.

Today about 9% of the world's population has its water handled by a private utility.

Ten years ago, the rate stood at 5%, 20 years ago only 2%. Elsewhere, local authorities handle water and waste themselves. The problem is that they don't invest in research and development, often try to skimp on capital investment, and don't know how to handle such issues as implementing higher environmental standards, Mr. Frérot says.

Against this background of unsophisticated municipal provision, Veolia has a vital role to play, and as well as water and waste has developed public transport and energy divisions. For those who fail to see a rationale in combining the four activities, Mr. Frérot has a straight answer: "The aim is to make our urban civilizations more bearable, even agreeable. The activities represent the encounter of politics and economics and environmental concerns. The more we evolve, the more we need to innovate and find better solutions for our water, our waste, our energy and our transport," he says.

It's no longer about managing a water well or to filter the liquid: water utilities have to be able to manage entire water loops, face erratic flows in and out which increase the need for a robust yet flexible pipe techniques, extract sewage water...

"It's complex, there's no room for mistakes, issues must be non-existent when it's about supplying drinkable water to households."

But the idea of private provision takes time to catch on. "It's an important decision for local authorities, to outsource its water network to a private company," he says, noting that, in India, where the group is in talks with an important city, the different layers of authorities most of the time don't share the same political color, making the decision process all the more complex.

Currently the group services towns such as Berlin, Prague, Bucharest and Shanghai. One recent success story has been Riyadh, the Saudi Arabian capital. Three years ago, before Veolia landed the contract, the city's 4 million inhabitants had running water only four hours a day. Now it is available round the clock. Local competitors have emerged in certain parts of the world but

at the international level, most of the time Veolia competes with its arch-rival peer **Suez Environnement** SA, another French utility which ranks second globally.

That two French utilities are the biggest of their kind in the world is no coincidence. Water and waste concessions are a very French invention with local authorities there granting the first contract to private companies at the end of the 19th century, Mr. Frérot explained. Veolia itself was born from *Compagnie Generale des Eaux*, created by an imperial decree issued by Napoleon III in 1853. By 1998, when the company renamed itself **Vivendi Universal**, it had become a huge and diversified conglomerate. In 2000 the water and waste business was spun off into Veolia. Ever since, however, the company has been plagued by debt, a problem which has not been relieved by a company policy of pursuing growth through investment rather than reducing its debt.

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**'The more we evolve, the more we need to innovate and find better solutions for our water, our waste, our energy and our transport.'**

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Mr. Frérot says debt is less of an issue now Veolia has managed to stabilize it at €15.5 billion (\$21.1 billion). More than 70% of this is at fixed rates, he says, while the company sits on €5 billion of cash. The next big repayment is not until 2014.

When Mr. Frérot took over as chief executive officer a year ago—from Henri Proglio, who had led the company since its spin-off—and as chairman a month ago, he said the idea of pursuing growth over paying down debt was still valid. But now he admits cash flows are "insufficient." As a result, the group has decided to divest parts of its business seen as non-core, or which don't deliver enough cash flow. While Mr. Frérot declined to name them, he said they had been identi-

fied and represent around 15% of Veolia's total capital employed. Since this stands at €25 billion, the possible sell-offs would be worth around €4 billion, he said.

The divestment process will start this year and allow the group to increase investment in the more sophisticated businesses that are likely to prove more profitable. The divestiture program overlaps another in place to divest around €3 billion of assets over the 2009-2011 period which Mr. Frérot says is already being implemented. Total divestment is expected to be around €6 billion.

Meanwhile, the company relentlessly seeks opportunities. For example, industries are now seeking solutions to treat their own water supplies. Veolia recently set up a plant within steel giant **ArcelorMittal's** compound in Sao Francisco do Sul, in Brazil, to treat highly polluted waters on the spot.

As for waste, landfill—digging holes and burying garbage—is about to become a thing of the past, Mr. Frérot says, citing the example of the U.K. which has banned such dumps from 2020. Already, big cities have no room, so waste is now burnt, the heat used either to produce energy for local use or to heat housing projects while fumes are strictly filtered so that no particles are released in the air, making the process complex and costly. Then there is recycling which is booming, but has yet to become profitable—recycled materials are still more expensive than raw materials, thus limiting their market, Mr. Frérot says.

"These new needs require complex processes and Veolia Environnement has developed them," Mr. Frérot said.

An engineer at heart, Mr. Frérot attended France's top engineering school Polytechnique, completing his education at the Ponts et Chaussées engineer school. Most of his professional life has been spent at Veolia but his guiding principles date to his youth, when his father, a general practitioner, insisted that only tap water would be drunk at home. Nowadays, even in the poshest Parisian restaurants, Mr. Frérot orders a carafe of water alongside the finest bottles of wine.