

Report 136
PROJECT ON BUSINESS AND POLITICS IN THE
MUSLIM WORLD

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This week report dwells much on Yahoo/AP/Reuters News, New York Times and World Politics review. The report remains a compilation of strategic political, economic, socio-cultural and Geo-strategic issues around North America/Canada, Western Europe, Latin America/Southern Europe, Southeast Europe and Oceania. It obviously begins with a summary of the whole report, a breakdown of easily comprehensible short notes.

Headlines

US/Canada

- Democrats Plan Political Triage to Retain House
- Grim outlook for Democrats puts House up for grabs
- No recession here: Election spending sets records
- Obama assails GOP, promotes new jobs program
- Obama Against a Compromise on Extension of Bush Tax Cuts
- Vacancies Strain White House's Goals for Economy
- Fla. minister: Quran burning still planned
- Clinton calls plan to burn Quran 'disgraceful act'
- Top US commander: Burning Quran endangers troops
- City Disavows Pastor's Talk of Burning Koran
- Obama Tries to Calm Religious Tensions
- Imam Rauf: Mosque will move ahead
- All eyes on BP report on Gulf oil spill disaster

Western Europe

- Eurozone back under pressure amid concern over EU banks
- Financial Sheriffs to Monitor Banks, Markets in European Union
- Opposition to setting up resolution funds
- Finance ministers give green light to EU oversight of national budgets
- London hits back at Brussels, as budget wars get under way
- Barroso calls for support during Europe's 'moment of truth'
- EU has survived economic crisis, Barroso says in first State of Union address
- German Identity, Long Dormant, Reasserts Itself
- German exports roar ahead in July
- Ireland insists not on same road as Greece despite ballooning bank debt
- House survey shows prices rise in August
- Italy threatens to veto South Korea trade deal
- MEPs postpone vote on Korea trade deal
- MEPs attack slow pace of Roma investigation
- Italy resumes anti-Roma action in teeth of EP vote

- IAEA report: What's driving Iran's latest bout of nuclear obstinacy
- Nabucco pipeline gets funding boost

Oceania

- Australian independents hand power to PM Gillard
- Tensions emerge in new Australian minority govt
- Australian government prepared to adjust mining tax
- Floods threaten hundreds more Australian homes
- Guilty plea could buy less jail time in Australia

Report Summary

US/Canada

Political Issues

The midterm election is around the corner and it is a big fight between the republican and democrat, the latter is on defensive fight to retain House majority, while the former is embarking on an offensive campaigning to outmatch the democrats.

Americans are crying of recession, but midterm elections spending is telling a different story. Giving the circumstances surrounding the elections and the sensitivity to the parties, financial reports indicate that \$billions are expended for capturing and retaining majority in the House.

Economic Issues

Economic issue is standing at the heart of the midterm elections and the fear of the democrat party of losing its House majority is manageable if the state of the economic woes can be turned around. Housing, unemployment, tax and many more are pinching most Americans.

The rebounding of U.S economy particularly as the midterm elections is crucial for the Obama reelection but that could be possible if proactive and task oriented policy makers are placed in the numerous vacant seats that are still unoccupied.

Social/Humanitarian Issue

The plan to burn the Qur'an by Rev. Terry Jones has been widely condemned even by Obama administration. The action is potential enough to brew more enmity for the United States in the Muslim world than closing the gulf of misunderstanding. Having understood the pressure, Jones was forced to cancel his sacrilegious and despicable effort.

Imam Feisal Abdul Rauf has publicly disclosed that regardless of the indignation surrounding the Ground Zero mosque, plan to construct the mosque will continue on site. Rauf believes the whole plan has to be transparent to the public and as a way to soften the ire of the antagonists.

Food, Environment and Energy Issue

Most Americans wait to read BP's investigation of oil spill in the Gulf of Mexico, the report is expected to unravel what went wrong but analysts believe BP is less likely to shoulder much blame on itself in the report.

Western Europe

Political Issues

It was the first state of union address coming from Brussels, but it was an opportunity for European Commission President Jose Manuel Barroso to tell the world how EU and its projects have been a success story and the need for the bloc members to work in solidarity in times to come. Whether Barroso's assertion is correct or wrong, citizens of the bloc would be better placed to tell, even though recent survey tells that many in the bloc have no confidence for the EU.

Could Germany regain its identity and pre-World War two status as Europe super power? This question will have to be judge by the extent to which Germany's political and economic clout is established in Europe and the world over. It is said that the Germans are reawakening from their slumbered identity, as model to be copied, though putting behind them the Nazi identity.

Economic Issues

Facing the Greek financial crisis was no easy task for the EU, it was definitely an unprepared financial blow for the bloc, that uprooted hidden sentiments within the bloc and how national identity can clash with regional interest. The economic crisis is yet to be over as EU banks are still scratching the scar left by the crisis.

Meanwhile, the bloc has resolved to have an oversight of national budgets that every member state will report its budget to Brussels, only UK was exempted. Ireland is also arguing that its bank is though facing serious debt problems but not on same track as Greece.

The EU Visegrad countries are challenging rebatement policy in the EU as Britain believes scrapping such will be detrimental to its net contribution which obviously means that London will be paying more than the rest of EU power house.

Saving the Eurozone from another financial woe was the underlying philosophy for the establishment of a financial regulation bodies by the EU. Having the bodies was not easy task as many political games were played before a consensus was reached. Accordingly the bodies are powered to ban certain high-risk financial products and activities, to instruct banks and other financial actors in crisis situations and to draw up standards for national regulators and settle disagreements between them.

But the European Commission failed to have a consensus on resolution funds, a fund to be generated by the levy on banks in each member states. UK, France and the Netherlands stands against the funds, but welcomed by Germany and Sweden, while others undecided. The fund is expected to be a bailout measure for banks than making taxpayers pay for banks' mistakes in the period of financial crisis.

Germany along with few EU members rejected American policy of huge stimulus to stir up global economic recovery but rather held on to austerity measure which is now paying the German economy. The German government is asking other EU members to act on its model of strict and principled financial practices if Europe must survive and finally walk through its financial crisis.

EU Free Trade Agreement with South Korea is handicapped by MEPs reservation particularly from Italy. The reservation is sensitive because such agreement might affect the domestic industry of car producing EU members.

British government is stepping up effort to cut state spending and creating autonomous enterprise as measure to balance the downing economy. Meanwhile report has it that prices in Britain rose by 0.2 percent in August after a gain of 0.6 percent in July.

Social/Humanitarian Issue

Italy is tailing behind France on expelling and dismantling Roma camps and thus made the issue more momentous within the European parliament, it is clear that many MEPs are not comfortable with the manner with which the Roma expulsion is handled as it divides the parliament and accusing finger pointed at the European commissioner for justice.

Food, Environment and Energy Issue

The effort of the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the International Finance Corporation (IFC), meant the Europe is deeply craving to see the Nabucco pipeline project operational. The pipeline is projected to bring gas from the Caspian to central Europe and way of reducing energy dependence on Russia.

Geostrategic Issues

The reality behind sanctioning Iran is dawning on IAEA claiming Tehran is becoming more obstinate and not transparent enough with inspectors. Iran is believed to be reciprocating with lack of cooperation after the UN sanctions, hence justifying the Brazil and Turkey's view that sanction will further complicate matters.

Oceania

Political Issues

The new Australian coalition government is compromising the policy of increasing tax on the mining sector. It is true that the power sector was responsible for the decline of ex-PM Rudd when he attempted to implement tax policy on the powerful sector.

Economic Issues

Social/Humanitarian Issue

Say the truth and shame the Devil and waste no time of court was the implicit message sent by the South Australian Attorney-General John Rau to Australian criminals. The court is ready to reduce 40% of punishment if a criminal would plead guilty within six weeks of arrest.

Food, Environment and Energy Issue

The southeastern state of Victoria, Australia experienced its own share of the growing effect of global warming and climate change as rising flood waters threatened hundreds of Australian homes. New Zealand was also gripped by earthquake.

Report Detail

US/Canada

WASHINGTON — As Democrats brace for a November wave that threatens their control of the House, party leaders are preparing a brutal triage of their own members in hopes of saving enough seats to keep a slim grip on the majority. In the next two weeks, Democratic leaders will review new polls and other data that show whether vulnerable incumbents have a path to victory. If not, the party is poised to redirect money to concentrate on trying to protect up to two dozen lawmakers who appear to be in the strongest position to fend off their challengers. “We are going to have to win these races one by one,” said Representative Chris Van Hollen of Maryland, chairman of the Democratic Congressional Campaign Committee, conceding that the party would ultimately cut loose members who had not gained ground. With the midterm campaign entering its final two months, Democrats acknowledged that several races could quickly move out of their reach, including re-election bids by Representatives Betsy Markey of Colorado, Tom Perriello of Virginia, Mary Jo Kilroy of Ohio and Frank Kratovil Jr. of Maryland, whose districts were among the 55 Democrats won from Republicans in the last two election cycles. Representatives John M. Spratt Jr. of South Carolina, chairman of the Budget Committee, and Earl Pomeroy of North Dakota, who is seeking a 10th term, are among the senior Democrats who have appeared to gain little ground in the summer months in the toxic political environment. A sputtering economy and discontent with Washington have created a high sense of voter unease that has also put control of the

Senate in question. To hold the line against Republicans, the House speaker, Nancy Pelosi, issued an urgent plea for members in safe districts to help their endangered colleagues by contributing money. She called out Democrats who were delinquent on paying their party dues and instructed members with no re-election worries to tap into a combined \$218 million from their campaign accounts to help save their majority.

WASHINGTON – Their control of the House in peril, Democrats are scratching to survive in races all across the country. Disgruntled voters, a sluggish economy and vanishing enthusiasm for President Barack Obama have put 75 seats or more — the vast majority held by Democrats — at risk of changing hands. The party could become a victim of its own successes during the past two elections, when candidates were swept into power by antipathy for President George W. Bush and ardor for Obama. Now, eight weeks from Election Day, the Democrats are bracing for the virtual certainty of lost House seats and scrambling to hold back a wave that could hand the GOP the 40 it needs to command a majority. Obama, grasping for a way to turn the tide, on Wednesday plans to propose \$30 billion in new investment tax breaks for businesses to go along with tens of billions in spending he called for on Labor Day to invigorate the slow recovery. But even if Congress acts on the requests — a long shot in a highly charged political season — there's little time left for Democrats to salvage their election chances. With Obama's popularity slumping and the party demoralized, dozens of first- and second-term Democrats as well as longer-serving congressmen who haven't faced serious challenges in years are toiling to hold onto their jobs in places that tend to prefer Republicans. And polls show independent voters leaning toward the GOP. When asked which party they want to control Congress, voters are split or leaning toward Republicans, national surveys say. Perhaps even more ominously for Democrats, voters are overwhelmingly sour about national issues, especially the economy. More than 60 percent said the nation was in a state of decline and on the wrong track in the latest Wall Street Journal/NBC News poll, in which voters likely to turn out in November gave Republicans a gaping 9-point edge when asked which party they wanted to control Congress. Much can change between now and Election Day, and a GOP House takeover is far from sure. The political parties, individual campaigns and outside groups that spend heavily to influence elections have scarcely begun to distribute the hundreds of millions of dollars they plan to pour into key congressional districts across the country for advertising and on-the-ground organizing that can turn out crucial voters.

WASHINGTON – Turns out politics, for all its focus on the gloomy economy, is a recession-proof industry. This year's volatile election is bursting with money, setting fundraising and spending records in a high-stakes struggle for control of Congress amid looser but still fuzzy campaign finance rules. Based on the latest financial reports, House and Senate candidates in this election cycle raised nearly \$1.2 billion, well ahead of the pace for contests in 2008, 2006 and 2004. Races for governor in 37 states — more than half of those for open seats — are also setting fundraising records. Billionaire Republican Meg Whitman leads the way, pumping \$104 million of her own money into her campaign for California governor. "We may be on track for the most expensive cycle ever, even more than '08, which is really hard to believe," said Michael Toner, a campaign finance lawyer at Bryan Cave and a former Federal Election Commission chairman. Bitter

intraparty fights, up to 100 competitive House races, a large number of open seats and early partisan attacks have created a growing demand for cash. The national parties are competing for dollars with outside groups and their often-anonymous contributors. And while Democrats have an advantage at the national party level, Republican-leaning groups seem to have more than filled the void. The money has been flowing into political battlegrounds since early this year, from a special Senate election in Massachusetts to a Democratic primary fight for a Senate seat in Arkansas, from the race for Florida governor to the gubernatorial and Senate contests in California. The spending will now shift to the general election. Millions of dollars are pouring into campaigns that have been dominated by discussions about the government's fiscal prudence. There's no such thing as restraint when it comes to getting elected.

WASHINGTON — President Obama on Wednesday will make clear that he opposes any compromise that would extend the Bush-era tax cuts for the wealthy beyond this year, officials said, adding a populist twist to an election-season economic package that is otherwise designed to entice support from big businesses and their Republican allies. Mr. Obama's opposition to allowing the high-end tax cuts to remain in place for even another year or two would be the signal many Congressional Democrats have been awaiting as they prepare for a showdown with Republicans on the issue and ends speculation that the White House might be open to an extension. Democrats say only the president can rally wavering lawmakers who, amid the party's weakened poll numbers, feel increasingly vulnerable to Republican attacks if they let the top rates lapse at the end of this year as scheduled. It is not clear that Mr. Obama can prevail given his own diminished popularity, the tepid economic recovery and the divisions within his party. But by proposing to extend the rates for the 98 percent of households with income below \$250,000 for couples and \$200,000 for individuals — and insisting that federal income tax rates in 2011 go back to their pre-2001 levels for income above those cutoffs — he intends to cast the issue as a choice between supporting the middle class or giving breaks to the wealthy.

MILWAUKEE – A combative President Barack Obama rolled out a long-term jobs program Monday that would exceed \$50 billion to rebuild roads, railways and runways, and coupled it with a blunt campaign-season assault on Republicans for causing Americans' hard economic times. GOP leaders instantly assailed Obama's proposal as an ineffective one that would simply raise already excessive federal spending. Many congressional Democrats are also likely to be reluctant to boost expenditures and increase federal deficits just weeks before elections that will determine control of Congress. Jim Manley, spokesman for Senate Majority Leader Harry Reid of Nevada, cautioned, "If we are going to get anything done, Republican cooperation, which has been all but non-existent recently, will be necessary." That left the plan with low, if not impossible, odds of becoming law this year. When Congress returns from summer recess in mid-September, it is likely to remain in session for only a few weeks before lawmakers return home to campaign for re-election. Administration officials said that even if Congress quickly approved the program, it would not produce jobs until sometime next year. That means the proposal's only pre-election impact may be a political one as the White House tries to demonstrate to voters that it is working to boost the economy and create jobs.

At a Labor Day speech in Milwaukee, Obama said Republicans are betting that between now and the Nov. 2 elections, Americans will forget the Republican economic policies that led to the recession. He said Republicans have opposed virtually everything he has done to help the economy, and have proposed solutions that have only made the problem worse.

WASHINGTON — President Obama signaled on Friday that he was close to choosing a director for a new consumer bureau, but an array of top jobs that will be crucial to shaping economic policy and financial regulation for the rest of his term remain unfilled. At a White House news conference, Mr. Obama praised Elizabeth Warren, the Harvard law professor who was the chief proponent of the Consumer Financial Protection Bureau and is a front-runner to lead it. Calling her “a dear friend” and a “tremendous advocate” for the new agency, the president said he had talked with her but added, “I’m not going to make an official announcement until it’s ready.” Ms. Warren is considered a foe of Wall Street but a favorite of liberals. If she were nominated to the post it could set off a partisan brawl similar to the battles that nearly swamped the Dodd-Frank financial overhaul law Mr. Obama signed in July, which created the bureau. That position, however, is only one of a half-dozen unfilled presidentially appointed posts that have vast powers over the mortgage market, financial stability and the banking and insurance industries. The seats have been vacant even though the new law directed regulatory agencies to make scores of major decisions that will shape Wall Street and the financial sector for years to come. Delays in the appointment process — lengthened by Congressional brinkmanship and cumbersome vetting — are not new, and some choices have come quickly. On Friday, the president named Austan D. Goolsbee chairman of the White House Council of Economic Advisers, filling a position that had just opened. But the confluence of vacancies in the economic realm comes at a time of regulatory transformation, a slowing economy and a Republican resurgence. (Mr. Goolsbee, who was previously confirmed as a member of the council, did not need a second Senate confirmation to become chairman.)

GAINESVILLE, Fla. — The leader of a small Florida church that espouses anti-Islam philosophy said he was still praying about whether go through with his plan to burn copies of the Quran on Sept. 11, which the White House, religious leaders and others are pressuring him to call off. The Rev. Terry Jones said he has received more than 100 death threats and has started wearing a .40-caliber pistol strapped to his hip but still did not back off his plan Tuesday to burn the book Muslims consider the word of God and insist be treated with the utmost respect. The 58-year-old minister said the death threats started not long after he proclaimed in July that he would stage “International Burn-a-Quran Day.” Supporters, though, have been mailing copies of the holy text to his church of about 50 followers to be incinerated in a bonfire on Saturday to mark the ninth anniversary of the 9/11 attacks. Gen. David Petraeus took the rare step of a military leader taking a position on a domestic matter when he warned in an e-mail to The Associated Press that “images of the burning of a Quran would undoubtedly be used by extremists in Afghanistan — and around the world — to inflame public opinion and incite violence.” Jones responded that he is also concerned but is “wondering, ‘When do we stop?’” He refused to cancel the protest at his Dove World Outreach Center but said

he was still praying about it. "How much do we back down? How many times do we back down?" Jones told the AP. "Instead of us backing down, maybe it's time to stand up. Maybe it's time to send a message to radical Islam that we will not tolerate their behavior." Jones gained some local notoriety last year when he posted signs in front of his church declaring "Islam is of the Devil." But his Quran-burning idea attracted wider attention. It drew rebukes from Muslim nations and at home as an emotional debate was taking shape over the proposed Islamic center near the ground zero site of the 2001 terrorist attacks in New York. His actions most likely would be protected by the First Amendment's right to free speech. The U.S. Supreme Court has made clear in several landmark rulings that speech deemed offensive to many people, even the majority of people, cannot be suppressed by the government unless it is clearly directed to intimidate someone or amounts to an incitement to violence, legal experts said.

WASHINGTON – Secretary of State Hillary Rodham Clinton on Tuesday called a Florida church's threat to burn copies of the Muslim holy book to mark the ninth anniversary of the Sept. 11 attacks a "disrespectful, disgraceful act." Others in the Obama administration weighed in against the proposed burning, including Attorney General Eric Holder, who called it idiotic and dangerous. A State Department spokesman branded the planned protest "un-American" while other officials warned that it could threaten U.S. troops, diplomats and travelers overseas. The Christian minister organizing the Quran burning said he will go ahead in spite of the government's concerns. Pastor Terry Jones of the Dove World Outreach Center, a small, evangelical Christian church in Gainesville, Fla., with an anti-Islam philosophy, said he had received more than 100 death threats and had taken to wearing a pistol on his hip. In Washington, a broad coalition of religious leaders from evangelical, Roman Catholic, Jewish and Muslim organizations called Jones' plan a violation of American values. Clinton condemned the threat to burn the Quran during her remarks at a State Department dinner she hosted in observance of Iftar, the breaking of the daily fast during the Muslim holy month of Ramadan. "I am heartened by the clear, unequivocal condemnation of this disrespectful, disgraceful act that has come from American religious leaders of all faiths," Clinton said. At the White House, spokesman Robert Gibbs echoed concerns raised by Gen. David Petraeus, the U.S. commander in Afghanistan, about the plans. Petraeus said earlier that images of the event would be used by extremists "to inflame public opinion and incite violence."

"Any type of activity like that that puts our troops in harm's way would be a concern to this administration," Gibbs told reporters. Holder met Tuesday with religious leaders to discuss recent attacks on Muslims and mosques around the United States. The meeting was closed to reporters, but a Justice Department official who was present confirmed that Holder said the plan to burn the holy book was idiotic. The official, who requested anonymity because the meeting was private, also said Holder was quoting Petraeus when he used the word "dangerous."

KABUL, Afghanistan – The top U.S. and NATO commander in Afghanistan warned Tuesday an American church's threat to burn copies of the Muslim holy book the Quran could endanger U.S. troops in the country and Americans worldwide. "Images of the burning of a Quran would undoubtedly be used by extremists in Afghanistan — and around the world — to inflame public opinion and incite violence," Gen. David Petraeus said in an e-mail to The Associated Press. His comments followed a protest Monday by

hundreds of Afghans over the plans by Gainesville, Florida-based Dove World Outreach Center — a small evangelical Christian church that espouses anti-Islam philosophy — to burn copies of the Quran on church grounds to mark the Sept. 11, 2001 terrorist attacks on the United States that provoked the Afghan war. Muslims consider the Quran to be the word of God and insist it be treated with the utmost respect, along with any printed material containing its verses or the name of Allah or the Prophet Muhammad. Any intentional damage or show of disrespect to the Quran is deeply offensive. In 2005, 15 people died and scores were wounded in riots in Afghanistan sparked by a story in Newsweek magazine alleging interrogators at the U.S. detention center in Guantanamo Bay placed copies of the Quran in washrooms and flushed one down the toilet to get inmates to talk. Newsweek later retracted the story. At Monday's protest, several hundred Afghans rallied outside a Kabul mosque, burning American flags and an effigy of Dove World's pastor and chanting "death to America." Members of the crowd briefly pelted a passing U.S. military convoy with stones, but were ordered to stop by rally organizers. Two days earlier, thousands of Indonesian Muslims rallied outside the U.S. Embassy in Jakarta and in five other cities to protest the church's plans. Petraeus warned images of burning Qurans could be used to incite anti-American sentiment similar to the pictures of prisoner abuse at Iraq's Abu Graib (ah-booh GRABE) prison.

GAINESVILLE, Fla. — Stephanie George used to see members of the Dove World Outreach Center at her neighborhood grocery store, wearing T-shirts that said "Islam is of the devil." But on Friday, she and her friend Lynda Dillon showed up early at Dragonfly Graphics to order a dozen shirts with a different message: "Love, not Dove." The design itself, complete with a lyric made famous by Elvis Costello ("What's so funny 'bout peace, love and understanding"), takes direct aim at the pastor Terry Jones, his church and his threat — now suspended — to burn copies of the Koran on Saturday, Sept. 11. But Ms. George and others who have lined up for the shirts from Dragonfly frown and sigh with exasperation that such a public stand is even necessary. "He's a lunatic, and yet I still feel like I need to get the message out that we're not lunatics with him," said Ms. George, 46. "I don't want this to represent my neighborhood." Mr. Jones has become a reviled figure around the world. But the people of this youthful city in central Florida are taking his actions personally, with anger and heartbreak, as one of their neighbors drags their hometown into nearly nonstop news coverage and infamy. Gainesville, after all, is a university town that until a few months ago was best known for producing college football champions, Gatorade and rockers like Tom Petty. Educated and progressive, with a gay mayor and a City Commission made up entirely of Democrats, Gainesville is a sprawling metropolis of 115,000 people where smoothie shops seem to outnumber gun shops. Fanatics can come from anywhere, Gainesvillians will tell you, but why did this one have to come from here? "He doesn't represent the community," said Larry Wilcox, 78, reading the newspaper at a local Panera restaurant. "This guy is obviously a publicity hound and a weirdo."

WASHINGTON — President Obama gave an impassioned call on Friday for tolerance and better relations between Muslims and non-Muslims at home and abroad, defending the "inalienable rights" of those who practice Islam to do so freely.

Mr. Obama made his statements as protests and violence continued in Afghanistan, set off by a Florida pastor's plans, now suspended, to burn Korans on Saturday, the ninth anniversary of the Sept. 11 terrorist attacks, and against the backdrop of the controversy in New York over a proposed Islamic center near ground zero.

With relations between the United States and the Muslim world perhaps at their most frayed since the invasion of Iraq seven and a half years ago, the president sought to appeal to America's core principles.

Mr. Obama said it was imperative for people in this country to distinguish between their real enemies and those who have the potential to become enemies because of continued vilification of Islam in the United States. At a time when polls suggest that a substantial number of Americans erroneously believe that Mr. Obama is Muslim, the president cited his own Christian faith at one point. "We have to make sure that we don't start turning on each other," he said. "And I will do everything that I can, as long as I am president of the United States, to remind the American people that we are one nation, under God. And we may call that God different names, but we remain one nation. And, you know, as somebody who, you know, relies heavily on my Christian faith in my job, I understand, you know, the passions that religious faith can raise." Asked about the wisdom of building an Islamic center a few blocks from the site of the Sept. 11 attacks, Mr. Obama reiterated his position that Muslims have the right to build a mosque on the site, without directly saying whether he thought doing so was a good idea.

In his first words in weeks about the controversy surrounding his planned mosque and Islamic center near ground zero in weeks, Imam Feisal Abdul Rauf, the project's religious anchor, said he's moving ahead with building two blocks north of the site of the devastation in lower Manhattan. Rauf made the comments in a New York Times op-ed piece that went online late Tuesday night, the first time he's said what his intentions are since the debate went national in the wake of a speech by President Obama and since offers to find a new location were made by New York Gov. David Paterson. "We are proceeding with the community center, Cordoba House," he wrote. "More important, we are doing so with the support of the downtown community, government at all levels and leaders from across the religious spectrum, who will be our partners. I am convinced that it is the right thing to do for many reasons." He also insisted all financing would be made public, echoing something his partner on the project, developer Sharif El-Gamal, has said for weeks, but which has done little to quell the concern among some victims' relatives, or calls for probes by politicians who've turned the topic into a campaign issue. He also said he would try to win over victims' families, although many have hardened in their resolve against it, in part because they were never approached when Cordoba House was first rolled out nine months ago. "I do not underestimate the challenges that will be involved in bringing our work to completion," wrote Rauf. "I know there will be interest in our financing, and so we will clearly identify all of our financial backers." Chief among the reasons to continue, he said, is that to opt not to build there would basically be to hand an anti-American propaganda tool to the radicals who wish to do the United States harm. "The wonderful outpouring of support for our right to build this community center from across the social, religious and political spectrum seriously undermines the ability of anti-American radicals to recruit young, impressionable Muslims by falsely claiming that America persecutes Muslims for their faith," Rauf wrote.

NEW ORLEANS – BP says it plans to release results of its internal investigation into the rig explosion that killed 11 workers and led to the massive Gulf of Mexico oil spill. BP was striking first Wednesday with a detailed report about what it believes went wrong on the Deepwater Horizon on April 20 off the Louisiana coast. BP was unlikely to place too much blame on itself. In public hearings, the company has already tried to shift some to rig owner Transocean Ltd. and cement contractor Halliburton. BP was leasing the rig from Transocean and owned the well that blew out a mile under the Gulf surface. The report is far from the final word on possible causes of the explosion. It's the subject of several government probes.

Western Europe

The euro drooped and bond spreads for Greece, Ireland and Portugal jumped on Tuesday (7 September) due to a revival of investor fears about the eurozone, even as European Commission President Jose Manuel Barroso hailed the EU for emerging successfully from the economic crisis in his first State of the Union address.

The yen hit a nine-year high against the euro while the Swiss franc soared to its all-time best position against the European single currency. Separately, the costs to the Greek government for borrowing compared to Germany jumped slightly while the costs to both Portugal and Greece climbed to levels not seen since the creation of the euro.

It is thought that Portugal took a hit as a result of revelations that the country's banks had gone knocking at the door of the European Central Bank for a record amount of cash as a result of troubles raising funds privately. Meanwhile, Ireland is dealing with the ongoing consequences of the black hole of debt that is the nationalised Anglo Irish Bank. Last week, the company said it will probably need some €25 billion in fresh capital, equivalent to a full 19 percent of the country's GNP. Credit rating agency Standard & Poor's has said that it believes this to be low-balling the true figure, estimating that the real cost could come to €35 billion. When the financial crisis erupted two years ago, toppling banks and triggering eye-watering bailouts, European policymakers at times seemed too stunned by the scale of the situation to think about how to prevent it from happening again. Recently, though, they seem to have recovered their composure and have devised a body of legislation to anticipate future financial turmoil. Two months after U.S. President Barack Obama signed into law the most sweeping reform of America's financial sector since the 1930s, the European Union is set to follow suit by creating a trio of new financial sheriffs to monitor banks, insurance companies and trading on markets. The European Banking Authority will be based in London; Paris will host the European Securities and Markets Authority; and the European Insurance and Occupational Pensions Authority will be in Frankfurt. On Tuesday, Sept. 7, E.U. Finance Ministers confirmed the plans for the watchdogs; the European Parliament will vote on them later this month, and the three agencies should come into force on Jan. 1 next year. E.U. Internal Market Commissioner Michel Barnier says the agencies will give Europe "the control tower and the radar screens needed to identify risks, the tools to better control financial players and the means to act quickly, in a coordinated way, in a timely fashion." Barnier said last week that the

financial crisis revealed woeful communication gaps between Europe's national regulators. "The fact is that we did not see the crisis coming," he said. "We did not have the monitoring tools to detect the risk which was accumulating across the system. And when the crisis hit, we did not have effective tools to act." The new agencies will have the power to temporarily ban certain high-risk financial products and activities - such as naked short selling, which Germany acted against earlier this year - as well as to instruct banks and other financial actors in crisis situations, draw up standards for national regulators and settle disagreements between them.

The European Commission suffered a setback today (7 September) in its efforts to get all member states to set up "resolution funds" that would provide support to banks in financial difficulties. The Commission wants the funds to be financed by levies that each member state would impose on its banking sector. While the creation of levies has widespread support among the member states, a discussion today between the EU's finance ministers revealed staunch opposition from several countries to setting up resolution funds. Finance ministers from the UK, France and the Netherlands firmly rejected the idea that they would create such funds. They argued that resolution funds would encourage irresponsible behaviour by banks, which would know that money had been earmarked to help them in case of financial problems. "We do not want to have a resolution fund," Christine Lagarde, France's finance minister, said. Lagarde said that such a fund would amount to an "insurance mechanism that could allow banking establishments to exonerate themselves of their responsibilities". However, Michel Barnier, the European commissioner for the internal market, said, that these countries were mistaken. He said that resolution funds would not save failing banks, but be used to pay for the winding up of their operations. "The reality is that without resolution funds, banks will always believe that they will be saved, and that the taxpayer will pay for their mistakes. It is the worst of situations," Barnier said. He said that the Commission will come forward with plans next month to co-ordinate how member states apply levies, in order to prevent distortions of competition. The Commission will follow this up with draft legislation in spring next year. Only two member states, Germany and Sweden, have given explicit support to the setting up of resolution funds. Germany announced plans for a fund last month, while Sweden has had a fund in place since last year. Ministers today also discussed the possible imposition of a financial transactions tax (FTT) at EU level.

EUOBSERVER / BRUSSELS - European finance ministers on Tuesday (7 September) gave the green light to a system of mutual supervision and oversight of each others' budgets. But in a significant victory for the UK, London managed to wrangle an exception, allowing it to submit its spending plans to the House of Commons before it hands them over to Brussels and other member states for consideration. The ministers endorsed a new system of a 'European Semester', pushing EU nations closer towards fiscal harmonisation than ever before. The semester, to kick in as soon as January next year, will begin with the European Commission producing a survey of the overall state of the economy, identifying difficulties facing both eurozone nations and the EU as a whole. This in turn will be presented to the European Parliament. EU member states will then submit by April broad budgetary outlines for the commission to assess. Following this, based on the commission's opinion, may then choose to issue country-specific 'guidance'

by June and July. European economics commissioner Olli Rehn called the sign-off "a major improvement of our economic governance architecture." "We can act preventatively, instead of sending in the fire brigade when the house is already burning." The agreement is the most significant element yet put in place of the last year's discussions of a new EU economic architecture, provoked by the fiscal destruction wrought by the global economic crisis. London however managed to, in the words of the British chancellor George Osborne, "secure an important agreement to protect the parliamentary procedures of the UK."

José Manuel Barroso, the president of the European Commission, called on EU member states to back an ambitious reform agenda during his first 'State of the Union' address to the European Parliament. Barroso, who has received a great deal of criticism from MEPs over his lack of leadership during the financial crisis, also called for "an ambitious post-2013" EU budget that will be able to fund policy priorities. The Commission president told MEPs that the next year was "Europe's moment of truth". "We either swim together or sink separately," Barroso said. "We will only succeed if, whether acting nationally, regionally or locally, we think European." Barroso said this month's review of the 2007-13 EU spending programme would launch a debate "without taboos" to prepare for the next programme, which starts in 2014 and will be negotiated by member states and the Parliament next year. He said the Commission would look at finding new sources of financing to help big infrastructure projects across Europe, such as roads and bridges. He said he would propose setting up EU project bonds together with the European Investment Bank, which would help pay for the construction projects. Barroso also suggested that MEPs look at a 10-year spending plan, instead of the current seven-year plan. He said a "five-plus-five option" would allow for a review at the midway point of the programme that would also fall in line with the five-year terms of the Commission and the Parliament. Barroso said the EU's fragile economic recovery was starting to gain traction but would need the support of renewed legislative efforts to sustain it as well as a strong EU budget and new long-term spending programme to taxpayers that European solidarity "offers real added value."

He promised to come forward with proposals in the autumn for a financial transaction tax, although the idea faces opposition from a large number of member states. The tax plan is part of a series of economic and financial legislative measures that Barroso promised MEPs in the coming months, which he said would help stabilise the euro and strengthen the EU's financial sector. The president also called for more intensified efforts on the world stage to secure a new climate change deal and to ensure global donors meet United Nations development aid targets through the so-called Millennium Development Goals. Barroso highlighted a number of other initiatives for the autumn in his speech including a 'single market act' that would seek to remove the bottlenecks in the internal market. A full detailed legislative plan outlining his priorities is to be submitted to the Parliament in October.

EUOBSERVER / BRUSSELS - The UK has hit back at the European Commission in a public discussion over its EU rebate. Meanwhile, the largest new EU members, the Visegrad countries, have formed a bloc for the upcoming budget talks. In a statement using the same vocabulary as EU budget commissioner Janusz Lewandowski

over the weekend, a Downing Street spokesman on Monday (6 September) said: "The UK abatement remains fully justified. It's a matter of fairness." "Without the rebate, the UK's net contribution as a percentage of national income would be twice as big as France's, and one and a half times bigger than Germany's. This is because of expenditure distortions from policies such as the CAP [EU farm aid]." The communique noted the UK would have paid €75 billion over 2007 to 2013 without its "abatement," compared to France's €46 billion and Germany's €74 billion. With the rebate, the UK is paying the least out of the three on €38 billion. The message came after Mr Lewandowski told German media the rebate is "no longer justified" because farm spending is to go down. His spokesman later told Brussels-based journalists the commissioner is not quite saying the rebate should be "scrapped," however. The British rebate was one of the main sticking points in EU budget negotiations under the UK presidency in 2005. The then Prime Minister Tony Blair agreed to cut the abatement by €1 billion on the grounds the EU must support its impoverished new members and that it will carry out a review of the Common Agricultural Policy before the 2014 to 2020 pot is divided out. The largest of the countries which joined in 2004 - the Czech Republic, Hungary, Poland and Slovakia - have in the meantime decided to tackle the new round of budget negotiations as a bloc under the so-called Visegrad Club banner.

EUOBSERVER / BRUSSELS - European Commission President Jose Manuel Barroso in a major speech on Tuesday morning said the EU has survived the economic crisis. "Over the last year, the economic and financial crisis has put our Union before one of its greatest challenges ever ... As I look back at how we have reacted, I believe that we have withstood the test," Mr Barroso told MEPs in his first ever so-called State of the Union address. "Those who predicted the demise of the European Union were proved wrong." His remarks come after a threat of sovereign default by eurozone countries such as Greece and Spain threatened to pull apart the single currency in a potentially deadly blow to the 50-year-old European project. Noting that "our work is not finished," the Portuguese politician put the EU's economic future at the top of his five-point agenda. He defended the commission's push to regulate EU countries' debt levels despite rising social tension in countries such as Greece, which has seen an outbreak of violent street protests in reaction to EU-and-IMF-imposed cutbacks. "Unsustainable budgets make us vulnerable. Debt and deficit lead to boom and bust. And they unravel the social safety net. Money that is spent on servicing debt is money that cannot be spent on the social good," he said. He spoke up for an "ambitious" future budget, saying: "The EU budget is not for Brussels - it is for the people that you represent ... a euro spent at European level gets you more than a euro spent at national level." With the commission to shortly publish ideas on how to raise extra EU money by, for example, directly taxing financial transactions, the commission chief attacked the culture of "pessimism" and Brussels naysaying in some EU capitals: "I find it extraordinary that some are already rejecting them [the new budget ideas], without even knowing what they will be."

BERLIN — As a youth in the 1950s, the film director Volker Schlöndorff tried to hide his German origins by learning to speak unaccented French. This summer, his daughter painted German flags on her cheeks and joined crowds of thousands on the Kurfürstendamm, a historic avenue, waving their black, red and gold banners to celebrate

the country's World Cup victories. The city of Chemnitz has returned to its historic name of after being known as Karl-Marx-Stadt during the Cold War. Elena Schlöndorff confessed that she never watched her father's Academy Award-winning adaptation of "The Tin Drum," Günter Grass's World War II epic, until a new director's cut was released earlier this year. She had little interest in the Nazi era. "I don't really feel touched by it," said Ms. Schlöndorff, 18, with a teenage shrug. "In our generation, we've gotten past it." Twenty years after reunification, Germany has come to terms with itself in a way that the postwar generation proclaimed would never be possible and Ms. Schlöndorff's post-Berlin Wall generation finds completely natural. The shift is evident on the airwaves, where German songs are staging a comeback against the dominance of American pop, and in best sellers about Goethe and Schiller or in discovering Germany by foot, by car and by train from the Bavarian Alps to the old Hanseatic ports on the Baltic Sea. In Parliament, politicians have debated ending conscription, threatening the post-Nazi ideal of an army of ordinary citizens, as German soldiers fight in Afghanistan. Despite fears of rising income inequality, Germany's economic engine is humming and unemployment has fallen significantly in the former East Germany. And Chancellor Angela Merkel has led a bloc of countries fending off President Obama's calls for stimulus spending to combat the economic crisis, certain that the world should follow Germany's example of austerity. German pride did not die after the country's defeat in World War II. Instead, like Sleeping Beauty in the Brothers Grimm version of the folk tale, it only fell into a deep slumber. The country has now awakened, ready to celebrate its economic ingenuity, its cultural treasures and the unsullied stretches of its history.

BERLIN (AFP) – German exports rose sharply in July compared to the year before, official data showed Wednesday, providing a further boost to Europe's top economy as it bounces back from last year's crippling recession. And although the pace of export growth slowed slightly compared to the month before, analysts said that exports would continue to be an important driver in Germany, the world's second largest exporter, in the second half of the year. Exports rose by 18.7 percent compared to July 2009, the national statistics office said in a statement, with a total of 83 billion euros (105 billion dollars) of goods exported. Imports also rose sharply, registering a 24.9-percent gain on the previous year with 69.5 billion euros of goods brought into the country. Germany's trade surplus of 13.5 billion euros was slightly lower than at the same time in 2009 but a fraction higher than the 13.1 billion euros economists at Dow Jones Newswires had forecast. In June, exports soared by 28.4 percent compared to the previous year. The absolute value of goods exported (86.4 billion euros) was the highest monthly value since October 2008, the statistics office said. Compared to this month, exports declined by 1.5 percent in July and imports by 2.2 percent.

EUOBSERVER / BRUSSELS - Ireland's finance minister, Brian Lenihan, in Brussels for discussions with the European Commission over the bail-out of nationalised Anglo Irish Bank, whose costs are ballooning, insisted the debt black hole at the heart of the company will not bankrupt the government. The bank has recently announced that it will probably need some €25 billion in fresh capital, equivalent to a full 19 percent of the country's GNP. Credit rating agency Standard & Poor's has said that it believes this to be

low-balling the true figure, estimating that the real cost could come to €5 billion. The vast sums have frightened markets, which worry Dublin will have trouble paying its debt. Finance minister Brian Lenihan met with competition commissioner Joaquin Almunia on Monday (6 September) to discuss options for the bank, which recently posted the largest loss in Irish corporate history. According to domestic media reports, before heading to Brussels on Monday, Mr Lenihan stressed that it is "simply not the case" the bail-out could bankrupt the state and that the debts that have effectively transferred from private hands to the public were "infuriating but manageable."

LONDON (AFP) – House prices in Britain rose further in August but at a slower pace compared with July, data showed on Wednesday, in marked contrast to a rival survey reporting that prices were in fact falling. House prices rose by 0.2 percent in August after a gain of 0.6 percent in July, mortgage provider Halifax said in a statement. "The improved economy, strengthening labour market and low interest rates are all supporting housing demand," said Halifax economist Martin Ellis. The data contrasts with figures from home loans provider Nationwide, which last week said house prices fell for a second month running in August when they dropped 0.9 percent compared with July. On Wednesday, Halifax added that the average house price in Britain stood at £167,953 (204,385 euros, 259,648 dollars) in August. That is 16 percent below the peak seen in August 2007 ahead of the financial crisis. Prices in August 2010 were meanwhile 4.6 percent higher compared with 12 months earlier, Halifax added.

Italy is prepared to block a free trade agreement (FTA) between the EU and South Korea unless it gives European carmakers a year to prepare for the lowering of trade barriers. Meanwhile, the European Parliament is flexing its new legal muscle on the deal. "We have asked for changes, especially for the auto sector, but unfortunately our suggestions were not accepted," the Italian junior minister for trade, Adolfo Urso, told AFP on Tuesday (7 September). Italy fears European car makers will not have enough time to prepare for opening of the European market to South Korean industry. (Photo: EUobserver.com) He doubted the necessary changes would be made before a vote by trade ministers on Friday in which all 27 EU member states have to agree the deal. The FTA ends import barriers for South Korean cars in the EU in either three years (for high and medium-powered vehicles) or five years' (small cars) time, causing alarm in major car-producing EU countries. Opponents of the treaty say it offers too many concessions to Korean companies in the area of duty drawbacks, a mechanism under which Korean companies can claim back EU import duties on car components purchased in third countries. Meanwhile, the European Parliament decided on Tuesday to postpone its final vote on a separate part of the FTA, a bilateral safeguard clause, which aims to protect vulnerable European companies. The parliament, which in a new development under the Lisbon Treaty holds the role of co-legislator on trade pacts, at its September session approved a report from the international trade committee concerning the safeguard mechanism, but did not want to vote in plenary before it has reached a compromise with member states.

The European Parliament has postponed a vote on a safeguard clause in the European Union's free trade agreement with South Korea to give time for negotiations

with member states on proposed amendments. The agreement is controversial because the automotive industry fears unfair competition despite a safeguard clause. The clause provides for the temporary suspension of certain provisions in case of a surge of South Korean imports that threaten domestic industries in the EU. MEPs today (7 September) approved amendments to the safeguard clause that would allow the Parliament and industry associations to initiate an investigation that could lead to the activation of the clause. They would also make it possible for the safeguard clause to be applied only to a specific region that is especially hard hit by Korean competition, rather than to the EU as a whole. Under the EU's Lisbon treaty, the Parliament's consent is required for the ratification of trade agreements, and MEPs have co-decision powers over implementing measures, such as the safeguard clause in the Korea agreement. The deal with South Korea was reached in October. Trade ministers from the EU's member states are to decide on Friday (10 September) whether the agreement should provisionally apply from 1 January even though the Parliament has not yet ratified it. The member states are likely to approve the provisional application despite protests from MEPs, who see this as an attack on their prerogatives. Michael Theurer, a German Liberal MEP, said that applying the Korea agreement before the Parliament's consent has been given would "violate the spirit of the Lisbon treaty". MEPs are scheduled to vote on the agreement in November.

The European Commission today came under heavy criticism from MEPs over its handling of the Roma expulsions from France. MEPs from most of the European Parliament's political groups criticised Viviane Reding, the European commissioner for justice, for the slow pace of an investigation into whether the removal of hundreds of Roma from France violated the EU's free movement rules and the Charter of Fundamental Rights. Reding told MEPs during a debate on the situation faced by Europe's 10-12 million Roma that legal experts were still investigating the matter and no conclusions were yet available. She added that French ministers had "assured" the Commission that the French government had not violated EU laws, comments that were attacked by many members. "The lack of urgency in the Commission's response to the situation is disturbing," said H  l  ne Flautre, a French Green MEP, who added that Reding and other commissioners were "pandering to the French authorities" over the expulsions, which she said were clearly illegal. "The European Commission must stop sitting on its hands. It must publish its initial analysis," said Flautre. Hannes Swoboda, an Austrian centre-left MEP, said the Socialist and Democrats (S&D) group was "deeply disappointed" with Reding's failure to present MEPs with a conclusion to the initial investigation. "I among many European citizens want to know whether the French government has contravened the law or not...give us an answer," said Swoboda. Most groups pressed Reding on the issue, apart from the centre-right European People's Party (EPP) which tempered its criticism on the issue and of France. The centre-right UMP party headed by Nicolas Sarkozy, France's president, is a member of the EPP group. Renate Weber, a Romanian Liberal MEP, said the Commission was "shutting its eyes" to the removal of Roma from other EU states, pointing to a similar action taken by Italy two years ago. "This is why the European Commission carries part of the responsibility for this wave of deportation of Europe's Roma."

Italian police on Tuesday (7 September) resumed the dismantling of Roma camps near Milan and Rome and transferred some of the inhabitants to temporary housing, with the mayor of the Italian capital pledging to accelerate the demolitions. Milan police tore down barracks and tents housing some 250 Roma, who "left without creating any problems," a police spokesman told AFP. Social services in the northern Italian city offered temporary housing to the displaced, but only two dozen women and children accepted the offer. The city's right-wing mayor Riccardo De Corato said the crackdown, which has seen 315 settlements levelled since 2007, has allowed him to "contain the influx of Roma whose status is illegal." Currently there are some 1,200 Roma in Milan, compared to 10,000 three years ago, he noted. Similar actions were carried out on the outskirts of Rome on Tuesday, with police saying demolitions will continue throughout the week. Rome's mayor Gianni Alemanno on Monday said police would tear down some 200 settlements at the rate of three or four each week and transfer inhabitants to 10 official camps overseen by local authorities. He spoke after meeting French immigration minister Eric Besson in Paris, just as France is trying to shake off EU and international criticism for deporting Roma back to Romania and Bulgaria. Mr Alemanno said he would accelerate the action against illegal camps after a three-year-old Romanian died in a fire in a camp near Rome in August. He added that Rome could host a maximum of 6,000 nomads in about 10 "legal" camps, compared to the 7,100 currently living in the city. He did not specify what would happen to the rest.

Istanbul, Turkey – Iran reacted angrily Tuesday to charges from the United Nations nuclear watchdog that it was hindering an investigation of its nuclear programs by blocking experienced inspectors, and limiting access and design information. In its quarterly report on Iran, the International Atomic Energy Agency (IAEA) stated Monday that Iran has "not provided the necessary cooperation to permit the Agency to confirm that all nuclear material in Iran is in peaceful activities." The report provides the latest indication of a spreading pattern of restrictions under President Mahmoud Ahmadinejad to limit the work of nuclear inspectors, according to Iran experts. They say hurdles facing inspectors are raised as America and Western pressure on Iran increases over its nuclear program. The UN Security Council (UNSC) imposed a fourth round of sanctions last June. "What we are seeing is an accelerating loss of transparency into Iran's nuclear fuel cycle program," says Shannon Kile, a nuclear specialist at the Stockholm International Peace Research Institute (SIPRI) in Sweden. "I'm not surprised ... that the Iranians are becoming even less cooperative than before. Everyone expected after the last [UN vote] that the Iranians would find some way to retaliate." The IAEA said it had "full confidence in the professionalism and impartiality" of two inspectors, who Iran recently said would not be allowed to do further work in the country. In an official letter to the IAEA last June, Iran accused the two – whose nationalities were not disclosed – of "false and wrong" reporting of undeclared nuclear experiments. "We have the right to replace inspectors regarding their background and activities," Iran's Foreign Ministry spokesman Ramin Mehmanparast said Tuesday, echoing senior nuclear officials who accused the banned inspectors of filing reports "contrary to reality."

The Nabucco pipeline, which would bring gas from the Caspian to central Europe, received a major boost today when three international financial institutions took the first

step to agreeing a multi-billion euro financing deal. The European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the International Finance Corporation (IFC), which is part of the World Bank, today (6 September) signed a mandate letter for the Nabucco project. This step is the start of the appraisal process that should lead to the organisations providing around €4 billion in financing for the scheme. The letter sets out the conditions under which the organisations will carry out their appraisal and gives an indication of the potential level of financing. A joint statement issued by the three organisations said that their involvement in the Nabucco project was a “demonstration of global and European support for the project”. The signing of the letter was welcomed by the European Commission, which said in a statement that it reflected the strong commitment for Nabucco and was an “important step towards its realisation”. RWE, the German energy company that is a member of the Nabucco consortium, also welcomed the news. Stefan Judisch, chief executive of RWE Supply and Trading, said the signing of the letter was “another clear signal to supplier countries that Nabucco has the full political support of Europe and the international community”. The Nabucco pipeline is expected to be operational by 2014 and to transport 31 billion cubic metres of gas a year.

Oceania

CANBERRA (AFP) – Australia's "kingmaker" independent MPs Tuesday handed power to Prime Minister Julia Gillard with a one-seat majority, two weeks after elections produced the first hung parliament in 70 years. "I will... give confidence and supply to government, and in effect that means confidence and supply in Julia Gillard unless, and I emphasise unless, exceptional circumstances determine otherwise," said Rob Oakeshott, the last of the three independents to declare his support.

CANBERRA, Australia – Tensions emerged Wednesday between Australia's deputy prime minister and a kingmaker independent lawmaker over plans to make mining companies pay more taxes, underscoring the fragility of the country's new minority government. The center-left Labor Party was returned to power for a second three-year term Tuesday after two final independent lawmakers agreed to back it. That ended 17 days of intense negotiations following Aug. 21 elections in which no party won a clear majority, but created a government that can be brought down by the defection of a single legislator. Prime Minister Julia Gillard is expected to name a Cabinet this week that includes Kevin Rudd, the prime minister she ousted in an internal party mutiny in June, and might also include Rob Oakeshott, one of the independent kingmakers. Oakeshott has yet to accept the Cabinet job offer. As part of the deal Tuesday to get Oakeshott and another rural independent, Tony Windsor, to throw their support behind a Labor government, party leaders promised to hold a public summit of tax experts by June 30 to discuss options for tax reforms recommended last year in a Treasury department report. But Deputy Prime Minister Wayne Swan surprised Windsor on Wednesday by saying that a contentious Labor plan to impose a new 30 percent tax on iron ore and coal miners' profits, which are swelling because of voracious Chinese and Indian demand for raw

materials, would not be submitted for review at the summit. Swan said some of the 10.5 billion Australian dollars (\$9.6 billion) expected to be raised from the tax over two years is needed to pay for other sweeteners offered to Windsor and Oakeshott, including AU\$10 billion for upgrading rural schools, hospitals and other infrastructure.

CANBERRA (Reuters) – Australia's fragile Labor government suggested on Wednesday it could adjust a planned profits-based tax on mining companies to bend to demands of the independent MPs giving it a slender grip on power. Key independent Tony Windsor, who on Tuesday sided with Labor to break a two-week political impasse following inconclusive August 21 elections, said he wanted the tax reviewed at a special meeting next year, possibly delaying passage of the law. Mining stocks were sold down in overnight London trade after Prime Minister Julia Gillard won backing from two independent MPs to clinch a parliamentary majority of just one seat and form the country's first minority government since World War Two. "We've got a commitment to the minerals resource rent tax. We made that commitment at the election," Deputy Prime Minister and Treasurer Wayne Swan told local television. "But there does need to be extensive consultation. This must pass the parliament. So, of course the independents and other minor parties will be involved in that discussion as we draw up the legislation," Swan said. Gillard went into Australia's closest election in decades proposing a 30 percent tax on coal and iron ore mining profits from 2012, using proceeds to cut company tax cut from 30 percent to 29 percent and boost workers' pension funds. The softened-down tax was negotiated with global miners BHP Billiton, Rio Tinto and Xstrata, but opposed by smaller miners like Fortescue Metals Group worried about its impact on growth.

WANGARATTA, Australia (AFP) – Rising [flood waters](#) threatened hundreds of Australian homes Tuesday, after scores were inundated by weekend storms which caused millions of dollars of damage, officials said. Water police and emergency helicopters were on standby to rescue stranded residents in the southeastern state of Victoria, and the government announced the formation of a special advisory body to help direct recovery efforts. Residents in Wangaratta, in the state's northeast, sandbagged homes in fears that a levee would burst, while officials worried that 500 properties downstream in Shepparton could be cut off by rising waters. The State Emergency Service said 300 homes and businesses had already been damaged to some extent by the flooding in Shepparton and towards Horsham in the state's west after the [weekend deluge](#). "We've potentially got another 290 properties that are potentially at risk of being flooded," a spokeswoman told AFP. "Our main area of concern at the moment is Shepparton. The Goulburn River is still rising. It's expected to peak later today or into tomorrow." Victorian Premier John Brumby said the floods had caused "significant damage" and there would be a multi-million-dollar clean-up bill. "I've said that I think there will be tens of millions of dollars of damage," Brumby told reporters. "There will be roads, there will be bridges, there will be community infrastructure which is damaged due to inundation." But Brumby also said that benefits from the rains in the predominantly farming regions, which have spent the best part of a decade in drought, "far outweighs the damage that's occurred". "But that equation may just change a little over the next week to two weeks," he said, adding that further minor to moderate flooding was likely later this month in the state's north.

ADELAIDE, Australia – Criminals who plead guilty within six weeks of their arrest could get a 40 percent reduction in their prison sentence under a proposal aimed at reducing the backlog at courts in one Australian state. South Australian Attorney-General John Rau said Tuesday that late guilty pleas were a major contributor to delays and inefficiencies in the trial process. "I am concerned by the substantial number of defendants who plead not guilty initially and are committed for trial, only to plead guilty later in proceedings, often literally at the doors of court, or on the first day of trial," Rau told reporters. The 40 percent reduction in term length would apply for someone pleading guilty within six weeks of arrest, while a 30 percent cut would apply for a later plea that still comes before a trial is set. A 20 percent reduction would be given for guilty pleas entered after trial committal proceedings. There would be no reduction for a plea entered in the four weeks leading up to a trial. Rau said the proposal would not apply to the most serious of crimes, including violent assaults and sex crimes. The plan will be presented for public consultation before being passed on to state lawmakers for a vote.