

Karzai's Afghanistan, Poisoned by Heroin Habit, Seeks Investors

March 22 (Bloomberg) -- Shaghasi's fields near Afghanistan's eastern city of Jalalabad are planted with wheat this year, instead of the red, white and purple poppies he had grown since 2001.

That's a hopeful sign for President Hamid Karzai, who wants to stamp out opium production and build a legal economy based on trade, minerals and agriculture. Less encouraging is what's inside the walls of Shaghasi's garden: a small patch of poppies, enough to supply him with seeds to plant next season.

``This is the main industry of Afghanistan," says the 35-year-old father of five, who switched to wheat only after Karzai's police officers plowed up his poppies. The farmer, who would only give one name, stood to earn more than \$5,000 from his deadly crop, or 25 times the average annual Afghan income. ``My father taught me how to grow the flowers, and I will teach my children," he says.

Three and a half years after the U.S.-led invasion that followed the Sept. 11, 2001, terrorist attacks, Afghanistan's first democratically elected president is racing to prove that he's restoring order and that the central Asian country can be a profitable place for foreign investors.

`Bitter Medicine'

``Now that Afghanistan is putting itself back together again, we don't need to grow poppies," Karzai, 47, says at his Kabul palace, which is protected by sand-bagged machine gun posts, concrete roadblocks and former U.S. special-forces soldiers working for Fort Worth, Texas-based DynCorp International LLC. ``If we don't take this dose of bitter medicine, our tomorrow will be one of despair."

Karzai, who was elected in October, wants to bring in international companies to develop power and transportation systems, build hotels and create jobs.

“Afghanistan is ready for any business, especially where transportation and power generation are concerned,” he says. “This is a country hungry for investment.” Karzai says Afghanistan may become a “land bridge” between the Middle East, China and India, echoing its historic role as part of the Silk Route between Europe and the Far East.

Construction of a gas pipeline from Turkmenistan to Pakistan through Afghanistan could generate \$200 million a year in transit fees, says Najeeb Jung, a senior energy specialist at the Asian Development Bank in Manila.

‘Narcomafia State’

Failure to create a healthy economy will produce a “narcomafia state” as dangerous as the Taliban regime that supported the Sept. 11 terrorists, says Ashraf Ghani, 55, Afghanistan's finance minister until December, who now heads Kabul University.

It would also affect U.S. President George W. Bush's policy of fostering democracy in the Middle East, from Iraq to the Palestinian territories, says Zalmay Khalilzad, the U.S. ambassador in Kabul.

“We regard their success as our success,” says Khalilzad, 54, an ethnic Afghan who lives in three converted truck containers in a heavily guarded compound in the city of more than 3 million.

Hikmet Cetin, the senior civilian representative of the North Atlantic Treaty Organization in Afghanistan, says building a legal economy would make the \$13 billion annual cost of keeping 8,500 NATO soldiers and 18,000 U.S. troops worthwhile. “This will be a waste of money if we don't build an economy,” says Cetin, 67, a former foreign minister of Turkey.

‘Unfinished Business’

So far, Paris-based Alcatel SA, the world's second-largest supplier of telecommunications network equipment; Atlanta-based Coca-Cola Co., the world's largest soft drink maker; Chicago-based Hyatt Hotels Corp.; and more than 1,500 other international and domestic companies have registered with the Afghan Investment Support Agency and

declared plans to invest a combined \$800 million, according to Suleman Fatimie, 25, vice president for investment at the Kabul-based agency.

``We've got unfinished business here," says Saad Mohseni, 38, who returned to Kabul from Melbourne in 2002, after 14 years away, to start a television station with his two brothers and sister.

Mohseni's family is investing \$5 million in radio, magazines and a telephone directory business as well as its Tolo TV channel. ``In the West, you can build a skyscraper, and no one will notice," he says. ``Here, you can do something significant. It's good for the ego."

Obstacles to Growth

The obstacles to Karzai's ambitions are in stark evidence after 23 years of war, from devastated roads to an electricity supply that reaches less than 6 percent of the population and then for only a few hours every other day.

The country's 24 million citizens have a life expectancy of 44.5 years, must avoid 305 square miles (790 square kilometers) of land mines and, after the crushing rule of the Islamic fundamentalist Taliban, have the world's worst educational system, according to the United Nations Development Programme.

Nature also provides a giant hurdle in the Hindu Kush mountain range, which soars as high as 24,580 feet (7,492 meters) to the north of Kabul.

The biggest impediment to development is the country's dependence on opium, Karzai says. Last year's opium proceeds equaled 61 percent of 2003 gross domestic product of \$4.6 billion, making Afghanistan the world's most-drug-dependent economy, according to the Vienna-based United Nations Office on Drugs and Crime.

Heroin Economy

Poppy cultivation has spread to every province of Afghanistan, soaring 64 percent in 2004 and pouring \$2.8 billion into the pockets of warlords, traffickers and farmers, the UN agency says.

Opium, used to make heroin, is poisoning Afghanistan's reputation, corrupting government officials and subverting the country's fledgling legal system, Karzai says.

Billionaire investor George Soros, 74, was asked at the World Economic Forum in Davos, Switzerland, in January whether he would invest in Afghanistan. ``I'm not in the drugs business," he replied.

Opium production provided funds for fighters against the Soviet Union in the 1980s, for sparring warlords in the early 1990s and for the Taliban in all but their last year in power, when they enforced a ban with threats of beatings and prison. Cultivation of the hardy poppy also grew as a result of years of drought.

Today, Afghanistan is the source of three-quarters of the world's heroin, including most of that used in the U.K. and the U.S., according to the International Narcotics Control Board, the body that implements UN drug conventions.

`Slow Suicide'

``Grow something else," says John Crane, a plasterer from Sheffield, England, who injected heroin every day for 13 years until June 24, 2002. Crane, 39, says he lost at least 10 friends to the drug. ``Heroin is suicide in slow motion," he says.

Before the Russians invaded in 1979, Afghanistan was self-sufficient in food production, says Karzai, who wears a dark jacket over a gray-green shalwar kameez: loose trousers and a knee-length shirt. Agriculture, including raisins and almonds, accounted for 30 percent of exports, bringing in \$100 million a year, according to the World Bank.

More than half of Afghanistan's legitimate economy is still based on agricultural products, including wheat, raisins, citrus fruits, mulberries and pomegranates.

U.S. Ambassador Khalilzad says he's prepared to help speed up eradication by using planes to spray chemicals on the land. Karzai rejects this as a health hazard. ``Spray? No way!" Karzai says fiercely. ``We don't need foreign planes to come and spray our fields."

9 Percent Growth Target

To beat opium for good, Afghanistan needs to build an economy capable of supporting an average income of \$1,000 a year, five times the current level of \$199, Kabul University's Ghani says.

That's the point at which people will readily give up the illegal crop, he says. The Afghan government is targeting economic growth of 9 percent a year, which would result in per-capita income of \$500 by 2015.

Haji Din Mohammad, a former Mujahedeen leader who's governor of Nangarhar, the province that includes Jalalabad, says he's joined Karzai's battle against opium.

"Of course, nothing can take the place of poppies, but we must find another way," says Mohammad, 51, whose smiling eyes look out from above a white beard and an ankle-length traditional coat called a chapan. "We want to have dignity in the world again."

Blooming Poppies

A sea of blooming poppies surrounded Jalalabad last spring, Mohammad says. Now, it's surrounded by green wheat. Poppy cultivation in Nangarhar, the biggest opium-producing province in 2004, may fall by as much as 95 percent this year, Mohammad says. About two-thirds of farmers agreed to stop growing, and the fields of the others were destroyed by force, he says.

Nangarhar's economy gained about \$500 million from opium in 2004, the governor estimates, which the province will need to replace if opium production is to stay down for good.

A hectare (2.5 acres) of opium poppies yielded \$4,600 in 2004, more than 10 times the value of a hectare of wheat, according to the UN. The price traffickers pay to farmers for a kilogram (2.2 pounds) of dry opium fell to \$142 in 2004 from \$425 in 2003, the UN said.

"We expect cultivation to fall this year, but it will only stay down if the Afghan authorities remain committed and international aid is forthcoming," says Thomas Pietschmann, 43, a researcher at the UN drug office in Vienna.

Pietschmann says the price may rise to \$400 a kilogram by the end of this year if supply falls significantly.

Relying on Aid

Since the U.S.-led invasion, Afghanistan has relied on foreign aid for survival. In March 2004, the U.S., Japan, Germany, the U.K. and other countries pledged \$8.2 billion over three years to Afghanistan. Karzai had asked for \$27.5 billion over seven years.

The Afghan government expects to raise \$333 million of tax revenue in 2005, less than the amount targeted by the city of Columbus, Ohio, which has a population of about 745,000.

Most of the money NATO spends is used to pay for goods and services from outside Afghanistan and doesn't go into the economy, Cetin says. Afghanistan has so little domestic industry, it doesn't even make its own pencils or toilet paper; the leading toilet paper brand, Horsehead, is imported from China.

``That creates opportunities to cater to domestic demand and to kick-start the export of fruits, textiles and minerals," says Pierre Van Hoeylandt, 34, founder of Afghanistan's first venture capital fund, as he sips a margarita cocktail in Kabul's Elbow Room restaurant.

Afghanistan Renewal Fund

The former McKinsey & Co. manager's Afghanistan Renewal Fund has so far drawn commitments totaling \$20 million from eight investors, including the Asian Development Bank and CDC Group Plc, an investment company with \$1.6 billion under management that's owned by the U.K. government.

Van Hoeylandt, the son of a former French Foreign Legionnaire, says he and other executives of the firm will invest \$200,000 of their own money in the fund.

Innes Meek, a director at London-based CDC, says he visited Kabul's ministry of telecommunications in November with Van Hoeylandt during a tour to decide whether to invest in the Afghanistan Renewal Fund. They were greeted by

a 6-foot-tall Afghan with a shaved head, a black beard and no left hand.

``How are you?" asked Ahmad Rateb Popal, founder of Watan Telecom LLC, in a New York accent he acquired while studying business at Queens College in Flushing, New York. Popal, 41, says he lost his hand when a bomb he was placing against the Soviets in 1979 exploded too early.

Mobile-Phone Company

``We walked through cavernous, unfurnished rooms where the few lights cast shadows, like in a cloister," Meek, 56, recalls.

Entering a room where five figures huddled near a wireless telephone, Popal picked up the receiver and dialed Van Hoeylandt's mobile phone. ``It worked," Meek says. ``I was there to find out if he had a business and if it needed capital. The answer to both was yes."

Watan Telecom is installing digital networking equipment supplied by China's Huawei Technologies Co. and Globecom Systems Inc. of the U.S. in government ministries.

Popal says he was in jail in the U.S. from 1989 to 1997 for smuggling drugs. In 1998, he returned to live in Afghanistan and Pakistan, where he was an interpreter for his friend Abdul Salam Zaeef, the Taliban's ambassador to Islamabad. When the Taliban fell, Popal dedicated his time to his business activities.

Seeking Investors

``I managed to change my life, and now, the promise of a clean and honest living keeps me going," Popal says. ``I made mistakes, and I learned from them."

Popal is seeking investors to expand his phone company and a steel mill. So far, Van Hoeylandt has yet to invest any money.

Another pioneer is Heidelberger Druckmaschinen AG, the world's largest maker of printing equipment. ``We came to

Kabul two months after the war," says Michael Outschar, 42, a manager at the Heidelberg, Germany-based company. ``We're training people so they get used to our technology."

The Afghan operation will become profitable if it can win contracts to print the 25 million books a year needed in schools, he says.

One of the biggest lures for foreign investors is Afghanistan's 300 types of mineral deposits, including coal, copper, marble and emeralds, says Mir Mohammad Sediq, the minister for mines and industry.

The country also contains reserves of 95 million barrels of oil and 5 trillion cubic feet of gas, according to the U.S. Energy Information Administration. Saudi Arabia, by contrast, has reserves of 262 billion barrels.

Lapis Lazuli

The blue lapis lazuli stone used to decorate the death masks of Egypt's pharaohs and to make the blue paint Michelangelo used to paint the ceiling of the Sistine Chapel came from Afghanistan. The World Bank estimates that the annual value of solid minerals produced in the country will rise to \$253 million by 2008 from \$60 million last year.

Sediq, 59, whose Kabul office is dominated by a 6-foot-by-12-foot Soviet map of Afghanistan's mineral resources and a display of plastic flowers, unfolds a letter which he says demonstrates investor interest.

The letter is from Alex Mason, international director of Diamond Oil, a U.K. company, who wrote that he was putting together a group of companies to develop the oil and gas resources. In a telephone interview, Mason, 66, says he lived in Kabul for 12 years until 1979, running ventures including a paint factory.

Refinery

``We're working on putting together an offer to refine oil in northern Afghanistan," he says. Petrofac, a U.K. service provider to the oil and gas industry, has talked to Mason about the venture, says Malcolm Douglas, a sales manager at the London-based company.

``They are ready for us, but we aren't ready for them because the mineral and hydrocarbon laws haven't been passed," Sediq says.

The U.S. and British geological surveys are copying Russian exploratory documents and sending the results to their headquarters, according to Sediq, who says he worked for Unocal Corp., an El Segundo, California-based oil and natural gas producer, in the 1990s when it tried to strike a deal with the Taliban to build a gas pipeline from Turkmenistan across Afghanistan to Pakistan.

Unocal pulled out of Afghanistan in 1998, when the U.S. bombed the country in retaliation for the bombing of U.S. embassies in Kenya and Tanzania, which al-Qaeda leader Osama bin Laden was suspected of planning and financing.

`Off the Radar'

``This project is totally off the radar screen," Unocal spokesman Barry Lane says.

Pakistani Prime Minister Shaukat Aziz said in an interview in Davos that he's still considering backing a pipeline across Afghanistan to his country as one of four options for transporting natural gas. The others include pipelines from Iran and Qatar and importing gas by ship.

For Afghanistan to develop its natural resources and boost trade with its neighbors, it will need to be able to transport goods. The country has about 2,000 miles (3,219 kilometers) of paved roads compared with about 44,000 miles in northern neighbor Uzbekistan and 68,000 miles in Pakistan, according to the U.S. Central Intelligence Agency.

``How can we be a land bridge when we have no roads?" asks Shakib Noori, a 22-year-old manager at the Afghan Investment Support Agency, as his Nissan sport utility vehicle jolts down the mud-swamped half of the 100-mile road from Kabul to Jalalabad.

Highway Delayed

The highway, which continues 45 miles east from Jalalabad to the Pakistan border, won't be completed by the target date of November 2006, says Hasse Jonsson, 64, a manager at Stockholm-based WSP International AB, which

planned the road.

Work on the European Union-funded highway was delayed after workers from Jinan-based China Railway Shisiju Group, which was contracted to build half the route, were the target of gunfire and a rocket earlier this year, Jonsson says. Construction started in December 2003.

The one principal highway completed so far is the 300-mile route between Kabul and the southern city of Kandahar, the former base of the one-eyed Taliban leader Mullah Mohammad Omar. The road, funded by the U.S. and overseen by East Orange, New Jersey-based Louis Berger Group Inc., was completed in December 2003.

Syed Rahman, 39, a partner in a Jalalabad-based trading company that imports flour, sweets and shampoo, says it takes 10 days and costs him 83 cents to bring a carton containing 72 packs of orange-flavored Minoo cookies the 870 miles from Iran to Jalalabad. The time and cost would fall by half if all of the roads were paved, he says.

No Plane

Air travel in Afghanistan, where six domestic and foreign carriers offer an average of eight international departures a day, is just as bad. State-owned Ariana Afghan Airlines flies to 13 international destinations including Dubai and Moscow. On Feb. 2, Ariana's 6:30 a.m. flight to Kabul from Dubai wasn't showing on the departure board, and no one knew why.

``The plane is somewhere around the world," Azizullah Ezat, a Dubai-based Ariana manager, told stranded passengers. ``Perhaps it is in Mecca."

The performance of Kam Air, Afghanistan's largest privately owned carrier, which flies to Dubai and Istanbul, is also poor. On Feb. 3, a Kam Air Boeing 737 flying from Herat crashed after failing to land at Kabul Airport, which doesn't have radar, in a snowstorm. None of the 96 passengers and eight crew members survived.

Ariana for Sale

Noorullah Delawari, governor of Afghanistan's central bank and one of three commissioners overseeing Ariana, says

the plane should not have been allowed to leave Herat in bad weather. He also says the government tried to sell Ariana, but airlines including Dubai-based Emirates, the largest Arab airline, wanted it to improve performance first.

Unreliable airlines make it harder to export goods, says Rahim Walizada, who sent 16,000 Afghan carpets in 2004 to destinations such as Germany and the U.S., where he owns the Chuk Palu store on New York's Fifth Avenue.

``Customers demand you send on time," says Walizada, 40, who returned from New York to live in Kabul in 2002. Walizada takes his wares by road to Pakistan, where he can use British Airways Plc, Europe's second-largest airline, and Emirates.

``We're living in the 14th century," Walizada says as his diesel generator cuts out, plunging his glass-fronted store into darkness. Illuminated only by the orange flames of a gas heater, Walizada uses his mobile phone as a flashlight to help him move around.

48-Year-Old Dam

Kabul's sporadic power supply is generated by a thermal power plant and three hydroelectric dams on the Kabul and Panjshir rivers. The Sarobi dam east of Kabul was built by Siemens AG in 1957 to last for 30 years. Some of its turbines are broken, and the dam itself may break at any time, says Gholam Hassanzadah, president of Siemens in Afghanistan.

``Until there is electricity, there is zero development," says Hassanzadah, 54, who reopened Germany's largest engineering company in Afghanistan in 2003 after a 14-year absence.

Siemens plans to complete repairs on two dams, including Sarobi, by 2006. The Munich-based company is also supplying telecommunications equipment to Afghanistan's two mobile-phone operators.

In addition to its dams, Afghanistan imports electricity from neighbors Iran and Uzbekistan. The power lines from each source operate on different voltages, preventing creation of a national network, Hassanzadah says. ``No management of energy exists," he says. ``The ministries are full of clerks."

Power Shortage

Afghanistan has the capacity to generate 350 megawatts -- barely enough to power 280,000 U.S. homes -- and needs to produce at least 14 times more to have a chance of developing, Hassanzadah says. Neighboring Pakistan, with a population of 159 million, has 19,478 megawatts of installed power capacity, according to Siemens.

Heidelberg Cement AG scrapped a plan to reopen a rusting plant north of Kabul because of the power shortage, says Francis Marechal, a manager at the company, Germany's largest cement maker.

Borrowing money to pay for new power plants would be impossible under the country's current financial system. Afghanistan's central bank is trying to create a market for the afghani, the currency it introduced in October 2002.

So far, there's no base interest rate, preventing banks from paying interest on accounts held in afghanis, says John Haye, 57, chief executive officer of Afghanistan International Bank, a Kabul-based lender managed by ING Groep NV, the Netherlands' largest financial-services company.

Standard Chartered

Few people in Afghanistan have money to put in a bank. Even when they do, opening accounts is problematic, says Joseph Silvanus, CEO of the Kabul branch of London-based lender Standard Chartered Plc, which runs the country's two automated teller machines. It's hard to establish a customer's identity because there are no records. Afghanistan also lacks a land registry, so mortgages aren't possible either.

“No one has ever tried to foreclose on a loan here, and we don't want to be the first to try,” says Silvanus, 39. A sign declaring “No Fire Arms Allowed!” greets customers at the guarded compound where Silvanus, an Indian citizen, is based.

Standard Chartered, which opened its Kabul operation in January 2004, has more than 1,800 savings accounts for international workers and Afghans. It also handles wire transfers for the United Nations, businesses and charities, Silvanus says.

`` Before the year is out, we'll get started with export finance," he says. A business contract can be used as security on an export loan.

Debts and Daughters

Most of Afghanistan's financial system is in the hands of hawala networks, whose members use relationships of mutual trust to move money, says William Byrd, the World Bank's senior economic adviser in Kabul.

Poorer opium farmers also borrow from drug traffickers to buy seeds and are sometimes forced to sell their daughters into marriage if they fail to repay debts, Byrd says.

Naim Habibi, an Afghan entrepreneur whose family owns a Dubai-based cigarette company, says the lack of formal credit is crimping his expansion plans. The 48-year-old entrepreneur plans to start Afghanistan's first dairy, with 500 cows on 200 hectares on the Shamali Plains north of Kabul.

`` We don't want more aid," Habibi says. `` We want more credit."

Connecting Afghans

While the banking system languishes, Afghanistan's two mobile-phone companies have had more success in modernizing the way Afghans communicate. A dusty room on the fourth floor of Kabul's central post office contains manual switchboards installed by Siemens half a century ago to connect 20,000 analog lines.

From across the hallway comes the hum of Alcatel equipment and Hewlett-Packard Co. computers. This room, with its raised floor covering a nest of cables, hosts the switch for Roshan, Afghanistan's largest mobile-phone company, which has attracted 390,000 customers since July 2003.

`` Here, you could be in New York," says Karim Khoja, 46, CEO of Roshan, as he points to the Alcatel and Hewlett-Packard products. `` There, you're in Afghanistan," he says of the manual switchboards.

Roshan is 51 percent owned by the Aga Khan, the spiritual leader of the world's Ismaili Muslims and one of the

world's richest men. The Aga Khan's foundation has invested \$61 million in Roshan, as well as backing projects ranging from hospitals to the five-star Serena hotel in Kabul, says Aly Mawji, 35, representative of the Aga Khan Development Network in Afghanistan.

Returning Refugees

``We're investing in the development of Afghanistan to promote stability in this country and the wider region," he says.

Since the fall of the Taliban in 2001, more than 2.5 million refugees have returned from Iran, Pakistan and other countries.

``I'm glad to be on my native soil," says Zalmai Safi, a 55-year-old father of five who lives in a borrowed tent behind Kabul's sports stadium, where the Taliban used to carry out public executions. Safi earns \$4 a week by brushing snow off people's roofs.

Wealthier Afghans whose families fled in the 1970s are also returning with skills and business ideas. Zolaykha Sherzad, a relative of former Afghan King Mohammad Zahir Shah, quit her career as an architect in New York to train women in Kabul to cut silk cloth from the northern city of Mazar-i-Sharif into Western designs.

Better Than Baghdad

``I can be the bridge between Afghanistan and the West," says Sherzad, 36. The Taliban barred women from working outside their homes and forced them to wear head-to-toe burkas. It also prevented girls from attending school.

The security situation is better than in Iraq, according to one former Baghdad resident.

``We don't live in fear here," says Allan Richardson, 50, a U.K. citizen who quit as CEO of Iraqi mobile-phone operator Iraqna in August to become head of Afghan Wireless Communications Co., the second-biggest Afghan mobile-phone operator, with about 280,000 customers. ``You can walk down the street here without the constant

threat of being blown up."

The threat does exist. Walizada, the carpet seller, was injured last year when a suicide bomber slammed a car into the residence of U.S. security company DynCorp, shattering the glass windows of his store across the street.

Ghani, Afghanistan's former finance minister, agrees that his country's security and infrastructure problems are serious, but he stresses the importance of having the foundations of a legitimate political system to address the issues.

`One Country'

` `You can build all the roads you want, but they count for nothing without a democratic political system," he says. Parliamentary and local elections will be held in September, according to Khaleeq Ahmad, an Afghan government spokesman.

In May 2003, while Ghani was finance minister, the government risked running out of money to pay officials. Ghani put his metallic-gray Mercedes SUV on a military plane and flew to the western city of Herat, which has been made relatively prosperous from trade with nearby Iran.

He visited seven mosques and told worshippers that if they wanted to be one country, they had to support Kabul. Then Ghani went to Ismael Khan, then Herat's governor.

` `He came to me and said, `There is no money in the central bank,' so I gave him the money," Khan says. The former strongman of Herat says he handed over \$8 million and 700 million afghanis (\$12 million) -- almost enough to pay the government's entire wage bill for one month. Ghani put the cash in his jeep and flew back to Kabul.

`Preventing Future 9/11s'

Even if they don't have money at risk in Afghanistan, investors as far away as New York say they still have a stake in the country.

``Afghanistan is a litmus test," says Tony James, 54, president of Blackstone Group LP, which manages a \$6.45 billion buyout fund -- bigger than the legal Afghan economy. ``The resolution of the issues in Afghanistan, Iraq and Palestine is going to determine the direction of the world economically and politically for the next couple of decades."

James, who was co-head of investment banking at Credit Suisse First Boston in September 2001, recalls standing on the 22nd floor of CSFB's New York headquarters and watching the World Trade Center towers collapse. ``Seeing prosperity in Afghanistan is about preventing future 9/11s," he says.

Karzai concurs. ``The international community should stay with Afghanistan if not for the interest of Afghanistan, then for their own interests," he says.

The hopeful signs notwithstanding, investors are still hedging their bets -- just like poppy farmer Shaghasi.

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