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What's News

Restructuring firm Resolution moved closer to buying Friends Provident Group after raising its offer for the U.K. insurer to about \$3.1 billion. A deal could be announced as early as Tuesday, when Friends reports earnings. **Page 17**

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Corporate profits don't herald an economic rebound. **Page 13**

Breaking news at europe.WSJ.com



Residents in Khazna, Iraq, gather around a crater left by one of two trucks loaded with explosives that hit the Shiite village Monday.

Iraq blasts target Shiites

Officials say attacks that killed at least 45 aim to restart sectarian violence

By CHARLES LEVINSON

BAGHDAD—Two dump trucks packed with 3,000 kilograms of high-grade explosives flattened a large swath of a Shiite village in northern Iraq on Monday, while two more bombs targeting Shiites struck Baghdad.

The attacks, which left at least 45 people dead across the country, are part of a wave of violence aimed at rekindling the sectarian bloodshed that swept Iraq in 2006-2007, according to U.S. and Iraqi officials.

Though violence in Iraq remains at postwar lows, insurgent groups are still able to launch deadly attacks in many areas of the country. Monday's attacks followed coordinated multibomb attacks on Shiite worshippers on two consecutive Fridays, the customary day of rest and prayer.

After Monday's attacks, Iraqi and U.S. officials reiterated praise for Iraq's Shiites, who have shown restraint in the face of the attacks.

"What's vital to realize is these attacks have failed to

move the Iraqi people to ethno-sectarian violence," a spokesman for the U.S. military in Baghdad said. "Instead, the Iraqi people have been galvanized against violence. They remember the dark days of 2006-2007 and refuse to be taken back to that time."

Monday's twin bombings in the village of Khazna, north of Mosul in Nineveh province, were particularly gruesome. Two dump trucks, each carrying 1,500 kilograms of military-grade explosives, struck at 4:30 a.m.

in a village that is home to Shiite Kurds belonging to the Shabak minority, according to Iraqi police spokesman Abdul Karim Khalaf.

The blasts flattened nearly 40 homes, and partially leveled another 32, according to Mr. Khalaf, killing at least 28 people, wounding 155, and burying dozens of people beneath the rubble.

A series of at least eight smaller bomb attacks, including roadside bombs and one car bomb, struck the capital, Baghdad, on Monday, killing 17

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Afghanistan enlists tribal militia forces

By ANAND GOPAL AND YOCHI J. DREAZEN

KABUL—The Afghan and U.S. governments have launched a new effort to enlist tribal fighters from many of the country's most violent provinces in the war against the Taliban, hoping that a tactic first used in Iraq can help turn the tide here as well.

Thousands of armed tribal fighters from 18 Afghan provinces will initially be hired to provide security for elections on Aug. 20, officials from both countries said. If the security is effective, Afghan officials say they will try to give the tribesmen permanent jobs protecting their villages and neighborhoods.

The tribal initiative is be-

ing run by a new branch of the Afghan government called the Independent Directorate for the Protection of Highways and Public Property. In coming days, officials from the agency will ask tribal shuras, or councils, in participating provinces to organize armed militias to guard polling places, roads and public gathering spaces.

Members of the militias will be allowed to use their own AK-47s and other weapons, but they won't receive arms, ammunition or uniforms from the government.

Afghan officials said the effort is an attempt to import a successful tactic from Iraq, where Sunni tribal fighters in Anbar Province helped drive

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Every British dog has its day when it comes to health care **News in Depth**, pages 14-15

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DJIA	9337.95	-0.34
Nasdaq	1992.24	-0.40
DJ Stoxx 600	229.56	-0.49
FTSE 100	4722.20	-0.20
DAX	5418.12	-0.75
CAC 40	3504.54	-0.47
Euro	\$1.4164	-0.32
Nymex crude	\$70.60	-0.47

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THE WALL STREET JOURNAL

LEADING THE NEWS

Swiss meet on UBS case

Cabinet discusses tangle with U.S. over client data

BY KATHARINA BART

ZURICH—The Swiss cabinet held an extraordinary meeting on UBS AG's problems with U.S. tax authorities, a move that could signal Switzerland is close to bowing to the U.S. on demands to hand over data.

The case centers on the U.S. Internal Revenue Service's efforts to obtain the identities of 52,000 accounts to investigate alleged off-shore tax evasion by UBS clients.

Talks among UBS and the two governments are reported to have stalled over when and how Switzerland transfers client-account data, which is protected by strict bank-secrecy laws. Breaching confidentiality is a criminal offense under Swiss law.

A Swiss government spokesman didn't comment on details of the meeting, which was held Monday during the cabinet's summer recess. Analysts say Switzerland could be scrambling to make arrangements ensuring any concessions made to U.S. authorities as part of a settlement can be met. Those might include a faster administrative process for handing over the data to the IRS.

"The cabinet was informed of the ongoing negotiations to reach a settlement, and won't comment publicly until the settlement has been reached," government spokesman André Simonazzi said.

UBS declined to comment Monday. UBS and the Swiss government fought the U.S. effort to obtain account holders' names, citing Swiss bank-privacy laws.

Lawyers involved in the case now say they believe UBS will agree to turn over up to 10,000 account



UBS and the U.S. Internal Revenue Service are due to give a Miami judge an update Wednesday on talks about details of a deal in principle to turn over data.

holders' identities.

The Swiss bank and the IRS are due to give a Miami district judge an update Wednesday on negotiations to hammer out details of the two parties' deal in principle. The two sides asked Friday for more time to finalize a settlement.

The Swiss government's involvement in the case underscores how much is at stake for UBS and for Switzerland, a financial center that generates 8.5% of its gross domestic product through banking.

The Swiss government must strike the right balance between appeasing U.S. authorities enough to settle the case, without being seen to weaken Swiss secrecy enough to cause severe, lasting damage to its banking industry.

Like other countries known for money management—such as Liechtenstein and Luxembourg—Switzerland made concessions on

client secrecy this year under intense pressure from other countries.

The UBS case has become a closely watched test of how far the U.S. will go in pursuing citizens who are believed to be using accounts in other countries to avoid paying taxes to the IRS.

The IRS is conducting offshore tax-collection efforts on a number of fronts. The agency has agreed to provide more time to some U.S. taxpayers with offshore holdings to report more details about foreign bank accounts.

The deadline for filing Foreign Bank Account Report forms was moved to June 30, 2010, from Sept. 23, 2009.

Mr. Simonazzi didn't comment on whether the cabinet would convene another extraordinary meeting before its next scheduled meeting on Aug. 19.

U.K.'s July retail sales signal reviving economy

BY JOE PARKINSON AND NICHOLAS WINNING

LONDON—U.K. retail sales rose in July and sentiment in the housing market reached its highest level in almost two years, providing further indications that the economy is on the mend.

The figures are consistent with a string of recent data releases that suggest the economy may grow this quarter, and come ahead of the release on Wednesday of new economic forecasts by the Bank of England.

Despite some signs of a revival, the BOE said last Thursday that it will pump £50 billion (\$82 billion) in new money into the economy by buying bonds. Economists expect the central bank on Wednesday to say that there are signs the economy is recovering, but the medium-term outlook isn't clear.

The British Retail Consortium, a trade group, said July sales in stores open at least a year were 1.8% higher than in July 2008, boosted by strong demand for home equipment as consumers spent money normally reserved for vacations on improving their houses.

Total sales, which include new stores, gained 3.6% in July from a year earlier.

"There is a sense among some consumers that the beginning of the end of recession is here, but rising

unemployment and job-loss fears will continue to hold back the widespread return of consumer confidence for some time yet," said Stephen Robertson, the BRC's director general.

The Royal Institution of Chartered Surveyors, meanwhile, said the improved outlook for house prices in England and Wales was largely due to a continued shortage of property for sale.

The RICS monthly price balance rose to minus 8.1 in July from minus 17.6 in June, its highest level since August 2007. The measure is calculated by subtracting the percentage of surveyors reporting falling prices from those reporting rising prices.

In the U.K., surveyors provide an assessment of the physical state of homes to potential buyers, as well as a valuation that is key to securing a mortgage.

The RICS warned that prices could come under renewed pressure if signs of an upturn in the market tempt more people to put their house on the market, or if financing conditions and the economy fail to improve.

"If mortgage availability remains insufficient to meet the increase in buyer demand, then it is possible that prices may slip back again, especially if unemployment continues to rise and mortgage rates increase," RICS spokesman Jeremy Leaf said.

French industrial output climbs

BY GABRIELE PARUSSINI

PARIS—French industrial output rose in June, lifted by car production. But the bounce failed to expand to all sectors and added uncertainty to the economic outlook.

Industrial output in June increased 0.3% from May, national statistics office Insee said Monday. It also revised up its estimate for May to a 2.8% increase, stronger than the 2.6% gain initially published. Output from domestic car plants rose 5.3% for the month, from May.

Still, manufacturing production posted a more modest 0.4% increase, while output from the electri-

cal equipment and construction industries continued contracting. Agricultural and foodstuff output was unchanged.

"Production in sectors other than the automotive remained very much subdued," said Tullia Bucco, an economist at UniCredit. "This raises some doubts that gross domestic product growth could return into positive territory as soon as the third quarter, unless order flows, so far still soft, gain strength."

The French car market has so far showed resilience to the crisis, thanks to government-financed incentives for car owners to scrap old, inefficient vehicles.

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LEADING THE NEWS

Chinese official recants Rio Tinto charges

Effort to take back Secrets Bureau blast clouds plans on case

BY SKY CANAVES

BEIJING—Chinese officials distanced the government from allegations on a state-backed Web site that employees of mining giant Rio Tinto PLC had used years of deceit to obtain state secrets that cost China's steel industry \$102 billion, spotlighting the murky and often confusing way China handles secrecy cases.

The allegations, published over the weekend, had quickly gained widespread attention, as they appeared to represent the government ratcheting up pressure over the case of four Rio Tinto employees, including an Australian citizen, who were detained July 5 by the Shanghai State Security Bureau on vague accusations of using bribery to obtain secrets that harmed China's national interests.

Beijing hasn't made official charges against Rio Tinto or its employees, and authorities have provided few details of the accusations or the alleged evidence. Rio Tinto has said its employees have acted

with integrity and that accusations they have engaged in bribery were unfounded.

The latest allegations appeared in an essay by a province-level state-secrets official in an article on China Secret Protect Online, a site linked with the National Administration for Protection of State Secrets, also called the State Secrets Bureau. In the article, Jiang Rujin, an official in the secrets bureau in Jiangsu province, say Rio Tinto's actions contributed to Chinese steelmakers overpaying 700 billion yuan (\$102 billion) for iron-ore imports from 2003 through 2008. Mr. Jiang alluded to concrete evidence against Rio Tinto's employees, writing: "The large amount of intelligence and data from our country's steel sector found on Rio Tinto's computers and the massive damage to our national economic security and interests are plainly obvious."

On Monday, an official with the propaganda department of the State Secrets Bureau said it "didn't authorize anybody to release comments" on the case and that Mr. Jiang's essay didn't necessarily represent the view of the Bureau. "It is his own essay," the official said.

Mr. Jiang, reached by phone, said he has no direct involvement in the Rio Tinto matter, and that figures in

his article were taken from other state media and industry reports. "I'm not quite sure about the details of the case," Mr. Jiang said.

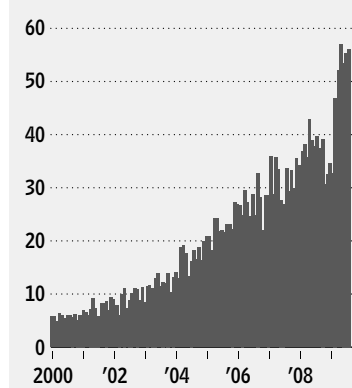
On Monday morning, Mr. Jiang's article no longer appeared on China Secret Protect Online, and the entire site later became inaccessible for much of the day, with a message suggesting it had been pulled down or blocked by the government. It came back online hours later, before becoming inaccessible again. The reason for the disruption wasn't clear. Mr. Jiang and a person who answered the phone at the contact number listed on the Web site both said they didn't know what happened.

The confusion highlights the difficulties of obtaining clear, authoritative accounts on sensitive issues in China, where much official information remains under wraps. The episode also reflects how the Rio Tinto case is a focal point for people in the ruling Communist Party pushing a nationalist agenda, arguing that what would be seen in most countries as commercial negotiations between miners and steelmakers are actually part of a broader foreign effort to contain China's economic rise.

Another article published over the weekend on the same Web site, for example, said the Rio Tinto case

Key consumer

China's imports of iron ore, in millions of metric tons



Source: China Customs via Thomson Reuters

illustrates Chinese industry's duty to protect state secrets amid overseas spying threats.

China Secret Protect Online is run by a publishing house affiliated with the State Secrets Bureau—which has no public Web site of its own—and publishes a magazine on work by officials in state-secrets organizations.

State-secrets cases are especially lacking in transparency in China, as much of the evidence is deemed to

be confidential and trials are held behind closed doors.

Laws relating to state secrets "are intentionally vague so that they can be interpreted and applied with flexibility in the context of the facts of a specific case," says Christopher Stephens, managing partner for Asia at the U.S. law firm Orrick, Herrington & Sutcliffe LLP. "They are designed to capture a wide range of sensitive information, ranging from the age and health of national leaders to economics statistics and internal policy debates."

The estimate that steelmakers overpaid \$102 billion has been widely repeated by Chinese media in recent weeks, but it isn't clear what it is based on. China's steel companies agreed to the iron-ore prices they paid during negotiations with Rio Tinto and other miners, and similar prices were paid by steelmakers around the world. Prices rose sharply in recent years because of China's voracious demand for ore.

A spokeswoman for Australian Foreign Affairs Minister Stephen Smith said Monday that the Chinese Web site's allegations concerning Australian Stern Hu and the other Rio Tinto employees weren't new.

—Gordon Fairclough in Shanghai and Rachel Pannett in Canberra contributed to this article.

Chinese oil firms offer \$17 billion for Repsol's YPF unit

Continued from first page
ment holds no financial stake in YPF, but has the right to veto important decisions such as transferring ownership.

The Argentine Planning Ministry, which oversees energy, didn't immediately respond to requests for comment.

One of the people close to the discussions said CNPC believed it would be able to resolve any political or consumer objections to the potential deal.

Spain, meanwhile, could object to seeing some key assets of Repsol, the country's largest oil company, purchased by China. Spain's industry ministry couldn't immediately be reached for comment.

The Chinese side discussed their offer with Repsol executives in a two-and-a-half-hour evening meeting on July 30 in Europe, according to a document seen by Dow Jones Newswires.

A Repsol press official on Monday denied the company had met on July 30 with CNPC and Cnooc, and said the company had no further comment.

Earlier Monday, another Repsol press official said the company "has received expressions of interest on YPF, but no firm bid." He didn't specify who had expressed interest.

Progress on clinching a deal between the Chinese companies and Repsol has been slow, and a formal offer hasn't yet been made, the people close to the talks said.

China's resource majors have snapped up foreign oil and other assets recently, as the country seeks to lock in energy supplies.

China Petrochemical Corp., the Chinese state-owned oil company also known as Sinopec, in June acquired Switzerland-based oil explorer Addax Petroleum Corp. for \$7.2 billion. In April, CNPC purchased Kazakh oil producer MangistauMunaiGas jointly with Kazakhstan's state-owned Ka-

Shopping spree

China's 10 largest outbound natural resources M&A deals, on record

Date	Target stakes	Acquirer	Deal value, in billions
Feb. 2008	Rio Tinto (U.K.)	Aluminum Corp of China; Alcoa	\$14.3
June 2009	Addax Petroleum (Switzerland)*	Sinopec	8.9
July 2008	Awilco Offshore (Norway)	Cnooc	4.3
Aug. 2005	PetroKazakhstan (Kazakhstan)	CNPC	4.2
June 2006	Udmurtneft (Russian Federation)	Sinopec	3.7
April 2008	Total SA (France)	State Administration of Foreign Exchange	2.9
Jan. 2006	Oil & Gas Assets (Nigeria)	Cnooc	2.7
May 2009	Singapore Petroleum (Singapore)*	PetroChina	2.4
April 2008	BP (U.K.)	State Administration of Foreign Exchange	2.0
Sept. 2008	Tanganyika Oil (Canada)	Sinopec	2.0

* Pending deals

Source: Dealogic

zMunaiGas for \$3.3 billion.

China's state energy companies are also showing more teamwork in chasing foreign deals than previously. This year Sinopec and Cnooc have together struck deals for oil and natural gas assets in Angola and the Caribbean. In July they agreed to buy jointly a 20% stake held by U.S. oil producer Marathon Oil Corp. in an oil block off Angola for \$1.3 billion.

But not all of China's efforts have been successful. In June, a \$19.5 billion bid by Aluminum Corp. of

China, or Chinalco, to raise its stake in Anglo-Australian mining-giant Rio Tinto collapsed amid shareholder and political concerns. An earlier, successful deal by Chinalco, in which it paid \$14 billion for an initial 9% stake in Rio in February 2008, is China's largest foreign investment in the resources sector.

Repsol has been looking to sell its 84% stake in YPF in order to earn more cash to pay off its debts. On July 30, Repsol said its second-quarter adjusted profit plunged 62% to €265 million (\$375.5 million) from a year ear-

lier, citing dramatically lower refining margins and oil prices. It said its net debt at the end of the second quarter was €10.41 billion.

In 2007, Repsol sold a 14.9% stake in YPF to Argentina's Grupo Petersen for \$2.24 billion. The remainder is held by minority shareholders.

Repsol has several times postponed a public offering of a 20% stake in YPF due to adverse market conditions, implying that the Spanish oil firm isn't willing to sell any stake in YPF on the cheap.

The Chinese side, with CNPC taking a leading role, first put forward the offer in black-and-white in late June, one of the people familiar with the discussions said. On July 21, Repsol responded in a letter to CNPC and agreed to continue the negotiations, the person said.

"Repsol thinks the Chinese would offer more, and apparently Repsol is waiting for other bidders to show up. But the Chinese think the valuation of the assets is fair enough," the person said.

Light, sweet crude oil started 2009 at near \$58 a barrel and has since risen to more than \$70 a barrel, which could be an important factor in the negotiations.

A CNPC spokesman said he had no information on the issue. YPF declined to comment on a potential deal. Grupo Petersen referred requests for comment to YPF.

CNPC is aiming to take a majority stake in YPF, while Cnooc would likely to have a smaller share, the people said. China's energy bureau will coordinate with CNPC and Cnooc on how the ultimate deal would be structured between the two Chinese companies. There is no deadline in the negotiation, they said.

—Nisha Gopalan, Amy Or, Bernd Radowitz and Taos Turner contributed to this article.

Hyundai tries to free employee from North Korea

ASSOCIATED PRESS

SEOUL, South Korea—The chief of South Korean conglomerate Hyundai Motor Co. traveled Monday to North Korea seeking the freedom of an employee held by the communist regime. The trip comes a week after former U.S. President Bill Clinton's visit sealed the release of two American journalists.

The 44-year-old South Korean

technician, identified only by his family name, Yu, was detained four months ago for allegedly denouncing the North's political system. He worked in the Kaesong industrial park where South Korean-run factories employ North Korean workers.

Hyundai has poured hundreds of millions of dollars into the park and a joint tourist project promoted by previous South Korean govern-

ments to increase cooperation with the North. But renewed tension has seen a suspension in trips to the North by South Korean tourists, while the industrial park now has only a skeleton South Korean staff.

On Monday, Hyundai Group Chairwoman Hyun Jung-eun drove across the heavily fortified border for a three-day visit. She said before her departure that she would seek

the worker's release. Company officials also say she will discuss restarting joint projects in North Korea.

The North's official Korean Central News Agency reported that Ms. Hyun's delegation was greeted in Pyongyang by North Korean officials. "The release of the detained worker is the most urgent issue," said Kim Ha-young, a spokesman at Hyundai's business arm, Hyundai Asan.

LEADING THE NEWS

Pakistan sees rebel chaos

Officials tell of fight after claims of death of Taliban leader

Officials struggled Monday to figure out what is going on inside the Pakistan Taliban following the apparent death of its leader last week and reports that al Qaeda was trying to gain greater power in the group.

By **Zahid Hussain** in Islamabad and **Matthew Rosenberg** in New Delhi

The country's top law enforcement official said al Qaeda was taking advantage of a bloody succession battle to choose a leader favorable to its interests while a contender who had been reported killed in that infighting called reporters to say he's alive and well.

The contender, Hakimullah Meh-

sud, also claimed that Baitullah Mehsud, the Taliban leader U.S. and Pakistani officials say they are almost certain was killed last week in an American missile strike, is also alive.

Officials say Baitullah Mehsud, as the nominal leader of the Pakistan Taliban, helped orchestrate a series of bombings in Pakistan's major cities and Taliban offensives in its northwestern mountains. Also believed killed along with the militant leader were his second wife and a number of top aides.

While officials lack physical evidence of Mr. Mehsud's death, they point to communications intercepts and information from informers in the remote South Waziristan tribal agency where the Taliban leader held sway. There are also other signs, such as the militants completely closing to outsiders the area around the parts of South Waziristan where Mr. Mehsud's faction is in control. Pakistani officials say that by claiming that Mr. Mehsud isn't dead, the Tali-

ban may be trying to maintain unity in the movement in Pakistan, which appears to be seriously strained.

Pakistani officials and militants say members of Mr. Mehsud's faction—there are more than a dozen different groups in the Pakistan Taliban—have been meeting in recent days to choose a new leader and, presumably, a new overall leader for the loose confederation of groups, which is known as the Tehrik-e-Taliban.

Members of al Qaeda and the Afghan Taliban, which oversees but doesn't directly control the Pakistani side of the movement, have also been taking part in the deliberations, the officials and militants say.

But much remains murky. Over the weekend, Pakistani intelligence officials, speaking privately, said they were almost certain that Hakimullah Mehsud, who is one of the Taliban commanders believed to be among the top contenders, had been slain in a shootout between his supporters and the backers of an-



A man walks through a mosque destroyed during the recent Pakistani military offensive against the Taliban in Buner district, near the Swat Valley, on Monday.

other contender.

On Monday, Hakimullah Mehsud called to say the reports are untrue, the Associated Press reported. The AP said its reporter was familiar with the militant commander's voice.

Hours before the phone call, Pakistan's Interior Ministry chief, Reh-

man Malik, said al Qaeda is believed to have intervened to end the succession battle. If Mr. Mehsud's death allows al Qaeda to gain even more influence, it could help the insurgents maintain their potency and reach. Pakistan was taking measures to stop that from happening, Mr. Malik said.

Obama defends Honduras policy

ASSOCIATED PRESS

GUADALAJARA, Mexico—U.S. President Barack Obama defended American efforts to help restore Honduran President Manuel Zelaya, who was ousted in a June 28 coup.

At a news conference with Mexican President Felipe Calderón and Canadian Prime Minister Stephen Harper following a summit of the North American leaders here, the U.S. president confronted questions on his foreign and domestic agendas, from efforts to fight drugs in Mexico to the testy health-care fight at home.

Mr. Obama said criticism of his policy in Honduras smacked of hypocrisy, faulting the U.S. for being heavy-handed in Latin America and yet telling him he hasn't intervened enough in Honduras. Mr. Harper rallied behind Mr. Obama on the issue. "If I were an American, I would be really fed up with this kind of hypocrisy," he said.

Mr. Obama predicted Congress would pass his health-care overhaul this fall, as more "sensible and reasoned arguments" prevail. But he said immigration changes, another politically explosive subject, would have to wait until next year.

"It's very important for us to sequence these big initiatives in a way where they don't all just crash at the same time," he said.

Mr. Obama backed Mr. Calderón and his efforts to take on drug cartels amid a spiraling war on drugs and guns. Washington is debating whether to withhold money to help fight the powerful cartels because of allegations that the Mexican military has been guilty of human-rights abuses.

Mr. Calderón said the Mexican government has an "absolute and categorical" commitment to human rights, and Mr. Obama said he had great confidence that under the Mexican leader, "human rights will be observed."

The three leaders agreed to take "aggressive, coordinated action" to restore growth across North America, Mr. Obama said. Noting the huge trading partnership among the three neighbors—Canada is the U.S.'s largest trading partner, while Mexico is No. 3—Mr. Obama said commerce must be expanded, not restricted. He said a "Buy America" provision in the giant economic stimulus package earlier this year hadn't hurt trade with Canada.

"I do think it's important to keep this in perspective," Mr. Obama said. "This in no way has endangered the billions of dollars in trade taking place between our two countries."

The North American Leaders' Summit, started by George W. Bush

in 2005 near his Texas ranch, has become an annual showcase for trade.

This year, as the U.S. struggles out of a recession, the leaders met at the Instituto Cabañas. The 19th-century building, once a home for poor children, is now a sprawling art museum with 23 arched courtyards filled with grapefruit and mango trees.

Streets around the complex were sealed off by heavily armed federal agents and police in riot gear.

The security stemmed in part from the drug wars that have raged in Mexico since Mr. Calderón deployed the army in an effort to crush the country's notorious cartels.

In a separate meeting with Mr. Calderón, Mr. Obama voiced strong support for the offensive. Mr. Calderón expressed concerns about delays in the latest installment of U.S. aid under the \$1.4 billion Merida Initiative.

Mr. Calderón pressed Mr. Obama on allowing Mexican trucks access to U.S. highways. Mexicans suggest the U.S. limits on their trucks are less about safety—the stated reason—than protecting American hauling companies from competition under the North American Free Trade Agreement.

Mr. Obama also spelled out a



Canadian Prime Minister Stephen Harper, left, Mexican President Felipe Calderón, center, and U.S. President Barack Obama at the summit in Guadalajara.

more detailed timeline on immigration change. The president said he expected draft legislation for an immigration overhaul this year, but said the matter wouldn't get priority attention until 2010.

"We have a broken immigration system. Nobody denies it," Mr. Obama said. But politically and legislatively, it falls behind health care, energy legislation and an overhaul of financial regulatory rules on Mr. Obama's first-term agenda.

He didn't directly mention the outbursts and hot tempers that

have disrupted local meetings on health care around the U.S. Republicans are pointing to them as signs of public dissatisfaction with Mr. Obama's health-care efforts, while Democrats have accused Republicans of trying to sabotage the democratic discussion.

Said Mr. Obama of the health-care overhaul effort: "I suspect that once we get into the fall and people look at the actual legislation that's being proposed, that more sensible and reasoned arguments will emerge, and we're going to get this passed."

Miners in the U.S. push back against plan to impose royalties

BY STEPHANIE SIMON

White House efforts to require more mining companies to pay royalties in the U.S. are running into resistance from the industry, which argues that new burdens would jeopardize green energy.

If too many costs are imposed on domestic miners, the U.S. will be importing even more of the raw materials used to make such items as wind turbines, hybrid vehicles and solar panels, said Laura Skaer, executive director of the Northwest Mining Association, a trade group.

"Then we've traded our dependence on Mideast oil for a dependence on foreign minerals," Ms. Skaer said. The zinc, molybdenum and rare-

earth minerals needed for wind turbines, copper for hybrid cars and titanium and cobalt for solar panels are imported from China, Peru and elsewhere.

Sen. Jeff Bingaman (D., N.M.) said imposing new fees won't crush the \$70 billion-a-year mining business. "This is not intended to harm the mining industry economically," he said. "I don't see how it impacts our ability to transform to a clean-energy economy."

The Obama administration wants to raise tens of millions of dollars by changing a 137-year-old law that allows private companies to extract minerals from public lands without paying royalties.

Mr. Bingaman and others who sup-

port changing the law say there is no reason for the industry to be governed by a law that dates to 1872. Companies that take such commodities as coal and oil from public lands pay royalties.

"Given our current economic crisis and the empty state of our national treasury, it is ludicrous to be allowing this outmoded law to continue," Rep. Nick Rahall (D., W.Va.) said earlier this year. He has introduced legislation to impose an 8% royalty on production value.

Mr. Bingaman's bill would impose royalties of 2% to 5%.

Under the bills, royalties and other fees would be used to clean up thousands of abandoned mining sites. The Environmental Protection

Agency last month reported that mining has polluted 5,470 kilometers of streams and 176,000 hectares of land and continues to release enormous quantities of toxic chemicals.

The industry disputes those findings and says most pollution can be blamed on long-shuttered mines, not modern operations.

Industry officials say they are open to paying some royalties, but only on net profits, not raw production. They also plan to fight any legislation that puts significant expenses of land off-limits to mining to protect scenery, habitat or tourism potential.

As the law now stands, mining is the "highest and best use" of most public land with mineral deposits,

giving the industry priority over recreation, ranching and other interests.

Proposals to revise the 1872 law have been around for years. Recently, some environmentalists have accused Senate Majority Leader Harry Reid of blocking changes. Mr. Reid represents Nevada, which is rich in gold mines.

Mr. Reid didn't respond to allegations that he is preventing changes to the law. His spokesman, Jon Summers, said the Democratic senator would support "mining law reform, done responsibly."

Any overhaul, Mr. Summers said, would have to take into account the effects on mining towns and mining jobs.

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It's rough out there. Economic realities are daunting. And yet, as with every competitive challenge, some businesses will respond proactively and effectively, while others are left behind. The winners will be those who

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CORPORATE NEWS

Franchisers find growth overseas

Overseas partners don't need credit; markets underserved

BY RICHARD GIBSON

As a sluggish economy continues to hobble business in the U.S., some franchise companies are still finding willing investors and growth opportunities overseas.

Curves International Inc. and sandwich maker Subway have reported double-digit expansion abroad, particularly in places such as Brazil and Central and Eastern Europe. Other hot markets for franchises include India and China, where new middle-class customers are emerging.

As is also true in boom times, the franchising push in many cases is largely the result of saturation in the U.S. McDonald's Corp., which pioneered the global spread of American-made franchised brands, has opened 286 units abroad so far this year, compared with just 53 domestically. Last year's growth had a similar overseas tilt.

One advantage in looking abroad during tough times is that the third-party entrepreneurs or business groups American franchisers often rely on overseas—so called master franchisees—usually bankroll the operation themselves. That's a marked difference from the U.S., where many franchisees seek bank loans.

Franchising growth in the U.S. has slowed in the past year because of tight credit. Most overseas licensees "are not buying business on credit but are using internal funds," says William Edwards, whose Edwards Global Services Inc., based in Irvine, Calif., helps franchisers establish themselves internationally.

Master franchisees typically pay a significant fee to acquire a territory or country where they operate largely as a minifranchiser, selling franchises, overseeing those units and collecting royalties. Often an established business, the master franchisee is usually more knowledgeable about local laws, customs and consumer needs than



U.S. franchisers are still finding success overseas. Above, McDonald's and Subway franchises in a Qatar shopping mall

the U.S.-based business.

For overseas investors, big U.S. chains are attractive because of their brand recognition and proven profit potential. That, in turn, makes it easier to sell individual franchises in a foreign country. Chains like Subway say a turnkey model helps, too. "We've kept costs and fees low, and our operation very simple," says Don Fertman, Subway's director of development. "It's the type of business that just about anybody can get into."

Since January 2008, Subway has opened 1,432 locations abroad, 202 more than in the U.S. In the past five years the chain, a unit of Doctor's Associates Inc., Milford, Conn., has nearly doubled its overseas presence, to 8,817 outlets.

Senior-care company Home Instead Inc. says modern lifestyles have fueled some of its overseas expansion. In Japan, for example, tradition dictated that aging parents be cared for by the wife of a family's oldest son. But today, many of those women have taken jobs outside the home.

"They're more engaged in the

professional world as well as the society, so they are busier," says Yoshino Nakajima, Home Instead's chief development officer. Moreover, the Omaha, Neb., firm's surveys find that many Japanese seniors don't want to be a burden on their children, she says, so families are turning to Home Instead to bring professional caregivers into their homes.

The franchiser has 149 locations in Japan alone—more than half of its 268 international franchises, which are spread across 14 countries. That compares with 576 locations in the U.S. In the past year the company's foreign expansion has outstripped U.S. growth—55 units compared with 25. Ms. Nakajima says the firm's overseas growth through 2025 is expected to be two to three times faster than that in North America.

Evolving lifestyles, particularly among emerging middle classes, also are creating overseas growth opportunities for Curves International, the women's fitness-center chain. The Woodway, Texas, company opened 612 centers outside

North America from February 2008 to this month. That compares with just 19 in the U.S. and Canada—a market that chief operating officer Jim Johnson says became saturated several years ago.

Curves hooked up with master franchisees who, in Mr. Johnson's words, "have got the funds and the passion" to grow. Japan is Curves' biggest overseas market, with 744 locations. The company plans to enter India this fall. It opened its first unit in China in May; Chinese law requires that a foreign franchiser operate a single unit successfully before it will be allowed to expand there.

"We bring something to those markets that is totally foreign," Mr. Johnson says of Curves' women-only exercise concept. That could have significant appeal in Muslim countries, where religious custom often requires that women have separate public facilities from men.

One hurdle that Curves has been encountering lately, particularly in the Middle East, is the scarcity of commercial property. The same holds true in England and Ireland, Mr. Johnson says.

European airlines say traffic decline slowed in July

BY STEVE McGRATH AND KAVERI NITHTHYANANTHAN

LONDON—European airlines and the U.K.'s dominant airport operator Monday signaled that passenger traffic is stabilizing after two years of steep declines, but trans-Atlantic traffic remains in the doldrums and analysts warned that the industry isn't set for a recovery yet.

The Association of European Airlines, which represents 33 scheduled European network carriers, said preliminary figures showed traffic declines eased in July, one of the key months for air travel in Europe because of the start of the summer holidays. The association said July traffic, measured in revenue passenger kilometers, was down 2.2% from the year-earlier period, compared with a 6.5% fall in June and an 8.3% decline in May.

U.K. airports group BAA—which owns London airports Heathrow, Gatwick and Stansted as well as Southampton in southern England and Glasgow, Edinburgh and Aberdeen in Scotland—said its airports handled 14.5 million passengers in July, down 2.4% from the year-ago period, following declines of 5.9% in June and 7.3% in May.

Heathrow airport, the U.K.'s largest airport and British Airways PLC's main base, returned to growth, handling 6.5 million passengers, up 0.9% from July 2008. BAA, a unit of Spain's Grupo Ferrovial SA, said it was the airport's busiest July since 2006.

Industry analysts, however, warned that the figures may not signal a recovery for the airline industry. They said that the stabilization may signal that many consumers aren't prepared to sacrifice summer vacations, but with unemployment rising and taxes set to rise, demand for air travel is set to remain weak.

Airports Council International, a trade body for airports around the world, said Monday it is keeping its forecast for an 8% fall in passenger numbers and a 16% decline in freight at European airports for 2009. It said passenger numbers at European airports were down 10% in the first half of the year.

"More than 85% of European airports are suffering falls in traffic so far this year. Traffic recovery is not yet in sight, although we may have hit the bottom," ACI Europe Director General Olivier Jankovec said.

BAA said European and long-haul traffic, excluding Atlantic routes, grew at its airports in July, but U.K. domestic and charter traffic continued to fall. Trans-Atlantic traffic was down 8% on the year. In a glimmer of hope for BA, trans-Atlantic traffic at Heathrow was down only 2.1%.

Continental dispute weighs on Körfer's job

BY KATHARINA BECKER AND NICO SCHMIDT

FRANKFURT—Continental AG acting supervisory board chief, Rolf Körfer, would step down from his post as part of a compromise over a dispute on the board as to whether Continental Chief Executive Karl-Thomas Neumann should stay in place, a person familiar

with the matter said Monday.

At a board meeting earlier this month, Continental's dominant shareholder, Schaeffler Group, tried to terminate the appointment of Mr. Neumann but couldn't garner the needed two-thirds majority.

Supervisory board Deputy Chairman Werner Bischoff has said Mr. Neumann has lost the support of the supervisory board's shareholder rep-

resentatives, dominated by Schaeffler. However, labor representatives—who, as with most German companies, comprise the other half of the board—support Mr. Neumann.

Mr. Körfer, on the other hand, is criticized by labor representatives, since he also acts as an adviser to Schaeffler. A compromise may result in Mr. Körfer still playing an important role in the supervisory

board, but giving up his position as president, the person said.

In this case, Schaeffler manager Elmar Degenhart would take over the position as chief executive of Continental, the person said, pointing out, however, that the compromise still isn't a done deal.

A Schaeffler spokesman declined to comment while Continental wasn't available for comment.

Forest to sell Nycomed's lung-disease drug in U.S.

BY JEANNE WHALEN

Swiss drug company Nycomed said it has licensed the U.S. marketing rights to an experimental lung-disease drug to Forest Laboratories Inc. in exchange for a share of the revenue should regulators approve the drug for sale.

Forest also will pay Nycomed

\$100 million upfront, and as much as \$500 million more if the drug, Daxas, clears other hurdles including regulatory approval.

Earlier this year, Nycomed quietly sought buyers for the closely held company, people familiar with the matter said at the time. In a phone interview Monday, Chief Executive Hakan Bjorklund de-

clined to say whether the Daxas licensing deal meant that those talks have ended.

He also declined to comment on whether Nycomed is in negotiations to buy the pharmaceutical division of Belgian conglomerate Solvay SA. People familiar with the matter say Nycomed is among the leading bidders for the unit, which

could be valued at as much as €5 billion (\$7.1 billion).

The drug is designed to treat chronic obstructive pulmonary disease, or COPD. Mr. Bjorklund said the global market for COPD treatments is about €9 billion.

Nycomed has retained the rights to sell Daxas on its own in most markets outside of the U.S.

Ready for a landing?

Total passenger volume for the Association of European Airlines 33 members, change from a year ago



Note: Measured in revenue passenger kilometers; July 2009 figure is preliminary
Source: AEA

CORPORATE NEWS

Chinese car competition heats up

Beijing Auto hires key Chery executive to foster new brand

BY NORIHIKO SHIROUZU

BEIJING—Beijing Automotive Industry Holding Co. has hired away the product-development chief from rival Chery Automobile Co., underscoring growing competition in China's crowded car industry.

Government-owned Beijing Auto tapped Gu Lei to jump-start its effort to launch a new passenger-car brand, building on its current joint ventures producing foreign-brand cars. Mr. Gu, in a telephone interview, said he joined Beijing Auto in late July and was recruited "to take charge of" Beijing Auto's effort to develop cars for the brand, to be launched in a couple of years.

The poaching of Mr. Gu from Chery, one of the top home-grown

auto brands in a country where foreign makers are dominant, shows how companies such as Beijing Auto are trying to grow quickly to survive a looming industry consolidation. China's central government announced earlier this year plans to encourage consolidation of its car makers, now numbering more than 80, into a smaller group of larger producers.

To survive the consolidation, a top executive of Beijing Auto said in an interview last month that the company believes it has to be able to sell more than two million vehicles annually within a few years. That total includes volumes generated by its joint ventures with Hyundai Motor Co. of South Korea and Daimler AG of Germany, as well as Beiqi Foton Motor, a Beijing Auto subsidiary that produces big trucks.

In the first six months of this year, Beijing Auto sold 582,000 vehicles, including Foton and the Hyundai and Daimler ventures. It plans to sell 1.15 million total vehicles this year.



Auto-sector consolidation looms in China. Above, a Beijing Auto vehicle

Launching the passenger-car brand successfully is a key element of Beijing Auto's expansion plan, the top executive said last month.

Mr. Gu, an 11-year veteran of Ford Motor Co., joined Chery in

2005. At Beijing Auto, he has taken over research-and-development duties from company President Wang Dazong, who has directly overseen the R&D operations since joining Beijing Auto from Shanghai Automotive Industry Corp. in early 2008.

Mr. Gu said the first car model for Beijing Auto's new brand is likely to come out in 2011, followed by several more models over a few years. He declined to describe those cars.

"Right now, we are looking at every possibility, and we don't know which car is going to be our first model," Mr. Gu said, referring to an array of concept cars the company unveiled at the Beijing auto show last year.

A Chery spokesman didn't respond to calls seeking comment. An engineer at Chery's R&D center said Mr. Gu has been succeeded internally by a senior Chery engineer.

—Ellen Zhu in Shanghai contributed to this article.

UAE's Aabar, German firms to build trucks

BY NOUR MALAS

DUBAI—United Arab Emirates' Aabar Investments PJSC said Monday it signed a deal with Algeria and five German companies including MAN Ferrostaal AG and Daimler AG to make all-terrain vehicles and trucks in North Africa.

The agreement will eventually create a joint-venture company between Aabar and MAN Ferrostaal to operate the plants in Algeria, MAN Ferrostaal said in a separate statement.

The Algerian venture will make as many as 10,000 vehicles and trucks a year, with work expected to start in 2010. Aabar bought a stake in Daimler earlier this year.

Neither company gave a value for the deal, and Aabar Chairman Khadem Al Qubaisi declined to comment when called. Algeria's Ministries of Defense and Industry, which signed the deal, didn't return calls for comment.

Aabar and MAN Ferrostaal are both majority-owned by the Abu Dhabi government's International Petroleum Investment Co., or IPIC, which invests the emirate's oil wealth.

MAN Ferrostaal will build three vehicle and engine manufacturing plants in Tiaret, Ain Smara and Oued Hamimine and modernize others. Daimler, Deutz AG, MTU Friedrichshafen GmbH, and Rhein-

metall AG will act as technology partners in the deal, providing licenses and intellectual property, Aabar said.

"It is intended that the portion of local production in Algeria can be gradually increased over time, for example by identifying and using domestic suppliers," MAN Ferrostaal said.

"The products which have been identified for potential manufacturing include Sprinter, Unimog, G-Type and other four-wheel-drive vehicles and engines," Aabar said.

Mercedes-Benz, a unit of Daimler, produces a range of Unimog trucks, which are multipurpose four-wheel-drive vehicles used for off-road pur-

poses and as military vehicles.

Aabar became the biggest shareholder in Daimler in March when it bought a 9.1% stake in the company and said it would pursue joint projects. In July, Aabar bought 40% of Daimler's stake in electric-car start-up Tesla Motors Inc. In July, it also bought a 32% stake in Virgin Group's space travel unit Virgin Galactic and said it would create the world's first commercial spaceline with Virgin.

Initially created to invest in oil and gas, Aabar has become a diversified investment vehicle for the Abu Dhabi government. It is majority-owned by IPIC, which owns 70% of MAN Ferrostaal.

GM's sale of Saab said to be on track despite report

BY OLA KINNANDER

STOCKHOLM—General Motors Co. is on track with plans to complete the sale of its Swedish unit, Saab Automobile AB, by the end of September, according to representatives for Saab and the buyer, consortium Koenigsegg Group AB.

"Everything's proceeding; we're still looking to be done by the end of the third quarter," a Saab spokeswoman said Monday.

Speculation has been increasing in Sweden that the deal may be

in jeopardy since last week, when the government's main liaison to the auto industry, Joran Hagglund, told media that the consortium of Saab's buyers appeared to be changing, with one of the key players considering or having decided to pull out.

Mr. Hagglund didn't return a message seeking comment Monday. Saab's sale price hasn't been disclosed.

Both Saab and Koenigsegg declined to comment on the consortium's structure, but stressed that

nothing of substance has changed as far as progress on the deal is concerned.

"The only thing we can say is that we're still in the final negotiations," said Halldora von Koenigsegg, the wife of Christian von Koenigsegg, the founder of Koenigsegg Automotive AB, a Swedish boutique sports-car maker that is spearheading the consortium seeking to buy Saab.

"The negotiations are going well," she added.

According to court documents,

holders in the new Saab would be Koenigsegg Automotive, with 23.4%; Alpraaz AB, owned by Mr. von Koenigsegg, with 42.6%; Norwegian holding company Eker Group, with 11.8%; and San Diego-based investor Mark Bishop with 22.2%.

Paul Akerlund, who represents IF Metall, the biggest union at Saab, expressed confidence the deal is on track. "We feel comfortable the buyer is a group that has the financial muscle" to lead Saab in the future, he said.

Car sales in India surge at fastest pace in over two years

BY NIKHIL GULATI AND SANTANU CHOUDHURY

NEW DELHI—Local car sales in India rose at the fastest pace in more than two years in July as lower interest rates, new models and the onset of several festivals lifted demand.

July sales increased 31% to 115,067 cars from 87,901 a year earlier, according to data issued Monday by the Society of Indian Automobile Manufacturers, the local industry lobby group. The growth in

July is the sixth consecutive monthly rise and the biggest percentage gain since February 2007.

Higher borrowing costs and banks' reluctance to lend for buying vehicles crimped demand for cars, motorcycles and trucks in India, Asia's third-biggest automobile market, last year.

The government's stimulus packages, including tax cuts and the central bank's multiple rate cuts have improved credit flow, encouraging people to buy vehicles.

"It is the low base effect which

is kicking in," said Dilip Chenoy, SIAM's director general.

Vehicles sales in India usually rise during the October-to-December period because of a number of festivals. This year, the festivals will start in late September, prompting dealerships to increase their stocks.

Price discounts and auto makers' introduction of new cars also have attracted buyers during the past few months.

Hyundai Motor Co., India's second-biggest car maker by sales, in-

troduced two new versions of its i20 hatchback in July, while Honda Motor Co. launched the Jazz hatchback in June. The nation's biggest car maker, Maruti Suzuki India Ltd., which controls half of India's car market, began selling the Ritz, its seventh small-car model, in May.

Local car sales of Maruti, a unit of Suzuki Motor Corp., rose 31% in July to 60,012 vehicles, while Hyundai's increased 54% to 23,193 cars. Sales of Tata Motors Ltd.—which began delivering the Nano minicar in July—increased 21% to 14,537 cars.

GLOBAL BUSINESS BRIEFS

BNP Paribas

BNP taps Margaret Ren as Greater China executive

French bank BNP Paribas SA said it has appointed veteran China banker Margaret Ren as chairman and chief executive of corporate finance for Greater China. Ms. Ren left Bank of America Merrill Lynch in May. She joined Merrill Lynch in February 2007 and was chairwoman of the Wall Street bank's China investment-banking business. Ms. Ren, the daughter-in-law of former Chinese Premier Zhao Ziyang, was a China banker at Citigroup Inc. She was suspended from Citigroup in 2004, after the bank alleged that she presented false information to it and to regulators. She left Citigroup in 2005 but was cleared of any wrongdoing by the U.S. Securities and Exchange Commission in 2006.

Actelion Ltd.

Biotechnology company Actelion Ltd. said Monday that two of its products to treat a rare lung disease received permission to be used more broadly in the U.S. The U.S. Food and Drug Administration approved Tracleer, a pill for pulmonary arterial hypertension, or PAH, for patients with a milder form of the disease. Tracleer is already approved in Europe to treat patients with the milder form as well as the more common severe form. In addition, its inhalable PAH treatment Ventavis now can be used in a higher dose in the U.S., reducing the time patients need to inhale the drug, Actelion said. Analysts welcomed the approvals but said the market is focused on Actelion's late-stage pipeline, which includes the sleeping pill Almorexant.

Saudi Basic Industries Corp.

Saudi Basic Industries Corp. signed an agreement with Japan's Mitsubishi Rayon Co. to set up a \$1 billion petrochemicals joint venture. The plant will have an estimated cost of about \$1 billion and is expected to start production in 2013, Sabic said. The facility will produce 250,000 tons a year of methyl methacrylate monomers, an ingredient in plastics used for acrylic paint. "Sabic needs the technology, and the Japanese company wants the raw material and the strategic location," Kamal Al-Harami, an independent analyst based in Kuwait, told Zawya Dow Jones. Sabic has suffered from a drop in petrochemicals demand amid the global recession. The company's second-quarter net profit fell 76% from a year earlier to 1.81 billion riyal (\$482.6 million).

—Compiled from staff and wire service reports.

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ECONOMY & POLITICS

U.S. debate is about more than health

The deeper issue—the role of the government in America's economy—is what's sparking such heated fights

BY GERALD F. SEIB

The debate over U.S. health overhaul, which has moved beyond Washington to raucous town-hall meetings across the land, is so intense in part because it isn't really about health care at all.

On a deeper level, it's about the role of government in America's economy. And that is a raw and unresolved topic, only made more so by months of exceptional government intervention amid a deep recession.

The trigger for this deeper debate has become the question of whether to include a "public option." The idea has become so heated that it's now making both sides lose their bearings a bit—which is ironic, because the public option wasn't previously the focus of the health debate and is a question on which some obvious compromises already are on the table.

Like all political arguments, this one doesn't occur in a vacuum. In fact, in this case, the prelude is particularly important.

Beginning a year ago, before President Barack Obama took office, the federal government began taking a series of unprecedented actions designed to stabilize whole pieces of the economy—first the financial sector, then the housing industry, and finally the auto makers. The result, of course, was the federal government owning controlling interest in an insurer (American International Group) and a car company (Chrysler), and big chunks of another car company (General Motors) and a big investment house (Citigroup).

The good news is that the financial sector avoided a meltdown, and the economy appears to be stabilizing. But the maneuvering had one other effect: It has left the public a bit stunned to see its government dive so directly into the country's economic mainstream.

From there, Washington moved immediately into debating an overhaul of the nation's giant health-care system. Moving straight from wrenching economic crisis to wrenching health debate was a calculated gamble by the White House. It thought the economic shock might actually ease the way for a broad revamp because Americans would be ready to accept the idea of big changes and also would accept the argument that full recovery couldn't occur until runaway health costs were corralled.

But the timing has had another effect: It has meant the health debate is unfolding just as Americans are pondering what the shape and size of the government's role in the economy ought to be.

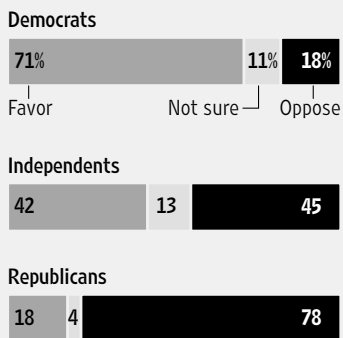
As a result, the flash point in the debate has become the question of whether a health overhaul should include a public option, in which the federal government offers its own health-insurance plan to compete with private insurers. Democrats want one, and Mr. Obama says it would provide choice and keep private insurers "honest." More important, the par-



Hundreds of people on both sides of the health-care debate demonstrated in Brighton, Colo., on Saturday.

Polar opposites

Would you favor or oppose creating a public health-care plan administered by the U.S. government?



Source: WSJ/NBC News telephone poll of 1,011 American adults conducted July 24-27; margin of error for full sample: +/-3.1 percentage points

ty's liberal wing has decided that a public option is essential.

In another environment, that might have been the fodder for a wonky policy debate about whether a public option would improve or distort the insurance market and whether it would really save or cost the government a lot of money. Instead, in this environment, the public option has raised the fear that a government already running AIG and GM would soon be gunning for Aetna as well. People wonder: Is that what health debate is really all about?

So Republicans, who never liked the public-option idea anyway, have made it the centerpiece of the argument, portraying it as a Trojan horse designed to carry into the marketplace a wholly government-run health system. A re-

cent Wall Street Journal/NBC News poll shows that the two parties have divided so deeply on the question that they are mirror images of each other.

In the heat of the moment, both ends of the spectrum are losing their way a bit. Liberals have forgotten that their initial goal in health reform wasn't a government-insurance program but universal coverage for all Americans. To further the irony, the public option was never a centerpiece of Mr. Obama's campaign platform on health care last year; indeed, it was hardly discussed.

Republicans, meanwhile, have forgotten that they accepted a version of a public option just a few years ago, when they approved the Bush administration's plan to provide a prescription-drug benefit for

Medicare recipients. That plan includes a fallback option for the federal government to organize drug plans for seniors if private insurers don't offer enough choices. The option isn't a precise parallel, and it has never been used, but it's there.

The real point is that there are ways out of this box. One would be to make a public-insurance plan merely a fallback, to be exercised only if private insurers aren't offering enough options in all markets. The other would be to take the suggestion of Senate moderates and replace the public option with nonprofit insurance cooperatives as an alternative that doesn't require the government to be directly in the business. In an environment less charged with arguments about government's proper role in the economy, both might be easier for each side to accept.

Clinton assails violence in Congo

BY SARAH CHILDRRESS

U.S. Secretary of State Hillary Clinton stopped in the Democratic Republic of Congo Monday for a two-day visit, addressing ways to combat sexual violence, a weapon wielded in the long-running conflict by rebel groups as well as by the Congolese army.

The conflict has raged for about 15 years in the vast nation. It began when Tutsi forces pursued Hutu perpetrators of the Rwandan genocide over the Congolese border, but has since devolved into clashes among several armed groups over the valuable minerals in the region. The Congolese people are caught in the middle. Tens of thousands of women and girls, and some men, have been raped.

"I will be pressing very hard for not just assistance—to help those who are being abused and mistreated, in particular the women who are turned into weapons of war through the rape they experience—but also looking for ways to try to end this conflict," Mrs. Clinton said after

she arrived on the fourth stop of her seven-nation Africa tour.

Later, at a town-hall forum in Kinshasa, the capital, Mrs. Clinton encouraged university students to stage nationwide protests against rape and graft. "You are the ones who have to speak out," Mrs. Clinton said. "Speak out to end the corruption, the violence, the conflict that for too long have eroded the opportunities across this country. Together, you can write a new chapter in Congolese history."

She also visited a hospital founded by former National Basketball Association star Dikembe Mutombo, a native of Congo, while in the capital.

The Congolese army is the largest force in the region, and the biggest perpetrator of sexual violence, according to Human Rights Watch, an independent watchdog group based in New York, in a July report on rape in the Congo.

The problem is compounded by impunity. No senior military officials have been prosecuted for any such offenses. Last year 27 soldiers

were convicted of crimes of sexual violence in eastern Congo, according to Human Rights Watch. The U.N. logged 7,703 new cases, committed by army soldiers and other armed groups, in the same region.

Mrs. Clinton was expected to encourage the government and the United Nations peacekeeping force in the country to take a stronger stand on such crimes. In Goma, a city in eastern Congo, she plans to meet with rape survivors to hear their stories.

Mrs. Clinton said she had spoken earlier with Angolan President José Eduardo dos Santos about bringing an end to the illegal activity in the mineral trade that fuels the conflict.

Mrs. Clinton is scheduled to meet with Congolese President Joseph Kabila while in Goma. She said she would press him to work on creating "broader political legitimacy and credibility by his government" and to professionalize the military.

Her visit comes as the Congolese government has developed strong ties with China, which last year offered the impoverished



U.S. Secretary of State Hillary Clinton on Sunday addressed corruption at a news conference in Angola. On her stop in Congo, she assailed a rise in sexual violence.

country a multimillion-dollar deal to swap resources for infrastructure. The International Monetary Fund has tried to block the deal, threatening to cancel its debt-forgiveness plan with the Congo. The IMF believes the agreement would

plunge the Congo deeper into debt.

On Monday, World Bank President Robert Zoellick said the Chinese concerns had agreed to adjust the terms of the deal, and that if they did, the IMF would maintain its debt-forgiveness plan, according to Reuters.

ECONOMY & POLITICS

Taiwan mudslide takes heavy toll

More than 50 killed as typhoons lash parts of East Asia

A WSJ NEWS ROUNDUP

TAIPEI—Deadly storms continued to wreak havoc in many parts of East Asia, and hundreds of people were feared buried in a typhoon-spawned mudslide that engulfed a mountain village in southern Taiwan.

So far, more than 50 people are known to have died from torrential rains striking the Philippines, Taiwan, China and Japan.

Typhoon Morakot dumped as much as two meters of rain on some communities in Taiwan over the weekend before moving on to China, where it forced the evacuation of nearly one million people along the east coast and left at least six dead. The typhoon, now downgraded to a tropical storm, earlier struck the Philippines, leaving at least 22 dead.

A separate typhoon, Etau, slammed into Japan's west coast on Monday. At least 12 people were killed in raging floodwaters and landslides, and 10 others were missing, police said.

News agencies said that as many as 600 people might be buried in the southern Taiwan village of Shiao Lin. The Associated Press quoted a rescued villager telling the United Evening News, a Taiwan newspaper, that on Sunday morning "a part of the mountain above us just fell on the village" and the mudslide covered a primary school and "many homes."

The AP also quoted a Taiwan police official as saying 400 people remained unaccounted for after the mudslide. "No small number of single-storey houses have been covered in mudslides," Richard Hu, an army major-general told Reuters. "We



A rescuer carries a man in southern Taiwan after he was evacuated by military helicopter from a landslide-affected village on Monday.

don't know how many people are there, but homes have definitely been buried."

Reuters reported that local officials said they had lost contact with as many as 600 villagers. It wasn't immediately possible to reconcile differing estimates of the missing.

Shiao Lin was still cut off from the outside world Monday evening, after floodwaters destroyed a bridge about 12 kilometers away. Military helicopters have dropped provisions in the area and rescued survivors, but bad weather limited helicopter access.

Late Monday, Taiwan's official death toll from Typhoon Morakot stood at 14. Another 51, not includ-

ing the people in Shiao Lin, are listed as missing.

Morakot, meaning emerald in Thai, slammed into China's Fujian province Sunday afternoon carrying heavy rain and winds of 119 kilometers per hour, according to the China Meteorological Administration. At least one child died after a house collapsed in Zhejiang province.

Hundreds of villages and towns were flooded, and more than 2,000 houses collapsed, the state news agency Xinhua News said.

Four people died in Zhejiang, one person died in Fujian and one died in Jiangxi province, Xinhua said. It said another three were missing.

Village officials in Zhejiang rode

bicycles to hand out drinking water and instant noodles to residents stranded by flooding, while rescuers tried to reach eight sailors on a cargo ship blown onto a reef off Fujian, Xinhua reported.

In Japan, more than 47,000 residents of western regions were told to leave their homes, national broadcaster NHK reported.

Domestic flights and train services were cancelled and some highways partially closed, it said.

The Japan Meteorological Agency said the storm could hit central Japan on Tuesday. Rain, floods, mudslides, heavy seas and winds gusting to 126 kilometers per hour were expected in many regions.

IMF to ease Romania's budget requirements

BY ADAM COHEN

BRUSSELS—The International Monetary Fund and the European Commission agreed to loosen budget requirements for Romania to avoid deepening the country's economic woes.

The move takes some immediate pressure off Romania, which is seeking the next installment of a €20 billion (\$28.3 billion) rescue plan the IMF, the European Union and other lenders arranged in March.

The lenders will allow Romania to aim for a budget deficit of 7.3% of gross domestic product this year, well above the 4.6% target agreed

when the country's bailout was arranged. But Romania will have to post a better performance in 2010, with a 6%-of-GDP limit, the commission, the EU's executive arm, said in a statement.

"Given the worsening of the economic situation during the first half of the year, the government will need to take further measures, including structural reforms, to contain the increase in the budget deficit that is now likely to be higher than previously expected," the commission said.

The IMF last month said it would be lenient with Romania when considering awarding a second tranche

of €1.9 billion, since its economy was weaker than expected in the first half of the year.

The leniency on short-term fiscal deficits has also been apparent in recent aid programs for Hungary, Latvia and Ukraine to avert further economic deterioration, said Lars Christensen, an emerging-markets economist at Danske Bank.

In October, the commission plans to conduct a separate assessment of Romania's budget cuts before delivering the second installment of its part of the rescue package.

The commission and the IMF also said Monday that nine international banks with Romanian subsid-

aries have pledged to maintain their exposure to the country and keep a 10% capital-adequacy ratio.

The banks, including Austria's Raiffeisen International, Italy's UniCredit SpA and France's Société Générale SA, together control about 70% of Romania's financial sector.

Last week, officials from the Romanian central bank, the IMF and the commission said these commitments were critical to the country's financial sector. The banks are to keep them in place through the first quarter of 2011, when the last installment of the country's bailout package is delivered.

U.K. Conservatives' economic czar to stress reform

A WSJ NEWS ROUNDUP

George Osborne, the economic spokesman for the U.K.'s Conservative Party is expected to stress Tuesday that the opposition Conservative Party is committed to radical reform of the public services.

In a speech intended to portray the Conservative Party as the progressive one, he will criticize Prime Minister Gordon Brown as "a roadblock to reform."

As the U.K. government's debt reaches unprecedented levels, the country is facing inevitable cuts in

public expenditure. The latest statistics show the government borrowed a net £13 billion (\$21.4 billion) in June, the highest level on record for that month. Net debt is projected to soar to 80% of gross domestic product five years from now.

With an election due by June 2010 at the latest, neither the Conservatives nor the ruling Labour Party has been keen to spell out where it would make cuts, thus opening them to attacks.

According to extracts from Mr. Osborne's speech, he will argue that

"without fundamentally improving the productivity of public services, the quality of those services will deteriorate as budgets are squeezed."

Since taking charge in 2005, the Conservatives' leader, David Cameron, has refashioned the image of the party. He toned down Thatcher-style Tory rhetoric on tax cuts, smaller government and the dangers of European integration, and talked up social and environmental issues.

On Tuesday, Mr. Osborne is expected to hone that message for a

time of strained public finances: "We face a choice between public-service reform with the Conservatives and front-line service cuts under Labour."

Russell Silberston, head of global interest rates at Investec Asset Management in London, said his team heard reports that the Conservatives were studying Tory budgets from the early 1980s and the large cuts in Canadian public spending in the mid-1990s. They are looking to see by how much deficits were reduced, and how that was achieved.

Economic output drops in Latvia, but concerns ease

BY JOEL SHERWOOD

Latvia's economic output plunged nearly 20% in the second quarter from a year earlier, as a severe recession continued to grip the Baltic economy. But the drop was less than many had feared, somewhat easing concerns that Latvia could be caught in a vicious circle of government cutbacks and declining activity that can only be halted with a currency devaluation.

Latvia's tiny economy has drawn international attention amid worries that an Iceland-style slide into crisis lies ahead. The crash followed surging, credit-fueled growth that pushed gross domestic product up by double-digit percentages over the past few years.

Monday's data showed the extent of the decline. Latvia's second-quarter GDP was 19.6% lower than in the year-earlier quarter, national statistics agency Statistics Latvia said in a preliminary estimate.

That follows an 18% first-quarter contraction, and reflects stricter lending practices, sinking property prices and weaker global export demand.

But Monday's figures were better than anticipated, offer a sense of relief for those who felt Latvia's economy was spiraling downward as cuts in government spending weakened economic activity, which in turn lowers tax intake, requiring still more austerity measures.

Latvia's Baltic neighbor Lithuania showed a 22% year-to-year second-quarter GDP contraction, in data released late last month. Most observers had predicted a similar or more severe pace of decline for Latvia, which turned to the International Monetary Fund for emergency aid last year and has been forced this year to slash government spending.

After Monday's preliminary data, most economists expect a slower rate of decline for the second half. But the former Soviet state's GDP is still expected to post a full-year contraction of around 20% and continue down next year.

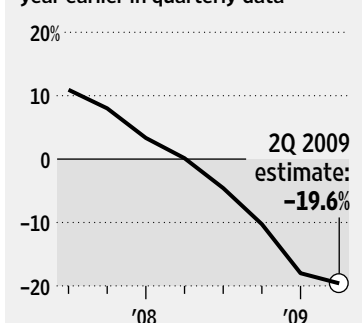
If the economy is past the worst, devaluation speculation will likely ease. "Markets are more calm and cool now about the situation," said Mikael Johansson, chief Eastern European economist at Sweden-based Skandinaviska Enskilda Banken AB.

Additional data released Monday showing slower inflation in Latvia—2.5% annually for July—will buoy re-emerging investor confidence too.

But the robust euro will make export-led recovery more difficult for Latvia. Its currency, the lats, is pegged to the euro, which has appreciated against the dollar by over 15% since mid-February.

Recession takes hold

Latvia's GDP, change from a year earlier in quarterly data



Source: Statistics Latvia

