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Breaking news at europe.WSJ.com

U.S. recession called done

Economists in survey say Bernanke deserves another term as Fed chairman

By PHIL IZZO

Economists are nearly unanimous that Ben Bernanke should be reappointed to another term as U.S. Federal Reserve chairman, and they said there is a 71% chance that President Barack Obama will ask him to stay on, according to a survey.

Meanwhile, the majority of the 47 economists The Wall Street Journal surveyed during the past few days said the recession that began in December 2007 is now over.

Battling the downturn defined most of Mr. Bernanke's term, which began in early 2006 and expires in January, and economists say his handling of the crisis has earned him four more years as Fed chief.

"He deserves a lot of credit for stabilizing the financial markets," said Joseph Carson of AllianceBernstein. "Confidence in recovery would be damaged if he was not reappointed."

After months of uncertainty, economists are finally

seeing a break in the clouds. Forecasts were revised upward for every period, with 27 economists saying the recession had ended and 11 seeing a trough this month or next. Gross domestic product in the third quarter is now expected to show 2.4% growth at a seasonally adjusted annual rate amid signs of life in the manufacturing sector, partly spurred by inventory adjustments and strong demand for the "cash for clunkers" car-rebate program.

A better-than-expected

employment report for July, where employers cut 247,000 jobs and the jobless rate fell for the first time in 15 months, suggests the worst is over. The unemployment rate is still expected to rise to 9.9% by December, but economists forecast that the economy will shed far fewer jobs over the next 12 months than they had forecast last month.

Many of the economists said there is little to be gained by changing the Fed chairman, especially consid-

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Myanmar sentences dissident to 18 more months of house arrest



THE FACE OF ACTIVISM: A protester holds a poster of Aung San Suu Kyi outside the Myanmar Embassy in London on Tuesday. British Prime Minister Gordon Brown called for the United Nations Security Council to impose an embargo on the sale of arms to the junta. **Page 31.**

Rival says Merkel's party ducks debate

By MARCUS WALKER

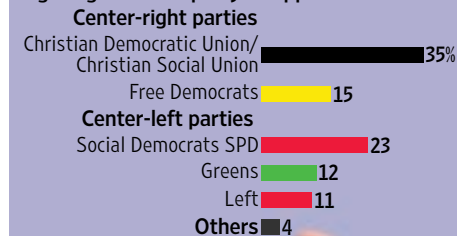
BERLIN—Germany's Social Democrat candidate for chancellor threw down the gauntlet to incumbent Angela Merkel on Tuesday, accusing her conservative party of avoiding serious debate about the country's future ahead of national elections on Sept. 27.

The left-leaning Social Democrats are trailing far behind Ms. Merkel's Christian Democrats in opinion polls, and their figurehead, Frank-Walter Steinmeier, is struggling to attract voter interest, despite his ambitious plan for full employment.

Mr. Steinmeier blamed the Christian Democrats for the lack of animus in Germany's election campaign so far, telling reporters in Berlin that his conservative oppo-

Left behind

SPD candidate for chancellor Frank-Walter Steinmeier (pictured) is fighting to lift his party's support before Germany's Sept. 27 elections



Note: 2,340 people were surveyed between 31 July and 4 August. Ave margin of error: +/- 1.7 percentage points. Source: TNS Emnid



Agence France Presse/Getty Images

nents were trying "to lull the public and prevent the campaign from really starting."

A spokeswoman for the Christian Democrats denied the party was avoiding debate, saying the party had

opted for a short campaign, given the economic crisis, because Germans expect their leaders to concentrate on governing.

Ms. Merkel, meanwhile, has just returned from a vaca-

tion in the Italian Alps and will attend her first campaign event on Saturday—a mere seven weeks before Election Day.

Germany is in its deepest

BAE uses 'homes' to thrive amid cuts

By DANIEL MICHAELS AND AUGUST COLE

When Ian King took over as chief executive of BAE Systems PLC last September, the British defense giant's strength lay in the huge U.S. defense market and the world's lucrative business for military land vehicles.

Today, as the Obama administration slashes big Pentagon weapons programs, BAE is poised to ride out the downturn better than many of its U.S. rivals thanks to a different trump card: established operations in international defense markets, including South Africa, Australia and Saudi Arabia. BAE recently designated India its seventh "home" market, where it doesn't simply sell military systems but also has subsidiaries that are an integral part of the country's defense industry.

"One of the benefits of having six or seven home markets is that you don't suffer the vagaries of any one," Mr. King says in an interview.

Thanks to its global spread, BAE is the world's second-biggest defense contractor by sales, after U.S. giant Lockheed Martin Corp. In the U.S., BAE ranks around fourth place, depending on spending at any given time, ahead of all other non-U.S. military suppliers.

Balance will be vital to BAE's future because it faces

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Bottom feeders

Wall Street's B-list firms trade on bigger rivals' woes
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4 p.m. ET

	CLOSE	PCT CHG
DJIA	9241.45	-1.03
Nasdaq	1969.73	-1.13
DJ Stoxx 600	226.35	-1.40
FTSE 100	4671.34	-1.08
DAX	5285.81	-2.44
CAC 40	3456.18	-1.38
Euro	\$1.4139	-0.18
Nymex crude	\$69.45	-1.63

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LEADING THE NEWS

LSE defends its share

Exchange cuts costs, aims to increase speed of trading

BY VLADIMIR GUEVARRA

LONDON—London Stock Exchange Group PLC is banking on cost cutting, faster trading systems and a wider geographical spread to maintain its position as a leading exchange operator in Europe, Chief Executive Xavier Rolet said.

The comments from Mr. Rolet, who took over the helm of the LSE from Clara Furse in May, come as the company faces eroding market share from upstart rivals. Smaller competitor trading platforms such as Chi-X Europe Ltd., Turquoise,

BATS Trading and Nasdaq OMX Europe have mushroomed in the past two years, eating into the LSE's core business of processing stock trades.

"The vision for us is not just in achieving the largest market transparency and resilience, but also, in a competitive environment, the emerging interest is in improving our offering," Mr. Rolet said in an interview.

Three months into the job heading the 300-year-old stock exchange, Mr. Rolet is overseeing a review of company head count. At the end of March, the company had 1,135 employees, down 6.2% from 1,210 the previous financial year. Both figures include staff at the company's Italian unit, Borsa Italiana.

"There is not an ideal size—it depends on what you do. It's a constantly moving target," Mr. Rolet

said. Mr. Rolet said the LSE will continue reviewing costs such as technology, general overheads, manual processes and compliance.

The CEO said the company is nearing a decision to pick a faster trading engine to replace its current one. LSE's TradElet trading engine from Accenture was installed in 2007 and cost the company £40 million (\$65.9 million). Mr. Rolet declined to comment on how much the new engine would cost.

Speed has become more important in recent years, especially among algorithmic-trading firms, because it can place their orders ahead of a queue.

"In the past couple of months, we've reviewed technology solutions around the world and done testing. We're getting reasonably



LSE Chief Executive Xavier Rolet is overseeing a review of the company's head count.

close to picking a solution," Mr. Rolet said.

Besides employing a faster engine, Mr. Rolet also wants to cut trading fees. Mr. Rolet said cutting fees will "not necessarily" lower LSE's profitability.

The LSE has also eyed acquisitions to boost growth. Last month, the company was shortlisted as a potential buyer of a majority stake in the Warsaw Stock Exchange, which has been relatively successful in listing IPO entrants.

BOE is likely to emphasize risks to economic recovery

BY NATASHA BRERETON

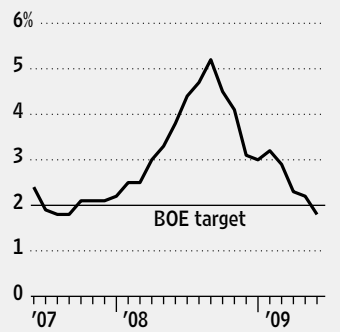
LONDON—The Bank of England, after warning last week that the economy was underperforming, may leave the door open for more monetary stimulus when it publishes new economic forecasts Wednesday.

To make more funds available to businesses and households, the central bank last week announced a larger-than-expected increase in bond purchases, raising its target by £50 billion (\$83 billion), to £175 billion.

On Wednesday, the central bank is likely to again emphasize the risk to economic recovery from a lack of bank lending. It is also expected to raise concerns that the economy will work even less efficiently in coming months, as companies lose pricing power due to a buildup of excess capacity.

"The Bank is clearly unwilling to

Slowing
Inflation dips below the Bank of England's 2.0% target. Year-to-year percentage change on CPI



Source: U.K. Office for National Statistics

take any chances with the fragile recovery that we are currently seeing in the financial markets and the economy as a whole," said George

Buckley, a U.K. economist at Deutsche Bank.

Part of the problem is rooted in inconsistencies between the results from sentiment surveys and official output data. Recent surveys have supplied signs of growing business activity in the manufacturing and services sector, suggesting that recovery from a yearlong recession could be under way. But government statistics have shown that British output was much weaker in the second quarter of the year than the BOE expected. Despite official interest rates which are at record lows and the central bank's bond-buying program, the flow of money in the economy remains sluggish. This indicates that much of the liquidity is being kept inside the banking system. "A very downbeat inflation report is in prospect," said Simon Hayes, a U.K. economist at Barclays Capital.

The key to the inflation report is its projection of consumer price

movement for the next two years. Annual inflation was clocked at a year-on-year rate of 1.8% in June, below the BOE's 2.0% medium-term target for the first time in 20 months.

A projection by the central bank Wednesday that inflation could still be below 2% as far out as mid-2011 would suggest a need for more stimulus to keep the inflation rate from sliding.

Meanwhile, new trade data continued to show mixed signals. Brit-

ain's goods trade deficit widened in June as imports saw their biggest rise in almost a year. This is a fresh sign that the economy could be stabilizing. The Office for National Statistics said the goods deficit totaled £6.5 billion in June compared with a £6.2 billion in May. Imports were also pushed higher by increased purchases of foreign oil.

Excluding oil and other erratic items, the volumes of both exports and imports were 2.5% higher compared with May.

CORRECTIONS & AMPLIFICATIONS

Hyundai Group Chairwoman Hyun Jung-eun traveled on Monday to North Korea seeking the freedom of an employee held by the communist regime. An Economy & Politics article Tuesday incorrectly said Ms. Hyun was the chief of Hyundai Motor Co. in one reference.

International. A Marketplace article Tuesday about Maguire Properties Inc. incorrectly said the change was from the same period last year.

U.S. office vacancies rose one percentage point to 15.4% in the second quarter compared with the prior quarter, according to Colliers

Staff members of the South China Morning Post petitioned for the reinstatement of two editors fired by then editor-in-chief Mark Clifford. A July 3 Corporate News article incorrectly said the petition sought Mr. Clifford's departure.

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LEADING THE NEWS

FSA eases up on banker-pay curbs

Bonus restrictions won't be as onerous; fear of business flight

BY ALISTAIR MACDONALD

LONDON—The U.K.'s financial-services regulator will leave some of its toughest proposals on bankers' pay out of a new code of conduct, a person familiar with the matter said, amid concern that harsh rules could harm London's competitiveness as a global financial center.

The new code, to be published Wednesday by the Financial Services Authority after months of consultation, will include legally binding rules requiring banks to take into account risk and long-term performance when determining bonuses, the person said. But it will stop short of requiring banks to defer large

chunks of bonuses and tie them to the firms' future performance—ideas that the FSA had proposed in March.

The FSA's decision to drop some of the more onerous requirements demonstrates a challenge facing regulators around the world as they seek to clamp down on excessive risk-taking in the wake of the financial crisis: If they move faster or further than their counterparts in other countries, they risk losing lucrative financial-services business. The FSA watered down its proposals after it consulted with bankers, who said the requirements could cause them to shift business to other financial centers such as New York, Zurich and Dubai, the person said.

The move comes at a time when world leaders from U.S. President Barack Obama to French President Nicolas Sarkozy are facing pressure to crack down on bankers' pay, and when news of large bonus pools at banks rescued with taxpayer money

has engendered public indignation.

Banks' bonus policies have been blamed for fueling the financial crisis, by encouraging bankers to pursue risky deals and failing to take into account the longer-term performance of the products they sold—such as the structured-credit products that were at the heart of the crisis.

Leaders of the Group of 20 developed and developing nations agreed at a meeting in London in April that they would implement common guidelines on how banks should pay bonuses. The FSA hopes that regulators in other countries, including the U.S., will announce tough proposals of their own, but so far little concrete action has been taken beyond those banks in which governments have taken stakes. The G-20 will meet in Pittsburgh in September to report back on how their efforts are going.

The FSA's code, which will entail punishment for any breaches, is likely to prove controversial at a

time when politicians, policy makers and bankers have been clashing over curbs on pay. In July, a report commissioned by the U.K. Treasury generated protest among bankers when it recommended that at least half of their bonuses be deferred for five years from three.

Aside from dropping the deferred bonuses and future performance from the code, the FSA left out a requirement that the discretionary portion of bonuses not be so large that a firm would be hesitant to deny it in a bad year, the person said.

But the code is still likely to be worded in a way that will allow the FSA to tighten the rules—for example, by mandating banks take into account “nonfinancial performance metrics” such as adherence to “effective” risk management. In letters to bank chiefs, the FSA has warned that guaranteed bonuses that run for more than one year are “inconsistent with effective risk management.”

Medvedev assails pro-West policies of Ukraine leader

BY JAMES MARSON

Russian President Dmitry Medvedev launched a stinging attack Tuesday on the pro-Western policies of his Ukrainian counterpart, Viktor Yushchenko, urging the next president to adopt a more Russia-friendly course.

Mr. Medvedev's letter to the Ukrainian president, which was published on the Kremlin Web site, was widely seen in Kiev as an intervention into campaigning for the presidential elections on Jan. 17.

It is a policy that backfired badly on Moscow during Ukraine's last presidential elections in 2004, when the Kremlin gave overt support to pro-Russian candidate Viktor Yanukovich, whose initial victory was overturned after mass protests—known as the Orange Revolution—against vote rigging.

Relations since then have deteriorated as Mr. Yushchenko has tacked a pro-Western course, infuriating Moscow with his attempts to bring Ukraine into NATO and the European Union, and his open support for Georgian President Mikheil Saakashvili during the Russia-Georgia war in South Ossetia last year.

In the letter, Mr. Medvedev blamed Mr. Yushchenko for the worsening relations, which have seen tit-for-tat diplomatic expulsions in Moscow and in Kiev in recent weeks. He wrote that Kiev's “anti-Russian course” meant he would postpone sending Russia's new ambassador until there are “real developments in Russian-Ukrainian relations.”

He also accused the Ukrainian leader of threatening Europe's energy security. Twice in recent years gas supplies to Europe have been disrupted by spats between the two countries, leading to accusations that Moscow uses gas as a political weapon.

Mr. Medvedev called on the new leader to tighten relations between two countries that are “not just neighbors, but brotherly nations.”

He wrote that “in Russia we hope that the new political leadership of Ukraine will be prepared to build relations between our countries that will in practice correspond to the genuine hopes of our nations, and the interests of European security.”

Mr. Yushchenko gave no response to the letter, although the acting foreign minister said he was “disappointed” at the decision to delay the arrival of Russia's ambassador.

Analysts said Mr. Medvedev's intervention was a strong signal to Ukrainian politicians and society that recalled attempts to sway voters in 2004.

Moscow maintains widespread influence in its neighbor, where 17% of the population is ethnic Russian and a sizable minority considers Russian its first language.

Mr. Yushchenko has tried to fan Ukrainian national consciousness in his term as president with such endeavors as promoting Ukrainian language and history in school curriculum. But Mr. Yushchenko's public popularity has plummeted to low single figures as Ukrainians have blamed him for failing to push through promised reforms and tackle endemic corruption.

The election is likely to come down to a second-round runoff between Mr. Yanukovich and either Prime Minister Yulia Tymoshenko or up-and-coming former parliamentary speaker Arseniy Yatsenyuk.

Chechen killings add to fears of instability

BY ALAN CULLISON

MOSCOW—The head of a children's charity and her husband were kidnapped and shot to death in Chechnya, the latest in a string of killings that threaten to destabilize the restive Caucasus region on Russia's southern border.

The killings are a blow to the Kremlin-backed ruler of Chechnya, Ramzan Kadyrov, who earlier this year pushed Moscow to end its 10-year lockdown of the republic, which would pave the way for the withdrawal of federal troops and the expansion of his powers in the region.

Although Mr. Kadyrov has declared large-scale fighting all but finished, there has been a surge in deadly attacks in Chechnya and surrounding regions on Russian troops, officials and, more recently, humanitarian workers.

Mr. Kadyrov on Tuesday denounced the most recent killings as a “terrible crime” and a “challenge to the government,” and said he would take personal control of the investigation. “Someone doesn't want stability in the Chechen republic,” he said. “We will find them and punish them.”

After helping the Kremlin crush the rebellion inside Chechnya, Mr. Kadyrov, 32 years old, has tried lately to counter allegations of brutality by Chechen forces.

Recently, Mr. Kadyrov has said



Chechen President Ramzan Kadyrov, at a news conference Tuesday in Grozny, called the deaths of Zarema Sadulayeva and her husband a ‘terrible crime.’

his rivals have been arranging killings inside Chechnya in order to undermine his government, which earlier this year had shown signs of bringing stability to Chechnya.

The latest killings targeted Save the Generations, a charity that offered help to children injured during the wars that have ravaged Chechnya over the past 15 years. The bodies of Zarema Sadulayeva and her husband, Alik Dzhabrailov, were

found Tuesday in the trunk of a car with multiple bullet wounds, hours after the two were seized from the charity's office in the Chechen capital, Grozny.

A witness said the two were forced from the office on Monday by a group of armed masked men, some in uniform.

Ms. Sadulayeva's killing comes a month after the death of another leading Chechen rights activist, Na-

talia Estemirova, who was forced into a car in the center of Grozny; she was later shot and dumped by a highway, sparking an international outcry.

Alexei Malashenko, an expert on the Caucasus with the Carnegie Center, a think tank in Moscow, says he believes the deaths of Ms. Estemirova and the two people kidnapped Monday were probably arranged by a rival to Mr. Kadyrov.

“It looks like someone is trying to set him up,” said Mr. Malashenko. The workers “were people he did not like, perhaps, but they were not in any way threatening.”

It is impossible to say which of Mr. Kadyrov's many rivals might be to blame, Mr. Malashenko said.

While large-scale fighting has ceased, rebels have lately staged bolder and more sophisticated attacks in Chechnya and in the neighboring republics of Dagestan and Ingushetia.

In June, a bomb critically injured the president of Ingushetia, two weeks after a sniper killed the top police official in Dagestan.

Rebels in Dagestan have for years waged a campaign of targeted assassination of police officers, and in recent weeks the fatal attacks have grown so commonplace that Moscow newspapers no longer report them. “Dagestan is now a latent civil war,” Mr. Malashenko said.

Court denies U.S. request to extradite arms dealer

ASSOCIATED PRESS

BANGKOK—A Thai court Tuesday rejected a U.S. request to extradite an alleged Russian arms smuggler, dealing a setback to American efforts to try him on charges of plotting to supply weapons to Colombian rebels.

Viktor Bout, 42 years old, was arrested in March 2008 at a luxury hotel in Bangkok as part of an elaborate sting in which U.S. agents posed as arms buyers for the Revolutionary Armed Forces of Colombia, or FARC, which Washington classifies as a terrorist organization. He is being held in a Bangkok prison, but he could be set free if an appeal isn't filed.

“We will not extradite him to the

United States,” said Judge Chittakorn Pattanasiri, of the Bangkok Criminal Court.

Judge Chittakorn said the court rejected the extradition request because Mr. Bout hadn't been accused of committing any crimes against Thailand, which hasn't listed FARC as a terrorist group.

The FARC, Latin America's last major rebel army, has been trying to overthrow successive Colombian governments for a half century. It has been put on the defensive in recent years by Colombia's U.S.-backed military and has lost support amid reports that it is funded by drug traffickers and as it continues to hold

dozens of hostages in the jungle.

Mr. Bout, dressed in an orange prison uniform, jumped up from his seat and hugged his crying wife as the ruling was read out. He then flashed a victory sign to TV cameras as he was led out of the courtroom.

The judge said Thai prosecutors have 72 hours to indicate whether they will appeal the ruling, and, if not, Mr. Bout will be set free.

If an appeal is filed, Mr. Bout will be held pending further proceedings.

U.S. Embassy deputy chief of mission James F. Entwistle said Thai prosecutors have said they will appeal the case and that Washington supports that.

Mr. Bout has been linked to some of the world's most notorious conflicts, allegedly supplying arms to former Liberian dictator Charles Taylor and Libyan leader Moammar Gadhafi. He has repeatedly denied the accusations.

The U.S. is seeking Mr. Bout's extradition on charges he conspired to sell millions of dollars worth of weapons to FARC, including more than 700 surface-to-air missiles, thousands of guns, high-tech helicopters and airplanes outfitted with grenade launchers and missiles. He has been indicted on four terrorism-related charges in New York and could face life in prison.

LEADING THE NEWS

Rescuers struggle as typhoon's toll climbs

Taiwan's military ferries out residents of stricken village

BY TING-I TSAI

TAIPEI—Taiwan's military struggled to rescue residents of a remote mountain village where 100 people or more were feared buried beneath mud and rubble following a typhoon that has killed at least 80 people in Taiwan, the Philippines and the Chinese mainland.

Taiwan's military has been ferrying out residents by helicopter, rescuing nearly 400 people in over 100 trips to the area around the landslide, near the southern town of Jiah-sian.

Dozens of soldiers were brought in by helicopter to help the rescue effort in the village of Shiao Lin, after storm damage cut off access by road to the region.

A helicopter on a relief mission in nearby Pingtung County crashed into a mountain Tuesday, according to the Associated Press. It was unclear if the crew of three survived.

Taiwan's National Fire Agency said about 100 people may have been buried by the landslide in Shiao Lin. Initial estimates by officials had suggested as many as 600 people were buried. The fire agency didn't disclose further details about its own tally.

Wang Chen-shu, principal of Shiao Lin Elementary School, the only school in the village, said 60 of the school's some 70 students are missing.



Southern Taiwan was coping Tuesday with significant damage in the aftermath of heavy rains from Typhoon Morakot.

"We are still hoping to see some survivors, but it is difficult to be optimistic," said Mr. Wang, who had left the area and was reached by phone.

Taiwanese authorities said 50 people were confirmed dead from Typhoon Morakot and 58 people were listed as missing, not including the residents missing in Shiao Lin.

Morakot has killed at least 80 people so far in a five-day sweep through the South China Sea, making it one of Asia's most devastating

storms this year. Officials in the Philippines, where the typhoon struck Friday, said at least 22 people had died.

In China, where the storm's approach prompted the evacuation of 1.6 million people, eight people were killed, according to the state-controlled Xinhua news agency. Two died after a landslide destroyed a residential building in Zhejiang province, it said.

Morakot dumped roughly two

meters of water on Taiwan over the weekend, according to the AP. Some 200 houses of Shiao Lin were buried by the mudslide, survivors said. The local government population registry lists Shiao Lin as having 1,313 inhabitants, though locals suggested many live elsewhere.

The deluge washed away roads and bridges leading to Shiao Lin, while the unstable ground made it difficult for rescue helicopters to land in the area. By late Tuesday af-

ternoon, 150 villagers were found to be alive and still waiting to be rescued, the government's rescue team said.

Shiao Lin is located between two famous Taiwan mountains, Jade Mountain and Ali Mountain. Villagers in the area depend on cultivation of bananas, coconuts, and bamboo sprouts.

A back road winding toward Ali Mountain was also believed to be cut off. Helicopters conducted 113 missions to the devastated area and ferried 394 survivors over the past two days, said officials in Kaohsiung county, where Shiao Lin is based.

In Cishan township in Kaohsiung, helicopters were taking off every hour as part of the relief effort.

The mudslide hit the village early Sunday morning, said Yao Mao-hsiung, a 53-year-old resident. Mr. Yao was staying at his parents' house; his own home was washed away within five minutes, he said. He and his family managed to escape Sunday with the guidance of two dogs, and were ferried out by helicopter on Monday afternoon.

Some villagers, who were outside the village when the landslide hit, after waiting anxiously for 48 hours, decided to try to rescue their families by themselves Tuesday.

A military officer who gave his surname Chen, was preparing to walk 10 kilometers to reach the village Tuesday afternoon. Mr. Chen's parents, wife, and son had been stuck in the village for 48 hours, he said. He said he spoke to his wife Sunday and believed his family was safe. "It is too difficult for the government to rescue everyone," Mr. Chen said.

Quakes spur Asian nations to step up emergency plans

BY TOM WRIGHT

JAKARTA, Indonesia—Two major earthquakes in Asia on Tuesday refocused attention on the region's incomplete efforts to improve emergency planning since a December 2004 tsunami killed more than 200,000 people.

Neither of the latest earthquakes—a 6.5-magnitude temblor off the southeast coast of Japan, and another near India's Andaman Islands in the Indian Ocean that measured 7.6—triggered a tsunami.

But fears of possible massive waves caused some places in Southeast Asia that were hard hit by the 2004 tsunami to evacuate citizens. In Ban Nam Khem, a village on Thailand's west coast, 400 people were moved to an upper story of a local school for safety after village lead-

ers received cellphone text messages overnight from Thailand's National Disaster Warning Center about a potential tsunami.

Thai authorities also used 76 towers erected in six provinces along the Indian Ocean to broadcast warning messages.

Warning more-remote villages, such as those in parts of Indonesia or Myanmar, remains a challenge. Authorities in Thailand, Indonesia, Sri Lanka and India—the four countries hardest hit in 2004—are working to build capacity to spot tsunamis early, which they say is necessary to give them more time to evacuate people.

Currently, the region relies on the U.S. Pacific Tsunami Warning Center in Hawaii, which since 2004 has monitored seismic activity in the Indian Ocean and sent alerts to almost 30 countries in the region when a tsunami looks imminent.

The United Nations' Intergovernmental Oceanographic Commission is working to create an Indian Ocean Tsunami Warning Center that could issue more timely and specific alerts for the region.

Indonesia, India, Malaysia and Thailand have shown interest in hosting such a center and have invested in seismic and oceanographic monitoring systems. In October, the nations will hold the region's first real-time tsunami drill to test systems put in place to share information quickly.

These countries also recently placed \$250,000 buoys out at sea that pick up changes in water pressure from sensors on the ocean

floor. The buoys, similar to ones developed by the U.S. and deployed for years in the Pacific Ocean, transmit data by satellite about the likely size of a tsunami to authorities on land.

In 2004, the epicenter of the 9.2-magnitude earthquake—on a massive tectonic fault line that lies not far offshore from Indonesia's Sumatra and Java islands—was identified quickly by seismologists but the data didn't predict the force or direction of the tsunami.

In Indonesia, which bore the brunt of that disaster with at least 120,000 deaths, a recently launched system partially funded by the German government plans to anchor 10 buoys with global-positioning-system devices that can measure how fast a tsunami is moving toward shore. German scientists are helping to train staff and fine-tune the system before handing it over to the Indonesians in 2010. The goal is for scientists at a new tsunami early-warning center in Jakarta, the capital, to be able to issue alerts within five minutes of receiving information from the buoys and other seismic data.

"It's a big change since 2004. There's substantial investment in looking at the source of the tsunami," says Sanny Ramos Jegillos, an expert with the United Nations Development Program who is coordinating a program to help tsunami-affected countries build their disaster-management capacity.

Challenges remain, especially in making sure better warning sys-



Fishermen in the southern Indian city of Chennai didn't venture out to sea Tuesday morning after an earthquake triggered fears of a tsunami.

tems lead to quick action once a tsunami is detected. Indonesia's government was criticized in 2006 when a 7.7-magnitude earthquake off the southern coast of Java caused a tsunami. Despite alerts, authorities didn't evacuate inhabitants until too late and almost 700 people died.

Since then, Indonesia has invested in better local monitoring of earthquakes and has put in place systems to relay tsunami warnings through mobile phones, radio and television.

Yet the Indonesian Institute of Sciences, a state research body, estimates that only four of 139 local

governments in the country have adequate emergency blueprints on how to evacuate citizens during a tsunami.

Another problem is fishermen tying their boats to the monitoring buoys or stealing solar panels needed to keep them operating, reducing their effectiveness.

Of the handful of monitoring buoys that Indonesia has purchased, none are currently operational, according to Danny Hilman Natawidjaja, an expert in earthquakes at the Indonesian Institute of Sciences.

—Wilawan Watcharasakwet contributed to this article.

The Property Report

Standing taller

European stocks have rallied this year, but some wonder, will it last? > Page 28



CORPORATE NEWS



Boeing workers probe a 787 Dreamliner's front landing gear, left, and paint the company's colors on a jet, right, in late April in Everett, Wash. The company delayed the first test flight of the plane in late June. Associated Press (2)

Seattle frets as Boeing explores sites

Company's search for a new plant for the Dreamliner poses a threat to machinists union, Washington state

BY PETER SANDERS

SEATTLE—The 787 Dreamliner, Boeing Co.'s marquee project, is about two years behind schedule, but another big worry has emerged: Is the company expanding in the South, where unions are weaker, instead of here?

Boeing, the area's largest employer, has said in recent weeks that it would likely choose a site for a second 787 assembly line, possibly in South Carolina, by the end of the year. The current assembly line is in Everett, Wash., 30 minutes north of Seattle.

The prospect of a second site outside the state of Washington has spread anxiety throughout the state's aerospace industry. Boeing's largest union is galvanizing against the plan. "Obviously, it would be a blow to

the region if they go elsewhere," said Connie Kelliher, spokeswoman for the International Association of Machinists and Aerospace Workers local union, which represents about 25,000 Boeing machinists in Washington.

Boeing's decadelong reliance on Seattle as its major manufacturing hub for commercial aircraft has allowed the union to retain its muscle, even as unions in sectors from steel to textiles have seen their power wane amid low-cost competition from Asia.

But the myriad problems associated with Boeing's 787, considered the most sophisticated commercial plane ever designed, have suddenly handed the company an opportunity to cut some ties with the union.

Design issues and difficulties in coordinating the 787's hundreds of suppliers have created massive delays for

the new plane. Last fall, the machinists union—partly because it was upset Boeing had farmed out significant parts of the 787 construction to contractors—staged a debilitating 57-day strike at factories around Seattle. That set the project back even further. It was the union's fourth strike in 20 years.

Boeing is considering a second assembly site for the 787 in part because it must ramp up production to make up for the repeated delays. Some Southern states, where Boeing is said to be looking, don't require employees to join a union if one exists at a company.

Recently, Boeing's head of the 787 program, Scott Fancher, was in North Charleston, S.C., where Boeing recently acquired a factory from one of its Dreamliner suppliers, Vought Aircraft Industries Inc. Boeing could choose to build the second Dream-

liner assembly site at that location.

Mr. Fancher told a local newspaper that Boeing was looking at sites in both Washington and South Carolina to house a new final assembly plant for its 787. Industry observers say the company is also looking at sites in Texas and elsewhere in the South. A Boeing spokeswoman said she couldn't confirm or deny that the additional sites were being considered.

Since 1916, when William Boeing launched his first seaplane in Seattle's Lake Union, the region has been the backbone of the nation's commercial airplane industry. Today, Boeing employs 74,000 people in Washington and is a major economic driver in the region.

But Boeing has been gradually creeping away from its Seattle roots. Its defense business is based

near St. Louis, and in 2001 the company moved its headquarters to an office building in Chicago, in part to reshape its image away from primarily a commercial airplane company.

"We were once a Puget Sound-based company with customers all over the world," Fred Kiga, Boeing's vice president of state and local government relations, said last week at the aerospace conference. "Boeing today is a global company competing in a global marketplace."

But he said there is "an opportunity for conversation" with the machinists union. He added: "Let's not be lulled into thinking the future of our state's aerospace industry is simply a question of labor and management." He said Washington state, too, must keep itself competitive as other states try to lure Boeing's business away.

Volt car to get 230 mpg, GM says

BY SHARON TERLEP

DETROIT—General Motors Co. said its new Chevrolet Volt car is expected to get 230 miles per gallon in city driving as the auto maker outlined a raft of product introductions.

The Volt is at the forefront of GM's efforts to reinvigorate a lineup that has lost market share in the U.S. It plans to introduce 25 vehicles by 2011.

At 230 mpg, the Volt would dwarf the fuel economy of any mass-market vehicle on the market today, including Toyota Motor Corp.'s Prius hybrid. It also could deliver a big boost to GM efforts to cultivate a green image, a key element of the company's restructuring efforts.

The Volt is set for U.S. launch late next year as a 2011 model, and the mileage expectation reflects new guidelines for electric and plug-in hybrid cars being finalized by the U.S. Environmental Protection Agency. The EPA said it hasn't tested the Volt.

The Volt is powered by a lithium-ion battery with a range of about 40 miles that can be recharged through a traditional power outlet. For longer drives, a small gasoline engine takes over, powering a genera-

tor that creates electricity to run the car's motors. Its expected total range is 300 miles on one tank of gas.

Frederick "Fritz" Henderson, GM's chief executive, said at a media event he is confident the Volt's expected combined city and highway mileage—the figure commonly used to gauge efficiency—will be in the triple digits.

The Volt, which will cost about \$40,000, will be unprofitable for GM at launch.

"Having a car that gets triple-digit fuel economy can and will be a game-changer for us," he said.

GM's mileage pledge for the Volt promises to start a battle among auto makers as they rush to deliver electric cars, a segment that some executives believe could account for 10% of sales within four years.

Nissan Motor Co. plans to launch the LEAF, a plug-in hatchback. On Tuesday it responded to the Volt

news with a reminder that the LEAF would get a 367 mpg rating under the EPA guidelines. But unlike the Volt, the all-electric LEAF needs to be recharged after its battery runs out.

Mr. Henderson acknowledged the Volt's high price, expected at around \$40,000, and lack of available public recharging stations are potential challenges. Volt buyers would be eligible for a \$7,500 U.S. tax credit. Charging the batteries should cost about 88 cents on average, GM said.

The Volt will be unprofitable for GM at launch because of the high costs of its development and the batteries. GM is counting on mass sales and economies of scale to make the vehicle profitable eventually.

The new GM board has said it wants management to accelerate product launches. Coming models include high-end compact cars for Buick and Cadillac, a convertible version of the Chevrolet Camaro and a revamped Chevrolet Aveo subcompact.

Mr. Henderson said GM remains on track to have positive net cash flow next year and post a net profit by 2011. He also said it intends to increase production as the "cash for clunkers" rebates boost demand.

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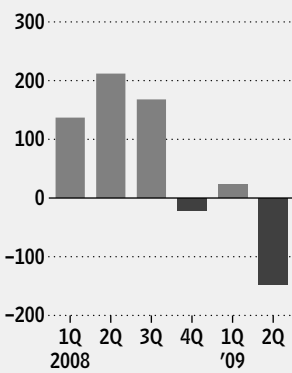
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CORPORATE NEWS

Slow demand

Adecco's net profit/loss, in millions of Swiss francs



Source: the company



A customer enters a branch of Adecco in Bern, Switzerland

Bloomberg News

Adecco sees tight market

Staffing firm warns of challenging times as sales decline 31%

BY GORAN MIJUK

ZURICH—Adecco SA, the world's largest recruitment firm by sales, warned Tuesday that the staffing market will continue to be challenging in the months ahead.

The company, which competes with Manpower Inc. of the U.S. and Netherlands-based Randstad Holding NV, said it has streamlined its business during the downturn by cutting costs and jobs and will be well placed to take advantage of the market recovery when it happens.

Adecco, like its rivals, has been hit hard by the economic downturn

as businesses across the world have cut permanent and temporary jobs and unemployment is expected to rise further in both the U.S. and Europe in the months ahead.

It reported a second-quarter net loss on lower sales and impairments to the goodwill associated with recent acquisitions. Sales fell 31% to €3.59 billion (\$5.1 billion) from €5.2 billion. It said business in France—its biggest single market making up about 30% of revenue—continued to decline and demand for temporary employment services remained weak in the U.S., Germany and Japan.

Nevertheless, it signaled confidence with a £108 million (\$178 million) bid for U.K.-based Spring Group PLC, a general recruitment company

operating globally, the latest in Adecco's recent series of small- and medium-size purchases.

"We expect business conditions to remain demanding," Chief Executive Patrick De Maeseneire said. "We really have to wait until September, after the summer break, to have a better view how the market develops."



Patrick De Maeseneire

The Zurich-based company reported a net loss for the three months to the end of June of €147 million, compared with the €212 million net profit it made a year earlier when it was boosted by a tax gain. The result was below analysts' forecasts for a net profit of €30 million, as the company took a €125 million goodwill impairment charge on recent acquisitions, such as those of DIS and Tuja in Germany.

InterContinental swings to a loss

BY MICHAEL CAROLAN

LONDON—InterContinental Hotels Group PLC on Tuesday posted a second-quarter net loss as it wrote down the value of operations hurt by the economic downturn, and said that a recovery in the global hotel industry is still some way off.

U.K.-based InterContinental—the world's largest hotel operator by number of rooms and home to the Holiday Inn and Crowne Plaza brands—reported a net loss of \$56 million for the quarter ended June 30, compared with a net profit of \$101 million a year earlier. Revenue fell 27% to \$375 million from \$515 million.

In addition to the slump in revenue, InterContinental's results were marred by \$162 million in impairment charges related to the recession.

Still, InterContinental's earnings beat analysts' expectations and the company said trends since the end of June had improved.

In the second quarter, revenue per available room—a key performance indicator for the industry—fell 19% from a year earlier. In July alone, however, the rate of decline eased to 14% and the company said recent forward-booking data had shown no further deterioration in demand.

Chief Executive Andrew Cosslett said business travelers remain elusive. He said the upturn in demand in July was largely due to leisure travelers taking advantage of lower rates and promotions, rather than any improvement in corporate bookings.

"We can't see anything in our numbers at the moment to suggest



InterContinental, the world's largest hotel operator by number of rooms, said a recovery in the world-wide hotel industry could be a couple of years away.

we've hit the bottom," Mr. Cosslett said. "It could be a couple of years before we get back to the levels we were at," he added, saying that InterContinental thinks "the rest of this year is going to be very challenging." The company said it was still on track to add 400 hotels this year.

Operating profit from continuing operations dropped to \$107 million from \$164 million last year, but came in slightly ahead of analysts' expectations.

While the hotel industry has always worked in cycles, driven by economic factors and supply and demand for hotel rooms, the global nature of the current recession has made it worse than previous downward cycles.

Mr. Cosslett said that occupancy levels at the company's hotels were beginning to improve, but room rates were still under pressure due to "price wars." He said it was "hard to get too optimistic about what's going on."

The company, which is cutting costs to offset falling revenue, said it is on track to exceed its targeted cost reductions for 2009, with first-half regional and central costs already \$51 million below last year's levels. It is now targeting a \$80 million cut in 2009 expenses, up from a previous target of \$70 million.

InterContinental operates the Holiday Inn, Crowne Plaza and Staybridge Suites brands on a managed and franchised basis, and doesn't own most of its hotels.

Cellphone users in U.S., Canada, Spain pay most

BY SUSANA FERREIRA

PARIS—Consumers in the U.S., Canada and Spain have among the highest mobile-phone bills in the world, according to an OECD report, which also reveals that people are increasingly ditching land lines in favor of using only cellphones.

The new report by the Paris-based Organization for Economic Cooperation and Development, which surveyed its 30 member countries, says that revenue from the mobile-phone sector is on the rise, despite the global recession.

"People don't give up their cellphones. Many of us are on two-year contracts, and we can't just walk away from them," Taylor Reynolds, an economist with the OECD's Telecommunications and Internet Policy division, said in an interview. Mobile phone "connections are seen as a necessity, not as a luxury."

Mobile phones are steadily becoming cheaper to use, and service is more readily available, according to the report. Still, there are glaring differences in prices and usage around the world. In Europe, mobile-phone service is generally cheaper than in the U.S. Users in northern Europe, especially Denmark, Finland, Sweden and the Netherlands, pay the least for their mobile phones, and are therefore increasingly dropping their land lines for cellphones. "Cellphones are cheap, and they see no reason to keep their fixed line," said Mr. Reynolds.

To compare prices and mobile-phone packages from country to country, the OECD compiled what it considered typical usage patterns, and then used these patterns to see how users in various markets measured up. According to the analysis, the average midrange customer clocks under 800 minutes of voice calls and 600 text messages per year.

In Finland, the Netherlands and Sweden, customers paid between \$11 and \$12 per month, whereas users in Canada, Spain and the U.S. paid between \$42 and \$53 per month for comparable service.

One of the reasons Canada and the U.S. are such expensive markets for mobile users is that, unlike in Eu-

Calling costs

Mobile-phone prices per month, 2008

Low-intensity mobile users: make 360 minutes of voice calls and send 396 SMS messages in a year

Average OECD price: **\$14**
Cheapest: **Denmark \$4.19**
Priciest: **U.S. \$23**

Mid-range mobile users: make 780 minutes of voice calls and send 600 SMS messages in a year

Average OECD price: **\$26**
Cheapest: **Netherlands \$11**
Priciest: **U.S. \$53**

High-use mobile users: make 1,680 minutes of voice calls and send 660 SMS messages in a year

Average OECD price: **\$41**
Cheapest: **Denmark \$15**
Priciest: **Spain \$80**

Source: Organization for Economic Cooperation and Development

rope, consumers in North America often pay to receive calls. "You have to have a certain income level to afford it," said Mr. Reynolds.

One European country that bucks the low-price trend is Spain. Buying a phone or a SIM card aren't particularly pricey, said Mr. Reynolds, "but usage is very expensive."

Miguel Garzon, a spokesman for Telefónica SA, says "it is very difficult to compare the different types of plans in different countries." The Spain-based telecommunications company dominates the Spanish market, but has a strong presence throughout Europe and Latin America.

Mexico, one of the fastest-growing mobile markets in the countries surveyed, still has the second-lowest mobile market penetration rate on the list. Slightly more than 60 out of every 100 people in Mexico own a cellphone. The lowest mobile-phone penetration of any OECD country is Canada.

Italy is the country where mobile phones are most popular, with 151 mobile users for every 100 subscribers. People "have multiple accounts, multiple SIM cards, multiple phones," said Mr. Reynolds.

Russia's Mobile TeleSystems records 15% profit decline

BY WILL BLAND

MOSCOW—OAO Mobile TeleSystems, Russia's most widely used mobile operator, reported a 15% drop in second-quarter profit, but analysts welcomed signs that subscribers are spending more time on the phone in spite of the recession.

MTS, a unit of conglomerate OAO AFK Sistema, said profit fell to \$563 million from \$659.2 million a year earlier, when the ruble was significantly stronger against the dollar.

Revenue fell 23% to \$2.02 billion. More than four-fifths of revenue came from Russia, where prices are set in rubles, and remained flat between April and June after falling at the beginning of the year. Customers in Russia talked on their phones for an average of three and a half hours a month, up 5% from the first quarter.

MTS, which has more than 95 million subscribers, said it added 2.8

million new subscribers during the second quarter and maintained its 34% share of the Russian market.

MTS also owns the second-biggest mobile network in Ukraine, where the economy has shrunk faster than in Russia over the past year. Operators there have competed more aggressively, slashing call prices for several months in succession, but MTS's second-quarter results showed a rare increase in prices.

MTS said capital expenditures between April and June totaled \$489.8 million. The company had expected its total 2009 capital spending to be \$1.5 billion, and the bulk is usually invested at the beginning of the year.

The operator bought two chains of mobile-phone stores at the beginning of the year, and the additional sales lifted the company's revenue, though the lower profitability of the retail business diluted profit margins across the company.

CORPORATE NEWS

Brazil's auto industry revving up

Car makers add jobs, expand output plans amid swift rebound

BY ROGERIO JELMAYER

SAO PAULO—A rebound by the Brazilian auto industry this year has been so swift and so widespread that auto makers are now planning new hires and expanded output.

That is a stark contrast from much of the rest of the world, where the industry continues to retrench. Not long ago, Brazil's auto makers were also cutting back production and eliminating jobs in the face of an uncertain fate for the economy and their sales.

A combination of tax breaks, easier loan terms and low interest rates have jump-started domestic demand—and with it an industry that employs 130,000 workers and produces more cars than all but five other countries. Auto sales posted their third-highest monthly total in

July, even as they slipped from an even hotter June, numbers released on Monday showed.

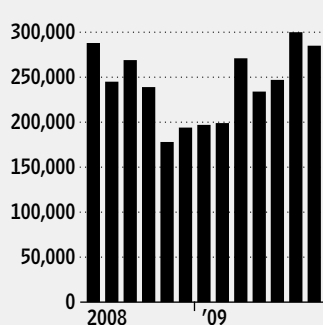
"With Brazil's economy well on the way to recovery, auto makers are dusting off their plans for the country," said analyst Mariana Oliveira of local consultant Tendencias.

The Brazilian industry, populated almost entirely by multinationals including General Motors Co., Volkswagen AG and Fiat SpA, carries international weight. According to the International Organization of Motor Vehicle Manufacturers, Brazil produced 3.2 million vehicles in 2008, ranking it as the sixth largest auto producing country in the world, behind South Korea and ahead of France.

As recently as January, the local unit of GM was cutting 744 jobs at one of its factories, and the company's vice president for Brazil, Jose Carlos Pinheiro Neto, was saying he would be happy if Brazil could sell 2.5 million vehicles.

The gloomy outlook prompted the government to pass a tax cut

Sales upswing
Monthly light-vehicle sales in Brazil



Note: Data include imports
Source: Brazil's National Motor Vehicle Manufacturers Association

that led to an average price roll-back of 7.5% for passenger cars. Meanwhile, Brazil's largest banks lengthened installment terms for auto loans to 80 months from the previous 60.

The longer terms came at the

same time as lower interest rates. Brazil's central bank has cut its Selic base rate five full percentage points this year to 8.75%, its lowest level ever.

Although sales remained sluggish for the first two months of 2009, the moves eventually gave auto makers the oxygen they needed for a comeback. First-half sales set a record, and Brazil's National Motor Vehicle Manufacturers Association now forecasts domestic auto sales will hit a record three million this year.

A number of companies have signaled the more bullish atmosphere.

Hyundai Motor Co. announced that it will boost its 2009-2010 investment in the country by the equivalent of \$220 million to \$660 million. The objective is to manufacture a new sport-utility vehicle model called the Tucson. The company expects to build 100,000 Tucsons in 2010, mainly for domestic consumption.

Last week, the Brazilian unit of French auto maker Renault SA said it will hire 600 workers.

Crucell narrows loss as revenue jumps 29%

BY MAARTEN VAN TARTWIJK

AMSTERDAM—Biotechnology company Crucell NV said Tuesday its second-quarter loss narrowed, and it confirmed its outlook for 2009, saying it expects vaccine sales will continue to boost revenue this year.

The company, which makes vaccines for influenza, children's diseases and hepatitis B, reported a net loss of €1.8 million (\$2.5 million), compared with a net loss of €7.4 million a year earlier.

The loss was due to high income tax charges and strong local curren-

cies in South Korea and Switzerland, where Crucell has research-and-development and manufacturing facilities. The stronger currencies also hurt margins, the company added.

Revenue jumped 29% to €72.4 million from €56.2 million. The rise was mainly driven by strong sales of Quinvaxem, a vaccine Crucell jointly developed with Switzerland's Novartis AG to protect against five potentially deadly childhood diseases, including diphtheria and tetanus.

Still, Quinvaxem sales were weaker than expected as some ship-

ments were phased into the second half of this year, Crucell said.

Crucell said it remains upbeat on its prospects, saying it still expects combined full-year revenue to grow by 20% when stripping out currency fluctuations. Operating profit will "improve significantly" from 2008, when Crucell posted its first ever full-year net profit.

The Leiden-based company said that Quinvaxem is well-positioned for the award of new tenders, including one from the U.N.'s children's agency Unicef. It also said that it sees rising interest among governments for vaccines against infections

since the recent spread of swine flu.

Crucell's optimism reflects the growth potential of the global vaccine market and explains why big pharmaceutical companies are increasingly eyeing this area as blockbuster drugs go off-patent and their revenues plunge as a result.

In January, Crucell pulled out of friendly takeover talks with U.S.-based Wyeth, which is now set to merge with Pfizer Inc. Since then, there has been much speculation about another possible deal, but Chief Executive Ronald Brus said he won't comment on market rumors.

Rio Tinto iron-ore chief defends staff held in China

BY ALEX WILSON

MELBOURNE, Australia—Mining giant Rio Tinto defended four of its employees who are being held without charge by Chinese authorities, reiterating it isn't aware of any evidence to support their detention.

The company's head of iron ore in China, Australian citizen Stern Hu, and three Chinese nationals were detained July 5. Chinese officials have alleged that they stole state secrets relating to iron-ore price talks, though no charges have been filed.

The chief executive of Rio Tinto's iron ore group, Sam Walsh, said Australian consular officials have made a second visit to Mr. Hu and that he appeared well and raised no medical concerns.

Mr. Walsh said Rio Tinto remains "surprised and concerned" at the detention of the four employees and still hasn't been informed of any charges against them, or of any evidence that would support their detention. "Rio Tinto is committed to high standards in business integrity and takes its ethical responsibilities very seriously," Mr. Walsh said.

Under Chinese law, Mr. Hu isn't entitled to legal representation until he is formally charged. Australian Foreign Minister Stephen Smith said earlier that Australian officials had used the consular visit to press the point to Chinese authorities that legal representation "would be appropriate" in advance of any charges.

Investor fears that the detentions may have implications for Rio Tinto's relationship with its biggest iron-ore customer were stoked recently by statements that appeared on a Web site affiliated

with the National Administration for Protection of State Secrets.

In an essay that appeared on the site, an official with the local bureau for the protection of state secrets in east China's Jiangsu province accused Rio's employees of costing China more than \$100 billion by engaging in deceit over six years on iron-ore pricing. Officials later said that the essay was unauthorized and didn't represent the views of the administration.

—Rachel Pannett in Canberra contributed to this article.

Tata says Jaguar, Land Rover don't need help from U.K.

BY SANTANU CHOUDHURY

NEW DELHI—Tata Motors Ltd. said Tuesday it is no longer seeking U.K. government financial support for its Jaguar and Land Rover brands after lining up bank guarantees and loans from private-sector banks.

The company, India's biggest auto maker by sales, said it now expects to secure a £340 million (\$559.8 million) long-term loan from the European Investment Bank in the coming weeks, with bank guarantees making the U.K. government

backing it had sought unnecessary.

Tata Motors also said it expects to raise funds for the ailing U.K.-based luxury car unit in the next few weeks from commercial banks. The company didn't say how much it aims to borrow.

On Tuesday, Jaguar-Land Rover said it had secured a three-year loan worth up to £75 million from Burdale, a member of the Bank of Ireland Group, to finance its U.K. and U.S. parts and accessories inventories and receivables.

Tata Motors, maker of the Nano, the world's cheapest car, acquired

Jaguar and Land Rover from Ford Motor Co. for \$2.3 billion in June 2008. Like other auto makers, Tata Motors sought government help, but had yet to secure aid despite long talks with the U.K.

Debasis Ray, a spokesman for Mumbai-based Tata Motors, said Wednesday that the U.K. government guarantee isn't required now because of improved global financial conditions.

Luxury car makers like Jaguar-Land Rover have been hit harder by the economic downturn than many of the volume manufacturers, be-

cause their cars are more expensive and sources of credit have dried up.

Tata Motors said in late July that sales of Jaguar cars fell 20% between October 2008 and March 2009, while Land Rover sold 51% fewer sport-utility vehicles in the same period.

Ratan Tata, chairman of Tata Motors, recently told shareholders in the company's annual report that Jaguar-Land Rover will need to cut costs and reduce vehicle development time to tide itself over the current global economic slowdown.

GLOBAL BUSINESS BRIEFS

E.ON AG

Teyssen to succeed Bernotat as the German utility's CEO

German utility E.ON AG late Monday named Chief Operating Officer Johannes Teyssen as the successor of Chief Executive Wulf Bernotat. Mr. Teyssen, 49 years old, will take over from Mr. Bernotat on May 1, the company said. Analysts have said they don't expect a drastic change of strategy at Germany's largest utility by market value once Mr. Teyssen takes charge. Mr. Bernotat, 60, said this May that he wouldn't be available for a third term after his current contract expires. Mr. Bernotat has led E.ON since 2003. Mr. Teyssen, who holds a doctorate in law, has been working for Düsseldorf-based E.ON and affiliated companies for 20 years.

Deutsche Lufthansa AG

Deutsche Lufthansa AG said it carried 12% more passengers in July than a year earlier, helped by small increases in demand in Europe and Asia and its consolidation with British Midland Airways. Lufthansa said the company, which also includes Swiss International Airlines, transported 7.2 million passengers last month, up from 6.4 million a year earlier, a figure that was weighed down by strikes. The inclusion of BMI added 757,000 passengers.

Associated British Foods PLC

U.K.-based Associated British Foods PLC said Tuesday that it is selling its sugar operations in Poland in a move to focus on the U.K. and Iberia, where it has market-leading positions in the sugar sector. AB Foods, which has food businesses around the world, said it is selling the sugar business to Polish rival Pfeifer & Langen Polska SA but didn't provide a price. The Polish unit had gross assets of £200 million (\$329 million) as of Aug. 31, 2008, and employs about 400 people.

MG Rover

The long-running saga of the collapse of car maker MG Rover—and the subsequent investigation into what went wrong—reached a tentative conclusion on Tuesday when Britain's Serious Fraud Office said it didn't intend to pursue a criminal investigation into the matter. MG Rover collapsed in 2005 with the loss of 6,500 jobs, dealing a blow to the U.K.'s manufacturing heartland. An independent report about the collapse is to be published Sept. 11.

—Compiled from staff and wire service reports.

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ECONOMY & POLITICS

Chinese output and demand increase

Rebound is seen as likely to slow down as government-backed investment and lending begin to level off

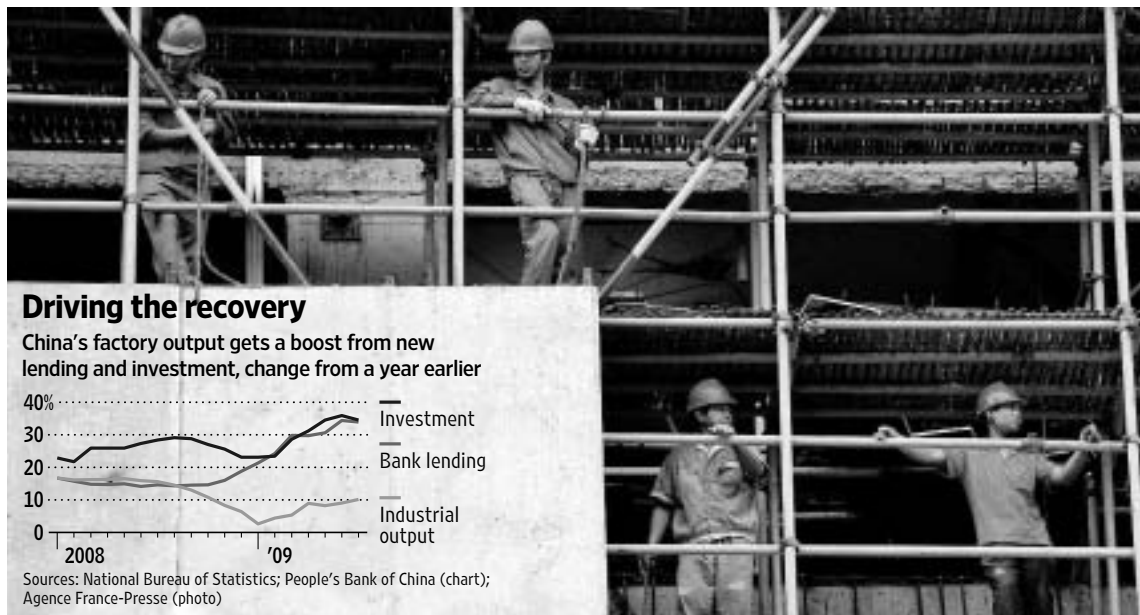
BY ANDREW BATSON
AND TERENCE POON

BEIJING—The rebound in China's factory output and commodity demand continued in July, official data issued Tuesday show, but the beginnings of a moderation in government-driven investment and lending could test how much that rally can be sustained.

Industrial output accelerated for the third straight month, the National Bureau of Statistics said, growing 10.8% in July from a year earlier, following a 10.7% rise in June and an 8.9% gain in May. The measure is one of the broadest indicators of activity in China's manufacturing-driven economy, and reflects particularly strong growth in the heavy industry that has benefited most from the government's aggressive stimulus programs.

But China's benchmark measure of capital spending, fixed-asset investment in urban areas, slowed to a 30% increase in July from a 35% gain in June, lower than market forecasts. Bank lending also slowed, with new local-currency loans totaling 355.9 billion yuan (\$52.1 billion) in July, compared with 1.53 trillion yuan in June. Government officials have repeatedly said they aren't withdrawing the public-investment and easy-credit policies that have supported the rebound, but they are also watching to prevent wasteful spending and bubbles.

"The biggest recovery is behind us in terms of sequential growth," said Jun Ma, China economist for Deutsche Bank. He predicted gross domestic product will grow 8% or 9% on a quarter-to-quarter annualized basis in the remaining two quarters of this year, compared with an



estimated 18% in the second quarter.

The government's stimulus plan was deliberately front-loaded in the early part of the year to offset the deep global slowdown, he said, and the rapid pace of the first phase of the stimulus couldn't have been sustained anyway. "By design, new project starts will have to decline," Mr. Ma said.

The latest figures reinforce the point, stressed by government officials in recent comments, that China's recovery still is driven mostly by government spending and policy. To broaden the rebound, officials are hoping for domestic private-sector investment to recover, and for demand in China's major export markets to pick up. They have stated repeatedly in recent days that the government will maintain its expansion-

ary policies until the expansion is more firmly established.

There are signs that the worst of China's export decline could be past. July's exports rose a seasonally adjusted 5.2% from June, China's customs agency said, following a 4.5% month-to-month pickup in June. The agency only recently began to publish such seasonally adjusted figures.

Still, the value of exports in July remains 23% below last year's figure, a sign that demand for China's goods remains at low levels. China ran a trade surplus of \$10.63 billion in July, down 58% from last year.

Domestic demand is firm, with retail sales rising 15.2% in July from a year earlier. Imports for July were up a seasonally adjusted 3.5% from June, up from the 2.2% gain in June.

The dollar value of imports was

down 14.9% from a year earlier in July, but much of that reflects lower prices, as commodity purchases have surged. For instance, imports of iron ore, the main raw material to produce steel, jumped to a monthly record of 58.08 million metric tons in July. China is the world's largest steel-producing nation, and its crude steel output for July hit a new monthly high.

Energy consumption also is on the rebound. Electricity output grew for the second straight month, expanding 4.8% in July after a 5.2% gain in June. Analysts attributed the recent turnaround from several months of declines to a pickup in output by industries, such as aluminum, that use lots of power. Imports of crude oil surged 42% in July from a year earlier to a monthly record.

Economists said that while July's

slowdown in investment wasn't dramatic, the burst of activity early this year probably won't be repeated. "The intensity of government stimulus through fixed-asset investments is unlikely to be as strong in the second half," said Zhu Jianfang, chief economist with Citic Securities in Beijing. That could feed into weaker factory output in the second half, though he said he expected a rise in growth in the service sector to help pick up some of the slack.

Inflation remains in check, with the consumer-price index falling 1.8% in July from a year earlier, the sixth straight monthly decline. The producer-price index also dropped 8.2% in July from a year earlier, down for the eighth month in a row. The actual trend of inflation isn't as negative as figures indicate, because prices of many commodities have been rising from their lows this year, but central bank vice governor Su Ning said Friday that inflation isn't a problem now.

A central bank statement issued Tuesday through the state-controlled Xinhua news agency said that its monetary policy hasn't changed. July's lending, while lower than in recent months, was high by historical standards and was helping to support the real economy, it said.

China's government published all of its monthly economic data for July on Tuesday, changing from its past practice of spreading releases over several days. In recent months, the statistics bureau has been taking steps to improve the quality and transparency of its data to address public doubts and economists' criticisms.

—Liu Li and
Patricia Jiayi Ho
contributed to this article.

China plans to revise its policy toward street peddlers

BY JEREMY CHAN

BEIJING—China is preparing to give millions of street vendors legal status, a move aimed at creating jobs and curbing a rash of violent conflicts between the sellers and law-enforcement officials who police them.

The country has for years struggled with managing street vendors who sell everything from housewares and clothes to candied fruit from makeshift pedal carts or sheets spread across sidewalks. Peddlers are a source of inexpensive and convenient goods for local residents, but the merchants are often seen as an eyesore by government officials. Beijing cracked down on street vending ahead of the Olympics a year ago, and the number of peddlers in the city center remains diminished.

Nanjing, a city of more than seven million in eastern China, recently became the first in the country to offer legal status to around 10,000 mostly poor residents who had been largely prohibited from selling their wares on the streets. A national regulation is in the works to require registration of the country's "self-employed businesses," including those without fixed addresses. The regulation, under discussion by China's cabinet, the Legislative Affairs Office of the State Council, could go into effect as early

as the end of the year, Chinese legal experts say.

The moves come as unemployment has been a growing concern for the government since the global recession started. The Labor Ministry recently said that most migrant workers who lost jobs during mass layoffs last year have found work in recent months, but that the overall employment situation remains "very serious." Many of China's newly unemployed have begun selling goods on the street.

"When these legal barriers can be removed for this type of endeavor, it will definitely attract more and more people to take part in the individual economy," said Li Jianping, a Beijing lawyer who is an expert on small-business regulations. "In the end, it could help more people find jobs."

Street vendors in China often engage in a cat-and-mouse game with "urban-management officers" who are empowered by city governments to police low-level crimes and infractions, but are often poorly trained. Conflicts between these officers and street merchants have sometimes turned violent.

Five urban-management officers were recently dismissed from their jobs and face trial after allegedly beating a man selling watermelon on the street in Shanghai, according to the local district government.



A vendor sells peaches on a Beijing street. A proposed law would give legal status to such merchants, an effort to create jobs and curb conflicts with security officers.

The 28-year-old victim was taken to a local hospital where doctors diagnosed him with brain damage and partial paralysis.

Officials are hoping that giving legal status to the street vendors will cut down on harassment by the urban-management officers, who often fine the peddlers or confiscate their goods.

Such clashes helped spur Nanjing's new policy, said Qian Dewen, an official at the city's urban-management bureau. He said officials from more than 40 other cities have visited in recent months to discuss the new regulations.

Under Nanjing's new policy, street merchants will be restricted to certain parts of the city and cer-

tain times of day, and they will have to provide proof of low-income status in order to register legally.

The national regulation is expected to provide for peddlers to register as business operators but specific rules likely will be determined locally. In general, the vendors will be required to abide by existing rules on what they sell, for instance the official prohibitions on selling pirated goods and other contraband, and they will likely have to meet health and safety guidelines. "If the government can legalize our business, I would definitely register," said a vendor named Li, who was selling hair clips and headbands last week on a pedestrian bridge in Beijing. He says urban-management officers frequently confiscate his goods. "We are just trying to make a living," he said.

Some owners of small shops were sanguine about the proposed regulation. "There's already a lot of competition," a clothing boutique owner in Beijing named Xu said. "This new regulation just means we have to sell the right stuff at the right price. And now if I go out of business, I can always start selling stuff on the street," he joked.

Some of Nanjing's urban management officers are uneasy with the new policy. "Problems will still exist between officers and peddlers," Mr. Qian said, "but it will not be like in the past."

ECONOMY & POLITICS

U.S. cities tolerate homeless camps

With shelters full, fewer areas take steps to disperse dwellers

BY JENNIFER LEVITZ

NASHVILLE, Tenn.—Last summer, police responding to complaints about campfires under a highway overpass found dozens of homeless people living on public land along the Cumberland River.

Eviction notices went up—and then were suspended by Nashville Mayor Karl Dean, a Democrat, who said housing for the homeless should be found first.

A year later, little has been found—and Nashville, with help from local nonprofits, is now servicing a tent city, arranging for portable toilets, trash pickup, a mobile medical van and visits from social workers. Volunteers bring in firewood for the camp's 60 or so dwellers.

Nashville is one of several U.S. cities that these days are accommodating the homeless and their encampments, instead of dispersing them. With local shelters at capacity, "there is no place to put them," said Clifton Harris, director of Nashville's Metropolitan Homeless Commission, says of tent-city dwellers.

In Florida, Hillsborough County plans to consider a proposal Tuesday by Catholic Charities to run an emergency tent city in Tampa for more than 200 people. Dave Rogoff, the county health and services director, said he preferred to see a "hard roof over people's heads." But that takes real money, he said: "We're trying to cut \$110 million out of next year's budget."

Ontario, a city of 175,000 residents about 65 kilometers east of Los Angeles, provides guards and basic city services for a tent city on public land.

A church in Lacey, Wash., near the state capital of Olympia, recently started a homeless camp in its parking lot after the city changed local ordinances to permit it. The City Council in Ventura, Calif., last month revised its laws to permit sleeping in cars overnight in some areas. City Manager Rick Cole said most of the car campers are temporarily unemployed, "and in this economy, temporary can go on a long time."

Some communities may be "less inclined to crack down quite as hard on people" because of the recession, said Barry Lee, a professor of sociology and demography at Pennsylvania State University.



Jack 'Cowboy' Adkins, 63 years old, sits in what he calls his office at his home in a tent city in Nashville, Tenn., last week.

nia State University.

Municipal leniency isn't universal. New York City officials last month shut down a tent city on a vacant lot in East Harlem. It was erected partly as shelter and partly to campaign for more-affordable housing. Seattle authorities have repeatedly booted off public land a tent city that popped up last year.

Anticipating Tuesday's vote on the homeless proposal in Tampa, hundreds of neighbors in a nearby 325-house subdivision have formed the "Stop Tent City" coalition. They are gathering petitions, passing out lawn signs and threatening lawsuits. Hal Hart, a paralegal and a neighbor who is part of the coalition, testified at the county meeting that a tent city would "devalue my home" and "devalue my community." He lives 90 meters from the proposed park.

Some homeless are battling mental illness or addictions, or both. Municipal officials in the U.S. acknowledge the tent cities can breed crime and unsanitary conditions, but with public shelter scarce, they say they have to weigh whether to spend police time to break up encampments that are likely to resurface elsewhere.

Pastors in Champaign, Ill., last week asked the City Council to allow people to live in organized tent communities of as many as 50 people. Legalizing the camps is more compassionate and cost-effective than forcing

"poor people who are camping because they have a lack of better choices to constantly have to fear being rousted and cited by police," says Joan Burke, advocacy director for Sacramento Loaves & Fishes, a homeless-assistance agency.

In Nashville, Mr. Harris, director of the city's homeless commission, said tent cities have existed for years, but he has seen the numbers surge. He now knows of 30 encampments. While some people are chronically homeless, he said, foreclosures have forced others into the streets, as has Tennessee's 10.8% unemployment rate, the highest in 25 years.

Nashville estimates that on any given day, the city has 4,000 homeless people and 765 shelter beds. About 25% of the homeless have jobs, Mr. Harris said, but can't afford housing. A nonprofit coalition of 160 churches called Room in the Inn said it received 816 requests for financial assistance to ward off evictions or electricity shutoffs in July, up from 499 in July 2008.

More housing could be available soon. Tennessee will receive \$53 million in federal stimulus money to help pay for the development of affordable rental housing across the state, the federal government announced last month.

While no one is suggesting that the tent city that popped up on police radar last summer is a perma-

nent solution, local churches and synagogues are trying to give residents there a sense of order. The Otter Creek Church of Christ built residents a shower, with a fiberglass stall, plywood door and garden hose, and on Friday, associate minister Doug Sanders went to the tent city in what is the start of a church project to help residents institute some type of formal rules.

The city and local nonprofits have found permanent housing for about 25 people from the tent city.

Many haven't been so lucky. David Olson, 47 years old, said last week he and his wife wound up under the Nashville overpass after he lost a job making cement pipes in Iowa four months ago. The couple came to Nashville for a remodeling job that turned out to be a scam. "I've got five years' experience in carpentry and 10 years' roofing and I can't find a job," he said.

Mr. Olson, his arms and shirt caked with dirt, said life is hard in the swampy woods. The couple woke up to mud after a night of rain. His wife said she is frightened by the dogs that roam around the encampment.

As mosquitoes buzzed, they tried to set up camp on higher ground. They struggled to secure a tarpaulin over their tent to keep out the rain. Mr. Olson's wife, holding onto a pole to prop up the tarp, cried. "I'm not used to living like this."

House retreats from plan to purchase jets

BY BRODY MULLINS AND T.W. FARNAM

WASHINGTON—U.S. House leaders late Monday dropped plans to spend \$550 million on Air Force passenger planes for use by senior government officials, a sum that more than doubled the Pentagon's official request and had drawn strong public criticism.

"If the Department of Defense does not want these aircraft, they will be eliminated from the bill," said Rep. John Murtha (D., Pa.), the chairman of the House panel that sought the aircraft order.

The House will seek only \$220 million to purchase one Gulfstream

plane and three Boeing Co. aircraft, which was the original request by Department of Defense officials.

Democratic Speaker Nancy Pelosi of California supported Mr. Murtha's decision to retreat from the larger order, her spokesman said.

The reversal by House leaders came after several days of mounting opposition from the Pentagon, U.S. senators and other House lawmakers.

Before departing for its August recess, the House approved funds to buy a total of eight planes: three Gulfstream jets and five military versions of a Boeing 737 for a total cost of \$550



John Murtha

million. Lawmakers said the additional executive jets were needed to replace an aging fleet of planes that were more expensive to operate and maintain.

The Department of Defense had asked Congress for money to purchase four planes: one Gulfstream V and one new business-class equivalent of a Boeing 737. It also sought the authority to purchase two 737s that were already being leased by government officials.

The Air Force version of the Gulfstream V each costs \$66 million, according to the Department of Defense, and the 737s cost about \$70 million.

Productivity leaps in U.S. as firms move to cut costs

BY TOM BARKLEY

U.S. productivity staged its biggest gain in nearly six years in the second quarter despite the contraction in the overall economy, suggesting companies have adjusted to the recession by cutting jobs and workers' hours.

Nonfarm business productivity rose a higher-than-expected 6.4% at an annual rate last quarter, the most since the third quarter of 2003, the Labor Department said in preliminary figures released Tuesday.

Productivity, which is defined as output per hour worked, rose 0.3% in the first quarter of the year, revised downward from 1.6%.

Unit labor costs—a key gauge of inflationary pressure—fell 5.8% last quarter at an annual rate.

The data help explain why companies have been able to post good earnings figures, having moved quickly to slash jobs and cut costs.

"In short, good macro news, but it reflects painful job losses," Ian Shepherdson, chief U.S. economist at High Frequency Economics Ltd., said in a note to clients.

Over the long run, productivity is key to improved living standards by spurring rising output, employment, incomes and asset values. While the jump in productivity could suggest that the economy is poised for a strong recovery once it reaches bottom, that could be offset by the negative impact on consumer demand from job losses.

Labor market conditions are expected to remain difficult, though the 247,000 drop in nonfarm payrolls in July was the smallest decline since August 2008. The economy has also shown signs of stabilization, with gross domestic product registering a 1% contraction in the second quarter.

In a separate release Tuesday, the Commerce Department said wholesale inventories dropped 1.7% to \$393.9 billion in June. The weak inventories suggest the economy actually contracted at a 1.8% rate in the second quarter, according to a J.P. Morgan note to clients. The government will revise its GDP estimate at the end of August.

Joshua Shapiro, chief U.S. economist at MFR Inc., said that despite signs of improvement in the economy, the job market will likely remain tight.

"Looking ahead, stabilizing output ought to prompt a less aggressive approach to cost-cutting on the labor front, hence a commensurately slower rate of decline in hours worked," he said in a note. "However, we do expect efforts to boost productivity to continue, and therefore any labor market recovery to be late in arriving and tepid when it does begin."

The Mossberg Solution

Ahead of the Curve

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ECONOMY & POLITICS

Clinton in Nigeria with full agenda

Election, corruption, investment climate will be addressed

BY WILL CONNORS

ABUJA, Nigeria—U.S. Secretary of State Hillary Clinton arrived Tuesday evening in Nigeria, where she will hold talks with political and business leaders and address the shoddy electoral process, weak investment climate and rampant corruption in Africa's second-largest economy, among other issues.

Entering the backstretch of her seven-nation African tour, Mrs. Clinton is expected to echo the theme of gentle reproach laid out by U.S. President Barack Obama on his visit to Ghana last month, by prodding Nigeria to improve its voting system before a 2011 ballot and address violent uprisings in the oil-producing Delta region and the Muslim northern region.

"Nigeria is probably the most important country in sub-Saharan Af-

rica," Johnnie Carson, the State Department's top official for Africa, told reporters on the eve of Mrs. Clinton's tour. Nigeria is the fifth-largest supplier of oil to the U.S., and its "light sweet" crude oil is prized for the ease with which it is converted into gasoline.

"We are concerned about having a good energy relationship with them," Mr. Carson said. "We'd also like them to address issues of corruption and transparency. When there is an absence of transparency and when there is a great deal of corruption, it makes the business environment extremely difficult."

Nigeria is the most populous nation in Africa and was long its biggest oil producer, until Angola recently overtook it. But Nigeria faces numerous domestic problems.

Unrest in the oil-producing Niger Delta, where militants have shut down production of more than one million barrels a day of oil with pipeline attacks, has cost the govern-

ment billions of dollars in revenue and dented foreign investor interest.

Clashes last month between a homegrown Islamic fundamentalist sect and security forces in northern Nigeria left more than 800 people dead, including the group's leader, who was killed while in police custody.

The sect, known locally as Boko Haram, meaning "Western education is prohibited," has attracted a devoted following over the past several years amid poverty and disillusionment with the local political and religious leadership.

During her visit, Mrs. Clinton will meet with President Umaru Yar'Adua, whose 2007 election was widely condemned as flawed by local and international observers.

The 58-year-old Mr. Yar'Adua is set to travel Friday to Saudi Arabia for medical treatment. He has gone to Germany and Saudi Arabia several times in the past two years for treatment of a kidney ailment.



Hillary Clinton

Bank of Korea keeps key rate at a record low

BY IN-SOO NAM AND SHIN JUNG-WON

SEOUL—The Bank of Korea kept its benchmark interest rate unchanged as expected, with the central bank governor flagging the next move, when it comes, is "clearly up."

Economists say Governor Lee Seongtae's comment—his most hawkish since the policy rate was dropped to the current, record low of 2%—suggests a rate rise may come earlier than expected, possibly before year-end.

"Uncertainties remain over the actual pace of economic recovery, although the economy is likely to keep its growth trend," Mr. Lee told a news briefing, where he reiterated the BOK will stick to its accommodative stance.

Data released this month suggest the domestic economy is on the mend: Industrial output in June shrank less than expected, while trade volume in July surged past the \$60 billion level for the first time since the global economic crisis started taking its toll on the export-dependent nation in November.

The figures may have encouraged the International Monetary Fund this week to raise its economic projection for South Korea this year—the second upgrade in a month—to a contraction of 1.8% from its previous forecast of a decline of 3%.

But Mr. Lee sounded a note of caution on the property market amid concerns the government's heavy stimulus spending and the central bank's rate cuts may be fueling an asset bubble.

"The upward trend of real-estate prices has been maintained. ... Mortgage loans continued to expand markedly," he said. "We're closely watching the rises in property prices and mortgage loans with concern."

He also said consumer-price inflation is expected to accelerate, albeit on a limited scale, due to the rise in oil and raw material prices.

Annual inflation in South Korea sank to a nine-year low in July due to a high year-earlier base effect, but economists said a pickup is likely to begin this month, reflecting a strengthening in domestic demand and rebounding global fuel prices.

Nomura Securities economist Kwon Young-sun said he expects the BOK to start normalizing loose monetary conditions by raising the base rate by a quarter percentage point in November at the earliest.

"We don't believe that the BOK will be complacent over this period of lower CPI inflation, but rather we think it will be vigilant in looking out for high inflation expectations, especially given its forward-looking monetary policy-making practice," he said.

Economists said the BOK isn't likely to rush into abandoning its accommodative policy anytime soon and instead will use regulatory tools first before raising rates.

"Now is not the best time to bring up a stance shift," said David Kim, chief researcher at Taurus Investment & Securities. "The BOK may opt for measures such as limiting loans to households to soak up excess liquidity and cool recent rises in the property market."

He added that he expects the BOK to shift toward tightening in March or April.

—Kanga Kong and Min-Jeong Lee contributed to this article.

Japanese candidate won't visit war shrine

BY DAISUKE WAKABAYASHI

TOKYO—Yukio Hatoyama, leader of the Democratic Party of Japan, pledged not to visit a contentious shrine for Japanese war dead as part of an effort to bolster ties with China if his party prevails in national elections.

Polls show the DPJ leading the ruling Liberal Democratic Party just weeks before Aug. 30 national elections, with Mr. Hatoyama the front-runner to become prime minister.

The DPJ may usher in a subtle shift in Japanese foreign policy by asserting more independence in bilateral relations with the U.S. while seeking closer ties with China and other Asian neighbors.

China, the second-largest market for Japanese exports after the U.S., has assumed growing economic importance for Japan. Trade between the two countries in 2008 totaled \$266 billion.

At a news conference on Tuesday, Mr. Hatoyama called Tokyo's relationship with Beijing "crucial" and emphasized the need for Japan to "enhance the contents" of its ties with China. He said that neither he, nor anyone in his cabinet, would visit Tokyo's Yasukuni shrine to the war dead, as long as war criminals are honored there.

Yasukuni, which dates from the late nineteenth century, honors



Yukio Hatoyama, leader of the Democratic Party of Japan, pledged stronger ties with China during a news conference Tuesday at DPJ headquarters in Tokyo.

more than two million individuals who died fighting for Japan.

Visits to the shrine by Japanese politicians have dredged up resentment among Japan's neighbors over the country's past militarism. Among the Japanese war dead remembered at Yasukuni, more than 1,000 individuals are classified as convicted war criminals.

"We have been urging the ruling LDP until now to face history with

courage," Mr. Hatoyama said. A correct understanding of history "should help improve relations between Japan and China," he added.

The DPJ says it will advocate for more diplomacy in Asia than has been the case with the LDP, which has ruled Japan almost continuously for more than five decades. Coincidentally, Mr. Hatoyama's name begins with the Chinese character for "dove"—a detail likely noticed in Beijing.

Prime Minister Taro Aso and two previous Japanese prime ministers have sought to smooth diplomatic relations by avoiding visits to the shrine.

During his five-year tenure until 2006, former Prime Minister Junichiro Koizumi angered China and South Korea by going to the Yasukuni shrine—a visit that temporarily cooled Japan's relations with China.

"China has drawn this line in the sand. As long as you don't visit Yasukuni shrine, you are a good guy," says Lam Peng Er, a senior research fellow at the East Asian Institute at the National University of Singapore.

Beijing's steady increase in military spending reminds Japan about the importance of strong diplomatic ties with the U.S., Mr. Lam said, noting that Mr. Hatoyama must walk a fine line to "recalibrate" Tokyo's relationship with the U.S. to be less beholden to Washington.

Already, the DPJ has softened its approach to contentious policies such as halting the refueling that Japan's self-defense forces offer U.S.-led forces in the Indian Ocean.

Mr. Hatoyama said if the DPJ wins, Japan wouldn't immediately halt the refueling—but it wouldn't extend the mission beyond its January 2010 expiration date.

—Kiyoe Minami in Tokyo contributed to this article.

Declining consumer prices fuel concerns in Japan

BY TOMOYUKI TACHIKAWA AND MEGUMI FUJIKAWA

TOKYO—Bank of Japan Governor Masaaki Shirakawa said Japan wasn't in danger of entering a deflationary spiral, but expressed concern that falling consumer prices could continue.

Mr. Shirakawa said after the bank's two-day policy board meeting that considering how sharp Japan's economic downturn has been, "it may take time for falls in prices to end."

But he said the BOJ had taken measures that would help curb any deterioration of demand and supply conditions.

The BOJ "has been working to improve such conditions by keeping policy target rates at low levels and stimulating corporate activities through supporting firms' fund raising," he said.

Mr. Shirakawa's remarks suggest the BOJ believes its monetary policy is the correct course for dealing with Japan's economic crisis. The BOJ is likely to maintain accommodative monetary conditions as long as economic and price conditions remain fragile.

Earlier in the day, the BOJ policy board voted unanimously to leave the unsecured overnight call loan rate target at 0.10%.

The board's postmeeting statement also expressed caution about the recent fall in consumer prices, noting that the rate of decline in Japan's core consumer-price index has accelerated.

Core CPI, which excludes volatile fresh food prices, slid at its fastest pace on record for the second straight month in June, down 1.7% from last year, government data showed last month.

Meanwhile, the BOJ maintained its overall economic assessment from July, noting that economic conditions in Japan "have stopped worsening" as exports and production

pick up. The central bank held to its prediction that the economy will start recovering from the latter half of the current fiscal year.

In recent months, the perception has grown that Japan's economy hit bottom earlier this year and is recovering quickly as a pickup in external demand boosts exports, helping industrial production bounce back.

However, the jobless rate rose to 5.4% in June, its highest level in six years and just shy of its postwar high of 5.5%. That has raised fears that the deteriorating employment situation could choke off private spending.