Leading the News: Bank of England governor fails in attempt at dovish dissent

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Iraq blasts challenge government

Coordinated attacks in Baghdad kill at least 95, weeks after U.S. forces pull back from cities

BY CHIP CUMMINS AND BEN LANDO

BAGHDAD—A series of car bombings and explosions rocked Baghdad on Wednesday morning, killing at least 95 people and directly challenging the effectiveness of Iraqi security services amid a U.S. pullback.

The blasts, the worst coordinated violence since American forces withdrew from Iraqi cities on June 30, injured more than 563 people, according to Iraqi officials. They came after two weeks of bloody attacks across the country.

Unlike the other recent attacks, many of which struck Shiite civilians and ethnic minorities in northern Iraq, Wednesday's attacks targeted high-profile pillars of the state's authority, including the foreign ministry and finance ministry.

Afghan election

The violence underscores the significant security challenges ahead for Iraqi armed forces and the government of Prime Minister Nouri al-Maliki amid the U.S. troop withdrawal. As part of a security agreement that went into effect this year, American forces left Iraqi urban areas at the end of June.

Iraqi and U.S. officials had braced for increased attacks surrounding that milestone. They also warned that violence could increase ahead of parliamentary elections in January.

The attacks on Wednesday also underscore the delicate balancing act facing Mr. Maliki's administration, whose popularity rests in part on its emphasis on Iraqi sovereignty and in part on recent improvements in security—two elements that may not always be compatible.

Since the pullback from cities, American commanders have complained about a lack of cooperation with some Iraqi commanders. They have also said that, without boots on the ground, they don't have the capability to collect and process intelligence helpful in thwarting attacks, like they had in the past.

Before Wednesday's attacks, Iraqi officials had said they felt they had turned a corner in containing violence. They have embarked on a high-profile drive to remove many of the giant concrete blast walls that line Baghdad streets.

For some Iraqis, Wednesday's carnage raised fresh

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Agence France-Presse/Getty Images (left); Associated Press (right)

A deadly explosion in front of the Iraqi foreign ministry in Baghdad was one of a devastating series of attacks in the capital on Wednesday.

UBS agrees to give 4,450 names to U.S.

By Carrick Mollenkamp, Laura Saunders and Evan Perez

UBS AG will hand over some 4,450 names of U.S. account holders as part of a U.S.-Swiss tax-evasion settlement and investigation that could produce a total 10,000 account identities.

UBS and the governments of the U.S. and Switzerland agreed on a final settlement last week, but the details weren't made public until Wednesday morning.

UBS isn't expected to pay a monetary fine as part of the settlement.

IRS Commissioner Doug Shulman said on a conference call with reporters that U.S. tax authorities will file a treaty request with the Swiss government to obtain the data on the American UBS clients. The Swiss government will then direct UBS to turn over the account data to the IRS, the agency said.

Mr. Shulman said the legal agreement allowed the IRS to obtain substantially all the information it was interested in.

He said the criteria used to select the 4,450 accounts to be turned over are being kept confidential. Lawyers

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More banks identified

What's News

Venture Production continued to resist Centrica's hostile-takeover bid as rising output kept profit steady despite an oil-price decline. Venture also raised the prospect of making acquisitions itself as North Sea opportunities arise. **Page 6**

■ **German producer prices** fell at the fastest rate since records started in 1949, as the central bank damped hopes for a speedy recovery. **Page 4**

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■ **Continental European banks** have chosen dividend cuts and some asset sales instead of share issues to shore up their finances. **Page 5**

■ **Energy shares pushed** U.S. stocks higher. European stocks declined as investors locked in profits in the banking, tech and auto sectors. **Page 20**

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■ **Hedge funds** have nearly doubled bearish bets on VW in the past month, repeating a short-sale strategy that blew up last year. **Page 19**

■ **British American Tobacco** tapped Richard Burrows, former Bank of Ireland governor, as its chairman. **Page 6**

■ **The Obama administration** will release a plan this week to wind down its "cash for clunkers" program. **Page 32**

■ **Israel's Peres said** Russia promised to reconsider the planned delivery of air-defense missiles to Iran. **Page 2**

■ **Air France-KLM withdrew** its tender for Czech Airlines, throwing a privatization plan into doubt. **Page 7**

■ **Scotland said** it will announce its decision Thursday on whether to grant an early release to the man jailed for the Lockerbie bombing.

■ **Nigeria published** a list of the top debtors to five recently bailed out banks, which includes some of the nation's richest businessmen. **Page 3**

■ **Police detained** three suspected members of Basque separatist group ETA in a French Alps ski resort and seized explosive devices.

■ **Died: Don Hewitt**, 86, the CBS newsman who invented "60 Minutes," of cancer.

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What's a moderate?
Muslim author Tariq Ramadan is no bridge builder. **Page 13**

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	CLOSE	PCT CHG
DJIA	9279.16	+0.66
Nasdaq	1969.24	+0.68
DJ Stoxx 600	226.45	-0.34
FTSE 100	4689.67	+0.08
DAX	5231.98	-0.36
CAC 40	3450.34	-0.01
Euro	$1.4222	+0.82
Nymex crude	$72.42	+4.67

LEADING THE NEWS

Kremlin reconsiders Iran missiles

Israeli leader says promise was made at Black Sea talks

ASSOCIATED PRESS

MOSCOW—The Kremlin has promised to reconsider its planned delivery of air defense missiles to Iran, which Israel and the U.S. fear could be used to protect Tehran's nuclear facilities, Israeli President Shimon Peres said Wednesday.

Russian President Dmitry Medvedev made the pledge during their talks Tuesday in the Black Sea resort of Sochi, said Mr. Peres.

"President Medvedev gave a promise he will reconsider the sales of S-300s because it affects the delicate balance which exists in the Middle East," Mr. Peres said. A Kremlin spokesman declined to comment on Mr. Peres's statement.

Agence France Presse/Getty Images

Israel's Shimon Peres, right, said Dmitry Medvedev promised Russia would not support an Iranian nuclear-weapons program.

Russia has signed a contract to supply the powerful S-300 missiles to Iran, but has delayed delivering them. Israel and the U.S. fear Iran could use the missiles to protect its nuclear facilities—including a uranium-enrichment plant and the country's first atomic power plant, which is being completed by Russian workers in Bushehr.

That would make a military strike on the Iranian facilities much more difficult. Israeli Defense Minister Ehud Barak said last month that Israel would not rule out any response to the Iranian nuclear program—perhaps suggesting it would consider a pre-emptive strike to thwart Iran from obtaining nuclear weapons.

Israeli and U.S. officials have urged Moscow not to supply the missiles, and the issue has been the subject of intense diplomatic wrangling for years. Israel wants Russia, which has close ties with Iran, to increase pressure on Tehran over its nuclear program.

Iran, whose president has expressed hatred of Israel, says its nuclear program is only designed to provide more electricity.

Israel and the U.S. fear that Iran is secretly developing nuclear weapons. Moscow has supported limited U.N. sanctions on Iran, but opposed efforts by the U.S. and others to impose tougher measures.

"President Medvedev told me that Russia will not support an Iranian nuclear bomb under all circumstances," Mr. Peres said. "But he also mentioned that the Russian appreciation of what's taking place in Iran is different from the American one."

Russian officials confirmed in March that a contract for the S-300 missiles had been signed with Iran two years ago, but a top Russian defense official said in April that no deliveries had been made yet.

Analysts said that Moscow could be using the S-300 contract as a bargaining chip in its relations with the U.S. and Israel.

Mr. Peres also said Wednesday that Iran's efforts to develop advanced missiles strained ties between Washington and Moscow. In May, Iran test-fired a new missile with a range of about 1,190 miles—far enough to strike Israel, southeastern Europe and U.S. bases in the Middle East.

"If it wasn't for Iranian missiles, maybe one of the thorny questions between Russia and the U.S. will disappear—the bases that the United States is building in Poland and the Czech (Republic)," Mr. Peres said, in a reference to the previous U.S. administration's plans to build missile defense sites in Eastern Europe.

Russia has opposed those U.S. plans as a threat to security, dismissing Washington's claims that the missile defense system is aimed at countering a threat from Iran. President Barack Obama has ordered a review of the missile defense plans, but reiterated that the system would pose no threat to Russia.

Rusal tries to secure energy supply after Siberian plant accident

ASSOCIATED PRESS

MOSCOW—The head of the world's top aluminum producer visited Russia's largest hydroelectric plant to discuss how his Siberian factories will get enough energy after an accident crippled the power plant and killed at least 14 workers.

Rescue workers found two bodies Wednesday in the destroyed turbine room of the massive Sayano-Shushenskaya power station in southern Siberia, raising the confirmed death toll to 14, officials said.

Sixty other workers are missing and feared dead after an explosion Monday during repairs caused the plant's turbine room to flood. Three of the plant's 10 turbines were destroyed and three others damaged, according to the plant owner, state-controlled **RusHydro**. The giant power station has been idle since.

At least 1,000 rescuers have been involved in the search for the missing workers, including divers who on Wednesday braved the near-freezing waters that have flooded the power plant.

The Emergency Ministry official directing the rescue operation, Maj. Gen. Daniyar Saifullin, suffered a heart attack at the disaster site Wednesday and was flown to Moscow for treatment, the state news agency RIA Novosti reported.

Energy Minister Sergei Shmatko described the accident as "the biggest and most mysterious in global hydroenergy" and said it would cost 40 billion rubles ($1.2 billion) to rebuild the power plant's engine room.

Oleg Deripaska, director general of aluminum producer **United Co. Rusal**, toured the damaged plant and talked with Russia's energy ministry and RusHydro about securing energy supplies during the coming repairs, which are expected to take as long as two years.

More than 70% of all the energy from the hydroelectric plant goes to four Rusal smelters, which are believed to be the company's most efficient plants.

Mr. Deripaska also pledged to speed up the construction of the Boguchanskaya hydroelectric plant, some 500 miles northeast of the Sayano-Shushenskaya.

Stocks of RusHydro fell 10% at Russia's MICEX stock exchange after trading resumed following a two-day suspension.

CORRECTIONS & AMPLIFICATIONS

One participant of an April training session for new women employees of **Nomura Holdings** Inc. was a graduate of Harvard University, according to a person familiar with the matter. A July 30 News In Depth article about Nomura incorrectly said that more than one participant graduated from Harvard.

INDEX TO BUSINESSES

This index of businesses mentioned in today's issue of The Wall Street Journal Europe is intended to include all significant references to companies. First reference to these companies appear in boldface type in all articles except those on page one and the editorial pages.

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INDEX TO PEOPLE

This index lists the names of businesspeople and government regulators who receive significant mention in today's Journal.

For more people in the news, visit CareerJournal.com/WhosNews

LEADING THE NEWS

Nigeria lists bailed-out banks' top debtors

Government plans legal action if loans aren't repaid soon

BY WILL CONNORS

LAGOS, Nigeria—Nigeria's rich and powerful, long accustomed to a lifestyle of big yachts, fancy cars, and businesses fueled by unchecked credit lines, have been put on notice.

Less than a week after a $2.6 billion bailout of five banks sent shockwaves through the Nigerian economy, the Nigerian central bank on Wednesday made the unprecedented move of publishing a list of the top debtors to the banks, among them some of the wealthiest and most powerful people in Nigeria.

On Wednesday, the government's Economic and Financial Crimes Commission, or EFCC, said that the debtors had one week to repay their loans or risk arrest and seizure of their assets.

The list includes Nigeria's only two billionaires; two previous heads of the Nigerian Stock Exchange, and the one just elected; several oil-and-gas service companies, energy and hospitality conglomerate Transnational Corporation of Nigeria PLC, two state governments, the former governor of Nigeria's richest state and the Ministry of Finance.

The Ministry of Finance couldn't be reached for comment.

"It has become necessary to use this medium to request the following defaulting customers of the affected banks to pay without further delay their indebtedness, failing which the banks will take all appropriate legal actions to ensure repayment," the Central Bank said in a statement on its Web site.

The former governor of Rivers state Peter Odili, left, and businessman Aliko Dangote, right, are on the list.

Reuters (left); Agence France-Presse/Getty Images (right)

The moves of newly appointed central bank governor Lamido Sanusi have surprised many in Africa's most populous nation and chipped away at the veneer of Nigeria's fast-living business elite.

"It sends a signal that a phase of doing things a certain way is over," Olawale Edun, Chairman of financial services group Chapel Hill Denham said in Lagos. "Nigeria hasn't seen this kind of bold action in a long time."

On Friday the central bank injected $2.6 billion into Afribank Nigeria PLC, FinBank, Intercontinental Bank, Oceanic Bank International (Nigeria) Ltd., and Union Bank of Nigeria after they had accumulated $7.6 billion in bad debts, which the central banks said threatened the survival of Africa's second-biggest economy.

The central bank fired the top executives of the banks. Executives from four of the five banks have been questioned by the EFCC, the country's top anti-corruption unit. Bank managers at the five banks have been put on a watch list to prevent them from leaving the country, the EFCC said.

Lawyers representing the ousted managing director of Intercontinent al Bank, Erastus Akingbola, on Tuesday filed an injunction against his ouster with the Lagos Supreme Court. A senior government official said Tuesday that he hadn't yet been questioned and was out of the country.

"They have just one week to bring in their checks or drafts to us or we begin their arrest and prosecution as well as confiscation of their assets because they are people of enormous means," EFCC head Farida Waziri said in a statement.

The top overall debtor, to Intercontinental Bank, was Ascot Offshore Nigeria Ltd., an oil-services company that bought out U.S. company Willbros Group Inc. in 2007. None of the five bailed-out banks could be reached for comment.

Also on the list of debtors was Aliko Dangote, the richest man in Nigeria and earlier this month unanimously elected president of the Nigerian Stock Exchange by the exchange's council. Mr. Dangote's spokesman declined to comment.

He is president of the Dangote Group, which controls significant portions of the cement, sugar, flour and rice industries in Nigeria. The central bank cited debts of a subsidiary of Dangote Group.

Femi Otedola, head of the companies African Petroleum and Zenon and the other Nigerian on the most recent Forbes magazine list of billionaires, was also on the list. Mr. Otedola couldn't be reached for comment.

The executive director of the stock exchange and head of hotel and energy conglomerate Transcorp, Ndi Okereke-Onyiuke, was also on the list.

Officials from Dangote Group and the Nigerian Stock Exchange declined to comment. Transcorp couldn't be reached for comment.

Mr. Sanusi, a former banker, took office in June pledging to crack down on banks with poor lending records.

On Monday, trading in the five banks was suspended for two weeks. The Nigerian stock market continued its steady decline, closing down 2.6% Wednesday.

U.S. tax-evasion probe identifies more European banks

Wealthy U.S. citizens using a tax-evasion amnesty program have identified nearly 10 Swiss and European banks where their accounts are held, opening new fronts in the Internal Revenue Service's probe into potential tax crimes, according to people familiar with the situation.

By Carrick Mollenkamp, Laura Saunders and Evan Perez

Among the banks named in the voluntary disclosures are Swiss banks **Credit Suisse Group** AG, **Julius Baer Holding** AG, **Zürcher Kantonalbank** and **Union Bancaire Privée**, known as UBP. The banks either declined comment or weren't available to comment.

The disclosures don't signal wrongdoing at the banks. It may mean that a U.S. citizen simply kept money at a European bank and now wants to report it. Nor does it signal that other banks mirrored **UBS** AG in the way the Zurich bank and its private bankers used subterfuge to meet with and communicate with clients for whom the bank created complex structures to evade taxes.

Still, the disclosure program, which ends Sept. 23, has provided a gold mine of information for the IRS. Many UBS clients have come forward in hopes of receiving a measure of clemency and avoiding fines and criminal prosecution. U.S. citizens also are using the program to detail accounts at other banks. All applicants to the program must list all "accounts or assets where you have control or are a beneficial owner of the account or assets."

The disclosure form also requests dates the accounts were opened or closed and the person's point of contact.

The disclosure program has run in parallel to a joint Justice Department-IRS civil court case designed to force UBS to disclose identities of thousands of U.S. clients who may have pursued tax-evasion schemes.

On Wednesday, details of a settlement between the U.S. and Swiss governments were released. As part of the agreement, UBS will reveal the identities of about 4,450 clients who are suspected of evading U.S. taxes through Swiss accounts.

Early on, Justice Department prosecutors viewed UBS as a "stalking horse" case, which they could use to prod other banks to drop their business of helping rich Americans hide income from the IRS, according to people close to the case.

In the process, government officials hoped they could induce alleged tax evaders to come forward to pay their taxes and provide information about bankers, accountants and others who helped them set up their offshore accounts.

Lawyers following the UBS settlement now are watching to see whether the settlement establishes a blueprint for how the IRS can obtain information in the future from Swiss banks.

The government is moving closer to criminal prosecutions in the UBS matter. In a court filing Tuesday, the Justice Department disclosed that it is pursuing criminal investigations of more than 150 U.S. citizens, from some 250 names previously disclosed by UBS. The court filing was made as part of a criminal case against former UBS private banker Bradley Birkenfeld, who has been aiding the government's case against the bank.

In June 2008, Mr. Birkenfeld pleaded guilty to helping Americans evade taxes. In the court filing, the Justice Department noted Mr. Birkenfeld's help and asked for a reduction in his sentence to 30 months. He could receive a statutory maximum of 60 months.

Milan Patel, a tax lawyer at Withers LLP in Geneva, said several Swiss banks and advisers are encouraging U.S. clients to use the disclosure program.

Those banks don't want to be perceived as having helped U.S. taxpayers hide funds, Mr. Patel said. Still, Mr. Patel said, the additional disclosures may not signal good news for Swiss banking.

"The other Swiss banks being named in the voluntary disclosures are probably concerned that any one of them could be potentially targeted by the IRS as the next UBS case," Mr. Patel said.

The disclosures also are yielding the names of a separate group of firms that provide financial advice to U.S. clients. These firms, sometimes known as promoters, help a U.S. client assemble complicated tax structures.

An IRS spokesman declined comment and pointed to IRS Commissioner Douglas Shulman's statement last week, when the settlement was announced, that the deal protects the interests of the U.S. government.

Beijing will help small businesses access funding to grow

BY TERENCE POON

BEIJING— China's government issued a fresh pledge to make it easier for small businesses to raise money and get access to public funds, amid worries that the economic rebound has mainly benefited big state concerns.

The government is trying to support small- and medium-size enterprises, or SMEs, because they provide jobs for most of the people and their growth will be crucial once the government's stimulus program tapers off.

"Fostering the growth of small- and mid-size enterprises is an important foundation for maintaining steady and rapid economic growth," the State Council, China's Cabinet, said in a statement on the central government's Web site. "It is a vital strategic task that affects the lives of people and social stability."

The council hinted that it may ease credit policy for SMEs, saying it will treat their loan differently in credit policies. It will encourage local authorities to subsidize institutions that lend more to small companies. SMEs usually find it difficult to borrow money because banks consider them risky.

The State Council said it also will make it easier for SMEs to raise funds on the capital market by accelerating the establishment of the Growth Enterprise Market—a Nasdaq-style stock market—and expand the scale of short-term bills and bundled bonds issued by the enterprises. The government will quicken the formation of a development fund, "guiding private funds to support growth of SMEs," said the council.

Even though China's gross domestic product expanded 7.9% in the second quarter from a year earlier, from the first quarter's 6.1% growth, the government has said the pickup has been uneven and its foundation isn't yet firm.

—Victoria Ruan contributed to this article.

Rare dissent for Bank of England

King had argued for more stimulus but was outvoted

By Natasha Brereton

LONDON—In a rare dissent signaling doubts about a recovery in the U.K. economy, Bank of England Governor Mervyn King argued for more-aggressive stimulus measures than officials ultimately approved at the bank's most recent policy-setting meeting.

Minutes of the Aug. 6 meeting, released Wednesday, showed Mr. King voted to boost the bank's so-called quantitative-easing program by £75 billion ($123.3 billion) to a total of £200 billion, putting him in the minority on the nine-member committee for only the third time in his six-year tenure as governor.

Instead, the committee decided to boost the program by £50 billion to £175 billion, which was still more than investors expected at the time.

The dissent, a rare move among central-bank chiefs, reflects Mr. King's concern that the U.K. economy could fall back into contraction despite recent signs of growth in the third quarter.

"This is the first time that the governor has dissented on the dovish side, which is a surprise in itself," said George Buckley, U.K. economist at Deutsche Bank, adding that the move suggests the bank could sanction more quantitative easing or hold interest rates lower for longer. "In the previous two situations where he dissented in previous rounds, the committee have come round to his way of thinking."

Prices of U.K. government bonds rose and the pound fell, as investors took the news as a sign the bank may yet expand the program of buying bonds with freshly created money in a bid to pump cash into the economy.

The central bank launched the quantitative-easing program in March, and so far has spent £133 billion, mostly on government bonds. It has also held its main interest rate at a historic low of 0.5% since March.

The dissent from Mr. King, joined by two other members of the panel, comes at a time when a series of economic indicators has suggested the U.K. is poised to enter recovery.

The Confederation of British Industry said Wednesday that industrial output improved for a second straight month in August to the highest level since June 2008.

The minutes showed that Mr. King, along with panel members David Miles and Tim Besley, argued that a long period of inflation below the bank's target could drag on people's inflation expectations and hurt public confidence in a recovery, resulting in a renewed downturn.

That could also damage confidence in the effectiveness of the central bank's policy, reducing its impact in the future, they said.

Other members pointed out that some of the most immediate risks to the economy had receded, and noted that the channels through which quantitative easing works, and the size and speed of that impact, were uncertain.

—Neil Shah contributed to this article.

The dissenters

Three members of the Bank of England's Monetary Policy Committee wanted more quantitative easing

Mervyn King

The Bank of England governor has called for tighter monetary policy on all 14 previous occasions that he voted in the minority. Soon after the two occasions that fell within his governorship, the majority of Monetary Policy Committee members started voting his way.

Tim Besley

The MPC's most hawkish member who steps down from the committee this month, to be replaced by U.S. economist Adam Posen. Has voted for rate increases and has been in the minority seven times, always voting for tighter monetary policy.

David Miles

Former Morgan Stanley Chief Economist and housing-market expert who joined the MPC in June. He said last month there was little chance that the U.K. economy would soon grow at rapid pre-crisis rates and that it was unrealistic to expect a swift rise in bank lending.

Photos: Bloomberg news (left); Bank of England (center and right)

Producer prices in Germany fall at a record pace

By Geoffrey T. Smith

German producer prices fell in July at the fastest rate since records began in 1949, while Germany's top central banker used a second interview in a week to pour cold water on hopes of a speedy recovery for Europe's largest economy.

Energy drove the change, with energy prices falling 16.5% year-to-year, and 4.5% from June. This drop accounted for more than two-thirds of the movement in the price index, Destatis said. Even after stripping out the energy factor, prices fell 0.2% on the month and 3.6% year-to-year, suggesting the pickup in new orders to German manufacturers visible in May and June hadn't affected prices by July.

The rebound in energy prices is one of the strongest arguments advanced by the European Central Bank that the euro zone won't fall into a deflationary wage-price spiral.

Meanwhile, Axel Weber told newspaper Die Zeit in an interview published Wednesday that Germany won't regain its 2008 level of output until 2013. The economy is still heavily dependent on state-support mechanisms, he said. Mr. Weber has seemed to be on a campaign to add balance to the optimism of those German politicians who, facing an election in September, have called an end to the recession on the basis of data showing that the economy grew by 0.3% in the second quarter. That ended four quarters of negative growth.

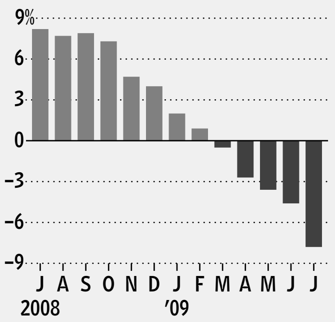
Mr. Weber, who earlier this week said the ECB needn't hurry to withdraw its monetary stimulus, said the German government also shouldn't focus on reducing the budget deficit until the second half of 2010 "at the earliest."

Economists said on Wednesday that the rise in oil prices would probably put a brake on the broad fall in prices. Andreas Rees, an economist with UniCredit SpA in Munich, said the economic contraction has left German manufacturers short of inventories, and that as a result, successive increases in orders of 4.4% and 4.5% in May and June will head off any deflationary trend.

"Overall, the figures are a reminder that while activity data are looking a little more upbeat the German economy is operating with a large excess of capacity, which will put downward pressure on prices for a prolonged period," added Dominic Bryant, an economist at BNP Paribas SA in London.

Continue to slide

German producer-price index, change from a year ago



Source: Federal Statistical Office, Germany

Israel central bank may lead on raising rates

By Paul Hannon

LONDON—As world economies show early signs of steadying after a yearlong recession, markets are turning their focus to which central banks might be the first to begin unwinding massive monetary-stimulus programs. But don't look for any of the world's largest central banks to move quickly.

The central banks of Australia, India, South Korea, Israel, Norway and the Czech Republic head up a short list of central banks that could lead the way and start raising their key interest rates toward prerecession levels. Observers say Israel could move as soon as its next policy decision, scheduled for Monday.

Even though central banks around the world moved together to slash key interest rates and provide other forms of stimulus as the global economy plunged into recession in the final months of last year, they are unlikely to be quite as synchronized when they decide to start tightening monetary policy. More than anything, that reflects the differing degrees to which the downturn exposed and exacerbated underlying weaknesses.

Some of the contenders for tightening monetary policy—for example, Australia and Norway—are benefiting from a revival in commodity prices. Others are enjoying a normalization of international trade flows following their collapse in the final three months of 2008 and the first three months of 2009.

What unifies them is that none had banking systems that suffered greatly during the worst of the global financial crisis.

Although major economies, such as the U.S. and the euro zone, are pondering the pace and timing of their own "exit strategies," they are likely to lag behind.

Future increases in U.S. and U.K. interest rates are likely to be much further away as formerly debt-driven economies rebalance and work to overcome sharp rises in unemployment. The European Central Bank has signaled it will hold rates down at 1% well into 2010.

The Bank of Israel may claim the honor of being the first to raise its key interest rate, observers say. According to figures released Sunday, Israel's economy grew in the second quarter of this year, having contracted for the previous six months. Compared with many other economies, that was a brief encounter with recession.

Israel also hadn't experienced a credit boom in the run-up to the global financial crisis, and its banking system sustained relatively little damage. Its central bank responded quickly and aggressively to the first indications of the scale of the crisis that accompanied the collapse of Lehman Brothers.

The Reserve Bank of Australia has long been earmarked by investors as potentially the first Group of 20 central bank to increase its key interest rate, and may move as early as December.

The Australian economy has benefited from its role as a provider of raw materials for China, where growth has begun to pick up. Australia's banks have also stood strong while their overseas peers wilted under the heat of the global financial crisis. It was the financial sector's strength that allowed major banks to pass on much of the central bank's 4.25 percentage points in rate cuts dished out since September 2008, allowing monetary policy to gain traction and cushion a collapse in confidence.

Economists now expect the Reserve Bank of Australia to start raising interest rates once it is confident the rebound in the 1.1 trillion Australian dollar (US$909 billion) economy can be sustained and isn't based solely on economic stimulus.

—In-Soo Nam in Seoul, Subhadip Sircar in Mumbai, Shen Hong in Shanghai and James Glynn in Sydney contributed to this article.

European Pressphoto Agency/Belga

Stanley Fischer, governor of the Bank of Israel, in Jerusalem this month. Some economists expect Israel's central bank to be among the first to raise rates again.

LEADING THE NEWS

OECD said GDP stabilized in 2nd period

Recovery may come sooner than thought but will be 'weakish'

BY NICHOLAS WINNING AND A.H. MOORADIAN

LONDON—The Organization for Economic Cooperation and Development said the turning point at which its 30 member nations start to show economic growth rather than contraction is likely to arrive sooner than previously expected.

Forward-looking economic indicators from major countries suggest the lowest point of the nearly two-year economic downturn may have been reached already or could occur a few months earlier than previously expected, acting OECD chief economist Jørgen Elmeskov said Wednesday.

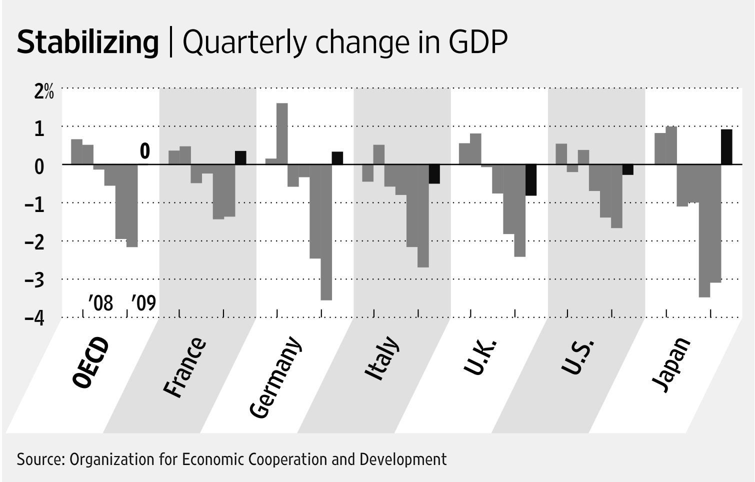
The group's "swing from negative to positive growth could come forward in time," Mr. Elmeskov said in an interview. But he cautioned that the eventual economic recovery for OECD countries as a whole will probably still be weak.

In a report released Wednesday, the Paris-based organization said gross domestic product in the OECD countries stabilized between April and June, as export growth in Germany and Japan broke a one-year string of quarterly declines.

But GDP remained 4.6% lower than in the second quarter of last year, and improved only marginally from the 4.7% year-on-year decline seen in the first quarter.

In June, the OECD forecast that GDP in the OECD area would decline less sharply than it had previously expected this year and grow next year. It was the first upward revision of its growth predictions since the economic crisis began. The OECD said it expected the U.S. to fare better than it had previously predicted, but forecast the euro zone and Germany, in particular, would shrink more rapidly.

In the interview, Mr. Elmeskov said, "It's very difficult to say what the recovery will look like," because there isn't enough data in hand. But there is nothing at this time to suggest it will be anything but the "weakish recovery" previously expected, he added.



The report said the GDP of the OECD's major seven countries—Canada, France, Germany, Italy, the U.S., the U.K. and Japan—slipped 0.1% on a quarterly basis between April and June after dropping 2.1% in the first quarter. But there was considerable variation in national rates, with export heavyweights Japan and Germany leading the recovery, while the U.K. and Italy lagged behind.

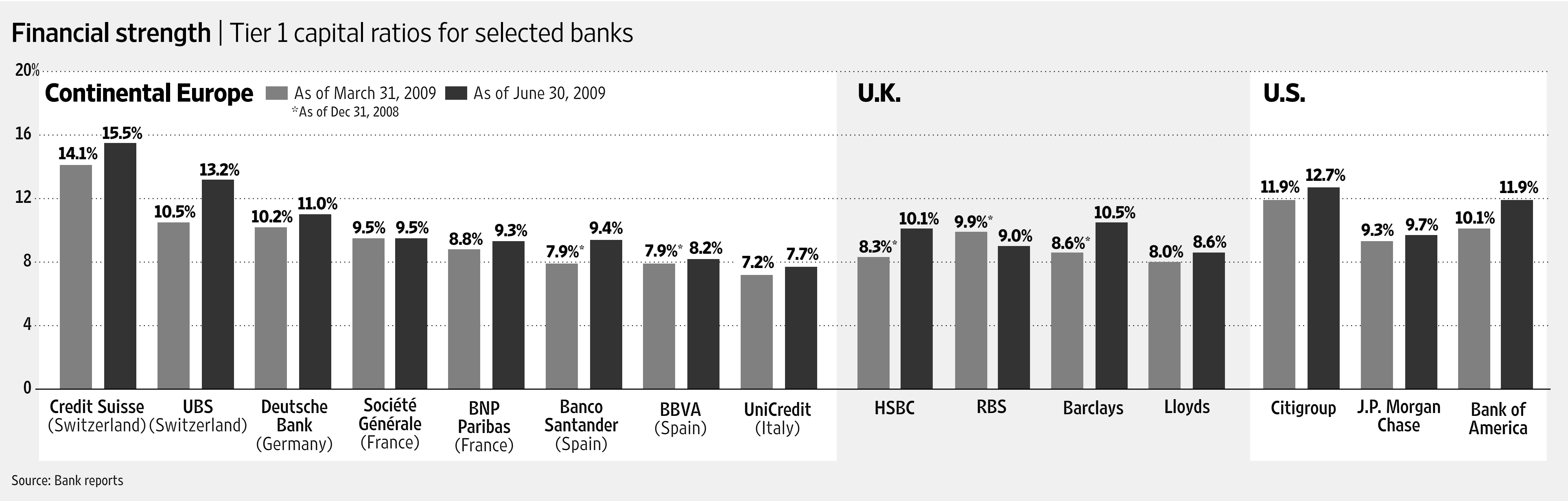
The U.K. posted a 0.8% quarterly drop in GDP while Italy declined 0.5% and the U.S. slipped 0.3%. On the upside, Japan grew 0.9% in the second quarter and France and Germany both posted a 0.3% increase. Quarterly GDP figures weren't available for Canada.

Compared with the second quarter of last year, Japan had the steepest drop in GDP of the major seven, with a 6.5% decrease. Italy posted a 6% slump, followed by Germany with a 5.9% decline, and the U.K. with a 5.6% drop. The U.S. posted a 3.9% drop in year-on-year terms, and France fell 2.6%.

A separate report by the International Chamber of Commerce and the German Ifo institute for economic research also said high unemployment rates and rising public debt in many countries had led to concerns about a sustained recovery in the global economy in the near term.

"We need to caution against excess optimism and realize that the signs of recovery that we are seeing remain unfortunately weak," Jean Rozwadowski, the general secretary of the ICC, said in a statement.

The ICC and Ifo said the institute's world economic climate index rose to 78.7 points in the third quarter from 64.4 points in April and 50.1 points in January on improved economic expectations and the slight improvement in the global economy.



Continental European banks take risky tack on capital

BY STEPHEN FIDLER

LONDON—Continental European banks are taking a much different approach to shoring up their finances than counterparts in the U.S. and the U.K., in what some analysts see as a risky bet that they can muddle through without tapping stock markets for capital.

In recent months, many banks in continental Europe have managed to boost their capital buffers thanks to strong earnings, benign markets, dividend cuts and some asset sales—factors that also have helped banks elsewhere.

But they have been much less active than U.S. and U.K. rivals in attracting fresh capital through share issues. So far this year, banks on the Continent have raised only $11.6 billion in new equity capital, compared with $48.3 billion in the U.S. and $26 billion in the U.K., according to figures from Dealogic.

This falls way short of the banks' capital requirements as estimated by the International Monetary Fund in April. These estimates suggest continental European banks will need to raise some $375 billion to keep their capital at a healthy level, compared with $275 billion for U.S. banks and $125 billion for U.K. banks.

In the short term, European banks' reluctance to issue new shares has been good for current stockholders, and rising capital levels are likely to reduce pressure from regulators to move faster.

But concerns remain that the banks, which have been much slower to recognize losses on bad loans than in the U.S., could ultimately see their capital eroded as losses mount. That, in turn, could limit their ability to lend and damp the prospects for a European economic recovery.

European banks "aren't going to make much money over the next few years due to large credit losses ... and are unlikely to see much internal capital generation through profits," said Simon Adamson, an analyst with CreditSights in London.

The banks and their regulators are "keeping their fingers crossed and hoping for the best," said one official from an international agency that is monitoring the matter.

From country to country, European banks have faced uneven pressure from regulators to boost their capital. In Switzerland, a small economy that is home to two global banks, the authorities have insisted that **UBS** AG and **Credit Suisse Group** AG be better capitalized than their neighbors. UBS's Tier 1 capital ratio, the most closely watched measure of financial strength, was 13.2% at the end of the second quarter. Credit Suisse's was 15.5%, making it one of the best capitalized banks in Europe.

Unlike in the U.S., Europe's regulators haven't disclosed stress-test outcomes.

Elsewhere, banks have been less aggressive about capital raising—a fact that banking experts attribute to a lack of pressure from regulators. Still, their capital ratios have risen, built up largely by a boom in investment-banking profit.

In Germany, **Deutsche Bank** AG's Tier 1 ratio stood at 11% at the end of June, up from 10.2% three months earlier. Italy's **UniCredit** SpA had a Tier 1 ratio of 7.7%, up from 7.2%.

Continental European banks' reluctance to tap stock markets stems from more than merely a desire to protect their current shareholders from dilution. For one, they could have a hard time issuing shares amid concerns that they have yet to fully come clean about losses. Many, for example, have chosen to classify souring investments in a way that allows them to take the losses over a longer period.

"If you want to raise equity as a bank, you have to come clean on the balance sheet," says David Soanes, head of global capital markets for Europe at UBS AG.

In the U.S., government-sponsored stress tests have reassured stock investors in banks, but national bank regulators in Europe have refused to disclose the parameters or outcomes of stress tests conducted on their own banks.

"Unlike in the U.S., in Europe you have different economies with competing banking systems, and no government wants to be the first to expose its banks to brutal stress tests that lay bare the deficiencies of its banks," says Johannes Wassenberg, a banking analyst at ratings firm Moody's Investors Service.

European banks also face greater technical obstacles to issuing new shares. For example, most can sell new shares only if they first offer them to existing shareholders through rights issues, and they must get shareholder consent to do so. This means the process can take several months and leaves banks open to the risk of a renewed bout of volatility that could undermine the pricing. U.S. banks, by contrast, can complete new share issues almost overnight, with little market risk.

Other European banks have a hard time raising more capital because their shareholders include cooperatives, trusts and other entities that aren't in a position to add new money, as opposed to the institutional investors such as pension funds that dominate the ownership of U.S. and U.K. banks. Many important banks are owned by governments or regional authorities, as in the case of Germany's troubled Landesbanks, and others are cooperatives or mutual institutions.

—Sara Schaefer Muñoz contributed to this article.

Venture persists in Centrica defense

Oil firm highlights growth prospects as it fights takeover

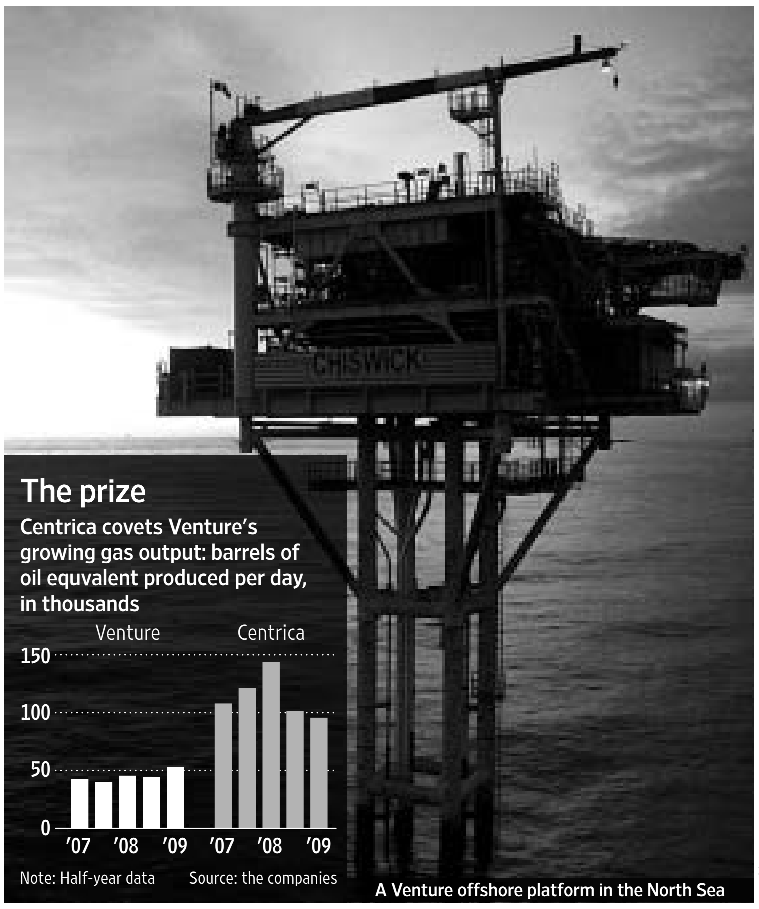
By James Herron

LONDON—Small oil company **Venture Production** PLC on Wednesday continued its defense against a hostile takeover from U.K. utility **Centrica** PLC, as rising output from new fields helped it keep first-half net profit virtually unchanged from a year earlier despite a drop in energy prices.

Centrica, which already owns 29.9% of Venture, launched a £1.3 billion ($2.15 billion) bid for the rest last month, an approach that Venture rejected as too low. Through the deal, Centrica aims to gain access to Venture's gas reserves to reduce its reliance on volatile wholesale gas markets for supplies.

Venture said Wednesday that its solid field-development program and financial strength will allow it to continue to thrive as an independent company.

Additionally, Chief Executive Mike Wagstaff said, Venture itself sees possible acquisitions ahead. He noted that while there has been a dearth of opportunities in the North Sea recently, partly because nobody wanted to sell at the bottom of the market, the change in economic conditions means bigger packages of assets could be coming up for sale. One such asset sale is the 25,000 barrels per day of North Sea oil production Italy-based **Eni** SpA is planning to sell, he said.



A Venture offshore platform in the North Sea

Venture

These growth opportunities demonstrate that "Centrica's offer substantially undervalues Venture," Mr. Wagstaff said.

Centrica declined to comment Wednesday. Earlier this month, it said that Venture's defense is based on an overly optimistic assumption of future gas prices and that the 845 pence-per-share offer is "a compelling opportunity for Venture shareholders."

Centrica said last week that it received additional acceptances from shareholders representing a 10.9% stake in the company. It has extended its bid for Venture until Aug. 28.

Venture said its net profit for the six months ended June 30 totaled £54.1 million, down slightly from £54.7 million a year earlier. The latest results were weighed down by a charge of £10.8 million related to development costs and an additional £5.2 million in administrative costs related to its defense against Centrica's bid.

Venture's revenue was up 12% to £274.7 million from £240.5 million. Total oil and gas production averaged 52,988 barrels a day, a rise of 16% from a year earlier. Maintenance shutdowns later in the summer will reduce output in the second half, but the company said it is on track for modest full-year production growth from 2008 levels.

The company has delivered a strong set of results, with project development on track and a smart hedging strategy that has partially shielded it from the drop in energy prices, said Evolution Securities analyst Richard Griffith. "The question is, will it be enough to fend off Centrica?" Mr. Griffith asked, noting that some Venture shareholders are clearly keen to pocket the cash.

BAT names former banker as new chairman

By Anita Likus
And Michael Carolan

LONDON—**British American Tobacco** PLC on Wednesday tapped former **Bank of Ireland** PLC Governor Richard Burrows as its new chairman.

Mr. Burrows will take over from Jan du Plessis, who will become chairman of **Rio Tinto** PLC, on Nov. 1.

Mr. Burrows resigned from the Bank of Ireland in May, following a troubled fiscal year in which the bank's net profit dropped to €69 million ($97.5 million) from €1.7 billion a year earlier and had to seek €3.5 billion in financial assistance from the Irish government. Mr. Burrows apologized to investors at the time for the loss of shareholder value and the cancellation of the company's dividend.

BAT, meanwhile, demonstrated the resilience of the tobacco industry last month when it posted a 16% rise in first-half net profit to £1.45 billion ($2.4 billion).

Sales of cigarettes are continuing to hold up pretty well in the recession because smokers are reluctant to give up tobacco. Also, any dropoff in volume can be offset with price increases. The company's shares have risen 3.4% in the past year.

Analysts weren't concerned by Mr. Burrows's Bank of Ireland record, concentrating instead on his highly successful career in the fast-moving consumer-goods industry.

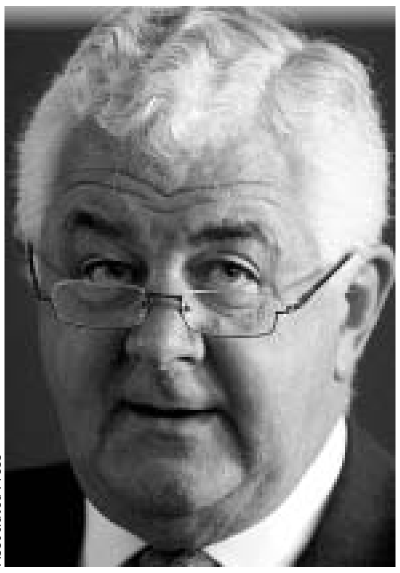
He was chief executive of Irish Distillers from 1978 until its takeover by Pernod Ricard SA in 1988. He continued to work within the French drinks company and eventually served as co-chief executive of Pernod Ricard from 2000 to 2005.

The BAT chair is a nonexecutive position, but a higher-profile role than at other similarly sized companies. During his five years in the job, Mr. du Plessis took responsibility for commenting on any political issues—such as antismoking legislation—leaving Chief Executive Paul Adams to concentrate on operational matters.

Mr. Burrows will be paid an annual salary of £525,000 and will work a two-day week for BAT. The salary is below the £686,000 Mr. du Plessis received to reflect the short working week, the company said.

A Dublin resident, Mr. Burrows is married with four children and—like the previous chairman—is a nonsmoker.

BAT, with a market capitalization of £38 billion, has more than 300 brands, including Dunhill, Kent, Lucky Strike and Pall Mall.



Associated Press

Richard Burrows
Chairman-designate of BAT

Executive positions
Irish Distillers, Chief Executive 1978–'00
Pernod Ricard, Co-Chief Executive 2000–'05
Bank of Ireland, Governor 2005–'09

Non-executive positions
Rentokil Initial, current board member
Carlsberg A/S, current board member

Other roles
President of the Irish Business and Employers Confederation 1998–'00
Chairman of the National Development Corporation 1984–'88
Chairman of the Scotch Whisky Association 2006–'07
Current member of the Trilateral Commission

GM board to consider offers for Opel on Friday

By Andrea Thomas
And Katharina Becker

BERLIN—The board of **General Motors** Co. is to meet Friday to discuss bids for its European Opel/Vauxhall unit, and two people close to the discussions said an announcement could come next week.

GM's revamped board met last week to review "final" offers for a majority stake in the unprofitable European unit, though the two bidders—Belgian investment group **RHJ International** SA and a consortium led by Austrian-Canadian car-parts maker **Magna International** Inc.—are being pressed by German authorities to tweak the proposals.

The auto maker technically has a final say in what GM insists will be a "commercial" decision, but the proposed sale has become politically charged because of its reliance on as much as €4.5 billion ($6.36 billion) in government guarantees, mainly from German federal and state authorities.

"The board then has to make a statement in principle," German Economics Minister Karl-Theodor zu Guttenberg said about the planned GM meeting.

German officials are pressing the bidders to inject equity equivalent to 10% of the final government guarantees as part of their offers. GM, Magna and RHJ declined to comment.

The Opel/Vauxhall business incurred a loss of $2 billion in the first quarter of 2009 and is being run by a trust with €1.5 billion in German government loans. GM officials have said the unit doesn't need more funds before its sale as cash burn has abated.

Europe is GM's single largest market, with unit sales ahead of both the U.S. and China. Amid uncertainty over its future, Opel still managed to increase market share in Germany—GM's third-largest national market—in the first half of the year.

Magna, in a consortium with Russian savings banks OAO **Sberbank** and auto maker OAO **GAZ**, was chosen in May as the German government's preferred bidder.

Scant gas supply drives Centrica's offer for Venture

By Selina Williams

LONDON—**Centrica** PLC's move to take over **Venture Production** PLC is the U.K. utility's latest attempt to shore up its gas supplies and strengthen its position in the U.K. energy market.

Securing gas and electricity supplies for its customers, which now number 15.5 million, has been an issue since the company's beginnings left it with a now-dwindling base of gas reserves. But the issue has become even more pressing as today's volatile energy markets have made energy security a top priority for governments and companies alike.

At the end of last year, Centrica was able to supply only 29% of its gas requirements from its own gas fields and 58% of its peak electricity demand from its own generation facilities—the rest is purchased in volatile wholesale markets.

The company's current woes are a result of its beginnings. Centrica was formed in 1997, when state monopoly British Gas PLC was split into Centrica and what was to later become BG Group PLC. The demerger left Centrica with British Gas's sales, services and retail businesses together with the gas-production business of the now declining Morecambe gas fields in the East Irish Sea. Meanwhile, BG Group was left with the North Sea gas fields.

Things started off well for Centrica. In the year following the demerger, the U.K. utility acquired upstream gas and oil company PowerGen North Sea Ltd. as part of its strategy to secure additional upstream assets.

That same year, Centrica's supplier monopoly for gas ended and it started supplying its first domestic electricity customers as the U.K. market began to open up to competition.

However, over the next few years, Centrica seemed to lose its way as it sought to diversify away from its core business of gas and electricity. In 1999 it spent £1.1 billion ($1.82 billion) buying the U.K.'s leading motoring organization, AA, describing the move as "an excellent strategic fit."

Over the next two years, Centrica launched a telecommunications service, formed a joint venture with a bank to set up the Goldfish credit card and bought the Halfords car-repair garage chain.

But by 2003, the diversification strategy was dumped and the company began selling off the extraneous businesses to focus on its core business.

Since the 2006 appointment as chief executive of Sam Laidlaw, who brought upstream expertise from his time working as a senior executive in U.S. oil major Chevron Corp., Centrica has become a sleeker and more streamlined business with a clearer focus.

In the past few years, Centrica has been chasing solutions to its supply problem, buying up exploration acreage in Norway, Nigeria and the Caribbean. Most significantly, earlier this year it boosted its electricity resources by buying 20% of the U.K.'s largest nuclear producer, British Energy, from Electricité de France SA.

Paper maker Stora Enso to close two mills

Weakness in prices and demand place third facility at risk

By Ian Edmondson

Stora Enso Oyj of Finland said Wednesday it will close two sawmills and possibly a paper mill by the end of next year with the loss of as many as 1,100 jobs, and write down the value of some of its assets as the outlook for the pulp and paper industry remains dim.

"The operating environment has deteriorated faster than ever before: Long-term structural cost inflation in fiber and energy costs has recently been followed by dramatic weakening in demand," said Jouko Karvinen, chief executive of Europe's largest paper company by revenue.

Stora Enso said it will permanently close Tolkkinen Sawmill, which already has stopped production temporarily, by the end of 2009 and shut down Sunila Pulp Mill in the second quarter of 2010. A paper machine at Imatra Mills will cease running in the first quarter of next year. The closures will trigger €245 million ($346 million) in costs, as well as €25 million in cash provisions, to be booked in the third quarter.

If demand and prices for fine paper don't recover by the end of 2010, Stora Enso said it will also shutter its Varkaus Mills.

About 450 to 1,100 employees in Finland would be affected by the changes, depending on the outcome of the plans for Varkaus Mills, Stora Enso said.

In addition, the company said it is lowering the value of goodwill and fixed assets by €347 million because of the weak long-term outlook in its markets, especially for publication and fine papers.

Stora Enso and rivals such as UPM-Kymmene Oyj of Finland and Norske Skogsindustrier ASA of Norway have been cutting capacity in an attempt to halt a slide in profits and bring supply in line with falling demand for several paper grades.

The mill closures were expected and are a positive sign that the industry recognizes the need for further restructuring, said Timo Jaakkola, analyst at Ohman Equities. "They're cutting capacity in unprofitable lines and switching to operations where they can make money," he said.

An employee checks a reel of paper at a Stora Enso paper mill in Finland

Paper cuts

Stora Enso is cutting pulp and paper output as wood production weakens.

Below, operations the company will shut down:

Sunila Pulp Mill
Annual production capacity: 375.000 metric tons of softwood pulp; about 250 employees

Imatra Mills Paper Machine 8
Annual production capacity: 210.000 tons of uncoated fine paper; about 140 employees including integrated services

Tolkkinen Sawmill
Annual production capacity: 260.000 cubic meters of sawn wood; about 55 employees

Sources: the company; Bloomberg News (photo)

RWE expects Poland to deregulate domestic power prices

By Jan Hromadko

FRANKFURT—**RWE** AG expects Poland to soon deregulate domestic power prices, a move that would make the German utility's approach for a 67% stake in Polish peer **Enea** SA more attractive.

RWE earlier this week said it made a nonbinding offer for the 67% stake in Enea put up for sale by the Polish government, continuing its strategy of expanding into countries neighboring Germany, its core market.

At current market prices the stake is valued at around six billion zlotys ($2.04 billion).

In addition, RWE is in the process of acquiring Dutch peer **Essent** NV in a €9.3 billion ($13.14 billion) deal, which it expects will close in the third quarter.

A representative for Poland's Energy Regulatory Office said Wednesday that a decision about deregulating retail power prices will be announced in September.

"The discussion about deregulation of domestic power prices has been going on for a number of years now, but we expect the market to be liberalized," Filip Thon, chief executive of RWE's Polish operations, RWE Polska, said in a telephone interview Wednesday.

"We expect there will be a convergence between the Polish and Western European power markets in the long-run," Mr. Thon said.

Last week, Poland's Treasury Ministry said it had received two offers for the Enea stake, but didn't name the bidders. On Monday the ministry said RWE had been selected for exclusive talks on the sale.

Enea would be a good regional match for RWE, analysts say, as it complements the company's existing assets in Poland that supply more 880,000 customers, mostly in Warsaw.

Enea operates a distribution network in western Poland, and owns a coal-fired power generator in Kozienice, central Poland, with a capacity of 2,880 megawatts, accounting for 11% of Poland's installed capacity.

RWE owns a local power distributor that sells electricity in the lucrative Warsaw area but doesn't have any sizable power-generation assets in Poland.

RWE

Filip Thon, CEO of RWE's Polish unit, said talks about deregulation of domestic power prices has been going on for years.

Mr. Thon said Wednesday that the takeover of Enea would increase RWE's share of the Polish power-distribution market to about 20% and of the power-generation market to around 10%.

Industry experts said that, besides fallout from the economic crisis, regulatory uncertainty has been a key reason why the tender for Enea's privatization attracted just two bids. Swedish power company Vattenfall AB, considered a favorite to acquire the Enea stake, didn't make a bid.

In a research note published earlier this week Frankfurt-based brokerage Sal. Oppenheim said: "Poland has been rather reluctant in opening the domestic energy market to foreign investors, so major investments by RWE would also require a strong political commitment to the deal."

The price of power to households in Poland, which accounts for a quarter of electricity consumption, is still overseen by the country's Energy Regulatory Office.

Following steep increases in wholesale power prices in 2008, power companies requested increases of more than 40% for 2009. The regulator balked at these demands and approved only a 10% increase.

In September 2008, the regulator halted the full deregulation of power prices, scheduled for 2009, saying it was protecting domestic consumers. As a result, some Polish power companies are posting losses on domestic power, which has to be cross-subsidized by steeper tariffs for the corporate sector.

Last month, Marek Woszczyk, the energy regulator's deputy head, said that recent drops in electricity prices and declining demand as a result of the economic slowdown created a good opportunity to liberalize prices in the household sector.

Mr. Thon said Poland is attractive to RWE as it is one of the most stable economies in the European Union and one of the few EU members whose economy isn't expected to contract in 2009.

—Marek Strzelecki contributed to this article.

Czech Airlines sale in doubt as Air France-KLM withdraws bid

By Sean Carney And Steve McGrath

The privatization of **CSA Czech Airlines** was thrown into doubt Wednesday after **Air France-KLM** withdrew from the tender because of the downturn in the industry and after examining the Czech carrier's books, leaving just one bidder left in the process.

The Czech Ministry of Finance said the tender would continue, and the remaining bidder, a consortium of Czech and Icelandic investors, said it remains interested despite Air France-KLM's withdrawal.

But the process has been dogged by delays and problems. In June the Czech government extended the deadline for final bids to Sept. 15, from July 13, saying it wanted to give the bidders more time to value the company and prepare offers. Some industry experts, however, blamed the delay on weak interest. The Czech cabinet was expected to examine the bids Sept. 30.

In addition to the tough business environment and worsening financial positions for both airlines, Air France-KLM decided that the expected synergies from a tie-up wouldn't be enough to justify the investment, said a person close to the matter. An Air France-KLM spokeswoman declined to comment beyond the company's statement.

The Ministry of Finance, which is running the privatization process, had picked Air France-KLM and a consortium of Czech financial firm **Unimex** and charter airline **Travel Service** AS for the privatization short list. Four bidders had originally shown interest, but Russian airline OJSC Aeroflot and Odien AV III AS, a private-equity fund of Odien Group, a financial firm active in the region, weren't included in the short list.

"We're moving forward in step with the tender's conditions, now we're doing due diligence," said Vladka Dufkova, spokeswoman for Travel Service and the Czech consortium. The group will submit a bid by the mid-September deadline, she added. Icelandic airline Iceland Air Group Holding is a shareholder in Travel Service. Ms. Dufkova declined to say how the consortium would finance the purchase of Czech Airlines if it wins the tender.

"The Ministry of Finance will continue in the tender and the process won't be changed," said Ondrej Jakob, the spokesman for the Czech Finance Ministry, declining to take any further questions.

If the privatization is delayed, it will come as a blow to a Czech government trying to deal with a worsening economic situation in the country. The Czech state is hoping to generate about $270 million by selling its 91.5% stake in Czech Airlines, which is a member of the Air France-KLM-led Sky Team alliance.

Air France-KLM's withdrawal comes as the global airline industry is going through one of the worst downturns in its history, with passenger numbers and cargo volumes tumbling amid the economic downturn and credit crunch. Airlines are seeing profits drop sharply or turn to losses as a result and are trying to preserve cash by cutting costs, capacity and staff.

In May, Czech Airlines reported that its pretax loss widened to 1.32 billion koruna ($72.8 million) in the first quarter, from an 844 million koruna loss a year earlier, as passenger numbers fell 12%. It has said it expects to swing back to a profit in 2010 unless there was a significant worsening of the economy. Air France-KLM, meanwhile, posted a fiscal-first-quarter net loss of €426 million ($602 million), as the economic crisis and €252 million in losses from fuel hedging hit hard.

Air France-KLM said it believes that "CSA might focus on developing and implementing a stand-alone recovery plan aimed at restoring its profitability."

Under the privatization conditions for Czech Airlines, a winning bidder will be required to maintain the Czech carrier's national-airline status and keep its base at Prague Ruzyne international airport. Air France-KLM said it hoped it could cooperate even more closely with the Czech carrier even though it won't now acquire the airline. In July, it was announced that Czech Airlines had won a tender to provide passenger-handling services for Air France-KLM in Prague.

—Bart Koster and Alice Dore contributed to this article.

CORPORATE NEWS

Developer Mirax has assets frozen by Moscow court

A WSJ News Roundup

MOSCOW—A Moscow court froze the assets of developer **Mirax**, including a landmark skyscraper under construction in the city's main business district, for the company's failure to repay a $242 million loan to OAO **Alfa Bank**.

Dmitry Tafintsev, spokesman for the Moscow Arbitration Court, said the court froze several of Mirax's assets in the Moscow City business district, including the Federation Tower, a two-pronged blue glass skyscraper.

"The court has decided to take measures to freeze the assets of Mirax's two subsidiaries to secure the claim," he said Wednesday.

The Moscow court has yet to issue a ruling on the case, but the move means Mirax may lose its most valuable assets if Alfa Bank proves its insolvency.

Federation Tower, designed to become one of the symbols of Moscow City, is set to be completed in 2010 and to host the offices of Russia's largest private bank, OAO **VTB Bank**, a hotel and apartments. VTB said it had no immediate plans to move to the new offices.

The Federation Tower, a blue glass skyscraper, is to be completed in 2010.

The court also froze assets of a separate Mirax unit that owns Mirax Plaza, another high-profile office complex across the river from the Federation Tower site in Moscow City.

Alfa Bank went to court this month to claim $242 million from Mirax, debt it bought from **Credit Suisse Group** AG in July.

Mirax declined to comment on the sale of the debt earlier this month, and it wasn't available to comment Wednesday.

An Alfa spokeswoman confirmed that the bank asked the court to seize the assets but declined to comment on the decision.

Mirax had been pursuing high-profile projects in Russia as well as in European resort areas. Its principal owner, Sergei Polonsky, bet reporters in October that he would eat his tie if prices didn't rise 25% within a year and a half.

The ambitions of Moscow City skyscraper developers have been hit hard by the economic crisis, Russia's first after a decade of oil-fueled growth.

Deere trims outlook as profit falls

North America sales still show resilience on crop projections

By Bob Tita And Kerry Grace Benn

Deere & Co. posted a 27% drop in fiscal third-quarter profit and cut its full-year sales forecast, though North American business remains resilient ahead of what is expected to be a near-record crop harvest.

The farm- and construction-equipment maker expects to break even in the fourth quarter but reaffirmed its forecast for full-year earnings of $1.1 billion as cost-cutting counters weaker pricing and negative currency effects.

Deere has seen farm-equipment sales tumble in Europe and Latin America over the past year as high fuel and fertilizer costs combined with tight credit conditions.

However, North America remains Deere's most resilient market, with farmers flush from crop prices that remain well above historical averages despite the sharp slide over the past year. Combine sales in North America rose 25% year-to-year in July.

The company still trimmed its full-year forecast for the region, with overall volume expected to fall slightly as sales of smaller equipment outweigh heavy demand for large tractors and combines.

Farm receipts in the U.S., which are closely tied to equipment sales, are expected to drop from last year's record but rise 3% in 2010. Deere also upgraded its forecast for farm profits in Brazil for 2009 and 2010.

The relative optimism over the farm business contrasted with the company's unprofitable construction unit, and executives said that the U.S. economic-stimulus spending program has so far done little to boost demand.

Deere, based in Moline, Ill., cited the slow pace at which states have been assigning federal stimulus money to specific infrastructure projects. "The market is very difficult in construction," said Marie Ziegler, Deere's vice president for investor relations.

Despite signs of improvement in the domestic farm business, the company said it now expects the biggest single-year sales decline "in at least 50 years," with equipment sales likely to fall 34% in the current quarter. Deere is projecting farm-equipment sales to fall 21% for the full year, compared with its previous forecast of a 19% reduction.

"Given that the [full-year] earnings guidance hasn't changed, the profit that people expected in the fourth quarter was just pulled into the third quarter," said John Kearney, an analyst for Morningstar Inc.

For the quarter ended July 31, the company posted earnings of $420 million, or 99 cents a share, down from $575.2 million, or $1.32 a share, a year earlier.

Net sales declined 24% to $5.89 billion amid price increases of 6% and unfavorable effects of foreign exchange of 4%.

Analysts surveyed by Thomson Reuters expected earnings of 57 cents a share and revenue of $5.25 billion.

FirstGroup brings Greyhound buses to U.K.

By Kaveri Niththyananthan

LONDON—The Greyhound bus is coming to the U.K.

FirstGroup PLC, the U.K.'s largest bus and rail operator, said Wednesday that it will introduce Greyhound buses to the U.K. from Sept. 14. FirstGroup bought the iconic U.S. bus company's parent, Laidlaw, two years ago for $3.6 billion.

The timing comes as more people in the U.K. become increasingly price sensitive during the economic downturn. The service will compete with **National Express** PLC's bus service and **Stagecoach**'s PLC Megabus brand.

Greyhound U.K. will run an hourly service between London and two cities, Portsmouth and Southampton, adding further destinations next year. Greyhound services will also integrate with ferry services to the Isle of Wight.

Fares will start from £1 ($1.66), plus a 50 pence booking fee, the company said. Free Wi-Fi should attract younger customers.

"Since FirstGroup took over Greyhound in 2007, we have hoped to bring this famous brand across the Atlantic," said Moir Lockhead, FirstGroup's Chief Executive. He said the Greyhound in the U.K. would be more attractive than rival offerings, including train options, adding, "We also believe that Greyhound UK's growth will come from persuading more people to leave their cars at home and opt instead for our coaches."

Monsanto and DuPont escalate their patent fray

By Scott Kilman

The war of words between crop biotechnology rivals **Monsanto** Co. and **DuPont** Co., which are locked in a patent infringement suit in a St. Louis federal court, is reaching new heights.

Monsanto Chief Executive Hugh Grant sent a letter Monday to DuPont Chairman Charles O. Holliday Jr. complaining that the Wilmington, Del., chemical giant's efforts to paint St. Louis-based Monsanto as a monopolist is "misleading to the public and a serious breach of business ethics far beyond honest competitor behavior."

Mr. Grant's "Dear Chad" letter asks that DuPont name a committee of independent directors to investigate Monsanto allegations that DuPont is using "masked third parties" to "attack" Monsanto.

As previously reported, Monsanto executives are upset that, among other things, DuPont gives financial support to a small farmer group called the Organization for Competitive Markets, which is attacking Monsanto's decade-long dominance over genetically modified seeds. Earlier this month, a senior Justice Department official told the group's annual convention that the Obama administration is examining competition issues throughout agriculture, including the marketing of genetically modified seed.

DuPont spokesman Anthony Farina said Tuesday that DuPont will respond to Mr. Grant's letter "in an appropriate manner."

The vast majority of genetically modified crops grown in the U.S. farm belt contain at least one Monsanto gene. Through biotechnology, Monsanto has been able to woo farmers away from other seed suppliers including DuPont.

DuPont has complained to government officials about Monsanto's 2007 acquisition of cotton seed giant Delta & Pine Land Co.

In the suit, Monsanto claims DuPont illegally stacked a Monsanto gene with a DuPont gene to create a herbicide-tolerant soybean plant. DuPont says Monsanto is trying to block such plant combinations to limit competition.

GLOBAL BUSINESS BRIEFS

Eurasian Natural Resources

ENRC's profit tumbles 59%, but miner sees improvement

Eurasian Natural Resources Corp. posted a 59% drop in first-half net profit because of falling commodity prices, but said it is increasing production of key steelmaking ingredients as it expects a rise in global demand. The Kazakh miner's decision is a marked turnaround from earlier this year, when it idled nearly one-third of its production capacity as demand for ferrochrome and iron ore—used to make stainless steel and steel, respectively—collapsed. Chief Executive Johannes Sittard said China had driven demand in the second quarter but now the company sees signs of recovery in Japan, the U.S., Germany and Russia. First-half net profit fell to $553 million from $1.34 billion a year earlier. Revenue dropped 51% to $1.7 billion.

Telecom Austria AG

Telekom Austria AG said net profit fell 15% in the second quarter of 2009, as the economic crisis and stricter roaming regulations squeezed earnings in its Eastern European markets. But the Austrian telecom company, a major player in mobile phone services in Eastern Europe, reiterated its full-year results guidance. It said cost cuts and personnel reductions more than compensated for the continued loss of subscribers to its fixed lines. Net profit for the three months ended June 30 fell to €82.3 million from €96.3 million in the year-earlier quarter. In the mobile division, earnings before interest and taxes, or Ebit, fell 11% to €296.5 million, while it rose 29% to €68.4 million in the fixed line division. It expects full-year sales slightly below €5.1 billion.

Merck & Co.

A U.S. judge has upheld a patent for **Merck** & Co.'s best-selling product, the asthma and allergy medication Singulair, handing Merck a victory in its battle to ward off early generic competition for the drug. Wednesday's ruling by Judge Garrett Brown in federal court in Trenton, N.J., means that **Teva Pharmaceutical Industries** Ltd., the Israeli generics manufacturer that challenged the Singulair patent, won't be able to start selling copycat versions in the U.S. until the expiration of patent protection in 2012. Teva could, however, appeal the decision in an effort to sell copies before then. A Teva spokeswoman didn't comment immediately.

Lloyds Banking Group PLC

Lloyds Banking Group PLC said it is reviewing its June decision to close its 164-branch Cheltenham & Gloucester unit, a move that it had said would result in the loss of more than 1,600 jobs by November. It gave no further details. "Customers will continue to use the C&G network as usual," Lloyds said. The planned closure was part of Lloyds's effort to cut costs and focus on its other mortgage and savings brands, which include Halifax, Bank of Scotland and Lloyds TSB, after agreeing to buy HBOS PLC in September and subsequently needing a government bailout. The combined company is now 43.5% owned by the U.K. government. Reducing the number of outlets was also considered to be a step toward appeasing European Union concerns over market share.

Coinstar LLC

Redbox Automated Retail LLC filed a lawsuit against **Time Warner** Inc.'s Warner Home Video, the latest move in its ongoing battle with major Hollywood studios over its DVD-rental pricing strategies. Last week the company, which operates kiosks that rent DVDs for $1 a day, sued **News Corp.**'s Twentieth Century Fox and on Monday a federal court ruled it could proceed with antitrust claims against **General Electric** Co.'s Universal Pictures. Redbox is owned by **Coinstar** Inc. The latest suit comes after Warner Home Video set distribution terms that would prohibit Redbox from providing access to its movies until at least 28 days after public release. News Corp. owns The Wall Street Journal.

—Compiled from staff and wire service reports.

Violence rises on eve of Afghan election

Insurgents launch attacks and set off explosions across the capital; government attempts to limit media reports

By Matthew Rosenberg
And Anand Gopal

KABUL—Taliban insurgents armed with assault weapons, grenades and suicide vests stormed a bank in Kabul on Wednesday, while scattered explosions elsewhere in Afghanistan's capital marred the eve of the country's presidential elections. The government, which has been struggling to secure the capital and other key polling areas before the vote, responded in part by attempting to quash media reports of the violence.

The government said it would shut down Afghan media outlets and expel foreign journalists who reported on insurgent attacks during polling hours. On Wednesday, at least two cameramen were briefly detained for getting too close to the scene of the bank attack; they were later released. Officials had first announced the ban a day earlier without specifying what punishment violators would face.

"We are facing an extraordinary situation," said foreign-ministry spokesman Ahmad Zahir Faqiri in an interview Wednesday, arguing that news of violence would scare people away from polling centers. "We need to ensure that as many people vote as possible."

Getty Images

An Afghan policeman guards the Kabul market area, amid tightened security on the eve of Thursday's presidential election.

Many journalists and media executives said they planned to ignore the ban. "I understand their concerns," said Saad Mohseni, the owner of Tolo TV, the country's most popular television channel. "At the same time, you cannot target the messenger. Their order is basically illegal because it defies our constitution," which guarantees freedom of expression.

Thursday's presidential election, the second since the fall of the Taliban in 2001, carries enormous stakes for Afghanistan. The elections, if successful, could help renew the legitimacy of a government that is seen as corrupt and unable to deliver basic services to its people. A deeply flawed election, on the other hand, could encourage opponents of Afghanistan's government and further test the support of the U.S. and its North Atlantic Treaty Organization allies.

The elections also mark a vital step in attempting to shore up the country's shaky democratic foundation. Nearly 41 candidates signed up to run for president; six have since dropped out to back more-popular candidates. Afghanistan's cities have been plastered with posters advertising everyone from incumbent President Hamid Karzai to a fortune-teller. There have been televised debates and even an attempt to force candidates to disclose campaign contributions.

Still, Afghanistan's volatile security situation is casting a shadow over the democratic exercise, prompting some to question how much progress the government has made in improving the lives of the people.

"If we hold elections with low turnout or end up with the same government we have—then the whole enterprise of rebuilding Afghanistan could be certainly undermined," said Haroun Mir, a co-founder of Afghanistan's Center for Research and Policy Studies, a think tank. "That is a very big risk."

President Karzai remains the front-runner in spite of his many challengers. The 51-year-old ethnic Pashtun has skillfully forged alliances with former warlords and tribal elders who are expected to deliver millions of votes.

Few expect Mr. Karzai to lose, but some predict he will need to survive a second round of voting. A pair of recent polls indicate that he will fall short of the 50.1% needed for a first-round victory and will face his former foreign minister, Abdullah Abdullah, 49, in a runoff. If needed, Afghan officials say, the runoff will take place in early October.

Mr. Karzai's critics speculate that his supporters will try to steal a first-round victory, and that Dr. Abdullah's supporters will try to counter the president with tricks of their own.

"We expect a lot of fraud," said Jandad Spingar, director of the Free and Fair Elections Foundation, a United Nations-funded watchdog group. "There are people who have many registration cards. Certainly they will use all of them."

Real and fake voter-registration cards have been readily available in Afghanistan's markets for weeks, most of them using pictures of women in head-to-toe burqas. Mr. Spingar's foundation also has detailed hundreds of instances of other kinds of fraud: the same person registering multiple times; underage voters; and election workers taking bribes to favor specific candidates.

Zemari Barakzai, a senior official at the Independent Election Commission, acknowledged irregularities. "However, we believe these cases represent a small percentage of the total number of votes," he said.

Authorities are struggling to get election materials to remote and dangerous parts of the country. The chief electoral officer, Daoud Ali Najafi, told reporters Wednesday that 20% of the materials hadn't yet been delivered and that army helicopters were being pressed into service.

Taliban insurgents have used a series of attacks ahead of the election to deter Afghanistan's 17 million voters from casting ballots.

The latest came around 7:30 a.m. Wednesday morning when three gunmen forced their way into a Kabul bank, said Jamil Jumbesh, head of the Crime Prevention Unit of the Interior Ministry. The three were holed up in the building exchanging fire with Afghan security forces for nearly two hours before the men were killed. Three police were injured in the siege.

The incident, the third major attack in Kabul in five days, showed the insurgents' ability to repeatedly strike at the heart of Afghanistan's fortified capital.

The early-morning bank siege preceded other attacks across Kabul. About three kilometers from the bank, an explosion occurred near an Afghan army base when, according to witnesses, an assailant hurled a grenade from a moving car. Afghan officials also cited two other incidents: an explosion in the eastern part of the city and a rocket that landed in the north of Kabul. There were no casualties, officials said, but they provided no further details.

A car bomb Tuesday killed eight people and wounded more than 50.

Zabiullah Mujahed, a Taliban spokesman, said the bank raid was part of a series of attacks planned for Wednesday and Thursday to derail the elections.

Elsewhere in the country, violence continued unabated. Three U.S. soldiers were killed in southern Afghanistan, the Taliban's heartland, in two separate attacks, the U.S. military said. The risk of Election Day violence is especially severe in parts of southern and eastern Afghanistan, where the country's largest ethnic group, the Pashtuns, are concentrated and the Taliban are strongest.

On Election Day, police plan to erect hundreds of checkpoints throughout Kabul. Interior Ministry spokesman Zemari Bashari said authorities also have imposed a total ban on car travel from 8 p.m. Wednesday until polls close at 5 p.m. Thursday. In the event of an attack, authorities plan to close all roads in the area for the full day.

India's BJP ousts a leader over comments

By Ketaki Gokhale

SHIMLA, India — India's Bharatiya Janata Party expelled a top leader for making flattering comments about the founder of Pakistan, a decision that highlights the fissures in one of the country's major political parties and the enduring bitterness among Hindu conservatives over the creation of its Muslim-majority neighbor more than six decades ago.

Jaswant Singh, a BJP parliamentarian who has previously headed India's defense, foreign and finance ministries, was booted from his party on Wednesday at the start of a three-day meeting. The conference was called for party leaders to try to understand why they suffered heavy losses to the Congress party in May's parliamentary elections. But when Mr. Singh appeared in Shimla to attend he was turned away at the hotel gates.

"I am saddened because I was among the first lot of members of the BJP," Mr. Singh, a 71-year-old party veteran, told reporters. "I think I have served the party to the best of my ability for the past 30 years."

Mr. Singh will continue to serve in parliament but will not be allowed to hold positions on any party committees or be a BJP office bearer, said BJP President Rajnath Singh, who isn't related to Jaswant Singh.

The inner-party fracas reflects a much broader reality in India: The debate over who should be blamed for partition is still very relevant, and the wounds of the resulting communal riots are still very fresh.

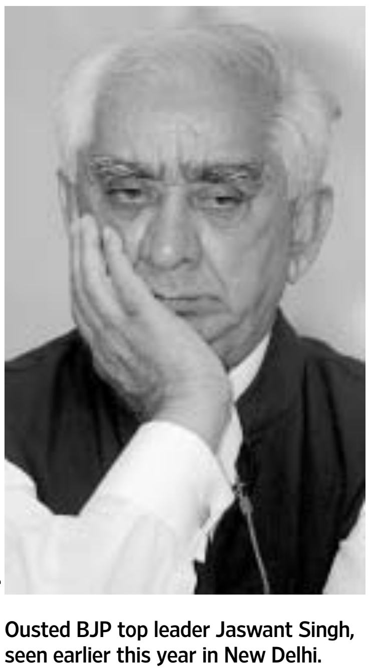
The offending comments came in a book, "Jinnah-India, Partition, Independence," which questions the demonization of Pakistan's founder, Mohammad Ali Jinnah. The Muslim leader is often blamed by Indian nationalists for the partition of the subcontinent in 1947. Mr. Singh in the book is also critical of India's founding father and first prime minister, Jawaharlal Nehru, as well as the Congress party, saying that the two "tragically ... assented" to pressure from the British as well as the "leadership" and "acumen" of Mr. Jinnah.

Mr. Singh's expulsion from the BJP has brought unwelcome attention to party infighting. History has continued to divide the party, even as the BJP attempts to reach out to a younger generation of voters.

At the meeting, BJP leaders remained adamant about the expulsion.

"I had issued a statement yesterday that the party fully dissociates itself with the contents of the book," Rajnath Singh, the party leader, told reporters gathered outside the hotel. "Today I put up the matter before the parliamentary board, which decided to end his primary membership. So, he has been expelled."

In a move to hold together its right-wing coalition, the party released a statement criticizing Mr. Jinnah's role in the partition of British India into majority Hindu India and Muslim Pakistan. The partition "led to a lot of dislocation and destabilization of millions of people," the BJP said, and was a part of history that they "cannot wish away."



Agence France-Presse

Ousted BJP top leader Jaswant Singh, seen earlier this year in New Delhi.

CAPITAL ▪ DAVID WESSEL

Even as it boosts economy, U.S. stimulus is a hard sell

SIX MONTHS AGO, as the U.S. economy was sinking, President Barack Obama and Congress prescribed a $787-billion dose of tax cuts and spending increases.

Today, the economy, though far from healthy, is better. The fiscal stimulus, however, is increasingly unpopular. When The Wall Street Journal/NBC News poll asked in January if the stimulus was a good idea or not, respondents said yes by 43% to 27%. When the question was asked in July, only 34% said yes and 43% said no.

And that's for a pain-free initiative—no offsetting tax increases or spending cuts. Public skepticism over the stimulus now clouds Mr. Obama's ambitions to use the power of government to reshape health care, avoid global warming and repair American education.

Barack Obama

The case that fiscal stimulus was a mistake altogether is weak. A decade ago, economists counseled that politicians should leave recession-fighting to the Federal Reserve and its interest-rate cuts. With the average length of a post-World War II recession at 10 months, downturns usually ended before Congress acted.

This time was, truly, different. The recession was more than a year old when Mr. Obama took office, the Fed already had cut interest rates to zero and the economy was still in free fall. "If ever there was a case for a fiscal stimulus, this was it," says Alan Auerbach, a University of California, Berkeley, economist who will kick off an appraisal of the stimulus at this weekend's Fed retreat at Jackson Hole, Wyo.

The tougher questions are: Is the stimulus working? Was it well-designed, both economically and politically? And what about the deficit?

AS REPUBLICANS point out daily, payrolls are still shrinking. Although definitive analysis awaits the passage of time, forecasters at Macroeconomic Advisers and Global Insight estimate the stimulus will add a welcome one percentage point or more, on average, to growth this year and next. That's not enough to offset the ill effects of the recession, but it's doing a lot more good than, say, the administration's efforts to avoid foreclosures.

So why don't people believe the stimulus has helped? Rep. Barney Frank, the Massachusetts Democrat, has one sharp explanation. "Not for the first time as an elected official, I envy economists," he said at a hearing last month. "They can contrast what happened to what would have happened." Politicians can't. "No one has ever gotten elected where the bumper sticker said, 'It would have been worse without me,' " he said. "You probably can get tenure with that. But you can't win office."

Marketing, it turns out, matters. Promising that the stimulus would save or create 3.7 million jobs, as the White House did, was bound to backfire, and it has. As Citigroup's Steven Wieting observed recently, the first installment of the stimulus—about $75 billion in tax cuts and one-time payments for individuals—is widely assumed to have had no effect. But a $1 billion "cash for clunkers" program gets credit for turning around an auto industry that was selling so few cars that an upturn was inevitable at some point. Maybe Mr. Obama should have mailed coupons instead of reducing the tax bite on paychecks.

To get quick congressional approval of the stimulus, the Obama White House made an early tactical decision: Let Congress handle details. It did make for swift enactment, but it branded the stimulus as a product not of "change" but of liberal Democratic profligacy. To the public, this is more House Speaker Nancy Pelosi's stimulus than Barack Obama's. No wonder it's unpopular. Her approval ratings are 25% positive, 48% negative. Mr. Obama's are 55% positive, 34% negative.

THE STIMULUS wasn't crafted, as textbooks advise, to hit the economy as quickly as possible. Roughly one-third was tax cuts, which were quick-acting. One-third was aid to state and local governments and individuals, which were only slightly slower. But one-third was infrastructure, education and other spending that won't show up for many months, or even years. There's no doubt that Mr. Obama and congressional allies used the stimulus as a way to pursue their spending agenda. Still, though it wasn't obvious in January, it now looks like a slow-acting federal stimulus is welcome. The climb out of the recession looks to be painfully slow, and the federal spending will help offset persistent tightening in state and local budgets.

In another six months, if the job market is still languishing, the president may eye another dose of stimulus, one aimed at encouraging hiring. But Mr. Obama admits that the U.S. government can't keep borrowing as it has been, and that will constrain him. The International Monetary Fund's chief economist, Olivier Blanchard, offered one way out this week. Noting that the projected increases in the cost of promised government benefits are 10 times the fiscal cost of the current crisis, he observed, "Even a modest cut in the growth rate of entitlement programs can buy substantial fiscal space for continuing stimulus."

But if pain-free stimulus isn't popular, imagine how hard it would be to sell that package to the public.

Write to me at capital@wsj.com
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Associated Press

Audience members react to an answer from Democratic Rep. Dan Boren during a forum on health care in Muskogee, Okla., on Tuesday. White House officials concede that the anger that has surfaced in such meetings is shifting the debate on the health overhaul.

Health pitch is rethought

Obama set to focus on moral imperative instead of details

BY JONATHAN WEISMAN

WASHINGTON—U.S. President Barack Obama, trying to regain control of the health-care debate, will likely shift his pitch in September, White House and Democratic officials said, as he faces pressure from supporters to talk more about the moral imperative to provide health insurance to all Americans.

The rethinking comes amid a struggle by the White House to clarify its view on a public insurance plan, which liberals see as a critical part of a health overhaul. Health and Human Services Secretary Kathleen Sebelius said Sunday that a public plan isn't the "essential element" of a health bill, prompting sharp words from liberal groups.

The muddle continued Tuesday, with White House spokesman Robert Gibbs facing repeated questioning at his news briefing on whether the position has changed and how the president will respond to the liberal concerns.

Mr. Gibbs said the president's "preferred method" is the public plan "but he's certainly open to looking at and discussing other ideas." Ms. Sebelius insisted, "We continue to support the public option."

She said her earlier comments on a CNN program got too much coverage. "Sunday must have been a very slow news day because here's the bottom line: Absolutely nothing has changed," Ms. Sebelius told an audience in Washington.

While trying to placate liberals, White House officials also want to beat back broader public unease fed by critics' charges that the Democratic plan would cost too much and lead to excessive government control over family health-care decisions.

The president is expected to present a more emotional appeal during a conference call Wednesday with liberal religious groups. A senior White House official said the message would be tailored to the groups' moral emphases, although he cautioned the president's message to religious groups may not herald a broader shift in themes.

"This is such a technical issue, it's easy to get bogged down in the weeds," said Dan Nejfelt, a spokesman for Faith in Public Life, one of the groups scheduled for the Wednesday call. "It's important to have a voice saying, 'This is about right and wrong. This is about honoring faith.' "

The president's revised health-care emphasis is likely to roll out as summer ends, when White House officials believe a broader group of voters will tune into the debate. The new strategy envisions speeches rather than informal town-hall meetings, said a senior official.

The president began his health overhaul this year with talk about cutting health-care costs. In the past few weeks, Mr. Obama has focused his message on what his plan would do for Americans who already have medical insurance. He has said, for example, that his plan would cap out-of-pocket expenses and protect people from losing insurance if they get sick.

The new strategy envisions speeches rather than informal town-hall meetings.

A senior Republican Senate aide agreed that Mr. Obama's appeal to the pocketbook of middle-class Americans is likely the best strategy. He said, however, the president has failed to convince Americans that they have something to gain. At this stage in the legislative process, he said, Americans will balance personal costs with ideals, and, he added, ideals almost always lose.

Mr. Obama has come under criticism from supporters who say the president has been mired in the details of insurance regulation, rather than promoting the lofty themes that got him elected.

"Reform of the health insurance industry is badly needed. There's no doubt about that. But health-insurance reform, as important as it is, will not be enough for the faith community," said Jim Wallis, chief executive of Sojourners, a liberal evangelical group and organizer of Wednesday's call. "I hope he'll say that we need a real moral argument at the center of this debate. I know he believes that."

A Democratic strategist said, "If you are going to sell something as big and monumental and transformative as health care, you cannot get small with it. You've got to be larger. You've got to call on the better angels out there."

Obama campaign officials ridiculed Hillary Clinton's efforts to line up Washington power brokers behind her. Now, the White House boasts of having interest groups and the health-care industry—from the AARP to drug makers to health insurers—in support of health-care changes.

White House officials disagree with much of the criticism, saying a campaign message is different from a legislative push that requires cooperating with interest groups. Democratic officials involved in the White House health-care push said details that can be ducked by a candidate can't be avoided by a president. They say the message on improving health insurance is getting through.

Polling indicates the current White House tack is in trouble. An NBC News poll released Tuesday continues to show 41% supporting the way Mr. Obama is handling health-care reform; 47% disapprove. In April, 33% wanted a complete overhaul of the U.S. health-care system. That is down to 21%. Now, 31% said they want only minor changes, up from 21% in April.

"Everybody's very nervous," a senior Democratic leadership aide in Congress said Tuesday. Members of Congress have been asking for the five words they need to explain the health-care imperative, the equivalent of "It's the economy, stupid," the aide said.

White House officials concede that the anger that has surfaced in town-hall meetings and been broadcast on TV is shifting the debate. William McInturff, a pollster for The Wall Street Journal and NBC News, said most Americans in the political center aren't following the details of the legislation. They hear people yelling and see the president stymied even with a strongly Democratic Congress. Many conclude, he said, that something is wrong with the Obama health-care effort.