Leading the News: Wildfires subside near Athens

THE WALL STREET JOURNAL.

VOL. XXVII NO. 142 — EUROPE — TUESDAY, AUGUST 25, 2009

DOWJONES
A News Corporation Company

europe.WSJ.com

For information or to subscribe, visit www.services.wsje.com or call +44 (0) 207 309 7799 — Austria €3 - Belgium €3 - Croatia HRK 22 - Czech Republic Kc 110 - Denmark Dkr 25 - Finland €3.20 - France €3 - Germany €3
Greece €3 - Hungary Ft 650 - Ireland (Rep) €3 - Italy €3 - Lebanon L£ 6000 - Luxembourg €3 - Netherlands €3 - Norway Nkr 29 - Poland Zl 12 - Portugal €3 - Slovakia €3.32/Sk 100 - Spain €3 - Sweden kr 29
Switzerland SF 5 - Syria S£ 210 - Turkey TL 4.5 - U.S. Military (Eur) $2.20 - United Kingdom £1.50

What's News

EDITORIAL&OPINION

Diplomatic terrorism
After the British, the Swiss also cave in to Libyan pressure. Page 13

Breaking news at europe.WSJ.com

MacAskill defends release

Scottish minister tells angry lawmakers decision on bomber was his alone

BY ALISTAIR MACDONALD AND PAUL SONNE

Scottish lawmakers grilled the official who freed the Libyan agent convicted in the 1988 Lockerbie bombing, as support mounted for inquiries into both that decision and the original conviction.

In a special parliamentary session Monday, Scottish Justice Minister Kenny MacAskill defended his move to release terminally ill Abdel Baset al-Megrahi despite vehement opposition from the U.S., saying the decision was his alone and was unaffected by political or economic concerns.

He expressed "great regret" at the hero's welcome Mr. al-Megrahi received on his return to Tripoli last week, saying that the Libyan government had promised to keep the homecoming discreet.

"It was my decision, I stand by it, and I'll live with the consequences," Mr. MacAskill said.

His assurances, though, did little to mollify many Scottish parliamentarians, who accused him of misleading them; some also say he freed Mr. al-Megrahi to avoid scrutiny of a flimsy case. They set a new debate for Monday that could lead to a vote of no confidence in Mr. MacAskill—a move that would put pressure on the current government to step down, though politicians see that outcome as unlikely.

There is "a conviction on

Please turn to page 31

Press Association

Scottish Justice Secretary Kenny MacAskill, right, talks as First Minister Alex Salmond looks on while the Parliament in Edinburgh is recalled for debate and questions Monday.

Financial players flee U.K. over taxes

BY DAVID WALKER AND MIKE FOSTER

A stream of hedge-fund managers and other financial-services professionals are quitting the U.K., following plans to raise top personal tax rates to 51%.

Lawyers estimate hedge funds managing close to $15 billion have moved to Switzerland in the past year, with more possibly to come.

David Butler, founder of professional-services firm Kinetic Partners, said his company had advised 23 hedge funds on leaving the U.K. in the 15 months to April. An additional 15 are close to quitting the U.K., he said.

"In the past, managers would say they'd move some operations or dip their toe in the water," Mr. Butler said. "Now that's changed."

Hedge fund **Amplitude Capital** took its $735 million in assets under management to Switzerland at the start of this year. In May, **Odey Asset Management** threatened to move.

All the hedge funds that have left the U.K. for Switzerland are concerned about tighter European Union regulations, as well as a new top rate of income tax announced by the U.K. government.

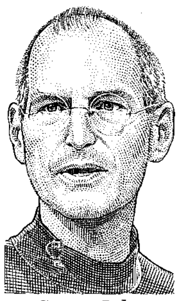
Starting next April, individuals in the U.K. who earn more than £150,000, or about $247,000, a year will pay tax at 51%, including national in-

Please turn to page 31

Jobs trumpets tablet for what ails Apple

BY YUKARI IWATANI KANE

When Chief Executive Steve Jobs returned to **Apple** Inc. recently after a nearly six-month medical leave, it was unclear how quickly he would re-involve himself at work and what he would focus on—even to those within the company.



Steve Jobs

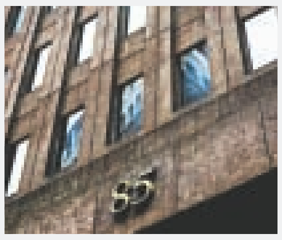
But just a few months after receiving a liver transplant, the 54-year-old isn't taking it slow and is pouring almost all of his attention into a new touch-based tablet device that Apple is developing, say people familiar with the situation.

Those working on the project are under intense scrutiny from Mr. Jobs, particularly with regard to the product's advertising and marketing strategy, says one of these people. The people familiar with the matter declined to give details on the tablet or disclose when the device would come out.

Mr. Jobs's focus on the tablet has been jarring for some Apple employees, who had gotten accustomed to a level of freedom over strategy and products while the CEO was on leave, says a person familiar with the matter. "Peo-

Please turn to page 31

Inside



Big deals

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9509.28	+0.03
Nasdaq	2017.98	-0.14
DJ Stoxx 600	236.84	+0.85
FTSE 100	4896.23	+0.93
DAX	5519.75	+1.04
CAC 40	3652.17	+1.01
Euro	$1.4319	+0.14
Nymex crude	$74.37	+0.65

LEADING THE NEWS

Euro-zone orders rise, suggesting output growth

Concerns remain on unemployment, poststimulus phase

By Nicholas Winning

LONDON—Euro-zone industrial new orders posted their strongest monthly gain in 19 months in June, indicating that a recent pickup in output could be sustained in the current period.

New orders increased 3.1% in June, the strongest month-to-month rise since November 2007, European Union statistics agency Eurostat said. But bookings were 25.1% lower than in June 2008, highlighting the deficit from which industry orders need to recover.

The June results compare with May's revised declines of minus 0.5% for the month and minus 30.3% for the year.

The figures are likely to support the view that the 16-country euro zone could be emerging from most severe economic slump since World War II.

Surveys released Friday suggested private-sector output stabilized in August after more than a year of declines in the euro zone, with support from a stronger-than-expected recovery by France and Germany. Some economists increased their growth forecasts on the figures, which have also fueled debate about when the European Central Bank might increase its interest rates from their record low of 1%.

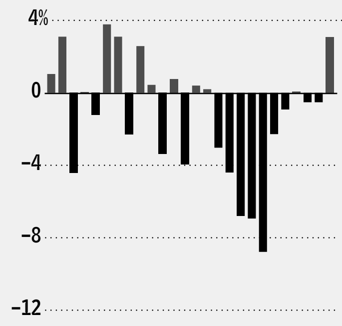
But economists also are questioning the durability of the recovery. Euro-zone unemployment is at a 10-year high and many of the region's trading partners remain in recession.

There also are concerns about what will happen when governments phase out stimulus measures to boost activity, particularly in the auto sector.

"Our general view is that we're skeptical that it's going to be sustainable," said Dominic Bryant, an economist at BNP Paribas. "Without some sort of strong consumer demand from somewhere in the world, where's the end buyer for all the products that the investment goods will make? That's not really clear. The U.S., U.K., Spanish consumer are going to be in depression for years."

Road to recovery

Euro-zone industrial new orders, change from previous month



Note: seasonally adjusted data
Source: Eurostat

Associated Press

Workers in the Schmiedeberger Giesserei foundry in Germany.

U.S. releases young Guantanamo detainee

By Gary Fields

WASHINGTON—The U.S. released one of the youngest detainees at the Guantanamo Bay prison and sent him home to Afghanistan, the Justice Department said Monday.

Mohammed Jawad, whose lawyers say may have been as young as 12 when he was detained and moved to the detention facility at Guantanamo Bay 6½ years ago, was released in the past day, said Jonathan Hafetz, his American Civil Liberties Union lawyer. The U.S. government says Mr. Jawad was 17 when detained.

U.S. District Court Judge Ellen Segal Huvelle last month ordered Mr. Jawad's release. She said if federal authorities wanted to charge him in U.S. criminal court they should do so by Aug. 21. The judge criticized the government's handling of the case and pressured prosecutors to explain what evidence they had to keep him imprisoned.

Mr. Jawad has maintained that he is innocent, his lawyer said.

Authorities said he allegedly threw a grenade that wounded two U.S. soldiers in 2002. Mr. Jawad has maintained that he is innocent and was tortured into confessing, his lawyer said.

A Justice Department official said Mr. Jawad's release didn't preclude charging him in the future, but prosecutors couldn't build a criminal case by the Aug. 21 deadline set by the court.

The government's attempts to bring Mr. Jawad to trial before a military tribunal at Guantanamo had been riddled with problems, including a former military prosecutor assigned to the case who later said there wasn't any evidence to keep him imprisoned.

The Obama administration is pushing ahead with plans to close the Guantanamo prison by January. Officials are trying to resettle some detainees, while planning military or criminal trials for others.

The plan has run into opposition from members of Congress who have tried to erect obstacles to closing the prison based on national-security concerns. In recent weeks, federal officials have visited prisons in Kansas and Michigan and are looking into them as possible places to relocate the detainees.

Mr. Hafetz, the ACLU lawyer, said Mr. Jawad was "very happy to be home and very happy to put this horrible ordeal behind him after spending nearly seven years in illegal U.S. detention."

The lawyer said Mr. Jawad is "focused on rebuilding his life and has hopes of one day becoming a doctor."

The Justice Department, in a statement, said it notified Congress earlier this month of its intent to transfer Mr. Jawad, as required by a law passed earlier this year. "Jawad's transfer was carried out under an arrangement between the United States and the government of Afghanistan," the statement said, adding that more than 540 detainees have been released from Guantanamo since 2002.

Fairfax Media scraps dividend as it posts loss

SYDNEY—**Fairfax Media** Ltd. Monday scrapped its final dividend and reported an annual net loss after it wrote down the value of its newspapers and cut 1,000 employees, or about 9% of its work force.

Fairfax reported a net loss of 380.1 million Australian dollars (US$316.8 million) for the 12 months to June 30 compared with a net profit of A$386.9 million a year earlier. The latest results included one-time impairment and significant items of A$664.3 million.

Underlying earnings, excluding the write-downs, fell 40% to A$226.7 million as a slump in advertising markets sapped revenue from the Sydney-based company's newspapers.

The publisher of the Sydney Morning Herald and the Age in Melbourne said ad markets may have bottomed in May and have been tracking sideways since, with no signs of recovery.

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.

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 Fax: 32 2 741 1600
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799
Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Patience Wheatcroft M-17936-2003

INDEX TO PEOPLE

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

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

LEADING THE NEWS

In Greece, wildfires subside as winds ease

Planes drop water around Athens area to tame the flames

By Alkman Granitsas

Reuters

A firefighter works to control a blaze on Monday in the village of Porto Germeno, Greece, 60 kilometers west of Athens. Thousands have been forced to flee.

ATHENS—Wildfires that have raged for three days in forests perilously close to the Greek capital subsided Monday, as water-dropping planes from other European nations came to the aid of exhausted Greek firefighters.

The blazes, which broke out Friday, have leveled some 150 square kilometers, mostly woodlands, in the well-to-do northern suburbs of Athens, threatening homes but also some of Greece's most important archaeological sites, including the Athenian temple of Rhamnous. On Monday, elderly nuns were hurriedly evacuated as the flames menaced St. Ephrem Monastery, north of the city, and the saint's remains were rushed to a safer location.

By Monday evening, the winds had started to ease and the fires calmed, thanks to the efforts of some 500 Greek firefighters dispatched around the capital and to planes sent by France, Italy, Austria, Cyprus and Turkey to drop water over the afflicted area.

The fires are the worst since a series of blazes in southern Greece in August 2007, in which more than 70 people died and swaths of farmland were devastated.

Many Greeks blame land developers for starting the fires to take advantage of contradictory laws governing forest land and residential development. There have been previous forest fires in the outlying districts where the blazes started; it is widely believed that some were the work of arsonists.

The area has seen unchecked and often illegal suburban development in the past 20 years. By some estimates, there are more than 100,000 homes in Attica, the Greek province surrounding Athens, that have been built in violation of zoning laws.

"This is absolutely terrible, what is happening," said local resident Marina Theona, 64 years old, a veteran of past forest fires. "This is the third time we have had to deal with forest fires sweeping through here."

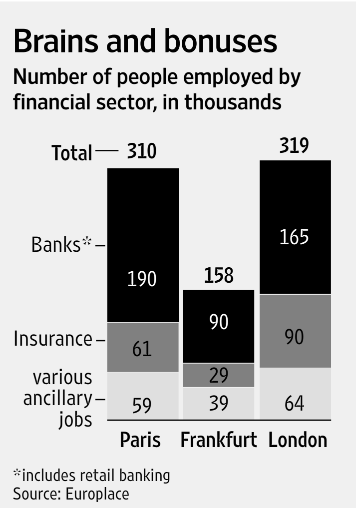
At a televised news conference, government spokesman Evangelos Antonaros said the center-right New Democracy administration had already started surveying fire-stricken areas in an effort to assess the cost of the damage. Mr. Antonaros said early indications showed that the number of damaged or destroyed homes was fewer than initial media reports had suggested.

Many of the hundreds of homes in the area north of Athens are valued at more than €1 million ($1.4 million), so damages could potentially reach several hundred million euros. Insurance companies would likely pick up part of the tab, but any government spending—to aid homeowners, rebuild infrastructure or reforest burned-out areas—would weigh heavily on Greece's already-overextended budget, which last year recorded a deficit equal to 5% of gross domestic product.

"The ecological and social consequences of these fires cannot be estimated," said Nikos Magginas, an economist at National Bank of Greece SA. "But as for the economic consequences, the most immediate impact will be on government finances."

Bankers worry about French limits on pay

By David Gauthier-Villars



Agence France-Presse

French bank BNP Paribas Managing Director Baudoin Prot leaves the Finance ministry on Monday.

PARIS—As French President Nicolas Sarkozy prepares to meet with executives of the country's largest banks Tuesday, bankers are worried that fresh rules to curb their pay packages would put them at a disadvantage with foreign competitors.

Measures could include forcing banks to disclose how they calculate bonus payments, but might be limited to verbal warnings from the government, said a government official.

Like the U.S. and most other European countries, France is scrutinizing bankers' pay packages amid concerns that an outsize willingness to take risks in return for big paydays was one cause of the global financial crisis.

But national governments are struggling to strike a balance: Appropriate regulation could help the financial industry prosper—but overregulation could hamper business and drive it to other countries. The U.K. Financial Services Authority's rules aimed at curbing bonuses, published earlier this month, were significantly watered down from a draft released at the start of the year.

"Measures must be discussed at the European and international level," said Arnaud de Bresson, director of Paris EuroPlace, a lobbying group that promotes Paris as a financial hub and is concerned that Paris's standing as a financial center could suffer. "We don't see how one financial center could do it on its own."

During the second quarter, French banks—which have received close to €20 billion ($28.67 billion) in state aid since October—adopted bonus guidelines in line with recommendations made by the Group of 20 largest economies earlier this year.

Three weeks ago, however, **BNP Paribas** SA, which received €5.1 billion in state aid and is France's largest bank by stock-market value, sparked an outcry when it said it had set aside about €1 billion to pay bonuses to its investment-banking arm this year.

Some opposition parties have called for capping or even banning banking bonuses. The opposition Socialist Party has suggested increasing France's marginal income tax rate, now 40%. Mr. Sarkozy has ruled out raising taxes, saying it would deter companies from creating jobs.

Monday, French Finance Minister Christine Lagarde held a preparatory meeting with representatives of the country's largest banks to see how the French code of conduct that was introduced in the spring could be tightened.

The government official said measures being discussed included creating bonus committees within banks, rather than often leaving the details to trading-room managers, and forcing banks to divulge how they calculate bonuses.

As part of the measures introduced earlier this year, bonuses must be linked to profit, not revenues. Banks must also stagger the payment of bonuses over several years and tie them to the continued performance of the relevant banking activity to avoid dishing out quick rewards for unsustainable gains.

Mr. de Bresson, the Paris EuroPlace director, said he was worried that bankers might flee Paris if their remuneration was curbed in France.

A similar number of people in Paris and London work in banking, but many in Paris are in retail banking and asset management. Paris has an estimated 180,000 traders and investment bankers, compared to about 250,000 in London, according to Paris EuroPlace.

GM to develop $4.3 billion plan to keep Opel unit

By John D. Stoll

DETROIT—**General Motors** Co.'s management team is going to try to develop a $4.3 billion financing plan as part of an effort to keep control of Adam Opel GmbH, according to three people involved in the matter.

Chief Executive Frederick "Fritz" Henderson is supposed to have the plan done by the board's next regularly scheduled board meeting, in early September.

GM has been working for months to sell control of Opel and its British affiliate, Vauxhall, which are incurring losses and form the core of its European operations. Until last week, the company was leaning toward selling control of the unit to **Magna International** Inc. Magna's ownership would have attracted substantial financing from the German government.

The auto maker was also entertaining a bid from **RHJ International** SA, a Belgian private-equity group. The German government has voiced objection to the RHJ deal, and GM has been careful to follow the government's lead because of the financing commitment the German government has made.

On Friday, Mr. Henderson presented the company's options to a new board in hopes of winning support for the Magna offer, according to people familiar with the meeting. But the board turned down the Magna deal, these people said.

LEADING THE NEWS

Nokia to offer notebook computer

Handset maker sees opportunity in PCs despite crowded field

BY JOEL SHERWOOD AND LORRAINE LUK

Nokia Corp. unveiled a netbook computer Monday, marking an entry into a fast-growing but crowded sector that is blurring the lines between PC companies and handset makers.

The Nokia Booklet 3G, a mini-laptop using **Microsoft** Inc.'s Windows software, will be a "full-function" personal computer with high-speed mobile Internet access capability, Nokia said. The company declined to comment on pricing, availability or detailed specifications of the device ahead of a media event Sept. 2.

Nokia's move, which comes after the company announced an alliance with Microsoft this month, highlights increased consumer demand for products that fuse portable computing, telecommunications and music technology, and marks a significant strategic shift, said Ranjit Atwal, principal research analyst for the PC industry at Gartner Inc.

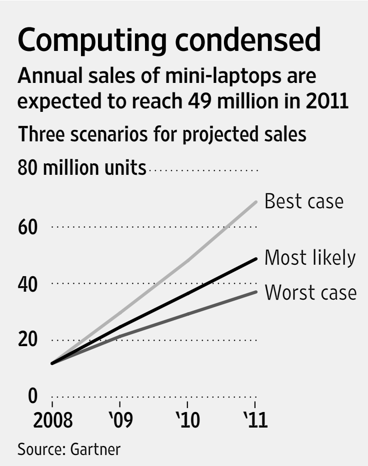
"It's not going to be huge compared with its mobile portfolio, but strategically it's where devices are headed," Mr. Atwal said, pointing to the convergence of PC-like functions together with the ability to communicate. He added the key task for Nokia will be how it will differentiate its offering from rivals.

Espoo, Finland-based Nokia is the world's dominant maker of mobile phones, with a 38% share of the total global market. However, it has recorded declines in the average selling price of its handsets for the past six quarters amid increased competition for its high-end phones from **Apple** Inc.'s iPhone and **Research in Motion** Ltd.'s BlackBerry.

Nokia has also ceded market share to Asian rivals such as **Samsung Electronics** Co., which makes both PCs and mobile phones. Meanwhile, PC makers are moving into the smart phones—devices that offer multimedia functions such as Web browsing, email and video conferencing.

—Ian Edmondson, Ola Kinnander and Adrian Kerr contributed to this article.

Nokia's new portable mini-laptop computer



BofA says it didn't mislead holders on bonuses

BY DAN FITZPATRICK AND KARA SCANNELL

Bank of America Corp. said it didn't mislead shareholders about its approval of billions of dollars in Merrill Lynch & Co. bonuses prior to a merger of the two firms, noting that it was "widely understood" that Merrill would award year-end compensation and the bank never told investors it had prohibited such payments.

The new statements were made in a Monday filing to federal judge Jed Rakoff, who has refused to sign off on a $33 million settlement of a U.S. Securities and Exchange Commission civil lawsuit targeting the bank for what it disclosed about the bonuses before a December shareholder vote. The SEC said proxy documents sent to investors in November show Merrill wouldn't pay year-end bonuses without Bank of America's consent, while a separate document never distributed to shareholders shows Bank of America approving as much as $5.8 billion.

Merrill's compensation committee approved $3.6 billion in bonuses three days after shareholders blessed the deal, and Merrill employees received their payouts one day before the merger closed. The bonuses sparked outrage on Main Street in light of Merrill's $27.6 billion in losses for all of 2008 and the $45 billion in government aid awarded to Bank of America.

Bank of America neither admitted nor denied fault in agreeing to the settlement. Judge Rakoff at a hearing earlier this month asked both parties for more information about the bonus disclosures and the basis for the settlement.

In its filing Monday to the U.S. District Court for the Southern District of New York, Bank of America said a November 2008 proxy didn't contain a "flat prohibition" against Merrill incentive compensation and even stipulated that a "negative covenant" restricting year-end bonuses would be subject to exceptions. It is typical, the bank said, for specific compensation arrangements to be "set forth in a separate disclosure schedule, which is neither annexed to the publicly disclosed merger agreement nor described in the proxy statement."

A separate filing from the SEC also was expected Monday. The SEC has maintained that the $33 million penalty is "reasonable under the circumstances."

At the hearing before Judge Rakoff earlier this month, SEC attorney David Rosenfeld said the SEC didn't allege that the bank or any person intentionally misled shareholders, because the firm relied on its lawyers' advice. He said a defense that is based on lawyers' advice is often "enough to defeat an inference of intent."

Mr. Rosenfeld rebuffed assertions that shareholders could easily find the information about the bonuses in other bank documents. "It's not meant to be a puzzle. The proxy disclosure rules are meant to put shareholders on notice what they are being asked to approve," he said, according to a hearing transcript.

In its filing on Monday, Bank of America said Merrill openly disclosed its intention to pay bonuses in separate federal filings throughout 2008, which showed that compensation expenses were similar to 2007 levels.

Those plans were part of the "total mix" of information available to investors, the bank said, citing media coverage and quarterly statements.

A high-caliber celebration in Ukraine's capital

Associated Press

TANKS FOR THE MEMORIES: People in Kiev surround a self-propelled howitzer after a military parade on Monday commemorating the 18th anniversary of the nation's independence.

Russia warns economic upturn could be shaky

BY ANDREW LANGLEY

MOSCOW—Russia indicated the country's economy was coming out of recession but warned that the recovery is likely to be shaky as the country's worst financial crisis in more than a decade is far from over.

Gross domestic product shrank 10.2% in the first seven months of 2009 compared with the year-earlier period, Deputy Economy Minister Andrei Klepach said on Monday, according to Interfax news agency. But in July, investment expanded for the first time since the crisis began, Mr. Klepach said, causing the economy to grow a seasonally adjusted 0.5% on a monthly basis.

Russia's economy began to contract late last year as commodities prices plunged, foreign investors withdrew capital, and businesses lost access to credit.

Since then, the economy has shown signs of improvement, with industrial output expanding 4.5% on the month in June and 4.7% in July, as global demand for metals and energy picked up and factory inventories stabilized.

Consumers are still feeling the pinch, however, with unemployment above 8%, disposable incomes falling, and bank loans becoming scarce.

"We can say with some degree of certainty that the overall economic decline came to an end as early as June, but more so in July, and that we're entering a phase of revival," Interfax quoted Mr. Klepach as saying.

"But while the decline is at an end ... the crisis has not yet been overcome," he added. He said a prolonged downturn in the automotive industry and last week's fatal accident at a hydroelectric power plant could both weigh on growth in September.

Consumers are expected to benefit from Russia's thus-far export-led recovery as economic activity grows. But government support could also play an important role, with a U.S.-style "cash for clunkers" program penciled in for early 2010.

"Government stimulus can accelerate growth next year if it's ... targeted properly, that is directed toward consumers," said Evgeny Gavrilenkov, chief economist at investment bank Troika Dialog. "Domestic factors will start playing a more important role."

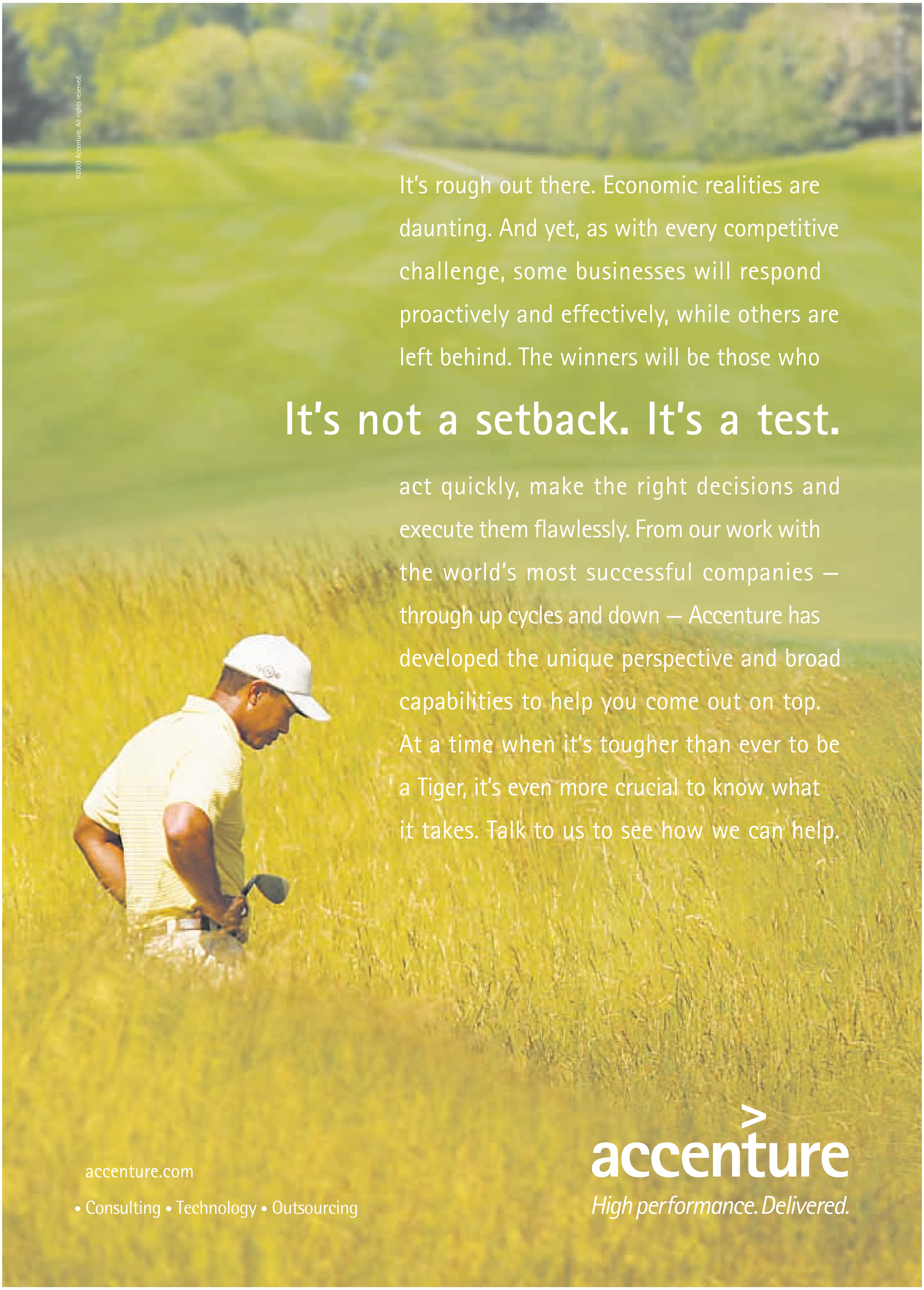
Russia expects the economy to shrink by 8.5% this year, a small improvement on its first-half performance. It sees growth of 1% in 2010.

Marketplace

Graduating class

Skype alumni challenge Google, which aims to sell telecom firm > **Page 28**

skype


©2009 Accenture. All rights reserved.
It's rough out there. Economic realities are daunting. And yet, as with every competitive challenge, some businesses will respond proactively and effectively, while others are left behind. The winners will be those who
It's not a setback. It's a test.
act quickly, make the right decisions and execute them flawlessly. From our work with the world's most successful companies — through up cycles and down — Accenture has developed the unique perspective and broad capabilities to help you come out on top. At a time when it's tougher than ever to be a Tiger, it's even more crucial to know what it takes. Talk to us to see how we can help.
accenture.com
• Consulting • Technology • Outsourcing
accenture
High performance. Delivered.

CORPORATE NEWS

Appliance maker leaves China for U.S.

Producer of popular line of hair irons transfers manufacturing to Texas facility, bucking conventional wisdom

By Timothy Aeppel

HOUSTON—Farouk Shami, a Palestinian-born hairdresser who built a $1 billion manufacturing company around a popular line of hair irons, is moving all of his production of hand-held appliances from China to a sprawling new factory here.

The move flies in the face of conventional wisdom, which says gadgets like this are best made in a low-cost country. But, he says, outsourcing has led to a loss of control over manufacturing and distribution.

"We'll make more money this way—because we'll have better quality and a better image," says the 66-year-old, who says his company, **Farouk Systems** Inc., spends about $500,000 a month fighting counterfeits, most of which he says originate in China. The company collects the fake products and tracks the source, and then brings action in China to shut down illegal producers.

Mr. Shami figures having production under his nose will help him control quality and inventory, and also fight the fakes, since imported irons will automatically be suspect. He sells in 104 countries, but the U.S. represents over 60% of the company's sales.

"I think you're starting to see more manufacturers rethinking outsourcing," says Daniel Meckstroth, an economist at the Manufacturers Alliance/MAPI, a public policy and research group based in Arlington, Va., calling a June speech by General Electric Co. CEO Jeffrey Immelt, where he said that overseas outsourcing had gone too far and that U.S. companies needed to expand domestic production, a "bellwether of what's happening in manufacturing."

Besides GE's efforts to manufacture more within the U.S., other companies such as St. Louis-based electrical-equipment maker Emerson have shifted some production of items such as appliance motors from Asia to Mexico and the U.S., in part to be closer to customers in North America.

Many U.S. producers got hurt when the recession hit and they were left holding large backlogs of goods ordered from overseas. Producing closer to customers—and limiting the inventory in the pipeline—is one solution, says Mr. Meckstroth.

Michael Stravato for The Wall Street Journal

Farouk Shami shown earlier this month on the floor of his new manufacturing facility for hair dryers and irons in Houston.

It remains to be seen whether Mr. Shami can produce cost-effectively in the U.S. The company is using automation to reduce the number of workers needed to assemble its tools and is redesigning products to make them easier—and therefore cheaper—to snap together.

Mr. Shami says the Houston-made hair irons will cost about $2.50 more to produce than the China-made irons; he plans to absorb the cost without raising the retail price.

He says some costs will fall as large-scale production gets under way. One Texas supplier of plastic parts initially charged four times the cost of the Chinese supplier, but cut the price to near parity once it became clear that orders would be large and steady, he says.

But Mr. Shami is also betting customers will pay slightly more for a U.S.-made product—he touts the American origin on packaging and in advertisements—and, to underline the quality issue, he is offering two-year warrantees on U.S.-made hair irons, compared to one year for those currently made in Asia.

The move is creating jobs in Houston at a time when factory jobs are evaporating in most places. On a recent afternoon, job applicants sat in the lobby of a cavernous new factory, hoping to be one of 30 people hired daily. The company expects to have 1,200 workers when the factory is at full speed in December.

Mr. Shami, who loves the color red—he has 40 pairs of red boots, which he sometimes wears with red leather pants—invented his hair iron, called the "Chi," in the late 1990s. He was already a manufacturer, having earlier developed ammonia-free hair color after he discovered he was allergic to that chemical.

As a hairdresser, he knew that existing irons used metal heating elements that could damage hair. His innovation was to use ceramic plates to generate a gentler heat. The name Chi stands for "ceramic hair iron."

Even though he priced it three times higher than most existing irons, it was a success. The company initially invested in manufacturing in South Korea, and, when demand exceeded that operation, outsourced to China. The company says it makes 60% of its revenue from the Chi line, which now includes hair dryers and other hair tools.

But a growing wave of counterfeits has driven down prices and created a dilemma for Farouk Systems, which often finds that defective Chis returned to the company for refunds are actually knock-offs. Authentic Chis carry price tags of $130 to $170, while fakes available on the Internet sell for as little as $50. Farouk Systems has fought the onslaught, including tracing counterfeits to Chinese factories and convincing the Chinese government to shut them down. The company hasn't quantified the number of fake products.

"You close one [counterfeit-making factory] down, and it just opens up across the street the next day," says Bobbi Mihal, the company's in-house lawyer.

The issue has strained relations with the company's Chinese supplier, Shenzhen-based **Fenda Electrical** Co. The Chinese firm is helping Farouk Systems set up its Houston factory and continues producing Chis as the new operation gets up to speed. But when Mr. Shami sent 16 engineers to China early last year to study their production, Fenda wouldn't let the visitors into some parts of the factory.

Ellen Wu, a vice president for Fenda, says her company, which makes hair products for a variety of Western firms, only produces authorized products.

"Copies are a serious problem" for Farouk Systems, she says. "We've helped them stop some companies." She says her company is phasing out its own production of Chis and remains on good terms with Farouk Systems.

Mr. Shami made the decision to move production to the U.S. two years ago, he says. He already had a factory in Houston, where he lives, producing hair coloring and shampoos. The first lines, where the starting pay for assemblers is $8 an hour, are now making seven of the company's 72 hair tools. Mr. Shami says that so far the tools built in Houston have a negligible defect rate; from the authorized plants in China, it's 5% to 8%. "That provides a savings right there," he says.

Meanwhile, other manufacturers are also making similar versions of hair tools with ceramic technology—Mr. Shami says he didn't patent the innovation because his experience in patenting his hair color took years.

But he says the company can compete by continuing to innovate, such as by adding electronic controls that turn an iron off automatically if it's accidentally left on. He says new models and innovations will command a premium.

TeliaSonera to buy up two units

By Ian Edmondson

STOCKHOLM—**TeliaSonera** AB, the Nordic region's largest telecommunications operator, is planning to buy out the remainder of two Baltic subsidiaries in a deal valued at about $687.7 million.

The move is part of Sweden-based TeliaSonera's strategy to buy out minorities in core businesses, as it aims to generate greater efficiency through overall control—even in areas such as the Baltic countries, which are suffering severely from the economic slump.

Sweden-based TeliaSonera said it will make cash offers valued at about 527 million Lithuanian litai ($218.9 million) for outstanding shares in Lithuania's TEO LT and 5.12 billion Estonian kroon ($468.8 million) for the remainder of Estonia's Eesti Telekom.

TeliaSonera already holds 60% of outstanding shares in TEO LT and 60.12% of Eesti Telekom. It said the cash offer for TEO LT represents a 30.7% premium to Friday's closing market price, while the offer for Eesti amounts to a 24.3% premium.

The offers are logical given TeliaSonera's aim of increasing ownership in core businesses, said Handelsbanken analyst Jan Dworsky in Stockholm. TeliaSonera has pushed hard in emerging markets in Baltic countries, Russia and selected Eurasian markets, including Kazakhstan, Uzbekistan and Turkey, hoping to benefit from high growth and low mobile penetration.

Still, the latest move comes at a time when the Baltic economies of Lithuania, Estonia and Latvia are among the worst-performing in the European Union. The rate of decline was particularly pronounced in Lithuania in the second quarter, when gross domestic product fell 22.4% from a year earlier, while GDP in Estonia fell 16.6%.

TeliaSonera's second-quarter revenue for mobile telephony fell 11% to 592 million Swedish kronor ($84.1 million) in Lithuania and 7.8% to 529 million kronor in Estonia. Revenue from both countries amounted to 8.6% of TeliaSonera's total quarterly revenue from mobile services.

TEO LT had a 95% share of fixed-line and 39% share of mobile telephony markets in Lithuania at the end of 2008. Eesti Telekom was also the market leader in Estonia, with an 85% share of the fixed-line market and 47% of mobile.

TeliaSonera had just over 2 million mobile subscribers in Lithuania and 778,000 mobile subscribers in Estonia at the end of 2008.

Security-firm G4S profits as government contracts rise

By Kaveri Niththyananthan

LONDON—The U.K. government's concerns about security and immigration have helped security firm **G4S** PLC score contracts and offset slowing demand in the commercial sector, as businesses cut back on temporary security jobs such as guarding cash.

The deals with the U.K. government are to run detention and removal centers at home and embassy-related contracts in five African countries, and helped the security-services provider post net profit of £85.1 million ($140.3 million) for the first half, up 14% from £74.4 million a year earlier. Revenue rose 29% to £3.49 billion, helped by favorable foreign-exchange rates.

The long-term government contracts and cash-management deals has helped it through the recession, Chief Executive Nick Buckles said. About 95% of its contracts are renewed every year.

The company was formed in 2004 by the merger of Securicor PLC and Group 4 Falck AS's security business. It provides services such as risk consultancy, design and management of secure facilities, landmine clearance and manned security to governments and businesses.

The company said organic growth in the U.K. and Ireland rose to 9.6% from 8.2% a year earlier and margins remained at 7.9%.

Mr. Buckles told reporters that while the company does face recessionary pressure, it wasn't any greater than the usual pressure on pricing.

U.S. car dealers race to file 'clunker' sales

Some cut off rebates over concern about federal deadline

By Neal E. Boudette And Matthew Dolan

Associated Press

Richard Cheng, left, looked at a new Honda Odyssey minivan in Florida on Sunday. He planned to trade in a Chevrolet Suburban.

After a weekend sales surge, U.S. auto dealers raced to file for "cash for clunkers" rebates before the program ended Monday evening.

The U.S. Department of Transportation said it had received 625,000 applications for clunkers vouchers totaling $2.58 billion as of Monday morning. That total was within the program's $3 billion budget. But with hours to go before the 8 p.m. deadline for dealers to request reimbursement for vouchers given to car buyers, those numbers were set to expand.

Many dealers moved early to halt sales of vehicles under the Car Allowance Rebate System, which provides rebates of as much as $4,500 to consumers who trade in older vehicles for more-fuel-efficient models, to give themselves time to process paperwork. They worried that if a last-minute rush to enter applications jammed the system, they would be on the hook for rebates already given.

Meanwhile, the German government has ruled out a new incentives program to replace its own €5 billion ($7.17 billion) clunkers plan, which runs out later this year, government spokesman Ulrich Wilhelm said Monday.

The program "was a result of the abrupt recession and won't be continued as such. This is unthinkable in this dimension," Mr. Wilhelm said.

Germany led the way in Europe with a car-scrapping plan that started at the beginning of the year to help its ailing car industry, which provides jobs to one in seven German workers. The program provides a €2,500 subsidy for each consumer trading in an old vehicle.

Back in the U.S., in Center Line, Mich., just north of Detroit, Bob Thibodeau Ford sold more than 40 vehicles with clunker rebates as of Friday, but the dealership soon started winding down its clunker business.

"We decided we'll have to have these deals completed by noon Monday" to be sure they are approved by the 8 p.m. deadline, said owner Bob Thibodeau.

Smart Toyota in Madison, Wis., stopped doing clunker sales Saturday amid concerns about processing the 250 deals it had accepted since July 27. According to Blane Einbeck, the dealership's marketing director, only 17 of those sales had been fully approved for reimbursement.

In Denver, Go Toyota, which is owned by dealership chain **AutoNation** Inc., sold 85 vehicles Friday, leaving the store's inventory depleted of certain models. AutoNation stopped its clunker sales Friday.

The weekend's jump in auto sales is likely to lift August U.S. sales to more than one million cars and trucks, according to J.D. Power & Associates. That would represent a 2% increase from the year-ago period, the first time the industry has seen a year-to-year rise since June 2007.

Many in the auto industry expect the rate of sales to slip in September, as a result of the ending of the clunkers program. Lean inventories are also likely to squeeze sales in the weeks ahead.

For now, dealers' biggest worry is processing the clunker sales they have already made. To qualify for reimbursement of rebates, dealers have to scan documentation of the deal and upload forms to the Transportation Department's Web site. The site has at times been slow or has shut down because so many dealers were trying to log deals.

Dealers said the site was down for maintenance early Saturday and again early Sunday, slowing their efforts to file applications at off-peak hours.

AutoNation, which operates 264 dealerships in 15 states, sold 12,024 vehicles with clunker rebates in total, including more than 1,600 on Friday alone. AutoNation has uploaded a large majority of deals to the Transportation Department but is still waiting on final approval on 87% of them, the company said.

Borrowing ideas from the company's disaster recovery plan, AutoNation Friday set up a round-the-clock processing operation at its accounting office in Irving, Texas.

Congress originally allocated $1 billion for the program, but that was nearly exhausted after one week. It authorized a second allocation of $2 billion intended to last until Labor Day, Sept. 7. But amid a strong response from consumers, the government said last week the program would end Monday.

—Andrea Thomas in Berlin contributed to this article.

Toyota sets big recall in China

By Patricia Jiayi Ho And Norihiko Shirouzu

BEIJING—**Toyota Motor** Corp. recalled nearly 700,000 cars in China because of faulty window-control systems—the Japanese auto giant's largest recall in the country and one that risks tarnishing the company's image here after a recent recovery in sales.

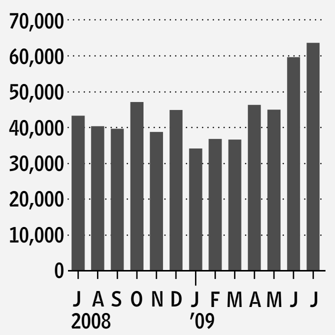
The recall involves four popular models, including the Corolla and the Camry, Toyota said Monday. In the 688,314 affected cars, the driver's side window-control device may short-circuit, and overheat in some cases, because excessive amounts of lubricant were applied during manufacturing. Toyota spokesman Hitoshi Yokoyama said the flaw has melted the switch in "a few rare instances" but that there have been no reports of fire or injuries.

The size of the recall exceeds the 585,000 total vehicles Toyota sold in China last year. The move comes four months after a recall for a brake problem in Camry sedans in China. Toyota's initial handling of that event was criticized by a Chinese consumer advocate, although the company said it did nothing wrong.

Toyota in recent years has stepped up efforts to reduce quality glitches. In 2006, the company was so jarred by a surge of recalls and quality problems world-wide that it delayed introductions of some models by as long as half a year. The postponement was designed to give engineers more time on vehicle and component design.

Speeding up

Toyota vehicle sales in China



Source: J.D. Power and Associates

Benjamin Asher, business manager at J.D. Power Asia Pacific Forecasting, said there "will most likely be some negative impact on the brand" as a result of Monday's recall. But he said that because the flaw doesn't affect critical safety systems the effect could be minimal if the company resolves the situation quickly.

A Toyota executive said it is "plausible" that the latest recall combined with the April episode could affect consumer confidence in Toyota in China. He said, however, that sales of the car Toyota recalled in April have shown little effect from that event and that overall sales have been recovering steadily after several sluggish months at the start of this year.

China Central Television, the state-run broadcaster, in April reported on what it said was a faulty brake system in Camry sedans. The program featured an interview with a legal adviser from the China Consumers Association who accused Toyota of hiding the problem. Three days after the program aired, Toyota recalled 259,119 Camry sedans because of brake problems—at the time Toyota's biggest recall in China.

Mr. Yokoyama, the Toyota spokesman, said the accusation it hid the problem was "completely groundless" and that the recall wasn't related to the CCTV report.

Shan Yongliang, a salesman at a Toyota dealer in the southern city of Guangzhou, predicted little impact from Monday's recall since the April controversy didn't have much effect. "We haven't heard any clients complaining or questioning" about the earlier incident, he said.

Monday's recall affects 384,736 Camry sedans made between May 15, 2006, and Dec. 31, 2008; 245,288 Corolla sedans made between May 17, 2007, and Dec. 25, 2008; 35,523 Vios sedans made between Feb. 18, 2008, and Dec. 25, 2008; and 22,767 Yaris sedans made between May 15, 2008, and Dec. 31, 2008. The vehicles were produced by Toyota and its joint-venture partners in Guangzhou and Tianjin, China.

—Ellen Zhu and Gao Sen contributed to this article.

Sulzer posts lower net, warns of further hurdles

By Martin Gelnar

ZURICH—Swiss engineering company **Sulzer** AG, a supplier to the oil, gas and chemical industries, Monday reported a smaller-than-expected fall in first-half net profit, but warned that most markets will remain difficult the rest of the year.

Sulzer's customers have been hit by the economic downturn as well as the fall in oil prices from the record highs seen over a year ago. Though the company said it still expects to post lower sales and operating income for the full year, said it believes it is in a good position to weather the economic downturn thanks to a solid backlog of orders, the strength of its balance sheet and its cost-cutting program.

Sulzer's net profit for the first six months of the year fell 1.6% to 155.6 million Swiss francs ($147.2 million) from 158.2 million francs a year earlier. Analysts had expected net profit of 121 million francs.

The latest results include a gain of 46 million francs from a property sale, as well as a charge of 36 million francs related to restructuring. The company in June put in place a cost-cutting plan that will cost a total of 55 million francs but is expected to generate 110 million francs in annual savings.

Sales fell slightly to 1.72 billion francs from 1.76 billion francs, but were above market forecasts of 1.63 billion francs.

Shares in Sulzer closed up 2.8%.

The company said it had an order backlog of 2.1 billion francs at the end of the first half, unchanged from a year earlier.

Sulzer Chief Executive Ton Buechner said the demand weakness in most of its markets continued in July and August. China and Brazil remain the exceptions and business remains relatively good, he said.

Mr. Buechner said he expects more acquisition opportunities going forward, although he declined to name possible targets. "We have always said we're prepared for acquisitions and the reason why we haven't done them is because we refused to pay prices seen in 2007," he said. "But now prices are coming down to a more reasonable level so we do see opportunities."

Sulzer has arranged small takeovers in the past few years, after an attempt to buy U.K. peer Bodycote PLC in 2007 fell through. The company has a net liquidity position of 358 million francs.

CORPORATE NEWS

India's Fortis accelerates growth

Hospitals purchase mines patient switch from public facilities

By Geeta Anand
And Sonya Misquitta

Medical staff check the condition of a young patient admitted at Government Fever Hospital in Hyderabad, India

MUMBAI—As India's growing middle class clamors for better medical attention outside the nation's cash-starved public hospitals, **Fortis Healthcare** Ltd. has come up with a prescription: a rapid expansion of its private hospital chain.

Indian health-care consumers, sick of long waits at grungy clinics, have embraced the upsurge in clean, efficient and professionally managed hospitals. Also, recent health scares over everything from mosquito-derived Dengue fever to swine flu have crowded public hospitals, pushing even more patients through the sliding doors of Fortis's private facilities.

"India's problems have given us an opportunity to put together a damn good health-care network," says Shivinder Singh, managing director of Fortis.

The latest deal came Monday when Fortis agreed to buy 10 hospitals for 9.09 billion rupees ($187 million). The purchase from **Wockhardt Hospitals** Ltd. gives Fortis 75% more hospital beds and a reach into big cities outside northern India—including Mumbai, Kolkata and Bangalore. With the acquisition, Fortis will own or operate 38 hospitals across India with 5,200 beds, company officials say.

Shivinder Singh

Fortis earlier this year bought or assumed management of four other hospitals in its effort to expand nationwide from its origins in northern India. **Apollo Hospitals Enterprise** Ltd. is the nation's biggest private chain, with 7,500 beds and 43 hospitals.

Fortis's expansion reflects India's changing health-care picture. India's urban middle class has turned the medical-services industry upside down by demanding better care than the government can provide—and than the vast majority of the population can afford. Only about 12% of Indians have health insurance, according to industry analysts. But with the number of policyholders covered by the private health-insurance industry growing about 40% a year in India, many more eventually will be able to afford to pay more for services here.

"Indian health care is on the threshold of tremendous reform and expansion," says Muralidharan S Nair, a health-sciences partner at consulting firm Ernst & Young.

Until recently, most of India's private hospitals have been products of yesteryear—small, stand-alone institutions founded by individual doctors. The rise of the corporate hospital chain gained momentum only in the past five years as India has boomed. These chains are buying hospitals or winning contracts to manage them. Often, the chains replace physician chief executives with professional managers who standardize business practices and buy supplies in bulk across the chain to drive down costs.

Apollo Hospitals also has been expanding. In July it opened the first stand-alone children's hospital in India and announced plans for five more hospitals focused on pediatric care. The company couldn't be reached.

Although foreign health concerns have largely stayed away from the Indian market—unsure of how to make money where the majority of people aren't insured—private investors have dived in. Real-estate investor **Trinity Capital** bought a $181 million stake in Fortis before it went public in 2007. **Apax Partners** owns a 14.5% stake in Apollo Hospitals. **Warburg Pincus** has a 23% stake in Max Healthcare Institute Ltd., a subsidiary of **Max India** Ltd.

"The private-equity guys are excited by the space," says Debasish Mishra, leader of the health-care practice of Indian-owned PricewaterhouseCoopers Pvt.

Since India became independent in 1947, the government has tried to provide affordable health care to its huge population, often unsuccessfully. India lags behind most of the world, with less than one bed per thousand people; China has more than double that number, according to the World Health Organization.

India also faces an acute shortage of doctors and nurses, the result of decades of regulations that have strangled medical colleges, leaving too few graduates each year to meet the burgeoning population.

As India's economy has taken off and the Indian Diaspora has returned from overseas, people have become fed up with public hospitals. Fortis, which isn't related to the European financial-services company, tapped into this dissatisfaction. Started in the 1990s by the Singh family, best known for founding drug maker Ranbaxy Laboratories Ltd., Fortis has grown rapidly since opening its first hospital in Chandigarh in 2001. The hospital chain aims to become the largest player in the country, says Amit Varma, a physician member of Fortis's board.

People like Sukhdarshan Singh are the foundation for Fortis's expansion. Mr. Singh, 72 years old, a retired government official who isn't related to the company's founders, initially went to a government hospital for his heart problems. But when he had trouble finding doctors at the government hospital to see him in February, he opted to have his bypass surgery at Fortis's Mohali Hospital.

The bill: around $3,500. That's far less than the $25,000 to $50,000 it would have cost in the U.S., although it is about 10 times what it would have cost in a government hospital.

Mr. Singh says it was worth it because he was "treated like royalty." Since he had no health insurance, his two grown children in Australia covered the cost.

—Rumman Ahmed contributed to this article.

Chinalco open to Rio Tinto talks on bauxite

By Chuin-Wei Yap

BEIJING—**Aluminum Corp. of China** said it is willing to open discussions with Anglo-Australian miner **Rio Tinto** PLC about cooperation in bauxite and alumina production.

Lu Youqing, vice president for the company that is also known as Chinalco, said Monday "we've indicated that we're willing to talk, but I know of no other details to share for now."

Mr. Lu was responding to comments by Rio Tinto's chief financial officer Guy Elliott, who was quoted in the Australian press as saying Rio is in very early stages of talks with Chinalco on a possible bauxite and alumina deal.

A Rio Tinto spokeswoman declined to comment.

The indications from both sides of renewed talks signal a thaw in relations after Rio Tinto abandoned a US$19.5 billion alliance with Chinalco earlier this year, turning instead to a sizable equity raising to ease its debt burden.

The news comes amid strained relations between China and Australia following the detainment last month of four Rio employees, including Australian citizen Stern Hu, for allegedly stealing commercial secrets.

Chinalco is still Rio Tinto's largest shareholder, with a 9.3% stake, and the two companies hold adjacent bauxite deposits in the Australian state of Queensland. They have held talks on possible cooperation there in recent years.

Bauxite is an ore used to manufacture aluminum. Alumina is an oxide of aluminum, largely used to bolster the light metal's resistance to weathering.

Separately, data showed that Australia led the way in iron-ore shipments to China in July by a wide margin, according to the General Administration of Customs.

China imported 27.5 million metric tons of Australian iron ore in July, up 52% from the same time last year.

From January to July, Australian ore shipments to China totaled 149.1 million tons, up 45% from the same time last year, which means Australia accounted for 42% of Chinese-ore imports in the period.

There was market speculation that Australian-ore imports had significantly slowed after relations with Rio deteriorated.

In July, Brazil was the second-largest exporter of iron ore to China, with 12.3 million tons, up 42% over the year. In the January-to-July period, Brazil shipped 73.1 million tons to China, up 23%.

China imported a record 58.1 million metric tons of iron ore in July, and 355.3 million tons in the year to July, customs officials said.

—Yue Li in Shanghai and Zheng Xiaolu in Beijing contributed to this article.

GLOBAL BUSINESS BRIEFS

Readers Digest Association

Bankruptcy filing is part of plan approved by lenders

The publisher of Reader's Digest filed for U.S. bankruptcy-court protection Monday. **Readers Digest Association** Inc. said last week it planned to restructure through a bankruptcy filing. The privately held publisher of the monthly magazine said the filing affects only its U.S. operations. Reader's Digest publishes 94 magazines and sells books, music and videos. Under the plan, senior lenders led by **J.P. Morgan Chase** & Co. would swap a significant amount of their $1.6 billion in debt for about a 92.5% stake in the reorganized company. It would cut debt to $550 million from $2.2 billion.

PT Garuda Indonesia

PT **Garuda Indonesia** aims to raise between $300 million and $400 million from an initial public offering in the first half of 2010, the Indonesian national airline's chief executive said. Emirsyah Satar told reporters Monday that the proceeds from the planned IPO would be used to fund expansion. He said Garuda is valued at an estimated $1.5 billion. Mr. Satar's comments were the clearest indication so far of the scale of the IPO. The chief executive said earlier this year that about 15% to 20% of Garuda may be sold in the offering, but didn't specify the amount of money the airline hopes to raise. Garuda, which has been trying to conduct an IPO since the 1990s, long struggled to earn a profit. But recently, it has been one of the world's few profitable airlines.

HTC Corp.

HTC Corp. and **China Mobile** Ltd. have teamed up to jointly develop China's homegrown third-generation phone technology—Time Division Synchronous Code Division Multiple Access—and related products, the Taiwanese smart-phone maker said Monday. The two companies, which signed a memorandum of understanding Monday, plan to launch one TD-SCDMA phone in 2009 and six in 2010, China Mobile Chairman Wang Jianzhou said. China Mobile is the world's biggest wireless operator by subscribers. Mr. Wang said he will also seek other Taiwanese companies to discuss possible areas of cooperation using TD-SCDMA technology—China's homegrown 3G technology—for various consumer products.

Procter & Gamble Co.

Procter & Gamble Co.'s announcement that it plans to sell its prescription-drug operations to **Warner Chilcott** Ltd. suggested to some analysts that P&G will be more aggressive about pruning noncore businesses. Monday's $3.1 billion deal fits in with P&G's recent moves to rid itself of operations that don't fit in with its core businesses. "Management's comments today indicate they are willing to be more aggressive in structuring their portfolio," J.P. Morgan analyst John Faucher said in a note to investors. A P&G spokesman didn't comment on possible divestitures. Warner Chilcott has focused primarily on the U.S. market, but the P&G assets will expand the company's presence in Europe.

—Compiled from staff and wire service reports.

Democrats' woes aren't rivals' panacea

Republican Party could learn something from David Cameron rather than focus solely on Obama's problems

BY GERALD F. SEIB

CAPITAL JOURNAL

In this August of Democratic difficulty, here's something that Republicans ought to keep in mind: Politics isn't a zero sum game.

That is, just because one party is down doesn't automatically mean the other party is up. That's an underlying principle of American politics, but it's remarkable how often it's forgotten.

In this case, it means that even as Democrats hit rough seas, Republicans shouldn't forget that they still face significant deficiencies and structural problems of their own—problems that just a few months ago seemed almost insurmountable. The danger for Republicans right now, in fact, is that they become so entranced by the recent decline in President Barack Obama's fortunes that they lose sight of their own problems.

Agence France-Presse

British Conservative Party leader David Cameron, shown in London in May, could provide a model for U.S. Republicans.

A reminder of this challenge comes in the form of a long article in the forthcoming issue of Commentary magazine by two of the Republican Party's deeper thinkers, former Bush White House speechwriters Pete Wehner and Michael Gerson. They lay out what their article calls a "path to Republican revival," making the point that simply opposing Obama initiatives isn't sufficient to bring about such a revival.

They also argue that being anti-government isn't sufficient in a country where "it is patently clear that most Americans do not locate the source of all of today's social ills in an overactive government." Instead, they argue, Republicans need to be seen as a party with new ideas for reforming "ossified" features of that very government, particularly regulatory and tort systems that are behind the times, and an education system that needs to make teachers both better paid and more accountable for their performance.

Intriguingly, Messrs. Wehner and Gerson also suggest that Republicans steal a page from the playbook that British Conservative Party leaders David Cameron and Iain Duncan Smith have used to revive their party. Those British conservatives have, the authors note, "emphasized a range of issues that directly influence the quality of life in community: homelessness, addiction, prison reform, family breakdown, long-term unemployment." So far, the authors note, "Republicans have no comparable agenda to address such issues of social justice from a conservative perspective."

It may seem odd to highlight such deficiencies at a time when Republican fortunes seem to be rising. But Mr. Wehner argues in an interview that this is, in fact, precisely the time to refill the party's reservoir of ideas.

"When we started thinking about this piece and working on it, the Republican Party was in the depths of despair," Mr. Wehner says. "Now it's almost as if Republicans feel the collapsing numbers for Obama are by themselves enough. The Republican Party itself isn't out of the woods yet."

Indeed, the woods in which Republicans found themselves after the 2008 election are, and remain, thick. Republicans lost across the board because they did badly with the two most important voting constituencies of the future, young people and Hispanics. Moreover, they could suffer for some time from last year's record wave of voters registering as Democrats.

Republicans have no obvious national leader, and some of the most prominent personalities that have arisen (Sarah Palin, Rush Limbaugh) carry plenty of baggage. Nor have recent Democratic travails made Republicans broadly popular by comparison. In the most recent Wall Street Journal/NBC News poll, 42% of respondents had positive feelings about the Democratic Party, compared with just 28% for Republicans.

Even on health care, where Republicans have made hay by attacking Democrats' plans for a big and expensive overhaul, it would be hard for voters to put their fingers on a coherent GOP alternative. That doesn't matter much now, but it will if, as now seems possible, the health debate stretches on for months or years.

Indeed, in one sign of the GOP's disjointed message on health, national party Chairman Michael Steele published in Monday's Washington Post a piece that opens by objecting to Democrats' plans for a "government-run health-care system"—and then proceeds to object, at length, to proposals to curb Medicare, which is, after all, the biggest government-run health system in the land.

(Something about Medicare, by the way, seems to make both parties lose all sense of equilibrium. The same Democrats who howled in protest when then-President George W. Bush proposed relatively modest cutbacks in Medicare spending in 2006 now are proposing their own much bigger cuts in Medicare spending to pay for expanding health coverage for others.)

The best news for the GOP this summer, Mr. Wehner says, is that "the issue set that is dominating the national debate is in the Republican wheelhouse, which is taxes and spending."

In the Commentary article, he and Mr. Gerson also suggest Republicans continue to offer a "full-throated stand for a strong national defense" amid conflicts in Iraq and Afghanistan and peril in North Korea and Pakistan.

But other areas remain problematic for the party, not least immigration. There, Republicans remain deeply divided over whether to back an overhaul that offers citizenship to illegal immigrants. Meanwhile, the party's tone often comes across as hostile toward all immigrants. Count that as one big area where Democrats' woes aren't sufficient to solve Republicans' own problems.

Asia Aluminum's foreign debt holders are left to squirm

BY PETER STEIN
AND LAURA SANTINI

HONG KONG—In June, Sami Caracand received a notice from **Asia Aluminum Holdings** Ltd., a Chinese company in which he had purchased $250,000 of debt. It asked him to support a deal to wind up the firm and sell its assets. In return, Mr. Caracand might receive 20 cents for each dollar of debt he held.

He had rejected an earlier offer from the company to pay him 27.5 cents for each dollar of debt because he felt the Hong Kong-registered aluminum maker didn't adequately explain its financial troubles. "There was an issue of transparency," says Mr. Caracand, an investor based in Dubai. "Not much information was given." This time, convinced there were no more alternatives, he said yes.

Faced with a recalcitrant emerging-market borrower that owed them more than $1.2 billion, foreign creditors of Asia Aluminum had fought for their rights—and lost.

Around the globe, a growing number of holders of corporate debt are finding themselves taking a hit on their original investments as debt-saddled companies struggle to cope with tougher business conditions and avoid bankruptcy.

This year, 64 issuers of corporate debt, most of them in the U.S., have renegotiated their terms with lenders in so-called distressed exchanges, commonly known as "haircuts," according to Standard & Poor's Rating Services. In many cases, the new terms are arrived at through mutual agreement as both lenders and borrowers try to balance repayment obligations with a company's capital needs.

But investors and debt analysts say the haircut that Asia Aluminum's creditors received, and the way they received it, highlight problems specific to Asia that have kept demand for Asia's corporate debt from matching the appetite for its equities. That's especially true for the kind of high-yield credit that normally helps finance the growth of promising but less-established companies.

A number of Asia Aluminum's creditors say there was never a dialogue with the company about renegotiating its obligations: the terms were 'take it, or leave it.' Basic information about its finances was hard to come by.

After his experience with Asia Aluminum, Mr. Caracand says he doesn't expect to invest in any more Chinese debt, "not until there is some substantial change in the laws that protect the creditors in Chinese companies."

The company's chairman, Kwong Wui-chun didn't respond to repeated phone and fax requests to speak with him for this article.

In a recent report, Richard Brown head of credit research for Asia at Schroders blames the slow pace of growth in Asian high-yield debt on an "overall level of corporate governance, corporate transparency and legal protection in Asia [that is] below that in the U.S. and Europe."

While numbers are hard to come by, a higher percentage of high-yield debt issued in Asia is owned by foreign investors than is the case in Europe or the U.S., analysts say. A wave of foreign money that swept into Asia starting in 2004 helped boost issuance, which grew 53% between 2004 and 2006, according to data from Thomson Reuters.

Founded by a former trader in scrap metal in 1992, Asia Aluminum had become one of the world's largest aluminum-fabrication businesses. Its aluminum products were used in cans, shipping containers and cars.

In 2004, investors such as Mr. Caracand bought $450 million worth of senior notes issued by Asia Aluminum to help finance expansion plans. Two years later, Mr. Kwong took the Hong Kong-listed company private in a buyout funded by more foreign money. He borrowed $535 million from investors that included big hedge funds through so-called payment-in-kind notes. PIK notes allow the company to skip interest payments and instead enlarge the amount of existing debt.

This past February, with little warning, Asia Aluminum stunned foreign creditors with the offer to buy back its debt at just a fraction of its face value.

Mr. Kwong told investors that if they rejected the deal, suppliers and creditors in China would push the company into bankruptcy. There has been little indication of how China's courts would treat foreign investors under a bankruptcy law that went into effect two years ago, making that a potentially worrisome prospect.

Though the company was registered in Hong Kong, its assets were located in China. Overseas creditors had no claims on the company's physical property.

"It's beyond my control," Mr. Kwong said at the time.Few doubted that demand for Asia Aluminum's products was being hit as the impact of the global financial crisis spread. But some investors say they were skeptical that the situation was as bad as Mr. Kwong said. In November 2008, Asia Aluminum had agreed to pay 1.15 billion yuan ($168.4 million) to buy a refinery for alumina, a raw material used to make aluminum, that was half owned by the chairman's son.

The foreign creditors rejected Mr. Kwong's offer.

Things didn't get better for them. Soon, they were told a new company was prepared to buy the main company's assets for $298 million as part of a restructuring plan. The plan would pay foreign creditors even less for their debt than Mr. Kwong's earlier offer, according to a preliminary estimate: senior-note holders would receive about 20 cents on the dollar, while the PIK noteholders who were owed a total of around $800 million, would receive just one cent on the dollar. That compared with 13.5 cents in the previous offer.

The buyer, called Golden Concord, immediately aroused suspicions among some investors because its management included unidentified Asia Aluminum executives. Creditors say Asia Aluminum's court-appointed receivers told them Mr. Kwong had no financial interest in Golden Concord, but little else.

Golden Concord didn't respond to requests for comment.

New alliance rules in Iraq

Shiites split, leaving Maliki's party out ahead of 2010 vote

By Charles Levinson

Associated Press

Iraqi Prime Minister Nouri al-Maliki surveys damage to the foreign ministry building, which was attacked in a spate of bombings in Baghdad last week.

Iraq's Shiite parties on Monday said that they have formed a new alliance to compete in January's parliamentary vote, which doesn't include Prime Minister Nouri al-Maliki's party—fracturing the country's ruling Shiite coalition and hurting Mr. Maliki's chances of winning a second term in office.

In the last parliamentary vote in 2005, the United Iraqi Alliance swept Shiites to power.

The new Iraqi National Alliance will be led by the Supreme Iraqi Islamic Council, the country's largest Shiite party, which has strong historical ties with Iran. Anti U.S. cleric Muqtada al-Sadr, whose bloc tied the Supreme Council for most seats in the last parliamentary election, will also be in the alliance, as well as a handful of smaller parties and some Sunni politicians.

But Mr. Maliki's Dawa Party isn't included.

The announcement came as violence continued to shake the country. Two bombs exploded south of Baghdad on Monday, killing 11 people, according to police officials. The officials said the bombs were attached to minibuses, which are used throughout Iraq as public transportation.

Dawa Party officials had been negotiating with the Supreme Council for weeks over a formula that would bring Mr. Maliki into the latest Shiite alliance, reuniting the three largest Shiite parties ahead of the elections. Negotiations foundered over disagreements over how many parliamentary seats would be allocated to each party, according to Hassan Suneid, a senior Maliki adviser.

Mr. Maliki also felt the number of Sunni and non-Shiite parties included in the alliance was insufficient, Mr. Suneid said. Results of provincial elections have shown Mr. Maliki has attracted a significant support base among Sunnis, Shiites and Kurds.

Aides say Mr. Maliki is confident he can succeed independent of the Shiite alliance by cobbling together a nationalist coalition of parties and politicians cutting across Iraq's sectarian divides.

But without the backing of the country's largest Shiite political parties, who voted him into office in 2006, Mr. Maliki faces an uphill battle to secure a parliamentary majority necessary to give him a second term as prime minister.

Mr. Maliki's standing has also suffered recently amid a spate of catastrophic bombings that have undermined his image as a leader capable of holding on to security gains as U.S. forces withdraw.

But without Mr. Maliki, the new Shiite alliance is also likely to suffer. Mr. Maliki's nonsectarian bona fides would help make the Shiite alliance more palatable to Sunnis, Kurds, and secular Iraqis, analysts say. Shiite leaders say the door is still open to Mr. Maliki if he chooses to join the alliance.

"I wish that our brothers in [Maliki's] Dawa Party would be among us today and God willing, efforts will continue to include everyone, with Dawa at the top of the list," Iraqi Vice President and Supreme Council member Adel Abdul-Mehdi told reporters on Monday.

The new alliance has also raised questions about Iranian influence in Iraq. A Shiite alliance dominated by the Supreme Council and the Sadr bloc could strengthen Tehran's hand in Baghdad. The Supreme Council was formed in Iran in the 1980s, fought alongside Iran against Iraq in 1980-88 war, and was based in Tehran until the U.S.-led invasion in 2003. Mr. Sadr, meanwhile, has been living in the Iranian city of Qom for much of the past two years.

On the other hand, without Mr. Maliki's Dawa Party in the alliance, Iraq's Shiite vote could splinter, leaving Iran's Shiite allies weakened after January's vote, according to analysts.

The new Shiite alliance may also suffer from the lack of a well-known personality at its helm. The Supreme Council's leader Abdel Aziz al-Hakim is in Iran being treated for lung cancer and his health is deteriorating, say Supreme Council officials. Mr. Hakim's son, Ammar, is being groomed to succeed him, but doesn't enjoy the same popular support.

In January's provincial elections, parties perceived as too sectarian, such as the Supreme Council, did poorly, in part because many Iraqi voters blamed them for contributing to the two years of sectarian bloodshed that swept the country in 2006 and 2007.

As a result, the new Shiite alliance has worked hard to attract a handful of Sunni politicians, such as Hamid al-Hais, a Sunni tribal sheikh from Iraq's western Anbar province. Mr. Hais lead a group of Sunni tribesmen who turned against al Qaeda and allied themselves with the U.S. in 2006.

Still, many Iraqi Sunnis continue to view a Shiite alliance with deep suspicion, and consider it beholden to neighboring Iran. Sunni lawmaker Osama Nujaifi said that having a few token Sunnis inside the Shiite alliance won't change Sunnis' perceptions that the alliance serves Shiite sectarian interests.

"The sectarian nature of the Shiite alliance is too ingrained in its makeup for it to change with the addition of a few Sunni names," said Mr. Nujaifi.

New Orleans embraces an entrepreneurial spirit

By Raymund Flandez

Four years after Hurricane Katrina's devastation, New Orleans is experiencing a rebirth of entrepreneurship.

Small-business owners who left are now coming back, driven by a sense of mission to help the struggling city and to take advantage of generous tax breaks. Young professionals have moved to the Big Easy to help with its recovery, enjoy its cultural offerings and start businesses. Surviving companies entered niche business lines as competitors folded or left.

Kenneth Purcell

Kenneth Purcell, chief executive of iSeatz.com, uprooted the travel-and-entertainment booking company to New York after Katrina. He returned the company's headquarters to New Orleans in January 2008.

"We moved back to New Orleans so that we can be involved with the redevelopment of one of America's greatest cities," says Mr. Purcell. He was also lured by tax incentives, such as the 6% wage rebate on payroll when he imported about a dozen out-of-state employees. He says the tax breaks are saving the company hundreds of thousands of dollars.

Last year, revenue topped $28 million for iSeatz.com. This year, because of new product initiatives and expansion overseas, Mr. Purcell projects $50 million to $60 million in revenue.

Since Katrina, an influx of talent and new businesses has transformed the city's business community. In the past, New Orleans relied on old-world industries such as oil, hospitality and tourism. But now, the city is seeking to diversify its economy, even embracing technology start-ups. For-profit entrepreneurial centers have popped up to support and connect business owners.

"This place, which was rooted in tradition, has now become a place of innovation," says Michael Hecht, president and chief executive of Greater New Orleans Inc., a nonprofit economic-development agency.

As the Aug. 29 anniversary of Katrina looms, the city's transformation as a burgeoning hotbed of entrepreneurs isn't so hard to imagine. New Orleans is the fastest-growing city in the country, with population up 8.2% last year from 2007, according to the U.S. Census. Visits rose to 7.6 million in 2008 from 7.1 million the previous year, as tourism spending increased to $5.1 billion from $4.8 billion. Plus, the New Orleans metro area has recovered about 86% of its pre-Katrina employment. Last year, the region tallied 526,600 jobs, up from 426,000 immediately post-Katrina but down from 610,000 before the storm.

In October 2006, McKenzie Coco, 33-years-old, and her husband Kirk, 41, moved to the city from San Diego and saw opportunities immediately. They each started a business—an advertising agency for her and a microbrewery for him called **Nola Brewing** Co.

Ms. Coco, owner of **FSC Interactive** LLC, saw an untapped niche in online marketing as the city's small businesses increasingly depended on online sales for growth. Her company became profitable three months after it opened in May 2007 and now has 34 clients.

"New Orleans is truly a wonderful place to do business right now," Ms. Coco says.

At least $20 billion of construction projects are under way, according to Mayor C. Ray Nagin in a "State of the City" address in May.

To be sure, the city is still navigating its recovery, and is plagued by high crime statistics. New Orleans had the worst crime rate in the country last year, according to an annual report by CQ Press. The city was also the nation's murder capital in 2008, with 64 murders per 100,000 residents, according to the Federal Bureau of Investigation.

And native small businesses are struggling to reinvent themselves. Carmen Sunda, director of the Louisiana Small Business Development Center, says existing businesses have been reluctant to redo their business model and take advantage of new market opportunities, such as establishing a presence online.

But for others, the Big Easy is ripe with opportunities. Kyle Berner, 28, started a flip-flop sandal retail company, **Feelgoodz** LLC, in April. This year, Feelgoodz is set to reach $80,000 in revenue as the company expands.

"It's a very special time in New Orleans," says Mr. Berner, a native New Orleanian. "There's just this entrepreneurial feeling that's happening right now in the city."

Taiwan export orders slow decline

By Daniel Ong Kian Hong And Perris Lee Choon Siong

TAIPEI—Taiwan's export orders posted their smallest decline in nine months in July, as demand from China grew for the first time in a year, the Ministry of Economic Affairs said Monday.

Other data showed Taiwan's jobless rate rose to a record high in July due to new graduates looking for work.

Taiwan's export orders, an indicator of actual exports in the coming one to three months, fell 8.8% in July from a year earlier to $28.61 billion, the ministry said. That was narrower than June's 10.9% decline and was the smallest decline since October 2008's 5.6% drop.

The value of export orders in July was up from $27.94 billion in June, and was the highest since October 2008's $30.41 billion.

Taiwan's industrial output in July fell a preliminary 8.11% from a year earlier, down from June's revised 11.29% drop.

Export orders will likely continue to improve on a month-to-month basis for the rest of 2009, said Huang Ji-shih, director of the ministry's statistics department.

The declines in Taiwan's export orders have been getting smaller since April on a pickup in external demand, though a soft job market likely means the economic recovery will be gradual.

Taiwan's jobless rate rose to a record of 6.07% in July, from 5.94% in June, because of graduates entering the labor market, the Directorate General of Budget, Accounting and Statistics said.

On a seasonally adjusted basis, Taiwan's jobless rate hit a record 6.01% in July, up from 5.91% in June.

"Based on past experience, July-August usually is the peak of unemployment, and from September the growth in unemployment will moderate," said Liu Tian Syh, deputy director at the directorate's Bureau of Census.

The Ministry of Economic Affairs' Mr. Huang said industrial production will continue to improve in August, albeit modestly due to the flooding caused by a typhoon.

—Alex Pevzner contributed to this article.

Labor leader Hughes picked to lead board of New York Fed

By Michael S. Derby

NEW YORK—A top labor leader in the U.S. has been named chairman of the Federal Reserve Bank of New York's board of directors.

The bank said Monday that Denis Hughes, who is president of the New York State AFL-CIO labor federation, will lead the board.

Mr. Hughes has been serving as acting chairman since May. Columbia University President Lee Bollinger will become the board's deputy chairman. Both men will hold their positions until year-end.

The New York Fed's board comprises nine members, and is set up to reflect banking and community interests.

The New York Fed board has been the source of controversy in recent months. In May, its then-chairman, Stephen Friedman, resigned amid questions over his ties to Goldman Sachs Group Inc., where he had once worked, and where he had continued to serve as a Goldman director and shareholder.

Mr. Friedman has said he complied with all rules regarding his dual roles.