News In Depth: Slump spurs grab for markets

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Breaking news at europe.WSJ.com

Bernanke tapped for second term

Hailing Fed chief's 'calm and wisdom' amid crisis, Obama opts for continuity in recovery effort

By Henry J. Pulizzi, Elizabeth Williamson and Jon Hilsenrath

OAK BLUFFS, Mass.—President Barack Obama nominated Ben Bernanke for another term at the helm of the U.S. Federal Reserve, hailing the central bank chief's "calm and wisdom" in the face of the economic meltdown.

The president's move ends the guessing game over who will lead the Fed as it begins to unwind emergency measures taken to confront the crisis.

In making the decision, which Mr. Obama announced

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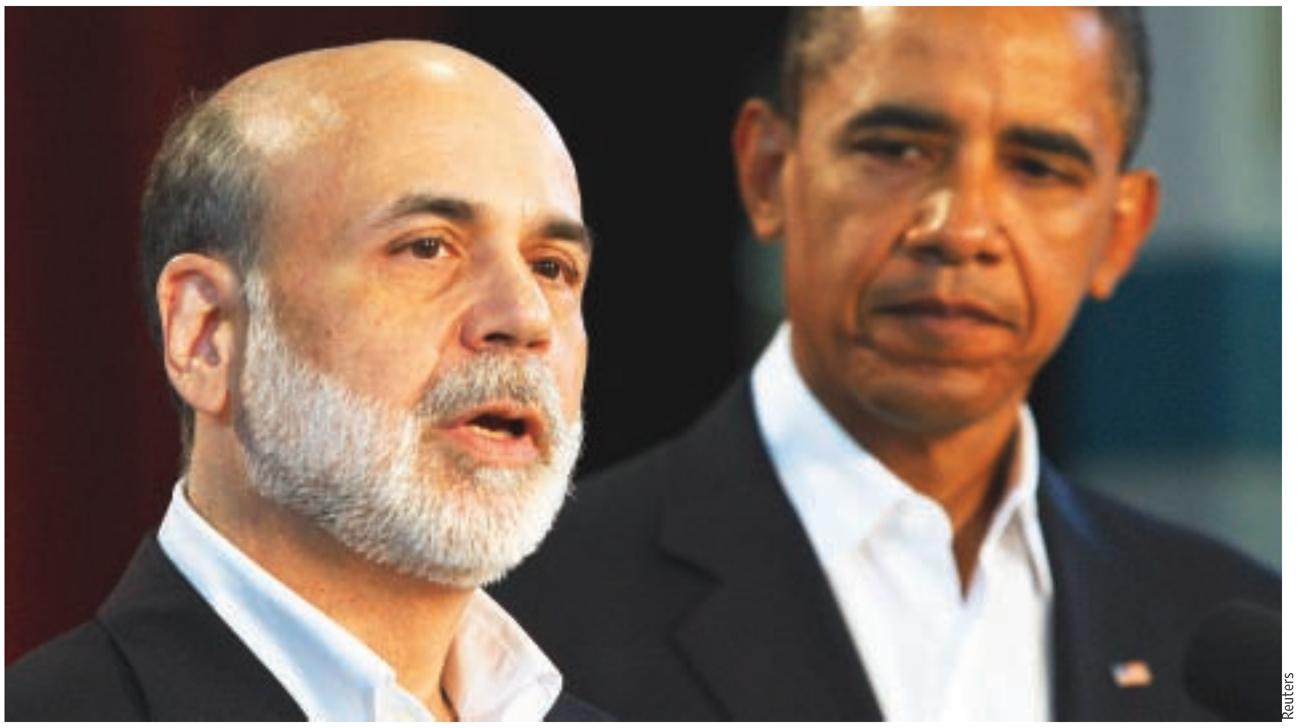

Reuters

U.S. Fed Chairman Ben Bernanke, left, speaks in Oak Bluffs, Mass., on Tuesday after being reappointed by President Barack Obama, right.

Changing landscape

Germany presses GM on sale of European units

By Marcus Walker

BERLIN—General Motors Co.'s hesitation about selling its European brands Opel and Vauxhall came under attack in Germany on Tuesday, amid serious questions about whether GM could afford to keep its European operations without state aid from Germany.

German politicians and labor unions reacted with anger to the news that GM is reviewing its options for Opel and might not sell its European business after all.

German leaders pressed GM to complete the sale of Opel to Austrian-Canada auto supplier **Magna International**, a deal Germany has promised to support with billions of euros in financing aid. But GM's new board of directors is skeptical about the terms of the proposed deal with Magna, and has asked GM executives to review all options, including keeping Opel, according to people familiar with the matter.

The biggest obstacle to retaining Opel would be financial: GM estimates it would need $4.3 billion to turn around the unprofitable European division. It isn't clear whether that figure includes a €1.5 billion ($2.1 billion) bridge loan that the German government made to Opel to keep it alive during the sale process, and which German officials say GM must repay once Opel's fate is decided.

GM's European operations are centered on its factories in Germany, and raising funds without German state help would be tricky for GM, said a senior German government official. Berlin would be reluctant to finance Opel if GM keeps the unit, because German policy makers believe GM has managed Opel poorly over the years, the official said, adding: "It would make little sense to put in more money to support a continued botch."

At a meeting in Berlin on Tuesday, German negotiators pressed GM Vice President John F. Smith for information about GM's intentions. Mr. Smith told German officials that GM's management remains interested in doing a deal with Magna, but that GM's board had asked about other options, according to a person familiar with the matter.

Germany's powerful IG Metall industrial union said on

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Palestinian premier details statehood plan

By Charles Levinson

JERUSALEM—Palestinian Prime Minister Salam Fayyad released a government plan on Tuesday calling for the establishment of a de facto Palestinian state by the end of 2011 regardless of the outcome of negotiations with Israel.

The detailed and ambitious plan faces significant practical hurdles and raised worries that Mr. Fayyad was advocating the sort of unilateral actions toward statehood long opposed by the U.S. and Israel. Implementing it would mean overcoming likely Israeli opposition to key elements and Mr. Fayyad's own weak domestic political standing, and would also require hefty financial-aid commitments from foreign donors, such as the U.S., European Union, and Arab states.

Reuters

Palestinians react near the scene of a tunnel bombed by Israeli aircraft in Rafah, Gaza Strip.

But the plan also reflected an unprecedented Palestinian emphasis on the nuts and bolts of self-rule. It lays out the broad outlines of a state on Palestinian lands occupied by Israel in 1967 with East Jerusalem as its capital, and details each government ministry and its functions.

It also calls for a Palestinian airport in the Jordan Valley, tax incentives to attract foreign investment, and the bolstering of competent security services capable of maintaining law and order.

"The Palestinian government is struggling against a hostile occupation regime to establish a de facto state apparatus within the next two years," Mr. Fayyad said at a news conference in the West Bank city of Ramallah. He then added that "this can and must happen within two years."

Spokespeople for Prime Minister Benjamin Netanyahu and the foreign ministry declined to comment on the plan, saying they needed time

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The right call

A guide to the ins and outs of BlackBerrys vs. iPhones

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	CLOSE	PCT CHG
DJIA	9539.29	+0.32
Nasdaq	2024.23	+0.31
DJ Stoxx 600	237.84	+0.42
FTSE 100	4916.80	+0.42
DAX	5557.09	+0.68
CAC 40	3680.61	+0.78
Euro	$1.4329	+0.07
Nymex crude	$72.05	-3.12

LEADING THE NEWS

Brown is ‘angry’ at Libya

U.K. prime minister still won’t weigh in on Scottish decision

By Alistair MacDonald

LONDON—U.K. Prime Minister Gordon Brown said he was “repulsed” and “angry” at Libya’s welcome for the man convicted in the 1988 Lockerbie bombing, but defied calls to say what he thought of Scotland’s decision to release Abdel Baset al-Megrahi. In his first public comments since Scotland’s justice minister freed the terminally ill Mr. al-Megrahi last week, Mr. Brown on Tuesday said the decision had been entirely Scotland’s, sticking to a position previously expressed by U.K. government officials.

The prime minister acknowledged that he had spoken about the possibility of releasing Mr. al-Megrahi with Libyan leader Col. Moammar Gadhafi at a July meeting of the Group of Eight developed nations, but said he had “made it absolutely clear” that the U.K. government had no say in the matter.

U.K. Prime Minister Gordon Brown bids farewell to Israeli Prime Minister Benjamin Netanyahu on Wednesday.

“I was both angry and I was repulsed by the reception a convicted bomber guilty of a huge terrorist crime...received on his return to Libya,” Mr. Brown said at a joint news conference here with Israeli leader Benjamin Netanyahu. Nonetheless, the U.K. will continue to engage with Libya and help it join the “international community,” Mr. Brown said.

The Scottish Parliament plans to debate next week the decision to release Mr. al-Megrahi, which could lead to a vote that would essentially censure the Scottish government’s decision. The government has said it will release before then documents related to the decision to release Mr al-Megrahi.

British bank lending remains blunted

By Ilona Billington

LONDON—Lending by British banks remained subdued in July, highlighting Bank of England Gov. Mervyn King’s concerns over the health of the banking sector and the likelihood that any economic recovery will be slow and uncertain.

The British Bankers’ Association reported that lending to nonfinancial companies in the United Kingdom fell £4.1 billion ($6.73 billion) in July, the steepest decline in three years. That compares with a £300 million drop in June and a six-month average decline of £200 million.

The BBA also said Tuesday that net mortgage lending rose just £1.6 billion in July. That was the slowest rise since October 2000. It was also below the £2.2 billion increase in June and an average rise of £2.9 billion over the past six months.

The BBA said that the slump in company lending was in part due to a lack of demand because some larger companies are turning to the bond market as a source of funding.

John Wright, national chairman of the Federation of Small Businesses, said “it is worrying that banks are still not lending to small businesses, even though many of them are credit-worthy.”

ECB is wary on Europe despite German upturn

By Geoffrey T. Smith

FRANKFURT—Germany’s economy returned to growth this spring, final estimates of gross domestic product for the second quarter indicated Tuesday.

Gross domestic product rose 0.3% from the prior quarter in the April-June period, after a drop of 3.5% in the previous three months, data from the federal statistics office, known as Destatis, showed.

The figures were unrevised from the first estimate of GDP for the quarter.

The results break a string of four consecutive quarters of contraction that have made up the worst recession in Germany in more than 70 years.

The German recovery has also helped the broader European economy. Euro-zone GDP fell just 0.1% in the second quarter and many economists—though not, officially, the European Central Bank—expect the region to return to growth in the third quarter.

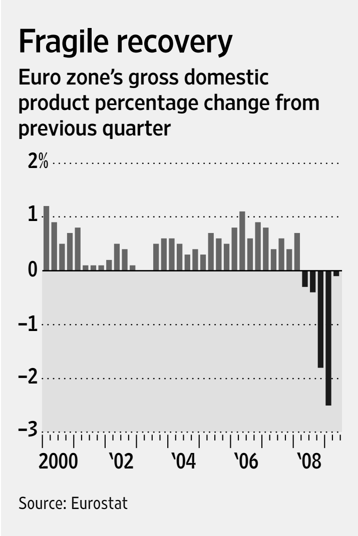
ECB officials, however, still appear to be convinced that recent data flatter the longer-term outlook, and owe too much to short-term government stimulus packages. As a result, few see the bank as likely to withdraw the extraordinary measures it has taken to keep the banking system and economy alive throughout the financial crisis and its aftermath.

The recession has caused a sharp deterioration in Germany’s public finances. After originally forecasting a balanced budget for this year, the government now expects the deficit to be around 4% of GDP.

Destatis reported in a separate announcement Tuesday that the general government deficit in the first half of the year was €17.3 billion ($24.7 billion), or 1.5% of GDP.

The GDP estimate “confirmed what we already knew, [but] still it is balm for the soul,” said Carsten Brzeski, an economist with ING Bank, in a note to clients.

However, echoing a warning by German Central Bank President Axel Weber, Mr. Brzeski said the economy “is still on a drip, getting infusions from policy makers. ...Some doubts remain whether the economy can stand on its own feet.”



In year-to-year terms, GDP was down 5.9% from the second quarter of 2008, also unchanged from the first estimate by Destatis earlier in August, and less than the 6.7% drop recorded in the first quarter.

ECB officials seem to feel recent data owe too much to stimulus packages.

The year-to-year figures are adjusted to take account of three fewer working days in the second quarter of 2009 than in the same quarter of 2008.

The main reasons for the rebound were domestic consumption, which has been supported by government subsidies for scrapping old cars, and for employers that keep their workers on shortened hours rather than laying them off.

Private consumption rose 0.7% in the quarter, while government consumption rose 0.4%.

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

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LEADING THE NEWS

Sarkozy, banks set new limits on bonuses

Pay czar to monitor best-paid traders at France's banks

BY DAVID GAUTHIER-VILLARS

PARIS—France's leading banks agreed to penalize traders who lose money for their firms after getting a bonus and to limit other employee payouts as part of a French government effort to trigger a global clampdown on financial sector salaries.

The new remuneration rules were unveiled after a meeting Tuesday between French President Nicolas Sarkozy and representatives of France's top banks, including **BNP Paribas** SA and **Société Générale** SA.

To ensure banks stick to the new criteria, Mr. Sarkozy appointed a "pay czar," former French central banker and IMF Managing Director Michel Camdessus, who will monitor the bonuses of the 100 best-paid traders at each bank in France.

"It can't be a game where you always win," Mr. Sarkozy said after the meeting.

He said he would lobby the U.S. and other European countries to adopt similar measures at a summit of the Group of 20 leading industrial and developing nations in Pittsburgh next month. Mr. Sarkozy said France wouldn't cap bonuses singlehandedly because it would prompt an exodus of bankers from the country.

Associated Press

French President Nicholas Sarkozy declared that bonuses 'can't be a game where you always win.'

Like the U.S. and most other European countries hit by the two-year-old financial crisis, France is seeking ways to discipline the banking industry without turning to measures that could drive business and jobs to other countries.

Mr. Sarkozy, whose ruling UMP party faces regional elections early next year, also fears that repeated pay scandals may fuel resentment among voters. France's opposition Socialist Party has criticized Mr. Sarkozy, saying he should just levy higher taxes on high earners, and traders in particular.

France's six largest banks, which have received close to €20 billion ($28.59 billion) in state aid, already had agreed to a new code of conduct on remuneration. Under those rules, which were aimed at reining in excessive risk-taking, bonuses are linked to profits, not revenue, and a big chunk must be paid in staggered installments, in order to avoid dishing out quick rewards for unsustainable gains.

But BNP Paribas, France's largest bank by market value, sparked a new round of public outcry earlier this month when it said that it had set aside €1 billion to pay the 2009 bonuses of traders and other employees at its investment-banking unit. The government has injected €5.1 billion in BNP Paribas.

During the news conference, Mr. Sarkozy said he was "shocked" to see how quickly some had forgotten about the crisis "even though we still haven't turned the page."

Under the rules agreed on Tuesday, traders can't receive more than one-third of the bonus allotted to them in the first year. Payment of the balance will be staggered over the next two years. If the trader's department loses money during that time, traders could lose up to two-thirds of the bonus. A third of the last two years' payment must be in shares.

French banks also will have to disclose how they calculate bonuses in an addendum to their annual report. In-house remuneration committees, which traditionally oversee only the pay of top executives, will have to supervise bonus policy, rather than often leaving the details to trading-room managers.

In addition, the French government won't business with banks that don't stick to the code, Mr. Sarkozy said.

As a result of the new rules, BNP Paribas will halve its provision for 2009 bonuses to €500 million, Mr. Sarkozy said. BNP Paribas Chief Executive Baudouin Prot said the lower amount excludes staggered bonus payments to be paid at a later date.

Mr. Sarkozy said France would propose an international agreement to limit bonuses to a percentage of bank's revenue. Alternatively, a special tax on bonuses could help finance deposit guarantee systems, he said.

Bonuses become a wedge issue in the G-20

Bankers' pay has become one of the most divisive issues among G-20 members as they prepare for September's summits on the world's financial system.

*By **Matt Turner** and **Liam Vaughan** in London and **Cardiff de Alejo Garcia** in New York*

U.K. Chancellor Alistair Darling earlier this month pledged to put bankers' pay on the agenda of the finance ministers meeting in London on Sept. 4, claiming an international approach was needed to crack down on excessive pay in the financial sector. But it would appear European leaders may not be reading from the same script, with some pressing for tougher reforms.

Even before Tuesday's deal with banks, the French government was saying the U.K.'s code on remuneration published earlier this month didn't go far enough and wasn't appropriate as a global agreemnt. In particular, it objected to the U.K.'s Financial Services Authority decision to use guidelines, rather than specific rules, to shape banks' pay practices.

"The problem with guidelines is that you apply them when it suits you," a spokesman for France's finance minister, Christine Lagarde, said Tuesday. He added that there were very strong lobbying movements in the U.S. and the U.K. that had the potential to derail reform on pay. "We want to make sure everyone is playing by the rules, because if not, there is no point in having the rules," he said.

Germany has mostly agreed with France at G-20 meetings, although according to a spokesman for the German government, German Chancellor Angela Merkel hasn't yet formed a clear position on pay rules for the Pittsburgh summit, which officially starts Sept. 24. Ms. Merkel has to balance her position for the main G-20 summit in Pittsburgh with the general election that follows soon after on Sept. 27.

Seeking consensus

Where the G-20 stands on executive pay

U.K.	Backed out of concrete rules on bank pay, instead preferring guidelines.
France	French President Nicolas Sarkozy has urged banks to curb bonuses and would like rules set in stone.
Germany	Election in September has meant the government hasn't taken a clear line on the issue.
U.S.	Any push for regulation on pay in the U.S. has been postponed as Congress takes its August break.
G-20 in general	G-20 member states have sought to curb pay at banks benefitting from government funds.

But Ms. Merkel has allied herself with French President Nicolas Sarkozy before. Prior to the London summit, she held a joint press conference with Mr. Sarkozy urging the G-20 to place more emphasis on financial regulation than stimulus spending. Mr. Sarkozy said at the time that Germany and France "will speak with one and the same voice." Asked if Germany could again unite with France at September's summit, a spokesman for the German government said: "Yes, I think so."

European leaders might get a chance to iron out their differences at a meeting in Stockholm proposed by Swedish Prime Minister Fredrik Reinfeldt in July in his capacity as the holder of the European Union presidency. Mr. Sarkozy has expressed support for the idea, while a spokesman for the German government said he expected it to go ahead, although Mr. Reinfeldt said Tuesday it isn't certain the meeting will take place.

G-20 members seem to agree that pay should have extra limitation at companies that have received state aid. The U.S. had restrictions in place on the pay practices of banks that received money through the Troubled Asset Relief Program, though a number of banks, including J.P. Morgan Chase & Co. and Goldman Sachs Group Inc., have repaid the money and are no longer subject to them.

In Russia, Finance Minister Alexey Kudrin has urged executives of banks and state-run companies to reduce bonus payments for the duration of the crisis. Representatives of Russian ministry of finance didn't return calls for comment ahead of the G-20 summit.

In Australia, a row over pay caps meant that the government's proposed commercial-property bailout fund was voted down in the senate. In June, the four billion Australian dollar ($3.3 billion) fund was aborted after Australian Prime Minister Kevin Rudd's government refused demands to put a A$1 million cap on the salary of banking and property executives whose companies would have benefited from the project.

"Executive remuneration is clearly an important issue in terms of financial sector reform and we look forward to ongoing constructive discussions on this matter," said a spokesman for Australian Treasurer Wayne Swann.

In Canada, a spokesman for the department of finance only said that the country "supports the statement from the G-20 leaders' summit in London last April." The G-20 countries agreed to pursue the compensation principles established by the Financial Stability Board. Those principles called for more effective oversight of a financial institution's compensation practices by board of directors, a better alignment of compensation with risk, and clear disclosure of compensation practices to stakeholders, among other items.

A spokesman for Italian market regulator Consob said that neither the body nor the Italian Government had outlined a position on the oversight of bank pay. However, the spokesman said Consob may be willing to intervene in the future to regulate the matter.

—From Financial News

Iraq sweetens terms for oil bids in second round

BY HASSAN HAFIDH

ISTANBUL—Iraq is seeking lower upfront payments in its second oil bidding round, hoping to recapture the interest of international energy companies that largely shunned the country's first attempt to open its oil fields to investment in June.

The country is now seeking signing bonuses of $1.2 billion in total for contracts to develop the 15 fields on offer, Iraqi oil officials and executives from companies involved in talks on the deals said. Iraq's attempt to auction off contracts for eight fields in June got hung up in large part on its demand for $2.6 billion in so-called soft loans that oil companies were supposed to pay when signing deals.

Iraqi officials met executives from 45 companies at a one-day roadshow in Istanbul Tuesday to introduce them to the bidding process and acquaint them with the fields on offer, which are lumped into 10 groups and include the super-giant West Qurna phase 2, Majnoon and East Baghdad fields. Representatives from **Royal Dutch Shell** PLC, **BP** PLC, **Exxon Mobil** Corp., **Chevron** Corp., **ConocoPhillips** and **Lukoil Holdings** were among those attending.

In a separate development, Iraq and Syria recalled their envoys after Baghdad demanded Damascus hand over two people it says masterminded bombings in the Iraqi capital last week that killed more than 100 people.

LEADING THE NEWS: THE BERNANKE NOMINATION

White House projects bigger 10-year deficit

Estimate of gap reduced for 2009; 10% jobless rate seen

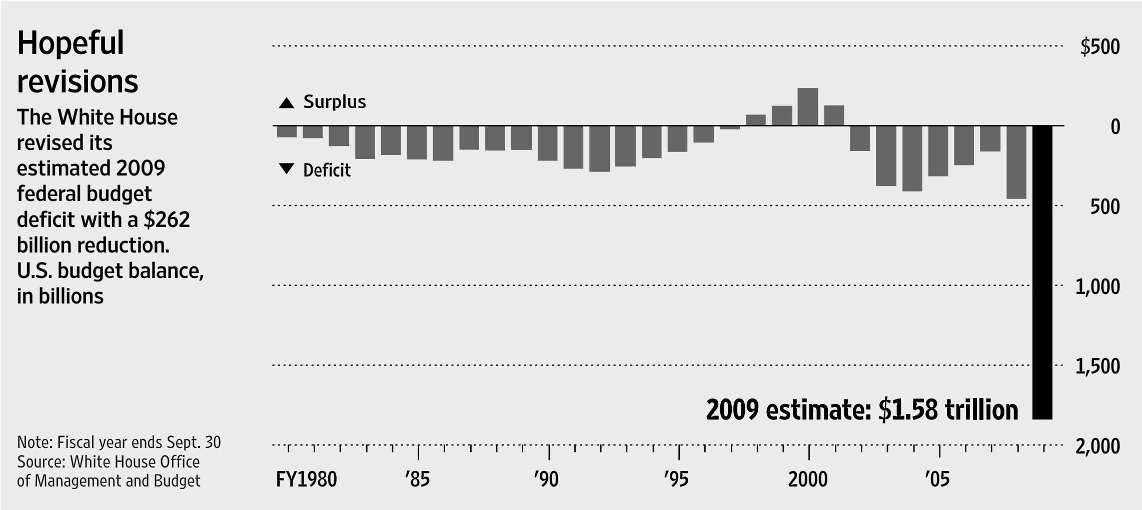
By Deborah Solomon

WASHINGTON—The Obama administration shaved $262 billion from its estimated 2009 federal budget deficit but said the U.S. will run a $9 trillion deficit over the next 10 years—$2 trillion more than it forecast earlier this year.

The administration, in its midyear budget review, painted a picture of a nation that is stabilizing as the economy begins to recover but that is also in for a prolonged period of economic weakness, joblessness and unsustainable government spending.

Unemployment is expected to fare worse than White House projections in February, when the administration predicted a jobless rate of 8.1% for 2009, a number that has been surpassed. The administration now foresees unemployment hitting 10% at some point over the next year and a half, with the jobless rate averaging 9.3% in 2009 and 9.8% in 2010. In July, it was 9.4%.

"We do predict unemployment will reach 10% for some months and some quarters," Christina Romer, who heads President Barack Obama's Council of Economic Advisers, said in a call with reporters to discuss the revised budget assumptions.



The White House is also projecting a slower climb out of the recession than earlier this year, estimating a 2.8% contraction in gross domestic product for 2009, as opposed to its earlier estimate of a 1.2% contraction. For 2010, the administration sees 2% growth, down from the 3.2% it projected in February. The revised estimate "reflects new information all forecasters received earlier this year about the severity of the forecast," said Ms. Romer.

Ms. Romer said the revisions are largely due to deterioration in economic output since January, when the administration first cobbled together its budget projections, and the unusual nature of this recession, in which joblessness is particularly high.

There was some good news: The administration is predicting a smaller 2009 deficit of $1.58 trillion, down from $1.84 trillion predicted in February. That revision is attributable largely to smaller-than-expected costs associated with the financial crisis.

Many financial companies receiving bailout money are returning funds, and the administration said it removed a budget placeholder that assumed an additional $250 billion in related costs. The White House also is estimating that less money will be spent by the Federal Deposit Insurance Corp. on bank rescues.

"We now expect that the policies put in place to repair the financial system will cost taxpayers less than expected," said Peter Orszag, who heads the White House's Office of Management and Budget.

Still, in a measure of the dire state of the nation's fiscal picture, the level of U.S. public debt as a percentage of economic output is projected to reach its highest levels since World War II. The administration is projecting that public debt will hit 66.3% of GDP in 2010, more than any other time since the 1940s, when it peaked at more than 121% of GDP.

Higher debt means the U.S. is paying more to finance its deficit. Interest payments are projected to hit 3.4% of GDP by 2019, compared with 1.2% this year.

Republicans plan to assail the administration's projections by saying they assume revenue that is unlikely to materialize. Doug Holtz-Eakin, who was Republican Sen. John McCain's economic adviser in the 2008 presidential election, said in a memo prepared for the Republican congressional leadership that the Obama team was using false assumptions to pad its numbers, including $640 billion from its planned cap-and-trade program and $200 billion from taxing international business—neither of which has been approved by Congress.

Administration officials blamed the worsening long-term deficit outlook on increased spending associated with programs to help blunt the impact of the recession. The U.S. will have to spend more on programs such as unemployment insurance and food stamps as more people go without work.

The bulk of the long-term deficit is primarily related to spending on entitlement programs, such as Social Security and Medicare. Costs associated with those programs are projected to continue growing.

Mr. Orszag said the administration is committed to bringing down the size of the deficit but that now isn't the moment to rein in government spending.

"It's desirable to allow deficits to increase during an economic downturn," he said, referring to the stimulating effect that increased government spending can have on the economy. Many economists say the administration's $787 billion stimulus package, even as it adds to the federal deficit, is also fueling growth, adding anywhere from one to three percentage points in second-quarter GDP.

Confirmation hearings to touch on Fed role in regulation

By Michael R. Crittenden

WASHINGTON—Federal Reserve Chairman Ben Bernanke will likely receive Senate support to remain in charge of the U.S. central bank for a second term, but his renomination could affect the Fed's efforts to secure broader regulatory authority.

Top Senate Democrats signaled their support for the decision to renominate Mr. Bernanke. Senate Majority Leader Harry Reid (D., Nev.) said in a statement he expects the Senate to confirm Mr. Bernanke, calling his expertise and leadership "crucial as our nation has endured this financial crisis."

Sen. Bob Corker (R., Tenn.), a member of the Senate Banking Committee, which will vote on Mr. Bernanke's nomination, likewise said Mr. Bernanke "has earned the right to see this through."

Still, the nomination comes at a time of low support for the Fed on Capitol Hill and at a key point in the highly charged debate over whether the central bank should have greater oversight over the largest financial firms.

Mr. Bernanke, because of the Fed's role at the center of the government's response to the financial tumult last year, has been a lightning rod for criticism over the government's intervention in the financial system. The Fed has been criticized for a lack of transparency in making billions of dollars of financing available to financial firms, as well as the ad hoc decisions to rescue certain firms while letting others fail.

Mr. Bernanke's nomination hearing will give skeptical senators the opportunity to push back at the Obama administration's proposal to give the Fed broad new authority to regulate systemically important firms. Senate aides have said they are likely to scale back the powers envisioned for the Fed when they introduce legislation next month.

"I expect many serious questions will be raised about the role of the Federal Reserve moving forward and what authorities it should and should not have," said Sen. Christopher Dodd (D., Conn.), chairman of the Senate Banking Committee.

Mr. Dodd offered tepid support for Mr. Bernanke's reappointment, saying he "is probably the right choice." He said the panel will hold a thorough confirmation hearing. A committee spokeswoman said staff hasn't yet met to determine when the nomination hearing will occur, but said the timing could be affected by the efforts to move regulatory overhaul legislation.

Mr. Dodd's House counterpart, House Financial Services Chairman Barney Frank (D., Mass.), said he strongly supported Mr. Bernanke receiving a second term.

"He has acted to provide needed liquidity to the economy and has demonstrated that he is fully ready to reverse course when economic conditions dictate," Mr. Frank said in a statement.

Getty Images

U.S. Fed Chairman Ben Bernanke testifies before Congress in July. Lawmakers from both parties expressed support Tuesday for his reappointment.

History suggests Mr. Bernanke's nomination shouldn't face too much opposition in the Senate, which has traditionally deferred to the White House on central-bank choices. Mr. Bernanke's predecessor, Alan Greenspan, repeatedly received wide support from both parties when he was renominated as Fed chairman during this decade and last.

Mr. Bernanke's nomination could bolster efforts by Fed critics to allow greater oversight of the central bank's operations. There has been growing bipartisan support in the House of Representatives for legislation authored by Rep. Ron Paul (R., Texas) that would allow government examiners to audit the Fed. Although the measure is unlikely to become law on its own, its mounting support—roughly two-thirds of House lawmakers are cosponsors—means an attempt could be made to attach it to the broader regulatory overhaul legislation.

Sen. Charles Schumer (D., N.Y.), trying to tamp down those efforts, warned critics about using Mr. Bernanke's nomination for political gains.

"Chairman Bernanke's confirmation hearing shouldn't be used as a stage by those with wrongheaded political agendas like trimming the Fed's independence," Mr. Schumer said.

European central bankers cheer Bernanke news

By Geoffrey T. Smith

FRANKFURT—The heads of Europe's leading central banks welcomed the reappointment of U.S. Federal Reserve Chairman Ben Bernanke for another four-year term.

"I am extremely pleased to learn that Ben Bernanke has been nominated for a second term as chairman of the Federal Reserve," European Central Bank President Jean-Claude Trichet said in an emailed statement. "We have had an excellent and very close working relationship during the current episode of exceptional challenges for the world economy. The Federal Reserve and the European Central Bank have, together with other central banks, initiated an unprecedented level of close cooperation, which has been key in coping with the present situation."

U.S. President Barack Obama renominated Mr. Bernanke for four more years. The nomination has to be approved formally by the U.S. Senate, but few observers expect the upper house of Congress to block the nomination.

Bank of England Gov. Mervyn King, who once worked alongside Mr. Bernanke at the Massachusetts Institute of Technology, also praised Mr. Obama's decision.

"Ben brings strong leadership to the Federal Reserve at this vital time," Mr. King said.

CORPORATE NEWS

Politics comes into play in decision

Keeping Bernanke makes it easier for Obama to claim his team is winning the battle to turn around the economy

By Gerald F. Seib

CAPITAL JOURNAL

U.S. President Barack Obama's decision to reappoint Federal Reserve Chairman Ben Bernanke makes sense for a lot of reasons, but here's an important political one: It now is far easier for the president to say he has a team that's winning the epic battle to turn around the economy.

It would be much harder to make the claim that his team is winning that battle if the president were, at the same time, dumping one of the team's captains. That, of course, would imply that perhaps things weren't going so well.

Instead, Mr. Obama, in announcing his decision Tuesday, tiptoed oh-so-carefully toward finally declaring that the worst is over. "As an expert on the causes of the Great Depression, I'm sure Ben never imagined that he would be part of a team responsible for preventing another," the president said. "But because of his background, his temperament, his courage and his creativity, that's exactly what he has helped to achieve." His team's moves, Mr. Obama asserted, have "brought our economy back from the brink. They are steps that are working."

It's not a coincidence that the Bernanke reappointment and this assertion that disaster has been averted are coming now, and simultaneously, for both have important political implications. A sense that the economy is out of intensive care and recovering may improve the chances of getting Congress to take a chance on a big health-care plan in the fall—while also lessening the political damage if that effort fails. A reappointed Ben Bernanke also likely has an easier time persuading Congress to pass a financial-regulation overhaul giving the Fed more power than would a lame-duck Ben Bernanke.

Beyond that, a sense that the economy is turning upward is the essential predicate for Democrats to survive next year's midterm elections. Democratic fortunes are slipping on many fronts right now, but voter psychology is likely to be more affected by the way Americans feel about the state of the economy in the first few months of 2010. Once a perception of the economy's health takes hold in an election year, it can be hard to shake.

And indeed, as if on cue, the Conference Board reported Tuesday that consumer confidence jumped in August, well above economists' expectations. If the president, in his Bernanke decision and in his rhetoric, is saying that things are looking better, it isn't clear whether he's leading or following popular sentiment.

What's intriguing is that one of the toughest tasks for Team Obama has been getting the psychology and expectations game right. In his initial weeks in office, Mr. Obama may well have talked the economy down too much. He was trying to rein in the lofty expectations that accompanied his inauguration, but probably injected too much doom and gloom, chilling consumer behavior.

Then, in the spring, the administration got too optimistic too early, talking up the apparent arrival of "green shoots" just before a new wave of gloomier news about employment and housing.

As it happens, the one thing Mr. Obama seems to have gotten just right along the way was his stock-market advice. The president made some waves back on March 3—a day after the Dow Jones Industrial Average had fallen nearly 300 points—by saying that it was a good time to buy stocks.

Turns out that was pretty good advice, for the president called the market's bottom almost precisely. Two days later, the Dow Jones Industrial Average bottomed out at a 12-year low of 6626. Since then it has moved steadily upward, to around 9500. An investor who had put $1,000 into a market index fund at the time of Mr. Obama's prediction would now have about $1,400.

In any case, there remain dangers aplenty for the president in this expectations game. In reappointing Mr. Bernanke, the White House may be either expecting or hoping that his tendency to provide massive liquidity and easy money will continue through next year's political season, but there's no guarantee of that. Indeed, there's always the possibility a newly appointed Fed chairman may feel the need to show his political independence by seeking to raise interest rates faster than the White House desires.

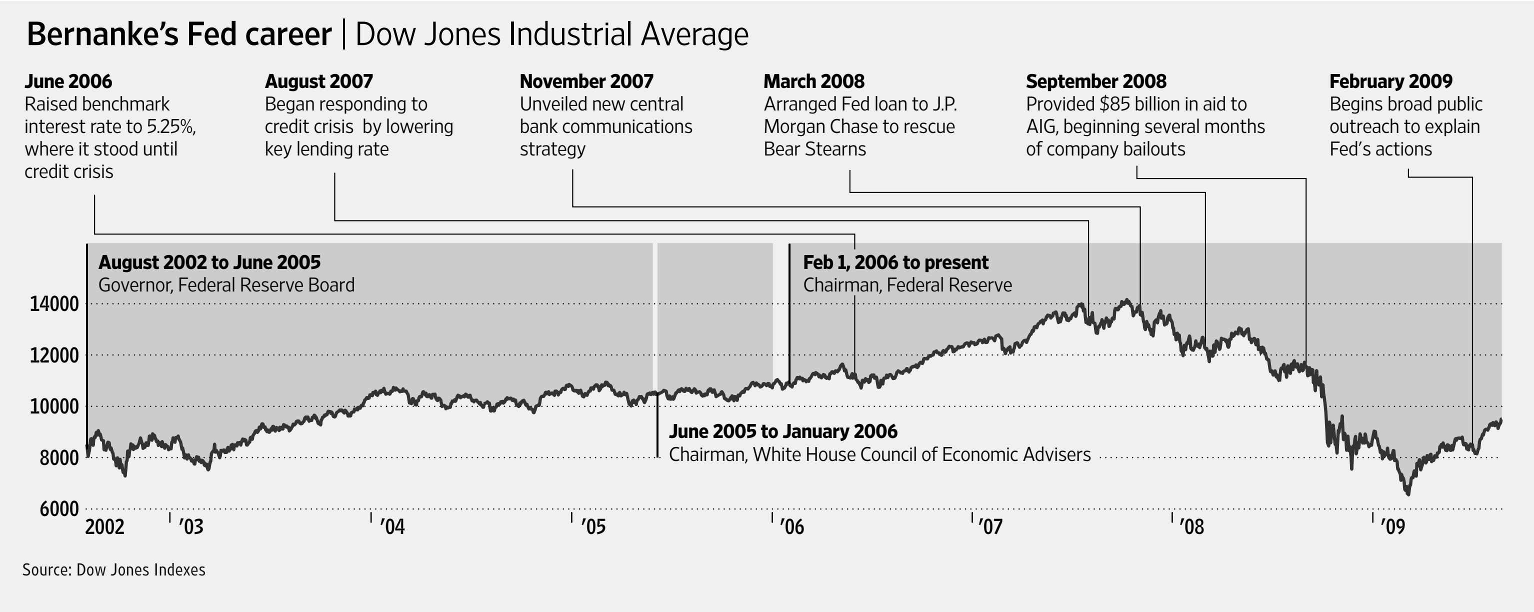
In both the housing and financial markets, the chances of a dip back down, at the least-opportune time for Democrats, remain very real. And Peter Hart, the veteran Democratic pollster who co-directs the Wall Street Journal/NBC News poll, has long noted that the most politically sensitive economic indicator is unemployment—which is likely to get worse before it gets better.

Mr. Obama himself was careful to note Tuesday: "Of course, as I have said before, we are a long way away from a completely healthy financial system and a full economic recovery." Still, a smiling Ben Bernanke and some upbeat words together present a picture as important to the administration for its political as its economic significance.

President nominates Fed chairman for a second term

Continued from first page

Tuesday while on vacation here, the U.S. president is opting for continuity in economic policy despite criticism in Congress of the central banker's frantic efforts to rescue the financial system.



Source: Dow Jones Indexes

Mr. Obama warned Tuesday that the U.S. is still a long way from having a healthy financial system and full economic recovery. "That is why we need Ben to continue the work he's doing, and that is why I've said that we cannot go back to an economy based on overleveraged banks, inflated profits and maxed-out credit cards," Mr. Obama said.

Mr. Bernanke, appearing alongside the president, thanked Mr. Obama for his "unwavering support" of an independent Fed and pledged to work hard to restore the economy.

The decision prompted relief in financial markets, where traders hailed it for eliminating one risk factor that could have weighed on prices as the end of Mr. Bernanke's current term in January drew closer.

Wall Street and academic economists in recent weeks showed enthusiasm for giving Mr. Bernanke a second term. A move by Mr. Obama to install his own person at the Fed might have rattled markets and unsettled foreign investors.

"Having a new chairman come in at this late date would put the Fed-engineered solution to both the recovery and the exit strategy at risk," said Christopher Rupkey, an economist with Bank of Tokyo-Mitsubishi.

The nomination comes amid criticism of Mr. Bernanke by some in Congress. The financial-sector bailout he helped engineer last year has angered some Republicans, who see it as a gamble with taxpayer money. At the same time, some Democrats see him as complicit in initial hasty efforts by the Bush administration to rescue banks without sufficient consideration for homeowners and smaller businesses hit by the financial crisis.

Still, Mr. Bernanke will likely receive U.S. Senate support to remain in charge of the central bank for a second term, although lawmakers are set to use his confirmation hearings to air concerns about his handling of the financial crisis and the Fed's efforts to secure broader regulatory authority.

Mr. Obama on Tuesday praised Mr. Bernanke's handling of the financial crisis. "Ben approached a financial system on the verge of collapse with calm and wisdom; with bold action and outside-the-box thinking that has helped put the brakes on our economic freefall," Mr. Obama said.

Mr. Bernanke is seen by supporters as a creative and steady hand who helped to keep the financial chaos, which became especially dangerous in the past year, from becoming much worse. Rahm Emanuel, White House chief of staff, said the president credits Mr. Bernanke for "pulling the economy back from the brink of depression."

He has guided the Fed through uncharted territory over the nearly two years since the crisis began. Taking lessons from the Great Depression he has closely studied, Mr. Bernanke has so far avoided a repeat of the 1930s panic by pushing interest rates to near zero and unleashing new programs—including central-bank purchases of mortgage-backed securities, direct government loans to companies and rescues of big firms such as American International Group Inc.—to stabilize markets.

While Mr. Bernanke is given broad credit for such aggressive moves to shore up financial markets, he has also been at the center of the most controversial decisions in the crisis: determining which firms to save and which to let fail. Each of those moves, from rescuing Bear Stearns and AIG to allowing Lehman Brothers Holdings Inc. to go down, has been scrutinized and criticized by lawmakers and the financial markets.

Mr. Bernanke has argued, as he did over the weekend at the Jackson Hole, Wyo., central bankers' retreat, that the measures were necessary to avert a financial meltdown. He can point to some success in stabilizing financial markets.

The recent signs that the U.S. economy is beginning to recover made reappointing Mr. Bernanke, and announcing the decision now, easier for the president. Had the economy continued to deteriorate, the pressure to replace the Fed chairman would have been much stronger.

"I think this is a good thing for the markets," said Byron Wien, chief investment strategist at Blackstone Group. "Rather than going through a catechism of what Bernanke's done wrong, let's look at the net result. The economy is improving and the financial system is on the mend. It's a long way from perfect, but it's also a long way from where it was a year ago."

Now that he is set to continue at the Fed, Mr. Bernanke faces a challenging task. Having pumped hundreds of billions of dollars into the financial system and tried to heal the economy with near zero interest rates, Mr. Bernanke needs to decide how and when to pull back. If he moves too soon, he could undermine a recovery. But if he moves too slowly, he could spur a new period of inflation.

Fed officials have started to lay the groundwork for a withdrawal. Earlier this month, they announced plans to stop buying long-term U.S. Treasury bonds, one of the many steps they had taken in an attempt to drive down long-term interest rates. Other programs, like an effort to buy short-term commercial paper loans directly from companies, are shrinking on their own.

The big challenge for Mr. Bernanke in the year ahead will be to decide when to start raising short-term interest rates from near zero. The Fed has signaled rates will stay low for an extended period.

Mr. Bernanke also must work with Congress, where the Obama administration's plan to overhaul financial-market regulation is moving slowly.

"We must urgently address structural weaknesses in the financial system, in particular in the regulatory framework, to ensure that the enormous costs of the past two years will not be borne again," Mr. Bernanke said in a defense of his policies Friday in Wyoming.

—David Wessel, Sudeep Reddy and Tom Barkley contributed to this article.

‘Clunkers’ provides lesson in spurring sales

Program appears to juice spending more than tax rebates

By Sudeep Reddy

The $3 billion U.S. “cash for clunkers” program is a fraction of the $787 billion federal government stimulus, but it has offered a key lesson: enticing consumers to spend on big-ticket items can provide more bang for the buck than sending out checks.

The program, under which sales ended Monday night, lured hundreds of thousands of Americans with the promise of up to $4,500 for trading in a gas-guzzling vehicle. Car dealers saw a boost in sales, with even customers who weren’t eligible for the rebate shopping for vehicles. And lawmakers, who rushed to triple the program’s funding, finally had visible results to show from government stimulus spending.

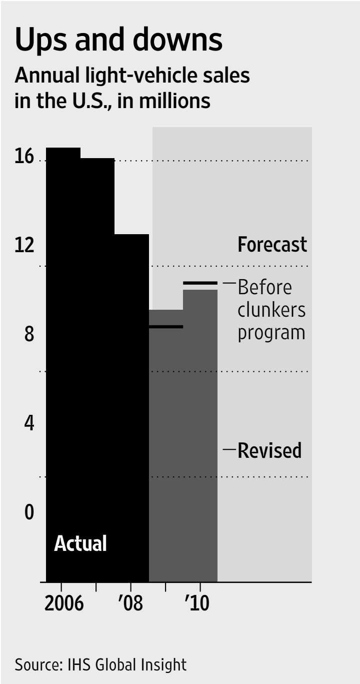
President Barack Obama called the program “successful beyond anybody’s imagination” even as Republicans panned it as a deficit builder.

The program’s popularity also taught a lesson about the limits of government management: Officials failed to anticipate the demand, forcing them to rush to expand funding from the original $1 billion. Inundated with rebate requests from dealers, the Obama administration several times extended the deadline for dealers to seek reimbursement.

The success of the program suggests that it represents a better way of getting consumers to spend than tax-rebate checks, which often get banked rather than spent.

Associated Press

Sales manager Mark Hranicky of Lee Toyota in Topsham, Maine, holds keys Monday to some of the cars traded in under ‘cash for clunkers.’



“I think it’s pretty clear that if you gave someone a free shopping certificate, they will spend it,” Citigroup economist Steven Wieting said. “Whether they have permanent economic effects is a different story.”

Under stimulus packages in 2001 and 2008, checks were sent directly to U.S. families, who saved much of the money. Some retailers sought to attract consumers by offering discounts if people spent their stimulus checks at that store.

In recent weeks, auto dealers offered their own specials targeted at consumers who were hearing the buzz about cash for clunkers but weren’t eligible.

Some consumers remained on the sidelines until the last minute. Tonja Deegan, a 37-year-old who works in public relations, said her 2001 Ford Escape SUV with 160,000 miles, or 256,000 kilometers, “runs fine”—but she still wanted a new car. The bump in the road: her skeptical husband.

She finally convinced him Saturday to buy a new car and raced to the dealership where she found a single Ford Escape at Atchinson Ford in Belleville, Mich.

When the showroom opened Monday morning, she was there, but her dealer was unsure the transaction could get registered with the government in time, because the Department of Transportation Web site was having problems. But at 11 a.m. the dealer called with the good news—the clunker sale had gone through.

“I got lucky,” Ms. Deegan said of her new car. She paid $24,951 after a $3,500 clunker rebate plus other financial sweeteners from the dealer.

Under another extension issued Tuesday, dealers had until 8 p.m. Tuesday to submit paperwork to be reimbursed by the government.

William Gale, a Brookings Institution economist, likened the clunkers program to a bank run, where depositors rush to get their money out of a troubled bank. In this case, car shoppers rushed to get their hands on vouchers before funds for the program ran out.

At a panel discussion on fiscal stimulus at the Federal Reserve’s annual Jackson Hole meetings over the weekend, Mr. Gale said policy makers could take a lesson from the program: Behavioral economics—an area of research that seeks to explain how people sometimes stray from rational economic decisions—could be tapped to find ways to spur short-term household spending.

The next program to test the effect of government funds comes this fall. Consumers who buy high-efficiency appliances such as refrigerators, washing machines and dishwasher can receive rebates of up to $200 on certain products; no trade-ins would be required. The $300 million program was included in the $787 billion stimulus law.

As with the clunkers program, it is unclear whether the rebate program will offer anything more than a short-term economic boost.

“The people who will most like likely respond to this are the people who need appliances, and they were probably going to buy appliances anyway,” said Erik Hurst, an economist at the University of Chicago’s Booth School of Business. “If all you’ve done is move that from tomorrow to today, then the economy is going to lag even more tomorrow.”

—Matthew Dolan and Jon Hilsenrath contributed to this article.

Lindt posts 88% drop in profit

By Martin Gelnar

ZURICH—**Chocoladefabriken Lindt & Sprüngli** AG’s failure to raise the price it charges for its chocolates amid a jump in cocoa prices held the Swiss chocolate maker back in the first half, exacerbating the impact of charges related to its U.S. and Italian operations.

Lindt, best known for its Lindor, Excellence and Ghirardelli brands and the chocolate bunnies wrapped in gold foil, posted first-half net profit of 2.7 million Swiss francs ($2.5 million), down 88% from 22.9 million francs a year earlier. Sales slipped 5.4% to 979 million francs.

The bottom line was hit by a charge of 22.2 million francs related to the closing shops in the U.S. and an impairment on a warehouse in Italy, Lindt said.

In contrast to most of its rivals, the chocolate maker didn’t raise its chocolate prices in the fourth quarter and thus failed to offset a sharp increase in the price of cocoa. London cocoa futures prices hit a 23-year high at the start of the year, although they have since dropped back as demand has waned amid the recession.

Lindt’s organic sales growth, which excludes acquisitions and currency fluctuations, was 0.2%—lagging behind rivals like **Cadbury** PLC, which recorded organic sales growth of 4% in first half, and **Nestlé** SA, which saw organic sales growth of 3.4% at its food and beverage operations.

“Lindt merely missed its chance last year when such price increases would have been readily accepted, as was the case for Cadbury, Nestlé, Hershey and the others,” said independent food-industry analyst James Amoroso.

‘Lindor’ pralines at a Lindt & Sprüngli plant near Zurich.

Reuters

Cadbury increased chocolate prices by more than 10% in some countries in the fourth quarter, while Nestle raised chocolate prices by 7.4%, according to analysts at J.P. Morgan Chase.

“We have refrained from [raising product prices] partly on purpose because cocoa prices are all over the place currently,” said Lindt’s Chief Executive Ernst Tanner. “But we expect the speculative element to disappear within 12 months or so.”

The company said it would boost advertising in the second half to try and win more market share, while cost cutting should lift profitability.

“We will invest into marketing, primarily in the U.S. and in Europe, and we expect this to translate into substantial market-share gains,” said Mr. Tanner. “We are debt-free so we can afford it, contrary to some of our rivals.”

Lindt said it still expects organic sales growth of 2% to 5% and earnings before interest and taxes to reach between 260 million francs and 280 million francs for the full year. The company lowered its targets in March when it announced a restructuring program that included shutting down regional shops in the U.S. to focus on a few flagship stores.

Mr. Tanner said he couldn’t yet gauge how the important Christmas period might develop for Lindt. He said that there are positive signs from individual customers, but that wholesalers remain cautious.

Air China’s profit doubles, but price pressures increase

By Jeffrey Ng And Joy C. Shaw

SHANGHAI—Chinese flag carrier **Air China** Ltd. said Tuesday profit more than doubled from a year earlier, boosted by lower fuel costs, fuel-hedging gains and growth in domestic travel demand.

But the company said its earnings may be under pressure in the second half as the global financial crisis continues to depress international air travel and cargo shipments and as price competition among domestic carriers increases.

Air China said its net profit for the six months ended June 30 was 2.93 billion yuan ($429 million), according to Chinese accounting standards, up from 1.17 billion yuan a year earlier. Revenue fell 13% to 22.41 billion yuan.

Under international accounting standards, the Beijing-based carrier’s profit was 2.88 billion yuan, up from 1.13 billion yuan a year earlier.

The carrier said costs fell 16% from a year earlier to 21.85 billion yuan due to a 42.5% drop in fuel cost. The company also booked a gain of 1.45 billion yuan in fuel-hedging contracts.

Air China’s first-half results were also boosted by an improvement in domestic demand for air travel. During the period, the airline carried 18.82 million passengers, up 14% from a year earlier.

Revenue from Air China’s domestic air travel rose 8.3% in the January-June period from a year earlier. Its international air-travel revenue fell 25.5% in the same period, while revenue from international cargo business dropped 50.8%, the carrier said.

Air China has said it would further expand its Beijing hub as well as boosting its operations in Shanghai amid competition from other domestic carriers. It also has been enhancing cooperation with **Cathay Pacific Airways** Ltd. to benefit from the Hong Kong-based airline’s large international network.

Last week, Air China said it would significantly boost its stake in Cathay to 29.99% from 17.46%.

Analysts have questioned whether added synergies from the higher stake would really be significant for Air China, which acquired shares in Cathay in 2006.

Persimmon raises hopes

U.K. builder sees demand returning, prices stabilizing

By Anita Likus

LONDON—**Persimmon** PLC Tuesday became the latest U.K. home builder to say that the worst appears to be over for the country's housing market, with demand returning and prices stabilizing.

The company, one of the U.K.'s biggest house builders by market value, reported a drop in first-half earnings as completions and prices were down from a year earlier. However, it said it expects sales to hold up for the full year, supported by lower supply levels and stable demand, and signaled that further write-downs were unlikely.

First-half net profit fell 63% to £9.8 million ($16.1 million) in the six months ended June 30 from £26.4 million a year earlier.

Pretax profit fell to £9.8 million from £36.9 million. Revenue fell 39% to £611.8 million from £998.4 million.

Persimmon said that net reservations continue to run ahead of last year, and recent visitor levels also are up. Cancellation rates were significantly lower throughout the first half, at about 16%, compared with 30% a year earlier.

The U.K. housing market has tumbled over the past two years, as the banking crisis reduced mortgage liquidity, and the economic downturn and fears of rising unemployment hit demand.

Most of the U.K.'s house builders stopped buying land and pared back construction to sites where development already had begun. They also recorded massive write-downs as falling house prices hit the value of land and work in progress.

Persimmon is the first house builder to surprise the market by reversing the trend in write-downs after it revalued some land holdings. It booked a gain of £27.9 million on its holdings in the first half, though that wasn't enough to prevent the drop in earnings.

Liberum Capital analyst Charlie Campbell said that while the release of some of the land provisions signaled confidence in the value of land holdings, Persimmon's underlying business was poor, with margins below expectations.

"We had expected a clean trading margin of over 4% in the first half and the company made only 1.5%," he said.

The company's first-half completions fell to 4,006 units from 5,501 in the year-earlier period, at an average selling price of £155,524, down from £181,485 in 2008.

Several influential surveys recently have suggested that house prices had stopped falling and were even rising in some areas, amid improving mortgage approvals. As a result, Persimmon started to invest in new locations, opening up about 40 sites in the first half of the year, with about 50 more expected to open in the second half.

Chief Executive Mike Farley said the company is focusing in the south of England.

Persimmon said it expects its debt to drop below £400 million by the end of the year, which analysts said the market would welcome.

Persimmon PLC

U.K. house builder Persimmon said it is investing again in new building sites, like this one in Sittingbourne, Kent, in southeast England.

Brixton poses test for new owner

By Anita Likus

LONDON—U.K. industrial landlord **Brixton** Ltd. Tuesday reported a wider first-half loss as vacancies rose, showing the size of the task ahead for new owner **Segro PLC**.

Segro, a rival landlord, bought Brixton in an all-share deal valuing the company at £165.5 million ($271.7 million).

Industry specialists previously warned that while Segro is taking over an attractive portfolio of Brixton's industrial warehouse property, mainly located around London's Heathrow Airport, the company has a high number of vacancies.

Brixton reported vacancies of 20.3% as of June 30, up from 17.3% on Dec. 31.

Like other commercial property companies in the U.K., Brixton has been hit hard as a lack of real-estate financing and demand has caused values to plummet.

Brixton said Tuesday that while recession isn't over, the property-investment market is showing signs of stabilization and even improvement for prime property.

"But the outlook is still dependent on the timing of an economic recovery, and key threats to income and value include tenant failures and falling rental values," the company said.

Brixton's first-half net loss widened to £314.2 million from £235.1 million in the year-earlier period. Its pretax loss widened to £314.2 million from £236.7 million.

For the six months ended June 30, the value of its property portfolio, including its share of joint-venture properties, fell by £368 million, or 22%. It has net debt of £770.4 million.

Segro's takeover of Brixton was completed Monday. Brixton shares have been delisted but the company was still required to publish an earnings report.

The Property Report

Reversal of fortune

Americans are now net sellers of European commercial assets > **Page 29**

Venture advises holders to accept Centrica bid

By James Herron

LONDON—U.K. oil and gas producer **Venture Production** PLC admitted defeat in its defense against a hostile £1.3 billion ($2.13 billion) takeover bid from utility **Centrica** PLC, recommending that all shareholders accept the offer.

"The board of Venture continues to believe that Centrica's final offer substantially undervalues Venture," Venture said in a prepared statement. "However, the board recognizes that, in the event that the offer is declared wholly unconditional, Centrica will have control of Venture" and any shareholders who don't sell run the risk of holding a minority stake in a delisted company, the statement added.

Venture said Tuesday that two major shareholders, Larry Kinch and ArcLight Capital Partners, had decided to sell their combined 19.2 million shares, equivalent to 12.8% of Venture's share capital.

The move came after Centrica said late Monday that it already either owns, has acquired subject to settlement or has received valid acceptances equivalent to 58.7% of Venture shares.

"We are pleased that the Venture board has recommended that its shareholders accept our offer, in the event that it is declared wholly unconditional," Centrica Chief Executive Sam Laidlaw said Tuesday.

The Venture deal represents a significant step forward for Centrica, which has long been on the hunt for gas resources to make up for its declining reserve base, seeking to supply its customers and strengthen its position in the U.K. energy market. Centrica received European Commission clearance for the acquisition on Friday.

Venture's management had strongly resisted Centrica's offer of 845 pence a share, saying it substantially undervalued Venture's rising output and a strong financial position. However, analysts said Centrica's management seems to have judged correctly that the economic climate was ripe for a bargain.

—Selina Williams contributed to this article.

Oerlikon's CEO steps down; Swiss firm to cut 2,500 jobs

By Martin Gelnar

ZURICH—**OC Oerlikon** Corp. said Tuesday Chief Executive Uwe Krüger was stepping down immediately as the Swiss engineering company posted a narrower first-half net loss and said it would cut 2,500 jobs.

Board member Hans Ziegler will temporarily take over as chief executive until the company finds a suitable candidate to lead the company, Oerlikon said. Mr. Ziegler, a turnaround manager who has the support of dominant Russian shareholder Victor Vekselberg, gained prominence after overseeing the unwinding of Swiss Erb Group in 2003. The bankruptcy of Erb, a sprawling private empire, was one of the biggest corporate failures in Switzerland.

Mr. Kruger, who had been at Oerlikon's helm since 2007, couldn't be reached to comment.

His departure comes as Oerlikon, active in fields such as vacuum and solar technology, reported a net loss of 99 million Swiss francs ($93 million), following a year-earlier net loss of 313 million francs. The bottom line was bolstered by a gain from the sale of the company's space-technology unit.

Oerlikon's sales were down 40% at 1.43 billion francs from 2.38 billon francs, while its order intake dropped 39% to 1.59 billion francs. Analysts said sales were slightly better than expected due to a solid development in the company's solar-technology unit.

The CEO change isn't unusual, given the company's continued weak profit development, said Vontobel analyst Michael Foeth, adding that the new top manager has broad industrial experience.

Oerlikon also said it would cut 2,500 jobs as part of a cost-reduction program, which seeks to save 400 million francs in costs and return the company to profitability by 2010. Analysts expect Oerlikon to continue to downsize, possibly looking to sell its textile-machinery and surface-technology units.

RBS will cap pension increases

By Marietta Cauchi

LONDON—**Royal Bank of Scotland Group** PLC said it plans to cap at 2% increases to the pensions of more than 60,000 workers, joining a raft of U.K. companies acting to cut soaring pension-fund liabilities.

RBS is one of several U.K. companies reviewing their support for defined-benefit pension plans, in which companies agree to pay employees a fixed sum on retirement. Many company pension plans have been replaced with defined-contribution plans, under which companies make contributions but leave the employee to supplement the amount and take any responsibility if the plan fails to provide enough money for retirement.

Government-controlled RBS will also reduce the lump sum payable on early retirement for plan members who choose to take an immediate, undiscounted pension.

"This is an expensive scheme for our shareholders to fund and a generous one in comparison to the market," said Neil Roden, RBS's head of human resources. "The reforms we are consulting on seek to strike a balance between reducing the costs and future liabilities of the scheme to the group, with doing what we can to protect the welfare of existing staff and scheme members."

Overstretched balance sheets have led to about 22% of companies in the FTSE 100 index having insufficient cash to pay out on existing liabilities, according to KPMG research.

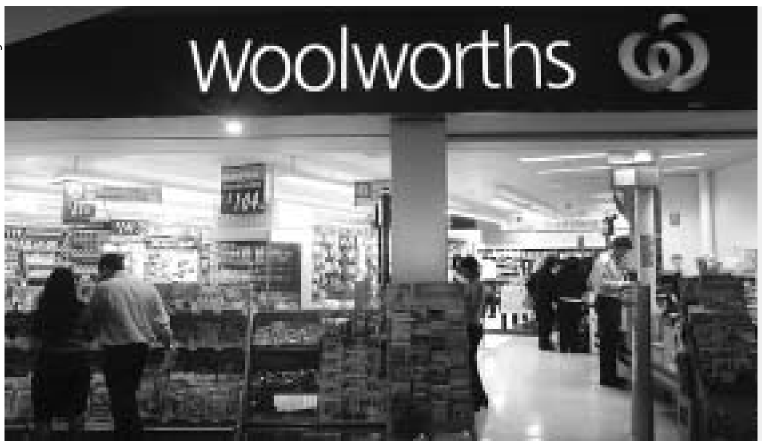
The cuts were condemned by trade union Unite.

CORPORATE NEWS

Lowe's plans Australian venture

U.S. home retailer to develop stores with Woolworths

By Miguel Bustillo
And Iain McDonald



Bloomberg News

Woolworths
Tuesday's close: A$28.63, up 2.2%

Source: Thomson Reuters Datastream

Home-improvement retailer **Lowe's** Cos. is expanding into Australia through a new venture with that nation's top retailer, **Woolworths** Ltd.

The retailers announced a partnership that will bring Lowe's-style big-box stores to Australia starting in 2011. It is the first foray outside of North America for Lowe's, which also has branches in Canada and Mexico, and the first joint venture of its kind for the company.

The alliance will be two-thirds owned by Woolworths, the largest retailer in Australia and New Zealand, and one-third by Lowe's, which estimates that it will pump US$100 million into the initial rollout each year for four years starting in 2010.

The two hope that a move into Australia's home-improvement market will benefit from a pickup in the country's housing sector after a mild downturn, with low interest rates and generous government grants for first-time home buyers set to push up house construction sharply by the end of 2009.

"We think it's a great time to start a business as the economy starts to tick up," Woolworths Chief Executive Michael Luscombe said.

Australia is unusual in that comparable markets in other countries have at least two or three big-box format store chains, whereas Australia has just one, he said.

As part of the venture, Woolworths and Lowe's have made a recommended offer for **Danks Holdings** Ltd., Australia's second-largest hardware distributor, valued at 13.50 Australian dollars (US$11.31) a share, or A$87.6 million.

Danks will give the joint venture exposure to about 560 smaller, independent retailers in the sector.

The move is a threat to Australian conglomerate **Wesfarmers** Ltd., which owns Bunnings, Australia's largest wholly-owned home-improvement retailer.

Bunnings operates roughly 250 stores, has about one-fifth of the market share and has been a source of stability for Wesfarmers as it tries to turn around Australia's second-largest supermarket chain, Coles.

Bunnings released a statement Tuesday saying it "relishes" the opportunity to compete with a new entrant in what it estimates to be the A$36 billion home-improvement market in Australia. The company said it has been aware of Woolworths' intention to enter the market for more than six months.

Woolworths' and Lowe's new Australian stores will be more than 100,000 square feet and will have a unique brand name, which has yet to be determined, Lowe's executives said.

"The whole concept comes down to two good retailers deciding to focus on what they do best to create a winning formula for consumers in Australia," said Greg Bridgeford, executive vice president of business development at Lowe's.

Woolworths has already secured rights to 12 locations in Australia, and is in the process of securing 15 more, company officials said, declining to reveal where. The partners plan to nail down more than 150 sites over the next five years.

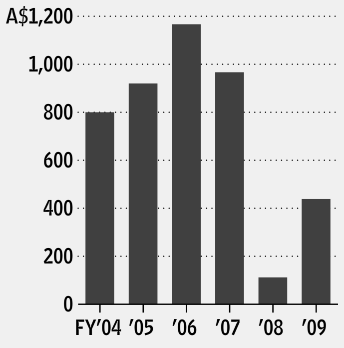
It approached Lowe's, which is based in Mooresville, N.C., about the joint venture in March after concluding that Woolworths needed an expert hand to enter the home-improvement field, Mr. Bridgeford said.

—Cynthia Koons contributed to this article.

Foster's net rises as charges drop

By Cynthia Koons

Fosters Group
Net profit, in millions of Australian dollars



Note: Fiscal year ends June 30 of the years shown
Source: the company

SYDNEY—**Foster's Group** Ltd.'s annual net profit nearly quadrupled as revenue rose amid a strong performance from Foster's beer business. But the company continued to grapple with the falling value of its wine operation.

It was the second straight year that the company had to take substantial write-downs on the wine business.

Foster's said in February that it would restructure its wine business after failing to sell it, and had warned of the write-downs that ended up totaling 287.2 million Australian dollars (US$240.6 million) after tax for the year to June 30. This compares with A$605.8 million of after-tax write-downs in the previous year.

Analysts have been looking for signs that the wine business is starting to improve, but Foster's said conditions in key wine markets remain challenging because of economic conditions.

Foster's said it has reduced customer inventories and reshaped its portfolio in 2009 and that it is "well placed" for an economic rebound.

Management called the most recent fiscal year's performance "excellent" in the company's beer, cider and spirits business.

But Foster's didn't offer a forecast for the current fiscal year.

The beverage company said annual net profit was A$438.3 million, compared with A$111.7 million a year earlier. Before the write-downs, Foster's reported earnings of A$725.5 million, compared with A$714.6 million the year before.

As for its beer business, which analysts called its "saving grace" last year, Foster's said the Australian market remains "very robust."

Analysts have expressed concern that the beer market has been inadvertently supported by a government tax on other alcoholic drinks, specifically ready-to-drink beverages that mix spirits with sodas and other flavors.

That tax, which took effect in May 2008 in a bid to combat teenage binge drinking, made beer a cheaper alternative. Analysts have said the beer market's growth over the past year could be attributable to that and is therefore unsustainable at its recent pace. Beer net sales revenue in Australia and the Asian-Pacific region increased 5.3% during the year.

There has been speculation that the group might separate the beer and wine businesses, but management said Tuesday that nothing has changed since the group announced it would be restructuring its wine division in February.

"We're literally only six months past when we made our original announcement," Chief Executive Ian Johnston said.

Foster's annual revenue rose 2.7% to A$4.49 billion.

LG Display plans LCD plant in China

By Jung-Ah Lee

SEOUL—Liquid-crystal-display maker **LG Display** Co. plans to build an advanced panel manufacturing plant in southern China that could cost more than $3 billion.

LG Display said it has signed a nonbinding memorandum of understanding with the Guangzhou government to build its first LCD manufacturing facility in China.

Following the news, the world's biggest LCD panel supplier by sales, **Samsung Electronics** Co., said it is also interested in building a flat-panel manufacturing plant in China, but it didn't elaborate. Currently, the two LCD makers only have plants in China that assemble panels shipped from plants in South Korea.

The companies join other panel makers who are expanding production and cooperation with mainland China in an effort to tap growing demand in the region.

China unveiled a stimulus package to spur rural consumers to purchase more electronic goods earlier this year. Thanks partly to that move, demand for LCD televisions and computers has been robust this year from the mainland despite tepid demand from the U.S. and Europe.

"China's LCD market is growing rapidly, so we felt it's necessary to manufacture LCDs from the region in the long run," said LG Display spokesman Park Sang-bae.

LG Display said the new plant will use advanced technology, meaning it can make LCD panels measuring 50-inches diagonally. Such panels are used in LCD televisions.

South Korea's government also said Tuesday that Samsung and **LG Electronics** Inc. have agreed to purchase LCD panels from one another from the end of September in a rare move by the two hometown rivals.

The move will likely be a threat to Taiwanese LCD makers such as **AU Optronics** Corp. and **Chi Mei Optoelectronics** Corp. because the deal would replace LCD imports from Taiwan. The South Korean government said it expects the deal to improve the country's trade balance by about $83 million.

An AU Optronics spokeswoman declined to comment, while a Chi Mei Optoelectronics representative wasn't available to comment.

—Alex Pevzner and Charmian Kok in Taipei contributed to this article.

GLOBAL BUSINESS BRIEFS

Burger King Holdings Inc.

Profit up a solid 16% despite sales weakness

Burger King Holdings Inc.'s sales took a hit from a weak global economy in the company's fiscal fourth quarter, but profit rose 16% on better restaurant margins, refranchising gains and a lower tax rate. Burger King, the world's second-largest hamburger chain by sales behind McDonald's Corp., expects to see "soft" sales through Christmas with results improving in the second half of its fiscal year if consumer sentiment improves. For the quarter ended June 30, the company reported a profit of $58.9 million, or 43 cents a share, up from $50.6 million, or 37 cents a share, a year earlier. Revenue dipped 2.4% to $629.9 million, while comparable-store sales fell by the same margin.

Anheuser-Busch InBev NV

Anheuser-Busch InBev NV plans to raise beer prices in the majority of the U.S. this fall, despite declining sales volume for some of its largest brands, the president of the brewer's U.S. division said Tuesday. The company's main U.S. rival, MillerCoors LLC, said it, too, intends to raise prices in many markets. MillerCoors is a joint venture of **SABMiller** PLC and **Molson Coors Brewing** Co. Leuven, Belgium-based Anheuser-Busch InBev, maker of Bud Light and Stella Artois, said it likely won't raise prices more than it did last fall. At the time, its prices rose about 4% in most U.S. markets, according to industry newsletter Beer Marketer's Insights. The brewer declined to provide pricing details.

Natixis SA

French bank **Natixis** SA suspended trading in its shares Tuesday and said it will bring forward the publication of its second-quarter earnings to Wednesday from Thursday following a news report that its parent bank BPCE may guarantee some of its toxic assets. Natixis, one of the French banks hardest hit by the financial crisis, said it had requested that its shares be suspended for the whole of Tuesday, until its results, along with those of BPCE, are published before the market opens Wednesday. The measures came after French daily Les Échos reported earlier Tuesday that BPCE, which owns 71.54% of Natixis, would be willing to provide formal guarantees for risky and toxic assets.

Staples Inc.

Staples Inc.'s fiscal second-quarter earnings fell 38% as companies and consumers continued to restrain their spending, particularly on bigger purchases. But the office-products retailer's same-store sales in the U.S. and Canada fell less than they had in recent quarters. To lure in foot traffic, Staples joined the ranks of retailers deeply discounting. For the quarter ended Aug. 1, the company posted a profit of $92.4 million, or 13 cents a share, down from $150.2 million, or 21 cents a share, a year earlier. The latest results included three cents a share in restructuring costs. Revenue increased 9% to $5.53 billion, boosted by Corporate Express, which Staples bought a year ago.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Afghan election looks too close to call

Karzai, Abdullah each have 40% of vote in preliminary returns; impact of Taliban campaign remains unclear

By Matthew Rosenberg
And Anand Gopal

KABUL—President Hamid Karzai and Abdullah Abdullah have about 40% of votes each in the race to lead Afghanistan, with ballots counted from about 10% of polling stations, suggesting a close election so far that appeared to defy fears that widespread fraud would yield a skewed result.

The results released Tuesday are preliminary. Analysts and diplomats cautioned they were too few and too scattered geographically to use as a basis for projecting an ultimate winner of the presidency. Turnout figures haven't yet been revealed, leaving it unclear how effective the Taliban's campaign of violence and intimidation was in scaring voters away. Last week's presidential election had a field of nearly three dozen candidates.

Hamid Karzai

The Independent Election Commission said Mr. Karzai had 40.6% and Dr. Abdullah has 38.7% of the roughly 524,000 valid votes so far tallied. About 31,000 votes were thrown out for problems such as two candidates being marked. The commission said it plans to release more results as they become available each day.

Final, certified results won't be announced until mid- or late September, although a complete preliminary tally should be available before then. The results released Tuesday represented 10% of the nation's 24,367 polling stations.

Still, analysts said the results appeared to favor Mr. Karzai because so few votes had been tallied from the parts of southern and eastern Afghanistan where the president's support is strongest.

"Many of the early results are from areas closer to Kabul, where Abdullah has some support," said Haroun Mir, the co-founder of Kabul's Afghanistan Center for Research and Policy Studies. "As we get results from the southern provinces and some of the northern areas where Karzai has much more support than Abdullah, the picture will change and Karzai's lead will grow."

Despite the small and statistically insignificant sample, the Karzai campaign was encouraged.

"We have the lead, and we expect this lead to increase in the coming days," said a campaign spokesman, Waheed Omar. "We don't expect a second round. Based on what we've seen, we are pretty confident that we will win in one round."

A second-round runoff between the two top vote-getters will be needed if no candidate garners more than 50% of the vote. But, Mr. Omar added: "too much cannot be read into the results."

Despite the closeness of the race revealed in results so far, the campaign teams on both sides continued to claim fraud, raising concerns among U.S. and allied officials that whoever wins will end up tainted and too weak to present an effective alternative to the resurgent Taliban.

In the six days since the vote, Afghanistan's political scene has become acrimonious, with the two leading candidates' campaigns declaring victory and each accusing the other of stuffing ballot boxes and intimidating voters.

Reuters

Karzai rival Abdullah Abdullah displays a ballot at a news conference in Kabul Tuesday, while claiming election irregularities.

The accusations of fraud are "not just allegations—it happened so much that it would not be right if we just said 'OK, because we are so close right now we're going to forget that,' " said Nasrine Gross, an adviser to Dr. Abdullah.

"What we are afraid of is that we are going to hear this every few days—Karzai is just a few votes ahead, Karzai is just a few votes ahead—and then at the end he's going to be ahead and he's going to be the winner," she said. "We know that could only happen if there is rigging."

On Tuesday, before the results were released, Dr. Abdullah presented what he said was video footage showing Karzai supporters stuffing ballot boxes in parts of southern and eastern Afghanistan where the president's support is highest.

In one video, a young man is seen stuffing a box with ballots marked for Mr. Karzai. Someone from behind him says: "Aren't you from Ramazan Bashardost's province? You should put some ballots in there for him, too." Mr. Bashardost is another candidate; he is currently running third in the tally. Later in the video, the man tells someone else: "I'm just doing my job."

Mr. Omar dismissed the purported proof as "part of a political campaign. They have no substance."

He accused Abdullah supporters of engaging in the same kind of fraud. "We have the same type of material that Dr. Abdullah has," Mr. Omar said.

—Yaroslav Trofimov in Herat, Afghanistan, contributed to this article.

U.S. and allies plan to bolster Afghan units in Kandahar

By Yochi J. Dreazen

KANDAHAR, Afghanistan—The U.S. and its allies are planning to reinforce Afghan police and army units guarding Kandahar with American and Canadian troops, a move that acknowledges the deteriorating condition of the south's largest city.

According to senior military officials, U.S. and Canadian soldiers will for the first time deploy to bases on the outskirts of the city. The local Afghan forces will be bolstered by an expanded number of embedded American trainers.

The plan represents a high-stakes wager that the Afghans have the ability to keep Kandahar safe, a mission they and NATO forces have so far largely been unable to accomplish. It is also a tacit admission that the U.S. and its NATO allies erred by sending troops to sparsely inhabited parts of eastern and southern Afghanistan instead of to major population centers, such as Kandahar.

NATO has grown increasingly concerned about Taliban encroachment into Kandahar, the militant group's spiritual birthplace. Nearly 4,000 Marines are embroiled in a major offensive in neighboring Helmand province and military officials say the Taliban appear to have taken advantage of the fighting to infiltrate the city with significant numbers of operatives.

In a sign of the escalating violence that has accompanied election season, Kandahar was rocked Tuesday by five simultaneous car bombs that killed at least 41 people and wounded at least 66, the Associated Press reported, citing local officials. The blast, which flattened several buildings, appeared to target a Japanese construction company that employees mostly Pakistani engineers. Also Tuesday, the U.S. military announced that a bomb blast killed four soldiers in southern Afghanistan, pushing this year's death toll of foreign soldiers to 295, more than the number who died in all of last year.

The Taliban runs shadow courts throughout the city, taxes local businesses and has stepped up an assassination campaign against government officials, according to U.S. officials.

In recent interviews, several longtime residents of the city said that Taliban militants were routinely posting on walls and handing out so-called night letters threatening violence against those who don't abide by their decrees.

"It's vulnerable," said Brig. Gen. Jonathan Vance, who commands the 2,800 Canadian troops in Kandahar province. "I don't see it as precarious; but if we don't address it more thoroughly we could be in deep trouble."

The Obama administration is trying to change the dynamics by sending tens of thousands of additional troops into Afghanistan while implementing a new counterinsurgency strategy that stresses the importance of protecting the population from attack and building strong relationships with local residents.

The plan suggests allies erred sending troops to sparsely inhabited areas.

The new top American commander in Afghanistan, Gen. Stanley McChrystal, has indicated that he will redeploy forces out of sparsely populated areas. More than 3,000 of the 21,000 American reinforcements streaming into Afghanistan have been earmarked for Kandahar. That will more than double the number of foreign troops in the province.

Kandahar is one of the largest cities in Afghanistan, with a population estimated at more than 800,000. The Taliban's fugitive leader, Mullah Omar, was born in Kandahar and ran Afghanistan's government from the city during the Taliban's years of power here.

The Taliban have mounted several recent attempts to conquer Kandahar militarily. In 2006, the Canadians blunted a major Taliban offensive into the city, with heavy casualties on both sides. Two years later, the Afghan army rushed 1,000 soldiers into Kandahar to rebuff a similar Taliban advance.

Brig. Gen. John Nicholson, the top U.S. commander in southern Afghanistan, said American and NATO officials opted against flooding the city with foreign troops. "We assess that putting coalition soldiers into the city on a large scale would be counterproductive and would feed into enemy propaganda that the government was just being propped up," he said.

Senior U.S. military commanders also say they were heartened by the Afghan forces' performance during last week's national elections.

Under the plan, the U.S. would send hundreds of the new troops into Kandahar to train and live with Afghan security forces. The Afghan police and army will retain primary responsibility for protecting the city and reversing the recent Taliban encroachment, Gen. Nicholson said.

He said the bulk of the American reinforcements will be deployed to new bases on the main approaches into the city, major population centers in their own right. Additional forces will be sent to the Arghandab River Valley, a fertile region of the province that also houses a significant share of the area's population, he said.

Kandahar has suffered from a chronic shortage of U.S. and NATO troops. Of the 2,800 Canadians deployed to Kandahar, only about 1,200 were assigned to direct combat against the Taliban in the province, Gen. Vance said.

In the past, American and NATO commanders focused primarily on battling Taliban militants, stationing forces in violent and sparsely populated areas of the country, such as eastern Afghanistan's Korengal Valley. That strategy, combined with the troop shortage, left larger population centers vulnerable.

"We were in an environment where we had to prioritize," Gen. Vance said in his office at a fortified base near the city's airport. "We lacked the forces to progress beyond not losing." Canada has lost 128 soldiers since 2002 in Kandahar, one of the highest per-capita death tolls of any NATO nation.

Iran judiciary targets reformers

Revolutionary Court continues mass trials in wake of vote crisis

By Farnaz Fassihi

BEIRUT—Iran's prosecutors on Tuesday targeted the government's top opponents and called for the elimination of the two major reformist political parties, in the hardliners' boldest attempt to consolidate power and crush opposition.

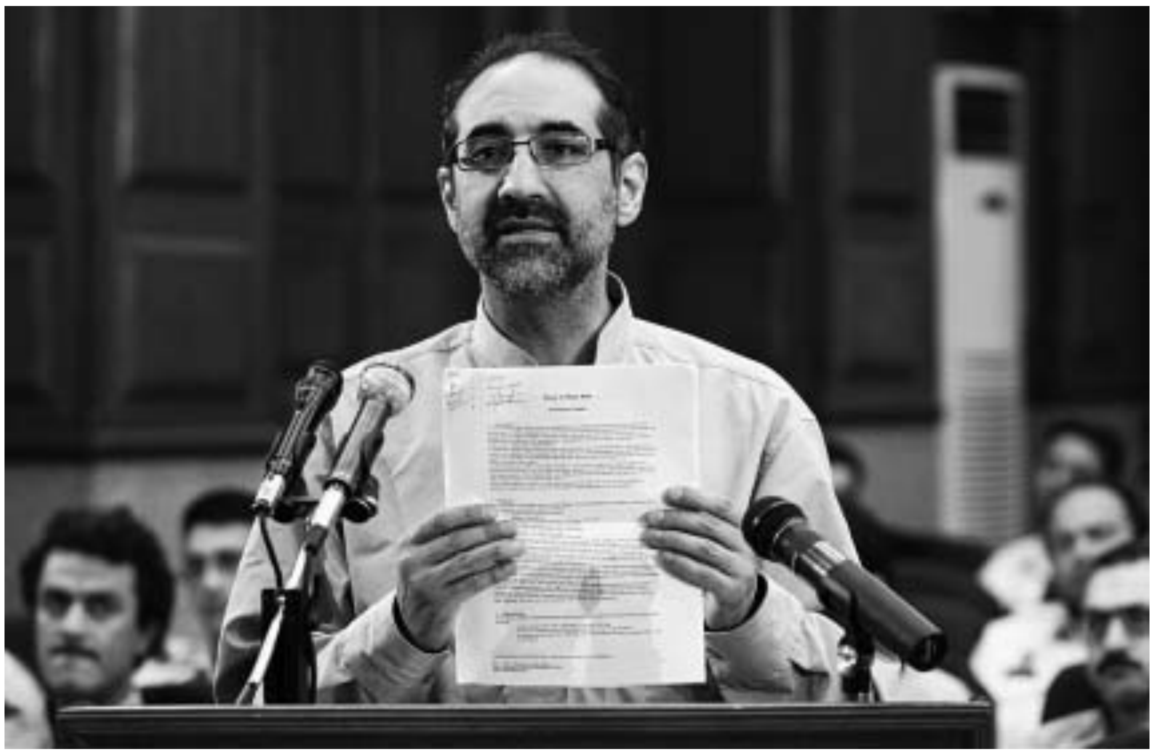
The Revolutionary Court held its fourth session in mass trials aimed at linking the post-election crisis to a plot funded by foreign countries to overthrow the regime. Hundreds of prominent reformers, politicians, journalists, lawyers, student activists and feminists have been jailed in a wave of arrests that followed the controversial June 12 presidential election.

The trials, the first of their kind in nearly two decades, have been criticized abroad and by opposition groups in Iran as "show trials" with coerced confessions, aimed to terrorize the public into submission and silence the widening discontent. However, the court proceeding has shocked the nation and galvanized the opposition.

Reading the overall charges against the defendants at the beginning of the session, the prosecutor called for maximum penalty for some of the reformist leaders—in some cases the charges could even carry the death penalty—and asked the judge to outlaw the Islamic Iran Participation Front and the Mojahedin of the Islamic Revolution Organization, two major opposition political parties.

Analysts say the move to outlaw opposition political parties shows President Mahmoud Ahmadinejad's government is broadening its case against its opponents seeking to ensure with legal measures that the reformers will be officially banned from politics.

In Tuesday's court hearing, viewed online, 19 defendants, all well-known, appeared in court sitting in rows facing the judge and interspersed by security guards in uniform. Most of them looked gaunt, unshaved and hollow-eyed. They wore freshly pressed gray prison garb and occasionally turned to steal a few words with one another in hushed whispers. Some took notes; some stared into space and a few even dozed off.



Associated Press

Iranian-American scholar Kian Tajbakhsh shows a paper as he defends himself during the trial of dozens of opposition activists and protesters in Tehran's Revolutionary Court on Tuesday.

Their background was varied but they had been zealot revolutionaries at one time, then transformed into reformists and eventually opposition members harshly critical of President Mahmoud Ahmadinejad. They included a former deputy foreign minister, a former government spokesperson, a former deputy speaker of parliament, two prominent newspaper editors and a reformist journalist Saeed Hajjarian, who can barely speak or walk due to an assassination attempt against him several years ago. An American citizen, scholar Kian Tajbakhsh, also appeared in court and gave a lengthy testimony.

Nine individuals took the stand to give lengthy testimonies of their role in the so-called velvet revolution.

Most of those who testified said opposition member Mir Hossein Mousavi and former President Mohamad Khatami had masterminded the political unrest, the violence in the streets and the confrontation with the regime.

"I believe that Mousavi started this face-off with the government by insisting elections were rigged. He was delusional from the start and it was his idea to bring people to the streets," said Shahebedin Tabatabae, a prominent member of the reform party and an adviser to Mr. Mousavi's campaign.

Many also pointed fingers at the family of powerful cleric and former President Ali Akbar Hashemi Rafsanjani. Mr.Rafsanjani's son, Mehdi, was accused of spending $2 million of public funding to pay for Mr. Mousavi's campaign and creating a Web site devoted to slandering President Mahmoud Ahmadinjead and his government.

Mr.Rafsanjani's nephew, Ali Hashemi, was accused of encouraging young people to take to the streets in rallies and instigating violence by publishing fake polling data that showed Mr.Mousavi had won the race.

The opposition dismissed the allegations and called the court hearing "a show trial" and warned that the society had matured and didn't buy into the government's narrative about the election.

"Our people will not tolerate this kind of insults against the great leaders of the reform movement," said reformist lawmaker Siroos Sazdar to Parlemannews Web site.

Meanwhile reports of abuse, torture, rape and murder have surfaced from inside the prisons.

A committee of lawmakers visited Behesht Zahra cemetery Tuesday to investigate reports of unmarked mass graves that hold 44 bodies of victims killed during protests or in detention, according to the Parliament news Web site. Iranian blogs reported that the head of the cemetery complex, Mahmoud Rezaeian, was discharged this week after 25 years of managing the cemetery because of leaking the news of the unmarked graves.

Cairo hardens move against opposition group

By Ashraf Khalil

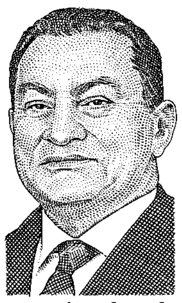
CAIRO—Egypt has accelerated a crackdown against the opposition Muslim Brotherhood, amid uncertainty over succession plans by President Hosni Mubarak and ahead of next year's parliamentary polls.

Authorities last week detained 30 Brotherhood members in the city of Suez. Two days later, security forces arrested seven midlevel Brotherhood officials gathered for a meeting in Cairo. The next day, officials rounded up an additional 18 members northeast of the capital. Two detainees have since been released, but the 53 others rounded up remain in custody without charges.

The flurry of detentions appears to be wider ranging than previous crackdowns on the group, targeting activists and Brotherhood leaders seen as moderates and reform-minded. In July, two prominent young Brotherhood bloggers, Abdel Rahman Ayyash and Magdy Saad, were detained at Cairo's airport. They spent a week in custody before being released.

In June, Abdel-Moneim Abul-Fotouh, another prominent moderate and a member of the Brotherhood's ruling guidance council, was arrested. He remains behind bars, uncharged, on a rolling series of 15-day detention orders, the latest handed down Sunday.

Brotherhood officials and some analysts say the crackdown is the latest push by Mr. Mubarak to marginalize the group. It comes amid renewed speculation over Mr. Mubarak's health and succession plans and just a little more than a year before the country's next parliamentary polls, slated for November 2010.



Hosni Mubarak

"It has become a zero-sum game," said Khalil al-Anani, an expert on Islamist political movements. In a July article published in the Daily News Egypt newspaper, Mr. Anani wrote that the Mubarak regime seeks "to eradicate [the Brotherhood] completely from political life."

Officials aligned with the government suggest the crackdown has more to do with public criticism of Egypt's muted reaction to an Israeli military offensive in the Gaza Strip earlier this year. The Brotherhood organized public demonstrations, in defiance of a massive government security lockdown to prevent such protests.

In a January statement, the group's supreme guide, Mahdi Akef, challenged the regime to cut political and economic ties with Israel, and fully open the border with Gaza.

"The Brotherhood has been overstepping their role regarding foreign policy," said Abdel Moneim Said, head of the Al Ahram Center for Political and Strategic Studies, and a member of the powerful Policies Secretariat in the ruling National Democratic Party. Now the government, he said, "wants to remind them of the limits of the game."

Efforts to obtain comment from government officials were unsuccessful. Egyptian officials typically speak of the Brotherhood as a threat to public order and often refuse to refer to it by name in interviews, instead calling it "the banned group."

The 81-year old Mr. Mubarak has ruled Egypt for almost three decades. In June, he looked frail receiving U.S. President Barack Obama in Cairo, triggering a fresh bout of speculation about his health.

The Brotherhood's influence here has fallen in recent years. Technically outlawed, it still fields Brotherhood-affiliated candidates in Egyptian elections. In 2005, those candidates won 20% of seats in parliament, which triggered roundups and detentions.

Taliban leaders attempt to dispel reports of a rift

By Zahid Hussain

Two top Pakistani Taliban commanders sought to dispel reports of their rivalry, as they jointly announced the death of their leader Baitullah Mehsud and confirmed his successor.

Calling Pakistani reporters, Hakimullah Mehsud and Waliur Rehman, the two most senior Taliban commanders, made the joint announcement. They said Mr. Mehsud died of injuries on Sunday from an earlier U.S. missile strike, according to reporters who said they recognized the leaders' voices. The phone call ended weeks of speculation about Mr. Mehsud's fate, following Taliban denials that he was dead.

Also in the same phone calls Tuesday, the two Taliban leaders confirmed that Mr. Hakimullah had been appointed days ago as the new of chief of Tehrik-e-Taliban Pakistan, a loose umbrella organization of more than a dozen tribal factions. The pair were earlier reported to have been involved in a shootout over the leadership claim, but on Tuesday they denied reports of infighting. Pakistani intelligence officials had said Mr. Rehman, who previously served as Mr. Mehsud's spokesman, was seriously wounded in the firefight.

The Pakistani militant group has an interest in setting aside differences. The apparent unity may allow the Taliban—reeling from the death of their leader—to regroup and defend against an anticipated Pakistan military offensive in their stronghold of Waziristan.

Hasan Askari, a political and defense analyst in Lahore, said that while the Taliban remain a serious threat to Pakistan, they are vulnerable at the moment. "The Taliban are passing through a transition and are in a weak position," Mr. Askari said. "Pakistan can use the opportunity to divide them by infiltrating the organization."

Al Qaeda operatives who have worked with Mr. Mehsud and other Taliban commanders may also be involved in trying to end the power struggle, and officials fear that Mr. Hakimullah may try to solidify support by launching new terrorist attacks.

Mr. Hakimullah is known as a ferocious fighter and is the reputed plotter of several recent attacks against Pakistani government and Western targets. His men have been blamed for attacking U.S. and NATO supply convoys traveling through northwestern Pakistan en route to Afghanistan, and he claimed responsibility for the June 9 bombing of the Pearl Continental hotel in Peshawar, and the attack on the Sri Lankan cricket team in Lahore this year.

The attacks, however, also appear to have strengthened the Pakistan government's resolve to defeat the insurgency. The death of Mr. Mehsud earlier this month was seen as a result of growing cooperation and sharing of intelligence between Pakistan and the U.S.

Mr. Mehsud was hit at the home of a relative when being treated with an intravenous drip for a kidney problem. The attack also killed his wife.