Economy & Politics: Tough challenges for Britain's new army chief

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Breaking news at europe.WSJ.com

A spirited protest against Diageo's plans in Scotland

Press Association

JOHNNIE WALKER BLUES: In July, marchers opposed a move to cut 700 jobs at a whisky bottling plant in Kilmarnock. The world's largest alcoholic-drinks maker by volume said it doesn't expect a recovery anytime soon amid sluggish demand. **Pages 5, 28.**

Japan on brink of change

Voters ponder just how much they want to alter the fabric of their society

By Yuka Hayashi, Daisuke Wakabayashi, Miho Inada and Alison Tudor

TOKYO—In the midst of its worst economic malaise of the postwar era, Japan is preparing to oust its longtime ruling party in favor of new leaders with ambitious ideas but an untested ability to get things done.

Polls show voters in Sunday's election heavily favor the Democratic Party of Japan, an 11-year-old collection of market reformers, union leaders and consumer activists that has never held full political power. A landslide would give the group broad powers to enact an agenda that includes an elaborate domestic spending plan, tough new climate-change rules, an overhaul of Japan's bloated government bureaucracy, and a reassessment of the nation's longtime ties to the U.S.

A landslide also would mark a sound rejection of Prime Minister Taro Aso and the Liberal Democratic Party, which has ruled Japan almost continuously since 1955 but has been hobbled by a weak economy and a series of scandals. Its cozy relationships with business, bureaucracy and the U.S. have become liabilities as incomes have fallen and more Japanese begin to question the nation's direction.

It's unclear how far a victo-

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L'Oréal chief puts brave face on crisis

By Christina Passariello

PARIS—**L'Oréal** SA has lost its luster. Women are curtailing purchases of its expensive perfumes and anti-wrinkle creams. Its most glamorous brands are losing market share to utilitarian products such as Nivea. First-half net profit at the world's largest cosmetics company fell 14% after decades of at least 10% increases.

BOSS TALK

Chief Executive Jean-Paul Agon is scrambling to fix L'Oréal. Over the past year, the life-long L'Oréal manager disclosed plans to close factories in Monaco, Spain and Wales. For the first time in more than a generation, the maker of Lancôme and Garnier is laying off hundreds of U.S. employees and has ordered a hiring freeze.

But L'Oréal's problems go beyond the economic downturn. Its core European consumers are buying more private-label face creams from drugstores and supermarkets, no longer lured by promises that ingredients such as caviar and Arctic cranberries make any difference.

In the first half of the year, sales of L'Oréal's luxury products, including Lancôme and Kiehl's, plunged 13%. While competitors such as **Estée Lauder** Cos. and **Procter & Gamble** Co. have also suffered sales declines, L'Oréal is taking a bigger hit because it hasn't spent as much promoting its brands, say experts.

In his office on the 10th floor of L'Oréal's headquarters on the outskirts of Paris, Mr. Agon, who once dreamed of being a film director or a psychiatrist, discussed its un-

Please turn to page 26

Jerome Sessini for The Wall Street Journal

L'Oréal CEO Jean-Paul Agon says by pursuing affordable innovation, the French cosmetics giant can fight inroads by lower-priced rivals.

Big Oil still finds barriers in Libya

By Guy Chazan

The release of the Lockerbie bomber triggered speculation that British energy companies trying to access Libya's oil wealth could soon hit a bonanza. But in reality, Big Oil is already there, and its interest in Libya is cooling.

The initial enthusiasm that accompanied Libya's first rounds of oil licensing—held soon after international sanctions were lifted in 2004—has worn off, a casualty of arbitrary laws, Draconian contractual terms and Byzantine bureaucracy.

Since last week, when the Scottish government released Abdel Baset al-Megrahi, the Libyan convicted eight years ago in the 1988 bombing of Pan Am Flight 103 over Lockerbie, Scotland, there has been speculation that it was part of a political deal between London and Tripoli: In exchange for Mr. al-Megrahi's release, Libya might make life easier for British companies, such as **BP** PLC and **Royal Dutch Shell** PLC, that want to do business in Libya. That theory is vehemently denied by both British and Scottish officials.

And industry officials say they doubt the Scottish move could ease the massive bureaucratic obstacles British companies have faced in Libya.

"That might prove illu-

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Inside

Return to power

The Williams sisters restore order on the tennis court
Weekend Journal, page W6

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9580.63	+0.39
Nasdaq	2027.73	+0.16
DJ Stoxx 600	235.24	-0.51
FTSE 100	4869.35	-0.43
DAX	5470.33	-0.94
CAC 40	3648.53	-0.54
Euro	$1.4226	-0.04
Nymex crude	$72.49	+1.48

LEADING THE NEWS

FSA's Turner sparks ire in call for tax on banks

Critics see damage to London's status, repeat of policy errors

By Neil Shah

LONDON—Britain's top financial-markets regulator drew fire from bankers Thursday for suggesting a new global tax could be needed to rein in excessive risk-taking and bonuses in the banking industry.

In an interview with the Prospect, a U.K. monthly magazine, Adair Turner, chairman of the Financial Services Authority and a former vice chairman of Merrill Lynch Europe, said global regulators may want to consider a tax on financial transactions if other measures to curb banks' risk-taking and compensation policies don't work. He said that while such a tax would be difficult to implement, it could help control the size of a financial system that he believes has "grown bigger than is socially optimal."

Mr. Turner's comments drew a sharp reaction from bankers, who warned that his approach could damage a financial sector that makes a large contribution to the U.K. economy. "In the past, the country has lost chunks of industry through making the wrong decisions," said Brian Capon, a spokesman for the British Bankers' Association in London. "Let's not do that again."

The exchange comes at a time when the FSA's efforts to toughen regulation have run into opposition amid concerns that a crackdown could harm London's lucrative role as a global financial center. Earlier this month, the FSA left out some of its toughest proposals on bankers' pay—such as requiring banks to defer large chunks of bonuses and tie them to the firms' future performance— in a new code of conduct after bankers warned that the proposals could lead them to move business away from London.

In the magazine interview, Mr. Turner said that London shouldn't worry about losing banking business, in part because the U.K. economy has become too dependent on financial services and in part because "London is a classic cluster and it will remain the dominant time zone in Europe."

An FSA spokeswoman said his statements were merely part of "an intellectual debate" and that "any specific policy proposals are for politicians to debate and decide."

Tax-related issues are a matter for U.K. Treasury, rather than the FSA. A spokesman for the U.K. Treasury said finance ministers would be discussing bonuses at the Group of 20 meeting in London next week. French President Nicolas Sarkozy wants the group to back a global tax and cap on bank bonuses. German Chancellor Angela Merkel also wants a crackdown on excessive pay in the sector.

A global tax on financial transactions—sometimes called a "Tobin" tax after economist James Tobin, who suggested such a tax to curb speculative activity—is highly unlikely anytime soon given the level of global coordination it would require. Some bankers pointed out that if such a tax existed, banks likely would find a way to pass on the cost to consumers, and it wouldn't have the intended effect.

—Alistair MacDonald and Sara Muñoz contributed to this article.

European Pressphoto Agency/Belga

FSA Chairman Adair Turner, pictured last month, says the financial system has 'grown bigger than is socially optimal.'

CORRECTIONS & AMPLIFICATIONS

Ahmad Hamad Al Gosaibi Bros. & Co., or Ahab, filed a court document Monday in response to a motion in a suit brought by **Mashreq Bank.** An International Investor article Wednesday incorrectly said that Ahab had filed a suit against Mashreq on Monday. On Wednesday, Ahab filed a counterclaim against Mashreq that includes allegations similar to those in Monday's court filing.

China opposes Dalai Lama's visit to Taiwan

China on Thursday condemned a planned visit by the Dalai Lama to Taiwan but stopped short of attacking the island's president, suggesting that Beijing and Taipei might find a way to avoid letting the sensitive trip damage a recent improvement in ties.

*By **Ting-I Tsai** in Taipei and **Ian Johnson** in Beijing*

Taiwanese President Ma Ying-jeou announced Thursday approval of a request by local officials of the opposition party for the exiled Tibetan spiritual leader—who is reviled by Beijing but popular in Taiwan—to visit next week areas stricken by a recent typhoon.

The move appeared to be a delicate balancing act by Mr. Ma: Showing that he is independent enough to go against Beijing without jeopardizing a détente between the two longtime rivals that he has engineered since taking office in May 2008.

China said it was "resolutely opposed" to the visit, adding that the Dalai Lama "is not a pure religious figure, but uses the banner of religion to engage in activities to split the nation."

But Beijing appeared sensitive to Mr. Ma's predicament, casting blame for the plan on the Dalai Lama and on Taiwan's opposition Democratic Progressive Party. The invitation came at the request of local DPP politicians.

In some ways, the move could help Mr. Ma. With his approval ratings below 30% after just a year in office, Mr. Ma needs to rebuild his political base if he wants to push ahead with plans to end 60 years of hostility between Taiwan and China, analysts say.

"Mr. Ma wants to erase his image of being indecisive, as well as the impression that he listens to China on everything," said George Tsai, a political-science professor at National Chengchi University. "So when he reviewed the case, his immediate concern was how to rescue his reputation."

The move was difficult for China to criticize directly, analysts say. China opposes efforts by the Dalai Lama to gain publicity and regularly condemns states that allow the Dalai Lama to visit, saying he foments independence among Tibetans. But China is also eager to support Mr. Ma's efforts at reconciliation—the two sides have been split for decades and China still claims Taiwan as part of its territory.

Wang Jianming, a researcher in the Chinese Academy of Social Sciences' Taiwan institute, said China also didn't want to appear insensitive to the victims, for whom the Dalai Lama is to hold a prayer service. "It is really a puzzle for the mainland," Mr. Wang said. "It is not that easy or appropriate for the mainland to show strong objections."

According to local government plans, the Dalai Lama will arrive late Sunday night and depart early Friday morning. He will spend three days in the southern part of Taiwan, especially Shiao Lin village, the center of a mudslide triggered by the typhoon that left 463 dead and 190 missing. Before his departure, the Dalai Lama will hold a news conference, officials said.

A spokesman for Mr. Ma, Wang Yu-chi, said the Dalai Lama's visit is a religious issue. DPP officials say the request was motivated purely by religious concerns and a desire to comfort the typhoon's victims.

—Gao Sen in Beijing and Jesse Ho in Taipei contributed to this article.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

U.K. retail sales weaken

Businesses cut back, consumer confidence continues to plateau

By Laurence Norman And Joe Parkinson

LONDON—U.K. retail sales stalled in August and business investment plunged, adding to doubts about the pace of the U.K. economic recovery. Consumers seem to share those doubts, with a survey showing their confidence hasn't improved over the past three months.

Sales volumes at U.K. retailers unexpectedly fell in August, although retailers had the highest hopes for the month ahead than they have had for over a year, a survey by the Confederation of British Industry showed Thursday. Its retail sales balance fell to minus 16 from minus 15 in July. The balance is the difference between the percentage of retailers reporting higher sales and those reporting lower sales.

The CBI survey continues to show weaker retail sales than other measures and may suggest a weaker performance in the official data in the months to come, although official retail-sales data have this year frequently beaten expectations raised by the CBI survey.

Economists were more concerned about plummeting U.K. business investment, which could foreshadow less output and employment in the months ahead. In its preliminary estimate, the Office for National Statistics said investment fell 10.4% in the second quarter from the first three months of 2009, the largest drop since the second quarter of 1985.

The investment slump suggests the incipient improvement in business confidence shown in recent surveys isn't driving businesses to spend on new equipment or to expand in other ways. From the year-earlier period, business investment fell 18.4%, the largest decline since records began in 1967.

The British Chambers of Commerce said in reaction that weak demand and mounting financial pressures mean businesses have little choice but to cut investment and stock.

"Unless this trend can be reversed, the long-term productive capacity of the economy will be damaged, and the country will lack the necessary capital stock to sustain a recovery," said David Kern, the BCC's chief economist.

Colin Ellis, European economist at Daiwa Securities, said business investment's second-quarter decline was enough to take 1.1 percentage points off U.K. output. That more than accounts for the 0.8% decline in gross domestic product originally reported for the second quarter. Revised U.K. GDP data are due Friday.

In the first quarter, business investment declined 7.6% on the previous three months and fell 9.7% from a year ago.

The big fall in investment helps to explain the much sharper-than-expected drop in U.K. output in the second quarter.

In Germany, which has seemed less vulnerable to weaknesses in the financial sector and where consumers are less saddled with debt, there was a sharp improvement in business investment that helped return the country to growth in the second quarter over the first period.

U.K. consumer confidence remained steady again in August, suggesting that consumers are yet to be convinced that the economic recovery will be strong and sustained.

Polling firm GfK NOP said Friday the headline measure of consumer confidence was flat at minus 25 for the third straight month, having risen two points in June from minus 27 in May. Prior to May, the measure rose for three straight months.

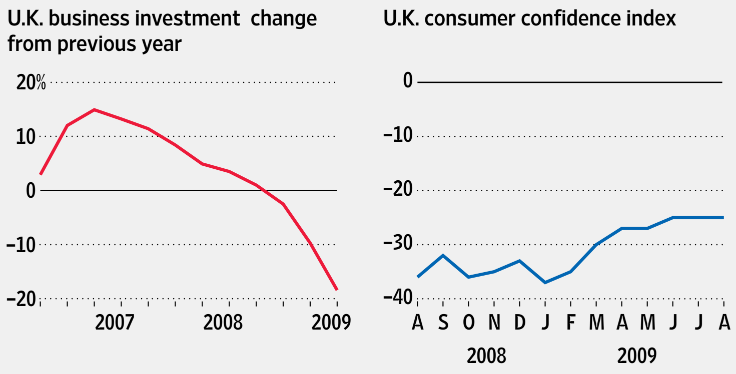
August's headline measure disappointed the market, with economists surveyed by Dow Jones Newswires last week predicting it to rise to minus 23.

European Pressphoto Agency

Retail store offering discount in London

Not sold

Business investment suffered its sharpest annual decline in Britain since 1967. Consumer confidence hasn't recovered as strongly in the U.K. as it has elsewhere in Europe



Source: Office of National Statistics; GfK KNOP

Weak growth in credit hurts euro-zone upturn

By Geoffrey T. Smith

FRANKFURT—The nascent economic recovery in the 16-country euro zone remained cramped by weak credit growth in July, despite massive monetary-stimulus programs for the region's banking system.

A report by the European Central Bank showed Thursday that tighter bank-lending standards, debt reduction by households and weak demand for corporate credit all combined to slow M3 money-supply growth in the euro zone to a record low of 3% in the 12 months through July. (M3 is the broadest measure of money circulating in the economy, and its slow growth suggests low credit flows and tepid economic activity. A rapid expansion in M3 would reflect rising demand.)

Since October, the ECB has cut its main policy rate from 4.25% to 1%, and offered banks as much money as they asked for at that rate, in order to soften the effects of the financial crisis and the ensuing recession. But as Thursday's data showed, that hasn't been enough to encourage banks to lend or companies to invest significantly more.

Economists said the ECB figures provided a reality check for the area's chances of pulling out of recession, which recent data have suggested might happen sooner than had been expected. Optimists were encouraged Thursday by other data showing that Spain's sharp economic decline is slowing.

"Today's monetary numbers illustrate how fragile the ongoing recovery still is," said Carsten Brzeski, an analyst with ING Bank, in a note to clients. "Corporate deleveraging in many euro-zone countries could keep credit demand and consequently credit growth suppressed for some time."

The slow credit growth also reinforces warnings by German officials that a new credit crunch could act as a drag on economic growth. The ECB estimates that euro-zone banks would have to write down over $280 billion more by the end of 2010, mainly because of losses on their loan portfolios caused by the recession.

But other measures of the euro-zone economy showed more improvement in the third quarter.

In Germany, market-research group GfK said Thursday that its forward-looking consumer climate index rose to 3.7 points for September from 3.4 in August and that its performance in the rest of the year depends on job market trends. The result confirms that consumers remain a key factor in allowing Europe's largest economy to emerge from recession.

Italian consumers also registered a brighter outlook. State-funded research center ISAE said its seasonally adjusted consumer confidence index for Europe's fourth-largest economy climbed to 111.8 in August from 107.5 in July, reaching its highest level since March 2007.

In Spain, the rate of decline in economic output eased in the second quarter from the first, data showed. But the year-on-year fall was still the worst since at least 1970 as the country recovers from the collapsed housing boom.

"Spain's enormous imbalances are preventing it from recovering as quickly as its euro-zone neighbors and it will be one of the last economies in the region to emerge from recession," Ben May, European economist at Capital Economics in London, said in a note.

Sweden, outside the euro zone but a major trading partner, reported its nonseasonally adjusted unemployment rate slipping to 7.9% in July, down from 9.8% in June as students who flooded the labor market in previous months landed summer jobs. But the rate was still up strongly from 5.8% in July 2008.

—Bernd Radowitz contributed to this article.

FROM PAGE ONE

Japan stands on brink of change in Sunday's election

Continued from first page

rious DPJ can go. Japan's massive debt could hobble its social-spending plans. Many of its members will have to learn the ropes as they take powerful government positions. Others are longtime political veterans who defected to the DPJ when the LDP began to struggle and may be reluctant to endorse big changes.

A DPJ victory also would test Japan's appetite for change. Young, urban voters in particular are attracted to a platform that endorses change in a number of areas, including allowing married women to keep their original names. But many of Japan's older voters favor only jettisoning the LDP and may balk at bigger changes.

"There is an irresponsible stance of 'I don't care what, I just want a change,"' said Fumio Kyuma, a 68-year-old LDP veteran, nine-time incumbent and twice former defense minister, who represents the area around the city of Nagasaki in Parliament. "People are looking for a leadership change just for the sake of leadership change."

His challenger: Eriko Fukuda, a 28-year-old political novice who became a national figure after battling the government over a coverup of information about tainted blood products—the cause of her contraction of hepatitis C as an infant.

"This election is a battle for the survival of those who are disadvantaged and we must not fail," said Ms. Fukuda at a recent rally. In local polls she leads Mr. Kyuma, who has repeatedly apologized for a verbal gaffe two years ago in which he said the 1945 atomic bombing of the city by the U.S. "could not be helped."

Taking a page from U.S. President Barack Obama's campaign book, the DPJ has made "Change" the slogan for its campaign, and unleashed a pack of candidates this is distinctively younger and has more females than the old guard of the LDP. No longer able to count on the party machine to drum up the necessary votes to win, many LDP heavyweights have been forced to leave their offices and slug it out on campaign trails for the first time in many years.

To woo Japanese voters discouraged by nearly two decades of an economic slump and worried about the increasing burden of a rapidly aging society, the DPJ has put forth bold proposals aimed at propping up people's livelihoods. Families are promised an allowance of $3,300 a year for every child age 15 and under, free high-school education and the elimination of highway tolls.

Businesses, already reeling from the most serious recession in decades, are asked to boost wages while forgoing the hiring of temporary workers on factory floors. While both parties are proposing similar measures, the union-favored DPJ's policies are even more worker-friendly. The DPJ also is proposing stricter rules on greenhouse-gas emissions, a step corporate executives say will restrict growth in Japanese manufacturing.

To pay for its expensive social programs and accelerate policy shifts, the DPJ wants to implement a sweeping change in the administrative branch. That means eliminating jobs and curtailing the influence of bureaucrats in Tokyo, who have loyally assisted the LDP's rule in exchange for job protection. Following the example of the British system, the DPJ wants to strengthen the role of the prime minister and cabinet, and send 100 lawmakers to ministries to instruct and oversee bureaucrats.

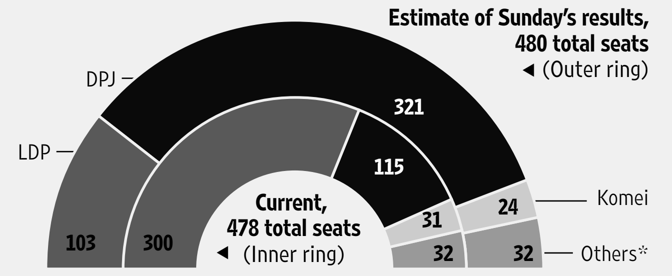
"Bureaucrats can't make dynamic policy changes because they are always burdened by past policy precedents," says Kazuya Mimura, a 33-year-old DPJ candidate who left his own bureaucratic position in the Ministry of Economy, Trade and Industry last year. "They have to be made by politicians."

Yukio Hatoyama

Taro Aso

Shift predicted

An Asahi Shimbun poll suggests the DPJ will win the lower house away from the LDP.



Note: The survey is based on telephone interviews of individual voters in 300 districts and reporting by the paper's own reporters.
* Includes Communist and Social Democratic parties
Photos: Agence France-Presse/Getty Images

Reflecting its main support base of city dwellers and younger voters, the DPJ adopts more liberal stances on social issues such as the participation of women and foreigners in society. If the DPJ keeps its word, working women will be allowed to keep their maiden names, while stay-at-home wives will lose their tax-exemption status.

In international relations, it wants to loosen ties with the U.S. and shake off the bitterness left among Asian neighbors since World War II. To do so, it is willing to discontinue controversial visits by political leaders to a shrine commemorating Japan's war dead, even at the risk of angering politically active groups of veterans and war widows.

The changes are aimed at half a century of political stagnation. "When one party stays in power for five decades, various evil side effects naturally emerge," says Mitsuo Ohashi, chairman of Showa Denko KK, a big chemical company, who says he opposes the DPJ's initiatives but believes the LDP is responsible for some of its own problems. "Now sensing the possibility of a change in administration, people are suddenly full of expectations."

Whether the DPJ can really implement these changes may depend on how far Japan itself is willing to challenge some of the fabric of its society.

Unlike in the heyday of the LDP's rule in the 1970s and 1980s, when Japan was united in the pursuit of economic growth, the nation today is divided.

Corporate executives are looking to cut costs and shift operations abroad as their traditional strength in exports faces greater competition. Japan's share of world exports is an estimated 4.1% this year, roughly half the level of 15 years ago.

Meanwhile, ordinary workers have seen their income and job security slip. As retirees try to lock in generous pension and health benefits as a reward for their past work, the young feel the burden of paying for such expenses and worry whether anything will be left when their generation gets old. Japan's per-capita GDP made it No. 4 in the world 20 years ago. Today, it is no longer in the top 10.

Yumiko Kosugi lost her job as a temporary worker in January when the Tokyo travel agency where she worked began suffering from falling sales to its main client, Toyota Motor Corp. The 31-year-old mother of an infant girl must go back to work soon to supplement the income of her husband, but worries she may not be able to find day care.

"Politicians always give us sweet talk before elections," Ms. Kosugi said. "I don't expect anything to change no matter who becomes prime minister or which party takes power."

Others are skeptical about the DPJ's ability to turn its promises into action.

The party itself encompasses both activists and political insiders who may not reach agreement. DPJ President Yukio Hatoyama—widely assumed to be Japan's next prime minister—and Secretary-General Katsuya Okada both hail from wealthy families with powerful business connections, while Azuma Koshiishi, an acting president, is a former union leader. One top leader, Ichiro Ozawa, is a former LDP heavyweight known for his behind-the-scenes political maneuvering.

The DPJ's desire to eliminate jobs for bureaucrats, for example, could be compromised by its needs to please an important constituency: labor unions of government workers.

How to fund its hugely expensive social programs also remains vague. Even without added expenses, Japan already sits on a huge fiscal deficit. According to the Organization for Economic Cooperation and Development, Japan's financial liabilities could approach 190% of gross domestic product this year. Still, fearing a voter revolt, the DPJ rules out raising the consumption tax for at least four years, closing the most effective way to raise tax revenues.

The DPJ estimates its programs to help households, including the child allowance and eliminating expressway tolls, will cost a total of 16.8 trillion yen ($177 billion) when they are fully implemented in the fiscal year beginning 2013, but says the amount can be covered by cost savings through government overhaul and mobilizing untapped financial reserves.

"Their policies seem to focus on giving lots of money to lots of people," says Hiroyuki Hosoda, the LDP's secretary-general.

The party also wants companies to boost the minimum wage to 800 yen an hour from the current range between 618 yen to 739 yen, and eventually raise it to 1,000 yen. Companies also are asked to turn as many temporary jobs as possible into permanent positions, and stop hiring temp workers altogether on factory floors.

Business executives say these steps will erode the competitiveness of Japanese companies against their global competitors, and eventually pull down Japan's economic growth rate.

"They say 'People's Lives First' but without economic growth, people are not going to feel better off," says Mr. Ohashi, the chemical-company chairman.

Mr. Ohashi, who heads the political committee of Nippon Keidanren, or Japan Business Federation, a powerful business lobby, says that instead of reducing temp workers, Japan needs steps to help its economy compete globally and attract foreign investments. The most effective, he says, will be a sharp cut in the corporate tax rate to below 30% from the current level of 40%, among the highest in the world.

The DPJ's hefty fiscal spending could help the economy, "but whether these measures will be able to lift growth in the long term is questionable," says Kathy Matsui, chief Japan strategist for Goldman Sachs. After contracting for five quarters, Japan's GDP grew by an annualized pace of 3.7% in the April-June quarter.

Despite the difference in economic policies, the main difference between the DPJ and LDP may lie in their willingness to challenge traditional social customs, such as seniority-based organizations, and low participation of women and foreigners in the society and workplace, which is often blamed as a root cause of the stagnation in the economy. While the DPJ is still dominated by a number of traditional insiders, the party has twice as many women running in Sunday's elections, and the average age of its candidates is about six years younger than the LDP ballot.

The DPJ says it will seek to revise a law so married couples can use separate last names, instead of forcing one—usually the woman—to change her name. It also plans to eliminate a tax exemption for stay-at-home spouses, a measure that has kept many women from going back to work after childbirths and drawn criticism from working women as unfair.

"These things have been sucking energy out of women in this country as we try to work hard on our jobs and contemplate starting families," says Fumie Furukawa, a 36-year-old college history instructor from Gifu prefecture near Nagoya. She and her husband, a hospital administrator, have lived as a married couple for five years but legally remained single so Ms. Furukawa could keep her name. If the law is changed, she says, they will probably finally tie the knot.

"I might even consider having a child," she adds.

Mobilizing younger voters would be a feat in Japan. In the last lower-house elections in 2005, only 46% of voters in their 20s cast their ballots, compared with 83% for those in their 60s, a disparity many younger voters blame for labor and pension rules that they believe hurt them at the expense of the older population. People in their 20s and 30s make up a majority of the temp worker population.

The DPJ is courting the dissatisfaction of younger voters like Kensuke Harada, a junior at the University of Tokyo, who formed a nonpartisan group called ivote last year to get people in their 20s to vote. His group has thrown parties at pubs that bring together students and young politicians, and has solicited online pledges to vote in Sunday's elections. As of Thursday, it received 1,140 pledges.

"Everyone knows Japan's pension system has a problem and we all wonder what will happen when we reach our 50s and 60s," the 23-year-old Mr. Harada said. "But politicians don't pay attention because the population of young people is so small and we don't even vote."

Last Sunday, Mr. Harada led a parade of several dozen students through the streets of Shibuya, a Tokyo neighborhood with trendy boutiques and popular student watering holes. Playing on a Japanese pun on the words for "politics" and "festival," many wore the traditional robed garb of a summer festival. Others wore Santa Claus hats, while one marched wearing the full-body costume of the local election committee's mascot, a grinning yellow cat with wings.

"It's the biggest festival of the year," they chanted as they passed out leaflets telling young people to vote. "Join the fun and change our future!"

The parade attracted a few amused onlookers. Saya Takasaki, 25, watched the parade in Shibuya while bicycle-riding with her boyfriend. She said she wasn't really interested in politics before, but this time she planned to vote. "I feel we have to make Japan a much better place to live," she said, adding that she hasn't yet decided how she will vote.

CORPORATE NEWS

Diageo issues lackluster profit forecast

Spirits maker doesn't expect a recovery anytime soon for the industry as demand lags for premium drinks

By Michael Carolan

LONDON—**Diageo** PLC cautioned that it doesn't expect a recovery in the alcoholic-beverages industry anytime soon, pointing to sluggish demand for premium drinks globally, and issued a lackluster forecast for fiscal year 2010.

The downbeat outlook from the maker of Johnnie Walker scotch, Guinness stout and Smirnoff vodka came as it posted a 6.6% rise in net profit for the year ended June 30, and a 15% increase in sales. The results, however, were boosted by the effect of acquisitions and weaker sterling.

Volumes dropped 3% during the year. Excluding acquisitions, volumes fell 4%.

Diageo, the world's biggest alcoholic-drinks producer by volume, said that while the global economy appears to be stabilizing, the sustainability of the recovery is uncertain and fiscal 2010 will be challenging.

"That being recognized, we expect to deliver low-single-digit organic operating profit growth in fiscal 2010," the company said.

The new forecast marks a sharp slowdown from Diageo's historic trends. The company posted a 9% increase in its fiscal 2008 profit.

Chief Financial Officer Nick Rose admitted Diageo may be overly cautious.

Reuters

A Guinness-branded pump at a pub in southwest London. Diageo, the world's biggest spirits group and owner of Guinness, reported mixed growth in its brands.

"Other people could paint a more optimistic picture," he said, adding: "Last year we had to trim guidance at the half-year stage—we don't want to have to do that again."

Diageo said net profit for fiscal 2009, which ended June 30, came to £1.62 billion ($2.63 billion), up from from £1.52 billion a year earlier. Sales increased to £9.31 billion from £8.09 billion.

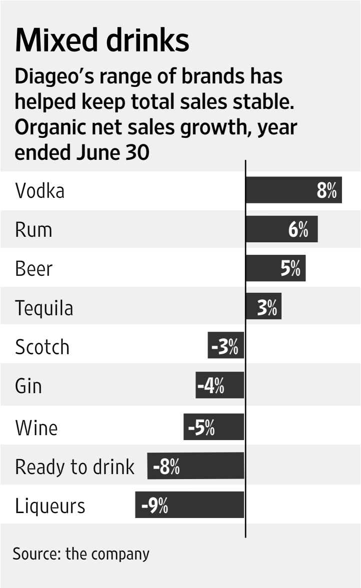
With most of its sales generated outside the U.K., Diageo has benefited from sterling's weakness against major currencies during the year. But stripping out the effect of acquisitions and the weak U.K. currency, fiscal-2009 sales were unchanged from a year earlier, and slightly below market expectations.

Operating profit totaled £2.61 billion, up 4% from a year earlier, at the bottom of the company's target range of 4% to 6%.

The lackluster underlying results nonetheless drew a furious response from trade unions representing 900 Diageo employees who are set to lose their jobs in Scotland as the company rationalizes its Scotch whisky production there.

The Scottish government Wednesday sent a letter to Diageo's chief executive, Paul Walsh, proposing an alternative restructuring that would protect jobs by using government subsidies.

Mr. Walsh said Thursday that he hasn't yet considered the Scottish government's proposals, but that he would be willing to do so, provided they helped maintain Diageo's competitive edge.



Diageo last month extended its £100 million cost-savings program, announced in February, to £120 million. It launched the program in reaction to falling world-wide volumes as the global recession hit demand for its products.

Like rivals such as **Pernod Ricard** SA, the maker of Absolut vodka and Chivas Regal whiskey, Diageo saw its sales hurt in the second half of the year by destocking of its products by its U.S. spirits and wine distributors. The company's flat core sales for the year compare with a 7% drop in the third quarter and a 3% rise in the first half.

Diageo's Mr. Rose said he expects the company to post a fairly weak first-half performance this year, given the strong comparatives from last year. While business will pick up in the second half of the company's fiscal year, Mr. Rose said it is uncertain how strong the pickup will be.

Diageo does business in more than 180 markets and also makes Smirnoff and Ketel One vodka, Baileys liqueur, Gordon's gin and Blossom Hill wines. Thursday, Diageo shares were down 4.1% to £9.56 in London.

Boeing says Dreamliner will fly by year-end

By Peter Sanders

Boeing Co. said its 787 Dreamliner would make its first test flight by year-end—two years behind its original schedule—and the first aircraft would be delivered by the end of 2010, ending months of speculation.

But a string of delays have already strained Boeing's credibility with airline customers and the new schedule renews pressure on the company to get its new marquee commercial airliner airborne in short order—even as news of problems with Boeing's global manufacturing system have leaked out in recent weeks.

"We understand the need to make the best and safest aircraft possible," said **All Nippon Airways** Co., which is slated to receive the first Dreamliners. "However, as launch customer and future operator of the 787, the length of this further delay is a source of great dismay." The Japanese carrier has a total of 55 of the aircraft on order.

Chicago-based Boeing also said it would take a $2.5 billion charge this quarter.

Boeing investors, however, signaled confidence that the new schedule would mark an end to the years of costly delays that have plagued the Dreamliner. The aircraft was originally scheduled to make its first flight in September 2007. The postponements have cost the company millions of dollars in penalties and concessions to airlines that have been forced realign their fleets and schedules. Boeing's shares were up 8.5% in late trading on the New York Stock Exchange.

Scott Carson, chief executive of Boeing's commercial-airplane unit, said the company is working with customers on adjusting delivery schedules. Australia's **Qantas Airways** Ltd. earlier this year canceled some 787 orders and deferred others.

Reuters

Boeing said the Dreamliner, seen in a 2007 photo, should be delivered to its first customer by late next year. The company booked a $2.5 billion charge.

Germany's **Air Berlin** PLC said Thursday it is in negotiations with Boeing about the delivery schedule for its 25-plane order. Other airlines, including Qantas and **Virgin Atlantic Airways** Ltd. have decided to buy Airbus 330 aircraft from **European Aeronautic Defence & Space** Co. while awaiting their Dreamliners.

"We are very disappointed at this latest setback to Boeing's 787 program and await to hear what implications this will have for our first deliveries, currently scheduled for mid-2013," U.K.-based Virgin said Thursday.

But even with roughly 60 cancellations, Boeing has booked 850 Dreamliner orders.

Boeing booked the third-quarter, noncash $2.5 billion dollar charge for the first three of its six test aircraft, which customers have balked at purchasing because of frequent fixes. Boeing executives said they hope to sell the other three test aircraft to VIP customers.

Chief Financial Officer James Bell said on a conference call that the Dreamliner program remains profitable and that the company would update its 2010 financial projections in January.

Thursday's update on the 787 program comes more than two months after Boeing officials abruptly postponed the plane's already-delayed first flight and disclosed a structural flaw where the wings meet the plane's body, which is made of composite materials.

The announcement stunned the industry and called into question the credibility of top Boeing executives, who just days before had said the plane remained on track to fly by June 30 of this year.

Since then, Boeing engineers have been working to find and implement a solution to the flaws found during May ground tests. Boeing is making fixes on six test aircraft and the first 15 production airplanes and will incorporate those fixes into the design of future aircraft, executives said on the conference call.

"We have a high degree of confidence in the fix and the time it will take," said Jim McNerney, Boeing's chairman and chief executive. The new testing and production schedule includes "some cushion... against the possibility of unknowns," he said.

Over the summer, Boeing halted work at a supplier's factory in Italy because of manufacturing difficulties. Boeing officials played down those problems, describing them as a routine part of developing a new airplane.

Though Boeing has had little difficulty selling airlines on its fuel-efficient plane, the program has been plagued with delays stemming from a parts shortage, major hiccups with its global supply chain, and a two-month strike last fall by machinists at the company's assembly facilities near Seattle.

Boeing said Thursday its manufacturing system is back on track and that it plans to produce 10 Dreamliners a month by late 2013.

Ireland's C&C agrees to acquire Anheuser brands

By Quentin Fottrell

Irish drinks company **C&C Group** PLC said Thursday that it agreed to buy **Anheuser-Busch InBev** NV's operations in Ireland, Northern Ireland and Scotland in a deal valued at £180 million ($292.4 million).

The acquisition includes Tennent's Lager, Scotland's leading lager brand, which accounts for 55% of lager volumes sold on premises at pubs and restaurants in Scotland, C&C said.

For AB InBev, the sale is the latest in a string of disposals as it sheds smaller businesses it considers noncore and raises money to help pay for the $52 billion takeover that formed the company last summer.

Carlos Brito, CEO of AB InBev, said that C&C is a strong strategic buyer that is "well-positioned to invest in and advance these assets within their respective geographies."

C&C, which makes the Bulmers and Magners cider brands, said Tennent's has been underrepresented within the retail on-premises market and called it an "orphan brand" within Anheuser-Busch InBev.

"The deal will be immediately earnings accretive," said C&C Chief Executive John Dunsmore. The acquisition includes distribution rights to certain Anheuser-Busch InBev brands in Ireland, Northern Ireland and Scotland, including Stella Artois and Beck's.

The deal is subject to approval from shareholders and regulators. Lazard advised AB InBev and Rothschild advised C&C.

CORPORATE NEWS

Apple prepares iPhone for China's market

Facing competition, company sets sights on overseas growth

Apple Inc. is getting closer to clearing the hurdles to start selling iPhones in China, one of the last major phone markets Apple has yet to tap.

By ***Loretta Chao, Juliet Ye*** *and* ***Yukari Iwatani Kane***

Global reach | Countries and territories with the iPhone

The release of the iPhone in China could turbocharge overseas growth for what is already Apple's fastest-growing product. China is the world's largest mobile market by subscribers, with some 687 million subscribers. That compares with more than 270 million subscribers in the U.S.

The iPhone hasn't sold as well in some markets as in the U.S. In Japan, for example, the Apple brand isn't as strong, and regular mobile phones offer many of the same features.

In China, however, touch screens are hot, and there are already a number of popular models that have no keypads. The Apple name has value as a status symbol, and Internet usage through cellphones is increasing.

Toni Sacconaghi, an analyst with Sanford C. Bernstein & Co., calculates Apple can sell 2.9 million iPhones in China by the end of 2011. "Ultimately, it will probably be the fastest-growing overseas market," he said.

But Apple faces competition from other smart phones that are set to launch in China in coming months. And analysts say the iPhone has struggled in overseas markets, where it has faced more competition from rivals like Nokia Corp., the world's largest mobile phone maker.

"Apple's brand is strongest at home, where the competition is weaker," said Edward Synder, an analyst for San Francisco-based Charter Equity Research.

Apple's iPhone, which launched two years ago, has so far sold more than 26 million units world-wide in more than 80 countries, but the majority of its sales have come from the U.S.

According to research firm IDC, only 7% of total iPhone sales in the second quarter, ended in June, came from the Asia Pacific, where it is sold in places like Australia, Hong Kong and India, compared with 49% from the U.S. and 25% from Western Europe. Other sales come from markets in Japan, Latin America, Canada and the Middle East.

An iPhone prototype that was modified for the China market recently received one of the technical licenses the government requires for mobile phones, according to a testing center under the Ministry of Industry and Information Technology. It is unclear how many approvals are required before the phone can be released.

Apple must still complete negotiations with state-owned wireless operator **China Unicom (Hong Kong)** Ltd., which is expected to carry the iPhone, but analysts say those talks are nearing conclusion. Beijing-based research firm BDA China Ltd. said in a report this month that the iPhone is "now finally set to make its official debut in China in October," citing interviews with companies including Unicom.

Cynthia Meng, analyst for Merrill Lynch in Hong Kong, said in a report that she also expects the iPhone to launch in the fourth quarter this year, in conjunction with Unicom's planned launch of 3G in October.

A China Unicom spokeswoman said negotiations are still being finalized, and declined further comment. A spokesperson for Apple declined to comment. In an earnings call in July, Apple Chief Operating Officer Tim Cook said the Cupertino, Calif., company expects to start selling iPhones in China within a year.

Competing products are already in the works in China, adding urgency to the iPhone's launch. **China Mobile** Ltd., the country's largest carrier by subscribers, plans to start selling smart phones with similar functions to the iPhone this year based on **Google** Inc.'s Android operating system. On Monday, Taiwanese phone maker **HTC** Corp. announced it plans to launch seven third-generation phones, including at least one Android phone, with China Mobile by next year.

China Unicom, which holds the only license for the WCDMA 3G technology compatible with the iPhone, is China's second-largest carrier.

Apple has faced regulatory hurdles to launching the iPhone in China, including having to comply with a government rule that requires the removal of the device's wireless Internet function. Analysts say they expect a later rollout of a Wi-Fi enabled iPhone that complies with newly revised regulations.

Launching the iPhone in China would likely boost Apple's small presence in the country. Apple currently has less than 1% market share in personal-computer shipments in China. In the second quarter, Apple sold only about 36,000 units out of 11.7 million PCs shipped in China, according to IDC.

One indication of the iPhone's strong potential in China is the thriving underground iPhone market that already exists there. Though the device isn't officially available, BDA estimates there are already 1.5 million iPhones in use in China, and the handset is on sale everywhere from online vendors to resellers of Apple products in sprawling electronics malls.

People can use the iPhone and buy applications on Apple's iTunes store by unlocking the device with software that enables it to work with any network operator, even if they aren't approved by Apple.

Jessica Wu, a 26-year-old iPhone user in Nanjing, said she bought her first-generation eight-gigabyte iPhone in Nanjing in 2008 for 4,600 yuan ($675). Other high-end phones "seemed expensive and too professional" compared with the iPhone, she said. "The [iPhone's] icons are cute."

"People are paying close attention [to the release of the iPhone]," said Ms. Deng, who declined to give her first name, a saleswoman at an Apple reseller in Beijing called Dragonstar. "We've already gotten a couple of phone calls from our clients placing orders for iPhones as soon as they arrive."

The iPhone will likely raise China Unicom's profile as it has for other iPhone operators that have seen their data revenue increase. In Europe, the iPhone has just 15% of smart-phone market share but represents 90% of the total data usage on networks, according to IDC. Ms. Meng of Merrill Lynch rated Unicom a "buy," saying the introduction of the iPhone and other data-intensive smart devices "will be critical catalysts for Unicom to retain and attract mid-to-high end subscribers in highly penetrated urban markets."

How strongly the iPhone sells in China will depend on the subsidy China Unicom provides for it, analysts say. Chinese consumers spend an average of 1,100 yuan, or about $160, on cellphones, according to BDA. For comparison, the newest iPhone 3GS model starts at $199 in the U.S. with a two-year service contract, and $599 without any service commitment.

In China, Apple and its operator partner face another challenge: most users prefer to prepay for services rather than subscribe to a monthly service. Average monthly revenue per user in China is also less than $6, in part because overall charges are lower, compared with about $60 for **AT&T** Inc., the exclusive iPhone provider in the U.S.

Still, the payoff could be huge for Apple. Xiang Ligang, chief executive of Chinese telecommunications news portal Cctime.com, estimates 100 million mobile phone users in China change their phones every year and about 20 million of those buy high-end mobile phones. In some of the biggest cities especially, mobile phones are often seen as status symbols and high-end cellphones typically cost upwards of 3,000 yuan.

Nokia plans Linux-based phone

By Ola Kinnander

Nokia Corp. said Thursday that it will sell its first high-end smart phone based on open source Linux-based software, a move the handset maker hopes will allow it to take market share from **Apple** Inc.'s iPhone.

Finland-based Nokia is the world's biggest mobile-phone maker and also has the biggest share of the smart-phone market, but its high-end offerings in the smart-phone category have lagged behind rivals'. At the same time, Nokia's average selling prices have declined faster than the industry average, making high-end phones a crucial product category for the company.

"I'm sure this will help us in the market situation with iPhone," Nokia Executive Vice President of Markets Anssi Vanjoki said in an interview. Mr. Vanjoki said the new N900 phone, which will go on sale in October for about €500 (about $700) excluding discounts, wasn't conceived as a direct challenge the iPhone. "This thing has been moving at a very well-planned pace long before there was any sign of an iPhone," Mr. Vanjoki said.

Nokia's main competition with the iPhone are smart phones that use the Symbian operating system. Nokia's move away from Symbian, which some analysts have described as "aged," to the Linux-based Maemo operating system will give the new phone a more "PC-like experience," allowing users to run dozens of application windows at the same time, the company said.

Symbian now competes with other open-source platforms such as **Google** Inc.'s Android and licensed systems such as **Microsoft** Corp.'s Windows Mobile, as well as hundreds of other smaller proprietary platforms.

The operating-system landscape has become more competitive with the arrival of Android, spurring Nokia to open up its software and to move away from being tied to one platform.

Nokia earlier this month formed an alliance with Microsoft, once its rival in the mobile market, to strengthen their positions in the business segment, particularly against **Research In Motion** Ltd.'s Blackberry.

The company has announced a slew of new initiatives recently—the new phone is its third this week, after it said Monday it will step into the personal computing segment with the Nokia Booklet 3G, a mini-laptop, and Wednesday said it will launch Nokia Money, a financial management and payment service for mobile phones.

Nokia remains the dominant supplier of smart phones, but its market share has been shrinking, falling to 45% of world-wide unit sales in the second quarter from 47.4% a year earlier, according to research firm Gartner Inc.

RIM, meanwhile, jumped to 18.7% of the market from 17.3% during the period, while Apple soared to 13.3% from 2.8%, Gartner estimates.

Italy opens antitrust probe of local Google News service

Italy's antitrust regulator said Thursday it has launched a probe into **Google** Inc.'s Italian unit for alleged abuse of its dominant position following a complaint from local press.

By ***Sabrina Cohen, Giada Zampano*** *and* ***Peppi Kiviniemi***

In a statement posted on its Web site, the Italian regulator said it opened the probe Wednesday after the Italian federation of newspaper editors, or Fieg, filed an official complaint.

Fieg claims that the way Google News Italia aggregates content lacks transparency, leaving editors with no control over how their news is distributed and presented on the Web site.

According to the complaint, editors are faced with only two options: granting Google full access to their Web content, or walling it off completely and thus blocking potential Web traffic coming from Google's search engine, which controls about 90% of the national search market, according to Italy's antitrust agency estimates.

"The lack of transparency, according to Fieg, damages those companies that compete with Google in the online advertising market," the Italian regulator said. The probe is scheduled to end by Oct. 15, 2010, according to the same filing.

If the regulator finds Google Italy to be in the wrong, the unit may face a fine of up to 10% of its revenue, which in 2007 totaled €13 million ($18.5 million).

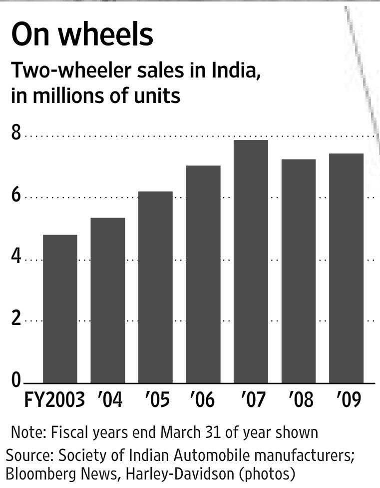
A spokesman for Google said the company had been informed of the claim against Google Italy, and it is currently looking at the details of the complaint.

CORPORATE NEWS

Harley-Davidson roars into India

Motorcycle maker says demand strong despite high prices

By Eric Bellman



Harley-Davidson plans to start selling motorcycles like the Ultra Classic Electra Glide (below) in India. Above, motorcycles and scooters on a street in central Mumbai.

NEW DELHI—**Harley-Davidson** Inc., the maker of iconic motorcycles, is at last ready to ride India's rugged roads.

For India, the Harleys represent another milestone in the growth of the high-end consumer market. Jaguar and Land Rover have recently opened showrooms in India to compete with other automobile luxury brands already here, such as Audi, Mercedes-Benz and Rolls-Royce.

The small but fast-growing luxury market in India might help Harley-Davidson offset tough times at home. Shrinking demand for its expensive motorcycles, and troubles at its financing arm, pushed its second-quarter profit down 91% and has forced it to slash close to 2,000 jobs in the U.S.

Harley-Davidson's international sales, which make up about 30% of its total revenue, have also slipped but haven't been as hard hit. While retail sales fell 35% in the U.S., they only weakened 18% in international markets during the second quarter.

In India, Harley-Davidson is betting on sales from motorcycle enthusiasts, who say they revel in the iconic motorcycle's low rumble.

"It's very manly; it's powerful," says Karun Menon, an owner of a 180cc-engine motorcycle from India's **Bajaj Auto** Ltd. "Of course, it makes no sense if you are going to be squeezing through traffic and potholes," adds the 23-year old resident from Pune in the western state of Maharashtra. "But if you can afford to buy a Harley, you can afford to use it when you feel like."

Until recently, government restrictions and high tariffs made it difficult to get a Harley-Davidson into India. Instead, Indian enthusiasts sometimes imported Harley-Davidson parts into the country and later assembled the full motorcycle themselves. Some Indians who worked abroad also brought their motorcycles back with them.

But from the first half of next year, Indian consumers will be able to buy 12 Harley-Davidson models from the five dealerships the company plans to open in big cities across India, Anoop Prakash, the newly appointed managing director of Harley-Davidson India, said Thursday.

Few auto industry analysts expect a rush of orders for the big motorcycles. With a price tag of more than $15,000 for the least expensive models, Harley-Davidson ownership will be confined to the country's wealthy consumers.

For most commuters in this country—where the average annual salary is less than $1,000—a motorcycle is a step between a bicycle and a car. Motorcycles remain one of the cheapest forms of motorized transportation in India, able to carry entire families.

So while Indians bought more than 7.4 million two-wheelers in the year ended March—more than 50% more than they bought six years earlier—most of those motorcycles and scooters cost less than $1,500. (For comparison, about 1.5 million passenger cars were sold in India in the same year.)

Honda Motor Co. and local companies like Bajaj Auto target the Indian consumer by sticking to inexpensive models with engine capacities of less than 150cc. The market for expensive bikes with capacities of over 500cc—the Harley models range from 800cc to 1500cc—is less than one thousand vehicles a year, analysts said.

During a 2007 visit to India, former President George W. Bush paved the way for the Milwaukee, Wis.-based company to enter India through a trade deal that allowed Indian mangos into the U.S. In turn, India agreed to change its emission requirements so the big-engine bikes could enter the market here. But high import tariffs of about 90%, which drive the price of Harley-Davidson motorcycles to almost twice their price in the U.S., slowed the company's entry into the market.

Now, Harley-Davidson executives say the company sees strong demand in India for its two-wheelers despite the high price.

"We think there is tremendous potential in the Indian market," Matt Levatich, the president and chief operating officer of Harley-Davidson told reporters in New Delhi Thursday. "The numbers may be small initially, but growing with the market is very important."

"The luxury market is actually growing now," said Darius Lam, a Mumbai-based assistant editor of Auto Professional, an industry magazine. Potential Harley buyers, he said "are people that already have a Mercedes and maybe another car and are looking for something different. It is definitely not your average bike buyer in India." Mr. Lam says luxury auto sales are up around 15% this year.

To mark the arrival of the bikes in India, Mr. Levatich and more than 20 others are scheduled to rumble around New Delhi on their Harleys Sunday morning. The one-hour ride will end with a beer and barbecue brunch attended by the Indian capital's social elite.

—Sonia Misquitta contributed to this article.

Grocer Casino posts stable net; price fears grow

By Geraldine Amiel

PARIS—**Casino Guichard Perrachon** SA, France's second-biggest listed grocer by sales, Thursday reported stable first-half net profit, but fears of an intensifying price war in the sector persisted.

Casino has outperformed larger rival **Carrefour** SA during the severe economic downturn. Its focus on value brands has forced Carrefour, the world's second-largest retailer behind **Wal-Mart Stores** Inc., to try to catch up by launching its own discount brand. However, this intensification of price competition is pushing prices down across the French grocery sector and threatens to weigh on margins.

The trend toward lower prices should accelerate, as Casino plans to open more Leader Price and Franprix low-price supermarkets in 2010 than in 2009, said Chairman and Chief Executive Jean-Charles Nouri.

"We believe that Casino is facing...some internal issues like price positioning," said analysts at Credit Suisse.

Casino's net profit inched up to €231 million ($329 million) in the six months to June 30 from €229 million a year earlier, as cost savings helped offset a 9.1% drop in operating profit to €488 million. Revenue was down 2.6% at €13.45 billion from €13.81 billion.

The margin between sales and earnings before interest, tax, depreciation and amortization, or Ebitda, held up at 6.1%, compared with 6.2% a year earlier.

Carrefour reports its first-half earnings Friday before the market opens. The company warned in June that it expects a 28% drop in operating profit to €1 billion. It has been particularly hard hit in France, where its huge hypermarkets are losing customers to the smaller, cheaper formats run by Casino and others. In addition to launching new ranges of own-brand products, Carrefour is trying to beef up its loyalty-card program, a strategy that has proved successful for British rival **Tesco** PLC.

JP Morgan said Carrefour's pricing strategy will be in focus, as rivals continue cutting prices. The bank also thinks Carrefour has the potential to cut some €1.3 billion in costs.

Casino, which runs hypermarkets as well as smaller formats, has its own restructuring plan in place in response to the downturn. It is planning to sell €1 billion of assets by the end of next year, and wants to protect margins by cutting more than €300 million in costs, including €150 million of cuts this year.

The cost-savings objective for this year could be exceeded, said Chief Financial Officer Antoine Giscard d'Estaing.

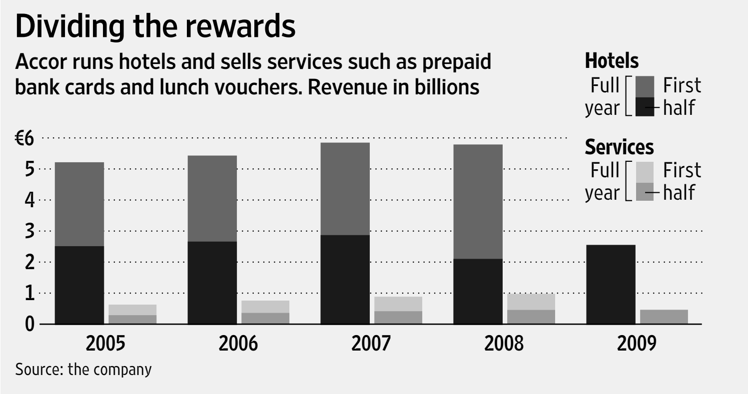
When stripping out acquisitions, disposals and currency fluctuations, Casino's sales in France fell 5.2% in the first six months to €8.53 billion, from €9 billion a year earlier. In the second quarter, French sales were down 1.9%.

Casino's sales abroad—it has operations in South America, Thailand, Vietnam and Madagascar—rose 2.5% on an organic basis to €4.92 billion, from €4.8 billion.

—Amelie Baubeau contributed to this article.

Accor considers split of hotel, services units

By Mimosa Spencer



PARIS—French hotels and services company **Accor** SA said Thursday it may seek a split of its businesses into two separate companies, as it swung to a loss in the first half.

Accor said its board approved a proposal by Chairman and Chief Executive Officer Gilles Pélisson to assess the possibility of separating its highly profitable vouchers, or services, division from its hotel operations, which include the Novotel and Ibis chains. The services division sells prepaid bank cards and lunch vouchers to companies that use them as an employee benefit.

Thursday's announcement is also a sign of influence of Accor's main shareholders: U.S. private-equity firm Colony Capital and French investment company Eurazeo, which together own 30% of the company and hold four of 12 board seats.

Accor's hotels and services activities have become increasingly distinct from each other and there are extremely limited synergies between the two activities, Mr. Pélisson told analysts in a presentation.

However, analysts at Cheuvreux cautioned in a research note that "a big issue in our opinion remains the ability of the hotels division to finance its development on its own." Accor has traditionally used cash generated by the services division to finance expansion of its hotels business.

Mr. Pélisson said in an interview that recent signs of thawing in the real-estate and capital markets were one of the triggers behind the decision to explore a possible demerger.

"The main difference between now and six months ago is the feeling that capital markets are reopening and that confidence is slowly returning," he said. "Six months ago, it was difficult to talk about transforming the hotels business. Today it's possible and credible." Today, Accor executives say that the hotels business is less dependent on the services division's cash.

The announcement of a possible split came as Accor revealed a net loss of €150 million ($214 million) for the first half compared with a year-earlier net profit of €310 million. The result was hit by restructuring costs and asset-impairment losses in addition to weak business at the company's hotels.

—Nathalie Boschat contributed to this article.

CORPORATE NEWS

Daimler picks up steam in China

New models, robust stock market boost car maker's sales

BY PATRICIA JIAYI HO

BEIJING—**Daimler** AG expects its sales in China in the second half to be as strong as in the first half, making China an increasingly critical "pillar" to the auto maker's global strategy, a senior executive with the German company said.

Sales in mainland China rose 49% in the first seven months from a year earlier to 31,711 vehicles, Ulrich Walker, chairman and chief executive of Daimler Northeast Asia, said Thursday at a news briefing. Daimler sells Mercedes-Benz luxury cars and Smart minicars in China.

"We are very positive [about] the market here in China for Mercedes and the overall automotive market," Mr. Walker said.

Sales of Mercedes-Benz cars in China have been indirectly boosted by the rise in China's stock and property markets, he said. Sales will also be supported by the introduction of new models, he added.

Daimler will launch nine new generation S-Class models on Friday in China, ranging in price from 930,000 yuan, or about $136,000, to 2,598,000 yuan.

The car maker launched the Mercedes-Benz E-Class in July, the Smart minicar in April and the Mercedes B-Class multipurpose vehicle in January.

China was Mercedes-Benz's 14th-largest market in 2007, and has since risen to the No. 5 position.

"China is more and more important," Mr. Walker said, adding that Mercedes is adding capacity in China, introducing more China-specific models, and doing more research on customer preferences.

From next year Daimler will sell in China a long-wheelbase extended version of the E-Class sedan, tailored to meet Chinese consumers' desire for spacious cars.

China is the biggest market for the S-Class, Mercedes' top-end series that competes with Audi AG's A8 and BMW AG's 7 Series.

Daimler is also increasing the use of locally sourced parts in the vehicles it manufactures in China, Mr. Walker said.

Local content in China-produced C-Class sedans will reach 40% next month, while local content for the extended version of the extended E-Class will also reach 40% when the vehicle is launched, Mr. Walker said.

Associated Press

Daimler sales in mainland China rose 49% in the first seven months of the year. Visitors look at at Mercedes-Benz cars during an April auto show in Shanghai.

Air traffic's fall eases, but rebound to be slow

BY KAVERI NITHTHYANANTHAN

LONDON—Declines in global air traffic slowed in July, but the amount carriers earned per passenger continued to fall and any recovery in the industry will be slow and volatile, the International Air Transport Association said Thursday.

Airlines world-wide have been hit hard by the economic downturn, with sharp falls in passenger numbers and cargo volumes pummeling profits and pushing some airlines into steep losses.

In response, carriers have been grounding planes and cutting costs and jobs. The remaining passengers continue to spend less on everything from tickets to refreshments.

"Demand may look better, but the bottom line has not improved," said Giovanni Bisignani, IATA's director general.

Passenger traffic, measured in revenue passengers per kilometer, fell 2.9% from a year earlier in July, an improvement from the 7.2% drop seen in June and the 6.8% decline recorded for the year so far.

"The months ahead are marked by many uncertainties, including the price of oil," Mr. Bisignani said. "The road to recovery will be both slow and volatile."

IATA represents some 230 airlines comprising 93% of scheduled international air traffic. July is one of the busiest months for airline traffic around the world because of the summer holiday season in the Northern Hemisphere.

In addition to the decline in passenger numbers, cargo volumes have dropped as world trade has contracted. Cargo volumes give a snapshot of how well manufacturing and international trade is faring.

Cargo volume, measured in freight ton per kilometer, fell 11.3% in July, better than the 16.5% drop seen in June and the 19.3% drop recorded for the year's first seven months. The freight sector is being boosted as companies restock depleted inventories, Mr. Bisignani said.

With a 7.6% drop, the Asian-Pacific region saw the steepest decline in passenger traffic, albeit better than the 14.5% decline recorded in June. Cargo volumes in the region fell 9.5%, compared with a 16.2% decline in Europe and a 14.6% fall in North America. Freight volumes in Africa dropped 25.9%.

European carriers experienced a 3.1% annual decline in passenger traffic, while North American passenger traffic fell 3.2%. In these regions, passengers have been trading down to cheaper fares.

Middle Eastern carriers continued to grow, and the region was the only one to show an increase in traffic last month. The 13.2% rise was better than the 12.9% posted in June.

CFO says Aer Lingus is 'struggling' as loss widens

BY QUENTIN FOTTRELL

DUBLIN—**Aer Lingus** PLC is struggling and will have to further cut costs and reduce ticket prices to keep up with rival airlines, its chief financial officer said Thursday after the Irish carrier posted a wider first-half net loss.

"Let's be honest, the airline is struggling...It's in trouble," Finance Chief Sean Coyle said, adding that a "wake-up" call was needed for all stakeholders. He said the airline will have to cut costs if it wants to remain independent.

The former state-run carrier, which has resisted two takeover bids from rival and stakeholder **Ryanair Holdings** PLC, posted a net loss for the six months to June 30 of €73.9 million ($105.3 million), from a net loss of €21.6 million a year earlier. Revenue fell 12% to €555 million from €631.8 million, although passenger numbers rose marginally to 4.94 million from 4.86 million. Average fares fell 17%.

"Clearly, there is only an additional premium that customers will pay with Aer Lingus" relative to its low-cost rival Ryanair, Mr. Coyle said.

He added that Aer Lingus must prevent further cash burn. Net cash at the end of the first half stood at €439.6 million, down from €654 million at the end of last year and €802.6 million in the same period a year earlier.

Shareholders raised questions about the reversal in Aer Lingus's fortunes, alleging that Chairman Colm Barrington misled them in a Dec. 22 letter with a forecast of "enhanced profitability in 2009" and urging shareholders to reject a second bid from Ryanair.

Aer Lingus Thursday didn't give detailed guidance on the expected losses for fiscal 2009.

Ryanair earlier this year complained to the Irish Stock Exchange, the London Stock Exchange and financial regulators in Ireland and the U.K. about what it alleges were misleading statements by Aer Lingus before it reported its 2008 results.

Incoming Aer Lingus Chief Executive Christoph Mueller, who is due to take up the post Sept. 1, will aim to return the troubled airline to profitability, the company said. The airline wouldn't say whether more staff cuts would be required.

Hikma seeks ties with West's drug makers

BY JASON DOUGLAS

LONDON — Generic drug maker **Hikma Pharmaceuticals** PLC said Thursday it is in talks with Western drug makers about possible alliances in the Middle East, as it reported a 31% rise in first-half net profit that reflected improved sales and a turnaround at its U.S. business.

Jordan-based Hikma said it believes there will be opportunities to capitalize on its strength in the Middle East and North Africa by tapping big pharmaceutical companies' renewed appetite for emerging markets, where a rising prevalence of Western-style illnesses like diabetes offers opportunities for multinational pharmaceutical companies struggling with expiring patents and empty pipelines in home markets. Chief Executive Said Darwazah declined to name any companies specifically, and added that no deal is certain or necessarily imminent.

Big pharmaceutical companies have made a push into emerging markets in recent months. France's Sanofi-Aventis SA bought drug businesses in Brazil, Mexico and Eastern Europe, while the U.K.'s GlaxoSmithKline PLC bought units of Bristol-Myers Squibb Co. in Pakistan and Egypt, and a stake in South Africa's Aspen Pharmacare Holdings Ltd.

Hikma posted net profit of $43.2 million for the six months to June 30. Revenue rose 7% to $321.5 million. Stripping out foreign-exchange effects, revenue increased 11%.

GLOBAL BUSINESS BRIEFS

GDF Suez SA

Utility's profit slips 6.3% on higher costs for debt

French utility **GDF Suez** SA said Wednesday that first-half net profit dropped 6.3% despite a slight rise in revenue. Net profit fell to €3.26 billion ($4.6 billion) from €3.48 billion a year earlier, while revenue was up 2.3% at €42.21 billion. GDF Suez blamed the drop in profit on an increase in the cost of net debt to €728 million from €419 million. The company presented the year-earlier figures as if the merger between Gaz de France and Suez had already happened. Europe's second-biggest utility by market capitalization, after Électricité de France SA, released its results a day early after the CGT union issued a statement saying the figures were "in line" with year-earlier data. The union called for wage increases and lower gas tariffs.

AOL

AOL has hired **Time Warner Cable** Inc. executive Arthur Minson to be its chief financial officer as the Internet company prepares to separate from media giant **Time Warner** Inc. and try to turn around its struggling business. Mr. Minson has spent the past three years as executive vice president and deputy chief financial officer at Time Warner Cable, where he helped oversee the company's spinoff from Time Warner Inc. earlier this year. AOL is expected to be separated from Time Warner by year end. Mr. Minson, 38 years old, will play a key role in that spinoff, which will make AOL a publicly traded company. Mr. Minson succeeds Nisha Kumar, who left the company earlier this summer.

OAO Vimpel Communications

Russia's OAO **Vimpel Communications** said Thursday its second-quarter net profit doubled thanks to a foreign-exchange gain, even as customers used their phones less often. Net profit jumped to 22.6 billion rubles ($715.7 million) from 11.11 billion rubles a year earlier. Revenue was up 12% at 69.04 billion rubles, even though the operator's 50 million subscribers in Russia spent an average of 323 rubles a month, 25 rubles less than a year earlier. VimpelCom's larger rival, OAO Mobile TeleSystems reported a fall of 15 rubles in the average monthly spending for its Russian subscribers, although for both companies overall subscriber numbers grew.

Lagardère SA

French media company **Lagardère** SCA posted a 44% drop in first-half net profit amid impairments and declining sales at its press and broadcasting division. Net profit dropped to €318 million ($453 million) from €572 million a year earlier, hit by impairment losses on certain intangible assets, relating mainly to U.S. magazines and digital activities. In July, the company reported a 2.2% drop in revenue, mainly because of an 18% drop in revenue at multimedia unit Lagardère Active. Excluding the unit, operating profit from media activities rose 19% , driven by the strong performance of the company's publishing unit and the success of Stephenie Meyer and her "Twilight" books.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Press Association

In June, Gen. Sir David Richards awarded medals to members of the Royal Gurkha Rifles after they returned from Afghanistan.

Challenge for U.K. army

New chief has two battles: Against the Taliban, and for more resources

BY ALISTAIR MACDONALD

When General Sir David Richards takes over as head of the British army on Friday he inherits two battlefields: the war in Afghanistan, and a battle for resources between the U.K.'s military and government.

On both counts Gen. Richards, a respected soldier who earned his stripes in the jungles of Sierra Leone, faces tough challenges. As the second biggest contributor of NATO troops in Afghanistan, the U.K. has suffered high casualties, sapping public support for the war at home.

One reason for that, according to some critics in the U.K., is that the army is hampered by a lack of resources after decades of cutbacks by Downing Street. Gen. Richards may soon hit the same quandary his predecessors struggled with: trying to play the role of a superpower with a military that has not been funded to play that part since World War II.

The U.K. has found it difficult to adapt its military hardware, within a budget, for conflicts that have morphed from the Cold War to peace-keeping operations to insurgency over the past 20 years. That problem will get harder as the U.K. faces budget cuts to battle its record debt, a situation that is heightening tensions between military and political leaders.

"Gen. Richards steps into the role when the military has become both a heated political debate and at an important stage in the Afghanistan campaign," said Professor Theo Farrell, of the department of war studies at Kings College, London. That debate, he adds, will intensify as the U.K nears a general election that must be held by next June.

Gen. Richards also assumes the role ahead of an expected strategic defense review, an overhaul of military priorities. In it, he'll need to defend the Army's interests against not just politicians, but also the heads of Britain's navy and air force, which are just as ravenous for resources.

The U.S. faces the same problem, but has more money to throw at a solution. Last year U.K. defense spending was equivalent to 2.8% of its gross domestic product, compared with the U.S. spending almost 5% of an economy more than five times larger, according to Jane's International Defense Review.

Gen. Richards, in a statement ahead of taking over from Gen. Sir Richard Dannatt, acknowledged the challenge. "Looking to the longer term, I will be focusing on making sure that the Army is geared up for future conflict as it evolves in this highly interdependent and globalized era," he said. Gen. Richards declined to be interviewed for this article.

Since 1997, when the current Labour government came to power, the number of people in the U.K. armed forces has been cut around 20% to fewer than 175,000. During that period, Britain has fought in the former Yugoslavia, Iraq and Afghanistan, and maintained a presence in Germany and in former and current colonies such as the Falkland Islands. Because the U.K. is the U.S.'s biggest military ally in Afghanistan, Gen. Roberts will be a key player in the conflict going forward.

Those who have fought alongside Gen. Richards say he is suited to play both military and political operator.

"He is a very charismatic, popular leader, who has a balanced appeal as a field soldier to soldiers," says Stuart Tootal, who in 2006 led 1,200 soldiers into Afghanistan's restive Helmand province under Gen. Richards's command. Mr. Tootal said Gen. Richards also "will be a highly capable operator" when it comes to dealing with the Ministry of Defense.

Gen. Dannatt earned a reputation as an outspoken critic of what he saw as the army's overstretched resources. He once warned that the strain of fighting in both Afghanistan and Iraq could "break" the army. Last July, as casualties in Afghanistan mounted, he sent a "shopping list" of equipment to the MOD for the fight against the Taliban.

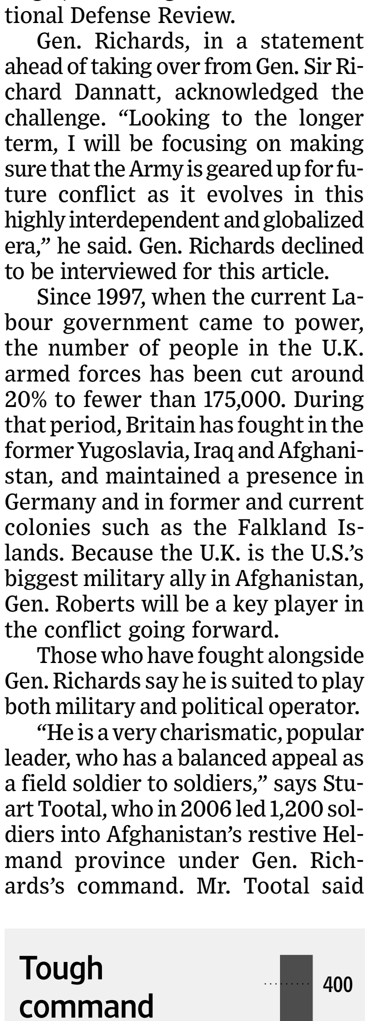
Last month, Gen. Richards told the Times of London he won't be presenting a "shopping list" to Downing Street. "Dave Richards will say what needs to be said the difference is he will do that internally," said Mr. Tootal, who is now an author and security expert.

Gen. Richards is widely credited with persuading former Prime Minister Tony Blair to send British troops on a successful operation to free British peace keepers held hostage by a gang of rebel militia in Sierra Leone. Mr. Blair then ordered a successful military operation under then-Brigadier Richards to end the civil war there.

The 57-year old Gen. Richards joined the Royal Artillery in 1971 and saw stints in Asia, Germany and Northern Ireland. In May 2006 he became the first head of the International Security and Assistance Force in Afghanistan, making him the first British general to command American troops since World War II.

His personal experience in Afghanistan may give confidence to an army that on Tuesday saw its casualty list rise to 207 deaths. The U.K. has lost more soldiers in Afghanistan than any nation but the U.S.

Gen. Richards, who cites British military history as one of his hobbies, has said he never feels pressure and believes himself "genetically" suited to carry out the role of commander. In a 2007 interview, he told how he was visited in Sierra Leone by then-Chief of Defense Staff Charles Guthrie, who explained the difficulty of the young brigadier's job and the pressure on his shoulders. Gen. Richards said he remembers thinking: "My God, I was simply enjoying it."



CAPITAL JOURNAL ▪ GERALD F. SEIB

Tension in Iran underscores delicacy of U.S. negotiations

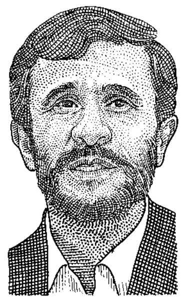
AMERICA'S MOST vexing enemy is plagued by growing internal dissension, a vocal opposition movement that won't die and a crisis of legitimacy. All good news for U.S. policy makers, right?

Not necessarily.

The country in question is, of course, Iran, and the upheaval there actually is making the job of crafting an American strategy more difficult. The crucial weeks lie just ahead; the gravity of the coming decisions on how to proceed will be underscored Friday, when the International Atomic Energy Agency releases its latest report on Iran's nuclear program.

And here's the most likely outcome: The U.S. will leave the door open to engagement with Iran, but won't be trying as hard as before to coax the Iranians into walking through it.

The situation is made all the more dramatic because the internal chaos created by June's dubious presidential election in Iran shows no sign of abating. Just this week, a senior cleric, Grand Ayatollah Hossein Ali Montazeri, accused his country's government of "oppression" and "despotic treatment of the people in the name of Islam." And the office of the current president, Mahmoud Ahmadinejad, essentially accused two former presidents of conspiring to topple the nation's supreme religious leader.



Mahmoud Ahmadinejad

Though all this sounds like a recipe for long-term trouble in the Islamic Republic, it doesn't suggest a short-term blueprint for an American response. Yet the Obama administration has about a month to come up with one.

PRESIDENT BARACK Obama has given Iran a loose deadline of the end of September to respond to his invitation to engage. If diplomacy isn't producing results, the U.S. likely will move to the United Nations this fall to seek more economic sanctions. All the while, the clock is ticking on hopes of curbing Iran's nuclear program before it accumulates so much nuclear material that it can't be reversed—and Israel decides it must resort to military action to knock out the nuclear potential.

The trick here is to devise an approach to Iran that reconciles seemingly contradictory goals: fulfill the Obama plan to engage Iran without giving added legitimacy to its newly tarnished regime or squelching the hopes of the brave and worthy opposition to that same government.

Ask U.S. officials how they intend to handle this delicate situation, and they talk about the importance they attach to talks in the next few weeks—not with Iran, but first with America's friends to be sure there is a unified approach.

There will be consultations in Frankfurt next week with the so-called G5-plus-one group—the five permanent members of the U.N. Security Council plus Germany. That's the group that has taken the lead in trying to curb Iran's nuclear ambitions. Then America and its friends will consult on the sidelines of the Group of 20 economic summit in Pittsburgh later in September, and in New York at month's end around the time the U.N. General Assembly convenes.

The importance attached to these conversations offers clues about where Obama policy may be heading. Whatever approach is made to Iran's new government will be made as an international overture rather than an American-only approach. And any direct American conversations will happen as part of that broader process.

The most delicate question is whether there is a way for the Obama administration to open such a conversation with Iran's government without also discouraging or undercutting the opposition, which has demonstrated that there is broad dissatisfaction—even disgust—with that government. U.S. officials insist that there are ways to talk to Iran without doing that.

AND THEY may be right, but it's tricky. "It's possible with a great deal of nuance," says Karim Sadjadpour, an Iran analyst at the Carnegie Endowment for International Peace, who recently testified before Congress. If the talks happen not directly but within a broader conversation organized by the group of world powers, he says, "I think there is a way those discussions can be had without pouring water on the opposition or sending the signal to the millions in the streets that the U.S. is trying to cut a deal with the government."

But, Mr. Sadjadpour adds, "it's also possible, as the administration goes forward, to send the wrong signal." Talking directly with the now-iron-fisted Mr. Ahmadinejad would be "poisonous," he says, and the kind of gauzy message Mr. Obama sent on the occasion of the Persian new year in March, before the disputed Iranian election, now should be out.

The reality is that the administration feels it has a tight timeline to figure out whether diplomacy holds any hope of halting Iran's nuclear advances before moving on to greater economic pressure. The offer that's on the table for discussion isn't likely to change. It's a so-called "freeze for freeze" offer: Iran agrees to freeze its nuclear program, and world powers in return freeze the effort to impose more economic sanctions.

The most likely American message to Iran that emerges in coming weeks is this: The opportunity to discuss that offer remains open, but we're not going to chase you around to persuade you to take it up. The decision on whether to walk through an open door will be Iran's.

U.S. corruption bust's deep roots

Arrests followed years of investigations; political implications

By Suzanne Sataline

OCEAN TOWNSHIP, N.J.—A statewide corruption investigation that has entangled dozens of New Jersey politicians had its origins a decade ago inside a dingy trailer office in Monmouth County, where U.S. agents overheard talk about bribes to local officials, some involving real-estate deals.

The wiretaps of phones in the trailer eventually led to the arrests and convictions of a half-dozen public officials and sparked two other probes that have since ensnared nearly 80 politicians, most of them Democrats, and fixers, businessmen and others. The key figure in last month's dramatic arrests of 44 people, real-estate developer Solomon Dwek, first came to investigators' attention through his connections with officials ultimately convicted in Monmouth County, according to a person in law enforcement familiar with the case.

The three-round investigation—referred to by prosecutors as Bid Rig I, II and III—has catapulted corruption into a central issue in this year's gubernatorial race. Presiding over most of the investigations was Chris Christie, a Republican who served as U.S. attorney for New Jersey from 2002 until December, when he resigned to run this fall against Democratic Gov. Jon Corzine.

For many, Bid Rig has reinforced New Jersey's reputation as a cesspool of corruption, where multiple layers of government officials wield vast power and their friends and family get jobs and contracts. This behavior isn't limited to New Jersey, of course, but the large number of high-level officials arrested in the state in recent years has underscored the perception that it is entrenched here.

"The further you get away from New Jersey, they can't conceive that there's a state where they allow this kind of stuff to go on," said Bob Ingle, a former reporter and chronicler of New Jersey corruption through a Web site and a book he co-wrote, "The Soprano State."

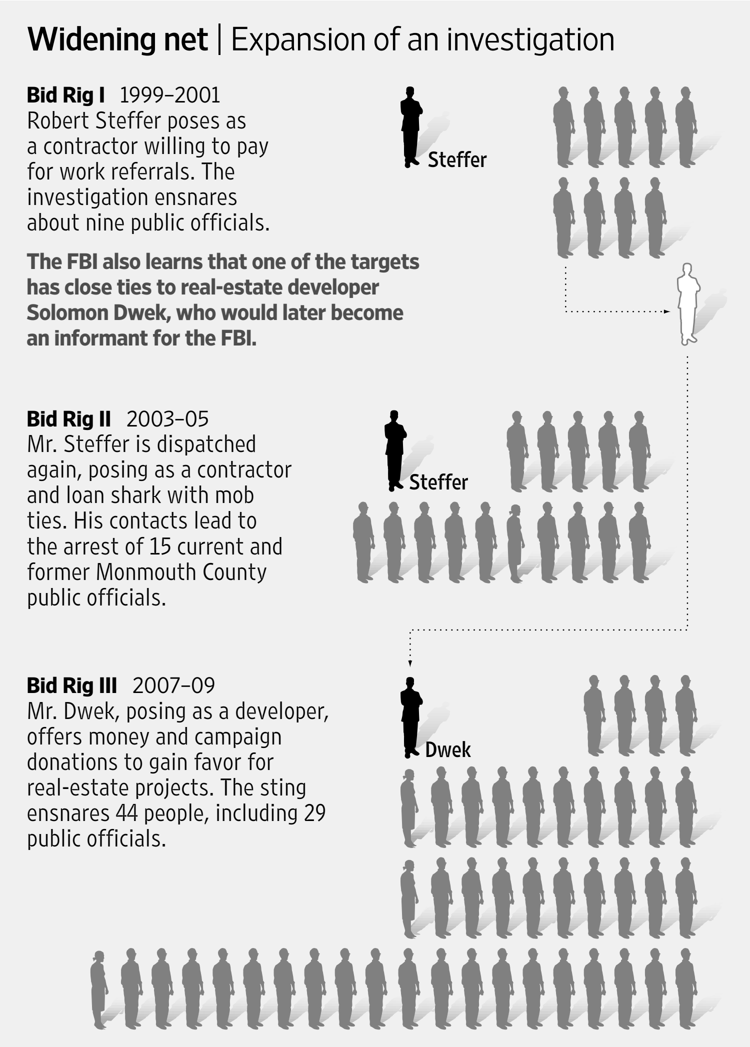
The first Bid Rig began in 1999, when Robert Steffer, a former contractor and a longtime Federal Bureau of Investigation informant, wore a wire and visited the Neptune trailer of Philip Konvitz, a Monmouth County power broker, said Mark McCarren, an assistant U.S. attorney who has prosecuted individuals in every stage of Bid Rig.

Mr. Steffer told people he was looking for contracting work and was willing to pay local officials to refer him any jobs. In truth, he was listening for evidence that public officials were taking bribes, according to Mr. McCarren.

"We had multiple sources indicating Konvitz was a guy who dealt in corrupt ways with local officials...and he did so out of this little business—a converted trailer," Mr. McCarren said. Mr. Konvitz, he said, was "worth hundreds of millions." Mr. Steffer couldn't be reached for comment.

Mr. Konvitz, who died in 2005 at age 95, had a reputation in Monmouth County as a fixer with powerful friends. "He was just like the Godfather; when you wanted to get something done, he was the guy who could tell you how to get it done," said Elmer Kendrick, an Asbury Park used-car dealer who said he had owned a piece of property with Mr. Konvitz.

Listening to wiretaps, agents heard Mr. Konvitz persuading Terrance Weldon, the former mayor of Ocean Township, to change zoning on a tract of land, increasing its value, according to federal court documents.




Reuters

A man identified as Daniel Van Pelt, a New Jersey assemblyman, shields his face as he leaves a Newark, N.J., courthouse in July after being arrested in a corruption probe.

Mr. Weldon pleaded guilty in 2002 to extorting bribes, including one for $50,000 from that land's developer, accepted weeks after Mr. Weldon voted for the zoning change. The former mayor became a cooperating witness for the government but received a prison sentence of more than four years.

Mr. Konvitz was indicted in 2002 on charges of extortion, bribery and mail fraud, including the transaction with Mr. Weldon. A judge dismissed the charges after Mr. Konvitz was declared unfit to stand trial.

Around 2000, agents investigating the Weldon case also learned that Mr. Dwek, a local Jewish day-school educator and real-estate magnate, had close ties to Ocean Township officials, especially Mr. Weldon, the person familiar with the investigation said. Mr. Dwek paid bribes to several politicians in Monmouth County, including more than $10,000 to Mr. Weldon, as he sought approvals for some of his property, the person said, although Mr. Dwek was never charged for these alleged incidents. Mr. Dwek's lawyer hasn't returned numerous calls seeking comment.

A tip to federal agents in 2002 led to the second stage of Bid Rig. Police in the Monmouth County borough of Keyport learned that a local trash hauler, under investigation for double billing, was being shaken down for business favors by a councilman, according to Tom Mitchell, now Keyport's police chief, who was involved in the investigation. Mr. Mitchell said he shared the information with the FBI, which again dispatched Mr. Steffer.

Mr. Steffer began in 2003 offering bribes to local officials while posing as a wealthy contractor and loan shark with mob ties. Fifteen current and former officials in Monmouth County were arrested in 2005, including John Merla, the Keyport councilman who had become mayor in 2003. Mr. Merla in 2007 pleaded guilty to federal charges of extorting bribes in exchange for awarding no-bid contracts.

Bid Rig's latest chapter kicked off in 2007, with the help of Mr. Dwek. A year earlier, Mr. Dwek had been charged with bank fraud, after he cashed a $25 million bad check at a drive-through teller. Agents recognized his name from the earlier investigations. In debt, and facing prison, Mr. Dwek was persuaded to become a confidential informant, people familiar with the matter say.

Posing as a developer, Mr. Dwek began offering money and campaign donations to North New Jersey politicians and operatives, in exchange for special consideration for his supposed real-estate projects, according to people familiar with the case. The undercover work led to the arrest of 44 people in July, including mayors, rabbis accused of money laundering and a New York City man accused of trafficking human organs. Trial dates haven't been set.

Latvia secures more IMF aid after clearing up dispute over budget

By Tom Barkley

WASHINGTON—The International Monetary Fund's executive board approved the disbursement of $278.5 million to Latvia, freeing up funding that had been held up over budget disputes.

The second installment from the $2.4 billion loan granted in December, part of a $10 billion international rescue package, brings total disbursements from the fund to $1.1 billion, the IMF said.

The funding comes amid a 20% contraction in Latvia's economy in the second quarter. The IMF has forecast an 18% contraction this year, followed by a 4% decline in 2010.

The additional money approved Thursday had been held up for months amid discussions about steep budget cuts by Riga. While the IMF has agreed on a widening budget gap this year, the government has committed to reducing the deficit starting in 2010.

To win access to a $1.7 billion disbursement from the European Union last month, the government agreed to bring the deficit below 3% of gross domestic product by 2012. The country needs to achieve that level in order to adopt the euro.

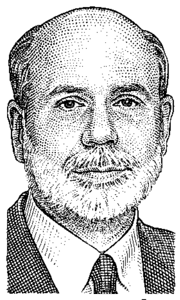
Latvia's deficit is expected to reach about 13% of GDP this year. The IMF is pushing for cuts in government wages and a transition from a flat tax on income to a more progressive system to raise revenue without disproportionately hurting the poor.

Fed chairman was a victim of identity theft

By Jon Hilsenrath

Ben Bernanke was the victim of identity theft last year, a Federal Reserve spokesman said, confirming a Newsweek magazine article that reported the Fed chairman fell victim to an elaborate fraud organized by a ringleader known as "Big Head."

"Identity theft is a serious crime that affects millions of Americans each year," Mr. Bernanke said through a Fed spokesman. "Our family was but one of 500 separate instances traced to one crime ring. I am grateful for the law-enforcement officers who patiently and diligently work to solve and prevent these financial crimes."


Ben Bernanke

Newsweek reported that last summer a thief stole the purse of Mr. Bernanke's wife from a coffee shop, taking the couple's joint checkbook, her driver's license, Social Security card and four credit cards. Days later, someone started cashing checks on the Bernanke family bank account.

One of the group's ringleaders, Newsweek said, was Clyde Austin Gray Jr. of Waldorf, Md. He pleaded guilty to conspiracy to commit bank fraud in federal court in Alexandria, Va., last month. Mr. Gray, who was known to members of his ring as Big Head, employed an army of pickpockets, mail thieves and office workers to swipe checks, credit cards, military IDs and other personal records, according to his plea agreement and other court records filed in his case.

Latest U.S. data boost prospects for a turnaround

By Sara Murray

U.S. government revisions to second-quarter data, as well as strong growth in corporate profits, reinforced expectations that the U.S. economy is rebounding from the recession.

The Commerce Department's Bureau of Economic Analysis left unchanged its earlier estimate of a 1% contraction in second-quarter gross domestic product, at an inflation-adjusted annual rate. Pretax corporate profits, which plunged in the fourth quarter and recovered in the first, rose 9.2%, unadjusted for inflation, in the second quarter from the previous quarter. After taxes, profits were up 7.5%.

The details of the revisions to GDP, the value of all the goods and services produced in the U.S., set the stage for a better third quarter than analysts have been anticipating.

The latest data underscored that businesses' commitment to slashing inventories helped fuel the increase in corporate profits. Nonfarm businesses drew down inventories at a faster rate than previously estimated. That shaved 1.5 percentage points off growth, larger than the department's previously estimated 0.9 points. Small inventories are seen as a harbinger of increased production in the third and fourth quarters.