Corporate News: Is demand for low-cost Dacia model a drag on Renault?

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Going Wobbly
The U.K. and the U.S. both blink in the war on terrorism. **Page 15**

Breaking news at europe.WSJ.com

Japan enters a new era

Voters reject longtime ruling party, look to DPJ to solve structural problems

By Yuka Hayashi

TOKYO—Japan's voters soundly rejected the ruling party that has set the nation's course for more than half a century, choosing instead an untested rival to grapple with a weakened economy and an aging society.

The historic change in government could usher in a new era for Japanese politics that replaces the staid consensus that guided Japan in its postwar boom years with a more fractious, competitive environment. But it also raises major questions about whether the newcomers can solve Japan's deep structural problems and reassure a people increasingly uncertain about their future.

The upstart Democratic Party of Japan's victory was sweeping. It claimed 307 seats as of early Monday, securing a wide majority of the 480 seats in the lower house, compared with 115 seats previously. The Liberal Democratic Party saw a setback to 119 seats from 300 seats, with most of the votes counted. New Party Komei, the LDP's coalition partner, suffered a retreat to 21 seats from 31, with President Akihiro Ota losing his seat.

Among the LDP's casualties were some of its most prominent faces, in a broad statement about how Japan feels about the nation's direction. In Nagasaki in southern Japan, Eriko Fukuda, a 28-year-old DPJ rookie, beat Fumio Kyuma, a 68-year-old LDP veteran who served as a defense minister. In Tokyo, Fi-

Please turn to page 4

Associated Press

Yukio Hatoyama and his Democratic Party of Japan grabbed a wide majority of seats in the lower house of parliament. Roses marked winners during the count at the party's election center in Tokyo.

FDIC shoulders big losses on loans

By Damian Paletta

WASHINGTON—The biggest spur to deal-making among American banks isn't private-equity cash or foreign investors. It's the U.S. government.

To encourage banks to pick through the wreckage of their collapsed competitors, the Federal Deposit Insurance Corp. has agreed to shoulder the bulk of future losses on $80 billion in loans and other assets. The initiative amounts to a subsidy for the struggling banking industry,

Through more than 50 deals known as "loss shares," the FDIC has agreed to absorb losses on the detritus of the financial crisis—from loans on two log cabins in the woods of northwestern Illinois to hundreds of millions of dollars in busted condominium loans in Florida. The agency's total exposure is now about six times the amount remaining in its fund that guarantees consumers' deposits, exposing taxpayers to a big, new risk.

As financial markets heal and the economy appears to be pulling out of recession, the federal government is shifting from crisis to cleanup mode. But as the loss-share deals show, its potential financial burden isn't receding. So far, the FDIC has paid out $300 million to a handful of banks under the loss-share agreements. It ex-

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Fed, U.S. Treasury fight CMBS threat

By Lingling Wei And Peter Grant

U.S. Federal Reserve and Treasury officials are scrambling to prevent the commercial-real-estate sector from delivering a roundhouse punch to the U.S. economy just as it struggles to get up off the mat.

Their efforts could be undermined by a surge in foreclosures of commercial property carrying mortgages that were packaged and sold by Wall Street as bonds. Similar mortgage-backed securities created out of home loans played a big role in undoing that sector and triggering the global economic recession. Now the $700 billion of commercial-mortgage-backed securities outstanding are being tested for the first time by a massive downturn, and the outcome so far hasn't been pretty.

THE OUTLOOK

The CMBS sector is suffering two kinds of pain, which, according to credit rater Realpoint LLC, sent its delinquency rate to 3.14% in July, more than six times the level just a year earlier. One is simply the result of bad underwriting. In the era of looser credit, Wall Street's CMBS machine lent owners money on the assumption that occupancy and rents of their office buildings, hotels, stores or other commercial property

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Split decision

The halting U.S. recovery is a tale of two economies
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	CLOSE	PCT CHG
DJIA	9544.20	-0.38
Nasdaq	2028.77	+0.05
DJ Stoxx 600	237.51	+0.96
FTSE 100	4908.90	+0.81
DAX	5517.35	+0.86
CAC 40	3693.14	+1.22
Euro	$1.4373	+1.03
Nymex crude	$72.74	+0.34

LEADING THE NEWS

Merkel's CDU loses big in regional elections

Results embolden left-leaning parties before national vote

BY MARCUS WALKER

BERLIN—German Chancellor Angela Merkel's conservative party suffered heavy losses in regional elections on Sunday, encouraging left-leaning parties ahead of Germany's national elections set for Sept. 27.

Ms. Merkel's party, the Christian Democratic Union, lost its ruling majorities in the state legislatures of Saarland and Thuringia, potentially opening the way for center-left administrations in both states. The Christian Democrats looked set to retain power in a third state, Saxony.

The left-leaning Social Democrats—traditionally the Christian Democrats' main rivals but currently their partners in a bipartisan national government—took heart from conservatives' losses even though their own support stagnated.

Sunday's main winners were the Free Democrats, a small free-market party whose support of between 7.6% and 10.5% in the three regions was a marked improvement from 2004, and the Left party, which looked set to win over 20% of the vote in all three regions, exit polls suggested.

The Left party, which includes many former East German Communists and is led by former Finance Minister Oskar Lafontaine, is now strong enough to potentially form new state governments with Social Democrats and Greens, ousting Christian Democrat state premiers in Saarland and Thuringia.

Sunday's results could energize the competition in what has been a low-key national election campaign so far. Germany's deep recession in the past year, and four years of left-right power-sharing under Ms. Merkel, had made politics in Western Europe's most populous country less partisan than usual.

Ms. Merkel's camp remains far ahead of the Social Democrats in national opinion polls, indicating that she is likely to remain chancellor after Sept. 27—but what kind of government she might lead next is wide open. Ms. Merkel is aiming to win enough votes to drop the Social Democrats and form a new center-right government with the Free Democrats.

But the Christian Democrats' poor showing on Sunday in Saarland and Thuringia, both of which the party has ruled for the past decade, highlights the fragility of the party's support and that Ms. Merkel's high personal popularity hasn't rubbed off on many of her conservative colleagues.

Exit polls suggested the Christian Democrats won only around 31% of the vote in the eastern state of Thuringia on Sunday, down from 43% in the last state election in 2004. The party's vote in the western state of Saarland fell to 34.5%, according to the official preliminary result, down from over 47% in 2004.

The Social Democrats, who favor a larger state role in the economy than conservatives, won about 18.5% of votes in Thuringia, according to exit polls, an improvement from 2004, and 24.5% in Saarland, according to preliminary results, down from 2004.

Still, the Social Democrats' candidate for chancellor, Frank-Walter Steinmeier, called the state elections a success for his party, saying the Christian Democrats' "dramatic losses" showed Germans don't want a right-leaning government.

Ms. Merkel didn't comment on Sunday evening, but she had previously argued the state ballots would reflect local factors and thus weren't a signpost for the national election.

Agence France-Presse

Saarland State Premier Peter Müller and his wife Astrid Gercke-Müller vote in Eppelborn on Sunday.

CORRECTIONS & AMPLIFICATIONS

A Corporate News article about **Harley-Davidson** Inc.'s move into India in the Friday-Sunday edition incorrectly gave the name of industry magazine Autocar Professional as Auto Professional.

U.K. denies '07 move eased bomber's release

BY ALISTAIR MACDONALD

The U.K. government fended off accusations that it paved the way for the recent release of the convicted Lockerbie bomber by failing to exclude him from a 2007 prisoner transfer agreement between the U.K. and Libya.

Abdel Baset al-Megrahi, a Libyan man who is the only person convicted in the 1988 bombing of a Pan Am flight that killed 270 people, was released by Scotland earlier this month on "compassionate" grounds because he has terminal prostate cancer. Both the U.K. government and Scotland have insisted the decision was made solely by Scottish Justice Minister Kenny MacAskill, and Mr. al-Megrahi's release was unrelated to the transfer agreement.

But since Mr. al-Megrahi's release, the British government has faced repeated suggestions that it facilitated the move to help advance the interests of U.K. oil firms in Libya. New accusations to that end on Sunday underscore how London has been sucked into the fallout of the Scottish decision, which was condemned by the U.S. government and the relatives of Lockerbie victims. It further illustrates how the Libyans have used Mr. al-Megrahi as a bargaining chip with Britain.

The Sunday Times newspaper in London published excerpts of 2007 correspondence between U.K. Justice Minister Jack Straw and his Scottish counterpart. The U.K. at the time was negotiating a prisoner transfer agreement with Libya. At the time, British oil firms such as BP PLC were negotiating oil exploration deals with Libya. A spokesman for BP declined to comment.

A senior Libyan oil official wouldn't comment on whether political dealings between the Libyan and U.K. governments helped drive the outcome of BP's exploration deal, but notes that various factors are taken into consideration when Libya signs oil-exploration deals.

At Scotland's request, Mr. Straw had tried to draw up a prisoner transfer agreement with Libya that excluded Mr. al-Megrahi. But on Dec. 19, 2007, Mr. Straw wrote to Mr. MacAskill to say that the Libyans didn't want an "explicit exclusion" of Mr. al-Megrahi, whom Mr. MacAskill freed on Aug. 20.

"The wider negotiations are reaching a critical stage and, in view of the overwhelming interests of the United Kingdom, I have agreed that in this instance the [prisoner transfer agreement] should be in the standard form and not mention any individual," Mr. Straw wrote, according to one U.K. official who declined to be named.

British officials were quick to reject the latest broadside, pointing out that Mr. al-Megrahi's release on compassionate grounds was unrelated to the prisoner transfer agreement that was eventually struck between the U.K. and Libya.

Mr. Straw said in a statement that the negotiations over such an agreement were part of a wider effort to normalize relations with Libya "as part of bringing them into the international community." Britain took the lead in persuading Libya to abandon its pursuit of weapons of mass destruction in 2003. Mr. Straw said he made clear to the Libyans that the end decision would be Scotland's. "All this, however, is academic as Mr. Megrahi was not released under the prisoner transfer treaty but quite separately by the Scottish Executive on compassionate grounds," he said.

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

Karzai's lead strengthens

U.S. tries to stay neutral as vote count continues slowly

The U.S. and its allies are treading a thin line between monitoring the count in Afghanistan's presidential vote and not influencing the outcome, as results from the election trickle into public view. Rampant allegations of electoral fraud, combative statements from candidates, and popular speculation about the U.S.'s role as kingmaker have made the balancing act all the more difficult.

*By **Anand Gopal** in Kabul and **Matthew Rosenberg** in New Delhi*

According to the latest results, released Saturday, President Hamid Karzai's lead has widened, with votes from a third of the polling stations counted. At stake in the vote is not just the credibility of the new Afghan government, but also that of the U.S. and its allies, who have backed the democratic experiment with troops on the ground, say Western diplomats. "If Afghans don't believe in these elections, then the international community will have failed here," said a European diplomat in Kabul.

Meetings between Western officials and Afghan presidential candidates have fed talk of efforts to shape a runoff between the two lead candidates, President Karzai and Abdullah Abdullah. In this context, an Aug. 21 meeting between Mr. Karzai and U.S. regional envoy Richard Holbrooke has also assumed importance, if only to highlight the prominent American role in the election.

The U.S. Embassy in Kabul has said its only preference is for a fair election. "We do not support or oppose any particular candidate, and whether there is a runoff is an issue for the Afghan electoral bodies to determine," the embassy said Saturday.

Saturday's results show Mr. Karzai has 46.2%, up three percentage points from earlier in the week and well ahead of the 31.4% obtained by Dr. Abdullah, a former foreign minister—but still short of the absolute majority needed to avoid a runoff.

The two million votes already counted represent one-third of Afghanistan's polling stations. The electoral commission said it will provide the next update on Monday.

Fraud allegations have marred the election. Afghan and international observers say supporters of both candidates stuffed ballot boxes and intimidated voters. Critics of Mr. Karzai say his camp engaged in more widespread fraud, if only because there were fewer monitors in the parts of the country where his support is strongest and the Taliban insurgency at its most potent. The Karzai campaign denies engaging in any fraud.

The independent Electoral Complaints Commission had received more than 2,000 allegations of misconduct through Saturday. Nearly 700 of them were serious enough to affect the outcome, the commission said.

Dr. Abdullah has repeatedly said he will dispute the results only through legal means. At the same time, he has said Mr. Karzai can win only through "big fraud," and has presented photos and videos of alleged ballot-stuffing in favor of Mr. Karzai.

Over the weekend, Dr. Abdullah offered a bleak outlook if people don't accept the election results. "If the democratic process does not survive, then Afghanistan doesn't survive," he told hundreds of supporters at a rally north of Kabul on Friday.

Such talk, along with private suggestions from some in Dr. Abdullah's camp that a Karzai win could be met with violent protests, has prompted U.S. and European officials to press the doctor to rein in his people. "It's not at all helpful at this moment," said a U.S. diplomat in Kabul.

As the vote count becomes more contentious, the U.S. and its allies are finding it harder to play a hands-off role. Over the weekend, U.K. Prime Minister Gordon Brown called Dr. Abdullah to discuss the elections, according to Abdullah campaign spokesman Fazel Sangcharaki.

"The British were very concerned about the possibility of violence," said Mr. Sangcharaki. "But they were careful not to suggest anything to us except for asking us to respect the legal process."

The U.K. Embassy in Kabul didn't respond to requests to comment.

A meeting between Mr. Karzai and Mr. Holbrooke the day after the Aug. 20 vote illustrated the delicacy of the U.S. role. U.S. and Afghan officials with knowledge of the meeting described it as tense but not especially heated. The Americans urged Mr. Karzai's government to address endemic corruption, if he were re-elected, according to people with knowledge of the meeting. Mr. Karzai and Mr. Holbrooke met again Sunday to discuss many of the same issues, the officials say.

But the exchange quickly became part of Afghanistan's political folklore, spun by some into a shouting match in which Mr. Karzai stormed out of the room—a scenario U.S. and Afghan officials deny. Supporters of Mr. Karzai painted it as a U.S. attempt to force the rightful winner into a runoff. Opponents sought to portray it as another sign that the president has lost Washington's backing and could no longer effectively govern.


Associated Press

A worker takes a break Sunday at the Independent Election Commission in Kabul. As of Saturday, votes from a third of Afghan polling stations had been counted.

LEADING THE NEWS

What's next for the LDP after its defeat?

New leaders face task of repairing the party's image

BY DAISUKE WAKABAYASHI

TOKYO—The Liberal Democratic Party, shoved out of office after 54 years of nearly uninterrupted rule, will now seek new faces as it looks to repair its image and replace defeated leaders.

Voters overwhelmingly rejected Prime Minister Taro Aso's party Sunday, sweeping the Democratic Party of Japan into power with a landslide victory. Mr. Aso resigned Sunday as LDP chief.

Looking ahead

■ U.S. officials look to new regime for better handling of shared goals 12

The election served as a referendum on the LDP's grip on Japanese politics. Disillusioned by the party's blunders and inability to pull Japan out of a deep economic slump, even traditional supporters—the elderly, rural voters and the construction industry—refused to back LDP politicians. Many LDP heavyweights, including a handful of prominent former cabinet members, lost their seats to untested DPJ candidates.

What's more, the punishment extended to some politicians seen as promising future LDP leaders. Yuriko Koike, the first woman to serve as Japan's defense minister, lost her local race. Another prominent LDP woman, Seiko Noda, was in a tight contest Sunday night.

The losses have resulted in a power vacuum at the top of the party. The new leaders that emerge will need to sharpen the party's image, which has become muddled after years of clinging to power.

"I don't feel like the party has had a real discussion about what it represents now," said Takahiro Suzuki, secretary-general at Think Tank 2005 Japan, a policy institute affiliated with the LDP. "Until we figure out what are our core political values, we aren't doing any good to anyone."

Political analysts expect the LDP to position itself as a conservative alternative to the more-liberal DPJ, constantly reminding voters that the new ruling party will expand social programs despite Japan's ballooning debt. Also, the LDP is likely to espouse a more muscular foreign policy in a nod to the right wing of its party. Analysts say such a move could be a healthy step toward the give-and-take of a true two-party system, something Japan has lacked.

Observers said Yoichi Masuzoe, Japan's minister of health, labor and welfare, is one potential LDP leader. Prior to his political career, Mr. Masuzoe, 60 years old, was an academic specializing in international politics. He parlayed that into a career as a popular television commentator. Mr. Masuzoe also has written a series of books about caring for his mother, who suffered from dementia.

His track record as health minister has been mixed. He acted swiftly to prepare Japan for the H1N1 influenza, but he has stumbled in trying to reform a national pension system burdened by fraud and mismanagement. Mr. Masuzoe, who didn't run in Sunday's election because he has a seat in the upper house of parliament, has said he will hold accountable those responsible for the pension system's woes.

Next wave of LDP leaders | A look at some potential contenders

Shigeru Ishiba
- 52 years old
- Agriculture minister since 2008
- Former defense minister

Yoshimasa Hayashi
- 48 years old
- LDP Upper House representing Yamaguchi Prefecture
- Minister of economic and fiscal policy

Yoichi Masuzoe
- 60 years old
- Minister of Health, Labor and Welfare since 2007

Nobuteru Ishihara
- 52 years old
- Former minister of Land, Infrastructure, Transport
- Son of Tokyo Gov. Shintaro Ishihara

Photos: Associated Press (Hayashi, Masuzoe, Ishihara), Agency France-Presse (Ishiba)

"Mr. Masuzoe is being talked about, but a lot depends on his ability to unify the party at this moment," said Mr. Suzuki.

Two other LDP politicians seen as possible candidates to succeed Mr. Aso—Nobuteru Ishihara, a former reporter who is the son of nationalist Tokyo governor Shintaro Ishihara, and current agriculture minister Shigeru Ishiba—won their respective races Sunday.

Minoru Morita, a Tokyo-based political analyst, said the LDP's line of failed prime ministers is the result of the party's whatever-it-takes approach to maintaining power. Instead of seeking out new leaders, the party stuck to party loyalists who waited their turn.

"They've continually failed by putting out leaders not supported by the people," said Mr. Morita. "There still isn't awareness within the party to thrust a young leader to the front. It's still a party dictated by age and experience."

Mr. Morita sees Yoshimasa Hayashi, Japan's 47-year-old economics and fiscal-policy minister, as a future leader of the party. He serves in the upper house of parliament.

Mr. Hayashi, who speaks fluent English, has a law degree from Tokyo University and a graduate degree from Harvard University's Kennedy School of Government. He is considered well-versed in financial policy and served briefly as defense minister, but isn't a recognizable name outside political circles.

The upheaval caused by the LDP defeat, however, may open the door to a new wave of lesser-known party politicians.

"Three years ago, almost nobody knew who Barack Obama was. And now, he's president," said Gerald Curtis, a Japanese politics professor at Columbia University. "So you don't know who will come forward in a very different political situation."

Japan ushers in a new era as voters cast off ruling LDP

Continued from first page

nance Minister Kaoru Yosano was defeated by Banri Kaieda, a popular economic analyst. "Until now, politics have catered to the interest of those who are advantaged and those who live in Tokyo," Ms. Fukuda said. "This election showed Japan is a much bigger place."

The DPJ's strong showing "shows Japanese people feel profound anger toward the current politics," a stern-faced Yukio Hatoyama, head of the victorious DPJ, said at a news conference. "We will refrain from arrogance and ensure our victory becomes a victory for the people."

Prime Minister Taro Aso, who is 69 years old, said he will step down as the party's president, declaring, "I must take responsibility."

"The results were extremely tough for us," said Mr. Aso, who had suffered from sharp declines in his popularity in recent months amid policy inconsistencies and gaffes. "We must accept the voters' voices sincerely and make a fresh start."

Voters headed for polls in record numbers on Sunday. Kyodo News projected the final turnout at 70% of the 104 million eligible voters, topping the 68% in the previous election. That would mark the highest turnout since the introduction in 1996 of the current electoral system.

Only once before, for 11 months in the early 1990s, have Japanese voters looked elsewhere for leadership since the ruling Liberal Democratic Party was formed in 1955. Sunday's election also held a historic irony: Mr. Hatoyama is the grandson of the man who founded the LDP and became Japan's first prime minister from that party.

The changing of the guard takes place as the nation finds itself at a crucial juncture. Amid a deep slump triggered by a financial crisis last fall, Japan's status as a global economic power is waning, with China poised to supplant Japan as the world's second-largest economy within a year or two, behind the U.S. Many Japanese, wary of a growing income gap, decry the deregulatory policies of recent years.

"We need to see changes," said Kunio Takahashi, 65 years old, who supported the DPJ. "Although we still don't know how it will turn out, it's better that a different party will try to change our government."

The DPJ is offering an ambitious social-spending plan that includes a child allowance of $3,300 a year, meant as a solution to Japan's declining population and rising average population age, among other initiatives. It also proposes to re-evaluate Japan's historically strong ties with the U.S. and explore greater regional alliances.

At the same time, the DPJ and its platform face deep skepticism from voters eager for new leadership but uncertain about change. It has pledged not to raise consumption taxes or tap the bond market to fund its social programs, but has offered few specifics on how it plans to pay for its initiatives.

"What the party is saying sounds impossible," said Kozue Murakami, 34, a stay-at-home mother who took her infant son with her to vote. Pointing to her son, she said that if the DPJ fails to finance its policies, "We citizens have to take the burden, and these children are the ones who will have to take up the slack."

Said Yasuyuki Fukuda, a 79-year-old former executive of Nomura Securities, the Japan's largest brokerage firm who backed the LDP: "I don't think having only youth and passion would help save Japan."

Despite its mandate, the DPJ may go slowly in implementing policy shifts, particularly in delicate areas such as fighting bureaucracy and shifting part of the U.S. military operations out of Okinawa. The DPJ will need to build consensus among its own members and remain cautious of upsetting voters with overly drastic changes.

"It is crucial to wait and see right now," says Kent Calder, a Johns Hopkins University professor who has been an adviser to Democratic U.S. ambassadors to Japan. "I'd say at least until the upper-house elections [in July], it is not going to be definitively clear how the new political landscape will be configured."

Some in the party already are contemplating what will happen if things get worse fiscally. Although the Japanese economy grew in the second quarter for the first time in more than a year, the figures didn't impress many economists, and domestic consumption still looks weak.

"We'd be happy if the economy keeps recovering," Tetsuro Fukuyama, an upper-house member and a deputy chair of the DPJ's Policy Research Committee, said in an interview last week. "But we can't deny the possibility of the economy again going down. We will closely monitor economic developments from now on, and make a decision on economic measures."

"For now, the highest priority in conducting policy is to make sure the nation exists completely from the economic crisis," said Fujio Mitarai, chairman of **Canon** Inc., who heads the Japan Business Federation, or Nippon Keidanren, a powerful business lobby. In a statement. Mr. Mitarai called on the DPJ to collaborate with the LDP to bring out solid results in areas such as the overhaul of the tax and social-security systems, and empowering regional governments.

The DPJ will be watched closely as it selects a new cabinet. The party is made up of an eclectic mix of politicians, including former ruling-party heavy weights and labor activists, who may find it difficult to agree with each other on key issuessuch as tax increases and farm policies.

Despite earlier expectations that the party may tap private-sector experts for top jobs, Mr. Hatoyama said recently he would give key positions such as finance and foreign ministers to senior lawmakers. Analysts say candidates include Katsuya Okada, party secretary-general and a former trade and industry ministry bureaucrat known for his support for fiscal deficit control, and Hirohisa Fujii, who served as finance minister in a short-lived coalition government when the LDP briefly lost its power in 1993.

Also vying for senior cabinet positions are Naoto Kan, a former student activist who made his name confronting bureaucrats in medical scandals, and Akira Nagatsuma, known as Mr. Pension for his role in uncovering a scandal in which the government was found to have lost pension records for 50 million citizens.

By mid- to late September, a special session of parliament will be held to vote in a new prime minister, who would then travel to the U.S. to attend a United Nations General Assembly meeting on Sept. 22, and a Group of 20 leaders summit in Pittsburgh on Sept. 24 and 25.

After that, with the LDP out of power, pressure will fall on the DPJ to perform.

"I don't have a lot of confidence in the DPJ, because they haven't ever had to produce results," said Teruyuki Wada, a 60-year-old salaryman, who said he voted against the LDP. "But I will take my time, watch how they do and decide again in four years."

—Ayai Tomisawa, Alison Tudor, Miho Inada and Takashi Nakamichi contributed to this article.

CORPORATE NEWS

Demand for Dacia is Renault dilemma

Sales of low-price car models support French auto maker's revenue, but may undercut its higher-end brands

By David Pearson

PARIS—**Renault** SA's vehicle sales are being underpinned by a surge in demand for its low-cost Dacia models, but the growing popularity of these cars—which lack power steering, electric windows or air conditioning—presents a challenge for other parts of Renault.

Analysts say the no-frills Dacias, made even less expensive by government bonuses, have set price expectations low and undercut sales of Renault's more-expensive cars.

Dacia sales over the first seven months were up 18% from a year before, a bigger gain than any other brand. Sales of Dacia's Sandero and Logan models in France surged 58% in July, in an overall market that grew by 3.1%. Dacia was the eighth biggest-selling brand in France, overtaking such volume car makers as **Fiat** SpA and **Nissan Motor** Co., a Renault affiliate.

In Germany, where the company faces no real competition in the low-cost category, Dacia's sales have boomed 346% over the first seven months propelled by "cash for clunker" incentives that are more generous than those being offered in France.

"Renault is selling lots of cheap cars that they're not making a lot of money on," said Paul Newton, an automobile analyst at IHS Global Insight in London.

Renault took over Dacia, which builds cars in Romania, 10 years ago in a move to cash in on growing demand for vehicles in the emerging economies of Latin America and Eastern Europe. Initially, the French company didn't plan to sell Dacia cars in its core markets in Western Europe, to avoid polluting the Renault brand, but was forced to rethink the strategy when market research promised strong demand from low-income families.

European Pressphoto Agency/Belga

In just over a year since its launch, the Sandero now accounts for two out of every three Dacia sales. "We're seeing enormous demand. There's no equivalent product on the market," said Guillaume Josselin, Renault's head of marketing for France.

The Dacia Logan—a plain, no-frills four-door sedan—has seen a 50% drop in sales over the first seven months, in part because of comparisons to high sales at the end of 2007 and early 2008.

Renault branded models have had mixed results. Sales of the Renault Twingo city car, which is smaller than the two Dacia models, have surged more than 60%, also boosted by the incentives. But sales of the more attractive Renault Clio, a subcompact with modern features, were down 18% in the January to July period. Renault officials say this was partly due to a face-lift that forced the company to halt Clio production for a few weeks, but industry analysts say the cheaper Dacia offerings also hurt Clio sales.

Scrapping and other government incentives to underpin vehicle production in France, Germany, the U.K., Italy, Spain and some other European countries have given the Dacia brand an advantage. Demand is so great and waiting times are so long that Renault is studying an increase in capacity at Dacia's assembly plant at Pitesti, Mr. Josselin said.

Much of the appeal of the Dacia brand comes down to price: Consumers can pick up a brand new Sandero or a Logan with a three-year guarantee for less than the sticker price of many motorbikes. That has struck a chord with motorists squeezed by the recession and those who have never before been able to afford to buy new vehicles.

Car buyers are being tempted into Dacia showrooms in France by a €1,000, or about $1,400, government check for scrapping cars more than eight years old. But the cherry on the cake is an older incentive plan that offers discounts of up to €2,000 for cars capable of using liquefied petroleum gas.

Dacia started selling a version of the Sandero in March that can run on either gasoline or LPG, the dual fuel tanks giving it a range of nearly 1,200 kilometers, or roughly 750 miles. The cost of LPG at a French pump is about two-thirds that of gasoline due to a much lighter tax bite.

A net price tag of €5,990 after deducting the two bonuses puts the basic version of the Sandero within reach of families with modest incomes who normally would be looking at second-hand cars at that price level.

Romain Braud, a salesman at a Renault/Dacia dealership west of Paris, said demand for the Sandero is such that he can't guarantee delivery before December for cars ordered today.

Mr. Braud said he would prefer to sell more Renault Clios that retail for upwards of €12,000 and, theoretically, offer dealers fatter profit margins.

But Renault has said that Dacia models don't necessarily have thin margins for the parent company. Renault has indicated in the past that the Logan and its derivatives offer margins above 6% thanks to low manufacturing costs and because they are built on a platform of an earlier incarnation of the Clio. Renault hasn't specified the margins for its other models.

Ultimately, Renault hopes that sales of the Dacia brands will feed demand for Renault cars, rather than undermine it. Most of the people looking to buy Logans and Sanderos have never bought new cars before, company officials say. The hope is that owning a Dacia will give new owners a taste for Renault, as both brands are usually sold under the same roof.

Michael Tyndall, an auto-industry specialist at Nomura in London, says Renault's aggressive pricing strategy through Dacia could backfire when government supports eventually disappear. "There's a genuine risk that a price-competitive model like the Sandero can set expectations among consumers that new cars should be at or close to that price level," he says.

Over the past year, Renault and other volume car makers have seen an unprecedented swing in consumer preference for smaller, more economical cars, to the detriment of larger, more profitable models, and persuading buyers to move up-market again may prove difficult, Mr. Tyndall says.

With European car sales expected to sag further in 2010 as the incentives wind down or expire—some experts are predicting a fall of 10% next year after a 2% decline in 2009—Renault will be relying even more on Dacia as its engine to power sales.

Germans debate whether car trade-in plan will backfire

By Geoffrey T. Smith

FRANKFURT—Germany's auto makers are worried about slumping sales when the government's "cash for clunkers" program expires this fall after running through its allocation of €5 billion, or $7.15 billion. Even so, they don't agree with the dire forecasts in a study issued by German management consultancy Roland Berger.

In the study, published Friday, Roland Berger said car sales in Germany may fall more than 20% next year, and that as many as 90,000 jobs may be lost across the industry by the end of 2011. One in two car dealerships could be threatened with failure, and gross domestic product could take a hit, it said.

The detailed report by a well-known company with a long history in the auto sector caused a stir, underscoring nagging fears of a slump in demand and another sharp rise in unemployment once the Germany government winds down this part of its fiscal stimulus.

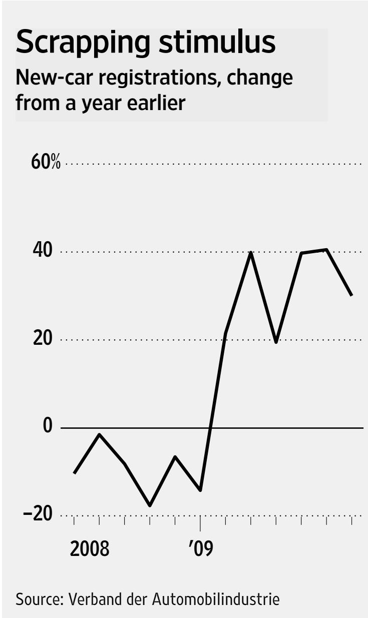
The car scrappage program, which subsidizes new car purchases on old trade-ins, was a model for similar plans adopted elsewhere, including the U.S. Since early this year, it has bolstered Germany's big auto industry and helped gross domestic product to return to growth in the second quarter after a year-long recession.

"The German car market is good for roughly 3 million to 3.3 million cars a year. This year, we will probably sell 3.7 million, and our forecasts are for 2.7-2.8 million next year," said Ralf Landmann, a partner with Roland Berger.

"If you have 20% less demand for your products, its clear there's going to be an impact on the labor market," Mr. Landmann said.

The Federal Statistics Office calculates that Germans spent €36 billion on new cars in the first half of the year, generating a modest 0.1% increase in overall private consumption. But without the scrappage scheme, consumption would have fallen 1%, and the economy would have shrunk by even more. As it is, output in the second quarter was still down 5.9% from a year earlier.

Carsten Dreger, an economist with the DIW research institute in Berlin, contends that not only was the cash-for-clunkers plan increasing 2009 demand at the cost of 2010's, it is also cannibalizing potential demand for other consumer goods this year.



A customer looks at a Volkswagen Passat at a dealership in Nuremberg, Germany, in July.

Germany's car makers have already laid off most of the 100,000 temporary workers they employed a year ago, according to a spokesman for the Federal Association for Temporary Work in Berlin.

The Roland Berger forecasts refer to cuts in their core personnel, an acutely sensitive topic.

A spokesman for the Association of German Automakers, an industry body, disagreed with the Roland Berger forecasts, saying the industry hadn't taken on excess labor in the boom years in any case. "What wasn't built up in the first case doesn't need to be reduced," the spokesman said.

Volkswagen AG has even promised to add jobs at **Porsche** AG once it completes its planned takeover of the company. VW has also just started its annual pay round negotiations with the IG Metall union.

With unemployment already nearly at 3.5 million, and a jobless rate of 8.3%, the government is hoping that the recent economic improvement will be strong enough to stop another wave of job losses.

The fate of Adam Opel GmbH's German operations has been one of the key sticking points in negotiations over the restructuring of GM's European operations, with the German government anxious to avoid any job losses.

The Federal Labor Office is due to report August's unemployment data Tuesday. Analysts predict another 30,000 increase in those out of work. The government has subsidized companies to keep their workers on shorter working hours, rather than lay them off.

Steep descent

The economic crisis has pummeled Europe's big airlines, while low-cost carriers have fared slightly better.

An Iberia Airlines plane departs El Prat International Airport in Barcelona

Bloomberg News

Airline		Year-to-year percentage change on revenue*
AIR France-KLM	The Franco-Dutch airline pulled out of the tender for CSA Czech Airlines, citing the need to preserve cash amid the downturn.	**-21.0%**
Lufthansa	The German flag carrier warned that falling revenue per passenger was more serious than softening demand and hopes to save €1 billion by the end of 2011 at its passenger operation.	**-19.0%**
British Airways	The U.K. flag carrier reported its first ever fiscal first-quarter pretax loss as a private airline. It plans to cut 3,700 jobs in the current fiscal year.	**-12.0%**
Iberia	The economic downturn has hit demand for long-haul and business-class services—two of the Spanish airline's big bets during the boom years.	**-23.0%**
SAS	The Scandinavian airline presented a new 2 billion Swedish kronor ($272 million) cost-savings program, resulting in 1,000 to 1,500 additional layoffs.	**-15.0%**
Ryanair	Europe's largest low-cost carrier by passenger numbers has been pulling out of airports with higher charges to cut ticket prices.	**-0.3%**
easyJet	The British budget airline said it expects to be one of the few airlines to make a profit this year.	**12.0%**

* Figures are for quarter ended June 30.

Source: the companies

Weak demand hits Iberia

Spanish airline posts second-quarter loss; strategy backfires

By Jason Sinclair

MADRID—Iberia airlines said Friday it swung to a net loss in the second quarter, hit by falling demand for air travel as the recession grips Spain.

The country's largest airline by sales reported a net loss of €72.8 million ($104 million) compared with a year-earlier net profit €21.2 million. Revenue dropped 23% to €1.07 billion from €1.39 billion.

In recent years, **Iberia Líneas Aéreas de España** SA has been reducing domestic flights in favor of more lucrative long-haul flights, mostly to Latin America. However, the international financial crisis has pummeled demand for long flights and has also hit the airline's other strategic bet during Spain's boom years: an expanded business section.

At the same time, the weaker economy in Iberia's home market has hurt domestic demand. Total occupancy rates, or passenger load factor, fell 0.7 percentage point to 78.9% in the first half, in spite of the company's attempts to adjust to lower demand.

Iberia has been adjusting to the weaker demand for seats by cutting routes and frequencies as well as operating smaller aircraft on some routes. It said Friday that it had increased capacity cuts to 6%, a deeper reduction than the 4.3% cut it had originally set out in its contingency plan last year.

To reach these targets, Iberia said it would ground three more short and medium-haul aircraft and delay the order of an additional new long-haul Airbus A-340-600, taking the number of grounded planes to 10.

However, Chairman Antonio Vázquez told a conference call that passenger-revenue deterioration probably bottomed out in the second quarter.

For the first six months of the year, Iberia's operating costs fell 9.6% to €2.44 billion as it scaled back operations and cut personnel and other costs. The carrier also expects expenses to decline further through the third and fourth quarters thanks to lower fuel costs and other reductions.

So far this year, Iberia has spent €580.1 million on fuel, down from €732.1 million, as it used less fuel for fewer planes and oil prices fell.

Iberia has had a long-standing code-sharing agreement with **British Airways** PLC and the two airlines began negotiating the terms of a tie-up last year. Hopes of a merger were rekindled in July when Iberia named Mr. Vázquez as its new chairman, but BA's pension deficit and differences about the valuations of the two companies remain major obstacles.

"We are continuing discussions and remain positive," Mr. Vázquez said Friday in a conference call with analysts. "We will continue to work on the pending issues, but we don't have a lot of new information to share."

—Santiago Perez contributed to this article.

Lufthansa deal gains clearance

By Jan Hromadko

FRANKFURT—**Deutsche Lufthansa** AG on Friday completed its latest deal in a string of acquisitions, receiving conditional antitrust approval for its purchase of **Austrian Airlines** AG. The transaction makes Lufthansa Europe's largest airline group by passenger numbers.

The deal with Lufthansa is considered crucial to maintaining the solvency of Austrian Airlines, which has been hit hard over the past year by soaring oil prices and the global economic crisis.

Despite weak trading conditions that have put airlines around the world under immense cost pressure, with sharply lower demand and average revenue per passenger, Lufthansa has embarked on a buying spree over the past year. Apart from the acquisition of Austrian Airlines, the carrier has taken a 45% stake in **SN Holding** SA, the parent of a small Brussels-based airline, and raised its stake in **British Midland Airways** Ltd., or bmi, to 80%.

The European Commission on Friday gave its approval to the Austrian Airlines deal, ending months of negotiations over competition concerns. To satisfy the commission, Lufthansa must reduce its number of flights from Vienna to Frankfurt, Munich, Stuttgart, Cologne and Brussels, allowing new entrants to offer flights on those routes.

The commission also cleared €500 million ($715 million) in restructuring aid from the Austrian government for Austrian Airlines, which was a key condition of the deal.

In a written statement, Lufthansa said the conditions are "economically acceptable" for the company. Lufthansa added that Austrian Airlines will be integrated into the group starting in September.

Lufthansa said at least 75% of Austrian Airlines' shares have been tendered at €4.49 each for a total value of about €166 million.

Shareholders who haven't yet tendered their shares may do so within eight stock-exchange trading days after the fulfillment of the offer conditions is formally made public, Lufthansa said.

It added that it will seek a squeeze-out of the minority shareholders of Austrian Airlines thereafter.

Austrian Airlines said in a separate statement that it expects the takeover to close within the next 10 trading days.

—Matthew Dalton and Carolyn Henson in Brussels, and Flemming Hansen in Vienna, contributed to this article.

GM aims to double sales of Chevrolet in Europe

By John D. Stoll

The new head of **General Motors** Co.'s Chevrolet division aims to double its sales in Europe in coming years, which could provide the auto maker with a stronger brand in the region to accompany or replace GM's high-volume Opel.

Brent Dewar, recently named to head Chevy's global operations, told reporters Friday that Chevy sales in Europe are expected to expand to one million from the 500,000 vehicles—or 2.5% of the market—sold in 2008. He didn't provide a timetable for the growth target, but said new products—including Chevy Volt electric cars and Malibu sedans shipped from the U.S.—will fuel the effort.

Chevrolet in recent years has become a more prominent participant in Eastern Europe, selling smaller, fuel-efficient cars developed and built mainly in Asia to customers in Russia and other markets that had been booming before the global credit crisis. Unlike the cars that are built by GM's Adam Opel GmbH business and sold primarily in Western Europe, the current European Chevrolet models are relatively inexpensive to develop and assemble.

Chevy has remained a minor player in Western Europe, mostly because of the company's heavy focus on the Opel, Saab and Vauxhall brands. GM recently agreed to sell Saab, and the future of Opel-Vauxhall operations are uncertain.

Until recently, GM planned to sell Opel, and its British affiliate Vauxhall, to Canadian parts supplier **Magna International** Inc. The company's new board, created after GM emerged from bankruptcy last month, has asked the management team to reconsider its options for the brands.

As GM restructures into a leaner company with fewer brands, Chevy is becoming more important. In the U.S., Chevy sales are expected to represent 65% to 70% of GM's total volume. The division aims to capture buyers both from brands that GM has sold or discontinued, such as Pontiac and Saturn, and from import brands that have a better reputation for fuel economy or that appeal to young buyers.

Chevy is also becoming more important in Europe because of the tumult at Opel. GM could restructure Opel by either selling control of it while winning financing from the German government to help close the deal, or by creating a separate $4.3 billion financing plan that would allow the company to keep Opel.

Even as the future of Opel is uncertain, GM is pushing forward with a plan to convert Chevrolet into a more global brand. Mr. Dewar said the company sees big opportunities to expand in China, India and Europe.

Bloomberg News

GM plans to double Chevrolet-brand sales in Europe. The Chevy Orlando, shown at the Detroit auto show in January, is among its planned offerings.

Lukoil's earnings drop 44% as oil prices weigh on sales

By Jacob Gronholt-Pedersen

MOSCOW—OAO **Lukoil Holdings** said lower oil prices pushed second-quarter net profit down 44%.

The Russian oil producer, which is 20%-owned by **ConocoPhillips**, Friday reported a net profit of $2.32 billion, compared with $4.13 billion a year earlier. However, net profit more than doubled from the previous quarter thanks to lower export duties.

Revenue fell 37% to $20.12 billion, as oil prices dropped and despite a 4.8% rise in crude-oil production during the quarter.

The increase in output came amid new production at the Yuzhnoye Khylchuyu oil field, located in the Timan-Pechora region. The field produced 1.7 million tons of crude oil, or almost 140,000 barrels a day, in the three months ended June 30.

Oswald Clint, analyst at Bernstein brokerage in London, said the results were higher than expected thanks to greater sales in the downstream segment, in particular at Lukoil's Italian Isab refinery.

Lukoil increased its presence in Europe when it took a 49% stake in **ERG** SpA's Isab refinery in Priolo, Sicily, in November, and agreed to buy a 45% stake in Dutch refinery Total Raffinaderij Nederland, or TRN, in June.

Lower tax payments, in particular in the Timan-Pechora region, also surprised analysts and supported second-quarter earnings before interest, taxes, depreciation and amortization, or Ebitda, which came in at $4.12 billion, down from $6.23 billion.

Since bottoming in mid-February, Lukoil's stock has gained more than 70% this year. It rose 3.9% in London on Friday.

Tiffany raises earnings outlook

Jeweler posts drop in sales as Hermès sees higher revenue

By Vanessa O'Connell And Amelie Baubeau

High-end jewelry retailer **Tiffany** & Co. Friday posted sharply lower profit and sales for its latest quarter but said sales trends are improving and raised its earnings outlook.

Another luxury-goods maker, **Hermès International** SCA, reported modestly higher first-half revenue, though its finance chief said there is "no change in trend emerging." Chief Financial Officer Mireille Maury, in an interview, said there has been a pickup in orders for perfume, but not for watches and tableware.

Tiffany's fiscal second-quarter earnings fell 30% to $56.8 million, or 46 cents a share, in the quarter ended July 31, from $80.8 million a year earlier.

Sales at the 172-year-old jewelry chain, known for its iconic blue boxes, fell 16% from the year-earlier quarter to $612.5 million with the steepest declines coming in the U.S. Sales at U.S. stores open at least a year were down 27%. Sales at Tiffany's flagship store in New York plunged 30%.

Alamy

High-end jeweler Tiffany said 'the tide may be slowly turning' as it sees smaller sales declines. Above, Tiffany's London store.

On a conference call Friday, Tiffany executives said they see declines in sales at U.S. stores open at least a year lessening, to the "high-teens" and a "midteen" decline in sales in the Americas for the full year.

The jewelry retailer's sales are holding up better in Europe and Asia, where the company is projecting low-single-digit percentage declines for the year.

"Our geographical diversification is a significant advantage," said Mark Aaron, a Tiffany vice president.

In the latest quarter, the greatest declines were for items priced at $50,000 and up, and the smallest declines at lower price points, it said.

Tiffany, which like other retailers has been trying to rein in its inventory, raised its forecast for the full year, to earnings of between $1.65 and $1.75 a share on a world-wide sales decline of 10%. It had previously forecast between $1.50 and $1.60 a share on an 11% sales decline. Last year Tiffany earned $1.74 a share on sales of $2.86 billion.

"It appears to us that the tide may be slowly turning in our favor," Mr. Aaron said. Its shares rose 11% to $37.57 in 4 p.m. New York Stock Exchange trading.

Paris-based Hermès said its first-half sales rose 7.6% to €874.9 million ($1.25 billion). The maker of high-end scarves and Birkin handbags logged sales gains in all regions except Japan, where they dropped 4%.

The company's profit dropped to €125.4 million from €134.9 million a year earlier. It blamed the drop on currency fluctuations and a lower rate of return on investments.

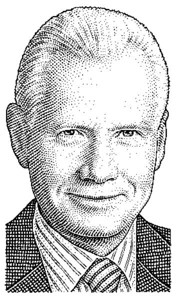
With scarf sales holding strong despite the global recession, the company said it will continue to expand for the rest of 2009, opening or renovating at least 10 stores, mostly in Asia and the U.S. It opened five stores in the first half. Hermès maintained its prediction for steady full-year sales and a "slight" drop in profit.

Carrefour incurs loss as discounts damage results

By Christina Passariello

PARIS—French retailer **Carrefour** SA posted a first-half loss as it poured hundreds of millions of euros into price cuts and other promotions to resuscitate sales in its home market.

Carrefour, the world's second-largest retailer by sales after **Wal-Mart Stores** Inc., swung to a loss of €58 million ($82.9 million) from a profit of €747 million a year earlier, on a 1.6% drop in sales to €41.28 billion. The company reiterated it expects this year's operating profit to fall as much as 18%, to between €2.7 billion and €2.8 billion.



Lars Olofsson

"Consumers are more and more sensitive to promotional activity," said Chief Executive Lars Olofsson, who joined Carrefour from food and drink maker **Nestlé** SA at the start of the year. "The price image of the Carrefour brand is moving in the right direction in France."

Carrefour has for years suffered from stiff price competition in France, which accounts for 43% of its sales. The economic downturn has exacerbated Carrefour's image as a high-priced retailer as consumers turned to deep-discount stores and private-label products. To overhaul Carrefour's reputation, Mr. Olofsson pledged to cut costs this year by €500 million and put €600 million toward price cutting, promotions and loyalty cards.

The Swedish executive said the group spent €353 million of its budget in the first half, and saw its market share rise 0.3%. The expenditure, however, drove down first-half operating profit by 28% to €1 billion. In May, the company unveiled a new Carrefour Discount line of private-label products designed to take business from deep-discount stores such as **Lidl Dienstleistung** GmbH and **E. Leclerc**.

To make the Carrefour brand more prominent, Mr. Olofsson is accelerating a program to rename its hundreds of Champion supermarkets as Carrefour Market. During the first half, sales in the renamed stores were 7% higher than under the old name. The group is also converting other stores to its deep-discount Dia brand.

Yet Mr. Olofsson is only beginning to address Carrefour's most serious dilemma, the supercenter. The big-box stores have struggled to sell general merchandise, and Mr. Olofsson said the format needed to be reinvented. He said the company will test new models next year before rolling out its solution in 2011.

In September, Carrefour will unveil price promotions and a new world-wide advertising campaign. "Carrefour has not been a loved retailer for the last couple of years," Mr. Olofsson said.

—Mimosa Spencer contributed to this article.

Aegis issues gloomy outlook as it posts a loss

By Ruth Bender

Aegis Group PLC posted a small first-half net loss and cautioned that it doesn't expect any upturn in the advertising market in the second half.

Still, the U.K.-based advertising and marketing company Friday turned in a 10.8% drop in organic revenue—a closely watched metric in the advertising industry that strips out currency effects, acquisitions and disposals—and analysts said the company's results showed a solid performance given the challenging business environment.

The downbeat outlook echoes comments from rival **WPP** PLC, the world's biggest advertising company by sales, which said Wednesday that improving sentiment in the world economy isn't yet translating into rising orders for expensive advertising campaigns.

Like others in the industry, Aegis has been cutting costs to offset the impact of declining revenue as companies curb spending on marketing. It said Friday it had intensified cost-cutting efforts in the second quarter and would continue to manage expenses tightly. The company has shed about 900 staff, or 5.5% of its work force, since announcing a cost-savings plan at the end of last year.

Analysts have been concerned that smaller advertising holding companies such as Aegis and France's **Havas** SA would be more vulnerable to the downturn as their businesses are less diversified. Still, Aegis, which owns media-buying agency Carat and digital-planning group Isobar, won several large accounts in the past months, such as Nokia Corp.'s global media-buying and planning budget, estimated to be valued at about £300 million, or about $430 million. Other major clients include Kellogg Co. and Adidas AG.

Analysts at Altium Securities said though the company's marketing division, Aegis Media, has continued to secure new business, market-research unit Synovate has found life more difficult and the company is accelerating cost-reduction measures there.

Partly thanks to the cost-cutting drive, Aegis said it should meet market consensus for full-year underlying profit.

"The rate of delivery of savings is increasing, and with strong new business wins in Aegis Media and an improved Synovate secured net revenue position, we expect to deliver a full-year profit outcome in line with the current market consensus," John Napier, the company's chairman and interim chief executive, said in a statement.

In a conference call with reporters, Mr. Napier said the market consensus on which the forecast is based is for full-year adjusted operating profit of £1.64 billion to £1.74 billion. The adjusted figures exclude items such as profit and losses on disposals of investments, amortization of purchased intangible assets, and taxes.

For the six months ended June 30, Aegis posted a net loss of £2.1 million, compared with a net profit of £30 million in the year-earlier period. The latest results were weighed down by restructuring charges of £15.7 million.

Revenue rose 4.8% to £636.7 million from £607.6 million, helped by currency movements. Organic revenue—which excludes the effect of currency fluctuations, as well as acquisitions and disposals—fell 10.8%. Analysts had forecast a drop of 11%.

Aegis is nearly 30% owned by Vincent Bolloré, the French industrialist who is also a controlling stockholder and chairman of Havas. Mr. Bolloré has in the past pushed for a combination of the two companies. Mr. Napier said Friday there are no talks about a possible merger with Havas, which is scheduled to report first-half earnings Monday.

Aegis is due to name a new chief executive by year end, after former CEO Robert Lerwill left last year, but until then, its strategic direction remains unclear. A number of high-level managers left the company last year, including head of Aegis Media, Mainardo de Nardis, and the chief executive of Aegis Media Americas, David Verklin.

News Corp. criticizes U.K. state support of BBC

By Shira Ovide

James Murdoch, **News Corp.**'s top executive in Europe and Asia, on Friday criticized U.K. media regulation and the publicly funded British Broadcasting Corp., saying state support gives the BBC an unfair edge over commercial media firms.

In a keynote speech at the Edinburgh International Television Festival, Mr. Murdoch called for a "dramatic reduction" of government involvement in U.K. media, which he said stifles innovation, according to his prepared remarks.

Mr. Murdoch described as "chilling" what he called the BBC's improper expansion and influence in the U.K. media industry. The BBC produces many TV and radio programs and owns a popular news Web site.

The BBC Trust, which governs the BBC, has been a target of criticism from News Corp. and its BSkyB satellite TV service. BSkyB and other TV companies are critical of the annual license fees the BBC collects from U.K. households.

In a statement Friday, Sir Michael Lyons, chairman of the BBC Trust, said, "British broadcasting is admired around the world. Its diversity of broadcasters and their variety of funding is a strength and not a weakness." He added, "the public tell us that they...trust the BBC and value the wide range of services we provide."

Mr. Murdoch, a son of News Corp. Chief Executive Rupert Murdoch, is the company's chairman and CEO for Europe and Asia, overseeing News Corp.'s newspapers in the U.K., BSkyB and the Star television service in Asia. News Corp. also owns Wall Street Journal publisher Dow Jones & Co.

In his comments, Mr. Murdoch contrasted government-backed organizations that provide "free, state-sponsored" news with efforts by news outlets that want to charge consumers "a fair price" for online information. News Corp. has said it plans to start charging for access to its news Web sites by next summer.

Mr. Murdoch in his speech also said the U.K.'s television regulator, known as Ofcom, hurts TV companies by tightly controlling the advertising TV companies can sell and by restricting what programs can air. Mr. Murdoch called for a "radical re-orientation of the regulatory approach" in the U.K.

Ofcom said Friday it is "committed to its duty to protect consumers' and viewers' interests and to promote competition and innovation."

—Paul Sonne contributed to this article.

CORPORATE NEWS

Consumers give lift to technology

Intel, Dell are seeing signs of a rebound, but caution lingers

Consumers are helping pull the technology sector out of one of its worst-ever slumps, and optimism is building that businesses may also start switching on their spending soon.

By ***Don Clark, Geoffrey A. Fowler*** *and* ***Ben Worthen***

That upbeat picture emerged as some bellwether technology suppliers issued numbers that were stronger than Wall Street expected, though still reflecting the recession's harsh effects. Their announcements point to improved demand for products such as laptop computers and flat-panel televisions—particularly in Asia, where the Chinese government's stimulus spending appears to be sparking sales.

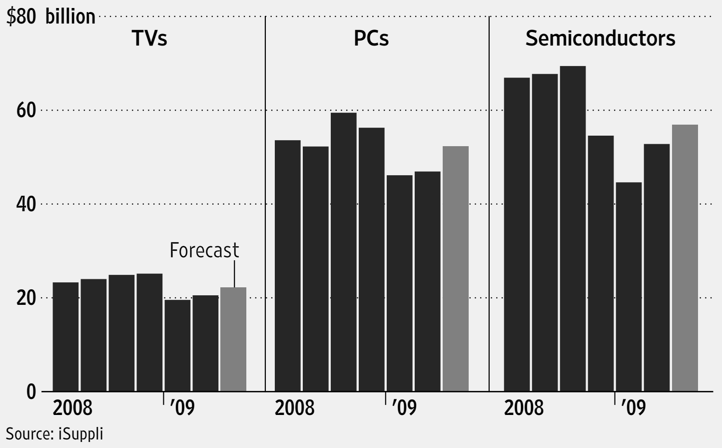
The latest evidence came from **Intel** Corp., which supplies the chips that serve as electronic brains in PCs. On Friday, the Silicon Valley giant—which earlier this year pointed to signs of recovery—boosted its third-quarter revenue forecast by 6%.

While the news sparked gains in technology shares Friday, with Intel adding 4%, the overall market struggled to build on its recent gains. After a big rally that has stocks up nearly 50% from their lows, investors are no longer bidding up shares on any good news, but instead growing worried that the economy won't follow the market's upward trajectory. Concerns linger about the health of consumer and business spending.

Intel's remarks came one day after **Dell** Inc. reported results for its July-ended quarter that were well below a year earlier but showed improvement from the three previous months.

Powering up

Quarterly factory sales for some technology sectors



Source: iSuppli

Dell said revenue from consumers rose 2% sequentially in the quarter, while revenue from large businesses fell 3% over the same period. **Apple** Inc., which gets nearly all its business from consumers, has posted record results in recent quarters.

Dell Chief Executive Michael Dell also expressed confidence that factors such as new Windows software from **Microsoft** Corp. will drive a turnaround as companies upgrade their hardware next year.

"I am here to tell you there's going to be a refresh cycle next year," he said during a conference call. "It's not all going to come in the first month or the second month, but over the course of the year, there will be a big refresh cycle."

Plenty of question marks remain about the strength and timing of any rebound in technology spending by corporations, which have opted during the downturn to keep running old PCs and server systems as long as possible.

There are also plenty of signs that U.S. consumers are still being cautious. In the second quarter, comScore reported that U.S. online retail spending in the June quarter slipped 1% from a year ago—only the second quarter on record where e-commerce spending has fallen.

Then there are customers like Joe Russo. The lecturer at the University of Nevada in Reno, who is 52, said the recession has encouraged his family to "get smarter" about purchases—but not cut back on cutting-edge gadgets.

"Nothing excites me more than a box at the front door," he said. His wife allows him to buy one new gadget each quarter; most recently, he bought his second Kindle e-book reader from **Amazon.com** Inc.

Jon Tew, 25, bought an $800 Dell laptop earlier this month. He had just started law school at Temple University, and the school offered a back-to-school special through Dell's Web site.

"I've been toying with the idea for a while of getting a new computer but absent law school I wasn't going to spend the money," he said.

But analysts say the recent activity is even more dramatic in China, which is second to the U.S. in PC sales and has a greater proportion of first-time buyers. In the second quarter, customers there bought 11.7 million computers, up nearly 14% from the year-earlier period. By contrast, the 16.4 million PCs sold in the U.S. in the same quarter represents a slight decline from the year-earlier period.

Government economic-stimulus plans appear to have helped. One gives rural Chinese residents subsidies worth 13% off the price of electronic goods purchased from participating companies; **Lenovo Group** Ltd., China's largest PC maker, launched 15 computer models priced as low as $365.

Jay Chou, an IDC analyst, said other stimulus plans are having a bigger impact by boosting sales in urban areas, where most of the PC sales growth is coming from.

In addition to laptop and desktop PCs, some Chinese consumers are opting to use the incentives to buy flat-panel TVs, said Unni Narayanan, chief executive of Primary Global Research, which provides data to institutional investors and analysts. China's stimulus spending "has been very important," agreed Dale Ford, an analyst at iSuppli Corp.

Buying decisions are having different impacts on different players in the electronics food chain. Chip makers tend to be a leading indicator of an upturn, since manufacturers of PCs and other products place advance orders for components they will need based on their own predictions of customer demand.

Suppliers that not long ago grappled with excess production capacity and plunging prices are now racing to fill orders. "So pricing of components is going up," Mr. Narayanan said.

Firm prices are good news for companies such as Intel, which on Friday predicted that its third-quarter gross profit margin will fall in the upper half of a previously stated range. Intel put revenue at $9 billion, plus or minus $200 million; it had previously projected $8.5 billion, plus or minus $400 million. In the year-earlier period, Intel posted revenue of $10.2 billion.

Corning Inc., which supplies glass used to make flat-screen TVs and computer monitors, has been unable to raise output quickly enough to satisfy surging demand for LCDs, especially in China. Corning expects LCD glass volume to rise 15% this year, even as prices continue to increase.

But component prices are a negative factor for PC makers such as Dell, which called out increases on components such as memory chips and computer displays as a problem. Another issue for PC makers is the rise of low-end laptops called netbooks, which typically cost less than $300 and carry thin profit margins. **Acer** Inc., which has focused heavily on the category, reported a 20% drop in quarterly profit Thursday.

The rise of netbooks is adding to broader pressures on manufacturers to sell PCs with lower prices. The price cutting was clear in **Hewlett-Packard** Co.'s results for the quarter ended in July. The world's biggest PC company said PC shipments rose 2% from the year-earlier period but revenue dropped 18%.

Another big question mark is the impact of a new version of Microsoft's flagship operating system, Windows 7, which hits store shelves Oct. 22. The software has gotten positive early reviews for some of its features—notably its faster performance, including speedy start-up and shut-down times.

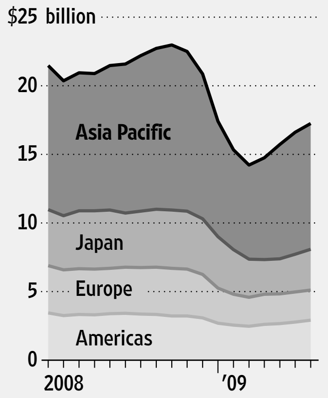
Some industry executives, including Mr. Dell, predict that the operating system and a new version of the Office software suite will help encourage customers to upgrade their systems. "You will love your PC again," he said.

Of course, many cash-strapped businesses and organizations can't consider such spending right now. Debbie Karcher, chief information officer for the Miami-Dade County Public Schools, said stimulus money her district received was used to save jobs, not buy computers.

—Nick Wingfield, Jerry A. DiColo, Yukari Iwatani Kane contributed to this article.

Asian influence

Semiconductor sales by region; three-month moving averages



Source: Semiconductor Industry Association

Japan cellphone merger weighed

By Yuzo Yamaguchi And Daisuke Wakabayashi

TOKYO—Japanese electronic-goods makers **NEC** Corp., **Hitachi** Ltd. and **Casio Computer** Co. have begun talks about merging their mobile-handset operations to create the country's second-largest cellphone maker by shipments, after **Sharp** Corp., people familiar with the matter said.

The talks come amid growing pressure on Japanese cellphone makers to boost profitability by consolidating operations to save money in a domestic market nearing saturation, while chasing growth in developing international markets such as China.

The people familiar with the matter didn't provide further details about the talks.

Analysts say a consolidation of the three could help them share development costs and ride out the tough local market, as well as give them greater clout in efforts to expand overseas.

Mizuho Investors Securities analyst Nobuo Kurahashi said that because Casio is the smallest of the three companies involved, any earnings boost would be comparatively bigger than for the others.

According to data from research firm BCN Inc., a combined NEC-Hitachi-Casio operation would have had a market share of about 20.2% at the end of March. That would put it behind Sharp, which had a 21.8% share of Japan's huge but stagnating market for mobile phones, but ahead of **Panasonic** Corp. with 16.8%.

—Juro Osawa contributed to this article.

GLOBAL BUSINESS BRIEFS

Aéroports de Paris

Full-year forecast reaffirmed as first-half profit edges up

French airports operator **Aéroports de Paris** SA said Friday that its net profit rose 1.3% in the first half of 2009 and reaffirmed its earnings forecast for the full year, thanks to an expected slight increase in passenger traffic in 2010. Net profit for the six months ended June 30 edged up to €127.3 million ($182.8 million) from €125.6 million a year earlier. Aeroports de Paris earlier this month reported a 5.9% increase in first-half revenue. Chief Financial Officer Laurent Galzy noted that the rise in revenue in the first half partly reflected the completion of new installations and the introduction of new service, and that the increase will be more moderate in the second half.

Independent News & Media

Dublin-based newspaper publisher **Independent News & Media** PLC posted a first-half net loss, citing an advertising slump and said it expects a full-year operating profit at the lower end of its target range. Chief Executive Gavin O'Reilly said he is confident the company will reach an agreement with bond holders on a €200 million ($325.6 million) bond by Sept. 25. Mr. O'Reilly said that until advertising picks up, the company will focus on cost cuts, reducing debt, selling selected assets and extending market share. The net loss of €34.7 million for the six months ended June 30 compared with a net profit of €80.5 million a year earlier. Revenue fell 22% to €608.8 million from €780.4 million.

Blockbuster Inc.

Blockbuster Inc. sold Irish retail chain **Xtra-vision** Ltd. for as much as $45 million to **Birchall Investments** Ltd., boosting liquidity as the video-rental company tends to its ailing U.S. operations. Xtra-vision, which Blockbuster bought in 1997, has 186 home-entertainment stores in Ireland and Northern Ireland. Birchall is an Irish company owned by NCB Ventures and clients of NCB Group Ltd. Earlier this year, Blockbuster faced doubts about its ability to continue operating. However, in April, it refinanced $250 million in debt, which Chairman and Chief Executive Jim Keyes at the time said would ensure survival through the downturn when combined with operating cash flow and cost cutting.

National Express Group PLC

National Express Group PLC rejected a sweetened offer from **CVC Capital Partners** Ltd. and members of Spain's Cosmen family, saying it undervalued the company. The bus and train operator also said Friday it was planning to boost its balance sheet through a stock offering. The revised CVC offer, announced Thursday, valued National Express at £688.5 million ($1.12 billion), or 450 pence ($7.32) a share. National Express accumulated roughly £1 billion in debt in recent years in an aggressive acquisition spree. But rising unemployment has squeezed commuter traffic and the company's earnings. In July, the U.K. government took over one of the company's rail franchises.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Vatican slights Berlusconi

Holy See withdraws dinner invitation over attack by newspaper owned by premier's brother

By Stacy Meichtry

Reuters

Italy's Prime Minister Silvio Berlusconi, left, greets Pope Benedict XVI in Cagliari in September 2008.

ROME—Italian Prime Minister Silvio Berlusconi received a rare public snub from the Vatican after a newspaper owned by his brother criticized an influential Roman Catholic newspaper editor for questioning the premier's private life.

Mr. Berlusconi had planned to attend a religious service and dine with the Vatican's No. 2 official when the Holy See issued a statement Friday afternoon withdrawing the dinner invitation. The statement also said that Mr. Berlusconi, whose personal life has been under scrutiny for months, wouldn't attend the service, known as the "Perdonanza," or the annual day of pardon for sins.

A senior Vatican official said the snub came in response to a report published Friday in Il Giornale, a national newspaper owned by Mr. Berluconi's brother Paolo. "It was a very strong attack," the Vatican official said.

Under a front-page banner headline, Il Giornale ran an article accusing Avvenire, the official newspaper of the Italian Bishops Conference, of running a "moralistic campaign" against Prime Minister Berlusconi. The article went on to scrutinize Dino Boffo, Avvenire's top editor, claiming he had a homosexual affair and accepted a plea bargain in 2002 for harassing the wife of his alleged lover. In a statement, Mr. Boffo described the report as an "absurd" attempt to smear his reputation. Mr. Boffo described himself as "the first victim" in the 2001 harassment case. He didn't elaborate on the matter.

Friday evening, Mr. Berlusconi issued a statement distancing himself from the report. "I absolutely do not agree with what has been published today in Il Giornale with regard to the editor of Avvenire and I disassociate myself with it."

In an article posted on Il Giornale's Web site, the newspaper's top editor defended the accuracy of the report, adding he doesn't answer to the prime minister.

The dust-up comes at a delicate time for Mr. Berlusconi, who has kept a relatively low profile this summer following months of media scrutiny over his private life. Although support for Mr. Berlusconi remains strong among many Italians, his relations with Italy's Catholic Church have grown increasingly tense.

In April, the premier's wife announced plans for divorce, accusing him of "consorting with minors." Mr. Berlusconi denied having a "spicy" affair with an 18-year-old aspiring model. He also said he never paid for sex after a prostitute went public with claims that she slept with Mr. Berlusconi.

On Friday, a lawyer for Mr. Berlusconi said the prime minister had filed lawsuits against several newspapers, including La Repubblica, a left-leaning Rome newspaper that published critical articles of Mr. Berlusconi. In an editorial, La Repubblica's editor in chief criticized the lawsuit as an attempt to deflect attention from Mr. Berlusconi's personal troubles.

Mr. Berlusconi's plans to attend the Perdonanza was seen by the Italian public as a gesture in the direction of atonement.

In its statement, the Vatican said Mr. Berlusconi's dinner plans with Cardinal Tarcisio Bertone, who officiated Friday's service, was called off partly out of concern that the meeting could be "exploited." The Vatican official said the Holy See didn't want to be viewed as giving a "benediction" to Mr. Berlusconi's political positions and his personal life.

Euro-zone sentiment improves

By Paul Hannon

LONDON—A new survey indicates that the euro-zone economy could be set for a revival in coming months, but policy makers are likely to treat such hints of recovery with caution.

The European Commission survey of business and consumer confidence in the 16 countries that use the euro improved for the fifth consecutive month in August, with sentiment among service providers surging on an increase in activity.

According to a measure of activity compiled by the Centre for Economic Policy Research and the Bank of Italy, the euro zone's economic contraction slowed in August.

"The recession is easing, although estimated underlying growth is still negative," the CEPR said.

There were more signs that the euro zone may be emerging from a period of deflation.

The annual rate at which prices fell in Spain eased to 0.8% in August from 1.4%, while in Belgium prices fell 0.8% in the 12 months to August, having fallen by 1.7% in the 12 months to July.

Economists forecast that the European Central Bank will keep interest rates on hold until next year.

The euro-zone economy has been weakened by the five quarters of contraction that began in the second quarter of 2008, and the European Commission's survey highlighted the ground it will have to make up to recover.

Euro-zone manufacturers reported that they were operating at 69.5% of capacity in July, down from 70.9% in June and the lowest level since records began in 1990.

Members of the ECB's governing council have indicated that they aren't yet convinced that any recovery will be strong and sustained. Some economists expect the council to leave policy unchanged at its meeting on Thursday.

"The bank is likely to treat recent signs of improvement in the economy with caution, supporting our view that monetary policy will remain as supportive as it is now for some time to come," said Jennifer McKeown, an economist at Capital Economics.

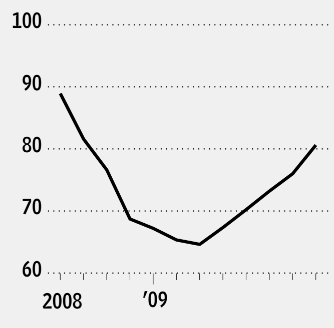
The commission's headline measure of business and consumer confidence jumped in August to a 10-month high of 80.6 from 76.0 in July.

The pickup in confidence was strongest among service providers, who reported a big improvement in conditions over the past three months, something they expect to continue over the coming three months. The overall measure of services sentiment rose to minus 11 from minus 18 in July, its highest level since October 2008.

Consumer confidence also strengthened, although more modestly, with the commission's measure rising to minus 22 in August from minus 23 in July, a weaker outcome than the rise to minus 21 forecast by economists. Consumers became more optimistic about the outlook for the economy over the next 12 months, but didn't expect the jobs market to improve.

Feeling better

Indicator of consumer and business confidence in the euro zone



Note: Seasonally adjusted
Source: European Commission

Within the wider European Union, confidence also improved, with the economic sentiment indicator rising to 80.9 from 75.0. Among Europe's largest economies, confidence strengthened most in the U.K., particularly among service providers and retailers.

Outside the euro zone, the U.K.'s Office for National Statistics Friday confirmed that the economy contracted again in the second quarter, although by 0.7% rather than its initial estimate of 0.8%.

By contrast, Poland's economy continued to defy the global downturn, as its gross domestic product rose at an annual rate of 1.1% in the second quarter, up from the 0.8% rate in the first quarter, according to official statistics released Friday.

Greek fire damage estimates drop

By Alkman Granitsas

ATHENS—Property losses from last week's Greek forest fires were less than initially feared even as the government has faced some criticism for its handling of the devastation.

Sixty-five homes were destroyed in the blazes and 143 were partially damaged, according to Greece's environment and public-works ministry—much less than the hundreds of residences suggested by initial reports.

The flames partly or completely consumed an additional 76 buildings, including churches, schools and stables, the ministry said.

Iceland plans to repay U.K., the Netherlands

By Charles Forelle

Iceland's parliament agreed to reimburse the United Kingdom and the Netherlands almost $6 billion used to compensate British and Dutch depositors who lost money in a failed Icelandic Internet bank.

The deal will saddle the island nation of 300,000 with a heavy debt—about half a year's economic output, or nearly $20,000 per Icelander—but it averts a diplomatic crisis that could have derailed Iceland's aspirations to join the European Union.

Iceland's government reached a preliminary deal with the two countries in June, but it required parliamentary approval. The parliament wrestled with the unpopular bill for weeks against a backdrop of protests that decried the whole country's suffering for the sins of a few bankers.

But Iceland, which applied to join the EU last month and relies on help from the International Monetary Fund and other foreign benefactors, couldn't afford to snub the international community. On Friday, lawmakers cleared the deal by a vote of 34-14, with 14 abstentions—though they added conditions that would defer some payments if the country faces another economic crunch in the future.

A U.K. Treasury spokesman said the U.K. will "look carefully at any conditions," but called parliament's accord a "significant and positive step forward." A spokeswoman for the Dutch Finance Ministry said that it was "very positive," and that Dutch authorities were waiting to discuss the conditions with their Icelandic counterparts.

Under terms, Iceland doesn't need to begin payments for seven years and then it has eight years to make them. Iceland is unlikely to have to pay the full amount from its own coffers: Government officials say they can recover substantial assets from the collapsed bank that can be put toward payment.

Jóhanna Sigurdardóttir, Iceland's prime minister, praised the deal's passage and called it as "the single largest financial commitment ever undertaken by the government of Iceland." During Iceland's financial boom, Landsbanki Islands, once one of Iceland's three major banks, took in billions of dollars of deposits—mostly from savers in the U.K. lured by high rates—through an Internet arm called Icesave. Between the British and Dutch versions of Icesave, there were some 400,000 depositors.

When Landsbanki collapsed in Iceland's financial meltdown last fall, the failure swamped Iceland's tiny deposit-insurance fund, and the U.K. and Dutch governments stepped in to pay the claims of angry British and Dutch Icesave customers, but the countries demanded repayment from Iceland.

Under European rules—Iceland is a member of the European Economic Area, which includes the EU and a few other nations that subscribe to the bloc's economic and trade regulations—countries are required to provide at least €20,887, about $30,000, in deposit insurance to customers of their banks.

—Laurence Norman contributed to this article.

U.S. Senate shifts affect agenda

Kennedy's death could move Dodd from banking post

By Damian Paletta

WASHINGTON—The political ripples from the death of U.S. Sen. Edward Kennedy could complicate the Obama administration's effort to overhaul supervision of financial markets with tough new consumer protections.

Shifting committee assignments could put a person much more skeptical of that effort in charge of the panel with jurisdiction over it.

Though no announcements have been made, many Capitol Hill aides expect Senate Banking Committee Chairman Christopher Dodd (D., Conn.) to succeed Mr. Kennedy as chairman of the Health, Education, Labor and Pensions Committee, to lead the push for revamping the nation's health-care system. An announcement could come as soon as this week.

Because a senator can lead only one panel at a time, Mr. Dodd would have to surrender his chairmanship of the powerful banking committee, which has jurisdiction over financial regulation. Senate leaders have said that next in line is Sen. Tim Johnson (D., S.D.), who is more politically moderate than the liberal Mr. Dodd, particularly on consumer protection.

At least one of Mr. Johnson's more strongly held positions on consumer protection is at odds with some of the main planks in the White House's proposal. Another wild card: Mr. Johnson is still recovering from a 2006 cerebral hemorrhage that has left his mobility limited.

The White House wants to create a consumer agency to police financial products such as credit cards and mortgages. Mr. Johnson has argued that tougher credit-card rules hurt consumer choice and could cost his state jobs. South Dakota is the headquarters of Citigroup Inc.'s credit-card division, Citibank (South Dakota) NA, and Premier Bankcard, which offers credit cards to subprime borrowers.

Bloomberg News

U.S. Democratic Sen. Tim Johnson, shown in January, could play a key role in financial regulation if the more liberal Sen. Christopher Dodd changes committees.

In a letter to the Federal Reserve and other regulators last year, Mr. Johnson and two other South Dakota lawmakers warned about the impact of federal regulators' planned restrictions on credit-card fees.

"If a company like Premier Bankcard is no longer able to offer their current services, many individuals and communities in South Dakota could suffer," they wrote.

Mr. Johnson, 62 years old, also voted against a White House-endorsed bill earlier this year that banned certain credit-card practices and fees, one of only five senators to do so. The risk that it would hurt his state and consumers is "too large for me to support this legislation," he said at the time.

A spokeswoman for Mr. Johnson declined to comment for this article.

Mr. Johnson doesn't always support policies pushed by banks. He has argued that large failing financial institutions should be broken up by the government. He was one of a handful of Democrats who voted against last year's $700 billion bank bailout, the Troubled Asset Relief Program.

In an op-ed he wrote for American Banker in June, Mr. Johnson argued that Congress should create a systemic-risk council that would be "charged with deciding whether a troubled firm should be forced to close or allowed to stay open."

"The sooner we modernize our resolution structure, the sooner we can end the 'too big to fail' mentality that has us all wondering what company will earn the dubious title next, and thus clear the way for a more stable economic future," he wrote.

Mr. Dodd has long fought for tougher rules on credit-card companies. He has said that the creation of a consumer financial protection agency must be a centerpiece of any legislative changes.

On July 14, Mr. Johnson told Michael Barr, Treasury assistant secretary for financial institutions, that the consumer-protection proposal "seems to create many hurdles for both banks that offer these types of products and consumers that use them."

—Jonathan Weisman contributed to this article.

Economists split over U.S. inflation outlook

By Sara Murray

Business economists are split on whether the Federal Reserve's massive infusion of credit into the U.S. economy will lead to inflation in the next couple of years.

Half of 266 members of the U.S.'s National Association for Business Economics surveyed in August said the Fed's decisions to increase the money supply won't lead to inflation in the next few years, the NABE said Monday. Some 41% disagreed, though, citing "lagged effects of policies now in effect," "monetization of the debt" and "ineffective exit strategy" as their primary concerns.

The economists overall said they expect U.S. inflation excluding food and energy to average 3% from 2014 to 2018. "This may reflect their view that an excessively stimulative fiscal policy and a complicated exit from its quantitative easing policies over the medium term will result in the Fed tolerating a higher level of inflation than it desires," the NABE report said. The Fed aims to keep inflation between 1.5% and 2%.

Recent debate over the Fed's strategy for reducing its large holdings of government bonds and mortgage-backed securities has centered on timing. If the Fed waits too long to bring the programs to a close, the economy runs the risk of inflation. But if it attempts to wind them down too soon, while the economy is still weak, it could hinder the recovery.

The economists reached more of a consensus on overall monetary policy: Nearly 70% said it was "about right," up from 56% a year earlier. One-quarter of those surveyed said current policy was too stimulative.

The majority, 56%, said the Fed was likely to keep interest rates stable over the next six months, whereas 44% expect an increase.

As for U.S. fiscal policy, 35% said it was "about right," the highest percentage to say so since March 2008. But 50% of the economists surveyed said America's fiscal policy was too stimulative.

Evaluating a variety of proposals for a financial overhaul, the economists determined that consolidation of U.S. regulators and a revamp of ratings firms would improve financial stability and yield the most benefits for consumers and businesses with the least effect on credit.

The economists ran the gamut on how to improve health care in the U.S., but just 46% said current proposals could improve access to and quality and cost of health care. On cap-and-trade proposals to address climate change, just 15% said such a program could significantly reduce greenhouse-gas emissions globally.

Darling says U.K. will boost funding to the IMF

By Laurence Norman

LONDON—The U.K. will increase its funding to the International Monetary Fund and will urge its European neighbors to do the same, Chancellor of the Exchequer Alistair Darling said.

Writing an op-ed in the Guardian newspaper ahead of this week's meeting in London of Group of 20 finance ministers and central bankers, Mr. Darling also said the G-20 would need to forge ahead on financial reforms, going further to ensure tax havens comply with global standards, and bankers' pay doesn't exacerbate risky behavior.

Mr. Darling noted that at April's G-20 leaders' summit in London, the group agreed to treble IMF resources to $750 billion to stifle the global economic crisis and said the European Union has pledged $100 billion in extra funds.

"But Europe should set an example and do more to meet the target, by committing up to $175 billion—with the U.K. ready to provide up to an additional $11 billion, to the $15 billion already pledged, taking our total contribution to over $25 billion," he wrote.

In the past, the U.K. has provided IMF funding from its foreign-exchange reserves, with the resources drawn down only when needed and as a loan. The U.K. will take its argument to Wednesday's meeting of European Union finance ministers.

Mr. Darling added the G-20 will need to push ahead with financial reforms, saying it is necessary "to go further" on bank pay and bonuses and "there is more to be done in tackling the risks posed by tax havens."

The U.K. is one of a number of nations that has signed information-sharing accords with tax havens, including one with Gibraltar last week and a set of agreements with Liechtenstein in August that aim to prevent tax evasion.

Meanwhile, France and Germany are expected to push hard at the G-20 meeting for global rules on remuneration. The U.K. government has said it is considering legislation to toughen rules on bank pay.

Al Qaeda names attempted killer of Saudi official

By Summer Said

DUBAI—Al Qaeda named a suicide bomber who tried to kill the head of Saudi Arabia's antiterrorism efforts as Abdullah al Asiri, who came from Yemen and was on the kingdom's list of wanted militants.

The militant late Thursday slightly injured Prince Mohammed bin Nayef, who serves as deputy interior minister and is a member of the royal family. Mr. Asiri flew from Najran near the Yemeni border to Jeddah to surrender to authorities, according to a statement attributed to al Qaeda Jihad Organization in the Arab Peninsula and posted on several Islamists Web sites.

"The hero martyr on the list of 85 wanted people ... managed to enter his [Prince Nayef's] palace, pass his guards and blow up an explosive package," said the statement, accompanied by a picture of Mr. Asiri.

Mr. Asiri managed to get through security checks at the Yemeni and Saudi ports and flew on Prince Nayaf's private jet, said the statement, which couldn't be immediately verified.

Yemeni Foreign Minister Abubakr al Qirbi told local media that Mr. Asiri, who came from Ma'reb, east of the Yemeni capital, claimed he wanted to hand himself over to Saudi authorities and called on other militants to leave al Qaeda.

The Jeddah attack is the first significant retaliation by extremists against the kingdom's recent arrests of 44 suspected militants allegedly linked to al Qaeda.

Major suspect in cybertheft to plead guilty

By Keith J. Winstein

Albert Gonzalez, a former Secret Service informant who is accused of masterminding the theft of millions of credit-card numbers from **TJX** Cos., **7-Eleven** Inc. and other retailers, will plead guilty to some charges and serve at least 15 years in prison.

According to a plea agreement filed Friday in U.S. District Court in Boston, Mr. Gonzalez will admit to all 19 counts of a 2008 indictment, including breaking into computer systems, identity theft and wire fraud. Prosecutors have requested a plea hearing be held next month.

Prosecutors and Mr. Gonzalez's attorneys proposed a prison term of between 15 and 25 years and the forfeiture of more than $2.7 million.

Mr. Gonzalez, 28 years old, was accused of stealing credit-card records from companies including **OfficeMax** Inc., **Barnes & Noble** Inc. and TJX's Marshalls stores.

Friday's plea agreement also resolves federal criminal charges filed in New York concerning credit-card thefts from the restaurant chain **Dave & Buster's** Inc.

The deal doesn't resolve charges against Mr. Gonzalez filed earlier this month. That federal indictment, which alleges the theft of 130 million credit-card numbers from 7-Eleven and **Heartland Payment Systems** Inc., is pending. Attorneys for Mr. Gonzalez declined to comment. Federal prosecutors didn't return calls seeking comment.