Money & Investing: GLG's falling revenue reflects a business shift

THE WALL STREET JOURNAL.

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Unilever's reduced prices and heavier marketing outlays drove sales volume growth in the latest quarter, but net income fell 17%, underscoring how vulnerable profit margins are as consumers trade down. Page 5

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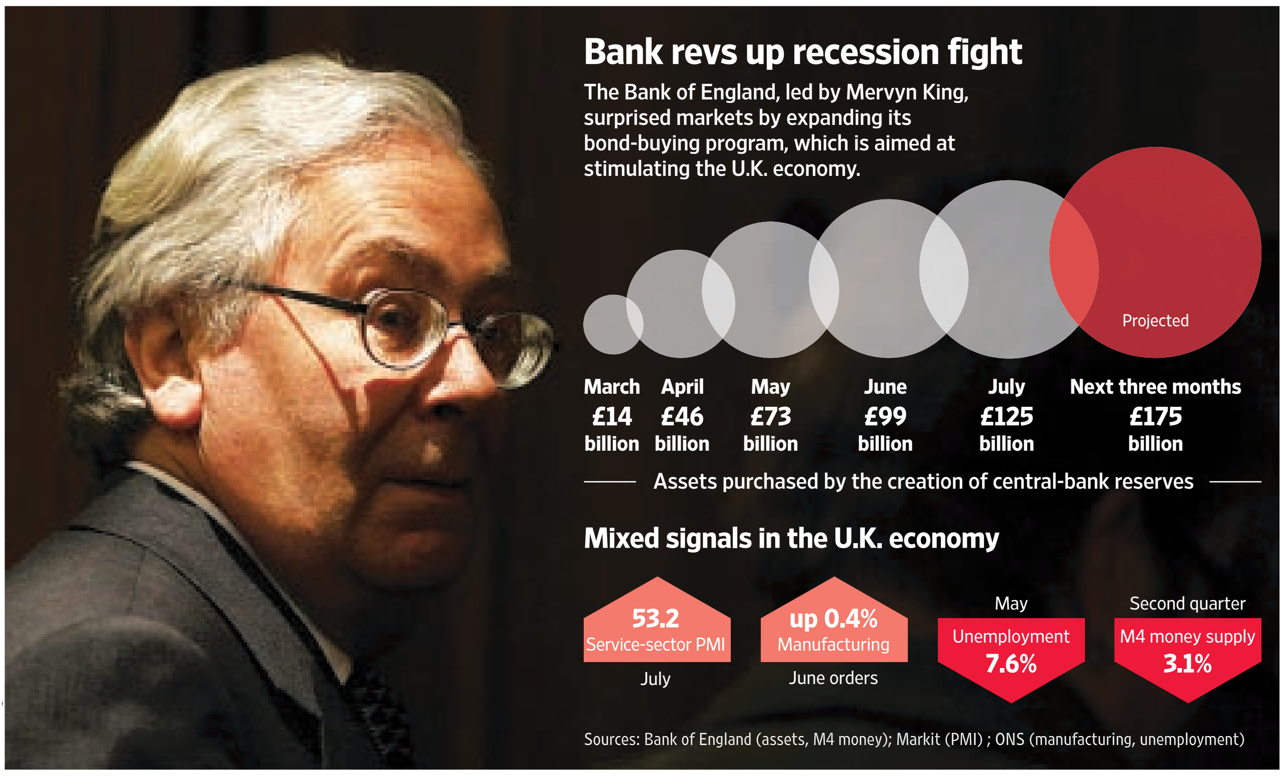

BOE increases bond buys

Central bank signals recovery concerns with $85 billion program expansion

By Neil Shah and Natasha Brereton

LONDON—The Bank of England signaled doubts Thursday about the sustainability of a recent improvement in the U.K. economy, surprising markets with a larger-than-expected increase in a bond-buying program aimed at fending off recession.

Prices of U.K. government bonds surged and the British pound fell after the central bank announced it would expand its so-called quantitative easing program by £50 billion ($85 billion) to a total of £175 billion. Analysts had been split on whether the central bank would add even £25 billion to the program, under which it buys mostly government securities with freshly created money. The larger increase required Bank of England Governor Mervyn King to write to U.K. Treasury chief Alistair Darling asking permission to raise a £150 billion cap the Treasury had placed on the program.

The expansion of the program suggests policy makers are still worried about the long-term outlook for the U.K. economy despite a recent spate of positive data pointing to recoveries in house prices, manufacturing and services.

"It's a reality check," says Philip Shaw, chief economist at Investec Securities in London. The bank's move "highlights that there are still risks ahead."

Among the main concerns

Money matters

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of economists and officials: Bank lending has so far failed to respond to the quantitative easing program, which aims to stimulate new lending by putting more cash in the bank accounts of bond sellers. While banks' reserves of cash have more than tripled since the central bank launched the program in March, one broad measure of lending in the economy—known as the "M4" money supply excluding certain financial firms—has hardly budged. The measure includes currency in circulation as well as most bank deposits. In the second quarter, it was up just 3.1% from the year-earlier period, the weakest expansion since 1999.

Beyond that, rising unemployment and people's efforts to pare debt loads are likely to weigh on consumer

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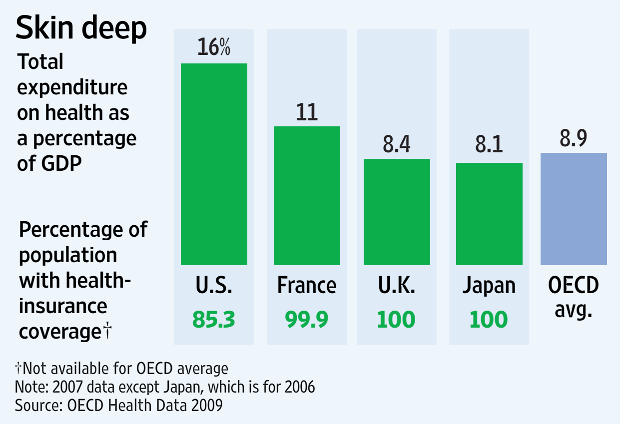
French woes color U.S. health debate

By David Gauthier-Villars

PARIS—When Laure Cuccarolo went into early labor on a recent Sunday night, her only choice was to ask the local fire brigade to whisk her to a hospital 50 kilometers away. A closer facility had been shuttered by cost cuts in France's universal health-care system.

Ms. Cuccarolo's little girl was born in a fire truck.

France long ago achieved much of what today's U.S. health-care overhaul is seeking: It covers everyone, and provides for high-quality care. But soaring costs are pushing the system into crisis. The result: As Congress fights over whether America should be more like France, the French system is trying to borrow some U.S. tactics.



†Not available for OECD average
Note: 2007 data except Japan, which is for 2006
Source: OECD Health Data 2009

In recent months, France imposed American-style "copays" on patients to try to throttle back prescription-drug costs, and forced state hospitals to crack down on expenses. "A hospital doesn't need to be money-losing to provide good-quality treatment," President Nicolas Sarkozy thundered in a recent speech to doctors.

And service cuts—such as the closure of a maternity ward near Ms. Cuccarolo's home—are prompting complaints from doctors and nurses that care is being rationed. That concern echoes worries among some Americans that the U.S. changes could lead to rationing.

The French system's fragile solvency shows how tough it is to provide universal coverage while controlling costs, the professed twin goals of U.S. President Barack Obama's proposed overhaul.

French taxpayers fund a state health insurer, Assurance Maladie, proportionally to their income, and patients get treatment even if they can't pay for it. France spends 11% of national output on health services, compared with 17% in the U.S., and routinely outperforms the U.S. in

Please turn to page 27

Animal activism heightens in Europe

By Jeanne Whalen

In the wake of a crackdown in Britain that has damped attacks by animal-rights extremists there, the battlefront appears to have shifted to continental Europe, where a series of companies and individuals connected even indirectly to animal research are being targeted by anonymous assailants.

Arson and threatening graffiti have been used in recent months against executives working for Swiss drug giant **Novartis** AG and **NYSE Euronext**, which operates the stock exchange where one big animal-research company is listed.

An employee of drug maker **Schering-Plough** Corp. in Belgium also was targeted, and animal-rights groups claim they have vandalized the cars and homes of people working for pharmaceutical companies **Pfizer** Inc. and **Bayer** AG and British bank **Barclays** PLC, among others.

The incidents have opened a new front in a battle that had previously been confined largely to Britain, where extremists early this decade began attacking Huntingdon Life Sciences, a company that tests drugs and other products on animals. Many recent attacks have been aimed not at HLS itself, but rather businesses that allegedly contract with the laboratory or are its financial backers. Novartis, however, says it hasn't used

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Inside

Green cuisine

London's sustainable eateries set a new culinary trend
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9256.26	-0.27
Nasdaq	1973.16	-1.00
DJ Stoxx 600	227.89	+0.45
FTSE 100	4690.53	+0.93
DAX	5369.98	+0.32
CAC 40	3477.83	+0.56
Euro	$1.4368	-0.12
Nymex crude	$71.94	-0.04

LEADING THE NEWS

Private equity rallies, but debt hangs heavy

KKR and Blackstone see hopeful signs; can they 'rewrite history'?

By Peter Lattman

Better-than-expected earnings from **Blackstone Group** LP and a successful public offering from a **Kohlberg Kravis Roberts** & Co.-owned company Thursday were the first hopeful signs from the private-equity business in more than two years. But much trouble still looms, mainly in the form of the hundreds of billions of dollars of debt strapped to big acquisitions during the credit boom.

Blackstone posted stable results Thursday with improved performance in its private-equity funds. That followed solid numbers Wednesday from **Fortress Investment Group** LLC, the New York-based private-investment firm. Those came as KKR and **Silver Lake Partners** raised $650 million from an initial public offering of **Avago Technologies** Ltd., the first sizable IPO of a buyout-backed company this year.

On a conference call, Blackstone Chief Executive Stephen Schwarzman said two-thirds of the companies in Blackstone's private-equity portfolio expected to see either positive or flat earnings before interest, taxes, depreciation and amortization, or Ebitda—a common measure of cash flow. That is compared to 35% of the companies in the Standard & Poor's 500-stock index, said Mr. Schwarzman.

But Ebitda results don't account for interest expense on debt, and those payments are suffocating some large buyout-owned companies. Several of them are currently locked in negotiations with lenders to restructure their overleveraged balance sheets. Private-equity firms spent roughly $1.6 trillion on leveraged buyouts struck from 2005 to 2007, and these firms are now using a variety of measures, such as exchange offers and debt repurchases, to stave off default.

Several companies owned by buyout firms are lining up to go public.

Energy Future Holdings Corp., formerly known as TXU Corp., is negotiating with lenders to ease its $44 billon debt burden by extending maturities on its bank loans. KKR and **TPG** acquired the utility in 2007 for $44 billion. Clear Channel Communications, owned by **Thomas H. Lee Partners** and **Bain Capital**, is also trying to restructure its $21 billion debtload. And NewPage Corp., a struggling paper maker owned by **Cerberus Capital Management** LP, launched a plan this week to reduce its debt and amend its credit facility.

With the improvement in the debt markets, "there's an opportunity to delever companies on attractive terms," said Blackstone President Tony James on Thursday. "You can effectively rewrite history by changing a company's capital structure and reducing its leverage and purchase price."

Private-equity firms are also taking advantage of buoyant equity markets. Avago, originally part of Hewlett-Packard Co., was purchased by KKR and Silver Lake in early 2005 for about $2.7 billion. The stock traded late Thursday afternoon at $16.41, rising 9.4% on its first day of trading and valuing the company at $3.9 billion. KKR will earn additional fees on the deal as its nascent capital-markets unit serves as an underwriter on the IPO.

Several other private-equity-owned companies are lining up to tap the public markets, including RailAmerica Inc., owned by **Fortress Investment Group;** and VS Holdings Inc., the holding company for the Vitamin Shoppe chain, owned by **Irving Place Capital.** KKR, the most acquisitive firm during the buyout boom, is readying several stock offerings, including an IPO of discount retailer **Dollar General** Corp.

"There has been a sea change in the past few months," said Richard Truesdell, a lawyer at Davis Polk & Wardwell in New York. "There is a dramatic increase in the number of IPOs we're working on generally, but specifically in companies controlled by private-equity firms."

Large institutional investors such as pension funds and endowments remain cash-strapped after suffering broad losses in the financial markets. That is increasing the pressure on the buyout firms, who are desperate to show clients they can return invested capital at a profit.

Commerzbank posts loss as more loans sour

By William Launder

FRANKFURT — **Commerzbank** AG swung to a second-quarter net loss as it struggled with a mounting loss provision for bad loans and continued to integrate Dresdner Bank into its operations.

Germany's second-largest bank by market value posted a net loss of €746 million ($1.8 billion) for the second quarter compared with a net profit of €200 million a year earlier, including Dresdner Bank. That was narrower than the first-quarter loss of €861 million but wider than €636 million loss expected by analysts.

The lender repeated that it expects to post a loss for all of 2009. Chief Executive Martin Blessing said, "2009 will remain a challenging year, but we are heading in the right direction."

The bank booked €216 million in charges tied to Dresdner, the loss-plagued unit Commerzbank acquired from insurer **Allianz** SE at the beginning of the year.

Commerzbank's investment bank didn't provide the outsize trading profits that **Barclays** PLC or **Deutsche Bank** AG had in the second quarter. Its corporates and markets unit posted an operating loss of €231 million in the quarter, although that was less than €683 million of a year ago and €1.14 billion in the first quarter of 2009.

Still, it posted its first trading profit in more than 12 months, largely because of fixed-income trading. Overall its trading profit reached €93 million, compared with a loss of €523 million in the first three months of the year and a loss of €3.5 billion in the last three months of 2008. In the second quarter of 2008, a combined Commerzbank and Dresdner would have had trading loss of €246 million.

Like chief rival Deutsche Bank, which increased its loan-loss provision nearly sevenfold in the second quarter, Commerzbank's loan-loss provision more than doubled to €993 million as it prepared for further losses in a weak economy.

Write-downs related to the financial crisis for the quarter reached €621 million, partly related to loan exposure to Central and Eastern Europe. The bank had recorded a combined €5.8 billion of write-downs in the previous five quarters.

There were some signs of improvement. Commerzbank said its Tier One ratio, an indicator of a financial company's financial health, increased to a solid 11.3% from 10.2% at the end of the first quarter.

Chief Executive Martin Blessing said that "2009 will remain a challenging year, but we are heading in the right direction."

The lender reduced its balance sheet by 13% from the end of 2008 and said it was meeting its timeline to integrate Dresdner and to revamp its business and risk model by 2012. The bank said it expects an after-tax return on equity of 12% in 2012.

The second-quarter results are "better than expected," but largely benefited from €328 million through the sale of shares in Linde AG, Thyssen Krupp AG and Lufthansa AG, said M.M. Warburg analyst Andreas Plaesier.

He said he remained concerned about the mounting loan-loss provision but was less worried about Commerzbank's write-downs for the quarter.Commerzbank shares shed 0.6% to €5.87.

Its shares have skidded 73% over the past year as the lender struggled with its exposure to bad loans and needed a bailout from the German government.

—Madeleine Nissen and Harry Wilson contributed to this article.

Commerzbank AG

Daily closing share price on the Frankfurt Stock Exchange

Thursday's close: €5.88

Source: Thomson Reuters Datastream

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

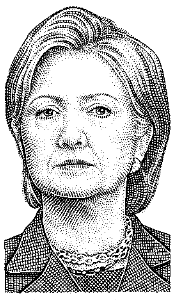
U.S. backs Somali leader

Clinton promises additional support to help fight terror

By Sarah Childress

NAIROBI, Kenya—U.S. Secretary of State Hillary Clinton said Thursday that the U.S. will increase its support for the beleaguered Somali government to help prevent Somalia from becoming a haven for global terrorism.

The U.S. strongly backs Somalia's transitional federal government. But the new regime has a tenuous hold. Since it came to power this year, it has been beseiged by the powerful Al Shabab militia, which has joined forces with other insurgent groups and foreign fighters, some with links to al Qaeda, in an attempt to overthrow the government. The U.S. has designated Al Shabab as a terrorist organization.



Hillary Clinton

"There is no doubt that Al Shabab wants to obtain control over Somalia to use it as a base from which to influence ... surrounding countries, and launch attacks against countries far and near," Mrs. Clinton said after a meeting with Somali President Sheikh Sharif Sheikh Ahmed at the U.S. Embassy in Nairobi. She cited the case of five men charged this week in Australia with plotting a suicide attack against an army barracks near Sydney. The men are allegedly linked to Al Shabab; three of them are of Somali origin.

Mrs. Clinton also warned Eritrea that its support for antigovernment elements in Somalia wouldn't be tolerated. The United Nations Monitoring Group on Somalia says Eritrea is backing Somali rebels in order to foment chaos in Somalia and create more problems for Ethiopia, which shares a border with Somalia. Eritrea has denied the allegations.

The Eritrean "actions are unacceptable," Mrs. Clinton said. "Their interference with the rights of the Somali people to determine their own future are the height of misplaced efforts and funding, and we intend to take action if they do not cease."

She didn't say what the U.S. might do, though the American government has previously threatened to impose sanctions on Eritrea.

At a town-hall event at the University of Nairobi, Mrs. Clinton stressed the need for good governance to fight corruption—repeating the message she delivered directly to the Kenyan government on Wednesday.

She emphasized the importance of civil-society groups and the Kenyan people in holding the government to account. "The government has to reform itself if Kenya will be all it can be," Mrs. Clinton told reporters after the meeting. "That is the message that President Obama and I have delivered. "

The U.S. government has long been concerned about the chaos in Somalia spilling over its borders. The Bush administration backed the previous Somali government, which was largely ineffective and eventually was dissolved last year when its president stepped down.

Asked to comment on the perceived shift in U.S. support, Mrs. Clinton said support for Somalia has always been bipartisan. But, she added, "I think it is fair to say that President Obama and I want to expand and extend our support for the TFG," the common name for the current Somali government.

The conflict in Somalia is complex and characterized by shifting alliances. President Ahmed himself was once a member of a radical Islamist government that held power briefly in 2006; Al Shabab was that government's armed wing.

On Thursday, Mrs. Clinton greeted him warmly, and Mr. Ahmed, who generally avoids contact with women because of his conservative Muslim beliefs, shook her hand. Mrs. Clinton called him the "best hope" for stability in Somalia.

The U.S. is the principal financial backer of the African Union peacekeeping mission in Somalia. On Thursday, Mrs. Clinton promised "additional funds in the coming months" for the government, though she didn't give an amount. She also said the U.S. would respond to a request from Mr. Ahmed for humanitarian aid.

World War I's last soldier is laid to rest

Agence France-Presse/Getty Images

END OF AN ERA: Mourners at the funeral of Harry Patch in Somerset, England, were told that he was an ordinary man who became a symbol of the horrors of war.

Civilian deaths increase in Afghanistan bombings

By Anand Gopal

KABUL—A roadside bomb killed five people on their way to a wedding in southern Afghanistan on Wednesday, officials said, the latest in a series of incidents this week in which civilians have been victims.

The attacks come as Western and Taliban officials pledge to avoid civilian casualties.

Officials are concerned that violence will continue to increase as the Aug. 20 presidential election approaches. Violence has reached its highest levels since the start of the war in 2001, due to an increased insurgent presence and foreign military operations. Insurgents have vowed to disrupt the polls, and Western and Afghan officials fear they may target civilians who cast ballots.

On a visit to Kabul on Wednesday, new North Atlantic Treaty Organization Secretary-General Anders Fogh Rasmussen pledged to reduce civilian casualties.

The Taliban leadership also has asked its fighters to avoid killing civilians, according to a newly issued rule book from the movement.

Civilian casualties have become an increasingly common part of the conflict. In a study released last week, the United Nations found more than 1,000 civilians were killed by insurgents and foreign troops by the first half of this year, a 24% increase over the year-earlier period. Insurgent violence was responsible for nearly 60% of these deaths, a significant shift from last year, when the two sides killed nearly the same number of civilians.

Military officials attributed the shift to insurgents' increased use of roadside bombs. Roadside bombs and suicide attacks account for nearly 40% of all civilian deaths this year, according to the U.N. report.

The most recent incident, which was disclosed Thursday, took place in the Garmsir district of the restive southern province of Helmand. Provincial spokesman Daud Ahmadi said women and children were among the dead. Provincial authorities had mistakenly reported that 21 people were killed, but later revised the figure.

"It was the work of the enemies of the country," Mr. Ahmadi said, referring to the Taliban.

In separate incidents on Thursday, NATO said four U.S. service members were killed by a roadside bomb in western Afghanistan. Also, in Helmand, a roadside bomb killed five policemen and wounded three. And Afghan officials said a U.S. airstrike killed five farmers as they were loading cucumbers into a car.

Earlier this week, a roadside bombing killed at least 10 people, most of them civilians, in the western city of Herat.

U.S. Marines launched an offensive in Helmand this summer aimed at regaining control of parts of the province from the Taliban. While troops have succeeded in recapturing some district capitals, insurgents still occupy the countryside, and regularly launch attacks and plant bombs, officials said.

European Central Bank holds rates steady

Euro-zone outlook is weak, but business becomes optimistic

The European Central Bank left its key interest rates unchanged Thursday, emphasizing that Europe's economic outlook remains weak despite rising optimism in recent business surveys.

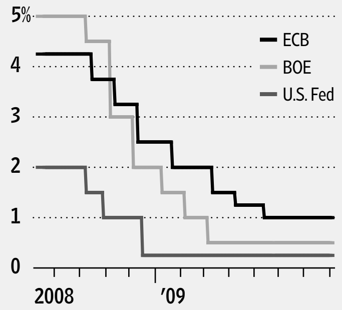
*By **Terence Roth** in London and **Geoffrey T. Smith** in Frankfurt*

ECB President Jean-Claude Trichet, speaking in Frankfurt on Thursday, forecast a return to growth next year.

Bloomberg News

Wait and see

The European Central Bank and Bank of England left interest rates unchanged Thursday



Sources: European Central Bank; Bank of England; U.S. Federal Reserve via Thomson Reuters Datastream

The ECB's governing council kept the bank's refinancing rate at 1%, which ECB President Jean-Claude Trichet called "appropriate." Mr. Trichet stuck to the ECB's relatively downbeat view of the economy, predicting a return to quarterly growth in the 16-nation euro area only in 2010.

Recent data and surveys "still suggest that economic activity over the remainder of this year is likely to remain weak, although the pace of contraction is clearly slowing down," Mr. Trichet said in Frankfurt.

Some private-sector economists say they believe the euro zone could return to growth late this year, pointing to evidence of an earlier-than-expected recovery in Germany, in particular. In the latest sign the recession in Europe's biggest economy could be ending, German manufacturing orders in June rose by an unexpectedly strong 4.5% from May, thanks to higher foreign demand for German goods, the economics ministry said.

New orders in Germany's crucial manufacturing sector collapsed in the period after Lehman Brothers' insolvency last fall, but have now risen again for four consecutive months. Still, orders were down 25.3% from June 2008, indicating German industry is emerging from its slump slowly.

Despite the improving German news, Mr. Trichet said much of the survey data suggesting economic recovery is nigh is "soft" evidence.

He also said the disinflationary pressures that have pushed down prices this summer should begin to ease, with consumer prices expected to begin rising again later this year. "We expect the current episode of extremely low or negative inflation to be short-lived," Mr. Trichet said. Annual inflation rates should return to the ECB's preferred level of just under 2% in the medium term, he said.

The ECB's judgment that the pace of economic contraction is slowing, together with the view that falling prices will soon be reversed, lifted the euro and depressed prices of euro-zone government bonds.

Financial markets' reaction reflected the possibility that the ECB might lift interest rates sooner than expected. The price of benchmark 10-year German government bonds slipped as yields rose to 3.39%, from 3.35% before Mr. Trichet's comments. The euro also climbed slightly against the dollar, closing in London at $1.4368.

"The ECB has become more positive but it is not prepared to claim victory on the recovery and wants to hedge itself by stressing the high degree of uncertainty," Jacques Cailloux, economist at the Royal Bank of Scotland, wrote in a research note.

Mr. Trichet urged euro-zone banks to do more to strengthen their capital bases, saying lenders should take advantage of government recapitalization and other programs. "We still think there is a case for further recapitalizations," Mr. Trichet said.

The ECB's July survey of bank lending showed that euro-zone banks tightened their lending standards in the second quarter for the eighth consecutive quarter, but that the degree of tightening had slowed significantly from early this year.

Mr. Trichet said weak bank lending in the euro zone mainly reflected weak demand for credit from borrowers, rather than banks' impaired ability to make loans. But he said supply constraints are also playing a role.

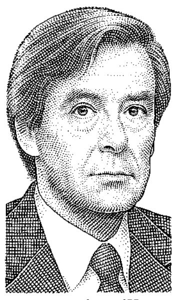
Euro-zone banks have done less than U.S. banks to write down losses and rebuild capital, according to estimates by the International Monetary Fund and others. That could hold back banks' ability to lend as Europe's economy improves, analysts say.

—Nina Koeppen in Frankfurt contributed to this article.

French premier tells banks to limit bonuses

BY DAVID GAUTHIER-VILLARS AND JETHRO MULLEN

PARIS—French Prime Minister François Fillon urged French banks that have received state aid over the past year to keep a lid on executive bonuses and continue to extend credit to the country's businesses.



François Fillon

Mr. Fillon, who was on holiday, said in a statement he had summoned representatives of France's leading banks to his office on Friday to discuss the matter with one of his aides. "Banks must abide by their commitments to the nation," he said.

Since October, the French government has injected close to €20 billion ($28.83 billion) into domestic banks to help them through the financial crisis. In exchange, the banks have agreed to comply by certain guidelines on bonuses. The guidelines, drawn up with French authorities, are in line with recommendations made by the Group of 20 largest economies earlier this year.

Those recommendations, which are aimed at reining in excessive risk-taking, include linking bonuses to profits, not revenue. They also advise staggering the payment of bonuses over several years and tying them to the continued performance of the relevant banking activity in order to avoid dishing out quick rewards for unsustainable gains.

The French government has said it wants to propose new measures aimed at further tightening pay practices in the banking sector at the next G-20 meeting in September.

The long-running debate in France over executive pay was rekindled this week when **BNP Paribas** SA, France's largest bank by market value, said it had set aside about €1 billion to pay bonuses to its employees in 2009. BNP Paribas said it would abide "scrupulously" with guidelines on pay packages agreed by France and the other G-20 countries.

The government injected €5.1 billion into BNP Paribas earlier this year to help the bank confront the global credit crisis.

"If the government is serious about bringing values to the world of finance, it is imperative that this €1 billion be paid back to the state," said French shareholder-activist association SOS Petits Porteurs.

The clash over executive pay echoes similar disputes in the U.S., where lawmakers are scrutinizing Wall Street pay packages. For France, the issue is touchy because the French government is trying to make Paris a leading European financial center and a magnet for international bankers. It will be difficult to attract bankers if the French government caps bonuses, economists say.

"It's very easy to move a trader from Paris to London," said Nicolas Veron, an economist with Bruegel, a Brussels-based think tank. "The reality is that London remains a very competitive financial center." Although France provides good transport infrastructures and is home to many large corporations, London retains an edge with its lower taxes, he said.

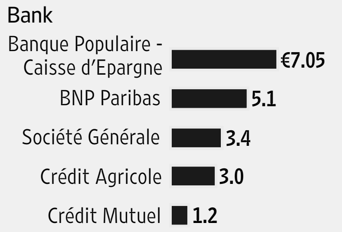
BNP said the €1 billion provision for 2009 bonuses that it has set aside would go to its 17,000 corporate and investment-bank employees. The bank said the final amount won't be set before the end of the year. BNP Paribas declined to say how the amount compares with bonuses paid in previous years.

French banks have also committed to increasing lending to French consumers, businesses and local authorities this year. Generating such credit growth in a shrinking economy has proved to be tough. When the banks agreed to the lending-growth target, France was forecasting GDP growth of 1% in 2009. It has since slashed that forecast to a contraction of around 3%.

George Pauget, head of the French Banking Federation, cautioned in June that banks might struggle to meet their lending promises if the real-estate market doesn't improve by the end of the year. The amount of credit to households and companies continued to rise in June, but at a slower pace than in previous months, according to the Bank of France.

Cash line

Capital injections from the French government, in billions



Sources: French Finance Ministry; the banks

Bank of England expands bond-buying program by $85 billion

Continued from first page

spending, by far the largest driver of demand in the U.K. economy. As of May, the U.K. unemployment rate stood at 7.6%, the highest level in 12 years.

In a statement Thursday, Bank of England policy makers said banks' efforts to shore up their finances amid rising loan losses "is likely to restrict the availability of credit, and past falls in asset prices and high levels of debt may weigh on spending," adding that financial conditions remain "very fragile." The bank pointed out that the recession appeared to be deeper than previously thought, although the economy's rate of contraction had eased, with business surveys suggesting that a trough in output was "close at hand."

A key driver of the Bank of England's policy decisions is its quarterly inflation forecast, which the bank will release next week. Its move Thursday effectively means that the bank isn't worried that its actions will spur inflation soon. The BOE also kept its key interest rate on hold at a record low of 0.5%.

In recent weeks, a string of upbeat indicators has led many economists to forecast that the U.K. economy will expand in the third quarter after a year of contraction—which would help Prime Minister Gordon Brown and his Labour Party before elections that must be held by June 2010. On Wednesday, the U.K.'s Office for National Statistics reported better-than-expected manufacturing data, with a key measure of industrial production seeing the largest increase in 20 months.

In a move to circumvent the dearth of bank lending, the Bank of England announced plans last week to wade deeper into the business of lending to consumers and companies, saying it will launch a facility to buy securities based on so-called commercial paper—IOUs companies issue to finance everything from payrolls to consumer loans such as credit cards.

On Thursday, the bank said it will also expand its purchases of government securities to include all bonds maturing in more than three years. The bank had previously limited its purchases to maturities ranging from five to 25 years.

The British pound fell after the announcement, to $1.6885 from more than $1.70, on the expectation that the Bank of England will be creating more new money. Investors also bid up the prices of U.K. government bonds in anticipation of a new wave of official purchases, pushing yields on the bonds down. The yield on the benchmark 10-year U.K. government bond, or gilt, fell nearly 0.20 percentage point to 3.64%.

CORPORATE NEWS

Spanish solar power goes on a hot streak

Already a big wheel in wind energy, sunny Spain is pressing its advantage in the race to harness solar thermal power

By Juan Montes

MADRID—After positioning Spain as the third-largest wind-power producer after the U.S. and Germany, renewable-energy companies are now racing for a foothold in the country's fast-growing "solar thermal" market.

Concentrating solar-thermal technology, as it is known, uses mirrors to focus the sun's rays on to a central receiver, generating steam that powers electric turbines. What makes the technology unique is that the solar heat can be stored, offering a key power backup for electric grids. Conventional photovoltaic solar power has to be used on the spot.

Large power utilities are attracted by solar thermal plants because their operation is similar to that of conventionally fueled steam power plants. Their storage capacity, using tanks of molten salt that retain heat, makes it possible to develop big plants that can generate power around the clock.

Government figures show Spain has close to 30 solar-thermal plants under construction. Companies are seeking clearance for projects that would add 4,300 megawatts of capacity—enough to cover about two-thirds of New York City's power demand on a spring day—representing an investment of about €17 billion (about $24.5 billion).

"After wind power, solar-thermal technology will be the second great renewable column of the company in the short term," said Jose Manuel Entrecanales, president of **Acciona** SA, a Spanish construction company that has expanded into renewable energy.

Iberdrola Renovables

Iberdrola Renovables' solar thermal plants in Puertollano, Castilla La Mancha, Spain

The boom comes with a number of caveats. While fuel costs are minimal, developing solar-thermal energy plants is expensive—about €4 million per megawatt, compared with about €650,000 per megawatt for a modern natural-gas power station. The technology isn't universally acclaimed: one criticism is that it requires a backup in the winter to keep the central receiver warm. Meanwhile, government incentives related to solar-thermal power are expected to be curtailed.

Still, given Spain's sunny climate, experts say solar-thermal power could be key to reaching the European Union's goal of having a fifth of all energy come from renewable sources by 2020.

"The government is very interested in solar-thermal energy because it's the most suitable technology for Spain's weather," said Deputy Energy Minister Pedro Marin. "Because of its storage capacity, it's also the only manageable renewable-energy source for the power grid."

Iberdrola SA unit Iberdrola Renovables and Acciona, two of the world's biggest wind-power companies, along with **Abengoa** SA, are among the companies with projects in the pipeline.

The ramp-up will take time. Once approved by the government, thermal plants take between one and three years to build. The Spanish government expects solar-thermal generation capacity to rise from the current 183 megawatts to about 800 megawatts by the end of 2010, roughly the capacity of a small nuclear plant.

By 2020, however, Spain could have as much as 8,000 megawatts of installed solar-thermal power capacity, said Jose Monzonis, head of solar-thermal operations at Acciona.

Acciona switched on its first Spanish solar-thermal plant in July. It has three more plants under construction and a pipeline of projects with a total planned capacity of about 1,200 megawatts, according to Esteban Morras, head of the company's energy division. Although the global financial crisis has forced Acciona to cut its investment in wind-power operations, spending on its solar-thermal business will rise this year, Mr. Morras said.

This buoyant trend could be damped by imminent regulatory changes. Analysts say a stable and generous pricing system implemented two years ago, which sets a premium for power from solar-thermal technology over market prices, has been a key factor boosting expansion. But the government is expected to reduce the premiums in September and limit the amount of solar-thermal power that can be brought on line each year, in order to keep expensive solar thermal power from pushing up the price of wholesale electricity and thus consumers' power bills.

"We have already suffered delays in some of our projects because of the regulatory uncertainty," said Santiago Seage, head of Abengoa's solar division. But he notes that a reasonable reduction in premiums will soften, rather than block, the local solar-thermal market.

"If this happens, what will change is the pace of new installations," Acciona's Mr. Entrecanales said. "Companies will have to plan better."

Unilever chief increases sales, but profit margins suffer

By Aaron O. Patrick

The new chief executive of **Unilever**, Paul Polman, fulfilled his promise to quickly fire up sales volumes at the consumer giant, delivering a second-quarter performance that surpassed analysts' forecasts for sales growth.

But to keep momentum at Unilever—whose products include Ben & Jerry's ice cream, Dove soap, Lipton teas and Hellmann's mayo—Mr. Polman faces a tough act: maintaining profit margins as it aggressively hunts higher volume and revenue.

Mr. Polman, 53 years old, hired from rival **Nestlé** SA, took over in January and quickly set about reversing the pricing strategy of his retired predecessor, Patrick Cescau. Mr. Cescau jacked up prices last year as the recession was taking root, causing some consumers to stop buying its products, driving down sales volume in the first quarter.

Mr. Polman has vowed to drive volume with lower prices and aggressive marketing spending. The impact was immediate: In the second quarter, Unilever's sales measured by volume rose 2% over the previous year, but the strategy pared profit margins.

As Unilever cut prices across Europe, sales measured by volume grew 1%—the first increase in over a year. But revenue fell 1.1%, after stripping out the effect of currency changes, acquisitions and divestments. Western Europe generates about a third of Unilever's revenue.

Unilever's net profit dropped 17% to €758 million ($1.09 billion) from €909 million a year ago, due to a combination of lower margins, higher finance and tax costs and an increase in pension costs.

Paul Polman

Across all regions, profit margins fell to 12.6% in the second quarter from 13.2% in the year-earlier period as Mr. Polman increased the advertising budget and discounted more products.

Second-quarter sales rose 4.1% after stripping out the effect of currency changes, divestments and acquisitions, a strong result given the global recession. By comparison, at rival **Procter & Gamble** Co., sales measured on the same basis over the same period fell 1%.

Mr. Polman said he would seek to maintain profit margins by reducing costs, a tactic that could be made easier by falling commodity costs, including palm oil, a key component of Unilever's margarine lines, which include Promise and Country Crock.

"We're looking at opportunities to drive costs out of the system to reinvest the savings back in growth," Mr. Polman said at a media briefing in London.

The volume increase caused Unilever shares to rise 5.4%, or 84 pence a share, to £16.29 in London trading, as analysts figured Mr. Polman's approach would win market share from its rivals, which include two companies that previously employed him, Nestlé and Procter & Gamble.

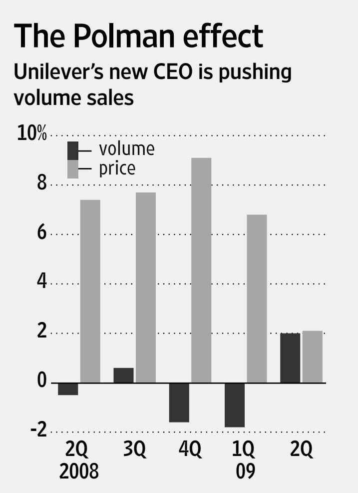
Since taking over in January, Mr. Polman has tried to increase the speed of decision making in the company, known for its sprawling bureaucracy and cautious culture.

After his arrival, the company introduced "Thirty-Day Action Plans," for instance. The plans are designed to make executives take quick action to fix problems with individual products, according to a spokesman.

During the second quarter, Unilever's laundry detergent sales in South Africa came under pressure from a cheap local brand, according to the spokesman. Unilever executives ordered an action plan to deal with the threat, and the company quickly launched a cheap version of its Surf detergent with fewer features, which was very popular, Mr. Polman said.

Agence France-Presse/Getty Images

An employee straightens a row of Dove shampoo bottles, a product of Unilever.



Source: the company

P&G, which is also wrestling with how to keep consumers who are trading down from its premium-priced brands, recently made a similar move, introducing Tide Basic, a cheaper version of its powerhouse Tide detergent.

In the past, Unilever often neglected struggling products to concentrate on popular brands such as Dove soap, Hellmann's mayonnaise and Bertolli foods.

That doesn't happen any more, according to Jim Lawrence, Unilever's chief financial officer. "If something was no longer poised for growth, there was a danger it would be allowed to decline," he said at Thursday's briefing. "Now, nothing is allowed to decline."

Mr. Polman was Unilever's first CEO who wasn't brought up from the company's internal ranks. The executive spent most of his career at Procter & Gamble.

Analysts said it could take years to change the Unilever culture. "I believe [Mr. Polman] is the right man to do so but I am not so optimistic it will go through quickly," said Claudia Lenz, an analyst at Bank Vontobel in Switzerland. "Unilever is big and complicated."

Revived sales

U.K. top 10 best-selling cars in July

Brand	Units
1. Ford Fiesta	8,976
2. Ford Focus	7,934
3. Vauxhall Corsa	5,920
4. Vauxhall Astra	5,705
5. VW Golf	4,101
6. Peugeot 207	3,957
7. Vauxhall Insignia	3,340
8. BMW 3 Series	3,292
9. Hyundai i10	3,084
10. Renault Clio	2,837

Source: SMMT

The 2011 Ford Fiesta Bloomberg News

U.K. car market perks up

Scrapping discounts help break long slide in new registrations

BY JONATHAN BUCK

LONDON—The U.K. government's incentives for consumers to scrap old cars showed signs of success Thursday, as new-car registrations climbed 2.4% in July from a year earlier—the first growth in 15 months.

Last month, 21% of new-car registrations, a measure of sales, were attributed to the government-backed scrap incentives, according to data compiled by the Society for Motor Manufacturers and Traders.

The big winner was **Hyundai Motor** Co., which sold more cars in July under the scrapping initiative than any other auto maker. **Ford Motor** Co. has sold the most vehicles under the plan since it came into effect in May.

"The impact of the scrappage scheme is clear and we are encouraged by the positive impact it has had," said SMMT Chief Executive Paul Everitt, although he cautioned that the U.K. car industry still faced a long road to recovery.

The U.K. scrappage plan — which offers motorists £2,000 ($3,400) in discounts on new vehicles when they trade in vehicles that are more than 10 years old — mirrors similar initiatives in other Western European markets and the U.S. The programs were introduced by governments to help car makers and dealers weather the biggest drop in demand for new cars since World War II, while at the same time boosting consumer spending and improving their environmental records by encouraging sales of vehicles with lower emissions.

Incentives vary from country to country. For example, Germany implemented one of the most generous plans in Europe, offering €2,500 ($3,600) in trade-in discounts. As a result, new-car registrations in Germany have soared. In July, they rose 29.5% from a year earlier.

Europe-wide new-car registrations climbed 2.4% in June from a year earlier. Figures for July will be released later this month.

In the U.K., new-car registrations last month edged up to 157,149 from 153,420 a year earlier. That was 10.4% above an SMMT forecast for the month, but 10.1% below the average for July between 1999 and 2008.

Ford was the top seller overall thanks to the popularity of its Fiesta and Focus models. Its sales last month fell 2.5% to 24,679 vehicles, with its market share falling to 15.7% from 16.5% a year earlier.

Vauxhall, whose brand has been tarnished by the bankruptcy filing in the U.S. of parent **General Motors** Co., saw its sales drop 10.5% from a year earlier to 18,604 vehicles. Its market share fell to 11.8% from 13.5%.

Under the scrappage plan, which is funded equally by the government and manufacturers, Hyundai in July sold 4,380 vehicles, beating Ford's 4,001 vehicles.

Delhaize warns of U.S. price war

BY PEPPI KIVINIEMI

BRUSSELS—Belgium-based supermarket operator **Delhaize Group** SA on Thursday posted a 7.6% rise in second-quarter net profit helped by higher sales, the stronger U.S. dollar and cost cutting.

The company, however, also raised concerns about a deepening price war in the U.S.

Delhaize—which operates the Food Lion, Hannaford and Sweet Bay chains in the U.S., as well as Delhaize supermarkets in Belgium—saw its U.S. sales grow in the second quarter, even in dollar terms, because it offered comparatively low prices and aggressively promoted its own brands. But competitors have pledged to cut their own prices, raising fears that Delhaize's advantage might be eroded.

Net profit came in at €125 million ($180.2 million) in the three months ended June 30, up from €116 million a year earlier, though the growth in net was curbed by much higher taxes and interest payments. Delhaize said sales grew by 14% to €5.08 billion, boosted by the strength of the dollar against the euro.

More than half of Delhaize's 2,670 stores are in the eastern U.S., and the company generates about 70% of its revenue in the country.

Last week, **Supervalu** Inc., one of Delhaize's main competitors in the U.S., said it would aggressively cut prices as customers shunned its undiscounted foods. The previous week, **Safeway** Inc. CEO Steven Burd said the company was having to cut prices in areas it hadn't wanted to, because rivals were doing the same.

Delhaize's CEO, Pierre-Olivier Beckers, defended the company's position, saying it was protecting its markets "very well." Still, Chief Financial Officer Stefan Descheemaeker said the company couldn't raise its full-year forecast, because it was facing an intensified price war and because comparative figures for the second half of the year were very strong.

Thomson Reuters earnings double

BY RUSSELL ADAMS

Thomson Reuters Corp.'s second-quarter profit more than doubled as cost cutting from last year's acquisition of Reuters helped the information provider offset slowing growth.

Net income jumped to $315 million, or 38 cents per share, from $150 million, or 19 cents per share, in last year's second quarter. Revenue increased 5% to $3.3 billion, and executives said Thursday they are sticking to their original forecast of revenue growth in 2009 on signs of a recovery in the financial sector.

Thomson Reuters sells data to professionals in a variety of fields, including financial services and law. The markets division, which targets finance professionals and accounts for nearly 60% of the company's revenue, has been hit recently by job losses on Wall Street.

Revenue in the markets division fell 7% to $1.9 billion, but operating profit in the division grew 16% to $424 million, on savings from the Reuters deal. In the sales and trading unit, revenue fell 10% for the quarter as the company "continued to see difficult trading conditions," Chief Executive Tom Glocer said.

Thomson Reuters said it expects to realize savings of $1 billion by the end of the year, largely as a result of greater efficiencies from the combination of Thomson and Reuters.

Headhunters scramble for government jobs

U.K. search firm **Odgers Berndtson** has been hired to find the new chief executive of the company that manages the U.K. government's stakes in bailed-out banks, as Europe's biggest headhunters compete for the few spoils created by the financial crisis.

*By **Vivek Ahuja** and **Matt Turner** in London and **Joann S. Lublin** in New York*

A spokeswoman for U.K. Financial Investments Ltd., set up in November to manage the government's stakes in banks including **Royal Bank of Scotland Group** PLC and **Lloyds Banking Group** PLC, confirmed Odgers has been selected to find suitable candidates after CEO John Kingman said last month he would step down once a successor is found.

Thanks to its bailouts, the U.K. government has risen in importance for London's headhunters, who are struggling to outlast hiring freezes across the banking sector. Several search firms have merged over the past few months as they look for safety in size, with **Korn/Ferry International** acquiring Whitehead Mann in June, and Hanover Search agreeing a deal for Napier Scott later that month. Since then, two more London headhunters—**GRS Group** and Kinsey Allen Consulting—have joined forces.

Thomas J. Neff

Odgers is one of four search firms that has worked for UKFI since it was set up in November, the UKFI spokeswoman added, along with Whitehead Mann, **Spencer Stuart** and **Egon Zehnder International** AG, whose work included recruiting non-executive UKFI board members from the private sector. Odgers declined to comment Thursday.

Korn/Ferry Whitehead Mann has placed several executives at bailed out banks. It was involved in the appointment of Sir Philip Hampton as chairman of the Royal Bank of Scotland, and other board level appointments at the Scottish bank, according to people familiar with the matter.

It also played a role in placing non-executive directors at Lloyds Banking Group. It has been involved in making appointments to the Bank of England's newly formed Financial Stability Committee.

While the British government has spread its business across several headhunters, in the U.S. Spencer Stuart has cornered the equivalent market, becoming the go-to recruiter when Uncle Sam wants bailed-out companies to install new directors and other top officials.

Earlier this week, troubled insurer **American International Group** Inc. tapped Robert Benmosche as its new chief executive—the latest high-profile crisis-manager placement handled by Spencer Stuart. The search firm also helped AIG find six directors in the spring.

Similarly, Spencer Stuart matched up **General Motors** Co. with Edward E. Whitacre Jr., who completed his first board meeting Tuesday as chairman of the newly restructured auto maker. And Spencer Stuart recently recruited C. Robert Kidder to become chairman of **Chrysler Group** LLC.

The string of placements reflects the New York firm's strong position in U.S. director searches and the way it is plugged in to government officials, who several times have turned to Spencer Stuart as they took big stakes in troubled companies over the past year.

Its near-lock on searches for companies receiving taxpayer dollars also is ruffling feathers among rival recruiters. Spencer Stuart's work at government-aided companies began last fall, after the government seized Freddie Mac. The big mortgage company tapped Spencer Stuart to help find six board members because the recruiter had handled previous hunts for Freddie directors, recalls John Koskinen, Freddie Mac chairman.

As for AIG's CEO assignment, Spencer Stuart was chosen because the recruiters "were already up to speed," says someone close to the situation.Thomas J. Neff, Spencer Stuart's 71-year-old U.S. chairman and top CEO recruiter, is a pivotal player. Mr. Neff, who joined the firm in 1976, has handled more than 150 CEO and more than 350 board searches, including the appointments of **Boeing Co.** CEO Jim McNerney and **Morgan Stanley** CEO John Mack.

Mr. Neff also helped recruit Treasury Secretary Timothy Geithner to be president of the New York Federal Reserve in 2003.

Fiat to buy Bertone plants for building Chrysler cars

BY EVA PALUMBO AND SABRINA COHEN

ROME—**Fiat** SpA plans to build **Chrysler Group** LLC vehicles in Italy at the plants it will acquire through its purchase of niche manufacturer **Carrozzeria Bertone**, according to the Italian government.

Fiat, which acquired a 20% stake in Chrysler in June, beat out two other bidders for Bertone's assets, the government said.

Bertone helped build such models as the Alfa Romeo Giulietta Sprint and the Lamborghini Countach before it ran into financial difficulties.

Fiat and Chrysler both declined to comment.

The acquisition underscores how fast Sergio Marchionne, chief executive of both Fiat and Chrysler, is moving to follow through on his plans to produce Chrysler products outside North America. Currently, Chrysler imports its Dodge, Chrysler and Jeep brands into Europe.

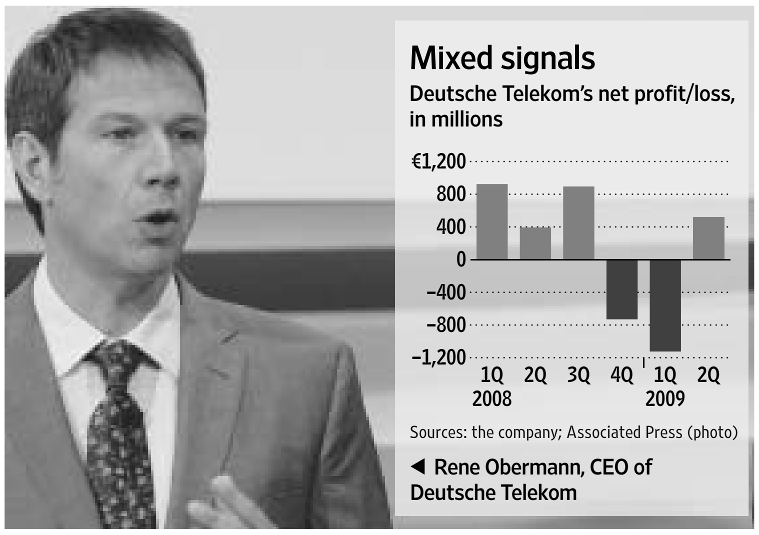
Located near Fiat's Mirafiori plant in Turin, Bertone was put in special administration a year and a half ago to avoid bankruptcy. It ran into financial difficulty after the death of owner Giuseppe Bertone, producing its last car in 2007.

CORPORATE NEWS

Telecom firms post profit

Carriers in Germany, Italy cite weaknesses but stick by forecasts

By Archibald Preuschat And Giada Zampano



Sources: the company; Associated Press (photo)

◀ Rene Obermann, CEO of Deutsche Telekom

European telecommunications companies **Deutsche Telekom** AG and **Telecom Italia** SpA delivered solid earnings Thursday and stuck with their full-year forecasts, although the results weren't as strong as those from peers such as **France Télécom** SA and **Telefónica** SA, which reported last week.

Deutsche Telekom, one of Europe's biggest telecommunications companies, met analyst expectations with its second-quarter results, though both earnings and sales were buttressed by the consolidation of the company's 30% stake in Hellenic Telecommunications Organization SA, or OTE.

The main positive from Deutsche Telekom's second-quarter performance was the improvement in Poland, the U.S. and U.K. compared with the previous quarter. Deutsche Telekom has struggled in these markets in recent quarters, leading to a surprise profit warning in April.

"We worked hard to counter this trend," Chief Executive René Obermann said at a news conference Thursday.

Mr. Obermann said he wasn't satisfied with the performance of the company's U.S. mobile unit, T-Mobile USA, despite margin improvements at the division that came as a result of lower operating costs.

"In dollar terms there was no growth in the second quarter," Mr. Obermann said. "We intend to change that in the medium term, but the turnaround will not be in the third quarter." Revenue at T-Mobile USA, previously the company's main growth driver, fell 2.3% in the quarter to $5.34 billion. The unit gained 325,000 customers in the period, for a total of 33.5 million—that was just half the growth of a year earlier.

Bonn-based Deutsche Telekom said its net profit in the quarter ended June 30 rose 32% to €521 million ($751 million) from €394 million a year earlier, boosted by interest payments that were around €200 million lower than a year earlier. Revenue rose 7.4% to €16.24 billion.

Turning to the company's U.K. operations, Mr. Obermann said the U.K. T-Mobile unit will unveil a new strategy in coming weeks. He declined to comment on speculation that the business would be sold.

The company in the first quarter booked a €1.8 billion write-down on its T-Mobile UK operations, where it has recently installed new management. The U.K. is the most fiercely competitive market in Europe, where T-Mobile is up against bigger and stronger rivals in market leader O2, a unit of Telefonica; **Vodafone Group** PLC and **BT Group** PLC.

Deutsche Telekom confirmed its forecast for full-year adjusted earnings before interest, taxes, depreciation and amortization, excluding OTE, to be 2% to 4% below the €19.5 billion posted in 2008, with an additional contribution of €2 billion from OTE. It expects free cash flow for 2009 to be €7 billion, including OTE.

Meanwhile, Telecom Italia, which is focusing on reducing debt and slashing costs, posted a first-half net profit of €964 million, down from €1.12 billion a year earlier, as it paid €484 million more in taxes. The results came in better than analysts expected. Telecom Italia didn't break out second-quarter results.

Revenue fell 5.8% to €13.95 billion a year earlier, as a slowdown in domestic sales was only partially offset by a better performance at Brazilian mobile-phone company TIM Participacoes SA. The Brazilian unit posted a narrower net loss for the second quarter as restructuring measures improved its operating performance.

Telecom Italia, like many of Europe's telecom companies, has trimmed costs in a fierce fight for dominance in the competitive European mobile and broadband market. The cost cuts are also designed to preserve margins as national and European regulators force down the cost to consumers of voice calls, text messaging and data.

The Italian company said its closely watched net debt stood at €35.2 billion at the end of June, up from €34.5 billion at the end of March.

As part of its 2009-11 business plan, the company pledged to reduce its ratio of debt to Ebitda to 2.9 times by the end of 2009, and to 2.3 times by the end of 2011, from about 2.99 times at the end of 2008.

Virgin Media reports smaller loss

By Kathy Sandler

LONDON—U.K. television and telephony company **Virgin Media** Inc. said Thursday its second-quarter net loss narrowed and sales increased at its consumer business despite fewer customers.

Virgin Media, which is listed on Nasdaq but operates solely in the U.K., said its net loss narrowed to £49 million ($83.3 million) from a £449 million net loss a year earlier, when the company took a goodwill impairment charge of £366 million on its mobile assets. Revenue slipped to £936 million from £940 million, dented by a drop in sales at its mobile business, which it operates through **Deutsche Telekom** AG's T-Mobile U.K. wireless network.

Mobile revenue fell to £127.5 million from £143.9 million, as operators cut the fees they charge each other to connect calls to their network and customers moved from prepay to contract deals. However, Chief Executive Neil Berkett said the decline in mobile revenue wasn't a big concern because the division ties customers to the company's other three services: TV, broadband and fixed-line telephony.

Customers who subscribe to all four services are also less likely to leave the company, Mr. Berkett said. "Bringing the mobile phone into the home is having a significant impact, not so much on revenue within the mobile division but on revenue within the consumer division," he said.

Like rivals such as **British Sky Broadcasting Group** PLC and **BT Group** PLC, Virgin Media has been focusing on increasing the value of existing customers and keeping them for longer by selling upgrades and pricier package deals. **News Corp.**, the owner of Wall Street Journal publisher Dow Jones & Co., holds a stake of about 39% in BSkyB.

Average revenue per user at Virgin's cable network rose 3.8% to hit a record £43.27 a month in the second quarter, following a May 1 price increase. Despite the price rise, churn, which measures the number of customers leaving the company, remained steady at 1.3%. Still, Virgin Media lost 26,200 customers in the quarter as new additions couldn't offset churn. But this is expected to reverse in the third quarter, with the number of subscribers forecast to rise above the 4.74 million Virgin Media had for its cable network in the second quarter, generating even better average revenue per user in the third quarter.

Consumer revenue from the cable network was £616.8 million in the second quarter, up 3.6%.

"The growth outlook for the second half of the year remains strong," Mr. Berkett said.

The company also said it is looking into a secondary listing on the London Stock Exchange, although it won't issue any new equity. It is awaiting approval from regulators and the board to proceed with the listing.

GLOBAL BUSINESS BRIEFS

Novo Nordisk A/S

Sales of artificial insulin lead to 21% rise in profit

Danish drugmaker **Novo Nordisk** A/S said strong sales of insulin analogue pushed second-quarter net profit up 21%. Insulin analogue is artificial insulin that works faster than natural human insulin. Net profit increased to 2.99 billion Danish kroner ($579 million) as sales rose 17% to 13 billion kroner. Operating profit jumped 44% to 4.09 billion kroner. Novo Nordisk said that, stripping out currency fluctuations, it now expects full-year operating profit to grow 12% to 14%, up from at least 10% previously. It said it sees its net financial expenses dropping to roughly 900 million kroner from 1.5 billion kroner. The company said it may increase its Japanese sales force in response to tough competition from rival drug maker **Sanofi-Aventis** SA.

Axel Springer AG

Germany-based publisher **Axel Springer** AG said first-half net profit declined 49% from year-earlier results, which were boosted by a gain. Falling circulation revenue and the recession in Eastern Europe also hurt results, though the company said "the strength of its brands and strict cost discipline" helped it remain profitable. Springer, which publishes Germany's Bild and Die Welt newspapers, said net profit for the January-to-June period totaled €267.3 million ($385.3 million). Last year's figure included a gain of €438.3 million related to its stake in broadcaster ProSiebenSat.1 Media AG. This year's earnings were boosted by €210.3 million in proceeds from stakes in regional newspapers. Revenue dropped 6.6% to €1.255 billion.

Fraport AG

German airport operator **Fraport** AG said its second-quarter net profit fell 34% as airline traffic declined during the recession. The company said net profit dropped to €46.2 million ($66.6 million) from €69.9 million a year earlier. Sales declined 4.4% to €493.5 million. The operator of Frankfurt airport, continental Europe's second-largest airport after Paris Charles de Gaulle, said passenger levels declined 5.8% to 33 million during the first six months and cargo levels dropped more than 20% to 942,000 metric tons. Fraport also has minority stakes in a number of airports, including Lima, Peru and Antalya, Turkey. The company also warned that it expects the global downturn to affect air traffic for the entire year.

Veolia Environnement SA

French utility **Veolia Environnement** SA posted a 56% drop in first-half earnings, as the global economic downturn continued to hurt its waste business. The world's largest water company by market capitalization said first-half net profit fell to €220.3 million ($317.6 million) from €500.5 million a year earlier, as it wrote down the value of some Italian assets and also adjusted the value of some operations slated for sale. Lower economic activity has reduced the amount of trash to process and the prices of recyclable materials, hurting Veolia's waste business, the company said. Overall revenue fell slightly to €17.43 billion from €17.57 billion. Revenue at Veolia's waste division fell 10%. A 4% revenue increase from its water division helped limit the overall decline in revenue.

GlaxoSmithKline PLC

Pharmaceuticals giant **GlaxoSmithKline** PLC and U.K. biotechnology company **Vernalis** PLC inked a deal to develop new cancer drugs, in an agreement potentially valued at as much as $200 million to Vernalis. Glaxo has taken an option to license any experimental drugs developed by Vernalis designed to affect an undisclosed cancer target, the companies said Thursday. Vernalis will be responsible for developing the compounds and Glaxo agreed to put the compounds through laboratory testing until they are ready to begin clinical trials in humans. Glaxo will then have the option to license the compound and continue its development. Glaxo will pay Vernalis $3 million plus $3 million for a 3.39% equity stake in the company. Vernalis will get payments if the drugs reach certain developmental or regulatory targets, potentially totaling $200 million. It would also receive royalties on sales should any drug make it to market.

Audi AG

Luxury-car maker **Audi** AG said its global sales rose 2.1% in July from a year earlier to 85,000 vehicles, as demand in China helped stem a wider decline. The Ingolstadt, Germany, company, a unit of **Volkswagen** AG, said the growth in July was strong in Europe and Asia, both key markets for the maker of the A4, the TT and other models, and added that U.S. sales were also starting to show signs of imporvement. The company sold 13,399 cars in China in July, up 42.5%. Sales in Germany rose 0.3% to 23,404 vehicles. Between January and July, Audi sold about 551,000 cars, or 8.1% fewer than a year earlier. Audi has reported a slowing of its sales decline, amid signs that the global auto sales collapse has hit bottom. In Western Europe, Audi's seven-month sales fell to 102,500, a drop of 2.4%, but it lifted its market share.

Pioneer Corp.

Pioneer Corp. said one-time gains from asset sales and a much lower tax bill helped it halve its net loss in the fiscal first quarter from a year earlier as it continues to seek funds to help turn it into a car electronics maker. The Japanese company posted a net loss of 4.1 billion yen ($43.2 million) in the three months ended June 30, compared with a net loss of 9.49 billion yen in the same period a year earlier. Pioneer, which unveiled plans to pull out of making television sets to concentrate on car electronics earlier this year, recorded a one-off gain of 5.95 billion yen in the quarter on the sales of assets. Revenue fell 60% to 95.8 billion yen from 160.91 billion yen. It said it is still seeking about 40 billion yen in new funds as it proceeds with its restructuring plan.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Deficit comes into focus for Americans

Polls suggest issue is one of Democrats' main problems, with potential to harm efforts on health-care overhaul

By Gerald F. Seib

It has long been an article of faith among politicians and pundits in the U.S. that the federal budget deficit is too arcane a subject to have real political impact.

Time to rethink that notion.

There's strong new evidence that the deficit is emerging as Democrats' main problem, an impediment to a health overhaul and the biggest underlying concern about President Barack Obama's agenda.

CAPITAL JOURNAL

Administration officials complain this is a bum rap. They note that the deficit was already heading north of $1 trillion for this year when the president arrived, thanks to sagging revenue, a $700 billion financial-sector bailout that was under way, billions of dollars already sent to auto makers, and Bush administration deficit spending on two wars and a Medicare prescription-drug plan that were never fully funded. And they are right.

Yet the deficit now is their problem, and it casts a large shadow. Recent public polling suggests broad worries that this year's fiscal stimulus made it worse and fears that a health overhaul would add to it. "The public's main criticism of how Obama is handling the presidency is that he is spending too much money, which has increased the deficit," write Democratic pollster Peter Hart and Republican Bill McInturff in their analysis of the latest Wall Street Journal/NBC News poll.

Barack Obama

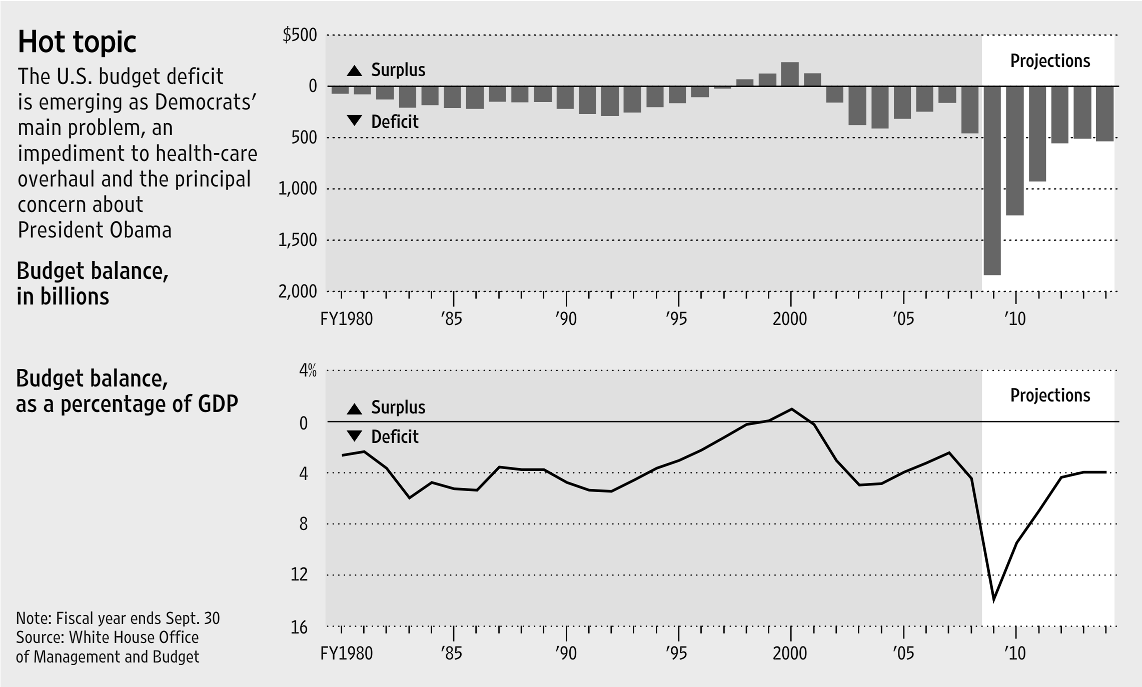
One number from that poll, completed last week, illustrates the political problem this poses for Democrats. In early 2008, Americans were asked which party could better deal with the deficit, and by 42% to 20%, they said the Democrats rather than Republicans. In the latest Journal/NBC survey, the parties have changed places, with Americans by 31% to 25% saying they think Republicans could better handle the deficit.

More broadly, one in three ranked the deficit as one of the top issues facing government, placing it behind only jobs and economic growth.

Of perhaps more immediate concern to Democrats, a poll out this week from the Quinnipiac University Polling Institute shows that the deficit is fomenting unease about the health overhaul the president is pushing. Voters said by 57% to 37% that they would be willing to drop a health overhaul if it adds "significantly" to the deficit (which is, to be sure, something Mr. Obama insists he won't allow).

These public sentiments are a bit surprising. Peter Brown, assistant director of the Quinnipiac poll, notes that voters haven't exactly showered rewards on politicians who have made an issue of deficits in the past. In 1984, Democratic presidential nominee Walter Mondale tried to demonstrate how serious he was about addressing the deficits that prevailed then by declaring he would raise taxes to deal with them. He was rewarded with an electoral loss of historic proportions, falling to President Ronald Reagan by 59% to 41%.

Business maverick and third-party presidential candidate Ross Perot made a splash in the 1990s by talking about deficit spending and promising that he would "get under the hood" of the federal government to erase it. That message made him a force for a while in both 1992 and 1996, but ultimately he couldn't use his fiscal-responsibility gospel to challenge the power of the two major parties.



Note: Fiscal year ends Sept. 30
Source: White House Office of Management and Budget

Fast forward to 2009, and there was ample reason to believe the conventional wisdom at the start of this year. It held that the economic crisis was so severe that Americans would be prepared to simply forget about the deficit for a year or two while the government spent money to pull the economy out of the ditch.

But maybe the conventional wisdom wasn't quite right. Perhaps the sheer size of the budget deficit has altered the normal public tendency to feign concern about deficits but quickly forget about them. The deficit this year will be $1.8 trillion, and next year will be $1.4 trillion, under current estimates. The $290 billion deficit that prevailed when Mr. Perot went on his crusade seems a pittance by comparison.

It also may be that some Americans see the deficit as a metaphor for a broader unease at the pace with which their government is moving on multiple fronts, foreign and domestic. When Mr. Hart, the Democratic pollster, conducted a focus-group discussion with a dozen independent voters in Maryland a few days ago, he drew this conclusion: "These independents' biggest worries are about the amount of money the government is spending and the speed at which it is making significant changes to how the country operates."

Ultimately, of course, many voters' real concern isn't deficits themselves but fear that deficits inevitably will lead to an increase in their taxes. Hence the vigorous and repeated assertions by White House press secretary Robert Gibbs this week that the president truly intends to keep his campaign promise not to raise taxes for families making below $250,000 annually. But it's unclear, to say the least, how the president can keep this taxes promise and deal with gaping deficits in the long run.

Meanwhile, financial markets and Chinese lenders, who finance the deficit, are equally curious whether there's a plan emerging to deal with it. Put it all together, and the administration's August to-do list includes not just selling a health bill but showing it can handle deficits at the same time

In U.S. antibribery law, some fear unintended consequences

By Dionne Searcey

The U.S. government in recent years has dramatically stepped up its pursuit of bribery in other nations by American-based or listed corporations. The assault on corruption has spanned five continents and delivered steep fines—$800 million in one case alone.

But as the government cracks down on violators of the U.S. Foreign Corrupt Practices Act, some skeptics are pointing out potentially unintended consequences of the initiative that they say could cause corruption to proliferate in emerging markets.

Andy Spalding, a Fulbright scholar in India and former securities-fraud lawyer in Washington who is studying the impact of the FCPA in emerging markets, says enforcement of the act might be deterring corporations from investing in developing countries where corruption is rampant and bribes are commonly sought.

If U.S. corporations stop investing in emerging markets, then other nations that anticorruption advocates say aren't as committed to fighting bribery will step up their investments, he says.

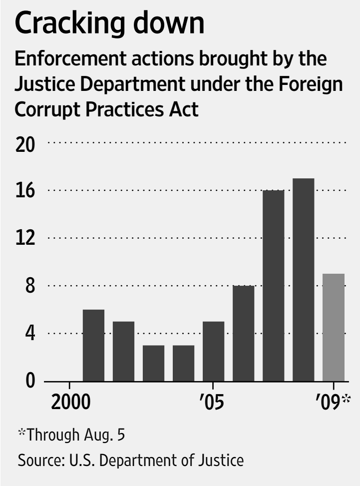
"These 'black knights' will move in to fill the void," writes Mr. Spalding in a recent paper. "The world economy could slowly begin to bifurcate into two economies: one in which bribery is tolerated and one in which it is not."

The Foreign Corrupt Practices Act, enacted in 1977 but largely unenforced until about a decade ago, prohibits U.S. companies or companies traded on U.S. stock exchanges from paying, or offering to pay, foreign-government officials or employees of state-owned companies to gain a business advantage. It also covers nonmonetary gifts.

The U.S. Department of Justice, along with the Securities and Exchange Commission, has used the Foreign Corrupt Practices Act to levy record fines and penalties against large and small multinational corporations.

At least 120 companies were being investigated for FCPA violations as of this spring. Federal officials also say they have encouraged other nations to adopt their own antibribery laws.

In one of the most prominent cases pursued under the law, German industrial conglomerate Siemens AG was accused of spending more than $1 billion to bribe government officials around the globe to win infrastructure contracts. In December, Siemens, without acknowledging bribery, agreed to pay $800 million in U.S. fines o settle the case.



*Through Aug. 5
Source: U.S. Department of Justice

And on July 31, Control Components Inc., a California manufacturer of gear for oil and nuclear plants, pleaded guilty to a decade-long bribery scheme in 36 countries. The company agreed to pay an $18.2 million fine.

Antibribery advocates praise the FCPA for helping to clean up corruption world-wide.

"The FCPA is the benchmark for where we think other governments should be," says Nancy Boswell, president of anti-bribery group Transparency International-USA, based in Washington. "What's essential is consistent, concerted action by all exporting nations to enforce bribery prohibition."

The view that cracking down on bribery is detrimental to investment in emerging markets has been around for a while. Mr. Spalding's research cites academic studies, including a 1995 analysis by an economist at Harvard's John F. Kennedy School of Government, showing that after the FCPA was enacted, U.S. investment in nations perceived to be corrupt hasn't grown as fast as it would have if there were no FCPA enforcement.

In Mr. Spalding's view, one of the main drawbacks of the stepped-up enforcement of the FCPA is the increasingly steep penalties, which risk having a chilling effect on all business activity in certain countries. Other critics of the FCPA, including some antibribery advocates, say the law is too vague.

The Justice Department publishes on its Web site a "Layperson's Guide to the FCPA," and also offers to advise corporations about transactions they worry could be questionable.

Those guidelines don't go far enough, some bribery experts say. For example, the FCPA doesn't specify how much money constitutes a bribe; corporations are left to guess whether springing for a $100 dinner could land them in trouble.

"If a company has decided to take the risk of going into a very opaque and corrupt market, give them all the tools you can," says Alexandra Wrage, president of Trace International Inc., a nonprofit Washington consultancy specializing in antibribery compliance.

Despite those problems, Ms. Wrage says claims that companies are being "victimized" by the FCPA are exaggerated. U.S. companies and other U.S.-traded multinationals often are the only entities that have the advanced technology to complete certain projects such as complicated oil drilling, so it is unlikely that companies from more-corrupt countries would pursue the contracts.

And as antibribery efforts have grown, many companies have determined how to navigate developing-world investments without having to back away from emerging markets entirely, says Manny Alas, coleader of PricewaterhouseCooper's FCPA practice. "The level of knowledge and intelligence has increased significantly," he says.

Bloomberg News

Job seekers wait to enter a career fair in Houston on Wednesday. U.S. jobless claims have fallen from their peaks in the spring.

Labor-market woes ease

New jobless claims in U.S. fall, signaling a return to normalcy

By Sarah N. Lynch

The number of U.S. workers filing new claims for state jobless benefits fell last week, providing another glimmer of hope that the economy may be on the road to recovery.

Initial claims for jobless benefits fell by 38,000 to 550,000 on a seasonally adjusted basis in the week ended Aug. 1, the Labor Department said in its weekly report Thursday. The four-week average of new claims, which aims to smooth volatility in the data, fell by 4,750 to 555,250, the lowest level since Jan. 24.

The tally of continuing claims—those drawn by workers for more than one week—rose by 69,000 during the week ended July 25 to 6,310,000, the highest level since July 4.

Zach Pandl, a Nomura economist, said the numbers reflect a turn for the better. "It was, in general, lower than our expectations in another encouraging sign the labor market is gradually healing."

Recently, analysts with both J.P. Morgan Chase & Co. and Barclay's Capital have noted that claims are down from their peaks in the spring, also signaling some positive economic signs.

Thursday's numbers represented a return to normalcy following a volatile period in July that included two weeks of steep declines followed by two weeks of rebounds in the figures. The declines occurred after the usual layoffs in the automobile and other manufacturing sectors, which are expected this time of year, never panned out.

Even with the numbers starting to look a little better, there is no guarantee it will last.

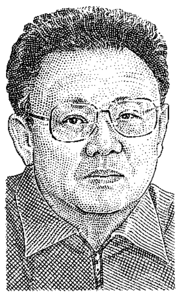
In a note to clients, High Frequency Economics' chief economist Ian Shepherdson said "the numbers are volatile even when the trend is clear, and we need to see several more weeks at this level to confirm a real shift."

Clinton, Kim in broad discussion

By Jay Solomon

WASHINGTON—North Korean leader Kim Jong Il, in more than three hours of discussions with Bill Clinton in Pyongyang, drew the former U.S. president into a wide-ranging discussion of security and regional issues.

Former U.S. officials and diplomats say the meetings, attended by the top ranks of Pyongyang's security establishment, were part of a renewed campaign by Pyongyang to stimulate direct negotiations with Washington over the country's nuclear program.



Kim Jong Il

President Barack Obama and his aides emphasized Wednesday that they weren't viewing Mr. Clinton's trip as anything more than a humanitarian mission focused on securing the release of two detained American journalists, Euna Lee and Laura Ling.

Mr. Clinton returned to California Wednesday on a private jet with Ms. Lee and Ms. Ling, who had been arrested in March at the Chinese border and later sentenced to 12 years' hard labor for illegally entering North Korea. Mr. Clinton's one-day visit secured their release.

"We were very clear this was a humanitarian mission," Mr. Obama said in an interview with MSNBC Wednesday. "We have said to the North Koreans there is a path for improved relations, and it involves them no longer developing nuclear weapons."

Mr. Clinton and his delegation were tight-lipped about what transpired during a 75-minute meeting with Mr. Kim on Tuesday. They also attended a two-hour banquet hosted by the North Korean leader and his country's pre-eminent national-security body, the National Defense Commission.

U.S. officials briefed on Mr. Clinton's mission, however, are already outlining a broad discussion with Mr. Kim that focused on significantly more than just the two imprisoned Americans.

These U.S. officials indicated that Mr. Clinton expressed to Mr. Kim the necessity that his regime end a nuclear program that is feared to be stoking a broader arms race across Asia and the Middle East.

They also said Mr. Clinton informed North Korea's leadership that it could win economic and diplomatic rewards from Seoul and Tokyo if Pyongyang released South Korean and Japanese nationals kidnapped during five decades of Cold War conflict.

Former U.S. officials who have met North Koreans in recent weeks said Pyongyang increasingly appears to be looking for a direct line to Washington and a way out of its isolation, after months of acrimony.

A South Korean official who has met North Koreans described a more ambitious agenda: He said he was told Mr. Kim is hoping to secure the type of summit with Mr. Obama that he narrowly missed getting with Mr. Clinton at the end of his presidency.

U.S. officials have indicated that Mr. Obama is prepared to approve direct, high-level contacts with North Korea to address the nuclear issue. They have also stressed that his administration wouldn't approve economic or diplomatic incentives for Pyongyang just to get the North to agree to commitments it has already made.

The Obama administration has said it remains committed to a negotiating process involving China, Russia, South Korea and Japan, despite North Korea's recent comments that the six-party process was dead.

Former U.S. officials involved in North Korea policy said Mr. Kim met Mr. Clinton with some of his top officials. Chief among them was Kang Sok Joo, North Korea's vice foreign minister and the architect of a 1994 nuclear-disarmament accord signed between Pyongyang and the Clinton administration. Kim Yang Gun, who oversees Pyongyang's relationship with South Korea and focuses on the issue of American troops on the Korean peninsula, also attended. North Korea's second-ranking bureaucrat, Yang Hyong Sop, escorted Mr. Clinton to the airport.

Clinton says U.S. decides not to sanction Honduras

By David Luhnow
And José de Córdoba

The U.S., in an apparent softening of its support for ousted Honduran President Manuel Zelaya, won't impose economic sanctions on Honduras and has yet to decide whether Mr. Zelaya's removal from office constitutes a coup.

A letter from the State Department to Sen. Richard Lugar, the ranking Republican on the Senate Foreign Relations Committee, states that the U.S. "energetically" opposes Mr. Zelaya's June 28 ouster. But the letter also expresses the harshest criticism yet of Mr. Zelaya's own actions that preceded his removal from office, including trying to change Honduras's constitution to potentially stay in power.

"We energetically condemn the actions of June 28. We also recognize that President Zelaya's insistence on undertaking provocative actions contributed to the polarization of Honduran society and led to a confrontation that unleashed the events that led to his removal," Richard Verma, the assistant secretary for legislative affairs, said in the letter, reviewed by The Wall Street Journal.

The letter went on to say that U.S. policy wasn't aimed at supporting one person in particular, a reference to Mr. Zelaya, but to supporting the Honduran people's aspirations for democracy.

With Washington unwilling to take drastic steps such as sanctions to restore Mr. Zelaya to power, it seems increasingly unlikely that the leftist politician will return to his seat, analysts said. Honduras's interim government, backed by much of the country's establishment and middle class, appears unwilling to have Mr. Zelaya back, and Washington seems in no mood to force the issue.

"In Honduras, Washington's wavering will be seen as a sign that the government can wait it out until the elections and that the costs they are bearing for international isolation, while considerable, are preferable to the risks of allowing Zelaya to return, even for a limited time and with his authority curtailed," said Michael Shifter at the Inter-American Dialogue, a nonpartisan think tank on hemispheric affairs in Washington.

A State Department spokesman, who was unaware of the letter to Mr. Lugar's office, said "there has been no decision to soften the policy on Honduras." He added that the Obama administration still supports a return of Mr. Zelaya to power, as called for in the mediation plan by Costa Rica's President Oscar Arias. The Supreme Court of Honduras has ruled that Mr. Zelaya's return as president would be illegal.

Analysts said the administration is staking out a middle ground, sending a message to Latin America that coups are unacceptable while not giving too much support to Mr. Zelaya, whose close relationship to Venezuela's populist leader Hugo Chávez has raised hackles among U.S. Republicans. Elected as a centrist, Mr. Zelaya took a sharp left turn in the past two years and became an outspoken critic of U.S. policy.

Sen. Lugar had asked the administration to explain its policy on the Honduran political crisis, warning that otherwise the Senate might delay confirmation of the top Latin America post in the State Department.

"I'm glad to see the State Department is finally beginning to walk back its support for Manuel Zelaya and admit that his 'provocative' actions were responsible for his removal," said Sen. Jim DeMint, another Republican member of the foreign relations committee.

A spokesman for Mr. DeMint said the move wasn't enough for the senator to lift his hold on the confirmation hearings for Arturo Valenzuela to become assistant secretary of state for Western Hemisphere affairs.

Greece needs more measures to shrink its deficit, IMF says

By Paul Hannon

LONDON—The International Monetary Fund welcomed recent steps by the Greek government to increase tax revenue, but said "significant" further steps, including spending restraint, will be needed to cut the budget deficit over the longer term.

In its annual assessment of the Greek economy, the IMF's economists forecast that gross domestic product will fall 1.7% this year and 0.4% in 2010. By contrast, the Greek government expects the economy will stagnate—but not contract—this year and grow again next year.

The Greek economy has been less affected by the global downturn than many other euro-zone economies.

But the IMF's directors expressed concern about a loss of economic competitiveness, as Greek inflation rates and wage increases have remained above those in many other developed economies.

In late July, the government announced measures to crack down on tax evasion.

IMF economists responded by narrowing their forecasts for the government's budget deficits this year and next. The fund now expects the budget deficit to be equivalent to 5.9% of GDP in 2009 and 6.7% of GDP in 2010. In June, the IMF forecast the shortfall would be equivalent to 6.2% of GDP this year and 7.5% of GDP in 2010.

The fund's forecast for the 2009 budget deficit remains wider than the government's estimate of 3.7% of GDP, although the fund's estimates don't include a plan to raise €500 million ($720 million) through the sale and leaseback of government properties in 2009 and 2010.

The government has pledged to bring the deficit below the European Union's 3%-of-GDP ceiling by the end of next year.

The IMF said Greece will need to do more to reduce its high levels of debt. "Fiscal consolidation can no longer be postponed," the fund's executive board said. It called for "further durable efforts to place the public debt on a sustainable downward path."

REVIEW & OUTLOOK

Hillary of Africa

Though overshadowed by hubby Bill's rescue mission to Pyongyang, Hillary Clinton is in Africa speaking some useful truths. The Secretary of State's seven-country jaunt began Wednesday in Kenya, where she took aim at political corruption and graft. A disputed 2007 election resulted in a power sharing deal between President Mwai Kibaki and Prime Minister Raila Odinga, but not before related violence claimed more than 1,000 lives.

"The absence of strong, effective democratic institutions has permitted ongoing corruption, impunity, politically motivated violence, human-rights abuses and a lack of respect for the rule of law," Mrs. Clinton said at a press conference. "These conditions helped fuel the post-election violence and they are continuing to hold Kenya back." According to Transparency International, a bribe is expected or solicited in nearly half of all transactions in Kenya, which is high even by New Jersey standards.

Secretary Clinton was critical of the government decision not to appoint a tribunal that could hold those responsible for the election-related violence accountable. She acknowledged that prosecuting the perpetrators without igniting more unrest is "complicated" but said it's no excuse for inaction. "There needs to be a beginning," said Mrs. Clinton. "That's what we're looking for."

A welcome focus on failed governance.

She also expressed regret that the broader reform agenda agreed to by the coalition government "has not yet translated into the kind of political progress that the Kenyan people deserve," and she left open the possibility of economic or travel sanctions if the situation doesn't improve.

African leaders aren't used to such blunt public criticism from Western liberals, but the Obama Administration has put a notable focus on failed governance as a major source of Africa's woes. "Africa doesn't need strongmen; it needs strong institutions," said President Obama in his address to the Ghanaian Parliament last month. "No country is going to create wealth if leaders exploit the economy to enrich themselves or if police can be bought off . . . No person wants to live in a society where the rule of law gives way to the rule of brutality and bribery. That is not democracy, that is tyranny, even if occasionally you sprinkle an election in there. And now is the time for that style of governance to end."

Too often, the World Bank and other international aid agencies have been complicit in this failure by turning a blind eye to corruption while pouring more money into these governments. The West has spent an estimated $2.3 trillion on foreign aid over the past five decades. Yet in a typical African country, one-third of the children under five still have stunted growth due to malnutrition.

We'd like to see Mrs. Clinton follow up those words by denying aid to corrupt leaders, and for that matter speaking more candidly about stolen elections in places like Iran. But her forthright approach to African leaders is a welcome development, not least for Africa's suffering people.

ObamaCare's Real Price Tag

As ObamaCare sinks in the polls, Democrats are complaining that the critics are distorting their proposals. But the truth is that the closer one inspects the actual details, the worse it all looks. Today's example is the vast debt canyon that would open just beyond the 10-year window under which the bill is officially "scored" for cost purposes.

The press corps has noticed the Congressional Budget Office's estimate that the House health bill increases the deficit by $239 billion over the next decade. But government-run health care won't turn into a pumpkin after a decade. The underreported news is the new spending that will continue to increase well beyond the 10-year period that CBO examines, and that this blowout will overwhelm even the House Democrats' huge tax increases, Medicare spending cuts and other "pay fors."

The funding gap is a canyon by year 10.

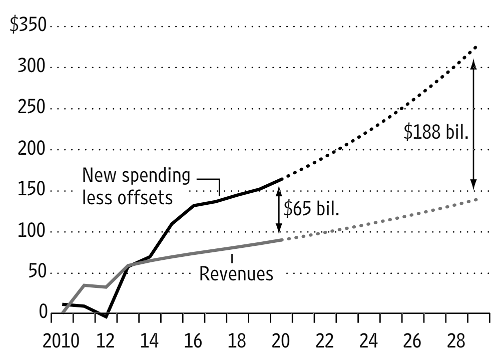
In a July 26 letter, CBO director Douglas Elmendorf notes that the net costs of new spending will increase at more than 8% per year between 2019 and 2029, while new revenue would only grow at about 5%. "In sum," he writes, "relative to current law, the proposal would probably generate substantial increases in federal budget deficits during the decade beyond the current 10-year budget window." (The House bill has changed somewhat in the meantime, but not enough to alter these numbers much.)

The nearby chart shows this Grand Canyon between spending and revenue, including CBO's long-term predictions. While these are obviously very coarse estimates, there's also a projection of a $65 billion deficit in the 10th year—and "deficit neutrality in the 10th year is . . . the best proxy for what will happen in the second decade."

That's not our outlook. That's what White House budget director Peter Orszag told the House Budget Committee in June. He added that "If you're not falling off a cliff at the end of your projection window, that is your best assurance that the long-term trajectory is also stable." The House bill falls off a cliff.

And the CBO score almost surely *understates* this deficit chasm because CBO uses static revenue analysis—assuming that higher taxes won't change behavior. But long experience shows that higher rates rarely yield the revenues that they project.

As for the spending, when has a new entitlement ever come in under budget? True, the 2003 prescription drug benefit has, but those surprise savings derived from the private insurance design and competition that Democrats opposed and now want to kill.



The Health-Care Deficit Chasm

The gap between spending and revenue in the Waxman House bill from 2010-2029, in billions, based on CBO estimates of 8% annual growth in outlays and 5% in revenues.

Source: Congressional Budget Office

The better model for ObamaCare is the original estimate for Medicare spending when it was passed in 1965, and what has happened since.

That year, Congressional actuaries (CBO wasn't around then) expected Medicare to cost $3.1 billion in 1970. In 1969, that estimate was pushed to $5 billion, and it really came in at $6.8 billion. House Ways and Means analysts estimated in 1967 that Medicare would cost $12 billion in 1990. They were off by a factor of 10—actual spending was $110 billion—even as its benefits coverage failed to keep pace with standards in the private market. Medicare spending in the first nine months of this fiscal year is $314 billion and growing by 10%. Some of this historical error is due to 1970s-era inflation, as well as advancements in care and technology. But Democrats also clearly underestimated—or lowballed—the public's appetite for "free" health care.

ObamaCare's deficit hole will eventually have to be filled one way or another—along with Medicare's unfunded liability of some $37 trillion. That means either reaching ever-deeper into middle-class pockets with taxes, probably with a European-style value-added tax that will depress economic growth. Or with the very restrictions on care and reimbursement that have been imposed on Medicare itself as costs exploded.

Democrats will return in the fall with various budget tweaks that will claim to make ObamaCare "deficit neutral" over 10 years. But that won't begin to account for the budget abyss it will create in the decades to come.

Grassley's Leverage

Washington runs on political leverage, and at the current moment few people have more of it than Chuck Grassley. President Obama is desperate to have the Iowa Republican sign on to some version of ObamaCare to give cover to jittery Democrats. So in a remarkable noncoincidence, the Obama Administration decided to roll over last week on one of Mr. Grassley's major concerns: ethanol.

Mr. Obama's nominee to be Ambassador to Brazil, Thomas Shannon, had made the political mistake of saying at his nomination hearing that it would be "beneficial" for the U.S. to lift the 54-cent-gallon U.S. tariff on ethanol from Brazil. That's a perfectly sensible observation, since the import tariffs, on top of an ad valorem tariff of four to seven cents a gallon, keep sugar-based ethanol from Brazil and the Caribbean from competing with less energy-efficient U.S. corn ethanol.

However, the tariff is sacred policy to Mr. Grassley, who promptly put a hold on Mr. Shannon's nomination until he got a pledge that no such repeal would be sought. He got his promise last week in a letter from Secretary of State Hillary Clinton and Trade Representative Ron Kirk, and he promptly lifted his hold on Mr. Shannon.

In politics, you gotta do what you gotta do, as Bill Clinton once famously said to Bob Dole. And give Mr. Grassley credit for being up-front and public about the reasons for his hold on Mr. Shannon, in contrast to many other Senators who prefer to act in secret. On the other hand, we sure hope Mr. Grassley doesn't make Americans pay twice for this political transaction: once in higher gas taxes from ethanol, and again with a health-care deal that raises taxes and rations medical care.

Pepper . . . and Salt

THE WALL STREET JOURNAL

"Yes, I'd be happy to give you my input if someone would be kind enough to tell me what meeting I am in, and who you all are."