News in Depth: From Lehman's wreckage, new lives

THE WALL STREET JOURNAL.

VOL. XXVII NO. 156 | EUROPE | MONDAY, SEPTEMBER 14, 2009

DOW JONES — A News Corporation Company

europe.WSJ.com

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

THE WALL STREET JOURNAL.

What's News

Financier Danny Pang, accused by U.S. regulators of defrauding investors out of hundreds of millions of dollars, died Saturday at a California hospital. The cause of death wasn't immediately available, but police said foul play isn't suspected. Page 3

■ **The mood among** many participants at the World Economic Forum in China was caution about the nascent recovery. Page 2

■ **The U.S. Treasury and Fed** are using speeches and documents to try to blunt criticism they lack an exit strategy for their financial support. Page 2

■ **China said** it will review complaints about U.S. exporters of chicken and auto products after the U.S. put sanctions on Chinese tire imports. Page 8

■ **Regulators are taking** a different approach to short selling of stocks than they did a year ago. Page 23

■ **Johnson & Johnson aims** to cut the price of its $1.5 billion deal with Elan due to a change in how Tysabri rights are affected. Page 7

■ **Carlos Ghosn is betting** the future of Renault and Nissan Motor on a leap to electric cars. Page 4

■ **Volkswagen plans** to invest $5.83 billion to increase production and capacity in China by 2011. Page 4

■ **Economists and consumers** are feeling better about the U.S. economy a year after the most frightening moments of the financial crisis. Page 10

■ **BIS recommends** in a new paper that bigger banks be subjected to higher taxes to counteract the financial risk they might pose. Page 26

■ **American Airlines parent** AMR is in talks with Japan Airlines to form a far-reaching joint venture. Page 7

■ **U.S. and Afghan soldiers** were killed in weekend attacks, as Karzai widened his election lead slightly. Page 9

■ **Pakistan said** it is close to capturing the leader of the Swat Taliban after arresting five of his top commanders.

■ **Slovenia and Croatia** agreed that a border dispute will no longer stall Croatia's negotiations to join the EU.

■ **Australia's Gorgon gas** field is putting pressure on other proposed LNG projects to lock in customers. Page 29

EDITORIAL & OPINION

Korean engineering
Global car makers worry about "Hyundai, Bloody Hyundai." Page 13

Breaking news at europe.WSJ.com

Merkel calls for an end to Germany's 'grand coalition'

Reuters

SETTING A COURSE: The chancellor said she wants to form a new center-right government during a debate with Frank-Walter Steinmeier, the foreign minister and her Social Democrat opponent in the Sept. 27 election. **Page 5.**

In upturn, a lot of credit

Treasury shield for mutual funds, Fed's corporate loans win high marks

By David Wessel

It was only a year ago that the world economy was enveloped in a financial panic of such dimensions that, if one believes U.S. Federal Reserve Chairman Ben Bernanke, it threatened to produce a calamity as bad as the Great Depression.

Today, the economy is far from vigorous. Unemployment remains high. Huge swaths of the financial system remain on government life support. But the global recession appears over, and forecasters are arguing over the pace and sustainability of recovery. Leaders of the world economy are breathing an audible sigh of relief, and talking about the "exit strategy." President Barack Obama goes to Wall Street Monday, the anniversary of Lehman Brothers' collapse, to deliver a cautious victory speech.

With the modicum of hindsight now available, do governments and central banks deserve credit for preventing catastrophe? The early verdict from most scholars, executives and government insiders is yes.

On the question of which of dozens of extraordinary interventions—rock-bottom interest rates, surging government spending, billions of taxpayer money injected into banks, sweeping government guarantees—made the biggest difference, there's less agreement.

Experts say the leading candidates for most-successful moves are those that leveraged the credit and credibility of the U.S. government to replace broke and beleaguered private financial institutions and markets. The moves shored up rapidly dissipating confidence in the financial system before panic damaged it irreparably, and kept credit flowing while bankers and government officials debated how to rebuild

Please turn to page 35

Spain displays good, bad of euro

By Thomas Catan

THE OUTLOOK

MADRID—Even as France and Germany begin to show signs of economic recovery, weaker members of the European common-currency union remain mired in recession. Without painful overhauls, euro-zone countries such as Spain, Italy, Greece and Portugal seem set for years of meager growth, making their debts harder to pay.

That raises the question: Could the divergent economic fortunes of euro-zone countries pose a problem for the currency union itself?

Cause for cheer?

The euro is at its strongest level against the dollar this year, and interest rates suggest investor fears over a debt default by a euro-zone member have eased since earlier in the year. Despite this, the euro zone's toughest times could lie ahead.

To understand why, it's worth taking a look at Spain. Perhaps no other country better illustrates the outsize advantages—and potential drawbacks—of the common European currency. Adopting the euro a decade ago meant

Please turn to page 34

Diamond body finds abuses in Zimbabwe

By Sarah Childress And Farai Mutsaka

An international body charged with policing the diamond trade has ratcheted up scrutiny of alleged human-rights violations by the Zimbabwean army and police in connection with diamond production.

Zimbabwean diamonds make up a small percentage—about 0.4%—of the world diamond trade, according to the World Diamond Council, an industry group. So far this year, Zimbabwe has earned $20 million from the sale of diamonds—a small fraction of the estimated $8.5 billion of diamonds produced each year by African countries, which account for more than half of the global trade. Suspension of Zimbabwe's diamond sales wouldn't have much impact on global supply, but it could threaten one of the country's few sources of hard currency.

An investigative team for the Kimberley Process Certification Scheme, a United Nations-backed body charged with policing conflict diamonds—stones mined amid violence, sold to fund conflict, or both—drafted a scathing interim report after a visit to Zimbabwe early this summer. The team found evidence of killings and forced labor at diamond fields in the east of the country, among other human-rights violations, and recommended a halt in diamond exports until Zimbabwe ad-

Please turn to back page

Inside

Breaking ground

Markets

	CLOSE	PCT CHG
DJIA	9605.41	-0.23
Nasdaq	2080.90	-0.15
DJ Stoxx 600	241.74	+0.53
FTSE 100	5011.47	+0.48
DAX	5624.02	+0.52
CAC 40	3734.89	+0.78
Euro	$1.4612	+0.34
Nymex crude	$69.29	-3.68

LEADING THE NEWS

Executives stay cautious about recovery

At forum in China, participants agree worst may be over

BY JASON DEAN AND AARON BACK

DALIAN, China—It was billed as an event dedicated to "relaunching growth," but at the World Economic Forum meeting that ended here Saturday, the mood among many participants was caution about the nascent recovery.

Executives, officials and others at the three-day forum in this northeastern Chinese city generally agreed that the global economic situation has stopped deteriorating in recent months. But many said that they have yet to see signs of a substantial, sustainable upturn, and that there seems little hope of the economy returning to anything like its former strength soon.

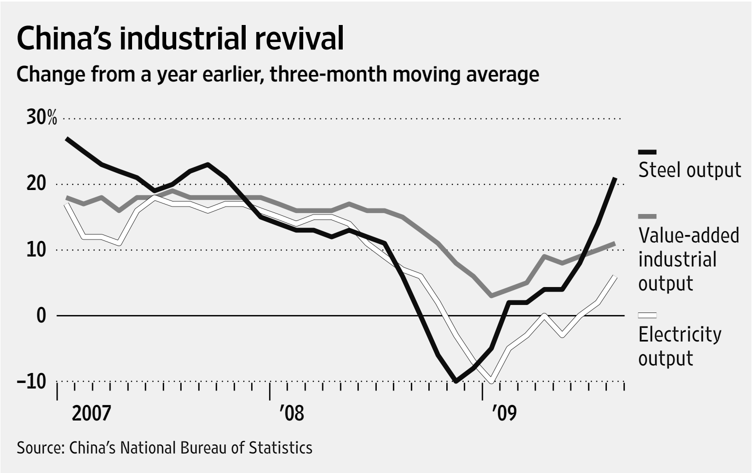
"We don't see any green shoots," Martin Sorrell, chief executive of **WPP** PLC, the world's largest marketing company by revenue, said in an interview at the forum. WPP clients are cautious about prospects for global growth after sustaining huge financial losses, and they won't invest again until they are more confident in a recovery, he said.

Mr. Sorrell participated in a panel discussion Friday hosted by China Central Television, the state-run broadcaster, where the moderator asked the audience of more than100 people—mostly other international executives—for their views of the strength of the recovery. The majority said the current recovery isn't likely to be sustainable.

Many executives pointed to China as one source of optimism. Christopher J. Kearney, chief executive of U.S. industrial-equipment maker **SPX** Corp., said healthy demand from China is likely to drive growth in the low single-digit percentage range this year for the company's Asia-Pacific business, which accounted for just over 14% of its total \$5.8 billion in 2008 revenue. That growth is being driven largely by Chinese demand for SPX's power-plant equipment.

But globally, SPX hasn't seen strong signs of an upturn yet. Mr. Kearney expects total revenue in its existing businesses—not including acquisitions or adjustments for currency fluctuations—to decline about 15% this year.

"What we're seeing now is the slowing of the declines," he said. "We don't think there's going to be any significant recovery in 2008. ... We certainly don't subscribe to any kind of a 'V-recovery' theory," where a sharp rise follows a rapid decline. Instead, he said, "what we're going to see is a slow, more steady recovery."



China released a raft of economic data Friday showing that its economy continued recovering in August. New bank lending, a closely watched indicator of government-stimulus support because most banks are state-controlled, totaled 410.4 billion yuan (\$60 billion) in August, the central bank said, up from 355.9 billion yuan in July and above market expectations. The data indicated a plentiful money supply, though the pace of lending was below the explosive 1.2 trillion yuan monthly average of the first half.

Value-added industrial output, a key measure of activity in China's manufacturing-dominated economy, expanded 12.3% in August from a year earlier, up from July's 10.8% gain, the National Bureau of Statistics said. It was the fourth month in a row of acceleration.

Heavy industry has benefited this year as automobile sales surge and new construction picks up. Crude steel production jumped in August to a fresh monthly record.

Global trade also has picked up from its lows in recent months, with China's exports in August rising a seasonally adjusted 3.4% from July, China's Customs agency said Friday.

Still, Chinese Premier Wen Jiabao, in a speech at the forum ahead of the data release, said "the pickup in China's economy remains unstable, unconsolidated and imbalanced," and pointed to uncertainties that continue to cloud the global economic outlook. He said the situation required China's government to continue its aggressive economic stimulus measures.

Many speakers at the forum said Asian consumption needs to rise, because the U.S. is unlikely to return to its pre-crisis levels of spending. "Overwhelming consensus emerged that a surge in Asian domestic demand is needed to compensate for ebbing U.S. consumption," the forum organizers said in a news release Saturday summing up the conference.

But there were widespread doubts that such a transition will happen quickly. "The American consumer is dead money. This is the wake-up call for export-dependent China and export-dependent Asia," said Stephen Roach, Asia chairman for Morgan Stanley. Asia "hasn't done the heavy lifting and structural transformation," Mr. Roach added.

—Andrew Browne contributed to this article.

Treasury, Fed make case for plan to end financial support

BY DAVID WESSEL

WASHINGTON—The U.S. Treasury and Federal Reserve are trying to blunt criticism that they lack an "exit strategy" for withdrawing their support for the financial system with speeches and documents timed for the first anniversary of the worst moments of the crisis.

Treasury Secretary Timothy Geithner and Federal Reserve Chairman Ben Bernanke both have talked publicly about the steps they are taking to unwind the unusual lending, credit guarantee and taxpayer investment initiatives they have pursued over the past year. President Barack Obama is likely to sound similar themes in a speech on Wall Street on Monday. And Mr. Bernanke will speak Tuesday at the Brookings Institution think tank.

To bolster the case that it has an exit strategy, the Treasury on Monday is planning to issue a document titled "The Next Phase" that includes 33 pages of charts. Taking credit for "containing the panic," the report states, "We are moving from the rescue of our financial system to a period of stabilization, rehabilitation, and rebuilding," according to a copy viewed by The Wall Street Journal.

The report discloses no new policies, but describes ways in which lending under emergency initiatives—Fed and Treasury support of money-market mutual funds, for instance—is being reduced, both because of waning demand and by previously announced decisions to allow some to expire.

It offers no clues to the administration's plans for restructuring mortgage giants Fannie Mae and Freddie Mac, which are now controlled by the government and dependent on continued infusions of taxpayer money.

In addition to offering details that will undergird the president's speech Monday, the Treasury report emphasizes two other themes that administration and Fed officials have sounded recently.

One is that the government remains prepared to act if the financial system stumbles again. "Although we are rolling back emergency support programs that are no longer needed, significant parts of the financial system remain impaired," it says. "It is prudent to maintain capacity to address unforeseen developments."

The second is that the vulnerabilities in the financial regulatory system exposed by the crisis remain unaddressed by Congress. "We must not forget the lessons we have learned from this period," it says. "Rebuilding our regulatory system in a way that is strong and better-suited to manage risk and ensure safety and soundness must be our highest priority."

INDEX TO BUSINESSES

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

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

Editeur responsable: Patience Wheatcroft M-17936-2003

INDEX TO PEOPLE

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

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

LEADING THE NEWS

Financier Pang is dead

Autopsy is intended to find out if death was self-inflicted

By Mark Maremont

Danny Pang, a California financier accused by U.S. regulators of defrauding investors out of hundreds of millions of dollars, died early Saturday at a Newport Beach hospital.

Mr. Pang, 42 years old, had been taken from his Newport Beach home Friday afternoon by paramedics. The cause of death wasn't immediately available.

Sgt. Evan Sailor of the Newport Beach Police said foul play isn't suspected in Mr. Pang's death.

However, Sgt. Sailor said an autopsy has been scheduled to determine whether Mr. Pang's death was due to natural causes or was self-inflicted.

Mr. Pang had been under severe pressure in recent months, accused by federal regulators of masterminding an international securities fraud and misappropriating millions of dollars for himself. He denied any wrongdoing.

A neighbor reported seeing police crime-scene investigators at the Pang household after the financier was taken away by paramedics, which a Newport Beach police officer said sometimes happens when police suspect a suicide attempt but want to rule out foul play.

The neighbor said the investigators removed four or five small bags of evidence from the house.

A spokesman for Mr. Pang, Charles Sipkins, released a statement from the family, saying they were "shocked and saddened by Danny's sudden and tragic passing. Danny was a wonderful husband, loving father and honest businessman. For the past five months, Danny was subjected to a relentless attack of innuendo and false allegations and was denied any opportunity to defend himself."

The statement said the family members "remain steadfast in our belief that Danny would have been vindicated if he had been given that opportunity."

Sgt. Sailor said paramedics responded to a call from Mr. Pang's home in a gated community Friday afternoon and Mr. Pang was taken in serious condition to a local hospital. He said Mr. Pang was alive at the time, adding: "it sounds like it was pretty serious."

Mr. Pang was taken to nearby Hoag Hospital, where an operator early Saturday morning said he was listed in the cardiac-care unit.

The Newport Beach Police received a report of a dead body on Mr. Pang's block at 3:41 p.m. Friday, according to the police department's online log.

Sgt. Sailor said he couldn't explain the dead body report, saying it is possible the call initially came in that way.

Asked about why crime-scene investigators may have come to the house, the officer said he couldn't speculate on this incident, but that procedure is often followed if an illness appears self-inflicted and police want to make sure a crime wasn't committed.

Mr. Pang's autopsy was scheduled for Sunday, said a spokesman for the Orange County coroner.


Reuters

Financier Danny Pang (center) leaves federal court in Santa Ana, Calif., with personal security following his arraignment on criminal charges on July 27.

Mr. Pang was the founder and former chief executive of Private Equity Management Group Inc. of Irvine, Calif.

The U.S. Securities and Exchange Commission filed a civil lawsuit against Mr. Pang, accusing him of operating a Ponzi-like scheme and misleading investors, mostly in his native Taiwan, into investing more than $800 million with PEM-Group.

Mr. Pang denied those allegations, saying the government based its case on the word of a disgruntled employee.

The SEC froze Mr. Pang's assets in April, ordered him to surrender his passports and bring back to the U.S. any assets he had sent overseas.

Mr. Pang was arrested days later by the U.S. Federal Bureau of Investigation on criminal charges of gradually withdrawing about $360,000 from a company account so he wouldn't have to report the transactions to regulators.

He pleaded not guilty in July to the criminal charges.

His trial was set for Sept. 15, but it was later delayed until next year.

LEADING THE NEWS: AUTOMOBILES

Ghosn places bet on electric cars

Renault and Nissan must overcome issues with costly batteries

By Sebastian Moffett

Associated Press

Nissan/Renault CEO Carlos Ghosn says electric cars should capture 10% of auto sales industrywide by 2020 as gas prices rise.

PARIS—A decade after Carlos Ghosn revived France's **Renault** SA and Japan's **Nissan Motor** Co., the auto executive is gambling the future of both companies on a leap to electric cars.

This week at the Frankfurt Motor Show, Renault will unveil four electric vehicles that Mr. Ghosn, who is CEO of both companies, promises will have mass-market potential. He says the cars, fueled by rechargeable batteries, will be at least as cheap to buy and run as their gasoline-burning equivalents. Electric Nissans are scheduled to go on sale in the U.S. in October 2010, followed by the Renaults in Europe in 2011.

"We're making a major industrial bet," said the 55-year-old Brazilian-born executive.

It's a risky one, and many other auto companies think Mr. Ghosn is on the wrong track. **Mitsubishi Motors** Corp. also has announced an electric car for the U.S. market. But **Toyota Motor** Corp. and **Honda Motor** Co., among others, say batteries still cost too much, they run down too quickly and recharging them takes too long.

Instead, they are making progressively more electric versions of hybrid vehicles that run on both gasoline and batteries. Toyota, for example, plans to sell a "plug-in hybrid" next year that can be charged from a regular electric supply. "Gas-hybrid vehicles are what people will be driving in the short term," said Todd Mittleman, Honda's U.S. spokesman for the environment.

But Mr. Ghosn, who in the 1990s was known as "Le Cost Killer" in France for his cutbacks at Renault, is throwing money at his plan. Renault and Nissan, which entered a technology-sharing and capital partnership in 1999, have together spent €4 billion ($5.83) to develop electric cars and the batteries to power them. The companies had combined revenues of about €100 billion last year, and their combined unit sales were third after Toyota's and **General Motors** Co.'s.

The prices of Renault's new electric cars haven't yet been set. But Mr. Ghosn said they will sell for the same amount as their gas-powered equivalents—and that the overall cost of electricity plus battery use will be less than that of gasoline.

The trick, said Mr. Ghosn, is to have consumers lease, not buy, the batteries, which currently cost nearly €10,000. Renault's electric cars will have removable batteries, which it expects to lease for about €100 a month in Europe. When the electricity runs down in a battery, it can either be recharged, or the leasing company might swap in a fully charged one.

Renault is working with a range of local and national governments, utilities and others to set up such systems. The project also hinges on public subsidies. For example, the U.S. has lent Nissan $1.6 billion to make batteries at its plant in Tennessee.

An early lead for Renault and Nissan in electric cars could translate into the kind of image and marketing boost that helped Toyota—thanks, in part, to its environmentally friendly Prius hybrid—become the world's biggest car maker by sales in 2008.

Mr. Ghosn believes electric cars will eventually develop a much bigger market than hybrids, accounting for 10% of new car sales by 2020. He bases his prediction partly on an expectation that oil, now trading at around $72 a barrel, will one day return to prerecession prices of $150 or more.

Still, a recent study by Boston Consulting Group showed that with current battery technology, the "total cost of ownership" of an electric car would be similar to that of a regular car only if oil rose to $300 a barrel —though cheaper batteries will make electric cars more economical at a lower oil price. And there are other hurdles: The top driving range for a typical small, experimental electric car is just 160 kilometers (99 miles). Recharging also takes from several hours to as long as overnight from a regular home plug.

In 2007 Nissan formed a joint venture with the Japanese electrical conglomerate **NEC** Corp. The venture has just begun trial production of lighter, more powerful batteries based on lithium, a safe and relatively abundant metal.

Another Renault partner is French state-controlled electric utility **Electricite de France** SA, which, starting next year, plans to set up 200 charging points in parking facilities, houses and roads in a residential area west of Paris.

"Country by country, people are determined to make zero emissions a reality," Mr. Ghosn says. "We feel good with this risk."

Volkswagen invests in boosting China output

By Christoph Rauwald

Bloomberg News

Volkswagen's sales in China rose 23% in the first half, as the nation turned out to be an industry bright spot. Above, a Volkswagen at a Beijing dealership in July

FRANKFURT—**Volkswagen** AG said Friday it will invest €4 billion ($5.83 billion) in increasing production and capacity in China by 2011 in a bid to keep pace with demand.

"Demand for our models is growing so dramatically that our capacities in China are no longer sufficient," Volkswagen Chief Executive Martin Winterkorn said in a statement.

China has proved to be one of the very few bright spots for global auto makers as the industry has been battered by a steep downturn. Chinese demand for cars continues to grow, helped by a wide-ranging economic stimulus package.

In the January-to-August period, passenger-vehicle sales in China jumped 37% to 6.23 million units, according to the China Association of Automobile Manufacturers, while total vehicle sales rose 29% to 8.33 million units.

"The monetary and fiscal measures taken by the government have provided positive impetus for the Chinese automobile industry," Volkswagen said. A move to halve the purchase tax on cars with 1.6-liter engines and under particularly helped lure car buyers into showrooms. However, some analysts say this pulls forward future demand, and sales may collapse when the full tax is reinstated at the end of 2009.

Volkswagen's sales in China rose 23% in the first half of the year to 652,436 vehicles—more than the 633,091 vehicles the company sold in Germany over that period.

"In China, we will see clear double-digit growth in 2009 and expect to remain the market leader in the future," said Winfried Vahland, president of Volkswagen's Chinese operations.

The investments would be financed from the cash flow of Volkswagen's Chinese joint-venture companies, the auto maker said in a statement. Production at its Nanjing and Chengdu plants would be boosted to between 300,000 and 350,000 units in each case by 2012.

From that year on, three new models are set to be produced at the Nanjing plant and two new models at the Chengdu facility.

In addition to its strong presence in growth markets such as China and Brazil, Volkswagen, Europe's largest auto maker by sales, has a relatively small exposure to North America.

Green cars, new alliances expected at Frankfurt show

By Christoph Rauwald

FRANKFURT—Battered by the worst industry downturn since World War II, car makers heading to the International Auto Show in Frankfurt on Monday are pinning their hopes on early signs that a slow market recovery might be gaining traction.

How much the industry will be hurt by the end of "cash for clunkers" rebates, which mainly will affect mass-market makers such as **Volkswagen** AG and **Fiat** SpA, is expected to be in the spotlight during the show, along with electric cars and plans for new alliances between companies to share costs.

Some analysts say car markets are suffering from distortions created by the government-backed scrapping incentives in many countries. Analysts believe that **BMW** AG and **Daimler** AG's core Mercedes-Benz brand, the world's two largest luxury auto makers by sales, will be affected less by a downturn in sales once these scrapping incentives expire.

"BMW is a high-quality way to gain exposure to the potential we see for positive U.S. market surprises," said Morgan Stanley analyst Adam Jonas in a note to clients, when he upgraded the stock to overweight on Tuesday. BMW was hit hard by the downturn in the key U.S. market.

Driven by investments as part of economic stimulus packages around the globe, auto makers have been ramping up efforts in the field of green technologies, such as hydrogen-powered vehicles and plug-in electric cars, despite some persistent technological and financial obstacles.

At the Frankfurt show, Mercedes-Benz will show a fuel-cell version of its compact B-Class, powered by hydrogen. Mercedes says it is the first production car using the technology, which creates electricity through a chemical process. The company says the first 200 or so cars will be offered to customers in the U.S. and Europe at the beginning of next year.

Toyota Motor Corp. is presenting an electric plug-in version of its Prius model. Its Japanese rivals Honda Motor Co., Nissan Motor Co. and Mitsubishi Motors Corp. won't be present at the show as they seek to cut costs.

General Motors Co.'s European Opel brand plans to present the new generation of its best-selling Astra compact just days after the sale of the unit to a consortium led by **Magna International** Inc. was clinched Thursday. The Astra's success is crucial to help Opel and its British sister brand, Vauxhall, through the looming restructuring.

French auto maker **Renault** SA is showing a new version of its Megane along with several electric concept vehicles. French peer **PSA Peugeot Citroën** SA is focusing on two new small cars, the DS3 and the C3, as well as the sleek Peugeot RCZ sports car.

Italian auto maker Fiat plans to show the revamped Punto model as well as a cabriolet version of its 500 model, while the new-generation C-Max minivan will be in spotlight at **Ford Motor** Co.

Merkel would end German 'grand coalition'

In debate, chancellor says country needs center-right union

ASSOCIATED PRESS

BERLIN—German Chancellor Angela Merkel faced her challenger in a televised debate two weeks before elections, arguing Sunday that the country needs a new center-right government to guide Europe's biggest economy out of the financial crisis.

Frank-Walter Steinmeier, who is opposing Ms. Merkel in the Sept. 27 vote and trailing in polls, portrayed himself as a champion of "social balance." The debate was televised on four public and private channels.

Ms. Merkel, a conservative, was looking to strengthen her chances of ending an awkward "grand coalition" with Mr. Steinmeier's Social Democrats. In a second term, she aims to form a new center-right government with a pro-business opposition party, the Free Democrats.

"This 'grand coalition' has worked well under my leadership," Ms. Merkel said, pointing to a decline in unemployment since she took office in 2005.

"But I think that we pursue this course with more determination... and so I am campaigning for a new government," she said. "The 'grand coalition' did great work and now—in the most serious crisis since the '30s—we really need a determined policy for more work."

Mr. Steinmeier, Ms. Merkel's foreign minister and vice chancellor, also praised the coalition's work, but insisted it "fell short of its possibilities" because Ms. Merkel's Christian Democratic Union failed to support center-left proposals such as the introduction of a minimum wage.

He pushed that call, arguing that a "downward wage spiral" in Germany must be stopped.

Ms. Merkel said she was convinced that a one-size-fits-all minimum wage would mean jobs lost, and argued for each industry to set its own minimum wage.

Ms. Merkel's conservatives are pledging tax relief to stimulate the economy, but haven't specified when. Mr. Steinmeier's party says that isn't feasible when the government is racking up debt to deal with the crisis.

Mr. Steinmeier said it was important for democracy that "social balance is assured."

"I want to ensure that responsibility and good sense return to business," he said. "I want to ensure the work of tomorrow and that there is no way back to nuclear power."

Mr. Steinmeier is defending a plan worked out by the previous center-left government, which his party led, to close all 17 nuclear plants in Germany by 2021. The coalition has stuck with it, but Ms. Merkel wants to extend the life of some reactors until more sources of renewable energy can be developed.

Angela Merkel

"The nuclear exit must stay," Mr. Steinmeier said. But Ms. Merkel said nuclear power should still be used as a "bridging technology" until Germany can shift to renewables.

Polls give Ms. Merkel's CDU and its Bavaria-only sister party, the Christian Social Union, a lead of 12 percentage points or more over the Social Democrats. They show a majority, though not a big one, for a center-right alliance.

Sunday's is the only head-to-head debate in a campaign notably short so far on passion and personal attacks between Ms. Merkel and Mr. Steinmeier. Asked in the opening exchange why Ms. Merkel should no longer be chancellor, Mr. Steinmeier replied: "because there is a better alternative, namely me."

Ms. Merkel, however, didn't reply directly when asked why Mr. Steinmeier would be a worse leader.

China State will help build New Jersey casino

A WSJ NEWS ROUNDUP

ATLANTIC CITY, New Jersey—Revel Entertainment Group has turned to the Chinese government for help finishing the casino it is building on Atlantic City's Boardwalk.

China State Construction Engineering Corp., the construction arm of the Chinese government, will team with Revel Entertainment and **Tishman Construction** Corp. to complete what is likely to be Atlantic City's last new casino for a long while.

Under the $1.7 billion deal, China State Construction will provide construction management for the casino, which is more than half done.

Revel plans to start seeking the financing to finish the project during the fourth quarter of this year.

Due to the recession, Revel slowed the project's pace last year and halted all but exterior work on the ocean-themed casino, hotel and restaurants, originally valued at $2 billion. Hundreds of construction workers were laid off in January.

The project is considered to be too far along to abandon, and many local officials feel it could be the most important factor in reversing a three-year economic slump in Atlantic City, the second-largest U.S. gambling market after Las Vegas.

CORPORATE NEWS

Telefónica finds thorn in Venezuela growth

Currency controls limit firms' ability to repatriate profits

BY JASON SINCLAIR AND SANTIAGO PEREZ

MADRID—Foreign companies operating in Venezuela, such as Spanish communications giant **Telefónica** SA, are struggling to repatriate profits as a severe dollar shortage continues to stifle the South American country's economy.

For Telefónica, Spain's second-largest company by market value, Venezuela looks great on paper as a growth story, but the country's currency controls have become a minefield, preventing it from repatriating some $2 billion in profit since 2006.

The issue comes at a time when Telefónica increasingly relies on Latin America for growth as revenue is declining in recession-hit European markets. Telefónica's cash contribution from its Venezuelan operations has risen steadily: local unit Telefónica Móviles Venezuela accounted for 15% of the company's total revenue of €5.57 billion ($8.12 billion) in Latin America in the second quarter. Venezuela is also Telefónica's biggest growth market, with revenue rising 41% to €865 million in the second quarter from a year earlier.

Yet billions of dollars in potential profits are trapped because of Venezuela's artificially high valuation of the bolivar, leading market observers to warn that the currency controls distort balance sheets.

Venezuela's foreign-exchange controls are based on an artificially strong currency that has sparked a broad liquidity crunch as oil revenue dwindles. Venezuela's official exchange rate has been pegged at 2.15 bolivars to the dollar since 2005 in a country that has sustained annual consumer price increases above 20%. Black-market rates value the bolivar at close to 7 to the dollar.

Companies doing business in Venezuela need government clearance to exchange dollars at the so-called strong-bolivar rate. Most could repatriate profits when Venezuelan crude-oil prices were at record highs and dollars were abundant. Now, companies may get clearance to repatriate profits, but delays emerge when it comes to buying dollars at the official rate.

Several price increases since 2008 and the artificially strong bolivar have underpinned Telefónica's growth. But such growth rates aren't sustainable, said ING telecommunications analyst Georgios Ierodiaconou.

Underscoring the distorting effects, Telefónica's Venezuelan mobile customers generate higher average revenue than its German clients, Mr. Ierodiaconou said.

A potential devaluation of the strong bolivar to black-market rates would halve the valuation of Telefónica's Venezuelan mobile operations to €1.4 billion, while Telefónica's global revenue would fall 4%, according to calculations from ING Groep NV.

Previous Latin American fixed foreign-exchange programs have typically ended in abrupt devaluations. Analysts say that maintaining an artificially strong currency as dollar inflows tumble raises the specter of depreciation, which could force companies into write-downs.

Telefónica Chief Financial Officer Santiago Fernández Valbuena has said the company's request to repatriate profits using the official rate is pending. "We have not been denied, but we have been delayed in getting the cash out," Mr. Valbuena told analysts in July.

Mr. Valbuena told analysts the company won't take a write-down on its Venezuelan operations as long as it continued to show that profit repatriation was possible in Venezuela, where the business "is performing wonderfully."

A Telefónica spokesman said the situation hasn't changed and the company doesn't expect Venezuela to devalue the bolivar.

Telefónica's problems mirror those of other foreign companies but few complain openly, fearing the reaction of President Hugo Chávez, who has already nationalized large chunks of the economy.

In May, Banco Santander SA, Spain's largest company by market value, was forced to sell its Venezuelan unit to the government. After months of negotiations, the parties agreed on a price tag of about $1 billion and Santander was allowed to repatriate its accumulated profits. Spanish rival Banco Bilbao Vizcaya Argentaria SA has also experienced delays in profit repatriation. Company officials at both banks declined to comment further on the issue.

General Motors Co., the largest car maker in Venezuela, in June closed a car assembly plant for almost three months because it wasn't allocated enough dollars to import auto parts.

Spanish Foreign Minister Miguel Angel Moratinos was told during a recent visit to Caracas that the Venezuelan government agreed to speed up profit repatriations and that it expected to solve the dollar shortage before year end, according to Spanish government officials.

Prime Minister José Luis Rodriguez Zapatero discussed "the investment outlook for Spanish companies" at a meeting with Mr. Chavez in Madrid on Friday, the Spanish government said in a statement.

Telefónica controls 44% of Venezuela's mobile phone market. Its main local rival is CANTV, which Mr. Chávez expropriated in 2007 from a group of investors including U.S.-based Verizon Communications Inc.

Bernstein Research has said it sees "a growing risk of either appropriation of assets or the imposition of draconian taxes as Telefonica looks as attractive a cash cow to President Chávez as it does to European investors."

Officials at Venezuela's Finance Ministry declined to comment.

Telefónica has said it is not interested in exiting Venezuela, and a fresh inflow of dollars due to rising oil prices may improve its chances of exchanging bolivars at the official rate.

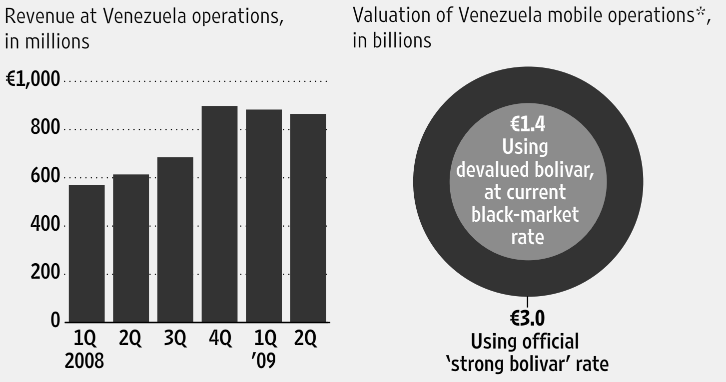
—Darcy Crowe in Caracas contributed to this article.

Bloomberg News

A sign for Telefonica is seen in Caracas, Venezuela

Bolivar distortions

Hyperinflation and an artificially strong exchange rate are distorting Telefónica's growth rates in Venezuela



*according to ING calculations
Sources: Telefónica, ING

Cadbury clarifies Kraft rejection

BY DANA CIMILLUCA AND MICHAEL CAROLAN

Cadbury PLC over the weekend added a new dimension to its rejection of **Kraft Foods** Inc.'s roughly £10 billion ($16.7 billion) takeover bid, saying the proposal "contrasts sharply" with its existing strategy.

The statement is the most expansive formal communication from Cadbury since it issued a terse statement rejecting the offer when it was unveiled a week ago. Cadbury said then that the offer "fundamentally undervalues" the company, indicating to some that price was its only objection.

But in a letter to Kraft chairman Irene Rosenfeld, Roger Carr, her counterpart at Cadbury, seemed to go further, suggesting that a combination with Kraft is not in Cadbury shareholders' best interests.

"We have created a pure play confectionery business with strong brands occupying leading market positions in both developed markets and high growth emerging economies," according to the letter, released Saturday.

"Under your proposal, Cadbury would be absorbed into Kraft's low growth, conglomerate business model, an unappealing prospect which contrasts sharply with our strategy to be a pure play confectionery company."

The comments could make it more difficult for Cadbury's board to ultimately recommend any offer to the company's shareholders, and thus increase the likelihood that Kraft will have to take its offer straight to Cadbury's shareholders, though no such move appears imminent.

Still, Mr. Carr didn't completely close the door to a deal, reiterating that it would "fundamentally" undervalue Cadbury, the U.K. maker of Dairy Milk chocolate and Trident gum. He added that the bid also undervalues the potential synergies from combining the companies. Kraft has said the deal could lead to pre-tax cost savings of at least $625 million a year.

Cadbury's statement suggests a Kraft deal isn't in shareholders' best interests.

The letter comes in response to comments from Kraft executives this week that sought to bolster the trans-Atlantic tie-up. Ms. Rosenfeld said on a conference call with investors that Cadbury has "limited opportunity" to create value for shareholders on its own. One of her lieutenants said that Cadbury is worth nothing more than what someone is willing to pay for it.

"This letter is clearly a case of Cadbury taking a more active approach to responding to numerous, quite aggressive public statements by Kraft over the last week," Bernstein Research analyst Andrew Wood wrote in a research note.

"Cadbury is not blindly pursuing a stand-alone strategy without consideration of shareholder value, and an appropriate bid will be appropriately considered," said Mr. Wood.

Under the proposal, Cadbury's shareholders would receive 300 pence a share as well as shares in Kraft. The bid was worth 745 pence per share, or £10.2 billion, when first made, but a 7% decline in Kraft's stock since then has eroded the value, another point Mr. Carr highlighted, saying the offer is of "uncertain value" to his shareholders.

Cadbury shares rose 38% the day of the bid and closed Friday at 776 pence.

The decline in Kraft stock and the increase in Cadbury's will put pressure on Kraft to raise its offer. Kraft declined to comment, but people familiar with the matter have said any formal offer—which could include a higher price—was still weeks away as Kraft works on putting its financing in place, which under British takeover code must be firm before it takes its next step. It remains unclear whether someone like Hershey Co. or Nestle SA would jump into the fray.

—Jeffrey McCracken and Ilan Brat contributed to this article.

Court finds Alcatel's award in Outlook case was too big

BY BRENT KENDALL

A U.S. federal appeals court Friday affirmed a jury verdict that **Microsoft** Corp.'s Outlook software and two other products infringed an **Alcatel-Lucent** patent, but ruled that a $358 million damages award against the software giant wasn't supported by evidence and needed to be re-calculated.

The case largely centered on Lucent's claim that Microsoft Outlook's calendar function infringed one of its patents. Microsoft argued that the patent was invalid and not infringed, but it also attacked the jury's damages award as far too high.

The company said the $358 million award was based on the full market value of Outlook, even though there was no evidence that Lucent's patented technology contributed to that value. Microsoft argued that it should have to pay only $6.5 million.

Alcatel-Lucent said in court papers that the jury award was "undeniably large," but argued that the amount "simply reflects a reasonable royalty for Microsoft's unauthorized exploitation of Lucent's invention in over 110 million units of infringing software."

The award has grown to more than $500 million with interest.

The U.S. Court of Appeals for the Federal Circuit ruled Friday that a jury was within its rights to find Microsoft liable for infringement, but the court said the size of the monetary judgment against Microsoft was unreasonable.

"Because the damages award with respect to infringement by Outlook is not supported by the evidence but is against the clear weight of the evidence, a new trial on damages is necessary," the court said.

Other Microsoft products involved in the case were Microsoft Money and Windows Mobile.

A Microsoft spokesman said the company was "pleased that the court vacated the damages award, and we look forward to taking the next step in the judicial process."

An Alcatel-Lucent spokeswoman said her company was pleased the court affirmed that its patent was valid and that Microsoft infringed it. She said the company was disappointed that the court threw out the damages award but "we look forward to an upcoming proceeding to determine the compensation to which Alcatel-Lucent is entitled based on the court's finding that Microsoft did use our patented invention."

CORPORATE NEWS

Alibaba aims to soothe investors

Chairman responds to share sale, says company is healthy

By Loretta Chao

HANGZHOU, China—Alibaba Group Chairman and Chief Executive Jack Ma said that Alibaba is healthy and he doesn't plan to sell more shares for his personal use.

"I cannot promise I'm not going to sell, but...I don't want to sell [any more] stocks for my personal use," Mr. Ma said Friday. "This company is getting healthier. Don't worry about it. The company is in good condition." Mr. Ma last week sold Alibaba shares for the first time since its 2007 Hong Kong listing.

Alibaba Group, which is 39% held by **Yahoo** Inc., owns online-trading platform **Alibaba.com** Ltd., which is listed in Hong Kong. The group also owns China's biggest retail Web site, Taobao.com.

Alibaba.com's net profit for the quarter ended June 30 fell 34% to 260.7 million yuan (US$38.2 million), from 396.5 million yuan a year earlier. Revenue rose 24% to 908.3 million yuan.

◄ Alibaba CEO and Chairman Jack Ma

Alibaba.com Chief Executive David Wei said the company "within weeks" plans to introduce a new service, Aliexpress, that will allow Chinese exporters to complete transactions online. The Web site currently only connects buyers and sellers, leaving transactions to be arranged separately.

He said that by 2019, the company hopes to have 10 million small and midsize businesses world-wide as paying customers. The company has no immediate plans to make overseas acquisitions, he said.

Mr. Wei said Alibaba.com hopes to close talks for a joint venture to provide a business-to-business online platform for domestic trade in India within months and expects to close the deal within a year. He said India, where the company has one million users, has large numbers of buyers and sellers.

Alibaba.com last Tuesday said Mr. Ma raised about 270 million Hong Kong dollars, or roughly US$35 million. A company spokesman said the sale represented less than 5% of Mr. Ma's total direct and indirect holdings in Alibaba.com.

According to an internal memo seen by Dow Jones Newswires, Mr. Ma said he decided to sell the shares to give himself and his family "a little sense of accomplishment" as Alibaba Group approaches the end of the first stage of its development.

During a company-sponsored conference Friday, Mr. Ma said Alibaba is talking to potential partners in Latin America and to a company that may help the Web site overcome language barriers.

Mr. Ma also reiterated that Alibaba will enter the U.S. market at some point. "A lot of people in the U.S. want to buy things direct on Taobao," he said. "The problem we have to solve is online payment....We will be there, whether with a partner or [by] ourselves."

J&J seeks to lower price in deal with Elan

By Jeanne Whalen And Jeffrey McCracken

Johnson & Johnson is negotiating to reduce the price of a previously announced $1.5 billion deal with **Elan** Corp., according to people familiar with the matter, after a federal judge ruled earlier this month that part of the deal breached a separate partnership between the Irish biotech firm and **Biogen Idec** Inc.

J&J is attempting to knock at least $100 million off of the $1 billion in cash it agreed to pay as part of the alliance, these people said, adding that the new terms could be announced in coming days. J&J's pledge to invest an additional $500 million in developing Elan drugs will remain unchanged.

Both J&J and Elan declined to comment.

The deal, as it was announced in July, gave J&J an 18.4% stake in Elan and access to experimental Alzheimer's drugs Elan is developing.

A separate, initially secret portion of the deal fell afoul of Biogen and a federal court. That clause gave J&J a lever of control over Biogen by giving J&J the option to take control of one of Biogen's most valuable drugs should Biogen ever be acquired.

Currently, Elan and Biogen jointly own and sell the drug, the multiple-sclerosis treatment Tysabri, which generates nearly $1 billion in revenue a year. But each company has the right to buy out its partner if the partner undergoes a change in control.

Under its agreement with Elan, J&J would have had the right to finance Elan's purchase of Biogen's Tysabri stake and would have taken ownership of the stake if it exercised that right. Because J&J has deeper pockets than Elan does, that arrangement would have made Biogen more likely to lose Tysabri if Biogen were ever taken over. In turn, that would have made Biogen less attractive to potential acquirers, Biogen shareholders and analysts argued.

Elan and J&J didn't initially disclose the existence of their Tysabri arrangement. When it came to light, Biogen told Elan it was in breach of their partnership, and that it risked losing its share of Tysabri. Elan sued, asking the U.S. District Court in New York City to decide the matter; the court essentially sided with Biogen.

That forced Elan and J&J to amend their deal, to either eliminate or substantially alter the Tysabri agreement.

If Elan gets less money from J&J as a result, it could raise pressure on Elan Chief Executive Kelly Martin, who is already under fire from some shareholders who allege that Mr. Martin has mismanaged the company. Mr. Martin has disputed their claims and defended his record.

American Air in talks to form venture with Japan Airlines

By Mike Esterl

American Airlines parent **AMR** Corp. is in talks with **Japan Airlines** Corp. to form a far-reaching joint venture, according to people familiar with the matter, setting up a potential fight with rival **Delta Air Lines** Inc. to woo the strategically important but financially hobbled Japanese airline.

AMR also would consider acquiring a minority stake in the Japanese company to seal the pact, these people said, though the amount would be capped at a range totaling hundreds of millions of dollars. The Japanese airline, known as JAL, and AMR have made "significant progress" toward an agreement, said one of the people familiar with the matter.

Delta, the world's largest airline by passenger traffic, is also in preliminary negotiations to form an alliance with and invest in JAL, according to people familiar with the matter.

At stake is JAL's access to lucrative routes in Asia, an area of near-certain growth for the airline industry even in a soft global economy

JAL is currently a member of the oneworld alliance of global airlines that includes American and **British Airways** PLC, allowing it to more easily share passengers with them. Among U.S. airlines, American trails Delta and **UAL** Corp.'s United Airlines in Japan and Asia. It doesn't have a hub in Japan, relying instead on JAL.

A deal with Delta would likely involve JAL switching to that carrier's SkyTeam alliance, which also includes **Air France-KLM** SA. It would extend Delta's clout and reduce the risk of other foreign carriers getting bigger market shares if restrictions are eased over Japanese airspace. Delta became the largest foreign carrier in Japan and the biggest U.S. carrier in Asia by traffic following last October's acquisition of Northwest Airlines.

Any investment by either of the U.S. airlines is likely to be limited to a few hundreds of million of dollars because of foreign ownership restrictions. But a capital infusion could help JAL, which is revamping its operations under government supervision. JAL has a market capitalization of 445 billion yen, or about $4.8 billion.

The bidding underscores both JAL's strategic advantages and its lingering problems. This past summer it received $1.1 billion in loans partially backed by the government. Tougher competition at home and abroad and Japan's weakened economy have hit the airline hard.

JAL also holds a 28% market share for international flights in Japan's Narita International Airport, giving any potential partner significant access to lucrative Asian and trans-Pacific routes. International routes accounted for about 62% of its seat capacity last fiscal year.

AMR, of Fort Worth, Texas, has been in "intensive negotiations" with JAL for more than a month, according to one of the people familiar with the AMR-JAL talks. The proposed joint venture would boost revenue-sharing and joint decision-making in areas such as routes and scheduling. AMR already has code-sharing deals with JAL dating back to the 1990s.

AMR approached JAL about a stepped-up alliance at a oneworld board meeting in June in Malaysia. Follow-up talks were held in Fort Worth and AMR executives have been in Tokyo the past week attempting to hammer out more details, according to people familiar with the matter.

Repsol estimates size of gas find

MADRID—Natural gas from a massive discovery in Venezuela disclosed Friday could be enough to be used in a liquefied-natural-gas project, Antonio Brufau, the chairman of Spanish energy company **Repsol YPF** SA, told Spain's leading daily El Pais.

Repsol on Friday said the gas found by it and Italy's **Eni** SpA in the Perla 1 well of the Cardon IV block in the Gulf of Venezuela may hold between 210 billion and 240 billion cubic meters in reserves in place. According to Venezuelan President Hugo Chávez some 45 billion to 60 billion cubic meters of that could be recoverable, which would make the find Repsol's largest gas discovery on record.

The discovery will turn Venezuelan gas reserves into one of the five largest in the world, Mr. Chávez told the newspaper.

GLOBAL BUSINESS BRIEFS

MG Rover

Britain seeks to sanction 4 tied to car firm's collapse

The British government is taking legal action to bar four investors involved in the collapse of auto maker MG Rover from any company-management positions, a senior official said. Business Secretary Peter Mandelson announced the move as his department released a report on events leading up to the company's 2005 bankruptcy, which put 6,300 people out of work and left creditors owing £1.3 billion ($2.17 billion). The four investors—John Towers, Peter Beale, John Edwards and Nick Stephenson—responded angrily, saying Britain spent £16 million on the report but only £5 million supporting MG Rover. They also claimed the government killed a possible deal with China's **Shanghai Automotive Industry** Corp.

Associated British Foods PLC

Associated British Foods PLC said Friday that Paul Marchant will become chief executive of its low-cost chain Primark, succeeding the retailer's founder, Arthur Ryan. The U.K.-based food, ingredients and retail group said Mr. Marchant, who joined Primark in January as chief operating officer, will assume control of the company on Sept. 13. Mr. Ryan, 74 years old, will remain chairman. Mr. Marchant joined Primark from rival U.K. retailer New Look, where he was also operating chief. He has also served a number of roles at department-store group Debenhams and clothing chains Topman and River Island. Mr. Ryan built Primark from one store in Dublin in 1969 to a chain of 190 stores in Ireland, the U.K., Spain, Portugal, Holland and Germany.

Jet Airways

Pilots of **Jet Airways (India)** Ltd. agreed to resume work starting Sunday, ending a five-day deadlock after management agreed to take back four sacked pilots. Management and the pilots agreed to form a group to continue the current dialogue, the company said. The standoff, which Jet called a "simulated strike," started Tuesday with pilots taking sick leave to protest the firing of two colleagues in July. Two more pilots were fired by the airline Wednesday. More than 500 of the airline's 760 pilots protested, forcing India's second-largest domestic carrier by market share to ground several domestic and overseas flights. Jet Airways lost as much as $2.2 million in revenue each day as more than 1,000 flights were canceled.

—Compiled from staff and wire service reports.

U.S.-China trade dispute grows

Washington puts tariffs on Chinese tires; Beijing to review complaints about U.S. exporters

By Ian Johnson

Associated Press

A Chinese worker moves tires at an assembly line in Beijing on Friday.

BEIJING—China said Sunday that it would review complaints about U.S. exporters of chicken and auto products following Washington's decision to impose punitive sanctions on Chinese tire imports, raising tensions in a trade dispute ahead of two planned meetings between the countries' leaders.

While some observers here say that overall, ties between China and the U.S. should remain unharmed, the measures add to worries about trade protectionism amid rising unemployment around the world.

The Obama administration said Friday that it would slap stiff tariffs on Chinese-made tires for the next three years. Citing a jump in Chinese imports, the administration invoked a rule China agreed to when it joined the World Trade Organization in 2001. The effect, experts say, is likely to wipe out Chinese tire exports to the U.S. during this period.

China responded quickly. Sunday, the Ministry of Commerce said it was starting so-called antidumping procedures against U.S. exporters into China of chicken and auto products. It said it had received complaints from local producers that the U.S. products were being dumped in China at below-market prices. The ministry denied that the move was protectionism.

"China has consistently opposed trade protectionism, and the country's actions since the financial crisis have reflected this stance," a statement on the ministry's Web site said. "China is willing to continue to act in accordance with countries around the world to push forward the world's economic recovery."

The announcement doesn't mean sanctions will be invoked. It didn't specify the timing or the exact kinds of goods involved.

The choice of the two export categories—chicken and auto products—could also be a sign that China's response is likely to be measured. Both have been part of a battle between China and the U.S. in which both sides have already instituted trade-restricting measures, so the new actions may not measurably hurt exporters. China has already effectively blocked U.S. exports of poultry products in retaliation for a similar U.S. block of Chinese poultry. And earlier this year, China raised tariffs on imported auto parts.

Still, Sunday's actions were a clear sign of Chinese displeasure. Earlier over the weekend, the government-run Xinhua news agency said in a commentary that the U.S. sanctions were political pandering by a president trying to secure union votes in his battle for a health-care overhaul. "It is a huge regret that crucial China-U.S. trade relations are once again disrupted by [domestic] political disputes," the agency said.

People close to the government said China will have to slap tariffs on the U.S. goods. Mei Xinyu, a researcher at a think tank that reports to China's Ministry of Commerce, said China has historically avoided taking countermeasures in trade disputes but that it shouldn't be shy now.

"China should bring into effect retaliatory measures this time, such as high punitive import tariffs on American imports," Mr. Mei said. He also said China should avoid taking the issue to the WTO because such complaints take years to resolve. "America will achieve its goals if China tries to resolve this dispute through the WTO," he said.

Foreign business leaders in China said the U.S. decision almost invited Chinese retaliation. James Zimmerman, a Beijing-based American lawyer, said politics and trade can't be separated but that "overt political posturing welcomes a like response. We can expect the tit-for-tat political posturing going forward and in a way that may be damaging to U.S. commercial interests."

Foreign businesses operating in China have argued, however, that China is itself engaging in protectionism. The European Union Chamber of Commerce in China recently released a catalog of business complaints chronicling a deteriorating atmosphere for foreign enterprises operating in China. The country's recent stimulus package, for example, in some cases favored domestic manufacturers, the EU Chamber said.

The dispute isn't likely to prevent Chinese President Hu Jintao from meeting U.S. President Barack Obama later this month at an economic summit in Pittsburgh. Mr. Obama is set to visit China in mid-November to discuss the economy as well as climate change and controlling North Korea's nuclear ambitions.

Chinese officials "are definitely going to do something to express their dissatisfaction, but it won't be serious," said Yan Xuetong, director of Tsinghua University's Institute of International Studies. "The two sides need each other."

—Kersten Zhang contributed to this article.

Former president of Taiwan gets life sentence

By Ian Johnson

TAIPEI—Political allies of former Taiwan President Chen Shui-bian, who was sentenced Friday to life in prison on charges of corruption, are distancing themselves from him, hoping to gradually put the scandal behind them.

Annette Lu, vice president under Mr. Chen from 2000 to 2008, on Sunday urged Mr. Chen and his family members to apologize to the public, saying his errors have hurt the feelings of their supporters. Ms. Lu, one of the former president's few allies to have visited him several times during his 11-month detainment, made the statement in a seminar to discuss the objectivity of the verdict on Mr. Chen.

Since Mr. Chen's sentence was announced, some legal critics have said the trial was flawed. They have argued that the judges were loyal to the current government of the Kuomintang, or Nationalist party, Mr. Chen's rival.

The case riveted Taiwan for months, with many people convinced that Mr. Chen was guilty of some crimes. His wife had already been found guilty of corruption, and the media were awash with details of how he allegedly embezzled money earmarked for secret diplomatic missions.

"The court has decided on a life sentence in view of Mr. Chen's public background and position, and the damage to the country," Taipei District Court spokesman Huang Chun-ming told reporters Friday. The court fined Mr. Chen 200 million New Taiwan dollars (US$6 million) and stripped him of his civil rights, meaning he can't vote or run for office. In Taiwan, a life sentence is automatically appealed.

The opposition Democratic Progressive Party, which Mr. Chen once led but left when the scandal broke in August 2008, challenged the objectivity of the case's judicial process. But the party tried to minimize the case's political damage by urging Mr. Chen to take the political responsibility.

The DPP "believes former President Chen was negligent in constraining" his family, "resulting in the many negative criticisms from the public," the party said in a statement late Friday. "The DPP firmly holds to the standpoint that for these errors, former President Chen must take political responsibility."

Public support for the DPP has sharply dwindled because of Mr. Chen's case. But the verdict might be a turning point for the party, analysts said. "The verdict means the worst is over for DPP," said Wang Yeh-lih, political scientist at the National Taiwan University.

From the start, Mr. Chen claimed the trial was a witch hunt organized by his successor, President Ma Ying-jeou of the Kuomintang, who was elected on a platform of bettering ties with China. The government has repeatedly said Mr. Chen's trial was in accordance with the law.

A group of Mr. Chen's supporters on Sunday stood outside the residence of the main judge, Tsai Shou-hsun, to protest the verdict.

The conviction is likely to be good news for Mr. Ma, who has undergone a sharp fall in popularity, especially over his government's handling of a typhoon last month.

Central banker says Turkey is over the worst

By Nina Koeppen And Christopher Emsden

PLÖN, Germany—Turkey's economy is bouncing back, but a full-fledged recovery will take some time, the deputy governor of the country's central bank said Friday.

"The worst is over for Turkey, but it is too early to predict the strength of the recovery and how long it will take to return to sustainable growth," the official, Ibrahim Turhan, said in an interview at the Global Economic Symposium in this northern German town. "The recovery will be protracted."

Turkish gross domestic product fell by 7% in the second quarter from a year earlier, data released Thursday showed. That was a dramatic improvement from the 14% fall posted for the first three months of the year and indicates the economy expanded by 5.5% to 6% in the second quarter alone, Mr. Turhan said.

That growth was powered by government incentives to stoke purchases of cars and appliances, and also by lower borrowing costs, which were engineered by the central bank's slashing of its main interest rate to 7.75% from 16.75% in November.

That's the steepest decline in absolute rates of any major emerging economy, according to Goldman Sachs.

Mr. Turhan said Turkey can enjoy single-digit interest rates so long as the government achieves fiscal discipline. The government is likely to run a budget deficit of around 6% of gross domestic product this year, up fourfold from its original plan.

Prime Minister Recep Tayyip Erdogan has so far resisted calls that he negotiate a loan with the International Monetary Fund, but has yet to present a medium-term fiscal plan that analysts say is required in the absence of an IMF backstop.

Mr. Turhan said he expects the government to present such a plan soon. "Turkey has benefited a lot from fiscal discipline over the last six years, and the government is surely aware of that," he said.

Turkey averaged growth of around 7% a year for the six years prior to the global credit crisis.

Turkey's public debt amounts to around 45% of GDP, and Mr. Turhan urged that the fiscal accounts not be allowed to deteriorate further.

Analysts widely expect Turkey's central bank to cut interest rates again at a meeting later this month. Inflation has slowed sharply, reaching 5.3% in August, vindicating the rate cuts so far. "We can tolerate inflation to remain below [the 6.5%] target in 2010, but we won't let it fall below the medium-target of 5.5%," Mr. Turhan said.

Further rate cuts would likely add to the impressive gains posted by Turkish government bonds as market rates dropped.

Mr. Turhan said it was possible the central bank would buy Turkish government debt in the secondary markets but emphasized that wouldn't be a version of the U.S. Federal Reserve's quantitative easing.

"If needed, the outright purchase of government securities may be considered in the secondary market, but for monetary-policy purposes only," he said.

ECONOMY & POLITICS

Taliban leap into the fray

Killings underscore risks as wrangling over vote continues

By Alan Cullison And Matthew Rosenberg

KABUL—Four U.S. soldiers and more than a dozen Afghan servicemen were killed in attacks in Afghanistan over the weekend, officials said, as President Hamid Karzai widened his lead slightly in a tainted presidential election.

The latest spate of casualties highlights the risks of continued wrangling over Afghanistan's presidential contest, marred by allegations of ballot stuffing and voter intimidation. The West had hoped the elections would deliver a popular mandate for a strong, democratic government able to address the nation's security woes. Instead, the Taliban have used political uncertainty to redouble their attacks on Afghan and NATO troops.

Hamid Karzai

On Saturday, Afghanistan's Independent Election Commission said Mr. Karzai was leading the tally from the Aug. 20 election with 54.3% of the vote, according to preliminary results. His former foreign minister, Abdullah Abdullah, remains in second place with 28% of the vote.

But investigations into widespread allegations of fraud could see enough votes disqualified to force Mr. Karzai into a runoff against his top challenger, Western and Afghan officials say.

"This election controversy could drag on for months, and the authority of the Afghan government has already been significantly weakened," said Haroon Mir, co-director of the Afghanistan Center for Research and Policy Studies, a Kabul-based think tank. "The situation no doubt favors the Taliban, and they are launching some significant and spectacular attacks."

Two U.S. troops were killed when their vehicle struck a roadside bomb in eastern Afghanistan Saturday, said a U.S. official. In separate fighting in western Afghanistan, Taliban killed two U.S. troops and seven Afghan soldiers as they repeatedly ambushed a heavily guarded United Nations food convoy through the province of Farah.

The U.S. official said the Taliban set off two roadside bombs in the ambushes and attacked with rocket-propelled grenades and small arms over the course of several hours, until U.S. troops called in an air strike.

An Afghan army spokesman said that 50 militants were killed in hours of fighting that ensued, but U.S. officials wouldn't confirm that figure.

Meanwhile, in the southern city of Kandahar, two suicide bombers on a motorbike tried on Saturday to attack an office of Afghanistan's intelligence directorate. One of the bombers blew himself up, killing an intelligence officer, while the other bomber failed to kill anyone with his blast, said Kandahar deputy provincial police Chief Fazel Hamid Sherzad.

Also in Kunar province, Taliban ambushed a road-construction crew, killing five private security guards and wounding 10. The Taliban have stepped up their attacks on such crews, slowing or stalling many Western-financed infrastructure projects.

While violence across Afghanistan has steadily increased in recent years, experts say the Taliban have been emboldened by the recent controversy over elections.

The government election commission has been slowly updating the tally since the Aug. 20 vote, and on Tuesday announced that Mr. Karzai had breached the 50% mark needed to avoid a runoff, with 54.1% of the vote. His main challenger, Abdullah Abdullah, had 28.3%.

The commission so far has tallied about 93% of polling stations. However, Western officials and some members of the election commission privately say that hundreds of thousands of other suspected fraudulent votes are being included in the tally by the election commission, whose leadership was appointed by Mr. Karzai.

—Habib Zohori contributed to this article.

Reuters

Prime Minister Vladimir Putin, meeting with Russia experts Friday outside Moscow, gave his clearest signal yet that he is considering a return to his old job as president.

Putin signals his interest in returning as president

By Marc Champion

MOSCOW—Vladimir Putin, Russia's current premier and former president, gave the clearest signal to date that he is considering a return to his old job, saying that he and his handpicked successor, President Dmitry Medvedev, will decide who runs in 2012.

In a 2½-hour question-and-answer session with some 45 Russia experts from around the world, Mr. Putin also gave his most detailed assessment of relations with the U.S. since President Barack Obama visited Moscow in July. Mr. Putin said he was "mildly optimistic" over the "reset" in relations between the countries, but was waiting to see concrete measures.

Russia's Foreign Minister Sergei Lavrov on Thursday set back U.S. hopes that resetting relations might secure Russian backing for U.S. efforts to pressure Iran over its nuclear program, when he indicated Russia won't back the tough sanctions or the timetable Mr. Obama has set out for Iran. On Friday, Mr. Putin said Russia opposed nuclear proliferation in the region and called Iranian statements about eliminating Israel "unacceptable" and "dangerous."

The 56-year-old premier said he and Mr. Medvedev will decide together who should run for president in the next elections, due in 2012, taking into account the situation in the country, their own personal plans, and the wishes of the United Russia party, which Mr. Putin heads.

After two terms in office, Mr. Putin was obliged by the constitution to step down in 2008. The constitution has since been changed to extend terms to six years from four. If Mr. Putin were to return to office in 2012, he could potentially remain until 2024.

Mr. Putin rejected any suggestion such a process would be undemocratic. He compared it with the U.K., where then-Prime Minister Tony Blair handed power over to Gordon Brown without an election. Under Britain's parliamentary system, prime ministers are chosen by the winning political party, and not by direct election.

Mr. Putin stamped on suggestions there is friction between him and Mr. Medvedev. "Was there any competition [between Messrs. Brown and Blair] in 2007? Then there won't be any in 2012," he said.

Mr. Medvedev recently delivered a withering assessment of Russia's oil-dependent economy, rampant corruption and "weak democracy." But he called for a go-slow approach to overhauls. Mr. Medvedev has sought to create an image as a liberal modernizer, but the 43-year-old is widely seen as the less-powerful partner.

Mr. Putin repeated a litany of U.S. affronts: The U.S. warehoused weapons instead of destroying them, and for seven years promised to let Russia into the World Trade Organization, only not to deliver. "How can you work with such people after that?" he asked.

Mr. Putin made no such complaints about the Obama administration. He did, however, criticize U.S. development of ballistic missiles tipped with conventional weapons, which he said might be used for such hard-to-reach targets as Osama bin Laden. With Russia having only minutes to decide whether to respond to a ballistic-missile launch, he said they risk creating a bigger threat than Mr. bin Laden. "Will we have a reset here or not?" Mr. Putin asked.

The Russian premier also said European countries and companies should cooperate in defense projects with Russia, such as military transport aircraft or the next generation of Russia's sophisticated S300 air defense system, rather than shying away as in the past.

—Gregory L. White contributed to this article.

ECONOMY & POLITICS

Confidence in U.S. economy rises

Jobless rate expected to climb to 10.2%; consumers' optimism

Economists and consumers are feeling better about the U.S. economy a year after the most frightening moments of the financial crisis. Forecasters surveyed by The Wall Street Journal, giving the government generally good marks for its handling of the financial crisis, now see employers slowly adding jobs over the next 12 months.

*By **Phil Izzo**, **Sara Murray** and **Justin Lahart***

And the latest reading of consumer spirits shows signs of optimism. But most economists still expect the unemployment rate will climb to 10.2%, from today's 9.7%, before falling early next year.

"We are in a technical recovery, but risks remain abundant," said Diane Swonk of Mesirow Financial. "It will still take some luck and skill to get Main Street to feel some of the relief Wall Street has felt."

Main Street is beginning to feel some relief, though, according to the Reuters/University of Michigan preliminary reading of consumer sentiment for September, released Friday.

The index rose to 70.2 in September from to 65.7 in August, the first increase since June. Consumers felt better about current conditions, and about the future.

"[There's] just this general feeling that the worst is behind us in the economy," said Conrad DeQuadros, economist for RDQ Economics. "That's probably offsetting some of the factors that dampen consumer sentiment," such as rising oil prices and an economy that's still shedding jobs.

The 51 forecasters surveyed, not all of whom answered every question, are increasingly confident that the U.S. economy is growing again.

They predicted in the new Wall Street Journal survey that the U.S. will grow at a 3% annual rate in the current quarter—well above the 0.6% forecast they made just three months ago—and will expand at a 2.5% pace in the fourth quarter.

While they predict the U.S. will add jobs during the next 12 months, they see a net increase of only 200,000 jobs over that period, and predict unemployment to be a still-high 9.3% in December 2010.

Job-market weakness is expected to keep the Fed from lifting interest rates, now near zero, until August 2010, the economists say.

Before Fed officials act, said Jim Meil of Eaton Corp., "they need to know this recovery is the real thing."

Views diverge sharply on what next year is likely to bring. Pessimists, such as Jan Hatzius at Goldman Sachs, are looking for tepid growth, with the gross domestic product finishing 2010 just 1.7% above its end-of-2009 level.

They say the waning effects of fiscal stimulus and high unemployment mean today's good news is a temporary respite, and that the economy is destined to grow weakly for some time.

Mr. Hatzius sees parallels between today and the aftermath of the 2001 recession.

The combination of government stimulus programs, low interest rates and easy financing terms from car makers and other companies led to a surge in consumer spending in early 2002. But in the quarters that followed, growth faded.

Businesses, badly burned by the dot-com bubble, were reluctant to spend, and a weak labor market weighed on consumer spending. In the fourth quarter of 2002, GDP grew by just 0.1%.

Optimists say that the rebound will help kick-start a self-sustaining recovery, where improved confidence leads consumers and businesses to start spending more, and that spending in turn further boosts confidence and spurs companies to increase hiring.

Michael Mussa, a former chief International Monetary Fund economist and now at the Peterson Institute for International Economics in Washington, is increasingly confident of his consistently optimistic view. In a forecast to be issued this week, he will say the U.S. and world economies will grow at an annual rate of about 4% over the next year and a half.

This is only half the pace of typical U.S. recoveries from sharp recessions, but it is almost double the consensus predictions of other top U.S. economists.

The Organization for Economic Cooperation and Development's forecasting gauge bolsters the optimists' case.

Its index of leading indicators, which covers 29 of its member countries, rose to 97.8 in July, from 96.3 in June.

Getty Images

Trevor Wong, left, and Hoan Pham during a stop this month in San Francisco on the Empowerment Tour, which offers career coaching and other help for adults.

Brown to tell union leaders economy is mending

BY LAURENCE NORMAN

LONDON—The U.K. economy is on the road to recovery, Prime Minister Gordon Brown is set to tell trade union leaders Tuesday.

According to a text of his remarks, made available by Mr. Brown's office, the prime minister will also tell union leaders they must accept "tough choices" on spending or face deeper cuts under an opposition Conservative party.

Mr. Brown will be speaking at the Trade Unions Congress, the annual meeting of union groups.

In his remarks, Mr. Brown is due to say his Labour government's "radical and unprecedented" policy response to the recession was the right one and that evidence of this is starting to show through.

"Because today we are on a road towards recovery—but things are still fragile, not automatic, and the recovery needs to be nurtured," Mr. Brown is expected to say.

Mr. Brown is expected to say combatting youth unemployment and ensuring international action through the Group of 20 developed and developing economies are crucial to a recovery. He will also appeal for strong backing from the unions, Labour's traditional backers.

"We have to make tough choices in public spending and we will need the support of the labour movement in protecting the front line first," he will say. "Our opponents have one approach to reducing the deficit: slashing jobs and abandoning national pay bargaining. We have another—taking tough choices and empowering those who deliver services to innovate and secure greater value for money."

Mr. Brown must face an election by June 2010 and his Labour party is far behind the Conservatives in opinion polls.

While Mr. Brown has accused the Conservatives of threatening deep public spending cuts, the opposition charges that the prime minister hasn't been open with the public about the seriousness of the U.K.'s fiscal troubles and the need to fix what they call a debt crisis.

OECD data from July point to 'broad economic recovery'

BY PAUL HANNON

LONDON—The world economy looks to be on the path to recovery, with leading and developing economies showing signs of emerging from the downturn, the Organization for Economic Cooperation and Development reported.

The Paris-based think tank's composite leading indicator of economic activity in its 30 member countries rose to 97.8 in July from 96.3 in June.

The OECD said Friday the indicators "point to broad economic recovery."

The data "show stronger signs of recovery in most of the OECD economies," the organization said. "Clear signals of recovery are now visible in all major seven economies, in particular in France and Italy, as well as in China, India and Russia."

That may reassure policy makers, because the leading indicators have a track record of presaging pickups and slowdowns in economic activity since the 1980s.

However, finance ministers and central-bank chiefs of the Group of 20 leading economies said at their recent London meeting that they remain cautious about the outlook, and won't withdraw stimulus measures until the long-awaited recovery is "secure."

The OECD's leading indicators are designed to provide early signals of key points between the expansion and slowdown of economic activity, and are based on a variety of data that indicate swings in future economic activity.

The leading indicator for the U.S. rose to 96 from 94.4 in June, while the leading indicator for the euro zone rose to 100.5 from 98.7; the leading indicator for Japan rose to 94.9 from 93.5.

Some economies now have leading indicators that are higher than they were in the same month last year, a signal that they are in recovery. France's leading indicator was 4.6 points above its July 2008 level, while Italy's was eight points higher and the U.K.'s was 1.2 points higher.

Among large developing economies, China and India showed the clearest signs of revival, with leading indicators just 0.7 and 1.1 points below their respective levels in July 2008.

Financier called Lebanese Madoff faces charges

BY NADA RAAD

BEIRUT—A prominent Lebanese businessman was charged over the weekend with embezzlement, distributing invalid checks and violating Lebanese fiscal laws in a case that local media have estimated could represent a loss of hundreds of millions of dollars to investors.

Salah Ezzedine, a financier and business mogul from Lebanon's Shiite Muslim community with close ties to Hezbollah, the political and militant group, has been in custody since early September, when he declared bankruptcy and gave himself up to authorities. His associate, Yousef Faour, also has been charged on the same counts. Lebanon's Financial General Prosecutor Judge Fawzi Adham ordered the prosecution of five other people in absentia for the same charges: Ali Habshi, Hiba Tahina, Anis Qanso, Mohammed Bazzi and Ali Qaeek.

Mr. Ezzedine remains in detention. It's unclear whether he has hired an attorney, and a representative hasn't been identified.

The news of the weekend charges roiled Lebanon's tight-knit business community, just as optimism was picking up in the country after peaceful elections, a booming tourism season and Lebanon's so-far successful navigation of the global economic downturn.

The scope of the alleged fraud is still clouded in mystery. Lebanese authorities haven't made any public estimates. Local media, which have dubbed Mr. Ezzedine "the Lebanese Madoff," have put possible losses among investors—mostly Lebanese inside and outside the country—at hundreds of millions of dollars. But there is little information about much of his business dealings or the size of his financial assets.

Mr. Ezzedine is a wealthy businessman from the town of Maaroub near the southern city of Tyre. He owns Al Hadi Publishing House in Beirut's southern suburbs, a stronghold of Hezbollah, that publishes books about Hezbollah and other religious themes.

Hezbollah's secretive leader Hassan Nasrallah distanced his group from Mr. Ezzedine and his financial trouble amid the controversy, saying last week that speculation the group had business dealings with the financier was a smear campaign meant to tarnish the group's image. He said Hezbollah was investigating the case.

But one senior Hezbollah official already has said he is a victim of Mr. Ezzedine's alleged fraud. Hezbollah lawmaker Hussein Hajj Hassan has filed a legal complaint against Mr. Ezzedine related to a bounced check, according to Mr. Hassan's attorney, who declined to be named or give out any more information about the complaint.

The emerging scandal has clouded Lebanon's otherwise sunny economic picture. Amid the global financial crisis and economic downturn, Lebanon's banks have been praised for conservative practices and have avoided so far the big losses hobbling much of the rest of the world. There's no indication that local banks have any exposure to Mr. Ezzedine.

Mr. Ezzedine's arrest also comes as Lebanon witnesses one of its best summer tourism seasons in decades. That is thanks to the end of a bitter—sometimes violent—clash between squabbling political parties last year and a further easing in tensions after peaceful parliamentary elections in June.