**News In Depth:** No easy exit for U.S. government as housing market's savior


# THE WALL STREET JOURNAL.

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## What's News

**Lehman said** in a court filing that executives at Barclays and Lehman colluded to give Barclays a windfall of at least $8.2 billion when the U.K. bank bought Lehman's broker-dealer business in a bankruptcy sale a year ago. Page 19

■ **Bernanke said** the U.S. recession was over but warned of softness in the labor market. Meanwhile, retail sales rose 2.7% last month. Page 3

■ **The Financial Stability** Board will issue guidelines on banker compensation for discussion at this month's G-20 summit. Page 2

■ **Car makers urged** European governments not to halt their scrappage programs abruptly to avoid sharp sales drops. Page 4

■ **The U.S. unveiled** new fuel standards aimed at making all vehicles average 35 miles per gallon by 2016. Page 31

■ **U.S. stocks rose** after Fed Chairman Bernanke declared "the recession is likely over." European shares regained some lost ground. Page 20

■ **A U.N. investigation** into last year's Gaza war found that both Israeli forces and Gazan armed groups committed war crimes. Page 3

■ **The Iraqi journalist** who threw his shoes at Bush was released after nine months in prison, and he accused Iraqi security forces of torture.

■ **Air France has asked** Delta to help assess its safety practices, after the crash of an Air France jetliner in June that killed 228 people. Page 7

■ **Airline losses could reach** $11 billion this year, more than previously forecast, the trade group IATA said. Page 6

■ **Bayer named** a new CEO in a broad management shuffle that prompted speculation the firm may increase its focus on health care. Page 7

■ **The IMF outlined** detailed principles for scaling back government support of the financial industry in the coming years. Page 22

■ **Norway's government** narrowly won re-election after using oil money to shield the country from recession.

■ **A war-crimes tribunal** approved the early release of Bosnian Serb ex-President Biljana Plavsic after she served two-thirds of an 11-year sentence for persecution.

### EDITORIAL & OPINION

**Trade War**
Obama may be America's first protectionist president since Hoover. Page 13

Breaking news at europe.WSJ.com

Agence France-Presse/Getty Images

Dmitry Medvedev in Moscow's Red Square on Tuesday before a meeting with an international group of academics and journalists.

# Brown cites a need for spending cuts

By Laurence Norman And Joe Parkinson

Reuters

Gordon Brown addresses labor unions Tuesday in Liverpool, England. The prime minister acknowledged the need for spending cuts.

LONDON—U.K. Prime Minister Gordon Brown acknowledged for the first time the need for spending cuts to help mend Britain's public finances, but argued his government can avoid cuts to essential services.

In a speech to the annual meeting of labor unions in Liverpool, Mr. Brown said the government has to make "tough choices on public spending," but emphasized that services such as health care, education and policing would be protected.

"Labour will cut costs, cut inefficiencies, cut unnecessary programs and cut lower-priority budgets," Mr. Brown said. "People will see that Labour will not support cuts in vital front-line services on which people depend."

Mr. Brown has consistently shied away from talking about spending cuts in recent months, despite being pressed on the issue by the opposition Conservatives, who currently hold a double-digit lead in opinion polls ahead of an election that must take place before June 2010.

However in recent weeks, with polls suggesting the government still lags behind the Conservatives on economic competence, senior government ministers have shifted the government's position.

Separately, Bank of England Governor Mervyn King said the central bank is considering cutting the rate paid on commercial banks' deposits, a step that could discourage banks from hoarding reserves and increase lending.

In parliamentary testimony, Mr. King said that lowering the deposit rate from the current 0.5% might encourage banks to put more funds into the economy. Mr. King didn't specify whether the BOE would consider cutting the deposit rate to zero or into negative territory.

Chancellor of the Exchequer Alistair Darling, who is reported to have argued within the government for a more open admission that there are hard choices ahead, talked last week of the need for "cutting costs."

The government argues that while Labour would make savings and constrain spending in coming years, they would do so in a way that protects the most vulnerable. Mssrs. Darling and Brown have said the Conservatives would use the recession as an excuse for savage spending cuts if they win power.

Mr. Brown repeated the message Tuesday, saying it was right for the government to maintain public investment and use fiscal and monetary policy to help cushion the deepest downturn in decades. He said failure to do so would mean a deeper,

*Please turn to page 31*

# Medvedev lays out own vision for Russia

By Marc Champion

MOSCOW — President Dmitry Medvedev, in a clear bid to separate himself from his former boss, Prime Minister Vladimir Putin, on Tuesday laid out a manifesto to change Russia.

He also said he could run again for the presidency in 2012, when Mr. Putin would be allowed under Russia's constitution to retake the job. "I don't exclude anything," Mr. Medvedev told the so-called Valdai club, a group of international and domestic academics and journalists.

In an ornate hall overlooking the Kremlin, Mr. Medvedev outlined his vision to change Russia. Last week, Mr. Medvedev launched a new wave of proposals, posting them online. In a question-and-answer session Tuesday that lasted more than 2½ hours, he stood by his withering critique of Russia's "primitive" resource-based economy, systemic corruption and lack of pluralistic democracy. In his manifesto, Mr. Medvedev had called for more democracy, a crackdown on corruption and a bigger focus on the individual in business and politics.

On Friday at the Valdai club, Mr. Putin ruled out competing against Mr. Medvedev, his hand-picked Kremlin successor, in Russia's 2012 presi-

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## Inside

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A survey identifies the best accelerated business programs
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## Markets

4 p.m. ET

| | CLOSE | PCT CHG |
|---|---|---|
| DJIA | 9683.41 | +0.59 |
| Nasdaq | 2102.64 | +0.52 |
| DJ Stoxx 600 | 241.36 | +0.18 |
| FTSE 100 | 5042.13 | +0.46 |
| DAX | 5628.98 | +0.16 |
| CAC 40 | 3752.21 | +0.58 |
| Euro | $1.4599 | -0.21 |
| Nymex crude | $70.93 | +3.01 |

# Ireland to detail plan for distressed banks

By Charles Forelle

Tracts of unsold houses speckle the Irish countryside and unfinished high-rises sit amid a forest of idled cranes in Dublin. The Irish state may soon be the new owner of many of these not-so-choice properties.

Under a bold and expensive plan to be formally introduced in parliament Wednesday, the Irish government intends to buy property loans with a book value of as much as €90 billion ($132 billion) from struggling Irish banks to shore them up and bring liquidity to the financial system, which has been stalled by a burst real-estate bubble and a recession among the worst in Europe.

The plan has stirred pushback from opposition parties and some economists, who argue that taxpayers may be stuck with costly losses and that it represents a bailout of the very developers and bankers who got Ireland into its mess.

"Asking the taxpayer to take the first hit is not fair," says Richard Bruton, a member of parliament from opposition party Fine Gael.

The bill will face a tough challenge in parliament; the ruling Fianna Fáil party doesn't have a majority, and support among its coalition partners is tenuous.

*Please turn to back page*

## LEADING THE NEWS

# Panel targets banker pay

### *Global board to ask G-20 to link bonuses to firms' performance*

By Alessandra Galloni

PARIS—The Financial Stability Board will recommend to world leaders next week that banks with low levels of capital limit bonuses, in order to stir lending and curb the excessive risk-taking that many see as the root of the financial crisis.

"We will have a link between a bank's total bonus pool and the firm's overall performance," FSB Chairman Mario Draghi said at a news conference Tuesday. "It's important that firms conserve profits so they can rebuild capital and support lending."

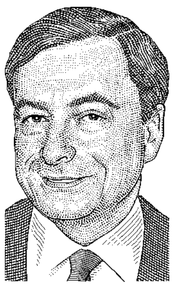
World finance officials earlier this month charged the FSB—an international group comprising central bankers and other financial regulators—to draw up specific guidelines on bankers' compensation for discussion at the Group of 20 summit in Pittsburgh this month.

Governments are hoping to agree to global standards on financial institutions' compensation levels at the meeting. Though most agree that pay packages should be reined in and refashioned to focus on long-term objectives rather than short-term gain, there is disagreement over how far to go.

France has been pushing for global caps on bonuses, partly as a response to rising domestic public concern that banks are awarding top staffers large payouts even after taking public money to shore up their finances.

Under pressure from French President Nicolas Sarkozy, French bankers recently agreed to new remuneration rules, including penalties for traders who lose money after getting a bonus.

The U.K. and U.S. have balked at fixed ceilings, partly because they argue that banks could find ways around them.



*Mario Draghi*

Mr. Draghi said the FSB, which met Tuesday on the one-year anniversary of the Lehman Brothers collapse—is finalizing the details of its guidelines on how to structure pay packages and that the recommendations are likely to be submitted next week.

He said the guidelines would include recommendations on the disclosure of pay levels, vesting periods for options and the possibility of so-called "clawback" mechanisms under which bonuses could be forfeited if performance tumbles or deals fail to deliver.

Still, Mr. Draghi indicated that the guiding principle of the FSB's recommendations would be not to impose limits directly, rather to force banks to take into account their capital needs when deciding payouts including dividend payments, share buybacks and bonuses.

"Regulators will be able to say: 'Your bonus-pool size is too big for the sort of capital level you have,' " Mr. Draghi said.

According to another FSB member at the meeting, the limitations could therefore be temporary, lasting only until the bank's capital resources have been restored.

"It's a back-door attempt to bolster capital requirements, which I suspect is the right approach," said Richard Snook, senior economist at the Centre for Economics and Business Research said.

Mr. Draghi's comments are in line with new principles agreed on recently by the Bank of International Settlements, whereby banks are likely to face additional capital requirements in the future.

Mr. Draghi said banks won't be required to increase their capital standards overnight. "Don't come out of this meeting with the idea that tomorrow banks will have to raise their capital by a substantial amount in a revolutionary way," he said. "We are aware that these measures will have to be phased in over time."

He said economic and market conditions are improving and strategies for unraveling stimulus programs need to be coordinated globally. It is too early to put such strategies into effect, however, he said.

*—Nathalie Boschat and Gabriele Parussini contributed to this article.*

# Australia leaves key rates steady

By James Glynn

SYDNEY—The Reserve Bank of Australia remained on track to eventually raise interest rates at its Sept. 1 policy meeting, but kept rates steady at 3% as it awaits more evidence the economic recovery will be sustained.

Members of the central bank's board agreed that if the economy continues to evolve in line with its recent upbeat forecasts for growth, "the bank would in due course need to adopt a less expansionary policy stance," according to minutes of the meeting released Tuesday.

"The information at this meeting suggested that economic conditions were indeed evolving broadly in that way. Nonetheless, some uncertainty remained about the outlook both abroad and at home," the minutes said.

However, mild economic data that have been released since the board meeting was held have some economists questioning the timing of a rate rise. They now expect the RBA to remain sidelined until the next batch of data on activity and demand crucial to decision-making by the board.

The run of weak data continued Tuesday, with second-quarter dwelling commencements falling 3.7% from the first quarter to a near eight-year low, the Australian Bureau of Statistics said.

Financial markets still expect a rise in interest rates before the end of the year, but few now expect that to be at the next policy meeting in early October.

# Europe's data give hints of an economic recovery

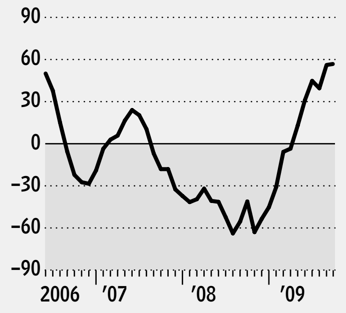
By Nina Koeppen and Jonathan House

FRANKFURT—German investors showed improving economic sentiment and Spanish home sales fell at a slower pace, adding to signs of a modest but broadening European recovery.

Germany's ZEW think tank said Tuesday that its index of investors' expectations for the economy rose to the highest level since April 2006, to 57.7 points in September from 56.1 points in August.

**Changing outlook**

The German ZEW economic expectations indicator rose to 57.7 points in September




Source: ZEW

The data come on the heels of Monday's forecast from the European Commission that the European Union should see a return to economic growth in the third quarter after a yearlong economic downturn. But the commission warned there remains a high degree of uncertainty in its outlook.

In Europe's largest economy, economic expectations have stabilized, indicating that a German recovery is under way, although "at a slow pace," said ZEW President Wolfgang Franz.

"The technical recovery which started in the second quarter should have accelerated strongly in the third quarter," said Carsten Brzeski, an economist at ING Bank.

Current economic conditions in Germany also picked up in September, the ZEW survey of 293 analysts and institutional investors showed. The corresponding indicator rose by 3.2 points to minus 74.0 points, bringing it back to levels last seen at the turn of 2008-09.

Elsewhere in the EU, the rapid pace of decline in Spanish home sales continued to ease in July, according to Spain's National Statistics Institute. It said home sales fell 20% on the year in July, after a 26% fall in June and a 32% drop in May.

Spain's once-buoyant housing market collapsed last year as the global financial crisis worsened a correction under way after years of overbuilding. The resulting sharp retrenchment of housing investment helped to push the euro zone's fourth-largest economy into recession in last year's third quarter.

In non-EU member Switzerland, meanwhile, industrial production rose 2.7% in the second quarter compared with the previous quarter, but output contracted 14.9% versus the year-earlier period.

The data, released Tuesday by Switzerland's statistics office, showed the yearly change unexpectedly worsened compared with the first quarter when production contracted by 9.5%.

"Industrial production has probably reached its trough in the second quarter and the purchasing managers' index is pointing to a V-shaped recovery," said ING economist Julien Manceaux, "but one should not expect any positive industrial production yearly growth rate before 2010."

The results reflect a similar development in the euro zone, where industrial production in July fell 0.3% from June and was down 15.9% from a year earlier.

Many observers say they expect the monthly rate of industrial output to return to growth in the next few months.

*—Martin Gelnar contributed to this article.*

## CORRECTIONS & AMPLIFICATIONS

**DP World issued** a statement to Nasdaq Dubai on May 10 saying its majority owner **Dubai World** was in talks to sell a stake of the company. A Money & Investing article published May 11 incorrectly said that Dubai World made the statement.

## INDEX TO BUSINESSES

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

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## INDEX TO PEOPLE

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

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

## LEADING THE NEWS

# Bernanke declares end to recession in the U.S.

### *Scale of rebound might be too small to bring big job gains*

By Sara Murray And Ann Zimmerman

Federal Reserve Chairman Ben Bernanke said Tuesday the recession was over, as consumers showed some of the first tangible signs of spending again.

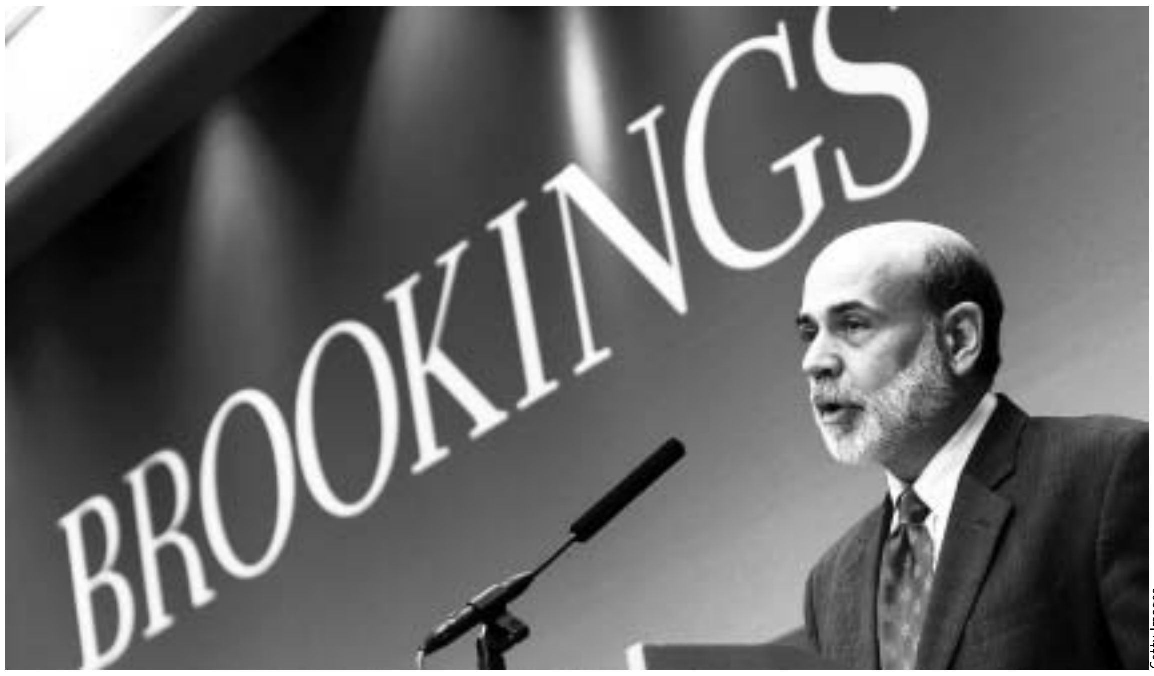
Mr. Bernanke, who had become cautiously more upbeat in recent weeks amid signs of third-quarter growth, said for the first time that forecasters agree "at this point that we are in a recovery."

The rebound, he added, would likely be so moderate it wouldn't produce many jobs. "Even though from a technical perspective the recession is very likely over at this point, it is still going to feel like a very weak economy for some time as many people still find their job security and their employment status is not what they wish it was," he said.

His remarks, made after a speech at the Brookings Institution in Washington to mark the anniversary of the collapse of Lehman Brothers, came just after the Commerce Department reported retail sales climbed 2.7% in August after falling 0.2% in July. Much of the increase was auto-related from the "cash for clunkers" rebate program, as well as rising energy prices. But gains were also broad-based, reflecting discretionary spending on restaurants, which are often more closely tied to the economy's health.

To be sure, consumers—and the economy at large—are coming back from very low levels. Credit conditions remain tight, and the economy will likely grow only moderately in 2010, Mr. Bernanke said, leading to little improvement in the job market and crimping consumer spending.

Still, with manufacturing showing signs of growth, and stabilization emerging in the housing and retail sectors, consumers may finally be showing signs of a turnaround. Auto and parts sales jumped 10.6% in August from the previous month, as the government program allowing consumers to trade in old cars for more fuel-efficient models spurred sales. Excluding autos, sales rose 1.1%.




Getty Images

Fed Chairman Ben Bernanke, speaking in Washington Tuesday, said the economy will likely grow only moderately in 2010.

Consumers proved more willing to spend on non-essential items last month, too, such as apparel, sporting goods, electronics and dining out. Restaurants rose a seasonally adjusted 0.3% from July—not an impressive number but the category's largest increase in six months. Sporting and entertainment goods climbed 2.3%, and general-merchandise store sales were up 1.6%.

Alan Levenson, T. Rowe Price Associates' chief economist, said deep discounting, which could show up in the Consumer Price Index, which is being released Wednesday, may have helped. Indeed, a recent survey by CIT Group Inc. of small and medium-sized companies found that about two-thirds of responding retailers foresee offering greater discounts this Christmas than in 2008. They also expect to stock less inventory, reflecting the 1% drop in business inventories in July from the prior month, to a seasonally adjusted $1.33 trillion, the Commerce Department reported Tuesday.

Despite the first gain in underlying retail sales in six months and a lift in positive consumer sentiment, retail sales are still 5.3% lower than a year earlier. And retail executives maintained a sober outlook for the coming months, according to a recent survey by BDO Seidman LLP, an accounting and consulting firm. Half of the 100 chief financial officers at leading U.S. retailers anticipate that total sales, as well as sales at stores open at least a year, an important measure of retail health, will decrease in the second half of 2009, compared with a year ago.

Meanwhile, the producer price index for finished goods increased 1.7% on a seasonally adjusted basis in August as a result of rising energy prices, the Labor Department said Tuesday. Excluding food and energy, prices rose 0.2% from July.

*—Jon Hilsenrath and Maya Jackson Randall contributed to this article.*

Agence France-Presse

Israeli soldiers arrest a Palestinian youth in November 2008 in Hebron during a demonstration to mark the anniversary of the death of Palestinian leader Yasser Arafat.

# U.N. finds Gaza 'war crimes'

By Joe Lauria

UNITED NATIONS—A United Nations probe into last winter's Gaza war has found that both Israeli forces and Gazan armed groups committed "war crimes" and "possibly crimes against humanity" and that the Security Council should demand both sides conduct "genuine" investigations into the charges.

Richard Goldstone, the South African jurist who led the U.N. mission, said if neither side did so after six months the Council should refer the case to the prosecutor of the international war crimes court.

That could happen only with the agreement of Washington, which holds a veto on the Council.

"I would be disappointed if any permanent member of the Security Council would object to a resolution requiring Israel to have appropriate domestic investigations organized by itself with international monitoring," Judge Goldstone said.

Judge Goldstone and his team were barred from Israel and the West Bank, forcing him to take testimony from Israelis and some Palestinians in Geneva. His mission held two public hearings in Gaza.

"Israel is appalled and disappointed by the report, which compares it to Hamas and rewards acts of terror," the Israeli Foreign Ministry said.

The report accuses Israel of "collective punishment" against Gaza, carried out through a blockade and the bombing of houses, schools, wells and hospitals in a three-week military operation described as "a deliberate policy of disproportionate force aimed at the civilian population."

Gazan authorities were accused of firing rockets indiscriminately at Israeli civilians. Israel says it launched Operation Cast Lead to stop the rocket fire, which killed a handful of Israeli civilians.

Ignoring the charges against his group, Sami Abu Zohry, a spokesman for Hamas in the Gaza Strip, said, "The U.N. report proves that Israel was guilty of war crimes in Gaza and that Israeli leaders should be prosecuted in the international criminal court."

*—Charles Levinson contributed to this article.*

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## LEADING THE NEWS: AUTOMOBILES

# Car makers urge Europe to keep incentives

### *They see sharp drop in sales if programs end abruptly now*

BY MATTHEW DOLAN
AND VANESSA FUHRMANS


Getty Images

Cars await dismantling and recycling at an authorized center in Gloucester as part of Britain's scrappage incentive program.

Auto makers are pushing European governments to continue their "cash for clunkers" programs, fearing that the fragile industry may face a major slowdown when the rebate programs end.

The moves come as Germany and Britain are winding down their scrappage programs, which are aimed at persuading buyers to turn in less fuel-efficient vehicles and purchase new cars with better mileage. Meanwhile, **Ford Motor** Co. and others say they are helping Russia get a scrappage program off the ground.

"We would like to continue the scrappage programs or we would like a more general winddown of the programs instead of letting them just come to a quick end," John Fleming, chief executive of Ford's European operations, said in an interview."

How long Europe continues the programs and any lasting effect from them could have profound implications for the U.S. The wildly successful "cash for clunkers" program in the U.S. elevated sales to heights not see in years. But the program's end last month also brought worries. about how much pullback there would be in future U.S. sales after the rebates expired.

"Everyone is bracing themselves for a major slowdown, potentially next year," said Mark Fulthorpe, the director of European vehicle forecasts for CSM Worldwide. Pete Kelly, senior director in Europe for J.D. Power & Associates Automotive Forecasting, predicted that the slowdown would begin this fall and extend into the 2010 first quarter.

Europe's car market continued to recover over the summer, but growth varied from country to country because of variations in the implementation of the scrapping incentives.

Individual European countries have implemented a dozen separate scrappage programs, and a 13th, in Greece, will come on line soon.

Ford estimates that scrappage programs will support the sale of three million vehicles in Europe in 2009 and 2010 and are the key reason total industry sales in the 19 largest European markets will be as high as 15.5 million in 2009, only about 7% to 10% below 2008 levels.

"The market in Europe is still very weak," Ford Chief Financial Officer Lewis Booth said in an interview at the Frankfurt auto show. "We'd rather see the end of scrappage arrive as the economies in Europe begin to recover."

France has indicated that its scrapping program will continue next year, though at reduced rates, to avoid a sharp sales drop.Currently, the French government offers €1,000 ($1,457) for the purchase of a new car if the owner scraps one that's more than 10 years old. "The French government has said it will phase it out progressively," said Philippe Varin, chief executive of **PSA Peugeot Citroën** SA.

But car makers in Germany doubt the popular car-scrapping program there is likely to be picked up again anytime soon. The government pumped €5 billion ($7.3 billion) into the plan, which ran out at the start of this month. Nearly two million German consumers participated in the program, which largely benefited mass-market auto makers like **Volkswagen** AG and Ford.

But skeptics say the program simply delayed a slump. Though car orders still being processed will fuel sales for a few more months, some analysts say German car sales next year could drop by one million cars from this year's expected 3.5 million.

"We said from the beginning it is not what we support," said **BMW** AG's finance chief, Friedrich Eichiner, of the way the short-term incentives were structured. "Others demanded it, and now they got it."

*—Vanessa Fuhrmans, Jeff Bennett and Sebastian Moffett contributed to this article.*

# Beijing Auto expects engineering technology in Saab deal

BY NORIHIKO SHIROUZU
AND MATTHEW DOLAN

BAIC

Beijing Auto says it can help Saab sell vehicles in China while benefiting from Saab's technology. Above, a rendering of an R&D center it is building in Beijing.

BEIJING—**Beijing Automotive Industry Holding** Co.'s indirect stake in Saab would boost the Swedish car maker's sales in China while giving Beijing Auto engineering technology and other resources to grow globally, a top Beijing Auto executive said.

"We see Saab can grow substantially in China with our help, and we can also grow globally by leveraging Saab's strengths," Beijing Auto President Wang Dazong said in an interview.

He said Beijing Auto and the bidder for **General Motors** Co.'s Saab unit, Swedish sports car maker **Koenigsegg Group** AB, would aim to boost efficiency by sharing technology and other resources. He said they would focus on growth rather than on reducing head counts and closing plants to save money.

Last week, Beijing Auto struck a deal to take a minority stake in Koenigsegg and help it close the funding gap it needed to buy Saab. Mr. Wang declined to disclose details of the deal.

The two companies have a memorandum of understanding and expect to sign a final partnership agreement in the next few weeks, Koenigsegg Chief Executive Christian Von Koenigsegg said in an interview Tuesday at the Frankfurt auto show.

Mr. Wang said the strategic alliance would be modeled on the partnership between France's **Renault** SA and Japan's **Nissan Motor** Co. Those companies have made substantial savings by sharing basic vehicle underpinnings and other technologies and combining forces in purchasing components, while keeping separate brands and corporate identities.

Mr. Wang is a Detroit veteran who worked for two decades at GM before joining its partner, **Shanghai Automotive Industry** Corp., in 2006, and then leaving for Beijing Auto at the start of last year.

He said Saab could revive its business in part by trying to increase sales in China—Saab sold less than 100,000 vehicles world-wide last year and only 836 vehicles in China.

Mr. Von Koenigsegg said the tie-up with Beijing Auto would enable Saab to import vehicles into China for sale. Later Saab could build cars in China, selling them at first through dealers run by Beijing Auto and eventually setting up its own dealerships, he said.

"Suddenly we can reach the Chinese market in a completely different way," he said.

Producing cars in China would allow Saab to avoid China's steep import duties and sell cars significantly more cheaply, said Yale Zhang, a Shanghai-based analyst with U.S. consulting firm CSM Worldwide. "It's not an urgent matter for Saab, but it would be the right move over time," he said.

Beijing Auto already operates manufacturing and sales joint ventures with **Hyundai Motor** Co. and **Daimler** AG in China. Its linkup with Saab would be an even closer one, Mr. Wang said, because the government-owned Chinese auto maker would have an indirect equity interest in the Swedish car maker through Koenigsegg.

In return, Beijing Auto plans to seek help from Saab in vehicle-engineering and manufacturing technology and know-how. That would help Beijing Auto relaunch its own passenger car brand, called Beijing, over the next few years, Mr. Wang said.

Beijing Auto said it sold about 50,000 Beijing brand sport-utility vehicles last year. The company plans to unveil a new series of cars and SUVs for the brand by the end of next year and plans to boost the number of dealers from about 100 to "300 to 500 over the next five years," Mr. Wang said.

Medium term, Beijing Auto said it wants to turn the Beijing brand into a top-10 passenger-car brand in China with annual sales reaching 300,000 vehicles, a level achieved at present by only one Chinese auto maker, **Chery Automobile** Co. Mr. Wang didn't say how quickly he plans to achieve that goal.

One immediate area in which Saab could help is vehicle underpinning or platform technology. Beijing Auto is trying to come up with as many as five different platforms for sedans and SUVs for its relaunched brand.

Beijing Auto has recently formed an alternative-fuel-vehicle division, and it could join with Saab to develop "new energy" vehicles, such as all-electric battery cars and electric plug-in hybrids, said Mr. Wang.

Beijing Auto, including operations with its join-venture partners, is looking to sell a total of 1.13 million vehicles this year, up from fewer than 800,000 vehicles sold in 2008, and to sell two million by 2011.

Some analysts say there is a risk GM might balk at Saab providing Beijing Auto vehicle-engineering technology, much of which derives from GM. That concern was a main reason why GM rejected Beijing Auto's bid for its Opel unit in July, and people at GM said at the time that the company didn't want Beijing Auto to get GM's vehicle technology and create competition in China, the only major auto market growing solidly despite the global economic downturn.

GM spokesman Johan Willems said in an email such an assessment is "not correct," saying that under licenses and service agreements GM and Koenigsegg will continue to share technology during a defined period.

Mr. Von Koenigsegg said GM has been kept informed about Saab's plans to link up with Beijing Auto, and Mr. Wang said GM is "supportive" of the deal.

LEADING THE NEWS: AUTOMOBILES

Agence France-Press

Chief Executive Carlos Ghosn presented the new Renault Twizy Z.E. electric car at the Frankfurt auto show on Tuesday.

# Renault bets on electric

## *CEO Ghosn unveils four battery models due in 2011 or 2012*

By Sebastian Moffett

FRANKFURT—**Renault** SA, seeking to gain a lead in what it believes is the next generation of automobiles, introduced a lineup of electric cars and committed to make at least 100,000 of them by 2016.

Declaring a break with the long dominance of the gasoline engine, Chief Executive Carlos Ghosn presented four electric cars that he said would go on sale in 2011 or 2012. They "will bring environmental soundness at a price everyone can afford," he told an audience at the Frankfurt Motor Show, without disclosing actual pricing.

The move is a gamble by Mr. Ghosn to carve out a new market for the two companies he leads, France's Renault and Japan's **Nissan Motor** Co., which own large parts of each other and share technology. Most other auto makers are more cautious about the prospects for electric vehicles.

Two of the French auto maker's electric cars are based on existing Renault models, the Fluence and the Kangoo. Another is an unusual-looking one-seater that looks like a four-wheeled motorbike with a protective pod for the driver.

Almost all of the big car makers highlighted their low-emission vehicles in Frankfurt—either electric vehicles or gas-electric hybrids, which run on a combination of a gasoline engine and a battery charged by that engine.

But the companies mostly expect the electric-car market to take off slowly or be farther in the future. **Volkswagen** AG, for example, displayed a concept electric car that it said would go on sale in 2013.

**Ford Motor** Co. and **General Motors** Co. said electric cars could be a hit in Asia as they would reduce pollution in crowded cities. But GM's president of international operations, Nick Reilly, said the technology is "not going to come everywhere" at the same pace.

Hopes for developing a mass market for electric vehicles depend on the cars becoming cheaper to run than gasoline-powered vehicles. Renault and Nissan think that the price of oil will rise in the long term and that batteries have become cheap and powerful enough.

But the cars Renault introduced Tuesday will be able to drive only between 100 and 160 kilometers on a single charge. That means drivers will need networks of charging stations, or battery-swapping stations where drivers could exchange a drained battery for a charged one.

Renault is working with a number of governments and utilities on such initiatives. On Tuesday it announced an agreement with German electricity provider **RWE** AG to build a network of recharging stations in Germany.

The highest-profile plans for such networks are in Israel and Denmark, where the governments are working with Renault and a venture specializing in electric-vehicle recharging, **Better Place** Inc. The companies say these networks will be running in 2011.

*—Vanessa Fuhrmans and Matthew Dolan contributed to this article.*

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See more photos and updates from the Frankfurt auto show at **blogs.wsj.com/autoshow**

# Optimism creeps back at Frankfurt auto fair

FRANKFURT—Demand for cars is showing signs of stability, and some of the world's leading auto makers hinted Tuesday that earnings are poised to improve.

*By **Christoph Rauwald, David Pearson** and **Jeff Bennett** in Frankfurt*

The cautiously upbeat executives at the bi-annual Frankfurt auto show were in stark contrast to dour demeanors at auto fairs earlier in the year. Some executives are looking to countries in the Asian-Pacific region to drive the recovery of industry beyond the various "cash for clunkers" programs that have propped up demand around the world this year.

"The severe crisis isn't over yet. But there are increasing signs that the [market's] trough is behind us," **Volkswagen** AG Chief Executive Martin Winterkorn said Monday. "The industry can look forward with cautious optimism."

That sentiment was borne out Tuesday by European Automobile Manufacturers' Association data that showed European new-car registrations, a measure of sales, rose 2.8% year-on-year in July and 3% in August. The continuation of growth will come as a relief for car makers, which saw demand grind to a halt in markets world-wide in the last quarter of 2008.

Demand for new cars in Europe was kick-started by government-backed initiatives in at least 10 countries. Those initiatives typically comprise price discounts on new, fuel-efficient vehicles to car owners who trade in older gas guzzlers.

Success of the measures is evident, but observers fear demand will slump next year when the incentives are exhausted and the industry will have to cope without financial support. France, which last December introduced measures to offer car owners €1,000 ($1,462) to trade in old clunkers and buy new, is studying ways to extend its incentives beyond a deadline at the end of 2009 to cushion the blow to auto makers.

Germany's program, one of the most generous with an offer of €2,500 in discounts, ended earlier this month and analysts expect Europe's single-largest car market in 2010 to perform poorly. The U.K. has said its incentives wouldn't be extended. In contrast to most car bosses, **Renault** SA Chief Executive Carlos Ghosn said the global car market was expected to be "more or less flat" this year, and added: "Europe is not going to be growing or even stable next year." But most auto makers expect a pickup in demand from incentives to translate into better earnings in the quarters ahead.

"We're very confident that from now on every quarter will be better," said **Daimler** AG Chief Executive Dieter Zetsche. Makers of luxury cars have been largely unaffected by scrap incentives, which have spurred demand mostly for smaller, less-expensive vehicles.

"The markets are stabilizing slowly, but on a low level," added **BMW** AG Chief Financial Officer Friedrich Eichiner. BMW's sales in 2009 are expected to fall between 10% and 15% from 2008, he said. The Munich-based car maker could post a full-year profit, Mr. Eichiner added.

PSA Peugeot Citroën is targeting a full-year loss closer to the top end of its earnings guidance as the outlook for car sales in its main markets hadn't been as bad as it had expected, said Chief Executive Philippe Varin. Peugeot said earlier this year that it expected to post a loss of between €1 billion and €2 billion. "We see a recovery in the second half of 2010," Mr. Varin said.

The market for premium cars in 2011 could reach the same high level as 2008, Daimler's Mr. Zetsche said. "But the structure will be different then," he added, referring to a geographical shift toward growth markets such as China and a broader trend toward smaller engines.

Ford Motor Co.'s top economist, Ellen Hughes-Cromwick, said that it now appeared, for the first time, that the Asian region would lead the world out of the recession. The worst was over for the U.S. and European economies amid strengthening signs that an economic recovery was under way, Ms. Hughes-Cromwick said. "We are seeing positive readings across the board."

# Ferrari is defiant amid recession

By Gilles Castonguay

FRANKFURT—**Fiat** SpA's Ferrari and Maserati luxury-sports-car units launched new models at the Frankfurt Motor Show Tuesday, saying they have confidence in the cars despite the slowdown in the normally resilient market for top-end vehicles because of the economic downturn.

Ferrari Chairman Luca Cordero di Montezemolo said the sale of luxury goods, usually impervious to a recession, had been hit by the slowdown but the car maker wanted to show the pace of its annual product launches wasn't slowing by launching its new 458 Italia.

"We wanted to give a strong sign that we are convinced by the innovation in this car," Mr. di Montezemolo said. "There is nothing in the car that is not completely new."

Maserati, Fiat's other luxury sports-car brand, also launched its new GranCabrio convertible as a defiance of the market downturn, its chief executive, Harald Wester, said.

Ferrari's new two-seater 458 V8 was designed by the company Pininfarina with a helping hand from Ferrari test driver Michael Schumacher, the former Formula One racing champion who attended the launch.

The 458 can reach 100 kilometers an hour in under 3.4 seconds and hit a top speed of 325 kilometers an hour.

With a price tag of €197,000 ($288,000), the 458 will go on sale next year, with the first vehicles made in the second half of January. Maserati's two-door GranCabrio, with a 4.7-liter, V8 engine, will go on sale in February at a cost of €135,000 to €140,000.

Mr. di Montezemolo said he expected the year to end well but declined to be more specific, apart from saying Ferrari will have sold 200 cars in China this year.

Luxury goods are traditionally less affected by a recession because the high-net-worth individuals who buy these products are wealthy enough that they don't generally have to curb their spending habits. However, both car makers had an year-to-year declines in revenue in the first half of 2009. Ferrari's revenue was down 8%, while Maserati's dropped 43.2%.

Agence France Presse

Scrapping incentives boosted demand for small cars, such as Fiat's 500

**Temporary lift?**

Growth in Europe varied based on the extent of scrapping incentives

August new-car registrations, percentage change from a year earlier

| Germany | Italy | France | U.K. | Poland | Spain | Europe |
|---|---|---|---|---|---|---|
| 28.4% | 8.5% | 7.0% | 6.0% | 3.1% | 0% | 3.0% |

Source: European Automobile Manufacturers Association

## HEARD ON THE RUNWAY

*New York's fashion week*

### Ruffles and frills from Marc Jacobs

*Feminine touches pair well with men's trench coats; sporting Cabaret-clown look*

Marc Jacobs, who brought us the '80s power thing last year, has moved on just as the rest of the world is getting in sync with shiny leggings, big-shouldered jackets and blouses pleated at the neck.

His show late Monday, which was as punctual as German trains, was juicy and surreal—and incredibly, laughably feminine. A circus of ruffles and frills, tamed by some opposites-attract '60ish men's trenches. It was the opposite of Power Dressing. One frilly playsuit out-McCardelled Claire McCardell, a ready-to-wear pioneer who nonetheless helped put grown women on beaches in toddlerwear.

It's easy to feel overwhelmed by the crazy styling of Mr. Jacobs's shows. This season, the models' faces were powdered white, their hair drawn up tight, and they looked like Cabaret clowns.

But look closely: Those "Mad Men" trenches were fabulous—nearly vintage. A series of softly pink and mossy silk blouses would do their job in any board room. There was a sportswear feel to some knitwear that was nearly collegiate. The bags were rich looking and the shoes mostly flat sandals, but they looked hard to walk in because the heels were placed several inches in under the sole.

*—Christina Binkley*

Kurt Wilberding of The Wall Street Journal

Marc Jacobs's show featured models with white Kabuki makeup.

### Collection reflects Wang's own style

Vera Wang's clothes don't change drastically from season to season. There's an intimate quality to her work, as well as her shows. If you're a Vera Wang fan, you're going to find a satisfying consistency in her collections, which aren't the bridal gowns she's most known for.

This is the clothing Ms. Wang wears herself: black and gray silk sheaths, jackets transparent and light as a feather, and sculptural creations using tiny strips of fabric sewn together for texture.

A highlight at her Tuesday morning show was a series of prints—lavender colored flowers on a black background—where Ms. Wang had tacked each flower by sewing over and over a small square. The technique gave texture and richness to the lovely print and it will be a signature as loud as her name.

*—Christina Binkley*

*For updates and photos from New York's fashion week, see WSJ.com/Runway.*

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Reuters

IATA expects passenger traffic to fall in premium and coach seats. Low demand for high-price seats is expected to push revenue per passenger down 12%.

# Airline losses expected to hit $11 billion this year

By Ann Keeton

The global airline industry faces $11 billion of losses this year, greater than previously forecast, as business travel remains in a slump and fuel prices are rising, the International Air Transport Association said Tuesday.

The trade body expects airlines to lose $3.8 billion world-wide in 2010, as carriers struggle to generate revenue from their best customers, who either aren't flying or are buying less-expensive tickets.

IATA sees premium passenger traffic falling 20% in 2009 from the previous year. Traffic in the back of the cabin is expected to drop 5%. The low demand for high-priced seats is expected to push yields, or revenue per passenger, down 12%.

Historically, it has been difficult to rebuild yields once they fall, Giovanni Bisignani, IATA's chief executive, said during a conference call with reporters. Following the last airline downturn, after the Sept. 11, 2001, attacks, it took the industry more than three years to claw back to 2000 revenue levels.

Now, the airline industry needs to make structural changes to regain its footing, Mr. Bisignani said. That includes more consolidation in the U.S. and Europe. He also said airlines should keep pressing government officials for expanded "open skies" agreements to get past regulations that hamper global carriers' growth plans.

Near-term, Mr. Bisignani sees more airline bankruptcies, on top of nearly 50 resulting from the current recession. "In the last year-and-a-half, medium-sized airlines from all parts of the world" have fallen victim to the downturn, he said. The IATA is now monitoring some 20 airlines with financial problems.

Mr. Bisignani said air travel in the U.S. and Europe will remain weak for the rest of 2009. For the full year, IATA expects North American carriers to lose $2.6 billion and European carriers to lose $3.8 billion.

However, some parts of the world, including Asia and the Middle East, are beginning to recover from the global recession, the group said. IATA also reported that air-cargo traffic—an early sign of any potential economic recovery—is picking up, following a sharp downturn.

Airlines have curbed the impact of the downturn by adding new passenger fees, Mr. Bisignani said. IATA reported that sales not related to tickets or cargo currently accounts for more than 10% of global airline revenue.

*—Kaveri Niththyananthan contributed to this article.*

# U.K. to maintain restrictions on ITV's advertising rates

By Kathy Sandler

LONDON—The U.K.'s Competition Commission said Tuesday it will retain the restrictions on how much **ITV** PLC can charge for advertising on its flagship ITV1 channel, although the regulator left open the possibility of some relaxation of the rules.

The Contract Rights Renewal, or CRR, mechanism, which links the rates ITV can charge for advertising at ITV1 to the number of viewers, was introduced to protect advertisers following the creation of ITV through the merger of Granada PLC and Carlton Communications Group PLC in 2003. Yet, as audiences at ITV1 have fallen sharply amid the digital multichannel boom, the company hasn't been allowed to increase its ad rates to make up for the shortfall.

In November, ITV's Executive Chairman Michael Grade said official regulations, which also include the company's public-service-broadcasting obligations, cost ITV about £300 million (about $500 million) annually. The broadcaster didn't further break down the figure.

ITV has been struggling with the dispersal of its viewers across multiple digital channels, the rise of the Internet as a competitor for its advertising, and a slump in advertising revenue caused by the recession.

In its report Tuesday, the competition watchdog agreed with ITV that the television industry has changed significantly since the controls were introduced in 2003, providing the incentive for at least some changes to the rules. However, it said that ultimately ITV still remains crucial to advertisers looking to reach large audiences quickly, hence the need to retain the CRR.

CORPORATE NEWS

# Air France seeks a safety audit

*In wake of fatal crash, U.S. partner Delta is asked to assess French carrier's practices*

By Daniel Michaels
And David Gauthier-Villars

Reuters

Air France employees at a church service in June for relatives of passengers on Flight 447, which crashed into the Atlantic and has yet to be found. In the wake of the crash, the airline has asked for outside help in reviewing its safety practices.

PARIS—Air France has taken the unusual step of asking U.S. partner **Delta Air Lines** Inc. to help assess its internal safety practices following the crash of an Air France jetliner in June that killed 228 people.

"We have asked our American partner to conduct an audit," said Air France spokeswoman Véronique Brachet.

Chief Executive Pierre-Henri Gourgeon said in a recent interview that Air France, a unit of **Air France-KLM** SA, would commission outside analysts to review its safety practices, in part because the crash remains unsolved. He said the goal would be to glean a handful of ideas to significantly improve the airline's safety practices.

"Safety is a dynamic thing," Mr. Gourgeon said. "The risk is to say, 'We've done our work, so let's stop.'"

French search teams have been unable to locate wreckage of the Air France Airbus A330, which plunged from high altitude into deep waters about halfway between Brazil and Senegal. As a result, it remains unclear what role various factors played in the crash. Bad weather, technical problems and pilot error are all suspected of having contributed, but without more evidence, the airline and regulators are stymied in efforts to prevent a recurrence.

Investigators are now preparing to renew their hunt for parts of the plane on the seabed several kilometers down, although a new expedition could take months to prepare and conduct. "Everyone is worried and frustrated," Mr. Gourgeon said.

The crash has focused renewed attention on Air France's safety record and pilot training. The carrier has suffered four significant accidents since 1999, more than most global carriers. Mr. Gourgeon said that before the crash, Air France's accident record was better than the global airline-industry average but now is average.

Mr. Gourgeon said the crash has been traumatic for employees and has increased tensions within the airline. He said that since the accident, Air France has seen a slight uptick in absenteeism among long-haul flight attendants. He acknowledged the airline has been repeatedly criticized by some of its smaller pilots unions for perceived safety lapses.

Gérard Arnoux, head of SPAF, one of those small pilots unions, said: "There is a problem with our safety culture. Our ranking is not good."

Mr. Gourgeon said he hopes the planned audit will address such concerns. He said the cause of the crash may never be known, so Air France is addressing a broad range of possible problems behind it. "Even if we don't know the reason, people must be certain that no stone has been left unturned," Mr. Gourgeon said.

Ms. Brachet, the Air France spokeswoman, said talks with Delta weren't finalized. A spokeswoman for Delta, which has a marketing alliance with Air France, declined to comment on the plan.

SNPL France Alpa, Air France's largest pilot union, which claims to represent about 65% of the airline's 4,300 pilots, welcomed Air France's decision to seek outside help to review its safety practices and said it had recommended such a move. "You wouldn't ask a doctor to diagnose his own disease," said SNPL director Louis Jobard.

Since the crash, Air France has increased pilot training and altered some of its safety routines, he said. All pilots are now required to train routinely for the event of a loss of speed data, a problem that may have contributed to the crash of Flight 447.

After the crash of an Air France Airbus A340 on landing at Toronto's Lester Pearson Airport in August 2005, the French airline ordered a thorough study of its approach to safety. There were no fatalities in that crash, but the plane was destroyed.

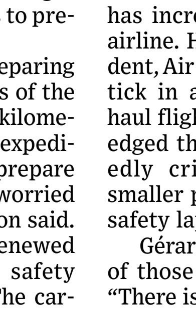
Air France safety director Etienne Lichtenberger said most of the report's recommendations have been implemented and said the airline must now conduct a similar review.

# Bayer shuffles top posts, names successor to CEO

By Jeanne Whalen

German conglomerate **Bayer** AG named a new chief executive and other top managers in a broad management shuffle that prompted speculation that the company may increase its focus on health care.

Bayer, which makes chemicals and pharmaceuticals, Tuesday said Werner Wenning, 62 years old, will step down as chief executive in September 2010 and be succeeded by Marijn Dekkers, a 51-year-old Dutchman who is currently chief executive of U.S. laboratory-equipment manufacturer **Thermo Fisher Scientific** Inc.



*Marijn Dekkers*

Mr. Wenning's contract expires next year, and some analysts had been expecting him to retire or step down. A bigger surprise was the news that Arthur Higgins, 52, head of Bayer's health-care unit, will leave the company in the first half of 2010, as will Chief Financial Officer Klaus Kühn, 58.

In a statement, Bayer said Mr. Higgins was leaving for "personal reasons," and that Mr. Kühn would take early retirement.

Cornelia Thomas, a pharmaceutical analyst at WestLB in London, said the pair may be leaving because they didn't get the chief executive job. Bayer didn't immediately respond to a request for comment.

Meanwhile, Thermo Fisher said Marc Casper, currently chief operating officer, will succeed Mr. Dekkers as chief executive, effective Oct. 15.

Bayer has long been thought to be considering a breakup. Gbola Amusa, a pharmaceutical analyst at UBS in London, said Mr. Dekkers's background in health care could mean that Bayer intends to favor health care in any restructuring, he said.

# Swiss regulator probes Swatch for raising prices

By Martin Gelnar

ZURICH—Swiss cartel watchdog Weko said it is investigating whether a price increase by a **Swatch Group** AG unit violated antitrust laws.

The probe follows a preliminary investigation of price increases of 5% to 12% that watch-component maker **ETA Manufacture Horlogère Suisse** SA announced last year. ETA supplies watch movement parts not only for Swatch but also for independent watchmakers, some of which objected to the price increase.

The dependence of many smaller Swiss companies on Swatch Group, the world's largest watchmaker by sales and also a maker of watch parts, has led to antitrust investigations in the past.

Swatch said it is confident of a good outcome, but spokeswoman Beatrice Howald said the timing "is bad because of recent massive cancellations of movement orders from third parties."

# BAE discusses plant closure with its unions

By Jonathan Buck

LONDON—Defense giant **BAE Systems** PLC said Tuesday it is consulting with unions on closing one of its U.K. sites and cutting staff at three others, a move that could result in the loss of 1,116 jobs, or roughly 3% of its U.K. work force.

The move comes as BAE's contracts to produce aging military hardware such as Nimrod surveillance and reconnaissance jets come to an end. BAE Systems said its Woodford site in Cheshire will close at the end of 2012, on completion of the Nimrod MRA4 production contract, with the loss of 630 jobs. Other jobs will be cut at the Samlesbury and Warton plants in Lancashire, and at Farnborough in Hampshire, the company said.

At the end of 2008, BAE employed some 32,800 people in the U.K. and 106,400 world-wide. BAE Systems generates 58% of its sales in the U.S. and is the sixth-largest supplier to the U.S. Defense Department.

## GLOBAL BUSINESS BRIEFS

### BMW AG

### Qadbak Investments to buy BMW's Formula One team

**BMW** AG said Swiss-based Qadbak Investments Ltd. will buy the BMW Sauber Formula One team. BMW gave no financial details of the sale, but said the foundation "represents the interests of certain Middle East and European-based families." BMW said earlier this year that it was pulling out of the sport in 2010. The sale announcement came after Formula One's governing body on Tuesday turned down an application from BMW Sauber for a place on the grid next season, noting that BMW's pull-out left uncertainties over the team's future ownership. However, it said the team had made a "high quality" application and that it would be entitled to fill any vacancy that arises.

### BT Group PLC

U.K. regulator Ofcom said **BT Group** PLC may cut the price of its phone lines when bundled with telephony, broadband and television services, removing one of the last restrictions on the former monopoly's business. Ofcom said BT was judged to no longer have "significant market power" in the majority of retail landline markets in the U.K. BT has had to compete with companies such as **British Sky Broadcasting Group** PLC, **Virgin Media** Inc. and **Carphone Warehouse Group** PLC's TalkTalk since it was forced to open up its phone lines in 2005. The companies have offered discounted or free phone lines when sold with other services. Until now, BT wasn't allowed to discount its phone service. News Corp., owner Wall Street Journal publisher Dow Jones & Co., has a roughly 39% stake in BSkyB.

### SJM Holdings Ltd.

**SJM Holdings** Ltd. said its first-half net profit fell 41% from a year earlier, as gambling revenue in Macau declined due to increased competition and Beijing's visa restrictions on visitors from mainland China. The casino operator, which is controlled by Macau gambling magnate Stanley Ho, said its net profit for the six months ended June 30 was 338 million Hong Kong dollars (US$43.6 million), down from HK$571 million a year earlier. Revenue fell 4.3% to HK$14.79 billion. Beijing tightened restrictions on visits to Macau by mainland Chinese in the middle of 2008, in an apparent attempt to stop gambling and money laundering by mainland civil servants. SJM Holdings had a monopoly on gaming in Macau until 2002, and operates 19 of the 31 casinos there.

*—Compiled from staff and wire service reports.*

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# ECONOMY & POLITICS

# Police foil attack on Karachi oil facility

*Islamic militants wearing women's burqas abandon assault on terminal after gun battle with security guards*

BY ZAHID HUSSAIN

ISLAMABAD—Islamic militants clad head-to-toe in women's burqas attempted to attack an oil-storage facility in Karachi, raising fears that insurgents are fleeing northwestern Pakistan and infiltrating the nation's main business hub.

Three gunmen disguised as women tried to enter the high-security terminal used by oil companies late Monday night, Waseem Ahmed, the city police chief, told Pakistani television on Tuesday. Police say they suspect the assailants disguised themselves as women to try to slip past security checkpoints.

When stopped by security guards, the militants opened fire, killing one guard. The assailants fled during a gun battle, leaving behind the burqas, purses and hand grenades.

"We suspect they wanted to carry out a big terrorist attack which our prompt police action thwarted," said Mr. Ahmed in an interview with Geo TV Pakistan.

Pakistan imports foreign oil through the Karachi port, and stores it there before transporting it throughout the country. An attack on the port facility could have threatened fuel supply for the country's industry and transport, just as Pakistan's economy is struggling to recover from the global downturn and security woes at home.

Later Tuesday, police arrested four men suspected of involvement in the attack. During a raid on a house in Karachi, where the arrests took place, police found additional burqas, women's handbags and weapons, Mr. Ahmed said in the television interview.


Reuters

Members of a bomb-disposal squad sit near hand grenades that were found, along with rocket launchers, near a police-training institute in Karachi, Pakistan, on Tuesday.

Police say the arrested men are suspected of having links to the militant group led by Baitullah Mehsud, the Taliban leader who was killed last month in a U.S. missile attack in South Waziristan. A large number of militants from Waziristan and other areas fleeing army attacks have been taking sanctuary in Karachi—the capital of Sindh province—according to Zulfikar Mirza, the Sindh provincial home minister.

One sign of the rising level of insurgent activity, say police and government officials, is the increase in bank robberies and kidnappings of wealthy businessmen. They say the Taliban engage in these activities to finance their war against Pakistani forces in tribal regions. Most bank robberies in recent months involved militants from tribal regions, said Mr. Ahmed, the police chief.

Karachi's size—about 16 million people live in the city—helps insulate insurgents, providing a degree of anonymity not found in Pakistan's small towns and villages. Those fleeing the fighting in northwestern Pakistan, areas dominated by the ethnic Pashtun, are often taken in by residents of Karachi's sprawling Pashtun neighborhoods. Other potential havens for fleeing militants: the thousands of madrassas, or Islamic seminaries, across the city.

The municipal government, which is run by the Muttehida Qaumi Movement, a secular political party, has warned about the danger of the city turning into a new base for the Taliban. MQM officials have called for screening people entering the city from the country's northwest, but haven't given specifics about how they would carry out such an effort.

Also Tuesday, police recovered rocket launchers, hand grenades and suicide-bomb jackets from a water drain near a police-training institute in Karachi.

# Hungary comes back from brink

BY MARGIT FEHER AND VERONIKA GULYAS

BUDAPEST—Hungary's improving finances could allow it to discontinue financial aid from the International Monetary Fund as early as October 2010, Finance Minister Peter Oszko said.

"Probably, at the expiry of the six-month extension [of the IMF's credit line], Hungary will be in a position to make a decision about whether it needs the IMF's support any longer," Mr. Oszko said.

Because of its large external debt and lax fiscal policies, Hungary was hit hard nearly a year ago by the global financial crisis, making it the first European Union country to secure IMF help. It has since put in place austerity measures such as freezing public-sector wages. Hungary is forecast to post a "massive improvement" in its fiscal position, Bank of America Merrill Lynch said in a recent note.

Hungary aims to cut its budget deficit to 3.9% of gross domestic product this year from 9.1% in 2006, accomplishing what many of its neighbors couldn't during the recent economic downturn. Hungary's regional peers, Poland and the Czech Republic are facing sharply widening budget deficits.

However, the cuts have sent support for Hungary's governing Socialist party near historic lows. The opposition Fidesz party seems likely to win a general election set for the spring and analysts aren't sure which policies Fidesz would continue. "Since the direct threat of a sovereign-credit default disappeared, nothing has happened," said KBC Securities economist Gyorgy Barcza. "That's a mistake because the crisis provides an opportunity [to revamp budget spending] and people would now accept that."


Reuters

Hungarian Finance Minister Peter Oszko in Budapest earlier this month. He has overseen an effective but unpopular program of tighter government deficits.

The finance minister dismissed concerns that the country will fail to deliver its deficit target for this year because of lower-than-anticipated tax revenues in the wake of an expected 6.7% fall in GDP.

"We expect a budget surplus for the fourth quarter," Mr. Oszko said. "If there's no unexpected development on the revenue side [in the 2009 budget], there will be no need to modify the 2010 budget targets," he added. Hungary has a target for next year's budget shortfall of 3.8% of GDP, with plans to cut subsidies for local councils, public transport and at the ministries.

# Biden says U.S. is set to aid Iraq with successful election

BY GINA CHON

BAGHDAD—Joseph Biden, on his third trip Iraq as U.S. vice president, said that a successful parliamentary election—slated for January—would go a long way resolving lingering political tensions here.

In a meeting with reporters on Tuesday, Mr. Biden said he was assessing how he could be helpful in resolving political issues so that the U.S. leaves behind a stable Iraq. He said the U.S. could play the role of an interlocutor among Iraqi officials who have disputes. He identified Iraq's parliamentary vote as a key benchmark.

"That's when the real bargaining will begin," Mr. Biden said of the post-election period. "That's the context in which they would need to drill down in some of the more difficult outstanding political issues."

Underscoring the still-tentative nature of recent security gains, several mortars slammed into an apartment complex near the U.S. Embassy during his visit. One Iraqi officer said there were no deaths, but several Iraqis were injured.

U.S. Gen. Ray Odierno, America's top commander in Iraq, told reporters the number of high-profile attacks and roadside-bomb attacks are down compared with the year-earlier period. As he spoke, however, the alarm signaling incoming mortars or other attacks sounded on several occasions. U.S. officials said the alarm sounded rarely compared with just a few months ago.

Gen. Odierno said that despite a significant attack in Baghdad on Aug. 19, a series of bombing that left almost 100 Iraqis dead, he has seen enough improvements in overall security that the withdrawal of all American combat troops by August 2010 is still on track.

Mr. Biden is scheduled to meet with Iraqi Prime Minister Nouri al-Maliki and travel to Irbil, in Iraq's north, to meet with Kurdish regional President Masoud Barzani during his three-day visit. Tensions between the Kurdish semiautonomous region in the north and the central government in Baghdad have worried U.S. officials, some of whom fear the row could spill into violence.

Messrs. Maliki and Barzani met after Kurdish elections in late July, when Mr. Barzani was re-elected to his post. But tensions between the two governments have grown over disputed teritories and oil rights. Gen. Odierno said he is waiting for an agreement between Baghdad and the Kurdish regional government to possibly deploy U.S.-Iraqi-Kurdish forces in disputed areas, where he says al Qaeda in Iraq has taken advantage of tensions to sow instability.

# U.N. probes Somali aid contractors

*Agencies investigate whether food is misappropriated and if businesses are supporting Islamist insurgencies*

By Sarah Childress

NAIROBI, Kenya—A United Nations group is investigating whether three Somali contractors it uses to ship food aid through the war-ravished country are misappropriating food aid and providing financial assistance to insurgent groups, according to U.N. officials.

The U.N. Monitoring Group on Somalia opened its probe in July, according to these officials. The U.N. gave the group a mandate late last year to investigate allegations, should they arise, of interference in humanitarian aid or threats to peace and security. The group can recommend to the U.N. Security Council that individuals be sanctioned for offenses.

U.N., African Union and Somalia government officials say they are increasingly concerned about the dependability of some of the contractors the U.N. World Food Program uses. The WFP handed out $35 million in food-aid distribution contracts in Somalia last year.

Key donors, including the U.S. and Britain, have expressed concerns about the food-aid system. The U.K. says it has threatened to withdraw financial support for the WFP's program in Somalia; the U.S. has also threatened to do so, according to a U.N. official close to the situation and a Western diplomat with knowledge of the donors' concerns.

The British government's development arm, the Department for International Development, said the WFP has told them that it is conducting a separate, internal probe. British officials said they are waiting to hear the outcome of that investigation before deciding whether to suspend funding.

Agency France-Presse/Getty Images

Relief maize at a distribution point on the outskirts of Somalia's Mogadishu. Key donors to the country, including the U.S. and Britain, have expressed concerns about the food-aid system.

USAID, the U.S. government agency that provides international humanitarian assistance, is the biggest provider of funding to the WFP's Somalia program.

USAID representatives didn't respond to several emails and phone calls requesting comment.

Peter Smerdon, a spokesman for the WFP in Nairobi said the WFP inspector-general's office, which is separate from the Monitoring Group on Somalia, is also investigating allegations regarding diversion of food assistance in Somalia.

Denise Brown, the WFP's deputy country director for Somalia, said she wasn't aware of the Monitoring Group's probe and therefore couldn't comment on it. "We are, I think, quite happy, or satisfied, with the current system we are using," she said.

According to U.N. officials, investigators are looking specifically at Abukar Adani, a Somali businessman, along with some family members and a network of companies they control. Investigators are also looking at Abdulkadir Eno, a Somali-American businessman with interests in Somali ports, and Somali businessman Mohamed Deylaf, these officials said. All three deny misappropriating food aid.

Ms. Brown said she couldn't comment on the size of the contracts for any individual company.

Mr. Adani's son, Abdulkadir Abukar Omar Adani, the managing partner of the family's main trading company, Swift Traders East Africa Co., said the Adani family supports the current government. But he said that to transport food in the country his company is sometimes forced to do business with groups such as al Shabab, the main Islamist insurgency group, which is battling the government and controls much of southern Somalia. Mr. Adani said that representatives from his company negotiate with these groups and sometimes are required to pay them.

"Sometimes they impose on you," he said. Payments are part of doing business, and shouldn't be interpreted as a sign of support for the rebel group, he said. "We are not involved in any politics," he said.

Mr. Deylaf said he hasn't provided support to insurgents and supports the government.

Mr. Eno also denied supporting insurgent groups and said he has a financial interest in backing the current government. "Our company believes that once peace and stability are attained in Somalia, then our business activities would be sustainable," he said.

The WFP currently works with 29 contractors in Somalia. To win a contract, companies must have sufficient capital and prior experience working for the U.N. They also must demonstrate that they have access to trucks and warehouses necessary to deliver the aid. The WFP says its hiring process in Somalia complies with its own guidelines and has been vetted by its attorneys. The organization also checks all of the applicants' names and businesses against the U.N.'s terrorist watchlist.

# Iraqi premier tries to win over Shiite voters in the south

By Gina Chon

BAGHDAD—Iraqi Prime Minister Nouri al-Maliki has embarked on a charm offensive among Shiites in the south of the country, a crucial but fickle electorate, in his bid to hold on to power in Iraq's January parliamentary vote.

On the face of it, Iraq's southern provinces would seem like Maliki strongholds. His State of Law electoral list wrested power from Shiite rivals there during local elections in January. Voters rewarded Mr. Maliki for big improvements in security, especially in the oil-rich region of Basra. His popularity soared as he personally took charge of a military operation against militants and criminals who had effectively taken over the city, Iraq's second largest.

But since then, residents have soured on Mr. Maliki's government.

"We thank Maliki for saving Basra in the security operations last year, but now our most important issue is services, especially the water supply," says government employee Eptisam al-Zubaidi.

Iraq is facing its worst drought in years, and Baghdad has accused neighboring countries such as Turkey of exacerbating the problem by limiting the flow of water into Iraq, through dams, for instance. Also, water flowing from the Karoon River in Iran into Iraq is being diverted, increasing the salt content of the Shattal al-Arab waterway, the main source of water in Basra. As a result, residents in Iraq's second-largest city are buying water because tap water is undrinkable.

In a visit to Basra over the weekend, Mr. Maliki announced a $20 million water-pipeline project aimed at increasing the supply of clean water to the city. He is visiting Dhi Qar and other provinces in southern Iraq this week.

During his visit, Mr. Maliki privately rebuked provincial-council officials, a majority of whom are in his party, and Basra's governor, who is part of his electoral ballot, for not doing enough to provide the basic services, such as electricity and sewage, the public is demanding. He told them to shape up or risk losing the elections, according to one council official.

"Maliki asked us to change our policies and the situation because if we continue this way, we will lose Basra," the provincial council official said. "And Basra has huge weight in the next elections."

The south is especially important for Mr. Maliki's fortunes in the January polls. He has so far declined to rejoin an umbrella Shiite coalition that elevated him to the prime ministership in the first place. Instead, he plans to form a coalition under his State of Law ballot that includes Sunnis and other groups in a broad-based allaince.

The Islamic Supreme Council of Iraq, Mr. Maliki's chief Shiite rival, is a leading member of that coalition.

Associated Press

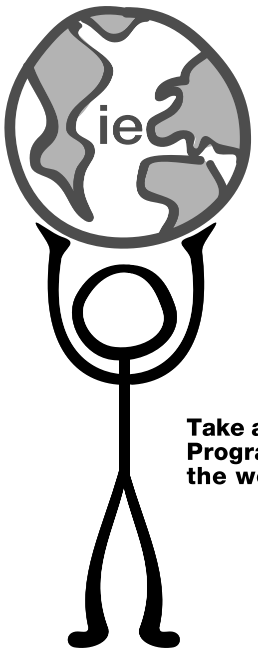
Iraqi Prime Minister Nouri al-Maliki addresses reporters in Basra, southeast of Baghdad. The leader is wooing voters in the area, where his popularity has declined among a population that has gone without many basic services.

While it lost control of provincial councils in southern Iraq to Mr. Maliki's slate, it retains a deep organizational network in the south. Another coalition member is a political movement associated with anti-American cleric Moqtada al-Sadr, who still enjoys grass-roots support in the region.

In the holy Shiite city of Najaf, however, the prime minister's standing is holding up, thanks in part to a new, hard-charging governor aligned to the prime minister. The governor, Adnan Zurfi, held the same job right after the U.S.-led invasion in 2003. He was replaced after elections in 2005, but was renamed governor by Mr. Maliki's party after it edged out opponents in the local elections early this year.

"The new governor is working hard to accomplish" projects, says Mustafa Ahmed, a law student in Najaf. "That is making him look good to the people, which also helps Maliki."

*—An Iraqi staff member in Basra contributed to this article.*

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## EDUCATION FOR EXECUTIVES

# Top Marks

## *A WSJ survey identifies the best accelerated business programs*

By Diana Middleton

**In these tough times,** lots of workers are stuck in a bind: They need an M.B.A. to boost their career, but they can't afford the cost or the time out of the work force.

The solution? Many are turning to programs that let them get a degree in half the time, often at a fraction of the cost.

Consider Marco André. He knew if he wanted to achieve his dream of managing companies and working in different countries, he'd need to get an M.B.A. But taking two years away from his career for a traditional program was too big a sacrifice. So, Mr. André, a product-management director for a technology company in Portugal, opted for ESADE's one-year program in Barcelona.

After graduating last April, he landed a job as a market-planning manager for Procter & Gamble Co. in Madrid. "At a certain point, the extra length just doesn't add value," says Mr. André. "You can learn everything perfectly well in a shorter time span. Nowadays, the opportunity cost of two years is just too high."

Accelerated M.B.A. programs, which take between 10 and 15 months to complete, have been around for decades and are the norm in Europe. Although these programs are much less common in the U.S., they're growing increasingly attractive—especially among older students, who are becoming less willing to spend two years out of the work force.

These programs have rarely been evaluated by outsiders, in part because they're still less ubiquitous than their two-year counterparts. About 90 accredited schools worldwide offer the accelerated M.B.A., and many of them only recently added the option.

But the degree's growing popularity and reach led The Wall Street Journal to take its first close look at accelerated M.B.A. programs. To measure these programs' quality, and student and alumni satisfaction with them, the Journal, with the help of research firm Management Research Group and survey technicians Critical Insights, surveyed the current graduating classes and alumni who graduated two years earlier at 48 schools. We looked only at schools that have graduated four or more classes with 12 or more students. We eliminated schools where students had little or no work experience. Responses came in from 1,361 recent grads and 735 alumni. We asked students about everything from the programs' flexibility to career services. And we pressed alumni on issues like the usefulness of the training in their careers and whether their degree protected them in the recession.

### European Edge

The result is the Journal's first-ever ranking of accelerated M.B.A. programs. The ranking comprises nine European schools, five in the U.S. and one in Latin America. Some smaller, lesser-known schools—along with bigger schools that haven't been offering a fast-track degree long enough—might be noticeably absent for now. But as the degree gains ground, more entrants are sure to be evaluated.

At the top of the list are three European schools with a strong tradition of delivering respected degree programs.

At No. 1: IE Business School in Madrid, praised by students and alumni for the diversity of its student body and networking opportunities. From Switzerland, IMD's rigorous leadership-oriented 11-month program came in at No. 2. The U.K.'s Cranfield School of Management, with its teamwork-focused atmosphere, is No. 3. Northwestern University's Kellogg School of Management and Babson College's F.W. Olin Graduate School of Business—both in the U.S.—round out the top five.

These schools stood out by delivering a strong curriculum and cramming in a healthy dose of international exposure. The best schools also cultivate relationships with local and global companies, giving students the chance to work on real-world projects.

At IE, students and alumni say the program's intensity lent itself to constant engagement in their course work, as well as close bonds with their classmates. They say they benefited from IE's additional programs, such as the Venture Lab, a competition that awards student entrepreneurs capital to launch a business. At IMD, the course work had the rhythm of a real job, students said—real, that is, if 100-hour work-weeks are the norm.

### Spanning the Globe

The driving factor for pursuing a fast-track M.B.A. among those surveyed was the ability to re-enter the work force faster—more than 82% of students put that at the top of their list.

When it came to choosing a school, students and alumni cited reputation (92% said it was critical and 43% called it the most important consideration) and an international focus (74% said it was critical and 15% said it was at the top of their list) as the biggest criteria.

Indeed, almost all the schools offer plenty of chances to stretch internationally. At IMD, students recently traveled to South Africa for 12 days to meet with 20 companies to help get new ventures off the ground. Eighty percent of INSEAD's students spend time at the school's two campuses—one in Fontainebleau, France, the other in Singapore. Miami University, in Oxford, Ohio, requires its students to spend two weeks abroad doing mini-internships. Other schools, like IE, offer international seminars and exchange programs from Latin America to China.

The ranked schools also prepared graduates to land higher-paying jobs and excel in a global business environment, according to students and alumni. And most survey respondents say recruiters and managers view their fast-track de-

*Please turn to page 11*

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