Money & Investing: U.K. pound takes a pounding from foreign-exchange traders

THE WALL STREET JOURNAL.

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What's News

The IMF chief sought to maintain pressure on G-20 nations to keep their pledges to aid the world's poor. Meanwhile, Britain's prime minister said ending state support for the world's largest economies too early could derail the nascent recovery. **Page 3**

■ U.K. retail sales were flat in August, but economists see GDP rising in the third quarter for the first time since early last year. **Page 2**

■ Some U.K. retailers have posted higher profits in recent days, but business will remain challenging well into next year, analysts say. **Page 2**

■ American Airlines' parent got $2.9 billion in financing, easing liquidity concerns and fueling optimism about cash-strapped U.S. carriers. **Page 6**

■ The CEO of Airbus said the European plane maker may need to cut production next year due to broader economic problems. **Page 6**

■ U.S. stocks edged lower as major indexes took a breather from this week's rally. European shares rose for the third straight session. **Page 18**

■ A U.K. regulator determined that Lloyds likely wouldn't be able to raise enough capital from private investors to bolster its finances. **Page 20**

■ Revenue fell 65% at Atticus Capital's U.K. arm in the last fiscal year, a period that saw big redemptions. **Page 17**

■ A U.N. agency predicted that foreign direct investment will fall a second straight year in 2009, but pick up beginning next year. **Page 28**

■ Two car bombs hit the African Union's headquarters in Somalia, which an Islamic extremist group said was revenge for a U.S. raid. **Page 9**

■ Karzai said he has seen little evidence of fraud in his re-election bid. Meantime, a Taliban bomb killed 16, including six Italian soldiers. **Page 11**

■ Balfour Beatty will pay $626 million for Parsons Brinckerhoff, whose work includes the World Trade Center and the Big Dig. **Page 18**

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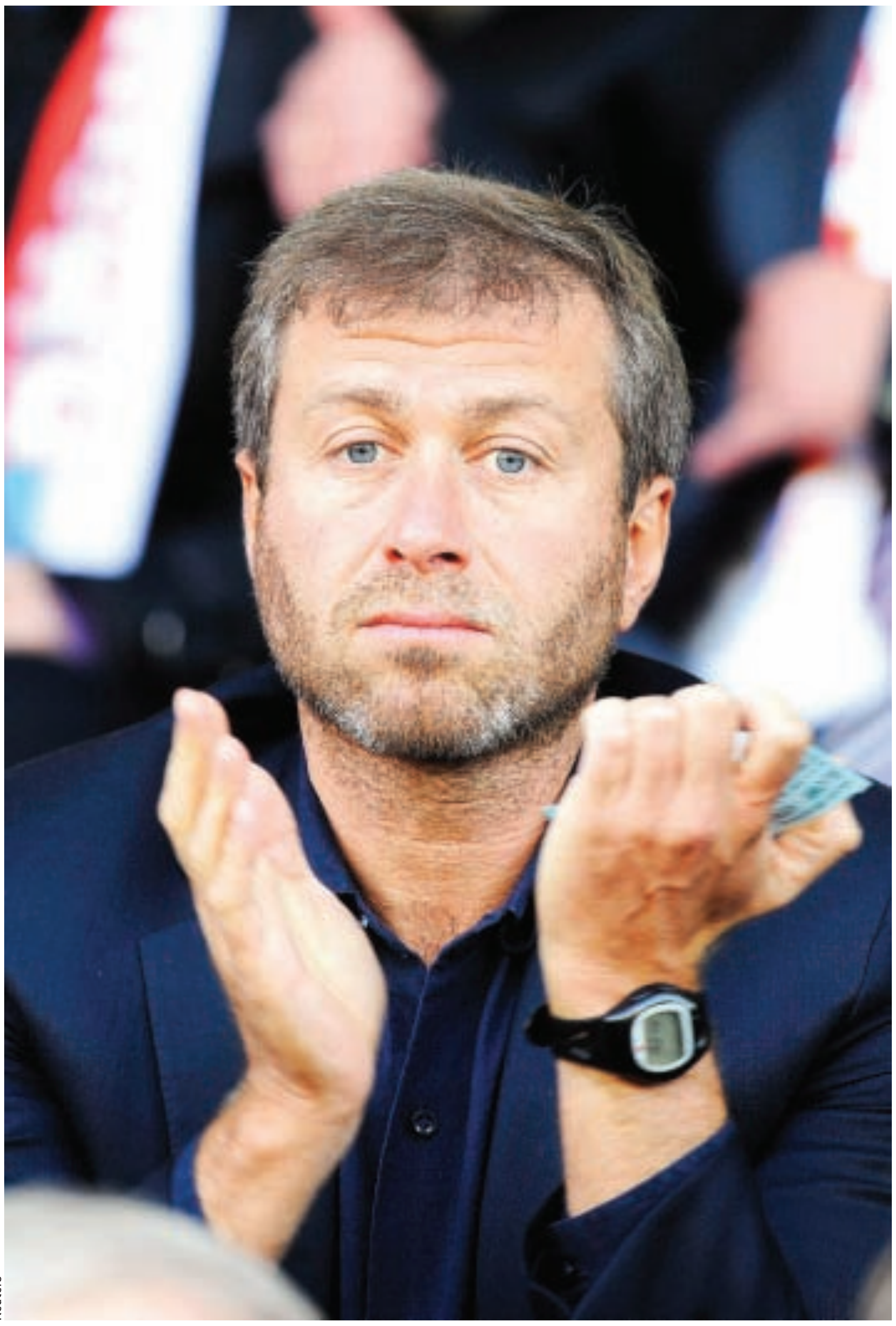
Breaking news at europe.WSJ.com

Russian billionaire scores an $89 million estate



Reuters

NET GAINS: Roman Abramovich, seen at a World Cup qualifying match in June, bought a 28-hectare property on the Caribbean island of St. Barthelemy. **Page 26.**

Russia cheers U.S. decision on missiles

Russia on Thursday was triumphant at U.S. President Barack Obama's decision to drop plans to deploy a nuclear-missile-defense shield in Europe, but said it saw no reason to offer concessions in return.

By Marc Champion in Brussels, Peter Spiegel in Washington and Gregory L. White in Moscow

Responding to the U.S. decision to shelve an antiballistic missile shield that would have placed interceptors in Poland and a radar in the Czech Republic, Russian President Dmitry Medvedev called it a "responsible move" on state TV.

The U.S. about-face was a major diplomatic coup for Moscow, which had opposed the previous plan, claiming that it was aimed at Russia, rather than at Iran as the Bush administration had said. Mr. Medvedev threatened in November to station tactical Iskander missiles on Poland's border if the U.S. system was deployed.

But Mr. Medvedev gave no indication that Russia would respond with greater cooperation, for example, in pressuring Iran over its nuclear fuel program. Other Russian officials said explicitly that wouldn't happen.

Rather than ballistic missiles, the new U.S. system Mr. Obama proposed would focus on Iran's short- and medium-range missiles. The new plan would rely largely on existing weapons, particularly the U.S. Navy's ship-based missile-defense system, and in its first phases would see the Pentagon deploy cruisers and destroyers equipped with sophisticated Aegis radars and antimissile interceptors to the eastern Mediterranean and North Sea.

By 2015, the plan envisions those same interceptors being deployed on land with additional radars in Europe to track incoming rockets from Iran.

The decision was quickly attacked by Republicans in Congress and Bush-era defense officials, who questioned the new intelligence estimates and accused the administration of putting its relations with the Kremlin ahead of the security of North American Treaty Organization allies in Europe.

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Bulked-up Barclays still faces hurdles

BY SARA SCHAEFER MUÑOZ

Last September, **Barclays** PLC's daring purchase of assets from bankrupt Lehman Brothers Holdings was meant to signal that the British were coming to the big leagues of global investment banking.

LEHMAN'S LEGACY

A frantic year later, the U.K. bank and its president, Robert E. Diamond Jr., who runs the company's investment-banking operation, still face a long road before they can say they have arrived among the world's elite.

Since striking the deal, the 58-year-old Mr. Diamond has battled to protect and build up Barclays Capital, fought to keep key Lehman personnel and clients, mounted an expensive hiring spree to build out BarCap's global operations, and raced around the world to court new business.

"Our aim is clear: to be the premier global investment bank," Mr. Diamond said recently. Assets acquired in the Lehman deal helped fuel robust overall earnings for Barclays in the first half of 2009.

But even as Mr. Diamond bulks up BarCap, he has been forced to fend off wolves at Barclays's own door. The bank dodged a possible U.K. government bailout by raising capital from Middle Eastern investors and the sale of its lucrative asset-management arm, Barclays Global Investors.

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Still in the rough?
BarCap goes after business in debt and equity markets

Global debt capital markets

	Rank	Market share
Through Sept. 30, 2008		
Barclays Capital	3	7.1%
Lehman Brothers	13	3.3%
Through Sept. 9, 2009		
Barclays Capital	2	8.2%

Global equity capital markets

	Rank	Market share
Through Sept. 30, 2008		
Lehman Brothers	7	5.8%
Through Sept. 9, 2009		
Barclays Capital	11	2.0%

Source: Thomson Reuters

Bloomberg News

Robert E. Diamond Jr., President of Barclays PLC

Inside

The look of the city
Edgy new designers score at London Fashion Week
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4 p.m. ET

	CLOSE	PCT CHG
DJIA	9783.92	-0.08
Nasdaq	2126.75	-0.30
DJ Stoxx 600	246.10	+0.52
FTSE 100	5163.95	+0.78
DAX	5731.14	+0.54
CAC 40	3835.27	+0.56
Euro	$1.4745	+0.38
Nymex crude	$72.47	-0.06

LEADING THE NEWS

U.K. retail sales didn't change in August

Economists say GDP will rise for first time since early in 2008

By Ilona Billington
And Natasha Brereton

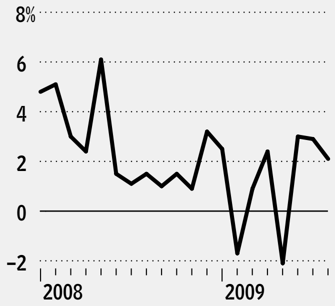
LONDON—A rise in British food purchases wasn't enough to offset the drop in sales of other goods in August, leaving retail sales flat from July, the Office for National Statistics said Thursday.

The report, which was weaker than expected, followed two straight months of sales increases. But economists said they still expect the total third-quarter performance to help push gross domestic product into positive territory for the first time since the first quarter of 2008.

Also Thursday, a survey by the Confederation of British Industry showed that industrial output picked up for the third straight month in September, to a reading of minus 2, compared with minus 5 last month. A quarterly survey conducted in August for the Bank of England showed consumers' views of inflation are holding steady.

Slowing sales

U.K. sales were flat as food sales growth offset other sales.
Year-to-year percentage change in U.K. retail sales



Source: U.K. Office for National Statistics

Shoppers at a H&M store on Oxford Street, London

Bloomberg News

Warm weather boosted consumer demand in June and July, said Ross Walker, an economist at Royal Bank of Scotland U.K. "For the third quarter as a whole, retail sales volumes are on course for growth of 0.7% to 0.8% on the quarter," Mr. Walker said.

Retail sales rose 2.1% from August 2008. Economists surveyed by Dow Jones Newswires last week had forecast a 0.2% monthly rise and a 2.6% annual gain.

The monthly data are broadly in line with the British Retail Consortium's August retail sales survey, which also showed a weather-driven drop in August after relatively healthy sales in July.

Meanwhile, the British central bank published a survey showing that in August consumers expected prices to rise 2.4% in the coming 12 months on average, unchanged from a May report.

Analysts pointed to the survey as evidence that months of stronger-than-expected inflation haven't changed the public's view that inflation will be subdued over time.

"The fact that [expectations] have remained stable at a relatively low level in August are likely to reinforce the [Monetary Policy Committee's] belief that underlying inflationary pressures are likely to remain muted," said Howard Archer, chief European and U.K. economist at IHS Global Insight.

He said rising unemployment should also help to keep wage growth low.

The survey supports the belief that the BOE will keep interest rates at 0.5% "deep into 2010," he said.

Kingfisher plans for challenging times in retail sector

By Lilly Vitorovich

LONDON—Although some U.K. retailers have posted higher profits in recent days, business across the sector will remain challenging well into the new year as consumers react to looming tax increases and government spending cuts, which probably will push unemployment higher, analysts say.

Cost cuts, tighter inventory and warm weather helped retailers **Kingfisher** PLC and **Next** PLC deliver higher first-half profits this week, but their management punctuated the earnings reports with warnings that business conditions will remain tough as customers tighten their purse strings. Department-store companies **John Lewis Partnership** PLC and **Debenhams** PLC also gave cautious outlooks.

While mortgage and utility costs are down, providing some relief, the main fears playing on the minds of consumers and retailers are looming higher taxes and staff layoffs across the public sector after Prime Minister Gordon Brown conceded Tuesday the need for spending cuts, aimed at reducing the nation's debt pile. The rate of value-added tax is set to go back up to 17.5% on Jan. 1 after the government had cut it by 2.5 percentage points in December 2008 to help stimulate sales.

Though there have been some glimmers here and there that business is picking up, the Office for National Statistics said Thursday that U.K. retail sales in August were flat compared with July.

"For the time being, the consumer-spend trend is likely to be flat and retailers will need to adjust to these conditions as the norm," said Richard Hyman, strategic retail adviser to Deloitte.

Kingfisher, Europe's biggest home-improvement retailer by sales, Thursday said it continues to plan for challenging times as it posted a 37% jump in net profit to £201 million ($331.7 million) for the six months ended Aug. 1, on revenue of £5.5 billion, which was up 7.2% from a year earlier. The strong performance reflected improved business at its biggest division, home-improvement chain B&Q in the U.K., as well as cost cutting.

Chief Executive Ian Cheshire said that thanks to reduced mortgage repayments due to lower lending rates, many U.K. consumers are renovating and decorating their properties as they spend more time at home during the recession, a trend that has boosted sales of wallpaper and paint.

He said there has also been a boom in vegetable-growing, as consumers in the U.K. look for ways to cut household budgets, boosting sales of vegetable and plant seeds. Warm weather in May and June boosted sales of barbecue equipment and outdoor furniture.

John Lewis Partnership, which owns department-store chain John Lewis and upmarket supermarket chain Waitrose, Thursday said business conditions will stay difficult for the rest of the year and into 2010 after the group posted a 24% fall in net profit to £57 million for the six months ended Aug. 1.

Same-store sales at its John Lewis chain fell 4.7% in the first half.

CORRECTIONS & AMPLIFICATIONS

Consumer prices, excluding food and energy, were up 1.4% over the 12 months ended in August, the smallest increase in any 12-month period since February 2004. A Leading the News article Thursday incorrectly stated that the 1.5% decline in overall consumer prices during the period was the sharpest 12-month drop since February 2004.

Australia names U.S., EU envoys

By Ray Brindal

CANBERRA—Australia appointed two leading figures from across the political divide as ambassadors to the U.S. and European Union, two of the most senior posts in Australia's diplomatic service.

Prime Minister Kevin Rudd appointed former Labor party leader Kim Beazley as ambassador in Washington and named former Liberal Party leader Brendan Nelson as ambassador to the EU and the North Atlantic Treaty Organization. Messrs. Beazley and Nelson are both former defense and education ministers in their respective governments.

Mr. Beazley's appointment had been the subject of some media speculation, but Mr. Nelson's appointment came as a surprise, as he formally retired from parliament Thursday.

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LEADING THE NEWS

Brown urges EU to keep aiding economies

U.K. premier says steps needed to ensure recovery is on track

By Adam Cohen

BRUSSELS—Ending state support for the world's largest economies too early could derail the recovery that appears to be under way, U.K. Prime Minister Gordon Brown said before a summit of European Union leaders in Brussels.

The government leaders met Thursday to prepare a common negotiating stance before next week's meeting of leaders from the Group of 20 industrial and developing nations. Sweden's Prime Minister Fredrik Reinfeldt, who ran the Brussels summit, asked Mr. Brown to share his views on the economic situation.

The U.K. prime minister told a news briefing ahead of the summit that he will recommend countries "continue and cement" their current fiscal-stimulus plans.

"We need to ensure that we take the action necessary to ensure the recovery happens and that the recovery is not derailed," Mr. Brown said.

He said he will also recommend EU leaders support an expanded role for the G-20 in managing the global economy.

He said he wants the G-20 to be a "permanent institution" for confronting economic problems.

EU leaders want the G-20 meeting in Pittsburgh next week to establish new rules to restrict bankers' pay. Mr. Brown said there is no going back to the old culture of lavish bonuses in the banking sector.

"Irresponsible remuneration policies were one of the factors that put the global economy at risk," he said.

The U.K., until recently, had been skeptical about French and German calls for pay restrictions, saying any curbs needed to be agreed at an international level. Such a pact seems possible, following a speech U.S. President Barack Obama made on Wall Street this week.

Mr. Brown noted that there was widespread public outrage about excessive bonuses and the damage excessive risk-taking caused the global economy. He added he is "not unhappy" with the idea of sanctions against banks that pay excessive bonuses. A draft agreement suggests the G-20 countries establish guidelines for pay and punish violations.


Associated Press

British Prime Minister Gordon Brown arrives at an EU summit in Brussels on Thursday. He recommended that nations continue stimulus plans.

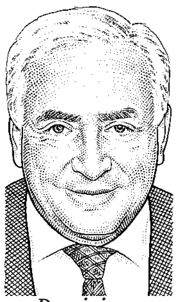
IMF chief looks to pressure G-20 on world's poor

By Tom Barkley

WASHINGTON—Seeking to keep up the pressure on G-20 leaders to keep their pledge to help poorer countries, the head of the International Monetary Fund on Thursday estimated that about $55 billion in financial assistance for low-income countries will be needed during the next two years.

IMF Managing Director Dominique Strauss-Kahn said low-income countries have been hit harder than anticipated by the global slump, with growth levels expected to fall to half precrisis levels this year.

"I do expect a recovery in 2010, when low-income countries should be able to ride the wave of rising world demand. But we cannot take things for granted," he said in prepared remarks to the Center for Global Development. Mr. Strauss-Kahn called on rich countries to follow through with promised funding for their poorer neighbors. In the least, they should meet commitments made at the Gleneagles summit in 2005 to raise aid by around $50 billion annually by 2010, he said.


Dominique Strauss-Kahn

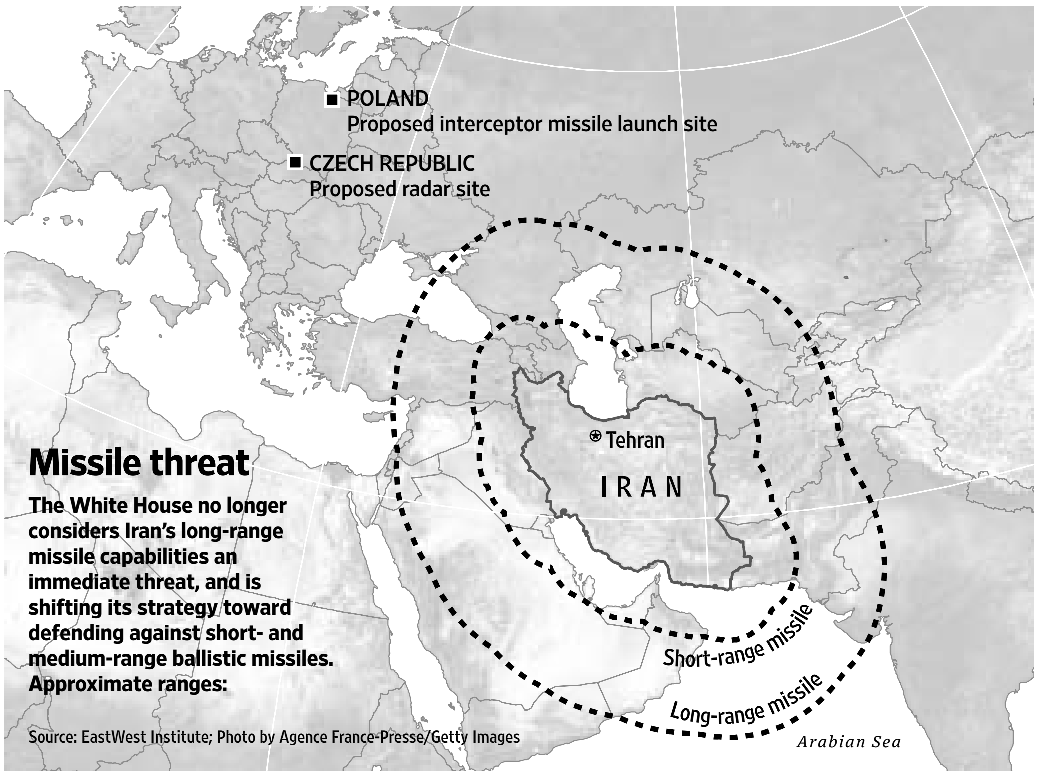
Mr. Strauss-Kahn reiterated that he expects the global economy to emerge from recession during the first half of next year. He said poorer countries have weathered the global recession better than in past crises with the help of sound economic policies.

"This policy response, coupled with the dawning of a global recovery, leads me to be hopeful. But low-income countries remain highly vulnerable and financing needs remain great," he said.

Much of that vulnerability stems from their reliance on trade and investment flows, which have fallen off sharply during the crisis. The IMF expects exports among low-income countries to decline as much as 16% this year, along with a 25% drop in foreign-direct investment and a 10% decrease in remittances.

U.S. revises plans for defense in Europe

New strategy follows reassessment of threat posed by Iran missiles



Missile threat

The White House no longer considers Iran's long-range missile capabilities an immediate threat, and is shifting its strategy toward defending against short- and medium-range ballistic missiles. Approximate ranges:

Source: EastWest Institute; Photo by Agence France-Presse/Getty Images

An Iranian Shahab-3 ballistic missile launches

A WSJ News Roundup

WASHINGTON—The White House announced Thursday that it will scrap a Bush-era plan for an Eastern European missile-defense shield, saying a redesigned defensive system would be cheaper, quicker and more effective against the threat from Iranian missiles.

The Bush plan had infuriated Russia, which argued the system was a potential threat to its own intercontinental ballistic missiles. U.S. officials repeatedly that insisted the location and limited scale of the system—a radar site in the Czech Republic and 10 interceptor missiles in Poland—posed no threat to Russian strategic arms.

U.S. President Barack Obama said the new missile defense system in Europe "will provide stronger, smarter and swifter defenses of American forces and America's allies." The new plan "is more comprehensive than the previous program, it deploys capabilities that are proven and cost effective, and it sustains and builds upon our commitment to protect the U.S. homeland," he said in announcing the move Thursday morning.

Defense Secretary Robert Gates said the decision to abandon the Bush administration's plans came about because of a change in the U.S. perception of the threat posed by Iran.

Mr. Gates said intelligence experts concluded the short- and medium-range missiles were "developing more rapidly than previously projected" in Iran. The findings are a major reversal from the Bush administration, which pushed aggressively to begin construction of the Eastern European system before leaving office in January.

The Bush administration proposed the European-based system to counter the perceived threat of Iran's developing a nuclear weapon that could be placed atop its increasingly sophisticated missiles. There is widespread disagreement over the progress of Iran's nuclear program toward developing such a weapon, but miniaturizing nuclear weapons for use on long-range missiles is one of the most difficult technological hurdles for an aspiring nuclear nation.

The Obama plan, by contrast, will rely on sensors and interceptor missiles based at sea, on land and in the air to guard against Iranian short- and medium-range missiles.

Republican backers of the Bush-era shield program criticized the move. Mr. Obama's 2008 presidential opponent, Sen. John McCain of Arizona, said in a statement: "Given the serious and growing threats posed by Iran's missile and nuclear programs, now is the time when we should look to strengthen our defenses, and those of our allies." He added: "Missile defense in Europe has been a key component of this approach. I believe the decision to abandon it unilaterally is seriously misguided."

Russia on Thursday welcomed the news. "The Bush plans on the missile defense as we knew them until now were nothing more than a provocation of security in the European region," Dmitry Rogozin, Russia's ambassador to the North Atlantic Treaty Organization, said in a phone interview.

NATO Secretary-General Anders Fogh Rasmussen said the U.S. decision is a positive step. Mr. Fogh Rasmussen said he had talks with the top U.S. envoy to the alliance Thursday morning and that the full alliance would be debriefed later in the day.

Critics of the shift are bound to view it as a gesture to win Russian cooperation with U.S.-led efforts to seek new economic sanctions on Iran if Tehran doesn't abandon its nuclear program. Russia, a permanent member of the United Nations Security Council, has opposed efforts to impose fresh sanctions on Tehran.

Security Council members, which include the U.S. and Russia, will meet with Iranian negotiators on Oct. 1 to discuss Iran's nuclear program.

European analysts said the Obama administration would be forced to work hard to convince both sides the decision wasn't made to curry favor with Moscow and, instead, relied only on the program's technical merits and analysis of Iran's missile capabilities.

For several years, the Pentagon's Missile Defense Agency has been pushing for breaking ground in Poland and the Czech Republic, arguing that construction must begin so the system would be in place to counter Tehran's emerging long-range-missile program, which intelligence assessments determined would produce an effective rocket by about 2015.

But in recent months, several prominent experts have questioned that timetable. A study by Russian and U.S. scientists published in May by the East-West Institute, an international think tank, played down the progress of Iran's long-range-missile program. In addition, Gen. James Cartwright, the vice chairman of the Joint Chiefs of Staff and an expert in missile defense and space-based weapons, said in a speech last month that long-range capabilities of both Iran and North Korea "are not there yet."

It isn't an assessment that is shared universally. Eric Edelman, who oversaw missile-defense issues at the Pentagon as undersecretary of defense for policy in the Bush administration, said intelligence reports he reviewed were more troubling.

"Maybe something really dramatic changed between Jan. 16 and now in terms of what the Iranians are doing with their missile system, but I don't think so," Mr. Edelman said, referring to his last day in office.

Cautious Poland concerned about Washington's decision

By Marcin Sobczyk
And Marc Champion

The U.S. decision to shelve its ballistic-missile-shield plans for Central Europe has stirred Polish fears that it is becoming a second-class U.S. ally whose interests come after the wishes of Russia.

While Polish government officials gave a cautious and generally upbeat assessment of the change in U.S. strategy Thursday, many others were concerned by what it said about the changing focus of the Obama administration.

"I don't like this policy. It's not that we need the shield, but it's about the way we're treated here," Lech Walesa, Poland's first post-Communist president, said in televised comments.

Poland, which broke away from the Soviet-ruled camp in 1989 and joined the North Atlantic Treaty Organization 10 years later, had hoped the deployment of 10 interceptor missiles and the stationing of U.S. soldiers on its territory would improve its security, ensuring that if anyone attacked Poland the U.S. would need to react.

Under Article 5 of the NATO pact, an attack on one member state is treated as an attack on all. Despite those assurances, Polish officials still see the country's NATO status as second-class and seek security guarantees that go beyond Article 5.

Poland has proved a staunch U.S. ally. It sent thousands of troops to fight in Iraq, siding with the U.S. and Britain when Europe divided over the invasion. Like the Bush administration, Poland also keenly supported Westward-leaning governments and democratic elections in the ex-Soviet states, particularly in neighboring Ukraine. All of these policies, however, have antagonized Russia, and the Obama administration is now trying to "reset" the damaged U.S.-Russia relationship.

"The American decision [to shelve the missile program] was made in the well-understood American interest that now means good relations with Russia for which President Obama is ready to sacrifice the interests of Central European countries," said Zbigniew Lewicki, professor of American studies at the Warsaw University.

The conservative government and president that came to power in Warsaw in 2005 embraced the Bush administration's missile project. They also enjoyed a fraught relationship with Poland's two historic foes, Russia and Germany. Thursday, by coincidence, was the 70th anniversary of the Soviet invasion of Poland in 1939, launched just weeks after Nazi Germany began its assault. The two powers divided the country between them.

'I don't like this policy,' said Lech Walesa, Poland's former president.

But a new center-right government that took power in Poland in 2007 proved more skeptical about the U.S. project. It tried to improve relations with Moscow and Berlin and worried that while Iran was unlikely to target Poland, hosting the defense shield could trigger a response against Poland from Russia. The new government bargained to get U.S. Patriot-missile batteries and a bigger U.S. troop contingent as part of the deal, delaying signature of the agreement until August 2008—just days after Russia's brief war with neighboring Georgia demonstrated Moscow's willingness to use force.

Polish Foreign Minister Radoslaw Sikorski said he had received assurances from Washington that Poland would still get its Patriot missiles, a legal requirement under the 2008 deal, and that it would play a role in the revised missile-defense system. "In presenting the proposal for the new dispersed system of anti-missile defense, the United States have assured us that Poland will also be a country which will receive an offer to host elements of this system on its territory," Mr. Sikorski told reporters in Warsaw.

U.S. and Polish officials had hoped to begin rotating American Patriot batteries based in Europe into Poland for month-long tours by the end of this year, but the slow pace of negotiations is likely to put off the first deployment until next year.

The U.S. missile shield has become a contentious issue in domestic Polish politics. The ousted conservatives accuse the current government of contributing to the U.S. U-turn by delaying signature and then ratification of the deal. The left-wing Democratic Left Alliance, or SLD, with roots in the pre-1989 communist party, welcomed the shift.

"We know very well that if the project was executed, Poland would become a target for all the countries that would like to attack the U.S.," said SLD leader Grzegorz Napieralski. "This is a great failure of the entire right-wing camp."

The SLD, however, has been sidelined in Polish politics. Unlike in the Czech Republic, a majority of ordinary Poles supported the U.S. missile-defense shield, according to the most recent opinion poll, published last month.

—Peter Spiegel contributed to this article.

LEADING THE NEWS

U.S. preps for Iran talks—and new sanctions

Revised intelligence on missile program plays into strategy

By Gerald F. Seib

CAPITAL JOURNAL

The great Iran-engagement experiment is about to begin. If it doesn't succeed, it will be followed very shortly by more of the great Iran-sanctions experiment.

That, in a nutshell, is what to expect in the next few weeks in the high-stakes, cat-and-mouse game the U.S. is playing with Iran over its nuclear program. Most of the attention will be placed on the engagement part, which is the sexier follow-through on one of President Barack Obama's prominent campaign pledges. But keep an eye on the sanctions part; the government's machinery already is moving on that front.

The starting bell for all this sounds Oct. 1, when the U.S. and five other world powers sit down with Iranian officials for talks. The world players—the five permanent members of the United Nations Security Council, plus Germany—want to talk about getting Iran to stop enriching uranium and to give U.N. nuclear inspectors greater access. Iran, if its most recent communication is any guide, wants to talk instead about banning nuclear weapons around the globe. That would happen to include the nuclear arms held by the five U.N. Security Council nations that will be sitting across the table.

Not exactly promising groundwork for talks, and there isn't high optimism they will produce much. If that is the case, the Obama administration will be moving on to figuring out how to impose stiffer economic sanctions on Iran.

In fact, lists of possible moves already are being drawn up quietly. There will be an effort to get the Security Council to adopt sanctions beyond those already on the books, but Russia and China will pose problems. The more important action likely will be what the U.S. and its Western allies agree among themselves to do.

The case for giving both diplomacy and sanctions time to work before hitting the Iran panic button has been bolstered by the recent conclusion of intelligence agencies that Iran's effort to develop long-range missiles that could carry a weapon isn't moving ahead very briskly. The most immediate impact of that finding was the Obama administration's decision, disclosed by the Journal on Thursday, to shelve a plan to build a missile-defense system based in Europe. But the conclusion also has implications for broader Iran strategy.

That isn't to say the nuclear matter doesn't remain urgent. Iran continues to enrich uranium, and Israel continues to watch nervously, the threat of using its air force to strike nuclear facilities still very much on the table.

One keenly interested observer was in Washington this week. Yuval Steinitz, Israel's finance minister, met administration and congressional leaders, and his message about Iran was, if not alarmist, at least urgent. "We feel the time is really running out now," Mr. Steinitz said in an interview.

He knows diplomacy is about to be tried, of course, and he has mixed feelings about the sanctions that might follow. "We are always very skeptical about sanctions and rightfully so," he said. He added: "Maybe in the end you will have to give Iran a military ultimatum" to get it to take the economic pressure seriously.

Still, he acknowledged that sanctions sometimes have impact, including in Libya. And even in Iran, he noted, economic pressure probably prompted Tehran to put its nuclear-weapons program on hold back in 2003. So, the minister concluded, "it's not impossible" for sanctions to work. But which sanctions?

Sanctions on Iran's financial sector, imposed by the U.S. and coaxed upon its allies in recent years, have had an effect, he said, so that is an area to mine further. Mr. Steinitz also suggested banning sales to Iran of technology and equipment necessary to keep its oil and gas fields producing smoothly.

Iran also is highly dependent on imports of gasoline and other refined products, which is another area of vulnerability. More dramatically, Mr. Steinitz suggested that a blockade of Iranian oil exports ought to be on the table.

The Obama administration has at its disposal the leading practitioner of the art of imposing economic sanctions on Iran. He is Stuart Levey, an undersecretary of the Treasury. Mr. Levey composed in recent years the sanctions that have had the most impact on Iran: the ones that stop companies from doing business there by blacklisting Iran's major banks.

The success of that effort has changed thinking about how to impose economic pain. So has the continuing public unrest in Iran, in the wake of last summer's disputed presidential election. Previously, Western officials thought the goal of sanctions ought to be to hurt the regime and its officials, but to try to avoid hitting average Iranians, lest they be alienated from the U.S. and its allies.

Increasingly, officials think that sanctions that hit Iranians in the street might actually be beneficial, because they might just add to the unhappiness already being directed at Iran's own increasingly unpopular regime. Hence, more sanctions might not be just more of the same.

CORPORATE NEWS

Output cut possible at Airbus next year

CEO cites concerns about impact of weak airline finances and tight credit on near-term demand for jetliners

BY DANIEL MICHAELS

TOULOUSE, France—Despite signs that the global plunge in airline traffic is bottoming out, European plane maker Airbus may need to cut production next year, based on concerns about airlines' finances and tight credit conditions, Chief Executive Tom Enders said Thursday.

Airbus, a unit of **European Aeronautic Defence & Space** Co., expects this year to match or exceed last year's production of 483 jetliners, a record for the company. But airlines' deteriorating financial conditions and carriers' troubles funding airplane purchases amid the credit crisis could force Airbus to throttle back, Mr. Enders said in an interview.

"I think we still have two difficult years ahead of us," Mr. Enders said.

In October, Airbus shelved plans to boost production and in February started trimming output of various models by as much as 22%. "I certainly do not exclude that we will cut back production even more," Mr. Enders said.

His cautious message came as Airbus's marketers slightly increased their forecast of long-term jetliner demand. The company expects airlines world-wide to need 24,097 new planes of more than 100 seats each through 2028, Chief Operating Officer John Leahy told a news conference in London Thursday. Early last year, Airbus forecast demand for 23,385 new passenger jets over the next 20 years.

Airbus said in a statement that air traffic over the next two decades "will remain resilient to the cyclical effects of the sector" and grow by 4.7% annually. In its previous forecast, Airbus predicted an annual rise in traffic of 4.9%, as measured by both the number of paying passengers and the distance they fly.

Such long-term optimism contrasts sharply with current conditions. Air traffic has been falling since early 2008, according to the International Air Transport Association, though the rate of decline has slowed—to roughly 3% in July from 11% in March. But IATA warned that airlines have been filling planes by slashing fares, which saps their financial strength.

On Monday the trade group forecast its members will lose $11 billion this year and nearly $4 billion next year. It also raised its estimate of members' losses for 2008 to $16.8 billion.

Many aviation financiers are doubtful airlines will recover soon. "As long as people in developed economies continue to lose jobs, there's no way the transport industry can think about a recovery," said Bertrand Grabowski, a managing director of DVB Bank SE in London, who works extensively in the sector.

Airbus and U.S. rival Boeing Co. are both monitoring airlines' financial health and juggling airplane delivery schedules to fill orders from stronger carriers first. Boeing in April said it will cut production of its popular 777 widebody model by almost 30% starting next June.

Both companies have faced a rise in order deferrals and cancellations this year as the flow of new contracts has slowed sharply. Airbus had 21 cancellations through Aug. 31, compared with 147 total new orders and 777 net orders last year. Boeing had 91 cancellations against 161 new orders through Sept. 8 and 662 net orders last year.

"What we can deliver depends on the health of our customers," Mr. Enders said in the interview.

Indications that some major economies have stopped shrinking might not promise any relief for airlines, Mr. Enders said. Air-traffic volumes are closely tied to economic growth, but rising fuel prices could outpace any increase in airline ticket prices and further squeeze carriers, industry analysts say.

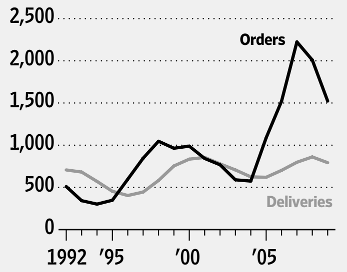
Many airlines are also struggling to raise debt to buy planes or fund installment payments as planes are being built. Carriers world-wide also are hoarding cash to prepare for the winter, when air traffic normally drops.

If airlines struggle to fund purchases next year, Airbus and Boeing could lend customers money from their own coffers, as many industrial companies do and both plane makers have done in previous downturns. Neither has needed to offer significant customer financing in the past year because airlines and leasing companies have borrowed money on their own, but industry officials say that could change next year if credit conditions don't ease more.

Mr. Enders said Airbus has "some leeway if it's necessary and reasonable" to underwrite more of its own sales. "But we're not going to stupidly pump as many aircraft as possible into the market by essentially buying our own products," he said.

Experiencing turbulence

Airbus and Boeing orders and deliveries, three-year moving average



Note: 2009 figures through Aug. 31.
Source: the companies

Agence France-Presse/Getty Images

Airbus CEO Tom Enders at a news conference in China in June. Mr. Enders said in an interview Thursday that he thinks Airbus has two difficult years ahead of it.

American Airlines sets deals for $2.9 billion in financing

BY MIKE ESTERL

American Airlines parent **AMR** Corp. secured $2.9 billion in financing, easing looming liquidity concerns and fanning optimism that cash-strapped, recession-battered U.S. carriers are turning a corner.

Thursday's announcement came a day after **Delta Air Lines** Inc. moved to raise $1.5 billion in loans and bonds—another sign that capital markets are opening more widely for the U.S. airline industry as it heads into the winter flying season, when carriers typically burn through cash.

The big financing deals come on the heels of improved revenue and profit outlooks by carriers in recent days. That suggests the worst may finally be behind the industry after several quarters of big losses and plunging traffic as the global economic downturn slammed the brakes on travel budgets.

"Capital markets are still constrained and there's plenty of difficulty. But I think for companies with a good franchise and a track record, there is good access," Thomas Horton, American's chief financial officer, said in an interview.

American, the No. 2 U.S. airline by revenue, said it raised $1.6 billion in sale-leaseback financing from GE Capital Aviation Services for Boeing 737s that it previously ordered. It also obtained a $280 million loan from the **General Electric** Corp. unit and received $1 billion from the advance sale of frequent-flier miles to Citigroup Inc.

Shares of AMR, which is based in Fort Worth, Texas, were up 19% at $8.77 in late trading on the New York Stock Exchange. The broader NYSE Arca Airline index has jumped about 25% this month as investors have grown more comfortable about the near-term prospects of carriers, most of whom, including American and Delta, are saddled with speculative-grade credit ratings.

Delta, the world's largest airline by revenue, said Monday that revenue per available seat mile, a key industry measurement, should show slight improvement this quarter and improve again in the year's final three months from preceding quarters.

UAL Corp.'s United Airlines, the No. 3 U.S. carrier, predicted Wednesday that unit revenue in the third quarter wouldn't be as bad as in the second and that it would end this month with a better-than-expected cash balance of $2.6 billion. **Southwest Airlines** Co., the largest U.S. discount carrier, reported earlier this month that traffic rose slightly in August.

Michael Derchin, an analyst at FTN Equity Capital Markets, said there is growing evidence that the airline industry bottomed out in the second quarter. Near-term bankruptcy filings by major carriers also appear unlikely, he added, given that carriers have been able to tap capital markets after being frozen out earlier this year.

"We're not talking about good. We're talking about less bad," Mr. Derchin said.

The International Air Transport Association predicted this week that airlines would lose $11 billion globally this year after losing $16.8 billion in 2008. Industry revenue will tumble $80 billion, or 15%, this year from last, the trade group added.

But U.S. airlines are faring better than rivals in Europe and Asia, who were slower to slash capacity and are more exposed to premium-class and cross-border traffic, which have been hit hardest by the recession. North American carriers are expected to lose $2.6 billion this year, compared with losses of $3.6 billion and $3.8 billion by Asian and European carriers, respectively, IATA said.

A big question for the industry is whether business travelers will start flying again in higher numbers this autumn after many U.S. carriers relied heavily on leisure travelers and fare sales to fill airplanes over the summer.

"There's a big dependence on the front-end passenger, and there's no evidence that passenger's coming back," said Roger King, an airline analyst at CreditSights in New York.

He thinks some carriers still could file for bankruptcy protection, a common occurrence earlier this decade, in coming months if business travel budgets don't rebound.

Mr. Horton, American's finance chief, said he believes Thursday's financing deals take liquidity questions "off the table" for his carrier but said there still are questions about when profit and revenue will turn positive.

"I certainly hope the industry is beginning to turn. I think it's really too early to say," he said. Further consolidation "is conceivable."

American is trying to forge a far-ranging joint venture with **Japan Airlines** Corp. to buttress its the U.S. carrier's Asian business. American also is attempting to secure antitrust approval for a similar arrangement with **British Airways** PLC for trans-Atlantic flights.

American said Thursday it expects to increase capacity 1% next year as it resumes Mexican flights that were suspended because of the swine flu and as it launches flights between Chicago and Beijing.

The airline also plans to shake up its domestic routes, increasing the number of flights from its main airports of Dallas/Fort Worth, Chicago, Miami, New York and Los Angeles while cutting back in less-trafficked cities such as St. Louis and Raleigh/Durham, N.C.

Agence France-Presse/Getty Images

American Airlines will restructure its route network to add service at its major hubs while pruning unprofitable business.

Tullow Oil touts another big discovery in Africa

Uganda find is likely to raise value of block it wants to sell off

By James Herron

LONDON—**Tullow Oil** PLC said Thursday it has made the largest oil discovery yet in the Lake Albert region of Uganda, an area where it has already found more than 700 million barrels of oil equivalent.

Analysts said the latest find is significant, and is likely to increase the value of the stakes in Ugandan exploration blocks that Tullow is planning to sell. It is also likely to increase the company's appeal as a partner. Tullow plans to sell some blocks to help fund the development of infrastructure to process and export the oil from the landlocked east African nation.

The news follows an announcement Wednesday by a consortium that includes Tullow and **Anadarko Petroleum** Corp. that it made a potential multibillion-barrel oil discovery off the West African coast.

The Ngassa-2 well in Uganda could be the largest oil discovery in that country to date, Tullow said. The find consists of seven meters of reservoir rocks containing oil, and pressure data indicated that the oil column could potentially fill the entire 150-square-kilometer geological structure, the company said.

If Tullow is correct, and the oil extends further up into the reservoir, Ngassa could have 10%-probability reserves of 710 million barrels of oil equivalent, compared with a pre-drill estimate of 600 million barrels, said Evolution Securities analyst Richard Griffith. If the oil column doesn't extend higher into the reservoir, 10%-probabilty reserves could be much lower, at 310 million barrels, he added.

The Ngassa discovery is of major significance for Tullow, said Peter Hutton, an analyst at NCB Stockbrokers. "This is materially more positive than I anticipated," he said, raising his target price for Tullow to 1400 pence. The find increases the value of Tullow's Ugandan exploration blocks for potential buy-in partners. The Ngassa news, on top of the discovery announced Wednesday, could prompt a bid for Tullow itself, Mr. Hutton said.

Further appraisal drilling is needed to prove the full extent of the reserves in Ngassa, which will require offshore drilling on Lake Albert, Tullow said. The company has begun the engineering and design process to construct a floating platform that could carry the onshore drilling rig used for Ngassa-2 onto Lake Albert for further drilling.

Reliance Industries raises funds

By Shikhar Balwani And Satish Sarangarajan

Reuters

Reliance Industries seeks to raise funds to expand its oil-and-gas exploration globally. Pictured, its KG-D6 floating production storage and offloading vessel.

MUMBAI—**Reliance Industries** Ltd. raised about 31.88 billion rupees ($662 million) via a share sale, as it seeks to generate funds to expand its oil-and-gas exploration globally.

A total of 15 million treasury shares, held via the Petroleum Trust, were sold at 2,125 rupees apiece, the nation's largest company by market value said in a statement to the Bombay Stock Exchange on Thursday.

Reliance, controlled by billionaire Mukesh Ambani, plans to begin drilling wells in Kurdistan, Oman and East Timor over the next six months as part of a strategy to spread risk across a number of exploration blocks globally, its executive director, P.M.S. Prasad, had said Sunday.

The move comes as Reliance is embroiled in a three-year legal dispute with **Reliance Natural Resources** Ltd., run by Mukesh's younger brother, Anil Ambani, over the price of natural gas from a block off India's east coast.

Reliance Industries also is looking at partly selling stakes in some of its blocks in Kurdistan, Oman and Colombia, Mr. Prasad had said.

"This [share sale] is an effort by the company to monetize a part of the 198 million shares that are held by them as treasury stock," said M. Saeed Jaffery, a research analyst at Mumbai brokerage Ambit Capital.

Shares of Reliance slid on news of the share sale, closing down 4.4% at 2,086.35 rupees against the benchmark Sensex's 0.2% gain.

The shares have underperformed the Sensex by about 8.6% over the past three months.

"I think the markets are perhaps circumspect that treasury holdings are being diluted at these levels," said Deven Choksey, managing director at K.R. Choksey Securities, a Mumbai brokerage.

The sale price was a 2.7% discount to Wednesday's close.

Ambit Capital's Mr. Jaffery said the move was surprising because the company had cash of 218 billion rupees as of the end of June, "thereby giving ample comfort to carry out their [capital expenditures] of $4 billion during the fiscal year ending March 31, 2010."

Also, Reliance would have a net cash income of $2 billion during this fiscal year from gas sales following the start of gas production from a block in the offshore Krishna Godavari basin, he said.

The company said the book value of the shares held by the trust was 158 rupees a unit, and the share sale will reflect in the company's consolidated results.

DSP Merrill Lynch Ltd. and Citigroup Global Markets India Pvt. Ltd. acted as joint arrangers for the sale, the company said.

Yahoo to expand rollout of enhanced email service

By Lorraine Luk

HONG KONG—**Yahoo** Inc. plans to expand the rollout of its enhanced Web-based email service in Asia and Europe in coming months, seeking to boost advertising by making core Web properties more compelling to users.

Yahoo also will consider sharing revenue with third-party application developers, said John Kremer, vice president of Yahoo Mail, said in an interview. He said that "if you increase the engagement of email consumers from one to two times, you will get twice the amount of advertising money."

Yahoo in December started upgrading its Web-based email with social-networking capabilities in the U.S.

Among changes, Yahoo said its mail home page will feature updates on what contacts in an address book are sharing about themselves, including status updates, photos and birthdays.

Mr. Kremer said Yahoo is adding open features such as the photo-editing platform Picnik and online payment platform PayPal. It plans to roll out the upgraded service in all of its more than 20 markets by the end of this year.

Yahoo announced the launch of the new version of its Web-based email in Hong Kong Thursday, and plans to launch it in Taiwan on Monday.

Mr. Kremer said Yahoo will continue to invest in enhancing its Web-based email features with third-party application developers.

Yahoo has seen an increase in users for its upgraded Web-based email in the U.S., with growth of about 10% month-to-month since its December launch. He said he expects the growth rate to increase to more than 10% as it rolls out the service in other markets.

Yahoo had about 300 million unique Web-based email users at the end of July, he said.

FedEx sees economy improving

By Corey Dade And Bob Sechler

FedEx Corp. said the economy is beginning to stabilize but warned that its earnings in the near term will continue to lag prior years' gains, as first-quarter profit dropped 53%.

The U.S. package-delivery giant's optimism, brighter than its June forecast, portends a stronger quarter for many major transportation companies due to upturns in the retail, automotive and housing sectors.

For the quarter ended Aug. 31, FedEx posted per-share profit of 58 cents, hitting the upwardly revised target set by the company last week.

Profit was $181 million, or 58 cents a share, down from $384 million, or $1.23 a share, a year earlier. Revenue slumped 20% to $8.01 billion, and operating margin fell to 3.9% from 6.3%.

CORPORATE NEWS

Stephen McGee for The Wall Street Journal

Former white-collar workers in the auto industry are having trouble finding comparable work. Tom Boileau, left, is now a part-time hockey coach, and Dave Duncanson, right, is a janitor.

Michigan sings white-collar blues

Once high earners, auto-industry veterans struggle to find comparable jobs—and pay

By Alex P. Kellogg

BIRMINGHAM, Mich.—Tony Barr is waiting for his big break—or any break at all.

Last fall, just as Chrysler Corp. was sliding toward bankruptcy, he and two other colleagues in product development left the company to start their own consulting business, marketing their efficiency expertise to other firms in Michigan.

So far, they have lured just one paying customer. "Even if you tell people you'll work for free," says Mr. Barr, many companies "don't even want to talk to you."

Mr. Barr, 46 years old, was the type of well-educated, white-collar "knowledge" worker that Michigan hoped would help offset a decline in auto-assembly jobs. But Detroit's Big Three car makers have aggressively thinned these ranks in the past two years, perhaps permanently, casting tens of thousands of midcareer, white-collar workers into an extended limbo.

Many displaced veteran workers who once earned high salaries in engineering, information technology, research and design jobs aren't now destitute, thanks to generous severance packages. But they find themselves stuck, unable to find comparable work in Michigan, but also unable or unwilling to uproot their families and try their luck out of state.

For them, the choices come down to taking whatever job they can get, or waiting for something to come along.

From the end of 2006 through June, the Big Three eliminated nearly 30,000 North American white-collar jobs, virtually all in Michigan. Chrysler's white-collar work force is less than half what it was at the end of 2006.

As a result, Michigan's unemployment rate galloped to 15.2% in August from 9.6% in November, when the exodus from Chrysler began, and has led all states for at least 26 of the past 28 months. Metro Detroit's 17.7% jobless rate is the highest of any large urban area in the country.

Michigan also leads the nation in labor underutilization—a broader measurement of job-market limbo that includes the unemployed, people who quit looking for work, those who have been cut to part-time status and those who are working part time while they seek full-time employment. Over the four quarters ended June 30, around one in five Michigan workers fell into this category, according to the U.S. Department of Labor.

Labor-market economists say skilled workers in Michigan with years of experience, particularly from the auto sector, must compete against a flood of younger, better-educated candidates for a shrinking pool of jobs. Their specialized expertise, highly valued in their former posts, is a tough sell anywhere else.

"They have a lot of industry-specific skills that aren't necessarily transferable," particularly in a state with so few new jobs to offer, says Don Grimes, a senior researcher at the University of Michigan's Institute for Research on Labor, Employment and the Economy. "To find a new job they'll probably end up making less, probably substantially less. It's going to be painful."

Compounding the problem, metro Detroit's housing market remains in profound decline, even as other areas stabilize. As of July, home prices in the region are down 45% from their peak in early 2006, as measured by the Case-Shiller home-price index, and are down to 1995 levels, destroying millions of dollars in household wealth and stranding thousands of middle-class families in homes they can't afford to sell.

"We haven't seen the huge out migration, not yet," says Jim Rhein, an economic analyst for the Michigan Department of Energy, Labor and Economic Growth. Part of the reason: "It's not looking rosy anywhere else," he says.

Michigan has scrambled to shift its economy toward other industries that can attract high-wage jobs, such as defense, alternative energy, health care and even movies. Those jobs are only trickling in.

Tom Boileau, 55, has seen how difficult the transition has been. After 35 years in product development at Chrysler, Mr. Boileau was earning roughly $110,000 a year when he took an early-retirement deal last fall that pays him a pension of nearly $4,000 a month. He was later hired by Michigan Works, a state agency that helps displaced workers retrain and find jobs.

Each day, Mr. Boileau says, 90 to 100 unemployed people came through his desk at a state office in Detroit, where he handled primarily suburban white-collar engineers' cases. "They kept coming back and coming back and coming back, and working on their résumés," says Mr. Boileau. "I didn't see anyone get anything."

Mr. Boileau himself hasn't fared much better. Since his contract with the state expired in April, he has been without a full-time job. He fills his time working as a part-time hockey coach, which pays $500 a week during the season. While he'd like to work full time, he acknowledges that at age 55 and without a bachelor's degree, he'd be lucky to get a third of what he used to make at Chrysler.

Dave Duncanson considers himself one of the lucky ones. Less than a year ago, he was earning $109,000 a year as a Chrysler product-development manager, overseeing large teams of engineers during pivotal powertrain launches. He left in November with a $50,000 cash buyout.

This summer, he started a full-time job as head custodian at Stoney Creek High School in Rochester Hills, Mich., the upscale suburb where his family lives. For hours each weeknight, he can be found pulling trash from bins, vacuuming carpets and putting desks back in place. The job pays $15.05 an hour, or about $31,000 a year after a recent 25% pay cut, and offers a pension and health benefits.

Mr. Duncanson, 49, says he was baffled at first that he couldn't find work to match his qualifications. But he's come to appreciate the stability of full-time work. "A little upgrade from where I'm at, and I'd be happy with that," he says, "just to avoid the auto industry." Surveying the landscape since, he is no longer surprised. "There are guys who are half my age who have twice as much formal schooling who are willing to work for peanuts," he says.

Mr. Duncanson, who spent 26 years in the auto industry, proudly notes how he has been able to transfer his experience in streamlining processes to his new job. Still, he says, "How would you like to be the guy who runs into his old co-workers and says, 'Hey, I clean toilets?' "

There are upsides. The heavy-set Mr. Duncanson has lost 11 kilograms since giving up his desk job, and his cholesterol is down. Most of all, he appreciates the stability of full-time work. "A little upgrade from where I'm at, and I'd be happy with that," he says, "just to avoid the auto industry."

Mr. Duncanson can think of just one person in his old department at Chrysler, a younger engineer named Melissa Nemeth, who successfully landed a comparable job. She and her husband, Phil, a General Motors engineer, sold their home in suburban Sterling Heights, Mich., for a $40,000 loss, but managed to cover the mortgage balance. They moved to Oregon. "It couldn't have gone any better, but it was a scary ride," says Ms. Nemeth.

As more-junior workers earning lower salaries, the Nemeths, both 30, were able to pack up and find new jobs out of state, adapting their skills to new industries. But many veteran workers won't or can't. Some remain convinced that given their specialized skills, their best prospects for comparable work are in Michigan. Many can't absorb a pay cut or the loss on their house. Others, like Messrs. Duncanson and Barr, have strong family ties to Michigan.

At home, Mr. Barr is struggling with his new role. When he left Chrysler with a $75,000 cash buyout, his wife, who also worked there as an engineer, bumped up to full time. Mr. Barr is now the parent who drops his three kids at the movies or picks them up from practice. Here in his hometown, one of Detroit's most affluent suburbs, he has noticed more dads walking their dogs in the middle of weekdays, just like him.

His efficiency business is predictably lean. He and his partners run it out of his home office, occasionally venturing out to local restaurants to pitch prospective clients. "We've taken people out to lunch and it's like, 'I'll get a salad,' " says Mr. Barr.

After one such lunch in June, Mr. Barr recalls, the prospect, from a large local accounting firm, left the bill on the table and said, "When you guys get an office, why don't you call us?"

While he waits for business to catch on, Mr. Barr has found an outlet for his technical skills. For five hours a week he teaches a neighbor how to use her computer. It pays $30 an hour.

Says Mr. Barr: "I didn't want to grow up to do this, you know?"

GLOBAL BUSINESS BRIEFS

Virgin Media Inc.

Former Tesco executive is named finance chief

U.K. cable company **Virgin Media** Inc. on Thursday named former **Tesco** PLC executive Eamonn O'Hare as its new finance chief. Mr. O'Hare—for the past four years head of Tesco's U.K. finance division—will assume his responsibilities in November. The 45-year-old executive previously worked as chief financial officer at telecommunications-network operator Energis PLC, before its purchase by Cable & Wireless PLC in 2005. Virgin Media has been without a finance chief since May, when Jerry Elliott resigned, citing family health reasons. "As well as an understanding of the U.K. telecoms sector, Eamonn brings with him an impressive combination of financial and operational expertise, a proven track record of driving change in large consumer-focused companies and extensive capital-markets experience," said Virgin Media Chief Executive Neil Berkett.

Lion Nathan Ltd.

Lion Nathan Ltd. shareholders approved **Kirin Holdings** Co.'s 3.3 billion Australian dollar (US$2.89 billion) takeover offer for the 54% of the Australian brewer and winemaker it doesn't already own. Votes cast in favor of the deal numbered 184.2 million, or 98.8% of the total. The Japanese brewer is now awaiting Australian court approval for the deal, expected Oct. 7. Lion Nathan shareholders were offered A$11.50 cash per share plus a special dividend of 50 Australian cents.

Avon Products Inc.

Avon Products Inc. President Elizabeth Smith is leaving the direct-sales cosmetics company at the end of October with the aim of becoming a chief executive elsewhere. The company said Thursday it doesn't plan to replace Ms. Smith, whose responsibilities will be taken over by Avon Chief Executive Andrea Jung. Avon didn't say whether Ms. Smith has already landed another job. Avon, based in New York, is undergoing a years-long restructuring that includes broad job cuts. Ms. Smith joined the company in 2005 after 14 years at Kraft Foods Inc.

Telecom Corp. of New Zealand

Telecom Corp. of New Zealand Ltd. said it isn't considering splitting up, even though a debate about its structure has been reopened by a government decision to proceed with a national broadband network. The government's 1.5 billion New Zealand dollar (US$1.07 billion) broadband plan won't allow participation by telecommunications-service retailers, so Telecom would have to fully split its network unit, Chorus, from its retail unit in order to participate, analysts said. Structural separation "is just not on our radar. It's not part of our thinking," said spokesman Mark Watts. He said Telecom remains hopeful it isn't kept out of the government plan. "Let's see the detail. There is a lot of water to come under the bridge." Telecom Chief Executive Paul Reynolds said Wednesday the company would proceed with its own NZ$1.3 billion plan to install a fiber-optic network.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Suicide bombers hit Mogadishu

Islamic extremist group says deadly car attack is revenge for U.S. raid that killed militant

By Sarah Childress

NAIROBI, Kenya—Two suicide car bombs ripped through the African Union's headquarters in the Somali capital Thursday, with an Islamic extremist group saying the attack was revenge for a U.S. raid that killed a prominent al Qaeda militant.

Bombers entered the African Union base in stolen United Nations vehicles to execute the attack, which left several people dead or wounded, according to the AU's peacekeeping mission in Somalia, known as Amisom. An exact total wasn't immediately available, but one witness counted 11 bodies at the base, the Associated Press reported from Mogadishu.

Al Shabab, a terrorist group that controls much of wartorn Somalia, said it carried out the attack in retaliation for a U.S. raid Monday in the country that killed Saleh Ali Saleh Nabhan, one of East Africa's most-wanted al Qaeda operatives.

The U.S. is the biggest source of funding for Amisom, short for African Union Mission in Somalia. AU troops there have increasingly become targets for militants, who view them as an occupying force that must be driven out of the country.

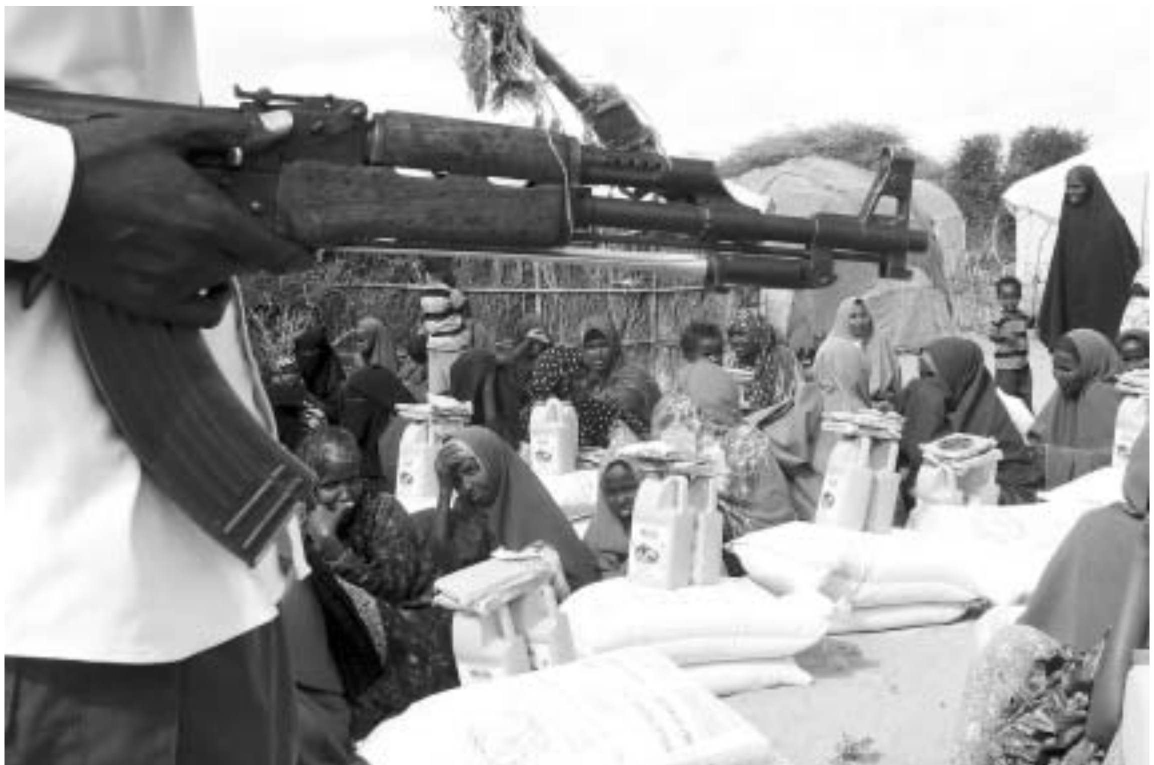
U.N. Secretary-General Ban Ki-moon condemned Thursday's attack, saying the U.N. "is mobilizing all possible measures to evacuate the wounded and support" Amisom.

One AU official, who asked not to be identified, alleged that some Somali government officials linked to Al Shabab may have been involved in the attack. "It's obviously an inside job, and we will get to them," the official said. He didn't offer evidence for the claim. Nicolas Bwakira, the AU's special representative for Somalia, said he "can't confirm or deny" that allegation.

Somali President Sheikh Sharif Sheikh Ahmed has been trying to end the country's fighting by bringing rival warlords, traditional leaders, and militants into the government.

Farahan Ali Mohamoud, the Somali minister of information, said that he wasn't aware of any government officials linked to Al Shabab. But, he said, "There's always that possibility....This is a government of national unity. All kinds and all sides are trying to unite behind the government, and it's very difficult to know who's who."

The Somali government, whose own military is weak and poorly trained, is heavily dependent on Amisom for its survival.



Reuters

A Somali militia stands guard at a food distribution point on the outskirts of Mogadishu. Somali insurgents detonated two suicide car bombs at an African Union peacekeeping base in the city on Thursday.

Iran diaspora plans demonstrations at U.N.

By Farnaz Fassihi
And Christopher Rhoads

NEW YORK—When Iranian President Mahmoud Ahmadinejad arrives in New York next week for the United Nations General Assembly, he will encounter a turning point in his regime's relationship with the diaspora.

Thousands of Iranians in exile are traveling to New York from cities across the U.S. and Canada to take part in demonstrations from Sept. 22-24 against the Iranian government and its alleged human-rights abuses since the current crisis began, following disputed presidential elections in June.

The New York demonstration is expected to be the largest, but for those who can't make the trip, similar protests are planned in Paris, Amsterdam, Berlin, Hamburg, Munich, London and Los Angeles, among other places, organizers say. On Wednesday, when Mr. Ahmadinejad is to address the U.N., organizers hope for a repeat of the July 25 "Global Day of Action" against the violent crackdown on protesters in Iran earlier in the summer.

The New York protests are expected to be the largest gathering of Iranians in exile since the early days of the Islamic Revolution. In 1977, nearly 10,000 people gathered in Washington to oppose Shah Mohammad Reza Pahlavi's visit to the White House. The rally became a turning point in the revolution, showing the Shah was on shaky ground at home.

Iranians in exile say they are aiming for similar turnout—and to send a similar message—next week. The Iranian diaspora in the U.S., which some experts estimate at close to one million, isn't known for its unity. But the recent unrest has brought various factions closer together, according to some human-rights activists.

Protesters are being bused in for minimal charge from the New York area. A group of Iranian-Canadians are biking in from Toronto. Many Iranian families in the New York area have opened their homes to those who can't afford hotels. Petitions have been circulating to urge hotels not to host Mr. Ahmadinejad and his entourage, and Iranians have bombarded his translator with emails asking her not to work for him.

"It's our responsibility to stand up in solidarity with the people of Iran and show that in our eyes this government is not legitimate," says Sheida Jafari, a 28-year-old artist and event organizer for a group called Voices for Iran.

Iranians will be joined by several American Jewish groups for a Sept. 24 rally in front of the U.N. to criticize Iran's nuclear program, its threats against Israel and its alleged human-rights violations.

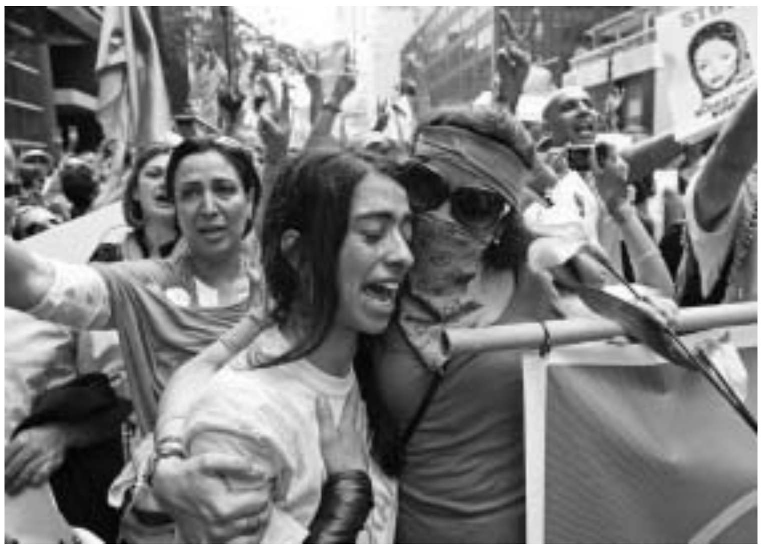
While protests outside the U.N. against Mr. Ahmadinejad occur every year, they typically attract just a few dozen people from opposition fringe groups such as royalists, or groups such as the MKO, or Mujahedeen-e-Khalq—still listed as a terrorist organization by the U.S. State Department.

Iran's mission to the U.N. dismissed the planned demonstrations, saying they happen every year and that there was nothing unusual about this year's events.

"Iranians are very eager to meet with Mr. Ahmadinejad," said Mohammad Mohammadi, the press secretary of the Iranian mission to the U.N., in a telephone interview.

Mr. Ahmadinejad usually hosts two dinners in New York, one for American scholars and another for the Iranian-American community here. At last year's event, he won a standing ovation from guests for his nationalistic speech. This year's is much smaller, Mr. Mohammadi said.

Many people who attended last year's event say that in light of the postelection upheaval, they wouldn't accept an invitation.



Associated Press

Saarar Azadi, left, is comforted by a fellow demonstrator at a rally in New York against the Iranian government as part of the 'Global Day of Action' protests July 25.

Telecom start-up could withdraw from West Bank

By Charles Levinson

RAMALLAH, West Bank—A Qatari-backed telecoms start-up in the West Bank is threatening to pull the plug on its investment here, citing the Israeli government's refusal so far to turn over all the bandwidth it promised in a deal with the Palestinian Authority last year.

A pullout by Wataniya Mobile, majority owned by **Qatar Telecommunications** Co., or Qtel, would be a big blow to the West Bank economy. Wataniya has promised to invest $700 million in the Palestinian territories over the next 10 years. A private investment fund linked to the Palestinian Authority and tasked with promoting long-term growth Palestinian growth owns a minority stake in the company.

It already employs 250 Palestinians and says it expects to generate 3,000 jobs in indirect employment once fully operational. The company represents one of the biggest foreign investments in Palestinian history.

The spat comes as Israeli Prime Minister Benjamin Netanyahu has promised economic improvements in the West Bank as a pillar of his Palestinian strategy. Israel has been criticized for hindering the West Bank economy by erecting security checkpoints and enforcing restrictions on the movement of goods and people through the territory. In recent months, it has made good on promises to remove scores of those checkpoints.

That has helped boost West Bank economic growth. But Palestinian officials criticize Israel for not living up its end of the bargain with Wataniya. "You have a major investment here trying to get started, and it's crucially dependent on getting spectrum from Israel," said Palestinian Prime Minister Salam Fayyad in a recent interview. "And still we don't have it."

Israeli officials say that the bandwidth they have offered is sufficient for Wataniya to get started and that the remainder will be delivered later.

According to a July 28, 2008, agreement signed by Israel and the Palestinian Authority—a copy of which was reviewed by The Wall Street Journal—Israel promised to turn over 4.8 megahertz of bandwidth to the Palestinians for Wataniya's use, in two tranches—one on Jan. 1 and a second on March 1.

Instead, Israel recently agreed to turn over 3.8 megahertz. Wataniya says that is insufficient to compete with Israeli and Palestinian cellular providers, since it won't be able to offer data-transfer services or serve enough customers to make the investment profitable. "From our point of view, the capacity we have transferred is enough for their needs," said Yechiel Shavi, a spokesman for Israel's Ministry of Communications. "We will enlarge the capacity to 4.8 megahertz as promised in the future."

Mr. Shavi and other Israeli officials say they are withholding the remaining promised bandwidth because the Palestinian Authority has failed to meet certain commitments to Israel, though they wouldn't specify what those commitments are.

"There are a few issues that the Palestinian Authority agreed to do that they haven't done," Mr. Shavi said. "It's a sensitive political issue." Mr. Fayyad, the Palestinian prime minister, said he didn't know why Israel was withholding the bandwidth. Stuck in the middle of the tussle is Wataniya.

U.S. to end Iraq detainee operations by August

Just 2 camps remain; 'lessons' learned from Abu Ghraib

By Gina Chon

BAGHDAD—The U.S. military has learned a lot of lessons since the Abu Ghraib prison scandal and plans to be out of detainee operations in Iraq by August, said Brig. Gen. David Quantock, head of detainee operations.

Only two U.S.-run detention facilities now exist in Iraq, after the closure of Camp Bucca in southern Iraq on Wednesday. The 8,305 detainees who are still in American custody are being held at Camp Cropper in Baghdad or Camp Taji, north of the capital.

As part of the security agreement between the U.S. and Iraq signed last year, all detainees in U.S. custody must be released or transferred to the Iraqi government. So far this year, more than 5,700 detainees have been released and an additional 1,360 have been transferred to Iraqi control based on arrest warrants, detention orders or court convictions, according to U.S. military figures.

American military treatment of detainees in Iraq became an explosive issue in 2004 after pictures surfaced of Iraqi detainees being abused at the Abu Ghraib prison in western Baghdad.

Since then, Gen. Quantock said, the U.S. military has learned "many lessons." Previously, detention facilities were aimed at merely holding prisoners before they were repatriated. But now U.S.-run prisons offer vocational training and Islamic discussion programs so detainees can become productive citizens when they are released.

Associated Press

Brig. Gen. David Quantock, right, in charge of detainees in U.S. custody in Iraq, stands at Camp Bucca Wednesday.

At Camp Cropper, reporters were shown artwork and stuffed animals produced by detainees, who are divided among Sunnis, Shias and religious militants. A computer class is the most popular among detainees there. The U.S. military is working to ensure those programs continue after detainees are handed over to the Iraqi government, according to several military officials.

But there are several challenges facing Iraq in taking control over detainee operations, including inadequate financial resources, Gen. Quantock said. In January, the U.S. military plans to transfer the Camp Taji detention facilities, which cost $5 million a year to operate and maintain, to Iraqi control. With the country facing a budget crisis, it doesn't have the ability to spend the same amount of resources as the U.S. military, Gen. Quantock said. The U.S. is working to make the handover feasible by switching power sources from generators to the national power grid and other methods to reduce costs.

Euro zone says July trade surplus hit 7-year high

By Paul Hannon

LONDON—The euro zone's surplus in its trade with the rest of the world hit a seven-year high in July as exports rose significantly, making it increasingly likely that the currency area's economy will grow in the third quarter.

The European Union's statistics agency, Eurostat, Thursday said the 16 countries that use the euro had a combined trade surplus of €12.6 billion ($18.56 billion) in July—the largest since July 2002, when the surplus hit €13.5 billion. The surplus was larger than economists had expected.

Eurostat also revised its estimate of the June trade surplus, to €5.4 billion from €4.6 billion.

The surge in the trade surplus reflected a significant increase in exports, which were up to €115.3 billion from €106.9 billion in June, while imports rose much more modestly, to €102.7 billion from €101.6 billion.

On a seasonally adjusted basis, exports rose 4.1% from June, while imports fell 0.3%, giving a trade surplus of €6.8 billion, up from €2.3 billion in June. It was the second straight monthly rise in exports.

The pickup in exports likely reflects strengthening demand in overseas markets as the global economy starts to emerge from recession and businesses start to rebuild their inventories to meet an expected pickup in sales.

If sustained in August and September, the revival in exports would provide a significant boost to the euro-zone economy, which contracted only marginally in the second quarter and is likely to grow in this quarter.

However, policy makers will be wary of the impact of the stronger euro on the sustainability of the recovery in exports.

Trade flows remain well below the levels recorded in 2008, when exports totaled €142.8 billion and imports totaled €146.3 billion. For the first six months of this year, the euro zone's surplus in its trade in manufactured goods widened to €96.5 billion from €145.2 billion in the year-earlier period, although its deficit in its trade in energy products narrowed to €97.6 billion from €156.7 billion.