Heard on the Street: What happens when the Fed stops buying financial assets?

THE WALL STREET JOURNAL.

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Bloomberg News; Reuters

U.S. President Barack Obama, French leader Nicolas Sarkozy and U.K. Prime Minister Gordon Brown at the U.N. General Assembly Wednesday.

Obama sets a new agenda

U.S. leader lists priorities in first General Assembly talk; his 'four pillars'

By Jonathan Weisman

NEW YORK—U.S. President Barack Obama, speaking to the United Nations General Assembly for the first time, sought to distance his country from the era of his White House predecessor, vowing that "America will live by its values" built upon human rights while taking to task the abuses and failures of allies and foes alike.

In a half-hour speech that was greeted warmly by world leaders, the U.S. president outlined "four pillars" that he called "fundamental to the future that we want for our children"—nuclear disarmament, Middle East peace, environmental restoration and economic growth. He chastised North Korea and Iran, warning of consequences if they don't back down from their nuclear programs.

"If the governments of Iran and North Korea choose to ignore international standards, if they put the pursuit of nuclear weapons ahead of regional stability and the security and opportunity of their own people, if they are oblivious to the dangers of escalating nuclear-arms races in both East Asia and the Middle East, then they must be held accountable," Mr. Obama said. "The world must stand together to demonstrate that international law is not an empty promise, and that treaties will be enforced."

Before the world body and to warm applause, he called for an end to "the occupation that began in 1967" of Palestinian lands, using a term shunned by previous presidents and condemned by Israelis. But he also called for the acceptance of "a Jewish state of Israel, with security for all Israelis."

"We must remember that the greatest price of this conflict is not paid by us. It is paid by the Israeli girl in Sderot who closes her eyes in fear that a rocket will take her life in the middle of the night. It is paid by the Palestinian

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Home builders raise cash for deals

By Jonathan Buck

LONDON—U.K. property companies announced plans Wednesday to raise more than £1 billion ($1.6 billion) to strengthen their balance sheets and to build war chests to fund acquisitions as evidence mounts that confidence is returning to the real-estate sector.

House builders **Barratt Developments** PLC and **Redrow** PLC disclosed plans to raise more than £900 million through rights issues and placements, while **Liberty International** PLC, the country's largest industrial real-estate investment trust, said it raised about £280.5 million through an issue of new shares.

The capital increases are the latest in a trend that has seen similar moves earlier this year by house builders **Taylor Wimpey** PLC, **Bovis Homes Group** PLC, **Berkeley Group Holdings** PLC and **Bellway** PLC.

The fund-raising moves were "a big vote of confidence" in the residential market, said Andrew Frost, a partner and head of residential valuation at U.K. property consultant King Sturge, who added that the turnaround in the market in the past 12 months had been "quite exceptional."

Tim Wright, a partner on King Sturge's residential,

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Disputed law looms in tight German vote

By Marcus Walker and Andrea Thomas

BERLIN—Chancellor Angela Merkel's center-right alliance is watching its lead in opinion polls dwindle only days before Germany's national elections on Sunday.

With the outcome on a knife edge, the shape of the next government could hinge on a quirk in Germany's electoral system that could hand conservatives as many as 20 bonus seats. Germany's supreme court last year deemed this extra-seats rule unconstitutional, but gave parliament until 2011 to change it. Left-leaning parties are already crying foul, saying Sunday's election could put an illegitimate government in power. Ms. Merkel insisted last week that the bonus seats, known as "overhang mandates," aren't "second-class mandates."

Angela Merkel

The row could lead to the first disputed election outcome in Germany's postwar history, triggering legal challenges and potentially hurting public acceptance of a right-leaning government—especially if it tries to make unpopular spending cuts, analysts say.

"A government needs legitimacy before it can ask citizens

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Traders seek fortune in AIG, a stock once left for dead
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	CLOSE	PCT CHG
DJIA	9748.55	-0.83
Nasdaq	2131.42	-0.69
DJ Stoxx 600	244.74	+0.21
FTSE 100	5139.37	-0.06
DAX	5702.05	-0.13
CAC 40	3821.79	-0.05
Euro	$1.4777	-0.10
Nymex crude	$68.97	-3.61

LEADING THE NEWS

Brazen helicopter robbery in Stockholm

Gunmen escape with bags of cash from roof of depot

ASSOCIATED PRESS

STOCKHOLM—Masked gunmen used a stolen helicopter and explosives to engineer a raid on a cash depot here on Wednesday, breaking into the building through the roof and flying off with bags of cash, police and officials said.

The daring predawn heist stunned police in the Swedish capital, who were unable to deploy their own helicopters to the scene because suspected explosives had been placed at their hangar.

Shortly after 5 a.m., a helicopter swooped down toward the cash depot, owned by security company **G4S** PLC, and hovered over the building as the robbers hoisted themselves onto the roof in what police said was a carefully planned operation. There were 21 staff members inside the building during the heist, but no one was injured, police said.

Investigators said the robbers wore masks and were believed to have carried automatic weapons and used explosives during the 20-minute raid. Witnesses reported hearing loud bangs during the heist.

G4S said the thieves had made off with "an unconfirmed sum of money" and added it would offer a large reward for information leading to their arrest and the return of the cash. The company didn't give an exact amount for the reward.

Police later found an abandoned helicopter near a lake north of Stockholm, about 24 kilometers from the cash depot. Police spokeswoman Towe Hagg said the chopper was reported stolen and was believed to be the one used by the robbers.

One person was detained later Wednesday in a Stockholm suburb in connection with the robbery but wasn't officially declared a suspect, police spokesman Christian Agdur said.

G4S, based in Sussex, England, is one of the world's largest security companies. The Stockholm facility stores cash that is transported to banks and other businesses in Sweden. The company declined to say how much money was in the cash depot when it was attacked.

Sweden has seen a series of spectacular robberies in recent years. Last year a group of men broke into a mail-processing center in Göteborg, paralyzing large parts of Sweden's second-largest city after spreading out spikes, burning cars in different areas and leaving suspected explosive devices in the center.

In 2006, Göteborg's international airport was partially closed after masked men crashed through a gate and held up luggage handlers as they were unloading crates of foreign currency valued at $1.1 million from a passenger aircraft.

Reuters

Police search the area around a stolen helicopter believed used in the robbery early Wednesday of a cash depot in Sweden.

Bank of England minutes point to sustained easy policy

BY NATASHA BRERETON

LONDON—The Bank of England's Monetary Policy Committee looks set to keep its policy extremely easy for some time yet, and hasn't ruled out a further expansion in its bond-buying plan.

Minutes from the Bank's September meeting, released Wednesday, acknowledged improvements in the economy, but said they had "limited" implications for the medium-term inflation outlook, and focused instead on continuing concerns about the amount of spare capacity and banking sector weakness.

They showed that Governor Mervyn King and David Miles—who voted for a £75 billion ($122.78 billion) extension of quantitative easing in August, but were overruled by the majority preference for a £50 billion increase—still felt a future expansion of bond buying might be desirable.

MPC member Kate Barker also stressed the need for caution in a speech later Wednesday, saying the central bank needs to focus on sustaining confidence. She warned there is a risk that the rate of recovery traced in recent economic data could falter.

"Monetary policy needs over coming quarters to continue to be set in order to sustain onfidence, and to support lending and borrowing," Ms. Barker said. "As the expected recovery becomes established, monetary policy will also need to be sensitive to the concern that too rapid an adjustment in private-sector balance sheets could be provoked by premature monetary tightening, in particular if bank rate is expected to move back quickly to its average level since the MPC's inception in 1997."

Since the financial crisis began, the BOE has cut its benchmark interest rate to a record low of 0.5% and in March launched its quantitative easing policy, through which it is creating £175 billion of new central bank money to buy bonds, in an attempt to boost spending.

There are signs that the BOE's unconventional measures are starting to take effect. Data from the British Bankers' Association on Wednesday showed that new mortgage lending by U.K. banks picked up in August, while lending to nonfinancial companies increased at its fastest pace since February.

While some economists believe that the MPC may have reached the limit of its quantitative easing policy, BOE policy makers remain extremely cautious about whether recent tentative signs of recovery can last, indicating that they haven't ruled out taking further action.

"Kate Barker's speech seems to typify thinking on the MPC—essentially things have improved substantially over the past few months, but there remain doubts over the sustainability of the recovery," said Philip Shaw, U.K. economist at Investec Securities.

One concern that will make policy makers more reluctant to add further stimulus is the unexpected resilience of inflation to the economic downturn.

Annual consumer-price inflation, which the MPC targets at 2%, weakened in August, but only to 1.6% from 1.8% in July. That compares with a 1.5% drop in the U.S. and a 0.2% decline in the euro zone.

Only last month when the BOE released its revised forecasts, Mr. King said it was "more likely than not" that inflation would fall below 1% before the year was out, forcing him to write a letter of explanation to Chancellor of the Exchequer Alistair Darling. But in the September minutes, the MPC said that the probability had declined.

Previously, the higher-than-expected rates have been largely attributed to the impact of the depreciation in sterling. But, in the minutes, the MPC discussed two further possibilities: that they had misjudged the amount of slack in the economy, which could potentially require less stimulative monetary policy; or that the well-anchored nature of inflation expectations was reducing the impact of spare capacity on inflation.

Ms. Barker also addressed the issue in her speech, saying she wanted to further consider the prospects for spare capacity in the economy, and the likely implications for inflation in the medium term. "These factors will be key to my independent judgments about the appropriate scale of quantitative easing," she added.

Broad money-supply data due next week should provide more clues on whether quantitative easing has reached the end of the road, but a definitive decision on the matter is unlikely until the MPC's November meeting, which coincides with the release of the quarterly inflation report.

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

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

LEADING THE NEWS

EU proposes new bloc-wide regulators

They would monitor risk and companies; U.K. likely to object

By Adam Cohen And Charles Forelle

BRUSSELS—The European Union's executive arm Wednesday proposed new bloc-wide regulatory bodies to supervise banks and detect big-picture risks threatening the financial system, but unresolved questions over their authority may lead to resistance from the U.K. and other countries.

The EU has been considering new regulations for the better part of a year, spurred by the global financial crisis to unify the bloc's national rules and overseers. But wresting supervisory control from national governments—particularly Britain, which houses Europe's most lucrative financial center—hasn't proved easy. The proposals set out Wednesday envision one EU-wide body to look for systemic risk and a second body—comprising national regulators and three new EU regulators for the securities, banking and insurance-and-pension sectors—to examine individual companies.

In June, EU countries gave the green light to the European Commission to propose rules and agreed that the new supervisors couldn't dictate countries' budget priorities. But EU officials said Wednesday that the proposed rules contain some ambiguity. Among the key questions is whether the new supervisors could force a country to bail out a troubled bank or to spend money on other measures.

Charlie McCreevy, the EU's internal-markets commissioner, said the new bodies "cannot impinge" on countries' fiscal prerogatives. But he acknowledged that "this is an area fraught with a lot of difficulty."

The U.K. Treasury's Financial Services Secretary, Paul Myners, said his country "will study the proposals carefully." Mr. Myners added that "our goal in negotiations in the months ahead will be to ensure that the final proposals align" with the June agreement. The British Bankers' Association said it believes that coordinating central European supervisory authorities is a good idea as long as independence of the local supervisors is maintained for day-to-day supervision.

Under the proposals, the new European System of Financial Supervisors would be responsible for harmonizing the procedures of national regulators, but it would also have the authority to resolve disagreements between countries and to coordinate action in a crisis—such as the faltering of a large bank that does business across borders.

Other powers of the new regulators are circumscribed. The European Systemic Risk Board could issue warnings and recommendations, but it would rely on "moral suasion and peer pressure" to persuade those warned to change their behavior, said Joaquín Almunia, the EU's commissioner for economic affairs. He cited the heavy foreign-currency mortgage borrowing by many non-euro-zone households before the crash as the type of systemic risk the board would look for.

The U.K. and other countries that don't use the euro are also worried that the European Systemic Risk Board will give the European Central Bank, which manages the euro-zone economy, too much sway over their own economies. Under the commission's plan, either the ECB president or a representative from a national regulator could be chairman of the risk board.

A group headed by former International Monetary Fund Managing Director Jacques de Larosière first suggested this new framework in February. There have been a series of negotiations between the commission and EU governments since then, though most of the commission's current proposal adheres to the de Larosière group's original ideas.

—Joe Parkinson and Alistair MacDonald contributed to this article.

Reuters

European Commissioners Charlie McCreevy, left, and Joaquín Almunia have been working on the proposals for months.

Fed sees a U.S. recovery and plans for an exit

By Maya Jackson Randall And Tom Barkley

WASHINGTON—U.S. Federal Reserve officials Wednesday held rates steady but also highlighted signs of economic recovery and unveiled a strategy for reining in one of the central bank's measures to prop up the mortgage market.

"Economic activity has picked up following its severe downturn," the Fed said in the upbeat policy statement it released at the conclusion of its two-day meeting.

The Federal Open Market Committee voted 10-0 to maintain the target federal-funds rate for interbank lending at a record-low range of zero to 0.25%. Additionally, the Fed's policy-setting panel said it would extend its $1.25 trillion of purchases of mortgage-backed securities into next year in order to help financial markets adjust.

"The committee will gradually slow the pace of these purchases in order to promote a smooth transition in markets and anticipates that they will be executed by the end of the first quarter of 2010," the Fed policy statement said.

The mortgage-backed-securities program is part of an unusual rescue initiative the Fed launched to bring down mortgage rates and stimulate the economy.

Because it outlines an exit strategy for the program, Wednesday's announcement is significant. It reinforces the brightening economic outlook and reflects policy makers' willingness to unwind some of the rescue programs launched when the global financial crisis was at its worst.

In August, the Fed's policy-setting panel said it would gradually taper off another one of its emergency initiatives, the $300 billion program to purchase Treasury bonds. The FOMC reiterated Wednesday that it plans to complete its purchases of Treasury securities by the end of October.

Wednesday's statement indicates policy makers continue to grow more upbeat about the economy, despite tightness in credit markets and a still-struggling jobs market. Still, officials reiterated that they expect rates to stay at exceptionally low levels "for an extended period."

At their August meeting, Fed officials also kept the fed-funds rate at zero to 0.25% and noted in their policy statement that "economic activity is leveling out."

Since then, the U.S. housing market has shown signs of improvement. Housing starts rose to their highest level in nine months during August, climbing 1.5% to a seasonally adjusted annual rate of 598,000. Meanwhile, retail sales exceeded expectations, climbing 2.7%, an indication that consumers might be ready to start spending again. And industrial production—a key indicator of turning points in the business cycle—rose 0.8% in August from July.

Still, the Fed is unlikely to make any significant rate-policy changes until it is certain that the recovery is a durable one. Many economists agree that the economy is still delicate as it works to overcome the worst crisis in decades.

LEADING THE NEWS

Fuel traders quietly cut shipments to Iran

Europeans prepare for the prospect of new sanctions

BY SPENCER SWARTZ

An Iranian worker walks along an oil-production platform at the Soroush oil fields

LONDON—Some big oil traders have quietly scaled back or are preparing to halt fuel shipments to Iran amid uncertainty over whether the U.S. and Western powers will impose sanctions against the Islamic Republic for its nuclear program.

Talk of sanctions has ebbed and flowed in recent months as the West pressures Iran to curtail its nuclear program. Some big oil companies are making preparations for the prospect of sanctions.

European oil giant **BP** PLC, which has extensive trading operations, stopped shipments of gasoline and other oil products to Iran at least six months ago, according to a person familiar with the matter. The person said the "overall environment," including the West's standoff with Iran over its nuclear program, had been behind the halt to shipments.

Meanwhile, an official at **Total** SA said the French oil major would stop gasoline shipments to Iran if the U.S. and other European nations were to approve measures calling for a halt on fuel exports to Iran.

"If we get to that point and measures were put into law in the U.S. and Europe not to trade refined [oil] products to Iran, then we will follow the law," the Total official said.

Anglo-Dutch **Royal Dutch Shell** PLC, another gasoline shipper to Iran, declined to comment. U.S. oil companies are banned from selling petroleum products to Iran.

Although Iran is one of the world's biggest oil producers, it imports around 40% of its oil products. Iran's dependence on foreign gasoline and diesel is a soft spot the U.S. and some European nations could exploit if the country doesn't abide by U.N. Security Council resolutions over its nuclear program.

Iran is forced to import around 140,000 barrels a day of gasoline and diesel—at a cost of $5 billion to $7 billion annually depending on oil prices—because of inadequate refining capacity at home, a result of past sanctions and bureaucratic meddling in Iran that has stymied refinery development. Most of that oil product comes from European companies—many of which have extensive U.S. operations—and some Asian companies.

Gasoline sanctions against Iran have been contemplated for months among Western policy makers, but the idea will gain impetus, at least in the U.S., if coming talks between Iran, the U.S., European nations, Russia and China yield disappointing results. Russia and China also have signaled their opposition to sanctions against Iran's energy industry.

A key issue in the talks, set for Oct. 1, will be Iran's refusal to halt uranium enrichment, despite a number of U.N. Security Council resolutions calling for that. Iran's continued enrichment process has raised concern among various countries, including Iran's Gulf Arab neighbors, that it may go beyond its stated intention of developing a nuclear program for electricity production to build a nuclear bomb.

Various versions of a proposed bill bobbing around the U.S. Congress would bar any foreign company shipping oil products to Iran from doing business with the U.S. government; some policy makers want tougher measures.

Swiss-based **Vitol**, one of the biggest gasoline shippers to Iran, declined to comment. **Glencore International** AG, another Swiss commodities trader, and **Trafigura**, a Dutch oil trader, also declined to comment.

Even if gasoline sanctions come to pass, Iran still has various outlets to buy oil products, though probably at higher prices.

Iranian Oil Minister Masoud Mirkazemi told journalists in Vienna recently that Iran had made various arrangements to counter any cutoff in gasoline shipments; he didn't elaborate. Venezuela said this month it planned on sending Iran around 20,000 barrels a day of gasoline starting next month, and analysts say Petronas, the state-run oil company of Malaysia, another Iranian ally, recently restarted shipping some product to Iran.

China says officially it doesn't ship any gasoline to Iran, but Asian oil traders say gasoline originating from China is routinely blended with other supply and tankered to Iran. China has been shipping small amounts of diesel and jet fuel to Iran this year.

Mehdi Varzi, a London independent oil analyst who formerly worked for the Iranian National Oil Co., said existing shippers could sell product to Iran and hide the true origin of deliveries. Gasoline could also be trucked in from Iran's neighboring states, but it is unclear whether such countries, like Azerbaijan, a U.S. and European ally, would permit that.

—Max Lin in Singapore contributed to this article.

U.N. resolution outlines tools for policing nuclear arms

BY JONATHAN WEISMAN

NEW YORK—A draft nuclear safeguards resolution, expected to be approved Thursday by the United Nations Security Council, would begin to lay the legal framework for military and diplomatic action against nations that use civilian nuclear technology for military use, as the Obama administration presses to strengthen international controls on nuclear proliferation.

The resolution, which has been seen by The Wall Street Journal, states that supply of nuclear material and equipment under the terms of the Nuclear Non-Proliferation Treaty should "have a right to require" their return if the recipients either withdraw from or fail to comply with the treaty. It also says that if a nation terminates inspections of the International Atomic Energy Agency, "safeguards shall continue with respect to any nuclear materials and equipment" left behind.

"You don't send in a repo man, obviously, but maybe the repo man is an F-15," said Joseph Cirincione, president of the Ploughshares Fund, a nonproliferation group.

U.S. President Barack Obama has made nuclear nonproliferation, especially concerning Iran's nuclear program, the centerpiece of his diplomatic efforts at his first U.N. General Assembly meeting. He has put his personal prestige and the prestige of his country on the line as the first U.S. president to run a Security Council summit on Thursday. The resolution on nonproliferation may be the most tangible victory of his inaugural U.N. week, arms-control analysts say.

The resolution may not be a major leap, but it does begin to set out a legal framework that can be used against nations like North Korea, which withdrew from the nonproliferation treaty after building a nuclear infrastructure ostensibly for peaceful use, or Iran, which remains a signatory but is believed to be using energy technology for a nuclear-weapons program. The treaty, first signed in 1968, stated that non-nuclear nations would have access to nuclear technology for energy and science as long as they renounce the pursuit of nuclear weapons. In exchange, nations with nuclear weapons agreed to work toward nuclear disarmament.

The treaty, ridiculed as toothless by conservative opponents, is up for review next year. Mr. Obama has made its strengthening a major part of his foreign policy. To lay the groundwork for that, he has promised to conclude a major nuclear-arms-reduction accord with Russia this year and secure the ratification of the nuclear-test-ban treaty early next year. The U.S. president was to meet Wednesday afternoon in New York with Russian President Dmitry Medvedev, in part, to discuss arms control and confronting Iran.

Richard Burt, an arms-control negotiator in the first Bush administration, now with Global Zero, an arms-control group, said similar proposals were put forward by the administration of George W. Bush. But they went nowhere. "What the administration is trying to do is lay the groundwork for proposals that are formally adoped at the [nonproliferation-treaty] conference next year," he said. "The administration views all this as part of the process of establishing a real international consensus against proliferation."

OECD offers guidelines for selling bank stakes acquired during crisis

BY PAUL HANNON

LONDON—Governments offloading stakes in banks acquired during the financial crisis should avoid selling them to existing bank groups or highly leveraged bidders, economists at the Organization for Economic Cooperation and Development said in a report.

Governments world-wide have acquired minority and majority stakes in banks as a means of boosting their capital and keeping them solvent during the financial crisis.

The Group of 20 industrial and developing nations have agreed they should start to prepare exit strategies, covering the withdrawal of fiscal- and monetary-policy stimulus and support to the banking system. The privatization of bank stakes will be part of those exit strategies.

In a report on the priorities that should guide the withdrawal of bank-support measures, the OECD said governments should seek to tap new pools of capital when selling their stakes.

"Existing banks should be avoided, as sales to banks provide no new capital to the system as a whole," the OECD's economists said, adding that sales to pension funds, university endowments, sovereign-wealth funds, some private-equity funds and private individuals would be preferable.

The OECD also warned against sales to buyers that already have high levels of borrowing, or borrow to buy those stakes. "Equity that is financed by borrowing is only an apparent increase in equity for the system," the economists said. The OECD said that privatizations should increase competition among banks, and that state-owned banks should therefore be "reorganized or restructured before privatization to minimize dominant market positions" ahead of their sale.

The OECD said that above all, governments shouldn't rush into privatization or other withdrawals of support to the banking system, and should make sure regulatory and other reforms are in place before they do embark on exit strategies.

"Getting the exit process right will be more important than doing it quickly," the economists said. "There is a long way to go in the reform process before these exit strategies can be contemplated."

The OECD also urged European Union governments to follow the U.S. in removing toxic assets from the balance sheets of their banks. "Only a couple of EU countries have even started to conceptualize 'bad banks'; nothing yet has happened," it said.

Europe also has further to go toward ensuring that its banks have enough capital, the OECD said.

The U.S. government has urged its G-20 counterparts to adopt a limit on the ratio of borrowing to capital—a leverage ratio—as an addition to the Basel II capital adequacy rules, which focus on the kinds of risks banks take with their capital.

The OECD supports that move, and believes European banks will need more capital. "Reducing the leverage ratio has to be a fundamental objective of policy," the economists said. "Europe has a very long way to go in this respect if there is to be some equalization across the globe."

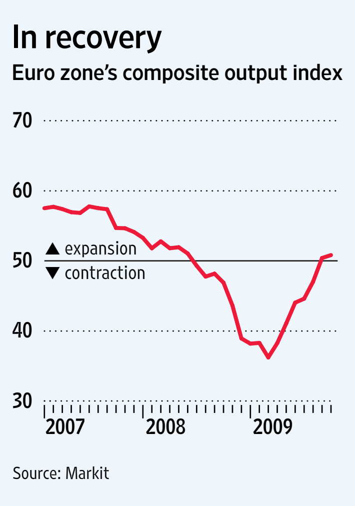
The euro zone's private sector gains steam

German slowness hints at obstacles to a full recovery

BY NICHOLAS WINNING

The euro-zone economy looks increasingly likely to post its first quarterly growth in more than a year this quarter, according to data released Wednesday. But rising unemployment and a setback in German services and manufacturing activity suggest the region's recovery will be gradual.

The euro zone's composite output index, a closely watched gauge of private-sector activity, rose to a 16-month high of 50.8 in September from 50.4 in August, according to preliminary results from Markit Economics' monthly survey of companies across the single-currency area. The reading above the neutral 50 level indicates that output has now grown for two consecutive months and, according to Chris Williamson, chief economist at Markit, suggests that the euro-zone economy stabilized in the third quarter.



BMW plant in Leipzig. A setback in German manufacturing suggests a gradual recovery.

Robust manufacturing-inventory ratios and service-sector confidence also indicated the private sector could put in an even stronger performance in the fourth quarter, Mr. Williamson added.

"However, the momentum of the rebound is showing some signs of waning, with an increase in the rate of job losses in September particularly disappointing," he cautioned.

While output growth gathered pace in France, the recovery lost momentum in Germany, where job losses and cost cuts were prevalent, Markit's surveys indicated.

"The further improvement in the euro-zone composite [purchasing managers index] in September is welcome news, but the level of the PMI is still consistent with a gradual rather than a V-shaped recovery," Martin van Vliet, an economist at ING, said in a note.

Official data released by Eurostat, the European Union's statistics agency, meanwhile, showed industrial new orders rose for a second consecutive month in July but remained weak on an annual basis.

The Markit survey showed manufacturers' stocks of finished goods fell sharply in September, causing the ratio of new orders to inventories—an indicator of future output—to fall only fractionally from August's 32-month high. Confidence about business activity in the services sector also rose to its highest level in more than three-and-a-half years.

However, on a country-by-country basis, Germany's composite output index dipped to 52.2 in September from 54 in August, while in France it rose to 53.9 from 51.3.

Other official French data released Wednesday were mixed, indicating the recovery there could be bumpy. Insee, the country's statistics agency, said its measure of business sentiment rose to 85 in September from 79 in July, but consumer spending on manufactured goods fell 1.0% in August—its second consecutive monthly drop.

—Ilona Billington and Gabriele Parussini contributed to this article.

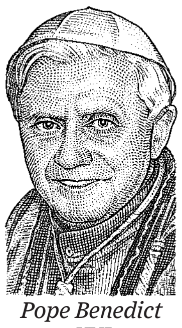
The Vatican bank gets an executive overhaul

BY STACY MEICHTRY

VATICAN CITY—The Holy See announced a sweeping overhaul of the Vatican bank's management as part of Pope Benedict XVI's push for greater transparency at one of the world's most secretive financial institutions.

In a statement Wednesday, the Holy See said it had appointed Ettore Gotti Tedeschi, who headed an Italian unit of Banco Santander SA, as the new head of the Vatican bank, which is called the **Istituto per le Opere di Religione**, or IOR. The Holy See also replaced the IOR's supervisory board.

The appointment marks the end of Angelo Caloia's two decades at the helm of the IOR—a run that made him one of the Vatican's most powerful and deeply entrenched officials. Mr. Caloia, an Italian banker and economist, was the first noncleric to run the IOR. Mr. Caloia, through his secretary, declined to comment on his resignation.



Pope Benedict XVI

The Vatican statement didn't give a reason for the changes. Senior Vatican officials, however, said Cardinal Tarcisio Bertone, the Vatican's No. 2 official, has long sought to shake up the bank's management in a bid to modernize its operations.

Any push for change, however, is likely to run up against the Vatican's long tradition of maintaining a low profile when it comes to managing Church finances. "It's a delicate post. We expect deep change," said one Vatican official.

Mr. Gotti Tedeschi's appointment, one Vatican official said, shows the bank is "moving in the direction of more transparency, but it's hard to predict what concrete changes will be made."

The IOR doesn't administer loans or publish its financial results. Its clients are mainly Vatican officials, clergy and private individuals who are invited by the bank to open accounts. Located in a medieval tower inside the world's smallest state, the IOR is regulated only by a small commission of cardinals who report to the pope. Over the decades, the IOR's lack of transparency and oversight has led to abusive practices. Mr. Caloia was appointed under Pope John Paul II in 1989 to clean up the IOR in the wake of a massive banking scandal.

In the late 1980s, Italian magistrates investigated the IOR for contributing to the 1982 collapse of Banco Ambrosiano. The Vatican, which was a shareholder in the collapsed bank, repeatedly denied any wrongdoing and invoked a treaty with Italy that shields the Vatican from Italian investigations under its status as an independent sovereign state. The Vatican, denying any wrongdoing, eventually agreed to pay $250 million to Banco Abrosiano's creditors.

Mr. Gotti Tedeschi, according to two people familiar with the matter, served as an influential adviser on "Caritas in Veritate," Pope Benedict's recent treatise on the global economy. That document, one of the most authoritative forms of papal writing known as an "encyclical," called for stronger ethics and greater regulatory oversight in the financial world.

In his new post, Mr. Gotti Tedeschi will lead the IOR's "management board," a body of laymen who oversee the bank's operations.

The Holy See also named new members to the supervisory board, including Carl Anderson, chief executive of the Knights of Columbus, a Catholic order based in New Haven, Conn., and a member of several Vatican advisory bodies.

—Davide Berretta contributed to this article.

Siemens issues an ultimatum

Seven ex-officials are given November deadline to agree to scandal-related settlements

By Vanessa Fuhrmans

Siemens AG threatened to take legal action against seven former executives if they don't agree to settle damage claims tied to the company's bribery scandal by mid-November. Included in the company's ultimatum was Klaus Kleinfeld, now chief executive of **Alcoa** Inc.

The deadline, handed down by Siemens's supervisory board on Wednesday, is the German engineering giant's latest attempt to put behind it a massive corruption case that badly damaged its reputation and forced the resignation of several members of top management.

It puts renewed pressure on Mr. Kleinfeld, Siemens's former CEO, and his predecessor, Heinrich von Pierer, who became chairman in 2005, to pay damages for what the company called failed oversight amid the unfolding scandal.

Both executives left Siemens in 2007 in the wake of allegations that the industrial conglomerate had spent more than $1 billion in recent years bribing government officials in at least a dozen countries to win contracts on jobs ranging from supplying power equipment to building refineries. Mr. Kleinfeld was succeeded by Peter Loescher, Siemens's current CEO, who joined the company from U.S. drug maker Merck & Co. to aid in the Germany company's recovery from the scandal.

Neither Messrs. Kleinfeld nor von Pierer stands accused of any criminal conduct in connection with the scandal, but many shareholders allege that they failed to fulfill their oversight responsibilities to the company. Siemens has been under pressure from investors to seek damages from them on that basis.

Reuters; Agence France-Presse/Getty Images

Siemens is pushing seven former executives—including Klaus Kleinfeld, left, and Heinrich von Pierer—to settle damage claims.

Mr. von Pierer's attorney declined to comment Wednesday, citing continuing negotiations between his client and Siemens. A spokesman for Mr. Kleinfeld also declined to comment. Both executives on previous occasions have denied any wrongdoing.

Siemens agreed in December to pay $800 million in fines—the largest penalty ever imposed under the U.S. Foreign Corrupt Practices Act—to end litigation by the U.S. Justice Department and Securities and Exchange Commission over bribery allegations. It also reached a settlement to pay €596 million, or roughly $881 million, to German authorities and struck a smaller deal with the World Bank in July. In entering the settlements, Siemens didn't admit to any of the alleged bribery.

The company is seeking about €6 million ($8.4 million) in damages from Mr. von Pierer, one of Germany's most prominent corporate chieftains before the bribery investigations began, and a smaller amount from Mr. Kleinfeld, according to people familiar with the negotiations. Out-of-court settlements in the millions would be unprecedented in Germany for alleged breaches in corporate oversight.

After several months of talks, the company said in a statement Wednesday that it is giving Messrs. von Pierer and Kleinfeld and five other former management-board members until the November deadline "to declare their willingness to reach a settlement," so that any final agreements are ready in time for Siemens's annual shareholders meeting Jan. 26. Siemens is seeking damages in the range of €2 million to €6 million each from the managers, according to people familiar with the talks.

Last month, Siemens reached settlements with three former board members, Klaus Wucherer, Rudi Lamprecht and Edward Krubasik, who each agreed to pay €500,000 to avoid what the company said could have been years of litigation.

Société Générale CEO revamps management

By Jethro Mullen

PARIS—Frédéric Oudéa, chairman and chief executive of **Société Générale** SA, took a further step to revamp senior management, naming two new deputy chief executives as he continues efforts to distance the French bank from the tumult it suffered in 2008.

Mr. Oudéa, 46 years old, aims to position the bank closer to its customers while getting a tighter grip on risks after the trading scandal and toxic asset write-downs that plagued it last year.

Since Mr. Oudéa took over as CEO in May 2008, succeeding Daniel Bouton in the wake of the €4.9 billion ($7.25 billion) trading loss that SocGen blamed on trader Jérôme Kerviel, many of the bank's old-guard officers have either left or taken a step back from front-line activities.

Of the 13 members of SocGen's executive committee at the start of 2008, only three will have stayed in the same role by year's end. Others have left or moved up the ladder in Mr. Oudéa's slipstream.

The most recent change came Wednesday when SocGen—one of France's largest banks by market value, along with **BNP Paribas** SA and **Crédit Agricole** SA—announced a reshuffling of its deputy chief executives. Didier Alix, who has been with the bank since 1971, will step aside to become a senior adviser to Mr. Oudéa at the start of next year. Mr. Alix was unavailable to comment.

Reuters

Société Générale Chief Executive Frédéric Oudéa, shown in May, aims to position the French bank closer to its customers and to get a tighter grip on risks.

Jean-François Sammarcelli, the head of SocGen's French retail-bank operations, and Bernardo Sanchez Incera, brought in from French supermarket chain Monoprix, will become deputy chief executives alongside Séverin Cabannes.

"We are facing a new environment—a new world. Société Générale is adapting to this new world," Mr. Oudéa said at a SocGen media event in London earlier this week. He listed SocGen's goals for the next three years as strengthening client relationships, setting an example in managing human resources—including the controversial topic of remuneration—and improving operational processes and risk management.

Mr. Oudéa's three lieutenants will divide responsibilities for the bank's main activities, as the CEO reinforces his chain of command. Mr. Sammarcelli will oversee retail-banking activities in France, notably the SocGen and Crédit du Nord branch networks, as well as online-banking unit Boursorama. Mr. Incera will be in charge of international retail banking and specialized financial services, while Mr. Cabannes will look after the corporate and investment bank, asset-management and investor services, human-resources, risk and financial departments.

Mr. Oudéa and his three deputies demonstrate the generational chnage that has taken place at the top of SocGen. Mr. Bouton and his two right-hand men, Mr. Alix and Philippe Citerne, were all born between 1946 and 1950, whereas Messrs. Oudéa, Cabannes and Incera were born between 1958 and 1963. Mr. Sammarcelli, born in 1950, bridges the two age groups.

Tesco furthers green strategy in U.S. market

By Jeffrey Ball

Tesco PLC, seeking to make a name for itself in the U.S. retail market, plans to open a grocery store in California on Thursday bearing an environmentally friendly badge.

The store, in Cathedral City, Calif., near Palm Springs, has won so-called LEED gold certification—a label that many commercial buildings seek as public evidence of their environmental and energy-saving design.

Since November 2007, Tesco has opened about 125 Fresh and Easy grocery stores in the U.S. that all share the same environmentally friendly design. The stores, focusing on Southern California and the Las Vegas and Phoenix metropolitan areas, all use energy-efficient lighting and refrigerators, and most of their meat, vegetables and other fresh food arrives in reusable plastic containers rather than disposable cardboard boxes.

Tesco hopes this environmental bent will help it save money and win loyalty with U.S. consumers in fiercely competitive markets.

In the U.K., Tesco stores already have begun labeling products such as orange juice and milk with the product's carbon footprint, a calculation of the amount of greenhouse gases emitted from the item's production, distribution, use and disposal. Tim Mason, Fresh and Easy's chief executive, said he wants to roll out carbon labels in the U.S. stores, too, though he hasn't decided when to do so.

Other retailers are making similar moves, sensing both impending greenhouse-gas regulations and rising consumer concern about the environment. **Wal-Mart Stores** Inc., the dominant U.S. retailer and grocer, has begun broadly integrating environmental features such as energy-efficient refrigerators and lights into its stores, and it has built a handful of stores billed as particularly environmentally friendly.

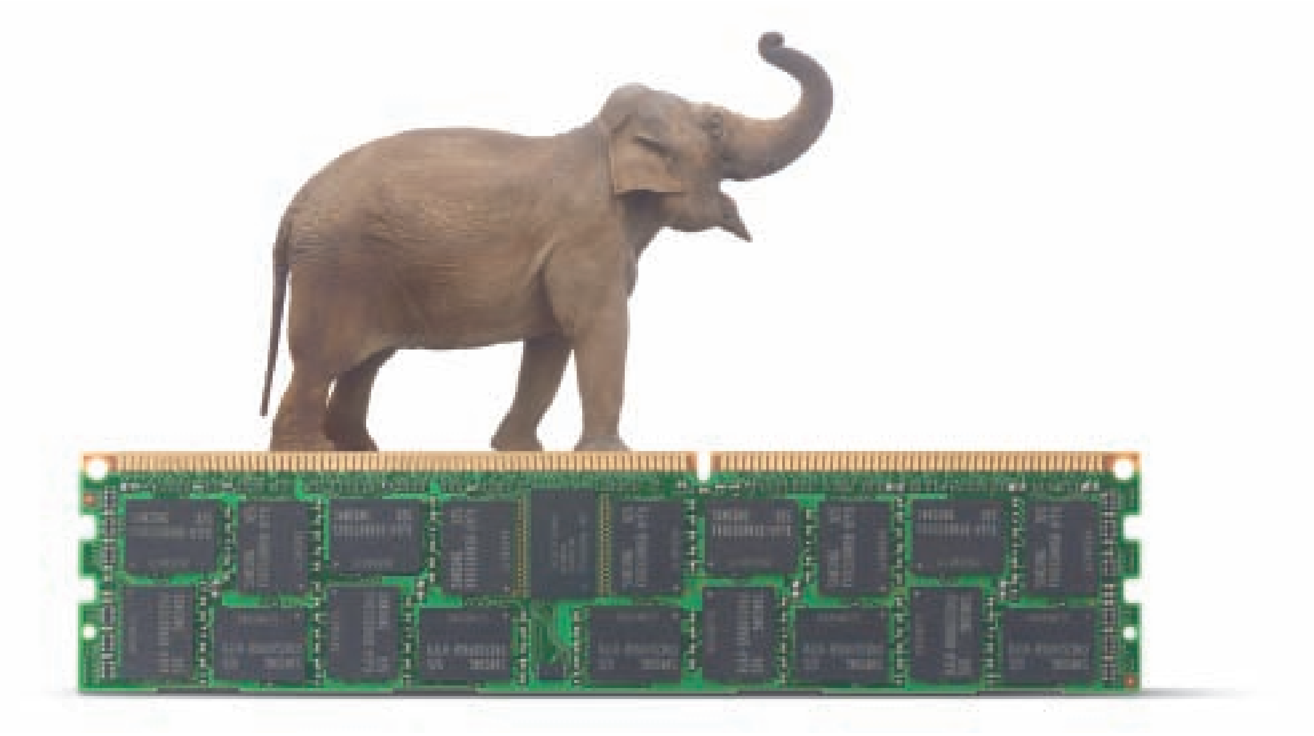
Wal-Mart also recently said it intends to start labeling some of the products it sells with a so-called sustainability index. That score, likely to be put on some products starting in the next few years, would be broader than the carbon-footprint number on Tesco products. The Wal-Mart version would take into account other environmental impacts such as water use and waste disposal.

Tesco's Cathedral City store is the retailer's first to have LEED, or Leadership in Energy and Environmental Design, certification. The label is administered by a nonprofit group based in San Francisco, and requires that buildings meet a set of environmental and health standards for certification.

Tesco's Mr. Mason said its store design uses about 30% less energy than a comparably sized conventional store.

Tesco is making other high-profile environmental moves in California. Atop a distribution center in Riverside, Calif., Tesco has installed what it says is one of the largest roof-mounted solar arrays in California.

The project illustrates the amount of money it takes to harness energy from the sun: Tesco says the 500,000-square-foot solar-panel system cost $13 million and will provide as much as 20% of the distribution center's power supply. Mr. Mason said the solar array probably will take 10 to 12 years to pay for itself with energy savings.



CORPORATE NEWS: AVIATION

Saving fliers stranded on the runway

Aviation pros offer practical solutions; hotline to the CEO

By Scott McCartney

Jason Schneider

Listen up airlines: You need to fix the problem of leaving people stranded on miserable, smelly airplanes with little food, water or patience—and you can. Lots of your peers say so.

Despite repeated high-profile meltdowns, the U.S. air transportation system, including airlines, airports and government, hasn't moved to solve this problem. Ten years ago planeloads of Northwest Airlines passengers were stranded up to eight and a half hours in a Detroit snowstorm. Last month, a planeload of Continental Airlines customers was stranded overnight aboard a regional jet in Minnesota; the toilet broke at 3 a.m.

THE MIDDLE SEAT

An American Airlines jet sat for nine hours in Austin, Texas, in 2006. JetBlue Airways left customers marooned for 10 hours or more in a 2007 ice storm.

Through July this year, 777 flights were stuck sitting for three hours or more, according to the U.S. Bureau of Transportation statistics.

On Tuesday, a diverse group of aviation professionals gathered in Washington to debate solutions, including urging the U.S. Congress to force airlines to give passengers the option of leaving a plane after three hours of runway jail. In conversations outside the staged event, these engineers, former airline executives, airport managers and pilots' union leaders offered common-sense solutions.

Among these: Have buses and covered mobile staircases ready to remove passengers, and designate parking areas for unloading when gates aren't available. Allow planes to take a number, just like people waiting to buy concert tickets, so that planes can drop passengers back at gates without losing their spot in the takeoff queue. And why not offer a hotline to the airline CEO, who could break airline logjams?

"I just don't think this is all that tough to solve," said George Doughty, a veteran airport manager at large and small airports who served on a government task force on delays last year.

Aviation experts say the problem of stranded passengers has intensified because airlines, under financial pressure, rely more on smaller planes and pack more people onto each flight than in the past. They try harder to avoid cancellations because it is more difficult to re-book passengers. In addition, layoffs and buyouts have sapped many airports and operations centers of veteran employees and enough workers to shepherd planes in and out of gates.

Mr. Doughty's current airport in Allentown, Pa., frequently gets flights diverted from Newark, N.J., and Philadelphia. The airport bought a used school bus and a separate wheelchair lift so that passengers who want to get off after a long delay can actually get off. Total cost: less than $100,000.

Dallas-Fort Worth International Airport has taken similar steps on a bigger scale. The airport purchased a covered staircase and buses to take people from parked aircraft to terminals, plus a catering truck that rises up to airplane doors to unload people in wheelchairs who can't go down stairs, according to James Crites, DFW's executive vice president of operations.

Indeed, some experts say airports should set up an area where long-delayed flights could taxi up to and unload passengers who want to abandon the trip or wait for another flight, then continue on with the rest of the passengers, much as they do for de-icing in winter. In Europe and much of the rest of the world, remote parking and busing operations are common. But not in the U.S.

Dallas-Fort Worth went a step further than busing, spending $750,000 to equip two unused gates to be available just for airlines to quickly unload passengers who want off flights. And with American Airlines, its major tenant, the airport equipped gates with laser-driven systems called Safedock that let pilots drive airplanes up to gates without workers on the ground directing them. When lightning forces ground workers indoors, planes can still pull up to gates, saving airlines money and passengers time.

But waiting for voluntary fixes hasn't worked. Several aviation veterans say they have come to believe, sometimes reluctantly, that Congress should limit how long people can be held on airplanes without a chance to get off a plane. Such a limit would force carriers, airports and the U.S. Federal Aviation Administration to come up with real solutions, they say.

"Airlines should have led the way in laying out a program," said Robert Crandall, former chairman and chief executive of **AMR** Corp. and American.

To be sure, some airlines have taken steps to try to mitigate very long delays. After its Austin strandings, American added systems that alert operations managers to flights that have been sitting for two hours, and instructed staff to try to get people off planes after four hours. Continental runs vans to retrieve passengers who want off of long-delayed airplanes. JetBlue issued its own customer promises after its Valentine's Day fiasco in New York. But there has been no comprehensive industry effort to fix the problem. Even the government task force report last year that recommended each airline and airport develop and publish contingency plans has sparked little action.

"You task airlines to come up with solutions and they will come up with solutions," said David Bourne, a Boeing 747 captain and director of the airline division at the International Brotherhood of Teamsters, which represents workers at more than 20 U.S. passenger carriers.

The Air Transport Association, the lobbying group for airlines, says a three-hour limit would have the unintended consequence of forcing airlines to cancel more flights, leaving people stranded in cities for perhaps several days until they can get a seat on another flight.

Mr. Crandall suggests starting at a four-hour limit and dropping the threshold to three hours in 2011. That would give airlines a chance to adjust to new rules without creating massive cancellations and disruption. "It's really pretty simple," Mr. Crandall said. "We don't need to trap people on airplanes for six and seven hours."

One key change to help the situation, Mr. Crandall and others said, is that the FAA should let a plane return to a gate without losing its place in line for takeoff. Right now, takeoff priority is a first-come, first-serve process. Leaving the queue can put a plane last in line for takeoff, leading to additional delay for passengers who wanted to stay on board and increasing the chance that pilots will run out of time in their work day under federal duty limits. Avoiding conga lines of airplanes would also save fuel and curb emissions.

And as a last resort, some aviation officials say: A hotline for workers—or even customers—to alert an airline CEO to a massive mess. If low-level employees aren't solving the problem, maybe the boss needs to know.

Write to middleseat@wsj.com.

Speed sensors on Airbus jets face inquiry

A WSJ News Roundup

European safety officials have ordered checks on certain Airbus speed sensors supplied by U.S. manufacturer **Goodrich** Corp., weeks after clamping down on alternative equipment from France's **Thales** SA.

Potentially faulty speed readings from sensors made by Thales are at the center of investigations into the crash of an Air France A330-200 jet in the Atlantic on June 1.

In an airworthiness directive dated Tuesday, the European Aviation Safety Agency said there had been reports of loose fittings on a number of Goodrich sensors, known as pitot probes. If not corrected, such a problem could lead to an air leak and false speed readings, according to the public document.

The Goodrich sensors were designed for the Airbus A330 and A340. Goodrich, of Charlotte, N.C., wasn't immediately available to comment.

A spokeswoman for the aviation-safety group said the problem would be "relatively easy" to address and services were unlikely to be severely disrupted.

"There has been a limited batch of Goodrich pitot tubes which had a quality issue," Airbus spokesman Stefan Schaffrath said. "Through the serial numbers, the faulty pitot tubes are perfectly identified." The number of airlines and aircraft affected wasn't immediately available.

It is the first time Goodrich sensors have come under the spotlight since the Air France crash highlighted the occasional fragility of systems used to measure an aircraft's speed. All 228 people on board were killed when Air France flight AF447 crashed en route from Rio de Janeiro to Paris. Investigators revealed inconsistent speed readings from the three Thales sensors on board the flight, but have said it is too early to say exactly what caused the crash.

Since the crash, several other incidents involving speed sensors have come to light, but French investigators attribute this in part to extra zeal in reporting momentary glitches that would otherwise pass almost unnoticed and never be reported.

Pitot probes take pressure readings from which computer systems calculate an aircraft's speed, but they are vulnerable to icing or anything else that interrupts the air flow. Without accurate speed data, pilots can accidentally fly the plane too fast, putting pressure on its structure, or too slowly, causing it to stall.

Goodrich is the standard supplier of sensors for the A330 and A340 made by Airbus, a unit of **European Aeronautic Defence & Space** Co. Thales makes the only approved alternative.

JAL weighs a breakup on its path to profitability

By Alison Tudor

TOKYO—**Japan Airlines** Corp. will consider a breakup of the company along with a range of other options, according to a person familiar with the matter, as the ailing carrier faces pressure from lenders and the government to turn itself around.

Executives from JAL are scheduled to meet with Transport Minister Seiji Maehara Thursday to discuss plans for the unprofitable company. The transport ministry is supervising the rehabilitation of JAL, which has already received three government bailouts since 2001.

JAL has been mired in losses as huge debt and pension obligations were worsened by tougher domestic competition and the fall in global air travel, leaving it reliant on government funding to survive. The latest in a line of restructuring efforts will see it cut more jobs and routes. It is predicting a net loss of 63 billion yen ($691 million) for the full business year ending March.

The options under consideration include JAL's splitting off its more profitable parts and selling its money-losing operations, said the person familiar with the matter.

JAL has a large portfolio of non-flying businesses, while the airline has also shifted many services to a number of lower-cost subsidiaries—JALways, JALExpress and the domestically focused J-Air.

Freight operations could be another potential spin-off after the airline last month said it was in talks to combine its business with Nippon Cargo Airlines next year. Almost 30% of JAL's revenue in the year to March came from non-flying activities, a higher proportion than most rivals.

JAL is being courted as a business partner by both **Delta Air Lines** Inc. and current partner American Airlines, owned by **AMR** Corp., as the two U.S. carriers seek stronger ties and access to the Japanese carrier's lucrative Asian and trans-Pacific routes.

—Doug Cameron contributed to this article.

CORPORATE NEWS

Ford plans big push to catch up in Asia

New model assembled in India will be exported elsewhere, while third China plant will raise auto maker's output

Ford Motor Co. is making a major push this week in Asia—long a weak link in its global operations—as part of an ambitious strategy started three years ago by Chief Executive Alan Mulally.

*By **Matthew Dolan** in Detroit, **Norihiko Shirouzu** in Beijing and **Eric Bellman** in New Delhi*

In India on Wednesday, Mr. Mulally unveiled a low-cost small car specifically developed for Asia that will be built at a newly expanded Indian plant. The vehicle, called the Figo (pronounced fee-go), will be sold in India and exported to other countries in the Asian-Pacific region.

On Friday, Ford will announce plans to open its third assembly plant in China, according to people familiar with the matter.

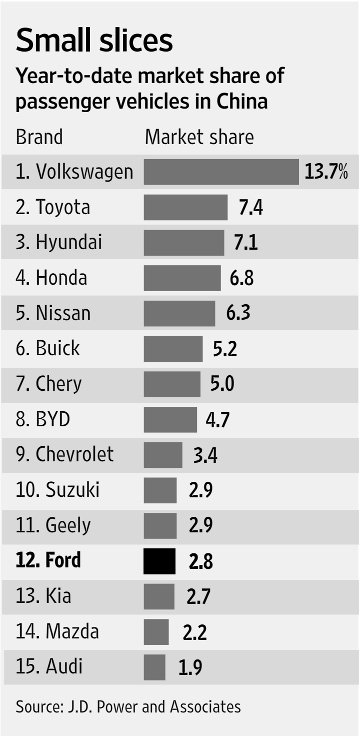
The two moves will significantly increase Ford's production capacity in the fastest-growing region in the global auto industry, and will give the company a new car that is priced and sized for a large swath of buyers across Asia.

"Alan fully recognizes that we had to be strong in all three areas of the world if Ford Motor Co. was going to be a cohesive, integrated and successful company," said John Parker, executive vice president of Ford's Asian-Pacific operations.

Ford also said Wednesday that U.S. automobile sales are expected to rise during the next two years because of various stimulus programs and a recovery in the world's biggest economy. Mr. Mulally said that between 10.5 million and 11 million vehicles are expected to be sold in the U.S. in 2009. Sales are likely to grow to 12.5 million in 2010 and 14.5 million in 2011.

The new small car—Figo is colloquial Italian for "cool"—is due to be launched in 2010. It was developed as part of a $500 million investment in India announced January 2008. Part of the investment doubled capacity at a plant near Chennai to more than 200,000 cars a year.

The tiny four-door hatchback with cat-eye headlamps gives Ford an entry into an increasingly important segment of the Asian market. The vehicle is expected to sell for under $10,000, within reach of many in India's growing middle class.



Ford plans to start selling the Figo in Asia next year. The four-door hatchback is expected to cost less than $10,000.

Ford believes the Figo will appeal to customers who want more than a bare-bones vehicle, such as the $2,000 Nano developed by Indian auto maker **Tata Motors**.

In an unusual move, Ford showed only the exterior of the Figo at its unveiling in New Dehli. Ford covered the windows and locked the doors, preventing journalists from seeing inside. Company executives said details such as the interior, engine specifications and price will be announced at the car's commercial introduction early next year. Ford denied that the interior wasn't ready.

For Ford, which sold only about 30,000 vehicles in India last year, the Figo "will be quite crucial for further growth," said Asish Mathew Jose, market analyst for Segment Y, an automotive research company in Goa, India.

With the Figo, Ford seems to be following other car makers that use India's low-cost manufacturing to export elsewhere. **Maruti Suzuki India** Ltd., the nation's biggest car maker by sales, exports the A-Star and Alto to several countries, while **Hyundai Motor** Co. produces the i10 and i20 hatchbacks solely in India for export world-wide.

In China, which is expected to pass the U.S. as the largest auto market this year, Ford has two plants that together can produce about 447,000 cars a year.

The company is expected to announce a third plant with partner **Chonqing Changan Automobile** Co., bringing total capacity to at least 600,000 vehicles a year.

Ford still faces many challenges in Asia, however. Even with the new capacity it still trails key competitors in China.

Toyota Motor Corp. can make 800,000 vehicles a year, and expects to lift that to more than one million in a few years, a Toyota spokesman said. **General Motors** Co. has partnerships and joint ventures that give it total capacity of 1.29 million vehicles a year.

The Ford name isn't uniformly known in India or China. In China, Ford has 216 full-service dealers, compared with Toyota's more than 500 and GM's more than 800. Ford accounts for about 2% of car sales in the Asian-Pacific market.

Shoring up Ford's Asian operations has been a critical goal for Mr. Mulally, a former Boeing Co. executive with substantial experience in the region. But since arriving at Ford in 2006, Mr. Mulally has had to focus on keeping the company's U.S. operations afloat. Mr. Mulally said Wednesday that Ford is sticking to its forecast to break even or earn money in 2011.

Mr. Mulally is credited with having taken quick action to put Ford in a much stronger position than rivals GM and **Chrysler Group** LLC, both of which went through bankruptcy court and took government bailouts.

At the same time, however, Mr. Mulally also dispatched executives to find out what was holding up growth in Asia. They found an organization that wasn't focused enough on the region's two giant markets, China and India.

In China, Ford has lagged behind GM, Toyota, **Volkswagen** AG and other Western auto makers. According to J.D. Power & Associates, Ford is the No. 12 auto brand in China in terms of sales.

The company has been slowed in part because its partner is located in Chonqing, in the less-developed western provinces. There, Ford hasn't always been able to find suppliers for certain components, forcing it to use more expensive imported parts, Ford officials said. That hurts the profits, they said.

GM and VW, in contrast, have plants near Shanghai, an area teeming with auto suppliers and consumers with cash to spend.

In India, Ford struggled early on with models that proved too expensive for Indian consumers. Now, the Fiesta subcompact is its top seller.

In 2008, even as Ford's problems worsened in North America, the company mapped out a plan to invest $2 billion to become more competitive in Asia. It started work on the Figo and recently, Ford said it would move its Asian headquarters from Thailand to Shanghai.

Ford is now working to consolidate manufacturing in four regions. It also seeks a more cohesive regional approach instead of country-by-country operations, and is working to enhance the Ford brand.

"We concluded that we wanted to focus on the Ford brand because this is what you were going to have to do if you wanted to create a Ford powerhouse around the world," Mr. Mulally said in an interview.

—Nikhil Gulati and Santanu Choudhury contributed to this article.

Cement firms under scrutiny in Spain

BY JONATHAN HOUSE

MADRID—European Union and Spanish antitrust officials have carried out surprise inspections at the premises of companies making cement and related building products in Spain, the European Commission and Spain's National Competition Commission, or CNC, said Wednesday.

The EU and Spanish probes are separate, said representatives for the CNC and the European Commission, the EU's executive branch, although they are targeting some of the same companies on suspicions of taking part in price-fixing cartels.

The commission spokesman said its Spanish inspections were done "in the context of a broader investigation begun last November." At that time, the commission had said it carried out inspections at cement companies suspected of cartel practices in several unnamed EU countries.

The CNC said its inspections represent a preliminary step and don't necessarily mean the start of a formal proceeding.

If illegal practices are proved, the CNC could impose penalties of as much as 10% of the total sales volume of any company involved.

The inspections don't necessarily mean the start of a formal proceeding.

Neither the commission nor the CNC named the companies they inspected nor did they say during what period they suspect price fixing might have taken place.

Cemex SA of Mexico said in a filing with U.S. regulators that Spanish antitrust authorities searched the offices of its Spanish unit.

A spokesman for Cementos Portland Valderrivas SA said the company, which is controlled by construction company Fomento de **Construcciones y Contratas** SA, is cooperating with authorities.

Swiss cement maker **Holcim** Ltd. confirmed its offices in Spain were searched in the context of the EU probe, adding that it was fully cooperating with authorities.

A spokeswoman at Barcelona-based cement producer **Cementos Molins** SA said the company hasn't been formally notified of any probe.

—Carolyn Henson in Brussels, Martin Gelnar in Zurich and Pablo Dominguez contributed to this article.

EU commission approves Poland's aid to Dell factory

BY MATTHEW DALTON

BRUSSELS—The European Commission on Wednesday approved a €54.5 million ($80.7 million) aid package from Poland for **Dell** Inc. to build a factory in the country.

The commission, the European Union's executive arm, began investigating the aid package in December based on concerns that it didn't comply with EU rules.

The Lodz plant, which makes laptops, desktops and servers, started operating in January 2008 and employs 1,700.

"Our assessment shows that the project's contribution to regional development and job creation in a disadvantaged region of Poland outweighs any potential negative effects," Neelie Kroes, the EU's antitrust chief, who also reviews state aid to the private sector, said in a statement.

Compared with other big Polish cities, the Lodz region has a low standard of living and high unemployment, the commission said. The regulators said they studied the state aid closely to ensure the plant wouldn't be helping Dell sell more of a product that wasn't selling well.

Dell said at the start of the year it would close its Limerick, Ireland, plant and shift the work to Poland, costing Ireland 1,900 jobs. The commission Saturday said it will give €14.8 million to the laid-off workers. The news came just weeks before Ireland will vote on the Lisbon treaty, which would give the EU its first permanent president.

ECONOMY & POLITICS

China rebuffs EU pleas on pork

Beijing insists on export certification that animals are free from H1N1 influenza virus

By Sky Canaves

BEIJING—China stuck to its position of imposing new requirements on pork imports from several European countries on Wednesday, following a meeting here between the European Union's health chief and Chinese food-safety officials.

Last week, China announced new measures on imports of pork from four EU nations—Denmark, France, Italy and Spain—as well as Canada, requiring certification that the animals used for the meat were free of the H1N1 influenza virus. Pork imports from Northern Ireland were earlier subject to restrictions.

The EU opposes the measures because they impose additional costs on exporters, and it says its pork products are safe.

"In the whole of the European Union, we only had a case in a particular farm in Northern Ireland of the H1N1 virus and we have taken very strict measures regarding the biosecurity of that farm," said EU Health Commissioner Androulla Vassiliou.

Ms. Vassiliou cited a May joint declaration by the World Health Organization, Food and Agriculture Organization and the World Organization for Animal Health stating that H1N1 isn't transmitted through the consumption of pork. "What we are interested in is that the importation of pork will not be restricted, because there is no danger," she said.

China defended the actions. "We have to protect China from the transmission of the epidemic from overseas, and we also have to prevent the epidemic in China from spreading further," said Yu Taiwei, head of food safety for imports and exports at the General Administration of Quality Supervision, Inspection and Quarantine, or Aqsiq.

Mr. Yu denied that the move constitutes a trade restriction. "The measures comply fully with the WTO regulations," he said.

"Every country in the world should oppose trade protectionism; this is the position of the central government," said Wang Yong, head of Aqsiq.

U.S. government and pork-industry representatives have also complained about China's ban of U.S. pork because of H1N1 concerns.

Reuters

A vendor sells pork in China's Hubei province in August. China said it will keep new measures announced last week that require pork exporters from four EU nations and Canada to certify that animals used for the meat were free of the H1N1 virus.

Recovery may hinge on China's restructuring

By Andrew Batson

BEIJING—As the leaders of the Group of 20 nations work to assemble a durable global recovery, a crucial piece of the puzzle will be whether China's economy can move away from a reliance on government stimulus to real, sustained domestic demand.

China is already shifting gears by scaling back new bank lending and removing more regulatory barriers to economic growth. The small businesses that create the most new jobs have been promised more opportunities. But this new course will likely be trickier to manage successfully than the initial push to get money flowing.

That stimulus was effective in quickly boosting growth: Most forecasters now expect the government to meet its goal of an 8% expansion this year. But after feeding enormous amounts of credit into the economy—more than $1 trillion so far this year—China's government needs to make sure private investors put those funds to good use. The U.S. and other nations have also urged China not to resume its old pattern of investment-led and export-led growth.

"Senior policy makers know that 8% growth is within reach, so they are starting to think about structural reforms," said Lu Ting, China economist for Bank of America-Merrill Lynch. "If they want to grow China more efficiently and more sustainably, they have to deal with vested interests and break up monopolies."

Without such changes, he said, there is a risk that the flood of new bank lending will end up funding wasteful investments and not add much to growth. Regulators have moved to control short-term lending, which accounted for more than a third of new credit in the first half, because of worries that some of it was used for speculation.

Chinese officials are striking a balance between maintaining confidence in the recovery and adjusting policy to new conditions. They have repeatedly assured the public that stimulus policies will remain in place. But the pace of new bank lending has come down to 410.4 billion yuan ($60.12 billion) in August from a first-half average of 1.2 trillion yuan a month. The widening of the budget deficit has also reversed modestly in recent months.

Leaders, in public comments, are taking the long view. "Our policies should not only focus on overcoming the short-term difficulties, but also, and more importantly, ensure long-term development," Premier Wen Jiabao said this month.

In recent weeks, Mr. Wen's administration has announced more liberal rules for venture capital, support for service industries such as outsourcing, new social programs for farmers, plus tax breaks and a new stock-market board for small businesses.

The large role of China's state in the economy could hamper the new priority of giving private-sector companies, not only government entities, the means and confidence to spend for the future. The administration already faces criticism that the stimulus neglects small businesses and jobs.

"What is the goal of 8% growth? It is to maintain employment. But if you look at many actual investment projects, you will discover they don't have much connection to employment," said Tang Min, deputy secretary-general of the China Development Research Foundation in Beijing.

The majority of new longer-term bank lending this year has gone toward infrastructure, with its share rising to about 52% from 44% last year before the stimulus.

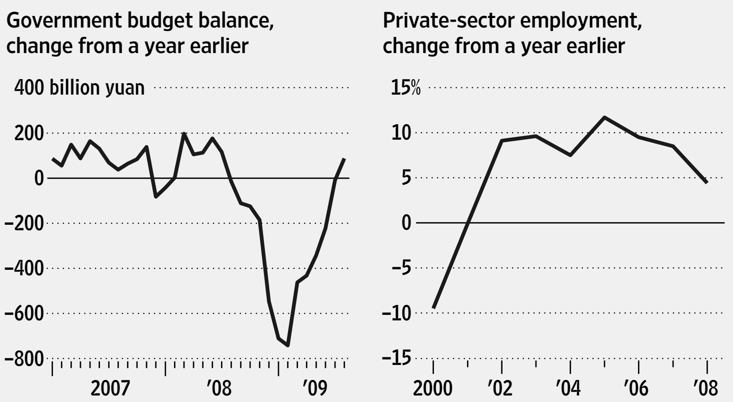
While benefits of such projects do filter through into the broader economy, they may not do much to raise private-sector employment, because China's state companies build most railroads and airports. On Tuesday, the government said banks should give more longer-term loans to small companies, though it didn't give a target.

For private companies to expand employment, they also need to be able to invest in new business opportunities. But many lucrative sectors in China are dominated by state enterprises. Private firms complain they are getting squeezed out of steel, coal mining and transportation.

The government has said it plans to lower barriers to private-sector investment in some sectors. But it remains to be seen if the government will take far-reaching measures that would subject China's biggest companies to tougher competition.

Pivot point

As the first boost from China's stimulus passes, the private sector will be key to future job growth



Sources : China's Ministry of Finance (budget balance); All-China Federation of Industry and Commerce (private-sector employment)

China urges fund to help poorer nations

By Paul Hannon And Natasha Brereton

LONDON—The Group of 20 industrial and developing economies should consider setting up an international wealth fund that would invest a portion of its members' current-account surpluses in developing economies, People's Bank of China Deputy Governor Hu Xiaolian said in a paper released Tuesday.

The paper was part of a report on a conference of G-20 policy makers in Mumbai in May. The senior central-bank and finance-ministry officials met to discuss the causes of the global financial crisis and the lessons to be learned from it.

The officials discussed the role of the U.S. dollar as the main reserve currency in contributing to the crisis, according to the report. "There were a range of views over the best way to strengthen the reserve system," it said.

Before the crisis, China and other developing economies had large current-account surpluses as a result of their exports to developed economies, and growing foreign-exchange reserves. Much of this money flowed back to developed countries in the form of cheap credit, leading to excessive risk-taking.

In her paper, Ms. Hu proposed that one solution to the "flowback" problem would be to establish a "supra-sovereign-wealth investment fund" that would invest some of the surplus in poor countries "so that these countries can serve as new engines in global recovery and growth."

Since the financial crisis last year, China and other large developing economies have argued that the dominant role played by the U.S. dollar is a source of weakness for the global economy.

Although conducted at a relatively junior level, and repeating many known arguments, it's significant that G-20 members discussed possible changes to the reserve system.

However, the G-20 officials were divided on the actions that need to be taken to strengthen the system, though many argued a more "balanced" spread of reserve currencies was preferable.

Developing economies such as China "argued that this would best be pursued through the creation of a new global reserve asset based on the SDR (Special Drawing Rights)"—an artificial currency used for accounting by the International Monetary Fund.

"This would require making the SDR a useable currency, which would require underpinning its value and supporting its use in trade and in corporate transactions and accounting," the report said.

But other members said "the preeminent status of the dollar as a reserve currency reflected the choices of public and private agents around the world, rather than resulting from a requirement or rule."

They argued that central banks are already in a position to diversify their reserves by buying euros, yen or other currencies, and that "it was not clear that a new composite currency needed to be actively created."