Leading the News: Experimental HIV vaccine in Thailand provides some protection

THE WALL STREET JOURNAL.

VOL. XXVII NO. 165 — EUROPE — FRIDAY - SUNDAY, SEPTEMBER 25 - 27, 2009

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What's News

World leaders began to converge on Pittsburgh for the G-20 summit. Economic challenges top the agenda, with leaders aiming to coordinate rules of international finance, and not lose momentum for regulatory overhaul amid signals of a nascent recovery. Pages 5, 14-15

■ **Shriti Vadera**, one of Brown's closest advisers, will step down as U.K. business minister to take a position as a G-20 liaison. Page 3

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■ **H&M reported** a 4.1% rise in profit, and the Sweden-based retailer expanded its goal for opening stores. Page 7

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■ **A man in England** stumbled upon the largest Anglo-Saxon treasure ever found, a seventh-century hoard of gold and silver items.

■ **Two armed robbers** made off with a $1.1 million painting by Belgian surrealist Rene Magritte in a heist at a small museum in Brussels.

EDITORIAL&OPINION

Nuked

Now more than ever, the U.K. needs a nuclear deterrent. Page 12

Breaking news at europe.WSJ.com

Agence France-Presse

The U.K.'s Peter Mandelson, a proponent of open markets, said Thursday that foreign takeovers could disadvantage British companies.

U.K. reviews open markets

Mandelson sees possible disadvantage in foreign ownership of British firms

By Alistair MacDonald

Lord Peter Mandelson, a senior British minister who has been a leading international proponent of open markets, said Thursday that foreign ownership of some British companies may in the long term "disadvantage" a country that has for decades welcomed overseas takeovers.

Though far from setting the U.K. on a protectionist path, his comments—against the backdrop of **Kraft Foods** Inc.'s bid for British confectioner **Cadbury** PLC—suggest increasing scrutiny in the U.K. of a decadeslong mantra that foreign ownership is neutral for domestic companies.

Lord Mandelson, who heads the country's Department for Business, Innovation and Skills and is one of Prime Minister Gordon Brown's top officials, said the U.K. is committed to open markets for trade and investment. But he said the country needs to be "mindful" of the long-term effects of foreign ownership.

"I am keeping a weather eye on this area, because I have started to become concerned that over a lengthy period of time, certainly not overnight, U.K. manufacturing could be a loser," he said.

In particular, Lord Mandelson, who has already talked of rebalancing the U.K. economy to help the country's manufacturing base, worries that over a period of, for example, 20 years, foreign ownership could "disadvantage" the location of U.K. manufacturing plants.

Lord Mandelson didn't cite specific examples. In recent weeks, though, the U.K. and Lord Mandelson have asked the European Union several times to scrutinize the sale of **General Motors** Co.'s European operations to a consortium led by Canadian car-parts maker **Magna International** Inc. Britain fears that the €4.5 billion ($6.56 billion) in loans and guarantees to Magna from the German state will result in jobs being protected in Germany over the U.K. plants of Vauxhall, a British brand GM bought in 1925.

Lord Mandelson said that as a "general rule" markets should remain open to foreign takeovers and declined to say what his government could do to intervene.

"I am not going to make government policy on the hoof," he said.

As it trails the opposition Conservative Party in opinion

Please turn to page 27

Merkel's leftward shift positions her to win

By Marcus Walker

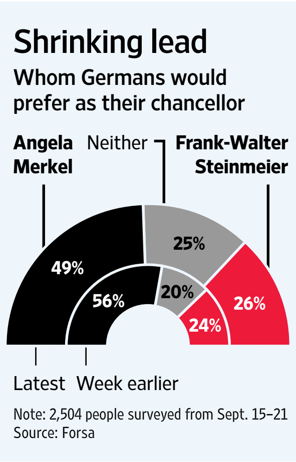
BERLIN—When German voters go to the polls on Sunday, Angela Merkel is almost assured re-election—not for keeping the campaign promises she made four years ago, but for breaking most of them.

Ms. Merkel came to power in 2005 on a platform of modernizing Europe's biggest economy by deregulating the labor market, simplifying taxes and granting more freedom to entrepreneurs.

However, her conservative Christian Democratic Union was forced into a "grand coalition" with the left-leaning Social Democrats, and she quickly dropped those plans in favor of higher social spending and rising state intervention.

Ms. Merkel's leftward shift has been welcomed by most Germans at a time of great economic uncertainty. But skeptics in her own party and in the business community warn that Germany can't put off painful decisions about its overburdened welfare state, heavy taxes and strict labor rules indefinitely.

"It's not good that the governing parties have distanced themselves from market-oriented reforms," says Jürgen Grossmann, chief executive of energy company **RWE** AG. "It's a very short-term populism. There's very little courage to do the unpopular."



Of Ms. Merkel's party, Mr. Grossmann says: "It would be nice if the CDU let us know what role it thinks the state should have after the financial crisis."

Four years ago, Ms. Merkel's reform drive earned her comparisons with former U.K. Prime Minister Margaret Thatcher, who liberalized the British economy. These days, Ms. Merkel is most often compared with Helmut Kohl, the longtime German chancellor who was famous for sitting out problems while reassuring the nation that all was well.

This evolution has been on display on the campaign trail. Ms. Merkel, a 55-year-old former theoretical physicist who lived in obscurity in East

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More claims filed against Lehman

By Cassell Bryan-Low

LONDON—Administrators representing Lehman Brothers Holdings Inc.'s main European unit have filed the first of several claims they say they plan to make against the U.S. parent company that are expected to total $150 billion.

The move is the latest development in the international battle by creditors to recoup billions of dollars in the largest collapse in corporate history. Others that recently have filed large claims against Lehman in U.S. bankruptcy court include U.K.-based bank Barclays PLC, sovereign-wealth fund Abu Dhabi Investment Authority and London-based hedge fund GLG Partners LP.

Lehman Brothers said it had debts of more than $613 billion and $639 billion in assets when it collapsed.

Administrators for Lehman Brothers International (Europe) at PricewaterhouseCoopers LLP have in recent days submitted a series of general creditor claims to the U.S. Bankruptcy Court for the Southern District of New York totaling about $50 billion, according to a PwC spokeswoman. The PwC administrators said they also are preparing claims relating to guarantees the former parent company issued to subsidiaries, which they plan to file in the coming weeks and expect to total about $100 billion.

The claims are being made on behalf of about 100 companies, including the roughly

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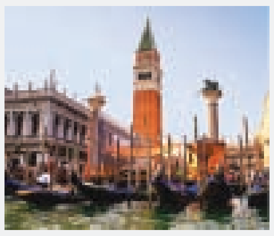


Enduring love affair

Why Venice continues to inspire and enchant

Weekend Journal, page W6

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9707.44	-0.42
Nasdaq	2107.61	-1.12
DJ Stoxx 600	239.98	-1.94
FTSE 100	5079.27	-1.17
DAX	5605.21	-1.70
CAC 40	3758.36	-1.66
Euro	$1.4707	-0.47
Nymex crude	$65.89	-4.47

LEADING THE NEWS

ECB warns recovery will be slow

German sentiment rises less than expected, a reminder improvement is likely to be uneven

BY EMESE BARTHA
AND TERENCE ROTH

FRANKFURT—Another warning from the European Central Bank against expecting a brisk recovery Thursday was backed up by disappointing results from a closely watched German business survey.

The index of business sentiment from the Ifo economic research institute rose for the sixth straight month. But the move to 91.3 in September from 90.5 in August undercut the consensus forecast of a rise to 92.0.

German bonds moved higher as investors sought some insurance against what looks now set to be a slow and bumpy recovery in Europe's largest economy. Earlier this week, the composite measure of sentiment among purchasing managers in Germany's manufacturing and services industries also came in lower than expected.

A glimmer of good news for the euro zone: Ireland's GDP ceased contracting on a quarterly basis.

"This is a reminder not to get too carried away about the strength of the recovery," said Jennifer McKeown, an economist at Capital Economics.

In its latest monthly economic bulletin, the ECB said that some business surveys support the view that the economy of the euro zone is stabilizing further in the current quarter. The bank said the euro zone should continue to benefit from a recovery in exports and the significant measures taken to stimulate the economy and restore the functioning of the financial system.

"Uncertainty remains high and the persistent volatility in incoming data warrants a cautious interpretation of available information," the central bank warned. The ECB said it expects the euro-zone's economic recovery to be uneven, "given the temporary nature of some of the supporting factors and the ongoing balance sheet correction in the financial and non-financial sectors of the economy."

The great majority of companies still assess the current business situation as poor, the Ifo institute said its September sentiment survey. The outlook for business over the next six months, however, is improving.

"There's now nearly a balance between pessimists and optimists," said Hans-Werner Sinn, the institute's president, referring to the results on outlook.

Analyst caution that it is uncertain whether the recovery will have enough forward momentum to keep going once governments begin unwinding massive economic-stimulus plans. Many governments already are planning "exit strategies" to begin repairing deep budget deficits.

"Next year, when all exogenous stimulus is gone, the economy could easily be left with its export sector as the sole growth driver," Carsten Brzeski, analyst at ING Bank, said in a note.

A glimmer of good news for the euro zone came from Ireland, one of its hardest-hit economies over the past year. Irish gross domestic product ceased contracting on a quarterly basis for the first time in a year, the government statistics office said.

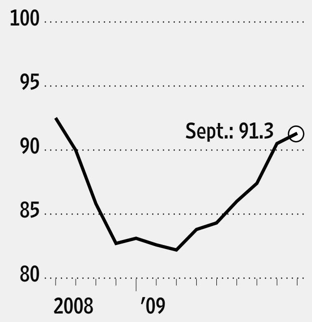
Even though second-quarter GDP was down 7.4% from a year earlier, it was unchanged from the first quarter and the annual contraction was less severe than the 8.5% drop the Irish economy experienced in the first quarter.

The ECB on Thursday released the results of its latest money-markets survey, which quizzes a panel of 105 banks on conditions in the money markets that use the euro. The results showed that total turnover in the euro-zone money market fell for the second consecutive year, by 5% on the year in the second quarter.

The ECB said the results showed that in most market segments the majority of respondents reported some stabilization and even some improvement in money-market liquidity compared with a year earlier. "However, a significant number of respondents continued to report a further deterioration," it said.

Mild gains

The Ifo business-climate index continued to improve in September, but not as much as economists had hoped.



Note: seasonally adjusted data
Source: Ifo Business Survey

A metal worker in Rosenheim, Germany, this month

Afghan indicted in U.S. on charge of bombing plot

BY CAM SIMPSON
AND EVAN PEREZ

WASHINGTON—A grand jury indicted a 24-year-old Afghan immigrant on a charge of conspiring to carry out bombings in the U.S., alleging he and unnamed others planned to make explosives from hair products and household cleaners.

Prosecutors unsealed a single-count indictment Thursday charging that Najibullah Zazi, an airport-shuttle driver from Aurora, Colo., was involved with others in a plot to bomb "persons and property within the United States."

Lawyers for Mr. Zazi said in court that they hadn't received nor reviewed the new charges and supporting documentation, and had no comment.

Prosecutors detailed alleged actions over more than a year, starting with a trip to an al Qaeda training camp in Pakistan, then accelerating during the three months leading up to Sept. 11, 2009, as Mr. Zazi and his associates scoured beauty supply shops and home improvement stores to get the ingredients for explosives similar to those used to bomb commuter trains and a bus in London.

Mr. Zazi appeared in federal court Thursday in Denver, where prosecutors said, as a procedural matter, they were dropping a lesser charge levied over the weekend accusing him of lying to investigators in a terrorism probe.

Mr. Zazi's father, 53-year-old Mohammed Zazi, appeared at the same hearing. He was also charged last weekend with making a false statement to investigators, but was released Thursday without having to post bail. Prosecutors haven't offered any indication that they believe the elder Mr. Zazi is involved in the broader conspiracy.

—Chad Bray and Stephanie Simon contributed to this article.

INDEX TO BUSINESSES

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

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

Editeur responsable: Patience Wheatcroft M-17936-2003

INDEX TO PEOPLE

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

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LEADING THE NEWS

Close Brown aide steps down as minister

Vadera will drop business oversight to be G-20 liaison

By Alistair MacDonald And Paul Sonne

Shriti Vadera, the U.K. business minister and one of U.K. Prime Minister Gordon Brown's closest advisers, will resign from her role to take a position liaising with the Group of 20 industrial and developing nations, Mr. Brown said Thursday.

Mr. Brown said in a statement that he had asked Baroness Vadera to take up a role working with South Korea, the next country to take the helm of the G-20, following a request by South Korean President Lee Myung-bak. Mr. Brown has pushed for the G-20 to become a stronger institution with its own permanent staff. Lord Meryvn Davies, the minister for trade investment and business, will assume her ministerial responsibility.

A former UBS AG investment banker, Baroness Vadera joined the U.K. Treasury while Mr. Brown was Treasury chief. She became a close aide who went on to take a leading role in Britain's bailout of its banking system a year ago.

Though Mr. Brown says Baroness Vadera is set to remain at Downing Street, the move will likely be interpreted by some in Britain as a blow to the prime minister on the eve of his party's all-important conference next week. For over a year now, Mr. Brown's government has suffered a series of resignations amid internal feuding, a declining economy and questions over the government's long-term strategy.

Press Association

Shriti Vadera sits to Gordon Brown's left at a meeting with business leaders in New York this week. 'I liked working for Gordon because he likes to be challenged,' Baroness Vadera was quoted as saying in an interview with the Guardian newspaper.

Baroness Vadera was also one of the last of a group of nonelected officials that Mr. Brown appointed as part of what he called a government of all the talents, or goats, as they came to be nicknamed. Recent departures have included health minister Ara Darzi; Mark Malloch-Brown, a foreign minister; and Stephen Carter, a media minister.

Baroness Vadera, currently the minister for economic competitiveness, small business and enterprise, had a reputation as an aggressive negotiator who was liked and loathed equally in the corridors of Britain's Whitehall government district.

Born in Uganda to parents of Indian origin, Baroness Vadera cut her teeth in the world of banking. After spending 14 years as an investment banker at UBS Warburg, she joined the U.K. Treasury's Council of Economic Advisors in 1999. She became a key aide to Mr. Brown, then Chancellor of the Exchequer, advising on business issues, as well as public enterprises.

It was at the Treasury where Lady Vadera earned a reputation for being a forthright adviser, never afraid to ruffle feathers. She took on a number of high-profile assignments, including handling the partial privatization of the London underground system and a controversial government bid in 2001 to renationalize the British railway, which UBS had helped privatize in 1996.

When Mr. Brown took over as prime minister in 2007, Baroness Vadera rose alongside him. She was ennobled to become a life peer in the House of Lords that year, a move that has allowed her to occupy key government positions without facing an election.

It was in her role as a key force in developing Mr. Brown's rescue package for the U.K.'s ailing banks in 2008 that she was most powerful.

She was one of a few nonelected ministers and advisers who came to form Mr. Brown's "brain trust" in the crucial months of the financial crisis.

Bank of England stresses need for economic caution

By Natasha Brereton

LONDON—The Bank of England stressed the need for caution in interpreting signs of improvement in the British economy, highlighting the time it will take to repair bank finance and the need to rebalance demand toward increased savings.

In a speech, Chief Economist Spencer Dale said the central bank's Monetary Policy Committee remains focused on ensuring there is sufficient stimulus to facilitate sustainable growth, but the road to full recovery is likely to be long and bumpy.

Mervyn King

Separately, Governor Mervyn King said in a newspaper interview that U.K. output has stabilized, but added that it is important not to get carried away by signs of growth. He also said that the weakening in sterling would support a necessary rebalancing of the U.K. economy.

Mr. King's comments on the pound sent the U.K. currency sharply lower, to its weakest level since mid-July. The pound sold at 4 p.m. Thursday in New York at \$1.6064, from Wednesday's \$1.6357.

"In contrast to all other countries in the world, the U.K. is the only one whose central bank has been more bearish than the market and has led the market lower," said Stephen Jen, managing director of macroeconomics and currencies at London-based hedge fund BlueGold Capital Management LLP.

Economists pointed to the continued focus by MPC members on the need for a period of sustained growth, leading to a recovery in the level of economic output and employment, as an indication that interest rates will remain loose for some time.

"The current focus of monetary policy is on ensuring that there is sufficient stimulus in the economy to generate the strong and sustained recovery necessary to bring demand better into balance with supply and so ensure that inflation is on track to meet the inflation target," Mr. Dale said.

Through its quantitative easing policy, the Bank of England is creating £175 billion (\$281.12 billion) of new central-bank money to buy bonds, in an attempt to boost nominal spending. Its benchmark interest rate is at a record low of 0.5%.

In an interview with the Newcastle Journal, Mr. King said global imbalances had been one of the underlying causes of the financial crisis, and stressed the need for Asian countries to reduce their surpluses and the U.K. to reduce its deficits.

"I think the fall in the exchange rate that we have seen will be helpful to that process, but there's no doubt that what we need to see now is a shift of resources into net exports, whether directly or in producing things that compete with imports that help to reduce the trade deficit," Mr. King said.

LEADING THE NEWS

U.S.'s Afghan rethink raises allies' doubts

NATO strategy will be put on hold until Washington review is complete, say ambassadors from several states

By Stephen Fidler
And John W. Miller

BRUSSELS—A reassessment of the Obama administration's strategy in Afghanistan is heightening uncertainty over the international military mission in the country among America's European allies, who already face strong domestic opposition to their role in the conflict.

European nations provide the bulk of the 35,000 non-U.S. foreign troops in Afghanistan—compared with the 60,000 U.S. troops—as part of the North Atlantic Treaty Organization's force in the country. In many countries, the mission has been unpopular, and opinion polls suggest it is becoming more so: even in the traditionally supportive U.K., two-thirds of the public want British troops out.

Now, the U.S. strategic rethink has added a further complication. The reassessment has put at least a temporary halt on an expansion in U.S. troop numbers and stayed action on a recommendation in a report from Gen. Stanley McChrystal, the top American commander in Kabul, who wants as many as 40,000 additional American troops to be sent to the country.

"Inadvertently, it plays very badly in Europe," said Kurt Volker, a long-standing former State Department official who was appointed U.S. ambassador to NATO by President George W. Bush and stepped down in May. A legitimate U.S. debate, it nonetheless raises questions about the nature of the U.S. commitment to Afghanistan, he said.

The reassessment comes as European forces are suffering growing numbers of casualties. Last week, six Italian soldiers in Kabul were killed by a suicide bombing, prompting anguish in Italy and calls for the withdrawal of the country's 2,800 troops. Italian Prime Minister Silvio Berlusconi said he hopes to bring at least some of them home this year.

Three German soldiers were killed in the summer, also by a suicide bomber, and public opinion on the war has soured even more since German forces earlier this month ordered an air strike on two fuel tankers that killed at least some civilians. Meanwhile, the Netherlands and Canada have said they will review their commitments in 2011.

One reason this is happening is that previously peaceful areas of the country are becoming more dangerous as Taliban insurgents extend their reach. Germany's decision to send combat troops outside Europe for the first time since 1945 was justified as an economic-reconstruction mission—now its 4,000 troops are facing dangers not bargained for.

A further problem for the allies is weakness at the center of the strategy: the Afghan government and President Hamid Karzai. Only this week U.K. Prime Minister Gordon Brown enunciated an "Afghanization" strategy under which U.K. and other troops would train Afghan forces to take over from them. But an August election marred by fraud and continuing corruption allegations has undermined Mr. Karzai.

"Troops are getting killed and, because the Karzai government is seen as impossibly corrupt, the political will to stay there is diminishing daily," said Charles Grant of the Centre for European Reform in London.

Ambassadors from several NATO countries, who debated the McChrsytal report at their weekly closed-door meeting Wednesday, said the alliance strategy would go on hold until the Obama review is complete. But they were cautious about faulting the U.S. for its current soul-searching. "We're all conscious of the political realities in all of our countries," said one.

NATO allies in Europe "will have to follow the U.S. strategy because the U.S. is providing the biggest number of troops," said Boguslaw Winid, Poland's ambassador to Nato.

Associated Press

U.S. Army Pfc. Shiquinn Bell plays his guitar at a base in Afghanistan's East Paktika province on Wednesday.

Afghan vote prompts U.S. rethink

By Peter Spiegel

The public debate in Washington over the White House's unexpected reappraisal of its Afghan strategy has focused on troop numbers and military tactics. But the Obama administration's focus is on another issue: Is Afghan President Hamid Karzai a reliable ally?

According to senior administration officials, the Afghan war plan that President Barack Obama announced in March—which called for a comprehensive and manpower-intensive counterinsurgency strategy—was built around the assumption that Mr. Karzai would emerge from last month's elections with new legitimacy, a critical factor in fighting a guerrilla enemy.

But allegations of widespread vote fraud in the Afghan balloting have revived long-held skepticism within Mr. Obama's national-security team—including the increasingly influential Vice President Joe Biden—about Mr. Karzai's role, convincing the White House that a complete rethink was warranted.

"Forget even the McChrystal report," said a senior administration official, referring to the grim assessment of the war effort submitted three weeks ago by Gen. Stanley McChrystal, the U.S. commander in Afghanistan. "Every counterinsurgency is built on one credible partner."

Although the election has had a clear impact on Mr. Obama's national-security team, the White House is also facing mounting U.S. casualties, flagging public support and rising criticism of the war effort among fellow Democrats.

The Obama administration was well aware of allegations of corruption in Mr. Karzai's government ahead of the election, having repeatedly pressed him to sideline political allies accused of links to Afghanistan's burgeoning heroin trade.

But Mr. Karzai's behavior during the vote appears to have been a last straw, forcing Mr. Obama and his advisers to rethink the way forward. "If you decide your troop levels before you decide your strategy, it's a really bad movie," said Rahm Emanuel, Mr. Obama's chief of staff.

Senior administration officials said they had viewed the election as the key first step in rebuilding Afghanistan, but that Mr. Karzai squandered the opportunity. U.S. officials insist they haven't given up on Mr. Karzai completely.

But given the fast-approaching winter, which makes a runoff vote prohibitively difficult, and U.S. reluctance to play broker between the Afghan camps, the administration has been left with the policy it has pushed for weeks: encouraging a thorough investigation of fraud allegations and hoping Mr. Karzai emerges with a semblance of credibility.

In recent days, the Afghan president has for the first time publicly acknowledged the fraud probes are legitimate, a move some in Kabul believe is a sign that Mr. Karzai is starting to realize his standing is at risk of collapsing. The Obama administration's relationship with Mr. Karzai has been fraught from the start. Early in Mr. Obama's presidency, White House officials sent clear messages that they believed the Bush administration had been too lenient toward Mr. Karzai, who had been accused of widespread corruption and turning a blind eye to the heroin trade.

—Matthew Rosenberg and Neil King Jr. contributed to this article.

Karzai allies make case for confidence, troops

By Yaroslav Trofimov

KABUL—Senior Afghan officials, alarmed by the Obama administration's reappraisal of its Afghanistan strategy, said an increased U.S. military commitment is needed to roll back an emboldened insurgency.

They also cautioned about what they said would be dire consequences of any U.S. attempts to edge out President Hamid Karzai. Results from a presidential election last month gave Mr. Karzai a majority, but allegations of widespread ballot-stuffing have stalled the confirmation of his victory and undermined his credibility in the eyes of many Afghans.

These admonishments come after the top U.S. and allied commander in Afghanistan, Gen. Stanley McChrystal, warned that the war here may become unwinnable unless troop levels are raised and the momentum of insurgents is reversed in the next 12 months.

The Obama administration has yet to endorse these findings, and has called for a review of the U.S.-led war effort before making a decision on troop levels. Vice President Joe Biden in particular has expressed skepticism about the proposed troop increase.

As the war in Afghanistan becomes increasingly unpopular in the U.S. and Europe, one policy option under review in Washington advocates reducing ground forces and relying instead on surgical airstrikes against Taliban and al Qaeda targets on both sides of the Afghanistan-Pakistan border.

This would be a recipe for failure, warned one of Mr. Karzai's senior associates, Education Minister Farooq Wardak. "Airstrikes alone cannot be a strategy to defeat the insurgency and the Taliban. If the air attacks are not followed up by ground operations, they do not yield the results one expects," he said. "We need additional troops—but not forever." According to Mr. Wardak, it will take five years before the Afghan army and police will be capable to fight mostly on their own.

Parliament member Mohammed Mohaqeq, a powerful former warlord representing the Hazara ethnic minority who backed Mr. Karzai's reelection bid, offered a similarly bleak assessment.

"The current number of soldiers is not enough to defeat the Taliban," Mr. Mohaqeq said. Should the U.S. start reducing its forces in Afghanistan—currently over 60,000—"the country will go back to civil war," he added. "The Taliban are capable of recapturing the capital and the government."

Mr. Karzai's spokesman, Hamed Elmi, welcomed Gen. McChrystal's report and said he had no comment on the Obama administration's review of policy options.

The Taliban's recent advances to previously secure areas of northern and western Afghanistan were made possible, in part, by growing public anger over the incompetence and graft in Mr. Karzai's administration, many analysts say.

This anger was reinforced by reports of large-scale fraud in favor of Mr. Karzai in the election on Aug. 20. According to a preliminary count, he won with 54.6% of the vote. That tally can change depending on a review of results from 12% of Afghanistan's polling stations that was ordered by the Electoral Complaints Commission, a United Nations-sponsored watchdog.

On Thursday, representatives from the ECC, the Afghan government's electoral commission, and the presidential candidates met in Kabul to choose a random 10% sample from the disputed polling stations. Recounting this sample is expected to take a couple of weeks, compared with months needed for a full recount.

If Mr. Karzai's final vote tally falls below 50% he will face a runoff against the leading challenger, Abdullah Abdullah, a former foreign minister. Time is of the essence: Such a runoff election will be virtually impossible after snowfall makes many rural roads impassable in early November.

Some Western officials called for flanking Mr. Karzai with a powerful chief executive who will run the government, while others have pushed for a unity government that would include Dr. Abdullah.

But the president's allies cautioned that any foreign effort to disempower Mr. Karzai could plunge the country into more bloodshed.

LEADING THE NEWS

First signs that AIDS vaccine may work

An experimental regimen in Thailand trial shows a modest ability to protect people exposed to HIV

By Gautam Naik

An experimental vaccine regimen has shown a modest ability to protect people exposed to HIV, the first time an investigational HIV vaccine has been shown to have this effect.

The results from the trial, which involved more than 16,000 adults in Thailand, indicated that the vaccine regimen lowered the rate of contracting HIV by 31% compared with those taking a placebo, according to the U.S. National Institutes of Health, which helped fund the study.

"Additional research is needed to better understand how this vaccine regimen reduced the risk of HIV infection, but certainly this is an encouraging advance for the HIV vaccine field," said Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases, which is part of the NIH.

It is a rare piece of good news for the field of AIDS vaccine research, which has sponsored more than 100 vaccine trials since 1987 but without any significant success. One of the biggest setbacks occurred in 2007 when **Merck** & Co. ended a closely watched trial after its experimental vaccine failed to provide protection against HIV.

The latest results are sure to provide a further boost to AIDS vaccine research. Earlier this month, an international team of researchers said they had discovered a pair of powerful new antibodies to HIV, providing fresh leads in the attempt to find a vaccine for AIDS. Any vaccine based on that finding, however, is still years away.

In the Thai trial, 74 of 8,198 people who received placebo shots became infected with HIV, compared with 51 of 8,197 people who received the vaccine, suggesting that the vaccine regimen could have reduced the risk of being infected by 31%.

The regimen consists of two vaccines. One is a primer dose made by Sanofi Pasteur, the vaccine division of French drug maker **Sanofi-Aventis**; the other is a booster dose developed by **Vaxgen** Inc. and now licensed to Global Solutions for Infectious Diseases, in South San Francisco, Calif.

The vaccines are based to subtypes of HIV strains that commonly infect people in Thailand; one of those subtype strains is also the one most commonly found in the U.S., the NIH said.

HIV researchers still have a lot of work ahead of them. They need to understand why this particular two-punch vaccine worked against the HIV virus, which is a difficult foe because it constantly mutates. Scientists also need to find a way to boost the vaccine regimen's efficacy beyond 31%.

"This is the beginning of the effort," said Dr. Fauci, at a news briefing in Washington Thursday morning. "It's opened up a door for us to ask some very important fundamental science questions as well as some clinical questions."

Among the questions: What characteristics of immunity led to the vaccines' modest efficacy? And is it possible to have a vaccine that

Agence France-Presse/Getty Images

Thai Public Health Minister Witthaya Kaewparadai, right, talks with U.S. Ambassador to Thailand Eric John at the news conference announcing the results.

blocks acquisition of the virus or that otherwise has a beneficial effect on viral load? These questions "have been black boxes for us," Dr. Fauci added.

About 33 million people were living with HIV world-wide in 2007, the most recent year for which global statistics were available, according to the United Nations. That same year, about two million people died of AIDS and there were 2.7 million new infections.

After rising for eight straight years, annual global investment in HIV vaccine research and development fell $93 million, or 10%, to $868 million in 2008, according to a report backed by the U.N.

Patients who received the vaccine and still became infected didn't have lower levels of the HIV virus than patients who received placebo and got infected. That is a puzzling finding, given that a partially effective vaccine would be expected to help a patient's immune system fight the disease.

Researchers hope that the findings from the Thai trial will attract more money to the field. "At the very least, these results give researchers a platform on which to improve and to validate animal models and assays, and a way to attract new investment and creative energy to the field of AIDS vaccine R&D," said Wayne Koff, senior vice president for research and development, in a statement.

There are fears that the vaccine news might get overblown. ActionAid, a poverty-fighting group, warned that the incorrect assumption that a silver bullet against AIDS had been found "may lead men to resume risky and coercive sexual practices, unless governments expand prevention and education programmes."

The Thai trial enrolled 16,402 men and women who were 18 to 30 years old and at various levels of risk for HIV infection. The participants received the primer dose or a placebo at enrollment and again after one month, three months and six months. They received the booster dose or placebo at three and six months.

HIV tests were carried out on the participants every six months, for three years. At each clinic visit they received counseling on how to avoid becoming infected with HIV, the NIH noted. Those who got infected have been provided with medical care and treatment, including antiretroviral therapy.

The trial was led by Supachai Rerks-Ngarm of the Thai Ministry of Public Health. It was funded by the U.S. Army in collaboration with the NIH, Sanofi and Global Solutions for Infectious Diseases.

-Ron Winslow contributed to this article.

Global recovery contains a few dilemmas for the G-20

By Justin Lahart

There are signs the global economy is growing, after weathering the worst world-wide recession since the 1930s. But the severity and scope of the crisis and the downturn it provoked make the recovery's pace highly uncertain, posing a dilemma for leaders at the Group of 20 summit in Pittsburgh.

The stimulus efforts and other programs they have put in place to revive their economies are incredibly costly, saddling countries around the world with budget deficits that weigh on growth. The International Monetary Fund forecasts that in the next few years debt levels for the Group of 20 leading and developing nations will average more than 100% of gross domestic product—the value of all goods and services produced by an economy.

The unpredictability of the recovery is complicating decisions that governments must consider. If they keep support high—especially through fiscal stimulus programs—that could spur inflation. Withdrawing support too soon could derail a recovery.

When the G-20 met in April, the world economy was reeling. Economists at Barclays Capital calculate that global GDP fell at a 5.9% annual rate in the first quarter, after a similar decline in the fourth quarter of 2008. Barclays estimates that global GDP grew by 3% in the second quarter, and that it will grow by 3.9% in the soon-to-be-finished third quarter. For the year, Barclays sees GDP falling by 1.2%, which is in line with most other forecasts.

IMF Managing Director Dominique Strauss-Kahn warned Thursday it is too early to begin "mopping up" the effects of stimulus. "For the time being, the biggest danger is to slow down too quickly," he said on French radio station Europe 1.

For 2010, however, forecasts vary. The IMF, which will update its estimate next month, said in July it expects global economic output to grow by 2.5% in 2010. Michael Mussa, a former IMF chief economist who is with the Peterson Institute for International Economics, is looking for 4.2% growth. In a recent research report, Mr. Mussa invoked the "Zarnowitz rule," named after the late economist Victor Zarnowitz: Deep recessions tend to be followed by abrupt recoveries.

While it is typical for an economy to grow much faster than normal after a downturn, quickly returning GDP to its pre-recession level, some economists worry that the fallout from the global financial crisis will stymie a fast recovery.

"One thing we have to be careful of is that we don't go into premature victory here," said University of Maryland economist Carmen Reinhart, who examines the history of financial crises' fallout in a coming book with Harvard University's Kenneth Rogoff, another former IMF chief economist. "The message to the G-20 is that the situation, while encouraging, is still tenuous."

In the post-World War II period, it has taken, on average, two years for a country's GDP to recapture its prior level, Ms. Reinhart and Mr. Rogoff find. The main reason is the shrinking of available credit caused by hits to banks and other lenders, which damps growth.

A second factor is the global nature of the downturn. Rising exports tend to drive recoveries in crisis-hit economies. But the crisis has hit so many countries at once that they can't all export their way to recovery. That could weigh on growth, and intensify frictions over trade.

In China, much of the stimulus money the government has spent has gone into investments in plants and equipment that are boosting the country's productive capacity, rather than boosting domestic demand.

That will exacerbate China's need to increase its exports, said Cornell University economist Eswar Prasad. He worries that Japan and Europe, too, will remain too reliant on exports for growth, placing U.S. households back in the role of consumer of last resort. After heavy real-estate and stock-market losses, U.S. households may not have the wherewithal to play that role again—at least not for long.

What about the recent sense that many of the world's economies appear to be turning around at the same time? That might boost the staying power of a global recovery, say J.P. Morgan economists. Countries will feed off each other's growth, boosting confidence among businesses and consumers, leading to a self-sustaining recovery.

J.P. Morgan economist David Hensley reckons it is too early for countries to abandon their stimulus efforts and start working on shoring up budget deficits.

"Cautiously optimistic as we are, I think that would be a mistake," he said.

CORPORATE NEWS

AvtoVAZ to slash 27,000 jobs

Russian auto maker to reduce employment by a quarter as Lada brand falls behind times

BY WILL BLAND
AND ANDREW LANGLEY

MOSCOW—Russia's largest auto maker OAO **AvtoVAZ**, which produces Lada cars, Thursday said it plans to slash 27,600 jobs as the country's first recession in a decade forces the company to address long-standing inefficiencies.

AvtoVAZ's Lada brand was launched in Soviet times, and has failed since then to keep up with the technology and designs of its leaner foreign rivals. The company now risks falling further behind as local rival OAO **GAZ Group** revives its car-making business as part of a consortium taking over **General Motors** Co.'s European unit, Opel.

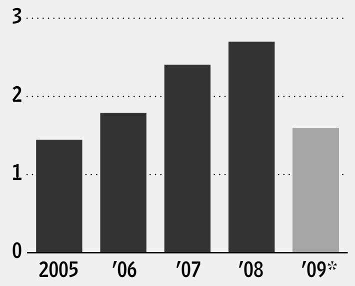
State-controlled AvtoVAZ will lay off more than a quarter of its 102,000 workers and cut production at its plant in Togliatti, on the Volga river, to 65% of capacity, or 500,000 cars a year. Last year, the company made almost a quarter of the 2.7 million vehicles sold in Russia, but that share steadily has been eroded by foreign car makers, led by GM and **Ford Motor** Co.

Increasingly prosperous Russians had rushed to buy these more modern cars instead of the boxy-looking Ladas, setting the country on course to becoming Europe's largest car market last summer—before demand crashed in the wake of the economic crisis.

AvtoVAZ's owners sought a foreign partner to cash in on the demand. Hopes were raised last year, when they sold a 25% share to French car maker **Renault** SA, whose locally assembled Logan model has been one of the most popular cars in Russia.

In reverse

Russian auto sales, in millions



*forecast
Sources: Ernst & Young; Association of European Businesses (2009 forecast)

Russia's increasingly prosperous population has shunned AvtoVAZ's Ladas in favor of cars with more modern designs.

Renault agreed to transfer technology as part of that deal, and last September received €220 million ($324 million) in exchange for intellectual property used in the Logan.

But the deal hasn't yet yielded significant results—the two companies are developing a joint production line by 2012—and AvtoVAZ's productivity remains far below the industry average. It manufactured eight cars per employee in 2008, while Renault's factory in Moscow made 28 Logans per employee.

AvtoVAZ says that it's unfair to assess productivity in this way because its workers perform tasks, such as making car bodies and components, that international car makers outsource.

"AvtoVAZ could cut half of its work force and still be able to produce cars," said Elena Sakhanova, an analyst at VTB Capital in Moscow. "The company would also benefit from implementing just-in-time delivery of components, lean manufacturing techniques and energy-saving technology," she added.

AvtoVAZ's failure to adapt to Russia's more competitive car market was underlined late last year, as the market shrank by 50%, but AvtoVAZ failed to adjust production.

The company last year reported a net loss of 25 billion rubles ($832.8 million) and required an emergency government loan for the same amount in order to stave off creditors.

The company is now seeking state guarantees on its debt, and newly appointed Chief Executive Igor Komarov, a former executive at mining giant OAO Norilsk Nickel, has said that the main objective this year is to avoid bankruptcy.

"The company was being managed like a monopoly, when it should have been preparing for a new market," said Pyotr Zolotaryov, leader of AvtoVAZ's independent union, Unity.

The inertia of AvtoVAZ's management contrasts with the response of GAZ, whose controlling shareholder, metals tycoon Oleg Deripaska, has sought the expertise of foreign managers, most recently bringing in as chairman Bo Andersson, former vice president at GM.

GAZ had all but dumped the car business in favor of producing vans and minibuses, but the Opel deal may now catapult the company to the top of the Russian market by bringing together GM's sought-after technology and GAZ's familiar brand and dealership network.

Until last month, AvtoVAZ was led by Boris Alyeshin, a former aviation engineer who has served as deputy prime minister during Vladimir Putin's first term as president. Thursday's staff cuts were negotiated by Mr. Komarov, Mr. Alyeshin's successor, who is the first AvtoVAZ chief executive with senior management experience outside the company.

Jaguar to shut plant in U.K. amid cost cuts

BY JONATHAN BUCK

LONDON—Auto maker Jaguar Land Rover said Thursday it would close one of its two plants in Birmingham, England, in the next five years without making compulsory layoffs, but it warned that future hires would be paid 20% less than workers earn now.

A union vowed to oppose the plans while the British government applauded the preservation of jobs and a decision to produce a new model at another U.K. plant.

The company, a subsidiary of India's **Tata Motors** Ltd., said it would shutter one of its plants in the West Midlands in a bid to trim costs as it reduces engineering complexity for its new product range.

Its two West Midlands plants are Birmingham's Solihull, which employs 5,000 workers; and Castle Bromwich, which employs 2,000.

One of the facilities will close by 2014. The plants' work forces will be consolidated to cope with "more volume and more product," said a spokesman for Jaguar Land Rover.

The company also said it would add 800 jobs at its Halewood plant in Liverpool. The plant currently employs 2,000 workers. Jaguar Land Rover has 14,500 employees.

Future employees will be hired at a rate that is 20% below current rates.

Crimped by recession, manufacturing capacity utilization has dropped to less than 60% as new-car sales world-wide have fallen by more than a quarter. Land Rover sales in 2008 fell to 186,500 vehicles from 226,000 in 2007, while sales of Jaguars dropped to 60,500 cars from 65,500 over the same period.

The company has responded with aggressive action in the past year. It cut annual production by 100,000 vehicles, axed 2,500 jobs, froze pay and scrapped bonuses, but that didn't prevent the car maker from swinging to a loss in 2008 from a profit in 2007.

It said Thursday it would reduce variable costs through volume growth, especially in emerging markets, combined with low-cost country sourcing. A spokesman denied a suggestion that manufacturing jobs would be transferred to India.

Other cost cuts will include pension restructuring, lower employment costs for new hires and a focus on information technology and business simplification. Future employees will be hired at a starter rate that is 20% below current rates.

"Our employment costs in the U.K. are high," Jaguar Land Rover said. "We have terms and conditions that are generous even by automotive industry standards. Although there are no proposals to change pay rates or salary levels for existing employees, if we are to be competitive and preserve employment in the U.K. in the long term, we have to reduce the wages and salaries we offer to our new hires."

GM, India's REVA to develop electric minicar

BY NIKHIL GULATI

NEW DELHI—**General Motors** Co. and REVA Electric Car Co. of India said they will jointly develop an electric version of GM's Chevrolet Spark minicar, with the goal of introducing it within a year.

GM also plans to market another version of the Spark, with a 0.8-liter gasoline engine, in India next year, Karl Slym, president and managing director of General Motors India, told reporters. The current version of the minicar has a 1-liter gasoline engine.

While auto makers such as GM and **Ford Motor** Co. are trying to expand their market share in India by launching small cars, they are increasing their focus globally on vehicles powered by alternate fuel to cut pollution and reduce dependency on fossil fuels. As many as 41 new electric cars were displayed at the recently concluded Frankfurt auto show, including two new models from REVA, which is based in Bangalore.

"GM India and REVA began feasibility studies for electric cars 10 months ago," said Chetan Maini, REVA deputy chairman and chief technology officer.

Earlier this year, GM showcased its long-range electric car, the Chevrolet Volt, which will go into production in late 2010. REVA already sells a battery-powered namesake minicar.

The Indian market will be the "first priority" for selling the electric version of Spark, said GM India's Mr. Slym said.

He said GM India may consider lending the electric-vehicle technology to other GM units world-wide. "I am trying to make sure that this technology reaches wherever Spark is sold globally." GM also will consider making electric versions of its existing and future small cars in India through its collaboration with REVA, he said.

REVA's Mr. Maini said the two companies are working on long- and short-range versions of the electric Spark, based on the distance it can travel on one battery charge. "Studies have shown that almost 94% of cars are used for an average of 80 kilometers a day," he said. He added that pricing will be announced closer to the vehicle's launch.

GM India, which makes cars such as the Chevrolet Tavera utility vehicle, hatchback Aveo U-VA and Optra sedan, expects to sell 75,000 vehicles in 2009.

Waitrose aims for wider reach with smaller stores

BY LILLY VITOROVICH

LONDON—Waitrose said Thursday it will expand its footprint in the U.K. convenience market by opening smaller-format stores.

The U.K.-based high-end grocer also plans to sell some of its food in branches of health and beauty chain Boots.

Waitrose, which operates 215 supermarkets around the country, will test out smaller stores, measuring between 2,000 and 4,000 square feet, in the new year, with the potential to open up to 300 outlets.

The smaller stores will compete against **Marks & Spencer Group** PLC's Simply Food convenience chain as well as **Tesco** PLC and **J Sainsbury** PLC smaller stores. Waitrose, which is owned by **John Lewis Partnership** PLC, already operates two convenience stores, measuring between 5,000 and 7,000 square feet. It will open another two in October and December.

The company is in talks with Boots, a division of Alliance Boots, about trying to sell "very selective product ranges in each others' stores." The two parties are in the process of rebranding Boots-owned pharmacies located in 13 Waitrose stores under the name Boots Pharmacy. That effort is scheduled to be completed by the end of November.

"By opening up these new channels and formats, we'll be making Waitrose accessible to more customers in more places and we'll be able to create thousands of new jobs," said Mark Price, Waitrose's managing director.

Another nine Waitrose stores will be opened at Welcome Break motorway service stations.

Last week, Waitrose posted a 16% rise in first-half operating profit to £121.1 million ($198.1 million) compared with a year earlier, helped by a 7.4% rise in sales to £2.18 billion.

Sales from stores open at least a year, excluding fuel were up 1.8% following the introduction of Waitrose's Essential grocery-store label. The label was launched in response to similar ranges at Sainsbury and Marks & Spencer.

John Lewis Partnership, which also owns 28 John Lewis department stores, is employee owned.

Associated Press

H&M CEO Karl-Johan Persson at a Stockholm store Thursday. The retailer now expects to open 240 new stores this year.

H&M's profit increases

August sales lagged, but retailer widens plan for new stores

By Ola Kinnander

STOCKHOLM—**Hennes & Mauritz** AB on Thursday posted a 4.1% rise in fiscal third-quarter net profit and expanded its goal for opening stores, but reported disappointing August sales.

The Sweden-based retail chain's new chief executive, Karl-Johan Persson, said H&M is seeing more opportunities to expand around the world, including in the U.S. and Japan, as other retailers hit worse by the slowdown are forced to give up attractive store locations.

The fast-fashion company, which has weathered the slowdown better than most retailers, raised its goal for the number of new stores it will open this year to 240 from 225. It had 1,840 stores in 27 countries as of Aug. 31.

Mr. Persson said H&M will focus most of its near-term expansion on the U.S., U.K., Germany, France, Spain, China and Japan.

"New interesting city locations keep coming up in the downturn," said Mr. Persson, the 34-year-old grandson of the founder and son of the majority owner. "We're financially strong, so we can take advantage of these opportunities," he added. "We feel that we can hit the gas pedal."

H&M, the world's third-largest fashion chain by revenue behind U.S.-based Gap Inc. and Spain's Inditex SA, reported net profit of 3.46 billion Swedish kronor ($505.2 million) for the three months ended Aug. 31, up from 3.33 billion kronor a year earlier. Revenue increased 13% to 23.55 billion kronor.

But total sales in August fell 3% from a year earlier, while sales from stores open longer than a year fell 11%. Analysts had forecast total sales would rise 3.8% and same-store sales would fall 6.1%.

"In retrospect, it can be concluded that H&M was too cautious when planning its purchasing volumes of summer garments," the retailer said. "This had a negative impact on sales particularly in August."

In Germany—H&M's top market, where it generates about a quarter of its sales—clothing sales overall fell 5% in August, according to industry journal Textilwirtschaft. In Sweden, also a big market for the company, apparel sales during the month fell 5.4%, according to the Swedish Retail Institute.

The U.S., where H&M has 175 stores, "continues to be a very tough market," Mr. Persson said. "There's tough price competition and fewer shopping bags out on the street. But we still see a lot of long-term potential in the U.S."

Mr. Persson added that H&M's U.S. plans include opening two stores in Orlando, Fla., this fall.

Looking ahead, H&M said it plans to start offering online sales in the U.K. in the fall of 2010.

Kurdish fallout slams DNO stock

By Spencer Swartz And Elizabeth Adams

Shares in Norwegian oil explorer **DNO International** ASA plunged 46% Thursday as investors assessed the likely financial damage from the Kurdish government's decision to halt the company's operations in northern Iraq.

Meanwhile, Norway's financial-crimes agency said it was investigating whether any laws were broken when the autonomous Kurdish government last October bought 44 million DNO shares to help the company raise funds so it could prevent any disruption to its operations in the region.

News of the assistance surfaced in recent days, embarrassing the Kurdish government and triggering a decision Monday to suspend DNO's oil-drilling operations for as many as six weeks.

The Oslo Stock Exchange last week released details about the Kurdish government's stock purchase in response to a freedom-of-information request from a Norwegian newspaper. The government said in a letter to the stock exchange Sept. 19 that none of its officials financially benefited from the deal.

In a separate letter to DNO that the Kurdish government released publicly Monday, the government told the company it believed the revelations by the stock exchange caused "unjustifiable and incalculable harm" to its reputation. The government said it was suspending DNO's Turkish operations for as many as six weeks.

A government official said Tuesday that the government needed to talk with the company about what actions it wanted DNO to take. The government hasn't responded to requests for comment since Tuesday. DNO Chief Executive Helge Eide said Tuesday the company hoped to discuss the matter with the government as soon as possible.

The negative outlook for DNO sent the company's shares down to 3.61 Norwegian kroner (62 cents) on Thursday in Oslo.

Trading in the shares was suspended Monday at DNO's request, as the Kurdistan-focused company sought time to contain the damage from the Kurdish government's decision to halt its oil operations. Trading resumed Thursday.

DNO said it was examining the possibility of listing its shares on another stock exchange.

A spokesman for the Oslo Stock Exchange Thursday reiterated that the exchange stands by its decision to release details about the role played by the Kurdish government in DNO's capital-raising effort.

The government bought the DNO shares through an HSBC Holdings PLC account in London. The shares were sold in March and April for a total profit of $15 million to $17 million, according to a person familiar with the matter.

While unusual, the government's stock-buying role doesn't appear to have broken any laws. But the government hasn't said publicly who actually profited from the ownership of DNO's stock.

Suntory to buy Orangina for more than $3.3 billion

By Hiroyuki Kachi And Kazuhiro Shimamura

TOKYO—**Suntory Holdings** Ltd. said it has agreed to acquire privately held European beverage maker **Orangina Schweppes Group**, as the Japanese beverage giant looks to embark on a major offensive in the global soft drinks market.

Suntory will buy Orangina for more than 300 billion yen, or about $3.3 billion, from private-equity buyout firms Blackstone Group and Lion Capital, a person close to the matter said separately. The amount compares with $2.6 billion that the private-equity owners paid in 2006 for Orangina, maker of the popular sparkling orange beverage of the same name.

Another person close to the deal said Wednesday that the price tag is 2.6 billion euros ($3.83 billion).

The purchase reflects the need of Japanese food and beverage companies to advance into overseas markets, given falling domestic sales caused by a shrinking population and weak economy.

As well as extending its market reach globally, the acquisition will also boost Suntory's range of soft drink offerings in Japan, where beer sales are forecast to contract 9.8% through 2013, while those of soft drinks are expected to grow 7.8%, according to Business Monitor International.

Suntory and Blackstone will sign a contract by around mid-October, a company spokeswoman said. The company expects to conclude the transaction process, including government approval, by as late as early November, she added.

The Japanese beverage maker said Orangina, which had about 138 billion yen in sales in 2008, is expected to increase its sales to 140 billion yen this year and to 146 billion yen in 2010.

Buying activity

Suntory's recent acquisitions

¥300 billion - Orangina Schweppes, Sept. 2009

¥1 billion - Nichirei Foods' 'Acerola' soft-drink business, Sept. 2009

¥75 billion - Frucor Group of New Zealand, Feb. 2009

¥1 billion - Connecto, a Japanese manufacturer of herbal products, Sept. 2008

¥1 billion - Mozart Distillerie GmbH, an Austria premium spirits maker, June, 2008

¥4 billion - 50% stake in Thai soft drink maker Tipco F&B, Oct. 2007

Note: Deal values are approximate
Source: Suntory

Suntory is in merger talks with Tokyo-based counterpart **Kirin Holdings** Co., the completion of which would create a beverage giant with sales of 3.8 trillion yen based on 2008 earnings. That includes about 1.2 trillion yen worth of beer sales.

Both Suntory and Kirin have been working to increase their overseas presence in response to the gloomy economic outlook back home. Buying Orangina would greatly advance these efforts as Suntory has little presence in Europe, while Kirin produces and sells beer there but on a much smaller scale than in other markets.

Suntory this year paid more than 600 million euros for **Groupe Danone** SA's Australian and New Zealand drinks business Frucor.

Elsewhere, Suntory sells soft drinks in the U.S. through local joint venture Pepsi Bottling Ventures, and sells its canned Boss brand coffee in Malaysia and Singapore.

CanWest sells stake in Ten

By Lyndal McFarland

MELBOURNE, Australia—Canada's **CanWest Global Communications** Corp. said it has sold its 50.1% stake in Australian television broadcaster **Ten Network Holdings** Ltd. for around 680 million Australian dollars, or about US$592 million, to help pay down debt.

The sale ends months of speculation that CanWest would dump its stake in Ten, which operates one of Australia's three commercial free-to-air television networks. It also opens up Ten Network's share register and could eventually put the broadcaster—which targets younger viewers with programs such as "The Simpsons" and "NCIS"—in play.

CanWest, Canada's largest media group, has faced significant debt problems and has been locked in tough negotiations with bond holders for months. CanWest said Thursday that it will pay down some of its debt with the proceeds of the sale.

CanWest sold the shares to **Macquarie Capital Advisers**. A person familiar with the situation said Macquarie Capital is looking to on-sell the shares to institutional investors at A$1.30 a share—a 5.1% discount to Ten's latest traded price of A$1.37.

CanWest's stake sale comes after a strong rally in Ten's share price, which hit an all-time low of 61 Australian cents in March, and just over two years after CanWest failed to find a buyer for Ten at the right price. Reports at the time said a number of private-equity groups looked at Ten, but balked at the A$3 a share CanWest was reportedly seeking.

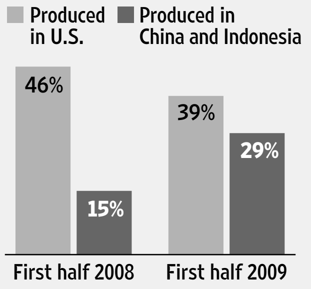
Last month, Ten issued new shares at A$1.15 each but the group said Thursday no new shares will be issued as part of the current sale process.

—David Rogers in Sydney contributed to this article.

CORPORATE NEWS

Paper trail

Market share of U.S. consumption of the type of coated paper at issue



Source: Court filings

NewPage in Escanaba, Mich., is one of the three U.S. paper firms that filed an antidumping case against China and Indonesia on the eve of the G-20 summit.

Associated Press

Paper enters trade fight

U.S. firms, union accuse Indonesia, China of dumping

By Kris Maher

PITTSBURGH—Three paper companies and the United Steelworkers have filed an antidumping case against China and Indonesia, making good on the union's threat to protect other U.S. industries after winning a recent trade decision against China.

The petitioners said the timing of their complaint, made Wednesday on the eve of the G-20 economic summit here, was coincidental. But it threatens to raise tensions between the U.S. and its trading partners, particularly China, which is smarting from President Barack Obama's decision this month to place hefty tariffs on imported Chinese tires.

The complaint alleges China and Indonesia have been dumping tons of shiny, coated paper used, for example, in car brochures and annual reports. The case is being pursued through a different legal avenue than the one that yielded the tire tariffs and doesn't require approval by Mr. Obama.

But it nonetheless puts the White House in a delicate position, especially since Chinese delegates are expected to confront the administration with allegations of protectionist moves by Washington. Leaders of the G-20 have pledged to resist efforts to curb job losses in their countries by restricting access to their markets. A White House spokesman declined to comment.

Gilbert B. Kaplan, a Washington attorney for the petitioners, said the complaints weren't timed to the G-20 economic summit. He said the four separate petitions alleging dumping and subsidies by the two countries—totaling more than 2,000 pages—"have been prepared for some time."

The companies need to prove to the U.S. Commerce Department that the governments of China and Indonesia provided subsidies to coated-paper producers, and that imports were sold in the U.S. at prices below the home-market price or the cost of production. The petitioners also need to show the U.S. International Trade Commission that the paper imports caused material injury to the American market or threaten to. "We have very strong evidence on all the factors which are necessary to prove this case," Mr. Kaplan said.

A spokesman for Indonesia's Trade Ministry declined to comment because the government hadn't yet viewed the antidumping petitions.

A spokesman at the Chinese Ministry of Commerce said: "The rising trade protectionism is worrying. The U.S. should be aware that trade protectionism is a double-edged sword and will do no good to either side."

The tire case was brought under a special provision for countries to temporarily shield their markets from disruptions caused by China's entry into the global trading system. The paper case, by contrast, is a more conventional trade dispute.

The case highlights the growing role of labor unions in U.S. trade issues. During last year's election campaign, Mr. Obama promised to get tougher on trade—a pledge that won him union votes. Unions now want him to make good on his promise and viewed the tire tariffs as a crucial step.

"Neither the companies nor the union will tolerate being obliterated without asking our government to investigate and enforce the rules of fair trade," said Leo Gerard, president of the Steelworkers union.

The Steelworkers represent about 6,000 hourly workers at paper mills in nine U.S. states operated by the three companies that joined in the complaint. The filings claim that imports of coated paper grew nearly 40% in the first six months of 2009—to 185,422 tons—compared with the same period last year; shipments by domestic producers, at the same time, were estimated to have fallen by about 38%.

China and Indonesia are thought to account for nearly 30% of the U.S. market for coated paper in the first half of 2009, nearly double their share from the first half of 2008. Total U.S. sales for coated paper in 2008 were estimated at $1.8 billion.

Mark Suwyn, executive chairman of **NewPage** Corp., one of the paper companies that filed the petitions, said the rapid growth of Chinese paper imports—estimated at $269 million in 2008—showed that paper was being dumped. "It's a commodity business," he said, "so the only way they could grow that big is by coming in with predatory pricing."

The other paper companies involved in the case are **Appleton Coated** LLC of Kimberly, Wis., and **Sappi Fine Paper North America**, the U.S. arm of South Africa's **Sappi** Ltd. A Commerce Department spokesman said the agency has 20 days to determine if the petitions meet the statutory requirements to begin an investigation.

The U.S. companies allege China is unfairly granting subsidies to its domestic paper producers in for the form of low-interest loans, tax subsidies and grants. Similarly, they allege that Indonesian paper companies are benefiting from government loans, as well as timber from government-owned land that is sold at below-market prices.

—Kersten Zhang in Beijing contributed to this article.

Chevron files trade suit in legal fight in Ecuador

By Ben Casselman And Angel Gonzalez

Chevron Corp. is stepping up its offensive in its long-running legal battle in Ecuador, suing Ecuador's government under international trade law.

Chevron is the defendant in a multibillion-dollar lawsuit that seeks to hold the company responsible for environmental damage allegedly caused by Texaco Inc., which Chevron bought in 2001. Chevron has denied the allegations.

Seeking to protect itself from what it says is likely to be an adverse ruling in Ecuador, the California-based oil giant said Wednesday it had filed suit under the terms of a 1997 trade pact between the U.S. and Ecuador. The suit amounts to a request for arbitration through a process set up by the United Nations Commission on International Trade Law to adjudicate disagreements.

The arbitration process is separate from the original lawsuit, which will continue. But under its pact with the U.S., Ecuador must accept the arbitrators' rulings as binding under international law.

In its filing, Chevron argues Ecuador's government is responsible for any environmental damage and should pay any penalties assessed in the lawsuit, which could total $27 billion, according to a court-appointed expert. Chevron also asks that arbitrators force Ecuador's government to pay the company's legal fees and to award "moral damages" due to the government's alleged interference in the case, intimidation of Chevron representatives and other "outrageous and illegal conduct."

The move seeks to capitalize on the release last month of videos that Chevron says reveal a bribery scheme possibly involving the Ecuadorean judge who has been overseeing the lawsuit. Ecuador says it is investigating Chevron's allegations, as well as any potential involvement by Chevron in the scheme. The judge, who has sought to recuse himself from the case, has denied any wrongdoing, and the videos don't show him accepting or soliciting a bribe. On Tuesday, a local court ruled that the judge's withdrawal petition was "unfounded" and ordered him to stay in the case.

Chevron believes the controversy has given new weight to its claim that it cannot get a fair trial in Ecuador.

"We have believed for some time that it would be impossible for Chevron to get a fair hearing in Ecuador," Chevron General Counsel R. Hewitt Pate said.

Eric Bloom, a U.S. attorney representing Ecuador in the dispute, said Chevron has been trying to discredit Ecuador's judicial system for years, and he questioned the videos' authenticity.

"Chevron either got very, very lucky on the eve of a verdict and actually tripped across a legitimate concern, or they helped to stage-manage a fictitious event," Mr. Bloom said. "Both possibilities have to be investigated."

Chevron has denied doctoring the videos or participating in the scheme and has said it took steps to verify the videos' authenticity.

Steven Donziger, an attorney for the plaintiffs in the original lawsuit, said the filing will have "minimal impact" on his case, but he said it is a sign Chevron is becoming desperate.

The plaintiffs in the lawsuit couldn't be reached for comment.

Chevron's decision to seek international arbitration is the latest example of the company's increasingly aggressive strategy in the case, which includes a Web site to rebut plaintiffs' claims and an effort to lobby Congress to revoke Ecuador's trade privileges because of the government's alleged interference in the dispute.

Since Chevron has almost no assets in Ecuador, the plaintiffs will have to seek enforcement of any ruling in their favor in the U.S. or another country where Chevron operates.

Separately, the international arbitr ation process could take years. In its arbitration filing, Chevron claims that by allowing the lawsuit to go forward, the Ecuadorean government is violating a 1998 agreement that released the U.S. company from environmental liability in return for a $40 million cleanup paid for by Texaco.

The plaintiffs, a group of Ecuadorean residents, argue their case has nothing to do with the Ecuadorean government, so the agreement doesn't apply to their lawsuit. Ecuador's government says it has no control over the judicial process, although Chevron has argued the Ecuadorean judiciary is heavily influenced by President Rafael Correa.

If arbitrators reject Chevron's argument, it could make it harder for the company to fight enforcement of an adverse ruling. But if arbitrators agree that Chevron has no liability, legal experts said, it will be very difficult for plaintiffs to collect on any damages outside Ecuador.

Associated Press

An Ecuadorean community leader protests after a Chevron shareholders' meeting in California last year. A lawsuit accuses Chevron of environmental damage in Ecuador.

H-P uses clout to undercut PC rivals

By Justin Scheck

Hewlett-Packard Co. is using the dismal technology market to bolster its position as the world's largest personal-computer maker. How it is doing so is evident from a $298 laptop it sold at **Wal-Mart Stores** Inc. in July.

The cut-rate computer—which H-P developed earlier this year to boost back-to-school sales—was priced below a similar **Dell** Inc. laptop that cost $398 at Wal-Mart. Within two days, the H-P PCs sold out, says Wal-Mart. A second batch sold out by the following weekend.

Johnathan Williams saw the laptop in a Wal-Mart store near Dallas. He was considering a machine from **Apple** Inc., but couldn't pass up the H-P laptop's $298 price. "In the end, cost was what was more important," said Mr. Williams.

Since the economy slumped last fall, H-P has gained market share by lowering prices of its consumer PCs to undercut rivals, even discount Asian manufacturers like **Acer** Inc. in certain cases. And while the profit margin in H-P's PC business has fallen, it hasn't suffered as much as rivals.

The Palo Alto, Calif., company has used its enormous sales volume to demand cheaper rates from suppliers and contract manufacturers. It has also taken advantage of an improved supply chain to quickly design and deliver new, less expensive PCs.

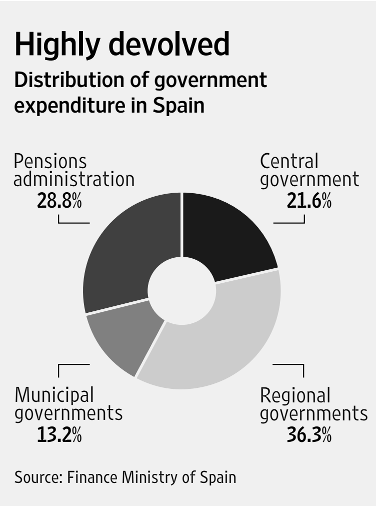
H-P this month introduced PCs for the holiday season at lower prices than earlier offerings. An ultrathin, 13-inch laptop called the dm3 costs $549, compared with $699 for its predecessor that debuted in January.

ECONOMY & POLITICS

Spain wrestles itself to shrink deficit

Goals are complicated by central government's weak hand, next to regional powers, in setting public spending

By Jonathan House



Spain's seesawing property market caused tax payments to plummet, compounding the country's budget woes.

MADRID—Spain's efforts to rein in its budget shortfall by a 2012 deadline set by the European Union are being stymied because the central government in Madrid has relatively little sway over public-sector spending.

Spanish tax revenues soared during the country's housing boom, but the property sector's subsequent collapse has caused tax payments to plummet, causing Spain to swing from a surplus of 2% of gross domestic product to a deficit that is forecast to top 10% this year. Under that forecast, it would be Europe's third-largest deficit in percentage terms, behind those of the U.K. and Ireland.

While Spain is an extreme example because of its seesawing property sector, other European countries are also grappling with similar issues as they move to rein in burgeoning budget deficits.

The Socialist-led government of Prime Minister José Luis Rodriguez Zapatero is set to approve a 2010 budget Saturday, its first step toward closing the budget gap. It will provide further details on its plans to reduce central government spending by around 4.5% from 2009 and to raise taxes by around 1% of gross domestic product. The move comes as spending this year is shooting far over budget as the result of anti-crisis measures and spiraling unemployment benefit payments.

The European Commission, the European Union's executive arm, has given Spain until 2012 to bring its deficit within 3% of GDP, the limit for users of the euro currency.

But Spain's central government—excluding the state's pensions administration—directly controls less than a third of public-sector spending, and can only set broad guidelines for the regional and municipal governments that control the rest. Those governments will start presenting their 2010 budgets in October.

"The [central] government only accounts for a part of public spending," said Rafael Domenech, chief economist for Spain at Banco Bilbao Vizcaya Argentaria SA. "What the regional and municipal governments are going to do is even more important," he said.

Spain's 17 regions—the so-called autonomous communities—control the biggest portion of public-sector spending, more than 36% in 2008. Responsible for basic services such as health and education, they have borne the brunt of absorbing the more than 4 million immigrants who have arrived in since 2000, attracted by abundant job opportunities in Spain's formerly buoyant economy.

The municipal governments in turn say they have been stuck with services that regional authorities should be providing—such as nurseries for children and services for the elderly—to the tune of €6 billion ($8.8 billion) a year.

As a result, even during the good years, Spain's regional and municipal authorities were running budget deficits. Their financial situation has worsened considerably in the recession.

The central government's 2010 budget aims to remedy some of these problems with expanded transfers under a new financing program that will give the country's regions an additional €11 billion between 2009 and 2012.

But ratings agency Standard & Poor's says the extra resources will do little to offset an expected €20 billion revenue drop for Spain's regions in 2010 and says that many are in danger of exceeding the deficit limit set by the central government, 2.5% of regional GDP.

This limit, along with the need for approval to issue debt to finance the shortfall, is the central government's chief mechanism to control spending by regional governments.

S&P analyst Alejandro Casas said the central government hasn't used it to rein in regional spending plans in the past. "We haven't seen them say, 'No, I'm not authorizing that debt,' " Mr. Casas said.

S&P in June downgraded the debt rating of Catalonia, one of Spain's biggest regions, to AA-minus from AA, and has warned of possible downgrades for several others. In January, it downgraded Spain's sovereign-debt rating to AA-plus from the maximum AAA.

Mr. Zapatero has pledged to meet the European Commission's deadline. But in the past, France and Germany have flouted Brussels's rules and escaped punishment, and many independent economists say that Spain's comparatively low ratio of public-sector spending to GDP gives the nation breathing room to take more time to get its deficit under control.

Though the magnitude and timing of Mr. Zapatero's announced 2010 tax increases is unclear—the increase of around 1% of GDP could be phased in over several years—economists say it is too soon for Spain to start raising taxes with its economy still deep in recession.

While some European economies have already begun to show small positive growth rates, Spain isn't expected to do so until late next year.

"The balance and phasing will be important to get right, because if you get it wrong, you can get a disturbance in the pattern of recovery, which is still fragile," said Bob Traa, the International Monetary Fund's mission chief for Spain.

Alfredo Pastor, economics professor at the IESE business school and a former Spanish deputy finance minister, said a tax increase in 2010 is "pointless" because it won't succeed in boosting revenues much when the economy is so weak. But, over the medium term, he said, tax increases will be necessary.

"I don't think our public sector has room to cut the deficit much by cutting taxes...given its structure with its central, regional and municipal governments," Mr. Pastor said.

German solar incentives assailed

By Vanessa Fuhrmans

As cheaper Chinese rivals threaten to outshine Germany's pioneering solar-power industry, the head of a leading German solar company is proposing a radical counteroffense: Cut the generous government subsidies that let German solar firms flourish in the first place.

SolarWorld AG Chief Executive Frank Asbeck has been pitching the proposal at a European solar-energy conference in Hamburg this week, and it is the latest salvo in the growing trade tensions between European and Asian solar makers.

It is also likely to reignite debate over how much government support is necessary to maintain Germany's prime advantage in a critical new energy industry. Some German policy makers and economists say the industry has to be weaned off the incentives faster to protect consumers from high electricity bills and to spur domestic companies to become more cost-efficient. But Mr. Asbeck is the first within the solar industry to support the idea.

Chinese solar-cell and -module makers are starting to profit from Germany's generous solar incentives more than domestic ones. With as much as 30% lower production costs, China has overtaken Germany as the largest producer of solar cells. But half of the world's photovoltaic systems that convert sunlight into energy are sold in Germany, making it a key market for Chinese and domestic companies alike.

The booming German demand stems from the above-market prices the government guarantees homeowners, farmers and other entrepreneurs who have rushed to buy solar installations over the past decade. Power companies are required to buy any alternative energy they produce at the higher fixed prices, providing them a guaranteed return on their investment.

Until now, German solar-equipment makers have warned that cutting subsidies too quickly would kill their industry. But Mr. Asbeck suggests using them as a bargaining chip of sorts.

He calls for reducing the incentives, while at the same time implementing new quality and environmental standards that apply to both domestic and foreign companies.

"We're saying the [incentives] can be reduced, but then we have to have a chance as serious producers to compete" on an even playing field, he said. In recent months German solar companies have accused Chinese rivals of price dumping, and Mr. Asbeck a month ago led a charge for a "Buy European" policy there.

Jenny Chase, an analyst at research firm New Energy Finance in London, said it is unclear how new environmental criteria to sell in Germany would affect Chinese rivals. Major ones already produce solar cells and modules of the same quality as German companies.

Steve Chadima, vice president of external affairs for Suntech Power Holdings, China's biggest solar-panel maker, said Mr. Asbeck's proposal falsely assumed companies such as his weren't manufacturing at the same standards. "I think he believes the reason we're able to produce at such lower costs is that we're somehow cutting corners," he said. "That's not true."

No German lawmaker has yet lent public support for Mr. Asbeck's plan, but it could get more reception among Christian Democrats who have pushed for steeper price subsidies in recent years. They have argued that the volume of solar-powered energy is rising so fast that consumers will end up paying billions of euros in extra energy costs over the next five years and that the subsidies will mainly benefit more efficient foreign producers.

"That's exactly what's happening," said a spokesman for Joachim Pfeiffer, a member of Parliament who led a legislative effort last year to cut price subsidies by as much as 30% this year. Lawmakers eventually compromised on an 8% to 10% annual decrease over the next three years.

Mr. Asbeck supports cutting them as much as 15%.

Recovery in home sales slipped in U.S. in August

By Sara Murray

U.S. existing-home sales slipped in August, as the housing market stumbled on its path to recovery.

Meanwhile, the labor market showed progress as initial claims for jobless benefits fell again last week.

Sales of existing homes declined 2.7% last month to a seasonally adjusted annual rate of 5.10 million units, after four straight months of increases, the National Association of Realtors said Thursday. That represented a swift change from July, when sales rose at the fastest rate in 10 years to a pace of 5.24 million.

For businesses in the housing industry, Thursday's NAR data illustrate just how choppy the housing market has become. Business has been flat in September at Workman Mortgage Co. in Melbourne, Fla., as fewer applicants have come in. That followed a "great" August and a July that was the worst month in the company's 20-year history, said Ritch Workman, the company's president.

Analysts agree that the overall decline seems to be a bump along the way to stabilization. Total housing inventory still fell 10.8% at the end of August, leaving an 8.5-month supply, compared with a 9.3-month supply in July. With unsold inventory now 16.4% lower than a year ago, the market is largely following a positive track.

Still, the supply of homes is relatively high. In combination with low prices, that has created a buyer's market that doesn't show signs of changing anytime soon. The median price nationwide for existing homes was $177,700 in August, 12.5% lower than the same month a year earlier.

Even before the NAR released its latest results, housing experts worried about the growing number of foreclosed homes in the pipeline—but not yet on the market. And with distressed properties accounting for 31% of sales in August, home prices are likely to stay low. Unemployment also remains a pressing issue that could keep potential buyers on the sidelines.

The still-weak labor market logged improvements in the week ended Sept. 19 as first-time claims for jobless benefits fell 21,000 to 530,000, the Labor Department said Thursday in its weekly report.

The four-week moving average, which aims to smooth volatility, dropped 11,000 to 553,500. Continuing claims, benefits drawn by workers for more than one week, fell to 6.14 million in the week ended Sept. 12, 123,000 less than the previous week.

—Dawn Wotapka contributed to this article.

ECONOMY & POLITICS

Fence-sitters could sway U.S. health debate

After the shouting, a key swing group remains persuadable

BY GERALD F. SEIB

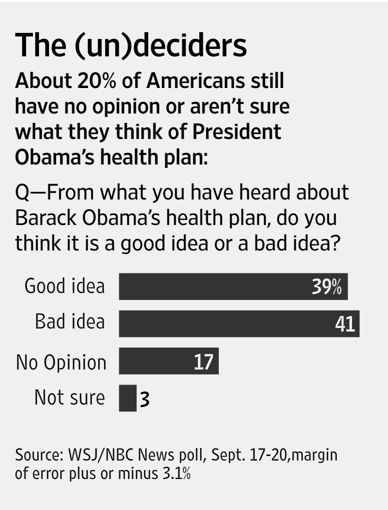
Who will determine the outcome of the great U.S. health debate? Well, a lot of senators and House members, obviously, but also a small slice of the public that's yet to decide what it thinks.

CAPITAL JOURNAL

A new Wall Street Journal/NBC News poll goes a long way toward showing which Americans are in this crucial swing group. They make up about 20% of all Americans—and they actually lean toward wanting to get something done this year, rather than letting the effort drop. In other words, they are within reach of President Barack Obama, and there are just enough of them to tip the balance of public opinion, but he's got some work to do to get them off the fence.

At this point, after all the yelling and name-calling, the dueling ad campaigns and the political chest pounding, it almost goes without saying that there are deep divides over changing the health-care system. And the new survey shows that clearly enough.

In particular, it finds that a significant number of people are firmly locked in on either extreme of this debate. These are people who, on one side, see only benefits and no real problems with Mr. Obama's health plan, or, on the other side, see no benefit and only problems with it.



U.S. Senate Finance Committee Chairman Democratic Sen. Max Baucus, left, and the committee's ranking Republican Sen. Charles Grassley in Washington, the finance committee is working on health-care legislation.

Associated Press

These are the "hell yes" and "hell no" contingents; they've made up their minds, and they aren't moving. The survey suggests that they make up just over half the American public. And the bad news for Mr. Obama and his Democrats is that the "no" crowd—the people who say they see no possible benefit from the Obama plan—is slightly larger: 30% to 22%.

And while both supporters and detractors say the issue is very important to them, the detractors seem more fired up about the subject. "You've got a majority of Americans who are in very, very hardened silos," says Bill McInturff, a Republican pollster who helps conduct the Journal/NBC News poll. "And the intensity is slightly to the side of those who say there's nothing helpful in this plan."

But that also leaves a large group in the middle, who see some benefits in what the president is trying to do, while harboring some concerns as well. These are the "health-care persuadables," and they still could go either way.

And in the middle of this middle group lie the truly undecided. About 20% of those surveyed said, when asked directly, that they have no opinion yet, or simply aren't sure, whether Mr. Obama's plan is a good idea or a bad idea.

These fence-sitters are spread pretty evenly across the country. They tend to be younger rather than older adults, and they are somewhat more likely to be blue-collar than white-collar. They are slightly more downscale economically than upscale. They tend to be independent politically—and, interestingly, are pretty evenly divided among those who have insurance, who are on public insurance and who have no insurance at all.

And here's where the good news comes in for Mr. Obama: While these truly undecideds aren't sold on the president's plan, they lean toward wanting to see something done this year. By a 37% to 23% margin, they say it would be better to pass the president's plan than to have nothing happen this year. (The remainder aren't sure.)

These people also are more likely than not to see some potential benefits from an overhaul. By a 53% to 33% margin, they say the greater danger lies in not doing enough to change the system, rather than in doing too much. By a similar margin, they also favor the inclusion of the so-called "public option," or a government-run health-insurance plan the president is backing, as a way to create insurance competition.

These people are "the ones who can see the compromises all the way through," says Peter Hart, a Democratic pollster who co-directs the Journal/NBC survey. But they also seem uncertain and confused; only 2% of them say they understand the legislation being debated in Congress "very well."

So if the president and his party want these voters, they are going to have to keep trying to get to them with a coherent explanation of what's in it for them. Maybe the White House has started making some progress in that area. Overall, the poll's findings suggest that, after a couple of months of sliding on the issue, Mr. Obama appears to be getting back some control over the debate.

Of course, one can also wonder why, if these people are open to persuasion, he hasn't yet nailed down their support. If a nationally televised address to Congress, a raft of other presidential appearance and five Sunday talk-show appearances in one day don't nail them down, what can?

There's your proof that, as the president keeps saying, change is a hard thing.

Koreas restart reunions with strict controls

BY EVAN RAMSTAD

SEOUL—For the first time in two years, South and North Korean relatives will meet this weekend in government-arranged reunions, restarting a humanitarian program that was designed to bridge differences between the two Koreas but ends up underscoring them.

The two sets of three-day reunions, involving several hundred people from both countries, will take place from Saturday to Thursday at a South Korea-built resort at Mount Kumgang, just inside North Korea on the east coast of the two countries.

In the first set, members of 100 families from South Korea who were chosen by lottery will go and meet with whatever relatives could be found in North Korea and brought to the resort, likely to be 200 to 300 people. In the second set, members of 100 families chosen in North Korea will get to meet South Korean relatives who could be found, likely to be about 400 to 500 people.

Since their start in 2000, 16 in-person reunions have been held at Mount Kumgang or other places, involving about 1,680 families. There have also been seven video-conference reunion events, involving about 280 families. In all, 19,960 people from the two Koreas have met through the reunions.

In the newest reunions, relatives will be with each other for roughly six to seven hours under conditions largely dictated by North Korea, which tightly controls the movement of its citizens and the information they receive. The relatives will meet for just two hours out of view of North Korean minders, South Korean officials said.

Reuters

South Korean Kim Yu-kwon cries with his North Korean sisters during their three-day family reunion at the Mount Kumgang resort in North Korea in 2007.

"We want the families to be together the whole time, but North Korea doesn't want that," said a South Korean official involved in preparing the event.

North Korean participants in the reunions receive several days of guidance about what they should and shouldn't talk about. The South Koreans get a one-hour orientation session before traveling to the resort in which the chief message, according to officials in Seoul, is not to talk about the North's authoritarian government.

Such reunions started after then-South Korean President Kim Dae-jung met North Korean dictator Kim Jong Il in June 2000 for the first inter-Korean summit, an event that appeared to mark the start of the reunification of the two countries, which were separated by war in the early 1950s.

The Korean War ended with a cease-fire, a divided border, no communication links and millions of relatives separated from each other. South Korea keeps a registry of 90,000 families, or about 700,000 people, seeking to communicate with relatives in the North.

But the reunions became captive to shifts in political tides in the two countries. As pressure grew on North Korea to give up nuclear weapons, its participation in the reunions became less regular. North Korea stopped participating after the October 2007 reunion because it was upset at the behavior of new leadership in the South.

North Korea agreed last month to restart the reunions after its leader Kim Jong Il in July met Hyun Jeong-eun, the chairwoman of Hyundai Group, whose Hyundai Asan unit manages the resort and has played an important role in establishing commercial relations between the two Koreas.

Over the past three weeks, Hyundai Asan officials have been cleaning and preparing the hotels at the resort for the reunions. The company held mock banquets last week for rehired workers to test their food-preparation and service. "They just needed to practice to remember what they used to do," said Shim Sang-jim, a Hyundai Asan manager who has been involved in six previous reunions.

—Jaeyeon Woo contributed to this article.

Japan Airlines asks government for new bailout

BY YOSHIO TAKAHASHI AND ALISON TUDOR

TOKYO—**Japan Airlines** Corp. asked the Japanese government for its fourth bailout since 2001 on Thursday to help the unprofitable carrier weather a sharp drop in global travel and tougher competition.

But the government's initial response was cautious. "At this stage, I'm skeptical about the feasibility of JAL's rehabilitation plan," Transport Minister Seiji Maehara told reporters.

JAL CEO Haruka Nishimatsu met with Mr. Maehara to discuss the bailout Thursday but didn't specify how much capital the company needed. Mr. Maehara said he would make a decision by the end of September.

Japanese taxpayers are already exposed to JAL. The carrier has received three emergency loans backed by the government since 2001. As recently as June, JAL accepted about 100 billion yen ($1.1 billion) in loans from state-backed Development Bank of Japan and other banks.

The carrier reported its largest-ever net loss of 99 billion yen in the three months to June and is predicting a net loss of 63 billion yen for the full business year ending in March.

JAL is keen to cut costs to win banks' approval as it seeks to raise 250 billion yen in new funds. Deeper commitment to JAL's future by the state would also boost confidence among lenders.

—Tomoyuki Tachikawa and Doug Cameron contributed to this article.