Money & Investing: A correction in Chinese stocks could weigh on other emerging markets

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What's News

Vivendi said more people are staying home to watch pay-TV and play videogames amid the recession, pushing the company's second-quarter earnings up 6.6%. Even so, Vivendi shares have underperformed European peers this year. Pages 6, 32

■ U.S. auto sales in August rose to their highest monthly total in more than a year, bolstering hopes the industry's recovery will continue. Page 8

■ Car sales in France continued to get a boost in August from government incentives, with sales up 7%. Page 8

■ Belgian investment firm RHJ International presented an improved offer for 50.1% of GM's Opel unit. Page 8

■ Financials led a selloff of U.S. stocks amid concerns that the market could be facing a correction. European shares also fell. Page 20

■ Climate-change protesters briefly shut down RBS's headquarters in London by gluing their hands together and holding a vigil on the bank's trading floor. Page 19

■ EBay is selling a 65% stake in its Skype Internet phone business to private investors in a deal that marks the end of an unhappy tech marriage. Pages 7, 32

■ SkyEurope Airlines ceased all operations while its holding company initiated bankruptcy proceedings. Page 7

■ Deutsche Bank is closing a popular exchange-traded oil product, marking the first casualty of increased regulatory scrutiny of commodity investment funds. Page 19

■ Rosneft's profit fell 63% in the second quarter as oil prices slumped, but the Russian oil producer narrowly beat forecasts. Page 8

■ Nokia Siemens tapped the leader of its services business, Rajeev Suri, as its new chief executive. Page 6

■ A U.N. drugs agency said Afghan opium cultivation this year has fallen 22% from 2008 as prices drop due to oversupply. Page 3

■ The son of the late leader of Iraq's largest Shiite party took the party's helm, and reached out to political rivals.

■ Firefighters scrambled to try to contain a large wildfire in southern California that has destroyed 53 homes.

EDITORIAL & OPINION

Who is Mrs. Merkel?
Does the chancellor have an agenda beyond staying in power? Page 13

Breaking news at europe.WSJ.com

World manufactures a recovery

Data showing output growth in Europe, U.S., Asia could add steam to upturn by boosting trade

By Justin Lahart And Marcus Walker

Manufacturing gains reported Tuesday across the U.S., Europe and Asia added to growing evidence that the global economy is not only steadying but recovering more strongly than anticipated a few months ago.

For the first time since January 2008, a key manufacturing index crossed the threshold indicating that factory output grew in August. And in more signs that the billions of dollars that central banks pumped into the global economy have helped reinvigorate demand, surveys among purchasing managers also showed that manufacturing activity in China, France and Australia expanded last month. The pace of contraction in other countries, such as Germany, slowed markedly.

Despite U.S. stocks' pullback Tuesday, financial markets around the world have rebounded, and businesses and households have been regaining confidence. Also Tuesday, some car makers reported U.S. sales gains for August. And in the latest sign that the U.S. housing market, whose bust sparked the crisis, is on the mend, the National Association of Realtors reported that its index of home sales that are pending but not yet closed rose to its highest level in more than two years.

"We had been looking for improvement, but the speed at which it's come and the magnitude with which it's come is surprising," said J.P. Morgan Chase & Co. economist Bruce Kasman. "We all went down hard, and we're all going up pretty well."

To be sure, the global economy still faces significant hurdles. With unemployment rates high around the world, the improvement could fall away once the effects of government stimulus fade. The stimulus has left the U.K., for instance, with a debt load that will drag heavily on any recovery. (Please see related articles on pages 4 and 5.)

The banking sector continues to struggle with a proliferation of loans gone bad, particularly in the U.S., where many banks' commercial-real-estate loan portfolios put them at risk. Financial firms led a broad selloff in the stock market that sent the Dow Jones Industrial Average down 185.68 points, or 2%, to 9310.60 Tuesday.

Still, economists have been steadily ratcheting up

Please turn to page 4

World leaders mark 70th anniversary of World War II's beginning

Reuters

SOLEMN GATHERING: Polish Premier Donald Tusk, left, German Chancellor Angela Merkel and Russian Premier Vladimir Putin listen to a speech by Polish President Lech Kaczynski.

Lockerbie memo puts heat on Brown

By Alistair MacDonald And Paul Sonne

A memo released on Tuesday suggests that U.K. Prime Minister Gordon Brown didn't want the convicted Lockerbie bomber to die in prison—undercutting the British government's hopes that a raft of documents would prove the U.K. didn't interfere with Scotland's recent decision to release the Libyan convict.

The U.K. and Scottish governments released dozens of documents that detail the prelude to last month's release of Abdel Baset al-Megrahi, the only person ever convicted in the 1988 jetliner bombing that killed 270 people over Lockerbie, Scotland. Mr. al-Megrahi has terminal prostate cancer, and Scottish officials released him on "compassionate grounds," allowing him to return last month to Libya, where he received a hero's welcome. The release on Tuesday came after some documents had been leaked in recent days, and also fulfilled a promise by the Scottish government that they would make them public.

The Scottish government rules on some local issues, such as justice, but national decisions, such as foreign, defense and tax policy are left to London. The two governments released sets of documents separately on Tuesday.

The documents repeatedly show U.K. officials emphasizing that any decision to free Mr. al-Megrahi rested with Scotland. The U.K. hoped the correspondence would dispel talk that the former Libyan agent had been released under pressure from Britain to facilitate trade with oil rich Libya.

One document, however, seems to indicate that U.K. officials earlier this year signaled to Libya that the government supported the dying Mr. al-Megrahi's release.

The document, released by the Scots, may fuel accusations that the release was U.K.-led and related to trade between the U.K. and Libya. According to minutes of a meeting last March between Scottish and Libyan officials, a senior Libyan official indicates that he warned British foreign office minister, Bill Rammell, in February that allowing Mr. Rammell to die in a Scottish prison would "have catastrophic effects for the relationship between Libya and the U.K" and that Mr. Rammell told him that neither the U.K.'s prime minister nor foreign secretary "would want Mr. Megrahi to pass away in prison."

At the same time, according to the minutes, Mr. Rammell had emphasized to Libya that the decision on Mr. al-Megrahi's fate rested with Scotland.

A spokesman for Mr. Brown declined to comment.

In a statement on Tuesday, Mr. Rammell didn't directly address whether the account of his comments is accurate. He said: "I made it clear in all my dealings with the Libyans that the decision around al-Megrahi was exclusively one for the Scottish Executive and the Scottish Executive alone."

The claim throws Mr. Brown deeper into the controversy and will increase pressure from political rivals for him to come clean on any involvement he had. Mr. Brown, and the Scottish government, have repeatedly said that the

Please turn to back page

Inside

Looser purse strings
Syria gets unexpected help in opening its frail economy
News in Depth, pages 16-17

Markets
4 p.m. ET

	CLOSE	PCT CHG
DJIA	9310.60	-1.96
Nasdaq	1968.89	-2.00
DJ Stoxx 600	231.66	-1.84
FTSE 100	4819.70	-1.82
DAX	5327.29	-2.51
CAC 40	3583.44	-1.92
Euro	$1.4303	-0.29
Nymex crude	$68.05	-2.73

LEADING THE NEWS

U.S. grants $502 million to solar, wind projects

European firms, led by Iberdrola, are among big recipients

BY RUSSELL GOLD

The U.S. government granted $502 million to a dozen wind and solar projects from Maine to South Texas, shifting a subsidy program designed to spur renewable-energy investment into high gear.

Federal officials praised the program for attracting significant private-sector money to develop projects that have already increased U.S. power generation by 840 megawatts—nearly enough to run about 500,000 American homes. The biggest recipients of the grants are European companies and private-equity investors.

Iberdrola SA, the Spanish wind-power giant, was awarded $294 million for five wind projects. Iberdrola spokesman Keith Grant said the cash grants are "crucial to pushing ahead" with U.S. wind projects, and were instrumental in the company's decision to increase investment in the U.S. by 20%.

The government said this first round of grants should generate 2,000 jobs in the U.S. manufacturing and construction industries. President Barack Obama's administration has argued that investing in renewable energy is a way to create new jobs.

Dan Tangherlini, an assistant secretary at the Treasury Department, said the $502 million in grants was just the beginning of the program. He said the government estimates it will hand out $3 billion in grants, but that the amount isn't capped. "As long as applications qualify, we will be making awards," he said.

Analysts and Wall Street bankers have said they expect applications for as much as $10 billion in grants could be submitted.

Other recipients in the first round of grants included Horizon Wind Energy, the U.S. unit of Portuguese energy company **Energias de Portugal** SA, which will receive $47.7 million for a wind farm in Oregon.

Private-equity-backed companies also shared in the awards. First Wind Energy Holdings LLC, a company backed by private-equity firm **Madison Dearborn Partners** and hedge fund **D.E. Shaw**, received $74 million in grants for wind projects in upstate New York and Maine.

EverPower Wind Holdings Inc. received a $42.2 million grant for a wind farm in Pennsylvania. British private-equity firm **Terra Firma Capital Partners** recently purchased a controlling equity stake in EverPower, said Chief Executive Jim Spencer. "In order to make wind power economical, it requires a tax subsidy," he said.

Mr. Spencer said the Pennsylvania project was stalled last year when many of the traditional investors in wind, such as Lehman Brothers Holdings, Goldman Sachs and Morgan Stanley, were tossed by market turmoil and the economic recession.

To encourage more private investment in renewable energy, the federal government allowed developers and investors to take a cash grant equivalent to 30% of a project's value, rather than former tax credits that were spread over 10 years.

Wall Street bankers have praised the change and have recently stepped up to make several large investments, betting that they will qualify for a cash grant.

Agence France-Presse/Getty Images

Children look at the sea as Hurricane Jimena approaches Puerto San Carlos in Mexico's state of Baja California.

Hurricane mostly misses Mexico

BY NICHOLAS CASEY

MEXICO CITY—Hurricane Jimena brushed past the tip of Mexico's Baja Peninsula and failed to make a direct strike at tourist towns, disrupting vacations but sparing most hotels from heavy damage.

The storm weakened slightly but still packed a punch, with maximum wind speeds of 135 miles per hour, or about 216 kilometers per hour, Tuesday afternoon, according to the U.S. National Weather Service. That made it a Category 4 storm out of a possible 5.

While the storm remained dangerously large and organized, forecasters projected it would only skirt Baja's commercial center of La Paz, with the hurricane's center making landfall in the less-populated northern part of the peninsula on Wednesday or Thursday.

On Tuesday afternoon, the storm sat about 160 kilometers southwest of Cabo San Lucas, the area's main tourist town, moving slowly northwest along the coast. Taking no chances, Mexico declared a state of emergency for Los Cabos, La Paz and other nearby towns. Flights were canceled, leaving tourists stranded to face the storm.

In Cabo San Lucas, observers reported moderate winds and sporadic rain during the early afternoon. The wind sprayed sand, palm fronds and loose debris alongside many roads, onlookers said. A mudslide blocked the road between Cabo San Lucas and nearby San José, snarling traffic.

Hotels remained on alert. Guests at the Intercontinental Hotel in Cabo San Lucas were asked to wait out the storm in the lobby, which managers deemed safer than the hotel's rooms. Some guests had already left town. Occupancy at the Intercontinental stood at roughly 18%, or about 150 people, down from about 50%, which the hotel says is normal for this time of year.

"There's no damage," said Oscar Luna, the Intercontinental's concierge. "The main panic has been not because there's a hurricane, but because there's no sun."

In Cabo San Lucas, most restaurants were closed for the day as hotels advised their guests to remain indoors.

"We're the only ones open," said Lourdes Carlon, the cashier at Alexander Restaurant, a downtown eatery at the water's edge. "And we have only one table that's occupied."

The southern peninsula is a popular destination for U.S. tourists, drawn by luxury hotels in a stunning landscape of mountains, desert and wide-open sea.

Hurricane Jimena, the strongest so far of the 2009 season, took on force over the weekend and was feared as a potentially disastrous event for Mexico's tourism and fishing industries. As the storm approached, local officials in the Mexican state prepared evacuation plans for more than 20,000 people, according to the Associated Press.

At their peak early Tuesday, the storm's winds reached about 240 kilometers per hour, which could cause severe damage if directly hitting land. Even in the weakened state, Jimena could dump as many as 37 centimeters of rain on parts of the peninsula and cause flooding, the U.S. National Hurricane Center said.

Forecasters expected the storm to weaken further, but warned it would likely still be a strong hurricane by the time it made landfall.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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LEADING THE NEWS

U.N. sees Afghan opium trade weakening

Glut drives down cultivation of crop vital to insurgency

BY MATTHEW ROSENBERG

KABUL—Farmers in Afghanistan are growing less opium than last year and prices for the illicit crop have fallen to levels not seen since the Taliban ruled the country in the 1990s, according to a new report from the United Nations.

The shift, largely a result of oversupply and stepped-up interdiction efforts, could give farmers an incentive to switch to other crops, the report said. But obstacles remain as foreign troops and aid workers try to end opium's role as a pillar of Afghanistan's economy and a source of revenue for the Taliban, particularly because the industry is so entrenched.

"The bottom is starting to fall out of the Afghan opium market," declared the report from the U.N. Office on Drugs and Crime, which was scheduled to be released Wednesday.

To support that conclusion, the report states that Afghanistan's opium cultivation this year has fallen 22% from 2008, a second straight annual decline. A persistent global glut has discouraged production and forced down prices paid to farmers. Also, robust interdiction efforts on the part of the Afghan, U.S. and allied forces have discouraged production, the U.N. report says.

Associated Press

Police in Afghanistan's Badakhshan province work to destroy a patch of poppies in July, in a government eradication effort.

A summary of the report provided to journalists ahead of the full report's release didn't detail methodology, and said the numbers for 2008 and 2009 weren't directly comparable because of slight population increases. Still, the annual survey, which seeks to measure prices around harvest times in different parts of the country, is consistently cited as a measure of opium production in Afghanistan.

The report appeared to offer a rare bit of welcome news in Afghanistan for the U.S. and its allies, after a summer of setbacks.

Insurgent violence continues to spread in Afghanistan and a hotly contested presidential election has been marred by allegations of vote-rigging. On Monday, the top American commander in Afghanistan, Gen. Stanley McChrystal, issued a grim classified assessment which warned that conditions in Afghanistan were "serious" and urged the U.S. and its allies to rapidly change course there.

The report raised several red flags that indicate the drug trade is likely to remain a central challenge for any new Afghan government and international security forces in the country.

The U.N. says Afghan officials remain complicit in the illegal trade, undermining public support for the government. Afghan officials routinely deny such allegations.

Collusion between criminal gangs and insurgents are spawning "narco-cartels" like those seen in Colombia and Myanmar, the U.N. says.

And Afghanistan still grows far more opium than global demand, which is steady at about 5,000 tons a year. Some of that excess crop is probably being horded in secret locations, the report said. "Stockpiles of illicit opium now probably exceed 10,000 tons—enough to satisfy two years of world [heroin] addiction," said the drug control office's executive director, Antonio Maria Costa, in a statement. "Where is it? Who is hoarding it, and why?"

It was unclear whether declining cultivation and falling prices paid to farmers are seriously hurting the bottom line of Afghanistan's insurgent groups. Most earn income from opium and heroin trafficking.

The Taliban also earns a small percentage from taxing farmers on their opium crops, said Doug Wankel, a former senior antinarcotics official at the U.S. Embassy in Kabul.

—Yochi J. Dreazen contributed to this article.

Armenia and Turkey win plaudits for diplomacy

BY MARC CHAMPION

A renewed effort by Armenia and Turkey to restore relations soured by a brutal history received high praise from Brussels and Washington on Tuesday, but neighboring Azerbaijan—which scuttled the reconciliation earlier this year—again cast doubt on the process.

Turkish and Armenian diplomats on Monday initialed a road map to establish diplomatic relations between the two countries for the first time. In a statement mediated by Switzerland, the two governments set a six-week deadline for consultations with their respective parliaments, before beginning ratification.

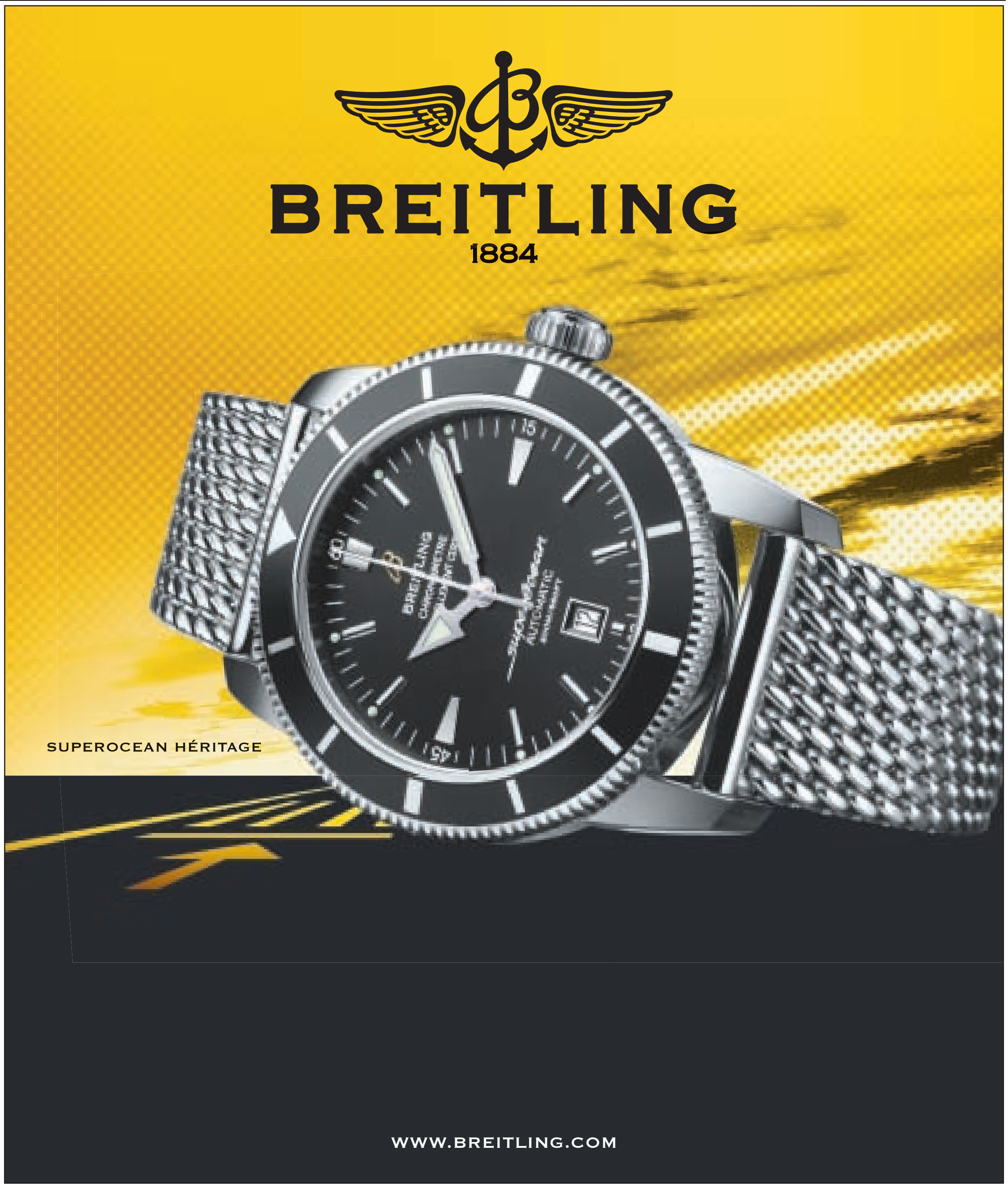
Once the protocols are ratified, they commit the two sides to reopen their border within two months. Turkey sealed its border with Armenia in 1993, to protest what it considered Armenia's military occupation of Nagorno Karabakh, a district of Azerbaijan populated mainly by ethnic Armenians.

The protocols also commit the two sides to set up a joint historical commission. The commission could, among other issues, investigate the 1915 massacre of Armenians under Ottoman rule. Many historians estimate the death toll from those killings toll to be up to 1.5 million, in what is considered by many to be the first genocide of the 20th century. Armenians have lobbied around the world for the killings to be recognized as genocide, a move Turkey fiercely resists, arguing the deaths were wartime casualties.

The EU's foreign-policy representative, Javier Solana, on Tuesday welcomed what he described as a crucial step in a "historic process" to bring stability to the troubled Caucasus region. The U.S. State Department also welcomed the deal and urged that it be carried through on schedule. U.S. President Barack Obama pledged before his election last year to recognize the Armenian genocide, but he held back during a visit to Turkey in April, saying he didn't want to risk scuttling the Turkish-Armenian reconciliation talks.

The protocols initialed on Monday had already been drafted in April. However, even before Mr. Obama visited Turkey, Azerbaijan publically attacked the proposed border opening as a betrayal by its Turkish ally. The criticism stirred nationalist opposition to the deal within Turkey. Azeri leaders also threatened to redirect their growing oil and gas supplies away from Turkey. Turkey's leaders quickly backed away from signing the Armenian deal after Mr. Obama left, saying it would have to wait until a resolution of the Nagorno Karabakh conflict.

On Tuesday, Turkish Foreign Minister Ahmet Davutoglu said the two nations were at the beginning of "a long process." Mr. Davutoglu has spearheaded a policy aimed at resolving disputes with Turkey's neighbors in order to restore Turkey's influence as a regional player and smooth its path toward joining the EU. But his comment on Tuesday reflected strong opposition, repeated by officials at Azerbaijan's foreign ministry, to opening the border with Armenia before the conflict in Nagorno Karabakh is resolved.



Reuters

An assembly line of Anhui Jianghuai Automobile in China's Anhui province.

Gear shift | August's surveys indicate factory production is expanding some of the world's major economies

	Euro zone	Germany	France	Spain	Italy	U.K.	U.S.	China	Australia
August purchasing managers indexes	48.2	49.2	50.8	47.2	44.2	49.7	52.9	55.1	51.7
Monthly change	1.9	3.5	2.7	–0.1	–1.2	–0.5	4.0	2.3	7.2
	Contracting	Contracting	Expanding	Contracting	Contracting	Contracting	Expanding	Expanding	Expanding

Sources: Markit; HSBC; ISM; Credit Suisse; Australian Industry Group/PriceWaterhouseCoopers

Manufacturing data point to global recovery

Continued from first page

their forecasts for growth in the U.S. and abroad. At the end of July, forecasters polled by research firm Macroeconomic Advisers estimated that U.S. gross domestic product—the value of all goods and services produced by the economy—would grow at a 1.5% annual rate in the current third quarter. By last week, that estimate had nearly doubled, to 2.9%.

In June, economists at J.P. Morgan reckoned that GDP in the euro area would grow at a 0.5% rate in the second half of 2008. Now, they are looking for euro-area GDP to grow by nearly 3%. A rebound looks to already be under way in Asia, where Japan's GDP grew at a 3.1% annual rate in the second quarter. China's GDP was 7.1% above its year-earlier level. In Brazil, government data released Monday show a 2.2% growth in industrial production in July compared with the previous month, making it the best 30-day period since the global crises began.

The fact that growth in all three of the world's major economic drivers—the U.S., Europe and Asia—appears to be returning at about same time could give the global economic recovery added oomph by boosting the flow of trade between countries.

The Purchasing Managers Index for euro-zone manufacturing rose to a 14-month high of 48.2 in August, from 46.3 in July, and is now close to the 50 level that would indicate activity has stopped falling. The PMI surveys showed that manufacturing in Germany and France is recovering faster than in most other countries that use the euro, including Italy.

The improving PMI "reinforces mounting hopes and expectations that the euro zone will see an overall return to growth in the third quarter following five quarters of contraction," Howard Archer, chief European economist at IHS Global Insight in London, said in a research note.

The 16-nation euro zone's economy contracted at an annualized rate of roughly 0.4% in the second quarter, and most economists now expect a return to growth in the second half of this year.

Germany and France are at the heart of the region's recovery—both economies unexpectedly returned to growth in the second quarter—but other countries, including Italy, Spain and Ireland, are still struggling with problems including battered household finances and a loss of international competitiveness.

Spanish unemployment—the highest in Europe—rose to 18.5% in July from 18.2% in June, amid a continued collapse in the housing sector.

Overall, euro-zone unemployment in July rose to 9.5% from 9.4% in June, reaching the highest level in a decade. But July's increase of 167,000 jobless workers was markedly slower than monthly rises of about half a million earlier this year.

In Germany, unemployment even fell in August, by 1,000 on a seasonally adjusted basis. The German jobless rate remained at 8.3%. That bodes well for German consumer spending, which has held up well despite the country's massive recession in the past year. German retail sales rose 0.7% in July, showing that the strength of German household spending isn't only the result of auto sales and the country's successful "cash for clunkers" program.

Some economists say the best news from Europe is yet to come, because companies were still reducing their inventories sharply in the second quarter. "We still have the rebuilding of stocks ahead of us, which makes the case for strong growth in the third and fourth quarters," said Christel Aranda-Hassel, senior European economist at Credit Suisse in London.

Alfred H. Schuette GmbH, a German machine-tool maker, illustrates Germany's potential to bounce back in coming quarters. The firm saw its orders collapse in the past year, but the financially conservative company has no bank debt and large cash reserves.

Chief Executive Martin Welcker said he was aiming to keep all of his staff on board, even though they were underoccupied at present. He is making use of government subsidies for employees who are working short shifts—a measure that has greatly slowed the pace of job losses in Germany. That, in turn, has boosted consumer confidence.

Mr. Welcker expects his sales to start recovering this fall, along with global corporate investment, reflecting pent-up demand for improved living standards around the world, particularly in emerging economies.

"I believe the recovery will be stronger than many expect, because the underlying demand for goods and services in the world hasn't gone away," Mr. Welcker said.

However, skeptics doubt the sustainability of Europe's German-led recovery, pointing to three weaknesses. The cash-for-clunkers programs that have propped up the auto sector are set to run out in Germany and elsewhere next year. Banks in the euro zone have done less than those in the U.S. to write down their losses in the credit crisis, and are cutting back their lending to businesses to repair their capital ratios.

And unemployment in Germany, Italy and some other countries is set to rise further this year and next. Government measures such as short-shift subsidies have delayed layoffs, but many firms are likely to cut jobs in the coming year because the downturn has left them with significant overcapacity. That, in turn, is expected to dent consumer confidence and household spending.

In one respect, however, Europe is less at risk of a double dip than the U.S., say analysts: The euro zone has done less to stimulate growth through fiscal and monetary policy than the U.S., so the withdrawal of stimulus measures will be a less significant drag factor than in the U.S.

"There is less danger of a W-shaped recovery in Europe because you haven't seen the same extent of government support as in the U.S.," said Jennifer McKeown, European economist at London consultancy Capital Economics. Still, Europe's recovery won't be spectacular, because rising unemployment will erode so-far-stable consumer spending, she said.

Like the U.S. and Europe, Britain appears to be healing from the recession faster than some expected a few months ago. Economists now expect the U.K. to return to economic growth in the third quarter, while recent data have pointed to recoveries in house prices, manufacturing and services.

But economists and policy makers worry that Britain's recovery could significantly lag behind other regions, given the U.K.'s heavy debts and reliance on the financial-services industry to fuel economic growth.

British consumers are among the most heavily indebted in the developed world, and their downsizing efforts may put a lid on consumer spending, the largest driver of demand in the U.K. economy. British politicians, meanwhile, are under pressure to fix the government's heavy national debt, expected by some to reach nearly 100% of annual economic output by 2013. Any moves to tighten the U.K.'s fiscal belt in the form of higher taxes will hurt the same consumers Britain is banking on to fuel the recovery.

That could be making some U.K. companies worried. Last month, drinks maker **Diageo** PLC, the maker of Johnnie Walker scotch and Guinness stout, warned that it didn't expect a recovery in the alcoholic-beverages industry anytime soon, and issued a lackluster forecast for fiscal year 2010.

"Things are looking a lot better than they did just a few weeks ago," said Mr. Archer at Global Insight in London. "But significant doubts remain further out. I certainly think the U.K. will lag other economies like Germany."

In a sign of the U.K.'s bumpy road to recovery, data on Tuesday showed that Britain's manufacturing sector unexpectedly contracted in August, though Mr. Archer said these data appeared to be stabilizing. Last month, the Bank of England raised doubts about the sustainability of the recovery by boosting the size of a bond-buying program aimed at fighting the recession.

Another major concern among economists: Britain's massive banking industry may be less able to turbocharge the nation's recovery than in the past, given a rising mountain of bad loans and tighter regulatory environment.

—Paulo Trevisani, Neil Shah, David Gauthier-Villars and Bob Davis contributed to this article.

ECB is expected to maintain rates despite optimism

By Nina Koeppen And Geoffrey T. Smith

FRANKFURT—A rise in German retail sales, a stabilization in the country's unemployment rate and an improvement in the euro zone's manufacturing sector provided further indications that the currency area's economy is on the mend.

But economists still expect policy makers at the European Central Bank to leave the key interest rate unchanged at a record low of 1% when they meet Thursday, although the central bank is expected to raise its economic-growth forecasts.

Germany's Federal Statistics office said Tuesday that retail sales in the euro zone's largest member rose by 0.7% in July from June, while the Federal Labor Agency said the number of people out of work fell unexpectedly by a seasonally adjusted 1,000 in August, leaving the seasonally adjusted unemployment rate unchanged from July at 8.3%.

A survey of purchasing managers found that the contraction in the euro zone's manufacturing sector slowed more than expected in August, while activity in France rose for the first time since May 2008.

"Overall, today's data, together with yesterday's inflation figures, provide further grounds for optimism about the euro area economy, but also serve as a reminder that confidence and the prospects for recovery remain very fragile," said Colin Ellis, a European economist at Daiwa Securities.

When it meets Thursday, the ECB's governing council isn't expected to start to remove the stimulus it has provided in increasingly large doses since the financial crisis intensified in September 2008. Staff at the ECB are widely expected to raise their economic growth projections for this year and 2010, but leave their inflation forecast untouched. ECB staff said in June that euro-zone gross domestic product will contract by between 4.1% and 5.1% in 2009, and shrink around 0.3% in 2010.

"These estimates look too gloomy to us," said Melanie Baker, an economist at Morgan Stanley.

ECB President Jean-Claude Trichet, who is due to present the fresh quarterly ECB staff forecasts at a news conference Thursday, is likely to caution against reading too much into the improved economic outlook, as it rests heavily on extensive aid by governments and central banks.

Even as the positive data came out of Germany, a German government committee Tuesday announced new measures designed to avert a widespread credit crunch across the economy. A steering committee representing numerous ministries approved the allocation of €7.5 billion ($10.75 billion) for trade-finance insurance and the disbursal of €10 billion of loans to the country's banks from state-controlled lender KfW. The latter amount is aimed at refinancing loans to German companies.

Figures also released Tuesday by the European Union's official statistics agency showed the unemployment rate in the 16 countries that use the euro rose to the highest level for more than a decade in July, with more than 15 million people, or 9.5% of the work force, without jobs.

LEADING THE NEWS

Britain still downcast amid global upturn

Household debts, lower loan levels remain burdensome

BY NEIL SHAH

As the world's biggest economies spring back to life, Britain is still spinning its wheels.

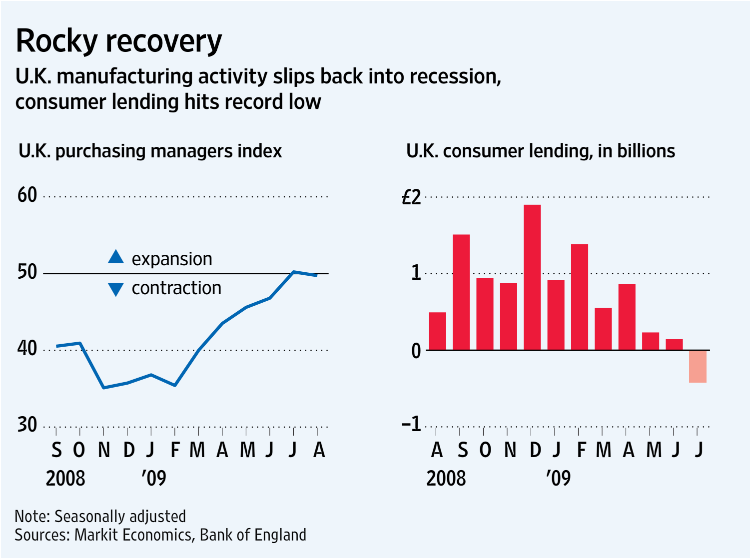
One major reason: U.S. and German consumers are much less weighed down by burdensome debts, which means they may have more cash to spend. By the end of 2008, the average British household had a debt-to-income ratio of 180% compared with 140% for the average U.S. family, according to the Organization for Economic Cooperation and Development.

Data on Tuesday showed that Britain's manufacturing sector unexpectedly contracted in August, though the figures have appeared to stabilize recently. According to research group Markit economics, the purchasing managers' index for the manufacturing sector fell to 49.7 in August from a downwardly revised 50.2 in July. Economists had forecast that the figure would rise to 52.0 — well above the 50.0 level that indicates the sector is expanding.

Meanwhile, separate figures from the Bank of England showed net lending to consumers fell in July for the first time since records began in April 1993. Credit card loans increased in July by £92 million. However, others consumer credit loans, including overdrafts and student loans, fell £309 million in July.

"Today's news will not make happy reading for policy makers who have taken significant steps over the last year to encourage greater volumes of lending throughout the economy," said Benjamin Williamson, economist at the Center for Economics and Business Research.

However, new mortgage approvals edged up, suggesting that lending is likely to rise again in coming months, although Howard Archer, U.K. economist at Global Insight, said there are still obstacles to a recovery in the depressed housing market. "The outlook for house prices over the coming months will be highly dependent on whether the economy can sustain a likely return to growth in the third quarter, how much further unemployment rises," he said. Despite the decline in lending and the fall in manufacturing output, a survey from pollsters Ipsos Mori suggested voters became marginally more upbeat in August.



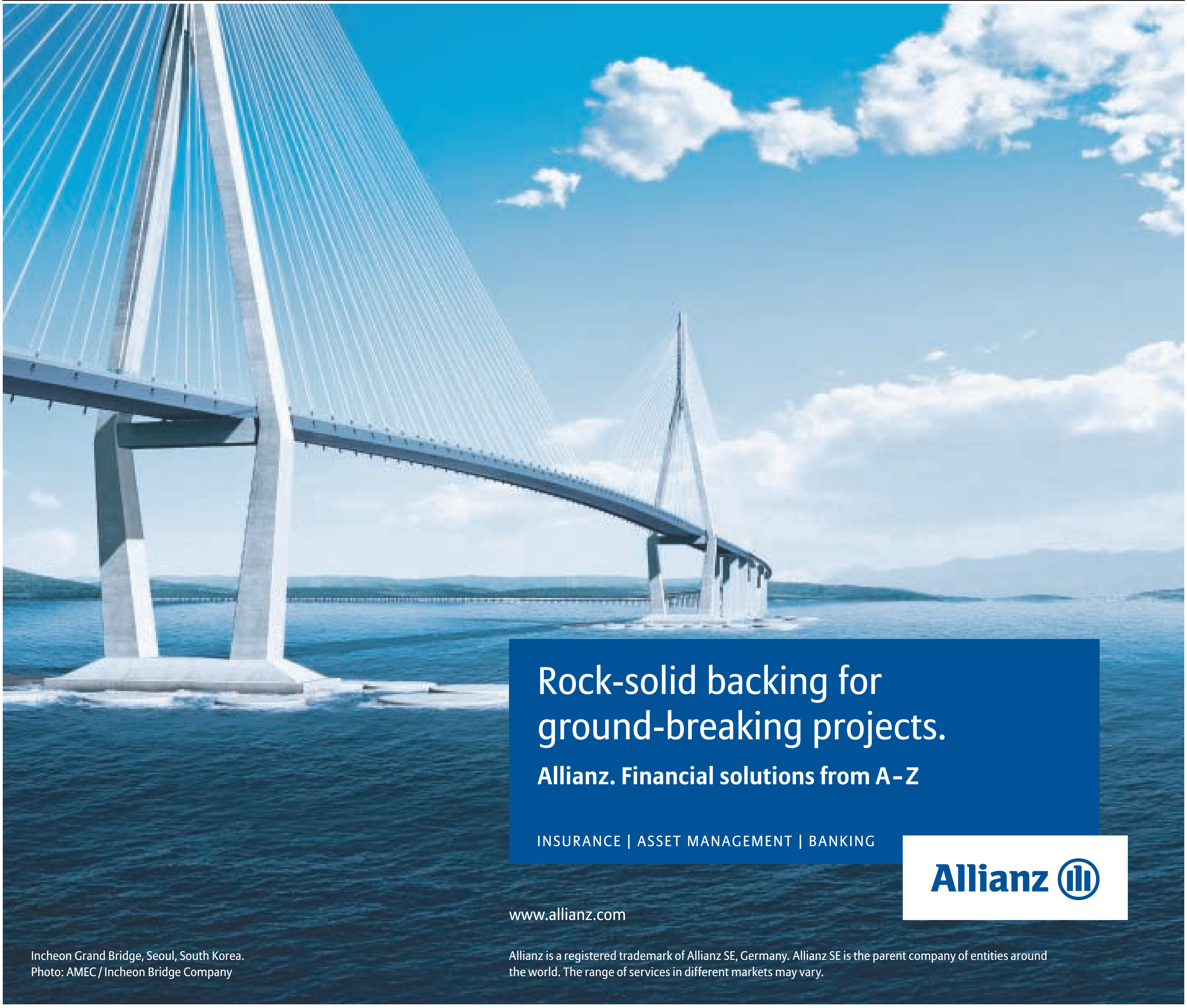
Tuesday's disappointing data also pushed the British pound lower against the U.S. dollar. Late in London, one pound bought $1.623 compared with $1.631 on Monday.

Sterling has been under pressure for weeks as investors grapple with the probability that the U.K.'s rebound will lag other countries. Before the Bank of England said it would boost the size of a bond-buying program aimed at fighting the recession, the British pound had stood at more than $1.70. Higher U.K. interest rates would make British bond investments more attractive for investors since returns would be higher.

The Bank of England's move suggests that higher interest rates may be further off for the U.K. than in other places. Economists expect the Bank of England's Monetary Policy Committee to leave interest rates at a record low of 0.5% when it meets next week.

To be sure, Britain could end up catching up with some of its peers in the quarters ahead. Countries like Germany and Japan, which saw their economies slump sharply at the end of last year, may now be snapping back sharply in response, says Philip Shaw, chief economist at Investec Securities in London.

—Joe Parkinson and Laurence Norman contributed to this article.



CORPORATE NEWS

Recession boosts Vivendi's net

Pay-TV, videogame earnings rise sharply as more customers turn to home entertainment

By Ruth Bender

PARIS—Entertainment-to-telecommunications conglomerate **Vivendi** SA said Tuesday more people are staying at home to watch pay-TV and play videogames amid the recession, pushing second-quarter net profit up 6.6%.

"We are not spared by the crisis but it is having only a very slight impact on our business," said Chief Executive Jean-Bernard Levy, attributing the company's resilience to its subscription-based model and exposure to fast-growing digital markets.

Total net profit rose to €711 million ($1.01 billion) for the three months ended June 30 from €667 million a year earlier. Revenue increased 11% at €6.65 billion.

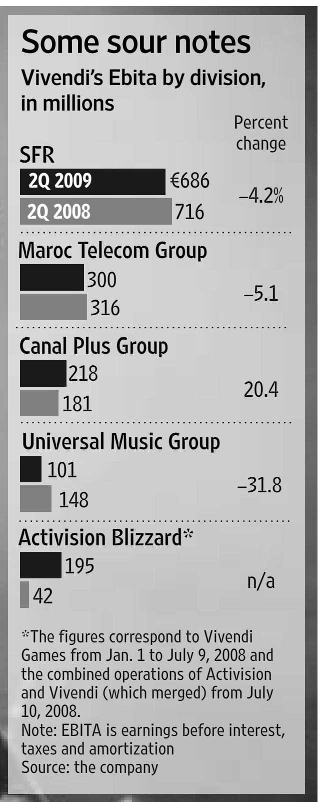
An increase in interest expenses and minority interests associated with acquisitions last year weighed on the bottom line, but adjusted earnings before interest and tax, or Ebit, the figure analysts follow to gauge Vivendi's operating performance, increased 10% to €1.51 billion.

Of Vivendi's core businesses, only Universal Music Group posted a decline in revenue. The music publisher, home to artists such as Amy Winehouse and U2, reported a 32% drop in earnings before interest, taxes and amortization, or Ebita, as music sales continued to fall. Music revenue was down 2.8%. Higher restructuring charges linked to the reorganization of the business also hurt the bottom line.

Vivendi's pay-TV operator, Canal Plus Group, reported a 20% rise in Ebita as it added customers. Cost reductions and synergies from the merger with pay-TV company TPS also boosted results. Canal Plus broadcasts top-flight French football, movies and hit U.S. television shows such as "Desperate Housewives."

Universal recording artists, Bono and Adam Clayton, of the band U2

Reuters



Its strong performance echoes that of U.K. pay-TV and broadband provider **British Sky Broadcasting Group** PLC, which in late July posted an 8% rise in full-year sales as demand for home entertainment rose amid the recession. **News Corp.**, which owns Dow Jones & Co., publishes The Wall Street Journal, owns about 39% of BSkyB.

Videogame producer **Activision Blizzard** Inc., in which Vivendi holds a majority stake, last month said that second-quarter Ebita jumped to €195 million from €42 million as big titles such as "Prototype" and "World of Warcraft" helped it gain market share.

SFR, Vivendi's French telecommunications operations and its main revenue generator, saw Ebita slip 4.2%. But it gained market share in mobile telecoms, helped by the launch of **Apple** Inc.'s iPhone and as it signed up more customers to its broadband service.

Vivendi cautioned that it expects mobile-services revenue at SFR to fall slightly this year. Customer-recruitment activities in the first half onlyare expected to start to boost figures next year. U.K.-based **Vodafone Group** PLC has a 44% stake in SFR.

Vivendi, which also holds a majority stake in Maroc Telecom, kept its forecast of strong growth in adjusted earnings before interest and taxes and solid adjusted net income.

Mr. Levy also said Vivendi will file a complaint with the European Commission against the price set by the French government for the fourth mobile license earlier this year. The fourth round of third-generation license's frequencies are being sold at a lower price than what current operators paid, including Vivendi, Mr. Levy said.

Mr. Levy, the CEO, said that **Walt Disney** Co.'s $4 billion deal to buy **Marvel Entertainment** Inc. wouldn't have any major impact on Vivendi, leaving aside a few games licenses "which on Vivendi's scale are insignificant."

Nokia Siemens appoints new chief executive

By Gustav Sandstrom

STOCKHOLM—Nokia Siemens Networks named the leader of its services business as chief executive.

Rajeev Suri, 41 years old, will succeed Simon Beresford-Wylie next month.

"Rajeev brings the right values, experience and industry expertise to take Nokia Siemens Networks forward," said Olli-Pekka Kallasvuo, the chief executive of Finland's **Nokia** Corp. Mr. Kallasvuo is chairman of Nokia Siemens, a joint venture with Germany's **Siemens** AG.

The move comes after a difficult second quarter for Nokia Siemens.

Mr. Beresford-Wylie joined Nokia in 1998, rising to take the helm of Nokia Siemens, the world's second-largest maker of wireless-telecommunications gear by sales, when it started operations in April 2007.

Mr. Beresford-Wylie, 51, said he decided to leave the company to spend more time with his family. He said now is a good time for change at Nokia Siemens, which has completed its integration phase.

There will be no change to the company's current strategy, Mr. Suri said in an interview, though he said he sees good business opportunities in the services segment.

The move comes after a difficult second quarter for Nokia Siemens.

Over the past several months, Nokia Siemens has won a number of large service deals, but some of its business units haven't fared as well and the company expects to lose market share this year.

Its operating loss widened to €188 million ($269.5 million) in the three months ended June 30 from €47 million a year earlier.

Sales fell 21% to €3.2 billion. Nokia Siemens's market share plunged to 20% from 26% in the quarter.

Network-equipment providers have struggled as mobile operators cut spending to preserve cash flow in efforts to combat the impact of regulatory pressure, increased competition and the recession.

The difficulties have fueled speculation that the sector's pace of consolidation may speed up.

Telefon AB L.M. Ericsson recently said it would pick up parts of Nortel Networks Corp.'s infrastructure business. Canada-based Nortel Networks filed for bankruptcy protection earlier this year.

NSN (left); Reuters (right)

Rajeev Suri, left, is to succeed Simon Beresford-Wylie next month as chief executive of Nokia Siemens Networks, a maker of wireless-telecom gear.

EU investigates French funding for public TV

By Peppi Kiviniemi

BRUSSELS—The European Commission Tuesday opened an in-depth probe into a French program to fund public television channels, to see whether it harms private broadcasters.

Private TV channels have complained they face higher taxes to fund the new public TV subsidies, which they say are used by the public broadcaster to launch new services in direct competition with the private channels.

In a bid to remove advertising from its public channels in the evenings, France is changing its funding mechanism for the public TV network beginning in 2010. The changes will include new taxes on advertisements and on electronic communications.

Together with the annual TV licensing fee, funding to France Television, the largest public broadcasting group, will exceed €2 billion ($2.9 billion) by 2012, the commission said. The commission is "concerned about the use made of the taxes introduced by the reform and possible overcompensation for public service costs up to 2011 and 2012," it said.

France's private broadcasters—such as Television Francaise 1 SA and M6-Metropole Television SA—have opposed the new tax, which came into effect in March and will take between 1.5% and 3% of their advertising revenue.

Television Francaise 1, M6 and Canal+ said in a statement that the creation of the tax to finance their main competitor was "unfair," as the private channels had been more exposed to the advertising crisis than France Television.

However, as the public channels will become closed to advertisers, the private broadcasters can now tap a bigger share of the local ad market.

Under European law, governments can subsidize public broadcasting operations, as they are considered to be vital for social and cultural needs. But there are restrictions as to how the subsidies can be used.

In the France Television case, the commission wants to ensure the public broadcaster isn't getting more money from the new funds than it actually needs to fulfill its obligations, the commission's competition spokesman Jonathan Todd said.

National broadcasters have been scrutinized by the commission due to concerns they might be receiving excess funding, and as a result, hampering private operators' ability to compete in launching new products, especially online.

A France Television spokeswoman said the broadcaster had expected the probe, adding that the commission wanted to get clear information on the French program, as other European broadcasters were thinking of implementing similar bans on advertising.

France Television currently receives about 65% of its funding from TV-license fees, while the rest comes from public funds and advertising, which will disappear as of 2010, according to the European Broadcasting Union, an industry group for Europe's public broadcasters.

—Thomas Varela in Paris contributed to this article.

CORPORATE NEWS

SkyEurope ceases all operations

Budget airline files for bankruptcy, stranding travelers

BY SEAN CARNEY

PRAGUE—After battling waning passenger numbers and a critical lack of cash for most of the past year, SkyEurope Airlines AS, the operating unit of Vienna-listed **SkyEurope Holding** AG, Tuesday ceased all operations while its holding company initiated bankruptcy proceedings.

The Bratislava-based airline—the first low-cost carrier in Central Europe when it started eight years ago in the run-up to expansion of the European Union in 2004—canceled all flights from its hubs in Bratislava, Vienna and Prague, leaving passengers stranded across Europe.

It was unclear how many passengers were affected. SkyEurope couldn't be reached for comment.

Airlines including easyJet PLC, Ryanair Holdings PLC, CSA Czech Airlines and Wizz Air PLC offered stranded passengers discounted flight tickets.

SkyEurope's bankruptcy came as the International Air Transport Association, or IATA, announced that the airline industry lost more than $6 billion in the first half of the year.

Founded in 2001, SkyEurope first took to the skies in February 2002. It had never turned a profit. In the fiscal second quarter ended March 31, the carrier posted a net loss of €18.4 million ($26.4 million), following a full-year net loss of €61.6 million.

Reuters

SkyEurope canceled all flights in Bratislava, Vienna and Prague, leaving passengers, like those in Vienna above, stranded.

It flew to 33 cities in 16 European countries with a fleet that peaked at 14 jets.

After going public in 2005, SkyEurope was able to raise €120 million of equity capital. In late July, it said Austria's Focus Equity was willing to invest up to €16.5 million on the condition of a successful restructuring, after a Slovak court in June granted it protection from creditors.

However, the cash never appeared because the airline was unable to stay afloat long enough to restructure its business and pay back overdue debts.

The Vienna Stock Exchange on Tuesday stopped all trade of the SkyEurope Holding's shares, which closed at 25 European cents Monday, well below the peak of over €6 per share in 2007.

Earlier this month, the Vienna airport had denied SkyEurope all services after it failed to pay its bills. Prague and Bratislava airports followed suit Monday. Other airports across Europe had already held onto SkyEurope's planes as collateral for outstanding bills.

SkyEurope was a niche airline with routes that most larger European peers found unattractive, said Andras Zboray, an aviation consultant and former operations director at SkyEurope.

EBay is selling stake in Skype to investor group

BY GEOFFREY A. FOWLER

EBay Inc. said Tuesday it will sell a 65% stake in its Skype Internet phone business to private investors in a deal that marks the end of an unhappy tech marriage.

San Jose, Calif.-based eBay said it will get $1.9 billion in cash and a $125 million note from the buyer, an investment group led by the private equity firm Silver Lake Partners that includes Index Ventures, Andreessen Horowitz and the Canada Pension Plan Investment Board.

Ebay will retain a 35% stake. Ebay said the deal values the online telecommunications service at $2.75 billion, and is expected to close in the fourth quarter of this year.

"This is a great deal, unlocking both immediate and long-term value for eBay and tremendous potential for Skype," said eBay Inc. Chief Executive John Donahoe in a statement.

Mr. Donahoe said the deal would allow eBay to focus on its PayPal payment unit and its core marketplaces business, which has struggled amid growing competition from rivals such as **Amazon.com** Inc.

Former eBay chief Meg Whitman bought Skype in 2005 on the premise that the merchants using its online marketplace would use the service to communicate with customers. EBay paid about $2.6 billion in cash and stock for Skype.

But the two companies found few synergies, and eBay eventually took a $1.4 billion charge for Skype. After taking over as eBay's chief executive last year, Mr. Donahoe admitted that the two companies were a poor fit—but a bid to buy the firm by a group of private equity firms and Skype's co-founders, Niklas Zennstrom and Janus Friis, failed because the offer was too low.

In April, Mr. Donahoe announced plans to spin off Skype in an initial public offering in 2010. In May, he said that a valuation of $2 billion would be too low for Skype.

In recent months, Skype has shown some profit-making promise. Skype uses a technology called voice-over-Internet protocol, which routes voice and video calls over the Internet instead of a traditional phone network.

Although its software is most often used to make free calls between computers, Skype also charges a few cents per minute to make calls from computers or advanced cellphones to traditional phone lines.

In the second quarter, Skype's revenue grew 25% over the previous year to $170 million, as its number of registered users topped 480 million world-wide.

A potential spinoff of the company has been clouded by an ongoing intellectual property dispute with Joltid Ltd., a company owned by Skype's founders that has the rights to some of its core technology.

Joltid alleged that eBay violated its licensing agreement for the technology and has threatened to end the agreement. EBay asked a U.K. court to find that it isn't in breach of the license, but proceedings could stretch on for months. Meanwhile, eBay said it was undertaking an "expensive" effort to develop a work-around for the Joltid software.

Josh Silverman, president of Skype, said in a blog post that the deal marks the beginning of a new chapter for the company.

—Scott Morrison and Joan Solsman contributed to this article.

Boeing's Dreamliner executive is replaced

BY PETER SANDERS AND AUGUST COLE

In a major reorganization of its executive ranks, **Boeing** Co. said Scott Carson, president and chief executive of its commercial airplane unit and the person in charge of the troubled 787 Dreamliner project, has stepped down from his role and will retire at year's end.

Scott Carson

Mr. Carson, a nearly 41-year Boeing employee, is being succeeded by Jim Albaugh, who runs Boeing's Integrated Defense Systems business.

The announcement came as Boeing works to fix a manufacturing problem with its 787—a crucial product now more than two years behind schedule—that was discovered during tests in May. Repeated glitches in launching the 787 have helped drag down Boeing's credibility with customers and investors.

Mr. Carson and top 787 program managers have taken heat since they disclosed the latest delay in June. A week earlier, they had publicly insisted that the Dreamliner would make its first flight that month.

Last week, Boeing said the plane would fly by the end of the year and first deliveries would occur in the fourth quarter of 2010.

In a note to Boeing employees, Mr. Carson said his decision to retire was timed to the "resetting" of the 787's schedule, though Boeing officials made no mention of the impending executive changes when talking to analysts and investors on a conference call last week.

Boeing Chairman Jim McNerney said Monday that "the decision to retire was Scott's," and that Mr. Albaugh's engineering experience will be key in managing the program.

"It was clear the best person at Boeing at this time to lead BCA [Boeing Commercial Airplanes] was Jim Albaugh," said Mr. McNerney. He said the company looked internally and outside for Mr. Carson's replacement before choosing Mr. Albaugh.

Mr. Carson, 63 years old, oversaw a sales force between 2004 and 2006 that marketed and sold nearly 1,000 Dreamliners to customers world-wide. He then took the helm of Boeing Commercial Airplanes only to have the Dreamliner program run into snarls.

The promotion of Mr. Albaugh, 59, to succeed Mr. Carson represents the most high-profile move by the company to bring senior managers from the defense unit into the commercial airplane division. Boeing is hoping that these managers and engineers are better equipped to get the programs on schedule.

During Mr. Albaugh's tenure running defense and space operations, Boeing suffered through three years of federal corruption investigations, eventually paid $615 million to settle those probes and was widely criticized by Pentagon brass and congressional leaders for not doing enough to instill strict ethics rules.

Justice Department prosecutors never accused Mr. Albaugh of wrongdoing. The Air Force stripped Boeing of some tainted rocket contracts and reviewed the propriety of dozens of other big contracts the company won going back to the 1990s, which was prior to Mr. Albaugh's taking over the unit.

In 2006, when Mr. McNerney took the top job at Boeing, he vowed to pay more attention to ethical issues. The new Boeing chief said he wanted to turn ethics into a competitive advantage for Boeing.

Mr. Albaugh scored one of the highest profile successes of his career last year when Boeing successfully appealed the Air Force's award of the $40 billion aerial tanker contract to **Northrop Grumman** Corp.

Mr. Albaugh's replacement, Dennis Muilenberg, 45, ran Boeing's defense-oriented services business, which has seen strong growth. Prior to that he headed the company's Future Combat Systems program.

—Andy Pasztor contributed to this article.

Telefónica, Portugal Telecom to exit Morocco firm

BY BERND RADOWITZ

MADRID—**Telefónica** SA of Spain and **Portugal Telecom SGPS** SA on Tuesday agreed to sell their stakes in **Medi Telecom** SA of Morocco for a total of €800 million ($1.15 billion) as they seek to focus on core markets in Europe, Latin America and sub-Saharan Africa.

Telefónica and Portugal Telecom, which jointly operate Brazil's leading mobile-phone provider, **Vivo Participacoes** SA, will sell their respective 32.18% stakes to local Meditel shareholders **FinanceCom** SA, **RMA Watanya** SA and **Fipar Holding**, which together will pay €400 million to Telefónica and another €400 million to Portugal Telecom.

Portugal Telecom will book an after-tax capital gain of €270 million from the sale of its stake, a company media official said. Telefónica didn't disclose its own capital gain from the transaction.

Portugal Telecom said that, despite Meditel being a company with high growth potential, its strategic focus remains in Brazil and sub-Saharan Africa. A Telefónica spokesman said the Spanish telecommunications giant wants to focus on core markets in Latin America, the U.K. and Spain.

The transaction values Meditel at €1.62 billion, including debt, Portugal Telecom said. The deal, which Telefónica expects to close by year end, still requires clearance from Moroccan telecom regulators.

CORPORATE NEWS

U.S. car sales accelerate

Surge in response to 'cash for clunkers' fuels recovery hopes

By Jeff Bennett

DETROIT—Boosted by the federal government's "cash for clunkers" incentive program, U.S. auto sales in August surged to their highest monthly total in more than a year, bolstering hopes that the industry's recovery will continue in the months ahead.

Car makers expect a dip in sales in September now that the hoopla around the clunkers program has died down. But they remain confident the U.S. economy is gradually improving and that the broader trend in car sales is positive.

Associated Press

A salesman backs out a new vehicle at a Chrysler dealership in San Jose, Calif. Chrysler's lean inventories left many dealers with few vehicles to offer customers.

"September will be an aberration," Ken Czubay, vice president of U.S. sales and marketing at **Ford Motor** Co. said in a conference call. He said Ford is encouraged by positive economic indicators, such as rising home prices and housing starts, and expects that the pace of auto sales in the fourth quarter will be stronger than in the first half.

"We clearly see a strengthening and a recovery," Michael DiGiovanni, the top sales analyst at **General Motors** Co., said in a separate conference call.

Car makers estimated August U.S. sales at about 1.3 million cars and trucks industrywide, which would represent about a 4% increase from a year earlier. That appeared to be the highest monthly total since May 2008, and the first time the industry has seen a year-on-year increase in U.S. vehicle sales since October 2007.

An exact total wasn't available Tuesday afternoon because some manufacturers were still reporting sales.

August's annualized sales pace jumped to more than 14 million vehicles, car makers estimated. That is up from 11.24 million in July and 9.7 million in June.

The makers that benefited most from the clunkers incentives included Ford, whose sales jumped 17% to 181,826 vehicles, and **Toyota Motor** Corp., which saw its sale rise 6.4% to 225,088 cars and trucks. **Honda Motor** Co. sold 161,439 vehicles, up almost 10%.

In contrast, GM reported a 20% decline in sales to 245,550 vehicles, in part due to strong year-earlier sales when it had a big promotion celebrating its 100th anniversary. At **Chrysler Group** LLC—which, like GM, was recently reorganized in bankruptcy court—sales fell 15% to 93,222 cars and light trucks. Chrysler was hurt by lean inventories that left many dealers with few vehicles to offer customers.

The clunkers program offered as much as $4,500 to customers who traded in old vehicles and purchased new, more-fuel efficient models. More than 700,000 vehicles were sold with clunkers rebates between July and Aug. 24, when the Transportation Department stopped the program because it was about to exhaust its budget.

Auto makers said it is too soon to judge the long-term impact of the clunkers rebates. Many in the industry have questioned whether the program merely pulled in buyers who were going to purchase cars in coming months. On Tuesday, however, Moody's Investors Service estimated that about 60% of the vehicles sold with clunker rebates were purchased by consumers who were not otherwise intending to buy.

After August's sales surge, car makers now expect a drop-off in September, and some dealers already report a decline in showroom traffic.

"We are looking at a dip in sales but we are not looking at anything catastrophic," said Al Castignetti, vice president and general manager of **Nissan Motor** Co.'s North American division. "We expect the selling rate to fall back into the normal May-through-June rate."

Since the end of the clunkers program, River Oaks Chrysler Jeep in Houston has had 10 to 15 customers browsing at a time, said Alan Helfman, the dealership's vice president. That's a big drop from the 40 to 60 customers that often were at the store at once when the clunkers program was in full swing. Things were so busy the dealership lacked enough staff to wait on them.

In hopes of boosting traffic, Mr. Helfman has brought in a local football player to sign autographs and started a promotion with a fast-food chicken restaurant. "We now have to figure out ways to get consumers to part with their money under what is now a normal scenario," Mr. Helfman said.

The end of the clunkers program isn't the only factor likely to limit September sales. Inventories are also at historic lows.

GM now has only about 300,000 vehicles on dealer lots—a third of what it had two years ago. Chrysler dealers are down to just 100,238 vehicles, a quarter of what they had two years ago. And Toyota's inventory at the end of August fell to an 11-day supply, compared with 26 days at the end of July.

RHJ International raises offer for GM's Opel unit

By Alessandro Torello

BRUSSELS—Belgian investment firm **RHJ International** SA has presented an improved offer for a 50.1% stake in **General Motors** Co.'s European unit, Adam Opel GmbH.

Brussels-based RHJ increased its cash offer to €300 million ($431 million) from €275 million, while lowering a request for state guarantees to €3.2 billion from €3.8 billion, an Opel spokesman said Tuesday.

The new offer is an improvement from the original one in financial terms, but it doesn't change RHJ's business plans for Opel, the spokesman said. The company would lay off about 9,900 people, but it wouldn't close plants in Germany or the U.K.

RHJI is competing to buy the Opel stake with Canadian auto parts supplier **Magna International** Inc., which acts in a consortium with Russian savings bank OAO **Sberbank** and auto maker OAO **Gaz**.

Germany has lobbied hard to preserve the 25,000 Opel jobs in the country. Many German politicians, including Chancellor Angela Merkel, have openly backed a sale to the Magna consortium, which is seen as more likely to keep jobs in Germany, and the issue has become politically charged ahead of elections later this month.

The government has offered to make available as much as €4.5 billion in state-backed guarantees to the winning bidder, and it has already agreed to give €1.5 billion in bridge financing to Opel.

Meanwhile, GM's new board of directors is skeptical about the terms of the Magna proposal and has asked GM executives to review all options, including keeping Opel, according to people familiar with the matter.

Rosneft's profit slides 63%, but narrowly tops estimates

By Jacob Gronholt-Pedersen

MOSCOW—Russian oil producer OAO **Rosneft** on Tuesday posted a 63% drop in second-quarter net profit as global oil prices slumped from year-earlier levels, but the company narrowly beat forecasts and projected strong full-year results for key targets.

Net profit for the three months ended June 30 fell to $1.61 billion from $4.31 billion a year earlier. Analysts polled by Dow Jones Newswires had estimated, on average, net profit of $1.6 billion.

Revenue fell 48% to $10.95 billion from $21.13 billion.

Earnings before interest, taxes, depreciation and amortization, or Ebitda, fell by nearly half to $3.57 billion from a year earlier, but rose 54% from the first quarter.

Along with international peers, Russian oil majors have seen profit margins rise as oil prices have climbed from low levels at the beginning of the year and export duties have fallen.

But London-listed Rosneft's net profit for the second quarter was about 20% lower than in the January-to-March period, because of a higher effective income-tax rate and a strengthening of the ruble, which triggered a foreign-exchange loss of $391 million, the company said.

Rosneft increased its crude-oil output by 0.5% in the quarter. The company said it expects to raise production in the year's second half by between 5% and 6% compared with the first six months. Overall production is likely to rise 2% this year to average about 2.2 million barrels a day, because of increased volumes from the giant Vankor field in Eastern Siberia, Rosneft said.

Vankor, which was launched last month, has reached daily production of 130,000 barrels and is expected to increase its daily output to 220,000 barrels by the end of the year, Rosneft said.

"In terms of our main targets—refinancing of debt and maintaining production growth and positive cash flow—2009 will prove a good year," Rosneft Chief Financial Officer Peter O'Brien said.

The company, which accumulated massive debt after buying up assets from bankrupt rival OAO Yukos in 2007, said it reduced net debt by $2.11 billion in the first six months of 2009 to $19.18 billion.

Rosneft shares fell 1.2% to $6.37 in London Tuesday.

Incentives fuel French car sales

By David Pearson

PARIS — Government incentives continued to provide fuel for new-car sales in France in August, incentives that a government minister confirmed Tuesday would be extended to prevent the market imploding.

Registrations of new cars in August climbed 7% year-on-year, or by 1.9% after adjustment for an equivalent number of working days, according to data released by CCFA, the French car manufacturers' lobby.

So far this year, the market has grown by 1.1%—or by 1.7% on an adjusted basis—compared to the first eight months of 2008.

The incentive plan, introduced last December and imitated in different forms by several other European countries and the U.S., offers a €1,000 ($1,400) discount to car owners who scrap their aging gas guzzlers and buy new, fuel-efficient models.

The program already has cost French taxpayers €390 million.

The initiative originally was due to end Dec. 31, but the French government is studying ways to smooth the transition to an unsupported market.

One way is to gradually reduce the size of the discount, industry participants say. But French Industry Minister Christian Estrosi indicated that the government was leaning toward a system that would mesh the scrappage bonus with another system of bonuses and penalties aimed at encouraging new-car buyers to opt for low-polluting vehicles.

Tuesday's figures provide further evidence of a recovery in the market, driven by makers of small cars such as **Renault** SA and **PSA Peugeot-Citroën** SA.

Renault's French registrations in August rose 11% year-on-year, while Peugeot's rose 17%. However, sales of Renault branded cars rose only 3.7%, while those of low-budget vehicles made by its Romanian subsidiary Dacia surged 62%.

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Auto sales in Japan climbed for first time in 13 months in August

By Yoshio Takahashi And Nikhil Gulati

Japan's domestic auto sales rose for the first time in 13 months in August, as government purchasing incentives boosted demand for fuel-efficient vehicles, an industry body said Tuesday.

Recovering sales in the world's third-largest auto market are the latest positive sign for Japanese auto makers. They mostly reported improved earnings for the April-July quarter amid government initiatives in key markets.

Auto sales in Japan rose 2.3% in August from a year earlier to 198,265 vehicles, as **Toyota Motor** Corp.'s sales increased for the first time in 13 months and **Honda Motor** Co.'s sales increased for the second consecutive month, the Japan Automobile Dealers Association said.

The increase follows gradually narrower declines in sales over the past five months.

Meanwhile, India joined Japan in posting higher auto sales. Maruti Suzuki India Ltd., **Hyundai Motor** Co., **Tata Motors** Ltd. and **Hero Honda Motors** Ltd. said that August sales rose in India amid easing loan rates.

Auto sales in India, which showed little growth last year amid the economic slowdown, have been on an uptrend since February after banks cut lending rates.

CORPORATE NEWS

Calculating pollution is hot job

Global warming and green marketing spur interest in profession

By Ana Campoy

Until a few years ago, Nuno da Silva's arcane occupation—professional pollution calculator—was of little utility to the corporate world.

But in these days of global-warming worries and greener-than-thou marketing, companies suddenly can't get enough of his services. Revenue at the division he manages exploded 150% in 2008 and continues to expand this year, despite the recession. Since the beginning of 2008, he has added 13 people to his staff, bringing the number of employees to 16.

"We used to be the environmental geeks," said Mr. da Silva, who oversees the U.S. division of a German environmental consulting company, **PE International**. "Now we're mainstream."

Concerns about greenhouse gases and other environmental hazards have spurred governments and companies to try to reduce the environmental impact of everything from auto fuels to water bottles. The first step is to assess the pollution those products impose on the Earth.

Wal-Mart Stores Inc.'s most recent environmental effort —a bid to tag all of its products with information about their environmental impact—will force hundreds of its suppliers to inventory their pollution, which many expect will create a boom for the pollution-counting profession.

Enter the growing class of "pollution counters" like Mr. da Silva. Using computer models, they process information about the energy and resources consumed by making, using and disposing of a product. At each stage, a product's effects on the soil, water and air are tracked to come up with what is known as a life-cycle assessment.

At chemical maker **DuPont** Co., the in-house group that does life-cycle assessments has grown from three members to 10 in the past six years.

At **New Balance**, a Boston-based maker of sneakers and athletic clothing, a "green team" has begun calculating the environmental cost of the plastic soles used in the company's shoes as well as the impact of shipping from New Balance's Asian factories. What the team has found so far suggests that the materials in the shoes, rather than the trip from overseas, take the bigger toll on the environment.

Nuno da Silva

Although life-cycle assessments have been around since the 1970s and are fairly common in Europe, the practice has taken off in the U.S. only recently, industry experts say.

The first step in doing a life-cycle assessment is collecting data on the environmental impact of the different processes involved, from extracting raw materials to transforming them in a factory. Sometimes that means measuring emissions from a smokestack or a tailpipe, but the statistical information often comes from databases compiled by companies like PE International.

Most serious counters abide by guidelines from the Geneva-based International Organization for Standardization. It is up to the assessor to determine precisely what in a product's production to count and what to leave out.

But no clear rules govern the assessments, whose conclusions can vary sharply. While several organizations are trying to come up with standards, they don't agree, and there are no enforcement mechanisms There is also nothing to stop companies from looking around for an assessment that will favor their products or points of view.

The American Christmas Tree Association, which represents companies that produce artificial trees, says it did its best to make accurate a life-cycle assessment that compared its products to natural Christmas trees. The assessment, which is still being reviewed, found that an artificial tree was slightly more environmentally friendly, mainly because the biggest source of pollution for either type of tree was consumers driving to get it, and consumers tend to reuse artificial trees.

But the National Christmas Tree Association, which represents tree growers, disputes the findings. "It is patently absurd to think that using a nonbiodegradable, nonrenewable product from a factory is somehow more environmentally friendly than buying a real tree," said spokesman Rick Dungey.

He pointed to a 2009 Christmas tree life-cycle assessment by a different pollution counter that found that natural trees are better for the environment unless an artificial tree is reused for at least 20 years.

Robin Jenkins does assessments for DuPont. To evaluate a potential project to make ethanol out of corn stalks, she talked to farmers, auto makers and regulators. Her recommendations included leaving half of the stalks on the field to prevent soil erosion, a practice the company plans to adopt at a pilot plant it is building in Tennessee.

But sometimes pollution counters find that just doing a calculation has little effect. For example, a life-cycle assessment done for the consumer-products giant **Unilever** found that smaller bottles of more-concentrated laundry detergent would save water, reduce packaging material and cut greenhouse-gas emissions from transportation.

But consumers continued to choose bigger bottles, which they assumed were a better value, said Gavin Neath, senior vice president of global communications and sustainability at Unilever.

Only after Wal-Mart banned nonconcentrated detergents from its shelves did Unilever make inroads with its pollution-counter-approved product.

Evraz posts loss as steel sales fall

By Alexander Kolyandr

MOSCOW—Russian steelmaker **Evraz Group** SA said Tuesday it plans to talk to its lenders to avoid breaching debt covenants after it posted a first-half net loss.

Evraz reported a net loss of $987 million for the half, compared with a year-earlier net profit of $1.99 billion, as a change in accounting policies triggered an $833 million charge and demand for steel shrank.

The company said it voluntarily altered its accounting policy, resulting in the revaluation of fixed assets and a higher depreciation charge. Without these changes the net loss would have been $166 million.

First-half revenue dropped 57% to $4.64 billion from $10.72 billion, while adjusted earnings before interest, taxes, depreciation and amortization, or Ebitda, fell 87% to $468 million from $3.71 billion. The Ebitda figure strips out asset impairment, losses on disposal of property, plant and equipment, as well as foreign-exchange losses.

Evraz said that although it is currently in full compliance with its debt covenants, it "intends to pro-actively approach lenders to address potential covenant compliance issues in relation to full-year results for 2009."

Like many other Russian companies, Evraz borrowed heavily when global demand for steel and other commodities was on the rise. However, as prices fell in the second half of 2008, Evraz found it difficult to service its debts, which totaled $7.78 billion at the end of the first half.

The company warned of a possible breach of its debt covenants in July, and said it was considering several alternatives, "including a waiver from its lenders."

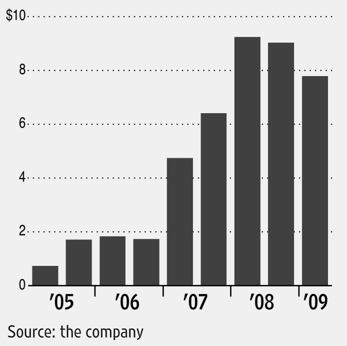
Evraz said Tuesday that it expects results to improve in the second half of the year. The company's Russian steel production has increased since July, and there were "positive pricing trends in our key export markets, driven primarily by robust demand from the emerging economies of Asia, the Middle East and North Africa," said Chief Executive Alexander Frolov.

However, Mr. Frolov cautioned that while the company's Russian mills are running at full capacity, its international business units were seeing "decreasing profitability" and weak demand, particularly in North America.

"At the first sight the loss is shocking, mind-blowing," Deutsche Bank analyst Olga Okuneva said of Evraz's first-half results. However, she said that the loss excluding the changes in accounting policy doesn't appear to be as bad.

A heavy load

Russian steelmaker Evraz's debt has slowly grown as it expands its operations. Debt, in billions



Source: the company

Starbucks advances plans to expand in France

By Mimosa Spencer

PARIS—**Starbucks** Corp.'s top international executive said the chain plans to continue expanding its modest presence in France, after striking a deal to take full control of the country's operations.

In France, "there is a tremendous opportunity because of the availability [and] quality of real estate for us to continue an aggressive expansion path," said head of international operations Martin Coles. "We're talking about an economy, a population base and [economic] growth every bit as good as a market like the U.K.," where the company operates around 750 stores, he said.

U.S.-based Starbucks opened its first French location in January 2004 and now operates more than 50 locations in and around Paris and Lyon, employing about 800 people in the country.

"I think we were worried initially about whether there would be acceptance" of the chain in the country, Mr. Coles said, amid a strong cafe culture and predictions that the French wouldn't embrace an American chain. He said such worries proved to be unfounded.

To take full control of its French operations, Starbucks announced plans Tuesday to swap shares with a partner, Spanish-based **Grupo Vips**. The two companies operate Starbucks chains in France, Spain and Portugal under a 50-50 joint venture. Grupo Vips will operate Starbucks chains in Spain and Portugal under franchise agreements.

"We are seeing in many markets around the world that consumer confidence is coming back from the floor that it hit six months ago," Mr. Coles said Tuesday. He said that the rebound in confidence wasn't a factor in the company's decision to take over its French operations, although "it appears that there's been a softer landing in France" than elsewhere.

Starbucks Managing Director of France Philippe Sanchez said coffee consumption habits are still evolving in the country. When Starbucks first set up shop on the Avenue de l'Opéra in Paris, 20% of drinks sales were for take-away consumption. Now that figure in France has swelled to 70%, Mr. Sanchez said.

Adeline Fernandes, a 26-year-old hotel receptionist in Paris, goes to Starbucks twice a day and orders chai tea. "I don't like the French brasserie — you can go in to the same place day after day and the waiter will still look at you with a long face," she said. She said she developed the preference for Starbucks after living in the U.S. for two years.

GLOBAL BUSINESS BRIEFS

Apple Inc.

Apple expected to update its line of iPod devices

Apple Inc. is expected to unveil an updated line of iPods as it aims to boost slowing demand for the music players. The Cupertino, Calif., company issued invitations to media and analysts for a "special event" in San Francisco on Sept. 9. The event will be Apple's first since Chief Executive Steve Jobs returned from medical leave in late June after a liver transplant. It is unclear whether Mr. Jobs, who hasn't appeared in public since October, will be present at the event. An Apple spokesman declined to provide further details. The iPod's sales have slowed as more consumers opted to buy the company's iPhones. Apple typically unveils its new lineup of iPods every year around this time.

Commerzbank AG

Shares in **Commerzbank** AG gained 3.6% after executives said the German bank could return to a profit next year and that it aims to become the country's leading investment bank. Commerzbank's shares have lagged behind those of rivals such as **Deutsche Bank** AG since it took billions of euros in state aid, making Germany a minority shareholder with roughly a 25% holding. Chief Executive Martin Blessing told the Financial Times that the bank could be profitable next year. The bank previously said it would return to a profit by 2011 at the latest. In a separate interview in German daily Handelsblatt, executive-board member Michael Reuther said Commerzbank aims to become the top investment bank in Germany, ahead of top performers such as Deutsche Bank, **Goldman Sachs Group** Inc. and **Morgan Stanley**.

Walt Disney Co.

ESPN has secured the rights to broadcast Europa League matches in Britain. The network said Tuesday it was awarded rights to the tournament formerly known as UEFA Cup for three seasons. **Walt Disney** Co.'s ESPN said it will serve as host broadcaster in the U.K. for any live home matches featuring British clubs that it selects for broadcast. ESPN this year significantly raised its profile in Britain by acquiring the rights to broadcast 46 games from England's Premier League this season. In the Europa League, Scottish club Celtic and English sides Everton and Fulham are among the 48 clubs that have reached the group stages. The group matches start on Sept. 17.

San Miguel Corp.

San Miguel Corp. said its second-quarter net profit rose sixfold from a year earlier, primarily on gains from asset sales as the company diversifies into heavy industry. San Miguel, the Philippines' largest food and beverage conglomerate by sales, said net profit in the quarter ended in June jumped to 52.92 billion pesos ($1.08 billion) from 8.69 billion pesos as sales rose 5.7% to 42.93 billion pesos. San Miguel completed the sale of its beer brands and real-estate assets to beer unit San Miguel Brewery Inc. for 38 billion pesos during the second quarter and sold a 43.2% stake in SMB to **Kirin Holdings** Co. of Japan for 58.9 billion pesos.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.S. bailouts yield returns despite risk

Government has collected billions of dollars on taxpayer-funded rescue efforts, but potential for big losses remains

BY JON HILSENRATH

Treasury Secretary Geithner and Fed Chairman Bernanke testify before Congress in March

Associated Press

U.S. taxpayers are getting a reward for the trillions of their dollars authorities put at risk in a bid to save the financial system. But they still face big potential losses from the rescue effort, which will remain on the government's books for many years.

The government has collected billions since late last year from various rescue efforts, including dividends paid by banks receiving government capital, interest on mortgage-backed securities owned by the Federal Reserve and payments the Federal Deposit Insurance Corp. gets for guaranteeing bank-issued debt.

The total is in the neighborhood of $30 billion, though it is hard to attach a firm figure because each institution has a different way of counting. The Federal Reserve has more than $16 billion in net income for the first half of the year, over half of which is from various rescue efforts. The FDIC got over $9 billion for debt guarantees, and the Treasury has more than $9 billion in collections on rescue income.

The government didn't set out to turn a profit; it set out to prevent the collapse of the financial system and the damage that would have caused to the economy. Moreover, the government's earnings are minuscule, compared with the immense budget deficits, which will hit $1.6 trillion for this year, that the government is running.

The Treasury is sitting on some very large risks, including $248.8 billion in investments to banks and **American International Group** Inc. that haven't yet been paid back, and many of those banks are in a weaker position than those that have returned their Troubled Asset Relief Program money. It also has nearly $80 billion in investments outstanding to the still-troubled auto sector. And the Congressional Budget Office estimates that putting Fannie Mae and Freddie Mac, the two mortgage-finance firms, under government control will cost taxpayers $291 billion this year.

Still, profits earned in recent months on the government's intervention in the financial system suggest that the worst fears of massive losses from the rescues might not materialize.

"It is not a bad return for all of the extra added benefits [of stabilizing the financial system]," said John-Patrick O'Sullivan, a senior banking analyst at SNL Financial, a research firm specializing in banks.

Mr. O'Sullivan tracked the banks that received capital injections from the Treasury and have paid them back. He found that 34 firms had so far paid back $70.1 billion of TARP money. In addition, they paid $5 billion in dividends and for the redemption of stock warrants, which the Treasury demanded in exchange for its investments. Dividend and warrant payments from those firms worked out to a 7% annualized rate of return for the government on its investments, he estimated. In all, the Treasury says, it has received $9.5 billion in dividend and warrant payments.

Linus Wilson, an assistant professor at the University of Louisiana at Lafayette, estimated that the Treasury is also sitting on $14 billion in unrealized paper profits at **Citigroup** Inc. and $2.5 billion in paper profits at **Bank of America** Corp., whose share prices rallied after getting capital and broad guarantees against losses from the Fed and the Treasury.

The Federal Reserve earned $16.4 billion during the first six months of the year, even after accounting for a $5 billion drop in the market value of its holdings of assets from AIG and Bear Stearns Cos., it said. That included $4.6 billion in interest on holdings of mortgage-backed securities, $3.7 billion on interest in commercial-paper loans to individual companies and $1.9 billion on loans to other central banks.

On a portfolio that averaged $2.1 trillion, the net income in the first half of the year amounted roughly to a 1.5% annualized return, not a large return, but more than what the Fed would have earned had it put the same sum in short-term Treasury bills.

"The money-market mutual-fund industry would have loved to have earned one [percent] and change on its two trillion in assets," said Lou Crandall, economist with Wrightson ICAP, a Wall Street fixed-income research firm.

Still, the government is making trade-offs between risk and return. The Fed's purchases of mortgage-backed securities are one example. Mr. Crandall estimates the Fed will rake in $50 billion a year on its portfolio of mortgage securities by next year. Right now, the Fed can fund that with extremely cheap money—it borrows from banks for next to zero.

But if interest rates start to rise because of inflation worries, the Fed's own funding costs could rise and reduce the value of its mortgage portfolio. It could also be forced to sell mortgage-backed securities at a loss in the future.

The government's earnings are small, compared with the budget deficits.

The FDIC is juggling its own mix of risk and return. It has collected $9.3 billion in fees from banks that have issued government-guaranteed debt since last October. So far, it hasn't paid out any funds on the debt-guarantee program, but it has $306.8 billion of exposure. Moreover, it faces losses of more than $21 billion on 84 bank failures so far this year, already exceeding all of last year's losses.

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