Leading the News: China's interest in Nigerian oil comes amid its problems in Africa

THE WALL STREET JOURNAL.

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What's News

Brown pitches populist program

U.K. premier reaches out to right-leaning, middle-class voters; Conservatives question price

By Alistair MacDonald and Laurence Norman

Agence France-Presse

British Prime Minister Gordon Brown acknowledges applause during his speech at the Labour Party Conference on Tuesday.

BRIGHTON, England—Entering a tough election season as an incumbent underdog, U.K. Prime Minister Gordon Brown showered his Labour Party's annual conference with a long list of populist measures—from electoral reform to expanded free child care for parents—while promising "to stand, to fight and to win."

But while Mr. Brown received a rapturous reception from party faithful at a conference hall here, the prime minister still faces an uphill struggle to regain his footing with voters. Among the challenges: an economic recovery that is trailing peer economies; record debt; an unpopular war in Afghanistan; and a resurgent opposition Conservative Party.

"This speech was a verbal election manifesto that kick-starts what will be a very long election campaign," said Robin Pettitt, an expert on the Labour Party at Kingston University. "Whether people will listen is another matter," he said.

In a policy-heavy speech, Mr. Brown promised some measures that drew gasps in the conference hall but were dismissed by the Conservatives as "a long shopping list with no price tag."

His raft of proposals included a referendum on electoral reform, giving Britain the choice to switch its current "first-past-the-post" system in favor of the "alternative vote" system—in which voters indicate a second preference that comes into play if no candidate in an election initially gets more than 50% of the vote.

In a response to voter outrage earlier this year over revelations that members of Parliament abused their expenses, Mr. Brown also called for a system in which MPs can be recalled under certain circumstances if their constituency demands it.

With his eye firmly on the election, Mr. Brown tacitly acknowledged that Labour is as far as 17 points behind in opinion polls, saying that "because the task is difficult, the triumph will be even greater."

He reached out to "middle England" right-leaning and middle-class voters with a series of new social policies. He unveiled a plan to house teenage mothers in "supervised homes," where they can "learn responsibility and how to raise their children properly."

And in an effort to curb antisocial behavior fueled by excessive drinking, he proposed making it easier for local communities to curtail 24-hour liquor licenses for pubs and clubs.

Mr. Brown also said his party will, as it has long promised, remove hereditary peers in the House of Lords "once and for all," though that would be in the next parliament. The prime minister pledged that a future Labour government would increase spending on schools and promised a big expansion of free child care for low earners, to be paid for by phasing out a tax credit on child care for higher earners.

But in exchange, he said, there would have to be cost-cutting and savings elsewhere. The U.K.'s budget deficit is predicted next year to hit 14% of gross domestic product—among the highest in the world—provoking calls from economists and investors for the country to cut debt.

Throughout, Mr. Brown sought to portray the country as facing a choice between continued investment in pub-

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BNP Paribas to repay France $7.45 billion

By Sebastian Moffett

PARIS—**BNP Paribas** SA, France's largest bank by market value, said it will buy back the stake taken by France in the midst of the global financial crisis early this year, becoming the first European bank to repay a government.

The bank said Tuesday that it would launch a €4.3 billion ($6.28 billion) rights issue, which it would use along with other funds to pay back the French state for the €5.1 billion, or $7.45 billion, in nonvoting shares it bought in BNP Paribas. The bank also will pay €226 million in interest.

In a second sign Tuesday that Europe's banks are regaining their footing, **UniCredit** SpA said it plans a €4 billion capital increase to strengthen its balance sheet.

The moves by the two banks come more than a month after the Swiss government sold its stake in UBS AG in the open market, saying the bank was fit enough to have state ownership withdrawn and earning about $1.1 billion on its 10-month investment. U.S. banks, such as J.P. Morgan Chase & Co., Goldman Sachs Group Inc. and Morgan Stanley, have repaid funds from the U.S. government.

The French government had bought stakes in several banks during the financial crisis, but rising stock prices are making it easier for banks to raise capital from private investors. BNP Paribas' share

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Inside

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9742.20	-0.48
Nasdaq	2124.04	-0.31
DJ Stoxx 600	243.59	+0.16
FTSE 100	5159.72	-0.12
DAX	5713.52	-0.40
CAC 40	3814.10	-0.28
Euro	$1.4540	-0.62
Nymex crude	$66.71	-0.19

BA's business flights face some turbulence

By Daniel Michaels

British Airways PLC's new business-class-only flight from London to New York seats only 32 passengers, but even the small plane faces big headwinds. BA Tuesday launched the upmarket service amid the deepest slump in premium air traffic in years.

When BA dreamed up the offering two years ago, it seemed a safe bet: Carry a handful of high-fliers straight from an airport on the doorstep of London's financial district. Three start-up airlines were already running business-class-only flights from more remote London airports, gunning for BA's lucrative corporate accounts.

Then recession hit, financial markets tanked last fall and the front-end of jetliners emptied world-wide. Premium traffic—both business- and first-class—was down 14% in July from one year earlier, the most recent figure from the International Air Transport Association, a global

trade group. Also, average premium fares fell 22% in August from a year earlier, meaning airlines must discount heavily to fill their cushiest seats. All three business-only start-ups have shut their doors.

Indeed, BA at least twice

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THE WALL STREET JOURNAL.

LEADING THE NEWS

U.K. struggles to get money supply to rise

Retail sales are up, but Bank of England still has work to do

BY NATASHA BRERETON

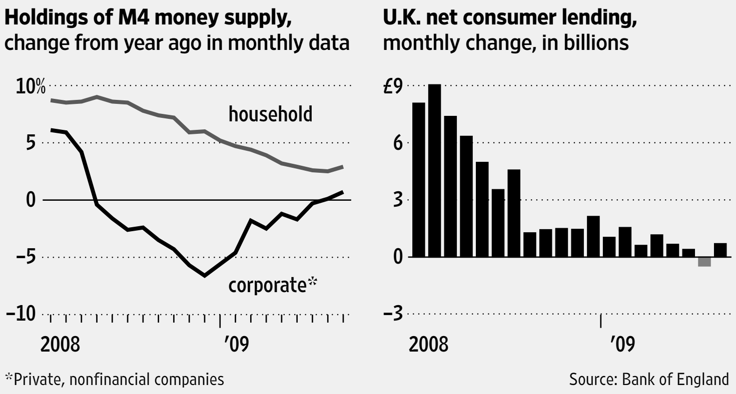
LONDON—Continued weakness in the growth of Britain's money supply suggests the Bank of England may still have to work to achieve a sustainable economic recovery, despite figures showing a rebound in retail sales and consumer lending.

Analysts said the money-supply figures suggest that the bank's policy of quantitative easing—buying bonds with newly created money in an effort to stimulate demand—was still having a fairly limited impact. They acknowledged, though, that it will take time for the measures to feed through fully.

"If the bank is setting quantitative easing to boost broad money, today's numbers show there is more work to do," said Alan Clarke, U.K. economist at BNP Paribas.

Mixed signals

U.K. money-supply growth has been weak despite other positive signs.



The bank's new figures on overall M4 money supply—which exclude data from financial corporations whose practices the bank considers to distort data trends—posted only a 0.2% rise in August from July, even weaker than a downwardly revised 0.4% increase the previous month.

Other official figures Tuesday showed that the U.K. economy shrank 0.6% in the second quarter, slightly less than previously estimated, but the 5.5% annual drop in gross domestic product was still the steepest since records began in 1955.

BOE policy makers are due to hold their next regular meeting next week, but any further action on the economy is more likely to come in November, when the MPC publishes its quarterly inflation report.

There has been speculation that the BOE could reduce its deposit rate in order to discourage banks from hoarding cash, and that speculation continued Tuesday because of a seminar held at the central bank. But economists attending the conference said officials tried to quell such talk, indicating that such a move—while under review—isn't imminent.

Overall, the picture created by a busy day of data releases was decidedly mixed. Figures on consumer lending, also released by the bank Tuesday, were much more encouraging than the money-supply data.

They showed that a rebound in mortgage lending helped drive net consumer lending up by £699 million ($1.11 billion) in August, its largest rise since April, following a drop of £462 million in July.

A separate survey by the Confederation of British Industry also showed that sales volumes at U.K. retailers rebounded to their strongest level for five months in September.

The monthly distributive trades survey's retail sales balance—the difference between the percentage of retailers reporting higher sales year-on-year and those reporting lower sales—jumped to plus 3 from minus 16 in August.

But analysts cautioned that the U.K. economy remains fragile. "It still looks likely to be a long, slow recovery," said Vicky Redwood, U.K. economist at Capital Economics.

—Nicholas Winning in London contributed to this article.

Germany's Social Democrats face upheaval

A WSJ NEWS ROUNDUP

BERLIN—Germany's Social Democrats, heavily defeated in Sunday's national election, faced internal calls to replace their leaders and ally with the radical Left party, signaling the start of a power struggle that could realign German politics.

The Berlin branch of the Social Democrats, or SPD, said the party should rethink its resistance to forming a national coalition with the Left party, an option SPD leaders have so far shunned because of policy differences, including the Left's opposition to Germany's military presence in Afghanistan.

The SPD has already begun to shake up its leadership and debate its future strategy after winning 23% of the vote, its lowest share in a national election in more than 75 years. The result will leave the SPD in opposition following 11 years in government.

Sunday's election winners, Chancellor Angela Merkel's Christian Democrats and the pro-business Free Democratic Party, are seeking to conclude their coalition talks and form a new government by Nov. 9, the 20th anniversary of the fall of the Berlin Wall.

The new center-right government aims to cut taxes and boost economic growth but faces an uphill struggle to repair Germany's public finances, which have taken a beating in the past year's deep recession.

The center-right's victory puts pressure on the SPD to build a new alliance with the Left and Germany's Greens, to mount a stronger challenge to Ms. Merkel in 2013, analysts say.

Meanwhile, the SPD is in turmoil. Party chairman Franz Müntefering said he will step down. Current German Foreign Minister Frank-Walter Steinmeier, who unsuccessfully challenged Ms. Merkel for the job of chancellor, has said he wants to lead the SPD's parliamentary group, but not the whole party.

Both men are closely associated with the SPD's centrist policies of recent years, including cuts to Germany's welfare state, which many SPD members believe have cost them millions of votes and fueled the rise of the upstart Left party. SPD traditionalists want a return to a clearer leftist stance to win back the party's working-class base.

"We have said categorically that things won't ever work with the Left party at the federal level—it's a real taboo," Berlin's mayor, Klaus Wowereit, who leads a regional SPD-Left coalition, told German state broadcaster ARD on Tuesday. "I would argue for this taboo to go."

Some analysts see Mr. Wowereit as a contender to lead a possible SPD-Left alliance at national level in coming years.

Other SPD figures remain skeptical about a linkup with the Left. "We are making a mistake if we run after the Left," said Otto Schily, a former interior minister, adding that it would do the SPD no good if it stood for "nothing other than raising taxes or having the state invent new rules."

Mr. Wowereit's Berlin branch of the SPD published a resolution calling for "personnel and strategic changes in the party leadership and its policies," suggesting the party should replace leaders tied to unpopular economic overhauls.

The Berlin branch said Mr. Müntefering and Mr. Steinmeier, Finance Minister Peer Steinbrück and others, are "inextricably linked" with unpopular past economic policies, including benefit cuts and raising the retirement age to 67 from 65.

Analysts expect a younger generation of SPD politicians, including current environment minister Sigmar Gabriel and Andrea Nahles, from the group's left wing, to take over the party now.

Mixed U.S. data reflect fragility of the recovery

BY SARA MURRAY

U.S. home prices rose once again in July, but a drop in consumer confidence in September underscored the fragile state of the economy's recovery.

In the latest sign the housing market is stabilizing, home prices increased a non-seasonally adjusted 1.6% in July from the prior month, according to the S&P Case-Shiller home-price indexes released Tuesday. It was the third-straight month of gains, though prices are still 13.3% lower than they were in July of 2008.

Consumer confidence highlighted the economy's weaker side, though, as it fell to 53.1 in September from 54.5 a month earlier, the Conference Board Consumer Confidence Index showed Tuesday.

Americans' confidence about both the current state of the economy and expectations for its future performance slipped.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

Confidence hits a high for year in the euro zone

BY ILONA BILLINGTON

LONDON—Economic and consumer confidence in the euro zone hit the highest level in a year in September, supporting speculation that the economy grew in the third quarter.

According to a monthly survey by the European Commission, the overall economic sentiment indicator for the 16-nation currency zone climbed to 82.8 from 80.8 in August. The increase was stronger than expected; economists surveyed last week forecast it would increase to 82.2.

The continued pickup in confidence is consistent with other recent survey evidence that has indicated the economy grew in the third quarter when compared with the second. That would represent the first gross domestic product rise since the first quarter of 2008.

This "is another encouraging sign that the euro-zone economy continues to recover," said Jennifer McKeown, European economist for Capital Economics.

The uptick in sentiment bodes well for an early recovery from the recession.

However, some members of the European Central Bank remain unconvinced that the recovery will be strong or sustainable.

ECB President Jean-Claude Trichet said Monday that it is still too early to begin implementing plans to end the current liquidity support that the central bank is operating.

"There remains a very strong case for the ECB to retain an accommodative stance for some considerable time to come, and not to be tempted into any early tightening of monetary policy," said Howard Archer, chief euro-zone and U.K. economist for IHS Global Insight.

The commission reported that consumer confidence in the euro zone rose three points in September to minus 19 from minus 22 in August. This was the best level since minus 19 in September 2008, and was also stronger than expected. Economists had forecast this measure would rise to minus 21.

While the strong uptick in euro-zone sentiment bodes well for an early recovery from the worst recession in postwar Europe, separate data cast shadows over the Continent's weaker areas.

In Italy, business confidence unexpectedly declined in September after rising for five consecutive months, according to a survey by Italian think tank ISAE. Deflationary fears grew in Spain, where preliminary data from the national statistics institute showed the consumer-price index fell 1% in September from a year earlier, a steeper drop than the 0.8% posted in August.

—Jonathan House in Madrid and Chiara Vasarri in Rome contributed to this article.

EBRD seeks more funds

Bank says it needs $14.6 billion to offset drop in investments

BY JOE PARKINSON

LONDON—The European Bank for Reconstruction and Development will ask its members for an extra €10 billion ($14.6 billion) to ease the impact of the global financial crisis on Central and Eastern Europe.

The move would see the development bank raise its capital by 50% to expand lending and counteract plunging foreign investment across the countries of the former communist bloc.

From the Baltic Sea to the Black Sea, the once-fast-growing former communist economies have been hammered by collapsing demand and declining foreign investment flows. Already, the downturn has claimed governments in Latvia, Hungary and Bulgaria. Many states in the region have turned to the International Monetary Fund for emergency financial aid.

In a letter to the bank's 61 government stakeholders, EBRD President Thomas Mirow said that although the region's economies have begun to "stabilize," unemployment, bad loans and insolvencies are all rising. "It would be premature to say that a general turnaround has begun," the letter said.

The EBRD chief therefore "strongly recommends" raising capital by €10 billion to allow the bank to commit €9 billion to €10 billion annually during the period 2010-15.

"In light of the region's need for our support and the bank's ability to deliver ... I ask you to consider increasing the bank's capital," Mr. Mirow said.

The letter follows calls from the Group of 20 industrial and developing nations for international organizations to use their full capacity to mitigate the crisis.

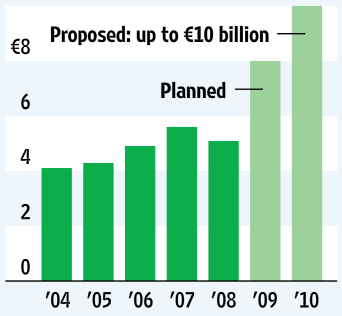
The appeal, which comes as the region celebrates the 20th anniversary of the fall of the Iron Curtain, follows a period of deliberation on whether a capital increase would be the best way to protect and deepen the former communist states' market-based overhauls.

Mr. Mirow's proposal, which comes ahead of the IMF's annual meeting in Istanbul next week, underscores the renewed influence of the bank, which was founded in 1991 as a development institution that encouraged private-sector financing.

As the financial crisis has reduced the amount of private capital available across the region, it has increased the EBRD's need to commit its own resources, extending the development bank's lifespan.

Plans to expand

European Bank for Reconstruction and Development's investment commitments, in billions



Source: EBRD

LEADING THE NEWS

Africa pushes back on China's quest for oil

Bureaucracy derails some crucial deals, while others proceed

BY BENOIT FAUCON AND SPENCER SWARTZ

LONDON—China's search for large stakes in some of Nigeria's richest oil blocks comes against a backdrop of problems in other African countries where the Asian giant has oil operations.

Some countries are preventing China from expanding its interests, criticizing it in terms of technical matters and social development.

On Tuesday, Nigeria's oil minister and a presidential spokesman said state-owned **China National Offshore Oil Corp.** is in advanced talks with Nigeria to take over blocks that are owned by **Royal Dutch Shell** PLC and other companies, but are underutilized.

An official with Nigeria's state oil company said the number of onshore blocks on offer was about 20 and that negotiations were at a late stage with some companies, including Cnooc. He said he wasn't sure exactly how much crude Cnooc was vying for, but that targeted investment would run into several billion dollars.

Cnooc officials couldn't be reached to comment.

The news of the Nigeria talks followed setbacks this month on deals in Angola and Libya. On Sept. 8, Libya vetoed a $462 million bid by **China National Petroleum** Corp. for Libya-focused **Verenex Energy** Inc. Days later, Angola's state-owned **Sonangol** said it wanted to block the sale of **Marathon Oil** Corp.'s 20% oil-field stake to Cnooc and **China Petro-Chemical** Corp., or Sinopec.

Even in Nigeria, deals have run aground. Companies such as Shell have been at loggerheads with the Nigerian government because the oil concerns haven't fully utilized some drilling licenses.

The companies counter with complaints that the government isn't securing operatiions, exposing them to militant attacks on pipelines and other infrastructure. Analysts say Nigeria's policy of paying militants to lay down arms has generally failed because the causes of the militancy—poverty and lack of education and life opportunities—haven't been tackled.

The threat of a setback in Angola—China's largest African partner—is in stark contrast with the enthusiastic reception it found there five years ago, when China was launching a quest for African resources to feed its economic boom. It made a spate of resource acquisitions in the form of oil-for-infrastructure deals.

Addax Petroleum semi-submersible drilling rig in Nigeria

Bloomberg News

China's African adventure

Selected deals signed by Chinese companies in Africa:

Year	Acquisition	Value, in billions
2009	Sinopec agrees to acquire Nigeria-focused Addax	$7.2
2006	CNOOC buys oil stake in Nigeria's Akpo field from Sapetro	2.3
2006	Sinopec agrees to pay for stakes in three deepwater oil blocks in Angola	0.7
2004	CNPC buys Sudan oil asset from Gulf Petroleum	n.a

Selected deals that governments have or may block:

Year	Acquisition	Value, in billions
2009	Sinopec and CNOOC signed a deal to buy a 20% stake in Angolan oil block from Marathon	$1.3
2009	Libya vetoes bid by China National Petroleum for Libya-focused Verenex Energy	0.5

In 2004, Sonangol chose Sinopec over India's **Oil & Natural Gas** Corp. for the sale of an oil-field stake by Shell. The deal came just after China's Export-Import Bank had granted Angola a $2 billion loan, which broke off talks with the International Monetary Fund over transparency of government finances.

In the first half of 2008, Angola became China's largest oil supplier, covering 18% of its needs. China's commerce ministry reported Sino-African trade hit a record $106.8 billion for the year, up 45% from 2007.

But some in Africa are starting to find the Chinese embrace too tight. The formula of bartering oil for infrastructure initially had given China's oil concerns a competitive advantage against Western companies, whose investors were largely unwilling to fund such projects. But those same projects have become a key factor in China's setbacks. In particular, the insistence of China state companies on keeping local hiring to a minimum has brewed resentment.

"Chinese construction companies are notorious for their highly criticized labor practices—recruiting their own professionals and laborers," the Centre for Chinese Studies, based at South Africa's University of Stellenbosch, said in a March report on Angola's $3.5 billion plan to build 20,000 apartments in a suburb of the capital, Luanda.

And in August, riots erupted in a suburb of Algiers, capital of Algeria, after Chinese immigrants working on infrastructure deals were accused of not respecting Muslim customs and of taking jobs from locals.

In light of such experiences, Chinese companies may have a hard time expanding in Nigeria. In 2006, Cnooc bought a 45% stake in **Total** SA's Akpo field for $2.3 billion. The field is now the company's biggest overseas asset with a production capacity of 175,000 barrels per day.

But more than $10 billion of contracts with Nigeria signed in 2006—including renovation of a railway, the refurbishment a refinery and the launch of a satellite—didn't produce results. That is partly because of a change of administration the following year but also because of commercial and technical pitfalls.

Chatham House, a U.K. think tank, this year published a study on how deals by Asian oil companies with the Nigerian government in 2004-05 in exchange for bankrolling infrastructure projects had generally failed. It concluded that the main reason was the Nigerian government's lack of "follow-up mechanisms to enforce the deals."

It is unclear whether Cnooc is offering to fund and build more nonoil projects in the latest round of contract negotiations.

The International Energy Agency in Paris estimates that about 500,000 barrels a day, on average, of oil production capacity has been shuttered in Nigeria over the past several years due to militant attacks and the agency expects those outages to continue. Getting that capacity back into service has been hobbled by security problems. Nigeria currently pumps around 1.8 million to 1.9 million barrels a day.

The Nigerian government is hoping a recent lull in militant violence in the country's main oil-producing Niger Delta region will continue so producers can restart operations in various areas.

In Angola, Chinese pressure could force the government to "step back" from a refusal to sell the oil-block stake, said U.S. risk consultancy Eurasia Group. A Cnooc spokesman acknowledged Sonangol may use its right to block its acquisition, but declined to comment further.

The Angolan government and Marathon, which is selling the stake, also declined to comment. But even if the deal moves ahead, "the coziness and preferential terms that have characterized the relationship in the last five years may dissipate," Eurasia said.

Angola may not need China as much as it used to. On Tuesday, the IMF signed a tentative agreement with Angola that could lead to new loans from Western banks. And when Sonangol sought $1 billion of financing this month, the loan was 50% oversubscribed—thanks mostly to European banks.

The U.S.—through **Chevron** Corp. and a visit by Secretary of State Hillary Clinton—has promised to ramp up investment in both oil and agricultural projects. As a result, China will likely have to pay more for its African oil push.

"China and African nations are now in the process of tailoring the high expectations raised over the last few years to the realities of any maturing relationship," said Christopher Alden, senior lecturer at the London School of Economics.

—Victoria Ruan in Beijing, Jing Yang in Shanghai, David Winning in Sydney and James Herron in London contributed to this article.

Pressure grows on Guinea leaders

BY SARAH CHILDRESS AND ROBERT GUY MATTHEWS

The bloody attack on pro-democracy supporters in the Guinean capital of Conakry on Monday that killed an estimated 157 people has increased pressure on the military regime, as international groups have threatened sanctions against the mineral-rich West African nation, and mining companies have grown increasingly concerned about their investments.

The African Union, a regional body, condemned the violence and said it may pursue sanctions against the regime, led by Capt. Moussa Dadis Camara, who took power in a coup after the death of President Lansana Conté in December.

The French government on Tuesday severed military ties with its former colony. It said it will meet Wednesday with the European Union to consider sanctions, and was speaking with the African Union about coordinating efforts at censure.

The coordinated condemnation is an unusual step for the African Union, which is often reluctant to criticize members. But it has taken a hard line on Guinea. Shortly after the coup, the AU froze Guinea's membership, and has worked to persuade the regime to hold fresh elections.

After he took power, Capt. Camara initially promised to hold new elections—most recently slated for Jan. 31—and said he wouldn't run. Since then, he has appeared to reverse that decision, saying he has the right to run if he chooses.

The African Union on Sept. 18 gave the government one month to prove that neither Capt. Camara nor any other members of his political party, the National Council of Democracy and Development, would contest the elections. If it failed to do so, the AU said it would impose travel bans and freeze assets of those leaders.

It is unclear what kind of impact sanctions might have on a regime that so far has seemed only to hunker down under pressure. But external pressure—coupled with the internal unrest and tension within the military—may make it difficult for Capt. Camara to maintain his grip on power, said Sebastian Spio-Garbrah, Africa analyst for Eurasia Group. "If he steps down it will be because someone within the regime topples him, rather than from outside," Mr. Spio-Garbrah said.

Capt. Camara initially spoke harshly about the protesters, telling local radio, "we will stop them." But he appeared to eschew responsibility late Monday as the death toll mounted and reports emerged of soldiers sexually assaulting women in the streets.

"Those people who committed those atrocities were uncontrollable elements in the military," Capt. Camara said, according to Radio France International. "Even I, as head of state in this very tense situation, cannot claim to be able to control those elements in the military."

Guinea's instability has for months hampered business at UC **Rusal**'s bauxite operations and **Rio Tinto**'s iron-ore operations. **Alcoa** Inc. also has a partnership with the government to operate a bauxite mine in Guinea.

The violence in the capital isn't likely to affect the production of the bauxite and iron-ore mines because those operations are located hundreds of kilometers from the capital.

But the companies are under pressure to contribute more to government coffers.

Both mining concerns have been warned by the government that they are in violation of mining-contract provisions and could lose their mining operations if they don't pay more in taxes or speed up operations.

Agence France Presse/Getty Images

Guinean police arrest a protester in the capital, Conakry, on Monday. An estimated 157 people died in an attack by the military regime on pro-democracy demonstrations.

Greeks prepare to elect socialists

Latest polls show voters seek change amid economic woes

By Alkman Granitsas

ATHENS—Five years after Greeks chose a government to cut taxes, privatize big companies and tackle corruption, they are preparing to throw it out in elections Sunday.

The New Democracy Party government is seen as having failed. The Greek economy is contracting, the country's debt burden is rising fast and cash-for-favors scandals have continued to erupt.

On Sunday, polls show, Greeks are likely to elect a socialist government led by a party that pledges to raise taxes on the wealthy, spend more on the public sector—including €3 billion ($4.38 billion) in stimulus—and run the government better. The latest opinion polls give the socialist Pasok party 36.7% of the vote against 29.8% for New Democracy, but a hung parliament is possible.

"We need first to jump-start the economy," said the Pasok party's candidate for prime minister, George Papandreou in an interview. "But really it's a question of governance."

The likely switch goes against the rightward trend in other parts of Europe. German voters returned center-right Chancellor Angela Merkel to power on Sunday, and she will now rule in a coalition with a pro-market party, dropping the Social Democrats who have slowed her down. The U.K. is moving toward choosing a Conservative government next year, ending Labour's unbroken rule since 1997.

However, many Greeks say that instead of making a positive choice for Mr. Papandreou—who is seen by voters as likeable, clean, and uninspiring—they're voting against the current government.

The Greek government is getting a thumbs-down for its handling of the economic crisis. Because Prime Minister Costas Karamanlis failed to reduce the government deficit as planned, he had little room for stimulus measures. The economy is now likely undergoing a second straight quarter of contraction, meaning it is in recession.

Spiros Pengas, a 41-year-old carpet merchant in Greece's second city, Thessaloniki, says one of his stores is having its worst sales for a decade, and some customers' checks are bouncing. He says he hasn't felt so poor before. He voted for New Democracy five years ago, but blames the government for his troubles and said he is planning to change to Pasok this time. The two parties dominate Greek politics.

"The current government hasn't done anything, and now we are paying for that," he says. Still, he adds, "I think the two parties are pretty much the same overall."

Greece is plagued by long-term problems such as tax evasion and inefficient administration. This summer, wildfires reached the outskirts of Athens after firefighters were slow to react; last year students rioted in the capital after a policeman fatally shot a schoolboy. Worse, in the eyes of most Greeks, corruption continues.

"We are always faced with a choice between two parties," says Dimitris Kyriakos, a 58-year-old Athens storekeeper, "but neither of them have done anything for the country. I see no progress."

Greece thrived after adopting the euro in 2001. Rules for adopting the currency, such as holding down inflation and the government deficit, led to lower interest rates, which triggered consumer and housing booms. Before the global economic crisis struck, the Greek economy expanded at an annual average rate of 4% for five years, one of the best performances in the euro zone.

But Greece has been buffeted by fallout from the financial crisis. Shipping companies lost business, and though the Greek economy continued to grow until the first quarter of 2009, it was hit this summer as northern European tourists saved money and stayed away.

What's more, the cost of Greece's government borrowing is rising at the same time as its debt, which is forecast to reach 108% of gross domestic product next year, according to the European Commission.

"The current economic situation has also brought to the forefront long-standing weaknesses in the Greek economy," Finance Minister Yannis Papathanassiou said in a response to questions.

Greece's deepest-rooted economic problem is tax evasion. About a quarter of tax revenue is lost through evasion—double last year's deficit. Greeks are leery of paying more into a public sector seen as wasteful.

"I, who issue receipts and work hard, I am an idiot," says storekeeper Mr. Kyriakos, pointing to his cash register. "Why should I work so hard and pay my taxes when everyone else is skimming off the top?"

Change ahead

Polls show Greek voters favor the Pasok Party:

Source: An average of five polls released Sept. 18

CORPORATE NEWS

J.P. Morgan shuffles top management

Staley is named new head of investment bank as firm clarifies succession plans under Chairman, CEO Dimon

By Matthias Rieker
And David Enrich

NEW YORK—**J.P. Morgan Chase** & Co. named a new head of investment banking, clarifying succession plans for the bank's leadership under James Dimon.

The bank announced Tuesday that Jes Staley, J.P. Morgan's head of asset management, is now chief executive of the investment bank, traditionally the most prestigious part of J.P. Morgan, and often a key driver of earnings. The promotion puts the 53-year-old in line to succeed Mr. Dimon as chairman and CEO of the group should he depart, according to people familiar with the matter.

Mr. Dimon, also 53, has expressed no desire to leave J.P. Morgan anytime soon.

The shuffling fits Mr. Dimon's tactic of grooming successors by rotating promising executives through several lines of business. The shuffle also involved the departure of Bill Winters, J.P. Morgan's top manager in Europe. His co-chief executive of the investment bank, Steve Black, 57, has also told colleagues that he plans to retire next year, according to people familiar with the matter. Mr. Black will now continue to run the investment bank as executive chairman until the end of next year, according to a news release. Mr. Staley will report to him during that period.

Bloomberg (Dimon), J.P. Morgan (Staley)

The promotion of Jes Staley, left, to chief of J.P. Morgan's investment bank puts him in line to succeed James Dimon, right.

"Now's a good time" to make the changes around Mr. Black's pending retirement, Mr. Dimon said. The timing signals that Mr. Dimon is confident that the banking crisis is winding down and the economy is recovering.

Mr. Black and Mr. Winters ran the investment bank as co-CEOs, and together they avoided many of the pitfalls of the financial crisis despite J.P. Morgan's massive exposure to the derivatives market. In a news release, Mr. Winters said, "I'm looking forward to my next professional challenge."

Mr. Winters, a 25-year J.P. Morgan veteran, will leave the company rather than move to a different position. He has previously expressed interest in running a company as CEO, according to people familiar with the matter. Mr. Winters said in an interview, "Steve (Black) and I have a great relationship, we always have, and we will continue to, professionally and personally."

"It's my duty to the board to focus on succession," Mr. Dimon said in an interview. "It's important that we have people trained and tested with experience to succeed me."

Mary Callahan Erdoes, 42, succeeded Mr. Staley at the asset-management division and will join J.P. Morgan's operating committee. Ms. Erdoes; Chief Financial Officer Michael Cavanagh, 43; investment-banking executive Matthew Zames, 38; and retail-banking chief Charles Scharf, 44, have a chance to eventually run J.P. Morgan Chase.

Consumer and commercial banking, and capital-markets operations, have traditionally carried equal weight in J.P. Morgan Chase's strategy. The acquisition of Washington Mutual Inc. and heavy write-downs in investment banking last year amid the financial crisis gave retail banking a bigger role in revenue and income.

Still, the investment bank is recovering quickly from the crisis and generated a record $16 billion in revenue in the first half. Mr. Cavanagh, the chief financial officer, told investors during a conference two weeks ago, "we're doing pretty well" in investment banking this quarter.

"Things are going well at the company," Mr. Dimon said. "You always want to do this from a position of strength."

Mr. Staley joined J.P. Morgan & Co., one of J.P. Morgan Chase's predecessor firms, in 1979 and has spent 20 years in the investment-banking business. He became CEO of J.P. Morgan's private-banking operation, which caters to high-net-worth clients, in 1999, and two years later began running the asset-management business.

—Joan E. Solsman contributed to this article.

Heineken taps new chief to run its U.S. division

By David Kesmodel

Dutch beer giant **Heineken** NV tapped company insider Dolf van den Brink as the third chief executive in about three years to run its struggling U.S. division.

Mr. van den Brink, currently commercial director and deputy general manager for Heineken's operating company in the Democratic Republic of Congo, will become president and CEO of Heineken USA effective Thursday. He succeeds Don Blaustein, who resigned in August, citing differences with the company's management in Amsterdam about how to run the unit.

Mr. van den Brink will try to revive U.S. sales of the company's flagship beer, Heineken, which have dropped sharply amid the weak economy, ineffective marketing campaigns and tough competition from rival imports and domestic brews.

John Nicolson, Heineken's regional vice president for the Americas, in a statement said he is "delighted to have someone of Dolf's vitality, leadership capability and commercial experience to lead our U.S. business."

Mr. van den Brink faces a tall order. In April, Heineken said its beer volume fell 16% in the Americas on an organic basis, which strips out results from recently acquired brands, in the first three months of 2009. Heineken USA accounts for about 4% of the U.S. beer market in terms of volume.

Mr. Blaustein's predecessor, Andy Thomas, also resigned because he disagreed with Heineken's top executives over strategy.

Some business travelers prefer to be in the cockpit

By Emily Maltby

Stephanie Kornegay used to find shuttling back and forth between her two businesses—which required 4:30 a.m. wake-up calls and a four-hour drive—a trying ordeal. Then she got her pilot's license.

Ms. Kornegay, who owns two hotels in Mount Olive, N.C., and provides private golf instruction in Charlotte, N.C., now drives a short distance to the Mount Olive Municipal Airport and flies her personal aircraft across the state to an airport near Charlotte. She says the entire trip takes an hour and a half. "That adds up to an additional five hours each week that I can be doing something else," she says.

Self-piloting doesn't make sense for every business owner, especially in a recession. Flight instruction typically costs up to $9,000, according to the Aircraft Owners and Pilots Association in Frederick, Md., and buying a used aircraft will run between $50,000 and $70,000, plus annual fees for storage and maintenance.

The Federal Aviation Administration says the number of pilots with a private license has dropped about 14% in the last 10 years, to nearly 223,000 in 2008.

There's also an inherent risk of danger and you may be grounded in bad weather. According to the National Transportation Safety Board, there were 491 fatalities in private aviation in 2007.

Still, some entrepreneurs who travel frequently find being their own pilot makes good business sense, allowing them to dodge long drives and airport delays. "There's not necessarily a monetary case to be made for it," says AOPA spokesman Chris Dancy. "But when you start to add in lost productivity and the additional hotel and rental car expenses, aviation makes a much stronger case than trips using airlines."

The AOPA estimates that the cost of flying an aircraft provides the most return for flights that are less than 500 miles.

About 85% of companies that use personal aircraft are small or mid-size companies, estimates Ed Bolen, president and chief executive of the National Business Aviation Association in Washington. The lobbying group was active last fall when chief executives of the Big Three auto companies were criticized for flying company jets, advocating that such flights are time efficient.

After eight years of regular road trips, Peter La Colla secured his pilot license in 2000, and subsequently earned his "instrument rating," which allows him to fly in reduced visibility. As CEO of **McColla Enterprises** Ltd. in Topeka, Kan., which owns the Street Corner mini-convenience store chain, Mr. La Colla flies to visit some of his 50 franchise locations in places such as Danbury, Conn., Bloomington, Minn., and Nashville. "I just wanted to swing through those cities but doing that commercially would be miserable," he says.

Mr. La Colla says his time in the air costs about $100 an hour, including the fuel, oil, repairs and engine wear. So flying time from Topeka to Chicago, which is just shy of 600 miles and takes more than two hours each way, costs almost $500 round trip. That trip on the commercial airlines averages about $150.

But that doesn't account for the extra five hours Mr. La Colla would

Tiffany Anselment

Some entrepreneurs tout private planes as major time savers. Business owner Stephanie Kornegay is pictured with her personal aircraft.

have to spend getting to and from the commercial airports and passing through security, nor the inconvenience of traveling on the airline's schedule.

To make the trips more worthwhile, Mr. La Colla tries to visit 15 to 20 cities in a week by landing at one of the 5,200 airports open to the public in the U.S. By comparison, commerical air carriers are bound to only 500 of those airports and must adhere to strict timetables.

There are hidden perks, too. Small airport operators often provide complimentary services, such as arranging rental-car pickup. "They will have a rental car waiting for you, often times with the heat and AC already running," Mr. La Colla says.

Mr. La Colla points out that he is also able to take up to three employees with him on the flights, and can write off usage of the plane as a business expense. "Most of my work is done by email, but to close a deal, I need to meet face-to-face."

Michael Roth, an information technology manager, flies regularly for his job at **Complete Production Services** Inc., an oil company in Houston. Mr. Roth recently launched a personal aviation consulting company called **Horizons Aloft**, a part-time venture based in Denton, Texas, that aims to introduce more entrepreneurs into flight. He has been touring the country offering cost-analysis services to business owners.

Mr. Roth believes that prospective clients would get hooked after trying it once. "It's a relaxing and rewarding activity," he says.

Airline group says traffic fell 1.1% in August

By Jonathan Buck

LONDON—International air traffic fell 1.1% in August from a year earlier, the International Air Transport Association said Tuesday, adding there were few bright spots for the industry, although demand did pick up from the previous month.

"Fares have stabilized, but at profitless levels," IATA Director General and Chief Executive Giovanni Bisignani said in a statement. "Meanwhile, cost pressures are mounting from reduced aircraft utilization and rising oil prices. The industry is not out of the woods yet."

Even though capacity levels have been cut to meet lower demand, ticket prices remain depressed, said IATA, which represents about 230 airlines comprising 93% of scheduled international air traffic. Premium seat prices in August fell 22% from a year earlier, while economy fares declined 18%.

Airlines have cut daily aircraft use in recent months, IATA said. For example, average daily hours for the global **Boeing** Co. 777 fleet through the first eight months of the year fell 2.7% from a year earlier to 11.1 hours a day. Lower utilization helps load factors, a measure of how full planes are, IATA said, but spreading fixed-asset costs over fewer hours in the air pushes up unit costs.

Capacity has fallen to meet lower demand, but ticket prices remain depressed.

Passenger-load factors, a measure of the proportion of available seats filled by paying passengers, last month rose 1.2 percentage points from a year earlier to 80.9%.

With the exception of the Middle East, IATA said all regions in August saw demand improve from July, when it dropped 2.9%. Carriers in the Middle East saw demand in August rise 10.8% from a year earlier, a slowdown from the 13.2% growth recorded in July. That distortion was partly because the Islamic holy month of Ramadan started earlier this year than last year.

Demand in the Asian-Pacific region last month dropped 1.6%, compared with a 7.6% decline a month earlier. The improvement partly is because of favorable comparisons, as the sharp drop in demand started in August 2008.

European and North American carriers saw smaller improvements driven by exposure to more robust long-haul markets. European carriers saw demand in August fall 2.8%, compared with a 3.1% fall in July. For North American carriers, the improvement was to a drop of 2.5% in August compared with a 3.2% decline in July.

Freight demand last month shrank 9.6%, compared with 11.3% in July. Asian-Pacific carriers, representing 44% of the global freight market, saw year-to-year demand last month improve to a drop of 9% from a decline of 9.5% in July. North American and European carriers saw improvements, though the overall trend remained negative.

Vodafone to sell iPhone

By Lilly Vitorivich

LONDON—**Vodafone Group** PLC said Tuesday it will sell **Apple** Inc.'s iPhone in the U.K. and Ireland, a day after **France Télécom** SA's Orange secured a similar deal.

Vodafone, the world's largest mobile-phone operator by revenue, will sell the iPhone starting in early 2010, while the device will be available on Orange's U.K. network before Christmas.

The operator said it will announce details on pricing, tariffs and availability locally in the future. However, customers in the U.K. and Ireland can register their interest in the iPhone 3G and iPhone 3GS on the company's Web site now.

Vodafone already offers the iPhone in 11 countries through its operating companies.

On Monday, Orange said it had reached an agreement to sell the iPhone in the U.K. later this year, bringing to an end a two-year exclusive contract held by rival **Telefónica** SA's O2 mobile network.

O2's exclusive deal with Apple has helped the company boost sales, customers and average revenue per user, and catapulted it ahead of Vodafone into first place as the largest mobile network in the U.K. by subscriber numbers.

Vodafone's announcement shows that iPhone exclusivity is rapidly coming to an end, said Evolution Securities analyst Mark James, who expects similar announcements over coming months in Spain and Germany.

"With exclusivity gone, it all boils down to price. We expect pressure on SAC's [subscriber acquisition costs] as the ability to gain market share through [exclusive] products comes to an end," Mr. James said.

Bloomberg News

Vodafone will sell Apple's iPhone in the U.K. and Ireland starting in early 2010. Above, a pedestrian outside the Vodafone store in London in July.

Toyota to revise China mix

Japanese car maker to meet demand for smaller vehicles

By Patricia Jiayi Ho

BEIJING—**Toyota Motor** Corp., which has been hurt in China by a failure to anticipate the demand for affordable, no-frills cars, said it plans to increase the proportion of smaller cars it sells in the country and increase the number of dealers.

Beijing-based spokesman Niu Yu on Tuesday said the Japanese car maker is taking the step to improve sales.

Chinese consumers have been snapping up smaller cars, especially after the government in January cut sales taxes on cars with engines of 1.6 liters or smaller. However, Toyota, whose product mix has been focused on larger cars, reported flat China sales in the first half from a year earlier.

Toyota's sales have since picked up, rising 43% in August from a year earlier to 67,000 units, Mr. Niu said. Sales in the January-August period rose 9% from the same period last year to 415,000 units, he said.

Getty Images

Toyota will add smaller cars to its lineup in China to take advantage of government tax incentives. A dealership in Beijing this month.

The first-half slump was a blow to the world's biggest auto maker because China is the only major global auto market still growing and its major rivals have reported sharp sales gains. Toyota has also been criticized for a slow response to increasing demand outside China's biggest cities while rivals such as **Nissan Motor** Co. and **General Motors** Co. have been opening showrooms in smaller cities and rural areas.

Toyota plans to increase the number of dealerships it has in China to about 590 by year-end from about 500 in early August, Mr. Niu said Tuesday. It also plans to increase the number of China dealerships for the Lexus, its premium brand, to 60 by the end of the year from 50 in early August, he added.

BASF aims to double sales in Asia by 2020

By Allison Connolly

FRANKFURT—**BASF** SE said Tuesday it will invest €2 billion ($2.9 billion) in China and other parts of Asia over the next four years in an effort to double sales there by 2020.

The Asia-Pacific region is already the largest chemicals market in the world but is expected to grow even bigger as demand for cars, skyscrapers and highways rises along with incomes. At the same time, chemical companies are finding that more of their customers are relocating their manufacturing operations to low-cost countries in the region.

BASF, the world's largest chemicals company, said it estimates the overall Asia-Pacific chemical market, excluding pharmaceuticals, has the potential to grow to €1.15 trillion by 2020 from €650 billion last year and account for nearly half of all chemical sales world-wide.

In 2008, the Asia-Pacific region contributed 15%, or €9.3 billion, to BASF's total sales of €62.3 billion. About 45% of Asia-Pacific sales came from China, the company said.

In the first half of 2009, the region accounted for 20% of overall sales, with nearly half coming from China. The company employed 13,700 people there as of the end of 2008.

Germany-based BASF strengthened its foothold in the region earlier this year with its €3.8 billion acquisition of Swiss chemicals maker Ciba AG, which already had 55 sites in 10 countries and 2,000 employees with regional sales of €1 billion.

Martin Brudermüller, a member of BASF's board of executive directors, said BASF won't be making any other big acquisitions in the region so that it can focus on the integration of Ciba.

BASF said about $1.4 billion of the company's new investment will go toward the expansion of its 50% integrated chemical-production joint venture in Nanjing. BASF is partners with **Sinopec** Corp. in the venture and has spent $2.9 billion on the plant.

The expansion will add 5,000 to the regional work force by 2020, taking it up to 20,000. BASF said it has invested €6.2 billion in China over the past 15 years.

The company's strategy for the next decade will be to push farther inland into emerging provinces that are benefiting from new state development incentives. The company also plans to expand in untapped markets such as Vietnam. It says it is nearing its goal of generating 70% of regional sales from local production.

While demand for chemicals has slumped amid the global economic downturn, BASF and others are seeing the first signs of recovery in the region. Dow Chemical Co. Chief Executive Andrew Liveris recently said China's stimulus package boosted purchases of building materials and

Chemical companies are seeing the first signs of recovery in demand in Asia.

consumer products such as electronics, pushing up the company's sales in the second quarter.

BASF is now at full capacity in China, while the rest of Asia is "crawling back," Mr. Brudermüller said Tuesday during a teleconference from Hong Kong.

Other chemical companies are also focusing on growth in Asia. Belgian chemicals maker **Solvay** SA said it will invest the €4.5 billion it made from selling its pharmaceutical business to Abbott Laboratories in high-growth markets such as Asia.

Earlier this month, German specialty-chemicals maker **Lanxess** AG announced two purchases in the region: India's Gwalior Chemical Industries Ltd. for €82.4 million, including debt, and Jiangsu Polyols Chemical Co. in China for an undisclosed sum.

BT slams U.K. Internet proposal

By Paul Sonne

LONDON—**BT Group** PLC, one of Britain's largest Internet service providers, criticized a government proposal that would allow U.K. authorities to suspend Internet access temporarily for Britons who engage repeatedly in copyright-infringing file sharing.

BT's response, released Tuesday, said the proposal would undermine Britons' right to due process and raise costs for consumers by requiring expensive network interventions on the part of Internet service providers. The BT report also said that temporary bans on access would fail to curtail encrypted file-sharing activities, while wielding unintended effects, such as preventing households from accessing legal services.

It "would institute a regime in which an alleged infringer could face punishment or redress without any kind of judicial scrutiny," the BT response said. "A vicious circle of mistrust between those involved will surely result, with deleterious consequences for all the industries involved, let alone consumers."

The U.K. Department for Business Innovation and Skills, led by Peter Mandelson, introduced new proposals to combat Internet piracy and peer-to-peer file sharing in August as part of the government's wide-ranging review of its digital policy.

The proposals introduced the possibility of technological measures that would reduce piracy, such as the putative banning of Internet access, blocking Web sites used for downloading or slowing broadband speeds. The earliest the measures could go into effect is 2012.

The Department for Business Innovation and Skills said its response to BT's comments, and other official comments on its proposals, will come in late November.

Online ads overtake television in U.K.

By Kathy Sandler

LONDON —Internet advertising sales in the U.K. overtook television advertising sales for the first time in the first half of this year, according to new research by the Internet Advertising Bureau and PricewaterhouseCoopers.

Internet advertising sales rose 4.6% on the year in the first half to £1.75 billion ($2.78 billion), giving it a market share of 23.5%. Television advertising fell 16% to £1.64 billion, dropping into second place with a 21.9% market share. The U.K.'s Internet advertising market has experienced one of the world's most aggressive expansions, according to media company Group M. Spokesman Adam Smith said this correlates closely to the level of Internet penetration.TV advertising in the U.K. is affected by the BBC, which is advertising free. According to Group M figures, which unlike the IAB don't include direct marketing, online advertising accounted for just 13.9% of U.S. advertising sales in 2008. TV had a 43.4% market share.

GM, eBay to end online car venture

By Sharon Terlep

DETROIT—**General Motors** Co.'s short-lived effort to sell cars online through **eBay** Inc. will end this week, a person familiar with the situation said Tuesday.

The program, launched Aug. 11 in California, hasn't driven major sales for the auto maker, according to dealers and early sales figures.

The eBay venture was one of GM's first moves after emerging from bankruptcy-court protection in July. At the time, GM Chief Executive Fritz Henderson said the project was part of an effort to make car shopping more convenient.

Separately, GM on Thursday will announce that it has completed a deal to sell its Saturn division to **Penske Automotive Group** Inc., according to a person familiar with the matter.

Penske, the second-largest U.S. auto retailer by revenue after AutoNation Inc., will buy Saturn's brands, service and parts and distribution operations, but not its manufacturing operations. The Penske deal was reported earlier by the Detroit Free Press.

Gannett profit forecast offers glimmer of turnaround hope

By Nat Worden

Gannett Co., publisher of USA Today, said it expects to report third-quarter profit that far exceeds expectations on Wall Street, adding to hopes that the worst of the downturn may be over for traditional media outlets such as publishers and broadcasters.

Gannett also announced plans to sell $400 million in five- and eight-year notes as it joins the raft of companies raising fresh capital to pay off other debt.

Gannett shares rose 18% to $11.74 in Tuesday trading on the New York Stock Exchange, extending a strong summer rally in the stock.

Still, concerns remain over Gannett's ability to sustain its rebound, as an aggressive round of cost cutting remains the source of the publishing company's bottom-line strength. It expects revenue for the quarter to be down about 19%, missing analysts' estimates.

"Our continued efforts to achieve efficiencies and further consolidations companywide along with significantly lower newsprint expense resulted in another substantial decline in our operating expenses," said Gracia Martore, the company's chief financial officer. Ms. Martore is filling in for the company's chief executive, Craig Dubow, who is on extended medical leave following back surgery.

Over the summer, Gannett unveiled plans to cut 1,400 jobs from its work force of 41,500.

For the third quarter, Gannett now expects to report earnings, excluding restructuring charges, in a range from $93 million to $100 million, or 39 cents to 42 cents a share. That marks a decline from the 76 cents a share it posted for the same quarter last year, excluding charges, but it far surpasses the mean estimate of analysts surveyed by Thomson Reuters for earnings of 28 cents a share.

ECONOMY & POLITICS

U.S. secures South Korean ties

American envoy says alliance is in 'good shape,' but North must return to multiparty talks

By Evan Ramstad

SEOUL—The long-running North Korean nuclear standoff appears to be inching toward a return to the multilateral disarmament process, U.S. Ambassador to South Korea Kathleen Stephens said Tuesday.

"It is up to North Korea," Ms. Stephens said in an interview. "What we have been trying to do over the last few weeks and longer is to relay to the leaders in Pyongyang a consistent and united message ... that they're on the wrong track."

She said she hopes North Korean leaders will reassess their self-interest and "see the path to real security does lie in a return to the six-party talks."

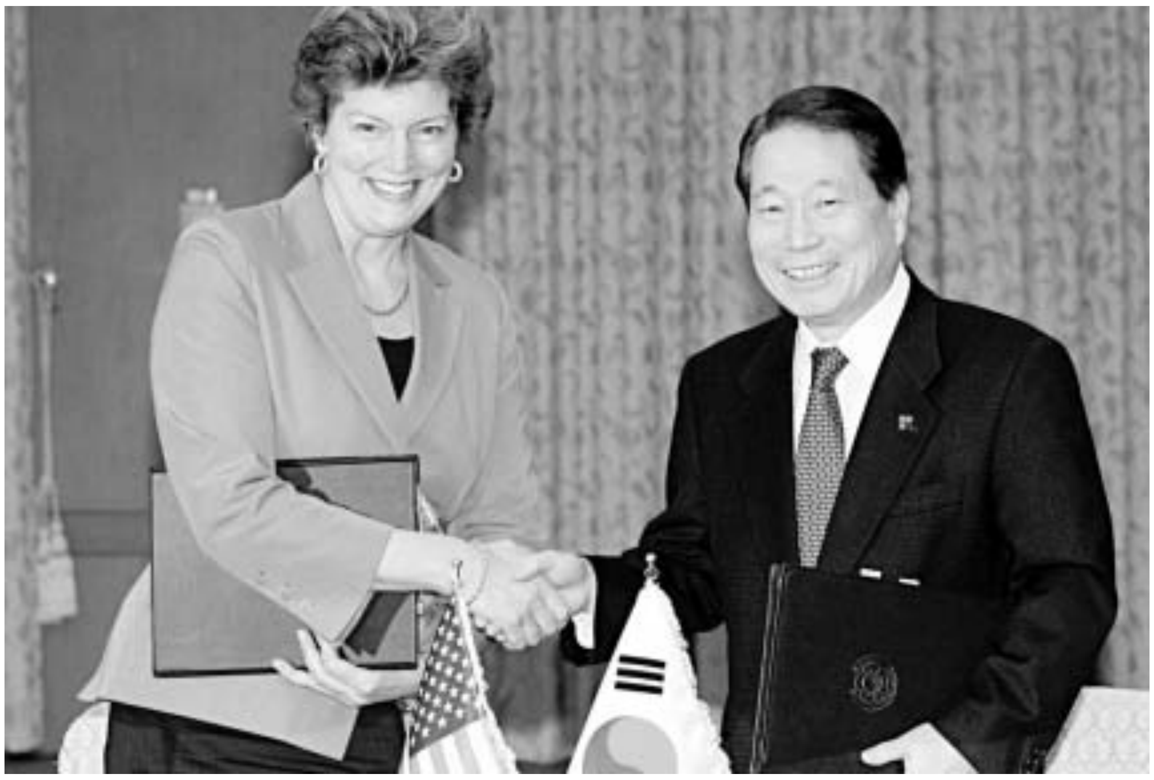
"We've said that in a number of ways and in a number of times," she said. "And the same message has come from the other capitals in the region in a number of ways and in a number of times."

Her comments came in a wide-ranging interview, her first with a U.S. newspaper since becoming ambassador a year ago. Ms. Stephens also discussed several U.S.-South Korean agreements reached in recent years that are now hitting stride and form a big part of the day-to-day work of the U.S. Embassy in Seoul. "The mechanical part of the alliance is in good shape," she said.

To many South Koreans, the biggest such change is in the role and footprint of the U.S. military. U.S. commanders are training the South Korean military to take over wartime operational control of Korean forces in 2012. And the U.S. military is consolidating to a handful of major bases from several dozen a few years ago.

In the past, such changes sparked outcry from South Korean conservatives who feared they signaled a reduced U.S. commitment to the South's security. Ms. Stephens said that perception is changing.

"What it isn't about is any sort of diminution or change in U.S. commitment," she said. "It is an approach that we think will make our mutual defense capabilities stronger and will reflect better the realities of today's South Korea and today's U.S."



Associated Press

Kathleen Stephens, U.S. ambassador to South Korea, and South Korean Foreign Minister Yu Myung-hwan in Seoul in January. Ms. Stephens appears on television regularly speaking Korean, which she learned as a Peace Corps volunteer in the 1970s.

Finance officials from both countries are continuing to work closely on economic-recovery efforts. Last week, the U.S. backed South Korea's push to make the G-20 the pre-eminent forum for economic discussion. And the U.S. last year allowed South Korea into its visa-waiver program, triggering an explosion of 800,000 applications.

But the biggest economic advance the two countries have attempted—a free-trade agreement signed in April 2007—hasn't been completed because it awaits ratification by lawmakers in both countries. Last month, Ms. Stephens and South Korea's ambassador to the U.S., Han Duck-soo, toured five U.S. states to promote the trade deal and listen to concerns about it, notably in agricultural states like Montana and auto-focused ones like Michigan.

In the two years since the trade pact was signed, both countries have elected new presidents and a global recession slowed consideration of many trade deals. "It's perhaps not so surprising we are where we are today, which is trying to find a way forward on ratification," Ms. Stephens said. "But our two leaders have agreed that we want to do that."

To many South Koreans, Ms. Stephens herself has fueled a growing spirit of goodwill to the U.S., boosted in part by her ability to speak Korean, which she learned as a Peace Corps volunteer here in the mid-1970s. She attributes the attention she gets in South Korea to an appreciation, particularly among older Koreans, "that I was here when things were tough and that we've had a shared experience."

She also appears on television regularly speaking Korean and writes a blog, using the Korean name that teachers she worked for in the Peace Corps gave her. People routinely call out to her on the street and approach her speaking Korean. "I did really try to use Korean as much as I possibly could when I got here, even when it was cringe-inducing to me," she said.

Her history watching South Korea's rapid development—she was also here as a political officer in the U.S. Embassy in the 1980s—has given her a long-term perspective on the possibility for change in North Korea.

"It's a human tragedy that this peninsula was divided," she said. "We have unfinished business here. That's why we think the six-party talks are so important."

WSJ.com

Online Today
Read excerpts from Ms. Stephens's discussion with the Journal at **WSJ.com/Asia**

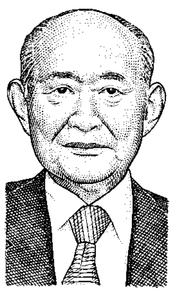
China premier to sign accords in North Korea

By J.R. Wu

BEIJING—Chinese Premier Wen Jiabao will sign cooperation agreements with North Korea in areas including trade and map out a development plan for bilateral relations during his visit next week to Pyongyang, China's Foreign Ministry said.

Mr. Wen is scheduled to visit Pyongyang Oct. 4-6 in a rare trip to North Korea by a Chinese leader, and one that comes amid international efforts to persuade the reclusive regime to return to stalled nuclear disarmament talks.

"China will have a review of its relation with the DPRK [North Korea] and map out a development plan for the future of bilateral relations," Chinese Foreign Ministry spokeswoman Jiang Yu said. "China has been providing assistance to the DPRK within our capacity to improve their people's lives and help them develop their economy."



Hirohisa Fujii

Ms. Jiang declined to comment on whether Mr. Wen might bring a pledge for food and fuel to help the North Korean economy, but she said Mr. Wen will sign cooperation pacts in trade, tourism and education.

Mr. Wen's trip follows a series of conciliatory gestures from North Korea toward South Korea and the U.S. after months of tension over its nuclear and missile programs.

Also Tuesday, U.S. and Chinese officials met in Beijing and talked about North Korea and Iran's nuclear programs. U.S. Deputy Secretary of State James Steinberg met with officials including Vice President Xi Jinping, State Councilor Dai Bingguo and Gen. Ma Xiaotian, one of China's military's top officials for international affairs.

The talks focused "on how we can address some of the key challenges facing the international community, from economic growth to climate change, global public health, nonproliferation, including North Korea and Iran, and combating terrorism," Mr. Steinberg said.

China, North Korea's biggest source of economic aid and diplomatic support, could be key in pushing for the resumption of the disarmament talks, which also include the U.S., South Korea, Russia and Japan.

China, on holiday eve, trims gas, diesel prices

By Aaron Back

BEIJING—China said it will trim gasoline and diesel prices, its seventh fuel-price adjustment since Jan. 1, when the government introduced a fuel pricing mechanism linking domestic rates to international crude prices.

While the timing of the announcement was somewhat of a surprise ahead of China's National Day holidays, the significance of such pricing adjustments has lessened as local fuel prices more closely track global prices.

The National Development and Reform Commission said it will cut the price of gasoline and diesel by 190 yuan ($27.84) per metric ton.

The new price represent cuts of about 2.5% and 2.8%, respectively, from current average gasoline and diesel retail ceiling benchmarks of 7,610 yuan per ton and 6,870 yuan per ton, according to Dow Jones Newswires calculations.

An official with NDRC said jet kerosene prices won't be adjusted along with gasoline and diesel this time, but didn't elaborate.

While the cuts were due now, in line with the terms of the pricing system, there had been expectations the NDRC would hold off until after China's National Day holidays—which end Oct. 8—to ensure a "stable" commodity price environment during the break, said Qiu Xiaofeng, an oil analyst with China Merchants Securities. "But the price cuts are certainly a good holiday gift for all the car users, farmers and so on," Mr. Qiu said.

He said the change will hurt refining margins of state oil companies China Petroleum & Chemical Corp. and PetroChina Co., though the cut is smaller than the 5.5% fall in the crude basket that the NDRC tracks over an evaluation cycle.

Under China's oil product pricing mechanism, domestic fuel prices may be adjusted when the moving average of a basket of international crudes changes more than 4% over a period of 22 working days.

The auto industry welcomed Tuesday's move, as it raised hopes for further spurring already robust car sales.

One auto maker sales executive in Beijing said the price cut eases what he described as "one big negative factor" that had offset some of the government incentives in place since the start of the year to spur car sales in China.

Chinese consumers have been snapping up smaller cars, especially after the government in January cut sales taxes on vehicles with engines of 1.6 liters or smaller. The tax cut is expected to expire at year-end. Those customers are "very cost-sensitive" and the fuel price cut may embolden more consumers to make purchases this year, the executive said.

Still, Yale Zhang, a Shanghai-based senior analyst with U.S. consulting firm CSM Worldwide, said the fuel-price cut was too small to make a substantial impact on vehicle sales. "It's good news, and there may be some positive psychological effect, but that's about it," he said.

—Jing Yang and Norihiko Shirouzu contributed to this article.

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Agence France Presse/Getty Images

Prime Minister Vladimir Putin, speaking at an investment forum in Moscow on Tuesday, makes a gesture indicating money.

Russia revives privatization

Putin signals plans to sell more shares in several sectors

By Alexander Kolyandr And William Mauldin

MOSCOW—Russian Prime Minister Vladimir Putin, who has presided over a doubling of the Kremlin's ownership of big business, on Tuesday signaled a return to more private ownership as the country faces its first budget deficit in a decade.

The verbal shift toward selling off shares, which follows years of increasing government control that began when Mr. Putin served as president, comes amid Russia's first recession since it defaulted on its debt in 1998.

"Russia will remain a liberal market economy," Mr. Putin said at an investor conference here, adding that the government will press on with privatization and reduce the state's role in the economy.

But the plans for privatization may be too little, too late, according to Zina Psiola, portfolio manager at the Clariden Leu Russia Equity fund, who says Russia has "missed a chance" to become a powerful new economy compared with other commodity producers such as Brazil and Chile.

Finance Minister Alexei Kudrin said Tuesday that in three years, the state may sell stakes in the oil, telecommunications and aviation industries, as well as possibly reducing its stake in OAO **Bank VTB** below 50%.

After meeting with international energy executives last week, Mr. Putin had lunch Tuesday with a small group of portfolio investors, a further sign of openness in a country that has systematically limited foreign access to so-called strategic sectors.

Capital Research Global Investors, DWS Investments, the Kuwait Investment Authority, and Singapore's Temasek Holdings all participated in the meeting, according to people familiar with the matter.

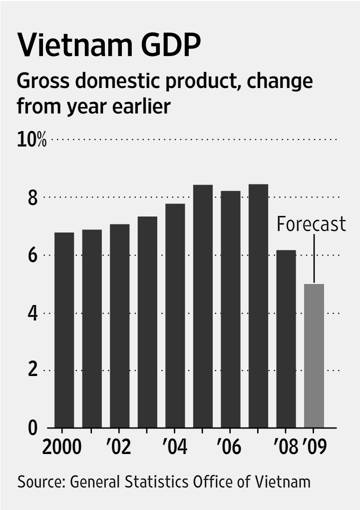
Government officials were short on specifics about privatization. Mr. Putin said the country will take it slowly on liberalization of the gas industry, dominated by OAO **Gazprom**.

Economy Minister Elvira Nabiullina named Sovkomflot, a state-owned maritime shipping company, and the country's ports and airports as targets for privatization.

—Jacob Gronholt-Pedersen and Will Bland contributed to this article.

Vietnam says it will top its growth target of 5%

By Vu Trong Khanh



HANOI—Vietnam's economy is on course to surpass the official 5% growth target for 2009, after it rose 5.76% in the third quarter from a year earlier, fueled by multibillion-dollar stimulus packages, the government said.

In comparison, gross domestic product grew 4.46% in the second quarter and gained 3.14% in the January-March period, the government said.

With the global economic recovery expected to pick up pace, Vietnam's full-year growth will likely exceed the 5% target but will be lower than the 6.18% rise recorded last year, said Vo Tri Thanh, an economist with the government's Central Institute of Economic Management.

Vietnam's growth in the first nine months of this year reflects the impact of the government's stimulus packages, including a subsidized lending program, Mr. Thanh said.

Since the February introduction of the program—which helps offset four percentage points of interest on loans that enterprises take from commercial lenders—banks have provided loans valued at more than 404 trillion dong ($22.64 billion).

"Though the recovery is still fragile, growth is better than initially estimated," Mr. Thanh said.

However, gains in agricultural and industrial production in the nine-month period were lagging behind that of the broader economy, he said.

Vietnam's industrial output in the January-September period rose 6.5% from a year earlier to 505.97 trillion dong, the statistics office said. Agricultural production grew 2.6% to 150.5 trillion dong, while total retail sales of goods and services increased 18.6% to 845.42 trillion dong, the office said.

The economy still faces challenges ahead, with exports remaining weak while the subsidized lending program is slated to end this year, said Mr. Thanh. "The export sector still faces difficulties as global consumer confidence hasn't stabilized yet," he said.

Vietnam's trade deficit widened 14.7% to $1.52 billion in September from a month earlier, the statistics office said. Exports rose to $4.68 billion from $4.52 billion in August, while imports rose to $6.2 billion from $5.85 billion.

Japan's consumer prices continue to fall sharply

By Megumi Fujikawa

TOKYO—Deflationary pressure continued to mount in Japan during August, with another record decline in the core consumer-price index underlining how the recession has made consumers reluctant to spend.

Core CPI, which excludes volatile fresh-food prices, fell 2.4% year-to-year in August, in line with economists' forecasts and more than the 2.2% fall for July, Ministry of Internal Affairs and Communications data showed.

It was the fourth straight month that core CPI dropped at its fastest pace on record, as commodities prices fell compared with a year earlier and economic uncertainty kept consumers from opening their pocketbooks.

The core figure for the Tokyo metropolitan area, considered a leading indicator for nationwide price trends, dropped 2.1% year-to-year in September, more than the 2% fall expected by economists and August's 1.9% slide.

Japan's economy has started to show some signs of improvement, especially in areas such as exports and industrial production. But Tuesday's CPI data suggest that concerns remain high over the sustainability of any recovery—especially as employment conditions remain weak—making consumers reluctant to spend and worsening the corporate earnings picture.

Deputy Prime Minister Naoto Kan said the Japanese government will keep a close eye on price moves. Analysts warn that the CPI is likely stay negative for a while.

"We're not going to see any turn positive for quite some time, not until the July to September period of 2011 at the earliest, according to our forecast," said Kyohei Morita, chief Japan economist at Barclays Capital.

Mr. Morita added that the new government, led by the Democratic Party of Japan, may use pressure to lower prices. "It will depend on what policies they implement and when they are implemented, but their proposed measures to lower gasoline taxes and make highways free of tolls will have the effect of lowering the CPI," he said.

Still, the pace of price falls is expected to moderate in coming months as the base effect of last year's high commodity prices is phased out. "As price rises peaked in August last year, the factors pushing down on-year changes in the CPI are becoming smaller," a government official said.

The Bank of Japan also forecasts that the year-to-year decline in CPI will moderate in the second half of the fiscal year, which ends in March.