Money & Investing: FSA chief calls for higher capital ratios on trading books

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.

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BP announced a "giant" oil discovery deep beneath the Gulf of Mexico, the U.K. company's latest find in an area that is proving to hold considerable resources, but stretches the limit of BP's technical capabilities. Page 5

■ **Federal Reserve officials** were far more upbeat last month about the U.S. economic outlook, minutes of the meeting showed. Page 9

■ **The U.S. lost** 298,000 private-sector jobs in August, an improvement over July's revised drop of 360,000. Page 9

■ **EU finance ministers** backed curbs on bank bonuses but aren't united over specific proposals for the coming G-20 summit. Page 3

■ **U.S. stocks extended** their losing streak to four straight sessions as investors turned defensive. European shares also declined. Page 20

■ **Spain reported** a 2.4% rise in August jobless claims, highlighting risks across the euro zone as stimulus and job programs unwind. Page 2

■ **New-car registrations** in Germany rose 28% in August, boosted by government-backed incentives to trade in old cars. Page 6

■ **GM expects** Spain, Britain and Poland to provide about $1.42 billion in aid to help restructure the auto maker's Opel unit. Pages 6, 32

■ **A watchdog found** that the SEC mishandled its examinations into the dealings of Bernard Madoff. Page 21

■ **Greece's prime minister** called an early general election for Oct. 4, seeking a renewed mandate to impose tougher economic changes.

■ **A bomb exploded** outside the Athens Stock Exchange, injuring a woman and extensively damaging the building.

■ **Iceland's economy** should start a gradual recovery by early 2010, but major structural changes are still necessary, the OECD said. Page 2

■ **A Taliban bomber killed** Afghanistan's deputy intelligence chief and at least 22 other people. Page 4

■ **Liechtenstein agreed** to give Germany client data in tax-fraud inquiries. Page 3

■ **Chinese protectionism** is a concern, the European Chamber of Commerce said in an annual paper. Page 4

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Ancient slander
The blood-libel is back in Sweden.
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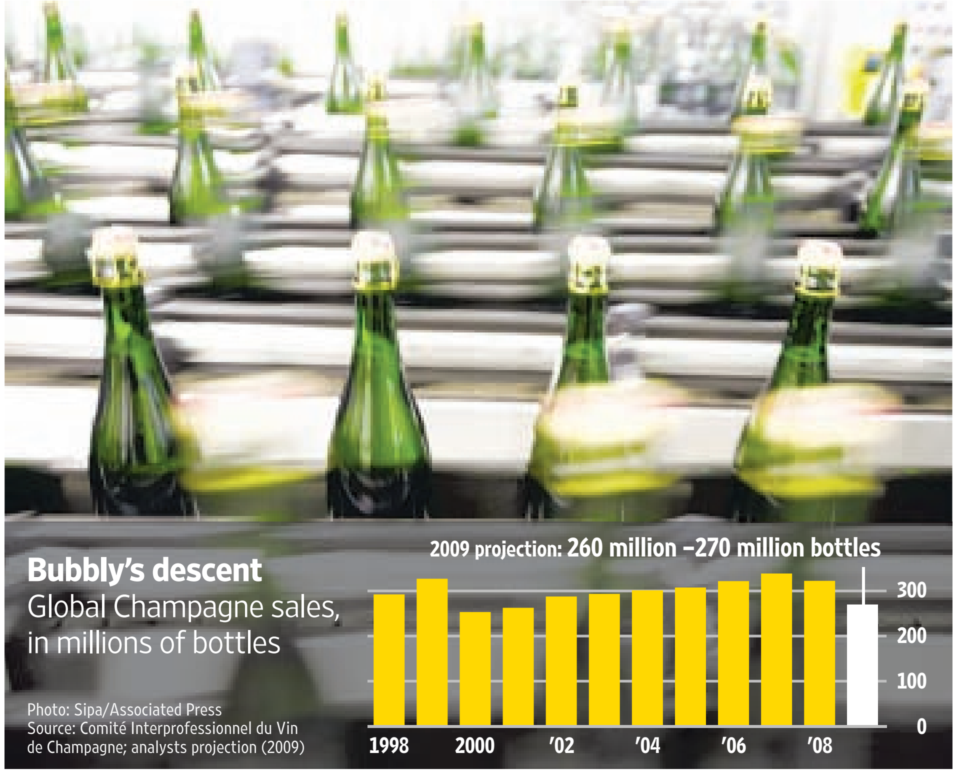

Champagne's bubble bursts

By Christina Passariello

The bubbly has gone flat.

Grape growers and bottlers of Champagne agreed to pick 32% fewer grapes this year, leaving the excess fruit to rot on the ground, in a move to counter fizzling bubbly sales around the world amid the economic downturn.

The result of the slashed harvest and further reductions will be a 44% cut in the number of bottles produced this year. It is one of the starkest signs yet of how cutbacks in consumer spending are affecting this segment of the luxury-goods market. The association hasn't significantly cut volume of usable grapes since 1955, when a bumper harvest was reduced.

Global Champagne sales are expected to plunge to as low as 260 million bottles this year from a high of 339 million bottles in 2007. Sales dipped in 2008 as the recession set in, to 322 million bottles, for the first time since 2000.

As a result, producers such as LVMH Moët Hennessy Louis Vuitton—the world's biggest Champagne maker—have been lobbying to lower global volumes of Champagne rather than having to empty their full cellars of unsold bottles at bargain prices. The Champagne industry's governing body, the Comité Interprofessionnel du Vin de Champagne, estimates there are more than 1.2 billion spare bottles sitting in warehouses.

But the move is controversial. The French government as recently as last year had planned to expand the farmable land in Champagne—the only region in the world where the name can be used—because demand was expected to grow, especially from consumers in the U.S. and U.K.

Independent growers in the Champagne region supply 90% of the fruit needed for bottlers. The harvest is set to begin in the next two weeks.

Now, hundreds of Champagne farmers in the region are going to bear the brunt of the forced cut in supply.

"For thirty years, growers have had the upper hand by controlling the primary mate-

Please turn to page 31

WTO to rule aid to Airbus was improper

By John W. Miller And Daniel Michaels

The World Trade Organization is expected to rule Friday that European governments illegally subsidized Airbus aircraft, in the first significant ruling in a long-running trans-Atlantic trade dispute, according to trade officials, lawyers and executives from both sides.

Legal experts say the WTO's preliminary decision, part of a process that could drag on for years, may ultimately alter the framework for government aid to airplane makers, which invest billions in developing new jetliners.

But in the five years since the U.S. brought its subsidy complaint to the WTO on behalf of American aerospace giant **Boeing** Co., the economic and political winds have shifted sharply. Indeed, the global financial crisis may have permanently altered the consensus for what is acceptable public support for industry.

Recent bailouts of financial institutions, car makers and other companies by governments, including the U.S., have run into hundreds of billions of dollars. That dwarfs the sums in dispute in the Airbus case and a subsequent subsidy complaint brought against Boeing by Airbus and the European Union.

WTO officials say many of those bailouts, as well as Buy American provisions of the U.S. economic-stimulus package, break some of the trade organization's rules on subsidies, threatening to render the rules irrelevant.

Aerospace is one industry that many politicians and businesspeople around the world believe deserves a degree of government support because of the huge investments, long payback periods and number of highly skilled jobs involved.

Trade turmoil

■ Little progress is expected on Doha in New Delhi 3

The U.S. filed its case against the EU in 2004, alleging EU member states gave illegal subsidies to Airbus, a unit of **European Aeronautic Defence & Space** Co. The EU quickly launched a similar case against the U.S., alleging that the U.S. illegally subsidized Boeing. The EU case against Boeing is under review. A preliminary ruling may be months away.

Boeing officials say they hope Friday's WTO decision could help the company's campaign against current plans by EU governments to offer EADS roughly €2.9 billion ($4.1 billion) in loans to support a new Airbus model, the long-range A350, on preferential terms similar to loans for previous planes that sparked

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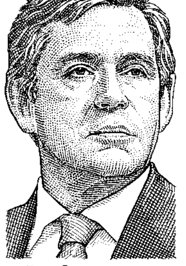
Brown denies U.K. made deal on release

By Stephen Fidler And Paul Sonne

Fallout from the convicted Lockerbie bomber's release reverberated throughout the U.K. on Wednesday, as Prime Minister Gordon Brown denied that his government conspired to force the decision and Scotland's parliament rebuked the justice minister who made it.


Gordon Brown

Early in the day, Britain's foreign minister, David Miliband, confirmed that the U.K. had been willing to see the bomber let out of prison, as revealed in a memo that fanned controversy on Tuesday. "We did not want him to die in prison," Mr. Miliband said in a BBC radio interview.

Since Scottish authorities' controversial decision last month to release Abdel Baset al-Megrahi—the Libyan convicted of the 1988 bombing of a U.S. jet over Lockerbie, Scotland, that killed 270 people—Mr. Brown has faced speculation that the U.K. pressed for his release to facilitate British oil interests in Libya. Scottish officials said they decided, without outside influence, to allow Mr. al-Megrahi, diagnosed

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Friend to foe

An Afghan warlord's odyssey reflects disgust with Karzai
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Markets

4 p.m. ET

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DJIA	9280.67	-0.32
Nasdaq	1967.07	-0.09
DJ Stoxx 600	230.59	-0.46
FTSE 100	4817.55	-0.04
DAX	5319.84	-0.14
CAC 40	3573.13	-0.29
Euro	$1.4238	-0.45
Nymex crude	$68.05	unch.

LEADING THE NEWS

Spain reports 2.4% rise in August jobless claims

Increase highlights risks for euro zone as stimulus unwinds

By Christopher Emsden And Jonathan House

MADRID—A renewed jump in jobless claims in Spain highlights the risks for other members of the euro zone as they phase out fiscal-stimulus and job-creation programs.

Spanish jobless claims resumed their rise in August, jumping 2.4% from July, as August vacations slackened the pace at nontourism industries and the government's €8 billion ($11.45 billion) stimulus plan for local infrastructure projects began to wind down.

The Spanish said the program had created about 400,000 jobs since April. Hiring for the summer tourism season also contributed to the modest declines in jobless claims in May, June and July.

"It's hard to reach the conclusion, that beyond government support, there's been an improvement in the job market," said Jose Luis Martinez, a strategist for Citigroup in Madrid. Citigroup expects Spain's unemployment rate to rise to 21% at the end of this year, from July's 18.5%, the highest unemployment rate among the 27 nations of the European Union.

Economists also expect unemployment in Germany and France to start rising in the fourth quarter when those countries phase out car-scrapping programs. The programs, which allow customers to trade in their old vehicle for a discount on buying a new one, have helped to lift output in the car sector and boosted industrial production.

"A second wave in unemployment will come in the second half of 2010, when public construction, which is currently up by 30% in the euro area, will start declining," led by Spain and Germany, said Sylvain Broyer, an economist at Natixis in Frankfurt.

Despite increasing signs that the 16-country euro zone will grow on a quarterly basis for the first time in a year in the current quarter, economists say they are concerned that the recovery could stutter when emergency stimulus measures designed to protect jobs are discontinued. The euro zone's unemployment rate rose to 9.5% in July from 9.4% in June, the highest level for more than a decade.

In Germany, plans such as the short-week, a subsidized program that allows companies to retain employees while cutting their work hours, have helped the official jobless rate grow by the least in Europe. Mr. Broyer said Germany's jobless rate would be three percentage points higher than the reported 7.7% rate for July if it weren't for the program, which is due to expire at the end of the year.

Government measures to support the labor market across the euro zone may prove hard to maintain, with most major European economies well beyond the budget-deficit limits set by European Union rules. Spain is studying a tax increase, while Germany has said it won't replace its cash-for-clunkers program once the money runs out this fall.

Economists also say they worry that in some countries weak global demand won't be enough to sustain the economic activity created by government stimulus measures.

—Gabriele Parussini in Paris and Nina Koeppen in Frankfurt contributed to this article.

People wait to enter a government job center in Madrid

Photo: Reuters
Source: Finance Ministry of Spain

CORRECTIONS & AMPLIFICATIONS

Cerberus Capital Management investors asked to withdraw $4.77 billion from the firm's original hedge funds, or 70% of the assets belonging to outside clients in the funds. A Money & Investing article Monday incorrectly said clients asked to withdraw $5.5 billion, based on a calculation that incorrectly included additional assets belonging to Cerberus employees.

First Wind Energy Holdings LLC was awarded cash grants from the U.S. government totaling $115.1 million. A Leading the News article Wednesday about subsidies for renewable-energy development incorrectly gave the amount as $74 million.

Iceland's economy seen recovering in early '10

By Anna Molin

Iceland's economy should start to recover early next year, although the country still needs to make structural changes before lifting itself out of recession, the Organization for Economic Cooperation and Development said Wednesday.

The Paris-based think tank said Iceland's economic contraction, which it projects around 7% this year, will be worse than in most OECD countries, but the nation should "begin a gradual recovery in 2010 assuming that large energy-related investments get under way as planned." It forecast a 0.8% contraction in gross domestic product for 2010.

The island nearly suffered a meltdown as its three biggest banks, representing 85% of the banking sector, were toppled by $80 billion of debt, several times the country's GDP.

"While Iceland is in part a victim of the international crisis, its severe plight largely results from a recent history of ineffective bank supervision, exceptionally aggressive banks and inadequate macroeconomic policies," the OECD said.

Weaknesses in financial supervision needs to be corrected and steps should be taken to reprivatize the banking sector, preferably with the help of foreign banks, the report said. Iceland in August announced the recapitalization of two of the three banks it nationalized and agreed to reimburse the U.K. and the Netherlands almost $6 billion used to compensate U.K. and Dutch depositors who lost money in failed Icelandic Internet bank Icesave.

Restrictions on capital flows implemented to prevent a domestic run on the currency and stabilize the exchange rate "should be lifted as soon as can be safely done to allow the resumption of normal financial relations with foreign markets."

Furthermore, the OECD said Iceland should seek euro-zone entry as soon as possible if allowed to become a member of the European Union. It applied for membership in July.

"Past monetary policies based both on exchange rate and inflation targeting have produced unsatisfactory results," the OECD said. "By joining the euro area, Iceland would share the benefits of the [European Central Bank's] credibility, including lower risk premiums," it said.

The OECD said inflation should ease to around 2.5% as businesses' pricing power shrinks and currency depreciation effects peter out, while unemployment is forecast to rise to a peak of 10% in 2010.

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LEADING THE NEWS

U.S. gets new debut at world trade summit

Leadership changes motivate the hopeful to think about a deal

The Obama administration's first formal meeting with the world's trade ministers is likely to underscore how the U.S.'s reticence to pursue a free-trade agenda in the face of domestic opposition has become the main obstacle to moving forward on global trade talks.

*By **John W. Miller** in Brussels and **Peter Fritsch** in Washington*

The talks Thursday and Friday in New Delhi between officials from 36 countries, including U.S. Trade Representative Ron Kirk, are the first since a summit in Geneva in July 2008 failed to kick-start global trade talks.

The so-called Doha Round of trade talks was launched in November 2001 as a grand bargain of global commerce. The deal was simple: Europe and the U.S. would open up their markets to agricultural trade and, in exchange, get better access for manufacturers and service providers in booming markets such as China and India.

Since last summer, enough has changed to give World Trade Organization director Pascal Lamy hope of reviving the eight-year-old negotiations, which have long been stymied by fears on the part of countries such as India to open their markets, and Western reluctance to do away with politically popular agricultural subsidies.

The European Union, U.S. and India have new leadership in their trade offices. And economies and trade flows are stabilizing after the worst of the financial crisis.

"I am hopeful that a change in administration and tone in India and our country" will allow Doha to proceed, Mr. Kirk said in a conference call with reporters Tuesday.

Few, however, expect substantive progress on Doha at this week's gathering. So far, U.S. President Barack Obama's administration has been ambivalent about trade, say trade officials and analysts. As a candidate, Mr. Obama walked a fine line between protectionism and free-market ideology. Yet he hasn't proceeded with free-trade agreements in the works with South Korea, Panama and Colombia and has been largely silent on Canadian and Mexican complaints of protectionism.

Mr. Obama is under particular pressure from labor to protect American jobs. On Wednesday, Mr. Kirk was required to make a recommendation to the White House on a case brought by the United Steelworkers seeking to impose tariffs of up to 55% on imports of Chinese tires.

That recommendation won't be public and Mr. Kirk declined to discuss his recommendation. But the case will be watched as a gauge of Mr. Obama's free-trade credentials and his willingness to protect markets.

Mr. Obama has yet to deliver a promised major policy speech on trade, though Mr. Kirk suggested he could do so before the Group of 20 meeting of world leaders in Pittsburgh this month.

In India this week, "everybody is waiting to see whether the U.S. will indicate if it's fully engaged," says Brendan McGivern, a Geneva-based trade lawyer with White & Case LLP.

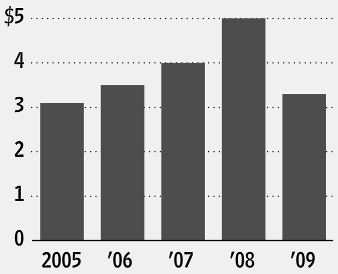
That Mr. Kirk is attending at all is encouragement to some. "His presence is the reason everybody else is coming," says Fredrik Erixon, an analyst with the Brussels-based European Center for International Politics and Economy. "What he says will determine if the talks have some life."

Trade experts say another requirement for progress on Doha might be to downsize. "They need to figure out what to drop from the agenda to make the round work," says Mr. Erixon. For example, he says, trade ministers could jettison the idea of liberalizing trade in services, such as law firms and banking.

If all goes well, ministers could continue discussions at the G-20 meeting and a WTO general assembly beginning Nov. 30. The goal is to set up another formal ministers' meeting next year.

The Slump in trade

The financial crisis has set back world trade flows to their lowest levels since 2005, in trillions of U.S. dollars



Note: Figures for all years are the value of total goods traded in world from January to April
Source: Global Trade Information Services

Doha headaches | Some of the issues dividing trade negotiators

- **FARM SUBSIDIES/TARIFFS:** The EU has high tariffs walls. Both the EU and U.S. give generous subsidies to their farmers, hurting developing world farmers on global food markets. The EU and U.S. have so far refused developing world requests to dismantle these barriers.
- **EMERGENCY TARIFFS:** India, China and other developing countries claim the right to impose emergency tariffs if imports of a certain agricultural product — for example, wheat or cotton — suddenly spike.
- **INDUSTRIAL GOODS:** The U.S. and EU want Brazil and others emerging markets to cut tariffs on trucks, subway cars and other "industrial goods"
- **SECTORALS:** The U.S. and EU would like global tariff exemptions for some of their corporations's products, such as pharmaceuticals and electronics.
- **CHEESE:** The EU wants strong copyright protections on Roquefort, Parma and other place brand names associated with foods.

Bloomberg News

The Ports of Auckland in New Zealand

EU backs limits on bank bonuses

European Union finance ministers backed imposing limits on bankers' pay but were less unified on specific measures to propose at the G-20 summit this month.

*By **Adam Cohen** in Brussels and **Paul Hannon** in London*

Several of the bloc's finance ministers, in Brussels for a special meeting Wednesday to prepare a common negotiating stance for the summit of the Group of 20 industrial and developing nations, cited pay curbs as their main priority and backed relatively tough proposals from France.

The U.K. Treasury outlined the proposals it plans to make to a pre-summit meeting of G-20 finance ministers in London this weekend. They include having bonuses paid over five years, with the potential for some of that money to be clawed back if a trader's performance weakens over time, a Treasury official said. Banks also wouldn't be allowed to guarantee bonuses and a "significant proportion" of bankers' compensation would have to be in non-cash payments, such as stocks. The U.K. will also push for an agreement to force higher capital requirements on banks with risky bonus structures, the official said.

Wednesday's meeting came as the EU's official statistics office said the euro-zone economy's contraction slowed during the second quarter, to 0.1% compared with the previous quarter, down from a 2.5% pace in the January-to-March period.

"The worst is over for the time being," Jean-Claude Juncker, chairman of the 16-nation euro-zone group of finance ministers, said before the talks in Brussels.

Executive compensation has been a thorny issue in Europe and the U.S. since the start of the financial crisis, with France leading a push for stronger pay curbs.

French President Nicolas Sarkozy last week said 50% of bonuses should be paid over a three-year period and should be given out based only on performance. French Finance Minister Christine Lagarde is proposing other options at the ministers' meeting, including a targeted tax or a limit on the share of a banks' profit that can be paid in bonuses. Ms. Lagarde said after Wednesday's meeting that France had secured a "complete accord" in on its proposals on bonuses within in the Eurogroup.

Bonuses aren't the only area under scrutiny among European politicians. A committee of the European Parliament met Wednesday to consider proposals to increase the transparency and to limit the leverage of hedge funds and private-equity firms. Trade group the European Private Equity & Venture Capital Association Wednesday said the burden of any such laws should vary according to the size of the funds, but said it accepted the goal of a European Commission directive to reduce systemic risks and protect investors.

—Alessandro Torello and Peppi Kiviniemi contributed to this article.

Bloomberg News

Jean-Claude Juncker, Luxembourg's prime minister, greets Christine Lagarde, France's finance minister, before a meeting in Brussels on Wednesday.

Liechtenstein to give Germany client data in tax-offense queries

By Katharina Bart

ZURICH—Liechtenstein agreed to provide Germany with data on clients suspected of tax offenses upon request, giving up a long-held distinction between evading taxes and outright tax fraud.

The pact, which goes into effect in 2010, is based on a model convention laid out by the Organization for Economic Cooperation and Development, and formalizes a concession the small Alpine nation made to the OECD standards in March.

"The agreement being signed today is good for our relations and provides a constitutional process in the cross-border cooperation of our countries in tax matters," Liechtenstein's Prime Minister Klaus Tschütscher said in a statement. The two countries also agreed to tighten ties with the goal of concluding a double-taxation treaty soon.

The pact marks a return to normal diplomatic relations for the two countries and concludes an often heated war of words. Liechtenstein's banks faced fierce pressure and criticism last year after German intelligence agents acquired a list of foreign customers of Vaduz-based **LGT Group**'s trust arm who were suspected of large-scale tax evasion. The information on 1,400 LGT customers, 600 of them German, triggered tax raids and culminated in intense pressure on offshore havens.

Liechtenstein's larger neighbor Switzerland, which has nearly identical bank-secrecy laws, agreed this year to adhere to OECD guidelines.

Liechtenstein and Switzerland until recently distinguished between tax evasion and tax fraud. The falsification of documents is defined as tax fraud, a criminal offense. Errors in tax filings—the omission of assets, for example—qualify as tax evasion and were punished less strictly, usually through fines.

Observers generally see Liechtenstein as facing greater political pressure than Switzerland to water down the secrecy laws. Liechtenstein recently signed a landmark deal with the U.K., which goes beyond OECD standards, aimed at making U.K. clients comply with tax law.

By contrast, Switzerland is pledging to revise at least 12 double-taxation agreements by the end of the year to include the OECD standards.

LEADING THE NEWS

Taliban kill Afghan spy official

Bombing at mosque leaves 23 dead, hits weakened leadership

By Matthew Rosenberg And Anand Gopal

KABUL—A Taliban suicide bomber killed at least 23 people including Afghanistan's deputy intelligence chief Wednesday, demonstrating the insurgency's reach and its ability to hit a vulnerable Afghan government.

The morning assassination of one of Afghanistan's top antiterrorism officials came ahead of the latest set of election results, which showed incumbent Hamid Karzai with a comfortable lead over chief rival Abdullah Abdullah.

Mr. Karzai has captured 47.3% of the roughly 3.5 million votes counted, from nearly 60% of all polling stations. That represents a 15-point advantage over Dr. Abdullah, but Mr. Karzai is short of the majority he needs to avoid a runoff. A number of ballots are being investigated and, if declared tainted, could be thrown out.

The troubled, drawn-out vote count has heightened the country's political uncertainty and opened a window for the Taliban to sow disorder. The attack was likely to raise further questions about the ability of the Afghan government to protect its own top officials, as it struggles—along with its U.S. and European backers—to address a shaky security situation.

The slain official, Abdullah Laghmani, helped head the National Directorate of Security, which has been at the forefront of the anti-Taliban fight. Insurgent groups have long targeted Mr. Laghmani, according to Afghan intelligence agents.

Early Wednesday, Mr. Laghmani was emerging from a mosque in Mehterlam, the capital of Laghman province, about 100 kilometers east of Kabul, when a man approached and detonated explosives. The blast killed Mr. Laghmani and a number of senior provincial officials, according to Sayed Ahmad Safi, a spokesman for the provincial governor.

How the bomber slipped past Mr. Laghmani's security detail wasn't clear, Mr. Safi said. Mr. Laghmani, who comes from Laghman, had been at the mosque to discuss security in the province with tribal elders, according to Mr. Safi. Taliban spokesman Zabihullah Mujahid said his group was responsible for the attack, the Associated Press reported.

The insurgents have repeatedly warned Afghans not to work with the government, and they've killed high- and low-ranking officials. In recent weeks, they've ambushed and wounded lawmakers traveling along a main road south of Kabul; killed a district governor in southern Afghanistan; and slain a number of election workers in the North.

President Karzai called Wednesday's attack an attempt by the "enemy" to undermine the government. But other "brave and hard-working" Afghans would take the places of those slain, he said in a statement.

The attacks point to an insurgency that is packing a powerful punch as it expands beyond the Taliban stronghold in the south.

The top American commander in Afghanistan, Gen. Stanley McChrystal, this week warned that conditions were "serious" and urged the U.S. and its allies to quickly shift course, in a grim classified assessment of the situation on the ground.

The U.S. and its allies are also struggling to contain the fallout from the Aug. 20 presidential election, which has been marred by allegations of electoral fraud on the part of leading candidates. Western officials fear the fraud charges could further damage the legitimacy of the next administration, making it more difficult to overcome Taliban forces.

Across the border in Pakistan on Wednesday, gunmen on a pair of motorbikes tried to kill the religious affairs minister, who was traveling in car through the capital of Islamabad, officials said. The audacious daylight attack by suspected Islamic militants in the country's heavily guarded heart targeted Saeed Kazmi, a cleric from Pakistan's relatively moderate Barelvi Muslim tradition.

Associated Press

Afghan men prepare for rites for a civilian killed in a suicide attack outside a mosque in Mehterlam on Wednesday morning.

Czechs try to get snap election back on track

By Sean Carney

PRAGUE—In March, the need for a snap election was just about the only thing the Czech Republic's political class could agree on. Now even the snap elections are in doubt.

On Tuesday, the Constitutional Court put the brakes on polls slated for Oct. 9, saying the voting can't take place until the court decides on a motion submitted to it by Milos Melcak, a member of parliament who isn't running for re-election. His motion claims it is unconstitutional for the parliament to cut short its term in office.

In March, the ruling right-leaning coalition led by the Civic Democrat party lost a parliamentary confidence vote. The no-confidence vote had been the fifth since the government took power with a three-party minority coalition in 2007. After the vote, the parliament and the president agreed to hold early elections in October, rather than in June 2010 as originally planned.

A caretaker cabinet of deputy ministers and technocrats was appointed to run the country in the interim. However, the carefully neutral lineup of the cabinet hasn't allowed it to convince parliament to rein in the Czech Republic's budget. Afraid of being punished by voters in the election, parliamentarians have largely rebuffed the caretakers' calls for budget cuts.

Any delay to the elections puts the fate of the 2010 budget in limbo. The country's fiscal deficit is expected to reach 230 billion koruna ($12.74 billion) this year, or about 7% of gross domestic product, compared with a 20 billion koruna gap in 2008, or 1.2% of GDP.

Finance Minister Eduard Janota is calling for a 70 billion koruna reduction in the deficit, largely through government spending cuts, higher taxes and a freeze on state-funded pension benefits.

The Constitutional Court will make a decision on Mr. Melcak's motion Sept. 10. In the meantime, high-level Czech politicians including President Vaclav Klaus, Prime Minister Jan Fischer and the chairmen of the upper and lower houses of parliament plan to meet early Thursday to come up with a legal avenue that will ensure early elections are held.

To keep elections on track in October, parliament is debating whether to approve a constitutional amendment that would allow them to be held. It is already allowed to call early elections if it tries and fails three times to establish a new government.

If elections are delayed until June, it doesn't necessarily mean politicians will stand firm in their opposition to spending cuts. They might vote for them on the off chance that the caretaker government takes the blame among the electorate for any belt-tightening measures.

Some analysts have said the Constitutional Court could in the end conclude its deliberations swiftly, find that early elections are in fact legal and allow the October polls to go ahead.

Agence France-Presse/Getty Images

Milos Melcak, seen here in April, is a renegade member of parliament who has voted both with right- and left-leaning parties but is now leaving parliament.

European group calls on China to open economy

By a WSJ Staff Reporter

BEIJING—A European business group expressed concern about growing protectionism in China and urged the country to continue to open its markets, end restrictions on foreign investment and cease intervention in industry.

"Over the past year, the European Chamber has noted a gradual slowdown—and in some cases a partial reversal—in the economic opening up process," said Joerg Wuttke, president of the European Union Chamber of Commerce in China.

"We are convinced that this is an ideal moment for China to adopt a new and bolder cycle of reforms, a move that would ensure that China maximizes its growth potential over the next five to 10 years," he said after the European lobby group released an annual position paper.

The paper highlighted some areas where China has made progress in opening its market to foreign participants and in freeing up its economy, citing changes allowing foreign banks to trade yuan-denominated corporate bonds, reforms to the oil product pricing system, and a health-care-reform plan.

Foreign companies remain confident in the Chinese market and optimistic about their business prospects there, it said.

But the paper also outlined a range of grievances of European companies active in the vast and fast-growing market. It said they are increasingly concerned by a tendency of the Chinese authorities to favor local companies over foreign firms.

Barriers to entry to China's market, including capital requirements for establishing new businesses, licensing procedures, and forced joint ventures and ownership caps, also make China less and less appealing as an investment destination for European companies, it said.

European investors in technology and branded goods are more interested than ever in the Chinese market, but they are "extremely cautious" about further investment, the paper said.

Comments from China's Ministry of Foreign Affairs and the Ministry of Commerce on the position paper weren't available.

Mr. Wuttke said in an interview that China showed "a major reform drive" from 2001 to 2006 following its admission to the World Trade Organization, but that it now lacks a "clear checklist" for future overhauls.

He said the EU business group has met with Chinese officials from all levels as well as think tanks to discuss its grievances and that feedback from the China side has been mixed.

A recent directive from the State Council to Chinese industry to curb overcapacity shows China is making some effort to deepen structural reform of the economy, he said. But he added that foreign companies are becoming increasingly frustrated by a lack of transparency in legislation and implementation of policy.

The chamber's report also mentioned China's "Green Dam" regulation on Internet-filtering software, saying it was promulgated with very limited consultation.

Beijing originally intended to enforce a mass installation of the software in personal computers, but scaled back the plan considerably following fierce resistance from foreign computer makers and Chinese Internet users.

CORPORATE NEWS

BP must drill deep for big find

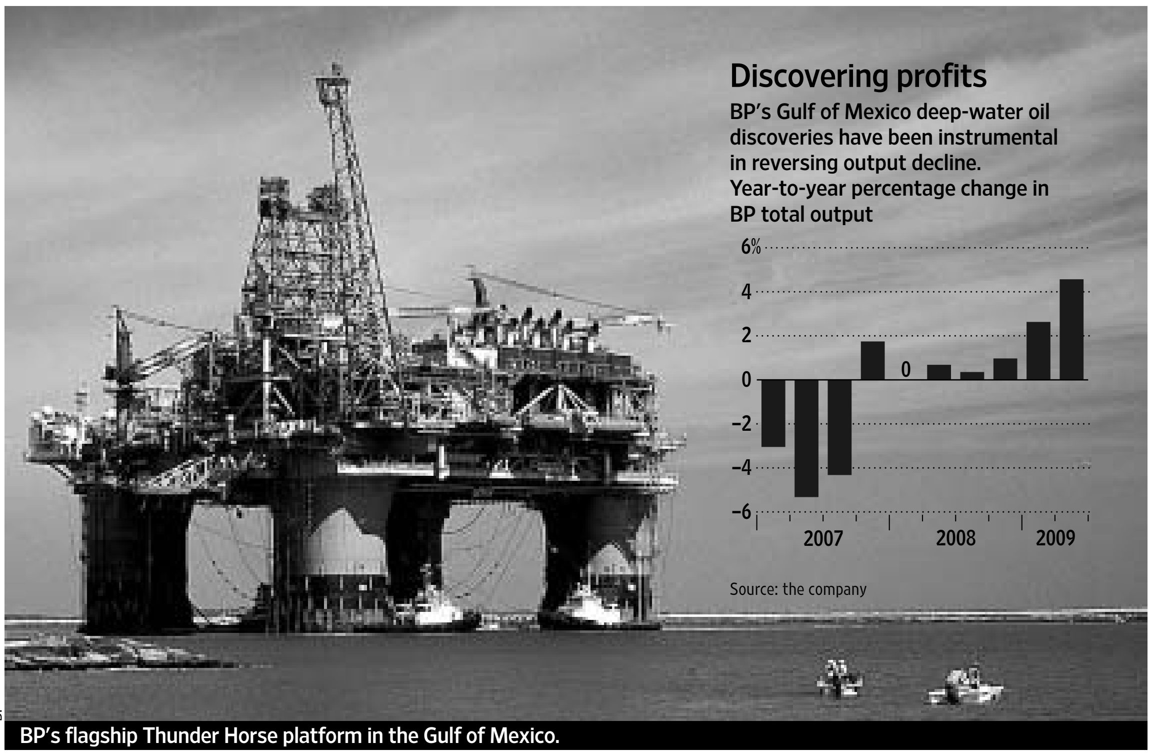
The oil field, 10 kilometers under the Gulf of Mexico, is likely to test the firm's technology

By James Herron

LONDON—**BP** PLC announced a "giant" oil discovery deep beneath the Gulf of Mexico, the U.K. energy company's latest find in an area that is proving to hold considerable resources, but stretches the limit of BP's technical capabilities.

Wednesday's announcement comes as Western oil companies find themselves under pressure to push technological limits to make new discoveries, having largely been denied access to the biggest oil resources in the Middle East.

BP said its discovery, on a field called Tiber, is the deepest oil field drilled to date. Lying more than 10 kilometers underground, it probably holds more than the three billion barrels of oil equivalent that BP found at the nearby Kaskida field in 2006, spokesman Robert Wine said. At a 20%-30% recovery rate, which would be typical for this kind of field, Tiber could contain recoverable reserves of 600 million to 900 million barrels of oil equivalent, said NCB Stockbrokers analyst Peter Hutton.



BP

BP's flagship Thunder Horse platform in the Gulf of Mexico.

The find is confirmation of BP's strong focus on the Gulf of Mexico, although it only represents about 7%-10% of the company's existing reserves, Mr. Hutton added.

If both Tiber and the nearby Kaskida discovery are developed, they could boost BP's output in the Gulf of Mexico by more than 60% to about 650,000 barrels of oil equivalent per day within the next 15 years, Mr. Wine said.

"These material discoveries, together with our industry-leading acreage position, support the continuing growth of our deep-water Gulf of Mexico business into the second half of the next decade," said Andy Inglis, chief executive of exploration and production at BP.

Shares in BP rose after the announcement. The stock gained 4.3% to close at 542 pence ($8.76), up 22 pence in London.

The discovery marks the latest success by Western companies using new technology to make big oil finds in previously untapped areas.

Tiber is almost on a par with billion-barrel discoveries in Ghana and Uganda made by consortia led by U.K. oil explorer **Tullow Oil** PLC. Tullow has enjoyed considerable success by focusing on geological formations called stratigraphic traps, which have received significantly less attention than easier-to-find structural traps that hold the bulk of conventional oil resources.

The discoveries in the Gulf of Mexico and Africa pale in comparison with the oil finds offshore Brazil of between eight billion and 12 billion barrels of oil equivalent. Those discoveries, led by **Petróleos Brasileiro** SA, lie under more than 2,000 meters of water and a further 5,000 meters under sand, rock and salt. They could transform Brazil into a new oil power,but will be tough and expensive to develop for large-scale production.

BP is also likely to find Tiber and Kaskida technically challenging and costly to develop, but the rewards are potentially huge, said ING analyst Jason Kenney.

"Having had the experience of Thunder Horse means our capabilities have been extended," and BP believes both Kaskida and Tiber are within the bounds of what it can achieve, Mr. Wine said.

Thunder Horse, BP's cutting-edge deep-water Gulf of Mexico project that started last year, is now producing 300,000 barrels of oil equivalent per day.

BP's partners in Tiber are Petrobras and **ConocoPhillips**.

DSG provides an optimistic outlook on sales

By Michael Carolan

LONDON—**DSG International** PLC, the owner of Currys and PC World, sounded a note of optimism Wednesday, pointing to its quarterly sales results as evidence of a shorter consumer downturn than originally feared.

Chief Executive John Browett said that while business across Europe remains difficult, "the outlook now looks less negative than it did in the spring."

The comments came as Europe's No. 2 consumer-electronics seller reported a 6% drop in sales for the 16 weeks to Aug. 22. That compares with a 9% drop in the year to May. Analysts had feared a sales fall of more than 10%.

While sales declined year over year, the picture looked far more rosy month-on-month, with sales levels rising in each month of the summer, Mr. Browett said. This was partly thanks to a store-remodeling program but also due to an improving economic climate, he added.

"It's not going to be quite as bad as some of the more pessimistic scenarios had suggested," he said.

Mr. Browett said the company's sales performance had beaten expectations despite DSG's focus on margins and costs rather than top-line growth. Gross margins across

Bloomberg News

Customers enter a Currys store in Croydon, U.K. DSG, owner of Currys and PC World, expects a shorter downturn in consumer spending than first predicted.

the group grew 0.7%.

Pali International analyst Nick Bubb said the stronger-than-expected sales performance owed a lot to a 9% sales rise in the Nordic region—which offset the poor performance in the U.K, where sales were down 14%. A huge lift from the U.K. store remodelings will be needed if real shareholder value is to be delivered, he said.

Appliance and electronics retailers have been among the worst hit by the downturn as consumers take longer to replace white goods and PCs and cut back spending on other items such as cameras and music players.

Moreover, DSG has suffered more than some of its rivals because of its heavy exposure to the weak U.K. market. By comparison, Metro AG's Media Markt posted a 2.9% rise in first-half sales recently, boosted by a 5.8% rise in Germany, which was also helped by a store-revamp program.

Store revamps are also seen as key to DSG's long-term prospects when Europe emerges from recession. The company is in the process of refitting its U.K. stores in anticipation of increased competition from U.S. giant Best Buy Co., which is set to launch big-store formats in the U.K. next year. The Best Buy launch was originally planned for this summer, but was delayed because of the economic downturn.

Mr. Browett said that all of DSG's revamped stores had continued to deliver a profit performance between 11% and 65% better than older-format stores.

So far 108 of its 519 U.K. stores have been converted to one of its four new formats, with a further 60 to 80 stores to be refitted by year end. The revamped stores have a larger range of products, with demonstration and interactive areas.

DSG also said Wednesday it has agreed to sell its eight Polish Electro World stores to IDMSA Brokerage House, working with Mix Electronics SA—a rival electrical retailer in Poland—for a nominal consideration of €1 ($1.42) . Mr. Browett said the Polish sale marked the last of DSG's major disposals.

Credit Suisse's banking CEO fighting cancer

By Julia Mengewein And Katharina Bart

ZURICH—Swiss bank **Credit Suisse Group** said Wednesday that investment-banking head Paul Calello will be replaced temporarily as he undergoes treatment for cancer, according to people familiar with the matter.

The Zurich-based bank's Eric Varvel, chief executive of Credit Suisse's business in Europe, the Middle East and Africa, will serve as acting chief executive of the investment-banking division as Mr. Calello begins an intensive program of treatment. Mr. Calello, 48 years old, will remain as involved in the bank's business as his treatment allows, the firm said.

Messrs. Calello and Varvel "will consult closely, working together and with me to set the strategic direction of the investment bank," Credit Suisse Chief Executive Brady Dougan said in a statement. In a memo to employees, Mr. Dougan described the illness as "a treatable cancer," and the firm said it looked forward to seeing Mr. Calello back in his role full-time as soon as possible.

Mr. Calello is credited with guiding Credit Suisse into an enviable position, with strong capital and a sharply reduced stock of risky securities.

In December, Mr. Calello launched deep cutbacks at the investment bank, including layoffs of more than 10% of the overall bank's work force. Risk-taking was reduced, with Credit Suisse leaving some businesses and concentrating more on trading with clients. In April, Credit Suisse parlayed improving securities markets into better-than-expected profits for the first quarter. The bank also recorded one of the strongest capital ratios of any global bank in the second quarter.

Mr. Calello, who didn't take a bonus for 2008, also helped launch a so-called toxic pay plan for Credit Suisse's bankers and traders. The plan, which pooled $5 billion of distressed bonds as bonus pay, returned 17% over the first six months of the year.

Bloomberg News

Credit Suisse investment-bank chief Paul Calello speaks in China in May.

CORPORATE NEWS: AUTOMOBILES

German auto sales rise

Trade-in incentives gave new-car filings a boost last month

By Christoph Rauwald

FRANKFURT—German new-car registrations rose 28% in August from a year earlier, boosted by the government-backed scrapping incentives to trade in old cars. But demand in Europe's largest auto market is poised to deflate in coming months as the €5 billion ($7 billion) program expired Wednesday.

About 275,000 new vehicles were registered last month, said German international car-maker association VDIK, as the industry continued to benefit from €2,500 in discounts offered to consumers who traded in old gas guzzlers and bought new, fuel-efficient cars.

The German program was initiated in January as part of a wider economic-stimulus package to revive consumer spending after car sales collapsed amid the economic downturn, sparking fears over large-scale job cuts in the country's key auto industry. Other European countries such as France and Italy have launched similar initiatives.

In the first eight months of 2009, about 2.68 million new cars were registered in Germany, up 27% from a year earlier, VDIK said.

Because of the scrapping incentives, German auto associations VDIK and VDA expect full-year new-car registrations to rise to about 3.5 million from 3.09 million cars in 2008 despite the country's economic problems.

The outlook for German car exports, however, looks dim. VDA has said it expects 2009 car exports to shrink about 20% to roughly 3.2 million vehicles from 2008, reflecting the steep downturn of many major markets around the globe.

German Vice Chancellor Frank Walter Steinmeier Wednesday rebuffed calls for the scrapping-incentive program to be extended.

"We are assuming that there will be no renewed raising of the cap," Mr. Steinmeier told reporters. "We have to hope now that the world economy takes off," he added.

Mr. Steinmeier spoke at a news conference with Berthold Huber, head of Germany's powerful IG Metall labor union, which is concerned about job losses and so far has withheld its endorsement from Mr. Steinmeier's Social Democrats in the federal parliamentary elections later this month.

France pressures Molex to keep parts plant open

Associated Press

PARIS—France's industry minister on Wednesday threatened to ask French auto makers to blacklist American electronics company **Molex** Inc. if managers don't find a way to keep its French plant open.

Christian Estrosi has been trying to broker a deal with the Illinois-based electronic-components maker. The company temporarily shut its plant in southern France on Aug. 5 after charging that workers angry about the planned closure of the plant had injured an American manager and two security guards. Workers said they had only thrown eggs at the manager, Eric Doesburg, and that he wasn't injured.

Mr. Estrosi denounced the "particularly unconstructive" attitude of American managers, who he said were the "only obstacle" to reopening the plant.

His office said in a statement that the French government was willing to finance the sale of the plant, and that Mr. Estrosi has told Mr. Doesburg that Molex should agree on terms with the potential buyer by the start of next week.

"Any other attitude on the part of Molex would be inadmissible for the French government," Mr. Estrosi's office said.

Marcus Kerriou, a human-resources manager for Molex Europe, said he was "surprised" and "astonished" by Mr. Estrosi's reaction.

He said talks with an unnamed buyer have begun, and a meeting is set for Friday. Molex is prepared to sell its machines, but wants to keep its products and clients, he said.

Three countries may provide Opel with €1 billion

By John D. Stoll

DETROIT—**General Motors** Co. anticipates the governments of Spain, Britain and Poland will provide about €1 billion, or roughly $1.42 billion, in combined aid to help restructure the auto maker's ailing Adam Opel GmbH unit, a person familiar with the matter said.

GM is also willing to put some of its own money into a restructuring of the German-based Opel, according to this person, who is familiar with the Opel negotiations. GM's contribution could exceed €1 billion, this person said.

The money would add a new factor to the saga over the fate of Opel and its sister British brand, Vauxhall. The German government has provided a loan to keep Opel afloat and offered to fund the sale of a majority stake in the division to a group led by Canadian auto-parts maker **Magna International** Inc.

GM would prefer to sell a majority stake in Opel to **RHJ International** SA, a Belgian private-equity firm. But the German government has so far declined to support a deal with RHJ, partly out of concern the firm may cut more German jobs than Magna.

GM's board is scheduled to discuss Opel during a meeting next week. Chief Executive Frederick "Fritz" Henderson is planning to brief individual directors on Opel before the meeting, the person familiar with the Opel situation said.

In August, Mr. Henderson proposed accepting Magna's offer for Opel, but the board told him and his management team it wanted to consider alternatives such as a deal with RHJ. Other options include GM keeping Opel and having the unit file for insolvency, people familiar with GM's thinking said.

The German government reiterated Wednesday its preference for a sale to Magna. The parts supplier is backed by a Russian bank, OAO **Sberbank**, and a Russian auto maker, OAO **GAZ**. GM believes the German government could be persuaded to support other options, the person familiar with the Opel talks said.

Although most of Opel's operations are located in Germany, it also has plants in Spain, Britain and Poland.

CORPORATE NEWS

Bloomberg News

Soft demand is raising worries about the holiday-season retail outlook. Shoppers cruise a Littleton, Colo., Target store last month.

School sales feed worries

Lackluster August suggests retailers are in for tough holidays

By Elizabeth Holmes And Ann Zimmerman

Shoppers are focusing on deals and limiting buying mainly to necessities, based on August sales estimates that herald another tough holiday season for beleaguered retailers.

Despite sales tax holidays in several states designed to spur sales, back-to-school spending remains lackluster, according to industry experts. Retailers' recent efforts to shake customers from deep discounts and spur buying by tightly controlling inventories are fizzling.

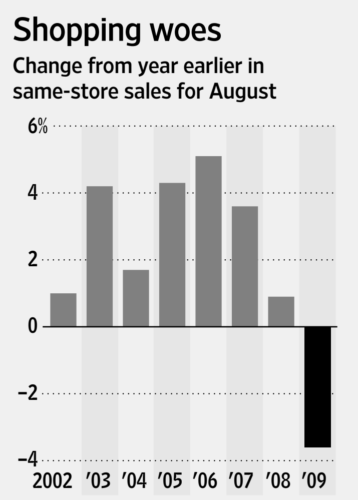
Now, retailers that traditionally rely on back-to-school sales as an barometer of demand for the remainder of the year face tough choices on stocking and hiring. Customers should find ever slimmer pickings and fewer clerks as stores hold off on early holiday orders and further trim costs.

On Thursday, big chain stores are expected to report August sales results showing a 3.6% decrease from a year ago in sales at stores open at least a year, according to research firm Retail Metrics Inc., which aggregates data from analysts. Thomson Reuters estimates sales fell 3.8%, using a slightly different methodology.

The decrease in this closely watched measure of retailers' health would be the 12th consecutive month of sales declines.

Store executives said they are going into the season with less inventory, decreasing the breadth and depth of their assortments. They hope to avoid the discounting bloodbath that marked last year's holiday. Many clothing stores, for example, now carry fewer styles, and fewer sizes and colors.

Target Corp. recently said its fourth-quarter orders "are not based on any expected improvement in our sales trends." **Gap** Inc., one of largest apparel retailers by revenue, said its inventory for the third quarter would be down in the "high single digits" while luxury-goods retailer **Saks** Inc. said inventory levels would be down in the "low to mid-teen" percentage range for the second half of the year.



Note: 2009 is an estimate; Numbers do not include Wal-Mart
Source: Retail Metrics

Perry Fox, a vice president of a **Hitachi** Ltd. unit that sells computer storage, said he is expecting this Christmas to be worse than last, even though his business should benefit from consumers buying upgrades in lieu of new computers. "This year, the reality of the recession has hit home, and people are going to be a lot more careful," Mr. Fox said. "We are still in a recovery mode. I think it is going to be slower."

Some companies are hedging their bets with ways to quickly restock shelves if shoppers show interest in a specific product. Gap, for instance, maintained a stock of fabric used in a new premium denim line, which hit stores in August, allowing it to quickly fulfill reorders when smaller sizes of the dark jeans sold more quickly than expected.

Mastercard Advisors' SpendingPulse data, which was expected to be released Wednesday, found that sales of clothing at specialty stores, across all payment types, fell 6.6% in August compared with a year earlier. The decline is less severe than July and June, when sales fell 9% and 12%, respectively, over the prior year periods. Since last September, total monthly apparel sales have fallen about 10%.

August sales, which lean heavily toward apparel and school supplies, were affected by a late Labor Day holiday that pushed back some school and college openings, and by increased spending on new cars triggered by the "cash for clunkers" government rebates, analysts said.

Retail Metrics estimates teen retailers were the worst performers last month, with a 7.8% decline from a year ago.

In part, many families are delaying purchases until they are absolutely needed, so the eight selling days in September with the Labor Day holiday shift will likely dampen August results, they added.

"You take a look at the prices to see if you need it," said Matt Curran, an elementary school principal from Westchester County, N.Y. Mr. Curran and his wife, Sue, said they were more "conscious" of their purchases for their two children. Instead of buying two dozen pencils for a son entering sixth grade, Ms. Curran said she's going to scrounge up that many from their house.

The decreased willingness to spend on back-to-school items could have ramifications for the economy as retailers cut back on holiday and part-time workers.

In past years, chains would typically have seasonal hiring plans in place by now, said Craig Rowley, vice president of global retail for the Hay Group, a human resources consulting firm that conducts a yearly holiday hiring survey. "This year they are going slowly," Mr. Rowley said. "They just flat out don't know how many people they are going to need," he said.

Retailers and manufactures worried about being caught short are devising procedures to speed extra merchandise to market if needed—and to quickly find a new home for it if not.

Electronics makers are building more "vanilla" versions than before, said Lorcan Sheehan, a vice president at ModusLink Global Solutions, a global supply chain adviser. That way, if a retailer such as Target suddenly wants fewer digital cameras, the rest can be more easily repackaged and sold to another retailer elsewhere in the world.

The result for consumers will be more of the same merchandise across many competing stores.

—Miguel Bustillo contributed to this article.

Independent News holder demands special meeting

By Kathy Sandler

LONDON—**Independent News & Media** PLC's activist shareholder, Dennis O'Brien, on Wednesday called for an extraordinary general meeting to propose the sale or closure of the beleaguered publisher's unprofitable U.K. Independent newspapers and halt the sale of its South African assets.

Mr. O'Brien owns 26% of the company and has been a persistent agitator for change, calling repeatedly for the sale of the U.K. Independent. He has also confronted former chief executive and now Emeritus President Gavin O'Reilly over the make-up and decisions of the board.

In a statement issued Wednesday, Mr. O'Brien said he had requisitioned the company to hold a special general meeting, which it will be required to do because he holds more than 10% of the company.

He has proposed eight resolutions that also include stopping Mr. O'Reilly's annual €300,000 ($426,540) salary for his role as president, the resignation of chairman Brian Hillary, and the publication to shareholders of all board member's expenses since Jan. 1, 2000.

In addition, he suggested appointing a new senior independent director, ending the company's contract with Cansult Communications and relocating the publisher's executive offices from London to Dublin.

The O'Reilly family owns 28% of the company, whose other properties include the Irish Independent.

Last month Independent News & Media said creditors had granted it an additional four weeks for a bond payment to allow it to complete its financial restructuring. The deadline for repayment of a €200 million bond, originally due in May, was moved to Sept. 25. It was the fourth such extension.

The company has a further €590 million of mostly bank debt due this year and next, of which €50 million must be repaid in September. On top of this, it must repay €591 million in three years.

Independent News & Media confirmed it had received a letter from Mr. O'Brien calling for the meeting. It said the board's priority was to reach a final resolution of its financial restructuring, and that the resolutions proposed by Mr. O'Brien for consideration "are at variance with decisions previously taken by the Board."

The publisher reported a net loss of €34.7 million in the six months to the end of June compared with a profit of €80.5 million a year earlier. Last month, it conditionally agreed to sell its interest in South African outdoor-advertising business to a pan-African private-equity investor group led by Helios Investment Partners for €98 million.

— Quentin Fottrell in Dublin contributed to this article.

Comic-book 'fanboys' wary of Disney's deal for Marvel

By Jamin Brophy-Warren And Ethan Smith

Unlike **Marvel Entertainment** Inc. investors—who pushed the comic company's share price sharply higher on news of **Walt Disney** Co.'s planned $4 billion acquisition—fans of the superhero empire took a more jaundiced view of the deal.

After the news broke Monday, message boards rapidly filled with complaints that ranged from cheeky to outraged.

Robert Iger

"Sugar-coated fairy tales and gritty super hero dramas. what a great combination!" a user identified as "Heather" wrote on the blog Neatorama.com.

Anthony Iaffaldano, a 31-year-old marketing director at an ad agency from New Jersey who has been reading Marvel Comics since he was six years old, said that while he hopes the deal will help his favorite comic brand reach a wider audience and further develop their imaginary worlds, he worries that Disney will soften some of the comics' edge. He's particularly concerned when it comes to plotlines that blend elements such as romance and psychological nuances with comic-book fodder like action and violence.

"Marvel Comics has gotten more realistic and gritty, but if you look at Disney, it's fantasy and family-friendly entertainment," Mr. Iaffaldano said.

Rival comic-book company DC Comics, home of the Batman and Superman franchises, hasn't encountered similar backlash, even though it is also owned by a major conglomerate, **Time Warner** Inc. That's in part because DC merged with Warner in the late 1960s, but it also never branded itself for children the way Disney has.

The die-hard group of comic-book enthusiasts, known as "fanboys" in the industry, are one reason why particular properties, like the Batman and Spider-Man franchises, perform so consistently well at the box office. Angering those fanboys can bruise a film's bottom line.

In 2006, Warner Bros. released "Superman Returns" with high hopes of rebooting the franchise. But fans were quickly disappointed with the lack of action among other facets of the film. The movie made just over $200 million at the domestic box office, a low figure for a such a big-budget film.

Disney is taking the fan base seriously. Disney executives have indicated that they plan to limit their involvement with Marvel's creative process.

"We believe in the creative team at Marvel," Disney Chief Executive Robert Iger said Monday.

Brandon Zuern, 31, the store manager for Austin Books & Comics in Austin, Texas, said the deal will be good if Disney stays away from the publishing side of Marvel's business and sticks to developing the characters for television, film, and other mediums.

CORPORATE NEWS

GM raises forecast for China sales

Growth to jump 40% during the full year, double prior outlook

By Patricia Jiayi Ho

BEIJING—**General Motors** Co. said Wednesday its sales growth in China, its fastest growing market, should exceed 40% this year after August sales more than doubled from a year earlier.

The jump in sales, spurred by new models and favorable vehicle-purchase policies from Beijing, continued a series of single-month records this year. It helped to push the U.S. auto maker's unit sales to 1.11 million for the first eight months of this year, outpacing its total for 2008.

"We expect GM sales for the year as a whole to rise by more than 40% from 2008," said GM China Group President and Managing Director Kevin Wale in a statement.

Ford Motor Co. also reported Wednesday that sales from its Chinese passenger-vehicle joint venture more than doubled in August from a year earlier to 21,127 units.

August's sales figure represents the seventh month of year-on-year growth for Ford in China, it said in a statement. It didn't provide the year-earlier figure. Changan Ford is Ford's joint venture with Chongqing Changan Automobile Co.

Sales of the Ford Focus model rose 58% to 12,269 units in August, the highest monthly sales tally for the midsize car since January 2008, the statement said.

The new GM forecast for this year was higher than the more than 20% growth outlook GM gave in July. Last year, GM's sales in China lagged behind the industry's growth, rising 6.1% to 1.09 million units. Total vehicle sales in China last year rose 6.7% from a year earlier to 9.38 million vehicles.

The newly restructured U.S. auto maker said sales were up 113% in August to a record 152,365 units, continuing a series of single-month records that began in January.

GM's sales in China during the January-August period rose 50% from a year earlier to 1.11 million units, it said in a statement. It didn't provide the year-earlier figures.

In July, GM's China sales increased 78% to 144,593 units. Overall July auto sales in China rose 64% to 1.09 million units.

By contrast, GM this week reported a 20% decline in U.S. sales in August to 245,550 vehicles, in part due to strong year-earlier sales when it had a big promotion celebrating its 100th anniversary.

GM's sales in China have been boosted by the halving of a purchase tax on smaller vehicles.

Sales at its mini-commercial-vehicle joint venture with **SAIC Motor** Corp. and **Wuling Automobile** Co. rose 123% to 88,711 units. Sales of the Wuling Sunshine minivan by the company, SAIC GM Wuling Automobile Co., reached 49,298 units, or almost a third of GM's total China sales.

GM owns a 34% stake of SAIC-GM-Wuling. All the venture's models qualify for the tax cut.

Sales at GM's passenger vehicle joint venture with SAIC, Shanghai General Motors Corp., rose 100% in August from a year earlier to 63,303 units.

Buick sales rose 103% in August from the same month last year to 38,905 units, while sales of Chevrolet-branded cars climbed 99% to 23,771 units.

While the summer months have been traditionally slow for China's auto industry, the comparison base for August was low as sales had begun falling in the second half of 2008. In August last year, industrywide sales declined 6.3% from a year earlier, according to data from the China Association of Automobile Manufacturers.

Auto industry executives have also cited the country's rising stock and property markets as reasons for the boom in auto demand.

Sales of Mercedes-Benz luxury cars in China have been boosted by the rise in China's stock and property markets, said **Daimler** AG's Northeast Asia Chairman and Chief Executive Ulrich Walker last week.

"We are very positive [about] the market here in China for Mercedes and the overall automotive market," Mr. Walker said, adding that sales will also be supported by the introduction of new models.

GM launched new models earlier this year, including the Chevrolet Cruze, the new Buick LaCrosse and the Buick New Regal.

"The continued introduction of new products will help GM remain ahead of the market," Mr. Wale said.

Over the next two years, GM will begin selling five new products in China under its Buick brand, and another five from the Chevrolet brand.

This week, GM also announced the 50-50 joint venture with Chinese state-owned auto maker **FAW Group** Corp. to make light-duty trucks.

—Joy C. Shaw contributed to this article.

Associated Press

GM sales in China were boosted by new models and government incentives. Above, a Chevrolet at the Beijing auto show in May.

Dentsu hunts for deals as Razorfish gets away

By Tor Ching Li

TOKYO—Undeterred by a failed bid last month to buy **Microsoft** Corp.'s digital advertising agency, **Dentsu** Inc., Japan's largest advertising firm by revenue, is on the lookout for other possible targets to extend its global reach.

"If there is a chance, we are open to acquisitions not just in the U.S., but also in Europe and Asia," President and Chief Executive Tatsuyoshi Takashima said in an interview.

Dentsu's bid for Microsoft's Razorfish agency came amid sliding advertising expenditure in traditional media in Japan. Revenue from newspapers, magazines, radio and television for the fiscal year ended March declined 7.6% from a year earlier, in contrast to rising Internet advertising expenditure, which grew 16.3% year-to-year in the same period.

"We're not just targeting firms with digital technology, but also firms in other aspects of marketing communications, though we have no specific target yet," he said.

While not citing a budget for its mergers and acquisition strategy, a target the size of Razorfish—which was acquired by French advertising agency **Publicis Groupe** for $530 million—is feasible, Mr. Takashima said.

Dentsu has been the majority shareholder of Publicis with a 15% share since 2002. It has the option of withdrawing from the investment after 2012.

"We continue collaborating on projects with Publicis while also looking into growth opportunities of our respective entities, such as in the case of Razorfish. What is important is that one of us got the deal," said Mr. Takashima.

Domestically, Dentsu—which has a 22.4% share of the domestic market as of March 2008—is focusing on groupwide realignment to strengthen operations, he said, adding that the search for acquisitions in digital technology is also in the pipeline.

Mr. Takashima, 65 years old, joined Dentsu fresh from Keio University in 1966 and became chief executive this year.

The firm, which has more than 4,500 overseas staff in 101 offices in 28 countries, generates 8.7% of its net sales overseas. It aims to boost this to at least 12% by 2013.

Dentsu's client list in Japan includes such companies as Toyota Motor Corp., Honda Motor Co., Hitachi Ltd. and Sony Corp.

"As Japan's domestic market shrinks and Japanese companies consolidate, a strong network of clients overseas becomes even more important," Mr. Takashima said.

Even as a spate of mergers in Japan—such as the one in the works between Panasonic Corp. and Sanyo Electric Co., both Dentsu clients—is likely to shrink advertising budgets domestically, Mr. Takashima expects these companies to ramp up their overseas advertising spending in the coming year.

Japan is the second largest advertising market in the world after the U.S. by expenditure, with an 8.8% share of the global $452 billion pie, according to media services group ZenithOptimedia, a Publicis unit. The U.S. has a 33% share.

Last year, Dentsu bought U.S. independent advertising agency McGarryBowen and appointed its first non-Japanese executive officer to helm Dentsu America.

Pfizer to pay huge fine over drug marketing

A WSJ News Roundup

Pfizer Inc. agreed to plead guilty in a $2.3 billion federal settlement over unlawful drug promotions.

The company in January disclosed it would pay the sum to settle allegations it had marketed the painkiller Bextra for medical conditions different than their approved use. Details of the settlement weren't available until Wednesday, however.

The final agreement also resolves U.S. Justice Department investigations involving alleged past off-label promotions concerning antibiotic Zyvox, antipsychotic Geodon and antiepileptic Lyrica.

The New York company also agreed to pay $33 million to settle drug-marketing allegations with 42 states and the District of Columbia.

Pfizer pulled Bextra from the market in 2005 because the U.S. Food and Drug Administration concluded that the drug's risks, including a rare but serious skin reaction, outweighed its benefit.

The company agreed to put procedures in place to avoid the practices that gave rise to the case. Pfizer General Counsel Amy Schulman said the company had already taken steps to make sure drug sales are conducted properly, including assigning compliance lawyers to work with sales representatives.

GLOBAL BUSINESS BRIEFS

Accor SA

Hotel company to focus expansion efforts on India

Accor SA plans to expand its network in India to 50 hotels by 2012, from five at present, increasing its presence in the world's second-fastest growing major economy. The Indian expansion plan contrasts with the French hospitality group's plans in China: Accor will have 40 new hotels in China by the end of this year, but it will scale back on new investments there, said Michael Issenberg, Accor's Asia-Pacific chairman. "A lot of new hotels have come up in China due to the Olympic Games last year," he said. Accor has already invested $130 million in its Indian development plan, with further investment coming from local partners. Accor's hotel brands include Sofitel, Mercure, Ibis, Formulae 1 and Motel 6.

Bombardier Inc.

Bombardier Inc. delivered better-than-expected earnings for the second quarter as the Montreal-based maker of planes and trains posted revenue that held up amid the aerospace industry's major downturn. According to the General Aviation Manufacturers Association, Bombardier's market share in business aircraft rose to 35% in the first half of 2009 from 26% in all of 2008. Bombardier said it earned $202 million, or 11 cents a share, in the latest quarter, down 22% from $259 million, or 14 cents a share, a year earlier. That was above analyst forecasts of nine cents a share. Revenue edged up to $4.95 billion from $4.93 billion, substantially above expectations of $4.61 billion.

Hyundai Mobis Co.

Hyundai Mobis Co. received a $2 billion order to supply chassis modules to **Chrysler Group** LLC. The South Korean auto-parts maker said it will provide modules for the Jeep Grand Cherokee from May 2010 and for the Dodge Durango from November 2010. The two Chrysler models will be produced at the Jefferson north plant in Detroit. Hyundai Mobis will operate at facilities that will be built next to the existing Chrysler plant. The factory is due to start production in February 2010, the company said, without elaborating on its capacity or cost. Hyundai Mobis has now received $2.74 billion of parts orders from overseas car makers this year, up sharply from $470 million for all of 2008. Hyundai Mobis is an affiliate of **Hyundai Motor** Co.

Ssangyong Motor Co.

Private-equity fund **Seoul Invest** is forming a fund to buy a 51% stake in debt-stricken car maker **Ssangyong Motor** Co. for between 300 billion won and 400 billion won ($241 million and $321 million). Seoul Invest President Park Yoon-bae said the fund was looking for investors for the planned acquisition. The South Korean car maker filed for bankruptcy protection in February. If Seoul Invest succeeds in taking control of Ssangyong, it will focus on restructuring labor-management relations and developing new models, he said. A Ssangyong spokesman said, "A buyer who has a long-term development plan for Ssangyong would be quite welcomed."

—Compiled from staff and wire service reports.

Taxing rich would shrink, not close, gap

Numbers, recent history indicate rates on the highest U.S. earners wouldn't have a major effect on growth

By David Wessel

U.S. President Barack Obama projects the federal deficit will be $9 trillion over the next 10 years even if his policies prevail—undoing the Bush tax cuts for upper-income Americans, auctioning carbon-emission permits, and enacting a health-care plan that doesn't widen the deficit over the next decade.

He also continues to promise to limit tax increases to incomes above $250,000 a year for couples and $200,000 for individuals—"the rich."

CAPITAL

Talking about tax increases usually dissolves into shouting matches. The right says tax increases will choke off growth and massacre small business. The left says tax increases are vital to finance much-needed investments and that the rich can pay more.

Hard numbers and recent history suggest two facts. One, the deficit is too wide to be closed exclusively by raising taxes on "the rich." Two, "the rich" do have a lot of money, even after the bust, and raising their taxes would raise significant sums without hampering the economy.

Start with some rough arithmetic. The three million or so fortunate taxpayers whom Mr. Obama counts as rich are projected to earn about $27.5 trillion from 2010 through 2019, according to the Tax Policy Center, a Washington think tank, and about $23.9 billion after deductions. They are projected to pay $7.4 trillion in taxes. That's 31.1% of every dollar of taxable income, on average.

To squeeze an additional $9 trillion out of these taxpayers would require boosting that to 68.9%. And that assumes these taxpayers wouldn't find tax shelters to hide their income or work less. There isn't enough money in the over-$250,000 crowd to stick them with the $9 trillion tab.

Shrinking the deficit will require slowing the growth of spending, particularly on health care. But neither politicians nor their constituents show any willingness to cut spending enough to avoid tax increases. So the issue is whose taxes, and the arithmetic suggests it won't only be those who make more than $250,000 a year.

The best-off Americans do pay a big chunk of taxes. The Tax Policy Center estimates that the top-earning 1% of households will earn 16% of all the income this year and pay 23% of all federal taxes. But that doesn't mean the government couldn't raise more from them, even if some stay-at-home spouses of well-off Americans might be less inclined to work and others maneuvered to shield income from the IRS.

Congressional estimators—taking account of the propensity of people to dodge taxes when rates rise—say that for every percentage-point increase in the marginal tax rate levied on those with taxable incomes above $372,950, the government would raise $73.5 billion over 10 years. (Before the bailouts, that used to sound like a lot of money. It still is.)

There is and will be a heated argument over how much the economy would suffer if those tax rates went up. But tax rates on those Americans were about three percentage points higher during the Clinton years.

"The 1990s suggests we could raise more money from high-income people...and still have a strong economy," says Joel Slemrod, a University of Michigan tax economist. But the first half of the 2000s suggested the economy also can grow when their taxes are cut. And the latest recession, unlike some others, didn't coincide with any change in tax rates.

Which is another way of saying that tax rates matter—to taxpayers and to the government's revenue. But they are far from the only factor in the pace of economic growth.

Write to me at capital@wsj.com. Discuss at wsj.com/capital

Tax arithmetic

President Obama vows to limit tax increases to couples with income over $250,000 and individuals with income over $200,000.

A look at these taxpayers over the 10 years from 2010 to 2019:

Projected adjusted gross income	$27.5 trillion
Projected taxable income	$23.9 trillion
Projected taxes (current rates)	$7.4 trillion
At current rates, income and payroll tax as fraction of taxable income	31.1%
Tax rate needed to raise $9 trillion more	68.9%

How much revenue, over 10 years, would come from:

Raising all tax rates by 1 percentage point	$455 billion
Raising only top rate by 1 percentage point	$74 billion*
Raising top two rates by 1 percentage point	$99 billion†
Raising top rate for couples over $1 million by 5 percentage points	$223 billion

*Couples with taxable income above $372,950. †Couples with taxable income above $208,850
Sources: WSJ calculations based on Urban-Brookings Tax Center projections (top chart); U.S. Congressional Budget Office (bottom chart)

Fed's economic outlook brightens

By Maya Jackson Randall

WASHINGTON—Federal Reserve officials last month were far more upbeat about the U.S. economic outlook, expressing increased confidence that the downturn was coming to an end.

"Meeting participants agreed that the incoming data and anecdotal evidence had strengthened their confidence that the downturn in economic activity was ending and that growth was likely to resume in the second half of the year," said the minutes of the Fed's Aug. 11-12 policy meeting, which were released Wednesday afternoon with the usual lag.

Still, according to the minutes, most officials expect only a slow recovery during the second half of this year. And all the officials agreed the economy is still vulnerable to shocks.

"Conditions in the labor market remained poor, and business contacts generally indicated that firms would be quite cautious in hiring when demand for their products picks up," the minutes said. "Moreover, declines in employment and weakness in growth of labor compensation meant that income growth was sluggish."

Officials expect that fiscal stimulus and monetary policy would help lead to growth in economic activity later in 2009 and into 2010. But, according to the minutes, officials also expect "the stimulative effects of policy would fade as 2010 went on and would need to be replaced by private demand and income growth."

Additionally, the minutes shed light on how the Fed might choose to remove a significant economic lifeline. The minutes show that members of the Fed's policy-setting committee think it's beneficial to gradually taper off the central bank's purchases of mortgage-backed securities in order to make the transition easier for financial markets.

At its policy meeting last month, the Fed said it would conclude its purchase of $300 billion in U.S. government debt by the end of October, and would slow the pace of remaining purchases in order to provide for a smooth transition.

The minutes released Wednesday make clear the Fed could employ this same strategy when it removes its lifeline from the mortgage-securities market.

"They generally were of the view that gradually slowing the pace of the committee's purchases of $300 billion of Treasury securities and extending their completion to the end of October could help promote a smooth transition in markets," the minutes said. "A number of participants noted that a similar tapering of agency debt and MBS purchases could be helpful in the future as those programs approach completion."

Still, the minutes note that the central bank's policy-setting Federal Open Market Committee made no decisions on tapering those purchases at the meeting.

At the meeting, Fed officials did agree to extend the final date for making new Term Asset-Backed Securities Loan Facility loans into 2010. Meanwhile, officials were cool to the idea of expanding the range of assets in the program.

Turning to the economic outlook, Fed staffers said economic data had improved both in the U.S. and abroad between the Fed's June and August meetings. Staffers projected that real gross domestic product would increase in the second half of 2009 and output growth would pick up to a pace "somewhat above" its potential rate in 2010.

"The step-up in economic activity in 2010 was expected to be supported by an ongoing improvement in financial conditions, which, along with accommodative monetary policy, was projected to set the stage for further improvements in household and business sentiment and an acceleration in aggregate demand," the minutes said.

Fed officials said "the tone of financial markets abroad improved further during the intermeeting period." They noted that while the financial condition of **CIT Group** Inc., one of the largest lenders to middle-market firms, worsened sharply over the period, broader financial-market conditions appeared to be largely unaffected by this development, the minutes said.

Still, officials also think households will continue to face tight credit conditions. They also continued to highlight the commercial-real-estate market as a sore spot in the economy given that the contraction in the market accelerated.

At its August meeting, the Fed held the target federal-funds rate for interbank loans near zero and reiterated that economic conditions are likely to warrant "exceptionally low levels of the federal funds rate for an extended period of time."

Private-sector job cuts slow as worker output strengthens

By Kelly Evans

The pace of U.S. job losses slowed last month, a report released Wednesday showed, but the small improvement suggests a return to job growth could still be many months away.

Service-sector employment declined by 146,000 in August, while goods-producing jobs including construction and manufacturing fell by 152,000, according to Automatic Data Processing Inc., a payroll firm.

The 298,000 job losses were less than July's revised drop of 360,000.

The combined loss of 298,000 jobs was an improvement from July's revised drop of 360,000 and was less than half the pace of declines seen earlier this year.

Meanwhile, revised figures showed that worker productivity was stronger than initially reported during the spring, growing at a 6.6% annual rate, though it resulted from companies cutting workers or their hours.

"If you're a worker you don't really want to see productivity growing for the reasons it did in the second quarter," said Joshua Shapiro, chief U.S. economist at MFR Inc., a New York-based consulting firm.

He and others say productivity will likely slow during the second half of the year as companies moderate the steepness of their cutbacks amid gradual improvement in business conditions. Already, employers are shedding fewer workers.

Still, many were hoping to see more of an improvement in August now that key sectors of the economy, such as manufacturing and the housing market, are showing some encouraging signs.

Indeed, a separate Commerce Department report showed that U.S. factory orders in July rose 1.3% from the prior month, the biggest gain in a year, to $355.5 billion, following a 0.9% increase in June.

The figures "continue to suggest that net job losses are slowing but that we are still some way from the point where the labor market will begin to create jobs," said John Ryding of New York-based RDQ Economics.

The ADP report suggested "some downside risk" to the government's official August employment report, due Friday, but the ADP figure has been worse than the government's figure in six of the past eight months, according to economists at Goldman Sachs Group Inc.

That is in part because ADP only tallies private-sector jobs. Government hiring has added about 2,000 jobs per month over the past year.

As a result, many economists left their expectations for Friday's report unchanged at a loss of 225,000 to 250,000 jobs for August.

U.S. governor battles to save job

Sanford faces pressure to quit over affair, use of state plane

BY VALERIE BAUERLEIN

ORANGEBURG, S.C.—South Carolina Gov. Mark Sanford, stung by political attacks over his extramarital affair with an Argentine woman, said in his first extended interview since June that he no longer wants to "crawl into a cave" and will fight to keep his job in the face of mounting public opposition.

"I have a newfound level of humility, knowing how hard I work and how hard I push is not the ultimate driver of change," he said in the interview Monday. "Power resides with people."

Mr. Sanford, whose once-high approval numbers have deteriorated, also acknowledged that his opponents "smell blood in the water." But he insisted he won't be forced to resign.

The governor appeared to have weathered the storm after revelations more than two months ago that he had cheated on his wife of 20 years and disappeared to Argentina to see the woman he described as his "soul mate." Now, though, he is facing a growing deluge of daily calls for his resignation.

State House Republicans say they have the votes necessary to impeach Mr. Sanford when the chamber convenes again in January. Several of his staunchest allies have called on him to resign in the past week.

Mr. Sanford compounded his problems by drawing questions from a state Ethics Commission over his use of the state plane, business-class travel on commercial flights and undeclared use of political allies' private planes. Commentators and political foes criticized him Friday for using the state plane for a short flight from Columbia, the state capital, to a Lions Club luncheon in Conway on the coast where—among other things—he defended himself by saying he used the state plane significantly less often than his predecessors. Mr. Sanford also said he has used smaller and less expensive aircraft than past governors, and did nothing wrong by accepting trips on private planes provided by longtime friends.

A poll last week by InsiderAdvantage showed that 50% of registered South Carolina voters think their governor should resign, compared with 41% of those polled in June, when the affair became public.

Mr. Sanford described himself as "zen-like." "If enough people make noise, we got a shot at changing things," he said. To resurrect his image, Mr. Sanford is on a forgiveness tour, crisscrossing the state and imploring civic-club members to join him in pushing for dull but substantial changes to South Carolina's state constitution. He said he is eager to regain the confidence of his constituents. "If I'd read the stuff they'd read, I'd feel the same," he said.

But the changes he is promoting are generally the same ones he has unsuccessfully sought over the past six years, such as creating a gubernatorial department to oversee state spending, instead of a board controlled by legislative and elected officials.

Mr. Sanford is struggling to retain legitimacy among moral conservatives who remember his vote in 1998 to impeach President Bill Clinton for his deceptions regarding an affair with White House intern Monica Lewinsky.

Mr. Sanford is also fighting his battle without the aid of his top political strategist: his estranged wife, Jenny Sanford. Through most of his political career, Mrs. Sanford was the governor's most important ally and adviser—even serving as chief of staff during his first term as governor. But South Carolina's first lady moved out of the governor's mansion in Columbia last month, taking the couple's four boys to the family's beachfront home and enrolling them in school in Charleston.

Mr. Sanford, who has said he is trying to reconcile with his wife, declined to comment in the interview on his marriage or his family. He said only that he spent last weekend on his farm with his wife and children. Saying anything further, he said, "leads to looking backward, not forward."

National Republican leaders have played down any broader political impact on their party from Mr. Sanford's travails. Mississippi Gov. Haley Barbour, one of the most influential GOP leaders, has acknowledged that situations like Mr. Sanford's do harm a party that has tried to define itself around strong moral principles, while saying there are more important issues such as gubernatorial elections in New Jersey and Virginia.

But in his home state, with Mr. Sanford fighting to stay in command and the likelihood of an impeachment effort growing, South Carolina's humid capital has taken on the air of a distracted political circus.

"The unfortunate thing is this has been all-consuming," said state Rep. Rita Allison of Spartanburg, who formerly worked on Mr. Sanford's gubernatorial staff. "We aren't talking about jobs, we aren't talking about education. He should consider what is happening in the state and go ahead and resign."

If Mr. Sanford left office, his term would be completed by Lt. Gov. Andre Bauer, a Republican who is a political foe. Mr. Bauer promised last week not to run for governor in 2010 if Mr. Sanford were to step aside in the next month, a move Mr. Bauer's supporters said should remove some of the political calculus surrounding a possible resignation. Mr. Sanford, 49 years old, said he is more focused on his job as governor now than he was before revelations of his extramarital affair.

The publicity over that relationship—and subsequent allegations of travel and ethics irregularities—means he no longer spends time speaking out against the federal stimulus package on national talk shows or raising money as chairman of the Republican Governors Association, a position he resigned as soon as the scandal became public. Once considered a potential 2012 presidential candidate, he said it is "abundantly clear that this is the end of the road" in politics. "My life is without distraction," he said. "It is very much focused on this."

Associated Press

South Carolina Gov. Mark Sanford, shown last week, has been touring the state to build support to remain in office.

China police hold protesters in case of lead poisoning

ASSOCIATED PRESS

BEIJING—Police in central China detained 15 parents for a violent protest last month over factory pollution that left hundreds of local children with lead poisoning, and accused them of links to the banned Falun Gong spiritual movement, villagers said Wednesday.

Villagers mocked the accusation, saying authorities were using the charge to take revenge against parents involved in the Aug. 8 unrest in Hunan province's Wenping township, that broke out after more than 1,300 children were poisoned by emissions from a manganese processing plant. Falun Gong practitioners are relentlessly persecuted by China.

Anger is growing in China over public safety scandals in which children have been the main victims. The ruling Communist Party is worried that mass protests will threaten the country's social stability and challenge its grip on power.

The Wugang city public security bureau, which oversees Wenping, issued a notice Tuesday saying "cult members with ulterior motives" led a few villagers to block roads, attack government offices and damage public property, 40-year-old resident Dai Zuoyi said.

Police said 15 people were being held and urged the "Falun Gong practitioners to turn themselves in as soon as possible," said Mr. Dai, who read the announcement to the AP.

"When I saw this notice, I laughed till my stomach hurt," he said. "There have never been any Falun Gong followers in Wenping. This is clearly a reprisal attack against villagers."

A notice posted on the Web site of the Wugang city government last week said Chinese and foreign Falun Gong members were spreading false rumors and "instigating the public to cause trouble" in response to the lead poisoning incident. It didn't mention detentions.

Mr. Dai said his brother-in-law Li Changye was among the parents detained this week. Mr. Li, 40, was among hundreds of residents who blocked roads leading to the Wugang Manganese Smelting Plant, Mr. Dai said.

Both Mr. Dai's and Mr. Li's sons, aged five months and six years, have excessive levels of lead in their blood, Dai said. Lead poisoning can damage the nervous and reproductive systems and cause high blood pressure and memory loss.

A Wugang government spokesman denied that any Wenping residents were detained. "We have not taken any measures against the parents. But if anybody has broken the law, their cases will be investigated by the police," he said.

He said city government officials have recently received phone calls from out of town by people who personally attacked the officials. Based on "previous experience," the police think they might be Falun Gong members, the spokesman said.

The Wenping incident was one of three cases of lead poisoning involving large numbers of children last month. The first case involved more than 600 children living near a lead smelter in northwestern Shaanxi province, while the latest one occurred in Yunnan in the southwest, with about 200 children sickened.

Also on Wednesday, a chemical explosion in eastern China killed 18 people and injured 10 others, state media reported.

India defends its stance on limiting emissions

BY KRISHNA POKHAREL

NEW DELHI—India is digging in against legally binding caps on carbon emissions, ahead of December's climate-change talks with the U.S. and Europe in Copenhagen.

On Wednesday, the Indian government released a report that showed the country's per capita greenhouse-gas emissions—thought to be the cause behind global warming—will be lower over the next two decades than the global per capita emissions in 2005. These levels will also remain lower than those of Western countries for about the same period, the report said.

The findings aim to rebut concerns that India's quest to become a global economic power will transform it into a leading emitter of greenhouse gases. Still largely agrarian and poor, India has bristled at suggestions from industrialized countries, such as the U.S., that it should do more to cap emissions even if it means curbing growth.

Still, the release of the study also demonstrates India's eagerness to justify its pro-growth stance before it heads into global climate-change talks. Indian officials have said the government remains focused on eliminating poverty through aggressive economic growth and industrialization.

Jairam Ramesh, India's minister for environment and forests, is leading India's fight against legally binding caps. He also opposes such caps for other developing countries, including industrial powerhouse China.

"There is lot of commonality and cooperation with China when it comes to Copenhagen," Mr. Ramesh said. "We want a fair and equitable agreement in Copenhagen."

In December, countries meeting in Copenhagen will try to forge a pact on carbon emission-reduction targets beyond 2012, when the existing international accord expires. Mr. Ramesh said India won't be an obstacle to any pact. India has pledged that it won't allow per capita emissions to surpass the average per capita emissions of developed countries.

By 2031, India's per capita emissions of greenhouse gases would stay under four tons of carbon-dioxide equivalent, four of the five studies in the report showed. That level is under the global per capita emissions of 4.22 tons in 2005, according to the report, which was compiled by five different research agencies, including the Energy and Resources Institute, a research group based in New Delhi, and global management consultants McKinsey & Co.