Economy & Politics: The clock is ticking for U.S. to show progress in Afghanistan

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FIFA kicks Chelsea over player deal

Getty Images

PITCH BATTLE: Football's governing body banned the U.K. squad from signing any players until 2011 because it encouraged French striker Gael Kakuta, above, to break his contract and sign with the club. Page 28.

U.S. presses Europe to cut its IMF clout

By Bob Davis

WASHINGTON—The U.S. is pressing Europe in behind-the-scenes negotiations to sharply reduce its clout at the International Monetary Fund in favor of developing countries such as China and Brazil.

The effort is part of the deliberations leading up to the summit of leaders of the Group of 20 industrialized and developing nations. The G-20, whose finance meetings began meeting Thursday in London, already has approved greater funding and responsibility for the IMF to help it handle economic crises and warn of problems.

The G-20 is debating how to reshape international institutions created at the end of World War II to better reflect the shift of economic power from traditional industrial countries to developing ones. "The changes will take a lot of bargaining," said a G-20 official from a large developing country. "But we are in a bargaining mood."

The U.S. is pushing two specific proposals. Under the first, the number of seats on the IMF board would be reduced to 20 from 24 by 2012, with developing countries that already have chairs retaining them. The U.S. doesn't name the countries that should give up seats but it is clear that some would be European.

Currently, the IMF board has eight directors who represent their own countries—the U.S., Japan, France, Britain, Germany, China, Russia and Saudi Arabia—and 16 who represent groups of countries. Many of the group seats are headed by European countries.

The European Commission has argued for giving the 16 states that share the euro a single seat. That has been rejected by prominent European politicians. France "does not want for all the European to be represented by a single seat," French Economy Minister Christine Lagarde said this week.

The second U.S. proposal would essentially shift five percentage points of ownership of the IMF from traditional countries to developing countries. Currently, industrialized countries have about a 60% ownership stake.

Under this proposal, Europe also would lose clout. The U.S. and Europe have roughly the same size economy, but Europe has twice the ownership shares of the U.S.," says Edwin Truman, who worked in the Clinton and Obama Treasury Departments and is now at the Peterson Institute of International Economics.

European officials argue that the U.S. position is too blunt and doesn't take into account

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Alchemy's Moulton to depart amid rift

By James Mawson and Marietta Cauchi

LONDON—One of the most high-profile figures in Europe's private-equity industry resigned from the firm he founded amid a split with the man who likely will succeed him.

Jon Moulton, 58 years old, is leaving **Alchemy Partners**, and is expected to be succeeded by Dominic Slade, one of the firm's four other partners. Mr. Slade, who joined Alchemy in 1998 and became a managing partner two years ago, wants to convert the firm into a specialist financial-services firm and drop its focus on turnarounds of struggling businesses across many sectors.

In a letter to all Alchemy investors reviewed by Financial News and confirmed by investors, Mr. Moulton said he was stepping down 13 months earlier than planned "given my unwillingness to support the investment strategy or Dominic's role." He said the strategic change "wastes a spectacular opportunity in our area of perceived strength" and that the firm he founded in 1997 should be closed.

Mr. Moulton also wrote that "there have been continuing concerns as to [Mr. Slade's] performance" and described himself as having "made too many investment and people errors."

Neither Mr. Moulton nor Mr. Slade could be reached for comment. In a statement, Mr. Slade

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Nordic taste

Norwegian cooks bring imagination to the table
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9344.61	+0.69
Nasdaq	1983.20	+0.82
DJ Stoxx 600	230.68	+0.04
FTSE 100	4796.75	-0.43
DAX	5301.42	-0.35
CAC 40	3553.51	-0.55
Euro	$1.4261	+0.16
Nymex crude	$67.96	-0.13

OECD sees upturn in global economy

By Gabriele Parussini

PARIS—The Organization for Economic Cooperation and Development Thursday

Maintaining liquidity

■ ECB leaves rates steady..........2

said the global economy is emerging from its worst slump since World War II faster than the think tank forecast three months ago, although the U.K. will largely miss out on the recovery.

In a twice-yearly update to its main economic forecasts, the OECD said the drag on growth from the drawdown on inventories appears to be coming to an end. With global trade flows set to recover, the OECD said it now expects the combined gross domestic product of the Group of Seven leading economies to contract by 3.7% this year, having forecast in June that it would shrink by 4.1%.

"There is a recovery at hand now," said Jorgen Elmeskov, the OECD's acting chief economist. "The worst is over, and the recovery appears now to be coming a little sooner, and possibly also marginally stronger, than three months ago."

But the OECD now expects the U.K.'s GDP to fall by 4.7% this year, having previously forecast it would shrink by 4.3%.That made the U.K. the only major econ-

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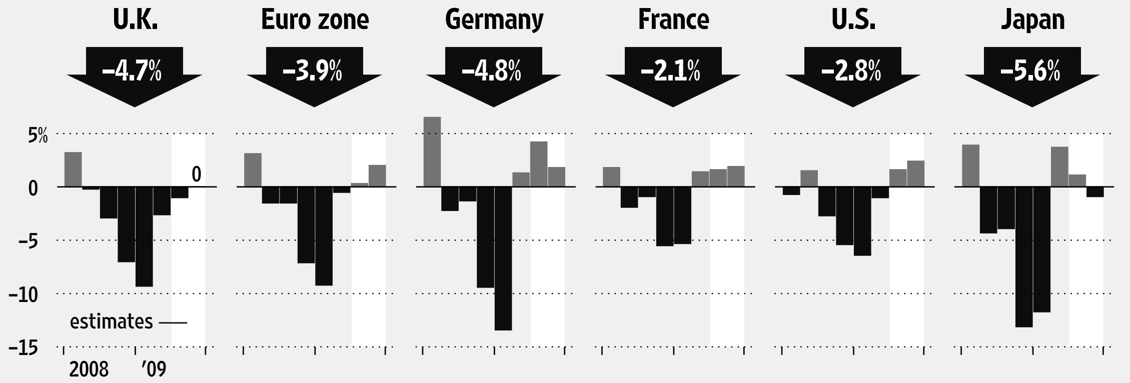
Bouncing back? | Arrows are estimated change in 2009 GDP, charts are quarterly change



Note: Changes are seasonally adjusted annual rates

Source: Organization for Economic Cooperation and Development

ECB holds rate steady

Bank plans to keep pumping liquidity into EU economy

By Christopher Emsden And Terence Roth

Jean-Claude Trichet, the president of the European Central Bank, effectively declared the euro-zone recession has ended, but emphasized that with prospects for recovery very fragile, the ECB will continue to pump liquidity into the region's economy.

The central bank for the euro zone left its key policy rate unchanged at 1% during its policy session Thursday, as was widely expected. Other monetary-stimulus strategies such as extra liquidity programs also remained untouched.

Recent data suggest that "the significant contraction in economic activity has come to an end and is now followed by a period of stabilization and very gradual recovery," Mr. Trichet said at a news conference, citing improving exports, government stimulus and the ECB's support of the banking system.

Mr. Trichet's comments come amid optimistic signs that other key regions, especially the U.S. and China, may have turned the corner and should support a global recovery. The Organization for Economic Cooperation and Development on Thursday upgraded its forecasts for major economies, and now envisions a quicker return to growth.

Mr. Trichet warned that uncertainty remains with incoming economic data often uneven, in part due to the temporary nature of some government stimulus programs. He said the ECB wasn't planning an early unwinding of its stimulus programs for bank lending.

The "worst possible attitude," Mr. Trichet said, would be to take recent signs of stability in the global financial system as a return to normality and "business as usual." He added: "That would be plain wrong."

Financial markets have been speculating on the timing and pace at which central banks and governments will withdraw the extra bank liquidity and taxpayer funds injected into their economies over the past year.

Economists warn that failure to withdraw stimulus programs soon enough will speed a recovery-induced inflation surge. Pulling out too soon could stifle the recovery. The topic is at the top of the agenda for finance ministers from the Group of 20 leading industrial countries in London beginning Friday.

Mr. Trichet's message was that the ECB, at least, will continue injecting additional liquidity into the bank system to spur lending to households and businesses.

The ECB has offered abundant cash to the euro-zone banking system—including €440 billion ($626 billion) in 12-month funds at 1% earlier this year—and a €60 billion facility for direct purchases of covered-bonds from banks.

Mr. Trichet said the ECB's stimulus measures had been designed to provide "an easy exit" when the time comes. "Today is not the time to exit," he said.

In a technical sign of the ECB's thinking, Mr. Trichet said the next 12-month offer of liquidity to banks would be offered at the same 1% rate as the overnight policy rate.

Financial markets took the ECB news to mean that any interest-rate increase to stave off future inflation won't come until deep into next year, especially given the fragility of the recovery.

ECB economists now believe euro-zone gross domestic product will decline by around 4.1% this year and grow 0.2% in 2010, the ECB said.

—Anna Molin in Stockholm, Gabriele Parussini in Paris, Nina Koeppen in Frankfurt contributed to this article.

U.K. defense aide quits, citing Afghanistan policy

By Alistair MacDonald

A junior official in the U.K.'s Ministry of Defence has resigned, criticizing the government's strategy in Afghanistan on the eve of a major speech by Prime Minister Gordon Brown to support Britain's efforts there.

Eric Joyce sent a resignation letter to Mr. Brown on Thursday, stepping down from his position as Parliamentary Private Secretary to the Defense Secretary Bob Ainsworth, according to the MOD. Downing Street declined to comment. Mr. Joyce didn't return calls.

While the position is a junior one, Mr. Joyce's resignation will hit Mr. Brown as he tries to confront increased criticism of Britain's policy in Afghanistan. The U.K. has the second-largest North American Treaty Organization troop commitment in the country and hasseen a rise in casualties in recent months.

On Friday, Mr. Brown will deliver a speech at the International Institute for Strategic Studies in London, in which he will "take head on" critics of his country's Afghanistan strategy, according to a person familiar with the matter.

Mr. Brown will say that while the U.K. is committed to the military conflict it will move its strategy further to what it calls "Afghanisation," in which NATO will shift more military and policing responsibilities to Afghan forces, this person said. Mr. Brown will say he wants to speed up that process, for instance, bringing forward the target to train 134,000 Afghan troops to 2010 from 2011.

In a letter to the prime minister, Mr. Joyce said the government needs an exit strategy for British troops in Afghanistan, and should make clear that the country's commitment in Afghanistan is "high but time limited." Mr. Joyce said that the government needs to say that it will reduce U.K. forces in Afghanistan "substantially" during its next term in government. The government must call a general election before June next year. Mr. Joyce also said the U.K. needed a "greater geopolitical return from the United States for our efforts" and criticized European allies Germany, France and Italy for not doing their share of the fighting.

The resignation will hit Mr. Brown as he tries to confront increased criticism of Britain's policy in Afghanistan.

Mr. Ainsworth distanced himself from the comments. "The picture he paints is not one that I nor many people within the MoD recognize, whether military or civilian," Mr. Ainsworth said.

Mr. Brown is due Friday to say that the conflict in Afghanistan is essential to Britain's security

"People ask what success in Afghanistan would look like. The answer is that we will have succeeded when our troops are coming home because the Afghans are doing the job themselves," Mr. Brown will say, according to an excerpt of that speech.

CORRECTIONS & AMPLIFICATIONS

A spokesman for **RHJ International** SA said the Belgian investment firm has presented an improved offer for a 50.1% stake in **General Motors** Co.'s European unit, Adam Opel GmbH. A Corporate News article Wednesday incorrectly attributed the statement to a spokesman for Opel.

Anthony O'Reilly is emeritus president of **Independent News & Media** PLC. A Corporate News article on Thursday incorrectly said his son Gavin O'Reilly was in that role.

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Greek early elections are called for Oct. 4

Karamanlis looks for fresh mandate; period of instability?

BY ALKMAN GRANITSAS

ATHENS—Prime Minister Costas Karamanlis called early elections for Oct. 4, hoping to secure a fresh mandate for economic reform but also stoking fears that the elections might usher in political instability.

"The issue here is to have a government with a fresh mandate and which is bold enough to proceed with the necessary policies for the economy to emerge stronger from the crisis," Mr. Karamanlis said in a televised address.

Although early elections were expected by March at the latest, current opinion polls show there may be no clear winner, potentially leading to a second round of elections soon after. That prospect spooked investors, sending the Athens Stock Exchange down 2.6% to 2428.32.

The early elections, halfway through the government's four-year term, come at a difficult time for both the ruling center-right New Democracy government and the country as it heads toward its first recession in over 15 years.

Data released Thursday showed Greece's once fast-growing economy shrank at a revised 0.3% in the second quarter, with double-digit declines in everything from tourist spending to housing construction. Many economists expect third-quarter data to confirm that the economy is in recession.

Greece is also under pressure from the European Union to bring its widening budget deficit—forecast to be more than 6% of gross domestic product this year—below an EU-mandated ceiling of 3% by 2010.

Opinion polls show the government is lagging behind the opposition socialist Pasok Party by about six percentage points, which means its parliamentary representation of 151 seats—a majority of one—may collapse, and it could end up with as few as 100 seats.

However, according to a new poll Thursday, the opposition Socialists—despite their lead—command just 31.5% support among voters, well short of the 41.5% they would need to form a majority in Parliament under Greece's electoral system.

—Nick Andrews in London contributed to this article.

Agence France Presse/Getty Images

Greek Prime Minister Costas Karamanlis, seen at a European Council summit in Brussels last year, called for early elections in a bid to secure a fresh mandate.

Editor resigns after clashing with Berlusconi

BY STACY MEICHTRY

ROME—An influential Roman Catholic newspaper editor who questioned the lifestyle of Italian Prime Minister Silvio Berlusconi resigned his post Thursday—a casualty of a bruising newspaper war that has opened a rift between the Vatican and the premier.

Dino Boffo stepped down as editor in chief of Avvenire, the official newspaper of the Italian Bishops Conference, following a weeklong barrage of coverage—led by Il Giornale, a national newspaper owned by Mr. Berlusconi's brother Paolo—alleging that Mr. Boffo was involved in a homosexual affair that led to a 2002 harassment case.

Silvio Berlusconi

The resignation is likely to deepen tensions between the Vatican and Mr. Berlusconi. Mr. Boffo was among the few prominent Roman Catholics in Italy to question Mr. Berlusconi's private life. Mr. Berlusconi has been under scrutiny since his wife announced plans to divorce him, citing his links to an 18-year-old aspiring model. Mr. Berlusconi has denied having a "spicy" relationship with the woman; he also denied having paid for sex with a prostitute who went public with allegations that she spent the night at his residence in Rome.

Mr. Berlusconi's disregard for "sober style" had become a source of "mortification" for the Catholic Church, Mr. Boffo wrote in an Aug. 12 response to an Avvenire reader.

Over the past week, Vatican officials and top Italian clerics have rallied behind Mr. Boffo, who accused Vittorio Feltri, Il Giornale's editor in chief, of running a smear campaign against him. Mr. Feltri responded by publishing court documents he says backs up Il Giornale's reporting.

On Thursday, Avvenire accused Il Giornale of publishing "ten falsehoods" about Mr. Boffo, noting that he never accepted a plea bargain in the 2002 case.

—Davide Berretta contributed to this article.

Lawmakers endorse Ahmadinejad cabinet

Political victory for embattled leader; first woman minister

BY FARNAZ FASSIHI

Iran's parliament broadly endorsed President Mahmoud Ahmadinejad's cabinet nominations, giving the embattled president a political victory.

The body approved all but three of his 21 choices, including the controversial appointments of the first female minister in the 30-year history of the Islamic Republic and a defense minister wanted by Interpol for a terrorist attack on a Jewish center in Argentina.

Thursday's cabinet vote was an early indicator of the challenges facing Mr. Ahmadinejad following presidential polls in June and massive street protests that ensued. Iran's 290-seat parliament has a minority of reformers but is dominated by conservatives, who have at times been divided and critical of the president's policies.

The president addressed the chamber twice this week to defend his choices and faced sharp questions from lawmakers. He vehemently defended his appointees and before the vote Thursday said a rejection of his cabinet would please opposition leaders such as Mir Hossein Mousavi, whose electoral defeat led to the summer's demonstrations, and former President Mohamad Khatami.

"Enemies made efforts to damage national might of our beloved Iran. I believe it deserves a crushing response from lawmakers in order to disappoint them," Mr. Ahmadinejad told the chamber.

Messrs. Mousavi, Khatami and reformist Mehdi Karroubi have called Mr. Ahmadinejad's government illegitimate and say it is built on a foundation of lies and human-rights abuses.

Agence France-Presse/Getty Images

Marzieh Vahid Dastjerdi is the first woman minister in the 30-year history of the Islamic Republic

Controversial cabinet

Some of President Mahmoud Ahmadinejad's cabinet members

- **Ahmad Vahidi** (Defense): His appointment is controversial internationally because Argentina seeks his arrest over a 1994 attack on a Jewish center.
- **Mostafa Mohammad Najjar** (Interior): A senior figure in the elite Revolutionary Guards; critics ask whether a military commander should run interior affairs.
- **Marzieh Vahid Dastjerdi** (Health): First woman cabinet minister since 1979; former lawmaker who once advocated segregating the health care system by sex; seen as inexperienced.
- **Massoud Mirkazemi** (Oil): Currently commerce minister, has close links to the Revolutionary Guard; his knowledge of the oil industry has been questioned.
- **Heydar Moslehi** (Intelligence): A former representative of Iran's Supreme Leader in the Basij militia; critics say he has never worked in intelligence.

A parliamentary committee is investigating allegations of human-rights violations—including murder, torture and rape—of detainees arrested during violent clashes between protesters and government forces in the post-election crisis.

Mr. Ahmadinejad's nomination of three women came as a surprise. He hadn't named any women to top positions in his last cabinet. Two of the nominees were rejected.

Some conservative lawmakers, such as Ahmad Tavakoli, had predicted this week that only a third of the cabinet would win approval because, he said, Mr. Ahmadinejad's choices were unqualified "yes men" loyal to him.

After the vote, Mr. Ahmadinejad claimed the endorsement was a sign of unity between his government and the parliament.

Mr. Ahamdinejad faced a tougher challenge after he was first elected in 2005, when he shuffled back and forth to parliament to argue over key posts, such as oil minister.

Before announcing Thursday's vote results, speaker Ali Larijani thanked Supreme Leader Ayatollah Ali Khamenei—who has the last word in all state matters and is a staunch supporter of the president—for his guidance, indicating Mr. Khamenei had made his wishes clear.

"It's clear that conservative critics were either told or they decided it's in the best interest of the country to move forward and support Mr. Ahmadinejad. If the majority of his choices were rejected, it would send the country into a deeper political crisis," said Sadegh Zibakalam, a political analyst in Tehran.

Parliament members deliberated on the cabinet picks for five days, in open sessions. The president will now have to submit new choices for the three rejected cabinet nominations, which included two women as ministers of social welfare and education and a close adviser of the president as minister of electricity.

Marzieh Vahid Dastjerdi, an ultra-conservative former lawmaker and gynecologist, became the first female minister of the Islamic Republic. Her nomination to head the Health Ministry infuriated feminists and women's rights activists, who charged she would do little to improve women's rights. Ms. Dastjerdi had once advocated segregating health care by gender.

Mr. Ahmadinejad's nomination of three women candidates came as a surprise. He hadn't named any women to top positions in his last cabinet, but during the recent election, candidates for the first time actively competed for the support of women, who make roughly half of qualified voters.

The choice for defense minister has been controversial both inside and outside Iran. Gen. Ahmad Vahidi, a former commander of the Revolutionary Guards Corps, is wanted by Interpol for his alleged role in a 1994 terrorist attack of a Jewish cultural center in Argentina that killed over 80 people.

Lawmakers broke into chants of "Death to Israel" and "God is Great" in parliament on Thursday when Mr. Vahidi's approval was announced. He received the highest number of endorsements among any candidate.

Foreign Minister Manouchehr Motakki kept his post, suggesting Iran would maintain its tough stance with the international community, especially over its nuclear program, and would continue to seek to expand its influence in neighboring countries such as Iraq and Afghanistan.

A former minister of trade, Masoud Mir-Kazemi, become Iran's new oil minister despite criticism that he lacked necessary experience for such a high-profile job.

All week, reformist Web sites have reported that Mr. Ahamdinejad and his allies were lobbying lawmakers for their approval. The president hosted lavish dinners for lawmakers, in large and small groups, to break their daily fasts during the Islamic holy month of Ramadan.

Bongo is declared the victor in Gabon's presidential vote

BY DAVID GAUTHIER-VILLARS AND SARAH CHILDRESS

Gabon declared Ali Bongo Ondimba, son of the country's longtime ruler, the winner of the weekend presidential election, but allegations of fraud triggered unrest and rioting that spilled into another former French colony.

In Dakar, Senegal, Gabon's Embassy was set on fire by protesters on Thursday. In Gabon's second-largest city, Port Gentil, the French consulate was targeted in an arson attack. "The Port Gentil building was burned down," said an official at the French Embassy in Libreville, the capital.

A small group of French soldiers stationed in Port Gentil intervened to return calm to the area around the consulate, according to another French official at the embassy.

One opposition candidate, Pierre Mamboundou, was slightly hurt by a tear-gas canister during the protests, according to an aide.

By late Thursday, the riots appeared to have calmed. The streets of Libreville were deserted after soldiers broke up demonstrations by opposition supporters, according to Reuters.

The French Foreign Ministry said that it had recommended that all French residents of Gabon stay indoors. French Secretary of State for Cooperation Alain Joyandet denied that the French government meddled in the election, according to the Associated Press.

An estimated 10,000 French citizens live in Gabon. France, which ruled Gabon until 1960, still has a large presence in the central African nation, including a military base with about 1,100 soldiers. French oil giant **Total** SA produces about a third of Gabon's oil.

The unrest threatens the stability that Gabon enjoyed for more than 41 years under Ali Bongo Ondimba's father, Omar Bongo Ondimba, who kept a tight grip on the nation's politics. He died in June at age 73.

Without further encouragement from opposition candidates, it is unclear whether the demonstrations will continue to spread.

"Here in Africa, we have a monopoly on bad losers," said Clémence Mezui Me Mboulo, a spokeswoman for Ali Bongo Ondimba. "But the situation is now under control."

In a victory speech Thursday, Mr. Bongo pledged to preserve national unity. Yet Mr. Bongo, a former defense minister, also vowed to deal harshly with protesters.

Interior Minister Jean-François Ndongou said on state television that the younger Mr. Bongo received 41.7% of the vote, according to the AP. André Mba Obame received 25.8%, while Mr. Mamboundou came in third with 25.2%. After the announcement, rivals to Mr. Bongo immediately alleged voting irregularities.

"The electoral process was tarnished," said Francis Hubert Aubame, a spokesman for former Prime Minister Jean Eyeghe Ndong, one of the 23 candidates who initially entered the presidential race. Mr. Aubame said the main problem stemmed from discrepancies between the vote counts at some polling stations and data compiled by the central electoral committee.

Mr. Mba Obame and Mr. Mamboundou both said they wouldn't stir up unrest themselves. But both had said they were worried there could be trouble if Mr. Bongo won.

Mr. Bongo outspent his rivals and had been widely expected to win. But earlier this week, amid a delay in official results, Mr. Mba Obame and Mr. Mamboundou both claimed victory.

Agence France Presse/Getty Images

Ali Bongo greets supporters in Libreville on Thursday after he was declared the winner of a bitter presidential election in Gabon.

During the campaign, the younger Mr. Bongo promised a break from his father's rule, vowing to redistribute Gabon's wealth. But it is unclear how much Ali Bongo will deviate from his father's policies.

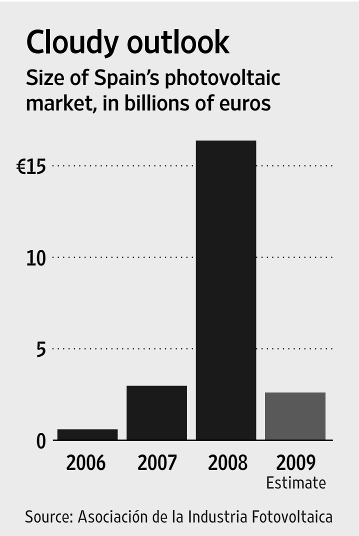
The elder Mr. Bongo successfully balanced ethnic tensions, and Gabon is relatively stable. One of his son's biggest challenges, in addition to maintaining that peace, will be to find new revenue streams. Harnessing the country's massive iron-ore reserves could help to offset a decline in oil output.

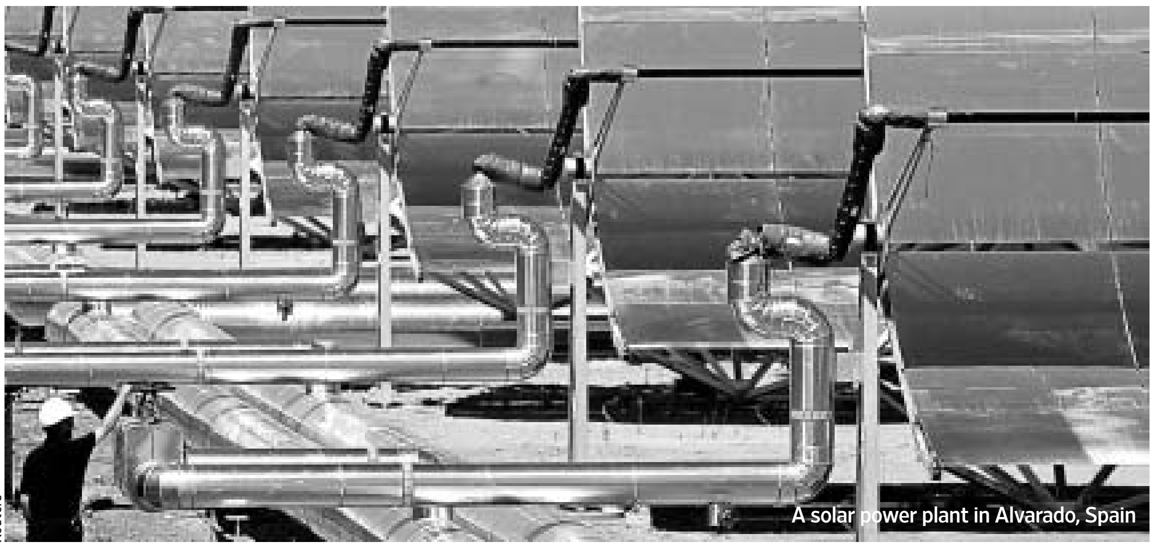
CORPORATE NEWS

Spain's solar-power aspirations dim

Government halts subsidies promoting clean energy amid economic downturn; lessons for the U.S. industry?

By Ángel González And Keith Johnson




Reuters
A solar power plant in Alvarado, Spain

Spain's hopes of becoming a world leader in solar power have collapsed since the Spanish government slammed the brakes on generous subsidies.

The sudden change has rippled across the global solar industry, in a warning of the problems that government-supported renewable-energy programs can encounter.

In 2008, Spain accounted for half of the world's new solar-power installations in terms of wattage, thanks to government subsidies to promote clean energy. But late last year, as the global economic crisis worsened, the government drastically scaled back those subsidies and capped the amount of subsidized solar power that could be installed.

Factories world-wide that had ramped up production of solar-power components found that demand for solar panels was plummeting, leaving a glut in supply and pushing prices down. Job cuts followed.

"The solar industry in 2009 has been undermined by [a] collapse in demand due to the decision by Spain," says Henning Wicht, a solar-power analyst at research group iSuppli.

Spain is providing important lessons for the U.S., where lawmakers are engaged in a debate about how to support renewable energy. Boosters of clean energy, including President Barack Obama, have pointed to Spain as a success story showing how government policies jump-started renewable energy, created new industries, and helped the environment.

Spain's early bet on wind power paid off: The country is one of the world leaders in generating such power, only recently eclipsed by the U.S. Spanish wind-power companies have become global players. In 2008, wind power accounted for 11% of Spanish electricity production, compared with less than 1% for solar power.

Reyad Fezzani, chief executive of BP Solar, a unit of oil giant **BP** PLC, said that despite the current crisis, the Spanish model succeeded in creating a solar industry from scratch. "Once you pay for the infrastructure, you have a skilled work force and you can expand and contract very easily," he said.

Clean-energy skeptics, however, point to Spain as a cautionary tale of a government policy that created a speculative bubble with disastrous consequences. Some Republicans have cited Spain's solar bubble and bust as an example of how unsustainable government clean-energy pushes are.

The U.S. is experimenting with different ways to promote clean energy, including tax incentives and direct federal subsidies to defray installation costs, and mandates for utilities to get a certain amount of their power from renewable energy.

California and New Jersey, which lead the U.S. in solar power, are among states that have used Spanish-style subsidies to make solar power more attractive. Two House Democrats, Jay Inslee of Washington and Bill Delahunt of Massachusetts, are drafting legislation under which electricity generated by solar panels and other clean energy sources would be bought by utilities at a fixed price.

The industry's fundamental problem is that, without subsidies, it still isn't economically viable.

Mike Ahearn, chief executive of Tempe, Arizona-based **First Solar** Corp., says solar power could be competitive "within a couple of years"—but only if the industry gains scale. That would require generous government subsidies and other forms of support, Mr. Ahearn says: "It's a chicken-and-egg problem."

Spain's solar ambitions started as an outgrowth of the earlier push to become a global player in wind power. By offering generous long-term support for wind power, Spain became a world leader. Companies such as **Iberdrola** SA and **Gamesa** Corp. catapulted from their home market to the U.S.

Wind energy was a cheaper renewable option than solar, so the Spanish government sought to make solar power more attractive by increasing subsidies, just as other countries, particularly Germany, were scaling back support.

As a result, Spain's solar capacity last year increased to 3,342 megawatts from 695 megawatts, the size of a coal plant, a year earlier. Government subsidies for solar power jumped to €1.1 billion ($1.6 billion) in 2008 from €214 million in 2007.

Solar power "was a financial product, not an energy solution," says Ignacio Sánchez Galán, chairman of Iberdrola, the world's biggest renewable-energy company. Iberdrola has largely shunned solar because wind power is cheaper and requires less land.

That is especially true of the new wave of large-scale solar power, known as solar thermal power, which uses the sun to heat water into steam that runs turbines. That technology offers the potential for much bigger clean-energy projects than silicon-coated photovoltaic panels, and has attracted interest from utilities in Spain and the U.S., especially. But solar thermal power is far from being cost-competitive with traditional power sources, and it requires large swathes of empty land, such as those found in parts of Spain and the U.S. Southwest.

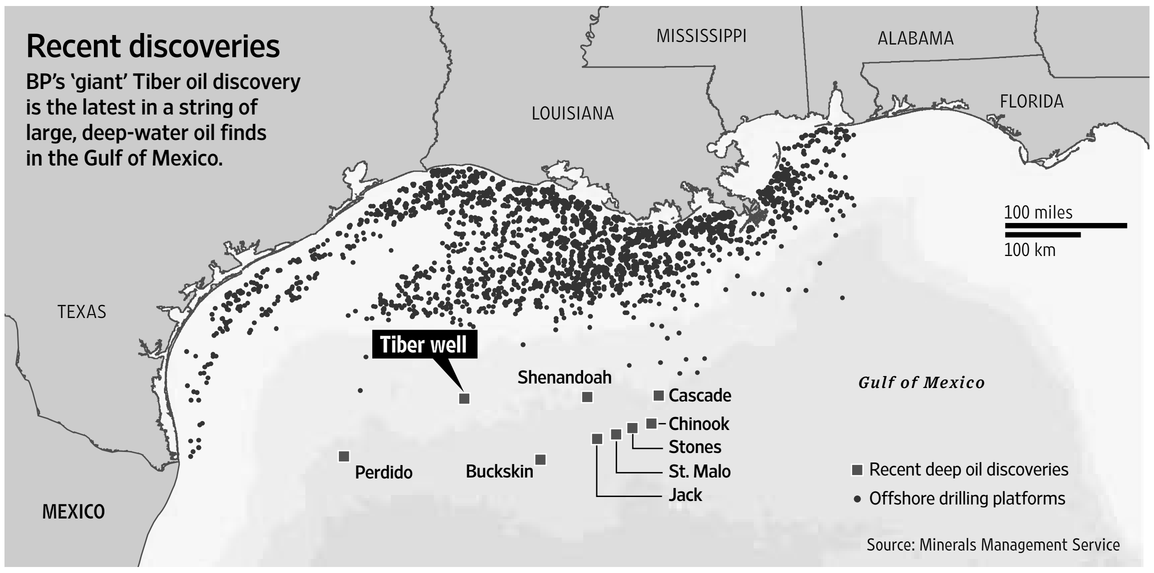
Faced with the unraveling world economy and a deepening budget deficit, the Spanish government late last year reduced the money it paid for solar electricity and capped the amount of subsidized solar power installed each year at 500 megawatts. Spain's solar-power capacity has actually shrunk this year as a result.

The effects have been felt far beyond Spain. China's **Yingli Green Energy Holding** Co., which makes solar-power components for export, posted a 43% slide in first-quarter earnings, in large part because Spain was no longer buying.

Solar makers such as Norway's **Renewable Energy** Corp., China's **LDK Solar** Co. and **JA Solar Holdings** Co. posted big second-quarter losses. German giant **Q-Cells** SE posted a first-half net loss of €697 million and plans to cut about 500 workers—about a fifth of its work force.

BP's big new oil find cements revival for Gulf of Mexico

By Russell Gold



BP PLC announced a major new oil find in the Gulf of Mexico, the latest in a string of discoveries there that cements the offshore waters of the southern U.S. as one of the oil world's most promising exploration regions.

BP said its Tiber prospect, about 320 kilometers due south of Lake Charles, La., is a "giant." The field is estimated to contain three billion barrels of oil, although only a fraction of that may ever be extracted, spokesman Daren Beaudo said.

BP is already the biggest producer in the Gulf, pumping the oil and natural gas equivalent of 400,000 barrels there a day.

Just two decades ago, the Gulf of Mexico was called the "Dead Sea" by an industry that believed it had already offered up all its big discoveries. But now it is again front and center for petroleum explorers.

As new technologies have enabled exploration in the deepest recesses of the Gulf, nearly a dozen discoveries, including BP's Tiber, have been made beneath about three kilometers of water. Indeed, a BP spokesman said of Tiber: "We believe it's the deepest well ever drilled by the oil and gas industry."

The deep-water successes have spurred new enthusiasm that oil production in the Gulf of Mexico will rise. The U.S. Minerals Management Service, which oversees offshore oil leases, predicts 1.88 million barrels of oil a day will be produced in 2013, up from a storm-battered 1.14 million barrels a day last year.

In 2010, about 14% of crude oil production in the Lower 48 states will come from four deepwater Gulf oil fields, two of which, Atlantis and Thunder Horse, are operated by BP, the U.S. Energy Information Administration said.

The technological wizardry required to suck oil from the ancient rocks, known as the Gulf's lower tertiary, underscores how extraordinarily expensive it is to develop these prospects. To drill each well costs about $200 million, industry executives said. And a prospect often requires several wells, plus expensive pipelines and floating facilities.

Still, the Gulf of Mexico has emerged as a major area of interest for the Western oil companies that have been locked out of many of the world's largest untapped resources in the Middle East and Russia.

"If you are looking for another opportunity of that scale that is oil and that is open to [Western oil companies], the Santos Basin of Brazil is the only other one in the world," said Andrew Latham, a vice president of global exploration services for consultant Wood Mackenzie.

Other recent finds in Uganda, Kurdistan and off the coast of Ghana are estimated to be several billion barrels of oil, while the Gulf of Mexico and Brazil contain "tens of billions of barrels," he said.

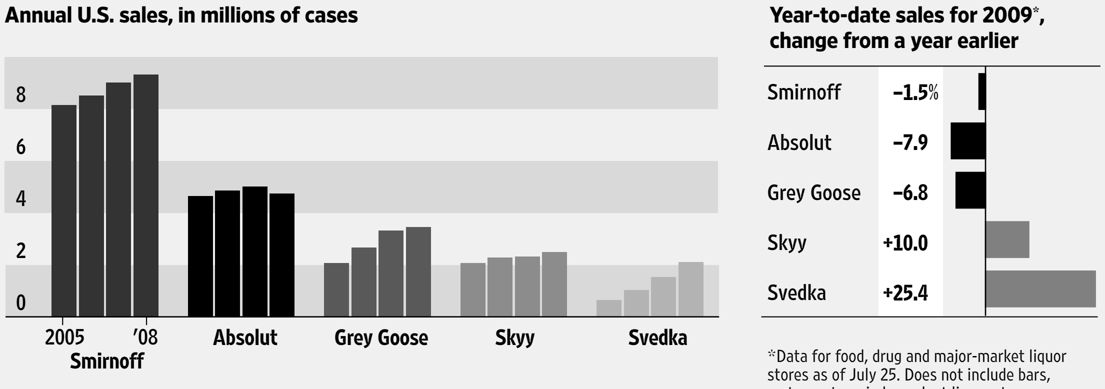
Making the site even more attractive, oil companies have to pay the U.S. less in taxes, royalties, oil payments and other levies for the privilege of drilling than they would have to pay other governments.

This combination of financial and geologic advantages has drawn the attention of many of the world's largest oil companies. **Royal Dutch Shell** PLC and **Chevron** Corp. are expected to begin producing oil from Perdido—a floating cork-shaped platform as tall as the Eiffel Tower—in the next few months.

Bloomberg News

Cheap shots

Sales of Absolut vodka have dropped in the U.S., its largest market, while less expensive competitors like Skyy and Svedka have gained market share. Above, a bartender in Paris makes a cocktail with Absolut.



Sources: Beverage Information Group (historical sales); Nielsen (2009 sales)

*Data for food, drug and major-market liquor stores as of July 25. Does not include bars, restaurants or independent liquor stores.

Absolut U.S. sales fall 6%

Pernod faces pressure as consumers turn to cheaper vodka

BY DAVID KESMODEL

Pernod Ricard SA placed a big bet on the global prospects for Absolut vodka when it paid €5.3 billion for the brand's Swedish parent last year. But now Pernod is wrestling with sluggish sales in the U.S., Absolut's largest market by far.

The French liquor giant, citing market-research firm Nielsen Co., said sales of Absolut at U.S. food and drug stores fell 6% by volume in the 52 weeks through Aug. 22. Overall, Pernod said, profit for its fiscal year ended June 30 rose 13%. But it warned of stagnant global sales for spirits in the current year.

Switching by recession-weary U.S. drinkers to lower-priced rivals such as Skyy and Svedka has hurt Absolut. **Bacardi** Ltd's Grey Goose, the No. 3 vodka brand, has experienced similar troubles. But Absolut has more exposure than other vodkas to the hard-hit bar-and-restaurant segment, the company said.

Restoring volume growth in the U.S. will be "key," even though Absolut enjoys healthy growth in countries like Brazil and Mexico, said Laetitia Delaye, an analyst with Kepler Capital Markets in Paris. The U.S. accounts for more than half of the brand's retail revenue and the majority of its profits, according to the industry journal Impact and analysts. Absolut is the second-largest vodka in the U.S. by volume after **Diageo** PLC's Smirnoff, according to research firm Beverage Information Group.

"Investors will be pretty demanding on them turning around the U.S.," Ms. Delaye said.

Pernod executives said they remain pleased with the brand and blamed its softer U.S. sales partly on distribution and other changes that followed Pernod's July 2008 acquisition of Vin & Sprit AB. The costly deal saddled Pernod with heavy debt just before the global economy soured.

"The brand is very healthy in the U.S., and the underlying strategy is very solid," Tim Murphy, vice president of marketing for Absolut in the U.S., said. He noted that sales at food and drug stores rose 2% by volume in the most recent 13-week period tracked by Nielsen.

Mr. Murphy said the company planned a "significant" increase in U.S. ad spending for Absolut in the current fiscal year.

Absolut was introduced to the U.S. in 1979 and became a household name with the help of avant-garde ads. For years, its print ads featured paintings of Absolut's bottle by art-world figures including Andy Warhol. Its latest campaign, begun in 2007 and called "It's an Absolut world," depicts an ideal universe where, for example, people pay for groceries and bus rides with hugs and kisses instead of cash.

Tom Pirko, a beverage-industry consultant with Bevmark, said the current campaign may be out of step with many Americans. "If people are right now frightened and anxious about the economy, they are not so interested in a brand trying to be cute," he said.

Absolut has been losing market share to such rivals as midpriced Svedka, owned by **Constellation Brands** Inc., and Skyy, part of Italy's Gruppo Campari. A 1.75-liter bottle of Absolut sells for about $30, while Skyy is in the $24 range and Svedka costs around $18.

Sales of Svedka, the fifth-largest vodka in the U.S. by volume, rose 25% in food, drug and liquor stores for the year to date through July 25, Nielsen said. Marina Hahn, a senior vice president at Constellation Brands, said Svedka has spent about 25% more this year than last on its ads showing the brand's spokeswoman, a futuristic "fembot" who encourages drinkers "to party like it's 2033."

Svedka is "shabby chic, and that's cooler today—now more than ever," said Keith Dusko, director of operations at Haru Sushi, a restaurant chain owned by Benihana Inc.

Gerry Ruvo, chief executive of Gruppo Campari's Skyy Spirits LLC unit, said Skyy vodka is benefiting from consumers' search for good value and from last year's launch of versions infused with natural fruit flavors. Skyy is the No. 4 vodka in the U.S. by volume.

Diageo's Smirnoff—also lower-priced than Absolut—has been outperforming its rival. Smirnoff's volume in North America rose 1% in Diageo's fiscal year ended June 30. The company has been offering mail-in rebates for Smirnoff and other brands. It also for the first time rolled out new flavors of Popov, one of its discount vodkas, whose sales have risen in the economic slump. At the high end, Diageo's Ciroc vodka, a relatively new brand promoted by music mogul Sean "Diddy" Combs, is posting rapid sales growth.

Pernod, which also makes Malibu rum and Chivas Regal scotch, said net profit rose to €945 million in the fiscal year ended June 30 from €840 million a year earlier, which was above analysts' expectations. Revenue rose 9.3% to €7.2 billion from €6.59 billion, thanks to the addition of sales from the acquisition of Absolut.

U.S. retail gloom lifting; shopper visits show gain

BY JOSEPH PEREIRA

U.S. retailers last month delivered some of their best results this year, with the industry decline well below expectations. Improved results at several midprice chains signaled that consumer spending is expanding beyond discount chains as the first hints of successful retail strategies beyond price cuts began taking shape.

Sales at stores open more than a year, a key indicator of retail health, declined 2.9% from a year earlier, according to Thomson Reuters Inc. Analysts had expected a 3.8% decline.

Such same-store sales look to have bottomed in July, analysts said. September results should benefit from an easier comparison with last year's sharp decline and a later Labor Day holiday. Of the 30 companies tracked by Thomson Reuters, 46% delivered better than expected sales, up from 38% in July.

Spending is expanding to more-moderately priced chains, from the concentration among discounters earlier this year. For the second month in a row, **Kohl's** Corp., a midprice department-store chain, posted positive same-store sales. It reported an increase of 0.2%, better than the 1.7% decline analysts had forecast.

Another upside surprise was **TJX** Cos., the owner of TJ Maxx and Marshalls, where sales rose 5%, exceeding the 3.9% increase analysts were expecting. Kohl's and TJX sell brand-name clothing at reduced prices.

Retailers including **Costco Wholesale** Corp. said more shoppers visited their stores last month than a year earlier, even as consumers concentrated on essential items. At **BJ's Wholesale Club** Inc., for example, customer traffic rose 4% from the year before but the average receipt fell 2%. Groceries sold well but apparel, electronics, jewelry and sporting goods were weaker.

Target Corp., where the 2.9% sales decline was narrower than the 5.1% drop analysts had forecast, started to emphasize competitive prices in its newspaper ads and store signs. New ads highlighting "frugalistas," underscore a chic element of saving money during a recession.

"Consumers are showing they want to shop. But retailers are needing to find clever ways of getting them into the stores by having the right product at the right price," said Matthew Katz, a managing director at AlixPartners LLP, a retail turnaround consulting firm.

The retail sales don't include data from **Wal-Mart Stores** Inc., which has benefitted from shoppers trading down. The world's largest retailer by revenue earlier this year stop reporting monthly sales. Wal-Mart disappointed Wall Street last month when it forecast that same-store sales in the quarter ending Oct. 31 would be flat to 2% higher than a year earlier.

Analysts will monitor September sales to see if the trend continues. Any predictions of a retail turnaround may be premature, said Jharonne Martis, a Thomson Reuters retail analyst. The U.S. unemployment rate—9.4% in July—likely rose in August as the economy continued to shed jobs.

Last month's retail sales were helped by a shift among several states—including California, Texas and Florida—of their annual tax-free shopping days for school goods to August from July. Even though overall retail sales came in slightly higher than expected, consumers were still looking for bargains.

Gap Inc. posted a 3% decline in same-store sales, smaller than the 7% predicted by analysts and the narrowest so far this year for the retailer. The company's sales received a big boost from its moderately-priced Old Navy chain, where sales rose 4%. Customers responded well to the company's denim collections, said Sabrina Simmons, the company's chief financial officer.

Back to school sales were brisk at apparel retailer **Aeropostale** Inc., a destination for the fashionable but value-minded teen. The chain reported a 9% increase in sales and raised its third-quarter earnings forecast.

—Kelly Evans and Ann Zimmerman contributed to this article.

Associated Press

U.S. retail sales fell last month but signs emerged of greater visits to and spending beyond discount stores. Shoppers leave a mall in New York in August.

Craft beer undergoes a makeover

In a Belgium lab, researchers test ways to prolong shelf life

By John W. Miller

Jerome Sessini for The Wall Street Journal (2)

A researcher tests craft beer at the laboratory in Louvain-La-Neuve, Belgium.

LOUVAIN-LA-NEUVE, Belgium—Sonia Collin, one of the world's leading beer chemists, has spent a life tinkering with recipes, consulting for everybody from mom-and-pop brewers to titan Anheuser-Busch InBev NV.

Now, in a lab in Belgium, a hub of craft brewing where Trappist monks have been fermenting complex beers for centuries, Ms. Collin seeks the specialty brewer's Holy Grail: great beers that keep their taste long enough that they can be shipped, stored and sold around the world without going bad.

Working with the help of a $1.7 million government grant, a team headed by Ms. Collin hopes to develop new techniques to prolong the shelf life of highly perishable craft brews.

All brewers adjust their recipes according to some degree of chemistry knowledge and training. But Ms. Collin's work, which will one day be published, will be closely watched by brewers around the world.

U.S. brewers say the work could help them grow their exports and make inroads into mass-produced lagers' dominance of the domestic market.

"Beer is liquid bread," says Matt Brynildson, who runs Firestone Walker Brewing in California. "It's not bulletproof. Like bread or milk or cheese, it goes bad quickly."

Shelf life is critical to shipping any processed food or drink beyond its home region, a lesson learned by everybody from Nestlé SA and Coca-Cola Co. to French cheese makers and Italian ham producers. Salting fired the great Atlantic Cod fishing industry centuries ago. Napoleon's armies were the first to boil and can vegetables for the long haul, say food historians.

In the late 19th century, pasteurization, which heats liquids to kill bacteria, made it possible to package and ship liquids over long distances. More recently, companies came up with sealed plastic packaging and freezing techniques to turn processed foods into a global business.

But beer-preservation techniques have lagged behind. Beers usually lose flavor after less than three months. Sunlight spoils the flavor by weakening the effect of the hops, letting a sulfuric, cardboard-tasting compounds take over the taste. Fermentation in the bottle and waste from bacteria can wreak havoc (though darker beers with high alcohol are an exception, maturing to produce a port flavor).

Better bottling methods and rigorous pasteurization have allowed big beer companies like Heineken NV and Anheuser to expand the lives of their beers. But to some beer enthusiasts, these lagers are simple and bland-tasting. Craft beers tend to be more vulnerable, mostly because there has been much less work done on how to make the result of their precise combinations of barley, hops, yeast and sugar last longer. Smaller breweries tend to focus on selling in their own neighborhoods, beer experts say.

The Belgian government, searching for ways to boost its homegrown industries after losing national steel and financial companies to foreign owners, has allocated $7 million for research on extending the shelf life of foods, including beer. It chose four family-owned brewers to take part and assigned researcher Ms. Collin the job of running the program.

The 46-year-old Ms. Collin forged her reputation as a top beer engineer in the 1990s. Interbrew, then a European brewer that since has joined up with Brazil's AmBev and Anheuser-Busch of the U.S., was having trouble keeping some of its most popular beers consistent in taste for more than three months.

Ms. Collin analyzed how Trans 2 Nonenal, the chemical responsible for giving older beer a cardboard taste, behaved in the bottle. She came up with a solution—drastically cutting the amount of oxygen let into the liquid while the ingredients were mashed and boiled.

Her brewing department at the University of Louvain-la-Neuve is one of a handful of institutions of its kind in Europe. Ms. Collin's laboratory includes a $250,000 tasting machine that identifies the chemical components present in a sample of beer, cases and kegs of beers for experimentation and a small brewhouse.

On a recent day, representatives from the four companies participating in the program gathered in Ms. Collin's lab for a meeting. Paul Lefebvre scribbled notes on a legal pad. He is the production manager for Brasserie Lefebvre, one of the four breweries in the program. Lefebvre exports only 2% of its $11 million annual sales to the U.S. Mr. Lefebvre would like to sell more, but he is held back by the beers' short shelf life.

Ms. Collin and her colleague, former Interbrew engineer Laurent Mélotte, say they already have come up with some solutions for Mr. Lefebvre and his fellow brewers: look into using more organic ingredients, adjust yeast and oxygen levels and reduce the time the beer spends at high temperatures during the brewing process. "Other answers will come later," says Mr. Mélotte. "We're looking for gentle ways of helping these beers to remain identical more than 12 months."

The cromatographe, a tasting machine used by beer chemists in a Belgium laboratory, allows them to sniff all the aromas of a beer with great precision.

EU cautions on aid to keep Opel plants open

By John W. Miller
And Marcus Walker

The European Union said Thursday that rules forbidding member countries from granting aid to industry conditional on keeping local plants open would apply if **General Motors** Co. were to receive €1 billion ($1.4 billion) from the U.K., Spain and Poland to restructure its Opel and Vauxhall operations.

GM, already in negotiations for an Opel aid package with the German government, expects to get the aid tied to keeping jobs and plants alive in the three countries, The Wall Street Journal reported Thursday.

"We still have to see the details, but you cannot make state aid conditional on localizing an investment in a particular country," said European Commission competition spokesman Jonathan Todd.

Earlier this week, the commission issued a similar warning to Germany. It said that any Opel aid package couldn't come with "noncommercial conditions," such as where a company must spend government aid. The commission, the central office of the 27-nation European Union, has the authority to order companies to pay back state aid it judges illegal.

German officials, meanwhile, warned GM that the country would withdraw financial support for Opel if GM decided to keep the division, rather than selling it as planned.

Chancellor Angela Merkel, who is widely expected to remain in office after Germany's elections on Sept. 27, is very doubtful about funding Opel if GM keeps the unit because of GM's checkered record at running the operation, a senior German official said.

Ms. Merkel will be in a stronger position after the election to reject further aid for Opel, the official said. Germany is confident that other European governments won't cut a deal with GM behind Berlin's back, the official said, because Germany's loan of €1.5 billion had saved GM factories outside of Germany from closure.

EU regulators take closer look at Oracle-Sun

By Peppi Kiviniemi

The European Commission on Thursday opened an in-depth antitrust investigation into **Oracle** Corp.'s planned $7.4 billion deal to buy **Sun Microsystems** Inc.

"The commission has to examine very carefully the effects on competition in Europe when the world's leading proprietary database company proposes to take over the world's leading open-source database company," said Competition Commissioner Neelie Kroes.

The commission wants to ensure that customer choice won't be reduced and that customers won't face higher prices as a result of the takeover, she said.

European antitrust clearance is the last regulatory hurdle standing in the path of the U.S. companies' deal. In the U.S., the Justice Department cleared the deal without concessions in August after an extended investigation to determine whether Sun's Java programming language and its licensing rights could be abused by the new owner.

Neelie Kroes

The in-depth probe gives the European Commission, the European Union's executive arm, four more months to decide whether it will require concessions from Oracle. The deadline for the investigation has now been set for Jan. 19, but cooperation on concessions could mean a decision will be made earlier.

Any further delay in Oracle's purchase of Sun would be a problem for the two U.S. companies. Sun has already lost customers because of uncertainty over the merger. But the review doesn't signal that the EU is angling to block the tie-up. EU antitrust regulators frequently launch in-depth reviews of large or complex deals, a move that gives staff more time to examine them and more leverage to seek concessions, such as divestments, from the parties.

A spokeswoman for Sun referred all questions to Oracle. An Oracle spokeswoman said the company had been informed of the deepened EU probe, but she declined to comment on how it would affect either the merger or the companies' database businesses.

The global database market is concentrated, with Oracle, **International Business Machines** Corp. and **Microsoft** Corp. controlling about 85% of the market in terms of revenue, the commission said.

Oracle makes databases and other software for corporations, while Sun makes computer servers and owns the widely used Java technology platform and the MySQL open-source database program. MySQL is a small player in the database market and in Sun's overall business. But MySQL is expected to become a bigger competitor in the software market, the commission said. The panel added that it will investigate Oracle's plans to develop MySQL.

California-based Oracle will want to speed up the clearance process to prevent any further losses to Sun's market share in high-end corporate servers, analysts said.

—Ben Worthen and Charles Forelle contributed to this article.

CORPORATE NEWS

EasyJet will downsize in U.K.

Budget airline warns of further job cuts, focuses on continent

By Kaveri Niththyananthan

LONDON—**EasyJet** PLC said Thursday it will close its East Midlands base in Britain and reduce its flight program at Luton Airport, as the budget carrier warned of job cuts at other locations.

The airline—which carries more passengers in continental Europe than in the U.K.—will instead move capacity to more-profitable airports and expects most of its aircraft to be redeployed to continental Europe.

Despite the move, easyJet said its growth target of 7.5% a year remained unchanged as it reported a 4.7% increase in the number of passengers it carried in August to 4.8 million.

Load factor increased 0.5 percentage point to 91.8%.

Bloomberg News

EasyJet said it was closing some operations in Britain and shifting more activity to Continental Europe. Above, one of its jets at Krakow airport in June.

The company's decision to close East Midlands, near Nottingham, comes after **Ryanair Holdings** PLC announced last month it planned to move part of its Manchester Airport operations to East Midlands.

Fellow budget carrier Ryanair said it carried 6.9 million passengers last month, up 19% from a year ago, while load factor was flat at 90%.

EasyJet's decision to reduce the flight schedule at Luton—its largest base—by 20% early in 2010 comes after a dispute over charges at the airport.

The airline said airport costs at Luton, about 50 kilometers north of London, have risen 25% over the past three years, making the base "no longer competitive."

EasyJet opened a formal 90-day consultation with its crew at Luton and East Midlands airports on potential job losses. It employs 530 pilots and cabin crew at Luton and 120 staff at East Midlands.

The carrier said it plans to cut the number of flight crews at Belfast, Bristol, Newcastle and Stansted but that the number of aircraft will remain the same. It said it plans to redeploy as many employees as possible.

Budget carriers keep costs to a minimum and offer low fares. In the past two years, easyJet has been particularly successful at snapping up takeoff and landing slots at primary airports that legacy carriers have abandoned.

Slots are usually scarce during times of growth, but easyJet's ability to accumulate slots could indicate that expansion will be smoother when demand begins to climb.

Bharti says bet on India's rural growth pays off

By Eric Bellman

MUMBAI—India's biggest cellphone company, **Bharti Airtel** Ltd., says rural demand is still strong despite a global economic downturn and widespread drought at home.

Sanjay Kapoor, the deputy chief executive officer of Bharti Airtel, said climbing demand from new customers, most of whom are outside major cities, is showing few signs of slowing. Growing consumer demand in rural areas—where about two-thirds of India's population still resides—is a major reason the country has been able to weather the global economic turmoil better than most countries.

"The growth story is still not over," Mr. Kapoor said in an interview. Data on the number of new subscribers and minutes they are talking on the phone, he said, "are not suggesting any slowdown."

Bharti's optimism is an encouraging sign for those who have bet heavily on countryside consumers continuing to thrive. Over the past year, many Indian and foreign companies marketing everything from shampoo to refrigerators to motorcycles have begun seeding rural areas with sales offices, hoping to ride a fresh wave of consumer spending.

Mr. Kapoor said around 56% of its new customers are from outside the major cities. He said India's subscriber base will continue to climb as only 35% of households have cellphones now and around 50% should be able to afford them. "Rural areas are still under 20% penetrated, and that is where a large part of India lives," he said.

Bharti Airtel's profit climbed 24% in the three months ended June 30 to 25 billion rupees ($510 million) as its revenue rose 17% to 99.42 billion rupees. In terms of new subscribers, it was Bharti's best quarter ever as it added 8.55 million customers.

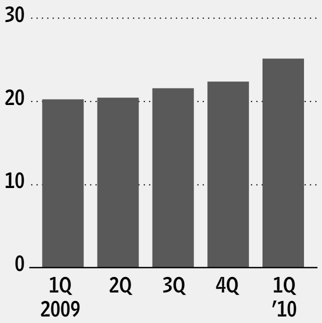
Still analysts voiced concern that the average revenue per customer has been falling at Bharti as it reaches out to poorer consumers. Bharti's average revenue for wireless-services customers slipped 21% year-to-year to 278 rupees per month during the quarter.

Joining forces with South Africa's **MTN Group** Ltd. could help improve Bharti's customer base, analysts said. Bharti Enterprises, the parent of Bharti Airtel, is in talks with South Africa's largest telecom company over a complex $23 billion combination that would create one of the 10-largest companies in the mobile telecommunications industry.

"Conditions in India are not too hot right now. They need a way to expand globally," said Harit Shah, telecommunications analyst at Angel Broking in Mumbai. "The MTN deal will bring new opportunities and new markets."

Bharti Airtel

Net income, in billions of rupees



Note: Fiscal years end March 31 of year shown
Source: the company

Mr. Kapoor declined to comment on negotiations with MTN.

Mr. Kapoor said Bharti is also trying to boost its bottom line through satellite television. It is trying to leverage its presence in rural areas by offering direct-to-home satellite television to those that can afford it in the villages. After launching the service late last year, Bharti already has over one million subscribers.

While Mr. Kapoor wouldn't say what percentage of its satellite-television service subscribers are from rural areas, he said the company has been surprised by the demand from even the smallest villages. "We believe that wireless is the right technology to bring entertainment to every nook and corner of the country," he said.

Bharti is optimistic that the government will at last finish the bidding process to determine which wireless companies will be allotted spectrum for third-generation, or 3G, services. Once it gets approval, Bharti should be able to launch the service, which allows for faster Web surfing through cellphones, within six to eight months, said Mr. Kapoor.

He said there could be huge untapped demand for 3G phone service in India, because most Indians can't afford computers and are only able to connect to the Internet through their phones.

"For the bulk of Indians the first experience of a phone call was on a wireless device, and their first experience for the Internet, we believe, will also be on a wireless device," he said.

—Sonya Misquitta contributed to this article.

Utility RWE lowers Essent's purchase price

By Jan Hromadko

FRANKFURT—German utility **RWE** AG lowered the purchase price for its takeover of Dutch peer **Essent** NV by €950 million ($1.36 billion) after legal moves barred inclusion of Essent's 50% stake in the Netherlands' only nuclear-power plant.

The development Thursday is a setback for the German company that, as Europe's largest corporate emitter of carbon dioxide, has pledged to increase its share in nuclear-power generation and renewable energies.

RWE will set aside the €950 million as it continues to seek to buy the stake in the nuclear-power plant, and Essent appealed the injunction, RWE spokesman Jan-Peter Schwartz said.

In January, RWE announced its intention to acquire Essent's production and supply operations in a deal valued at €9.3 billion, including €1.1 billion of debt. RWE still expects to close the transaction to take over the remaining parts of Essent in the third quarter of 2009, Mr. Schwartz said.

The German utility could secure the holding in the 512-megawatt EPZ nuclear power plant at Borssele in 2010 at the earliest, provided a Dutch court of appeal clears the way, Essent said. It could take years before a final verdict is reached.

Dutch energy company **Delta Energy**, owner of the remaining 50% in EPZ, filed the complaint that led the court to issue a provisional injunction in July. The government-owned company cited Dutch laws, under which nuclear-power generating assets must stay in public hands. Until its deal with RWE, Essent was controlled by local Dutch government entities.

RWE and Essent previously proposed splitting the 50% stake in the EPZ reactor: RWE would have owned the economic interest, while the legal interest would have remained in public hands, fulfilling statutes stating a stake in EPZ can only be held directly or indirectly by a government-controlled party.

—Maarten Van Tartwijk in Amsterdam and Hilde Arends contributed to this article.

GLOBAL BUSINESS BRIEFS

Hays PLC

Recruiter's net profit slides, a difficult 2010 is forecast

Hays PLC, the U.K.'s largest recruiter, posted a 44% drop in profit and said 2010 would be another difficult year. It said Continental European markets, which entered the downturn later than other regions, continue to experience deteriorating conditions; it saw initial signs of stability in the U.K. and Asia-Pacific markets, though no indications of recovery. Net profit fell to £105.8 million ($172.2 million) from £188.2 million. Net fees fell 18% on a like-for-like basis to £670.8 million. Recruiters have been hurt in the recession as weakened confidence in the economy deterred workers from changing jobs and employers from hiring, which curbed demand for staffing specialists.

Elbit Systems Ltd.

Norway's Finance Ministry said it has excluded Israel's **Elbit Systems** Ltd. from the country's global pension-fund portfolio because of ethical concerns. The Israeli company supplies surveillance gear used to monitor the Israeli wall cordoning off the West Bank. The ministry said the surveillance system is one of the main components of the separation barrier. The company declined to comment. "We do not wish to fund companies that so directly contribute to violations of international humanitarian law," said Finance Minister Kristin Halvorsen. The pension fund, which holds Norway's excess oil wealth for use by future generations, has already sold all of its shares in Elbit.

National Express PLC

A consortium led by CVC Capital Partners Ltd. Thursday increased its indicative offer for **National Express** PLC by 11%, valuing the struggling U.K. transport operator at £765 million ($1.25 billion). The 500 pence-a-share offer, which CVC said was final, followed the rejection Friday of an already sweetened bid of 450 pence a share, or £688.5 million. National Express was evaluating CVC's offer. National Express accumulated debts of about £1 billion in an acquisition spree. CVC, which is bidding with the Cosmen family, National Express's largest shareholder with an 18.7% stake, said its offer "wasn't expected to be conditional" on retention of the East Anglia and c2c rail franchises, reversing earlier demands.

Boeing Co.

Boeing Co. said its commercial-jet deliveries slid 22% in August from a year earlier and orders were down 11.5% as weaker demand for air travel forced airlines to cancel or postpone plans to buy new planes. The U.S. airplane maker said it delivered 28 planes last month and received 32 orders. Meanwhile, Louis Gallois, chief executive of Airbus parent **European Aeronautic Defence & Space** Co. said the Boeing rival will supply at least as many large commercial aircraft to airline customers this year as the 483 it delivered in 2008. "We've always said we'd deliver at least as many as in 2008, which probably means a little bit more maybe," Mr. Gallois told reporters.

—Compiled from staff and wire service reports.

U.S. political clock ticks on Afghanistan

Obama team has limited time to convince Washington a new strategy is in place and that it will move fast enough

By Gerald F. Seib

Washington is about to become fixated on a number: the number of troops President Barack Obama wants to add in Afghanistan.

And that's appropriate, as far as it goes. Each American deployed, after all, represents a life put on the line.

But there are two other questions perhaps more important to the Obama administration's effort to revive America's fortunes in Afghanistan. The first: Can the administration convince Washington that a significantly different strategy already is in place? And second, is the timeline for that strategy fast enough that it will show progress before political support collapses?

CAPITAL JOURNAL

If the answers to those two questions are positive, the level of American troops will become secondary. If the answers are no, the administration, by the middle of next year, will find it hard to sustain support for troops at any level.

The lesson of the troop surge in Iraq applies here: Concern about an abstract troop count dominates when the strategy isn't working. Conversely, that concern can fade rapidly when there is a sense that the strategy is working. Put another way, concern about troop levels is a sign of a deeper problem.

As that suggests, the perception of the American effort that takes hold in Washington in the next few weeks is crucial. The tendency now is for Americans to see Afghanistan with a combination of weariness and wariness: weariness because the fight the U.S. and its allies are waging has, in some form, been under way for eight years; wariness because of a growing sense that the longstanding American goal of constructing a stable and effective Afghan central government that can keep Islamic militants in check is simply not achievable.

To battle those problems, the Obama administration will have to foster the sense that what is evolving isn't another turn of the screw but a wholly fresh start. That effort began when Mr. Obama in February approved sending 21,000 additional troops, raising the total to 68,000, and continued when he changed commanders and Defense Secretary Robert Gates ordered up a new strategy.

U.S. marine walks through a village during a patrol in Delaram, Afghanistan.

Getty Images

That new strategy embodied a crucial shift: It fundamentally moved the war effort away from simply trying to hunt down and kill Taliban and al Qaeda fighters, and instead toward protecting the civilian population from Islamic extremists, in the process winning their allegiance for the effort and for the fragile Afghan government that is the West's partner in the undertaking.

Mr. Gates stressed Thursday that this new strategy isn't coming but already is in place. This week, his new commander, Gen. Stanley McChrystal, offered an assessment of the challenges still standing in the way. The final step comes when Gen. McChrystal declares by month's end how many additional troops he thinks he needs to carry it out. Gen. McChrystal will argue that more troops are necessary, not just to carry out the strategy, but, crucially, to train a bigger and more effective Afghan army.

Pentagon and administration leaders alike argue that this does represent a fresh start because Afghanistan was starved of troops, funds and serious policy attention for much of the past eight years. "We've badly resourced this for so long," Adm. Mike Mullen, chairman of the Joint Chiefs of Staff, said in an interview. "It's a very complex engagement, and now it's a civilian and a military strategy."

In fact, "underresourced" is the phrase of the hour when it comes to Afghanistan, repeated by military officials and outside advisers to summarize why their things have slid backward. It means, in a nutshell, that in focusing on the war in Iraq, the U.S. has substantially short-changed the fight in Afghanistan, in both manpower and money.

Anthony Cordesman and Erin Fitzgerald, at the Center for Strategic and International Studies, have just published a study that attempts to quantify the "underresourced" assertion. (Mr. Cordesman's observations are far more than casual; he was part of a team that helped Gen. McChrystal in his just-completed assessment of strategy in Afghanistan.)

The CSIS report chronicles the extent to which resources flowed to Iraq at the expense of Afghanistan since 2001. Its blunt conclusion: "In the case of the Afghan War, the United States underfunded the conflict to the point where it risked defeat." It was only in the past year, the report says, "some seven years after the war in Afghanistan became a major U.S. strategic commitment, when the U.S. began to fund the war seriously."

Significantly, the White House has picked up precisely this theme. "We underresourced Afghanistan for the better part of a decade, OK?" White House spokesman Robert Gibbs said to reporters this week.

The question now is whether it is too late, in political terms, to convince the country that a fresh and promising start is possible. The administration probably gets one chance to do so. Officials see some positive signs: They think the Afghan populace is showing it doesn't like the Taliban and that allies with troops in Afghanistan are resisting the urge to cut and run.

The flip side: Obama aides thought when they took office that they had perhaps a year and a half to show progress in Afghanistan before political support faced serious jeopardy. On that count, the clock is running.

U.S., Israel grow more upbeat on Palestinian peace talks

By Jay Solomon And Charles Levinson

WASHINGTON—Optimism is growing within the U.S. and Israeli governments that direct peace talks between Prime Minister Benjamin Netanyahu's government and the Palestinian Authority could begin as early as this fall, said diplomats involved in the process.

Negotiations between the U.S. and Israel over freezing Israel's settlements in Palestinian territories remain contentious, and it isn't certain a compromise will emerge that will allow the three parties and Israel's Arab neighbors to move forward on other issues.

But advances in those talks are feeding hopes that President Barack Obama could meet this month with Israeli Prime Minister Netanyahu and Palestinian Authority President Mahmoud Abbas on the sidelines of the U.N. General Assembly in New York, diplomats said. The three men could then announce the resumption of direct Israeli-Palestinian peace talks brokered by the U.S., said U.S. and Israeli officials.

Such a move would help the U.S. in its effort to build international consensus on isolating Iran over its nuclear program. Mr. Obama set a late September deadline for Tehran to respond to U.S. offers for direct talks over the nuclear issue, and some Arab governments have expressed reluctance to cooperate with the West on that front without some movement toward the establishment of an independent Palestinian state.

U.S. diplomats and members of the United Nations Security Council, plus Germany, met in Frankfurt on Wednesday to discuss Iran. Participants in the talks said Tehran has yet to respond concretely to the international community's offer, despite conflicting statements in the Iranian media.

Iranian news outlets reported Wednesday that Mr. Obama sent a second letter to Iran's Supreme Leader Ayatollah Ali Khamanei in a bid to open direct Iran-U.S. negotiations, which the White House neither confirmed nor denied.

"We share with the Obama administration the appreciation of the need to resume negotiations with the Palestinians so that we can intensify our focus on the main threat facing the Middle East and the world—which is the threat of Iran," Israel's new ambassador to the U.S, Michael Oren, said in an interview. "We're hopeful that we can resume talks this fall," he said.

Agence France-Presse/Getty Images

Israeli Prime Minister Benjamin Netanyahu, left, and U.S. envoy George Mitchell tried last week in London to move toward an agreement.

Fresh protests erupt in Urumqi

China boosts security as demonstrators cite lack of protection

BY GORDON FAIRCLOUGH

SHANGHAI — Authorities stepped up already heavy security in Urumqi—the northwestern Chinese city torn by deadly ethnic riots in July—after thousands of protesters took to the streets Thursday criticizing the government for failing to protect people after a recent spate of attacks by assailants wielding syringes.

The demonstrators, who began gathering early Thursday, were members of China's majority Han ethnic group, Han witnesses said. They said the crowds were peaceful—and shouted for the removal of the region's powerful Communist Party secretary, Wang Lequan.

"There are people everywhere," said one woman working near the city's central People's Square earlier Thursday. "They are chanting: 'Down with Wang Lequan.' "

A brief report by the state-run Xinhua news agency late Thursday said "tens of thousands of people" had taken part in demonstrations at several locations in the city. "The overall situation is now calming," said the report.

A separate Xinhua report said police closed main roads in the center of the city late Thursday, citing cellphone text messages sent out by the government. The report said the protests had crippled traffic in Urumqi and forced shops to close. Xinhua didn't report any violence or injuries.

The demonstrations were an unusual public challenge at a sensitive time for China's political leadership, which has tightened security across the country ahead of celebrations for the 60th anniversary of Chinese Communist Party rule on Oct. 1.

Reuters

Paramilitary police in riot gear block a road at the center of Urumqi, a northwestern Chinese city affected by deadly ethnic riots earlier this year.

Tensions have remained high in Urumqi, capital of China's Xinjiang region, since the July riots, which left nearly 200 people dead and more than 1,600 injured in the country's worst episode of ethnic violence in decades. The bloodshed began when Turkic-speaking and predominantly Muslim ethnic Uighurs went on a rampage against Han Chinese, killing more than 130. Revenge attacks by Han followed.

Thursday's protests show the perils of authorities' efforts to straddle the ethnic divide. Officials need to persuade Han Chinese they are being tough on Uighur law breakers and adequately protecting Han interests, while at the same time trying not to further alienate Uighurs, many of whom feel they are victims of discrimination. The danger is that if Han people feel abandoned by the security forces, they could resort to vigilantism, which in turn could provoke retaliation from Uighurs.

Mr. Wang, the Xinjiang party chief and effectively the region's highest-ranking official, is viewed by foreign human-rights groups as an advocate of hard-line policies toward China's ethnic minorities. The protests indicate that for at least some Han, worried about their safety, his approach isn't tough enough. But there is little prospect that authorities in Beijing will bow to the demands of the crowd and remove Mr. Wang.

Government officials have sought to paint a picture of returning normalcy, touting an international trade fair that opened in Urumqi this week. And President Hu Jintao visited the region at the end of August, exhorting local leaders to build a "prosperous and harmonious socialist" Xinjiang.

But large numbers of paramilitary People's Armed Police remain deployed in Urumqi, a city of 2.4 million. Police were stationed at Urumqi schools when they reopened for classes after summer vacation this week. The city's Han and Uighur communities remain deeply distrustful of each other.

The trigger for this week's Han demonstrations—there was also a smaller protest Wednesday—was a series of stabbings involving syringes, residents said. Rumors swept the city that the attacks were by Uighurs trying to infect Han Chinese with HIV, the virus that causes AIDS, they said.

Australia says ties with China remain steadfast

BY STEPHEN BELL

PERTH, Australia—Foreign Minister Stephen Smith said short-term difficulties in Australia's relationship with China won't affect long-term trade between the two.

Mr. Smith said Thursday that the problems include the detention in China of **Rio Tinto** executive and Australian citizen Stern Hu. Australian officials continue to make representations to Chinese authorities that Mr. Hu's case should be dealt with "expeditiously," he said.

But he added that "the long-term beneficial nature of the relationship both to China and Australia will in the end prevail over any of the difficulties."

Mr. Hu, the head of Rio Tinto's iron-ore marketing unit in China, was arrested in Shanghai in July with three other employees of the mining company. They face charges of bribery and infringing on trade secrets.

Joerg Wuttke, president of the European Union Chamber of Commerce in China, said Wednesday that the chamber's member firms remain concerned about the opaque manner in which the government is handling the Rio Tinto investigation.

Jiang Yu, spokeswoman for China's Ministry of Foreign Affairs, said Thursday that China will deal with the Rio Tinto case according to Chinese law and a China-Australia consular agreement. She said China's actions are "to safeguard the rule of law and create a sound and fair commercial environment, which is in the long-term interest of foreign companies in China."

Ms. Jiang, who was speaking at a regular news briefing, reiterated that sound bilateral ties are in the fundamental interest of both China and Australia.

Hatoyama tells Obama U.S. is still a vital ally

BY ALISON TUDOR AND YUKA HAYASHI

TOKYO—Japan's next prime minister, Yukio Hatoyama, moved to assure the U.S. that their relationship remains strong, playing down earlier signals that his new government will set a new course with its most important ally.

Mr. Hatoyama, who will take office on Sept. 16, and U.S. President Barack Obama spoke by phone Thursday morning Japan time, agreeing to build an "even more effective relationship," the White House said. Mr. Hatoyama said afterward that he had assured Mr. Obama the U.S.-Japan alliance is the "foundation" of Japan's foreign policy.

Mr. Hatoyama's Democratic Party of Japan swept into power in a landslide election victory Sunday on a platform that included a pledge to rethink Japan's traditional dependence on Washington.

In a meeting Thursday with U.S. Ambassador John Roos, Mr. Hatoyama stressed the importance of the U.S.-Japanese alliance. "The Japan-U.S. alliance is the axis of Japan's foreign policies," Mr. Hatoyama told Mr. Roos during the meeting, according to the DPJ leader's office.

Many observers of U.S.-Japan relations don't expect major changes but see the potential for subtle shifts. "We've got an unparalleled opportunity here for the U.S. and Japan to sit down and freshen up their alliance within the framework of the old," said Walter Mondale, the former U.S. vice president, who was an ambassador to Japan during the Clinton administration. As Mr. Hatoyama prepares to take office, Washington faces the challenge of cultivating fresh ties with the untested DPJ after over five decades of dealing with the Liberal Democratic Party, a staunch ally with conservative policies.

The DPJ has kept the U.S. on alert with its proposals to renegotiate the terms of the U.S. military presence in Japan and to discontinue Japan's refueling of U.S. warships in the Indian Ocean to support the war in Afghanistan. In its campaign policy pledge, the party said it would seek a "close and equal" relationship with the U.S., a statement largely interpreted as a desire to reduce Japan's reliance on their bilateral security alliance.