Money & Investing: How five asset managers coped with the crisis

THE WALL STREET JOURNAL.

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What's News

New statements by a U.K. official and oil company BP fed speculation by politicians and victims' families that the release of the convicted Lockerbie bomber is entangled with the country's pursuit of oil interests in Libya. Page 3

- **Voting turnout** by investors at European firms' annual meetings has risen above 50% for the first time, boosted by the financial crisis. Page 2
- **Trade ministers agreed** to resume talks on the Doha Round, in their first gathering since last year's failed summit in Geneva. Page 5
- **The WTO ruled** that Airbus received illegal EU subsidies, which could give the U.S. legal ammunition to contest future funding for Airbus. Page 6
- **The U.K. financial regulator** has blocked RBS from repaying four subordinated-debt securities. Pages 21, 32
- **Shell told** staff to brace for an acceleration of its restructuring plans, which will result in substantial job cuts. Page 4
- **OPEC ministers** likely will keep oil-production quotas unchanged at this week's meeting in Vienna. Page 4
- **China ordered** a cleanup of its online music market that will require sites to seek approval from censors for foreign songs they distribute. Page 7
- **U.S. employers cut jobs** in August at the slowest pace in a year, but the unemployment rate rose to 9.7%. Page 9
- **The Madoff report** by the SEC's inspector general showed how many chances there were for examiners to find the fraud. Page 22
- **China ousted two** top officials in the Xinjiang region in an effort to defuse public anger over the government's failure to halt violence. Page 11
- **Air France plans to cut** about 1,500 jobs through voluntary departures. Page 6
- **U.K. police arrested** 90 people in Birmingham after violence erupted between a group protesting Islamic extremism and counterdemonstrators.
- **The skipper** of an overloaded sightseeing boat that sank in Macedonia was detained on suspicion of causing the deaths of 15 Bulgarians.
- **Died: Keith Waterhouse**, 80, British writer whose works include the 1959 novel "Billy Liar," in London.

Editorial & Opinion

'Pointless'
The U.K.'s new immigration system is destroying jobs. Page 14

Breaking news at europe.WSJ.com

A deadly voyage off the southern Philippines

Agence France-Presse

The Superferry 9, carrying nearly 1,000 passengers, lists as naval boats approach off Zamboanga peninsula. Five people were killed and dozens were left missing after the ferry sank Sunday, officials said.

G-20 envoys clamp down on banks, pay

By Stephen Fidler And Laurence Norman

LONDON—Finance officials from the world's largest economies broadly agreed to rein in bonuses for bankers and to set higher balance-sheet standards for banks, but missing details left the potential for differences in the weeks ahead.

At their meeting here Saturday, the Group of 20 also pledged to maintain policies designed to support economic growth, but left open when and under what circumstances governments would begin to unwind those stimulative policies as economies stabilize from a year-long downturn.

The G-20 agreed on guidelines for the payment of bonuses to bankers, but the guidelines didn't include a cap on the amount that can be paid to individuals. And the agreement to compel banks to stiffen their capital bases also left implementation and enforcement open.

The outcome of this weekend's meeting now shifts to a gathering of world leaders in Pittsburgh Sept. 24 and 25, when markets and financial regulators will be looking for deeper detail of the broader blueprint for managing economic recovery and preventing another banking crisis.

German Chancellor Angela Merkel, speaking late Sunday at a joint news conference with British Prime Minister Gordon Brown in Berlin, said she hoped the G-20 leaders can develop the agreed principles in more detail when they meet later this month. These should include clear guidelines on bonuses and "deepening" discussion on capital requirements. "In Pittsburgh we will take stock and agree on the next steps," she said.

On bankers' pay packages, Mr. Brown said the financial sector can't return to the old ways. "We want to curb the bonus culture in the financial sector," he said.

The head of the International Monetary Fund, Dominique Strauss-Kahn, praised the degree of coordination among G-20 governments. But he said nations need to follow through on pledges to work together to further reform the global financial system. "I'm impressed by the level of consensus, but I'm still waiting for strong measures to be decided and also to be implemented at the national level," he said.

The G-20 asked the Financial Stability Board—a group of international regulators—to consider whether a limit on the total bonus payments made by individual banks as a share of profits is needed.

The agreement on bankers' pay calls for a large por-

Please turn to page 31

Bulgaria wins praise for austerity efforts

By Joe Parkinson

Bulgaria's new government has slashed spending and seen its approval ratings rise, making a political star out of Simeon Djankov, a former World Bank economist who runs the finance ministry.

The government, led by Prime Minister Boyko Borisov, swept parliamentary elections early in July on a promise to ease the recession and bear down on levels of corruption that prompted the European Union to freeze $1.56 billion in aid funding.

That lack of funds aggravated the economic pain for the EU's newest and poorest member, where real-estate and steel-industry booms propelled by a wave of foreign capital have been replaced by shuttered factories, sending budget deficits higher.

Mr. Djankov has frozen government wages and pensions, mothballed costly state investment projects, and slashed government spending by 15%. The result is an 81% reduction in Bulgaria's budget deficit to $76.5 million in August from $412 million in July.

Amid those measures, the government has earned accolades from Western economists and drawn the highest approval ratings at home since the fall of communism two decades ago. Recent Gallup polls put the government's approval at 64%.

Ivo Prokopiev, chairman of

Please turn to page 31

Inside

Magic numbers

Karzai is closer to avoiding Afghan presidential runoff
News in Depth, pages 16-17

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9441.27	+1.03
Nasdaq	2018.78	+1.79
DJ Stoxx 600	233.85	+1.37
FTSE 100	4851.70	+1.15
DAX	5384.43	+1.57
CAC 40	3598.76	+1.27
Euro	$1.4235	-0.18
Nymex crude	$68.02	+0.09

THE WALL STREET JOURNAL.

LEADING THE NEWS

Shareholders increasingly exercise votes

Turnout at meetings rises to 51%, boosted by financial crisis

By Mark Cobley
And Elizabeth Pfeuti

Agence France Presse

Financial firms have seen a huge increase in shareholders voting, said the director of proxy solicitation adviser Georgeson. Above, a shareholder speaks during the general meeting of the Dutch-Belgian bank Fortis, in February in Brussels.

Voting turnout by investors at European companies' annual general meetings has risen above 50% for the first time, as shareholders increasingly turn out to make their opinions heard on directors' handling of the financial crisis and its aftermath.

Figures from Manifest, the shareholder adviser, show the average turnout at companies in Western Europe's main eight blue-chip indexes hit 51% in the year to the end of July. In 2006-07 the figure was just 40%.

The agency's Europe-wide records go back only three years. However, evidence from individual countries confirms the rising trend. Its figures for the U.K. reach back as far as 1996, and this year's turnout for companies on the FTSE 100, at 68%, was also the highest it has on record.

Cas Sydorowitz, a managing director at the proxy solicitation adviser Georgeson, which advises companies on shareholder voting issues and trends, said the recent spike in turnout could well have been caused by the turmoil that engulfed the financial sector.

'Those involved this year are unlikely to step back,' said one governance director.

"In our experience, the financial firms have seen a huge increase in their turnout numbers this year," he said. "That is not only people expressing opposition on issues like executive remuneration, it is also thanks to the large number of corporate transactions and capital raisings that have had to be put up for shareholder approval."

George Dallas, director of corporate governance at F&C Asset Management, said he viewed the rise in turnout positively. "Those who have become involved this year are unlikely to step back," he said. "More institutions will feel pressure to raise their game. In future it should not be just the same 15 or so investors."

Sarah Wilson, chief executive of Manifest, agreed that the financial crisis had played a role but said there had already been a pre-crisis broad trend toward increasing voter turnout. Factors driving that included disclosure of share-voting records being made compulsory for U.S. mutual funds a few years ago and for certain French funds last year. This discourages them from staying away, as they must explain that to investors.

But Ms. Wilson also warned that compulsory voting was not always informed voting. "There is a risk that if governments force or strongly encourage voting, investors will simply vote blindly—either automatically in favor of management, or in line with the recommendation of a particular proxy adviser," she said.

The U.K. government has so far shied away from requiring fund managers to disclose their votes, though several fund managers do so voluntarily.

Paul Myners, a U.K. Treasury minister, has, however, made several recommendations this summer for improving investors' engagement with companies.

These include instituting different classes of shares, with only those available to long-term holders carrying voting rights, and allowing investors to sell voting rights, if they don't want them, to peers more committed to corporate governance.

Reaction to the ideas from fund managers has been skeptical. Mr. Dallas said: "What he has suggested so far won't work; separating ownership and control is unhealthy. But to give him credit, Myners is coming up with ways to get people thinking about ways of getting involved.

Mr. Dallas added that voting shares isn't the only way to influence management for most institutional shareholders. He said: "They have direct access to company boards and a lot of engagement is done that way."

Some investors are considering drastic action in order to exercise more influence over companies. The €78 billion ($112 billion) Dutch pensions giant PGGM Investments is considering a cull of the number of individual shares it owns—from over 4,000 down to 400—in order to concentrate its equity holdings in companies where it thinks it can make a difference.

A spokesman for PGGM said: "One of the main reasons is to have more influence over those companies in which we invest—we are currently discussing with this with our clients."

The investment firm has steadily increased the number of companies it has engaged with over corporate governance issues.

In 2006 it only spoke with a third of companies it held shares in, but by 2008 this had grown to almost half. It is also voting more—from 19% of its companies' AGMs in 2006 to 92% in 2008.

For more, visit efinancialnews.com

Japan's economic recovery faces threat

By Andrew Monahan

TOKYO—Japanese business investment fell by 21.7% from a year earlier during the second quarter, marking the ninth consecutive quarter of decline, the Ministry of Finance said Friday.

A record 32.0% plunge in manufacturers' business investment led the overall fall in the April-June period. Analysts say the lingering weakness in business investment threatens to hobble Japan's nascent economic recovery.

While a pickup in demand for Japanese goods due to government stimulus programs at home and abroad has led to busier factory floors, firms are continuing to cut investment to bring costs in line with lower sales levels.

As exporters slashed investment amid plummeting sales during the worst of the recession, overall capital expenditure fell a record 38.3% in the year ended March 31 from the previous year, the data also showed. That was led by a 57.3% plunge in investment among manufacturers from a year earlier, also a record fall.

While many companies may have put their sharpest cuts behind them, they are likely to continue trimming investment budgets for the rest of the year, economists said.

Despite industrial output rising for the fifth straight month in July, "production capacity is still in excess, since production fell off a cliff from the end of last year," said Masamichi Adachi, senior economist at JP Morgan. "So in this environment we believe that [capital expenditure] will continue to decline for the rest of the year."

—Takashi Mochizuki contributed to this article.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

U.K. official, BP fuel furor over Lockerbie

Statements feed view that prisoner release, oil interests were tied

By Spencer Swartz
And Alistair MacDonald

LONDON—New statements by both a top U.K. official and one of the country's largest oil companies fed speculation by opposition politicians and victims' families that the recent release of the convicted Lockerbie bomber is entangled with the country's pursuit of oil interests in Libya.

And in a measure of how jittery the government has become on the issue of Libya, the prime minister announced late Sunday that the U.K. will appoint dedicated officers in the Foreign Office and the U.K.'s Embassy in Tripoli to help the victims of the Irish Republican Army make compensation claims against Libya, who they believe aided IRA attacks.

Oil giant **BP** PLC said Friday it lobbied the U.K. in late 2007 over a controversial prisoner-transfer agreement with Libya, and oil-rich Qatar lobbied Scotland on the case in June. On Saturday, U.K. Justice Secretary Jack Straw acknowledged that, in 2007, wider trade issues played a part in leaving Abdel Baset al-Megrahi out of the prisoner-swap agreement that was being negotiated at the time between the U.K. and Libya.

U.K. Prime Minister Gordon Brown has said the U.K. didn't pressure Scotland to free Mr. al-Megrahi, the Libyan convicted of the 1988 bombing of a Pan Am flight that killed 270 people. He has strenuously denied accusations by political opponents that a deal to release Mr. al-Megrahi was made to facilitate the U.K.'s oil interests in Libya.

A spokeswoman for Mr. Straw said that the justice secretary had been clear that there was no link between trade and the eventual release of Mr. al-Megrahi, which was made by the Scottish government and was on "compassionate" grounds.

The debate over the prisoner-transfer agreement sheds light on how strongly the U.K. felt about facilitating the country's oil interests in Libya. It doesn't explain why Mr. al-Megrahi was released from prison. Mr. al-Megrahi has terminal prostate cancer and his release on Aug. 20 by the Scottish government, which had authority over the matter, was made on compassionate grounds.

BP said Friday it told the U.K. government two years ago it was concerned that a delay in concluding a prisoner-transfer agreement with the Libyan government might hurt a $900 million oil deal it had just signed with the North African state in May 2007.

Mark Allen, a special adviser to BP who played a prominent role as a chief U.K. negotiator in talks that led to Libya's renunciation of its nuclear-weapons program in 2003, called Mr. Straw, the U.K. justice secretary, in October 2007 to discuss the slow progress on a transfer deal, a BP spokeswoman said Friday. Mr. Allen, who has close ties with various top Labour Party officials, didn't raise the al-Megrahi case with Mr. Straw, she said.

It is unclear how the prisoner-transfer agreement would have been addressed without mentioning the al-Megrahi case, because the deal revolved around the case of the Libyan man, the only person to be convicted in the Lockerbie bombing.

The spokeswoman said she didn't know how many times Mr. Allen and Mr. Straw spoke or what exactly was said.

Mr. Allen couldn't be reached. A former senior counterterrorism official in Britain's MI6 intelligence service, Mr. Allen has served as a special adviser at BP for four or five years, the BP spokeswoman said.

The spokeswoman said BP had never raised its concerns with the Scottish government, which is part of the U.K. but has powers on a range of issues, including judicial matters, independent of the U.K. government.

Mr. Straw further fueled the controversy over the weekend. In an interview with the Daily Telegraph newspaper, he acknowledged that oil interests played some role in his decision to include Mr. al-Megrahi in the prisoner-swap agreement. Trade, he said, was "a very big part" of the negotiations over the prisoner deal. He added that Libya was "a rogue state" that the U.K. wanted to bring into the fold: "Trade is an essential part of it—and subsequently there was the BP deal."

BP has deep roots with the U.K. government, after operating for decades as a state-owned company until 1987, when it became fully private.

The links between Mr. Brown's Labour Party and BP solidified more than a decade ago. Shortly after Labour came to government in 1997, then-Prime Minister Tony Blair tapped then-BP Chairman David Simon to be U.K. minister for trade and competitiveness in Europe.

Mr. Blair stepped down in June 2007. The prisoner-transfer agreement was signed between Libya and the U.K. government late in 2007. BP's deal was ratified by the Libyan government officially in May 2008, but the approval date on the contract was Dec. 23, 2007, the BP spokeswoman said. The company's Libyan deal was one of many signed in recent years with Western oil companies.

Concerning the IRA, Mr. Brown had come under fire earlier from victims and their lawyers for not pushing Libya to help in their compensation claims. They say Libya shipped explosives in the 1980s and 1990s to republican bombers in Northern Ireland. The Libyan government has always denied this.

Downing Street released letters to victim's lawyers in which the prime minister argued it wasn't "appropriate" to discuss claims for compensation over arms sent to the IRA with the Libyan government. He said growing trade relations weren't the "core reason" for his decision, but acknowledged warming trade links did form part of a new relationship with Libya.

Later Sunday he said that the U.K. government would help the victims. "I desperately care about the impact of all IRA atrocities on the victims, their families and communities," he said during a news conference with German leader Angela Merkel.

A Downing Street spokeswoman said the statement didn't mark a change in direction. This type of aide is separate from making victim compensation an issue on a government to government issue, she said. The exchange, however, marks how fallout from Mr. el-Megrahi's release continues to cause trouble for the British government.

LEADING THE NEWS

Oil-output limits unlikely to shift

Meeting of OPEC will focus in part on overproduction

BY SPENCER SWARTZ

With oil prices near the Organization of Petroleum Exporting Countries' sweet spot, group ministers are likely to leave their oil-production quotas unchanged when they huddle on Wednesday in Vienna for the first time in almost four months.

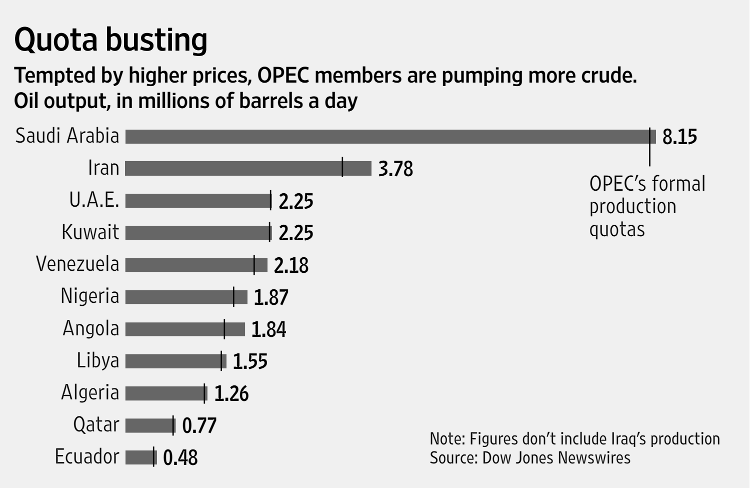
At the same time, the organization will grapple with the problem of some members exceeding formal production quotas, which is aggravating a glut in global oil inventory.

Crude prices ended Friday up six cents at $68.02 a barrel on the New York Mercantile Exchange, just shy of the bottom of the $70 to $80 a barrel range that several OPEC states, including Saudi Arabia, the world's biggest crude exporter, have pegged as a preferred level.

Oil prices have risen about 5% since OPEC's last meeting in May.

Oil prices are up nearly 53% so far this year, though well below an intraday exchange record of $147 a barrel hit last year. While not official OPEC policy, many ministers see $70 to $80 oil prices as a comfortable range that rewards oil producers financially without hurting consumers. Some economists, though, think higher prices will jeopardize economic recovery.

OPEC ministers and some officials have made clear recently they don't expect the group to tinker with its production target.



Some analysts, however, don't rule out OPEC's cutting production by at least 500,000 barrels a day on Wednesday or later this autumn. One senior Gulf OPEC official wouldn't exclude the possibility of OPEC announcing another cut this week.

Oil prices are up about 5% since OPEC's last meeting in May, when it decided to keep output steady. OPEC announced a series of large production cuts in late 2008 as economies around the world fell into recession and oil consumption collapsed, laying a foundation for higher crude prices this year.

The group's 12 members supply 40% of the 84 million barrels of oil a day consumed globally and hold all of the global oil markets' unused pumping capacity, giving OPEC leverage over world supply and prices. After prices tanked to a five-year low in December of $32 a barrel, the output reductions turned the industry back into a seller's market. Oil prices recently have climbed on investors' optimism about rising economic activity in China, the world's second-biggest oil consumer after the U.S.

Yet OPEC still has a nagging problem: The group isn't winning a battle that started a year ago to purge excess crude inventory, particularly heating oil, from the world market. Weak demand explains most of the buildup, but OPEC states' excess production is playing a role as well.

U.S. crude oil in storage caverns as of August was almost 15% above the 2003-2007 average, although down marginally from earlier this year, said Stephen Schork, editor of the Schork Report, an energy newsletter. "U.S. inventories have been pared, but there is still a glut," he said.

OPEC announced three production cuts totaling 4.2 million barrels a day starting last September. But tempted by rising oil prices, several OPEC states have pumped well above their output quotas to capture more oil revenue and keep their ailing economies intact.

Angola, Iran and Venezuela have produced above their quotas for months. Even Saudi Arabia, the group's de facto leader and usually among its most disciplined members, slightly breached its target in recent weeks, according to various industry estimates.With such output leakage showing little sign of slowing, quota compliance will be the mantra when ministers gather this week, said David Kirsch, director of market intelligence at PFC Energy. "OPEC doesn't want the market to get away from them," he said.

Adherence to the group's 2008 production cuts fell to about 67% in August from about 83% in March. OPEC states collectively are about 1.4 million barrels a day above target, thwarting a drawdown of excess supply in consumer states.

Ironically, overproduction from some of OPEC's biggest price hawks—Iran, for example, is producing about 400,000 barrels a day over quota—is putting a brake on higher oil prices.

OPEC officials and analysts say quota compliance will be the mantra when ministers gather in the Austrian capital this week. "OPEC doesn't want the market to get away from them, and they realize there is still a lot of excess supply in the system," said David Kirsch, director of market intelligence at PFC Energy.

Higher prices are keeping OPECs mood mellow for now, but concern is rising in the group that excess inventory may persist well into 2010. With winter around the corner, oil traders are starting to focus on heating-oil inventory, which currently stands at a 26-year high in the U.S. The big overhang, paired with weak autumn demand, could soon drive oil prices lower.

In other commodities trading on Friday:

NATURAL GAS: Futures rallied as traders bought back previously sold positions and hunted for bargains after Thursday's plunge to a 7½-year low. Natural gas for October delivery rose 22 cents, or 8.8%, to $2.728 a million British thermal units on the New York Mercantile Exchange.

GOLD: Prices fell on profit-taking following a rally this past week that nearly reached $1,000 an ounce. Thinly traded nearby September gold lost 90 cents to settle at $994.90 an ounce on the Comex division of the Nymex.Most-active December gold shed $1 to settle at $996.70.

Shell tells staff to expect substantial job cuts

BY BENOIT FAUCON AND MAARTEN VAN TARTWIJK

Royal Dutch Shell PLC has told staff to brace for an acceleration of its restructuring plans, which will result in substantial job cuts, a person familiar with the matter said Friday.

The cuts point to a broadening of the cost-reduction program new Chief Executive Peter Voser introduced in May, which is designed to help the Anglo-Dutch oil company adapt to lower oil prices. The cuts have already affected top managers and will now widen to include lower ranks, the person said.

In an internal email sent to mid-managers in its upstream business last week, the company said "the coming days will bring more information about Shell's reorganization... subject to consultations," according to the person. Shell's upstream business comprises its exploration and production activities as well as oil sands, gas and power.

In a separate statement posted on the company's intranet, Mr. Voser said "ongoing changes will result in significant staff reductions," the person added. Shell declined to comment on the internal communications. The group said in July it had already cut 20% of its top management positions, reducing them to 600 from 750.

Bloomberg News

Shell is facing a drop in profit after oil fell from $147 a barrel in 2008 to about $70 today. An employee delivers fuel to a Shell station in Bexley, England, in July.

Shell has previously said its reorganization will affect about 24,000 employees out of its total work force of 102,000. Even though it is unclear if all these will be job losses, the recent internal announcements indicate a significant number of positions will disappear.

The person said Shell's coming proposal will affect mid-managers and will first be submitted to its works council. The council is a consultative body where employees and managers meet to discuss company policy. Staff could then be asked to reapply for their current position or another one, the person said.

The shake-up, which Mr. Voser announced even before he took the helm on July 1, involves the merger of the three upstream units into two new geographically focused divisions, Upstream International and Upstream Americas. Staff in both divisions have received emails on the pending restructuring, the person said.

Shell's downstream division, which primarily refines and markets oil products, is being expanded to include trading, biofuels and solar energy. A new division, called projects and technology, is managing the design of all major projects upstream and downstream.

Like most oil majors, Shell is facing a steep drop in profits after oil prices fell from a peak of $147 a barrel in July 2008 to about $70 a barrel today. In the second quarter, profit dropped 67% to $3.82 billion from a year earlier.

The restructuring is aimed at cutting the layers of management. Simplifying the structure could speed up decision-making and ensure projects come on-stream faster with improved execution. That is a key objective for the company, which has been heavily criticized for delays and cost overruns at some of its most high-profile oil and gas ventures.

—James Herron contributed to this article.

Judge agrees to step aside in Chevron case

BY MERCEDES ALVARO

QUITO—The Ecuadorean judge purportedly caught on videotape discussing a multibillion-dollar lawsuit against **Chevron** Corp. over environmental damage in the Amazon has recused himself from the case.

Ecuador's attorney general, Washington Pezantes, said Friday that he had asked Judge Juan Núñez to withdraw from the case, which has garnered international attention and highlighted Ecuador's uncertain investment climate.

The recusal is a significant victory for Chevron, which has argued that the Ecuadorian judicial system is too corrupt to render a fair verdict in the long-running environmental lawsuit. The move could delay a ruling in the case, which had been expected by the end of the year and was widely expected by both sides to be against the San Ramon, Calif., oil company.

Chevron released recordings Monday that it claims show Mr. Núñez, who oversees the Lago Agrio court where the trial is being held, affirming that he would hold the company culpable for environmental damages. The company said the videos prove the judge, who was still considering evidence, is biased and should be disqualified from the case.

Mr. Núñez has contended that the video footage was manipulated. Chevron has said the videos are authentic and haven't been doctored.

"I have communicated with both sides in this case that I recuse myself from continuing with this case," Mr. Núñez said. "However, I will continue with my work as a judge, and as president of the Lago Agrio court, because I have not committed any illegality or irregularity."

Mr. Núñez declined to explain the reason for his recusal. He said he had notified Chevron and the plaintiffs, a group residing in the Amazon region that is suing Chevron for contamination caused decades ago by the oil operations of Texaco, which Chevron acquired in 2001, of his decision. Chevron has said Ecuador released it from liabilities after a cleanup by the company. The plaintiffs say the release applied only to claims by the government, not those made by private citizens.

Chevron has said in recent months that it expects to lose the case in Ecuador, but will fight enforcement of the ruling in the United States in part on the grounds that Ecuador's judiciary is insufficiently independent.

Steven Donziger, an attorney for the plaintiffs, said in a statement that Mr. Núñez's recusal shows the Ecuadorian judicial system is fair. He repeated earlier questions about the recording's authenticity.

"We again call on competent authorities in Ecuador and the United States to investigate any role Chevron and its officials might have played to script a bribery scheme for purposes of extracting an advantage in a private litigation," Mr. Donziger said in a statement.

Mr. Pezantes told reporters at a press conference Friday he had asked Judge Núñez to recuse himself from the case to give greater transparency to the investigation of the videos that his office is conducting.

"I presume the innocence of the judge," Mr. Pezantes said, adding that he trusts in the judge's honesty. But to remove any doubts about the investigation, the judge must recuse himself, he said.

LEADING THE NEWS

Ministers to resume Doha

Obama appointment signals fresh attempt at global trade pact

By John W. Miller

BRUSSELS—Trade ministers from major economies agreed to resume negotiations on the eight-year-old Doha Round of trade talks, a day after the Obama administration signaled its commitment to the process by naming a new ambassador to the World Trade Organization.

The decision Friday came after two days of meetings in New Delhi, the first gathering of trade ministers since a failed summit at the WTO's Geneva headquarters in July 2008.

Talks on a new global trade deal have broken down repeatedly over the thorny issue of agricultural subsidies in developed nations. "There has been a breakthrough in negotiations," Indian Commerce Minister Anand Sharma said. Other officials responded more cautiously.

The Doha Round has been delayed repeatedly since its inception in 2001. At summit after summit, countries have failed to fulfill their original promises—by the European Union and U.S. to cut farm subsidies and tariffs, and by developing countries to open markets for industrial goods.

"We have missed so many deadlines," said U.S. Trade Representative Ron Kirk, Reuters reported. "Substance will drive this process, not setting deadlines and timelines."

Ambassadors and their staff will begin talks in Geneva on Sept. 14, Mr. Sharma said. Such low-level, though formal, discussions had stopped after collapsing in Geneva last summer, when developed countries refused to give developing nations the right to raise tariffs if imports of a specific product suddenly spike.

If all goes well, there will be further talks on trade at a Group of 20 summit in Pittsburgh Sept. 24-25, followed by a WTO ministerial meeting in late November.

Trade officials say U.S. fears about the domestic political risks of cutting a major foreign-trade deal have become the main obstacle to reviving the Doha talks.

New trade leadership in India, the EU and the U.S., however, has sparked hope, as well as an acknowledgement that Doha's ambition might have to be downsized, experts say. "It finally sounds like there's serious engagement," says Iain MacVay, a lawyer for Steptoe & Johnson LLP in London. "What kind of deal we'll end up with is a different question."

EU spokesman Lutz Guellner stressed caution. "It's an important step forward, but we need to be careful," he said.

Mr. Guellner and other trade officials on Friday welcomed President Barack Obama's appointment of Michael Punke as the new WTO ambassador, who will reside in Geneva. The post had been vacant since Peter Allgeier resigned early last month.

The ambassador-designate is a Clinton-era Washington trade lawyer who quit to write history and teach at the University of Montana. Max Baucus, the influential Democratic senator from Montana, lobbied for his appointment. Mr. Punke "has keen political instincts and a great knack for getting along with people," says Richard Weiner, a Washington-based trade lawyer for Sidley Austin LLP. "He's bound to be a success as the new face of the new administration in Geneva."

Mr. Punke, who must be confirmed by the Senate, is also the author of a novel and a nonfiction book about conservationist George Bird Grinnell, who founded the first Audubon Society in the late 1800s.

Reuters

World Trade Organization Director-General Pascal Lamy, shown in New Delhi on Friday, has expressed hope about the revival of the eight-year-old trade talks.

CORPORATE NEWS

WTO ruling calls Airbus aid illegal

Interim decision on preferential European government loans to build A380 passenger jet is a boost for Boeing

By John W. Miller
And Daniel Michaels

BRUSSELS—The World Trade Organization ruled Friday that plane maker Airbus received illegal subsidies from European governments, according to two people familiar with the matter. The WTO said in a confidential interim ruling that the preferential government loans for the A380 passenger jet constituted an illegal export subsidy, these people said.

The decision could give the U.S. government and Chicago-based **Boeing** Co. legal ammunition to contest future funding for Airbus, a unit of **European Aeronautic Defence & Space** Co.

EADS could also be forced to repay billions of dollars in past aid, although a final judgement could take several years.

Spokesmen for Boeing and EADS declined to comment.

The U.S. filed its case against the EU in 2004, contesting what the U.S. alleged was $20 billion in illegal support from European governements for Airbus to develop new models. The support was given as loans, known as launch aid.

The EU quickly responded with a case against U.S. support for Boeing. An initial ruling in that case could be months away.

U.S. trade officials consider the ruling in the case, the biggest and most expensive in the WTO's 14-year history, to be a "great victory," according to one of the people familiar with the matter.

Reuters

Government subsidies to Airbus to launch the 380 jet were called illegal by the WTO. Above, an Airbus 380 in July.

An EU official contested that interpretation. "This report is much more complex and much more complicated" than saying the WTO ruled against EU support for the A380, the official said.

Another person familiar with the matter said the ruling doesn't categorically forbid loans from EU governments to Airbus.

EU trade spokesman Lutz Guellner said the preliminary report "is only half the story." The WTO could rule Boeing has violated trade rules in the EU's case against the U.S., analysts say.

EU governments are now in talks with EADS about providing €2.9 billion ($4.15 billion) to help Airbus develop the new long-range A350 to compete with Boeing's 787 Dreamliner.

Launch aid to the A350 wasn't covered by the finding, but U.S. officials say they plan to challenge it at the WTO.

The WTO also ruled that European funding for research and development at Airbus and for government-built infrastructure such as roads used predominantly by Airbus was illegal under trade rules, one person familiar with the case said.

The WTO published only two paper copies of its confidential report, around 1,000 pages long, for the U.S. and EU governments.

The WTO's final decision on the U.S. case against Airbus will come out next year. Analysts say the WTO ruling, which possibly won't be finalized for years, could set the framework for state assistance to airplane makers which must spend billions to develop passenger jets. Brazil, China, Canada, Russia and Japan are developing new jetliner models that could one day rival those of Airbus and Boeing.

"This case sets an important precedent that must be respected by all countries with an emerging commercial aircraft industry," said Sen. Maria Cantwell (D., Wash.).

Government help for major industries amid the current economic crisis has become less taboo than when the U.S. filed its WTO suit in a bid to defend Boeing.

The EU and U.S. signed an agreement in 1992 that gave both sides some license to aid their airplane makers. By 2004, however, Airbus had gained so much market share that the U.S. withdrew from the agreement and sued at the WTO. It alleged that Airbus's success hinged on generous market-distorting launch aid.

—David Pearson and Ann Keeton contribute to this article.

American Airlines faces growing FAA friction

By Andy Pasztor

American Airlines faces an escalating dispute with the Federal Aviation Administration over allegedly improper repairs to at least 16 aircraft.

FAA officials suspect that one of those planes was abruptly retired to get it out of sight of government inspectors, according to people familiar with the details.

The probe, which began several months ago, has raised red flags at the FAA about the Fort Worth, Texas-based carrier's willingness to properly disclose potential safety problems, these people said. It follows a string of clashes between the FAA and American, a unit of **AMR** Corp., over maintenance issues ranging from faulty emergency slides to engine parts with the wrong coatings. Those enforcement cases are continuing.

The latest case is viewed as particularly serious because some FAA inspectors think the circumstances under which the airline suddenly chose to mothball one plane show the move was part of an effort to hide the extent of suspected defects. The plane was ferried to the New Mexico desert in March for storage, according to people familiar with the probe and company documents, which were reviewed by The Wall Street Journal.

About three weeks earlier, American's engineering paperwork showed the plane was slated for repairs to return it to service. But American didn't explicitly tell the FAA of its change in plans, these people said, and FAA officials didn't learn of it until after the fact. Carriers aren't obliged to promptly report plane retirements, but inspectors felt in this case they should have been informed.

Bloomberg News

MD-80 jets used by American Airlines sit on the tarmac at Dallas-Fort Worth International Airport last year.

FAA press officials confirmed that the investigation into the repairs is continuing, but declined to provide details. The probe could result in millions of dollars in proposed fines or penalties.

American spokesman Tim Wagner said "the FAA has provided American the opportunity to respond to its investigation, and we are in the process of doing so." He declined to elaborate, adding "we believe conversations outside of that process are inconsistent with FAA regulations."

Without commenting on specifics of the retired plane, Mr. Wagner said allegations of impropriety "misrepresent the facts," adding that the FAA "has complete access to retired airplanes—and it exercises that access frequently." According to Mr. Wagner, "all airlines have the authority to make decisions regarding the retirement of individual aircraft based on economic and competitive factors."

The FAA's probe focuses on allegations that incorrect fasteners, improperly drilled holes, related poor workmanship and other maintenance lapses afflict a portion of American's aging fleet of MD-80 series jets, which the carrier is gradually replacing with more fuel-efficient planes.

According to preliminary findings of FAA inspectors, at least 16 of the twin-engine planes were operated for months, and sometimes years, with potentially substandard repairs to cracks around rear pressure bulkheads, key structural parts that can cause rapid cabin decompression if they rupture. American is in the process of responding to a formal FAA "letter of investigation" spelling out the allegations.

American's situation recalls **Southwest Airlines** Co.'s in the spring of 2008, when lawmakers revealed that a year earlier Southwest knowingly continued to carry passengers on 46 aircraft without performing essential safety inspections. Southwest subsequently said it got approval to do so from local FAA officials.

In American's case, the carrier pulled the 16 planes from service once it realized repairs were needed. But some FAA officials fault it for waiting too long and then hurriedly retiring a plane already under FAA scrutiny.

After flying the affected planes in early February into its Dallas and Tulsa, Okla., maintenance facilities, American told the FAA that it planned to retire a handful of them. The airline then listed 11 remaining MD-80s slated for permanent repairs in Tulsa, spelling out the instructions on an internal work order dated Feb. 12. The plane identified as #279 was on that list.

But by the time FAA inspectors were on hand to assess the planes' condition and review repair plans, #279 had dropped off the repair list, said people familiar with the details. Engineering orders on Feb. 28 and March 2 laid out the work to be done on the rest of the jets, but didn't mention #279.

After the FAA learned of the fate of aircraft #279, an inspector went to Roswell, N.M., to take photos of the fuselage and sections around the rear bulkhead, said people familiar with the matter. Several other FAA inspectors have made trips in recent month to examine different parts of American's retired MD-80 planes.

Air France plans to eliminate 1,500 positions

By David Pearson

PARIS—Air France said Friday it plans to cut about 1,500 jobs through voluntary departures in a bid to offset falling revenue from passengers and cargo.

Like other airlines, Air France is adapting operations to the deterioration in traffic amid the economic slowdown and to heightened competition from high-speed trains and low-cost carriers.

The plan has been presented to employee representatives, and negotiations will start this week with a view to presenting a draft plan to its European works council Oct. 21, the airline said.

Air France, one of the two constituent airlines of **Air France-KLM**, has 63,000 employees. Airline officials said the voluntary-departure program won't be open to flight crews or maintenance staff.

The carrier plans to cut its cargo capacity by 15% to improve its load factor, a measure of how full its planes are, which has been severely hurt by the slump in world trade. It is also reducing its passenger capacity by 5% to adapt it to reduced traffic.

In July, Air France said it intends to reorganize its medium-haul operations to adapt to the deterioration in market conditions, a plan that could involve eliminating both flights and destinations.

For the quarter ended June 30, its fiscal first, Air France-KLM posted a €426 million ($607 million) net loss as revenue declined 21%.

China sets new rules for music sold online

Foreign songs require approval; measures cover search engines

By Loretta Chao

Associated Press

Officials said the new rules requiring foreign songs to be approved by censors also apply to search services like Yahoo China and Baidu, whose offices are shown above in 2005. The services provide links to music, rather than hosting it on their own servers.

BEIJING—China's government ordered a cleanup of the country's online music market that will require music sites to seek approval from censors for all foreign songs they distribute on the Internet.

The Ministry of Culture's measure, which affects music services provided by companies including **Google** Inc. and **Baidu** Inc., is the latest effort by the government to try to assert control over the Internet, which has some 338 million users in China, more than in any other country.

In a statement on its Web site, the ministry said the measure is aimed at addressing problems such as "the intermingling of good and bad content" and "the large quantity of imported music without approval," as well as copyright violations and a general "lack of supervision and regulation over market behavior."

Groups representing record labels said they hoped the move would lead to tougher action against piracy, which is rampant in China. The International Federation of the Phonographic Industry, which represents music companies, estimates that music sales in China totaled just $82 million last year, and 99% of the music accessed in China is unlicensed.

The Culture Ministry's rule, issued late Thursday, sets up what could be an enormous bureaucratic task. It requires that all music from outside China, including Hong Kong and Taiwan, must be submitted to the ministry by the end of the year.

Online music distributors will be required to provide written lyrics for each song, translated into Chinese, and documents to prove they aren't infringing on intellectual-property rights, the ministry notice said. In addition, companies wishing to provide music-download services will be required to apply for an Internet culture license to do so, it said.

"If you look at the cost-benefit analysis, there is a bit of time required to do this, but if the benefit that those who are doing it the right way get to have a fair shot at the market, it's probably worth doing," said Mathew Daniel, vice president of Beijing-based online music store and distributor R2G.net.

The government already censors imported movies and books, and vets set lists for foreign bands like the Rolling Stones that play concerts here. But the scope of online music is daunting: Music services in China offer hundreds of thousands of songs from artists outside mainland China—music from Taiwan and Hong Kong is among the most popular here—and it is unclear how the ministry plans to process all those applications in fewer than four months. The ministry said it "recruited and trained a sufficient number of qualified reviewers" to do the work.

In China, a different tune

Music sales by selected countries for 2008, in billions

Country	Total sales	Digital music share of total sales
U.S.	$4.97	36%
Japan	4.11	20
U.K.	1.85	14
Germany	1.63	8
France	1.05	15
South Korea	0.14	60
China	**0.08**	62

Source: International Federation of the Phonographic Industry (IFPI)

It is also unclear how much of the initiative is really targeted at cracking down on piracy. The Culture Ministry isn't the main enforcer of copyright protection in China.

Officials stressed that the rules also apply to search services like Baidu and Yahoo China that provide links to music, rather than hosting it on their own servers.

Neal Turkewitz, an executive vice president at the Recording Industry Association of America, said music search services like Baidu should be included in the new rules. "Hopefully these new regulations will be applied to all services that provide access to music, and not only to the few legitimate services that are providing legal materials," he said.

Baidu, the Chinese search leader, has long been criticized by the recording industry for providing links to unlicensed music. "Baidu is a search engine. Of course it's regulated by the notice," a ministry official said.

A Baidu spokeswoman said Baidu's music service already "has attained approval" from the Culture Ministry. "We believe that a more standardized environment for digital music will benefit music content providers, Internet users and Internet companies alike," it said, adding that Baidu "complies with local rules and regulations."

Alibaba Group, which operates **Yahoo** Inc.'s sites in China, declined to comment. Spokespeople for Google didn't respond to requests for comment.

Some industry executives focused on the benefits of a possible clampdown on piracy, despite the extra work that will be required of online music companies.

"Finally, a government agency has a clear [statement that] music search must be linked to licensed music," said Gary Chen, chief executive of **Orca Digital**.

The Chinese company owns Top100.cn, a Web site that has partnered with Google to provide free, licensed music downloads to users in China. "This is a very positive [step to building] a healthy and legitimate music industry in China," he said.

—Ethan Smith, Ellen Zhu and Kersten Zhang contributed to this article.

Google executive's departure highlights struggles in China

By Jessica E. Vascellaro And Loretta Chao

The resignation of Kai-Fu Lee, head of **Google** Inc.'s China operations, is the latest evidence of the search giant's continued struggles in the region, where Internet competition is intensifying.

The company announced Mr. Lee's departure late Thursday, saying the 47-year-old executive will be moving on to start a new venture in Beijing. His new project will involve investing in young companies, according to one person familiar with his plans.

Google said its business was doing well in China, noting that the company planned to nearly double the size of its sales force in the country and was seeing "steady growth." Google said it will divide Mr. Lee's duties among two current executives.

A Google spokesman said Mr. Lee wasn't available for an interview and declined to comment further on the company's performance in China.

Mr. Lee's departure is the end to a tenure in which some on Google's China team repeatedly clashed with the Chinese government and, at times, with executives in Google's Mountain View, Calif., headquarters over issues such as marketing, according to people familiar with the matter.

Google's share of China's search market by revenue has been growing and stood at 29% in the second quarter of this year, according to research firm Analysys International. But Google hasn't been able to take share away from its chief rival, **Baidu** Inc., which offers a range of services popular with Chinese Internet users, like Baidu Post Bar, a tool that allows users to share information from message boards.

"There has not been a dramatic change in Google's fortunes in China," said Mark Mahaney, an analyst with Citigroup, who estimates that roughly 2% of Google's annual revenue, or roughly $300 million, comes from China. He adds that despite the size of the market, investors' "expectations have kind of mellowed about Google's ability to succeed in" China.

Getty Images

Kai-Fu Lee is leaving Google's China operations, which has been unable to gain market share from search rival Baidu.

Google hired Mr. Lee in 2005 to lead its expansion into China, luring him from **Microsoft** Corp., which sued Google over the move. The companies settled the case and Mr. Lee, a former computer-science professor, helped expand Google's China business into a 700-person operation.

Mr. Lee pushed the launch of new products for the region, including new mobile offerings and a new music-search service.

But competition has only intensified. Baidu has been rolling out new search-advertising technology to help advertisers better target and manage their ads. And Taobao, an e-commerce site owned by China's **Alibaba Group**, is a growing competitor when it comes to searching for products—a lucrative area of the search market.

Mr. Lee and his team were repeatedly distracted by clashes with the Chinese government. This summer, Chinese authorities publicly reprimanded Google for the appearance of pornography in its search results. Google executives promised to work harder to cut back on porn, temporarily disabled some search recommendation features and removed some links.

In previous interviews, Mr. Lee acknowledged that Google had made some missteps in the region. From the very start, the company's name was confusing to Chinese users, he said. He also said the company lagged behind its competitors with linking to breaking news.

Mr. Lee said at the time that the company fixed these problems by shortening its URL to G.cn, and partnering with China portal Sina.com and other companies to do cross-promotions and to speed up news updates.

CORPORATE NEWS

Handset makers try to stoke sales

New-product lineups attempt to persuade customers to upgrade

BY GUSTAV SANDSTROM

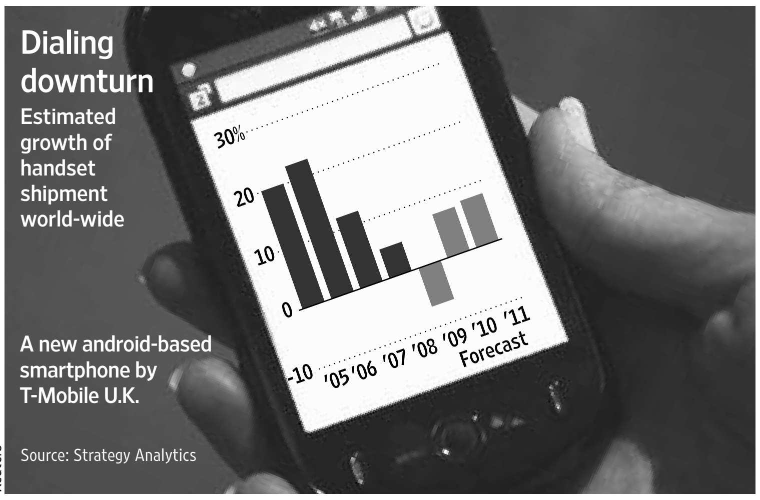
STOCKHOLM—As the handset industry begins to emerge from its worst-ever decline in sales, mobile-phone manufacturers are trying to reverse a narrowing of their margins and fend off competition from PC and software companies.

Those goals are reflected in the slate of products planned for the second half of 2009, ahead of the key Christmas sales period, which include phones designed to persuade customers to upgrade to one of the new generation of high-powered and higher-margin devices.

"Customers are asking for the iPhone and for anything which gives [Internet] surf possibilities," said Sofia Stalnacke, a sales representative at a mobile-phone retailer in Stockholm.

Nokia Corp., the world's largest mobile phone maker by sales, said last week said it will launch the new N900 smart phone, its first device to run on the Linux operating system, in the fourth quarter. Linux is perceived as more cutting edge and applications-friendly than Nokia's usual Symbian platform.

At the same time, Nokia plans to launch the N97 Mini, a smaller, cheaper version of its high-end N97 smart phone, sales of which have been disappointing. The N97 mini will allow users to integrate the phone with their accounts on social-networking Web site Facebook.



Reuters

In addition, Nokia's range of new service offerings includes advanced satellite navigation-based search services, as well as features to simplify bill payment.

The company is about to launch its first netbook, the Booklet 3G, which will start shipping in the fourth quarter at around €575 ($825)and marks the company's first step into the border area between PCs and mobile phones.

But while the overall number of mobile phones sold may start growing again soon, total revenue might continue to decline. While some consumers are expected to replace their old handsets with high-end devices like **Apple** Inc.'s iPhone and Nokia's N97, the highest-volume segment remains cheaper, low-margin models that now have many more advanced features than before, said Carolina Milanesi at research and consulting company Gartner.

Apple has just started shipping its latest iPhone 3GS, which is faster than previous versions and comes with a better camera.

Market leader Nokia has seen its average handset selling price fall for the past year and a half—to €62 in the second quarter 2009 from €83 in the fourth quarter of 2007, as more of its customers choose lower-priced models.

Even in volume terms, mobile-phone sales are unlikely to return to the rapid growth rates of the past few years anytime soon, because the market is getting increasingly saturated, and consumers are starting to look for newer data devices such as e-books, said Neil Mawston, analyst at research firm Strategy Analytics.

Meanwhile, Sony Ericsson, a joint venture of Sweden's **Telefon L.M. Ericsson**, and Japan's **Sony** Corp., will launch the entertainment-oriented Aino, Yari and Satio phones in the fourth quarter. The Satio has a 12-megapixel camera and allows users to download a wide range of applications, while the Aino offers high audio and video quality and the ability to integrate the device with Sony's PlayStation 3 console. The Yari is an advanced gaming phone.

Bert Nordberg, who will take the helm at Sony Ericsson next month, said the company may develop more high-end phones to improve its market share, which has fallen sharply as consumers have abandoned the middle market to buy either high-priced devices with advanced features or have traded down to save money.

Still, Gartner's Ms. Milanesi said there are some signs of hope for mobile-phone makers: improved consumer sentiment and attractive new phones should help the market return to volume growth toward the end of this year.

"All in all, we are expecting a better fourth quarter than last year," Ms. Milanesi said. "We have definitely started to see a little bit of light."

Scrapping incentives lift U.K. car sales 6%

BY STEVE MCGRATH

LONDON—U.K. new-car registrations climbed 6% in August, the second consecutive month of growth as the government's scrapping program continued to boost demand for small cars. But fears persist that the market will again suffer once the scheme ends.

New-car registrations, a measure of sales, last month edged up to 67,006 from 63,225 a year earlier. The growth was stronger than the 2.4% rise reported for July, which had seen the first growth in registrations in 15 months.

"The scrappage incentive scheme is having a positive impact, but with consumer and business confidence still fragile, there remain significant risks ahead," said Paul Everitt, chief executive of the Society for Motor Manufacturers and Traders, or SMMT, which compiles the data.

The U.K. scrapping plan, which came into effect May 18, mirrors similar plans in other Western European markets. It offers car owners £2,000 ($3,266) in discounts on new vehicles when they trade in vehicles that are more than 10 years old, with £1,000 coming from the government and £1,000 coming from the manufacturer of the new car.

Governments introduced the programs to help car makers and dealers weather the biggest drop in demand for new cars since World War II, while at the same time boosting consumer spending and improving their environmental records.

Before the program was implemented, demand for new cars had plummeted in the U.K. amid the deepening recession. With 1.15 million vehicles, new-car registrations for the first eight months of this year are still down 22% from a year earlier.

Incentives vary from country to country. Germany implemented one of the most generous plans, offering €2,500 ($3,563) in trade-in discounts. As a result, new-car registrations in Germany have soared. In August, they rose 28% from a year earlier. However Germany's program ended Wednesday and many others are also running out.

The U.K. government has set a budget of £300 million. It said a total of 154,927 cars had been ordered under the plan by Aug. 2 and it doesn't plan to extend the incentives.

The SMMT expects the program to boost car sales further in September—a key month because it is one of the two times a year that U.K. registration plates change, and it accounts for an average of 17% of annual sales.

Ford Motor Co. and **Hyundai Motor** Co. continued to be the program's big winners last month.

Ford was the top seller thanks to the popularity of its Fiesta and Focus models, but Hyundai, which hadn't ever had a model inside the U.K.'s Top 10 best-sellers until July, saw its i10 model become the country's third-best-selling car in August.

Vauxhall, whose brand has been tarnished by the bankruptcy filing in the U.S. of parent General Motors Co., saw its sales drop 37% to 6,020 vehicles and its market share fall to 9% from 15.1%.

MGM Mirage sees improvement in Macau

BY ALEXANDRA BERZON

MGM Mirage has seen a "profound" improvement in the performance of its struggling casino in Macau this summer, Chief Executive Jim Murren said in an interview Friday.

Las Vegas-based gambling giant MGM Mirage had been losing the fight for customers against its competitors in China's gambling enclave ever since its 600-room MGM Grand Macau opened in December 2007 at a cost of $1.25 billion.

But in August, the casino lifted its market share of Macau gambling revenue to 11%, up from 8% in June. That moved it from sixth place to fifth in the Macau market, passing **Galaxy Entertainment Group**, according to the Portuguese news agency Lusa, which compiles the data.

Overall, Macau casinos reported a 17% jump in revenues in August after a period of decline caused by the global downturn and visa restrictions imposed by the Chinese government.

"We're feeling better," Mr. Murren said. He noted that in the past, "We underperformed relative to our potential," adding, "We made a lot of changes."

Macau is a vital market for American casino operators, who have seen their U.S. operations flag during an entrenched recession. Macau offered some hope for American casino operators like **Wynn Resorts** Ltd. and **Las Vegas Sands**. But the destination has also been beset by problems, such as the Chinese government's move earlier this year to restrict visits from mainland China. Still, most analysts and industry observers believe Macau will be an important growth area for casinos.

Mr. Murren said the company made early missteps by overestimating Chinese gamblers' interest in high-end restaurants and hotel rooms.

In the past few months, the company has changed the management team, stepped up its marketing and focused on making its casino areas more appealing to serious gamblers, Mr. Murren said.

Those changes include adjusting menus at restaurants to accommodate local tastes and moving drinks closer to gamblers. In the high-limit gambling rooms, the company has put in more restrooms and provided Internet access, Mr. Murren said.

GLOBAL BUSINESS BRIEFS

Elan PLC

Judge rules J&J deal breaches Biogen drug collaboration

A U.S. federal judge has ruled that **Elan** PLC's recent deal with **Johnson & Johnson** breaches its nine-year collaboration with **Biogen Idec** Inc. to sell multiple sclerosis treatment Tysabri. The ruling means Elan must alter the J&J agreement in its current form by Sept. 26 or run the risk of losing all rights to Tysabri, a drug that generates nearly $1 billion in annual revenue and is the major growth driver for both companies. J&J agreed to buy 18.4% of the Irish biotech firm in a July agreement that also gives the New Brunswick, N.J., drug giant an option to finance Elan's purchase of Biogen's Tysabri stake, if Biogen were to be acquired at some point.

Siemens AG

Companies have been gearing up to turn old-fashioned power grids into intelligent networks for distributing electricity. On Friday, German industrial conglomerate **Siemens** AG said it wants to achieve more than €6 billion ($8.58 billion) of orders related to intelligent power grids by 2014, after collecting almost €1 billion in orders in the fiscal year ending Sept. 30. The orders are coming mostly from utilities and other companies that are in turn subsidized if they invest in the technology. Demand for smart-grid technology is booming, as various government stimulus packages channel money into technologies to reduce carbon-dioxide emissions.

Telefónica SA

Telefónica SA said Sunday it has reached an agreement to deepen its strategic alliance with **China Unicom (Hong Kong)** Ltd., giving Spain's largest telecommunications operator by market value a stronger foothold in the world's largest mobile-phone market. Telefónica said it will increase its stake in China Unicom to 8.06%, from 5.38%, and that China Unicom will buy shares equal to between 0.885% and 0.892% of Telefónica. The two companies will spend $1 billion each on the share purchases. In addition, they will cooperate in various areas including research & development, joint purchasing of equipment and joint service provision to multinational customers, Telefónica said.

ArcelorMittal

ArcelorMittal, the world's largest steelmaker by capacity, holds an option to raise its stake in India's **Uttam Galva Steels** Ltd., Uttam Galva's commercial director said Saturday. "The option is always open. We haven't closed the option of ArcelorMittal increasing its stake in Uttam Galva, but we haven't discussed anything on that," said Ankit Miglani, who is also part of the founding group of Uttam Galva, at a news conference. On Friday, ArcelorMittal said it planned to spend 5 billion rupees, or $103 million, for a 35% stake in Uttam Galva Steels. ArcelorMittal bought a 5.6% stake in Uttam Galva Thursday. The offer values Uttam Galva at 28 billion rupees, or $560 million.

—Compiled from staff and wire service reports.

Job losses weigh on recovery in U.S.

Unemployment rate hits highest level since 1983, at 9.7%

By Sudeep Reddy

U.S. employers cut jobs in August at the slowest pace in a year, but a jump in the unemployment rate to a 26-year high of 9.7% reinforced worries that a weak labor market could weigh on consumer spending and the vigor of the economic recovery.

Nonfarm payrolls fell by 216,000 jobs in the month, fewer than the 276,000 lost in July, the Labor Department said Friday. The economy has shed 6.9 million jobs since the recession began in December 2007. The data reinforced expectations that employers will begin adding jobs by early next year, though the pace of job creation remains uncertain.

The latest figures are consistent with an economy pulling out of the deepest downturn since the Great Depression. But rising unemployment portends persistent weakness in consumer confidence, income and spending, even as manufacturers start bouncing back and stocks revive. The construction and manufacturing sectors together accounted for more than half of August's job losses. Losses in retail and business services narrowed. The biggest gains came in health care.

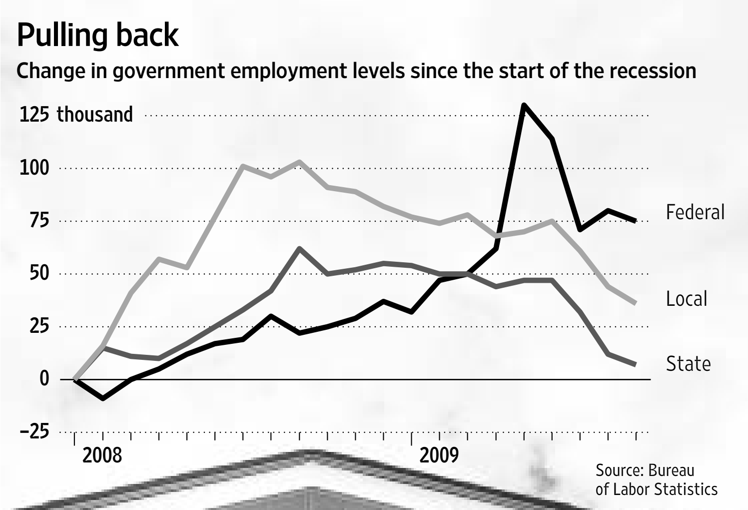
Stephen Stanley of RBS Securities said the report "strengthens our conviction of a relatively upbeat economic outlook," but added that "it was not far enough away from expectations to change the views of either optimists or pessimists."

Rising joblessness is likely to heat up the debate in Washington about the efficacy of the $787 billion fiscal stimulus. Government payrolls declined only 18,000 in August. If not for federal support for state and local budgets, they probably would have fallen further. On the other hand, stimulus funds are flowing too slowly to offset continuing cuts by private employers.

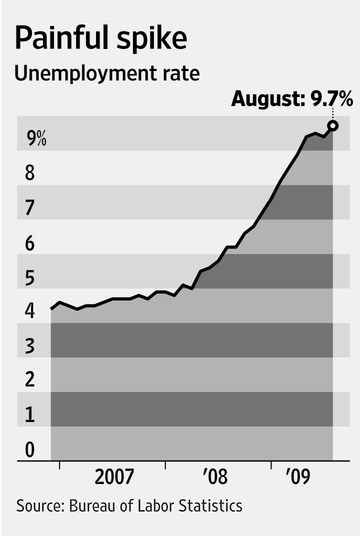
"I want to be clear about something: Less bad is not good," Vice President Joe Biden said. "That's not how President Obama and I measure success."

The rise in unemployment, after dipping to 9.4% in July, came as more Americans returned to the work force. Teenage unemployment hit 25.5%, the highest since the government began keeping records in 1948. The jobless rate for men rose to 10.1%—well above the 7.6% rate for women—as male-dominated fields such as construction and manufacturing continued to bleed jobs.

A broader measure of joblessness, which counts people who have stopped seeking work and those working part-time but want full-time jobs, rose half a percentage point to 16.8%.Most economists expect the rate to top 10% in coming months and stay above 9% through 2010.



Getty Images



State, local government no longer safe haven

By Sudeep Reddy And Conor Dougherty

State and local governments stood out as safe havens for workers in the U.S. during the recession's early stages. Now even they are laying off employees as officials rush to cut costs and balance budgets.

August marked the third straight month that state and local governments shed jobs, reflecting cutbacks prompted by declining income and property taxes. They accounted for the bulk of the 18,000 government jobs lost in August—the U.S. Postal Service cut about 8,500 jobs as well—and analysts expect the reductions to continue through much of the year.

Despite billions of dollars in aid from federal stimulus programs, budget cuts across the nation are forcing employers that depend on those funds, such as local nonprofits, to scale back as well. The reductions are forcing more Americans into the ranks of the jobless at a time when private employers are doing little to absorb the 14.9 million people searching for work.

Government employment at the federal level is holding up better because the U.S. can borrow more easily while states and municipalities are often required to balance their budgets. Some of the cost-cutting at the state level is due to temporary shortfalls as receipts from income taxes and sales taxes dip. But a longer-lasting shift is also under way given severe declines in property values.

John Kelly, a Michigan state trooper, was laid off in June as the nation's highest-unemployment state grapples with a freefall in tax revenue. Budget troubles have been a constant during Mr. Kelly's five years on the state police force, which is the primary form of law enforcement in the state's many rural regions.

About two-and-a-half years ago Mr. Kelly's post—based in Hart, Mich., on the western side of the state—saved money by moving from a building to a trailer across the street. Officers were asked to save gas by driving no more than 60 or 70 miles in a day.

"You always hear rumors there could be layoffs, and then it happens," says Mr. Kelly, 42. "You would think that any law enforcement job is fairly secure."

As he looks for work, Mr. Kelly is living off unemployment and his wife's salary. The family saves by limiting grocery shopping to once a week. They didn't sign their two boys up for baseball; all the games and practices mean more money spent on gas.

Budget cuts by state and local governments are being felt far beyond public offices. **WakeMed Health & Hospitals**, a nonprofit health-care system in Raleigh, N.C., cut about 200 positions last week because federal and state reimbursements are expected to drop $35 million in the coming year. "We have taken extraordinary steps to cut out anything else we possibly could," chief executive William Atkinson said. "I don't think we have any choice but to do some reductions."

About a third of the cuts were managers, and none were nurses. And the system is adding jobs in other areas so the net reduction in jobs should end up below 50, he said.

Health care is one of the few sectors consistently growing nationwide, adding almost 28,000 jobs in August, though hospital employment dipped slightly. Health care-related employment is still expected to rise over the longer term across North Carolina despite hospitals' latest cuts, Mr. Atkinson said. Workers across the spectrum are seeing their income stagnate or decline. Friday's Labor Department report showed that workers' average workweek remained flat in August, while total hours worked fell 0.3%. Economists attributed a 0.3% increase in average hourly earnings to this summer's increase in the minimum wage.

The hit to jobs within state and local governments, in part due to lower property-tax revenues, is a final blow from the housing decline weighing down the economy in recent years. Many of those workers are watching the latest leg of the job market fall, with little hope for a recovery before next year.

White House launches initiatives to help workers save

By John D. McKinnon

WASHINGTON—The White House unveiled a series of administrative moves aimed at making it easier for workers to build up their savings.

The announcement marks the administration's latest effort at "rebuilding" the economy and putting struggling workers on better footing, aides said.

"We have to revive this economy and rebuild it stronger than before," President Barack Obama said in his weekly Saturday address. "And making sure that folks have the opportunity and incentive to save—for a home or college, for retirement or a rainy day—is essential to that effort. If you work hard and meet your responsibilities, this country is going to honor our collective responsibility to you: to ensure that you can save and secure your retirement."

The moves largely depend on employers or workers, or both, taking action. But White House officials said tens of millions of families could benefit.

One change makes it easier for employers, particularly small and midsize businesses, to start automatically enrolling employees in workplace savings plans. Workers would retain the ability to opt out of the plans.

Almost half of large companies already have automatic enrollment for their workplace savings plans. Shifting to automatic enrollment increases participation to 90% from 70%, and particularly benefits low-income workers, White House aides said. The administration's changes will generally streamline the process for employers to adopt automatic enrollment by issuing preapproved language employers can use to amend their plans.

The changes also will make it easier for taxpayers to buy federal savings bonds using their federal income-tax refunds and allow workers to convert unused vacation or leave into savings, if their employers are agreeable.

The administration also is pushing legislation in Congress that would go much further. It would automatically enroll workers in Individual Retirement Accounts when their employers don't offer a workplace savings plan. About half the U.S. work force, or about 78 million people, lack access to workplace plans.

"Just as the administration is dedicated to reviving the economy and getting people back to work, so too it is dedicated to helping put retirement security within the reach of all Americans," Treasury Secretary Timothy Geithner said in a statement.

Many contributions by lower-wage workers would be matched by an existing federal savers tax credit. Mr. Obama also wants to expand the credit's availability.

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The automatic retirement-savings initiative is an example of the administration's reliance on "behavioral economics," a senior official said. Behavioral economics is used to explain why people sometimes make irrational decisions and to design policies promoting smarter decisions.

House Republican Leader John Boehner on Saturday applauded the administration's call for action on retirement savings, but said Democrats should embrace the GOP approach, which would expand a range of savings-related provisions that help middle- and upper-middle class earners and businesses, as well as lower-income people.

For example, Republicans want to allow larger contributions to tax-advantaged accounts, eliminate capital gains for new investments, subsidize saving for college and ease employer pension-contribution rules.

Israel says it will allow more settlements

Netanyahu's plan gains support among his conservative backers, but draws rebukes from the U.S. and others

By Joshua Mitnick

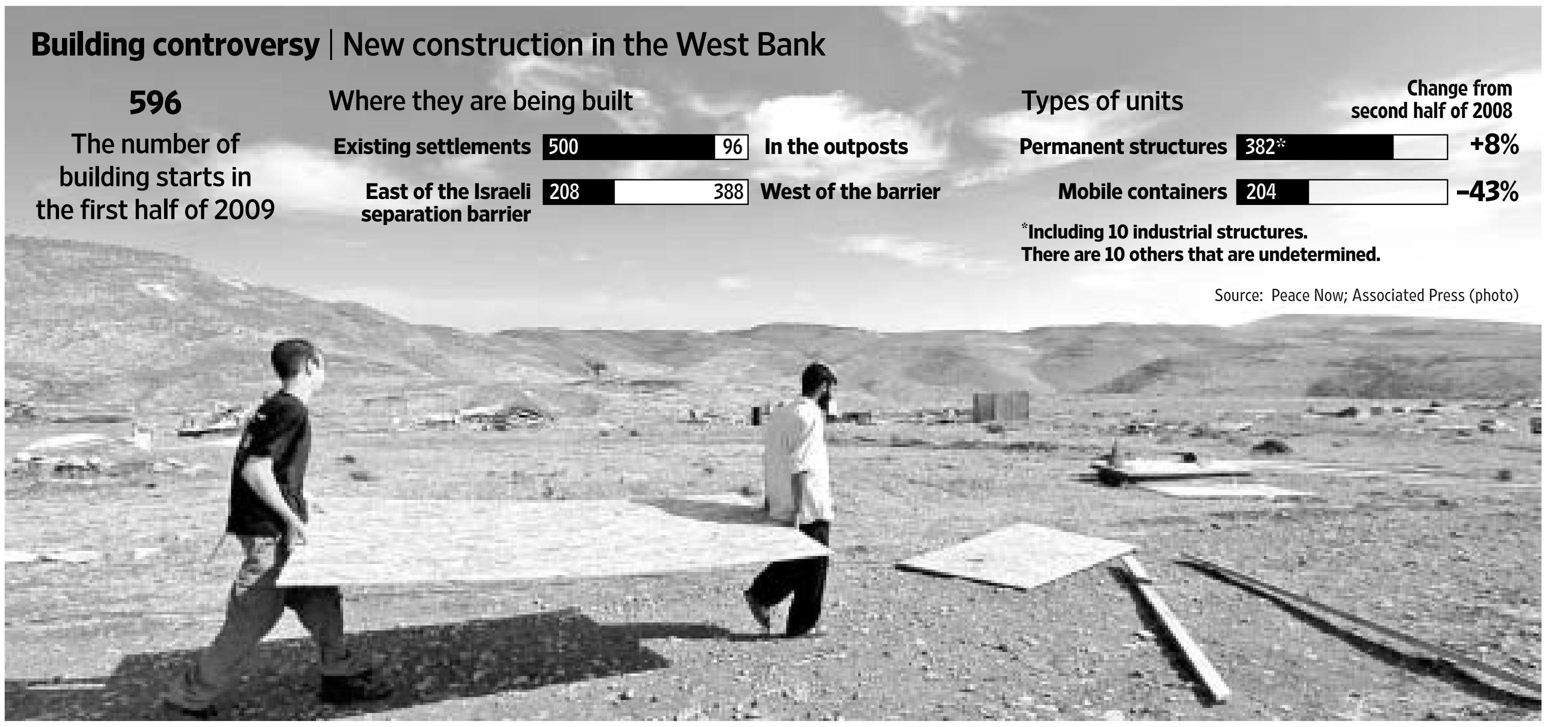
TEL AVIV—Israeli Prime Minister Benjamin Netanyahu's plan for as many as 500 new homes in West Bank settlements rallied support from his conservative political allies ahead of an expected compromise on a U.S. demand for a settlement freeze.

The building authorizations, seen in Israel as an attempt by Mr. Netanyahu to damp opposition to a deal with the Obama administration, have stoked annoyance in the U.S., Europe and elsewhere in the Mideast.

On Sunday, Arab League Secretary General Amr Moussa warned that "the reaction would be tough" on any Arab country that normalized ties with Israel in response to the deal, the Associated Press reported. Mr. Netanyahu's initiative drew immediate rebukes Friday from Palestinian officials and from the White House, which wants a total settlement halt to help revive Israeli-Palestinian peace talks.

Benjamin Netanyahu

Israeli officials say the new units are in addition to the 2,500 homes already in the construction pipeline which won't be stopped by a moratorium expected to last a few months. By Monday, Defense Minister Ehud Barak will authorize the new building, which is slated for the large "blocs" of settlements, said a spokeswoman.



Associated Press

Jewish settlers work on a structure in the West Bank outpost of Maoz Esther, northeast of Ramallah, earlier this summer. The U.S. is pushing for a settlement freeze.

Deputy Prime Minister Eli Yishai, the leader of a religious coalition party who expressed solidarity with settlers two weeks ago, characterized the expected freeze on Israeli state-run radio as a "strategic delay" in settlement building made necessary by the commitments of previous Israeli governments to the Bush administration.

But the expected construction approvals didn't calm settler leaders.

"Judea and Samaria will not rise or fall on another 500 homes," said Shaul Goldstein, the head of the Etzion Bloc region settlers council, noting the number represents a 1% increase on the current number of housing units in the West Bank. "We believe that if Netanyahu surrenders to the pressure now, he will surrender to the pressure later when he tries to restart building."

The U.S. has been seeking steps from Arab states toward normalizing ties with Israel to boost momentum for new peace talks.

Palestinian officials have said that unless there is a total freeze, they aren't interested in restarting talks.

Nabil Abu Rdainah, an aide to Palestinian President Mahmoud Abbas, told Reuters Friday that peace talks, suspended since December, couldn't resume without an Israeli pledge of a total freeze on settlement building.

In a statement Friday, the White House said it regretted the Israeli decision. "The United States does not accept the legitimacy of continued settlement expansion, and we urge that it stop," the statement said.

In a sign of U.S. weariness with the talks on a building freeze, which started in May, an American diplomat said that the focus on settlements in the U.S.-Israeli talks had "sidetracked and distracted" efforts to return to peace negotiations.

With envoy George Mitchell planning to visit the region this week, the U.S. and Israel appear to be moving closer to a deal over some sort of settlement halt.

Mr. Barak, the defense minister, said in a speech Sunday night that "we are on the eve of diplomatic decisions."

Weavers in India shun complex health-care program

By Vibhuti Agarwal

PANIPAT, India—Amir Jahan can spin thick, white thread into magnificent cloth, but the 46-year-old weaver has been unable to unravel her health plan to pay for stomach surgery.

Under a health-insurance program introduced a few years ago, the Indian government has provided health-insurance coverage for the country's hand-loom weavers, a group of 6.5 million workers, 60% of them female, who are mostly illiterate and invariably poor. Yet holding an insurance card hasn't helped Ms. Jahan, who says the coverage only pays for minor ailments and not for major problems, such as the removal of a stomach tumor.

"The health care is all a sham," Ms. Jahan says angrily. "I was refused treatment on grounds of huge expense. I won't ever go to be humiliated again."

Ms. Jahan's health-care issues represent the problems that come with trying to provide insurance to India's poor. Access to quality care remains a dream for many in this country of 1.1 billion.

Last year, the Indian government launched the National Health Insurance Program on promised health coverage of $700 per person for families earning less than $100 a year.

Holders of health cards have to register in their home states to access benefits, thereby precluding a large population of migrant laborers. Those who can get past the complex state-identification and qualification process often can't cope with hospital bureaucracies.

One of the biggest problems: Getting the impoverished weavers to pay $1 for the card that provides free access to health care for one year. Many weavers feel the investment in the card is a waste of valuable household income. Other plans aimed at farmers, construction workers and other low-income groups also have been dogged by problems.

In India, the hand-loom industry is the second-largest segment in the economy, after agriculture. The Handloom Weavers Health Insurance Program was backed by a private insurance company, **ICICI Lombard General Insurance Company** Ltd., a joint venture of India's **ICICI Bank** Ltd. and **Fairfax Financial Holdings** Ltd. of Canada.

An initial payment of $1 entitles a family of four to coverage totaling 15,000 rupees, or about $300—but no more than $150 of that can be for any one family member. Beneficiaries receive coverage at designated hospitals and clinics, or are reimbursed for treatment at centers not on the list—after upfront payments that can be difficult for weavers to afford.

The Wall Street Journal

Amir Jahan works 12 hours every day to earn about $15 a month. She has left a stomach tumor untreated after finding her insurance doesn't fully cover surgery.

According to insurance-company officials, the program has been implemented in 26 states across India, and covers 1.9 million weaver families. In the Lalahar Memorial Prem Private Hospital, here in Panipat, nearly 70 weavers line up each day for health services under the plan.

Many weavers work six days a week in factories, under poor conditions and with few benefits. Others, like Ms. Jahan, work from home, making clothing, rugs and other woven items for a variety of companies. Ms. Jahan started working at the age of eight. Today, she says she works 12 hours, seven days a week, to earn about $15 a month. That isn't enough to support her seven kids, and the insurance card can only cover four family members.

Ms. Jahan's stomach surgery was $200, but she was told she could only use $150 from the card because of the spending cap for each family member. The remaining $50 had to be paid from her own pocket. She continues to work with the untreated stomach tumor.

The ICICI doesn't deny treatment to any individual, but "the weavers think it is an ATM card and want to get it cashed to the maximum limit," said ICICI manager Milan Maheshwari. "The government has fixed a cap, so that the benefits ... can be extended to the entire family."

One of the program's goals was to cut out government intermediaries. In a past program, the Indian government was running a health package for the weavers that involved complicated payment procedures that deterred many participants, according to B.K. Sinha, development commissioner of hand-looms at the Ministry of Textiles in New Delhi.

The new program has won support among those who have been able to get long-neglected medical problems addressed. Working 12 hours a day on the loom from her house, Janmati, who uses one name, suffered from blurred vision before she had eye surgery for $80 through the health card.

"Initially the hospital authorities hesitated, but finally agreed," says Janmati. "Thanks to the card, I got my vision back."

But broad participation hasn't panned out. The government acknowledged that only 40% of weavers are covered under the health program. Insufficient funds—1.2 billion rupees ($25 million) preclude covering more, even if the weavers are willing.

Nevertheless, Mr. Sinha says, "We intend to cover every handloom weaver in the country in the next two years."

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Online today:
See photos from India's weaving industry at **WSJ.com/India**.