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THE WALL STREET JOURNAL.

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VOL. XXVI NO. 132 THURSDAY, AUGUST 7, 2008

Turkey's Islamist leaders embrace free markets

NEWS IN DEPTH | PAGES 14-15

Children's Railway carries Hungary away from past

ON OTHER FRONTS | PAGE 32

What's News—

Business & Finance

Austria's OMV withdrew its hostile $20 billion bid for Hungarian rival oil-and-gas company MOL after objections from the European Commission. The EU was worried the combined company would own two big refineries in Austria and Slovakia. Page 1

■ **Chrysler is in talks** to have Nissan produce midsize sedans that Chrysler would sell in the U.S. under its own name. Page 1

■ **Xstrata made** an unsolicited $10 billion offer for platinum producer Lonmin, which rejected the offer. Page 3

■ **China revised** foreign-exchange regulations. Domestic companies may keep foreign-exchange income abroad, and foreign companies may issue securities in China. Page 22

■ **BP shut a pipeline** that pumps the equivalent of more than 1% of world crude supply after a fire in Turkey. Page 6

■ **U.S. stocks edged higher** as oil prices fell, but Freddie's loss fueled credit concerns. European markets gained. Page 20

■ **Freddie Mac expects** further losses this year. The provider of mortgage funds posted an $821 million quarterly loss. Page 19

■ **BNP Paribas net** fell 34%, but the bank said it has no need to raise fresh capital. Page 3

■ **GLG Partners saw** 27% growth in assets but a 55% decline in revenue amid a plunge in performance fees. Page 19

■ **GM asked its ad** agencies to slash their fees as much as 20% to help cut costs. Page 5

■ **The IMF cut its forecast** for U.K. economic growth this year to 1.4%, down from last month's 1.8% estimate. Page 9

■ **Kremikovtzi was declared** insolvent, opening a new chapter in a duel to control the Bulgarian steel firm. Page 3

■ **TNK-BP's ratings** were downgraded by S&P, which cited a shareholder dispute. Page 21

World-Wide

Orders for German goods fell sharply in June, the seventh straight monthly decline in a sector that has been the mainstay of European economic growth. It makes for growing concern of a recession in Germany, which would likely mean a euro-zone recession. Page 1

■ **Iraq's Parliament adjourned** for a month without agreeing on a provincial election law, despite U.S. and U.N. pressure. Page 2

■ **A military jury convicted** bin Laden's driver of supporting terrorism, the first U.S. war-crimes trial at Guantanamo. Page 2

■ **Olmert pledged** to free more than 150 Palestinian prisoners by the end of August, as a "goodwill gesture." Concluding a previous deal, Israel freed five teenagers.

■ **France was among** six nations agreeing to pursue new U.N. sanctions against Iran. Page 9

■ **Army officers staged** a coup in Mauritania against the first government to be freely elected in the Saharan oil-producing nation in more than 20 years.

■ **France rejected** Rwandan accusations that senior French officials including Mitterrand were involved in the 1994 genocide.

■ **Tens of thousands** of South African workers went on strike in a protest against rising food and electricity prices. Page 8

■ **The Red Cross accused** Colombia of breaking the Geneva Conventions by using its emblem in a disguised military operation to rescue hostages from guerrillas.

■ **Pakistan denied** India's claim that Pakistani soldiers fired machine guns at Indian troops in violation of the Kashmir cease-fire.

■ **Musharraf sent** mixed signals on whether he would attend the Olympics' Opening Ceremony, as his opponents drew closer to an impeachment. Page 8

■ **Hiroshima's mayor urged** the next U.S. president to support a proposed ban on nuclear weapons, as Japan marked the 63rd anniversary of the atomic blast.

■ **A scientist** who killed himself last week had sole custody of anthrax spores with genetic mutations "identical" to the poison that killed five and rattled the U.S. after 9/11, documents show.

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11656.07	+40.30	+0.35
Nasdaq	2378.37	+28.54	+1.21
DJ Stoxx 600	287.66	+2.65	+0.93
FTSE 100	5486.1	+31.6	+0.58
DAX	6561.39	+42.69	+0.65
CAC 40	4448.33	+61.98	+1.41
Euro	$1.5420	-0.0063	-0.41
Nymex crude	$118.58	-0.59	-0.50

Money & Investing > Page 19

EDITORIAL&OPINION

Taxing logic

Europe's oil populism will make matters worse for consumers. Business Europe. Page 12

OMV yanks bid for MOL after objections from EU

Ruttenstorfer's move to consolidate sector goes down to defeat

By Guy Chazan

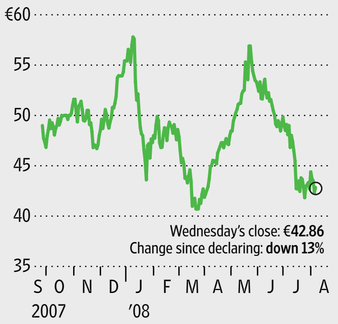
Austrian oil and gas company **OMV** AG withdrew its hostile $20 billion bid for Hungarian rival **MOL** Nyrt after objections from the European Commission, ending one of Europe's most rancorous takeover battles.

The outcome is a big defeat for OMV Chief Executive Wolfgang Ruttenstorfer, who had argued that Central European energy companies needed to team up or risk being gobbled up by cash-rich Russian giants like OAO **Gazprom**.

It is also a vindication for MOL, which has long argued that the divestments any merged company would have to make to satisfy European antitrust laws would undermine the economic rationale for a tie-up.

Deal revoked

Share performance of Austrian oil-and-gas company OMV since declaring its intention to acquire Hungarian peer MOL Nyrt.



Source: Thomson Reuters Datastream

In an interview, Mr. Ruttenstorfer said he was disappointed the European Union had demanded so many concessions from OMV. "We would have expected more support from the competition authorities, given the EU's policy that the oil market has to consolidate," he said.

The merger, he said, would have created a Central European giant capable of blocking the advance of bigger rivals like Russia's OAO **Lukoil** that are expanding aggressively into Europe. "We have a rather fragmented oil and gas industry in Central and Southeastern Europe and increasing competitive pressure from the east, not only from Russia but also Kazakhstan and Azerbaijan," he said.

In a statement, MOL said OMV's move recognized the Hungarian company's argument that the "irrational" plan for a tie-up raised "very serious competition issues, was inherently value-destructive and would be against economic and strategic rationale."

The OMV-MOL battle had depressed OMV's share price, and analysts welcomed the Austrian surrender. James Neale at Citigroup said

Please turn to page 31

Chrysler talks with Nissan on midsize car

By Neal E. Boudette

DETROIT—**Chrysler** LLC, facing increasing pressure to conserve cash and shore up its model line, is in talks with **Nissan Motor** Co. about cooperating on midsize cars, people familiar with the matter said.

The two auto makers earlier this year agreed to team up on pickup trucks and subcompact cars. Since then, they have been discussing a further agreement under which Nissan would produce midsize sedans that Chrysler would sell in the U.S. under its own name, these people said.

A deal, if consummated, would signal Chrysler is moving closer to a new business model, for at least the passenger-car side of its operations. It would continue to engineer its own trucks and minivans. But a deal with Nissan for midsize sedans would make Chrysler largely a marketer and seller of passenger cars made by other companies.

A Chrysler spokesman said the company has "no new alliances" to announce and declined to comment on any discussions it might be having.

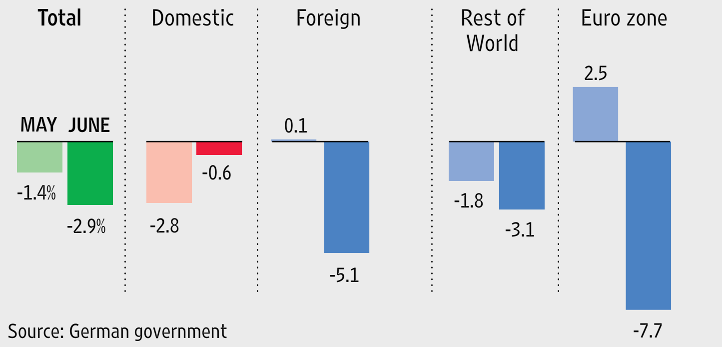
In an interview last week, Chrysler Vice Chairman Jim Press said the company is working hard to understand precisely what American consumers want in midsize sedans. The effort, known internally as Project D, "is a totally customer- and market-focused project," he said.

People familiar with the specifics of Project D said the team has been in touch with Nissan and is evaluating whether it makes financial sense

Please turn to page 31

Recession looming

Monthly change in new orders in German industry ... / ... With export orders from euro partners falling most



Source: German government

Germany's recession risk rises as orders fall again

By Marcus Walker

BERLIN—The risk of a recession in Germany is growing as manufacturing orders in Europe's largest economy drop sharply.

German industry's new orders fell 2.9% in June from May, according to figures released Wednesday. It was the seventh straight monthly decline in a sector that has been the mainstay of European economic growth in recent years.

New export orders fell 5.1% as German companies struggled to find new business amid slowing global demand and a strong currency that makes German goods more expensive. The 5.1% drop, the steepest since 1992, was far sharper than economists had expected.

Exports have propped up German economic growth for years amid persistently weak spending by German consumers. Fading economic fortunes in the U.K., France, Italy and other European countries, which together purchase about two-thirds of German exports, are having a contagious effect on Germany.

German officials estimate that the economy contracted between 0.75% and 1.5% in the second quarter. Official figures are due Aug. 14. That contraction is largely payback for the first quarter, when the economy expanded 1.5%, thanks to strong construction activity amid a mild winter and a big buildup of inventories by companies.

More worrisome, economists say, is the worsening outlook for the second half. Many German companies have large order backlogs, meaning exports have held up so far, but those backlogs will run out in coming months unless new or-

Please turn to page 31

LEADING THE NEWS

Split on Guantanamo Bay

Bin Laden's driver gets guilty verdict on one of two charges

BY JESS BRAVIN

GUANTANAMO BAY, Cuba—A military commission convicted Osama bin Laden's former driver of supporting terrorism, the first verdict delivered here since U.S. President George W. Bush announced plans in November 2001 to try accused foreign terrorists in a separate system of offshore military courts.

The jury of six military officers also acquitted Salim Hamdan of the other charge prosecutors lodged, conspiracy to commit al Qaeda terrorist attacks, rejecting government efforts to paint the former driver as a significant member of Mr. bin Laden's inner circle. "He was acquitted of the most serious charge, conspiracy, and he'll never face that charge again," said Michael Berrigan, the deputy chief defense counsel.

Prosecutors weren't available to comment, but the Pentagon spokesman here, Cmdr. J.D. Gordon, said, "Mr. Hamdan received a full and fair trial."

Both charges carry a potential life term. The jury will determine punishment after a sentencing hearing.

The government plans to try 80 Guantanamo prisoners by military commission, including Khalid Sheikh Mohammed and four others accused of organizing the Sept. 11, 2001, attacks. The system has been fraught with internal problems and legal setbacks in the seven years since Mr. Bush first proposed it. Democratic presidential candidate Barack Obama voted against the 2006 measure authorizing the trials; his Republican opponent, John McCain, supported it but has said he would like to close the Guantanamo base.

Associated Press

Salim Hamdan was convicted of aiding terrorism, but acquitted of conspiracy.

Mr. Hamdan, 37 years old, bowed his head and appeared to weep softly after the verdict was read in the windowless courtroom built inside an old aircraft control building. A slight man wearing a charcoal blazer and the traditional headdress of his native Yemen, Mr. Hamdan has been at the center of a legal storm over due process and presidential powers that repeatedly has vexed the highest levels of all three branches of government. In 2006, the Supreme Court struck down Mr. Bush's initial effort to try Mr. Hamdan before a military commission that Congress hadn't approved, and which denied defendants significant rights, such as attending their own trials and appealing to an independent court. Congress responded by authorizing a modified version of the commissions, providing defendants several rights Mr. Bush initially sought to deny, including the possibility of Supreme Court review.

Critics have complained the new system still fell short of fairness. Mr. Hamdan's attorneys say one example is the charge on which their client was convicted—providing material support for terrorism—which has been a civilian crime for years but they say hasn't been considered a war crime.

Even if Congress can declare it a war crime, defense attorneys say they will argue on appeal that Mr. Hamdan, who was captured in November 2001, can't be tried for acts he committed before the law was passed.

Charles Stimson, a former deputy assistant secretary of defense for detainee affairs, said the verdict was fair. "This judge provided this defendant a fair trial, despite the few troublesome rules in the Military Commissions Act—such as the rule that allows the government to attempt to introduce statements adduced by coercion," said Mr. Stimson, now a fellow at the Heritage Foundation.

Mr. Hamdan was captured Nov. 24, 2001, at a checkpoint on the road to Kandahar by Afghan militiamen under the command of U.S. special forces, in a car the government said contained two surface to air missiles, although not their firing mechanisms.

Because only U.S.-led coalition forces had planes then in the Afghan skies, the government argued the missiles were evidence of conspiracy to shoot down military aircraft. Mr. Hamdan has denied knowing the missiles were in the car, which he said he had borrowed, but defense lawyers said that in any event, in a war zone it is no crime to shoot at military targets fielded by one's enemy.

Iraq's Parliament fails to agree on election law

BY GINA CHON

BAGHDAD—Iraq's Parliament failed to agree on a provincial elections law Wednesday, a sign that the recently improved relations among the different political factions could come undone.

After several days of intense negotiations and pressure from the U.S., the United Nations and Britain, lawmakers still disagree over how to handle polling for the oil-rich area of Kirkuk, which is claimed by Kurds, Arabs and Turkomen.

Arabs and Turkomen members of Parliament favored dividing the provincial council seats equally, while the Kurds opposed that idea, and an agreement couldn't be reached on subsequent compromise proposals.

Nouri al-Maliki

The Iraqi Parliament will begin a scheduled month-long break Thursday, making it unlikely that it will resolve the issue before it meets again in September.

The Parliament could call an emergency session if lawmakers were to reach an agreement while the Parliament is in recess.

The provincial elections will likely be delayed until next year because of the current disagreements.

The provincial elections were scheduled to be held in October, and there is still hope that a vote could take place before year's end if lawmakers are able to hammer out an agreement.

Relations among political factions had recently warmed after Iraqi Prime Minister Nouri al-Maliki ordered a military crackdown on rogue Shiite militias in Basra in late March. Kurdish and Sunni leaders praised Mr. Maliki, a Shiite, for going after people in his own sect.

The election-law deadlock has heightened tensions among political parties divided along ethnic and sectarian lines in Iraq—Shiites, Sunnis and Kurds.

In the northern city of Kirkuk, more than 1,000 Arabs and Turkomen residents held protests last Saturday opposing a request by Kurdish members of the provincial council to join Iraqi Kurdistan.

Those protests followed a female suicide bombing in Kirkuk on July 28 that killed 25 people, which occurred during a rally by thousands of Kurds who oppose the provincial elections law.

Abbas Sadi, an Arab resident of Kirkuk, said it is the duty of the central government to protect the Arabs and Turkomen from a power grab by the Kurds. "If they force violence on us, we will defend ourselves," Mr. Sadi said.

Hoshmand Jibari, a Kurd who was injured by the suicide bombing in Kirkuk, said the Kurds won't give up their rights to Kirkuk, even if "we have to sacrifice our lives."

With it vast oil resources and multiethnic makeup, the struggle for control over Kirkuk has been seen as a potential powder keg since the U.S. invasion in 2003.

Kurds, who were kicked out of Kirkuk under Saddam Hussein's Arabization policy but have since returned, dominate the Kirkuk provincial council.

A vote on whether Kirkuk residents want to become a part of Iraq's semiautonomous Kurdish region in the north has been delayed on numerous occasions, with the U.N. working to come up with an agreeable solution.

Kirkuk has stirred deep emotions and, according to lawmakers, the meetings were tense.

One version of the proposed law, which would have divided provincial council seats in Kirkuk equally among the Arabs, Kurds and Turkomen, passed in Parliament late last month after a walkout by Kurdish lawmakers, but Iraqi President Jalal Talabani vetoed the bill.

Since then, some Kurdish leaders have accused the Iraqi Islamic Party, one of the main Sunni parties, of being an agent of Turkey, according to people familiar with the negotiations. The Kurds have been accused by Sunnis and Turkomen of being selfish and dictatorial.

CORRECTIONS & AMPLIFICATIONS

Nintendo Co.'s new game title Wii Sports Resort will offer games based on activities such as throwing a flying disc. A Boss Talk article on Tuesday incorrectly implied that the game had a connection to **Wham-O** Inc.'s trademark Frisbee brand.

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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Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 FAX: Business: 32 2 732 1102
News: 32 2 741 1600 Editorial Page: 32 2 735 7562
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +32 2 741 1414
International freephone: 00 800 9753 2000
E-mail: subs.wsje@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Daniel Hertzberg M-17936-2003

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

LEADING THE NEWS

Xstrata offers to buy rival

Lonmin is the target of $10 billion bid; access to more metals

By Robert Guy Matthews

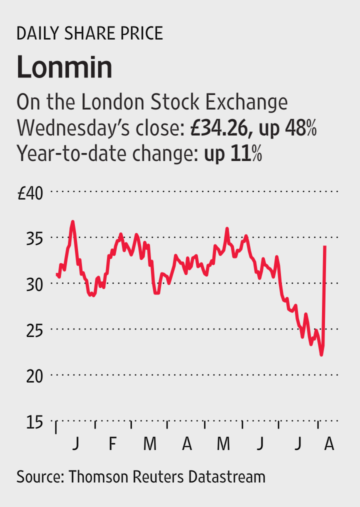
In a sign that the momentum behind consolidation in the mining industry continues to build despite concerns that commodity prices have hit their peak, Switzerland-based miner **Xstrata** PLC made an unsolicited $10 billion cash offer for the world's third-largest platinum producer, **Lonmin** PLC.

Lonmin immediately rebuffed the offer as too low, but Xstrata isn't expected to back off. Indeed, Xstrata purchased an additional 2.65% of Lonmin's shares, bringing its total of newly acquired shares to 10.68%.

The proposed offer of £33 ($64.57) a share represents a cash premium of 42% to Lonmin's share price of £23.19 at Tuesday's close. Lonmin stock surged 48% to £34.26 Wednesday in London, while Xstrata shares fell 1% to £31.67 each.

Xstrata, which was the target of an unsolicited buyout offer from Brazil's Cia. **Vale Do Rio Doce**, needs to diversify its portfolio of commodity metals, which is weighted in copper, coal and nickel. The Vale offer fell through because the two sides couldn't agree on terms.

If the Lonmin deal goes through, Xstrata would become the world's third-largest platinum producer. The price of platinum, which is mainly used to make pollution-controlling catalytic converters for automobiles, has dropped in recent months to about $1,600 an ounce from $2,200 an ounce, mainly because of weak demand in the U.S. and Europe for new autos. Yet, demand for autos elsewhere in the world is expected to grow.



Shamim Mansoor, metals analyst for HSBC, said she expects further consolidation in the platinum market to take advantage of expected long-term growth in demand. "I think this deal will go through, but Xstrata will likely have to pay more," she said.

Trevor Reid, Xstrata's chief financial officer, said the company needs to arrange financing for its all-cash bid, which will take weeks. He said he doesn't think the company is offering too much. "We have been looking for entry points in developing projects. We now felt that we were ready to take on something bigger," he said. The company also thinks there is upside potential in other commodities and is considering acquisitions as well.

Still, commodity prices are off from their historic highs this year, but demand for minerals and metals such as iron ore, copper, alumina and platinum remains strong, especially in developing countries such as China, Brazil, Russia and India. Demand in the U.S. and Western Europe has leveled off, causing some softening in the prices of commodities world-wide.

Other mining companies apparently believe that long-term prospects are strong enough to warrant further consolidation.

Vale, the world's second largest miner, has recently built a cash reserve of at least $14 billion that could be used to buy more miners. It wants to diversify from its iron-ore-centric portfolio into other commodities such as copper and coal. With Xstrata now off its radar, it isn't clear what company Vale will target, but it is expected to focus on second-tier copper or coal companies. Some likely targets include **Freeport McMoRan Copper & Gold** Inc., the world's largest publicly traded copper producer.

Steel firm Kremikovtzi is judged to be insolvent

By Marcus Walker

A Bulgarian court declared the country's biggest steel company by output, **Kremikovtzi** AD, insolvent Wednesday, opening a new chapter in a battle for control of the plant, which has become a symbol of Bulgaria's Wild East capitalism.

Ukrainian billionaire Kostyantin Zhevago and Luxembourg-based steel titan **ArcelorMittal** SA are competing to take over the plant's operations after insolvency proceedings are completed. The plant is majority-owned by Indian steel entrepreneur Pramod Mittal, younger brother of Lakshmi Mittal, who controls ArcelorMittal.

A company owned by Mr. Zhevago was among the creditors that applied to the court for insolvency proceedings to be opened. The court said on its Web site that it has put the plant in the hands of a temporary administrator.

Kremikovtzi's problems date back to the 1990s, when organized-crime groups squeezed Kremikovtzi and many other Bulgarian companies, forcing them to do business on ruinous terms. The steel plant's exploitation by ex-wrestler turned billionaire Ilya Pavlov, who was assassinated in 2003, provides the starting point of a book about organized crime published this year, "McMafia" by Balkans expert Misha Glenny.

The company was privatized in 1999 for $1 plus promises of investment, which the Bulgarian government says were broken. The plant's aging Soviet-era furnaces now need major overhauls to meet European Union pollution laws.

Despite today's sky-high steel prices, Kremikovtzi has struggled this year to pay workers, suppliers and creditors, thanks to years of asset stripping and insufficient investment at the company.

International bondholders have expressed concern at the insolvency proceedings' lack of transparency. Concerns about official corruption and the weak rule of law in Bulgaria led the European Union to take the rare step last month of suspending around €500 million, or $773 million, of aid to the country, which joined the EU in January 2007.

In a move that could make it harder for bondholders to get their money back in full, the court ruled that Kremikovtzi has been insolvent since December 2005—before the company issued a €325 million international bond in 2006. That means the court could decide that bondholders fall further down the queue of creditors than they had expected.

Although ArcelorMittal has greater financial clout and experience of turning around troubled steel plants, unions at the Bulgarian plant fear job losses if Lakshmi Mittal, 58 years old, takes over, and prefer 34-year-old Mr. Zhevago.

BNP posts lower net, insists it faces no new-capital needs

By Nicolas Parasie And Maria Abi-Habib

PARIS—**BNP Paribas** SA's second-quarter net profit declined 34%, but the bank sought to reassure investors that, unlike many rivals hit hard by the credit crisis, it is under no pressure to raise new capital.

France's largest bank by market value said net profit fell to €1.51 billion ($2.33 billion) from €2.28 billion a year earlier. The figure beat analyst expectations of €1.44 billion. Revenue fell 8.5% to €7.52 billion from €8.21 billion. The profit decline was a result of a €542 million write-off that BNP Paribas took at its corporate and investment bank to help cover counterparty risk to credit insurers.

BNP Paribas tried to quell market fears it may have to resort to a capital increase to strengthen its financial position, something domestic competitors such as Société Générale SA, Crédit Agricole SA and Natixis SA have been forced to do as they suffered hefty losses stemming from the subprime home-loans crisis.

"BNP Paribas is not under any pressure to raise capital, and its earnings power enables it to finance its organic growth whilst maintaining a solid dividend policy," BNP Paribas Chief Executive Baudouin Prot said.

As of June 30, BNP Paribas's Tier 1 capital ratio—a measure to evaluate the financial strength of a bank—stood at 7.6%, a notch under the level of 8.0% regarded as the benchmark for European banks.

Some analysts said they remained preoccupied by BNP Paribas's thinning capital cushion. There is "no room for error on Tier 1 capital," J.P. Morgan Chase analyst Kian Abouhossein said in a research note. J.P. Morgan Chase has a neutral rating on BNP Paribas.


AFP

CEO Baudouin Prot said BNP Paribas isn't under pressure to raise capital.

Mr. Prot didn't rule out the possibility the French bank might raise capital to help finance an acquisition.

France's largest bank by market value found itself in the eye of the credit storm a year ago when it temporarily halted withdrawals from three of its asset-backed-securities funds. But since then, BNP Paribas has consistently outperformed French rivals, benefiting from a more risk-averse investment banking culture.

Yet, while many banks are licking their wounds, BNP Paribas is pursuing aggressive expansion.

CORPORATE NEWS

PHARMACEUTICALS

Pfizer to close Irish plant after its sale falls through

PFIZER Inc. plans to close its Inchera plant in Ireland's County Cork, causing the loss of 180 jobs.

The U.S. pharmaceutical giant had been trying to sell the plant for the past 18 months, but a prospective sale fell through last month and management now say the plant will close by the end of next year.

Trade unions expressed disappointment at the news and concern over Pfizer's attempts to find a buyer for its Ringaskiddy plant, also in County Cork, which opened in 1972 and employs around 300 people.

—Quentin Fottrell

SOFT DRINKS

Coca-Cola's Greek bottler buys Italian counterpart

GREECE-based **Coca-Cola Hellenic Bottling** Co. said it bought Italian Coca-Cola bottler **Socib** SpA for €270 million ($417.5 million), further boosting its presence in Italy.

"The acquisition of Socib will expand Coca-Cola Hellenic's footprint in Italy through the addition of five regions in Southern Italy comprising a population of nearly 14 million," the company said, adding that it would increase the volume of its Italian operations by about 25%.

For the past several years, Coca-Cola Hellenic, one of the largest Coca-Cola bottlers in the world, with operations in 28 countries, has pursued acquisitions to add to its product portfolio.

—Alkman Granitsas

ENTERTAINMENT

Dubai developer to buy 20% of Cirque du Soleil

THE government-controlled developer of palm-shaped islands off Dubai's coast and a related investment arm are buying a 20% stake in international circus-touring company Cirque du Soleil.

Property developer Nakheel PJSC and investment company Istithmar World Capital PJSC aren't disclosing the financial terms of the deal. However, the agreement keeps control of Montreal-based Cirque in the hands of founder Guy Laliberte.

Nakheel and Istithmar are part of **Dubai World**, a diversified holding company owned by the government of Dubai.

—Associated Press

U.S. airlines pinch frequent-flier programs

New booking fees join surcharges, cutbacks now hitting travelers

BY SARAH NASSAUER AND STEPHANIE CHEN

AMERICANS CASHING IN their frequent-flier miles should get ready to spend some cash.

New booking fees on tickets bought with miles are among a barrage of surcharges and cutbacks hitting frequent-flier programs in the next few weeks. Pinched by high oil prices, U.S. airlines also are increasing the number of miles required for flights and cutting back on program benefits.

Wednesday, **US Airways Group** Inc. stopped giving bonus miles to elite frequent fliers. It will also start charging between $25 and $50, depending on the destination, for booking award tickets.

On Aug. 15, **Delta Air Lines** Inc. will add a fuel surcharge to award tickets—$25 for U.S. and Canada and $50 for other destinations—and on Sept. 15, **Northwest Airlines** Corp. will add a fuel surcharge of $25 to $100 to WorldPerks tickets issued in North America.

Several airlines have recently introduced or increased fees for booking or changing award tickets on the phone, booking a leg on a partner airline or redepositing unused miles from a canceled ticket. **AMR** Corp.'s American Airlines has added a $5 online booking fee and will increase the number of miles needed to buy certain award tickets as of Oct. 1.

On Friday, **Continental Airlines** Inc. said the company will no longer allow frequent-flier members to buy the last seat available on certain flights "where demand is high" after Sept. 3, though the restriction won't apply to elite fliers. On Aug. 17, the airline will increase fees for booking award tickets close to the date of travel.

The moves have some fliers questioning the value of miles programs, says Joe Brancatelli, editor of travel Web site JoeSentMe.com. "Inflating the currency and then having less product to buy and charging you fees to do it—it's hyper-inflation," he says. "It's Zimbabwe."

US Airways' decision to end bonus-miles privileges for elite members was the "final straw" for Michael Dukart, who had amassed over a million miles with the carrier earlier this year. When the airline announced it would stop awarding bonus miles to elite members of its Dividend Miles program, Mr. Dukart, who lives in Wilmington, Del., decided to start flying United Airlines instead, even though the airport closest to him is a US Airways hub.

A broad consumer protest has emerged on Savedividendmiles.com, a Web site put up two weeks ago by Randy Petersen, the frequent-flier specialist who runs the popular travel forum Flyertalk.com. A petition on the Web site asking US Airways to bring back bonus miles has been signed by 1,570 people.

Mr. Dukart says he signed the petition and is trying to "burn through" his miles so he can make a clean break from the airline. On Monday, he left for South Africa with his wife, using first-class seats bought with miles.

Scott Kirby, president of US Airways, says, "I wish it wasn't the kind of decision we felt we had to make," but the changes and fees "are necessary realities of $125-a-barrel oil." US Airways polled frequent fliers and found that "overwhelmingly" they value a free upgrade to first class more than bonus miles. Mr. Kirby says the airline has received complaints from consumers, but not more than it received after announcing other changes, like charging for food. "Changes are hard," says Mr. Kirby.

Faced with high oil prices, **American Airlines** added a $5 online booking fee and will increase the number of miles required to buy certain frequent-flier award tickets.

The fees and benefit cuts come at a time when frequent fliers are already upset about a problematic imbalance—a lot of miles and not many seats available for award tickets. Airlines make a large profit from selling miles to "partners" such as credit cards and hotels. Partner deals have gone up significantly over the years, but award seats haven't.

Delta issued 25% more miles in 2007 than in 2004, says Jeff Robertson, managing director of Delta's SkyMiles program, but the number of available seats on its planes didn't increase. Recent capacity cuts have made the imbalance worse, because airlines are maintaining the same percentage of awards seats on fewer flights.

Still, some airlines are taking measures to make their frequent-flier programs more attractive. Earlier this year, both Northwest and Delta introduced new options that allow fliers to buy tickets with a combination of cash and miles, so small increments of miles could be redeemed. In April, the two companies announced they intend to merge.

Delta recently announced it would replace its awards program in September with a three-tiered system that's similar to American Airlines' program. Instead of offering domestic tickets for either 25,000 or 50,000 miles—with many more tickets available for 50,000 miles—the airline will offer about 50% of its total seat inventory for 40,000 miles, while maintaining the same amount of seats in the 25,000-mile tier. The rest of the seats will be in the 60,000-mile tier.

In addition, the airline will again allow frequent fliers to book the last seat available on flights—a benefit denied to frequent fliers last winter. Such seats will go to those willing to pay a hefty mileage price. "This new structure will attract more new customers, benefit current customers and help differentiate Delta from other carriers," says Mr. Robertson.

In November, **Alaska Airlines** will add more award levels, in an effort to make it easier to use miles. The airline already offers a cash-and-miles award ticket.

Discount carrier **AirTran Holdings** Inc. added a program in March that lets passengers pay for extra miles to reach the level needed to get an award ticket. Before, fliers could buy award tickets only with miles.

Airlines "are trying to stay competitive and be a little more innovative," says Rick Seaney, chief executive of the travel Web site FareCompare.com. "Fuel and luggage surcharges have been bad press. They are trying to tweak some things to mitigate that."

But some of the new award-travel systems have drawbacks. Under Delta's new three-tier structure, award travel is more expensive in some cases. A premium-class seat to Europe used to cost between 90,000 and 250,000 miles and will now cost between 100,000 miles and 350,000 miles. The top price now guarantees the last seat on a flight, unlike before.

Northwest's cash-and-miles offer, PerkChoice, includes a clause that has rubbed at least one customer the wrong way: If you need to cancel the ticket, you don't get the cash part of the purchase back. Jackie Engelhart bought three airline tickets to Calgary, Alberta, earlier this year, three days after the soft launch of PerkChoice. After her eight-year-old daughter spent several months fighting colds, flu and asthma, Ms. Engelhart decided to cancel the trip, assuming the cash part of her tickets would be treated like most canceled Northwest tickets—as credit with the Eagan, Minn.-based airline.

Instead she had to pay a $50-per-ticket fee to put the miles back onto to her account and couldn't get any credit for the cash.

Northwest says that it hasn't had many complaints about the rule and that the terms of PerkChoice "are given when a customer books a ticket," and "must be agreed to before the customer is allowed to complete the purchase." But like other aspects of the relatively new program, the rule "could be changed," says a company spokesperson.

Regardless, Ms. Engelhart says she won't book a PerkChoice ticket again. "Not flying Northwest cost us more than $1,000," she says.

Personal Technology

Network solutions

Walter S. Mossberg tests Flock, 'the social Web browser' > **Page 28**

CORPORATE NEWS

Card scam spanned globe

Two from Europe are among 11 named in U.S. indictments

By Joseph Pereira,, Jennifer Levitz, And Jeremy Singer-Vine

BOSTON—U.S. prosecutors charged 11 men in five countries with orchestrating a high-tech operation that stole more than 40 million credit-card numbers from U.S. retailers including **TJX** Cos., **Barnes & Noble** Inc., **OfficeMax** Inc. and **Sports Authority**.

The case is the biggest identity-fraud heist ever prosecuted in the U.S. In indictments in Boston and San Diego on Tuesday, the government said the defendants engaged in a sophisticated scheme involving wireless interception of retailers' data transmissions, "sniffer" programs that stole card numbers as they were being swiped at cash registers, bulk fencing of stolen cards at less than $1 apiece on the Internet, and encrypted computer servers that stored the thieves' digital plunder in Latvia and Ukraine.

Although the largest of the retail breaches—at TJX, owner of apparel chains TJ Maxx and Marshalls—had been known for more than a year, the indictments presented a picture of cybertheft attack capabilities far more sophisticated and global than had previously been revealed. It was the first time authorities tied together what had been regarded as separate attacks episodically reported by retailers in recent years.

Computer security experts hailed the charges as a breakthrough in solving some of the cases, which date back to 2003. Nevertheless, the new information presented on Tuesday revealed what may be a major reason that government investigators had come up short for so long.

The defendant identified as the ringleader in the case, Albert Gonzalez, of Miami, was working as a confidential informant for the Secret Service in its investigation of the retailers' computer breaches, according to investigators. His indictment states that during the course of his "cooperation," he obtained "sensitive" information that he used "to warn off conspirators and ensure that they would not be identified and arrested."

Rene Palomino Jr., Mr. Gonzalez's lawyer, said he plans to fight the charges and added that the government "has from a factual and legal point of view a very substantial and uphill battle proving the charges against" his client. He declined to make Mr. Gonzalez available for an interview. Mr. Gonzalez was being held by New York authorities on another computer-hacking charge.

According to the Justice Department, Mr. Gonzalez began informing for the Secret Service following his arrest in another computer-fraud case in 2003. Court records show that in November 2004, the government allowed him to move from New Jersey to Florida, where many of the hacking incidents later took place.

"Obviously, we weren't happy that the person we had working for us as an informant...was double-dealing," said the U.S. attorney in Boston, Michael Sullivan, at a news conference. Mr. Sullivan led the investigation of Mr. Gonzalez.

U.S. Attorney General Michael B. Mukasey, speaking at the news conference, called it "the single largest and most complex identity-theft case ever charged in this country." The government said the defendants made "tens of millions" of dollars from their scheme, and had used the stolen data to make cards that withdrew "tens of thousands of dollars at a time" from automated teller machines.

The total amount of fraud and losses to the retailers resulting from the scheme wasn't estimated by the government. But TJX said it has set aside $202 million to cover costs including settlements with consumers and card-issuing banks. In a statement, the company said the number of retailers attacked "demonstrates the much broader challenges in protecting sensitive consumer data from this increasing threat."

Messrs. Mukasey and Sullivan said consumers had also suffered losses—although their liability for fraudulent card charges is limited by law. Other retailers allegedly victimized by the defendants include **BJ's Wholesale Club** Inc., **Boston Market** Corp., **Forever 21** and **DSW** Inc.

Three of the suspects are from the U.S., in addition to three from Ukraine, two from China, one from Estonia and another from Belarus. The place of origin of the 11th suspect isn't known.

The indictments allege that the computer breach at TJX—which was hardest hit by the scheme—was part of a much broader conspiracy involving the other retailers that lasted between 2003 and 2005. Although the government said the defendants managed to steal more than 40 million credit- and debit-card numbers, some consultants in court testimony estimated that 100 million account numbers were compromised in the TJX case alone.

Prosecutors allege that Mr. Gonzalez and another defendant, Christopher Scott, also of Miami, first hacked into a wireless computer system at an unidentified BJ's Wholesale Club store around 2003 and stole customer credit-card data. In 2004, Mr. Scott and another man identified only as "J.J." allegedly gained access to debit-card data at an OfficeMax store in Miami.

Then, in July 2005, the government said Mr. Scott gained access to the computer system used at a Marshalls department store—a TJX company—in Miami. He then sent computer commands to servers at TJX's headquarters in Framingham, Mass., that processed and stored payment-card transaction data for the giant retailer, prosecutors allege.

With access to the server, the defendants installed "sniffer programs" that captured payment-card data as customers were making purchases throughout the retailer's stores, the indictments state. Using their own direct connection to TJX's computer system, they repeatedly downloaded the data, which they sold or used to create their own credit cards, prosecutors allege.

TJX didn't discover the breach until December 2006 and didn't announce it publicly until the next month. Prosecutors now say that the credit-card data belonging to millions of TJX customers had been transferred to a server in Ukraine and that Mr. Gonzalez accessed the data as recently as March of this year.

The other U.S. citizen charged in the case was Damon Patrick Toey, also of Miami. Efforts to reach Mr. Scott and Mr. Toey for comment were unsuccessful.

The government said that Turkish police were holding Maxym Yastremskiy, a Ukrainian it accused of selling stolen credit-card numbers on the Internet. The U.S. is seeking his extradition. Another alleged trafficker in stolen card numbers, Estonian national Aleksandr Suvarov, is being held in Germany. Eight of the defendants haven't yet been arrested.

In indictments handed up against some of the defendants in San Diego, prosecutors said that Mr. Yastremskiy created a Web site to sell account information to buyers around world. They said he offered bulk discounts and sometimes advertised that he possessed information on millions of accounts at once.

The suspects face a variety of charges, including computer fraud, wire fraud, access-device fraud, aggravated identity theft and conspiracy. Mr. Gonzalez could face life in prison if convicted of the counts against him.

Boston Market spokeswoman Angela Proctor said as far as she knew, the company never disclosed a security breach. The Golden, Colo., eatery chain was alerted to a "potential data breach" in 2004, at a store in Florida, but a forensic firm hired to look into the matter "could not definitely concur that the breach had occurred," she said.

BJ's Wholesale Club Inc. spokeswoman Julie Somers said the case involved an "old breach" from 2004, and that "we are pleased progress is being made on the case."

OfficeMax, Forever 21, Sports Authority and DSW couldn't be reached for comment.

Barnes & Noble issued a statement in which it said it "had not received inquiries from credit card companies or customers about these alleged activities" prior to the indictments.


Associated Press

Secret Service Director **Mark Sullivan**, left, and Attorney General Michael Mukasey at the news conference in Boston on Tuesday.


General Motors

A current Saturn ad highlights the car maker's **hybrid sport-utility vehicle**.

GM pushes ad agencies for help in cutting costs

By Suzanne Vranica

In its latest attempt to save money, **General Motors** has asked its advertising agencies to slash their fees by as much as 20% this year and next, according to several people familiar with the matter.

The owner of well-known brands such as Cadillac and Chevrolet works with dozens of ad agencies around the U.S., including firms owned by **Publicis Groupe**, such as Leo Burnett, and ad shops owned by **Interpublic Group**, such as McCann Erickson and Campbell-Ewald.

ADVERTISING

Several ad executives say the cuts could translate into more than $20 million in savings for GM but likely will mean layoffs for the agencies involved.

GM's push shows how Detroit's pain—caused by a sharp drop in U.S. car sales amid soaring fuel prices—is creating ripple effects in other sectors. The fallout is expected to be particularly harsh for companies reliant on the car makers' massive marketing dollars.

It isn't just ad agencies that are being whacked by the belt-tightening among U.S. car makers, who account for more than 12% of all ad spending in the U.S.—more than any other single industry. Media companies such as **CBS**, **Viacom** and **News Corp.** have all taken significant hits.

"The collapse in U.S. automobile consumer demand will materially damage the advertising-growth rates of traditional media owners," Michael Nathanson, a senior analyst at Bernstein Research, said in a report sent to investors this week.

Ford Motor's ad spending in the U.S. plunged 37% for the first five months of the year, while ad outlays by **Chrysler** during the period sank 31%, according to the latest data from ad-tracker TNS Media Intelligence. TNS figures don't include search advertising.

GM declined to give details on its request that agencies lower their rates, but a spokeswoman said the car maker has "asked our agency partners to work with us to eliminate low-value work and find creative solutions to go to market more efficiently."

Chrysler wouldn't comment on the latest TNS numbers, but a spokeswoman said the company is shifting marketing dollars to the Internet and into mobile, two areas that aren't included in the TNS data.

A spokeswoman for Ford said the company doesn't comment on TNS data but said Ford announced in July that it cut $200 million from its marketing budget in the second quarter.

The media sectors most vulnerable to the pullback in automotive advertising include local television stations, local newspapers and local radio. Local TV stations, for example, get about 28% of their ad dollars from the automotive sector, while the sector is responsible for 18% of ad spending in local newspapers, Mr. Nathanson said.

Local media outlets are working overtime to find new sources of ad revenue. **Tribune**'s WPMT FOX43, which broadcasts in central Pennsylvania, says it saw the cuts coming and offered its sales force more financial incentives to get them to do more to tap other ad-spending categories. So far the station has gotten some help from spending by telecom companies and a bit of political ad spending. Still, automotive has represented 35% of the station's business in the past. "Automotive is huge," says John Riggle, the general manager. "Are we struggling without it? Yes."

Local media outlets are working to find new sources of ad revenue.

Others stations also are scrambling for other sources of revenue. "This is the worst I have seen it in my career," says Wayne Simons, vice president and general manager of **Fort Myers Broadcasting**'s WINK-TV in Fort Myers, Fla. Mr. Simons, who has been in the business for 41 years, says the only group spending more on ads these days is lawyers. "They are advertising like crazy, saying that they can help you with foreclosures," he adds.

Auto accounts were once the most profitable pieces of advertising business, but the auto giants, like other marketers, have squeezed their agencies enormously over the past few years. For example, the FCB agency, now part of Interpublic's Draftfcb, in 2000 had profit margins in the 20% range for its work on Chrysler. Now, profit margins on the auto accounts are typically between 8% and 12%, according to ad executives.

Still, GM's request for lower rates—and the larger retrenchment by Detroit—is a blow for Madison Avenue. Ad executives say the car accounts are still a vital and profitable piece of business—in part because the agencies, after so many years of doing so much of that type of work, have created very effective economies of scale.

Time Warner net declines

Media firm confirms some AOL operations will be separated

By Nat Worden

Time Warner Inc. posted a 26% decrease in second-quarter net income and **Time Warner Cable** Inc. reported 1.8% growth as subscribership continued to rise but the firm cut its full-year profit target.

Time Warner also confirmed it will separate America Online's advertising and subscribership operations as it looks into the possibility of shedding one or both of the parts.

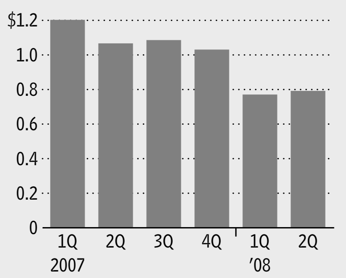
The media giant reported net income of $792 million, or 22 cents a share, down from $1.07 billion, or 28 cents a share, in the prior year. The most recent quarter included two cents a share in charges, and the previous year's included a three-cent gain.

Revenue rose 5% to $11.6 billion.

The mean estimate of analysts surveyed by Thomson Reuters was for earnings of 23 cents a share on revenue of $11.45 billion.

Revenue at America Online fell 16%, though ad revenue rose 2%. Profit at the unit was down 36%. Dial-up subscribership fell an additional 26%, putting the figure at 8.1 million. The service lost 604,000 customers in the quarter.

Associated Press



Time Warner Inc.
Net income, in billions

Source: the company

Time Warner has held discussions with both **Yahoo** Inc. and **Microsoft** Corp. to sell AOL, according to people familiar with the situation. Separate from its dial-up business, AOL's display advertising business becomes a more appetizing acquisition target for one of the major Web companies seeking to bolster its presence. Meanwhile, the dial-up business could be a target for a company like EarthLink Inc.

Profit gained 18% in its TV networks segment—which includes Turner Broadcasting and HBO—as overall revenue rose 8.7%, with both subscription revenue and ad-revenue recording double-digit growth.

Earnings rose 16% in its movie business, as revenue climbed 14%. Also, Time Warner's publishing arm, including Time Inc., continued to struggle, with earnings down 11% and revenue off 6%.

Michael Morris, an analyst with UBS, said Time Warner could have trouble hitting its earnings guidance for the year due to a slowdown in the advertising market coupled with weakness at AOL and Time Inc. The firm reiterated its 2008 profit target of $1.07 to $1.11 a share.

Meanwhile Time Warner Cable, the second-largest U.S. cable operator behind **Comcast** Corp. posted net income of $277 million, or 28 cents a share, up from $272 million, or 28 cents a share, a year earlier. The latest quarter included $45 million in charges from divestitures.

Revenue rose 7.1% to $4.3 billion.

—David Benoit contributed to this article.

Pentagon revises criteria for stalled tankers bid

By Andy Pasztor

Seeking to quickly revive a stalled $40 billion competition for the next generation of aerial-refueling tankers, the Pentagon issued revised criteria for choosing between **Boeing** Co. and a partnership of **Northrop Grumman** Corp. and **European Aeronautic Defence & Space** Co.

Northrop and EADS earlier this year surprised the defense industry by winning the coveted contract for 179 aircraft. But Boeing, which had been expected to win the deal, protested the award. The Government Accountability Office upheld a number of Boeing's arguments, forcing the Pentagon to rebid the contract on an expedited basis. The amended request for proposals is intended to correct procedural and cost-estimating problems that the GAO cited.

The revised bid documents may not cut to the heart of two big questions hanging over the process. The first is the Pentagon's preference for a larger aircraft like the one from the Northrop team, a factor that Boeing has been battling because its proposal is built around a smaller plane. The second is whether election-year pressures and other complications will prevent Pentagon brass from making a final decision by year end, as the current schedule calls for.

None of the companies had an immediate comment on the changes. The changes include measuring the total cost of each bid—including maintenance and other long-term expenses—over 40 years rather than 25 years, according to one person familiar with the details. That should help Boeing and the smaller 767 model it has offered, rather than the EADS Airbus A330 offered by its rivals.

But other changes may benefit the Airbus entry, because they appear to give more credit to an aircraft's ability to carry extra fuel, beyond the requirements spelled out in the original request for bids.

Senior Pentagon officials have stressed that from the standpoint of long-term policy and military-force structure, they prefer a larger aircraft offering greater capacity to do double duty as a troop-transport or medical-evacuation plane.

John Young, the Pentagon's acquisition chief, has said he hopes to award a contract before the end of the year. The teams were given less than two weeks to comment on the latest proposed criteria, with new bids expected by October.

But many industry executives and even some high-ranking Pentagon officials believe that timetable may be too optimistic. The companies could delay the process by objecting to the changes on technical grounds, or could argue that the revised package unfairly favors a competitor.

Jim Albaugh, the head of Boeing's defense and space operations, told reporters last month that he "was surprised that we lost" after the first round of bidding, partly because the Pentagon told Boeing "the level of cost data we provided was unprecedented."

But John Lockard, one of Mr. Albaugh's top deputies, acknowledged during the same news conference that the Pentagon's intention of making a final choice this year amounts to "a pretty sporty schedule."

Ad woes hits ITV, ProSiebenSat.1

By Archibald Preuschat And Kathy Sandler

The uncertain outlook for television advertising continues to take its toll on European broadcasting companies. Britain's **ITV** PLC swung to a net loss for its first half amid massive write-downs, and Germany's **ProSiebenSat.1 Media** AG said its second-quarter net profit was down 32%.

The advertising downturn hit right to ITV's bottom line. As a result of reduced forecasts, the company booked a £1.6 billion ($3.1 billion) charge on goodwill write-downs for Granada and Carlton Communications. That pulled the company down to a net loss of £1.53 billion from an £84 million net profit a year earlier. Granada and Carlton merged in 2004, creating ITV, now the U.K.'s largest free-to-air commercial broadcaster. Revenue for the first half was up 2.7% to £1.03 billion from £1 billion.

If the advertising market deteriorates significantly, ITV could incur further noncash charges, said Chief Operating Officer John Cresswell. The broadcaster expects a 20% drop in net advertising revenue for September, adding that it will implement an additional £35 million in cost savings by 2010, including job cuts.

In light of the write-downs and pessimistic forecast, ITV halved its interim dividend to 0.675 pence and said it will review the full-year dividend. It also cut its targets for online and global-content revenue, which had been a key part of its turnaround strategy.

ITV shares fell 2.7 pence, or 5.8% to 43.6 pence in response to the report.

ProSiebenSat.1, Europe's second-largest pan-European broadcaster, behind RTL Group, said net profit for its second quarter fell to €59.5 million ($92 million) from €87.2 million a year earlier. Its bottom line was hit by weak domestic operations and the cost of its recent acquisition of SBS Broadcasting. Sales were up 45% to €801.9 million from €551.6 million, thanks to consolidation effects.

"The first half of the year was not an easy time for the ProSiebenSat.1 Group," Chief Executive Guillaume de Posch said in a statement.

Free-to-air channels in its German home market remain ProSiebenSat.1's core business, but in contrast to ITV's U.K.-focused operations, it lessened its dependency on the domestic economy with its €3.3 billion acquisition of SBS Broadcasting. ProSiebenSat.1 now operates in 13 countries and also has radio, minor pay-TV and print operations.

ProSiebenSat.1 continues to forecast 2008 recurring earnings before interest, taxes, depreciation and amortization to be flat with last year's €783 million. ProSiebenSat.1 shares rose 17 European cents, or 2.8%, to €6.33 in Frankfurt.

Sprint shows signs of life but warns of more turnover

By Roger Cheng

Cellphone-service provider **Sprint Nextel** Corp. showed signs of resuscitation in the second quarter but dashed hopes of a quick recovery with a warning of weaker results to come.

Unlike every other major U.S. wireless carrier, Sprint continues to lose customers and, in particular, valuable subscribers who sign long-term contracts and pay a higher monthly bill. The company has managed to cut costs and show some improvement, but it hasn't yet answered how it will turn itself around. This is particularly worrisome, as more than four out of every five consumers in the U.S. already has a cellphone, according to analysts.

Sprint shares were down 10% in afternoon trading Wednesday on the New York Stock Exchange.

Sprint lost 901,000 customers in the second quarter and reported a turnover rate for its contract subscribers of 2%. While the results mark an improvement from the first quarter, they are overshadowed by company expectations that the turnover rate and subscriber losses are expected to worsen in the third quarter.

The third quarter is typically a stronger period for Sprint, according to Walter Piecyk, an analyst at Pali Research. He said he was surprised at the expectation that gross subscriber losses wouldn't show improvement.

"When they're already down that much, that's problematic," he said. "At some point, you have to go out and attract new customers, and they're not doing that."

Sprint reported a second-quarter net loss of $344 million, or 12 cents a share, compared with a year-earlier profit of $19 million, or a penny a share. Revenue fell 11% to $9.06 billion. Excluding items, Sprint earned six cents a share, topping the mean forecast by analysts surveyed by Thomson Reuters for three cents a share.

Chief Executive Dan Hesse has consolidated Sprint's headquarters in Overland Park, Kan., and laid down plans to spin off its WiMAX business. In the second quarter, it closed 50 direct retail stores and cut the number of dealers 25%. Its answer to Apple Inc.'s iPhone, called the Instinct, has sold out in Sprint stores.

Mr. Hesse, however, hasn't figured out a way to meaningfully reduce the number of customers who have defected. Sprint's monthly average revenue per user was $56 in the second quarter, flat with the first quarter, although wireless revenue of $7 billion fell 11% from a year earlier and came in at less than Bank of America analyst David Barden's estimate of $7.93 billion.

BP shuts pipeline after fire in Turkey

By Benoît Faucon

BP PLC said it shut a key pipeline that pumps crude oil from the Caspian Sea to the Mediterranean on Wednesday, after a fire in Turkey.

A spokesman for BP said the company that operates the pipeline, known as Baku-Tbilisi-Ceyhan, or BTC, had declared *force majeure*, meaning it might not be able to meet all its oil-export commitments.

News of the fire pushed up oil prices, though they later eased. BTC pumps the equivalent of more than 1% of world crude supply. The cause of the fire is still unknown. Local Kurdish separatists had vowed to attack BTC in Eastern Turkey where the fire took place. A report commissioned by the company also suggested it was a potential target for terrorists.

BP, which operates the one-million-barrels-a-day line and holds a 30.1% stake, has also acknowledged that people had tried to tap BTC illegally. But a local official ruled out sabotage, according to Agence France-Presse, citing the Anatolia news agency. A BP spokeswoman said the incident will be investigated once the situation is under control.

BTC, which runs 1,750 kilometers from Azerbaijan to the Turkish Mediterranean port of Ceyhan and was inaugurated in 2005, was designed to be the first major export pipeline to pump oil out of the former Soviet Union without going through Russia. It transports oil from Azeri-Chirag-Gunashli, a big complex of oilfields in the Caspian Sea, which is being developed by a BP-led consortium.

Oil from the fields will now have to move at least in part through Russia, the BP spokesman said. Other shareholders in BTC are the Azeri state oil company **Socar**, which owns 25%, **Chevron** Corp. and **ConocoPhillips** of the U.S., **StatoilHydro** ASA of Norway, Italy's **Eni** SpA and France's **Total** SA.

Light, sweet crude prices on the New York Mercantile Exchange climbed to $120 a barrel following the news of the fire on the pipeline, but retreated as bearish sentiment maintained its grip on price activity. Lawrence Poole, analyst at Global Insight in London, said concerns about weak demand were outweighing any bullish news.

CORPORATE NEWS

EU regulators clear Delta deal with Northwest

By Paulo Prada

Antitrust regulators in the European Union cleared **Delta Air Lines** Inc.'s planned acquisition of **Northwest Airlines** Corp., saying the carriers' plans to merge posed few threats to the competitive landscape in the 27-member bloc or across the Atlantic Ocean.

Though it was expected, the approval in Europe removes one of the obstacles the two carriers must pass before they can proceed with their plan, announced in April, to create the world's biggest airline in terms of passenger traffic.

The airlines still must get approval from their shareholders at meetings in September and pass regulatory muster in the U.S. The Justice Department is reviewing thousands of documents provided by the airlines in response to its "second request" for data regarding the two companies, their operations and their plans to combine networks. The second request, a move which isn't always made, signals a close examination.

The European Commission on Wednesday said the proposed merger "would not significantly impede effective competition" because there is little overlap among the cities served by the two airlines in the U.S. and the destinations they fly to in Europe. Both airlines are already members of SkyTeam, one of three major international airline alliances, and their routes and schedules across the Atlantic "are mainly complementary, as they have hubs in different U.S. cities," the commission said.

Delta, the third-biggest carrier in the U.S., flies to 32 EU cities, more than twice as many as Northwest. Based in Atlanta, Delta also has hubs in New York, Cincinnati and Salt Lake City. Northwest, ranked fifth in the U.S., is based in Eagan, Minn., and has hubs in Minneapolis, Detroit, Memphis and Tokyo, where it operates connecting service on many other Asian routes.

Regulators in the U.S. are still weighing the impact a merger would have on domestic competition, but few antitrust experts and airline-industry executives expect the proposed deal to get blocked. The airlines have agreed to a timeline with the Justice Department for the remainder of the review and have said they expect to receive approval soon. Richard Anderson, Delta's chief executive, said in a prepared statement Wednesday that the airlines "remain confident that we will be able to finalize the merger by the end of the year."

Delta and Northwest already cooperate on some routes in the U.S. and, as members of SkyTeam, recently received permission from the Justice Department to strengthen ties with their European partners in a manner that would otherwise be considered collusive. That permission will allow them to coordinate fares, schedules and capacity on trans-Atlantic routes as if the SkyTeam members were a single airline. The alliance's European members include **Air France-KLM** SA, **Alitalia** SpA and **CSA Czech Airlines**.

The EU continues to conduct a review of SkyTeam activities within Europe.

GLOBAL BUSINESS BRIEFS

Henkel AG & Co.

Restructuring charges help sink 2nd-quarter profit 84%

German consumer-goods producer **Henkel** AG & Co. said its second-quarter net profit dropped 84%, pulled down by restructuring charges and higher interest payments. Net profit fell to €38 million ($58.8 million) from €234 million a year earlier, even though revenue was up 11% to €3.67 billion. The drop in profit was largely because of restructuring charges of €256 million from the integration of recent acquisition National Starch, and Henkel's global cost-cutting program. Henkel said it will increase product prices in the second half by 5% to 10% and widened its range for full-year sales growth. The company said it now expects full-year organic revenue growth, which strips out exchange-rate fluctuations as well as acquisitions and divestments, of 3% to 5%, up from a previously forecast growth of between 3% and 4%.

Standard Life PLC

U.K. insurer **Standard Life** PLC nearly tripled its net profit, fueled by growth in its U.K. life and pensions business, while **Old Mutual** PLC posted a 14% rise in profit but said it had to inject capital into its U.S. business after underestimating the current market turmoil. Standard Life's net profit rose to £161 million ($315 million) in the six months ended June 30, from £57 million a year earlier. However, the company also suffered a large loss in the value of its investments. Standard Life's long-term investment variances—a measure of the health of its investments—showed a loss of £516 million, as opposed to a gain of £31 million a year earlier. Other major insurers such as **Aviva** PLC and **Prudential** PLC posted half-year net losses as volatile markets led to deep cuts in the value of their investments.

LVMH

Luxury brand Cartier is suing fashion house Donna Karan International Inc., a division of **LVMH Moët Hennessy Louis Vuitton** SA, alleging a line of watches infringes on the trademark for its Tank watches. The lawsuit, filed in U.S. District Court in Manhattan, claims Donna Karan previously sold watches using the Tank trademark in 2001, but stopped in 2002 after Cartier objected. As of Tuesday evening, DKNY was selling a rectangular-faced "Tank" watch on its Web site for $115. Cartier is a brand of Switzerland's Cie. Financière Richemonßt SA. A Donna Karan spokeswoman didn't immediately have a comment.

Munich Re

Munich Re, one of the world's largest reinsurers, said net profit fell 47% in the second quarter, with declining market prices pressuring the reinsurer's investment portfolio. Net fell to €599 million ($926.2 million) from €1.14 billion a year earlier. Munich Re said write-downs of equities and equity-based derivatives resulted in a net burden of €591 million for the second quarter and €992 million for the first half of 2008. European insurers have avoided much of the turmoil suffered by their U.S. counterparts, as those in Europe generally shun the riskiest of bond holdings and invest instead in government-guaranteed securities and equities to boost returns. But the weaker equity markets are nevertheless putting a dent into sector earnings.

Commerzbank AG

Commerzbank AG posted a 6.4% rise in second-quarter net profit on higher net interest income and a €386 million ($597 million) tax gain, but still took hits related to the global financial crisis in its structured-credit portfolio and commercial-real-estate business. Net profit rose to €817 million from €768 million a year earlier, coming in above analyst expectations of €343 million. Despite the profit increase, Germany's second-largest bank by market value behind Deutsche Bank AG remained cautious on the full-year outlook, reiterating that it "could be very difficult to reach the good result of the previous year in 2008," but saying it remains committed to an adjusted after-tax return on equity of more than 15% in 2010. Commerzbank has done better in the global financial crisis than many of its peers because of a business model that focuses on small and midsize companies and commercial real estate.

Eurasian Natural Resources Corp.

Eurasian Natural Resources Corp. reported an increase in second-quarter alloy and iron-ore production, as ore grades were mostly consistent. The London-listed miner, which focuses on Kazakhstan, said production of ferroalloys, used in making steel, climbed 2.5% to 374,000 metric tons from 365,000 tons a year earlier. Including production from ENRC's stake in Russia's Serov group, which it bought in April, ferroalloy production was up 21% to 443,000 tons. Iron-ore production rose 6.1% to 10.7 million tons, while alumina and bauxite production rose 4.7% and 7.1%, respectively. Eurasian said in the second half ferrochrome production volume is expected to increase with its acquisition of a 50% stake in the Tuoli ferroalloy plant in China.

Daimler AG

Daimler AG's Mercedes-Benz Cars unit said that sales were up 1.4% on the year in July at 105,100. A 26% rise at the Smart minicar brand more than offset a 1.1% fall for the Mercedes-Benz brand. In a separate statement, the company said it will cut production by 45,000 Mercedes-Benz vehicles this year, which followed remarks made by Chief Executive Dieter Zetsche last month on plans to reduce output. The move mirrors cutbacks at the world's best-selling premium auto maker **BMW** AG. Last week, BMW said it will reduce production by up to 25,000 cars this year. Also on Wednesday, German rival **Audi** AG posted a 2.5% on-year sales rise, to 83,200 cars in July, driven by demand in Asia and Eastern Europe.

Prague Stock Exchange

The **Prague Stock Exchange**, an electronic equities and electricity trading platform, is likely to be sold in a matter of months, the exchange's shareholders and executives said. Investors recognize the trend of consolidation among exchanges world-wide, the exchange's spokesman Jiri Kovarik said. The most likely buyer would be global or regional exchanges, or financial investors, he said. **Komercni Banka**, majority owned by France's **Société Générale** SA, holds an 11.5% stake in the exchange and said it is ready to sell. A spokeswoman at Austria's **Erste Bank** AG, which via its Czech unit Ceska Sporitelna AS holds a 15% stake in the exchange, also confirmed its interest in selling. Several regional exchanges have expressed interest in teaming up with, or taking over, the Prague exchange.

A2A SpA

A2A SpA, Italy's biggest municipal utility by revenue, said first-half net profit fell 34%, more than expected, compared with pro forma figures for 2007, due to higher taxes, costs and financial charges. A2A, which was formed in January by the merger of AEM SpA and ASM SpA, said net profit was €159 million ($245.9 million) compared with a pro forma €241 million. Revenue was 23% higher at €2.99 billion compared with the pro forma €2.42 billion a year ago. Analysts had expected an average net profit of €209.6 million for the first half, with earnings before interest, taxes, depreciation and amortization, or Ebitda, of €513.3 million, according to a survey of seven analysts polled by Dow Jones Newswires. First-half Ebitda, the figure closely watched by analysts, was €527 million compared with pro forma €504 million in the equivalent 2007 period.

Publicis Groupe SA

In its latest attempt to tap into the dollars flowing to digital marketing, **Publicis Groupe** SA is buying Performics, the search-marketing agency owned by **Google** Inc. Terms of the deal weren't disclosed. Performics, a 200-employee firm based in Chicago, was part of Internet ad-services company DoubleClick, which Google bought last year for $3.2 billion. Performics's clients include Hewlett-Packard Co. and UAL Corp.'s United Airlines. Rumors that Google would unload the division have been circling since the DoubleClick acquisition because of conflict-of-interest issues: Because Google dominates the search-ad market globally, it has been criticized for owning a search-marketing firm that works to improve results on Google's own search engine.

Nikon Corp.

Nikon Corp. said net profit fell 23% in its fiscal first quarter as an increase in costs wiped out robust sales of its high-end digital cameras. The Tokyo supplier of precision equipment and maker of scanners and microscopes, said net profit for the quarter ended June 30 fell to 17.95 billion yen ($165.8 million) from 23.45 billion yen a year earlier. Revenue rose 6.4% to 237.9 billion yen from 223.5 billion yen, despite a strong yen that has crimped many Japanese technology exporters, including digital-camera rival Canon Inc. Revenue in Nikon's camera division rose 14% to 165.2 billion yen, boosted by strong sales of single-lens-reflex digital cameras. Amid the revenue gain, Nikon left unchanged its forecast for full-year earnings at 78 billion yen.

Cathay Pacific Airways Ltd.

Cathay Pacific Airways Ltd. posted a first-half net loss for the first time since the SARS crisis in 2003, as soaring fuel prices more than offset an increase in passenger revenue amid strong demand. The airline said its return to profitability will depend on whether higher air fares and surcharges can match the increase in fuel costs, even as demand remains robust. "The dramatic change to our fortune is down to one factor: the relentless rise in the price of fuel," said Cathay Pacific Chairman Christopher Pratt. The Hong Kong-based airline reported a net loss of 663 million Hong Kong dollars (US$85 million), compared with net profit of HK$2.58 billion a year earlier. Revenue rose 23% to HK$42.45 billion from HK$34.63 billion.

Hynix Semiconductor Inc.

Switzerland's Numonyx BV and South Korea's **Hynix Semiconductor** Inc. signed a five-year agreement to jointly develop NAND flash-memory chips, which are widely used in music players and digital cameras. Financial terms of the agreement weren't disclosed. Numonyx and Hynix also plan to collaborate on mobile dynamic random access memory, or DRAM, chips used in mobile phones. As part of the deal, Hynix will supply mobile DRAM chips "in large quantities" to Numonyx, said Hynix spokeswoman Seong Ae Park. "Numonyx will become one of our big clients for more profitable mobile DRAM chips," she said.

NTT Corp.

Nippon Telegraph & Telephone Corp. said net profit grew 17% in the April-June quarter, lifted by lower mobile telephone marketing costs and strong system integration operations. Japan's largest telecommunication carrier said net rose to 175.53 billion yen ($1.62 billion) from 150.39 billion yen a year earlier. Revenue was up 0.3% at 2.594 trillion yen. Operating profit rose 24% to 372.06 billion yen. NTT benefited most from selling mobile phone handsets with installment payment plans at unit NTT DoCoMo Inc. At the end of June, NTT had 14.03 million broadband users, up from 11.98 million a year earlier.

Creative Technology Ltd.

Creative Technology Ltd.'s net loss for the fiscal fourth quarter widened, hampered by restructuring charges and a revenue fall. Creative reported a net loss of $31.7 million for the quarter ended June 30, compared with a $19.3 million net loss a year earlier. The Singapore-based manufacturer of consumer-electronic devices took a restructuring charge of $11.7 million. Creative forecasts revenue for the current quarter ending Sept. 30 to be lower than the year-earlier period because of adverse macroeconomic conditions that it expects to continue through the fiscal second quarter. Revenue for the fourth quarter fell 16% to $139.5 million from $165.2 million a year earlier.

SembCorp Industries Ltd.

SembCorp Industries Ltd. said its second-quarter net profit rose 6.6% from a year earlier due to strength in its rig and utilities businesses, but it said full-year projections are at risk because of uncertain global conditions. Net profit was 138.2 million Singapore dollars (US$100.1 million), up from S$129.6 million. Revenue was S$2.58 billion, up from S$2 billion. The company said it expects full-year net profit to be similar to that of 2007 before exceptional items and a tax write-back. "However, the challenging global economic and financial environment creates uncertainty that may affect our forecast," it said.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

JAPAN

Assessment cut signals a recession is likely

JAPAN'S CABINET Office cut its assessment of the coincident index in June to "worsening," a preliminary judgment that the economy is very likely in recession.

The coincident index, which gauges the state of the economy, stood at 33.3 in June, below the boom-or-bust threshold of 50. "Judging from the indexes of business conditions, the Cabinet Office believes there is a high chance the economy is in a recession," a government official said. The Cabinet Office's view is in line with those of analysts at private think tanks, who have been saying for weeks that Japan's long-running economic expansion ended in the fourth quarter of last year. *—Takashi Mochizuki*

LEBANON

U.S. commander in Iraq offers aid to the military

Associated Press

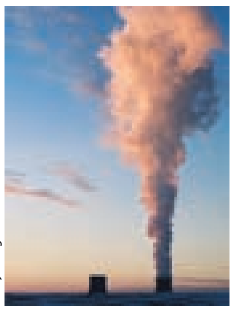
THE TOP U.S. military commander in Iraq, Gen. David Petraeus, met with officials in Lebanon to discuss American aid to the country's army and political cooperation.

The commander, above, far left, whose visit was unannounced, met with President Michel Suleiman, above right, himself a former army chief, and the two discussed U.S. assistance to the Lebanese army, including equipment and training, according to a statement from Mr. Suleiman's office.

The U.S. has sharply increased its military aid to Lebanon since the 2006 war between Hezbollah and Israel. *—Associated Press*

EUROPEAN COMMISSION

EU companies that cut emissions will get leeway



Getty Images

EUROPEAN companies will be able to gain a permit to pollute at home if they invest in projects that cut greenhouse-gas emissions elsewhere in the world by December, the European Commission said.

Businesses in the European Union, such as power-generation companies and steelmakers, will be able to support carbon-dioxide-reduction projects in developing countries in return for credits in the EU's carbon-trading program, the commission said.

They can sell on these permits if they don't need them—giving them a financial incentive to become cleaner. *—Associated Press*

South Africans strike in protest over prices

Tens of thousands stay home, hurting mining, production

BY SARAH CHILDRESS

TENS OF THOUSANDS of South African workers stayed home from their jobs Wednesday, hitting the country's main economic drivers—mining and manufacturing—in a protest against rising food and electricity prices and tapping a national sentiment that the government has failed to offer relief amid a growing global crisis.

The action is the latest in a string of protests across sub-Saharan Africa and world-wide as people, frustrated by rising food and fuel prices, take to the streets. In recent months, people in poor South African townships have attacked immigrants and burned their homes, blaming them for driving up unemployment and taking advantage of government aid.

The strike underscores a growing frustration among poor South Africans that the government, and in particular President Thabo Mbeki, is out of touch and unable or unwilling to address their needs. That sentiment has elevated Mr. Mbeki's populist rival, Jacob Zuma, in recent months. Elected in December to head the country's ruling party, Mr. Zuma is now a favorite to be elected president of South Africa in 2009.

The immediate economic impact of Wednesday's strike was difficult to measure, but analysts estimate that as much as 200 million rand (about $27 million) in revenue could have been lost. The strike was among the largest worker mass actions in South Africa in years. Pat Craven, the national spokesman for the Congress of South African Trade Unions, which organized the action, said most of its 1.8 million members participated, as well as some workers outside the group.

Most who stayed home were employed in the mines and in factories that manufacture cars, clothing and other goods. In the major cities, the transport system also stalled, stranding workers without cars whether or not they wanted to clock in.

"People are fed up with the increased cost of living, and they want something to be done about it," Mr. Craven said.

Reuters

Members of the **Congress of South African Trade Unions** march through the streets of Cape Town on Wednesday to protest high food, fuel and electricity prices.

Themba Maseko, a government spokesman, said, "This strike was something that we could least afford as a country when we need to make sure that our economy can withstand these global challenges." Mr. Maseko said the government was well aware of the strikers' complaints and formed a task force several weeks ago to help poor South Africans cope with the food and energy crunch.

In addition to the global food and energy problems, South Africa was hit this year by a major electricity shortage. Poor planning and outdated infrastructure had left its power grid crumbling in recent years as the economy boomed. To curb demand, the state-owned power company, Eskom, this summer introduced a 27.5% tariff increase on electricity.

Mr. Craven said the strike's aim was to compel the government to withdraw the tariff and guarantee jobs wouldn't be lost because of the current crisis.

Several retailers closed, fearing disruption from the strike, and at least three major automotive plants shut down. The hardest-hit were the major mining companies, South Africa's main economic driver. **AngloGold Ashanti** Ltd., the country's largest gold producer, was among several companies forced to suspend the day's operations.

Keith Brebnor, chief executive of the Johannesburg Chamber of Commerce and Industry, said the mass action could damage South Africa's reputation as an exporter and manufacturer at a time when it is working to stand out as a global player. "The cost of those dents on your image are hard to calculate, but they're huge," Mr. Brebnor said.

—Robb M. Stewart contributed to this article.

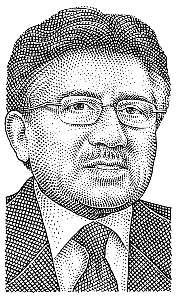
Anxiety grows in Pakistan amid effort to oust Musharraf

BY ZAHID HUSSAIN

ISLAMABAD, Pakistan—Political tensions rose in Pakistan as President Pervez Musharraf sent mixed signals over whether he would attend the opening ceremony of the Beijing Olympics and his opponents in the ruling coalition drew closer to an agreement to begin impeachment proceedings against him.

Late Wednesday, Pakistan's foreign ministry issued a statement saying Mr. Musharraf would go to China, citing the friendly relations between the two countries. Earlier in the day, a ministry spokesman had said the trip was off but didn't give a reason. While the flip-flop may have been merely the result of a bureaucratic error, it added to the sense of uncertainty surrounding Mr. Musharraf's future.

Meanwhile, talks among the president's opponents that started Tuesday continued Wednesday. The talks, headed by Asif Ali Zardari, chairman of the Pakistan People's Party, and Nawaz Sharif, head of the Pakistan Muslim League (N), have been inconclusive.



Pervez Musharraf

But coalition leaders said the two sides have reached a broad agreement to try to dispense with the president, who has been sidelined from political power since democratic elections earlier this year installed a new government. The PPP is the leader of the ruling coalition; the Pakistan Muslim League, which earlier withdrew its members from the cabinet, continues to support the government.

Though analysts see the outcome of any impeachment move as uncertain, they say it could increase political disarray in the country, possibly forcing the army to intervene, even though the army's leadership so far has kept out of the fray.

The political uncertainty has badly affected the economy, with inflation soaring. Investors harbor doubts about whether the civilian coalition government can arrest the decline. The rupee slipped closer to record lows Wednesday, closing at 72.50 to the dollar. The Karachi Stock Exchange's benchmark index ended 3.6% lower. The government also is struggling against a growing Islamist insurgency.

The talks between the two largest parties have centered on Mr. Musharraf's possible removal from office and the restoration of Supreme Court judges who were dismissed by Mr. Musharraf in November during a brief period of emergency rule. In all, Mr. Musharraf sacked 60 judges from the top court and lower courts. These two issues have overshadowed the four-month-old coalition government.

A senior member of the ruling coalition said Mr. Zardari and Mr. Sharif have agreed in principle to draw up a joint charge sheet against the president. It would leave Mr. Musharraf with the option of defending himself before Parliament or quitting before the impeachment vote.

Khawaja Asif, a spokesman for Mr. Sharif, said the coalition parties have the required two-thirds majority in Parliament to remove the president. "We have the sufficient numbers" he said.

But the president's supporters denied the claim. Chaudhry Pervez Elahi, leader of the opposition and a Musharraf loyalist, said the president has no intention of quitting and is confident efforts to remove him will founder. "The impeachment move will fail," he said.

IMF trims U.K. forecast

Estimate for growth set at 1.4% for 2008; no rate cuts expected

BY LAURENCE NORMAN

LONDON—The International Monetary Fund cut its forecast for British economic growth for this year and next, citing the impact of the credit crunch on growth and rising inflationary pressures that constrain the Bank of England's ability to cut interest rates.

In a regular review, the IMF said it expects Britain's economy to grow 1.4% this year and 1.1% in 2009.

As recently as in its July update of the World Economic Outlook, the IMF had predicted the U.K. would grow 1.8% in 2008 and 1.7% in 2009, compared with estimates of 1.6% for this year and next in its April report.

The U.K. government's official estimate is for growth of 1.75% to 2.25% this year and 2.25% to 2.75% next year, but ministers have said recently that the economic outlook is looking more difficult because of the credit crunch and rising price pressures.

Many private economists believe the U.K. will enter—or come close to entering—a recession in coming months. However, the IMF forecasts don't see U.K. growth turning negative in coming quarters.

In its report, the IMF said that with inflation pressures strong and inflation expectations picking up, its staff doesn't see any scope for the Bank of England to cut interest rates soon, nor does it believe rates should be raised.

The IMF believes consumer-price inflation will peak at close to 5%, will average 3.8% this year and won't return to the Bank of England's 2% target until 2010.

Wednesday, the Bank of England's Monetary Policy Committee started a two-day meeting. It is widely expected to hold rates at 5%.

The IMF report also warned the British government against increasing spending, saying that, if anything, it should accelerate its planned fiscal tightening in 2009 and 2010. It also said the government is likely to breach its 40% ceiling for net debt to gross domestic product.

And it said that if the government goes ahead with changes to its fiscal rules, it should retain the 40% ceiling and adopt a "clear and short horizon to bring debt back under the ceiling following a breach."

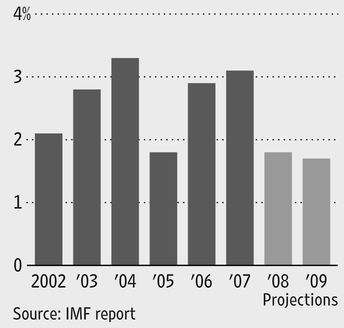
Commenting on the report, a U.K. Treasury spokesman said "the government is committed to maintaining sound public finances and, in line with its usual practice, will update its fiscal and economic forecasts" when it publishes its prebudget report later this year.

The IMF also said it believes U.K. house prices will fall some 15% from their peak levels over two years. Home prices started to drop during the second half of last year. The IMF added, though, that it expects that the impact of such a drop on the wider economy would be "contained," with lower prices having only a modest impact on consumer spending.

The report said the British pound is likely to continue to depreciate in the period ahead, adding to inflationary pressure.

Growth peak

The International Monetary Fund predicts the U.K. economy will slow sharply in 2008 and 2009. Real GDP, annual percentage change



Source: IMF report

More Iran sanctions are pursued

BY JAY SOLOMON

WASHINGTON—Six nations agreed Wednesday to pursue new U.N. sanctions against Iran after it failed to accept a package of incentives, the U.S. said.

Iran's response to a negotiating package put forward by the U.S. and its partners in June was called "inadequate" by American and European diplomats, triggering the agreement.

Iran's response Tuesday came just days after Iranian military officials threatened to choke off access to the Persian Gulf, should tensions with the U.S. and Israel increase over Tehran's nuclear program.

The Iranian reaction is also stoking new fears in the Middle East and Europe that international diplomacy may fail to contain Iran's growing nuclear capabilities. "What Iran is doing stems simply from arrogance," Libyan leader Moammar Gadhafi said Tuesday during a visit to Tunisia. "In the event of a decision against Iran, this country will suffer the same outcome as Iraq." Mr. Gadhafi, facing pressure from the U.S. and Europe, agreed to give up his nation's own nuclear program in 2003.

Moammar Gadhafi

The five permanent members of the United Nations Security Council, plus Germany, offered Tehran a sweetened package of economic incentives, including energy assistance, in June in return for Iran suspending its uranium-enrichment activities.

The six negotiating nations set last weekend as the soft deadline for Tehran to respond to its negotiating agenda, or risk facing additional financial sanctions.

In a one-page letter sent by the Iranian government Tuesday to Javier Solana, the European Union's foreign-policy chief, Tehran refused to address the international community's key demand—Iran's freezing of its uranium-enrichment activities—according to a copy of the document. Instead, Iran's chief nuclear negotiator, Saeed Jalili, said Tehran was "ready to provide a 'clear response' to your proposal" when Iran received its own response to a negotiating framework it sent Mr. Solana in June.

The Iranian offer, which Tehran called the "modality for comprehensive negotiations," details a framework through which Iran could engage the international community on everything from nuclear energy to economic and security cooperation. The Iranian offer doesn't address Tehran's willingness to suspend its uranium-enrichment activities and demands a cessation of U.N. and U.S. sanctions as a prerequisite for talks.

"The second phase of negotiations can commence as early as possible, if there is willingness on your side," Mr. Jalili said in the letter.

U.S. and European diplomats said the international community didn't take this initial Iranian offer seriously, as it failed to address the issue of Tehran's suspension of its uranium-enrichment work. Mr. Solana has offered Iran a "freeze for freeze" agreement, whereby the international community would stop imposing any new sanctions on Iran in response to Tehran ceasing to expand its current nuclear activities.

The diplomats said Iran's latest response appeared to be an attempt to stall the international community and avert additional economic penalties. "They seem to want interminable negotiations," said a European diplomat involved in the process. "Their answer was neither a 'yes' nor a 'no.' "

"We are looking for a clear, positive response from Iran, and in the absence of that we're going to have no choice but to pursue further measures against them," State Department spokesman Gonzalo Gallegos said Tuesday.

U.S. and European diplomats were expected to have discussed on Wednesday unilateral and multilateral actions to try to force Iran into a negotiating framework.

Key among these new financial penalties, according to U.S. and Western officials, are measures aimed at limiting Iran's ability to import refined petroleum products and engage in shipping activities. The U.S. and European nations have also stepped up efforts to cripple Iran's banking and insurance sectors.

Tehran has stated in recent days that it could choke off trade in the strategically important Persian Gulf if it comes under increased international pressure over its nuclear program. Roughly 40% of the world's petroleum supplies pass through the Strait of Hormuz.

"Closing the Strait of Hormuz for an unlimited period of time would be very easy," the head of the Iranian Revolutionary Guard Corps, Gen. Mohammed Ali Jafari, was quoted as saying on Iran's semiofficial news agency. "The Guards have recently tested a naval weapon which I can say with certainty that the enemy's ships would not be safe within the rang of 300 kilometers."

U.S. intelligence officials have cast doubts on the capabilities of some of Iran's missile systems. But in recent months, Tehran has performed a number of military exercises in the Persian Gulf in an effort to ward off a potential attack. Israel, meanwhile, conducted its own war games over the Mediterranean Sea in June, in what some Pentagon officials said could be a trial run for an attack on Iran's nuclear facilities.

—The Associated Press contributed to this article.

Letter of the law

New decrees enacted in Venezuela will:

Establish a popular militia which undermines the traditional military and gives President Hugo Chávez (right, last week) more power

Tighten the state's grip on agriculture, food manufacturing and commerce, allowing the government to impose prison sentences for businesspeople convicted of violating price controls or of hoarding

Appoint regional officers whose authority will undercut that of governors and mayors elected by the opposition

Give the same legal standing to 'socialist production units' and private property

Give Chávez control over a new state fund that will receive 'excess resources' from state companies, including newly nationalized banks, telephone companies, oil ventures and public power utilities. Could allow him to choke regional governments controlled by the opposition parties.

Reuters

Chávez grabs new power in Venezuela by decree

BY JOSÉ DE CÓRDOBA AND DARCY CROWE

CARACAS, Venezuela—In an ambitious power grab, President Hugo Chávez has enacted a slew of presidential decrees which formalize the creation of a popular militia and further consolidate state control over key areas of the economy such as agriculture and tourism.

Mr. Chávez, one of Washington's main antagonists in Latin America, published the decrees on Friday, just at the close of a special 18-month period that allowed him to bypass Congress in making laws. But only the titles, and not the texts, of the decrees were released. On Tuesday, the government made the full texts widely available.

The new laws show that Mr. Chávez is back on the offensive after suffering a humiliating defeat in December in a referendum that, among other things, would have allowed him the possibility of staying in power for life. In the months after the defeat, Mr. Chávez, who was first elected president in 1998, seemed to slow down his drive for expanded powers. But a number of the new decrees were part of the referendum that was rejected by voters—sparking accusations that Mr. Chávez is evading the will of the people.

"We are in the presence of a dictatorial government which has given a coup d'état to the constitution," said Luis Miquilena, a former interior minister and political mentor to Mr. Chávez who has since turned against him. "Here we have no constitution, no law and the president does exactly what he wants."

In the past few days, Mr. Chávez said that if anyone didn't approve of the laws, they could file a challenge with the Supreme Court. But critics of the former army officer turned president said that would be futile because six of the seven justices are sympathetic to the president.

As a sign of that loyalty, the court on Tuesday upheld an anti-corruption official's decision to ban some of Mr. Chávez's most popular opponents from running in regional elections in November because of unproven graft charges.

The ban, which has elicited comparisons to moves by Iran's government preventing opposition politicians from running in elections in that country, will affect as many as 200 people, including Leopoldo López, a popular opposition politician who polls say would have a good chance at becoming the mayor of Caracas, one of the most important posts in the country.

Government officials weren't available for comment on Tuesday. Mario Isea, a Chávez supporter who heads the Congress's economic development committee, said that "there was no violation of the Constitution" in the new laws, but acknowledged that some of them were analogous to the December referendum. "Of course there are going to be similarities," he said. "It's the same person who is legislating."

Among the biggest changes—and one which was turned down in December—was the creation of another branch of the military, a "National Bolivarian Militia," which analysts say could challenge the position and role of the traditional armed forces.

"Their object is to intimidate the armed forces and the people," Mr. Miquilena said. "Those militia are at [Mr. Chávez's] personal command."

Mr. Chávez also changed the name of the armed forces, which are supposed to be apolitical, from the National Armed Forces. They are now to be called the National Bolivarian Armed Forces, invoking the title Mr. Chávez has chosen for his self-proclaimed socialist revolution.

The move is likely to add to growing unease over Mr. Chávez by some of Venezuela's armed forces. One reason why Mr. Chávez lost the December referendum was outspoken opposition to the changes by his former defense minister Raúl Baduel, who accused the president of becoming an autocrat.

One law vastly tightens the state's control over the food industry, an area that has been a political headache for Mr. Chávez because price controls by his government have led to shortages and eroded his popularity. The new law gives Mr. Chávez power to nationalize any businesses in the food industry without the National Assembly's approval and dictate "any necessary measures" to avoid "improper price increases."

Some analysts say the new agriculture law is aimed at Empresas Polar SA, a food and beer manufacturer and Venezuela's largest private company. The move comes days after Mr. Chávez declared he would nationalize Banco de Venezuela, the country's third-largest bank, a unit of Spain's Banco Santander. Tuesday, Mr. Chávez said a deal was "near" over how much the government would pay for the bank. Santander has said only that it is in talks with the government.

One of the few pleasant surprises for the private sector was the banking law, which was mostly unchanged.

Malaysia battle escalates

Critic of government faces sodomy charges amid power struggle

BY JAMES HOOKWAY AND RAPHAEL PURA

A confrontation that could decide Malaysia's political future escalated, as police ordered charismatic opposition leader Anwar Ibrahim to appear in court Thursday, where his lawyers said they expect him to be charged with sodomizing a former aide.

The development came amid an increasingly bitter leadership struggle that is dividing the resource-rich Southeast Asian nation as it faces rising inflation and a slowing economy. Should Mr. Anwar be charged, it will mark the second time in a decade he has faced prosecution on sex allegations. And it will put the impartiality of Malaysia's justice system and the credibility of an increasingly wobbly National Front government—which has been in power continuously for 50 years—under an intense spotlight at home and abroad.

One of the Islamic world's best-known politicians, Mr. Anwar was served a warrant Wednesday ordering him to appear in a Kuala Lumpur court Thursday morning. In a statement, national deputy police chief Ismail Omar said Malaysia's attorney general's office had decided to charge Mr. Anwar after police completed an investigation into a criminal case involving sexual "intercourse against the natural order," using the country's legal terminology for sodomy. In Malaysia, that is a crime that carries a jail sentence of as many as 20 years.

Mr. Anwar has denied sodomy allegations made against him by a 23-year-old male aide in June, and he claims he is being framed by his political rivals to undermine his bid to topple the National Front government and become Malaysia's premier. On Wednesday, he accused the police and government politicians, including the office of Prime Minister Abdullah Ahmad Badawi, of orchestrating a conspiracy against him by staging a "sham trial" to divert attention from political and economic problems. Thursday, "I will be charged with a crime I didn't commit," Mr. Anwar said, adding "I will fight. I will not allow this cowardly attack to derail [the opposition's] agenda for change."

Associated Press

Anwar Ibrahim, with his wife, told a news conference that he will be charged Thursday in a "cowardly attack" that **won't derail** the opposition's agenda.

Mr. Abdullah, other senior government officials and the police have repeatedly denied the sodomy investigation is politically motivated. On Wednesday, the prime minister rejected Mr. Anwar's conspiracy allegation, saying his expected prosecution was "on the basis of due process of the law." According to the Associated Press, Mr. Abdullah told reporters "How could I insist that he be charged? If there is no evidence, the police are not so stupid to charge" him.

Mr. Anwar, 60 years old, has been engaged in a challenge for political power since the alliance of opposition parties he leads made unexpectedly strong gains in March parliamentary elections. Voters sharply eroded Mr. Abdullah's majority in Parliament and left Mr. Anwar's coalition, known as Pakatan Rakyat, within striking distance of challenging for control of this predominantly Muslim nation of 27 million people. The confrontation has shaken a country that has enjoyed long periods of political stability and is a major exporter of palm oil, natural gas and electronic components to the global economy.

Last week, Mr. Anwar announced plans to run for a parliamentary seat in a by-election scheduled to be held Aug. 26. If he is elected, as is widely expected, Mr. Anwar would be eligible to become premier should the opposition alliance succeed in ousting the National Front. If he is charged with sodomy and detained, Mr. Anwar could still contest the by-election. But should he be subsequently convicted, he would lose his seat and could be barred from public office for years.

"The National Front realizes it can't stop Mr. Anwar being elected, but by using the sodomy allegations they can reduce his [by-election] majority and take some of the sting out of his victory," said James Chin, a political-science professor at the Malaysia campus of Australia's Monash University.

The prosecution of Mr. Anwar could strain ties with the U.S. and other Western countries that have expressed concern over the investigation into the sodomy allegations. That concern is based, in part, on the prosecution of Mr. Anwar on similar charges a decade ago, after he was purged as deputy prime minister by then-Prime Minister Mahathir Mohamad. Mr. Anwar denied the charges. After a police investigation and a trial that were criticized by independent legal experts as flawed and politically motivated, the former deputy premier was found guilty of sodomy in 1999 and imprisoned until his conviction was overturned on appeal in 2004.

Mr. Anwar has maintained that his earlier sodomy conviction was part of a conspiracy to stop him from challenging Dr. Mahathir for the premiership. Dr. Mahathir has denied there was any conspiracy and has said he believes Mr. Anwar was, in fact, guilty of sodomy, despite his later acquittal.

In recent weeks, Malaysian government officials have aggressively defended the latest sodomy investigation. The decision to charge Mr. Anwar is also likely to fuel a fiery internal public debate over the independence of Malaysia's justice system. The case already has focused attention on a legal system still widely viewed as vulnerable to political pressure.

—Celine Fernandez contributed to this article.