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Business & Finance

World-Wide

The EU is considering rules that would force banks to set aside more capital when they sell products such as mortgage-backed securities. The goal is to rein in the practices that led to the credit crisis. **Page 1**

A fall in German exports may drag down euro-zone growth. Exports have been sapped by slowing global demand and a strong euro. **Page 1**

The euro's share of foreign-exchange reserves at central banks fell, damping talk that the weak dollar is boosting it as a reserve currency. **Page 2**

French police detained the head of an EADS plant in Germany as part of an insider-trading probe. **Page 4**

The U.S. will rerun bidding to build military aerial refueling tankers after a protest of the first competition's result was upheld. **Page 9**

WPP Group launched a hostile offer for market researcher TNS, in a move that could spark a bidding war with GfK. **Page 19**

Carrefour will lower prices and cut costs to counter rising gas prices and weak consumer spending, its CEO said. **Page 6**

Prosecutors in the U.S. are investigating whether two former Credit Suisse brokers lied to clients regarding investments in short-term securities. **Page 21**

U.S. markets fell on fears the sputtering economy and high commodity prices will damp earnings. The financial sector buoyed European stocks. **Page 20**

The new iPhone will go on sale Friday, but Apple's App Store could leave a more lasting impact on the mobile-phone business. **Page 28**

Reliance Communications and MTN agreed to continue discussions on a possible combination until July 21. **Page 6**

Bahrain's sovereign fund plans to increase overseas investments to make up about half of its portfolio. **Page 19**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11147.44	-236.77	-2.08
Nasdaq	2234.89	-59.55	-2.60
DJ Stoxx 600	283.90	+4.93	+1.77
FTSE 100	5529.6	+89.1	+1.64
DAX	6386.46	+82.05	+1.30
CAC 40	4339.66	+64.05	+1.50
Euro	\$1.5728	+0.0053	+0.34
Nymex crude	\$136.05	+0.01	+0.01

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Iran said it test-fired a series of long- and medium-range missiles, a move that sharply escalates the saber rattling between Iran and the West over Tehran's nuclear program. Iranian footage showed at least three missiles firing simultaneously. Iran is currently conducting war games in the Persian Gulf. **Page 1**

Three policemen were killed at the U.S. Consulate in Istanbul by armed men in what officials called a terrorist attack. Three attackers were killed, and at least one escaped in a car. **Page 2**

G-8 leaders said they would fight global warming but couldn't agree on how, while poorer nations said they wouldn't commit to greenhouse-gas targets until richer ones did more. **Page 3**

U.S. Vice President Cheney's office sought to alter a U.S. official's testimony about the health consequences of global warming, an ex-official alleged. **Page 3**

Foreign TV firms reached an accord with China allowing live news coverage during the Beijing Olympics. France's Sarkozy will attend the opening. **Page 12**

Bombs killed 13 people, including four policemen, in Iraq, as military officials released data showing attacks dropped sharply over the past year.

A U.N.-African Union force was ambushed by 200 gunmen in Sudan's Darfur region, leaving seven peacekeepers killed and 22 wounded, the U.N. said.

The U.S. is pressing to interview North Korea's top nuclear personnel to ensure Pyongyang has truthfully documented its nuclear activities. **Page 11**

Over 200 flights at Dublin Airport were delayed, diverted or canceled due to a temporary radar-system malfunction.

Fighting in Lebanon between government supporters and Hezbollah allies killed at least four people and broke a fragile truce.

Turkish troops launched an operation to try to rescue three German climbers kidnapped by Kurdish rebels on Mt. Ararat.

The U.S. Senate passed a bill overhauling the rules on secret government eavesdropping and granting immunity to phone firms that helped to listen in.

EDITORIAL & OPINION

A new Nansen passport? Europe should welcome refugees and other immigrants into its borders. **Page 15**

EU proposes bank rules to prevent future crises

New policy to raise capital requirements for credit products

BY ALISTAIR MACDONALD AND DAVID REILLY

The European Union is considering rules that would force banks to set aside more capital when they sell some of the credit products that were at the heart of the financial crisis, a move designed to rein in practices that led to the current market turmoil.

The rules would affect all banks operating in Europe, including European units of U.S. banks—and make it more expensive to package and sell products like mortgage-backed securities, a process known as securitization.

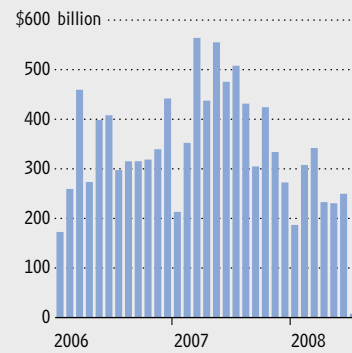
Banking groups and trade associations including the British Bankers' Association have objected to the proposed requirements. Among their complaints: the rules would prevent the stalled market for securitized assets from recovering, and would stymie lending of all types because setting aside more capital would stretch banks' balance sheets even further.

With the rules, regulators are trying to align the incentives of sellers and buyers of securitized assets. In the "originate and distribute"

Tapering off

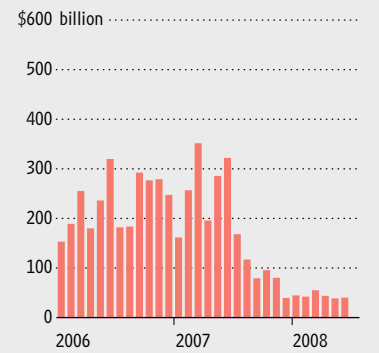
The credit crunch has slowed sales by banks of assets such as loans

Global syndicated loans, monthly deal value*



*Through Wednesday, July 9

Global asset-backed and mortgage-backed securities, monthly deal value*



Source: Dealogic

model, banks have passed the risk of loans to investors, prompting accusations that this encouraged banks to make risky loans. Traditionally, banks held onto any loans they made, meaning they remained exposed to their risks.

The proposed European rules go further than existing practices in the U.S.

In the U.S., banks don't generally face capital charges related to assets they securitize, but they must set aside capital for assets that remain on their books.

The move reflects a big lesson from the credit crunch: banks often packaged and sold assets as a way to move assets off their books, even though they remained exposed to them. In many cases, banks retained interests in the assets they sold, continued to service the assets, or pledged to provide backup funding if the vehicles holding the assets couldn't raise short-term cash.

Indeed, hit by the credit crunch, the market for securitization has dried up this year. Global structured-

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Slowing German exports alter euro zone's outlook

BY EMESE BARTHA

Europe's German export engine is sputtering, joining rising prices and consumer gloom as a drag on euro-zone growth.

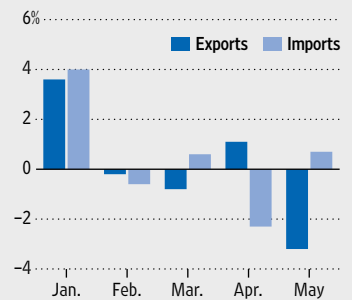
Germany's big export flows have been a driving force among the 15 countries sharing the euro currency. But those flows have been sapped by slowing demand for goods around the world and the persistent strength of the euro. German exporters logged a fall in foreign sales in May for the third time in the past five months, the German statistics office reported Wednesday.

German exports fell 3.2% in May to €82.6 billion (\$129.31 billion) from €85.3 billion in April, while its seasonally adjusted imports edged up by 0.7% to €68 billion from €67.5 billion in the previous month. The official data show exports slowing against all of Germany's trading partners, including those inside the euro zone.

"Today's numbers confirm that the German export sector is finally giving in," said Carsten Brzeski, an economist at Global Economics ING Financial Markets. With domestic demand now taking the additional pressure of rising energy and food costs, the slowdown in Germany's

Export engine sputters

German foreign trade, change from previous month; seasonally adjusted



Source: Germany's Federal Statistics Office

exports will be felt throughout the euro zone, economists say.

UniCredit economist Andreas Rees said that while a recession in Germany is "very—repeat: very—improbable," the latest data indicate that one has to get used to less growth and fewer new jobs in the next 12 to 18 months.

The trade figures came after news earlier this week showed that German industrial output suffered an unexpected 2.4% fall in May, the

Please turn to page 31

Iran conducts missile tests, fueling anxiety

BY CHIP CUMMINS

DUBAI—Iran said it test-fired a series of long- and medium-range missiles Wednesday, a move that significantly escalates the saber rattling between Iran and the West over Tehran's nuclear program.

State-issued footage showed at least three missiles firing simultaneously. The video and audio clip claimed the barrage included a new version of the Shahab-3 missile, which officials told Press TV has a range of 2,000 kilometers, enough to hit Israel.

The test-firings rattled crude markets early Wednesday, sending prices higher, though futures prices later retreated on news that U.S. gasoline inventories rose unexpectedly last week. (Please see related article on page 11.) At midday on the New York Mercantile Exchange, the price of crude oil for August delivery was at \$136 a barrel, down four cents, after climbing \$1.31 to \$137.35 a barrel in morning trading.

Iran is currently conducting war games in the oil-rich Persian Gulf, and U.S. forces just completed their own exercises there. The test-firings come amid a string of recent com-

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THE WALL STREET JOURNAL

LEADING THE NEWS

Six die in Turkish attack

Three police officers, three gunmen killed at U.S. Consulate

ASSOCIATED PRESS

ISTANBUL—An armed attack against the U.S. Consulate in Istanbul left three police officers and three assailants dead Wednesday and highlighted the difficulty Turkey faces in clamping down on homegrown militants.

Four armed men emerged from a gray car about 11 a.m. and shot a traffic policeman, then ran toward a guard post at the entrance to the consulate and shot at officers there, according to a security video. Police fired back at the men, killing three of them. At least one of the assailants escaped in the car.

No staff at the consulate—a relatively new building perched on a hill and surrounded by high walls—were hurt, U.S. ambassador Ross Wilson said. Mr. Wilson and Istanbul's governor branded the assault a terrorist attack. Security around all U.S. diplomatic missions in Turkey was increased and the consulate canceled visa interviews for Thursday.

Police said they believe the men were linked to al Qaeda. However, the shooting didn't match the hall-



Turkish police officers stand guard in front of the U.S. Consulate in Istanbul, where three policemen and three gunmen were killed Wednesday.

marks of al Qaeda, such as coordinated attacks by suicide bombers that cause mass casualties.

U.S. Secretary of State Condoleezza Rice said she didn't know whether the consulate was the intended target or who was responsible. "The Turkish authorities reacted quickly and we appreciate that," she said as she traveled to Tbilisi, Georgia. "Obviously, first of all, the United States deeply regrets the loss of life and condolences go out to the families of those who were killed."

Turkey has been vigilant against homegrown Islamic militants since al Qaeda-linked suicide bombers killed 58 people in 2003 by targeting two synagogues, the British Consulate and a British bank in Istanbul.

Turkey has also been cracking down on ultranationalists who have attacked Christians, and Kurdish rebels, two groups it deems a threat

to the country's security.

"Turkey is a fertile ground which is nourishing militants from almost every ideology—from radical Islamic ones to leftist and ultranationalist ones," said Nihat Ali Ozcan of the Economic Policy Research Institute in Ankara. "It is difficult to contain them and it is even more difficult to prevent terrorist attacks."

The attack comes amid heightened political tensions between the Islamic-oriented government and military-backed secular circles, with the ruling party facing a legal effort to close it down. The U.S. has expressed support for government-led democratic reforms, but has been careful not to take a side in the dispute.

The U.S. ambassador praised the quick action of the Turkish police and stressed that the U.S. and Turkey would keep working together against terrorism.

Euro's popularity slips among currency reserves

BY JOELLEN PERRY

FRANKFURT—The euro's share of global foreign-exchange reserves fell last year, the European Central Bank said Wednesday in a report that could damp speculation that the dollar is losing its status as the world's dominant reserve currency.

The euro remains solidly in second place behind the dollar in global foreign-exchange reserves but fell by about one percentage point to 26.5% in December 2007 from December 2006, the ECB said. One reason: As the dollar's value declined, Asian, Latin American and oil-producing countries that peg their currencies to the dollar, or trade largely in dollars, likely bought more greenbacks to boost the dollar value of their reserve portfolios.

The ECB's conclusions contrast with recent figures from the International Monetary Fund, which show a rise in the euro's share of global foreign reserves by 1.5 percentage points last year. The ECB uses the IMF's data but takes into account the euro's 12% appreciation against the dollar last year. When recalculated for exchange-rate fluctuations, the ECB says, recent IMF figures covering the first quarter of 2008 show a slight fall in the euro's share of global foreign reserves. The IMF data also only cover two-thirds of global foreign-exchange reserves and don't include China, which holds a growing portion of the world's reserves.

ECB policy makers Wednesday ratcheted up their anti-inflation rhetoric. ECB President Jean-Claude Trichet said in testimony to the European Parliament that he sees the "first signs" that high oil and food prices are spilling into broad price rises across the euro zone. With euro-zone inflation at 4%, its highest since official records began in 1997, the ECB raised its key rate by a quarter point to 4.25% on July 3.

Mr. Trichet's remarks nudged up market expectations that the cen-



ECB President Jean-Claude Trichet said he sees signs high food and oil costs are pushing up prices across the euro zone.

tral bank might raise its key rate again this year. ECB Governing Council member Miguel Ángel Fernández Ordóñez also said the ECB must be prepared to raise rates further, while fellow rate-setter Mario Draghi said global central banks had helped boost oil prices recently by keeping interest rates low.

Findings in the ECB's report could complicate the central bank's policy making. The report noted the stock of euro bank notes held outside the euro zone reached as much as 20% of the total currency in circulation by the end of last year, the bulk of the rise going to Eastern European countries. Unlike most major central banks, the ECB monitors money-supply data as a harbinger of medium-term inflation risks. Increasing amounts of euros in circulation outside the currency bloc could make money-supply figures harder to interpret.

—Nina Koeppen and Christopher Emsden contributed to this article.

CORRECTIONS & AMPLIFICATIONS

A zero-emissions house on display in Japan uses a wind-turbine generator and a photovoltaic generation system, which directly converts light into electricity, to produce about 15 kilowatts of power. An article Tuesday incorrectly reported the measurement as energy per day.

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FOCUS ON THE ENVIRONMENT

G-8 skirts climate goals

Rich, poor nations agree on need to act but can't decide how

BY SEBASTIAN MOFFETT

RUSUTSU, Japan—Leaders of the world's biggest economies said Wednesday they would fight global warming, but couldn't agree on how, in a sign of the difficulty of managing an increasingly diverse and polarized world.

Poorer nations said they wouldn't sign up to greenhouse-gas-reduction targets until richer ones did more—while the richer countries as a group will commit to more only when the developing world signs up for targets.

The leaders—of the Group of Eight rich nations plus others including the biggest developing economies—agreed to “to combat climate change in accordance with common but differentiated responsibilities.” But the statement—on the final day of the annual G-8 summit, which has focused on the environment—contained no jointly agreed-to numerical targets for reducing emissions that contribute to global warming.

On Tuesday, the G-8 had committed to share with other countries “the goal of achieving at least 50% reduction of global emissions by 2050.” That implied the participation of some of the world's biggest polluters that are outside the G-8. But on Wednesday, of the non-G-8 countries present, only Australia, Indonesia and South Korea embraced the target.

The so-called Group of Five developing nations—China, India, South Africa, Brazil and Mexico—declined to endorse the G-8 target. On Tuesday, they had issued a statement demanding that developed countries pledge to cut emissions by 25% to 40% by 2020 and 80% to 95% by 2050. But when leaders of both groups got together Wednesday morning, they didn't discuss these figures.

“Nobody referred to this demand” by the G-5, said Kazuo Kodama, press secretary of Japan's foreign ministry. “The biggest progress to date is the G-8 members' embracing a long-term goal.”

When the original Group of



Indian Prime Minister Manmohan Singh, Russian President Dmitry Medvedev, Chinese President Hu Jintao and Brazilian President Luiz Inacio Lula da Silva at the G-8 summit Wednesday. The leaders couldn't agree on numerical emission targets.

Seven was formed in the mid-1970s, the members—the U.S., Japan, Canada, France, Germany, Italy, and the U.K.—dominated the world economy. In 1997 they added Russia.

But now, China, a non-G-8 member, is poised to overtake Germany as the world's third-largest economy. China and India emit a large proportion of the world's greenhouse gases, meaning their agreement is essential for progress on climate change. In addition, the U.S. will agree to shorter-term targets only if developing nations sign on, too.

The G-5's rival proposal was the first time the group of developing nations had come out with such a detailed statement, and raised the prospect of a united front to pressure rich nations into taking on a greater burden of future emissions cuts. In particular the nations are critical of the U.S. reluctance to commit to reduce emissions in the short and medium term.

“There are two proposals on the table,” said Marthinus van Schalkwyk, South Africa's environment minister, referring to those of the G-8 and the G-5. “What they [the G-8] have presented us with is the lowest common denominator...[and] the lowest common denominator in the G-8 is the United States.”

Unlike the U.S., the EU and Japan have both offered significant reductions in greenhouse gases. The EU has said it will reduce emissions by

20% from 1990 levels by 2020. Japan has goal of a 14% reduction from 2005 levels by 2020, and a long-term goal of a 60%-80% reduction by 2050.

Despite the lack of concrete progress, European Commission President José Manuel Barroso said Wednesday's meeting had been constructive. “Of course we accept the lion's share of responsibility,” he said in a statement, “but this is a global challenge, which requires a global response.”

Amid the climate discussions, other tensions within the G-8 also bubbled up. Russian President Dmitry Medvedev lashed out at U.S. plans to install a missile-defense system in Eastern Europe, threatening unspecified countermeasures if the U.S. goes ahead.

His predecessor and now prime minister, Vladimir Putin, warned earlier this year that Moscow might retarget missiles and take other military steps to neutralize a U.S. system. Moscow sees the U.S. plan as a threat to its nuclear arsenal, while the Bush administration insists the defenses would be aimed at rogue states such as Iran.

On Wednesday, Mr. Medvedev said talks with Washington on ways to overcome Moscow's concerns were “halfhearted” and had delivered no results. U.S. Secretary of State Condoleezza Rice, in Bulgaria, said the Russian response was “predictable, if disappointing.”

Climate-change rift deepens in U.S.

BY STEPHEN POWER

WASHINGTON—A disclosure Tuesday that U.S. Vice President Dick Cheney's office sought to alter a federal official's prepared testimony about the health consequences of global warming intensified an increasingly open conflict between the Environmental Protection Agency and the White House over how to respond to climate change.

The latest in a series of disclosures about internal disputes within the Bush administration came as President George W. Bush was in Japan with other leaders of the Group of Eight nations to forge an agreement on combating climate change.

The disclosure about Vice President Cheney's role came from Jason Burnett, who until last month was the EPA's associate deputy administrator. Mr. Burnett is a sup-

porter of the presidential campaign of Sen. Barack Obama (D., Ill.) and has contributed extensively to the campaigns of other Democrats—giving more than \$100,000 since 2000, according to the Center for Responsive Politics, a Washington-based government watchdog.

In a letter dated July 6 in response to questions from the chairwoman of the Senate Committee on Environment and Public Works, Barbara Boxer (D., Calif.), Mr. Burnett said Mr. Cheney's office and the White House Council on Environmental Quality “were seeking deletions” last fall to congressional testimony about climate change prepared by the Centers for Disease Control and Prevention. Mr. Burnett said the latter

office asked him “to work with CDC” to remove from the testimony “any discussion of the human health consequences of climate change.”

Mr. Burnett said he declined to go along with the White House request to push for deletions to the testimony, because the CDC's draft testimony was “fundamentally accurate.”

The line eventually was eliminated from the testimony prepared last October for CDC Director Julie Gerberding. Dr. Gerberding did testify, however, that climate change “is anticipated to have a broad range of impacts on the health of Americans.”

Representatives for Mr. Cheney and the White House declined to comment Tuesday on Mr. Burnett's assertions.



Dick Cheney

Germany rethinks move to shutter nuclear plants

BY MARCUS WALKER

BERLIN—Rising energy prices and concerns about global warming are forcing Germany to rethink its decision to phase out nuclear power, a policy that threatens to make Europe's biggest economy more dependent on high-polluting coal or Russian natural gas.

Conservatives in Chancellor Angela Merkel's squabbling coalition want Europe's export powerhouse to freeze its current phase-out of nuclear-power plants, echoing a revival of support for nuclear energy in many European countries.

But Ms. Merkel's coalition partners, the left-leaning Social Democrats, are insisting she upholds a pact to shut down the country's last nuclear power plants by 2021—a condition for joining her cabinet.

Germany's political left and its strong environmentalist movement have long been opposed to atomic energy, viewing it as an unsafe technology with a track record of radioactive leaks and accidents. Street protests against nuclear power and nuclear weapons in the 1970s spawned Europe's powerful Green Party, as well as the popular bumper sticker: “Atomic energy? Nein danke.”

In 2000, a government of Greens and Social Democrats agreed to the nuclear exit strategy with Germany's energy utilities.

But since then, climate change and the short supply of oil and natural gas have moved to the center of the energy debate. Ms. Merkel found herself isolated at the Group of Eight leading nations' summit in Japan this week. The U.S., U.K., France and other G-8 members are pushing greater use of nuclear power as an important way to rein in emissions of carbon dioxide, which scientists blame for global warming.

At the summit, U.S. President George W. Bush's chief environmental adviser, James Connaughton, called support for nuclear power “a litmus test for seriousness on climate change.” Ms. Merkel played down the issue, saying she didn't think protecting the climate depended only on nuclear power.

The irony is that Ms. Merkel has repeatedly said she thinks Germany's nuclear phase-out is wrong, but that she is bound by her coalition agreement with the Social Democrats. Many in her conservative Christian Democrat camp hope to scrap the antinuclear policy if they win national elections in 2009.

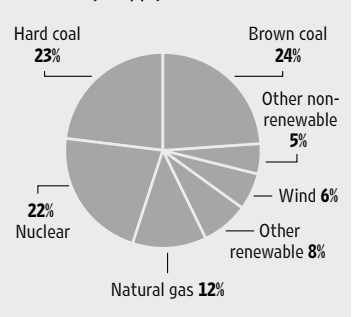
Bavarian conservative leader Erwin Huber doesn't want to wait any longer, and this week he called on Social Democrats to “say farewell to the disastrous mistake of their collaboration with the Greens.”

Social Democrats say they might agree to prolong the life of the most modern reactors by a few years, if conservatives agree to a constitutional amendment banning the construction of any new reactors. But they are struggling to explain how losing nuclear energy fits with Germany's self-styled role as a global leader for cutting carbon emissions.

Germany gets around 22% of its electricity supply from nuclear energy, compared with around half from coal, and the rest mostly from natural gas and renewable sources such as wind. The country is invest-

Atoms and coal

Sources of Germany's electricity supply



Source: German Economics Ministry

ing heavily in wind and solar power, and is drawing up laws that require higher energy efficiency in buildings and transport.

But many experts doubt wind and solar power can both compensate for lost nuclear energy, and meet Germany's ambitious carbon-cutting goals at the same time.

“More use of coal and gas will have to replace nuclear power,” says Claudia Kemfert, head of energy studies at the German Institute for Economic Research in Berlin.

Natural gas is getting costlier along with oil, and greater use will make Germany even more reliant on supplies from Russia, she says. Coal-fired power stations emit the most greenhouse gases—especially those using lignite or brown coal, which Germany has in abundance, unlike



Angela Merkel

oil, natural gas or sunshine. Keeping nuclear plants operating would win time to build up renewable energy and develop the technology to capture and store carbon emissions from burning coal, Ms. Kemfert says.

Nuclear opponents insist that isn't necessary and point to nuclear energy's drawbacks, despite signs that it is making a comeback in many countries. An international nuclear boom could quickly deplete the world's uranium supplies, and nobody has a good solution for where to put radioactive waste, says the Social Democrats' deputy parliamentary leader, Ulrich Kelber.

A uranium leak from a power plant in southern France on Tuesday, which forced regional authorities to ban drinking water, swimming, eating fish and irrigating crops, underscores nuclear energy's environmental risks, Mr. Kelber says.

In Germany as in much of Europe, the specter of a repeat of the Chernobyl disaster hangs over public debate on nuclear power. The 1986 explosion at the Ukrainian power plant, which spread radioactive fallout over large parts of Europe, accelerated a trend in the 1980s of countries opting out of nuclear power.

But in recent years, countries including Sweden and the Netherlands have backed away from plans to shut down all their reactors. In Italy, newly elected Prime Minister Silvio Berlusconi said in May that he wants to revive nuclear power generation.

In Germany, a compromise is possible, as Social Democrats appear willing to let newer reactors run for longer than planned in exchange for a guaranteed shut-down later. But next year's election could throw the issue wide open.

CORPORATE NEWS

ENERGY

Centrica purchases stakes in four North Sea fields



U.K. UTILITY Centrica PLC said it purchased stakes in four Norwegian North Sea offshore gas and oil fields and two undeveloped discoveries from Marathon Oil Corp. in a deal

valued at \$416 million.

Centrica's first acquisition of gas-producing assets in the Norwegian North Sea aims to replenish its natural-gas reserves. Centrica will own a 24% stake in the Heimdal field, a 47% stake in the Vale field and 20% in the Byggve and Skirne fields. The four fields have a net production of around 7,000 barrels of oil equivalent a day. The deal includes a 20% interest in the Heimdal East and a 50% interest in the Peik discoveries.

AUTOS

Renault, Nissan to offer an electric car in Portugal



Renault SA and Nissan Motor Co. said Portugal will be the third country in which the two auto makers jointly launch an electric car. Under an agreement reached Wednesday between the French car maker, its Japanese partner and the Portuguese government, Nissan and Renault will roll out a zero-emission vehicle in 2011. The government will study how to create a nationwide network of charging stations for electric cars. Portugal is the third country after Israel and Denmark to launch Nissan and Renault's electric car. Carlos Ghosn, above, chief executive of both Renault and Nissan, has said there is potential demand for about 10 million electric cars world-wide.

—Yoshio Takahashi

BIOTECHNOLOGY

Solvay trumps Gen-Probe with new Innogenetics bid



BELGIAN chemical and pharmaceutical company Solvay SA raised its offer for Innogenetics NV, also of Belgium, by 13% to €200.7 million (\$314.2 million), knocking Gen-Probe Inc. of the U.S. out of the bidding.

Solvay said it was offering €6.50 a share in its second bid to buy the biotechnology company. Medical-diagnostics company Gen-Probe, which last month made a €6.10-a-share counterbid, said it won't raise its offer. Innogenetics said it supported Solvay's original friendly offer, made in April, valuing the company at €5.75 a share, or €177.6 million. The new offer represents a 74% premium to Innogenetics shares ahead of the first bid.

—Alessandro Torello

U.S. Web sites target sales abroad

Potential ad revenue is seen with growth in users world-wide

BY EMILY STEEL AND AMOL SHARMA

U.S. WEB sites are waking up to a sobering reality: A huge share of their traffic now comes from overseas, but they are struggling to make money from it. Now, Internet companies big and small are scrambling their business models to try to cash in on foreign markets they have largely ignored.

The internationalization of online traffic in the U.S. has accelerated at a pace that has surprised even some people in the Internet business. Many U.S. sites now draw more than half of their audiences from international visitors but generate only about 5% of their revenue from that traffic, according to recently compiled figures by Internet tracking firm comScore Inc. and industry analysts.

For example, Web sites published by Condé Nast, such as GQ.com and Style.com, derive 54% of their traffic from overseas, while Facebook's international audience accounts for 73% of its 124 million monthly visitors.

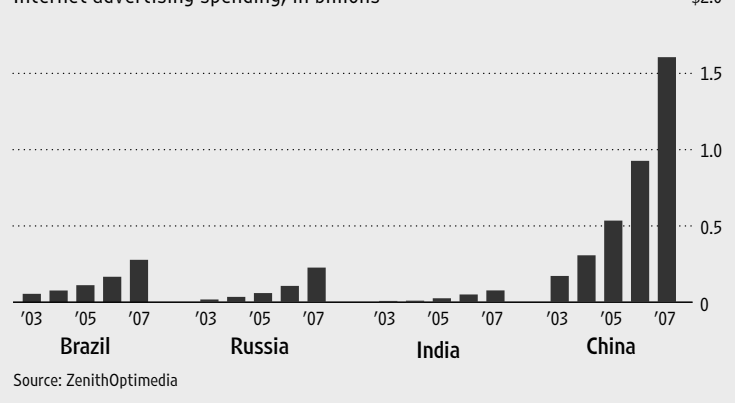
Most of these sites started drawing foreign visitors without any effort on their part. The changing demographics of their users owe in part to the rapid increase in broadband Internet penetration in countries such as Russia, Brazil, India and China in recent years.

U.S. Web content is proving popular with those new Web users, just as American TV and movies have been in those and other countries. Also, technology investments by U.S. Web sites have helped them appear prominently in search results for Web surfers worldwide.

This trend has huge financial implications for big U.S. publishers. Many sites have paid little attention to foreign traffic because it was so small and because, in some cases, marketers in those countries weren't yet buying online ads. As a result, international visitors to U.S.

Emerging online-ad markets

Internet advertising spending, in billions



sites still often see ads that are completely irrelevant to them. A recent visit to CNET.com from Australia, for example, showed an ad for Verizon Communications Inc.'s FiOS TV service—which is available only in select U.S. cities. U.S. marketers know they aren't reaching their intended audience with those ads, so they normally don't pay Web publishers for them.

"Web sites are neglecting a massive opportunity," comScore analyst Andrew Lipsman said.

Now, some sites are moving aggressively to build their international sales operations. Closely held Glam Media, whose properties include fashion and celebrity gossip site Glam.com, recently acquired London digital marketing firm Monetise Ltd., jumpstarting its strategy to add several dozen salespeople in countries that include Germany, Japan, India and China. Half of Glam's 77.4 million visitors come from abroad, but only 5% of its revenue is from non-U.S. advertisers.

"We really have a global media company, but we were running it locally," said Samir Arora, chairman and chief executive of Glam, which by visitors is the largest U.S. Web property aimed at women.

Other Web sites are outsourcing ad sales to companies with on-the-ground sales teams. This includes Adconion Media Group, a London firm that sells ads for sites such as the Drudge Report and Sony Corp.'s video site Crackle from 12 interna-

tional offices. Meanwhile, niche players are cropping up to focus on individual countries, such as Komli Media, a startup based in Pune, India, that sells ads for 250 U.S. Web sites, including CNET Networks Inc.

But selling Internet ads to local advertisers in overseas markets can be a tough feat. While most sites are technologically capable of targeting ads to visitors from different countries, online marketing is still a nascent phenomenon in many places. Amar Goel, who left Microsoft Corp.'s online ad sales group to start Komli, said many Indian brands still view the Internet as an afterthought, partly because there is still such fast growth in traditional media such as newspapers and television.

Mr. Goel said he had tried to pitch the chief executive officer of a large consumer packaged-goods company at a recent conference. "When he heard I was with an Internet marketing company, his eyes just glazed over," Mr. Goel said. "He doesn't yet believe the Internet can significantly impact his brand." Mr. Goel said he has made some headway with companies such as Naukri.com, India's largest job-search site, and MakeMyTrip, a large travel site, as well as multinational banks and software companies with operations in India.

Traditional U.S. media companies such as ESPN, Forbes and CNN have a head start because they already publish and broadcast over-

seas and have sales teams in place. But even those companies still have to coach local marketers to spur more online ad buying. ESPN, for instance, says it has been showing marketers in Latin America how sports fans are using the Web, to lure more ad dollars to its site.

While overall non-U.S. Internet ad spending jumped to \$25.1 billion in 2007 from \$4.5 billion in 2003, according to Publicis Groupe's ZenithOptimedia, developing markets still aren't providing a huge share. In India, for example, online ad spending will only be about \$111 million this year. In comparison, U.S. online ad spending is expected to reach \$19.8 billion this year, up 23% from \$16.1 billion in 2007.

"It's taken the U.S. Internet 13 years to get to where it is now, these other places are still in years zero through two," said Ross Sandler, an Internet analyst at RBC Capital Markets.

MySpace is trying ramp up its sales teams outside the U.S. and hopes to eventually generate 50% of its revenue from abroad. The company recently announced a campaign by Cartier for its "Love by Cartier" collection, in which the French luxury jeweler is launching MySpace profile pages targeted at users in eight European and Asian countries.

To court local marketers in countries like India, MySpace is offering opportunities for "offline" sponsorships of concerts or other cultural events, with digital ad-buys tied in, said Rita Ravindra, MySpace's vice president of international business development. MySpace is a unit of News Corp., which owns Dow Jones & Co., publisher of The Wall Street Journal.

Some industry executives are trying to prioritize the regions of the world where they think it will be possible to generate real revenue in the short term. Time Warner Inc.'s AOL unit recently expanded its ad-selling team into Europe but has yet to establish robust sales forces in Asia, Latin America and elsewhere.

"You definitely need to be in those countries at some point in the near future. The question is when," said Lynda Clarizio, president of AOL's Platform-A digital ad-selling unit.

Police question EADS executive on stock trading

ASSOCIATED PRESS

PARIS—Andreas Sperl, the former chief financial officer of Airbus and current head of parent company EADS's Dresden plant in Germany, was detained by French police Wednesday as part of an insider-trading probe, his lawyer Christian Curtil said.

Mr. Sperl is the fourth person to be detained in the investigation of European Aeronautic Defence & Space Co., and the first who still works for the company.

French authorities have filed preliminary charges against three former EADS executives—Noel Forgeard, former co-chief executive; Jean-Paul Gut, a former deputy chief executive who oversaw strategy; and Gustav Humbert, a former Airbus president.

France has two related investiga-

Andreas Sperl is the fourth person to be detained in the investigation.

tions, one by the Paris prosecutor and one by regulator AMF, the Financial Markets Authority.

Investigators are looking at sales of EADS shares before a June 2006 announcement of delays for Airbus's A380 superjumbo that sent the company's stock tumbling.

Mr. Sperl is one of 17 people suspected by the AMF of possible insider trading. According to the AMF, Mr. Sperl sold 58,800 shares in November 2005 and March 2006 for a gross gain of €816,472 (\$1.2 million).

EADS spokesman Markus Woelfle confirmed Mr. Sperl is being questioned. "He has to be innocent until proven otherwise," he said.

Mr. Sperl's lawyer, Mr. Curtil, said: "He will respond to questions that will be asked of him. He is following the movements of all the other" executives who have been named by the AMF.

Two other executives—Thomas Enders, head of Airbus, and Stefan Zoller, head of EADS defense and security division—are also being targeted.

CHEVRON PRESENTS: ENERGYVILLE

An energy game developed by The Economist Group

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How do we meet growing global demand? What new kinds of fuels and power sources should we develop? And how do we safeguard the environment at the same time? These are the questions facing us all. And together, we can find the answers.

To help encourage greater understanding and discussion toward solutions, Chevron brings you Energyville, an online, interactive game that puts you in charge of meeting the energy demands of your city. It's a chance to put your theories into practice. Choose from a portfolio of energy sources to power your city today, and through 2030. Every decision you make will affect the environment, the economy, and your city's security.

After you play, share your results and challenge others. Because only when we come to understand and discuss the energy problems our planet faces, can we find the inspiration and know-how needed to solve them together.

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CORPORATE NEWS

Carrefour to lower prices

Big retailer sets out to regain consumers; sales increase 6%

BY CHRISTINA PASSARIELLO

PARIS—Carrefour SA will cut prices and reduce internal costs to counter rising gasoline prices, weak consumer spending in France and an Olympics-related boycott at its China stores in the second quarter, Chief Executive Jose Luis Duran said in an interview.

Second-quarter sales at the group increased 6% to €23.7 billion (\$37.10 billion) from €22.4 billion, driven by emerging markets. But sales in France, its largest market and biggest source of profits, inched up only 0.5% to €10.5 billion.

"We can't afford to lose market share as we have done in French hypermarkets in the second quarter," said Mr. Duran. "We can't sustain margin improvements without top-line growth."

Last month, Carrefour was sur-

prised by a sudden drop in traffic and spending at its French hypermarkets—sprawling supercenters selling food and nongrocery items, Mr. Duran said. Pinched by more expensive prices at the pump and overall concerns about the economy, French consumers cut back 8.4% on non-food items at Carrefour and also bought cheaper food.

The slowdown was so dramatic that Carrefour, the world's second-largest retailer by sales behind Wal-Mart Stores Inc., issued a profit warning two weeks ago. Instead of expanding operating margins faster than sales this year, Mr. Duran now hopes margins will increase at about the same rate, 7%. For the first half, Mr. Duran is targeting an operating-margin rise of at least 5% when the company reports profits next month.

"We didn't anticipate the sharp difference in pace enough," Mr. Duran said.

Mr. Duran is fighting to win back the lost consumers. Carrefour will introduce aggressive price promotions



Jose Luis Duran

in France in the second half. To compensate for what the promotions will cost the company, Mr. Duran is also mandating cost controls across the board. He has put a freeze on corporate recruitment and other expenditures, such as consultants and travel, that don't affect sales development, Mr. Duran said. "We need to reallocate all of our resources to customer habits," he said.

Mr. Duran is also accelerating store openings in emerging markets such as Asia, Latin America and Eastern Europe, where sales increased 19% in the second quarter. Instead of spending €200 million on store en-

largements and remodeling in Western Europe, that money will go toward countries with faster growth, he said.

Carrefour is also rethinking its property holdings, under pressure from new shareholders Bernard Arnault and private-equity company Colony Capital LLC. A new team of property specialists is analyzing whether some stores need to reduce their size.

MTN, Reliance extend deal talks

BY JACKIE RANGE

NEW DELHI—South Africa's MTN Group Ltd. and India's Reliance Communications Ltd. agreed to extend their exclusive talks in a sign that the companies are still trying to create an emerging-markets telecommunications giant and overcome a legal threat from Reliance Industries Ltd.

Reliance Communications, which operates a large wireless network in India, and MTN, which operates in Africa and the Middle East, will continue exclusive discussions about a possible deal until July 21, the companies said. A combination could create a telecommunications company with more than 100 million customers.

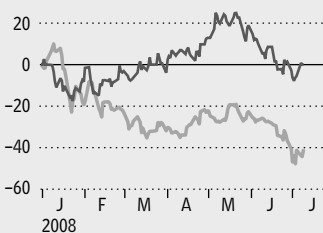
The pair have been in exclusive talks since late May. But the deal came under pressure from a feud between Anil Ambani, chairman of Reliance Communications, and his older brother Mukesh Ambani, who is chairman of Reliance Industries. Reliance Industries in mid-June sent a letter to MTN claiming that Reliance Industries had the right of first refusal over Reliance Communications in

YEAR-TO-DATE SHARE PERFORMANCE

Talks continue

— MTN Group on the Johannesburg Stock Exchange, down 0.3%

— Reliance Communications on the Bombay Stock Exchange, down 41%



Source: Thomson Reuters Datastream

the event of a change of control in the company. Reliance Communications denies the assertion.

Reliance Industries and Reliance Communications were part of the Reliance group of companies run by the Ambani brothers' father. After he died in 2002 they split the empire. The prospect of litigation between

Reliance Industries and Reliance Communications put a cloud of uncertainty over the discussions between MTN and Reliance Communications.

Originally the talks were centered on a deal that would be structured as a takeover of Reliance Communications by MTN. But since the challenge from Reliance Industries, Reliance Communications has been trying to structure a deal in which it would take over MTN.

That creates a new set of challenges. Prior talks between MTN and Bharti Airtel Ltd., another Indian telecommunications company, broke down in part because of political issues created by the possible takeover of an important South African company by a foreign operator.

Anil Ambani isn't likely to take a larger stake than 49% in MTN, given the political hurdles and other factors, a person familiar with the situation said. While the exact structure of the deal remains unclear, the person said Anil Ambani is expected to relinquish his 66% of Reliance Communications, and to become a 49% shareholder in MTN.

Renault trims forecast for annual sales

BY DAVID PEARSON

PARIS—Renault SA cut its forecast for vehicle-sales growth in 2008 amid cooling demand in key European markets, but said there is little risk of a price war among rivals trying to maintain market share.

The French car maker now expects full-year sales to rise between 5% and 10% from the 2.49 million vehicles sold in 2007, said Patrick Blain, head of sales and marketing.

Earlier this year, Renault predicted that full-year sales would grow by more than 10%, thanks to strong demand outside the mature European markets and the launch of new models to freshen its product lineup.

Mr. Blain said it looks increasingly likely that the company's target of selling at least 3.3 million cars in 2009 won't be hit. He said his "subjec-

tive" view is that 2008 sales growth is likely to be in the lower half of the company's 5% to 10% projection, but he also said this depends on how the market reacts to unpredictable factors such as the price of oil, real-estate values and inflation rates.

Renault, France's second-largest automotive company after PSA Peugeot-Citroën SA, said world-wide vehicle sales rose 4.3% in the first half of 2008 from a year earlier. However, European sales were virtually flat as sales in some key markets, such as Spain and Italy, plunged in May and June.

Rising fuel costs, mounting inflation and signs of slowing economic activity have eroded consumer confidence, and consumers are either putting off purchases of new cars or opting for secondhand vehicles.

Mr. Blain said that although

there has been some "skirmishing" among car makers on the retail-price front, there is little danger of a price war because auto makers are feeling the brunt of raw-material price increases as well as rising interest rates, which are eating into the margins of their financing arms.

"If there is a price war, I think it will be on the upside," Mr. Blain said, noting that Renault recently increased catalog prices by about 1.5% to preserve profit margins. "If that turns out not to be enough, we'll continue raising prices" in the coming months, he said.

Renault Chief Executive Carlos Ghosn has committed the company to boosting annual sales by 800,000 by 2009 from the 2.5 million recorded in 2005, but Mr. Blain said that objective is looking increasingly out of reach.



The SkyHook JHL-40's ability to carry dense items into remote areas will limit ecological damage caused by road construction.

Boeing and SkyHook develop airship hauler

BY J. LYNN LUNSFORD

Boeing Co. has teamed with Canada's closely held SkyHook International Inc. to combine a blimp and four helicopter rotors into a behemoth airship capable of hauling heavy drilling, mining and timber equipment into remote wilderness areas.

The two companies say they hope to have the 90-meter-long airship ready for commercial service by 2012, although the marriage of helicopter and lighter-than-air technologies will require them to overcome some significant hurdles that doomed an attempt at a similar contraption in the mid-1980s.

The aircraft would break new ground by achieving what is known as neutral buoyancy, in which the helium-filled blimp will provide enough lift to bear the weight of the aircraft, including the engines and rotors. By doing this, all the lift generated by the rotors will be available for lifting payloads, a significant advantage over conventional helicopters that expend much of their energy getting the aircraft itself to fly. The plan is for the ship to carry loads as heavy as 36,000 kilograms as far as 370 kilometers.

"SkyHook is what we describe in our industry as a game-changer," said Dave Koopersmith, vice president of

Boeing's Advanced Precision Engagement and Mobility Systems unit.

The two companies didn't disclose financial terms of their agreement, although Boeing said it plans to defray development costs as much as possible by using existing rotor technology from its Chinook heavy-lift helicopter, as well as other easily adaptable components. Officials said they will develop two prototypes that will be used for testing and government certification in Canada and the U.S.

Officials said the aircraft's ability to lift and easily transport dense or bulky items such as drilling rigs or other oil-field equipment will make it possible for oil, timber and mining companies to more quickly explore remote areas while reducing the environmental damage caused by road construction. The companies say they believe there is demand for perhaps 65 of these aircraft, mainly for use in remote regions of North America. They said the aircraft has potential military-cargo uses as well, but their first goal is to get it into the commercial market.

The aircraft, called the SkyHook JHL-40, was conceived by Peter Jess, SkyHook's chief executive, during his 30 years of experience in providing logistics for oil exploration and other ventures in isolated parts of the world.

Chrysler Building stake sold

BY ALEX FRANGOS

An Abu Dhabi sovereign-wealth fund has purchased a majority stake in the Chrysler Building, an iconic New York City skyscraper.

The Abu Dhabi Investment Council will take a 90% stake in the tower's ownership for \$800 million, according to people familiar with the matter. Tishman Speyer Properties, a New York landlord, will retain the remaining ownership piece and will manage the property.

ADIC purchased its share mostly from a fund managed by Prudential Real Estate Investors, a unit of insurance company Prudential Inc. The fund included European investors, especially Germans. ADIC also purchased a piece of the tower from Tishman Speyer, which previously owned a quarter of the building.

Prudential spokeswoman

Theresa Miller said, "We are proud to have been able to invest in this U.S. icon, and just as proud to be able to deliver exceptional returns for our German clients."

Tishman Speyer's president, Rob Speyer, didn't return a call seeking comment. Representatives for the Abu Dhabi Investment Council couldn't be reached.

The sale, which was reported in Wednesday's New York Post, comes at a tumultuous time in commercial real estate. The credit crunch has slowed sales of property to a crawl. One bright spot for sellers has been interest from foreign sources of capital, especially oil-rich countries.

Abu Dhabi's price for 90% of the tower would value the building at about \$890 million, or \$742 a square foot. It contains roughly 1.2 million square feet of office and retail space.

CORPORATE NEWS

Yahoo claims Microsoft working to destabilize it

Yang raises question of whether company really wants a deal

BY JESSICA E. VASCELLARO

Yahoo Inc. Chief Executive Jerry Yang accused Microsoft Corp. of trying to destabilize the Internet company without a real desire to complete a deal, and he responded sharply to recent comments by investor Carl Icahn.

The remarks by Yahoo's co-founder came a day after Microsoft said it would be interested in reopening talks to acquire some or all of Yahoo if Mr. Icahn's proxy battle to unseat the company's directors succeeds.

"To trust Mr. Icahn and his board is really a bad choice," Mr. Yang said in an interview.

Mr. Yang, whom Mr. Icahn has said he would replace if his effort succeeds, said Yahoo would look at any deal Microsoft proposed, and he called Microsoft's apparent unwillingness to negotiate further "baffling." Microsoft and Yahoo advisers spoke last week, but there are currently no formal conversations between the companies, he said.

A Microsoft spokesman declined to comment on Mr. Yang's remarks, and he referred to Monday's statement, which read: "We have concluded that we cannot reach an agreement with them. We confirm, however, that after the shareholder election, Microsoft would be interested in discussing with a new board a major transaction with Yahoo."

The back and forth is the latest in months of maneuvering. Microsoft

withdrew its unsolicited bid in May but later floated an alternate proposal to acquire Yahoo's search business, which Yahoo rejected last month. Mr. Yang has generally left defending himself and the company's board to official statements, but in recent weeks, he has held a series of meetings with shareholders.

Mr. Yang must convince shareholders that board members should remain even if Microsoft has seemingly closed the door to doing a deal with them. Meanwhile, large investors have questioned whether he should remain CEO.

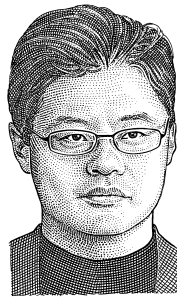
"I think that I can bring stability back to Yahoo, and I want to get on with building the company," Mr. Yang said. "I think that the destabilizing by

Microsoft has become more and more intentional. I am not happy about it."

Mr. Yang denied some shareholders' charge that Yahoo did not properly examine Microsoft's offer to acquire Yahoo's search business, a deal some investors would like to see revived. "The deal that we ended up discussing was the culmination of a long set of discussions," he said, noting that Microsoft delivered the offer with the caveat that it had very little "gas in the tank."

Mr. Yang's comments come as the clock is ticking down to Yahoo's Aug. 1 shareholder meeting. While most large shareholders haven't publicly stated which side they intend to support, many believe Mr. Icahn strengthened the pitch for his slate by proving he could bring Microsoft back to the table.

Yahoo and Mr. Icahn continue to talk, and Yahoo remains open to proposals, people familiar with the matter said. Mr. Icahn couldn't be reached for comment.



Jerry Yang

Levi Strauss's net falls 98% amid weak U.S. performance

BY RAY A. SMITH

Denim company Levi Strauss & Co. said its second-quarter net income plunged 98% and net revenue fell 8%, citing weak sales of its Dockers and Levi brands amid a tough U.S. economy.

The company reported revenue of \$936 million in the second quarter ended May 25, compared with \$1.01 billion in the year-earlier quarter. The weak sales in the U.S. were partly offset by revenue increases in Europe and the Asia-Pacific region, but revenue from those regions were down slightly on a constant-currency basis. Net income fell to \$1 million from \$46 million.

The San Francisco company blamed the declines on the impact of the difficult U.S. economic environment, which translated into lower sales at its U.S. Levi jeans and Dockers' businesses. It also cited the Chapter 11 bankruptcy filing by Goody's Family Clothing, a key customer, and expenses and shipping delays related to transitioning its U.S. business to a new software system designed to boost efficiency. In a conference call, officials said the company had some problems with implementing the software, which

caused the company to temporarily stop shipping orders to retail customers for a week. Some retailers canceled orders, officials said.

In the call, Chief Executive John Anderson said the company expected the U.S. economy would be tough in the second quarter and "that has certainly proven to be the case so far." Mr. Anderson said Levi expects the rest of the year to be challenging "given the slowing macroeconomic indicators we are seeing globally" and the continued investment in the planning software system.

After sales peaked at \$7.1 billion in 1996, Levi experienced an eight-year sales slide. The company, which is closely held but whose debt is publicly traded, missed the boat on the premium-denim trend and failed to respond quickly to changing consumer tastes. Mr. Anderson, who took over the job in late 2006, has vowed to make Levi more competitive and responsive to fashion trends.

Prices of Levi's bonds that come due in 2015 fell 4.3 cents to 95.75 cents on the dollar. The bonds, which have "junk" credit ratings, have fallen 5.5 cents in the past week, according to data from bond-trading platform MarketAxess.

GLOBAL BUSINESS BRIEFS

Activision Inc. Shareholders clear merger with Vivendi game business

Activision Inc. shareholders approved the videogame maker's planned merger with Vivendi SA's game business, a deal that will create a much stronger rival to industry leader Electronic Arts Inc. The new entity, Activision Blizzard, combines the game publisher, whose titles include "Guitar Hero," with Vivendi's Blizzard Entertainment Inc., creator of "World of Warcraft," a popular online, multiple player subscription service. In addition to receiving shares, Vivendi is buying a \$1.7 billion stake in the new company, giving it an overall stake of 54% of shares outstanding. Activision Blizzard's shares will trade on the Nasdaq Stock Market under Activision's current symbol, ATVI.

Citigroup Inc.

Citigroup Inc. hired Phil Kemke to head investor sales for commodities in the Asian-Pacific region. The new position was created as investment banks around the region are increasing their exposure to the booming resources trade. Mr. Kemke will start in mid-August and be based in Singapore, Citigroup said Wednesday. He had been head of investor sales for commodities at J.P. Morgan Chase & Co. In the past three years, Citigroup has expanded its commodities team in the region to close to 20, from three, Citigroup spokesman James Griffiths said. Citigroup's Asia-Pacific commodities team, which three years ago traded oil and base metals, now also trades oil products, precious metals, coal, freight, emissions and soft commodities.

Deutsche Lufthansa AG

German flagship airline Deutsche Lufthansa AG made a new wage offer to cabin and ground staff represented by German labor union ver.di. Lufthansa is offering to increase wages for ver.di members by 4.6% as a first step and an additional 2.1% as of July 1, 2009, still short of the union's demand of a 9.8% raise. Lufthansa also offered ground and cabin-staff members represented by ver.di a one-time payment of 1% of their annual wages. In a separate statement, Lufthansa said the number of passengers aboard its flights from January to June rose 5.4% from a year earlier. The company said 28.4 million passengers flew with the airline in the first six months of the year, while its seat load factor—a measure of how full airplanes are—fell by 0.3 percentage point to 78%. The company increased the number of overall flights by 23% to 413,218.

—Roundup

Samsung Electronics Co.

U.S. International Trade Commission staff plan to urge the agency to rule that Samsung Electronics Co. hasn't violated fair-trade practices in a dispute with InterDigital Inc. on 3G handset patents. InterDigital, a wireless-technology developer, stressed that the staff's recommendation isn't binding on the administrative law judge assigned to the investigation. Weeklong evidentiary hearings began in the case Tuesday. The commission is expected to render a final decision in March. InterDigital wants Samsung to be barred from importing certain handsets and other components. InterDigital alleges Samsung has infringed on five of its patents.

London Stock Exchange Group

London Stock Exchange Group PLC reported an 8% rise in fiscal first-quarter revenue, showing resilience amid continuing market turmoil, but it warned that conditions remain uncertain. Revenue in the three months ended June 30 increased to £178 million (\$350.5 million) from £164 million a year earlier, said the group that owns the London Stock Exchange and Borsa Italiana. LSE shares rose 10% to 740 pence each in London trading Wednesday. The stock-exchange operator said it was well positioned as the issuer market remains active for both initial public offerings and further issues and demand for real-time data is resilient. Cash-equities and derivatives-trading volumes in London have also continued to grow, the company said. LSE is facing competition from alternative trading platforms.

General Motors Corp.

General Motors Corp.'s European division said first-half sales were up 2.8% from a year earlier at 1.16 million vehicles, thanks to strong sales of the Chevrolet brand, and the auto maker said its market share was steady at 9.5%. In June, GM Europe's sales were down 5.5% from a year earlier at 202,869 vehicles. Nevertheless, Brent Dewar, GM Europe's vice president for sales, marketing and aftersales, said he expects GM's market share to remain stable in 2008. He also said the company is on track to sell 300,000 vehicles in Russia this year; sales there came in at 181,138 vehicles in the first six months. Still, Mr. Dewar said the global auto industry faces serious headwinds from such factors as skyrocketing raw-material prices and sluggish demand in major markets like the U.S. and Japan.

Boeing Co.

Boeing Co., in its annual market outlook, pared its forecast for airplane demand over the next 20 years, and said carriers will be focused on replacing less efficient aircraft amid record oil prices. The company forecast demand for 24,900 new passenger and freight planes, compared with its prediction a year ago for 28,600 aircraft. Overall, Boeing trimmed its fleet size at the end of the period to 35,800 from last year's forecast of 36,400 because of infrastructure limitations, tighter environmental controls and rising fuel prices. Boeing says it expects Asia will remain one of the fastest-growing regions in the world. Boeing expects the market for commercial airplanes to be worth \$3.2 trillion during the next 20 years.

Liberty Media Corp.

Liberty Media Corp. Chairman John C. Malone has bought about \$95 million of his own company's stock over the past week under a pre-arranged plan. Mr. Malone's overall voting interest in the company—33% as of the date of the latest proxy statement, in April—hasn't significantly changed, however. He gets most of his votes from his holdings of super-voting shares. But the bulk of the purchases were series A single-voting shares linked to the company's Liberty Capital tracking stock. The purchases increase Mr. Malone's holding of series A stock to 5.9% from 0.5%. His holding of series B stock rose to 89.1% from 87.4%. Courtney Ulrich, a spokeswoman for the Englewood, Colo., e-commerce, media and communications conglomerate, declined to say how much stock Mr. Malone plans to buy.

Alliance & Leicester PLC

U.K. midsize lender Alliance & Leicester PLC appointed Alan Gillespie as chairman. He succeeds Roy Brown, who had been acting chairman since the death of Derek Higgs in April. Mr. Gillespie is currently a chairman at Ulster Bank Group, a subsidiary of Royal Bank of Scotland PLC. A&L said Mr. Gillespie will become chairman starting on Sept. 8, subject to regulatory approval. Mr. Brown will return to his previous position as deputy chairman and senior independent director. In London, A&L shares ended up 18 pence, or 8.4%, to 232.75 pence (\$4.58). The bank's stock is down more than 60% since the beginning of the year.

Fortis NV

Fortis NV said it sold hedge fund International Asset Management Ltd. to the fund's managers. The management buyout follows the April merger between Fortis Investments and ABN Amro Asset Management, which had bought IAM in 2006. Belgian-Dutch Fortis was one of three European banks that joined in a \$110 billion buyout of rival ABN Amro Holding NV last year, the industry's largest-ever takeover. Fortis said the IAM buyout wouldn't affect its per-share earnings and that the sale will result in "some solvency relief" for the company. A Fortis spokesman in the Netherlands declined to say how much the sale was valued at.

—Associated Press

LG Display Co.

South Korea's LG Display Co. said its second-quarter net profit more than tripled from a year earlier thanks to a rise in demand for liquid crystal displays from television and computer manufacturers. The world's second-largest LCD maker by sales after Samsung Electronics Co. reported a net profit of 759 billion won (\$740 million) for the three months ended June 30, up sharply from 228 billion won a year earlier. Second-quarter sales increased 26% to 4.21 trillion won. Operating profit soared to a quarterly record of 889 billion won, from 150 billion won. LG Display reports its earnings on a consolidated basis, which includes the performance of its overseas units.

Wolverine World Wide Inc.

Wolverine World Wide Inc. reported a 8.4% increase in second-quarter net income on sales and margin gains. The U.S.-based shoe maker of Hush Puppies and Sebago shoes recorded net income of \$16.8 million, or 33 cents a share, up from \$15.5 million, or 28 cents a share, in the previous year. Revenue rose 6.8% to \$267.4 million. Both figures hit records for the 24th-straight quarter. "Our strong financial results were broad-based—all four of our branded operating groups contributed to the revenue increase," said Chief Executive Blake Krueger. Wolverine benefited from a weak dollar in its overseas markets, but saw shipping costs and production expenses cut into earnings.

—Compiled from staff and wire service reports.

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ON OTHER FRONTS

Dispatch / By Jennifer Saranow

Neat freaks can't shake folding habit they picked up as store clerks

ON THOSE rare occasions her husband, Brad, folds the laundry, Joanne Ross-MacLeod can't keep herself from refolding it. She recently undid a pair of leggings he had bunched up into a small square. She folded one leg onto the other, brought the bottom up past the knees, then the knees up to the waist, in the manner she had learned 20 years ago folding jeans at the Gap.

The 39-year-old fabric-product developer didn't tell her husband. But he's used to it. Folding is a subject on which the Kenosha, Wis., couple agree to disagree. "I need therapy," Mrs. Ross-MacLeod says.

She isn't the only one. The ranks of obsessive folders have swelled in recent years as a generation of Americans have done stints as clothing-store clerks. According to the U.S. Bureau of Labor Statistics, annual nonsupervisory employment in clothing and clothing-accessory stores grew to nearly 1.3 million workers in 2007, up nearly 20% from 1990. Gap Inc. says it has trained "hundreds of thousands" of Gap store employees in the art of folding since the late 1980s.

Along the way, legions of retail grads have spent countless hours neatly folding T-shirts and jeans and stacking them on tables and shelves. Now, their peculiar idea of perfection is straining marriages and leading to bizarre behavior ranging from buying clothes based on an item's foldability to straightening up sloppy displays while shopping.

Thirty-six-year-old Sadaf Trimarchi stopped doing laundry for her husband two years ago, she says, after he complained that she had folded his undershirts so tightly and stacked them so neatly in his drawer that he couldn't tell which were V-necks and which were crew necks.

"He had no idea what he was talking about," says Mrs. Trimarchi, of Leonia, N.J., who learned the basics of her folding technique at Gap during the 1989 holiday season. Her husband, Jeff Trimarchi, 34, says she caught him refolding and he explained his frustration as nicely as possible. "I imagine she took offense," he says.

Like military veterans who just naturally fold sheets with hospital corners when they make beds, today's retail refugees say they can't help themselves. "It's been programmed into me," says Marcos Chin, a 33-year-old free-lance illustrator in New York, who folds his jeans the same way he did in the 1990s when he gave folding seminars for clerks at Gap.

Phil Walmsley, 24, of Vancouver, still uses the plastic folding board he stealthily slipped into his backpack on his last day of work at Club Monaco five years ago. "I like the idea of having a perfectly folded closet," says the graphic designer. "It's kind of like my own little retail store."

Michael Jenike, chairman of the scientific advisory board for the Obsessive Compulsive Foundation in Boston, says he has treated people who have folding compulsions

but doesn't recall whether any of them had ever worked at clothing stores. He says compulsive folding becomes a symptom of obsessive compulsive disorder only if someone is spending excessive amounts of time doing it, doesn't want to do it but feels compelled to and the behavior is causing distress. Otherwise, it's just a harmless habit.

The folding craze at Gap began in the 1980s when Millard Drexler, who as a boy had sorted towels at his uncle's towel-delivery service, took the helm as president of the Gap Stores division. At the time, most store clerks hung clothes on racks because hanging merchandise was far easier to maintain. But Mr. Drexler and his team put tables in Gap stores and had employees decorate them with piles of folded shirts and sweaters. The goal was to better emphasize certain items and color choices and make it easier for customers to sort through clothes. Shoppers found the displays inviting—but displays needed constant attention from clerks.

Other chains trying to mimic Gap's success soon adopted the look, and clerks everywhere were spending hours folding. "Over the past 10 or more years, the trend has definitely been to more folding," says RoxAnna Sway, editor-in-chief of DDI magazine, which focuses on retail design and display.

Romey Louangvilay stopped

working at Abercrombie & Fitch three years ago but it was only last October that he was finally able to go shopping without automatically spending 10 or 15 minutes refolding messy T-shirt piles in stores. The 22-year-old assistant account executive for a public-relations firm in New York forced himself to kick the habit after growing tired of having to awkwardly explain himself to other customers asking him for help. "I still kind of have the urge to do it," he says.

Mr. Louangvilay's friends notice his folding tendencies, too, and sometimes jokingly mess up his neat, color-coded piles. "Everyone makes fun of Romey for his folding habits because it's so weird," says Mandella Dwayne Lambert, a 23-year-old mutual-fund accountant in Brooklyn, N.Y.



Joanne Ross-MacLeod

"Everything in his drawers looks like a store layout."

Over the past decade, former retail workers have invented a slew of folding-aid products with names like FlipFold and Mobilefold, many of which are bought by former clothing clerks. Jeff LaPace, president of Customer Minded Associates Inc., maker of the nearly \$300 Mobilefold, a portable folding table meant primarily for retailers, says the company has received so many orders from people who used to work at stores like Gap that it's rolling out a less-expensive consumer version later this year.

Some clothing-store alums are letting folding dictate their clothing choices as well. Tychelle Mc Laurin, 35, hasn't bought a sweater or a shirt with wide bell- or cape-like sleeves since she worked at J. Crew in 2004. That's because the compliance officer in Jersey City, N.J., can't easily and neatly fold the sleeves using a "trifold" she perfected after working at J. Crew. "I

don't think those styles look attractive folded," she says. "They are difficult to fold—like folding a batman cape."

For traveling, Lauren Smith, 24, avoids duffel bags and sticks with hard, rectangular suitcases. They better hold and maintain the uniform, rectangular piles Ms. Smith stacks her clothes into when packing, using the folding technique she learned working at Gap when she was in high school. The packed clothes "look like they would be sitting on display," says Ms. Smith, an interior-design saleswoman in Atlanta. She says her packing technique keeps clothes wrinkle-free.

It isn't clear whether the next generation of retailers will produce so many compulsive folders.

Today, more stores, including Gap, are receiving their merchandise already folded. Other chains like lululemon athletica and Hollister Co. are encouraging employees to make merchandise look messy or wrinkled. Within the past year, mainstream retailers, including Banana Republic's new Monogram concept store and even Gap itself, have begun hanging more merchandise, whether to emulate a sparsely merchandised high-end boutique in the case of the former or to emphasize unique styles and details in the case of the latter.

"In women's, we are hanging more because there is more fashion there and more detail that gets enhanced with hanging," says Felicity McGahan, vice president of store visuals and experience at the Gap brand. Finding the balance between hanging and folding, she says, "is something that we've actually put a lot of time into in the last 12 months."

WSJ.com

Online today

Alicia Peat, a store manager at Gap, demonstrates the proper way to fold jeans, at WSJ.com/Video

Commodity boom sends thatch prices through the roof

BY LISA KALLAL

LONDON—Surveyor Martin Wilde is running five months behind schedule in restoring an 18th-century thatched cottage in southwest England. The cause? A shortage of wheat straw.

Mr. Wilde has spent three months unsuccessfully searching for six to seven tons of straw of matching color and quality to replace a roof destroyed by fire just before Christmas 2006. Prices of other building materials have also risen, but the lack of straw has been Mr. Wilde's biggest headache.

"It has been an absolute nightmare," he said. "No one realized straw would be a problem."

Blame soaring food prices. Farmers are planting more wheat for grain—with stems too short for roofing—and less for straw. Only 25 tons of the long-stemmed, thatch-appropriate Maris Widgeon seed was sold for the 2008 harvest, less than half the 67 tons planted for the 2007 crop, according to the U.K. Home Grown Cereals Authority. On top of that, England's wettest summer on record last year left about 30% of the straw crop destroyed.

As a result, prices of thatching-quality straw have soared in the past year from £600 (about \$1,200)

a ton to £1,500 a ton, estimates Tim New, director of Thatched Owners Group, in Lincolnshire in east-central England. His group represents about 37,000 of the estimated 46,000 thatched properties in the U.K.

Most thatched cottages are considered historic treasures. The majority of U.K. farmers and homeowners stopped using straw more than a



The 350-year-old home of Peter and Gillian Blomley, above. Thatching apprentice Josh Metcalfe, inset, weaving thatch on a home in southwest England.

century ago, and builders replaced thatched roofs with fire-safe slate brought in by rail. Most local governments require homeowners to preserve thatched cottages and use the same roofing for replacements.

That guaranteed a market for thatchers and straw growers.

But many now worry that they can't meet the demand.

The backlog of orders is growing as projects are put on hold. "The coming harvest will not fulfill the needs," Mr. New says.

The shortage has been hardest on those replacing roofs destroyed by fire. Other clients try to patch weak areas to save money and buy time. Some homeowners are postponing roofing plans in hopes that prices will fall.

Mick Dray, a master thatcher in Devon in southwest England, recently offered five customers a choice of paying more for rethatching because of the rising cost of straw or putting off the work. Only one chose to go ahead.

Thatching projects are often contracted six to 12 months in advance, and such a large jump in straw prices has many thatchers saying they can't swallow the increased

cost and still make a profit.

Simon Wiley, a master thatcher based in Somerset County in southwest England, says this is the first time in his 22-year career that he has been forced to renegotiate a contract because of rising costs.

"I have an awkward letter to write," he says.

Mr. Wilde, who also works in Somerset County, has received special permission from his local government to thatch with water reed. He only succeeded after discovering it had been used on the house before and pointing out that the material grows locally.

But despite the headaches for both thatchers and homeowners, many remain adamant about continuing.

In the village of Clavering, Hertfordshire, about 40 kilometers north of London, Peter and Gillian Blomley say that restoring the thatch on their 350-year-old home is a part of preserving English traditions and worth the headaches. Still, had their thatcher not acquired a last bit of wheat grass left from the 2006 harvest, they say, the task might have been too expensive.

Josh Metcalfe, who recently underwent an intensive apprenticeship of about three years, said he is proud to be part of the next generation of thatchers. "I'm very thankful for this opportunity," he said.

ECONOMY & POLITICS

U.S.

Democrats discuss second stimulus package



SENATE Majority Leader Harry Reid said Tuesday he spoke to the Democratic leadership in the House of Representatives about a second economic-stimulus package.

But he said it

would be difficult to get another major spending bill through Congress in the current work period, which expires Aug. 8. Congress passed a war-funding bill last week that included a temporary extension of unemployment-insurance benefits. Earlier in the year, lawmakers agreed on a first round of economic-stimulus spending, which came in the form of checks sent directly to most Americans who filed federal income-tax returns. —Corey Boles

EUROPEAN UNION

Parliament sets new rules on disclosing flight costs



THE EUROPEAN Parliament approved a bill to prevent airlines from posting advertisements for low-cost flights that hide the true price by excluding additional charges such as taxes and booking fees.

The bill passed without a vote because none of the 785 members of the assembly raised objections. A European Union report in May said a third of people who shop for flights online are being cheated by misleading ads and price schemes. Under the new rules, airlines will have to clearly show the total price customers will have to pay at the start of the booking process. About 700 million travelers fly on EU airlines each year, the EU says. —Associated Press

EUROPEAN UNION

Nations are told to return misspent farm subsidies



THE EUROPEAN Union is claiming nearly €500 million (\$783 million) from its member states in illegally spent farm subsidies.

The bloc says Italy must return €145.2 million, Greece should give back €127.7 million and the U.K. must return €69.4 million. It says nine countries have misspent funds, for instance, by offering subsidies in areas that aren't eligible or by instituting inadequate payment controls.

The European Commission, the EU's executive arm, made the decision to reclaim a total of €410.3 million from the nine countries. EU auditors have criticized irregularities in EU aid spending. —Associated Press

Food costs worsen hunger

U.S. analysts expect problem to intensify over next decade

BY SCOTT KILMAN

THE SOARING COST of food increased the number of hungry people in the world by 122 million in 2007 and now threatens to swell the malnourished population for a decade, the U.S. Department of Agriculture said.

According to the department's annual Food Security Assessment, 982 million people were hungry last year, up 14% from a revised estimate of 860 million in 2006. The number of new hungry people—the biggest increase since the department started producing the report 16 years ago—is roughly the population of Japan.

A year ago, USDA economists predicted food insecurity would shrink as a problem in every region except sub-Saharan Africa.

In the new assessment of 70 developing countries, USDA economists project that the number of malnourished will climb to 1.2 billion people by 2017. A year ago, the economists saw that number falling to about 800 million over a decade.

"The food-security indicators estimated for the study countries paint a bleak picture of not only the current situation, but also the intensifying of the problem over the next decade," the report concludes.

Not only is hunger becoming an even bigger problem in sub-Saharan Africa—already home to nearly half of the world's malnourished—but the report warns for the first time that the hunger fight is running out of steam in Asia, where the 1960s Green Revolution put seeds for high-yield wheat and rice into the hands of millions of farmers.

The leaders of rich nations are watching the worsening hunger situation, which is sharpening the debate over the West's push to turn crops into fuel as well as stirring political instability across the developing world. Food riots have bro-



In an assessment of developing countries, U.S. Agriculture Department economists project the number of malnourished people to climb to 1.2 billion people by 2017.

ken out in several poor countries.

The USDA report signals that the West's food-aid programs will come under increasing strain. The cost of supplying staples such as corn and wheat is rising, even as demand for aid explodes.

In recent years, rich nations donated an average of 7.4 million metric tons of food aid annually. That is equal to about one-fifth of the food gap—the amount of food needed to raise diets in all income groups to 2,100 calories a day—according to the USDA's calculations. According to the report, the food gap will total 54.8 million metric tons by 2017.

Food prices are climbing around the world because farmers can't

The number of new hungry people is roughly the population of Japan.

keep up with demand for grain. The biofuels boom in the U.S. and the new Asian middle class's appetite for grain-fed meat have combined to drain world grain stockpiles. Since January 2007, the USDA's index of all crop prices has climbed 44%.

The world's poor, many of whom

are subsistence farmers or landless laborers, typically spend at least half of their income on food, which tends to consist of the crops that are climbing the most in price: corn, wheat, soybeans and rice. By comparison, the average U.S. household spends only about 10% of disposable income on food.

The Agriculture Department is one of the few agencies that tries to regularly count the world's hungry. It is a controversial endeavor because scientists argue over how much food people need to survive, which varies by age and labor demands. Indeed, the newest report by the USDA shies away from using the term hungry in favor of the phrase "food insecure" even though it is the same group covered in earlier reports: people consuming fewer than 2,100 calories daily.

Attempts to refine the hunger definition has ensnared a similar survey by the United Nations' Food and Agriculture Organization. Even though the Rome agency is trying to rally attention to the global food crisis, complications have prevented its statisticians from clearly describing the scope of the problem. The agency didn't release a survey of food insecurity in 2007, and data slated for release in October will focus on the 2003 to 2005 period—before the current crop-price boom.

U.S. to hold new contest to replace tanker planes

BY AUGUST COLE

U.S. Defense Secretary Robert Gates said Wednesday that the Pentagon will hold a new, fast-track competition to replace the Air Force's fleet of aging aerial-refueling tankers, overturning a previous competition won by Northrop Grumman Corp. that had been declared unfair by a government watchdog agency.

The winner will be chosen by the end of the year, Mr. Gates said.

In June, the Government Accountability Office issued a report that found multiple faults with the Air Force's decision to award the \$40 billion contract to Northrop over a competing proposal from Boeing Co.

Northrop's bid was also controversial because it partnered with a foreign company, European Aeronautic Defence & Space Co., to supply Airbus jets modified for military duty. The GAO's report said the Air Force's decision to go with Northrop was "undermined by a number of prejudicial errors," suggesting that a new competition would be necessary.

Mr. Gates said he "concluded that the contract cannot be awarded at present because of significant issues pointed out by the Government Accountability Office."

The involvement of the defense secretary in a weapons-buying decision speaks to the importance of the contract, and to how far astray the process is seen to have gone.

In the new bidding process, the Air Force—which was roundly criticized for its handling of the contract—won't have the primary responsibility of vetting the bids. Instead, Defense Undersecretary John Young, the Pentagon's top weapons buyer, will be tasked with addressing the eight problems that the GAO found in the Air Force's management of the previous contract, though he played a key role in overseeing it. An important committee reviewing the bids is also being replaced.

The Air Force, however, will carry out the contract once it is

awarded.

Depending on how smoothly the next few months go, the program could suffer only minimal delays. The Air Force had hoped to put 179 new planes into service, with the first deliveries in 2011. It made this its top weapons-buying program because the current tanker fleet has an average age of almost 50 years.

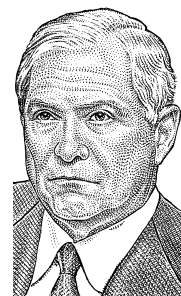
Northrop and Boeing will be able to submit entirely new bids. But Mr. Young indicated he wanted the process to move along quickly, and didn't plan sweeping changes to the Air Force's criteria for the project. "I think we would like to err on the side of doing the minimum amount," said Mr. Young. Splitting the contract between the two doesn't make sense as it is too expensive and complicated, he said.

Northrop applauded the Pentagon for setting an expedited time table for the new contract. It said: "The United States Air Force has already picked the best tanker, and we are confident that it will do so again." Boeing couldn't immediately be reached for comment.

The Defense Department's announcement is the latest turn in one of the defense industry's most-contentious contracting sagas. When the Air Force, on Feb. 29, picked Northrop and its partner, EADS, it caught many lawmakers, as well as much of the defense industry, off guard. Boeing, shocked by the defeat, soon after filed a protest with the GAO, which found numerous flaws in how the Air Force awarded the work.

Before moving forward with a new bid, Mr. Gates secured the support of powerful lawmakers, including Rep. John Murtha, chairman of the House defense appropriations subcommittee.

Sen. Richard Shelby also applauded the decision to hold a new bid. "This is the best of all options," said Sen. Shelby, a supporter of Northrop's plans. The airplanes, manufactured by Europe's Airbus, would be assembled and converted to tankers in Alabama.



Robert Gates

U.S. PRESIDENTIAL ELECTION 2008

Obama's trade stance may rile some U.S. allies

Nafta views weigh on candidate's plan to repair U.S. ties

BY AMY CHOZICK

Barack Obama plans to visit Europe and the Mideast this month to promote his pledge to restore relations frayed by the Bush Administration. But the presumptive Democratic presidential nominee could undercut that promise with his tough stance on trade.

Sen. Obama's itinerary carries a different message than that seen in two recent overseas trips by Republican candidate John McCain. In Europe, Sen. Obama is going to Germany, France and the U.K., countries that tangled with the Bush administration over concerns such as Iraq and environmental treaties.

Sen. McCain's recent travels have taken him to allies Canada, Mexico and Colombia, where the Republican vowed to extend free-trade policies embraced by President Bush. Sen. Obama has said he would renegotiate the North American Free Trade Agreement with the two U.S. neighbors, and has opposed a new pact with Colombia.

Sen. Obama's Nafta criticisms in particular are raising hackles in the hemisphere. He has called for enforceable labor and environmental standards that weren't in the original pact in part because the creators feared such regulations could infringe on national sovereignty.

"What he is proposing would be far too intrusive on the sovereignty

of the laws of a country," says Greg Somers, an international-trade lawyer based in Ottawa. "That's not the job of a trade deal."

Shortly after Sen. Obama first announced his candidacy more than a year ago, he delivered a speech to the Chicago Council on Global Affairs about "America's reputation in the world." There he called for "a new spirit—not of bluster and bombast, but of quiet confidence and sober intelligence, a spirit of care and renewed competence."

The approach has helped Sen. Obama amass a following in Germany, France and the U.K., where residents can be seen wearing T-shirts emblazoned with Sen. Obama's "Change We Can Believe In" slogan. In a Pew Research Center poll last month, 74% of Britons said they would have confidence in an Obama presidency, compared with 44% for Sen. McCain. In France, 85% of respondents said they favor Sen. Obama over Sen. McCain.

European opinion of the U.S. in general has declined since President Bush became president. In 2000, 83% of respondents in the U.K. said they had a favorable opinion of the U.S., compared with 56% in 2006. In France, favorable opinions of the U.S. dropped from 62% to 39% over the same period.

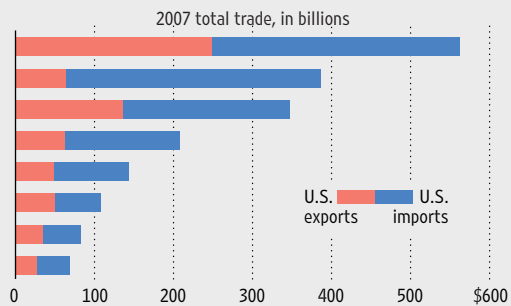
But the Democrat has also spent months bashing Nafta and other trade deals, particularly on campaign stops in the economically hurting Midwest. "I think we should use the hammer of a potential opt-out as leverage to ensure that we actually get labor and environmental standards enforced," Sen. Obama

Global positioning

Barack Obama's tough talk on trade agreements like Nafta has opened him up to criticism. But he could fare well with voters, as a recent poll shows Americans have a negative attitude toward trade deals.

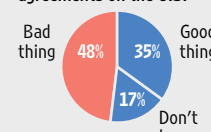
Top U.S. trading partners

Country	Pct. of U.S. trade
Canada	18.0%
China	12.4
Mexico	11.1
Japan	6.7
Germany	4.6
U.K.	3.4
South Korea	2.6
France	2.2



Sources: Commerce Department (trade figures); Pew Research Center telephone poll of 1,502 adults conducted April 23-27; margin of error: +/-3.0 percentage points

Impact of free-trade agreements on the U.S.



said of Nafta in the midst of a heated battle for Ohio against Sen. Hillary Clinton.

He has since softened talk of abandoning the deal, but made clear he would try to change it. "I have said very clearly and I will repeat again that Nafta lacked the environmental and labor provisions that were enforceable that would ensure not only free but fair trade," Sen. Obama told reporters in Zanesville, Ohio, last week.

Sen. McCain and his supporters say Sen. Obama's approach to trade is at odds with his promise of a more diplomatic foreign-policy agenda.

During a recent press conference in Boston, Sen. McCain called Sen. Obama's Nafta stance potentially damaging to the country's standing

with allies. "You know what that message sends? That no agreement is sacred if someone declares that as president of the United States they would unilaterally renegotiate it," he said.

McCain economic adviser Douglas Holtz-Eakin says Nafta was signed in good faith and that adding labor or environmental standards would infringe on the sovereignty of Canada and Mexico. "You can't just reach into the domestic laws of other countries. The U.S. wouldn't stand for that for a second," he says.

Sen. Obama rejects the notion that a tough stance on trade runs counter to his foreign-policy agenda. "There's nothing incompatible with us wanting to be tough negotiators and looking out for our in-

terests and still being respectful of other countries and wanting to have strong ties with countries like Canada and Mexico," he said in Zanesville.

"Robust diplomacy doesn't mean we get our trade agreements right every single time," says David Axelrod, Sen. Obama's chief strategist. "It's an American president's job to protect American jobs."

In Ohio and other Midwestern battleground states, Nafta has become a symbol of antiglobalization sentiment and is a constant source of contention between Sens. Obama and McCain. The agreement went into effect under President Bill Clinton in 1994 and created what remains the largest trade bloc in the world based on combined gross domestic product of its member nations.

The governments of Canada and Mexico, the U.S.'s Nafta partners, haven't made official comments about Sen. Obama's pledge to renegotiate.

Sen. Obama's trade stance, while likely to rile allies, may be more resonant with American voters. Despite several nonpartisan studies that have concluded the trade zone has had a mild, positive effect on the U.S. economy, most Americans have a negative view of Nafta. According to a Princeton Survey Research Associates/Pew Research Center poll conducted in April, 35% of registered voters say agreements like Nafta are a good thing for America; 48% say they are bad for the country. The same survey shows 58% of voters say they believe trade in general is good for America, compared with 32% who say it is bad for America.

Clinton, Bush advisers join forces

BY MONICA LANGLEY

WASHINGTON—Two hard-charging political operatives are teaming up to create a bipartisan consulting organization to advise corporations in crisis—as they work to burnish their own reputations as well.

Former Clinton strategist Mark Penn, chairman and CEO of public-relations firm Burson-Marsteller, is hiring former Bush adviser Karen Hughes as a vice chairman, the principals say. The political combatants, known for their partisan efforts, decided to combine forces to offer a one-stop crisis-communication and public-affairs shop to corporations caught in front-page headlines or faced with a changing Washington.

It's a comeback effort of sorts for both players. Mr. Penn, 54, who served as chief strategist and pollster for Sen. Hillary Clinton's presidential bid, has been blamed in recent months for her failed candidacy. Ms. Hughes, 51, who came to Washington with President George W. Bush as his communications director, left her State Department position several months ago after making little progress on her mission to improve the U.S. image around the world.

"Mark and I share a vision that communications people should be strategic advisers...and an understanding of the realities of the political process," Ms. Hughes said. "And we also share the same lawyer."

The deal was brokered by Robert Barnett, a Washington superlawyer

who earlier represented each of them on their books. Mr. Barnett is increasingly a broker between strange bedfellows. He is currently negotiating between the campaigns of Sen. Clinton and likely Democratic nominee Barack Obama over relieving her campaign debt, determining her convention role and making joint appearances.

Mr. Barnett just signed the deal for Clinton communications adviser Howard Wolfson to become an analyst for Fox News, after doing a similar contract a few months earlier for Bush political guru Karl Rove. Also this week Mr. Barnett negotiated on behalf of Marcus Brauchli, former managing editor of The Wall Street Journal, to become the new executive editor of the Washington Post. Mr. Barnett negotiated the financial terms for Mr. Brauchli's exit from News Corp. a few months ago.

News of the Penn-Hughes combination is certain to get big notice. Even when the pair met recently for the first time, the Washington Post ran a "power lunch alert" on the meeting between "two PR wizards."

The addition of Ms. Hughes is part of a push by CEO Mr. Penn to expand Burson's reach and expertise, now that his political work on Sen. Clinton's campaign has come to an end. "I'm not happy with the campaign's result, but I'm glad to be focused entirely on business for a wide

range of clients," Mr. Penn said.

Just last month, Burson, which has some 50 offices around the globe, unveiled a new "issues and crisis group." In addition to adding strategic units, Mr. Penn said, Burson will establish similar "bipartisan brain trusts" in other countries. Mr. Penn has served as a campaign adviser for former British Prime Minister Tony Blair. (He also advised President Bill Clinton during his successful reelection campaign.)

In addition to his political clients, Mr. Penn also has advised Microsoft Corp., Coca-Cola Co. and Merrill Lynch & Co. Ms. Hughes, who worked two separate times in the Bush administration, is expected to bring in a chunk of new business, headed up by Republican-leaning chief executives who know her from her political life. She will be based in her hometown in Austin, Texas, and focus on issues from energy to health care.

A confidante of President Bush, Ms. Hughes dropped out of Washington at the height of her power just a year and a half after helping get President Bush elected in 2000, to spend more time with her family.

For Mr. Bush's second term, she returned to the nation's capital as an undersecretary of state for public diplomacy and public affairs.

"Karen and I have had so many of the same experiences in the White House and campaigns, and have worked around the world," Mr. Penn said. "But we agreed that we won't let politics interfere in our business."



Karen Hughes



Mark Penn

Obama proposes change to bankruptcy measures

BY CHRISTOPHER COOPER AND T.W. FARNAM

Sen. Barack Obama unveiled a proposal to protect consumers in bankruptcy, signaling the Democratic party's further swing to the left on economic policy as financial conditions continue to deteriorate.

The presidential candidate's proposals go beyond any comprehensive plans for economic relief floated to date in the Democratically controlled Congress and show that an Obama administration would make a priority of revisiting the 2005 law that made it tougher for Americans to shed debts through the bankruptcy code.

"This goes as far as anybody who's had the ability to get things enacted into law has proposed," said Robert Lawless, a bankruptcy expert and professor of law at the University of Illinois. Still, the proposal is sensitive to the "fatigue to revisit the bankruptcy laws," said Mr. Lawless, a Democrat cited in Sen. Obama's policy paper but not associated with the campaign. "It's much more targeted, rather than saying, 'I want to go in and undo the 2005 bankruptcy law.' I don't think there'd be any political interest in doing that."

Some elements have been proposed in Congress over the past year as home foreclosures and bankruptcy filings have surged, but none have made it into law.

Under Sen. Obama's plan, courts would be able to renegotiate mort-

gages on a debtor's primary residence. He would also offer extra protections to uninsured people wiped out by massive medical payments, disaster victims, military members on extended-duty tours and elderly homeowners.

In addition, the proposal would waive bureaucratic steps required to file for personal bankruptcy, and would make debtor-protection laws more equitable across states. Though many states shield certain bankruptcy assets from creditors, the exemptions are uneven, sometimes nonexistent and often too small, the Obama campaign says.

Sen. Obama's proposal would establish a minimum national "homestead" level of equity for certain homeowners that would be protected against creditors. The policy also would impose a 120-day moratorium on bad-credit reporting and waive requirements such as mandatory credit counseling and means testing.

Industry advocates say the proposed changes aren't needed, pointing to the 2005 law's "means test," which gave people under a certain income protections that would cover all the classes of people that Sen. Obama seeks to protect, said Scott Talbott, a senior vice president with the Financial Services Roundtable. He said Sen. Obama's proposal to allow courts to renegotiate mortgages would ultimately raise the risk to lenders—and therefore the interest rates and costs of all loans on average.