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THE WALL STREET JOURNAL.

WSJ.com

DOW JONES Newswires

EUROPE

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A News Corporation Company

VOL. XXVI NO. 114

MONDAY, JULY 14, 2008

Will Betancourt seek Colombian presidency?
ECONOMY & POLITICS | PAGE 7

Western oil firms accept onerous gas deal in Russia
CORPORATE NEWS | PAGE 4

Cycle of pain in housing, finance, ensnares market

Foreclosed properties weigh down prices; sentiment is critical

By Michael Corkery
And James R. Hagerty

At the heart of the near-panic rocking **Fannie Mae** and **Freddie Mac** is a vicious cycle gripping the U.S. housing market.

It starts with the oversupply of homes, which is causing prices to plummet. Falling prices are leading to more foreclosures, as homeowners have difficulty refinancing their mortgages or selling their houses.

THE OUTLOOK

Banks are reluctant to lend freely at a time when home values keep sinking and defaults keep rising. That is crimping housing demand further and leading to more price drops and defaults.

This phenomenon—which some economists call a "negative feedback loop"—began with subprime borrowers but has gone well beyond the small segment of borrowers with poor credit. It is now spreading to the much-larger market of prime borrowers, which forms the bread and butter of Fannie's and Freddie's mortgage assets.

Actual credit-related losses at

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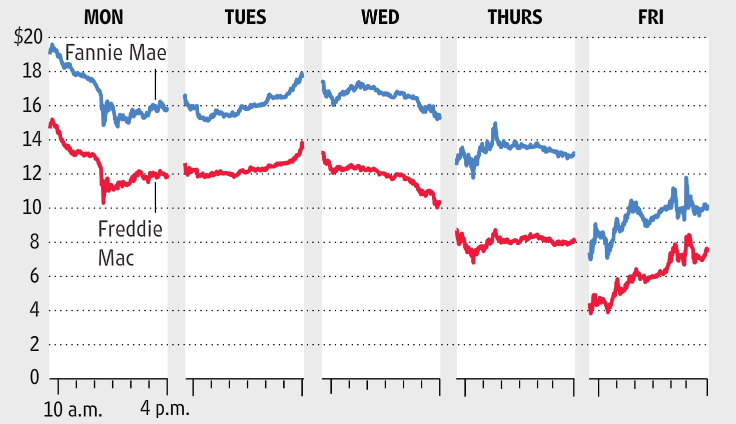

A wild ride
The share prices for Fannie Mae and Freddie Mac seesawed last week.
Source: WSJ Market Data Group

Paulson rejects helping Fannie, Freddie holders

By Deborah Solomon,
James R. Hagerty
And Serena Ng

As the crisis worsens for mortgage giants **Fannie Mae** and **Freddie Mac**, U.S. Treasury Secretary Henry Paulson is insisting that any potential government rescue plan not benefit the companies' shareholders, according to people familiar with the matter.

The two stockholder-owned, government-sponsored companies, whose operations are vital to the functioning of the U.S. housing market, faced a severe crisis of confidence after a week in which their stocks each lost nearly half their value. On Friday, Freddie Mac finished the day at $7.75 a share, and Fannie Mae at $10.25.

The discussions at Treasury highlight the dilemma created by the financial crisis gripping the U.S.: Some institutions are considered too big to fail, but propping them up could erode the market's incentive to properly judge risk by offering investors a false sense of security.

The Treasury was expected Sunday to make a statement supportive of the two companies, according to people familiar with the matter. The exact language couldn't be learned but it was expected to be a statement of facts designed to reassure markets, people familiar with the matter said.

After a week of near panic among shareholders of the two companies—and a stomach-churning day on Wall Street Friday—the next big test will come Monday when Freddie Mac is due to sell $3 billion of short-term debt. An unsuccessful sale could be a major blow to investor confidence. If the administration were to intervene, it could do so before markets opened that day, according to a person familiar with the deliberations.

The companies' weakened state

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What's News—

Business & Finance

U.S. Treasury Secretary Paulson is said to be insisting that any potential government rescue plan of Fannie Mae and Freddie Mac not benefit their holders. At the heart of the near-panic rocking the companies is a vicious cycle gripping the housing market. Pages 1, 13

■ **A new jet-engine war** took off at the Farnborough Air Show as GE and Pratt & Whitney touted rival technologies for better fuel efficiency. Page 1

■ **A high-tech fighter** built by Lockheed Martin may have limited prospects as the Pentagon looks to weapons designed for assisting ground troops. Page 2

■ **Bombardier plans to begin** building its CSeries jet, after receiving a nonbinding letter of intent for 60 planes from Deutsche Lufthansa. Page 4

■ **EADS executives** criticized a French investigation into suspected insider trading. Page 2

■ **Yahoo rejected** a new offer from Microsoft and Icahn to split the company and give its search business to Microsoft. Page 3

■ **Credit Mutuel agreed** to buy Citigroup's German retail operations for $7.7 billion, outbidding Deutsche Bank. Page 19

■ **Fears that the Fed** has run out of ammunition to support the stock market is beginning to worry investors. Page 21

■ **Spain decided** against issuing a 15-year bond as borrowing costs rise for governments seen as vulnerable to an economic slowdown. Page 8

■ **Fortis chief Votron** will depart, as the bank joins others in replacing leadership during the credit crisis. Page 5

■ **Regulators seized** mortgage specialist IndyMac Bank, marking the third-largest bank failure in U.S. history. Page 5

■ **National Australia Bank** is in preliminary talks to buy the Australia and New Zealand arms of ABN Amro. Page 19

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11100.54	-128.48	-1.14
Nasdaq	2239.08	-18.77	-0.83
DJ Stoxx 600	270.36	-7.59	-2.73
FTSE 100	5261.6	-145.2	-2.69
DAX	6153.30	-151.70	-2.41
CAC 40	4100.64	-130.92	-3.09
Euro	$1.5909	+0.0116	+0.73
Nymex crude	$145.08	+3.43	+2.42

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World-Wide

Forty-three nations, including Arab states and Israel, agreed in Paris to work for a Middle East free of weapons of mass destruction in launching a Union for the Mediterranean aimed at securing peace across the region. Syria's indirect peace talks with Israel and backing of a unity government in Lebanon are helping to rehabilitate its image. Page 7

■ **The U.S.'s top military chief** made an unannounced visit to press Pakistan's leaders to crack down on militants destabilizing Pakistan and Afghanistan. Page 8

■ **The chief prosecutor** of the International Criminal Court is expected Monday to charge Sudan's president, Omar al-Bashir, with war crimes related to the Darfur region. Page 8

■ **A French court denied** citizenship to a Moroccan woman on the grounds that she practices a radical form of Islam that prevented her from assimilating French culture. Page 8

■ **North Korea agreed** to disable its main atomic reactor by Oct. 31 and allow international inspections to verify its nuclear disarmament, in a deal reached in six-nation talks in Beijing.

■ **The EU raised** concerns over Iran's missile tests and stepped up calls for Tehran to suspend uranium enrichment. Page 8

■ **France said** that if Sarkozy meets the Dalai Lama in August, it would be as a religious leader, not head of state, but the French president will receive the pope in September as head of state.

■ **A Dutch woman died** from Marburg fever, a rare Ebola-like virus she is thought to have caught from bats while touring caves in Uganda. No one else so far has reported symptoms.

■ **About 13,000 Japanese** rallied near the port of Yokosuka against the planned permanent basing of the U.S. nuclear-powered carrier George Washington.

■ **Pope Benedict XVI raised** expectations he will apologize directly to victims of past sexual abuse by clergy as he arrived in Australia for a nine-day visit.

■ **Died: Dr. Michael DeBakey**, 99, pioneering heart surgeon and inventor of heart devices, of natural causes in Houston.

EDITORIAL & OPINION

Good news from Iran
Dissident Ahmad Batebi escapes his torturers to the U.S. Review & Outlook. Page 9

GE, Pratt tout fuel efficiency of jet engines

By J. Lynn Lunsford
And Daniel Michaels

LONDON—Once every 20 years or so, the companies that make jet engines battle it out for a chance to power the next generation of single-aisle airplanes. At the Farnborough International Airshow here Sunday, the next great engine war got under way, with fuel efficiency as the primary battleground and billions of dollars worth of business at stake.

General Electric Co. unveiled plans to develop a family of engine cores that it said would vault it ahead of **United Technologies** Corp.'s Pratt & Whitney, which has a two-year head start on a novel engine that promises to burn 12% less fuel than today's most-efficient engines.

GE, which is working with French partner **Safran** SA, said its engine will contain fewer moving

Please turn to back page

Catch-22

High-tech jet symbolizes internal tensions in the U.S. military 2

LEADING THE NEWS

Jet is caught in political crossfire

Pentagon, Air Force at odds over the need for more F-22 planes

BY AUGUST COLE

The F-22 Raptor—capable of aerobatic feats unimaginable for earlier-generation jets—is expected to be the star attraction when it flies Monday at the prestigious Farnborough International Airshow. But **Lockheed Martin** Corp. is likely to shut production down when it delivers its final jet to the U.S. Air Force in 2011.

It is the catch-22 of military contracting. The fighter is so advanced that, under law, not even U.S. allies are allowed to buy it. At the same time, the U.S. Defense Department doesn't want to order any more because senior leaders believe it isn't the right weapon for current missions, which command a growing slice of the Pentagon budget.

The fighter is so advanced that not even U.S. allies are allowed to buy it.

That is a blow for Lockheed, which stands to miss out on revenue from its premier fighter. The plane, with a $143 million price tag, is now rolling off the assembly line problem-free, and last year the Air Force declared it combat-ready. Australia and Japan have expressed interest in buying it, and many in the industry consider it to be the best fighter ever made. But currently, Lockheed has orders for only 183 of them.

"The F-22 is clearly an icon of American power projection," says Tom Ehrhard, senior fellow at the Center for Strategic and Budgetary Assessments and a former Air Force officer.

One of the plane's biggest vulnerabilities hasn't been in the air, but in Washington. The F-22 fighter program has been in development since before the end of the Cold War. The Air Force wanted to buy 381 of the aircraft, arguing that any less will leave gaps in their capabilities. But U.S. Defense Secretary Robert Gates has said the plane isn't relevant to today's conflicts in Afghanistan and Iraq. He shut down additional funding for the fighter.

The curtailing of the F-22 has come to symbolize the larger tension in the Defense Department between future threats and today's fights. Mr. Gates wants the Pentagon to focus on weaponry that serves ground forces, like those in Afghanistan and Iraq, and he doesn't believe the F-22, which is geared more toward fighting a conventional foe, is needed.

The Air Force is concerned that even if the U.S. doesn't face any real rivals in battle today, China or Russia could still emerge as adversaries. In addition, it argues that nations with small defense budgets can assemble dangerous air-defense systems using an increasingly sophisticated, and accessible, array of antiaircraft weapons that can easily shoot down lesser fighters.

Late last year, several lawmakers and the chief executives of the big defense companies involved in F-22 production wrote Mr. Gates, arguing for funding for 20 more jets in the 2009 budget. That effort failed. It will be up to the next White House to decide whether the F-22 will be included in future defense budgets.

Lockheed Martin

Lockheed Martin's **F-22 Raptor** is so advanced that, under law, not even U.S. allies are allowed to buy it.

Despite the high stakes for Lockheed, based in Bethesda, Md., the company must be careful about trying to lobby for more sales. The company can't afford to get publicly dragged into a feud between the Pentagon and the Air Force over the jet. Lockheed said in a statement the company supports the Defense Department's "position to defer the decision on continued F-22 production to the next administration to allow for a comprehensive review of all national-security needs including tactical air requirements."

Lockheed is developing a new fighter that isn't caught in the same crossfire. Called the F-35 Lightning II Joint Strike Fighter, it will cost almost $300 billion to develop and buy. Eight U.S. allies, including the U.K. and Australia, are involved in producing the plane and plan to order it as well. Other countries, such as Israel, may also sign up. But the F-35, which costs less than half the price of the F-22, isn't ready yet and Air Force officials think the F-22 is a superior jet.

The single-seat F-22 can cruise at faster than the speed of sound, a feat other fighters can't pull off, and carries an assortment of cutting-edge weapons. The plane's stealthy qualities and electronic warfare systems make it ideally suited to leading missions into heavily defended areas.

At Farnborough, the 15-minute demonstration will likely include a highly anticipated backflip made possible by the plane's unique ability to angle the thrust from its engines. "Anybody can drive a fighter aircraft fast, but to see it go slowly and just hang in the air is really something," said Vic Johnston, a spokesman for 1st Fighter Wing at Langley Air Force Base in Virginia.

Showing the fighter at a high-profile venue like Farnborough will allow the Air Force to parade one of its most advanced fighters before an audience that includes defense officials from around the globe.

EADS executives criticize probe of stock trading

A WSJ NEWS ROUNDUP

Executives of **European Aeronautic Defence & Space** Co. have criticized an investigation into suspected insider trading in the company's shares in 2005 and 2006.

"It's a show trial; it's bad theater," said Tom Enders, chief executive of EADS's wholly owned Airbus commercial-aircraft unit, at a news conference ahead of the Farnborough Air Show.

Mr. Enders is among 17 current and former EADS executives who have been identified by the French financial-markets supervisor AMF on suspicion of insider trading.

The AMF inquiry says the executives may have exercised stock options while being in possession of confidential data—problems with the industrial ramp-up of Airbus's flagship A380 that put the program behind schedule—that would potentially have a negative impact on EADS's share price.

Stefan Zollar, chief executive of EADS's defense and security unit, and who also has been named in the AMF inquiry, said: "From my perspective, it's very difficult to understand what is going on. We have no infringement of any of our internal or external or legal obligations.

"I'm not too glad to see this process dragging on and dragging on, and the way it is being conducted is even more difficult to understand," Mr. Zollar said.

Three former EADS executives and one current official have been charged in France with insider trading. The 17 named include Fabrice Bregier, chief operating officer at Airbus and former chief executive of Eurocopter, EADS's helicopter division.

In an interview with Le Figaro newspaper published over the weekend, Mr. Bregier said the only sensitive information about Airbus that he was privy to was its business plan. On that basis, he said, lots of company executives in France are guilty of insider trading.

INDEX TO BUSINESSES

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

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 FAX: Business: 32 2 732 1102
News: 32 2 741 1600 Editorial Page: 32 2 735 7562
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +32 2 741 1414
International freephone: 00 800 9753 2000
E-mail: subs.wsje@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Daniel Hertzberg M-17936-2003

INDEX TO PEOPLE

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

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

Yahoo rejects offer from Microsoft, Icahn

Bid was to split firm, give search business to software giant

By Jessica E. Vascellaro And Don Clark

Yahoo Inc. said it has rejected a new proposal from **Microsoft** Corp. and investor Carl Icahn to break up the Internet company, an arrangement that Yahoo said would give Yahoo's search business to Microsoft and the remainder of the company to Mr. Icahn.

In rejecting the proposal, Yahoo said it repeated an offer to sell the entire company to Microsoft for at least $33 a share, and also offered to negotiate an improved transaction involving only Yahoo's search business. Microsoft rejected both offers, Yahoo said.

The talks mark the first time that Yahoo has talked to Microsoft and Mr. Icahn simultaneously about a possible combination. Mr. Icahn wants to replace the Yahoo board with his own slate of directors at Yahoo's Aug. 1 annual meeting and has been campaigning on the grounds of being able to help sell all or parts of Yahoo to Microsoft.

Yahoo said the new Microsoft proposal represented "a number of improvements" over the company's earlier proposal to acquire Yahoo's search business, which Yahoo rejected last month. But Yahoo added that the proposal still "substantially understated the risks." A person familiar with the matter said Microsoft's new proposal included five years of revenue guarantees, as opposed to the three years included in the original search offer.

Yahoo also said Microsoft's new plan called for Yahoo to divest itself of its Asian assets and return cash to shareholders, steps it said its board was willing to entertain independently.

The latest chapter in the drama over Yahoo's future unfolded over two days as Microsoft, Yahoo and Mr. Icahn held talks together for the first time.

Mr. Icahn called Yahoo Chairman Roy Bostock on Thursday to tell him Microsoft was preparing another proposal, according people close to Yahoo, and that Yahoo should be prepared to negotiate it directly with him.

Yahoo executives also heard that Microsoft was readying another offer through a News Corp. executive, who had picked up rumblings of a new proposal at the Allen & Co. media conference in Sun Valley, these people said.

Around 6:30 in the evening Thursday Pacific time, Mr. Bostock called Microsoft Chief Executive Steve Ballmer directly to address the rumors. Mr. Ballmer told Mr. Bostock that he didn't want to negotiate directly with Yahoo since he felt Yahoo and Microsoft had been just spinning in circles.

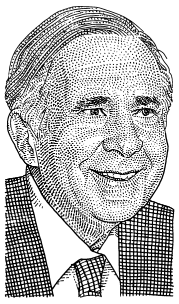
Later that evening, Microsoft's general counsel Brad Smith told Ron Olson, the lawyer for Yahoo's independent directors, that Microsoft was willing to talk to Yahoo directly, but wanted to wait until after the market closed on Friday, according to people close to Yahoo.

On Friday, Microsoft and Mr. Icahn laid out their proposal in a series of phone calls among Messrs. Bostock, Icahn, Ballmer and their advisers. The company also delivered an offer in writing later that day.

Microsoft wanted to acquire Yahoo's search business and was willing to sweeten some of the terms, including upping its revenue guarantees to $2.3 billion a year for five years. But Yahoo would also have to agree to let Mr. Icahn and his nominees run the remainder of the company, although Mr. Icahn at one time acknowledged that it might be possible for some current members to keep their seats, these people said.

The plan also entailed selling Yahoo's Asian assets. Microsoft would also take an investment in the remainder of the company. They said that Yahoo had 24 hours to accept it and that they were willing to negotiate "plus or minus" 1%, people close to Yahoo say.

Yahoo took the proposal to its board at a meeting Saturday morning. After a five-hour discussion, the board decided to reject the proposal. While the company acknowledged that some details were improved, the board was still concerned that it would be impossible to execute and that they couldn't negotiate the best deal with an "axe over their head" and no prospects of controlling the company, according to sources close to Yahoo. Yahoo's board also believed that they could chose to follow some aspects of the proposal—such as divesting their Asian businesses—independently.



Carl Icahn

Mr. Bostock called Messrs. Ballmer and Icahn to relay the decision midday on Saturday Pacific time. Mr. Bostock again stressed that Yahoo would be open to a full acquisition at $33 a share and in revisiting the search deal after the proxy fight, according to people close to Yahoo.

The breakdown may halt talks between Mr. Icahn and Yahoo about a possible settlement prior to the Aug. 1 shareholder meeting. Mr. Icahn had suggested at one time that he would be willing to back away from his campaign in exchange for four seats on Yahoo's board, according to people familiar with the talks. While Yahoo had been unwilling to agree to those terms, the two sides had continued to talk in the past week.

The offer came less than a week after Microsoft said it had concluded it could no longer negotiate a full or partial acquisition of Yahoo with the current Yahoo board but would be interested in reopening negotiations with a new board. Yahoo's chief executive, Jerry Yang, responded to those comments in an interview with The Wall Street Journal last week, calling Microsoft's stance "baffling" and stressing that Yahoo was willing to entertain a new proposal from Microsoft at any time.

In response to Microsoft's latest overtures, Mr. Bostock said in a statement: "This odd and opportunistic alliance of Microsoft and Carl Icahn has anything but the interests of Yahoo's stockholders in mind. It is ludicrous to think that our board could accept such a proposal. While this type of erratic and unpredictable behavior is consistent with what we have come to expect from Microsoft, we will not be bludgeoned into a transaction that is not in the best interests of our stockholders."

Representatives of Microsoft and Mr. Icahn couldn't be reached for comment.

CORPORATE NEWS

PHARMACEUTICALS

Oxford shares plummet as cancer-drug trial stalls

OXFORD BioMedica PLC said its experimental cancer vaccine TroVax won't meet its goal in a late-stage trial for kidney tumors, prompting the biotech company's shares to shed more than half their value Friday. Although patients already being treated with the vaccine will continue the study, no more vaccinations are planned, said the company, based in Oxford, England. TroVax, which **Oxford BioMedica** is developing in partnership with French drug maker **Sanofi-Aventis** SA, stimulates an anticancer immune response in the body and could potentially treat most solid tumors.

—Elena Berton

AIRLINES

Thomas Cook, Air Berlin scrap budget-carrier link

THOMAS Cook Group PLC and **Air Berlin** PLC abandoned the proposed tie-up of budget carriers **Condor Flugdienst** GmbH and Air Berlin, blaming the rising cost of jet fuel. The Berlin-based airline, Germany's second-largest behind Deutsche Lufthansa AG, along with **Thomas Cook Group**, which owns a majority of Condor, said they had withdrawn their application for the deal from the German Federal Cartel Office. "Thomas Cook is also pursuing a range of other available options for Condor," the London-based travel operator said. A spokeswoman declined to elaborate. Air Berlin also declined to comment further.

—Roundup

TOBACCO

U.K. fair-trade office sets fines for unlawful pricing

THE U.K. Office of Fair Trading said it has reached agreement with six companies that have admitted to unlawful pricing of tobacco and agreed to pay a combined maximum penalty of £173.3 million ($344.3 million) before discounts. The companies are **Asda Group** Ltd., part of U.S. giant **Wal-Mart Stores** Inc.; First Quench; **Gallaher Group** PLC; **One Stop Stores** Ltd., formerly named T&S Stores; **Somerfield** PLC; and TM Retail. The agreements follow the OFT's findings in April that two tobacco manufacturers and 11 retailers had acted in breach of the Competition Act 1998 regarding prices of a number of tobacco products.

—Marietta Cauchi

Fewer sweet deals for oil

Total, StatoilHydro accept tougher terms for Shtokman access

BY GUY CHAZAN
London

THE TERMS of a Russian contract to develop one of the world's largest untapped natural-gas fields reveal the lengths to which Western oil companies will go these days to gain a foothold in the dwindling pool of new hydrocarbon resources.

In Russia's sector of the Barents Sea, the Shtokman field is located far offshore in Arctic, iceberg-strewn waters. But despite the immense technical and investment challenges it poses, its 3.8 trillion cubic meters of gas has proven a huge draw for oil companies desperate for new reserves.

Last year, Russia's natural-gas giant OAO **Gazprom** finally chose two Western energy firms—**Total** SA of France and Norway's **StatoilHydro** ASA—to help it develop Shtokman, after years of negotiations. But the terms are unusual for the oil industry, and unfavorable for Gazprom's partners. The consortium developing the field—early estimates of costs top $20 billion—won't own the gas in the ground and will have to sell all that is produced to Gazprom.

"In most cases ... the starting point is that we want to market the gas ourselves," Helge Lund, chief executive of StatoilHydro, said in an interview. With Shtokman, "the companies involved are basically taking a risk on future gas prices."

Some analysts wonder what exactly Total and StatoilHydro will get out of their involvement in Shtokman if they can't own and freely sell its gas.

The situation reflects the bind major oil companies find themselves in these days. Much of the world's hydrocarbon resources are in places like the Middle East that are largely off-limits to foreign investors. In countries that haven't completely slammed the door, reserves are often in the hands of state-run companies like Gazprom that are becoming more assertive in their dealings with foreigners.

In the past, Western companies owned the oil and gas in the ground, merely paying taxes and royalties to the host countries. But those arrangements are becoming outmoded. Some in the industry think the future lies in the kind of technical-service contracts in which oil-field-service companies like Halliburton Co. and Schlumberger Ltd. specialize. Under such deals, major oil companies would be unable to book energy reserves, even though reserve growth is still one of the key metrics analysts and shareholders use to evaluate an oil company's performance.

Some companies have strongly resisted the move to service contracts. But a few acknowledge the need for a rethink. Tony Hayward, chief executive of **BP** PLC, told a conference in Madrid recently that the oil industry needed to "move beyond the historical model that requires ownership of reserves and production." He called for a new era of "reciprocity," where the majors form partnerships with national oil companies and help them expand internationally.

Shtokman reflects that new reality. Total said it will be able to book the field's reserves—but it won't own them. Gazprom insisted on retaining sole ownership of the Shtokman license and will also take a 51% stake in Shtokman Development Co., which will finance and build the infrastructure at the field. Total has 25% and StatoilHydro 24%.

The contract only relates to a third of the Shtokman license area, though initial talks suggested it would cover the whole field.

Negotiations on Shtokman began in earnest in 2006, after five companies were shortlisted: Total, Statoil, Norsk Hydro (which later merged to become StatoilHydro), ConocoPhillips and Chevron Corp. BP and Royal Dutch Shell PLC had taken a look at the project but decided it wasn't worth it. Then in October of that year, Gazprom said foreign companies could still take part, but only as contractors. Chevron said the terms were unacceptable and dropped out.

A year later, after inconclusive talks with contractors, it changed its mind again. Gazprom wanted to produce liquefied natural gas at Shtokman and export it to the U.S., and to do that it needed the help of a company like Total, a world leader in LNG. Also, StatoilHydro was one of the few companies experienced at operating in the Arctic. But this time, the terms being offered to Western oil majors were much tougher.

Foreign companies would own the infrastructure but would have no equity in the gas in the ground. Total bit the bullet. "You have to be realistic," said Patrick Pouyanne, senior vice president for strategy and business development at Total, in an interview. "We saw the way the oil-and-gas business is going in Russia."

Gazprom ditched the original approach of developing Shtokman under a production-sharing agreement, a type of contract common in the oil industry. Under PSAs, companies shoulder all investment costs but can recover them from the sale of oil or gas before having to share much revenue with the government. But Russia had soured on PSAs, which it felt were too favorable to the oil companies.

Total had in the interim softened its opposition to Gazprom taking a majority stake in the Shtokman consortium. It accepted the principle that the development company would sell Gazprom all Shtokman's natural gas, as long as the price wasn't fixed but reflected current world gas prices.

For Total, the upside of establishing a foothold in Russia outweighed the disadvantages of the contract. "If you are an oil-and-gas company, you have to go to the countries where the reserves are, and they are in the Middle East and Russia," Mr. Pouyanne said.

"I can't develop Total if I stay in the North Sea and the U.S., where production is declining."

Shtokman development

- **Estimated field reserves:** 3.8 trillion cubic meters of natural gas and 37 million tons of gas condensate
- **Shtokman Development Co.** will develop the first phase of Shtokman. It will build and own the offshore installations, pipelines and other infrastructure
- **Company shareholders:**

Gazprom (Russia)	51%
Total (France)	25%
StatoilHydro (Norway)	24%

- **Gazprom will have ownership** of the Shtokman field's reserves and the right to market its gas

Source: Shtokman Development Co.

Bombardier will build CSeries jet

BY MONICA GUTSCHI

LONDON—**Bombardier** Inc. said Sunday it will begin building its long-promised CSeries jetliner, after receiving a nonbinding letter of intent for 60 planes from **Deutsche Lufthansa** AG.

While 60 planes is below Bombardier's goal for launching the model, company executives said they expect more orders for the plane, which they said will be the most fuel-efficient in its size-range.

Bombardier said it is in discussions with "a number of established airlines world-wide" for more orders.

Some of those orders could come this week at the Farnborough Air Show outside London. According to the Canadian aircraft maker, the initial order by Lufthansa for the 100- to 130-seat aircraft is valued at as much as $2.8 billion. The letter of intent from the German flagship carrier is for 30 planes and options for 30 more, Bombardier said.

Boeing Co. and Airbus, a unit of **European Aeronautic Defence & Space** Co., have said they aren't interested in developing a new small jetliner.

Scott Carson, president of Boeing's Commercial Airplanes unit, said that both Boeing and Airbus offer airplanes roughly the same size as Bombardier's CSeries, and "neither of those products has found a very robust market."

Gary Scott, who heads Bombardier's CSeries program, said he sees a total market for 6,300 aircraft in the 100- to 150-seat range over the next 20 years, and Bombardier expects to win half of that.

"We are now addressing a market space that they have ignored," he said of Boeing and Airbus.

The segment is much smaller than the larger-aircraft market that is dominated by the two big plane makers. Mr. Scott said the CSeries will offer 15% better cash operating costs than existing aircraft because of its high use of composites and its engine. He said the CSeries would be the "greenest" aircraft in existence, with lower fuel burn, emissions and noise than other planes in production.

Bombardier also announced that final assembly of the CSeries will be done at the company's plant in Mirabel, Quebec.

The main fuselage will be manufactured by **China Aviation Industry** Corp. I, known as AVIC I, which Bombardier said has agreed to invest $400 million in the CSeries program.

The government of Canada has committed US$350 million in financing, the provincial government of Quebec an additional US$118 million, while the Northern Irish and U.K. governments have agreed to invest £155 million, or about US$300 million.

Bombardier will provide one-third of the expected $3.2 billion development cost, and key suppliers the remainder.

—J. Lynn Lunsford contributed to this article.

CORPORATE NEWS

U.S. beer looking pricier

A deal for Anheuser would likely bring an end to discounts

By David Kesmodel

If **InBev** NV and **Anheuser-Busch** Cos. consummate a deal, it would create a battle royal in the U.S. beer market between two foreign giants—InBev and **SABMiller** PLC. The shift is likely to result in a leaner industry with fewer employees, but consumers probably won't enjoy the price wars they have seen in the past.

The U.S. brewing industry will enter an era "where gaining market share is not going to be nearly as important as running costs out of the system," says Harry Schuhmacher, editor of industry newsletter Beer Business Daily. "It's been a pretty fat industry. Everybody has enjoyed a lot of perks and there are a lot of people in the industry—probably too many."

The combination of InBev and Anheuser, along with the recently formed MillerCoors LLC, would together control about 80% of beer sales in the U.S., which is the world's largest beer market in terms of profits. Miller Brewing, the U.S. unit of London's SABMiller, and Coors Brewing, the American arm of **Molson Coors Brewing** Co. of Denver and Montreal, completed their joint venture last month. Anheuser controls nearly half the market and MillerCoors about 30%.

The radical reshaping of the U.S. beer sector in the past year has been driven by lackluster sales growth for mass-market brews such as Miller Lite and Budweiser and the desire by global brewers to gain economies of scale amid rising costs for commodities such as barley, aluminum and glass. In the U.S., consumers are increasingly switching to wine, spirits and small-batch "craft" beers from conventional beer brands.

For years, Anheuser and Miller, the industry's two largest players, aggressively took jabs at each other's products in advertisements. And they often engaged in price wars to try to filch market share from each other. When Anheuser slashed prices in 2005, it was a boon to beer drinkers, but it dramatically reduced profits for the major beer makers.

Lately, the companies have been raising prices, in part to deal with higher commodity costs, but also because consumer demand has been highest for upscale brews. A new industry architecture led by InBev, SABMiller and its partner, Molson Coors Brewing, likely would take a more rational approach to beer prices and focus more heavily on cost cutting, say analysts.

With InBev and SABMiller, "you have two global giants who are obsessive about free cash flow," says Mr. Schuhmacher, "rather than having a personal vendetta to gain market share at any cost. The price wars go away. All that stuff was personal—it wasn't a business decision."

MillerCoors is likely to cut hundreds of jobs in the coming months as Miller and Coors combine sales, marketing and other employee groups, says Benj Steinman, editor of industry newsletter Beer Marketer's Insights.

Meanwhile, Anheuser itself laid out plans to cut about 1,000 full-time salaried workers this quarter as part of an alternative to an accord with InBev. "You have to imagine InBev will go to that" type of level in head-count reductions, Mr. Steinman says.

The beer companies also are expected to stop selling certain packages or versions of their beers to trim costs, among other efforts to become more efficient.

InBev's corporate culture is focused heavily on cost controls, so some analysts think the company would take steps to slash Anheuser's hefty marketing budget, which could harm its brands. But Carlos Brito, InBev's chief executive, "is emphatic ... that they would be nuts to mess up the business Anheuser has built," says Mr. Steinman. "The smart idea is to keep what's going right at A-B."

The increased consolidation of the U.S. beer industry worries some of the nation's smaller brewers, which fear they may have a harder time gaining distribution. "It narrows the options for small brewers to gain access to market," says Kim Jordan, chief executive of craft brewer **New Belgium Brewing** Co. of Fort Collins, Colo. "Recently, we've seen more interest among the Anheuser-Busch distributors in our products than ever before," but that might change with InBev running Anheuser.

The combination of Anheuser and InBev wouldn't result in major changes to the lineup of beers sold by Anheuser's distributors. Many of them already sell InBev's European brews, such as Stella Artois, under an import deal between Anheuser and InBev that began last year. But a tie-up between Anheuser and InBev would mean InBev's Canadian brands, such as Labatt Blue, would be part of the combined company.

Reuters/Landov

U.S. regulators take over home lender IndyMac

By Damian Paletta And David Enrich

IndyMac Bank, a prolific mortgage specialist that helped fuel the U.S. housing boom, was seized Friday by federal regulators, in the third-largest bank failure in U.S. history.

IndyMac is the biggest mortgage lender to go under since a fall in housing prices and surge in defaults began rippling through the economy last year—and it likely won't be the last. Banking regulators are bracing for a slew of failures over the next year as analysts say housing prices have yet to bottom out.

The collapse is expected to cost the Federal Deposit Insurance Corp. between $4 billion and $8 billion, potentially wiping out more than 10% of the FDIC's $53 billion deposit-insurance fund.

The Pasadena, Calif., thrift was one of the largest savings and loans in the country, with about $32 billion in assets. It now joins an infamous list of collapsed banks, topped by Continental Illinois National Bank & Trust Co., which failed in 1984 with $40 billion of assets. The second-largest failure was American Savings & Loan Association of Stockton, Calif., in 1988.

The director of the Office of Thrift Supervision, John Reich, blamed IndyMac's failure on comments made in late June by Sen. Charles Schumer, a New York Democrat who sent a letter to the regulator raising concerns about the bank's solvency. In the following 11 days, spooked depositors withdrew a total of $1.3 billion. Mr. Reich said Sen. Schumer gave the bank a "heart attack."

"Would the institution have failed without the deposit run?" Mr. Reich asked reporters. "We'll never know the answer to that question."

Mr. Schumer quickly fired back. "If OTS had done its job as regulator and not let IndyMac's poor and loose lending practices continue, we wouldn't be where we are today," Sen. Schumer said. "Instead of pointing false fingers of blame, OTS should start doing its job to prevent future IndyMacs."

IndyMac had been troubled for months, and investors were concerned about its possible downfall well before Sen. Schumer's comments. It specialized in Alt-A loans, a type of mortgage that can often be offered to borrowers who don't fully document their incomes or assets. The company sold most of the loans it originated, but continued to hold some on its books. As defaults piled up, IndyMac's finances deteriorated.

The bank will be run by the FDIC and reopen Monday. The FDIC typically insures up to $100,000 per depositor. IndyMac had roughly $19 billion of deposits. Nearly $1 billion of those deposits were uninsured, affecting about 10,000 people, the FDIC said.

IndyMac's arc—rapid growth, followed by an even more rapid descent—is a microcosm of the U.S. mortgage industry. It boomed in the first part of this decade, as investors were willing to fund loans on ever-looser terms, then hit hard times when the housing market began to turn down in late 2006.

Small mortgage lenders started going under quickly, with the number of failures climbing into the hundreds. Now the fallout has spread world-wide, bringing down some of America's largest financial institutions. Bear Stearns Cos., which suffered losses on mortgage-related investments, underwent a meltdown in March and had to be rescued by **J.P. Morgan Chase** & Co.

Countrywide Financial Corp. saw its stock price plunge this year and was forced to sell itself to Bank of America Corp. at a firesale price.

IndyMac, in a last-ditch effort to fend off collapse after it failed to raise fresh capital, said last week it was firing more than half its work force and closing most of its lending operations. While its shares had been tumbling since early 2007, the move was nonetheless jarring for a company that ranked as the ninth-largest U.S. mortgage lender last year in terms of loan volume, according to trade publication Inside Mortgage Finance.

IndyMac is one of the few federally insured banks to fail in recent years. Banking regulators are bulking up their staff of bank examiners and taking a tough approach toward banks that are seen as risky.

Mr. Reich, the thrift regulator, noted that the IndyMac case had some "unique" features, including the involvement of Sen. Schumer and the rapid fall in its deposits. Officials said most of the recent withdrawals came from depositors at branches, rather than those making deposits at IndyMac's online bank.

IndyMac was set up by Countrywide in 1985, but the two companies severed ties in 1997 and became direct competitors. The company's name stands for Independent National Mortgage. It was created to specialize in jumbo mortgages—those that are too big to be sold to government-backed Fannie Mae and Freddie Mac.

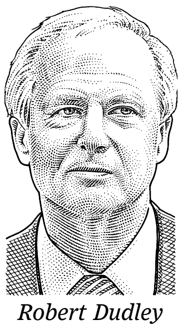
The company grew quickly, pioneering the issuance of so-called Alt-A mortgages to people with blemished credit histories. The loans have gained notoriety as an example of the type of lax lending that came to characterize much of the mortgage industry.

BP makes little progress in dispute with Russians

By Gregory L. White

MOSCOW—**BP** PLC and its Russian partners made little progress toward settling a conflict at their TNK-BP Ltd. joint venture during a board meeting Friday, and both sides expect tensions to continue.

"It's absolutely status quo," said one person familiar with the meeting, which was held in a hotel at a resort on Cyprus. A BP spokesman described the session as "cordial and businesslike."



Robert Dudley

Tensions at the 50-50 venture have exploded into the open in the past few months. The Russian shareholders, led by billionaires Mikhail Fridman, Len Blavatnik and Viktor Vekselberg, accuse BP of mismanaging the company, depressing its value. BP dismisses those criticisms as a smoke screen for what it says is a bid by the Russian shareholders to grab control of the company.

At Friday's meeting, according to people familiar with the session, the Russian shareholders reiterated their demand that Chief Executive Officer Robert Dudley, who used to work at BP, be removed, while BP's representatives called for the ouster of the two Russian shareholders in management—Mr. Vekselberg and German Khan—as well as two Russian executives whom Mr. Dudley has accused of insubordination. Neither initiative passed, participants said.

BP executives, backed by officials from Western governments, have appealed to the Kremlin to rein in the official pressure on TNK-BP, which has been besieged with audits and checks from tax inspectors, labor regulators and immigration officials, among others. A conflict between Mr. Dudley and Mr. Khan, the shareholder in management, over the number of work permits for foreign employees has led to authorities approving only 49, meaning more than 30 foreign workers are likely to have to leave Russia by the end of this month, according to people close to the company.

BP has warned that the loss of those workers, as well as 148 specialists from BP who had been assigned to TNK-BP but haven't been able to work since the conflict began, could affect TNK-BP's performance.

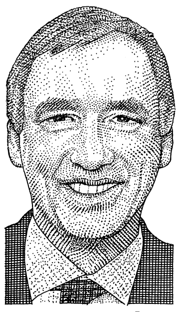
—Guy Chazan contributed to this article.

Fortis NV says chief executive will be leaving

By Carrick Mollenkamp

Fortis NV, the big European bank, joined the growing number of banks to replace their leadership during the credit crisis.

The bank said Chief Executive Jean-Paul Votron will depart. Mr. Votron expanded the bank by taking part last year in the largest bank deal to date, the $101 billion acquisition of ABN Amro Holding NV by a consortium that included Royal Bank of Scotland Group PLC, Banco Santander SA and Fortis. His fate was sealed in a special board meeting Friday.



Jean-Paul Votron

Fortis said Deputy CEO Herman Verwilst will take the helm while the bank searches for a CEO.

A spokeswoman for the bank said Messrs. Verwilst and Votron as well Fortis's board chairman, Belgian businessman Maurice Lippens, declined to comment beyond the company statement issued late Friday. In its statement, Fortis said the board supported Mr. Votron in his decisions to raise capital and buy ABN assets.

CORPORATE NEWS

Bertelsmann set to sell U.S. book, music clubs

Sale to private firm is reversal of roots in direct marketing

BY JEFFREY A. TRACHTENBERG AND MIKE ESTERL

Bertelsmann AG agreed to sell the Book-of-the-Month Club, Columbia House and other U.S. direct-marketing businesses to **Najafi** Cos., a Phoenix-based closely held investment company, for an undisclosed sum.

The sale, telegraphed by Bertelsmann in March, reverses its once-strong commitment to selling books, music and DVDs directly to American consumers and is the latest sign of decline in the book and record "club" business. Once a popular way for people to buy books and music cheaply, the business has been in decline for many years, partly because of competition from the Internet.

Bertelsmann is reviewing the fate of its book-club business in Europe.

Bertelsmann's decision is particularly noteworthy because the German company's roots are in the club business and it had acquired a couple of the assets now being sold, including Columbia House and full ownership of book-club venture Bookspan, in only the past few years.

But after Bertelsmann Chief Executive Officer Hartmut Ostrowski rose to the top job in January, he vowed to shed slow-growth or unprofitable businesses worldwide. Revenue at Bertelsmann's U.S. clubs declined about 10% last year to €900 million ($1.43 billion), while memberships fell to about 13 million customers from roughly 16 million in 2005.

Bertelsmann is reviewing the fate of its remaining book clubs and retail book chains, many of which are in Europe. Earlier this month, Bertelsmann disclosed that it is closing its book-club business in China.

Revenue at the entire Direct Group dropped 4.1% to €2.56 billion last year, while operating profit plunged to €10 million from €110 million. Tobias Riepe, a Bertelsmann spokesman in Germany, said the sale of Direct Group North America won't influence other decisions. "Everything is being reviewed independently," he said.

Despite the challenges in the club business, Najafi CEO Jahm Najafi expressed confidence in the company's ability to build the businesses. "We're very excited about this because we see great brands and excellent marketers," Mr. Najafi said. "We have extensive experience in the online world and think we can change the nature of this business and grow it dramatically. We also think we can extend the club model to other products and services. We have never shied away from difficult businesses."

He said the management team at Direct Group North America, which includes CEO Stuart Goldfarb, will stay in place. Mr. Goldfarb was unavailable to comment.

GM's chief dismisses talk of bankruptcy, brand cuts

BY BOB SECHLER

General Motors Corp. Chief Executive Rick Wagoner dismissed the notion that the Detroit auto maker may soon file for bankruptcy, and he also said the company has no plans to sell or shutter more of its brands.

"Under any scenario we can imagine, our financial position, or cash position, will remain robust through the rest of this year," Mr. Wagoner said Thursday while in Dallas to speak to a business organization. He said the company has plenty of options to shore up its finances beyond 2008, although he declined to outline them.

Rick Wagoner

The comments failed to boost investor sentiment as GM shares fell 6.2% on Thursday before rebounding 2.4% on Friday to end the week at $9.92 on the New York Stock Exchange. The stock has been trading at its lowest levels in more than 50 years as concerns mount about the company's financial position amid a steep decline in U.S. sales.

GM and other U.S. auto makers are reeling as the slow U.S. economy depresses sales and as high gasoline prices push many would-be buyers to small, more-fuel-efficient vehicles. Through June, for instance, GM's U.S. sales slipped 16%, more than offsetting strength in overseas markets.

GM has about $24 billion in cash but is burning an estimated $3 billion a quarter, prompting talk that it will need a significant cash influx to get to 2010.

"We have no thought of [bankruptcy] whatsoever," Mr. Wagoner said in response to an audience question during the Dallas event.

But he noted the widespread discussion of such a possibility could itself hurt sales, because consumers may balk at buying a vehicle from a company they think could go under. "The rumors of it don't help anything and are completely inaccurate," Mr. Wagoner said.

Meanwhile, Mr. Wagoner said GM has no plans to further reduce its number of brands. The company recently put its iconic Hummer division up for sale. GM sells vehicles under eight different brands, but most—including Buick, Saturn and Saab—struggle to attract buyers. Mr. Wagoner said GM has plenty of initiatives under way to develop more fuel-efficient vehicles.

GLOBAL BUSINESS BRIEFS

Casino Guichard Perrachon

Sales rise in 2nd quarter from consolidated chains

French grocery chain **Casino Guichard Perrachon & Cie.** reported a 15% rise in second-quarter sales, boosted by the operations of its recently consolidated Super de Boer chain in the Netherlands and Almacenes Exito in Colombia. Sales increased to €6.95 billion ($11.07 billion) from €6.06 billion a year earlier. The company said a lackluster retail market and high gas prices are accelerating current trends in the French retail environment, prompting consumers to favor smaller convenience stores and discount outlets. In France, Casino's discount formats Leader Price and Franprix continued to see an improvement in business, with sales up 9%. Casino has been focusing on revamping business at the two chains since it wrested full control of them from the Baud family.

Nokia Siemens Networks

Nokia Siemens Networks said it won network-expansion orders valued at €550 million ($875.8 million) from mobile operator **China Mobile** Ltd. in the year's first half. The venture between **Nokia** Corp. and **Siemens** AG said the deals included designing, building, maintaining and optimizing radio and core networks for the operator, thus increasing its network capacity. Wireless-equipment makers are battling with falling prices and subdued demand, raising fierce competition for any new business. In June, **Alcatel-Lucent** announced a similar $1 billion deal with China Mobile, prompting fears that Nokia Siemens and **Telefon AB L.M. Ericsson** had lost business. In the past few years, companies such as Nokia Siemens, Ericsson and Alcatel-Lucent have been increasingly challenged by Chinese vendors.

BG Group PLC

U.K. gas giant **BG Group** PLC plans to sell a majority stake in **Contact Energy** Ltd. if its hostile bid for **Origin Energy** Ltd. is successful. BG made a hostile bid of 13.8 billion Australian dollars (US$13.3 billion) after Origin's board rebuffed a friendly proposal to acquire the company. Origin, based in Sydney, owns 51.4% of Contact, a New Zealand energy generator and retailer. According to the bidder's statement, issued late Thursday, BG plans to "invest in all of Origin's Australian businesses."If BG's bid for Origin is successful, the New Zealand Takeovers Panel will require the company to make a follow-on offer for all of Contact, a publicly traded company. Once that process is complete, BG will move to divest the stake, documents said.

Hewlett-Packard Co.

A former **Hewlett-Packard** Co. vice president pleaded guilty to stealing trade secrets by passing a confidential email from his previous employer, **International Business Machines** Corp., to senior H-P executives, the U.S. Justice Department said. Atul Malhotra, 42 years old, faces a maximum of 10 years in prison, a $250,000 fine and three years of supervised release. John Vandevelde, Mr. Malhotra's attorney, said in an email that "the Court will be able to consider probation in this matter," rather than jail time. Mr. Vandevelde called his client "an honorable man" who "made one mistake." An H-P spokeswoman said that in response to the emails, the company "conducted an internal investigation...and reported the activity to appropriate enforcement agencies and to IBM."

Novartis AG

Drug maker **Novartis** AG said it entered a strategic partnership with Swiss specialty chemicals maker **Lonza Group** AG to help it manufacture biotechnology drugs. Novartis, based in Basel, Switzerland, didn't disclose financial details. Lonza, also based in Basel, specializes in the production of active chemical and biological ingredients for the pharmaceutical industry. Biotechnology drugs are more difficult to produce than traditional chemical drugs. They are also more difficult to replicate and therefore are less susceptible to competition from low-cost generic copies. Biotechnology has become a strategic focus for Novartis; currently biological drugs account for about a quarter of the company's development portfolio. Lonza will help Novartis produce its biological drugs for clinical testing and for sale.

Fraport AG

Airport operator **Fraport** AG reported a solid increase in traffic at its Frankfurt hub from January to June. The airport had 26.3 million passengers in the first six months, a 2.2% increase from a year earlier. Freight throughput was up nearly 4% to more than one million metric tons. The number of aircraft movements remained at more than 241,000. Accumulated takeoff weights increased 2%, marking airlines' trend to use bigger, fuller aircraft. In June, Frankfurt saw passenger numbers decline 0.5% to 4.8 million, while freight rose 1% to 178,000 tons. The company said its six majority-owned airports registered 36.6 million passengers in the first half, a 3.7% increase. In addition to Frankfurt, those airports include Antalya, Turkey; Lima, Peru; and Varna, Bulgaria.

Groupe Danone SA

An arbitration panel in Stockholm rejected **Groupe Danone** SA's requests for interim measures against its Chinese joint-venture partner, Hangzhou Wahaha Group Co., the latter said. The tribunal rejected Danone's request to prevent Wahaha "from setting up new Non-Joint Ventures or increasing the production capacity of the existing Non-Joint Ventures," Wahaha said. The rejection came after Danone filed for arbitration proceedings in May 2007 against Wahaha over their disputes. Danone has said Zong Qinghou, the founder of Wahaha, had built parallel businesses that sell products identical to those sold by the companies' joint venture, which is 51%-owned by Danone. Mr. Zong has said Danone is in violation of a noncompetition clause by holding stakes in other Chinese food companies.

Advanced Micro Devices Inc.

Advanced Micro Devices Inc. said it will take $948 million in charges for the second quarter, mostly due to its 2006 acquisition of ATI Technologies. In a filing with the U.S. Securities and Exchange Commission, the chip maker also said it will take charges associated with layoffs and its investment in Spansion Inc., a maker of flash-memory chips. AMD shares have shed two-thirds of their value in the past 12 months. In April, the U.S. company reported a $358 million net loss for the first quarter, reflecting its struggle to compete with Intel Corp. in microprocessor chips, as well as costs from the $5.4 billion ATI acquisition. Following that announcement, Chief Executive Hector Ruiz said AMD would closely scrutinize "noncore" business activities.

Infosys Technologies Ltd.

A weaker rupee and a tax reversal helped **Infosys Technologies** Ltd. report better-than-expected 21% growth in its fiscal first-quarter net profit. Infosys raised its earnings and revenue forecast in rupee terms for the current financial year, helped by the weak rupee. But its share price fell because it didn't raise its annual revenue guidance in dollars. Infosys did raise its annual earnings forecast range in dollar terms to $2.32 to $2.36 per American depositary share, before tax items. It maintained its annual revenue outlook. For the April-June quarter, profit rose to 13.02 billion rupees ($304.4 million), or 22.75 rupees a share, from 10.79 billion rupees a year earlier. Sales rose 29% to 48.54 billion rupees, helped by the addition of 49 new clients.

Guardian News & Media

U.K. newspaper publisher **Guardian News & Media** bought the owner of paidContent.org for about $30 million, in what it says is a significant expansion of its growing U.S. presence. The move comes as Guardian News has begun to make other inroads into the U.S. The company recently launched Guardian America to offer news and content focused on an American audience. The company, which publishes the Guardian and Observer newspapers, said **ContentNext Media**, paidcontent.org's parent company, will continue as a stand-alone operation. The site and its regionally focused offshoots follow the digital-media entertainment and technology sectors.

Vodacom Group

Vodacom Group said that Pieter Uys, the South African mobile-phone-network operator's chief operating officer since 2004, will succeed Alan Knott-Craig, as chief executive, in October. Mr. Knott-Craig, 55 years old, announced his decision to step down in June, having led the company since it launched as South Africa's first mobile operator in 1993. "Pieter was an obvious choice. His years of experience and track record of success at Vodacom speaks volumes and his appointment ensures continuity and a smooth handover," Chairman Oyama Mabandla said, adding that the board had considered internal and external candidates. Mr. Uys, 44 years old, takes the reins as Vodacom stands to become majority-controlled by Britain's **Vodafone Group** PLC.

SJM Holdings Ltd.

A sister of casino businessman Stanley Ho filed an appeal in a Hong Kong court Friday in her latest attempt to block the listing of Mr. Ho's casino flagship, **SJM Holdings** Ltd., in Hong Kong. Winnie Ho said in a statement that she filed an appeal to the Court of Appeal in Hong Kong to seek a judicial review of SJM's listing, as well as an injunction to stop it—part of a long-running dispute with her brother that has included more than 30 court filings in Macau, where Mr. Ho owns his casinos, and Hong Kong. On Wednesday, Court of First Instance in Hong Kong rejected Ms. Ho's application. Mr. Ho raised US$494 million from selling shares in SJM last week and had planned to list the company on the Hong Kong Stock Exchange on Thursday. SJM said the debut would be delayed until July 16.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

INTERNATIONAL

Rich countries' slowdown will get worse, OECD says

THE WORLD'S leading developed economies are set to experience an "intensified" slowdown, according to figures from the Organization for Economic Cooperation and Development.

The OECD said its composite leading indicator of economic activity fell to 97.2 in May from 97.7 in April—4.6 points down from the same month last year. Leading indicators for most members of the Group of Seven leading industrial nations fell, but the OECD said its leading indicators pointed to continued expansion in China and Russia. The organization said its indicators show both Brazil and India will experience downturns. *—Paul Hannon*

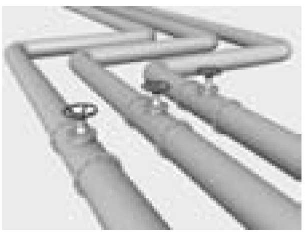
MEDITERRANEAN

Region's leaders gather in bid for peace, stability

MORE than 40 nations, home to 800 million people, were set Sunday to join in a Union for the Mediterranean, whose boosters hope can nudge the region toward peace and stability. Israeli, Syrian and Palestinian leaders were among those attending an unprecedented gathering in Paris. French President Nicolas Sarkozy urged nations around the Mediterranean to "learn to love one another rather than to continue to hate each other and wage war." France's foreign minister, Bernard Kouchner, above, urged the countries to unite to deal with global warming, growing migration and shrinking water and energy resources. *—Associated Press*

CZECH REPUBLIC

Russian cuts drive refiner to tap state oil reserves



THE CZECH Republic's main oil refiner said it was tapping state oil reserves and bringing in crude through an alternate pipeline after Russia cut deliveries to the central European state. Czech officials said Friday that the cuts would nearly halve incoming oil from Russia, which could further strain ties after the Czechs disregarded Russian objections and signed a missile-defense pact with the U.S. last week. The Czech Republic has been quick to quell speculation the reduced deliveries are politically motivated, and refinery Unipetrol said they were the result of "technical organizational" problems in Russia. *—Reuters*

Betancourt likely to revive political path

Possible Uribe rival is seen providing balance in Colombia

By David Luhnow

FORMER COLOMBIAN presidential candidate Ingrid Betancourt, freed from her six-year hostage ordeal, is likely to reshume her political career: helping reshape Colombian politics and possibly emerging as an important rival to President Álvaro Uribe, whose government rescued her.

Ms. Betancourt was a minor candidate when she was kidnapped in 2002 by the Revolutionary Armed Forces of Colombia, registering barely 1% support in the polls. Her captivity made her a powerful brand in Colombian politics, with recent polls suggesting she is the country's second most popular politician after Mr. Uribe. Colombia's leading news magazine Semana put Ms. Betancourt on its cover this week with the question: "Ingrid, President?"

Ms. Betancourt, who in the late 1990s became a senator with a reputation for leading anticorruption crusades, was rescued this month when Colombia's military managed to dupe the FARC, as the rebels are known, into handing her over along with three American captives and 11 other Colombian hostages.

Friday, the FARC blamed two guerrillas who were guarding the hostages for the success of a rescue mission, suggesting they had been bought off and "betrayed" their revolutionary principles. The Colombian government, as well as former hostages such as Ms. Betancourt, said the rescue was genuine. The two rebels are in a Colombian prison.

The former senator, who described herself this week as a "leftist but without the gullibility," has largely ruled out running in 2010 elections, in which Mr. Uribe might run for a third term if he succeeds in revising the constitution to make that possible. She has become politically active in the days following her rescue, speaking out on issues and making her first criticisms of Mr. Uribe, a conservative who enjoys high approval ratings for his successful military campaign against the FARC.

Ms. Betancourt said while Mr. Uribe should keep up military pressure on the FARC, he should be more open to negotiations that could free the group's remaining hostages and ultimately end more than five decades of political violence. The FARC holds at least 25 other political hostages, and an estimated 700 other hostages for ransom. Mr. Uribe has said he believes the FARC won't negotiate unless they are brought to their knees first.

During Ms. Betancourt's captivity, her family criticized Mr. Uribe for relying on a military solution at the expense of talks. Upon her rescue, Ms. Betancourt said she was grateful to Mr. Uribe and the military. Within days, she suggested the operation also had an element of "luck," and that a different approach would be needed to free the other hostages.

Ms. Betancourt's campaign could pressure Mr. Uribe to figure out a way to get the hostages freed. "I think the question of the remaining hostages will be a real problem for Uribe," said Michael Shifter, vice-president at the Inter-American Dialogue, a think tank in Washington.

Associated Press

Ingrid Betancourt sought Colombia's presidency in 2002 and may run again.

"Ingrid has enormous moral authority and political capital. She's going to make their release her cause."

Friday, relatives of the remaining hostages held a small march to draw attention to those still in captivity, concerned Colombians will forget about them now that Ms. Betancourt, who is a dual French and Colombian citizen, and the three Americans are free. "We are asking all society to be more active in asking for the freedom of our loved ones," Claudia Rugeles, the wife of hostage and former state governor Alan Jara, told El Tiempo newspaper.

Mr. Uribe held a brief summit with Venezuela's Hugo Chávez Friday where both sides vowed to improve bilateral ties. Tensions have been aggravated by Mr. Chávez's brief role last year as a mediator trying to secure the hostages' freedom. Colombia accused Mr. Chávez of trying to use the role to boost the FARC's standing and undermine Mr. Uribe.

Ms. Betancourt's honeymoon with voters may not last. She has angered some in Colombia by saying the rebels would have killed her if France hadn't kept her case in the spotlight, and saying she plans to skip a parade in Bogotá in support of the remaining hostages on July 20 because of security concerns.

Over time, Ms. Betancourt could provide much needed balance in Colombian politics. The development of modern left-wing politics in Colombia has been frustrated because of the association of anything leftist with the FARC. The guerrilla group, Latin America's largest, is considered a terrorist organization by the U.S. and European Union and funds itself through drug-trafficking and kidnappings.

Mr. Uribe and his "Party of the U," which was created in the past few years because the Liberal and Conservative parties had lost credibility, have a chance to create a political monopoly. Having succeeded in changing Colombia's constitution once to allow himself to run for re-election in 2006, Mr. Uribe is considering a revision that would allow him a third term.

Colombia needs "the emergence and subsequent consolidation of a modern center-left movement that clearly represents the interests of the poor. Ms. Betancourt could very well be the catalyst for this," Beatriz Rangel, a former Venezuelan government official and prominent commentator on Latin American politics, wrote in a report published by the Inter-American Dialogue.

—José de Córdoba contributed to this article.

Syrian diplomacy is bearing fruit

By Mariam Fam

CAIRO, Egypt—Syrian President Bashar Assad's weekend trip to Paris is the first tangible fruit of what appears to be a new, global offensive of charm and diplomacy by the one-time international pariah country.

Damascus backed a unity government in Lebanon and is holding indirect peace talks with Israel, two moves that have helped partially rehabilitate Syria in the eyes of many Western diplomats. Not all, of course: The U.S. is continuing to pressure Syria, escalating economic sanctions against a supporter of the regime last week.

The difference between Syria's international fortunes now and just a few months ago is stark. In March, regional heavyweights and fellow Arab League members Saudi Arabia and Egypt publicly snubbed Mr. Assad, refusing to send their heads of state to a league summit in Damascus.

The move was seen as an embarrassing political slap in the face, aimed at pressuring Syria to help end a political deadlock in Lebanon. It served to further isolate Damascus at a time when the U.S. and some of its allies were accusing it and fellow pariah-state Iran of meddling in Lebanese politics and in Iraq.

But over the weekend, Mr. Assad was received warmly by French President Nicolas Sarkozy as he arrived in Paris for a European-Mediterranean summit, bringing together leaders from more than 40 nations. Mr. Sarkozy said he was planning an official visit to Damascus.

While rhetoric between Iran and the West has ratcheted up over Tehran's refusal to abandon its nuclear program, Syria has steered a more pragmatic course, a trademark of Mr. Assad and his long-ruling father.

Associated Press

Syrian President Bashar Assad, right, shakes hands with French President Nicolas Sarkozy in Paris on Saturday.

"Syria is getting out of this isolation. Syria is being rehabilitated," says Hilal Khashan, a political science professor at Lebanon's American University of Beirut. "Bashar Assad is a political survivor."

It also appears to be a move aimed at positioning Syria as a steady and moderate hand in the region, analysts say.

"Syria has been trying to promote itself as a country that can stabilize" the region, says Syrian political analyst Sami Moubayed.

Some analysts believe that Syria is also seeking guarantees that the outcome of an international tribunal into the 2005 killing of former Lebanese Prime Minister Rafik Hariri will spare the regime and those close to it. A United Nations-backed investigation implicated Syrian intelligence officials in the murder. Syria denies involvement.

—David Gauthier-Villars in Paris contributed to this article.

Spain backs off bond sale

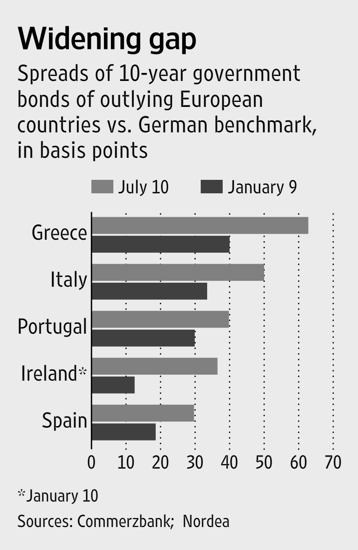
Borrowing costs rise for some EU nations as economies falter

By Emese Bartha
And Christopher Emsden

Spain on Friday confirmed it decided against issuing a new 15-year bond, citing market conditions that have driven up borrowing costs for governments with budgets that are deemed especially vulnerable to the economic slowdown.

Spain is among several nations paying increasingly higher interest than Germany, the region's benchmark government borrower, to issue or refinance public debt. Spain is rated triple-A, and the spread on its long-term bonds over German Bunds was only a few hundredths of a percentage point last year; it is now 0.29 percentage point.

"We decided market conditions are not appropriate for a long-term bond issue," Finance Minister Pedro Solbes told a Madrid news conference, where he also said the Spanish economy was nearly flat in the second quarter. The Spanish economy is rapidly slowing from a decade-long boom, and the government is promising fiscal stimulus.



The four countries paying the highest premium over German government bonds to issue debt now are Greece, Italy, Portugal and Spain, according to the fixed-income team at Crédit Agricole's Calyon division. The Italian government now has to pay 0.5 percentage point more on 10-year debt than Germany, up from a spread of 0.335 percentage point six months ago.

France is also sliding up the spread curve, paying 0.2 percentage point more than Germany for 10-year debt.

"In the near future, the main driver continues to be global risk sentiment," said Jan von Gerich, an economist at Nordea in Helsinki.

Diverging risk assessments of governments also show up in euro-zone corporate-bond markets. In the past six weeks, spreads on credit-default swaps, a proxy for default risk, have jumped 1.22 percentage points to 5.59 percentage points for lower-rated European companies, and widened 0.33 percentage point to 1.02 percentage points for investment-grade companies, according to Danske Bank.

Those costs, if they translate into slowing employment growth, will put further pressure on public finances of the euro zone's weakest economies. The corporate sectors of Spain, France and Italy are highly reliant on external finance, while German firms largely rely on internally generated cash for growth, according to Dresdner Kleinwort economist David Owen.

—Jonathan House contributed to this article.

Muslim denied French citizenship

By David Gauthier-Villars
And Stacy Meichtry

PARIS—In the latest clash between religion and secular tradition in France, a court has denied citizenship to a Moroccan woman on the grounds that she practices a radical form of Islam that prevented her from assimilating French culture.

In a recent ruling, the Conseil d'Etat, France's highest court, dismissed an appeal by Faiza Mabchour to recognize her right to become French because she is married to a Frenchman.


Nicolas Sarkozy

The court said her religious practices are "not compatible with the essential values of the French community, notably the principle of gender equality." The court based its decision on immigration-police reports saying she acted submissively before her husband and wore a garment that fully covered her body and concealed her face, an official at the Conseil d'Etat said.

Many devout Muslim women wear headscarves, but only a small minority hide the face, a custom often associated with the Salafi strain of Islam practiced in Saudi Arabia.

Ms. Mabchour, who lives in a suburb south of Paris, couldn't be reached on Friday. Neighbors said she had left for a vacation in Morocco.

The ruling is the latest chapter in France's struggle to square its secular ideals with the traditional and religious beliefs of Europe's largest Muslim community.

The denial of citizenship for Ms. Mabchour could exacerbate tensions between France's Muslim community and the country's political establishment, since the ruling essentially extends the demands of French secularism into what has been considered a private sphere—the home. The ruling, issued on June 27, was disclosed by a report in French daily Le Monde on Friday.

French Muslim leaders urged caution, however. "I hope people won't judge the entire Muslim community of France by this example," said Moroccan-born Mohamed Béchari, president of the National Federation of French Muslims. "Muslims are not oppressed in France."

The Conseil d'Etat ruling comes as French President Nicolas Sarkozy, who this week took the reins of the European Union's six-month rotating presidency, is urging the 27-nation bloc to follow France's example and toughen its immigration rules.

Mr. Sarkozy has introduced measures aimed at better integrating France's large immigrant population into mainstream society. As interior minister, he helped push through legislation requiring immigrants seeking work visas to speak French.

Since the beginning of the year, immigrants must sign a "contract of integration" that attests to their support for French ideals such as "laicite," or "secularism," or risk expulsion. They must also attend a day-long course on French history.

Although France's constitution guarantees freedom of religion, many French people regard religion as a private matter. That strict separation between church and state has come under severe strain as the country's growing Muslim population seeks to express its religious traditions in public settings.

—Andrew Higgins contributed to this article.

EU says Iran's missile tests deepen concerns

A WSJ News Roundup

The European Union raised concerns about Iran's announcement that it had conducted missile tests, and it stepped up calls on Tehran to suspend uranium enrichment within its disputed nuclear program.

"These missile tests can only reinforce the international community's concerns," the French presidency of the EU said. "The EU calls on Iran to finally react to the entire international community's demands as expressed in [U.N.] Security Council resolutions to reach a negotiated solution on the nuclear issue," it said of repeated calls for Iran to curb uranium enrichment.

The West fears the enrichment could lead to Iran getting the atom bomb—a goal Tehran denies.

Also on Friday, Iran's official news agency said the country's top nuclear negotiator, Saeed Jalili, will meet EU foreign-policy chief Javier Solana to address Tehran's disputed nuclear program.

Friday's report said Saeed Jalili will go to Geneva to meet with Mr. Solana on July 19. Their talks will focus on a package of economic and technological incentives presented to Iran by the U.N. Security Council's permanent members plus Germany.

Last week, Iran responded to the EU but indicated that it has no plans to stop enriching uranium—a key Western demand.

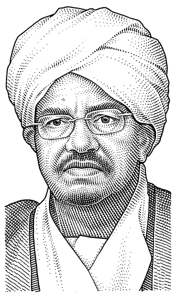
European officials say they are studying the response and consulting with the U.S., Russia and China on what to do next.

Sudan president to face charges of war crimes

By Charles Forelle

BRUSSELS—The chief prosecutor of the International Criminal Court is expected Monday to charge Sudan's president, Omar al-Bashir, with crimes against humanity for allegedly directing the campaign of rape and murder that has plagued the Darfur region for five years.

Aid groups and others say the move will test the effectiveness of the six-year-old court, based in The Hague, as well as the resolve of the international community to bring Mr. Bashir to trial and address a conflict the U.S. has called genocide.


Omar al-Bashir

A person familiar with the matter confirmed that the chief prosecutor, Luis Moreno-Ocampo, plans to bring the charges Monday, but it remained unclear whether Mr. Moreno-Ocampo will move against others as well. A spokeswoman for Mr. Moreno-Ocampo declined to comment.

The charges, brought as a result of an investigation requested by the United Nations Security Council, could also complicate U.N. peacekeeping missions in Sudan. Critics have long said such prosecutions risk inciting additional violence, though many human-rights groups support them.

The prosecution of Mr. Bashir "just forces the international community to act," said David Crane, who as the chief prosecutor of a special international tribunal for Sierra Leone indicted Liberian President Charles Taylor for crimes against humanity and war crimes in 2003. "You can't ignore an indictment."

The Darfur situation recalls Mr. Crane's decision to move on Mr. Taylor at a time when diplomats were still trying to end fighting in Sierra Leone and Liberia. Today, he notes, Mr. Taylor is in custody and Liberia has a democratically elected president. Mr. Crane supports indicting Mr. Bashir now.

The formation of the ICC reflected the desire of much of the world to put more emphasis on justice by establishing a permanent, independent body that doesn't owe fealty to political and diplomatic concerns. Besides Darfur, the ICC has active cases in the Democratic Republic of the Congo, the Central African Republic and Uganda.

Getting Mr. Bashir to trial in The Hague won't be easy because the court has no police force. Countries would be obliged to turn him over, but the U.N. peacekeeping missions in the region aren't charged with apprehending fugitives.

Sudan officials and members of Mr. Bashir's ruling National Congress Party responded angrily over the weekend, after the Washington Post reported Friday that the president would be charged with genocide and other crimes.

Thousands of Sudanese rallied in support of Mr. Bashir Sunday, snarling traffic in the Sudan capital Khartoum. A statement from the ruling party, carried on state television, called the expected indictment "irresponsible, cheap political blackmail" that would bring "more violence and blood" to Darfur, according to wire-service reports. Sudan, like the U.S., hasn't signed up to the ICC.

—Jess Bravin in Washington contributed to this article.

U.S. officer visits Pakistan, urges steps against militants

By Yochi J. Dreazen

ISLAMABAD, Pakistan—With violence in Afghanistan surging, the top U.S. military officer made an unannounced visit to Pakistan's capital to press Pakistani leaders to crack down on the militants destabilizing both countries.

Adm. Mike Mullen, the chairman of the Joint Chiefs of Staff, met with Pakistan's military and civilian leadership Saturday amid mounting U.S. concerns about a sudden surge in insurgent activity inside Afghanistan. More American forces now die in Afghanistan than in Iraq, and the number of Taliban attacks has increased markedly in recent months.


Mike Mullen

In an interview, Adm. Mullen said he told the Pakistanis that they needed to take stronger steps against the Islamic militants operating freely in the country's lawless tribal areas and crossing into Afghanistan regularly to carry out attacks.

"That border is more porous than it was a year ago," he said. "It's very important that action be taken to respond to that."

The visit comes amid rising tensions between the U.S. and Pakistan's new civilian government, which has talked about seeking a political accommodation with the extremists rather than trying to kill or arrest them.

Adm. Mullen and other senior U.S. military officials believe Pakistan deserves much of the blame for Afghanistan's deteriorating security situation. The officials say the number of militants, including foreign fighters, crossing into Afghanistan from Pakistan has increased sharply in recent weeks.

Gen. David McKiernan, the American officer commanding 52,700 North Atlantic Treaty Organization troops across Afghanistan, said in an interview Thursday that militants have "sanctuary areas" inside Pakistan where they are able to train fighters, gather weaponry and supplies, and send militants across the border into Afghanistan.

Pakistani officials angrily reject the U.S. criticism, noting Pakistani troops have died battling extremists. In a CNN interview Friday, Pakistani Foreign Minister Shah Mahmood Qureshi said it was an "exaggeration to just pass the buck to Pakistan."

—Zahid Hussain contributed to this article.

REVIEW & OUTLOOK

Fannie Mae Ugly

Investors continued to flee Fannie Mae and Freddie Mac Friday, almost as frantically as the political class tried to reassure everybody there was nothing to worry about. Allow us to sort the good (there isn't much) from the ugly.

In the good category, Treasury Secretary Hank Paulson swatted back reports of a government "nationalization" of the companies—which would mean making explicit what has long been an implicit taxpayer guarantee of their liabilities. This would instantly add $5 trillion in liabilities to the federal balance sheet, doubling the U.S. public debt burden and putting America's AAA credit rating at risk. This is the nightmare scenario for taxpayers.

Less reassuringly, Mr. Paulson said, "our primary focus is supporting Fannie Mae and Freddie Mac in their current form as they carry out their important mission." This suggests that Treasury thinks the two companies have enough capital, or can raise enough in private markets, to ride out any mortgage losses. We're not so sure, and neither are investors, who have kept bidding Fan and Fred shares to new lows on fears of insolvency.

The most immediate danger is that investors will shrink from rolling over the debt of the two companies, leading to a run a la Bear Stearns. Mr. Paulson is trying to reassure people that the companies are sound, but after Bear everyone has the heebie-jeebies. With so much on the line, we've been suggesting that Treasury and Congress step up now with a public capital injection to help the companies ride out their losses.

Yes, this would mean putting some taxpayer cash up front, but in the cause of avoiding the far greater risk of a collapse or Bear-like run. If the capital injection was made in the form of a subordinated debt or preferred stock offer, taxpayers would get a stake in the companies and some return on their investment once the crisis passes.

> The political class says there's nothing to worry about.

We haven't suddenly become socialists. What U.S. taxpayers need to understand is that Fannie and Freddie already practice socialism, albeit of the dishonest kind. Their profit is privatized but their risk is socialized. We're proposing a more honest form of socialism, with the prospect of long-term reform.

In return for putting up the cash, the taxpayers would also need some reassurance that this Fan and Fred debacle couldn't happen again. Thus their regulator would need the power to shrink their portfolios of mortgage-backed securities that have made them such high-risk monsters, and ultimately to wind the companies down. Apart from outright failure, the worst scenario would be a capital injection that left the companies free to commit the same mayhem all over again two or 10 years from now.

Now we get to the ugly: Congress. On Friday, Democratic Senate Banking Chairman Christopher Dodd declared that Fannie and Freddie are "fundamentally strong," that fears about their capital are overwrought, and that "this is not a time to be panicking about this. These are viable, strong institutions." Yet he also said that one option under discussion is to let the two companies borrow from the Federal Reserve's discount window.

In other words, Mr. Dodd says the companies are so safe that the Fed may have to rescue them. What he really wants to do is to pass the buck—literally—to the Fed so he and Congress don't have to appropriate taxpayer money up front. Opening up the window would nonetheless be a giant step toward an explicit taxpayer guarantee of Fannie and Freddie debt. It would further poison the Fed's balance sheet, not to mention get it tangled up in the politics of the mortgage markets in a way that would jeopardize Fed independence.

And speaking of ugly, Friday's markets showed one more nasty side effect of the Fannie Mae panic: fear of rising inflation. Gold popped by $23 an ounce, and at $965 is back at the heights it reached during the March run on Bear Stearns. Oil also bounced up as the dollar fell, a sign that investors think the Fed will react to the Fannie fears by delaying any monetary tightening even longer than it already has.

If there's any other good news in all this, it is that the scandal of Fannie and Freddie is at last coming into public focus. The Washington political class has nurtured and subsidized these financial beasts for decades in return for their campaign cash and lobbying support. Wall Street and the homebuilders also cashed in on the subsidized business, and also paid back Congress in cash and carry.

The losers have been the taxpayers, who will now have to pay the price for this collusion. Maybe the press corps will even start reporting how this vast confidence game could happen.

Kyoto's Long Goodbye

One of the mysteries of the universe is why President Bush bothers to charge the fixed bayonets of the global warming theocracy. On the other hand, his Administration's supposed "cowboy diplomacy" is succeeding in changing the way the world addresses climate change. Which is to say, he has forced the world to pay at least some attention to reality.

> The G-8 concedes that Bush is right about climate change.

That was the larger meaning of the Group of Eight summit in Japan last week, even if it didn't make the papers. The headline was that the nations pledged to cut global greenhouse emissions by half by 2050. Yet for the first time, the G-8 also agreed that any meaningful climate program would have to involve industrializing nations like China and India. For the first time, too, the G-8 agreed that real progress will depend on technological advancements. And it agreed that the putative benefits had to justify any brakes on economic growth.

In other words, the G-8 signed on to what has been the White House approach since 2002. The U.S. has relied on the arc of domestic energy programs now in place, like fuel-economy standards and efficiency regulations, along with billions in subsidies for low-carbon technology. Europe threw in with the central planning of the Kyoto Protocol—and the contrast is instructive. Between 2000 and 2006, U.S. net greenhouse gas emissions fell 3%. Of the 17 largest world-wide emitters, only France reduced by more.

So despite environmentalist sanctimony about the urgent need for President Bush and the U.S. to "take the lead" on global warming, his program has done better than most everybody else's. That won't make the evening news. But the fact is that the new G-8 document is best understood as a second look at the "leadership" of . . . you know who.

George W. Bush

The G-8 also tends to make grand promises that evaporate as soon as everyone goes home. This year, picking up the "accountability" theme pressed by the U.S., envoys grudgingly accepted a plan that will track—and publicize—how well countries are living up to their word. So when the G-8 endorsed greenhouse reduction "aspirations" that are "ambitious, realistic and achievable," the emphasis fell on the last two attributes.

It is not at all clear that huge expenditures today on slowing emissions will yield long-run benefits or even slow emissions. Research and development into sources of low-carbon energy is almost certainly more useful, and the G-8 pledged more funding for "clean tech" programs.

The G-8 also conceded that global-warming masochism is futile and painfully expensive. If every rich country drastically cut CO_2, those cuts would be wiped out by emissions from China and India. "Carbon leakage" is a major problem too, where cutbacks in some countries lead to increases in others with less strict policies, as manufacturing and the like are outsourced. This whack-a-mole won't stop without including all 17 major economies, which together produce roughly 80% of global emissions.

Much to the ire of Kyotophiles, Mr. Bush started this rethinking last year when he created a parallel track for talks on a post-2012 U.N. program, luring China and India to the table with more practical options. But developing countries, led by that duo, still refused to sign on to the G-8's 2050 goal. They aren't eager to endanger their growth—and lifting people out of poverty—by acquiring the West's climate neuroses.

The irony is that Kyoto has handed them every reason *not* to participate. Europe knew all along that it couldn't meet its quotas, so it created an out in "offsets." A British factory, say, buys a credit to pay for basic efficiency improvements in a Chinese coal plant, like installing smokestack scrubbers. This is a tax on the Brits to make Chinese industries more competitive. Sweet deal if you can get it.

It gets worse. The offsets are routed through a U.N. bureaucracy that makes them far more valuable in Europe than the cost of the actual efficiency improvements. So far, Kyoto-world has paid more than €4.7 billion to eliminate an obscure greenhouse gas called HFC-23; the necessary incinerators cost less than €100 million. Most of the difference in such schemes goes to the foreign government, such as China's communist regime.

Given these perverse incentives, the magical realism of Kyoto has backfired in a big way. The global warming elite will never admit this, because that would mean giving up their political whip against George Bush. But Kyoto II is already collapsing under its own contradictions. By sticking to a more realistic alternative, this reviled President has handed his green opponents a way to save face.

Escape From Iran

Seldom does news about Iran give cause for rejoicing, but all who value human rights and democracy can celebrate the recent escape to freedom of dissident Ahmad Batebi.

In July 1999, Mr. Batebi was one of thousands of Iranian students who took to the streets to protest the "reformist" government's disregard for press freedom and other basic liberties. During six days of demonstrations, the government killed multiple protesters, injured hundreds and imprisoned more than a thousand.

Mr. Batebi's "crime" was to be photographed holding up the bloodstained shirt of fellow student Ezzat Ebrahim-Najad, who had been beaten and killed by plainclothes government paramilitaries. When the photograph appeared on the cover of The Economist magazine under the headline "Iran's second revolution?" it became iconic—and Mr. Batebi's death warrant.

In secret court proceedings, Mr. Batebi initially was sentenced to death for "creating street unrest" and endangering Iranian national security. After international protest, the sentence was reduced first to 15 years and then 10 years in prison. Held in solitary confinement, deprived of sunlight and beaten with cables, Mr. Batebi suffered strokes, seizures, dislocations of his hips and injury to his brain.

This spring the regime allowed him a furlough to receive treatment. Rather than return to Evin Prison, Mr. Batebi escaped to Iraq. In late June, he flew through Vienna to Washington, D.C.

Shortly after his arrival in the U.S. Mr. Batebi gave an interview to the Voice of America, which broadcast it to his homeland. He said: "I wish each and every Iranian could travel abroad, come to the U.S. or go to Europe, for just one week, and feel, smell, and breathe freedom, human dignity, and realize the value of their lives."

The Journal Interview with Elaine L. Chao / *By Brendan Miniter*

'I See Opportunities in This Country a Little Differently'

WASHINGTON—Secretary of Labor Elaine L. Chao immigrated to the United States on a cargo ship in 1961, when she was 8 years old. The trip from Taiwan took a month. It was no easy passage.

"My sister fell ill during the ocean journey," she told me on a recent afternoon in her spacious office. "Seventeen hundred nautical miles, there were no doctors on board and my mother sat up for three nights and three days, just continuously soaking my sister's body, little body, with cold water" to break her fever.

> The Labor secretary fears overregulation will stifle the next generation's dreams.

"So I see opportunities in this country, perhaps, in a slightly different way. . . . America really is unique," she says. "It's really a land of meritocracy, where it doesn't matter where you were born, who you know. If a person works hard, most of the time . . ."

There is speculation that the economy could soon slip into recession as the country sheds jobs and faces a slumping housing market. Still, Ms. Chao points out that the national unemployment rate remains below where it averaged in the 1990s (5.5% today versus 5.7% last decade). "People forget that," she says.

Yet Ms. Chao seems most concerned with the long-term trends that affect the workforce. The old economy that relied heavily on domestic manufacturing and production is giving way to a modern economy based on technology and instant communications. This change is empowering workers, allowing them to work more flexible schedules and boost their productivity. At the same time, it is also changing the criteria required to get ahead—and forcing a decline in union membership.

In 1979, 24.1% of American workers belonged to a union. Today only 12.1% do, and the number falls to 7.5% for those who do not work for the government. Whether a worker has a college or even a high-school diploma is now much more important for lifetime earnings and employment than whether he has a union card. Workers with a bachelor's degree earn, on average, more than $1,400 a week and have an unemployment rate of just 2.2%. High-school dropouts, by contrast, average just $528 a week for full-time work and their unemployment rate is 8.3%. "We have a skills gap in this country," Ms. Chao said.

Ms. Chao seems to be concerned that the country could cease to be the land of opportunity that drew her parents decades ago. Congress appears eager to impose regulations that could hurt the economy in the name of helping those who don't have the skills to compete. If these regulations are enacted, Ms. Chao fears the "Europeanization" of the American economy.

"I have a whole list here," she says, of what Congress could do to hobble economic growth. Items on her list include bills that would expand the Family Medical Leave Act, force some employers to give 90 days notice before laying off workers (up from 60 days now), and mandate minimum paid sick leave. There's also "comparable worth," a bill being pushed by Sen. Hillary Clinton and others that would force employers to pay the same wages for different occupations. If these regulations become law next year, she believes it would make it more difficult for employers to adapt their workforce to a changing economy. "Only with our flexibility will there be continued dynamism, vibrancy and opportunities. We had young people in France rioting at the age of 24 because they fear that if they do not find a job by the age of 24 that they will never find a job for the rest of their lives. That is so foreign to what the American experience is all about."

"The Eurozone countries and Japan have not created as many jobs as America has in the last seven years," she adds. "And their unemployment rate is double, if not sometimes triple, that of the United States. So the best way to help a worker get a job . . . is to help them get reconnected to the workforce as quickly as possible because the longer they stay out, the more things will change at the workplace and the harder it will be for them to re-enter the workforce."

Zina Saunders

"Some in Washington want to increase benefits, regulations and mandates and that's the European model. That is not the path we want to follow long term."

Ms. Chao says that when she attends meetings with other labor ministers, "they may not agree totally with our point of view, but they all want to learn about how America creates opportunities and jobs and how the dynamism of our economy, the flexibility of our economy creates opportunities."

What does she tell them?

"That freedom works. It is universally accepted that there needs to be open markets, transparency, low tax rates, less regulation and the rule of law . . . in a worldwide economy if there is not transparency, if there is greater taxation, if there is greater regulation, capital and labor will move."

Ms. Chao has amassed a record conservatives applaud—for example in year seven of her tenure, her department's budget is slightly smaller than it was on year one, even as workplace injuries have fallen to all time lows. When I ask her what role a labor secretary should play now, her answer can be summed up in two words: job training.

"We should really be called the department of job training," she says. After all, the labor department spends more than 90% of its $50 billion entitlement budget on it. The problem is that much of this never reaches workers. Instead, it's wasted on overhead or spent on courses workers don't want to take.

So in her last months in office Ms. Chao is pushing for more flexibility in how job training funds can be used. "Would it not make more sense if we allowed . . . the worker to take that money and register at a community college . . . choose a course of their own liking, preference?"

An even more important issue is transparency. One of Ms. Chao's early initiatives was to clean up decades-old regulations that mired even good employers in costly litigation because the rules were written for occupations that no longer exist. "Straw boss" and "key punch" are two that Ms. Chao rattled off. "We in government have a responsibility for ensuring that the regulations that we issue are clear and understandable."

Another of Ms. Chao's transparency initiatives involved union financial disclosure. Federal union disclosure rules have been on the books since at least 1959. But when Ms. Chao came into office in 2001, many unions gave such vague descriptions of their expenses that it was impossible to track where they spent their money. One, for example, listed more than $3.9 million of expenditures as "sundry expenses." Ms. Chao tightened the disclosure rules and then spent years fighting union objections in court. In the end she won. Today unions have to itemize expenses greater than $5,000. This has made it easier for rank-and-file members to keep tabs on their own union officials. It has also led to more than a little embarrassment, such as when a disclosure form filed by the New York City Ironworkers Local 40 in 2006 drew media attention because it revealed that the union spent $52,879 at a Cadillac dealer for a "retirement gift."

This no-nonsense approach to her job and her faith in the flexibility of America's labor markets stem from Ms. Chao's immigrant roots. Her parents fled the communist revolution in China in 1949 and settled in Taiwan. As a sea captain nearly a decade later, her father took the National Maritime Master's Special Qualification Examination and scored so well that the Taiwanese government sponsored him to study in the U.S. But there was a catch: The offer was for him alone. He would have to leave his two children and wife behind.

"They never hesitated," she said, adding that "my mother didn't try to persuade my father not to go. In fact, it was quite the opposite.

"He came and landed the day after Christmas. He was alone for three years . . . before he was finally able to bring us over."

"How they knew what America stood for, or where America was, is pretty impressive to me—that this young couple with no connections, no financial resources to speak of, would dare to audaciously dream that they could come to America."

Mr. Miniter is an assistant features editor at The Wall Street Journal.

No Olympic Medal for Bush

By Ronan O'Sullivan Farrow

As U.S. congressional leaders disbanded for the July Fourth holiday earlier this month, the White House quietly released travel schedules confirming that President Bush will attend the opening ceremonies of the Beijing Olympic Games. The careful timing will not mute the impact of the decision. As a rising tide of world leaders boycotts the ceremony, Mr. Bush will lend his imprimatur to a regime that continues to jail dissidents and persecute religious groups, back a criminal junta in Burma and bankroll what Mr. Bush himself has described as genocide in Darfur.

The White House has insisted that Mr. Bush views the Olympics as an apolitical sporting event. But he has chosen to participate in the one portion of the Games aimed at showcasing the Beijing regime's political and economic primacy. A contingent of world leaders is boycotting the ceremony, including British Prime Minister Gordon Brown, German Chancellor Angela Merkel, United Nations Secretary-General Ban Ki Moon, and Canadian Prime Minister Stephen Harper. In the U.S., Barack Obama and John McCain have taken strong positions. Sen. McCain has indicated he would not have attended without significant reform on China's part, while Sen. Obama directly called Mr. Bush to task for his decision.

> Going to the opening is a mistake, but the president can still do some good.

China has historically resisted international pressure. But it has jumped to defend the all-important Beijing Olympics. The regime responded to publicity linking Darfur to the Games last year with startling immediacy, hastily placing defensive articles in U.S. newspapers and lifting a longstanding veto threat to allow the U.N. to authorize peacekeepers for Darfur. With the Olympics an unprecedented point of leverage, an opening ceremony boycott may have been one of the few gestures capable of moving Beijing.

Mr. Bush could have declined to attend at little political expense. A boycott of the opening ceremony would avoid targeting the athletes competing in the Games. It would send a powerful symbolic message—a clear refusal to endorse mass murder, genocide and religious persecution—without substantively affecting economic or political ties.

Mr. Bush has passed up an opportunity, but he still has the power to demonstrate moral leadership. He should use his attendance as a platform to press China to live up to its reform promises, and join human-rights groups in expressing hope that Beijing will release political prisoners before the opening ceremony. He should reiterate the pleas of other world leaders that China use its unparalleled influence with Sudan to halt the slaughter in Darfur.

Mr. Bush claimed that declining the invitation would be "an affront to the Chinese people." In fact, not attending would have been a far stronger show of solidarity with individuals across China who have been brutalized by the Beijing regime. Baiqiao Tang, who was imprisoned for participating in the Tiananmen Square protests in 1989, was one of several Chinese dissidents urging leaders not to whitewash Beijing's image. "I feel so sad," he said last week at City Hall in Manhattan, "that most of the political leaders are going to go to the opening ceremony of the Games with Chinese Communist Party leaders."

The U.S. has lost an opportunity to stand up for the people of Darfur and Burma, and for countless Chinese citizens like Mr. Tang. But the Bush administration still has a chance to serve as a moral voice on their behalf, and to make good on its professed commitment to defending democracy and freedom across the world.

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THE WALL STREET JOURNAL.
EUROPE

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