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THE WALL STREET JOURNAL.

How Paulson drove plan to aid U.S. mortgage giants

NEWS IN DEPTH | PAGES 16-17

Two notorious figures vie for historic Russian honor

ON OTHER FRONTS | PAGE 8

Euro zone's healthy view shifts to possible slump

Delayed impact of U.S. woes offset exports, currency

Europe thought it could escape the worst of the global slowdown. Now it looks like the euro-currency zone, the world's second-largest economy, is headed for a hard landing and perhaps a recession, compounding growth troubles around the globe.

Spain suffered its largest-ever business failure Tuesday as Martinsa-Fadesa SA, a real-estate group with assets of €10.8 billion ($17.2 billion), filed for bankruptcy protection, making it the biggest victim so far of Europe's bursting real-estate bubbles.

By **Marcus Walker** *in Berlin,* **Joellen Perry** *in Frankfurt and* **Jonathan House** *in Madrid*

On the same day, the euro touched a record high just above $1.60, while investor sentiment in Germany—until now a rare bright spot for growth among developed economies—fell to its lowest level since the recession of the early 1990s.

The rising risk of recession in Eu-

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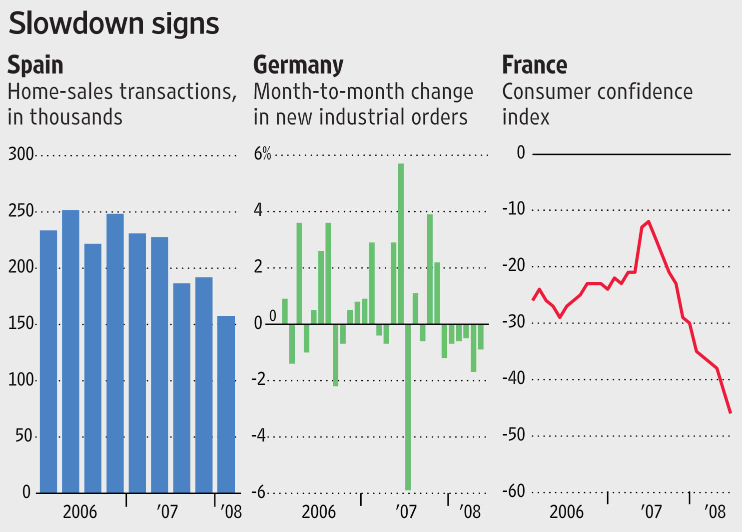

Sources: Spanish Housing Ministry; Deutsche Bundesbank via Thomson Reuters Datastream; INSEE

Dollar hits all-time low versus euro as fears grow

By Joanna Slater

Amid mounting worries about the health of the U.S. financial system, the dollar broke out of the range in which it has traded since late April, skidding to a fresh all-time low against the euro early Tuesday.

The U.S. currency turned weaker even though European economies now show clear signs of faltering themselves. The move thus underlined the depth of concern about U.S. financial woes.

"It really is a dollar problem at the moment," says Adnan Akant, a currency specialist at money manager Fischer Francis Trees & Watts. "There's a bit of a loss of confidence in U.S. policy."

The dollar's fresh slide further complicates the task of the U.S. Federal Reserve as it tries to shore up the economy and tamp down inflation. One form of medicine for a weak economy—lower interest rates—would cause more damage to the dollar, something the Fed and Treasury Department would like to prevent. An enfeebled currency could spur higher inflation, as imported goods become more expensive.

Until recently, a concerted effort by U.S. policy makers to steady the dollar appeared to be having an effect. From late April on, the dollar fluctuated in a narrow band against the euro. It also managed to claw back some ground against the yen.

But as financial woes deepened in recent weeks, the dollar's relative stability has evaporated. On Tuesday, one euro briefly bought $1.6038, the most since its inception in 1999. The euro managed to rise despite an announcement Tuesday by the ZEW Institute that inves-

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Fed chief warns U.S. economy faces 'difficulties'

By Brian Blackstone

WASHINGTON—Federal Reserve Chairman Ben Bernanke said the U.S. economy faces "numerous difficulties," suggesting those risks remain his top priority despite Tuesday's upward revision to the Fed's 2008 growth forecast.

Mr. Bernanke dwelled on an "unusually uncertain" inflation outlook and cautioned that the Fed is watching for any sign that higher energy and commodity prices are becoming embedded in wages and expectations. Mr. Bernanke spoke in prepared testimony to the Senate Banking Committee.

Mr. Bernanke's comments—which come in the wake of a government rescue plan for **Fannie Mae** and **Freddie Mac** and renewed stress in the banking system—suggest that interest-rate increases are unlikely before the end of the year, barring a big rise in inflation expectations or a quick end to financial turmoil.

The U.S. Treasury Department proposal allowing it to buy an equity stake in Fannie Mae and Freddie Mac is aimed at restoring financial-market stability. Secretary Henry Paulson said in separate remarks to be delivered before the Senate Banking Committee, though he said there are no immediate

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What's News—

Business & Finance

The euro zone looks headed for a hard landing, perhaps even recession, compounding global growth troubles. Spain had its largest-ever business failure as Martinsa-Fadesa filed for bankruptcy protection. Pages 1, 32

■ **Bernanke warned** that the U.S. economy faces "numerous difficulties," despite an upward revision to the central bank's 2008 growth forecast. Page 1

■ **The dollar hit** a record low against the euro amid mounting worries about the health of U.S. financial system. Page 1

■ **European and Asian stocks** were clobbered on worries about the global banking system and economy. Page 21

■ **U.S. wholesale prices rose** in June, pushed by energy and food prices, a sign inflation threats are alive. Page 11

■ **U.S. stocks swung** between gains and losses, but in the end fear was heavier than oil. Page 22

■ **Crude-oil futures** settled more than $6 lower after Bernanke gave a bleak outlook on the U.S. economy. Page 23

■ **Intel may face** new EU antitrust charges as regulators probe its sales and marketing efforts with retailers. Page 2

■ **Schaeffler Group made** an unsolicited $17.87 billion offer to buy rival German auto-parts supplier Continental. Page 3

■ **GM will raise** $15 billion in liquidity through asset sales and cost cuts as it tries to ride out a drop in U.S. sales. Page 3

■ **Boeing still expects** its 787 Dreamliner in the air by the fourth quarter, despite some unexpected problems. Page 4

■ **The SEC took steps** to curb short selling of Freddie Mac and Fannie Mae and will begin considering rules to extend the new requirements. Page 24

■ **Fortis said AFM,** the Dutch markets regulator, is examining the bank's plans to raise $13.2 billion in capital. Page 23

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	10962.54	-92.65	-0.84
Nasdaq	2215.71	+2.84	+0.13
DJ Stoxx 600	266.51	-5.96	-2.19
FTSE 100	5171.9	-128.5	-2.42
DAX	6081.70	-118.55	-1.91
CAC 40	4061.15	-81.38	-1.96
Euro	$1.5970	+0.0073	+0.46
Nymex crude	$138.74	-6.44	-4.44

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World-Wide

Israel and Hezbollah were expected to exchange five Lebanese prisoners for the remains of two Israeli reservists who were captured in a cross-border raid by Hezbollah in 2006 and are presumed dead. Israel waged an inconclusive war against Hezbollah in Lebanon as it tried to get the two men back. Page 10

■ **Two suicide bombers blew** themselves up in a crowd of army recruits in Iraq's Diyala province, killing 28 people and wounding at least 57, in Iraq's bloodiest attack since June 17.

■ **Three Iraqi men** were convicted by a German court and sentenced to prison for plotting to kill Iraq's then-Prime Minister Allawi during a visit in 2004.

■ **Bush said** the U.S. was enjoying some success in Iraq but faced a tough fight in Afghanistan. He said he was displeased that Russia and China blocked U.N. sanctions on Zimbabwe.

■ **Obama sharply criticized** Republicans' foreign-policy focus on Iraq. McCain said the surge in Iraq had shown the way to succeed in Afghanistan. Page 36

■ **Russia's Medvedev laid out** his foreign-policy approach in a major speech. Observers say it is still unclear how much presidential power he wields. Page 2

■ **Belgium's government** collapsed, unable to resolve an enduring divide over increased self-rule for the country's Dutch and French speakers. Page 10

■ **China urged** the International Criminal Court to rethink its arrest warrant for Sudan's president on charges of genocide, saying it was concerned over the "stability of Sudan's situation."

■ **Indonesia's president** acknowledged human-rights abuses during East Timor's 1999 break for independence but said no one would be prosecuted.

■ **The IMF recognized** that Kosovo has seceded from Serbia as an independent state and said its application for IMF membership will be considered.

■ **A strong earthquake** with a preliminary 6.3 magnitude struck the Greek island of Rhodes. One woman died, but no major damage was reported.

EDITORIAL & OPINION

The Fannie Mae mess

How to save U.S. taxpayers and the economy from the mortgage giants' woes. Pages 13-15

LEADING THE NEWS

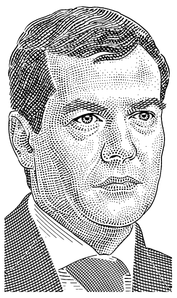
Russia's cautious change

President Medvedev leaves his own mark on the 'Putin system'

BY GREGORY L. WHITE AND ANDREW OSBORN

MOSCOW—After more than 100 days as president, Dmitry Medvedev has begun to put his stamp on some Kremlin policies, officials and analysts say, moving cautiously toward economic liberalization while he sticks closely to the assertive international line laid out by his patron, Vladimir Putin.

Mr. Putin's choice of the 42-year-old lawyer to succeed him as president, combined with Mr. Medvedev's often moderate rhetoric, raised hopes that the Kremlin's hard line at home and abroad might soften. There was no hint of major change, since Mr. Putin stayed on as prime minister and head of the ruling party, and the Kremlin remained full of his appointees. Earlier this month, Mr. Medvedev said any differences with his predecessor were in "nuances."



Dmitry Medvedev

Diplomats and officials say it is still unclear how much presidential power Mr. Medvedev, with no real political base of his own, is actually wielding. "The big question in people's minds remains the same: Who will be the real boss?" says Sergei Markov, a legislator from the ruling United Russia party.

But in some areas, particularly economic policy, Mr. Medvedev has begun to deliver on some of his liberal campaign rhetoric, in the process undoing some of Mr. Putin's legacy. One of his first steps has been to start replacing government bureaucrats on the boards of major state-owned companies with independent directors.

"It's the first sign that the government is changing its ideology," says Alexander Filatov, executive director of Russia's Independent Directors Association, which has been pushing for the change since 2002.

During Mr. Putin's eight-year presidency, state control over the economy increased dramatically, particularly in the energy sector. Mr. Putin oversaw the creation of sprawling state conglomerates, whose dominance alarmed even loyal business leaders. The number of state officials running those companies multiplied, and the companies' opacity increased.

Mr. Medvedev's changes, which officials say will take several years to implement, only begin to address the problem. Key companies, such as energy giants OAO Gazprom and OAO Rosneft, remain tightly controlled by the Kremlin even though they have had outside board members in the past.

"Don't expect things to change overnight," says David Aserkoff, chief Russia strategist at Moscow-based brokerage house Renaissance Capital.

Mr. Medvedev has cast himself as a modernizer. In one of his first campaign speeches in February, he said, "A significant share of the functions carried out by state organs should be given over to the private sector."

So far, though, he hasn't done much to rein in the giant state corporations set up under Mr. Putin. Earlier this month, he approved the transfer of hundreds of government stakes in companies to an industrial conglomerate run by one of Mr. Putin's old friends. Some liberal cabinet officials opposed the transfer, but the conglomerate, Russian Technologies, got most of the assets it was seeking.

Mr. Medvedev has pushed for stepping up the fight against widespread corruption and taken some modest steps to shore up the weak court system. A bill designed to prevent shakedowns of small businesses by low-level bureaucrats is expected to pass soon.

"It's a development of the Putin line, including some changes, but nothing fundamental that would shake the foundations of the Putin system," says Dmitry Trenin, an analyst at the Moscow Carnegie Center.

In foreign policy, diplomats and analysts say, the only sign of change is rhetorical. Mr. Medvedev's lawyerly tone seems softer than Mr. Putin's often harsh and acerbic language.

Hopes that the stylistic difference would extend to policy haven't panned out. British Prime Minister Gordon Brown's efforts to thaw the deep freeze in Russian-British relations at a meeting with Mr. Medvedev last week seems to have yielded little result.

Tuesday, Mr. Medvedev laid out his foreign-policy approach in a major speech to ambassadors. The program stuck closely to Mr. Putin's themes of Russia taking its rightful place among the top world powers, denouncing U.S. unilateralism and plans to expand North Atlantic Treaty Organization and install missile defenses in Eastern Europe.

"The policy is exactly the same," says Mr. Markov, the legislator. He said the softening in tone ultimately could make it easier for the West to compromise with Mr. Medvedev.

EU prepares to expand antitrust probe of Intel

BY CHARLES FORELLE

BRUSSELS—European regulators are preparing to file new antitrust charges against **Intel** Corp., expanding an investigation into the U.S. chip maker's marketing and sales practices, according to people familiar with the matter.

The new charges, which could come as soon as Thursday, would allege that Intel gave major retailers inducements not to sell computers that use chips from the chip giant's smaller rival, **Advanced Micro Devices** Inc., these people said.

The European Commission, the European Union's executive arm, has been examining Intel for nearly eight years in one of the most complex antitrust cases on its docket. Last year, the EU filed charges alleging that Intel used rebates, marketing payments and below-cost sales to computer manufacturers to dissuade them from using AMD chips in personal computers and low-cost servers.

The new charges may further delay the case against Intel, since the EU gives defendants two months to respond. The charges that Intel boxed AMD out of retail stores may be important for the EU's case as a way of demonstrating how consumers suffered from Intel's alleged conduct. Intel has long claimed that discounts it offers manufacturers are good for consumers, as it means lower prices for computer shoppers.

Intel has already replied to the first set of charges and in March pleaded its case in a closed-door hearing. "We made what we believe to be a compelling argument," an Intel spokesman said. Under the EU's rules, companies like Intel with dominant market positions have a special obligation not to obstruct competitors. Intel sells more than 75% of the ubiquitous "x86" chips used in machines that run Windows.

The Intel spokesman said of the potential new charges: "We are continuing to cooperate and really don't know what the commission will do." A spokesman for antitrust commissioner Neelie Kroes said the investigation was "ongoing."

The next step in the EU's procedure, if it determines that Intel broke the law, is a formal decision that lays out the charges publicly and demands remedies or fines. That could be weeks or months away. A decision can be appealed to the Court of First Instance in Luxembourg.

The investigation of potential abuses at the retail level began in 2006, when AMD complained to German authorities that Intel and **Metro** AG kept the smaller company out of Metro's Media Markt stores. Intel, along with Metro and other retailers, was raided in February by EU investigators. The retailers aren't expected to be charged by the EU.

The Intel case is one of many EU examinations of prominent U.S. tech companies. Earlier this year, the EU leveled a record €899 million ($1.43 billion) fine on Microsoft Corp. after winning a landmark antitrust case in 2007.

Intel also faces private antitrust lawsuits from AMD in Delaware federal court and in Japan, and investigations by the U.S. Federal Trade Commission and the New York attorney general. Korean regulators have charged Intel with anticompetitive conduct and issued a $25 million fine. In Japan, Intel signed a consent decree, without admitting wrongdoing, to settle antitrust charges.

CORRECTIONS & AMPLIFICATIONS

The architect of Istanbul's Blue Mosque was Sedefkar Mehmet Aga, a pupil of the architect Mimar Sinan. An article about the Autoban design firm in this past Friday-Sunday edition of the Weekend Journal incorrectly identified Sinan as the mosque's architect and misspelled his name as Mimar Nisan.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

GM reveals more cuts as sales fall

Firm seeks to boost liquidity to prepare for more hard times

BY SHARON TERLEP AND JOHN D. STOLL

General Motors Corp., battered by a steep decline in U.S. sales, said it will raise $15 billion in liquidity by 2009 through potential asset sales, cost cutting and other financing measures.

GM also said it will suspend its stock dividend, cut its salaried staff and their benefits, and reduce executive compensation. In addition, the company plans to lower capital spending next year and reduce the capacity devoted to making pickup trucks and sport-utility vehicles.

GM shares, which have been trading at their lowest levels since the mid 1950s in recent weeks amid concerns about the company's liquidity, were up 5.8% at $9.92 in midday composite trading on the New York Stock Exchange.

The actions come about a month after GM said it will close four more assembly plants by 2010, as it struggles with a steep decline in demand for the large vehicles. The market for pickups and SUVs has eroded amid weakness in the economy and a sharp rise in U.S. gasoline prices, a development that has stung GM and its Detroit rivals particularly hard given their reliance on large vehicles for profits.

Associated Press

GM Chairman and CEO Rick Wagoner, left, and Vice Chairman Bob Lutz said new measures to boost liquidity should **leave GM on solid ground** by 2010.

Chief Executive Rick Wagoner said GM is going through an unprecedented difficult time and that he isn't ruling out further actions.

GM has been bleeding red ink and posting negative cash flow over the past three years. While the company isn't projecting when it will return to profitability, it believes these actions will put it on solid ground once the U.S. auto market bounces back in 2010.

"We're trying to build a liquidity plan that allows us to traverse two consecutive years of a light market," GM Chief Operating Officer Fritz Henderson said.

GM reiterated on Tuesday that it has ample liquidity to meet its 2008 funding requirements, but "is taking additional measures to bolster liquidity to protect against a prolonged U.S. downturn."

GM had $23.9 billion at the end of the first quarter and had access to credit facilities for $7 billion more.

The game plan assumes that annual sales of light vehicles in the entire U.S. market will total 14 million units in both 2008 and 2009. That would be well below trend, and much less than the total of just under 15 million vehicles that GM and others anticipate. The company also assumes it will have a lower share of the U.S. market, at about 21%, down from nearly 24% in 2007.

Amid this operating environment, GM plans to cut $1.5 billion in cash costs by cutting white-collar staff and adjusting benefits.

GM is eliminating health-care coverage for U.S. white-collar retirees over the age of 65. It will trim executive compensation, eliminating discretionary bonuses for 2008.

The company expects to reduce $2.5 billion in North American structural costs through additional adjustments in truck capacity. GM said it expects to reduce truck capacity by 300,000 units by the end of 2009, half of which will result from the acceleration of previously announced actions and half of which represents new cuts.

Volkswagen returns car production to U.S.

BY KATE LINEBAUGH

DETROIT—**Volkswagen** AG said it will build a new car plant in Chattanooga, Tenn., as Europe's biggest car maker returns production to the U.S. after two decades, highlighting how the weak dollar is increasing the attractiveness of the U.S. as a low-cost manufacturer.

Volkswagen, which owns the Bentley, Bugatti, Audi, Skoda and Seat brands, aims to begin production in early 2011 of a midsize sedan developed for the U.S. market. It is part of the company's expansion plan to sell 6.6 million VW-brand passenger cars globally by 2018, with 800,000 planned for the American market.

The new plant will have an annual capacity of 150,000 vehicles. "The U.S. market is an important part of our volume strategy," VW Chief Executive Martin Winterkorn said. "Volkswagen will be extremely active there."

The announcement comes as U.S. domestic manufacturers reveal deeper cuts in production and jobs as high gasoline prices, a weak economy and depressed home prices scare consumers away from expensive vehicle purchases. **General Motors** Corp. Tuesday announced a new round of layoffs and production cuts to try to withstand the market slowdown.

Sales in the U.S. vehicle market fell 18% in June from the same month a year ago, its lowest June level in decades. For the first half of the year, sales were off 10% from the year earlier, and analysts forecast annual auto sales to fall to about 14.4 million vehicles this year, down from 16.1 million in 2007.

For VW, sales in the U.S. market for the first half of the year were slightly higher than last year, helped by American consumers' shift to smaller, more fuel-efficient passenger cars such as the VW Beetle. European car makers trying to expand their U.S. market share have been slammed by the strong euro exchange rate against the dollar. That makes their vehicles manufactured in Europe more costly than vehicles produced in the U.S.

"With exchange rates we deal with on a daily basis, it makes it very difficult from the profitability standpoint," said Mark Barnes, chief operating officer of VW's American operations. Other foreign auto makers are increasing U.S. production. **BMW** AG is investing $750 million in its plant in South Carolina to expand its U.S. output, much of which will be for export. And Italy's **Fiat** SpA is looking to assemble Alfa Romeo cars in the U.S.

Mr. Barnes said there have been no decisions on whether VW will export vehicles from the new Tennessee plant to Europe, or whether other VW brands will be produced at the facility. Audi plans to make a decision early next year on its own production facility in the U.S. The new plant is expected to bring about 2,000 jobs to the Chattanooga area.

Tennessee beat out Michigan and Alabama to land the VW plant. Tennessee has benefited from a shift by auto companies to Southern states in the 1980s and 1990s. **Nissan Motor** Co. operates a plant in Smyrna, Tenn.

VW closed a factory in western Pennsylvania in 1988 that produced small vehicles.

Schaeffler makes offer for parts rival Continental

BY EDWARD TAYLOR AND DANA CIMILLUCA

FRANKFURT—German auto-parts supplier **Schaeffler Group** made an unsolicited offer of €11.23 billion ($17.87 billion) for bigger rival **Continental** AG.

Closely held Schaeffler said Tuesday it was "seeking to acquire a strategic shareholding of more than 30%" in Continental, but "not necessarily a majority stake." The offer values Continental at €69.37 a share.

It wasn't clear Tuesday how Continental, among the leaders in developing fuel-efficiency technology for the auto industry, would respond to the offer. A Continental spokesman said in an email that the company would review the offer before commenting.

Analysts said Schaeffler appears to be copying the takeover tactics used last year by **Porsche Automobil Holding** SE when it launched a stealth takeover for **Volkswagen** AG by first securing a "blocking minority." That move prevented other potential bidders from gaining control over the firm. Porsche, which has accumulated a stake of more than 30% in VW thus far, has since said it will raise its stake above 50%.

A deal for Continental would mark further consolidation in the global auto-parts-supply market. But the offer comes when many analysts say they believe Continental—and German-company stocks in general—are undervalued. Continental shares traded above €100 a year ago. They rose 12% to €73.28 Tuesday.

The offer came after Continental managers complained to German markets regulator BaFin in a letter Monday that Schaeffler had acquired a significant stake in their firm without following disclosure rules. Schaeffler says it wasn't required to disclose it had gained control of more than 28% of Continental's shares by entering into swap transactions, in addition to holding a 2.97% direct stake in the tire giant. Schaeffler also said it holds financial instruments entitling it to acquire a further 4.95% stake and has secured financing for the entire deal through a consortium of banks.

Schaeffler acknowledged an interest in acquiring a stake in Continental earlier this week but said Tuesday that the bid's timing wasn't a reply to regulatory pressure.

"The focus is on combining the strengths of the two companies," Schaeffler Chief Executive Jürgen Geissinger said in a statement.

Schaeffler, which has expertise in precision mechanics, ball bearings and clutches, said it will be able to develop more sophisticated products in the area of fuel-efficiency technology by adding Continental's expertise in automotive electronics and hybrid-drivetrain technology.

German takeover rules dictate that any shareholder seeking control of more than 30% of a company needs to make a formal offer to all other outstanding shareholders. Should the offer be rejected by shareholders as too low—as some analysts predict it will be—Schaeffler would be free to build its stake further.

Bertelsmann is to divest more of Direct Group

BY MIKE ESTERL

FRANKFURT—German media giant **Bertelsmann** AG plans to further divest itself of struggling book, music and DVD clubs around the world but maintain footholds in several of Europe's biggest markets as part of a broader restructuring to jettison underperforming businesses.

The planned divestments, when combined with last week's sale of its U.S. clubs, would roughly halve revenue of Bertelsmann's Direct Group unit. The direct-marketing unit booked €2.56 billion ($4.07 billion) in sales last year world-wide, down 4.1% from the year earlier and representing 14% of Bertelsmann's overall revenue for 2007.

Bertelsmann, Europe's largest media company by sales, said in March it was conducting a strategic review of Direct Group after the unit's operating profit last year sank to €10 million from €110 million amid rising competition from the Internet. Bertelsmann also is exploring the sale of its 50% stake in Sony BMG Music Entertainment, a recorded-music joint venture with **Sony** Corp. of Japan that has also had revenue declines.

In a letter to employees Tuesday, Bertelsmann Chief Executive Hartmut Ostrowski said the company plans to sell its Direct Group businesses in 10 additional countries including the U.K., Russia and Australia.

He added that Bertelsmann would hold on to its club businesses in German- and French-speaking countries as well as in Spain, Italy and Portugal. A Bertelsmann spokesman confirmed the additional divestment plans at the Direct Group unit.

The latest moves are part of a broader restructuring by the media giant.

Bertelsmann said last Friday it was selling its Direct Group unit in North America to closely held Najafi Cos., a Phoenix-based investment firm, for an undisclosed sum. Bertelsmann also decided recently to pull out of the direct-marketing business in China, South Korea and South America. Mr. Ostrowski, who became CEO in January, hasn't ruled out other divestments after Bertelsmann's overall revenue dropped 2.8% last year. He has said he would use divestment proceeds to expand into faster-growing businesses, including education services.

Bertelsmann could reach an accord to sell its 50% stake in Sony BMG to Sony as early as next month, people familiar with the matter say.

A Bertelsmann spokesman reiterated Tuesday that the German company could sell its stake, buy out Sony's stake or renew the joint venture, which was formed in 2004 and expires next year.

Bertelsmann's other holdings include RTL Group, a European television broadcaster; U.S.-based book publisher Random House Inc.; European magazine publisher Gruner + Jahr; and Arvato, a media-services unit.

—Ethan Smith in Los Angeles contributed to this article.

CORPORATE NEWS

AUTOMOBILES

Valmet, Fisker sign deal to build hybrid sports car

FINNISH car maker Valmet Automotive Oy said it signed a preliminary deal with **Fisker Automotive** Inc. to build the California-based company's plug-in hybrid sports car at its plant northwest of the Finnish capital. The deal's value wasn't disclosed.

Valmet, a unit of Helsinki-listed technology company **Metso** Corp., is set to start production of the Fisker Karma, Fisker's first production car, in the fourth quarter of 2009. The first cars are expected to be delivered to North America the same year and to Europe in 2010. Closely held Fisker said it plans to produce up to 15,000 cars a year at the Uusikaupunki plant, which employs around 800. *—Associated Press*

FOOD

Danisco sells sugar unit to Germany's Nordzucker

DANISH sugar and ingredients company **Danisco** AS said it sold its sugar unit to Germany's **Nordzucker** AG for 5.6 billion kroner ($1.19 billion). Danisco declined to break out the amount of debt in the deal, citing fluctuations in working capital during the year due to the harvest of sugar beets. The company said it will also receive 600 million kroner from the sale of its European Union sugar quota for 2007-2008 and earlier. Proceeds of the sale, which was announced late Monday night, will be split between reducing net debt and initiating a share-buyback program, the company said.

—Dominic Chopping

AUTOS

Mitsubishi Motors loses defect litigation in Japan

A JAPANESE court found **Mitsubishi Motors** Corp. and three former executives guilty of falsifying a report to the government in a fatal accident suspected of being linked to a wheel defect. The Tokyo High Court threw out a 2006 decision by a lower court that acquitted the three executives, including the former chairman of Mitsubishi Fuso Truck & Bus Corp. The trial focused on whether the executives tried to hide a wheel defect suspected of being linked to the February 2002 fatality. Under Tuesday's ruling, each defendant will receive a fine of 200,000 yen, or about $1,900, the maximum penalty for the charge under Japanese law. *—Associated Press*

Stronger airlines soaring

Oil wealth helping some carriers spend freely as rivals suffer

BY DANIEL MICHAELS AND SUSAN CAREY
Farnborough, England

QATAR AIRWAYS Tuesday placed a firm order for four Airbus jetliners, the latest Middle East carrier to flex its financial muscle at the Farnborough International Airshow, where most airlines have been sitting on the sidelines.

With their deep pockets, strong cash flows and efficient new fleets, Abu Dhabi's **Etihad Airways**, Dubai's **Emirates Airlines** and **Qatar Airways** are part of an elite class of rising carriers. The club, whose members span continents and business models, also includes budget giants **Southwest Airlines** Co. of the U.S. and **Ryanair Holdings** PLC of Ireland; a revitalized **Air France-KLM** SA and **Deutsche Lufthansa** AG; longtime Asian leaders Singapore Airlines Ltd. and **Cathay Pacific Airways** Ltd.; and Chile's multinational **LAN Airlines** SA.

Their strength underscores the growing gulf between the industry's haves and have-nots. Even with the price of aviation fuel more than double what it was a year ago, these powerful players are able to hedge fuel costs, borrow money, buy new planes and pamper high-paying customers while their poorer rivals cut routes and seek cash infusions. As the weak retrench, the strong are poaching their passengers, further widening the gap.

But some experts say that before the winners truly emerge, the whole industry will, to some extent, feel the pinch of rising oil prices and the global economic slowdown. "Before we get to a new world order, we're going to have a period of new world disorder," says Henri Courpron, a former Airbus executive who heads the European practice of airline-restructuring-advisory firm Seabury Group.

For now, at least, U.S. airlines are among the worst-off in the developed world, thanks to the ultracompetitive American market, their lower proportion of international flights and the weak dollar. The dollar's weakness puts them at a disadvantage to foreign carriers whose stronger currencies make buying pricey dollar-denominated fuel less of a burden.

Some analysts believe the U.S. airline industry could post a combined loss of $10 billion this year, close to the record loss it racked up in 2002. But with oil at about $140 a barrel, the pain also is spreading from Canada and Latin America to Europe and Asia.

The strong carriers, meanwhile, are drawing their strength from various sources. Etihad and Qatar Airways are owned by cash-rich governments willing to invest heavily without demanding quick returns. FlyDubai, which has been set up with the support of the Dubai government and Emirates Airlines with plans to start flying as a budget airline in the second half of 2009, kicked off Farnborough with an order for 54 Boeing 737-800 narrow-bodied aircraft, including four under a lease arrangement, in deals valued at some $4 billion.

The haves of the airline industry also operate in markets buoyed by oil wealth. While aviation-leasing companies unveiled a few deals on the second day of the air show, such as Dubai aircraft-leasing company DAE Capital's order for 100 Airbus aircraft, the biggest orders came from carriers based in the Middle East and Nigeria, where coffers have swelled in recent years as demand for oil has boosted revenue. Nigerian carrier **Arik Air** said Tuesday it had placed an order for seven next-generation Boeing 737s, adding to its existing order of 10 of the aircraft.

Getty Images

Still climbing

Passengers carried by some of the stronger airlines in the industry.

Airline	2007 passengers (millions)	Change from previous year
Etihad	4.6	64.3%
LAN	11.1	24.9
Ryanair	48.4	19.3
Cathay Pacific*	17.8	6.6
Southwest	101.9	5.9
Air France-KLM	74.7	2.7

*Excludes Dragonair
Source: The companies

Etihad ordered a total of 100 jetliners Monday from Airbus and **Boeing** Co. Though four-year-old Etihad Airways says it may miss its goal of breaking even by 2010, it continues to plow money into expansion. The orders for 45 aircraft from Boeing and 55 from Airbus, a unit of **European Aeronautic Defence & Space** Co., are valued at about $20 billion at list prices.

Singapore Airlines and Cathay Pacific have prospered by offering lavish customer service and intercontinental connections that appeal to business travelers. In their premium cabins, they charge premium fares.

On Singapore's five new Airbus A380 superjumbo jetliners, first-class passengers sleep on sheets made by French fashion house Givenchy, while coach passengers have USB ports for connecting their own electronic devices next to their seat-back video screens. The airline, a unit of **SIA Group**, said its operating profit rose 60% in the fiscal year ended March 31.

Ryanair, Europe's biggest budget carrier, has €2.2 billion ($3.5 billion) of cash on hand, meaning it can afford to park some planes this winter if traffic falls off. "We're all suffering, but some are suffering more than others," said Michael O'Leary, its CEO.

European leaders Air France and Lufthansa have strengthened their positions by building up their long-haul businesses as Ryanair and other European discount airlines have expanded in Europe. With the cash it has generated, Air France-KLM has hedged its fuel needs for four years into the future and is buying fuel-efficient new planes. "We have a little more time to adapt" to soaring fuel prices, says Chief Executive Pierre-Henri Gourgeon.

—David Pearson and Bruce Stanley contributed to this article.

Boeing still sees Dreamliner in air this year

BY MONICA GUTSCHI

Boeing Co. is sticking to its goal of having the 787 Dreamliner fly in the fourth quarter, despite running into a number of unexpected problems that are eating into the margins built into the schedule.

Among the unforeseen snags is a delay in certifying the braking system, said Pat Shanahan, general manager of the 787 program. Also, final testing of the hydraulic system is behind schedule, and work still needs to be done on the midbody of one of the six test aircraft.

"At this point it doesn't change flying in the fourth quarter," Mr. Shanahan said at a briefing at the Farnborough airshow in England. "But I'm eating at margin I don't want to eat." He said the program is making steady progress but there are still a number of pieces to put into place, comparing the process to a "giant game of whack-a-mole."

Earlier this month, the fuselage of the fourth 787 test plane was damaged when a worker at key supplier Alenia North America reportedly used the wrong fasteners. The aircraft is now expected to arrive in Everett, Wash., for final assembly two to three weeks later than planned. Alenia North America is a subsidiary of Alenia Aeronautica, a unit of Italy's **Finmeccanica** SpA.


Pat Shanahan

The 787 program has been delayed three times as Chicago-based Boeing struggled with supply-chain difficulties, a shortage of parts and other problems, pushing back first delivery by about 14 months.

The company did achieve a major milestone recently in a successful "power on," tests that verify electrical-power distribution and use.

Other milestones yet to be met will be the safety-flight testing, which is nearly complete, and qualification of hardware, which should be completed by mid-August with the exception of the braking system.

Mr. Shanahan said he was working hard to "really speed through" reports to the U.S. Federal Aviation Administration that don't involve flying as part of the certification process. "What I'm pushing for is not to show up on the last day," Mr. Shanahan said, but rather to have a "steady stream of deliverables" provided to the FAA.

The 787 has been enormously popular with airlines, because it promises to save 20% on fuel while providing additional cargo space and improved passenger comfort. Boeing has received 896 orders for the aircraft.

For CEOs, Beijing Games can't be missed

Firms doing business in China realize need to attend big moment

By Mei Fong

BEIJING—In addition to thousands of athletes, more than 80 heads of state and about 30,000 members of the media, another group is expected to invade Beijing in force for the Olympics next month: corporate executives.

Lured by the growing importance of the Chinese market and the chance to help Beijing celebrate its biggest international event yet, the number of CEOs planning to attend the Beijing Games is likely to rival the number at the annual World Economic Forum meeting in Davos, Switzerland, which often lures more than 1,000 business leaders.

"It goes beyond just a wonderful sporting occasion. There are political and economic implications," says Sir Martin Sorrell, chief executive of advertising conglomerate **WPP Group** PLC, who is planning to attend. "You could call it a sporting Davos."

Many executives see the Olympics as a can't-miss event for companies that do big business in China or hope to. Among other CEOs planning to be there are **General Motors** Corp.'s Rick Wagoner, **BP** PLC's Tony Hayward, **Blackstone Group** LP's Stephen Schwarzman, **Wal-Mart Stores** Inc.'s H. Lee Scott Jr. and Terry Leahy of rival British chain **Tesco** PLC, and Rupert Murdoch of **News Corp.**

Many telecom chiefs, such as **AT&T** Inc. CEO Randall Stephenson, will also be present at an Olympics bash thrown by **China Mobile** Ltd.

The top executives of dozens of Olympic sponsor companies, including **McDonald's** Corp.'s Jim Skinner, **Volkswagen** AG's Martin Winterkorn and **General Electric** Co.'s Jeffrey Immelt, are also on the list. Many of these companies will hold board meetings in Beijing.

The Games are a big draw for chiefs of countries, too. George W. Bush will be the first sitting U.S. president to attend an Olympic Games opening ceremony on foreign soil. Despite controversy over some of China's policies—as seen in the demonstrations during the recent Olympic torch run—the number of heads of state planning to attend the opening ceremony is roughly double the number who attended the opening of the Athens Games four years ago.

China's government, worried about security and the prospect of unsightly protests, has made it more difficult for ordinary tourists to get visas this summer, and encouraged many of Beijing's poorer migrant workers to return to their homes elsewhere. But for VIPs, the city is rolling out the red carpet—and it expects executives to accept the invitation.

"For those who wish to be important in business in China for the next 20 years, people in China will ask you if you were here during the Olympics. And if your answer is 'No,' they'll ask, 'Why?' " says Matt Estes, a Beijing-based businessman who is helping organize a gathering for the Young Presidents' Organization, an international club largely made up of CEOs under age 45.

It is easy to see why they care. China, long a land of big potential, has become increasingly vital to growth and profitability for a wide swath of companies, especially as the U.S. economy sags. China is already the world's biggest cellphone market by number of users, and the second-biggest market after the U.S. for products from oil and cars to personal computers. This year, the number of Internet users in China surpassed that in the U.S.

Showing up "to show support for China" is key for big multinationals with stakes in the country, says James McGregor, CEO of JL McGregor & Co., a research consultancy that helps clients navigate China's business and political culture. "China is prickly when it comes to crucial times like this, and this is China's national achievement test, their way of telling the world, 'We've achieved. Give us credit,' " he adds.

Both the Chinese public and the country's leadership were quick to take offense when some heads of state publicly dithered over whether to attend the opening ceremony, following demonstrations against China's Tibet policies in London, Paris and other Western cities along the global Olympic-torch relay route.

While French President Nicolas Sarkozy publicly hesitated over attending, some Chinese consumers boycotted French companies, such as supermarket chain **Carrefour** SA, and major Beijing travel agencies stopped booking tours to France. Mr. Sarkozy has confirmed he will attend the ceremony.

Of course, the invasion of corporate bigwigs is leading to headaches for planners: How can you give someone VIP treatment when everyone is a VIP?

With dozens of executives flying in on private planes, airspace clearance is a problem. Not to mention front-row seats to hot events—tickets for the opening ceremony are now going for $50,000 in the gray market.

Olympics officials say that because of traffic controls, some bigwigs will have to forgo their usual limos and take the bus (luxury coaches, of course). Limousine companies say they are already almost booked solid. Nearly all of the dozens of BMWs at First Automobile Leasing Co. have been reserved for the Olympics period at a daily rate of 15,000 yuan, ($2,190), quadruple normal rental rates, says a person in the reservations department. Of the prices, she says, "Everything is possible during the Olympic Games."

Space—and tickets—may be tight. There won't be enough air-conditioned skyboxes at the National Stadium, known as the "Bird's Nest," for all the VIPs during the opening ceremony, says John Pauline, an architect who helped oversee the construction of some of the major Olympic venues. Many corporate chiefs will be seated in "special" seats which are more plush than most, but aren't air-conditioned. That could be uncomfortably sticky in the enclosed stadium in August, traditionally Beijing's hottest and most humid month. And like all guests, they will have to arrive hours early.

Many top execs will bunk at five-star hotels such as the JW Marriott and the Ritz-Carlton, while most heads of state will be put up at the China World Hotel, according to people familiar with the matter. To prepare for the influx, the Ritz-Carlton is tripling its order of Bulgari toiletries and flying in 10 extra spa specialists from Indonesia, as well as 35 concierges, sommeliers and front staff from other branches, said a spokeswoman.

Illustration by Lou Beach; photo-credits; Photos by AP; Getty; Bloomberg News/Landov; AP (2)

Many restaurants, bars and clubs will be cordoned off for companies and embassies hosting events. The U.K. contingent—London will host the 2016 Games—has booked the Shichahai Club in the picturesque lake area northwest of the Forbidden City.

Even going through VIP channels at Beijing airport could be problematic. Use of the channels—which let people zip through immigration and baggage collection—is normally reserved for those willing to pay an extra fee or given as a perk to those purchasing pricey golf-club memberships. Some Olympic organizers say these channels will likely be closed to allow room for "genuine" VIPs.

Airport authorities didn't respond to requests for comment. "I don't think the VIP channels will be simply closed for public or non-Olympic related passengers, which is in conflict with our goal of holding a people's Olympics," said Shao Ziqiang, a spokesman at the Beijing Organizing Committee for the Olympic Games.

Security experts say that despite the presence of so many important guests, China will be reasonably safe, given the authorities' tight control. Indeed, that could become a problem—the lockdown on information makes it hard for security officers to plot logistics and plan routes, says Dane Chamorro, regional Asia manager for Control Risks Group Ltd., which handled some security in the 2000 Sydney Games.

Sharing information is "one area [in] which people say organizers have fallen short of expectations," he says.

Security professionals in Beijing are more in demand to provide concierge-type services such as scheduling and pick-ups, says Steve Vickers, chief executive of International Risks Ltd. in Hong Kong. "Beijing is far safer than most places in the U.S.," he says, adding the greatest risk for people traveling outside Beijing "is probably traffic accidents."

—Bai Lin, Geoffrey A. Fowler and Sue Feng contributed to this article.

CORPORATE NEWS

Reaping what others sow

U.S. farmers score big profits selling crops from abroad

By Julie Jargon

INVER GROVE HEIGHTS, Minn.—Five years ago, **CHS** Inc. was muddling along exporting U.S.-grown corn, wheat and soybeans to foreign customers. Then, Chief Executive John Johnson hatched an idea that amounted to heresy in a company owned by American farmers: CHS should buy grain from growers outside the U.S.

The result is one of the most unlikely success stories of the global grain boom. CHS, once a loose collection of farm co-operatives scattered across the U.S., has emerged as a new powerhouse of the world agriculture industry, butting heads with giants **Archer-Daniels-Midland** Co., **Cargill** Inc. and **Bunge** Ltd.

Now, CHS farmer-shareholders who once fretted about cutting foreign rivals in on their action are reaping juicy dividend checks from CHS. Its stock isn't widely traded, but early this year, CHS returned $345 million in cash and preferred stock to shareholders for profits made in the fiscal year ended Aug. 31, 2007, more than five times the $61 million of five years ago.

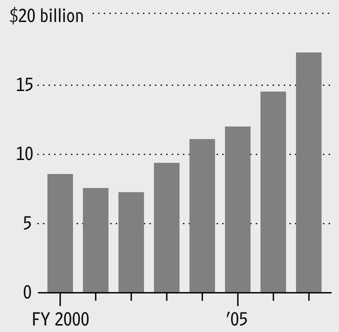
On Thursday, CHS reported revenue rose 86% to $22.8 billion through May, compared with a year earlier, while profit rose 43% to $657 million in the period. Revenue for the third quarter ended May 31 almost doubled to $9 billion. The quarter-to-quarter profit comparison was hurt by a sharp decline in CHS's oil-refining business, but income before taxes in the company's agriculture sector more than doubled to $180 million.

The Minnesota company prospered in large part because it partnered with farmers in South America and Eastern Europe and with grain brokers in Australia and Canada. While prices for grains and soybeans have soared, CHS has had plentiful supplies for hungry customers in China, India and other developing countries. The co-op's shareholder-farmers in the U.S. sold all they could grow while benefiting indirectly from CHS's sales of foreign supplies.

Matt Litwiller, general manager of a CHS farmer co-op in Ostrander, Minn., says the idea of buying grains from farmers in Brazil and Argentina was at first "a real hard pill to swallow." But last year, CHS sent his co-op a $155,000 dividend that helped the co-op purchase grain-storage bins, a propane truck and trailers to haul grain. "When you see the kind of dividend checks they're sending right now, it's hard to disagree with them," Mr. Litwiller says.

The global shift has also thrust CHS into the middle of the food-versus-fuel debate roiling policy makers world-wide. Rising grain prices and squeezed supplies have resulted in riots, hoarding and export restrictions.

Growing revenue
Annual revenue for CHS



Note: Fiscal years end Aug. 31
Source: the company

"We don't sit here and make decisions about who gets grain," says Mr. Johnson, 59 years old, a former feed salesman who grew up on a cattle ranch in Bowman, N.D. "The market determines who [gets] the product, when and at what price."

Cargill, ADM and Bunge all contract with farmers in foreign countries. But doing so was a much trickier maneuver for CHS because it is essentially a co-operative of co-operatives—organizations that market the products of their members. In the case of CHS, the amount of ownership in the company is determined by how much business each co-op or individual farmer does with it.

When CHS makes a profit, it returns a portion of it to its members in cash known as "patronage", and the rest is retained in equity that the members can redeem at a future date. Each of the 17 members of CHS's board of directors is a farmer or rancher who runs for election in the region he represents. (Mr. Johnson isn't a board member.)

CHS was formed in 1998by the merger of co-ops Cenex Inc. and Harvest States, both of suburban St. Paul. It has grown partly by gobbling up dozens of smaller co-ops and entering into joint ventures. In addition to marketing more than one billion bushels of grain and soybeans annually, CHS owns oil refineries and pipelines, co-owns a small maker of salad dressings and vegetable oil, sells fertilizer and animal feed, and owns an 8% stake in **VeraSun Energy** Corp. of South Dakota, one of the nation's largest ethanol producers. Today, about 60% of CHS's revenue comes from grain and soybean sales, up from 40% three years ago.

Mr. Johnson who had come up the ranks at Harvest States, became CEO of CHS in June 2000. On a trip to Brazil two years later, he recalls, "I got off the plane in São Paolo and saw placards for drivers picking up executives from every U.S. [agriculture] company you can imagine." He says he thought, "They're already here, and we're just getting started."

Western companies were investing heavily in Brazilian agriculture, and farmers there had access to better seeds, equipment and fertilizer. At the same time, demand for grains to feed cattle and pigs was beginning to increase in China and other developing nations as their growing economies lifted the poor into the middle class.

CHS was selling a lot of U.S.-grown soybeans in China. "But when Brazil started to increase production of soybeans, it looked like we'd have to walk away from our customers for five months out of the year" when soybeans weren't grown in the U.S. and cede that business to Brazil, Mr. Johnson said.

To avoid that, he took CHS board members on trips to China and India, where demand for grains was growing fastest. "When they had the opportunity to see the same things I saw, they got it," he said.

Selling the tens of thousands of farmers and ranchers who own CHS shares on the need for outsourcing wasn't as easy. U.S. farmers in the early part of this decade were facing low prices for their grains and soybeans because of supply gluts around the world.

Mr. Litwiller, the Ostrander co-op manager, recalls hearing the idea pitched at a CHS member meeting at a lakeside resort in Brainerd, Minn. "At the time, Brazil was flooding the market with soybeans and everyone felt that that was dragging down the U.S. soybean market, so why would we go down there?" he recalls. "I knew the struggles of a family farm," he adds, " and it was very hard for me to think a company would go out and outsource crops."

Mr. Johnson argued that if CHS couldn't sell grains directly to global customers year-round, the company would have to become a third-party supplier to ADM and other rivals that could—and CHS members wouldn't be getting dividend checks from those companies.

Mr. Litwiller recalls Mr. Johnson telling the group that if every person in China consumed 10 bushels of grain a year, the total would come to 10 billion bushels annually.

"That was my 'Aha' moment," Mr. Litwiller says.

Today, 10% of the wheat CHS exports is grown in Eastern Europe and a third of its soybean exports come from South America. CHS also gets grains in Australia and Canada, mostly through third parties.

The diversified sourcing base has helped CHS manage risk and create arbitrage opportunities. For instance, when it looked as though farmers in Argentina might strike recently, the company started shipping more soybeans out of Brazil and the U.S. to provide an uninterrupted supply to China. When drought hurt Australia's wheat supply last year, CHS tapped its U.S. supply for customers in Indonesia.

As grain prices rose, so did CHS's revenue, profit and those patronage checks. Last year, CHS opened business-development offices in Hong Kong and Shanghai and a grain-procurement office in Geneva. It eliminated most of its third-party brokers so it could cut costs and deal with customers one on one.

T.C. Ong, head of international trading for Golden Agri International, appreciated that. His Singapore-based soybean-oil manufacturer crushes almost one million tons of soybeans a year for sale in China, and he says he recently called CHS directly to inquire about how floods in the U.S. Midwest would affect his supply. He saw no interruption, he says.

More changes are in store at CHS headquarters, a six-story building nestled in a hillside of suburban St. Paul. Hanging in the lobby is a 1957 wooden mural depicting images of farmers and ranchers doing their work. It is being moved to a less prominent location in favor of a new exhibit that includes clocks set to the time in St. Paul, São Paulo, Geneva and other international cities.

Gazprom lifts spending to bring new fields online

By Jacob Gronholt-Pedersen

MOSCOW—**Gazprom** raised its capital-spending plan for this year to a record level, as the Russian gas monopoly gears up to bring key new fields online.

Gazprom said total investments, including acquisitions, will reach 821.7 billion rubles ($35.5 billion)—up 111.5 billion rubles from its December plan. Capital spending, raised 11% to 531.2 billion rubles, will mainly go toward the development of new fields in the Arctic, East Siberia and Russia's Far East, Gazprom said.

During the next decade, Gazprom intends to launch key fields such as Bovanenkovskoye on the Yamal peninsula and Shtokman in the Barents Sea. Both fields are located in harsh climates, demanding higher investment.

The move comes amid concerns Gazprom isn't investing enough in new fields to make up for falling output at its main maturing fields in West Siberia.

"They really have a lot to do and the sooner they develop these fields the better," said Tatiana Kapustina, an analyst at Deutsche Bank in Moscow.

The Paris-based International Energy Agency has repeatedly urged Gazprom to invest more in upstream activities in order to meet rising demand in Russia and Europe. The company, however, says it can increase production at any moment if demand rises.

Gazprom also said it needed the additional funds to finance the Sakhalin II project in Russia's Far East, in which it obtained a controlling stake in 2006, and the Nord Stream project, a gas pipeline that it plans to bring online jointly with German energy companies to ship natural gas to European consumers.

Gazprom, which supplies a quarter of Europe's gas, has repeatedly stated its plan to raise its capitalization to $100 billion by 2020 and has said it intends to become one of the world's three largest companies.

Gazprom shares ended down 2.8% at 305 rubles each.

Intel delivers new version of its Centrino laptop chip

By Don Clark

Intel Corp. is delivering the second generation of its Centrino chip technology for laptop computers, but the timing is raising questions about the back-to-school selling season.

The company said about 250 laptops are being designed with the new technology. Intel also vowed to deliver a series of other chips in the next 90 days, including its first "quad-core" product for portables—with the equivalent of four rather than two electronic brains.

Centrino, first introduced in 2003, includes three products—a microprocessor, a chip set that handles other internal chores in a PC and chips that provide wireless networking. The version called Centrino 2, formally unveiled at an event late Monday in San Francisco, offers higher performance, a faster version of the wireless technology called Wi-Fi and microprocessors that draw about 30% less power than prior models.

Intel, of Santa Clara, Calif., had been expected to introduce the chips in early June. But the company pushed the date back to Monday, citing problems in perfecting built-in graphics circuitry in the chip set and regulatory paperwork associated with the wireless chips.

The company said in June that a version of Centrino with the built-in graphics—the way most laptop computers are designed—won't be available in systems until early August.

Advanced Micro Devices Inc., meanwhile, has been shipping its own combination of chips for laptop computers—including built-in graphics—since early June. And summer is when many parents buy their children new notebook PCs. "Essentially Intel has missed the back-to-school season," said Pat Moorhead, an AMD vice president. "We can obviously capitalize on that."

Mooly Eden, an Intel corporate vice president and general manager of its mobile platforms group, played down the impact of the graphics delay. "You will see it on the shelf in the coming weeks," he said.

British Airways faces difficulties

By Gabor Debreczeni

LONDON—**British Airways** PLC Chairman Martin Broughton said it will be a "considerable achievement" for the airline to break even in the current fiscal year, because of soaring fuel costs and an economic downturn.

Speaking to shareholders at the company's annual general meeting, Mr. Broughton said the airline was making changes to enable it to post a profit for the year ending in March 2009, adding the details have yet to be finalized.

The changes are expected to include slowed or suspended recruitment, implying a potential decrease of 3,000 jobs a year, as well as a cut in capacity.

Chief Executive Willie Walsh said the airline would keep its seat capacity flat overall during the current year because of a 3% to 5% fall in capacity in the winter on routes with multiple flights. Mr. Walsh said no jobs are at risk before March, and no planes will be grounded, even though a few short-haul routes might be cut. Final decisions on capacity reductions will be announced by the beginning of August.

Meanwhile, low-cost airline **Ryanair Holdings** PLC said it will cut aircraft capacity at Dublin Airport by 18% this winter, blaming high airport charges. The move comes as Ryanair scales back wider seat capacity this winter in response to rising fuel prices and an expected economic downturn.

—Quentin Fottrell in Dublin contributed to this article.

CORPORATE NEWS

BT to invest $3 billion on U.K. Internet service

Fiber-optic strategy takes aim at rivals in broadband market

BY VLADIMIR GUEVARRA

LONDON—**BT Group** PLC said it plans to invest £1.5 billion ($3 billion) in fiber-based broadband-Internet service for as many as 10 million U.K. homes by 2012.

The U.K. has been behind some other countries, notably France and South Korea, in broadband development, and the telecom firm said the investment in fiber will allow it to deliver so-called next-generation broadband services, including high-definition television, high-quality video and teleconferencing.

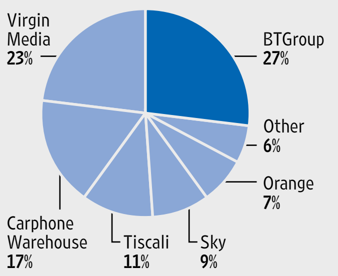
"Broadband has boosted the U.K. economy and is now an essential part of our customers' lives," said BT Chief Executive Ian Livingston. "We now want to make a step-change in broadband provision which will offer faster speeds than ever before."

The fiber-optic-cable strategy is designed to allow BT, which gives competitors access to its networks, to move a step ahead of rivals in the broadband market—including **Carphone Warehouse** PLC, **France Télécom** SA's Orange, and **British Sky Broadcasting** PLC. **News Corp.**, which owns The Wall Street Journal's publisher Dow Jones & Co., is a roughly 39% stockholder in BSkyB.

BT's only major rival in the U.K. fiber-optic market is **Virgin Media** Inc., which plans to roll out a 50-megabytes-per-second service to about 12 million homes by mid-2009.

Networks divided

Shares of the U.K. broadband market, first-quarter 2008



Source: Broadband Stakeholder Group

BT said it will sell its new services wholesale to help ensure competition and will press for any other next-generation network in the U.K. to be open to other companies.

Given the regulatory environment, BT likely had no other choice. The European Union's telecommunications commissioner, Viviane Reding, has said she wants to prevent the emergence of monopolies as part of the deployment of high-speed networks in Europe, while encouraging long-term investment.

The fiber-optic cable should deliver top Internet download speeds of up to 100 megabytes per second, with potential for speeds of more than 1,000 megabytes in the future, BT said.

But BT made it clear it will only make the move if U.K. communications-industry regulator Ofcom allows it to get a decent return on investment.

U.S. billionaire Ross plans to invest in India's SpiceJet

BY CARLOS TEJADA AND NITIN LUTHRA

U.S. billionaire Wilbur Ross, who has dived into troubled industries such as steel, mortgages and auto parts, is dipping his toe into Indian airlines.

WL Ross & Co., Mr. Ross's New York-based investment vehicle, has agreed to invest 3.45 billion rupees ($80.4 million) in **SpiceJet** Ltd., a discount carrier based in New Delhi. The investment will involve "equity-like securities," Mr. Ross said in an interview, though he and the airline declined to disclose exact terms, citing ongoing discussions. They said any equity stake likely wouldn't surpass the 15% threshold above which an offer for an additional 20% of the company would be required under Indian rules.

Wilbur Ross

Like many of the world's airlines, India's carriers are beset by surging fuel prices, which have led to higher fares and curbed growth in passenger traffic. The country also faces intense competition from a number of new, low-cost carriers operating domestically.

But Mr. Ross, who noted that the SpiceJet deal is a small one for his firm, said he sees continued growth potential in India's discount airlines due to expectations of continued economic expansion and the nation's weak ground-transportation infrastructure. "We believe ultimately in the low-cost-carrier model, particularly in developing countries."

He also said he believes oil prices will moderate, giving airlines more maneuvering room. "We believe to some degree that oil is in a bubble," he said. "Perhaps a year or two down the road it will settle at $100 barrel, down from $145. Our strategy is to put enough capital into [SpiceJet] to get through that period. We believe there will be fewer competitors in the Indian scene by then."

Mr. Ross said his firm has done more research on airlines in India than in other markets. The firm's offices continue to look for opportunities among airlines in Europe and the U.S. In those areas, "we've not been able to come up with what we view as a good opportunity," he said.

Mr. Ross cited SpiceJet's fleet—it flies only Boeing 737s, cutting out the need for parts and training on other models—and its simplified route structure as attractions.

Shares of SpiceJet closed at 28.55 rupees (67 U.S. cents), up 2.1% on the Bombay Stock Exchange.

Like other local airlines, SpiceJet has cut routes and frequency of flights over the past few months.

GLOBAL BUSINESS BRIEFS

Hennes & Mauritz AB

Sales increased 8% in June, helped by low-price strategy

Sweden's **Hennes & Mauritz** AB posted an 8% rise in June sales, as its low-price strategy helped it to weather the downturn in consumer demand. However, sales from stores open longer than a year fell 2%, H&M said. The company said monthly sales growth was curbed by one more Sunday in June 2008 than a year earlier. In May, sales had risen 25% from a year earlier, while same-store sales grew 14%. The June sales numbers were a positive surprise, considering recent negative retail signals from key markets such as Germany, Britain, France and Sweden, said Andreas Lundberg of Handelsbanken Capital Markets. As of June 30, H&M had 1,600 stores, up 13% from 1,420 a year earlier.

Burberry Group PLC

U.K. luxury-goods company **Burberry Group** PLC said fiscal-first-quarter sales held up well despite increasingly tough conditions, helped by demand for funky shoe styles and variations of its classic trench coat. The company said sales rose 26% in the quarter ended June 30 to £211 million ($421 million) from £167 million a year earlier. Weak sales in Spain were offset by strong growth in Europe, the Americas and Asia, as well as in nonapparel operations, the company said. Sales at stores open at least a year rose 4.5% in the quarter, stripping out currency fluctuations. Chief Financial Officer Stacey Cartwright said sales have essentially held up from the fiscal fourth quarter.

Yara International ASA

Yara International ASA said its second-quarter net profit more than tripled as higher grain prices bolstered demand, but it noted that energy prices in the second half of the year will be significantly higher than last year. The Norwegian fertilizer company also said it will buy closely held Canadian nitrogen producer Saskferco Products Inc. for 1.6 billion Canadian dollars (US$1.6 billion) from U.S. fertilizer producer **Mosaic** Co. and the province of Saskatchewan, in a move to boost commercial opportunities in the Midwest. Yara said net profit rose to 4.42 billion Norwegian kroner ($873 million) from 1.42 billion kroner a year earlier. Revenue was up 71% to 23.38 billion kroner. Yara warned that energy costs in the third quarter will be 1.5 billion kroner higher than a year earlier.

Commonwealth Bank

Commonwealth Bank of Australia's Colonial First State Global Asset Management said it won about one billion Australian dollars, or roughly US$1 billion, in new infrastructure investment mandates in less than nine months, taking total assets under management to more than A$3.5 billion. Colonial First State Global Asset Management said it will seek to raise a further A$500 million for two of its Australian unlisted infrastructure funds and start a new infrastructure product in Europe. Commitments of €500 million, or about US$800 million, will be sought from European institutional investors for the new **First State Diversified Infrastructure Fund.**

Lehman Brothers Holdings Inc.

Lehman Brothers Holdings Inc., which is struggling to improve its share price, has rehired Shaun Butler, its former longtime head of investor relations. Ms. Butler returned to work Monday after leaving the Wall Street firm five months ago. She said she traveled with her family following her resignation earlier this year and decided to return to Lehman after stopping by the broker's offices to talk to Lehman Chief Executive Richard Fuld Jr., who has been searching for ways to turn around Lehman's fortunes. Ms. Butler left Lehman at the beginning of February, when the company's shares were trading above $60. In early-afternoon trading Tuesday on the New York Stock Exchange, Lehman was up 11% at $13.80.

Petroliam Nasional Bhd.

Malaysia's state-owned **Petroliam Nasional** Bhd. posted a record net profit for the year ended March 31, saying it rose 32% on strong sales and higher prices for crude oil and petroleum products. Net profit rose to 61 billion ringgit ($18.88 billion) from 46.4 billion ringgit, according to Malaysia's biggest company. Revenue rose 21% to 223.1 billion ringgit from 184.1 billion ringgit, with international operations being the biggest contributor, accounting for 90 billion ringgit. Petronas said it sold Malaysian crude oil on average at $86.81 a barrel, up 27%, amid record oil prices. Its average production rose 3.7% to 1.77 million barrels of oil equivalent a day.

—Compiled from staff and wire service reports.

ON OTHER FRONTS

Dispatch / By Andrew Osborn

In a vote for Russia's 'greatest,' Stalin is a popular, and vexing, pick

Moscow

IN THE LAND of Tolstoy and Tchaikovsky, a contest to identify Russia's "greatest" historical figure has two early front-runners: autocratic Czar Nicholas II and dictator Josef Stalin.

While former dissidents and human-rights activists are horrified by the success of Stalin, who historians say sent tens of millions to their deaths, organizers of the popularity contest are unsurprised.

"He's like a brand. It's like Coca-Cola," says Alexander Lyubimov, a senior executive with Rossiya TV, the state-controlled broadcaster behind the "Name of Russia" contest.

The vote has fired people's imagination at a time when the Kremlin is trying to reclaim parts of its Soviet and Czarist past to forge a new nationalism. But as early results have shown, finding suitable heroes in a country with a centuries-old tradition of authoritarianism is complex. Elsewhere, the task was less fraught. In the U.S., a similar contest chose Ronald Reagan; in Britain, Winston Churchill; and in South Africa, Nelson Mandela.

Russian online voters have narrowed the field from 500 names to 50 and will boil that down to 12 names. The Rossiya TV channel will broadcast shows in the fall about each finalist, and voters will choose a winner in December.

Stalin took an early and large lead in the contest but was narrowly overtaken by Nicholas II on Monday as thousands of monarchists and anti-communists organized an anti-Stalin "clickathon." Nikolai Lukyanov, chairman of a large monarchist group, said a Stalin victory would shame Russia internationally. He said the "clickathon" was organized to show that Russians "are no lover of Stalin, disgrace and blood."

Nicholas II's narrow lead comes as monarchists prepare to mark the 90th anniversary of his execution by the Bolsheviks. Mr. Lyubimov says Russia's last czar is unlikely to win. Though Nicholas II is revered by the Orthodox Church, which canonized him, his detractors say his reign was marred by anti-Semitic pogroms, two disastrous wars, a civilian massacre and the near-collapse of the country.

But it is Stalin's popularity that has stirred greater anger. Liberal historians accuse the Kremlin of rehabilitating him in recent years, saying it has sought to reclaim the country's Soviet past to bolster its mantra that Russia is a great power.

"The authorities have opened Pandora's Box...and out jumped Stalin," says Arseny Roginsky, head of the human-rights group Memorial, which is devoted to exposing Soviet-era repression.

Stalin wasn't actually Russian: He was an ethnic Georgian whose original surname was Dzhugashvili. He has long enjoyed solid support here, though, as the man who won World War II for the Soviet Union and transformed the country into an industrialized superpower.

For much of the Soviet period, there was little examination of the darker side of his rule. This only began in earnest in the twilight days of the Soviet Union under Mikhail Gorbachev and in the early 1990s when human-rights groups began talking about Stalin's millions of victims.

Mr. Lyubimov, the Rossiya executive, got his start in national television at the time on a program that specialized in historical exposés.

But interest faded quickly as Russians clamored for Western consumer goods, South American soap operas and higher living standards.

As the Kremlin has adopted a feel-good brand of strident nationalism in recent years, Stalin has been revived. Historians say the Kremlin has skirted awkward historical moments that might spoil a message of Russia's greatness. The 70th anniversary of the Great Terror, which saw as many as two million people killed, passed last year without official ceremony. Then-President Vladimir Putin told history teachers the purges weren't as bad as atrocities perpetrated by other nations, notably the U.S.'s use of the atomic bomb.

New textbooks hail Stalin as an effective manager, and TV documentaries stress his achievements and alleged selflessness. Communist Party leader Gennady Zyuganov hailed Stalin's popularity this week, saying he could solve Russia's problems today "in one day."

The Kremlin has balked at others' attempts to besmirch its Soviet past. When former Soviet republic Lithuania banned the public display of Soviet symbols this year, the Kremlin called the move a distortion of history.

Sergey Kovalyov, a former dissident who spent seven years in Soviet labor camps and three years in internal exile in Siberia, said the popularity of Stalin was "very sad."

"How many people did he take away?" said Mr. Kovalyov, his voice trailing off.

California targets helium-filled foil balloons

By Amy Kaufman

California state Sen. Jack Scott says he didn't intend to "be a party pooper." It's just that helium-filled foil balloons—like those found at hospital gift shops and office parties—are dangerous. They float into electric lines and cause power outages, more than 800 in California last year, utilities say.

He drafted a bill to ban foil balloons; it sailed through the state Senate and now awaits a vote in the Assembly. He didn't expect the issue to blow up the way it did.

Last month, at a pro-balloon rally in a Pasadena park, protesters cheered as a group of children pounced on an effigy of Mr. Scott—made entirely of balloons.

"There's a leg, get that leg!" shouted John Kobylt, a radio talk-show host who broadcast the protest live. "Look what's left of him!" he said, holding up a sagging cluster of punctured latex. "That's what happens when you ban our balloons."

Wedding planners, party organizers and balloon artists all rallied to the cause. The industry body, the Balloon Council, set up a Web site—www.savetheballoons.com—that urges people to contact their state representatives. Members began a grass-roots campaign to garner support.

"My first reaction to this was, 'You've got to be kidding. Is this a joke?' " recalled Barry Broad, the lobbyist they hired to spearhead the pro-balloon effort. "Balloons and ice-cream cones are associated with the lighthearted parts of life, and now suddenly they have this evil-twin side?"

Others complained that balloon-sellers were an easy mark for legislators. "To them, we're just the balloon people. We've got the big noses and the floppy shoes," said Treb Heining, a balloon artist who began his career at 15 selling balloons at Disneyland and has since created installations for the Super Bowl and the Academy Awards.

Terri Adishian, the vice president of Balloon Wholesalers International in Fresno, recently traveled to Sacramento to press her case with state assemblymen. She brought a bouquet of foil balloons filled with air instead of helium that dragged on the ground to emphasize her point. "Balloons are magical because they float," she said.

She also made the case that balloons are big business in California. There are 45 million foil balloons sold in the state a year, selling on average for just over $2 a pop. When combined with floral arrangements or teddy-bear gifts, the gross hits $900 million. The state would be losing $80 million a year in sales tax if the ban goes through, the Balloon Council claims.

The pro-balloon people are hoping that even if the bill does pass, Gov. Arnold Schwarzenegger will veto it. At a recent news conference, the governor commented that he couldn't get the legislature to work on the now-overdue state budget. A member of the audience joked that they'd been too busy outlawing balloons.

"Oh yes, a very important law," mocked Gov. Schwarzenegger. "Let's outlaw the balloons. Let's punish the people again."

Mr. Scott, however, insists balloons pose a real danger and must be stopped no matter how unpopular the move may be. "It's not my intention to ruin birthday parties, but children will inevitably let these balloons go up into the air and that's a threat.

In California, the balloon industry has come under regulatory scrutiny before. In 1990, it became the only state to pass a law requiring that helium-filled foil balloons be sold with a weight affixed to them, such as a bag of chocolates or a coffee mug. Under Mr. Scott's bill, someone selling a helium-filled foil balloon on a string could be fined $100.

To cause a power outage, a metallic foil balloon must come in contact with two power lines at once. Typically, the balloon then burns and melts onto the power line. That usually causes a quick, inconsequential blip that might cause a clock radio to flash, though blackouts lasting for hours are also possible, according to Greg Simay, assistant general manager at Burbank Water & Power. Removing the balloons is potentially dangerous for the workers involved.

"They have to avoid touching the live line while trying to free a tangled balloon or scrape off melted balloons while in bucket trucks with high winds," said Scott Wetch, the legislative representative for the California Coalition of Utility Employees. He couldn't cite any examples of injuries associated with balloon removal.

Environmentalists say the balloons sometimes float out to sea, where they are ingested by marine animals that later die from gastrointestinal blockages. In 1985, Sheila Dean, co-director of the Marine Mammal Stranding Center, and her husband discovered a dead whale on New Jersey's coast. "When we opened it up, we found it had swallowed one of those large heart-shaped foil balloons," said Ms. Dean.

Switching from metallicized nylon to latex balloons, the professionals say, just won't do. "Foil adds the *pièce de résistance* onto our decorations," said Amanda Armstrong, a Mission Viejo event planner. "Latex doesn't pop enough for our clients. Everybody wants something high-end and glitzy."

Mr. Broad, the balloon lobbyist, has been trying to negotiate a compromise with legislators that might include larger warning tags on balloons and the funding of scientific research to develop materials that don't conduct electricity.

Laura Caldwell and her husband, Don, who made an effigy of California state Sen. **Jack Scott** in protest of his proposed balloon ban. A helium-filled balloon, right.

ECONOMY & POLITICS

OPEC

Monthly report forecasts drop in world oil demand

THE Organization of Petroleum Exporting Countries gave a downbeat outlook for world oil demand amid faltering economic growth and increased fuel conservation, suggesting the group may see no need to pump any more oil through year end. "Market fundamentals have clearly been softening. This trend in fundamentals is expected to continue—and even gather pace—into the coming year," OPEC warned in its monthly oil market report. The group said demand for OPEC crude, which meets about 40% of the world's daily oil consumption, could decrease by about 700,000 barrels a day next year. *—Spencer Swartz*

EUROPEAN UNION

Telecoms chief to issue rules to cap message fees

THE COST of sending a text message abroad is too high and must be capped, the European Union's telecoms chief said.

EU Telecoms Commissioner Viviane Reding said mobile-phone operators had failed to answer her pleas to slash roaming fees for text messages and she would put forward rules to cap charges in October.

A report from European regulators suggested that prices be capped at between 11 European cents and 15 European cents (18-24 U.S. cents) for each message. The average price across the EU was 29 European cents, it said, but this can go as high as 80 cents for Belgian customers. *—Associated Press*

BELGIUM

Government collapses as linguistic rift persists

BELGIUM'S government collapsed Tuesday, unable to resolve an enduring divide over more self-rule for the country's Dutch and French speakers. The gap was so wide the premier suggested the end of Belgium as a country was looming. King Albert II began discussions with lawmakers to try to resolve the situation. He didn't formally accept the resignation of government offered by Premier Yves Leterme, above, so Mr. Leterme's government will stay on in a caretaker capacity. The premier said Belgium's constitutional crisis stems from the fact that "consensus politics" across Belgium's linguistic divide no longer works. *—Associated Press*

Exchange of prisoners to bolster Hezbollah

Swap with Israel concludes two years of secret negotiations

ISRAEL AND HEZBOLLAH are expected to exchange prisoners and remains Wednesday, closing a painful chapter in their fight and cementing the Lebanese group's bolstered regional standing.

Israel expects to receive the remains of two Israeli reservists who were captured in a cross-border raid by Hezbollah in the summer of 2006 and who haven't been seen or heard from since. Israel waged an inconclusive war against Hezbollah in Lebanon as it tried to get them back.

By **Cam Simpson** *in Rosh Hanikra, Israel, and* **Farnaz Fassihi** *in Beirut*

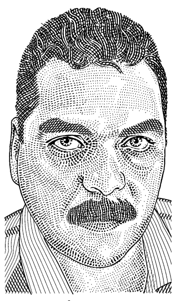
The Iranian-backed Shiite group, in turn, wins the return of Samir Kantar, one of the Arab world's highest-profile militants held in Israel. His release represents the successful conclusion of nearly two years of behind-the-scenes negotiations ordered by Hezbollah leader Hassan Nasrallah.

In a deal brokered by the United Nations, Israel agreed to hand over all five Lebanese prisoners currently held in Israel. The men are expected to be flown Wednesday to Beirut after crossing at Rosh Hanikra, an Israeli-Lebanon border post hewn into a cliff above the Mediterranean Sea.

Mr. Kantar is Israel's longest-held security-related prisoner and the Jewish state's onetime poster boy for Arab terrorism. His attack on an Israeli coastal village in 1979 left five Israelis dead, including two young children.

For many anti-Israeli Arabs, however, Mr. Kantar represents the face of resistance.

Hezbollah will also receive the remains of all fighters from Lebanon killed and buried in Israel during the two countries' 60 years of conflict. Workers recently undertook exhumations from nearly 200 numbered graves in a potter's field the Jewish state maintains for enemy fighters.



Samir Kantar

A hero's welcome awaits the five prisoners in Beirut. They will be greeted there by a lineup of officials, and then taken to the Shiite suburb of Dahya for a rally.

The deal caps a series of recent military and political victories for Hezbollah, even as Israel and the U.S. struggle to contain the group.

Hezbollah fighters bogged down a larger and more sophisticated Israeli army during the Lebanon war in 2006. Mr. Nasrallah then quickly jumped into relief and reconstruction efforts in southern Lebanon and Beirut, building on his Shiite power base. He also led Lebanon's opposition in a long boycott of the Western-backed government of Prime Minister Fuad Siniora.

Threatened with a crackdown by Mr. Siniora earlier this year, Hezbollah fighters sprang into action again. They seized large swaths of Beirut, forcing a political compromise that won them veto power in a new government formed last week.

Celebrations aren't expected in Israel unless one or both of the Israeli soldiers captured by Hezbollah and promised in the exchange turn up alive. Immediately in the wake of their July 12, 2006, capture, forensic evidence at the scene suggested the two—Ehud Goldwasser and Eldad Regev—had been killed or seriously wounded in the Hezbollah raid. Three other Israeli soldiers died in the attack.

That evidence wasn't widely discussed outside the government. Then, Israeli Prime Minister Ehud Olmert in February suggested publicly that the men were dead. Israeli officials began speaking more openly about that assessment in the past few weeks. Hezbollah has never revealed their fate, not even to international negotiators who brokered Wednesday's exchange.

For many in Israel, the exchange underscores a sense that any modest security gains that Mr. Olmert had hoped to achieve during the 2006 invasion have been largely overshadowed by Hezbollah's growing power in the region.

"Any of the war's achievements seem to be evaporating," says Ephraim Kam, deputy director of the Institute for National Security Studies at Tel Aviv University and a former senior officer in Israeli military intelligence. "Hezbollah seems to be stronger."

Hezbollah's rise continues to pose challenges for Israel and the U.S., especially because of the group's close alliance with hard-line elements in Iran. Israel, the U.S. and Tehran have recently engaged in high-profile saber-rattling over the demand that Iran abandon its nuclear program.

Eleven days after overwhelmingly approving the prisoner exchange with Hezbollah, Israel's cabinet convened an unusual special session last week focused on the threat from the group's increasing military strength.

Still, the swap is widely popular in Israel. One recent opinion poll showed 61% of the public backing the exchange, even if Messrs. Goldwasser and Regev are dead. Bringing home fallen or captured soldiers is important in Israel, a nation where mandatory service is a shared bond.

Reuters

Israeli protesters outside the prime minister's office stand behind a poster that reads 'What is our price?' and shows three abducted Israeli soldiers.

On April 22, 1979, Mr. Kantar, then 16 years old, and four other militants launched a motorized rubber raft from Lebanon and landed a few miles south—at the northern Israeli coastal town of Nahariya, which is visible from the cliff-top border post the freed Lebanese prisoners will cross Wednesday.

Some supporters of Mr. Kantar have since said the sole aim of the raid was to seize Israelis who could be ransomed to win the release of Arab prisoners. The mission quickly turned bloody. The militants killed an Israeli policeman who spotted them. Then they stormed into an apartment building and seized a 28-year-old man and his 4-year-old daughter.

The deal comes after several military and political victories for Hezbollah.

Mr. Kantar was later convicted of brutally killing them both, along with the policeman. The man's wife, hiding in the apartment, accidentally smothered her 2-year-old daughter as she tried to muffle the girl's cries. Another Israeli policeman was killed in a gun battle that led to Mr. Kantar's capture.

In 1985, one of Mr. Kantar's cohorts in the attack was freed in a deal that saw the release of about 1,500 Arab prisoners. Mr. Kantar remained behind bars. Family members in Lebanon campaigned for his release. Despite several prisoner swaps, Israel always refused to offer him up.

Shortly after the 2006 Lebanon war, negotiations on a fresh prisoner exchange began. In a news conference this month, Mr. Nasrallah gave a rare glimpse into the nature of the talks, calling them "difficult and complicated." Securing Mr. Kantar's release was an early Hezbollah condition, he said.

Late last month, Mr. Kantar's brother Bassam received a late-night phone call from someone from Mr. Nasrallah's office directing him to go immediately to a secret location, Bassam Kantar said in an interview. (A Hezbollah official confirmed the account.)

He was stripped of his cellphone, searched and placed in a room with a phone, he said. The phone rang. Bassam Kantar said on the other end of the line was Mr. Nasrallah, who told him Hezbollah had won his brother's release.

—Nada Raad contributed to this article.

Marketplace

Weighty matters

Is a cabal of cookbook publishers tipping kitchen scales? > **Page 31**