



The self-help craze is taking Iran by storm

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What's News —

Business & Finance

World-Wide

France Télécom withdrew its \$42 billion offer for Nordic operator TeliaSonera after the companies couldn't agree on a price. France Télécom's CEO said he doesn't see another target such as TeliaSonera on the horizon in Europe, but the French former state-owned monopoly is clearly on the hunt for deals. **Pages 1, 19**

■ **Stock investors took** a beating world-wide in the year's first half, with few markets unscathed as credit worries gave way to inflation concerns. **Page 1**

■ **U.S. indexes were** mixed as oil eased after hitting an intraday record \$143.67 a barrel. European shares fell. **Pages 20, 23**

■ **Iraq's Oil Ministry said** major energy firms are among those chosen to bid for technical contracts to reverse declining production of aging oil fields. **Page 1**

■ **UBS is expected** to issue a profit warning amid continued deterioration in the mortgage-backed-securities market. **Page 19**

■ **The global economy may** be close to a severe slowdown that would lead to a period of falling prices, the BIS said. **Page 21**

■ **Euro-zone consumer prices** rose a faster-than-expected 4% year-to-year in June and twice the ECB's 2% target pace. **Page 10**

■ **China's premier told** Rice that Beijing hopes to see the U.S. exit the credit crisis quickly and stabilize the dollar's value. **Page 22**

■ **Anheuser forecast** a charge of up to \$400 million from an early-retirement program and will cut some employee benefits. **Page 4**

■ **A Paris court ordered** eBay to pay LVMH and other firms \$63.2 million in damages for fake goods sold via eBay. **Page 6**

■ **Gazprom's net profit rose** 7.3% in 2007, but analysts cautioned the results indicated weakness toward year end. **Page 7**

■ **Rosneft plans** to expand into Africa and Europe and increase output 70% in 13 years. **Page 23**

Zimbabwe's Mugabe was welcomed by his peers at an African summit after his widely discredited re-election. African leaders avoided strong public criticism, but some were pressing behind the scenes for him to share power with his rival. Meanwhile, Italy recalled its ambassador to Zimbabwe.

■ **Five Iraqi judges escaped** assassination in a series of small bomb attacks that police said could be part of a Shiite extremist campaign to force them to free jailed militants.

■ **An explosion destroyed** a militant compound in a volatile tribal region of Pakistan, while U.S.-led forces killed 28 rebels in southwestern Afghanistan.

■ **Envoys to the Dalai Lama** arrived in Beijing for talks, which could help defuse criticism of China's recent crackdown on Tibetan demonstrators. **Page 9**

■ **Chinese officials detained** hundreds suspected of setting fire to buildings over the handling of a student's death in the southwest, a rights group said.

■ **Unidentified hackers broke** into several hundred Lithuanian Web sites, plastering them with Soviet symbols, officials said.

■ **Safety experts are** considering changes in U.S. air-traffic patterns to lower the number of anticollision warnings around some large airports. **Page 8**

■ **The U.S. said it will charge** a Saudi with organizing the 2000 bombing of the USS Cole and will seek the death penalty.

■ **Malaysia's Anwar said** allegations that he sexually abused an aide were trumped up to ruin his political career. **Page 9**

■ **A Dutch legislator won't be** prosecuted for inciting hatred of Muslims for his film denouncing the Quran, the public prosecutor's office said. **Page 9**

■ **Two explosions wounded** six people in the separatist Georgian republic of Abkhazia, following two blasts Sunday.

■ **A Russian-made cargo plane** crashed soon after takeoff in Sudan, killing four crew members.

■ **Spain beat Germany 1-0** in the European Championship, its first major title since 1964.

EDITORIAL & OPINION

Misjudging terror
U.K. courts free al Qaeda members for humanitarian reasons. State of the Union. **Page 13**

Few markets escaped stock rout in first half

Inflation worries spook investors around the globe

The first half of 2008 will go down in the books as a global rout for stock investors.

From Shanghai, where shares were down 48%, to Frankfurt, down 19%, to the U.S., stocks took a beating. Among the few markets left un-

By **Tom Lauricella** in New York, **Neil Shah** in London and **Jonathan Cheng** in Hong Kong

scathed was Canada, the commodity-rich neighbor of the U.S. Japan also mounted a second-quarter comeback after a dismal first quarter.

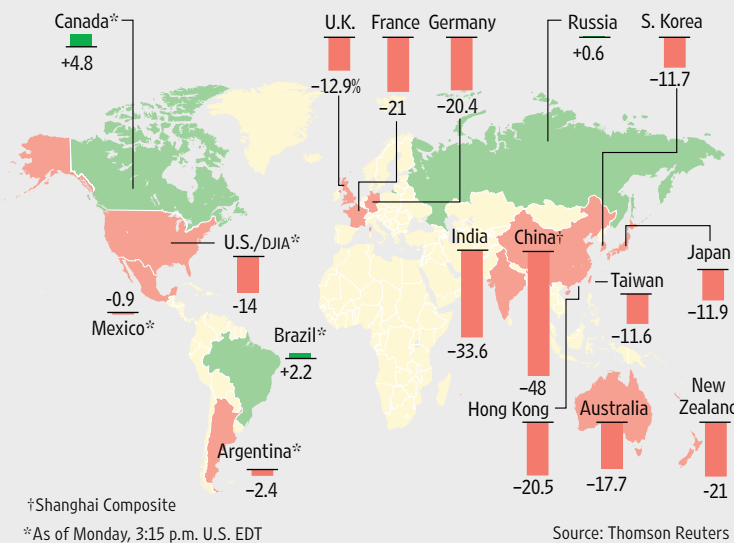
Many investors began the year worried that a U.S.-centric credit crunch could cascade into a global recession. Growth held up better than expected in some places, but another worry, inflation, took center stage.

Economists at Merrill Lynch estimate the global inflation rate is at 5.5%, up from 3.5% at the beginning of the year, thanks to soaring food and energy costs.

As the second half gets under way, investors worry that central banks around the world will be forced to raise interest rates to stem *Please turn to back page*

World of hurt

Performance of major stock-market indexes in selected countries, year-to-date



† Shanghai Composite

* As of Monday, 3:15 p.m. U.S. EDT

Source: Thomson Reuters

France Télécom gives up pursuit of TeliaSonera

By **Leila Abboud** and **Jethro Mullen**

France Télécom SA's pursuit of Nordic telecom operator TeliaSonera has failed. But the French former state-owned monopoly is clearly on the hunt for acquisitions, and that means shareholders could be in for a rocky ride.

After France Télécom withdrew its \$42 billion offer for TeliaSonera because the two sides couldn't agree on price, France Télécom Chief Financial Officer Gervais Pellissier said the company wouldn't stand by as the global telecom market is transformed by consolidation.

"We will stay in attentive observation of the situation, and if other opportunities come up, we'll definitely study them," Mr. Pellissier

said in an interview on Monday.

France Télécom withdrew its bid following a whirlwind of activity over the weekend. By increasing its prior offer by what one person familiar with the matter described as a "marginal" amount, France Télécom finally succeeded in drawing TeliaSonera into deal talks. But the talks were short-lived. TeliaSonera's board convened Sunday evening and decided France Télécom's new offer was still too low.

France Télécom Chief Executive Didier Lombard and his advisers, faced with a shareholder base that was suspicious of further increases, decided late Sunday night that the two sides were too far apart on price. The decision to walk away from the deal was ratified by France *Please turn to page 2*

Iraq oil chief opens the door to Shell, Exxon

By **Gina Chon**

BAGHDAD—Iraq's Oil Ministry opened international bidding Monday for long-term contracts to operate in the country's oil fields, and said separate shorter-term agreements would be needed because it will take about a year for the bids for the technical-service contracts to be awarded.

The ministry is negotiating shorter-term contracts with companies including Exxon Mobil Corp. and Royal Dutch Shell PLC. Reports of those deals have sparked criticism that American advisers steered the Iraqi government toward these companies, and have fueled sentiment in the region that the U.S. invasion was based on oil interests.

Iraq's minister of oil, Hussein Shahrastani, said no contracts have been signed. He adds that it was a "normal thing" to ask the largest and most experienced oil companies to help Iraq when it needs it. "When a person needs a doctor, you ask who the best doctor in the field is," he said.

Mr. Shahrastani said the West- *Please turn to back page*

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THE WALL STREET JOURNAL

LEADING THE NEWS

Ford maps new truck plan

To keep F-150 on top, auto maker goes after personal-use buyers

BY MATTHEW DOLAN

DETROIT—For more than 30 years the Ford Motor Co.'s F-150 pickup truck has been the top-selling vehicle—car or truck—in America. Now, with gasoline at \$4 a gallon, the auto maker is scrambling to find a way to ensure its franchise vehicle remains a force in the market.

Truck sales have plunged this year as high gas prices drive consumers to small cars and other more fuel-efficient vehicles. That has forced Ford to slash production and tear up plans to return to profitability next year.

At the same time, Ford has started searching for answers to a question it never used to pay much attention to: exactly who drives big pickups and why.

"The customers who are buying full-sized trucks today are different even from the buyers who were buying full-sized trucks in February," Jim Farley, Ford's group vice president for marketing and communications, said in an interview. "And you have to listen to them."

Getting it right is crucial. A redesigned F-150 will be launched in the fall, but in light of the truck slump, Ford is unlikely to sell the new version in the volumes it had originally planned. If that happens, Ford could be stuck with underused plants and more big losses, which would strain its liquidity and further delay its turnaround.

For decades Ford's formula for pickups was simple: power and payload. Ford just made a big, tough, powerful truck, and buyers of many different stripes beat a path to its dealers. The F-150 has been the top-selling vehicle in the U.S. since 1977,

so it wasn't that important to understanding precisely how many people bought the truck for work, or whether they just drove pickups as a kind of fashion statement.

The new F-150 follows the old "Built Ford Tough" formula, and the company is confident hard-core truck buyers like contractors and people with boats to tow will continue buying powerful, rugged trucks if gas prices level off or decline.

But as part of its rethink of the truck market, Ford's marketing people are trying to find out if and how it can keep "personal-use" buyers—people who bought full-size pickups in the past but didn't really need all the capability of an F-150. Some are known as "Home Depot warriors"—heavy do-it-yourselfers who often haul plywood for weekend projects. Others are suburban cowboys who never haul much cargo at all but just love the idea of driving a truck.

Auto makers believe personal-use buyers used to make up anywhere from one-fourth to one-third of the truck market. When gas cost less than \$2 a gallon, fuel-economy wasn't an issue for them. Four years ago, Ford sold 939,511 F-150s. But now a lot of these customers are switching to cars.

"The F-series is going to remain one of the cornerstones of the Ford franchise," said George Pipas, Ford's sales analyst. But even when the economy recovers, Mr. Pipas said, many of the personal-use truck buyers for the F-150 "are gone forever."

As a result, Ford is revamping its launch plan for the F-150, Mr. Farley said. The rollout was pushed back two months, to November from September, to give dealers time to unload a massive inventory of current-year models on their lots.

Ford also is shifting the mix of F-150s it plans to build. It aims to build more basic models that are typically ordered as work trucks,

and fewer of the spiffed-out models favored by personal-use buyers. These include the Lariat, King Ranch and Platinum editions, which come with things like leather seats and wood-grain interior accents, features favored by personal-use buyers.

With diesel prices higher than gas, Mr. Farley said Ford also will steer away from building too many diesel-fed vehicles, once seen as the future of a more fuel-efficient truck strategy.

Many analysts believe the new F-150 will continue to best its competition in performance. Company officials plan to focus marketing and advertising on the truck's improved fuel economy and technology gadgetry, including its Ford Work Solutions feature that inventories a workman's tools in the bed of his truck.

But Ford officials acknowledge that their competition is stronger than ever, pointing to improvements made with General Motors Corp.'s Chevy Silverado and GMC Sierra, Toyota Motor Corp.'s Tundra and Chrysler LLC's new Dodge Ram, which also will be launched this fall.

Ford also is looking at extending the life of its small pickup truck, the Ranger, and possibly even designing a new version and producing it overseas as a global vehicle.

CORRECTIONS & AMPLIFICATIONS

The chief executive of Deutsche Lufthansa AG is Wolfgang Mayrhuber. A June 6 page-one article about the airline industry misspelled his last name as Mayerhuber.

Timothy Northup owns the Timothy Northup Gallery in Oneonta, N.Y. Monday's Outlook column misspelled his name, and that of his gallery, as Northrup.

Telecoms end merger talks

Continued from first page
Télécom's board Monday morning before it was announced.

When the TeliaSonera bid was announced on June 5, Mr. Pellissier said France Télécom envisioned a "major acquisition" in the next two years even if the Nordic deal failed, given rapid technological changes and competitive pressures in the sector.

On Monday, he said he doesn't see another large target such as TeliaSonera on the horizon in Europe.

Instead, France Télécom will focus on smaller deals to strengthen existing positions in European markets. Mr. Pellissier added that mid-size acquisitions in emerging markets such as Vietnam and Algeria also are possible.

The company's hunger for deals may not, however, please some France Télécom investors, who worry that the company might overpay for acquisitions that bring organizational headaches, limited cost-cutting opportunities and few additional profits. Indeed, after France Télécom announced that it had pulled out of the TeliaSonera deal, its shares immediately jumped, rising about 7% to €18.71 on the Paris Bourse.

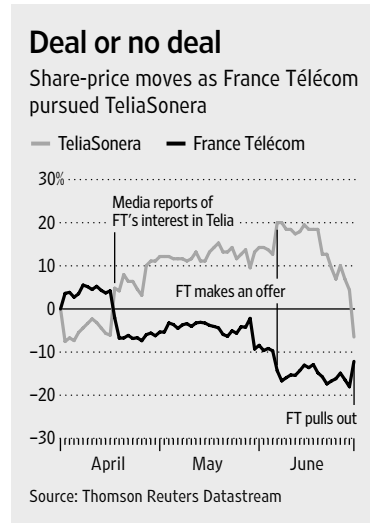
The uncertainty surrounding France Télécom's acquisition plans could now leave a cloud over its stock, causing it to continue trading at a discount to peers such as Telefonica SA and Vodafone Group PLC.

Moreover, it isn't clear how many serious acquisition targets there are for France Télécom to pursue. When telecom assets come up for grabs, competition for them can be fierce and valuations lofty, especially in emerging markets.

"The issue for bigger telecom operators is that all the emerging market targets are trading at nose-bleed valuations," said analyst Mark James at Collins Stewart. "All the future growth is priced in."

Telefonica has begun building a stake in Telecom Italia, and it already has strong presence in Latin America. It is also investing in China. Deutsche Telekom AG has said it wants to concentrate on emerging markets.

In the past, France Télécom has indicated interest in acquiring a stake in Vietnam's mobile-phone operator, MobiFone, which is supposed to list on the stock market this year. But other firms, including Vodafone and BT Group PLC, also are interested in it.



Algeria is another target. State-owned Algeria Telecom is expected to be privatized, but the listing keeps being delayed. France Télécom is considering other options in the country, including partnering with Algerian mobile-phone company Nedjma—backed by Qatar's Qtel—or with Djazzy, backed by the Egyptian firm Orascom.

Rob Goyens, analyst at Dexia, mentioned Orascom in a note Monday as a potentially attractive target for France Télécom because it represents a "pure play" in emerging markets of Africa and the Middle East. Orascom has said it has been approached by some potential suitors.

TeliaSonera was attractive to France Télécom partly because it combined a presence in the more stable and innovative markets of Sweden and Finland with a presence in emerging markets.

"We certainly need to expand in emerging markets, but we also need to grow in so-called mature markets," said Mr. Pellissier in the interview. He said that even in slow-growth countries, where traditional revenues from voice are declining, there is "huge potential" for growth.

While France Telecom's shares jumped on news talks ended, TeliaSonera plummeted 10% to close at 44.60 Swedish kronor in trading on Monday. TeliaSonera and its biggest shareholders, the governments of Sweden and Finland, claimed France Télécom's offer significantly undervalued the company.

—Dana Cimilluca
contributed to this article.

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LEADING THE NEWS

Party that fought Kremlin fights for its life

Founder steps down at liberal Yabloko; divided over protests

BY ALAN CULLISON

MOSCOW—Fifteen years ago, Grigory Yavlinsky founded a political party that became the voice of Russia's newly liberated intelligentsia. It held a chunk of parliament, where its deputies clamored for European-style democracy and an end to the war in Chechnya and to shady privatizations that enriched Kremlin-connected oligarchs. Garnering millions of votes, it became a political fixture.

Today, with independent parties crushed and replaced by Kremlin loyalists, Mr. Yavlinsky's party, Yabloko, has set its sights on a more immediate goal: survival. "It's like Soviet times," says Mr. Yavlinsky. "You hold on to your principles and your position...and prepare for the day when the situation changes."

The dialed-back hopes of politi-

cians like Mr. Yavlinsky expose the calamity that has befallen Kremlin critics in today's Russia. While some politicians continue a noisy fight, others say their efforts yield only muted protests and police roundups.

Mr. Yavlinsky says self-preservation—not victory—should be the priority today. His party, he says, is still too fragile to be driven into collision with the Kremlin. "They can shut us down whenever they want," he says. The Kremlin denies any such plan; earlier this year, then-President Vladimir Putin met Mr. Yavlinsky in the Kremlin.

The struggle over how hard to fight has shaken Mr. Yavlinsky's party, and last week he stepped down as chairman, a post he had held since he founded Yabloko. Mr. Yavlinsky, 56 years old, says he hopes to reenergize the party by making way for a new generation of leaders.

Mr. Yavlinsky has been the last of the liberal politicians from the 1990s to keep a place in national politics. At its height in the mid-1990s,

Yabloko controlled 10% of the seats in parliament, making it a key broker of legislation during the presidency of Boris Yeltsin. The party last year lost the last of its seats as it collected just 1.6% of the vote in a contest that Mr. Yavlinsky says was tainted with fraud.

In an interview, Mr. Yavlinsky says a host of factors, including the decline of the U.S. as a democratic role model, are to blame for his party's difficulties. But he says the fall has been overstated—government pressure and monopoly of the press have made many Russians too fearful to express their views.

Still, he ridicules street demonstrations as a futile response to rising Kremlin power and says his party will steer clear of a coalition led by former world chess champion Garry Kasparov that is staging protests to increase pressure on the government. Though the group includes Westward-leaning liberals, it also has Communists, nationalists and neo-Stalin-

ists—Yabloko's traditional rivals.

"We must be ourselves, we must be Russian democrats," he says. "If we try to be something else, that will be the end of us."

Mr. Yavlinsky's successor, Sergei Mitrokhin, has promised to keep the party's focus on citizens' rights. But so far he appears to be stressing nitty-gritty issues of local politics—at a news conference last week, he said he wants to come to the aid of Russians who are being illegally evicted from their apartments, or garage owners who are losing parking spaces to unscrupulous businessmen.

Mr. Yavlinsky has been no stranger to hostility. After founding Yabloko, he became an early opponent of the war in Chechnya. In 1994, abductors kidnapped his son—an aspiring pianist—cut off some of his fingers and told Mr. Yavlinsky to back off. Mr. Yavlinsky sent his son and daughter to live in the U.K.

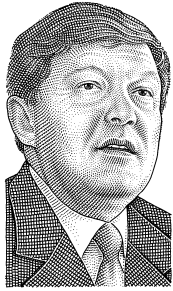
In parliament, he became a champion to millions of Russians who yearned for Western-style democracy but saw the flaws in the country's nascent capitalism. Unlike many other avowed liberals, he

never took a post in Mr. Yeltsin's government, saying it was shot through with corruption.

Mr. Yavlinsky's principled stands made him a role model for Russian democrats but a poor partner in forming coalitions, says Vladimir Ryzhkov, a former independent member of parliament. In 2003, when pollsters warned that liberals would have to join forces to make it over the 5% barrier needed to get into parliament, talks broke down. Kremlin-created parties swept the elections.

Yabloko also ran into financial problems. A major donor was oil tycoon Mikhail Khodorkovsky, who before 2003 elections was arrested on charges of tax evasion and fraud. Today, Yabloko owes several million dollars to state-run television networks—the government demands the party repay the networks for free network time since it mustered such a small number of votes for parliament.

The remaining donors are mostly small and midsize businesses that could easily buckle under government pressure, says Boris Vishnevsky, a longtime leader of Yabloko in St. Petersburg.



Grigory Yavlinsky

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CORPORATE NEWS

INTERNET

Tele Atlas will provide maps for Google services



DIGITAL MAP maker Tele Atlas NV signed a five-year deal with Google Inc. to include its maps on new Google services, including cellphones based on Google's Android operating system. Financial

details weren't disclosed.

Tele Atlas, recently acquired by Dutch navigation-device maker TomTom NV, said the deal spans Google's current and future map-based services and navigation offerings across all platforms. Tele Atlas said these include Google Maps and Google Earth.

The new Android-based handsets will compete with Apple Inc.'s iPhone and devices based on Nokia Corp.'s Symbian operating system.

—Roberta B. Cowan

SUPERMARKETS

Germany's Aldi will add stores in U.K. and Ireland



GERMAN discount supermarket chain Aldi Einkauf GmbH said it will expand aggressively in the U.K. and Ireland as part of efforts to serve consumers pinched by the slowing economy.

Aldi plans to open 50 stores in Britain at a rate of one store a week, a spokeswoman said. Over the next five years, the company said it will spend £1.5 billion (\$3 billion) to open a total of 1,100 new locations. Aldi will hire 1,500 employees in Ireland and the U.K. this year, the spokeswoman said.

The retailer now has about 400 locations in the U.K. and Ireland. Aldi said it controls about 3% of the U.K. grocery market.

—William Launder

WSJ.com

Detroit must shift focus to fill U.S. buyers' needs



HOW CAN Detroit's three auto makers climb out of the hole they're in?

Columnist Joseph White believes they must adopt a different

strategy than their Japanese rivals—and fast.

Honda and Toyota already have the compact-car business cornered, and electric cars aren't mass-market products for Detroit Three buyers. Instead, GM, Ford and Chrysler need to regain relevancy with their customer base: people who like larger vehicles, who have families and who need to drive long distances.



WSJ.com subscribers can read more about the three vehicles Joseph White thinks Detroit should build in his Eyes on the Road column, at WSJ.com/Autos.

Can't fly? Say bon voyage to U.S. travel fees

Taxes, other charges on unused air tickets often aren't refunded

BY SCOTT MCCARTNEY

LIKE MANY FLIERS, Jay Shecter ended up with nonrefundable airline tickets he couldn't use last year. Since he wasn't flying, he tried to get the taxes and user fees refunded on the two tickets he had on two different airlines.

Request denied. Both AMR Corp.'s American Airlines and UAL Corp.'s United Airlines refused to refund the taxes and fees. Mr. Shecter had to pay a so-called Passenger Facility Charge for each airport he was departing from, even though he wouldn't be using the facilities.

He also had to pay the U.S. excise tax on his canceled tickets even though he wasn't using the air-traffic-control services those taxes fund. And he had to pay the security screening fee, even though he wasn't going through security screening.

The U.S. government is "confiscating fees for services not performed," says Mr. Shecter, a personal financial consultant in Nashville, Tenn., and the practice "represents to me a nasty, backdoor method of taking money from our pockets."

Many consumers share his outrage, but because of the way U.S. regulations and laws are written, they have no recourse. U.S. airlines, for their part, say they aren't keeping the taxes and fees—they have to pay them to government agencies even when consumers don't fly.

Taxes and fees make up a sizable portion of air tickets, running as high as several hundred dollars on expensive international tickets. Last year taxes and fees on U.S. domestic flights averaged \$50 per ticket, with an effective tax rate of nearly 16%, according to a study by the aviation division of Daniel Webster College in Nashua, N.H. (The average domestic ticket cost \$363 last year, including the \$50 in taxes and fees, the study found.)

Many foreign airlines refund taxes and fees and even fuel surcharges, currently \$200 or more for

many trans-Atlantic flights, when travelers cancel nonrefundable trips. Singapore Airlines, Air France, Lufthansa and British Airways all said they refund all taxes, fees and fuel surcharges even when they don't refund fares on nonrefundable tickets. "Just the fare itself is not refundable," says a Lufthansa spokesman.

For airlines, refunding the taxes and fees showcases to consumers what a large percentage of tickets those expenses are. But in the U.S., aviation tax legislation and federal rules say taxes and fees are refunded only when tickets are refunded.

Fuel surcharges domestically are considered part of the fare, and aren't broken out for the consumer to see. U.S. airlines don't refund fuel surcharges on international flights unless the fare is refundable.

Airlines don't disclose how many nonrefundable tickets never get used, but industry officials say the numbers are sizable. That is one big reason that airlines overbook flights, after all. The vast majority of U.S. airline tickets—estimates run as high as 90%—are nonrefundable.

Most carriers give consumers a year to use up credits on nonrefundable tickets if they cancel their plans before departure and pay a penalty—now as much as \$150 for domestic tickets at some U.S. carriers and \$250 for international trips. After

Oh, the fees you'll pay . . .

Here are two sample air tickets with taxes, fees and surcharges broken out.

	Boston-San Diego on American	Chicago-Frankfurt on Lufthansa
Base fare	\$593.49	\$1,191.00
U.S. federal tax	58.51	30.80
Security fees	10.00	12.67
Airport charges	18.00	36.68
Fuel surcharge	NA	200.00
Customs, immigration and agriculture inspection fees	NA	17.50
Total taxes and fees	86.51	297.65
Total ticket cost	680.00	1,488.65

Source: the airlines. Note NA=not applicable

the tickets expire, airlines record the profit as "other revenue," lumping it with sales of frequent-flier miles and other sources of income.

The U.S. Internal Revenue Service, which administers the 7.5% excise tax and \$3.50-per-flight-segment fee, says federal rules published in 1989 state that the taxes attach at the time payment is made. Thus when tickets are refunded, taxes get refunded. When they aren't, taxes get paid. "The fact that the transportation takes place at a later date or never takes place does

not affect the taxability of the payment," the IRS rules state.

But there is confusion within the government itself. A spokesman for the U.S. Department of Homeland Security says that the post-Sept. 11, 2001, security fee of as much as \$10 per round-trip ticket, initiated in 2002, is refundable. "If the ticket purchaser requests a refund of the security fee collected, the air carrier must provide the requester with a full refund of the fee," said DHS spokesman Christopher White.

Airlines, however, say they don't

refund that fee, or any other charged on domestic tickets. By law, they do have to refund some international fees, such as fees charged to international travelers for customs services—but only if consumers ask.

The U.S. Federal Aviation Administration oversees the collection of Passenger Facility Charges, which airports levy to pay for new terminals and airport improvements. The PFCs get charged every time you board a plane, as much as \$4.50 per airport and a maximum of \$18 on a round-trip ticket. Like the IRS, the FAA says the fee gets charged "at the time of sale," regardless of whether the passenger ever actually uses the facility, and refunds are made only when there is a change in a traveler's itinerary.

"Failure to travel on a nonrefundable or expired ticket is not a change in itinerary," the FAA regulation says. Airlines say that refunding small amounts on many canceled tickets would likely cause them to incur costs. They also say that airports and agencies often have costs even when travelers cancel.

"The expectation is that you will travel, so the government and airports must staff the airports for that expectation," says American spokesman Tim Wagner. "They do provide the service, whether the traveler shows up or not."

Anheuser outlines charge, plans cost cuts

BY JULIE JARGON AND DONNA KARDOS

Anheuser-Busch Cos. projected a \$300 million to \$400 million charge in the fourth quarter from a planned early-retirement program announced last week, an effort intended in part to keep shareholders on its side as a buyout fight with InBev NV gears up.

The company made the projection in a filing Monday with the U.S. Securities and Exchange Commission.

The company also told employees, in a memo reviewed by The Wall Street Journal, that it will cut pension and health benefits as a way to further trim costs. The memo, which

went out to employees on Friday, said individual lump-sum pension payouts will be reduced by 5% to 6% in 2009 and by about 15% by 2012, but nothing will change for people who have annuities under the pension plan.

The memo from Tim Farrell, human-resources vice president, also said employees will pay a bigger portion of their health-care costs next year. Their contribution will rise to about 25% of their costs, up from about 21%. Retirees also will pay a greater share of their health-care costs, according to the memo.

In a statement provided to the Journal, Mr. Farrell said Anheuser's health benefits remain competitive,

with employees at peer companies paying 30% to 40% of their health-care costs. "We are committed to industry-leading benefits and, based on careful peer-group analysis, we will continue to be in the upper tier of Fortune 200 peers with these modifications," he said.

In addition, Anheuser will reduce by 20% to 40% funding for its long-term-incentive program, which includes compensation from stock options and restricted stock. Anheuser said publicly on Friday that it plans to cut about 1,000 jobs, mostly through attrition; raise beer prices; and buy back more of its shares.

Anheuser intends to cut \$1 billion in costs by 2010. It said the ef-

fort was under way before InBev made its \$46.35 billion takeover bid on June 11. The plan supersedes a previous program to trim costs by about \$500 million over four years.

Some analysts have said the cost-cutting is good but might not be enough to lock in shareholder support, especially if InBev comes back with a higher offer. Anheuser rejected InBev's \$65-a-share offer last week, saying it undervalued the company.

InBev began taking legal steps to replace Anheuser's board, seeking a court ruling clarifying that Anheuser shareholders could oust all 13 directors by written consent without cause. Anheuser said Friday that it would fight the move.

CORPORATE NEWS

For Olympics, McDonald's thinks Asian

Media blitz includes greater digital push and themed burgers

BY JANET ADAMY

McDonald's is arming restaurant workers at the Beijing Olympics with video cameras to record their experiences and is creating Asian-inspired versions of its food around the world as part of its media blitz for the Games.

The Olympics will showcase how McDonald's is shifting its marketing budget toward digital advertising and taking a more-careful approach to marketing toward children, a crucial constituency. Its plans have been at least two years in the making.

Digital marketing, such as campaigns on the Internet and cell-phones, now makes up between 8% and 10% of the company's marketing budget, up from 2% four years ago. In Japan, for instance, almost

all of its marketing around the Games will take place through consumers' mobile phones.

"For us, it's about engaging with consumers at the right moment at the right time," said Mary Dillon, the company's global chief marketing officer.

McDonald's move toward marketing only its healthiest products to kids means its ads for these Games will steer away from direct pitches for french fries and shakes.

In Latin America, McDonald's restaurants have created a special menu that includes a Beijing Burger with chop suey and breaded sticks of rice to promote the Games. In Denmark, the company created a 310-calorie chicken Olympic burger with the help of dieticians from the Danish Olympic team.

As in past years, McDonald's is rewarding top restaurant crew members from across the globe by letting them work at the temporary restaurants it creates for the Games. McDonald's has picked nearly 1,400 restaurant workers from 36 countries to staff the four restaurants it will operate at the Games.

This time, each of the 126 crew members coming from outside China will get a video camera to record experiences leading up to and at the Games. McDonald's will post the videos online and let consumers vote for their favorite, awarding the maker of the top-rated pick \$2,500.

The nontraditional aspects of the campaign include an online game called the Lost Ring, where players piece together clues to uncover a secret tied to the Games. McDonald's started the game in March, and Ms. Dillon said 1.8 million people are playing it. In China, the company also created a reality television program with a government-run channel where children have competed for a chance to go to the Games.

The TV ads McDonald's will run during the Games stick to similar themes around athletic success and unity as in previous years. One ad features two Asian children, armed with chopsticks, battling over the last Chicken McNugget in the carton. An Australian ad shows scenes of people cheering on an Olympic runner from the country while sitting in their cars, living rooms and

the McDonald's drive-through window. A Canadian commercial shows a little boy grow into an Olympic gold medalist while springing from a diving board.

Ms. Dillon said the company has "absolutely not" changed its marketing for the Games as a result of activists who have tried to harness the Olympics to spotlight human-rights issues. "Our plans are moving full speed ahead," she said.

Martini & Rossi channels Warhol in new campaign

Has Martini & Rossi found a way to get its 15 minutes of fame?

A new print campaign by the spirits maker will feature paintings that Andy Warhol made for the company in the 1950s and 1960s before he became famous for pioneering the pop-art market. Prints from that era located at Martini & Rossi's headquarters in Pessione, Italy, feature bottles of the company's vermouth in Italian settings, by a plaza or in front of a gondola.

The company, which is owned by Bacardi, will host "factory parties" in six U.S. cities—New York, Chi-

cago, San Francisco, New Orleans, Washington and Savannah, Ga.—in an allusion to the decadent get-togethers that the artist himself used to hold. Model mixologists and celebrity look-alikes from Warhol's era (such as Marilyn Monroe) will reinforce the company's connection to the artist, says Michelle Beauchamp, senior brand manager at Bacardi.

Vermouth is going through something of a dry spell. The fortified wine, used in a classic martini and in a Manhattan cocktail, hit the heights of its popularity in the 1950s. Old-fashioned cocktails have lost cachet to trendier options such as "Sex and the City"-esque cosmos and glitzy specialty martinis with chocolate or fruity appetinis, says David Craver, president of the National Bartenders Association. Fewer than 10% of current martini recipes call for vermouth, he says. Vermouth consumption in the U.S. declined slightly, about 2% last year.

The campaign's New York launch at The New Museum on Aug. 6 coincides with what would have been Warhol's 80th birthday.

—Ross Kenneth Urken



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CORPORATE NEWS

Hasbro off to the movies

Toy maker, Universal to make films based on top board games

BY JOSEPH PEREIRA

The 1985 movie "Clue" was a box-office flop. Critics said the characters were as flat as the Parker Brothers board game that inspired the film.

Nevertheless, Hasbro Inc., which has since acquired Parker Brothers, is ready to take its turn at board-game based movies, in a deal that departs from typical collaborations between toy companies and Hollywood.

Hasbro is interviewing potential directors, assembling a creative team and building an office in Los Angeles on the movie-making lot of Universal Studios, which this year agreed to be a partner in the venture. Hasbro and Universal, a unit of General Electric Co., will be rolling the dice on a number of old-time classic games, including Monopoly, Candy Land and Ouija. If the projects go well, the companies may even attempt a remake of "Clue."

In traditional arrangements, toy companies pay a fat royalty to the film studio for the rights to make toys in the likeness of characters, as Hasbro recently did in a deal with "Iron Man," the Marvel Entertainment Inc. superhero firm distributed by Viacom Inc.'s Paramount Pictures.

In its board-game movie arrangement, however, Hasbro is licensing the rights to the name, characters

and themes of its board games to Universal, which pays for the production and gets the box-office receipts. Hasbro gets the toy tie-ins and rebates a small part of the sales to Universal. Little upfront money changes hands.

The risk to Hasbro is lowered, and it also gets rights to creative input on the movies to ensure that they stay true to the "mythology of the brand," says Brian Goldner, Hasbro's chief executive, who received a credit in last year's "Transformers"—on which Hasbro has the toy rights—for the hours he spent on the set consulting on the story line and theme.

The collaboration is part of an effort by Mr. Goldner, who took the reins of the company in May, to "reinvent" its decades-old stable of toys and games, which it calls its "core brands." Mr. Goldner is also turning to the Internet and teaming with videogame partners, aiming to breathe new life into its product stable.

Hasbro declined to speculate on reasons for why "Clue" failed, saying the film was produced before it acquired Parker Brothers.

The pact between Hasbro and Universal calls for the making of at least four movies over six years, the first of which is scheduled for release in 2010. For help in the venture, Hasbro in May created a position—managing director of motion pictures—and hired Hollywood veteran Bennett Schneir, who has helped produce "Forrest Gump," "Beowulf" and "The Polar Express" to fill it.

Mr. Goldner says Hasbro has "been in talks with" Ridley Scott,

who directed "Gladiator," "Blade Runner," and "Thelma and Louise," among others. Mr. Scott didn't respond to a request for comment through a company spokesman in Los Angeles.

"That shows serious ambition because Mr. Scott only does \$100 million movies," says Howard Suber, author and film studies professor at the University of California, Los Angeles.

In a toy industry squeezed by bigger players in videogames and other forms of electronic entertainment, movie tie-ins have been among Hasbro's better performers. Last year, toys and playsets linked to such action flicks as "Transformers," "Star Wars" and "Spider-Man" rang up nearly \$1 billion in sales, accounting for more than a quarter of the company's \$3.8 billion in revenue. This year, the toy maker is banking on films such as "Iron Man," "The Incredible Hulk," "Indiana Jones and the Kingdom of the Crystal Skull," and a "Star Wars" animation to be released this summer.

Analysts credit Hasbro, the No. 2 U.S. toy manufacturer behind Mattel Inc., at being more adept than its rival at picking celluloid winners. "Clearly Hasbro has been better at the game than Mattel, where movie tie-ins haven't been as much part of the mix," says Chris White, of Wedbush Morgan Securities, an investment-banking and brokerage firm in Los Angeles. Next year Hasbro will have toys tied to the "G.I. Joe" movie made by Paramount and to "Transformers II" by DreamWorks SKG.

Some industry watchers say board games are boring and won't make the transition to the screen as

easily as comic books and superheroes. "There are three basic elements to any story," says David Klein, senior director of the New York Film Academy. "There needs to be a heroic character; there needs to be an objector and there needs to be conflict. Those three things don't necessarily exist in most board games."

Richard Walter, a screenwriting professor at UCLA, says he finds "it depressing to think that someone someday is going to actually utter

the words, 'Let's go see the movie Monopoly.'"

Hasbro and Universal executives say Monopoly is an American parable. Developed by an appliance salesman who lost his job during the Great Depression of the 1930s, it is the best-selling game in the world. Mr. Goldner calls it "in many ways...a rags-to-riches story," with elements of pathos, competition and greed that writers can exploit for drama.



LVMH wins case against eBay over fake goods

BY CHRISTINA PASSARIELLO AND MYLENE MANGALINDAN

A French court on Monday ordered eBay Inc. to pay Louis Vuitton and other luxury-goods brands €40 million (\$63.2 million) in damages for fake goods sold through the online retailer, a ruling that is likely to force eBay to take greater steps against detecting and blocking counterfeiters.

A Paris commercial-court judge sided with LVMH Moët Hennessy Louis Vuitton SA and sister company Christian Dior SA, which had accused eBay of not taking the necessary steps to ensure that accessories sold on its Web sites around the world weren't counterfeit.

In addition, the judge ruled that eBay was guilty of unauthorized sales of Kenzo, Guerlain, Dior and Givenchy perfumes. Though the perfumes sold on eBay were legitimate, LVMH strictly limits their distribution to authorized dealers such as perfume chains and department stores. The judge ordered eBay to immediately stop selling the perfumes in question, and to publish the ruling on its Web site in English and French.

"The importance of today's deci-

sion is that companies like eBay are not simply hosts and, therefore, passive, they are also brokers," who make a profit from the sale of fake goods, LVMH inhouse counsel Didier Malka said in an interview. eBay makes a commission on every sale on its site.

In a statement, eBay said it will appeal Monday's ruling. The company defended its practices, saying it employs 2,000 people and spends more than \$20 million a year to sniff out and remove fakes from its site. eBay said it had become "a focal point for certain brand owners' desire to exact ever greater control over e-commerce."

"We view these decisions as a step backwards for the consumers

and businesses whom we empower everyday," the company added.

Nonetheless, the ruling, which covers five years of fake LVMH product sales, is the most significant legal blow to eBay yet. It may embolden other luxury-goods makers and copyright holders to press cases against eBay through the courts.

"LVMH and other luxury-brand owners are fighting for the whole luxury goods industry," says Andrea Lensing-Kramer, an intellectual-property partner at Freshfields Bruckhaus Deringer LLP in Düsseldorf. "Everything that puts pressure on eBay makes them do more than they did in the past."

Last month, a French judge or-

dered eBay to pay French luxury brand Hermès International SCA €20,000 for facilitating the sale of fake products. Last year, Germany's Federal Supreme Court declared that eBay must do more to prevent sales of fakes online, in a lawsuit brought by watchmaker Rolex. The outcome of a Tiffany & Co. lawsuit against eBay is pending in the U.S.

In the past, eBay has defended itself against accusations from brands by citing a program it put in place several years ago, whereby companies can report items they think are suspicious. However, the volume of branded goods being sold on auction sites online has been too hefty for most companies to monitor.

Ex-Airbus CEO Humbert detained in France

BY DANIEL MICHAELS

French financial police Monday detained Gustav Humbert, former chief executive of Airbus, said an official at the French prosecutor's office.

Mr. Humbert, a German, was the first non-French citizen taken into custody by French authorities as part of a continuing investigation into alleged insider trading of shares in Airbus parent European Aeronautic Defence & Space Co. The move shows that French prosecutors aren't letting up on their probe and further turns up the legal heat on EADS, which is battling intense financial pressures from the weak dollar and a weakening global

airline industry.

French authorities have already filed preliminary charges against two other former EADS executives: former co-CEO Noël Forgeard and Jean-Paul Gut, a former deputy chief executive. Prosecutors and French stock-market regulators say the two and other top EADS officials, as well as key shareholders in EADS, benefited from privileged information when they exercised stock options and sold shares in late 2005 and early 2006.

Those sales came soon before revelations by EADS of major troubles producing its A380 superjumbo jetliner and developing its long-range A350 model. An announce-

ment of A380 delays in June 2006 sent EADS shares tumbling.

Mr. Humbert, 58 years old, was Airbus president from June 2005 to July 2006 and resigned alongside Mr. Forgeard as a result of the delays.

EADS and the accused ex-managers have denied wrongdoing.

Separately, two U.S. law firms recently filed suits on behalf of EADS investors against current and former executives and German car maker Daimler AG and French media group Lagardère SCA, which hold controlling stakes in EADS. The suits, which are applying for class-action status, allege insider trading and fraud by the managers and the core shareholders.

'Wall-E' beats the competition with big opening

BY PETER SANDERS

"Wall-E," the robot love story from Walt Disney Co.'s Pixar unit that includes only sparse dialogue during its 97 minutes, handily bested the competition at the box office, taking in an estimated \$62.5 million in its opening weekend.

The opening was on par with the studio's 2001 movie "Monsters, Inc.," but it didn't overtake Pixar's super hits "Finding Nemo" or "The Incredibles," which each brought in more than \$70 million when they opened in 2003 and 2004, respectively. Still, the film exceeded Disney executives' expectations, and the strong opening demonstrated that Disney's expansive marketing campaign featuring the tank-like robot with binocular eyes effectively pulled moviegoers into theaters.

It remains to be seen how much staying power the \$180 million "Wall-E," Pixar's ninth animated film, can muster halfway through an already crowded summer movie season.

"We launched this movie just the way we wanted to, right when the most amount of kids were available and the beginning of vacation time for adults," says Mark Zoradi, president of Walt Disney Motion Pictures Group.

"Wall-E's" strong opening is a good omen for Disney, which in the past few years has used Pixar's movies to launch new franchises that touch every corner of its sprawling empire.

THE WALL STREET JOURNAL

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CORPORATE NEWS

A sunnier solar industry

Chip maker markets device to reduce effect of panels in shade

BY DON CLARK

Shade is a perennial problem for the solar-power industry, but a chip maker based in California's Silicon Valley thinks it can help.

National Semiconductor Corp. on Monday announced technology that is designed to sharply reduce the impact of partial shading on solar panels, which generate electricity from sunlight.

The technology, dubbed SolarMagic, is being tested by REgrid Power Inc., a company in Campbell, Calif., that installs solar panels. Tom McCalmont, REgrid's chief executive officer, estimates SolarMagic can recoup as much as 40% of the power that otherwise would be lost to partial shading. "We've seen a really dramatic difference," he said.

Partial shading—often caused by trees, nearby buildings or other

obstacles—has a pronounced impact because of the way solar panels are arrayed. A string of panels is typically attached to a device called an inverter that converts the direct current the panels generate into the alternating current used by appliances in the home and required to return power to the utility grid, said Mark Culpepper, vice president of enterprise solutions at SunEdison LLC, a solar-energy-services provider based in Beltsville, Md.

Inverters typically require a minimum threshold of voltage to operate. Partial shade on just one panel of a string of them can bring their combined output below that minimum threshold. "It can effectively knock out an entire string of panels," Mr. Culpepper said.

National—a Santa Clara, Calif., company that makes chips that manage power in cellphones and other products—is developing small modules that attach to each solar panel and compensate for variations in voltage caused when shade or dirt block light from hitting parts of panels. The company isn't disclosing

many details about how the technology works.

Brian Halla, National's chief executive, said he expects the modules to cost about 10% of the price of a solar panel. He expects to begin selling the modules in early 2009, assuming they pass tests to certify they are safe to use with other electrical products.

National isn't the only one trying to attack the partial-shading problem. Some companies are developing "microinverters," which perform electrical conversions for each solar panel and thereby avoid the problem of one shaded panel disrupting the output of others.

But REgrid's Mr. McCalmont said microinverters contain circuitry that may be affected by the harsh environment of a sunny rooftop. He said he believes National's technology will be more reliable.

National is one of many longtime chip makers that are diversifying into solar-power initiatives. Mr. Halla estimated that the SolarMagic product line could eventually grow to account for 25% of his company's sales.

Gazprom's profit rises despite weak quarter

BY JACOB GRONHOLT-PEDERSEN

MOSCOW—Russia's OAO Gazprom, the world's largest producer of natural gas, Monday said 2007 net profit rose 7.3%, but analysts said the numbers indicate poor operating results toward the end of the year.

Net profit increased to 658 billion rubles (\$28.1 billion) in 2007 from 613.3 billion rubles in 2006. Sales were up 11% at 2.39 trillion rubles, lifted by higher domestic and export selling prices to former Soviet countries.

Operating expenses jumped 24% to 1.689 trillion rubles in 2007, primarily because of higher prices for gas purchased in Central Asian countries for further reselling. A rise in the company's average salary rate and an increase in the number of employees contributed to the increase in operating expenses.

Gazprom didn't release numbers for the fourth quarter, but analysts expressed disappointment with the company's quarterly performance, which they said only came in above

expectations because of a number of special items, which the company didn't specify.

"Net profit exceeded market expectations, but it's only because of several one-off items, which analysts couldn't predict," said Pavel Kushnir, an analyst at Deutsche Bank in Moscow. "Results from the company's normal operations during the fourth quarter look very poor," he added.

Gazprom shares have rebounded after they lost more than 15% of their value in the beginning of the year as economic problems in the U.S. prompted investors to sell out of emerging-market stocks. Before the results were released Monday, Gazprom rose 0.1% at 341 rubles.

"In the short term, the company's financial results are mainly affected by gas selling prices to Europe, which to date have grown almost 55% from last year's average," Alexander Burgansky of Renaissance Capital said before the results were released. "We therefore expect a significant improvement in financial performance during this year," Mr. Burgansky said.

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CORPORATE NEWS

Air alerts prompt study

Altered flight routes considered in U.S. to cut risk of crashes

BY ANDY PASZTOR

Prompted by foreign-pilot reports of unusually frequent airborne collision-avoidance warnings around some large U.S. airports, safety experts are considering possible changes in certain air-traffic patterns to reduce such risks, according to government and industry officials.

The issue was revealed at an industry conference in June, when representatives of foreign airlines said preliminary data indicated that the rate of anti-collision warnings near certain U.S. hubs was many times higher than levels typically experienced around busy European hubs. Vincent DeVroey, a senior official with the Association of European Airlines, told a U.S.-European air-safety conference that higher-than-expected warning rates were seen around international airports in Los Angeles, Denver, San Fran-

cisco, Philadelphia and elsewhere.

A representative of the International Air Transport Association, an industry group representing carriers globally, supported the European numbers and said some Asian carriers also have collected similar data from flights into the U.S.

The data are tentative and are still being analyzed by the U.S. government, industry suppliers and airport officials. It is too early to tell whether there is a significant safety hazard, according to U.S. government and industry officials. But the complaints already have prompted increased scrutiny in the U.S. Federal Aviation Administration, which has taken up the issue and asked outside experts to help assess whether certain approach and landing patterns unduly add to the number of "nuisance" warnings, according to industry officials.

An FAA spokesman declined to comment. It isn't clear whether the FAA's own data back up assertions that, by some measures, airborne anticollision warnings in some U.S. regions are 30 times more frequent than in parts of Europe.

After the conference, one U.S. industry official familiar with the de-

tails said that the average U.S. airborne-warning rate was between three and 10 times higher than around some European hubs. "We're studying the data to see if some changes are in order," the official said.

Airborne collision-avoidance systems are designed to warn pilots when two planes are on a collision course. In the event of emergencies, pilots are trained to automatically take evasive maneuvers when ordered by computerized cockpit instruments, rather than wait for directions from air-traffic controllers. In some cases, according to IATA officials, European pilots have broken off landing approaches in the U.S. due to collision warnings and then been criticized by angry controllers for complicating the flow of traffic during busy periods.

In the U.S., there has never been a midair collision involving a commercial jet equipped with advanced airborne collision-warning systems. Such systems have been steadily improved over the years to make them more accurate and less prone to issue "nuisance" warnings, though the complaints have prompted another reassessment of the technology.

U.S. carriers get high grades

BY ANDY PASZTOR

A three-month review of U.S. airline maintenance, part of a stepped-up federal safety policy, gives carriers overall high marks for compliance, according to federal officials.

After checking thousands of specific maintenance records and aircraft repairs, inspection teams from the Federal Aviation Administration found an "exceptionally high" level of industry-wide compliance with the agency's mandates, these officials said.

Slated to be completed Monday with the results to be announced in mid-July, the review is likely to give the FAA and its backers new ammunition to fend off criticism that the agency has become too cozy with some of the airlines it regulates.

Compliance with airworthiness directives, or federal safety mandates, has been in the spotlight since earlier this year, when mainte-

nance slip-ups by Southwest Airlines Co. and AMR Corp.'s American Airlines prompted a congressional and public uproar. FAA officials ordered two separate industry-wide reviews of compliance issues.

The first FAA report found a better than 99% compliance rate based on limited spot checks of airline maintenance tasks, and agency officials said they didn't uncover any instances in which airlines deliberately tried to avoid compliance or hide information from inspectors.

Completion of the latest review comes as the FAA pursues a number of enforcement cases against various carriers for maintenance lapses, and amid concerns by FAA leaders about public perceptions of the agency. Acting FAA Administrator Robert Sturgell told an industry symposium last month that the industry faces "a crisis in confidence" stemming from delays, high fuel costs, labor groups "using scare tactics" to raise doubts about safety

and lawmakers who attack the agency and "use aviation as a political football."

The current review was broader than what the FAA had done in the past, sampling one-tenth of all mandatory safety directives at each carrier. The agency issues roughly 250 such directives each year that require airlines to modify parts and systems on dozens of different aircraft models, and keeping track of the work is a major challenge for carriers.

One FAA official familiar with the details said Friday that, even with the increased scrutiny, the latest results indicate a "level of compliance similar to what we found in the earlier phase."

Over the next two weeks, FAA officials are expected to analyze the results from each carrier. Then a separate team of maintenance experts are slated to examine whether the results warrant any procedural, engineering or other changes.

ZenithOptimedia pares U.S. ad views

BY SUZANNE VRANICA

ZenithOptimedia is revising downward its U.S. advertising forecast as economic conditions continue to worsen.

The Publicis Groupe-owned firm is predicting that ad spending in the U.S. will increase 3.4% in 2008. That figure is down from a 3.7% forecast Zenith made in March. Zenith says it is downgrading its U.S. forecast because ad softness is expanding beyond the automotive, financial and housing sectors—industries that have been seeing ad weakness for several quarters.

Ad categories such as automotive, real estate and financial service continue to be soft but "others such as cosmetics are now also seeing a slowdown," says Bruce Goerlich, head of U.S. research at Zenith.

Still, marketers aren't panicking. "It's like a slow-leaking balloon,"

says Mr. Goerlich. "We are not seeing dramatic cuts; marketers are just being cautious."

The bright spot: Zenith has revised upward its global ad forecast saying ad spending globally will increase to 6.6% this year. The rise is thanks, in part, to strong ad spending in developing markets such as China and Russia, which is expected to help offset some of the softness in the U.S. and Western Europe. In March, Zenith had predicted 6.5% growth for global ad spending.

While online advertising is showing no signs of a slowdown, other media such as magazines have begun to feel the pinch. Newsweek magazines are being hit particularly hard because of ad dollars moving to the Web, according to Zenith. Moreover, financial and automotive—two ad categories that are pulling back—are a staple of newsweek magazines.

Surprisingly, Zenith is striking a

cautious cord about outdoor advertising, a sector that has experienced a renaissance thanks to the emergence of digital billboards and new technologies. Out-of-home advertising had taken the place of television advertising, where advertisers have the ability to push messages in front of consumers who are unable to avoid them.

"We are concerned because for the first time in decades the number of miles driven has declined because of gas prices," says Mr. Goerlich.

Americans drove 1.4 billion fewer highway miles in April than they did in April 2007, according to the U.S. Department of Transportation. It was the sixth-consecutive monthly drop in miles driven.

While Zenith isn't taking down its forecast for outdoor advertising, it says if the number of miles driven continues to decline advertisers will begin to look elsewhere.

GLOBAL BUSINESS BRIEFS

GlaxoSmithKline PLC

U.S. review of cancer vaccine to be delayed for added data

GlaxoSmithKline PLC said a U.S. Food and Drug Administration review of one of the company's most important new products, the cervical cancer vaccine Cervarix, will be delayed further because Glaxo wants to submit additional data to the regulator. Glaxo said it doesn't expect an FDA decision before late 2009. The delay is a boon for Merck & Co.'s rival vaccine Gardasil, which has had the U.S. market to itself since 2006. Glaxo said it would submit the additional data in the first half of 2009. Cervarix is on the market in Europe, Mexico, Australia and parts of Asia.

H. Lundbeck A/S

Danish pharmaceutical company H. Lundbeck A/S and its U.S.-based partner Myriad Genetics Inc. reported disappointing late-stage test results for their Alzheimer's treatment Flurizan and Myriad said it would discontinue development of the drug. Lundbeck said it will write down \$100 million, the amount it paid for the European rights to Flurizan, in the second quarter "since it is less likely that Flurizan will become a product." Lundbeck shares fell 10% Monday in Copenhagen, while Myriad's shares were down 6.2% in afternoon Nasdaq trading. Since the beginning of 2007, Lundbeck's share price has fallen around 30% as drug candidates such as insomnia treatment Gaboxadol have failed in late-stage trials. Myriad had spent \$200 million on Flurizan, which aims to inhibit a substance in the brain that many scientists believe is a primary cause of Alzheimer's symptoms.

Basilea Pharmaceutica AG

Swiss biotechnology firm Basilea Pharmaceutica AG said Canadian regulators authorized use of its superbug drug ceftobiprole for the treatment of complicated skin and soft-tissue infections, including diabetic foot infections. Ceftobiprole is also under consideration by regulators in the U.S., European Union, Australia, Russia, South Africa and Switzerland. The antibiotic is widely expected to gain EU approval this year, and U.S. approval by early 2009. It will be sold under the brand-name Zeftera and co-promoted with local partner Janssen-Ortho Inc., a division of Johnson & Johnson. Analysts say ceftobiprole could become a billion-dollar earner. Zeftera is an anti-MRSA antibiotic specifically designed to fight bacteria that are highly resistant to existing antibiotics. MRSA stands for methicillin-resistant Staphylococcus aureus.

Cable & Wireless PLC

British telecommunications company Cable & Wireless PLC announced an improved £329 million (\$656.2 million) offer for rival Thus Group PLC, but Thus said it wasn't prepared to recommend the bid to shareholders. In a joint statement, the companies said that C&W was offering Thus shareholders 180 pence a share, valuing the share capital at £329 million, with an enterprise value of £361 million. Earlier this month, Thus rejected a 165 pence-a-share approach from C&W, saying it was too low. C&W also said it had bought a 24% stake in Thus. Thus, which has been unprofitable in the past 12 months, mainly provides fixed line and wireless telecommunications services to businesses and the public sector. Thus shares rose 22% to 177 pence in London trading Monday.

PCCW Ltd.

PCCW Ltd. said it hired UBS AG to act as its sole financial adviser on the possible sale of up to a 45% stake in its new unit, HKT Group Holdings Ltd. The Hong Kong-based telecommunications company said last month it will combine its telecommunications, media and information-technology systems businesses under the new holding company to improve operational efficiency. The sale is also intended to provide PCCW with the funds to acquire overseas assets. The move will group the telecom assets separately from PCCW's property unit. PCCW said the reorganization doesn't require the approval of its shareholders because it doesn't change the ultimate ownership of the assets. China Network Communications Group owns a 19.93% stake in PCCW.

OAQ Norilsk Nickel

Shareholders at Russia's OAQ Norilsk Nickel elected a new board, handing tycoon Vladimir Potanin's holding company ZAO Interros Holding a small victory in its power struggle with rival owner United Co. Rusal. Norilsk's board welcomed three representatives from aluminum producer Rusal. Rusal has said it would like a full merger with Norilsk, but Norilsk has pursued a tie-up with iron-ore-and-steel group OOO Metalloinvest. Interros and Metalloinvest have approached Rusal about a potential three-way merger but are awaiting a response from Rusal's owners. Interros had three representatives elected to Norilsk's board, including Mr. Potanin. Maxim Semyonov, an analyst at Alfa Bank in Moscow, said the makeup of the board is a small plus for Interros, because a fourth new board member, Michael Levitt, has some business ties to Interros.

Kellogg Co.

Kellogg Co. said it acquired substantially all the assets of Chinese cookie and cracker maker Zhenghang Food Co. Terms of the deal with Zhenghang, also known as Navigable Foods, weren't disclosed. David Mackay, president and chief executive of the Battle Creek, Mich., cereal and snack maker, said the Zhenghang deal will build Kellogg's presence in China. Kellogg said Navigable Foods' staff of about 1,800 employees, including the company's management team, will join a majority-owned subsidiary of Kellogg. The acquisition includes two manufacturing facilities.

Indophil Resources NL

Indophil Resources NL Monday said it won't pursue its offer of 315 million Australian dollars (US\$302.5 million) for the publicly traded mining investor Lion Selection Ltd., after failing to get sufficient shareholder support. The Australian minerals developer approached Lion Selection in March, setting in motion a takeover scuffle including Anglo-Swiss miner Xstrata PLC and a management buyout for Indophil. Indophil said it will allow its offer to lapse on July 7. Lion is Indophil's largest shareholder, with a 25.4% stake. "The end to the offer will leave us to get on with things," said Robin Widdup, Lion's managing director. Lion is trying to offload investments in Australia's mining sector as part of a plan to return A\$267 million in cash to shareholders.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.K.

Mortgage approvals hit new low on housing woes



U.K. MORTGAGE approvals fell by more than a quarter to a record low while net mortgage lending fell to its weakest level in more than six years in May, offering further evidence of the troubles

in Britain's housing market.

Mortgage approvals, which were already at a record low of 58,000 in April, fell to 42,000 in May, the lowest number since the series began in 1999, the Bank of England said.

The drop of 16,000 was the largest monthly decline in approvals on record.

Net consumer lending posted its slowest rate of expansion since March 2001. —Laurence Norman

IRELAND

Housing woes, GDP drop suggest a recession ahead



A HOUSING slump caused Ireland's gross domestic product to fall 1.5% in the first quarter compared a year earlier, offering the first official data showing the long-booming country is heading toward its first recession in 25 years. The drop was a sharp reversal from 5.5% year-on-year growth in the fourth quarter of 2007, the Central Statistics Office said.

"We now have official evidence that Ireland is skirting on the edge of recession," said Dermot O'Leary, an economist at Goodbody Stockbrokers. "Given these trends it will be difficult for the economy to achieve any growth whatsoever in 2008," he added. —Quentin Fottrell

THE NETHERLANDS

Film denouncing Quran won't spark prosecution



DUTCH legislator Geert Wilders won't be prosecuted for inciting hatred of Muslims for his film denouncing the Quran, the public prosecutor's office said. The prosecutor said the film, "Fitna," or "Ordeal" in Arabic, and statements Mr. Wilders, left, wrote in Dutch newspapers were hurtful and insulting but weren't criminal. The

film juxtaposed Quranic verses against a background of violent film clips and images of terrorism by Islamic radicals. It aroused protests around the Muslim world after it was released on the Internet in March. Mr. Wilders also was investigated for published remarks calling the Quran fascist. —Associated Press

Anwar says charge is fake

Malaysian politician asserts government is out to ruin career

MALAYSIA'S LEADING opposition figure, Anwar Ibrahim, left the residence of the Turkish ambassador in Kuala Lumpur, where he had sought refuge after police started an investigation into whether he sexually abused an aide.

Also Monday, Mr. Anwar's lawyers filed a defamation suit against

By James Hookway in Bangkok and Celine Fernandez in Kuala Lumpur



Malaysian opposition leader Anwar Ibrahim talks to media as he leaves the Turkish Embassy in Kuala Lumpur on Monday, after the government guaranteed his safety.

the man who told police he was a victim of nonconsensual sodomy. In Malaysia, sodomy is a criminal act, though prosecutions are rare. Mr. Anwar claims the allegations were trumped up to ruin his resurgent political career.

Mr. Anwar's political colleagues assert the aide, Saiful Bukhari Azlan, was planted in Mr. Anwar's organization by people close to the ruling National Front coalition. Din Merican, a program director for Mr. Anwar's People's Justice Party, or Parti Keadilan Rakyat, wrote on his blog Sunday that he and other party leaders knew that Mr. Saiful had been inserted in the group by government supporters and was being closely monitored.

Government figures, including Prime Minister Abdullah Ahmad Badawi, have denied the government played any role in the matter. Mr. Saiful couldn't be reached for comment. Deputy Prime Minister Najib Razak on Monday told reporters there was no conspiracy against Mr. Anwar and that the government "can assure him of his personal safety."

On Sunday morning, Mr. Anwar sought refuge at the Turkish embassy, claiming his life was in danger. He later moved into the ambassador's residence, in the same compound. When leaving the compound early Monday evening, Mr. Anwar said he had been assured by government ministers that he would be safe.

The loose opposition alliance that includes the People's Justice

Party has made significant advances this year, helped by discontent over accelerating inflation and a growing disenchantment among Malaysia's minority groups with a decades-old affirmative-action policy to favor the country's ethnic-Malay majority. The alliance is within 30 seats of controlling Malaysia's 222-seat Parliament after a strong showing in March elections.

Mr. Anwar says he has been working on persuading pro-government

Discontent over inflation has helped the opposition make significant strides.

Parliament members to defect to the opposition. He isn't a member of Parliament but says he is planning to run in a by-election. That could enable him to take the post of prime minister if the opposition maintains its strong momentum.

As he left the Turkish compound by car, he told reporters through its wound-down windows that he had been planning to declare his candi-

dacy in a by-election this week, as well as announcing the defection of four National Front members of Parliament. "It is precisely because of this reason that they have created this mess," said Mr. Anwar, who calls the sodomy allegation "a complete fabrication."

Malaysian share prices fell slightly Monday, with the main Kuala Lumpur Composite Index slipping 0.3% to 1186.57.

The drama is almost an exact reprise of events 10 years ago, when then-Prime Minister Mahathir Mohamad fired Mr. Anwar from his posts as finance minister and deputy prime minister for allegedly sodomizing his family driver and another aide. Mr. Anwar denied those charges, saying they were fabricated to prevent him challenging Dr. Mahathir for power. Dr. Mahathir denied those allegations.

Mr. Anwar was convicted of the 1998 sodomy charge and one other charge for abusing his power by covering up that act. He served six years in jail before his sodomy conviction was overturned in 2004, the year after Dr. Mahathir retired from office.

"The new allegation is a repeat of the 1998 fiasco," Mr. Anwar told reporters as he left the Turkish ambassador's compound.

China to discuss Tibet with Dalai Lama envoys

BY GORDON FAIRCLOUGH

SHANGHAI—Representatives of the Dalai Lama arrived in Beijing on Monday for two days of talks with Chinese officials in the wake of sometimes violent antigovernment unrest that has swept Tibetan areas in western China.

Neither side offered a detailed agenda for the discussions, which start Tuesday. For the Chinese government, just sitting down with the Tibetan negotiators could help defuse international criticism of its crackdown on Tibetan demonstrators ahead of the Beijing Olympics, which start Aug. 8.

Talks could also help forestall further protests, as Tibetans wait to see the outcome of the discussions. Starting in March, Buddhist monks and ordinary people took to the streets in Tibetan areas in repeated protests against their treatment by Chinese authorities.

Large numbers of paramilitary police were mobilized to contain the unrest, and large-scale arrests and continued surveillance have restored a tense calm.

China's government has been circumspect about the talks. The state-run Xinhua news service on Sunday quoted an unspecified government spokesman as saying China hopes "the Dalai Lama will treasure this opportunity and give a positive response to the requirements of the central authorities."

The Dalai Lama's secretary, Chhime R. Chhoekyapa, said Monday in a prepared statement that the Tibetan envoys would press for "tangible progress to alleviate the difficult situation for Tibetans in their homeland." The statement said, "This meeting is taking place at a crucial time."

This week's talks will be the seventh round in a series of on-and-off formal negotiations that began in 2002. The most recent formal discussions were held last year. The two sides met informally in May in the southern Chinese city of Shenzhen.

Progress has been hampered by deep mistrust between the two sides

and a significant gap between their positions. Officials of Tibet's government in exile say China has been uninterested in compromise.

Chief Tibetan negotiator Lodi Gyaltzen Gyari has said that the Dalai Lama, Tibetan Buddhists' exiled spiritual leader, seeks a deal under which Tibet would remain part of China but have "genuine autonomy." The goal, he has said, is to protect Tibetans' "identity, culture, religion and way of life."

The Tibetan side also has wanted China to combine all Tibetan areas in the west of the country into a single administrative region. Now, roughly half the Tibetans in China live in the Tibet Autonomous Region. Most of the rest live in the nearby provinces of Gansu, Qinghai, Sichuan and Yunnan.

China considers the Tibetans' request for changes in domestic political boundaries a nonstarter, say Tibet and China scholars who have followed the talks.

Yang Shengmin, an ethnologist and historian at the Central University for Nationalities in Beijing, says the Dalai Lama needs to prove his "sincerity" in the talks. Mr. Yang said the Dalai Lama and the Tibet government-in-exile need not only to talk, "but also show people what they will actually do, if they really want to resolve the problems."

China has repeatedly blamed the Dalai Lama for masterminding the recent protests, an accusation the religious leader has denied. The International Olympic Committee last week scolded Chinese Olympic organizers after a senior Communist Party official lashed out at the Dalai Lama during the Olympic torch relay.

In a speech as the Olympic torch passed through Lhasa, the capital of China's Tibet Autonomous Region, the region's top Communist Party official, Zhang Qingli, said China "will certainly be able to smash the split-tact schemes of the Dalai Lama clique and safeguard the stability of Tibet and national security."

—Ellen Zhu in Shanghai contributed to this article.



Dalai Lama

ECONOMY & POLITICS

CAPITAL JOURNAL ■ GERALD F. SEIB

National security may be factor in Obama's pick for running mate

AT A SOCIAL gathering over the weekend, an assortment of political operatives, analysts and journalists engaged in Washington's favorite parlor game: Declaring whom the presidential candidates ought to pick as running mates.

Among Democrats there were, predictably, those who wanted Sen. Barack Obama to put Sen. Hillary Clinton on his ticket. More surprising, as their discussion unfolded, a groundswell began to build for two less-conventional possibilities: Sen. Joseph Biden and Al Gore. (Yes, that would be the same Al Gore who held the job of vice president for eight years.)

The two men, different in many ways, have one important thing in common. Each would provide a kind of national-security blanket to cover the weakest spot on Sen. Obama's résumé—his shortage of foreign-policy experience. As the interest in Messrs. Biden and Gore suggests, many Democrats fret about that weak spot, and are drawn to the idea of using the running-mate selection to address it.

The Obama campaign obviously has national security on its mind as the race with Sen. John McCain begins. That explains why Sen. Obama just announced he'll be making an unusual campaign-season tour of Europe and the Middle East, including stops in Iraq and Afghanistan. Democrats can argue that the mess in Iraq and a deteriorating situation in Afghanistan raise questions about how much expertise the Republicans' national-security experts have demonstrated, but worries about an experience gap persist.

HENCE THE question of whether the VP choice might help. The debate goes to the heart of the strategy behind picking a running mate: Should a nominee fill a narrow need, or a broad one?

It's a big consideration. A compelling case can be made that if Mr. Gore, running for president in his own right in 2000, had only picked Sen. Bob Graham of Florida for the narrow purpose of helping win the Sunshine State, he would have been an undisputed victor in Florida, avoided the Supreme Court debate about hanging chads, and would be president today.

Meanwhile, President George W. Bush succeeded by going broad with his vice-presidential selection that year, picking Dick Cheney. Mr. Cheney delivered nothing in electoral-map terms—his home state of Wyoming would have gone Republican if Mr. Bush had left the vice-presidential line blank—but his image as a man of great experience nicely complemented Mr. Bush's sparse national and international experience.

Yes, the Cheney selection told

voters, there would be adult leadership in a Bush White House. While Mr. Cheney has evolved into one of the most controversial vice presidents in recent times, the choice achieved its goals in 2000.

Now Sen. Obama faces the same strategic choice. Pick a prominent governor—such as Ted Strickland of Ohio or Ed Rendell of Pennsylvania—to secure a swing state? Or fill a broader need on national security?

On the latter count, Sen. Biden's appeal is clear. In a 35-year Senate career representing Delaware, he has devoted big chunks of time and energy to foreign affairs, developing genuine expertise and rising to become chairman of the Senate Foreign Relations Committee.

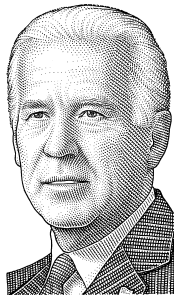
He has evolved from predictably left-of-center—he won his seat initially with a dovish stance on Vietnam—to become a centrist who often works across party lines. He has favored negotiations with Iran and North Korea, but was hawkish on Bosnia and supported the resolution that authorized the attack on Iraq, after failing to secure a competing version more to his liking.

SEN. BIDEN has worked outside the box. He has pushed a plan to deal with the mess in Iraq by essentially dividing the country into three semi-autonomous regions, for Sunnis, Shiites and Kurds. The plan's merits are open to debate, but pushing it required a fair degree of self-assurance. Self-confidence, in fact, isn't something Sen. Biden lacks; he's run for president himself, twice.

Mr. Gore would be a more startling choice. Since his own unsuccessful run for the presidency, of course, Mr. Gore has become a kind of international rock star on the subject of climate change. Picking a man who isn't just a former vice president, but also the recipient of a Nobel Peace Prize, would be audacious.

But there's no doubt that Mr. Gore knows the world, and the world knows him. In a year of maximum opportunity for their party, some Democrats think Obama-Gore would be the optimum ticket.

The idea raises some sticky questions. First is whether there is any chance Mr. Gore would even be interested. If he were, would he overshadow the nominee? How would all those working-class voters in the industrial Midwestern states, already a problem for Sen. Obama, react to what Republicans would surely call Mr. Gore's industry-strangling ideas on global warming? Similarly, of course, not everybody would be thrilled with Sen. Biden, who's run for president twice without success. Still, Democrats' options for a running mate with genuine national-security expertise are limited.



Joseph Biden



Al Gore

U.S. has emissions duel

White House aims to block document on greenhouse gases

By IAN TALLEY AND SIOBHAN HUGHES

WASHINGTON—The administration of President George W. Bush is trying to prevent the U.S. Environmental Protection Agency from publishing a document that could become the legal roadmap for regulating greenhouse-gas emissions in the U.S., said people close to the matter.

The fight over the document is the latest development in a long-running conflict between the EPA and the White House over climate-change policy. It will likely intensify continuing congressional investigations into the Bush administration's involvement in the agency's policy-making.

The draft document, which has been viewed by The Wall Street Journal, outlines how the government, under the U.S. Clean Air Act, could regulate greenhouse-gas emissions from mobile sources such as cars, trucks, trains, planes and boats, and from stationary sources such as power stations, chemical plants and refineries. The document is based on a multimillion-dollar study conducted over two years.

The White House's Office of Management and Budget has asked the EPA to delete sections of the document that say such emissions endanger public welfare, say how those gases could be regulated, and show an analysis of the cost of regulating greenhouse gases in the U.S. and other countries.

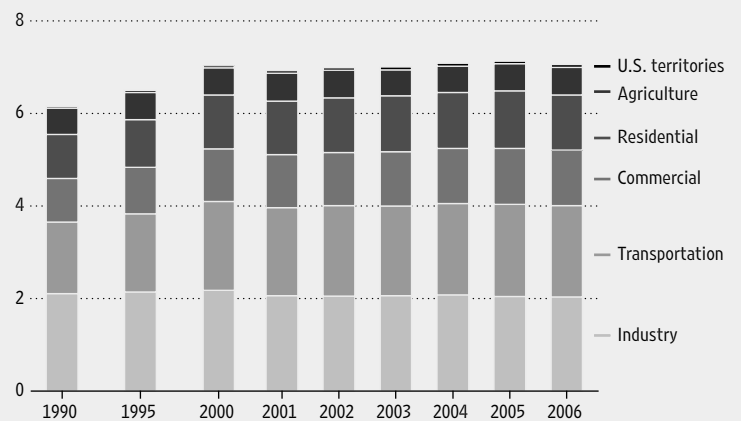
The OMB instead wants the document to show that the Clean Air Act is flawed and that greenhouse-gas regulations should be developed under new legislation, several people close to the matter said. The EPA needs to clear a final draft with the White House in order to release the document.

"This is a collision course between the agency and the OMB," said one person familiar with the document. The OMB "had in mind to lay out a different story that the Clean Air Act is broken and can't be used to regulate emissions." The Clean Air Act was originally enacted in 1970 to clean up air pollution and was amended in 1990.

EPA spokesman Jonathan Shradar said, "Work on the [document] continues in earnest and it will be

Responsible parties

U.S. greenhouse-gas emissions, by sector, in billions of metric tons of carbon-dioxide equivalents



Source: Environmental Protection Agency

published soon." He declined to comment further.

Neither the White House nor the Office of Management and Budget responded to requests for comment.

The document would be the EPA's formal response to an April 2007 U.S. Supreme Court decision that found greenhouse gases such as carbon dioxide are pollutants under the Clean Air Act, and that the EPA can regulate them.

The court's ruling centered on emissions from automobiles. But it set the stage for regulations affecting the entire U.S. economy—from power plants to factories and ships—by ordering the EPA to determine whether greenhouse gases endanger public health or welfare, the legal criteria for regulating greenhouse gases under the Clean Air Act.

In recent weeks, the Bush Administration warned that regulatory havoc would result if the EPA were to regulate greenhouse gases under the act. The White House argues the act restricts the EPA from considering costs when imposing regulations and could ultimately mean the agency would have to regulate nearly everything that created emissions, including hospitals, schools and apartment buildings.

The EPA draft document concludes that motor vehicles could be even more fuel efficient than currently required by law. Based on advanced technologies such as plug-in hybrid vehicles, fuel efficiency could be improved to well above 35 miles per gallon (about 15 kilometers per liter) between 2020 and 2025, it says. A 2007 energy law that has been supported by the Bush administration mandates an aver-

age vehicle fuel-efficiency of 35 miles per gallon by 2020.

For other sectors, the EPA draft document shows how emissions such as carbon dioxide could be regulated through the government-permit process and through a cap-and-trade system similar to the programs the U.S. agency administers for acid rain and mercury.

"The net benefit to society could be in excess of \$2 trillion," according to the draft document.

Administration supporters say projecting the future benefits of regulation is fraught with uncertainty, and that some degree of debate over what the document should say is to be expected. "Any time you're trying to monetize benefits, there's a controversy," said Jeffrey Holmstead, a former EPA assistant administrator for air and radiation.

Two people familiar with the matter said that although EPA Administrator Stephen Johnson originally supported much of the White House cuts from the draft, he felt that the edits became too aggressive. A spokesman for Mr. Johnson declined to comment.

The internal battle has delayed the publishing of the document, which was originally due out June 23. The document could now be released later in the week.

This isn't the first time that the White House has intervened in the process of setting emissions regulations. In December 2007, the administration halted an EPA effort to draft regulations on vehicle emissions in response to the 2007 Supreme Court ruling.

—Stephen Power contributed to this article.

Euro-zone rate rise looks likely

By EMMA CHARLTON

LONDON—More signs reported Monday that euro-zone consumer prices could continue rising this summer firmed up expectations that the European Central Bank will raise interest rates, despite growing concerns over an increased risk of recession.

Annual consumer-price inflation in the euro zone accelerated to 4% in June from May's 3.7%, exceeding expectations of a 3.9% increase, said Eurostat, the European Union statistics agency. Also, signs of future inflation building in the pipelines emerged from Italy, where the government statistics office reported producer prices rose an annual in

7.5% in May, from a 6.3% rise in April—the fastest pace since the Italian index began in January, 2003.

With the June report, the euro zone's inflation rate has doubled in the last 12 months and is twice as high as the ECB's target of "below, but close to" 2%. Some economists warn prices could go even higher.

"These data are likely to trigger further upward revisions to median inflation forecasts, and will strengthen the ECB's resolve to tighten policy on Thursday," said Klaus Baader, an economist at Merrill Lynch in London.

But with the ECB now all but certain to raise interest rates on Thursday to 4.25% from 4%, a growing

number of politicians and policy advisers warn that such a move risks economic growth at a time when some euro-zone economies are flirting with recession.

German Finance Minister Peer Steinbrueck, in an interview appearing in this week's edition of Der Spiegel magazine, said an interest-rate increase could worsen the economic slowdown. His government predicts economic growth will slow this year to 1.7% and to 1.2% in 2009, from 2.5% in 2007.

"The ECB must bear in mind that an interest-rate hike could send the wrong signal because it could have a pro-cyclical effect on a slowdown of the economy," Mr. Steinbrueck said.