THE WALL STREET JOURNAL.

WSJ.com

DOW JONES Newswires

EUROPE

DOW JONES A News Corporation Company

VOL. XXVI NO. 120

TUESDAY, JULY 22, 2008

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Roche offered to buy the 44% of Genentech that it doesn't own for $44 billion, in a deal highlighting the drug industry's hunger for new products. The biotech company said a committee of independent directors will evaluate the offer. Page 1

■ **Yahoo and Icahn** reached a deal giving the activist shareholder control of three seats on an expanded board. Page 1

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■ **A Swedish-Indian start-up** developed equipment to let telecom companies extend mobile service into developing nations. Page 4

■ **Grupo SOS agreed to buy** Unilever's Bertolli olive-oil and vinegar business for $998 million to boost its market share by five points to 20%. Page 8

■ **U.K. tourism is enjoying** a lift as the falling pound leads Britons to stay home and more Europeans to cross the Channel when taking a holiday. Page 9

■ **HBOS said holders** of 37.83% of its shares had subscribed to its $8 billion rights issue to date. Page 21

■ **Dr. Reddy's profit fell** 26% on higher costs. Revenue at the Indian drug maker's German unit rose 20%. Page 8

■ **China is challenging** pricier deals as higher inward foreign direct investment suggests a speculative-fund surge. Page 24

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11467.34	-29.23	-0.25
Nasdaq	2279.53	-3.25	-0.14
DJ Stoxx 600	282.36	+1.67	+0.59
FTSE 100	5404.3	+27.9	+0.52
DAX	6424.84	+42.19	+0.66
CAC 40	4327.14	+27.78	+0.65
Euro	$1.5865	+0.0014	+0.09
Nymex crude	$131.04	+2.16	+1.68

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World-Wide

A U.S. security pact with Iraq is likely to include specific target dates for handing over control and withdrawing U.S. forces. The discussions appear to reflect the influence of Obama, who met with Iraq's prime minister. Iraqi officials have repeatedly referred to 2010 as a withdrawal goal, a date that coincides with Obama's timetable. Page 1

■ **The EU said** it would be willing to slash farm tariffs by 60% as part of a global trade pact, but emerging economies must respond with improved offers on lowering industrial tariffs.

■ **Zimbabwe's Mugabe** and opposition leader Morgan Tsvangirai agreed to begin talks on sharing power, a first step in reconciling the rivals and resolving the nation's political crisis. Page 9

■ **U.K. Prime Minister Brown** told Israel's parliament that Britain would remain at the forefront of efforts to stop Iran from obtaining nuclear weapons.

■ **India's foreign minister** blamed Pakistan for the July 7 bombing of India's embassy in Afghanistan, saying it had put their peace process "under stress."

■ **Explosions on two buses killed** two people and injured 14 in Kunming in southwestern China. Police said they were unsure who was behind the explosions.

■ **Russian Prime Minister Putin** ordered the guarantee of oil supplies to the Czech Republic. Page 9

■ **Russia and China signed** an agreement to end a long dispute over their eastern border, the scene of past military clashes, but no details were released.

■ **Myanmar needs** at least $1 billion over three years to help cyclone survivors, a U.N.-led report said. Asean called for Myanmar to free Aung San Suu Kyi. Page 32

■ **Rescue crews were searching** a vast area after a U.S. Air Force B-52 bomber crashed off Guam. At least two people were recovered, their status still unavailable.

■ **France's Sarkozy vowed** to oversee a diplomatic effort that overcomes Ireland's rejection of the EU's Lisbon Treaty overhauls.

■ **Nepal's governing assembly** elected the new republic's first president, who defeated a candidate backed by Maoists.

EDITORIAL & OPINION

Cleaning up Sofia

The EU seems set to clamp down on organized crime and corruption in Bulgaria. Page 12

Roche risks culture clash in bid to buy Genentech

Offer for rest of shares underscores the need for products, profits

By Jeanne Whalen, Dana Cimilluca And Marilyn Chase

For 18 years, **Roche Holding AG** pulled off a rare and delicate feat in the pharmaceutical industry: The big Swiss company controlled and profited from an innovative biotech firm without alienating its most valuable employees.

But with its offer to buy the rest of **Genentech** Inc. for $44 billion, Roche is making a move that risks upsetting this careful balance and could lead to a clash with the creative culture at the California-based biotech, among the world's best developers of cancer medications.

Roche's willingness to take this risk underscores the pharmaceutical industry's intense need for new products and profits. Large pharma-

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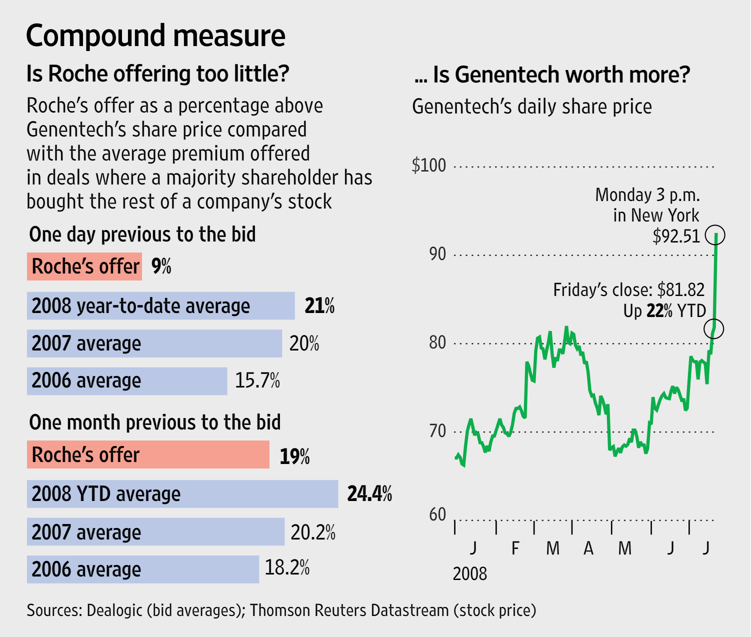

U.S.-Iraq pact likely to detail endgame dates

By John D. McKinnon, Gina Chon And Jay Solomon

A U.S. security agreement with Iraq is likely to include specific target dates for handing over control and withdrawing American combat forces.

The discussions appear to reflect Sen. Barack Obama's influence; the expected Democratic nominee for U.S. president advocates pulling out all U.S. combat forces 16 months after the election. The U.S. presidential election is having other effects in the region as allies ease away from the hard-line policies of U.S. President George W. Bush; some have opened discussions with Syria and Iran.

Sen. Obama traveled to the Middle East over the weekend, and held talks in Baghdad with Iraqi Prime Minister Nouri al-Maliki. Officials later said that he didn't discuss the 2010 withdrawal date directly with Mr. Maliki. But in their public comments in the last few days, Iraqi officials—including Mr. Maliki—repeatedly have referred to 2010 as their goal for completing the handover of security to Iraq and withdrawal of U.S. combat forces.

"We cannot give any timetables or dates, but the Iraqi government believes the end of 2010 is the appropriate time for the withdrawal of [American] forces," government spokesman Ali al-Dabbagh said Monday.

Later in the day, White House

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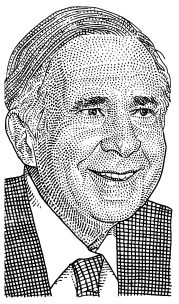
Icahn gains 3 board seats in peace deal with Yahoo

By Jessica E. Vascellaro, Matthew Karnitschnig and Joann S. Lublin

Yahoo Inc. agreed to appoint Carl Icahn and two of his allies to its board, removing the threat of a proxy fight while also clouding the prospect for a deal with **Microsoft** Corp.



Carl Icahn

The settlement, which will give Mr. Icahn three of the board's 11 seats, marks a partial victory for the activist investor, who has been prodding Yahoo's board to get rid of Chief Executive Jerry Yang and sell all or part of the company to Microsoft.

It remains to be seen how much clout Mr. Icahn can wield on a board that has so far shown strong opposition to his agenda. With only three seats, Mr. Icahn, who owns 5% of Yahoo, may find himself able to do little more than agitate. But his presence is likely to keep pressure on the company and Mr. Yang.

Shares of the Internet portal were down 78 cents, or 3.5%, at $21.67 in midafternoon trading Monday in New York.

By removing the threat of a proxy fight, the settlement could make it difficult for Microsoft to reach a deal with Yahoo in the near term. After abandoning its own threat to wage a proxy battle in May, Microsoft allied itself with Mr. Icahn. Now, Mi-

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LEADING THE NEWS

U.S.-Iraq security accord likely to specify endgame dates

Continued from first page

press secretary Dana Perino said that a pending security-framework agreement likely would include specific dates, and she didn't rule out a 2010 time horizon.

"There will be an aspirational goal...in the strategic-framework agreement," she said. "Whether or not it's 16 months or later or earlier, I just don't know."

Still, both sides underscored on Monday that the withdrawal dates would be goals, not hard-and-fast timelines. The agreement also would focus on combat troops, not on other U.S. forces that would remain to provide training and counterterrorism support.

Any withdrawal would be "based on conditions, where the commanders on the ground could...push the date back" if security conditions haven't been met, Ms. Perino said.

Sen. John McCain, the likely Republican presidential nominee, said the Iraqis' discussions of a 2010 date aren't in conflict with his own view—that any withdrawal should be based on security conditions in Iraq. Sen. McCain took the opportunity to jab at Sen. Obama over his opposition to the troop surge in 2007. "The major point here is Sen. Obama could not have gone to Iraq as he did because he opposed the surge," Sen. McCain said. "It was the surge that succeeded. It was the surge that is winning this war. He opposed it."

A new security agreement between the U.S. and Iraq is necessary to replace a United Nations mandate that expires at the end of this year.

For the past several weeks, Iraqi government officials have used the media to sway public opinion on the security talks with the U.S. Iraqi officials' public demands have frustrated the Bush administration, which had hoped to seal an agreement by July 31—a goal that now seems to be slipping.

Associated Press

Barack Obama, left, and Gen. David Petraeus aboard a helicopter in Baghdad. Sen. Obama began his first trip to Iraq since launching his bid for the White House.

On Friday, in a concession to the Iraqis, the White House announced that President Bush and Mr. Maliki had agreed to a "time horizon" for the drawdown of U.S. troops in Iraq, although the Bush administration had long resisted congressional withdrawal deadlines. The talks on a time horizon involve specific dates, including 2010, but nothing is finalized yet, people familiar with the talks said.

Earlier, the Iraqi government had pushed for a specific date for troop withdrawals no matter what the conditions are in Iraq at that time. But U.S. officials are working to keep the agreement flexible.

At a minimum, Sen. Obama's presence is giving the Iraqi side more leverage in the bargaining. There are other signs that his presence in the Middle East, and recent speeches, are beginning to impact the direction of U.S. foreign policy.

Indeed, many diplomats and strategists say governments in the Middle East are starting to look past the Bush administration, in expectation of the polices Sen. Obama said he would pursue as president. The recent statements by Iraqi officials on troop withdrawals, they said, are just part of a wider strategic shift occurring in the Middle East.

In addition to Iraq, U.S. efforts to isolate Iran and Syria have faced opposition in recent months. Even U.S. ally Israel has begun exploring negotiations with Damascus and its proxies, including Lebanon. Sen. Obama has made engagement with Tehran and Damascus a cornerstone of his foreign-policy agenda, and Arab governments said this is having an impact in their region.

The Bush administration itself has shown signs in recent weeks of shifting its tactics. The State Department's No. 3 diplomat, Undersecretary of State William Burns, met with Iran's nuclear negotiator this week, breaking a White House freeze on such contacts. The State Department also is scheduled to host this week a delegation of Syrian academics and lawmakers.

Sen. Obama's influence could negatively impact U.S. interests, said U.S. officials and strategists. The Bush administration continues to place the freezing of Iran's nuclear program as among its top foreign-policy objectives. And the U.S. is working with allies to execute a tough new package of financial sanctions should Tehran refuse to freeze its nuclear activities.

A number of Western diplomats said they worry Tehran is closely

Both sides underscored that the withdrawal dates would be goals.

watching the U.S. presidential debate and now believes it can simply wait out the Bush administration. Many Iranian officials, they said, probably believe it could be more then a year before the next U.S. administration can assemble a clear policy toward Iran, by which time their nuclear program will be far more advanced.

"The political vacuum in Washington is extremely dangerous," said a Western diplomat working on the nuclear issue.

CORRECTIONS & AMPLIFICATIONS

A television ad for **High Tech Computer** Co. was designed by **Omnicom Group** Inc.'s 180. The July 15 Advertising column incorrectly stated that the ad was designed by 180 High Tech Marketing, a division of the **Oxford Group.**

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.

INDEX TO PEOPLE

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

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

Editeur responsable: Daniel Hertzberg M-17936-2003

LEADING THE NEWS

Bank of America's net profit declines 41%

Results were better than expectations; sector is more upbeat

By Marshall Eckblad

Bank of America Corp. posted a 41% drop in second-quarter profits, but results were better than feared, making the bank the latest large lender to report earnings that exceeded investors' tempered expectations.

The Charlotte, N.C., bank also preserved its dividend of 64 cents a share and suggested that its acquisition of mortgage lender Countrywide Financial Corp. would add to its profits before year end.

The results, while clearly showing the damage of rising credit problems, could expand the budding optimism that helped bank stocks rally last week after a punishing start to July. Bank of America's shares rose $1.96, or 7.1%, to $29.45 in midday New York Stock Exchange trading after rising nearly 50% in the last three trading days of last week.

Chief Executive Kenneth Lewis said in a conference call with analysts that he expects the U.S. economy will see "sluggishness" through the rest of 2008 but eventually will stabilize this year and then begin its recovery in the early part of next year.

Investors have been hammered by previous attempts to time the bottom for the financial sector, however, and will likely need more reassurance before sounding the all-clear.

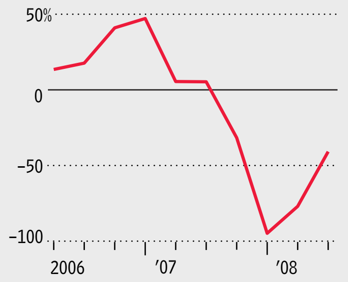
Bank of America—which boasts it does business with one in three U.S. households—reported net income of $3.41 billion, or 72 cents a share, down from $5.76 billion, or $1.28 a share, a year ago. Net revenue, which subtracts interest costs, rose 3.5% to $20.3 billion.

The mean forecast by analysts surveyed by Thomson Reuters was for earnings of 53 cents a share on revenue of $18.4 billion. Last week, **Wells Fargo** Corp., **J.P. Morgan Chase** & Co. and **Citigroup** Inc. all reported better-than-expected results, giving the sector and the broader market a boost.

Among the quarter's highlights: Bank of America reported net revenue and net income at its corporate and investment bank rose from a year before, as investment banking had its second-best quarter ever and write-downs fell by more than half from the first quarter, to $1.22 billion. Average retail deposits grew by 12%, only half of that due to acquisitions.

Staying negative

Bank of America's quarterly net income, change from a year earlier



Source: the company

Mr. Lewis said Bank of America would continue paying its dividend even though, in recent months, investors and analysts alike had speculated the company would follow other banks in cutting its dividend to conserve capital amid rising losses from bad loans.

"We have not changed our philosophy about the dividend," Mr. Lewis said.

On the downside, Bank of America's credit-loss provisions more than tripled to $5.83 billion from a year ago amid rising costs in the home equity, small business and home-builder portfolios. While the figure was lower than in the first quarter, net charge-offs for uncollectible loans and nonperforming assets both rose from the period ended in March.

The costs hurt results at the bank's consumer unit, which includes the largest U.S. credit-card business and bank-branch network. While revenue climbed 11%, earnings dropped 66% on the credit-loss provisions.

Mr. Lewis was adamant on the conference call that his bank's purchase of Countrywide was a wise move and said that Countrywide "is adding to the profits of Bank of America as we speak."

Bank of America's buyout of Countrywide, which closed this month, makes Bank of America the biggest U.S. home-mortgage lender. The bank said Monday the deal is now expected to add to profits in 2008, rather than the neutral effect it forecast when the acquisition was announced in January.

Countrywide, whose results weren't part of Bank of America's figures, posted a second-quarter net loss of $2.33 billion, including just under $4 billion in credit-related losses. Countrywide still holds billions of dollars of home loans and related securities, making investors concerned that the value of these may have to be written down further, which could pressure Bank of America into raising capital or cutting its dividend.

Bank of America's second-quarter results and the bank's accompanying comments suggest that rising delinquencies and losses from home-equity loans stand out as particularly high, as compared with losses from other types of consumer loans. "Obviously, the pace" of rising costs and losses from home-equity loans "has surprised us," Mr. Lewis said.

—Shara Tibken and Donna Kardos contributed to this article.

CORPORATE NEWS

PHARMACEUTICALS

Primary Health to sell unit to Sanofi-Aventis


IndexOpen

PRIMARY Health Care Ltd. said it will sell its vitamin-making unit to French drug maker **Sanofi-Aventis** SA for 560 million Australian dollars (US$543 million) to repay debt. Primary is selling the business and its drugstore distribution unit, which it acquired in a A$2.65 billion takeover of rival Symbion Health, because they don't fit with the company's needs. Primary is concentrating on rolling out new medical clinics and expanding its pathology and radiology services. Paris-based Sanofi-Aventis confirmed the deal. Symbion was Australia's largest distributor of vitamin, mineral and herbal supplements, with a 21% share of the national market. *—Andrew Harrison*

SOFTWARE

SAP plans to wind down its TomorrowNow unit

SAP

GERMAN software company **SAP** AG said it will wind down its TomorrowNow subsidiary, a business that was accused by U.S. rival **Oracle** Corp. of stealing proprietary information.

Oracle filed a lawsuit in March 2007, claiming SAP engaged in "corporate theft on a grand scale" after some TomorrowNow employees were alleged to have made inappropriate downloads from Oracle's Web site.

SAP said last month it wanted to settle the legal dispute with Oracle out of court. The leading managers at TomorrowNow left the company in November 2007 and SAP put the unit up for sale.

—Archibald Preuschat

WSJ.com

Former GM chief predicts hurdles for electric cars


Associated Press

ONE IDEA that has gotten a boost from the recent oil-price shock is the notion that the energy for transportation should come from an electric grid, not an oil well. But Robert C. Stempel, the former chairman and chief executive of **General Motors** Corp., says the obstacle to mass production of electric vehicles is the battery. Nickel metal hydride batteries have proven reliable, he says, but they don't provide the range to be competitive with conventional cars.

WSJ.com subscribers can read more about electric-vehicle technology in Joseph White's Eyes on the Road column, at WSJ.com/Autos.

Start-up may aid telecoms' reach

Swedish-Indian firm makes device to take service to rural areas

BY LEILA ABBOUD

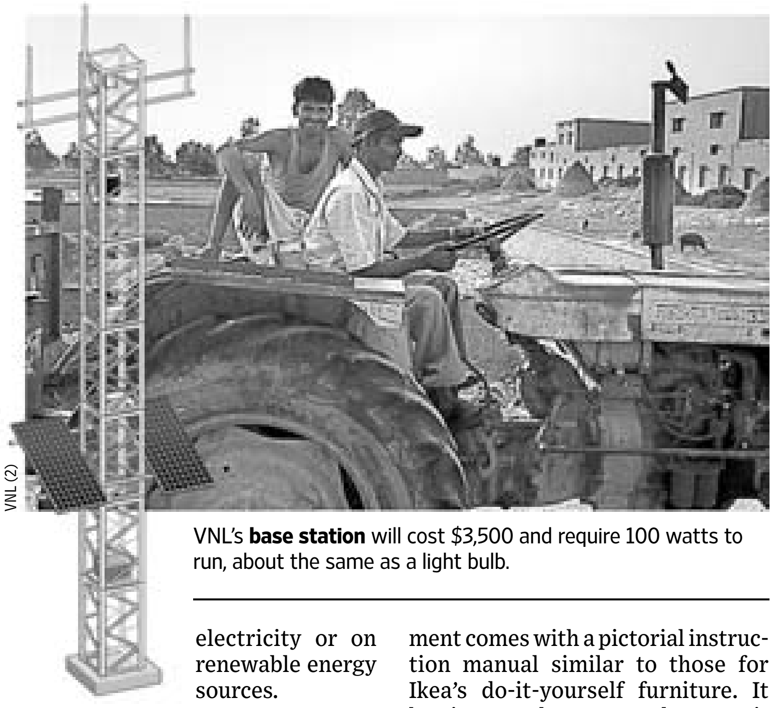
AS THE TELECOM industry gears up to reach billions of potential mobile-phone users in developing countries, a Swedish-Indian start-up has developed an innovative piece of equipment: a build-it-yourself radio tower that consumes about as much energy as a light bulb.

For years, telecom operators have been trying to expand into rural areas in Asia, Africa and the Middle East—a major growth opportunity at a time when urban areas are saturated. Some two billion new subscribers are projected to start using mobile phones in the next five years, and 80% of them live in developing-world markets, according to analyst estimates. Yet wiring villages without reliable electricity, and where residents have little money to spend, requires a technological rethink.

To power mobile networks in remote areas today, telecommunications operators pair base stations—the tower-top radio transmitters that form the backbone of mobile networks—with diesel-powered generators and batteries. These are impractical and expensive: Fuel accounts for 65% of the cost of operating a typical base station.

VNL, which has headquarters in New Delhi and Stockholm, has spent the past four years developing a simplified base station that is powered by solar panels and requires just a fraction of the electricity of typical base stations.

But convincing telecom operators to buy a stripped-down base station made by a little-known start-up won't be easy. VNL is among many companies trying to develop mobile-phone technologies for poor rural areas. Telecom-equipment giants **Telefon AB L.M. Ericsson**, **Alcatel-Lucent** and **Motorola** Inc. are all looking into how they could tweak existing telecom gear to run on less electricity or on renewable energy sources.


VNL (2)

VNL's **base station** will cost $3,500 and require 100 watts to run, about the same as a light bulb.

Ericsson and Alcatel-Lucent have separately installed about 400 solar-powered base stations in African countries including Senegal and Uganda. In India, Ericsson has installed some 40 base stations that run on biodiesel, essentially recycled cooking oil. Alcatel-Lucent's solar base station requires about 750 watts to run, while Ericsson's solar base station requires about 600 watts. The companies wouldn't disclose the costs, but both sets of gear require technical staff to install them over a matter of weeks.

VNL's base station will cost $3,500 and require 100 watts to run, about the same as a light bulb. By contrast, the GSM stations most widely used today can cost anywhere from $40,000 to $100,000. The most energy-efficient models require around 600 watts; others may need several thousand watts.

"We started with a clean sheet of paper, and told ourselves that we needed to design technology perfectly suited for the rural environment," says VNL Chief Executive Anil Raj, a former executive at Ericsson.

The tower is designed to make it easy for people with little professional training to install. The equipment comes with a pictorial instruction manual similar to those for Ikea's do-it-yourself furniture. It has just one button, used to turn it on.

Though tested in labs, VNL's technology is just starting to be tried out on the ground. The start-up recently signed an agreement with **Quippo Infrastructure Equipment** Ltd., an independent Indian mobile-infrastructure company, to test the VNL solar base station in northern India.

If VNL's base station takes root, it could make it possible for Indian telecom operators such as **Vodafone Essar** Ltd., in which **Vodafone Group** PLC has a majority stake, and **Bharti Airtel** Ltd. to wire more remote villages at a much lower cost and more quickly. That is one of their main objectives, because most people in India's cities already have mobile phones and price competition there is intense. India is expected to have the most rapid growth in new subscribers over the next three years, followed by China, according to Pyramid Research, based in Cambridge, Mass.

Beyond boosting telecom companies' bottom lines, affordable mobile-phone service promises to change everyday life in rural communities world-wide.

As they designed the new base station, VNL officials conducted interviews in and around Deorhi, a village 200 kilometers from New Delhi. VNL also asked about its interviewees' skills—such as how they repair farm equipment and operate generators—information that helped the company design equipment that can be installed without engineers.

Majid Khan, a construction contractor in Deorhi, said his business's productivity has soared since he bought a mobile phone, according to a transcript of VNL's interview with him. Mr. Khan can now call workers, rather than driving to their homes when he needs to speak with them.

With a mobile phone, "I would call my daughter and son every week," said Kishen Devi, an elderly woman in Deorhi, according to the transcript of another interview.

As VNL Chief Technology Officer Krishna Sirohi and his team started developing the new tower, their goal was to minimize power consumption while keeping costs to a minimum.

Computer chips traditionally used for telecom equipment ate up too much power and were too expensive, Mr. Sirohi recalls. So VNL decided to buy chips designed for cars and consumer electronics, which are less electricity-hungry. VNL engineers then spent months rewriting the chip software to make it suitable for telecom gear.

The company decided to produce two versions of the base station—one for village centers, where voice traffic would be higher, and another for the surrounding fields where traffic would be low. Towers in fields could be put in virtual sleep mode to save electricity when no one was calling on them.

Mr. Sirohi, who was born and grew up in Deorhi, considers efforts to put mobile phones in the hands of hundreds of millions of people in India an endeavor similar to the one his father pursued in 1959, when he built Deorhi's first school and then served as its principal.

"The needs of people who live here have long been overlooked," says Mr. Sirohi.

BP's Russia spat flares up again over Dudley's job

BY GREGORY L. WHITE AND GUY CHAZAN

MOSCOW—Russian immigration authorities stuck to their hard line that they won't issue **TNK-BP** Ltd. Chief Executive Robert Dudley a work visa, making it likelier he will be forced to leave Russia over the next few weeks, according to people close to the company.

Though Mr. Dudley could continue to exercise authority as CEO from outside Russia, his departure would be a major blow for **BP** PLC, which is fighting a battle with its Russian partners at the 50-50 venture. Mr. Dudley has emerged as a central target in the fight for control of TNK-BP, Russia's No. 3 oil producer by output.

The conflict over Mr. Dudley's visa hinges on a disagreement over whether he has a valid employment contract. His contract expired in December, but he and BP say it was automatically and indefinitely renewed. BP's Russian partners, who have sought in recent weeks to remove Mr. Dudley, now argue his contract has been invalid since Jan. 1.

Russia's Federal Migration Service so far has agreed with them. The agency issued Mr. Dudley a 10-day transit visa last week, the day before his visa expired, which allows him to stay in Russia until July 29. But Konstantin Poltoranin, a spokesman for the service, said Monday it wasn't convinced by the legal opinion BP presented to demonstrate that Mr. Dudley has a valid contract, so it can't issue a work visa. He said that technically, Mr. Dudley's current transit visa doesn't allow him to work, but noted that the agency wouldn't seek any sanction against the CEO for working this week.

People close to BP said the Migration Service could grant another short-term extension for Mr. Dudley next week, dragging out the process.

A pair of probes by labor inspectors is likely to lead to sanctions against Mr. Dudley in the coming days or weeks, these people said. On Monday, a Moscow court threw out TNK-BP's challenge to one of those probes, the Interfax news agency reported.

—Daria Solovieva contributed to this article.

CORPORATE NEWS

US Airways' turnaround

Best on-time record comes after rallying staff to focus on goal

By Scott McCartney

Associated Press

Even though these **US Airways passengers** had to wait in line at the Philadelphia check-in counter last month, the carrier has dramatically improved service this year.

Last year, US Airways was worst among major airlines in on-time performance in the U.S. So far this year, it's No. 1.

The turnaround has been dramatic, especially considering that much of the airline's service is in the U.S. Northeast, where air-traffic congestion has bogged down into a national crisis. But even at the nation's worst airports, **US Airways Group** Inc. has run more or less on-time. At New York's LaGuardia Airport, for example, nearly 79% of all US Airways flights arrived on-time in May, compared with an abysmal 57% for **AMR** Corp.'s American Airlines and 58% for **UAL** Corp.'s United Airlines, according to the U.S. Transportation Department.

THE MIDDLE SEAT

How can one airline with big congested hubs run on-time while other major carriers stumble? US Airways rallied its work force to focus on one goal—getting planes off the gate on-time—and began offering financial incentives to workers for better service.

The airline is spending about $50 million to fix its operation, upgrading equipment and software, fixing computer problems that resulted from its merger with America West Airlines, hiring new management and airport workers, reworking how planes and crews are scheduled and building a crucial new baggage screening area in Philadelphia.

Some simple things have helped, like installing new electronic displays beside gates so airport ground workers have better information about an airplane's destination and departure time. US Airways also changed how baggage handlers move connecting luggage, with runners taking suitcases directly to connecting flights instead of dumping it in a central sorting area and hoping it gets out to its proper aircraft.

The airline had a rush effort to fill all open mechanics positions at its two biggest hubs, Philadelphia and Phoenix, adding more than 100 workers before the summer travel rush began. As a result, broken things on airplanes—such as light bulbs and seats—that were customer annoyances have been more aggressively repaired. US Airways has a list of those kinds of problems that workers joking called NEF—Never-Ever Fixed. That list has been reduced by half.

But the biggest change has been the airlines' push to inspire workers to deliver better service. "Airlines, or really any organization, need a rallying cry, especially one that has been the worst of the worst for so long," said Robert Isom, the airline's chief operating officer.

US Airways' experience this year shows that airline problems aren't all the result of airport congestion, antiquated air-traffic control operations and summertime thunderstorms. Even under adverse conditions, airlines can run on-time if they are well-run. Travel woes often result from weak airline leadership, disheartened and angry work forces and poor coordination and communications inside companies.

What US Airways has done is reminiscent of the turnaround at **Continental Airlines** Inc. engineered by Gordon Bethune in the mid-1990s. In fact, many of the tactics are similar. US Airways pays $50 monthly bonuses to all employees when the airline achieves operational goals. (Mr. Bethune's Continental paid on-time bonuses in separate checks monthly.) US Airways offers hefty financial rewards to employees who generate customer compliments, holding quarterly drawings of favorable comments for $262,500 in cash prices, including 10 $10,000 checks. (Continental gave away cars in an annual drawing of employees with perfect attendance.)

Customers have noticed the difference. Jack Malcolm, owner of a sales training and coaching firm, flew from San Diego to Phoenix last month on US Airways "and was very pleasantly surprised to find myself on a clean new airplane with happy staff. I've usually avoided US Air because those items have been in short supply."

Of course, not all problems at the airline have been solved. Peter Arakelian sat for more than five hours on a US Airways flight operated by a regional partner that was scheduled from LaGuardia to Raleigh-Durham last month. After more than two hours waiting to take off, the regional jet had to taxi back to refuel, losing its place in line to depart. After more than two hours of additional waiting, some passengers asked to get off the flight and the captain at first refused, then canceled the trip.

"Keeping folks on a plane for five and a half hours is just inhumane. It's horrible," said Mr. Arakelian, who works for a biotechnology company. Still, he travels frequently on US Airways and has noticed improvement. "Overall, service has been good recently," he said. (US Airways said it is trying to get its regional partners to improve operations as well.)

Mr. Isom, an airline veteran and a turnaround specialist who had been chief restructuring officer at GMAC LLC, was hired last September to help get US Airways out of its mess. He arrived to find a work force still struggling with the 2005 merger of US Airways and America West. Employees were frustrated with an unfamiliar reservations and passenger-processing system. Maintenance computer systems from the two airlines didn't talk to each other well, making it easy to lose track of spare parts. "Let's face it, there was a lot of finger-pointing," said Mr. Isom.

After last summer's debacle, US Airways did move to cut flights to build more cushion into its schedule, slimming down in the peak hours and holding a couple more planes back to use as spares. More minutes were added to some trips to more realistically reflect airport delays and congestion. Scheduling was changed for pilots and flight attendants so that the crews handling the last trip of the night into a city weren't first out in the morning.

The airline employed consultants to analyze operational problems and ended up beefing up management and ground staff in Philadelphia, creating a "satellite headquarters" with senior officials who could authorize spending, make hiring decisions and change key operations without asking permission from the company's Phoenix headquarters.

US Airways found that different departments had different goals in terms of airplane departures—some thought getting planes off the gate no later than 30 minutes after scheduled departure time was OK, for example. Mr. Isom installed one company rallying cry: D-zero—every departure at or before its scheduled time.

One major baggage snag in Philadelphia that was causing problems across the country was fixed. US Airways lost space in its international terminal and couldn't get luggage rescreened efficiently when passengers rechecked it on connecting flights after clearing Customs. Slow screening meant delayed flights, and lost luggage.

"Our numbers were abysmal," says Suzanne Boda, a **Northwest Airlines** Corp. veteran who joined US Airways in January as senior vice president for the East Coast.

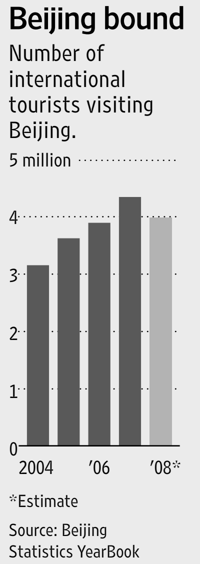
This year, the airport worked with the Philadelphia airport to construct a new bag-sorting and screening area in the international terminal. Mishandled baggage in Philadelphia has been reduced by more than 60%, enabling the entire airline to run better, says Bob Ciminelli, vice president of the Philadelphia operation who joined in January from American.

The airline is still at the bottom of the industry in customer complaints filed with the DOT. Mr. Isom thinks that is the result of major policy changes US Airways has driven that fuel complaints, such as adding fees for checked baggage, reducing mileage paid to frequent fliers for short flights or charging $2 for soda. In addition, complaints typically lag behind in turnaround.

"We've done a good job of training our customers to complain because we've given them lots of reasons to complain," he said. Eventually, the airline hopes better service reduces complaints.

Beijing builds a glut of hotels, sparking staff shortage

By Loretta Chao And Jason Leow



Loretta Chao/WSJ

An employee at the **Crowne Plaza Sun Palace**, one of many hotels that opened in Beijing ahead of the Olympics

BEIJING—Predictions that half-a-million overseas visitors would attend the Olympics accelerated a surge of hotel construction here. Now, with the Games less than a month away, all that building may have produced a glut of rooms in one of the world's prized hotel markets.

When the Olympics start, Beijing will have more than 50 five-star hotels open for business, up from fewer than 20 just five years ago. More than 30 hotels still under construction, including at least 13 five-stars, will soon provide more capacity. A Mandarin Oriental will be located at the foot of the new China Central Television tower. The Opposite House will have 99 rooms, complete with deep-soaking oak bathtubs and published rates that start at $732, double those of many of the city's most expensive hotels.

InterContinental Hotels Group PLC and **Marriott International** Inc., which operate two Ritz-Carlton hotels in Beijing, are among the multinational hotel companies with the biggest bets on Beijing. IHG has 13 hotels in the city, including two that have yet to open, and Marriott has 10, five of which opened in the past seven months. That compares with seven IHG hotels and 12 Marriotts in New York, a more mature hotel market.

"There's really been too much growth in the last couple of years," says Shaun Rein, founder of Shanghai-based market researcher China Market Research Group. He estimates the Beijing hotel industry is growing by 20% to 25% a year based on revenue and 12% to 15% based on number of visitors. By contrast, the number of luxury hotels opening in the city has grown at an average rate of 40% a year, according to the Beijing tourism bureau numbers.

The worries about a possible glut have grown. Many of Beijing's newest hotel rooms are sitting empty following the government's tightening of visa restrictions as part of public-safety measures tied to the Olympics. Even during the Games, occupancy rates may not be as high as originally predicted. The tourism bureau says that more than three-quarters of Beijing's five-star hotels are booked for the Olympics, but at four-stars, less than half the rooms are reserved.

In fact, the Olympics appear to be doing little to boost Beijing tourism. The tourism bureau's current estimate of 400,000 to 450,000 foreign visitors for the Games next month is pretty close to the 420,000 inbound tourists Beijing received last August when the Games weren't a lure.

The hotel companies say vacant rooms don't worry them. "While we are looking forward to the near-term exposure around the Olympic Games, we always plan for the long term, and that's why we're expanding so quickly in China," says a Marriott spokesman.

An IHG spokeswoman says the company is also expanding with the future in mind. "In the longer term, we believe that China's hotel industry will continue to do well," she says.

Meanwhile, the owners of new hotels have other worries besides how soon guests will materialize. China has a relatively small pool of experienced service workers, and the new hotels are engaged in a brutal battle for staff.

Established hotels are already complaining of widespread poaching as the new hotels scramble to fill thousands of positions. "Elsewhere when people poach, you will normally only see one or two department heads, even the [general manager] himself" doing the poaching, says Pauline Teo, human resources director for **Accor** SA in China, which will run nine hotels in Beijing by the Games, including the five-star Sofitel Wanda and several budget hotels. "Over here in China, you can see a team going in and combing the place. It's like a SWAT attack."

Winnie Ng, vice president of human resources in Greater China for IHG, says the Olympics has definitely tested the company's ability to recruit and keep staff. There are benefits to IHG's large network of hotels in China, she adds, because staff from other cities will be traveling to Beijing to help this summer.

Some new hotels say they have hired their staffs from established hotels outside China, but recruiting that way has been difficult.

—Gao Sen contributed to this article.

CORPORATE NEWS

McDonald's bet on lattes

Push in U.S. shops may be losing buzz as economy falters

BY JANET ADAMY

Dusan Petricic

Investors may find out this week whether **McDonald's** Corp.'s push into espresso drinks is losing its buzz.

On Wednesday, the Golden Arches plans to report second-quarter earnings. Executives should explain how they are dealing with high ingredients costs and whether $4-a-gallon gas is causing people to cut back on Big Macs and french fries.

Management may have to defend its giant bet on lattes and cappuccinos, which they want to add at all McDonald's 14,000 U.S. restaurants by next year as part of a broader beverage expansion. McDonald's jump into coffee comes as **Starbucks** Corp. is shuttering 600 U.S. shops due to weak sales, with many Americans having trouble justifying a $3 coffee when their home values are dwindling and their gasoline and grocery bills have leapt.

McDonald's sales data suggest that these specialty coffee drinks, now in at least 1,700 locations, aren't selling well. A chart of the six major areas where the company is selling the drinks shows that sales in most markets peaked about three weeks after the drinks launched, then declined in the following weeks, in some cases sharply, according to company documents reviewed by The Wall Street Journal. In Kansas City, Mo., for instance, the average number of specialty coffee drinks sold per restaurant peaked in early December at 359. As of the last week in June, that average had fallen to 217.

McDonald's spokesman William Whitman called that data an incomplete representation of overall sales and said most major markets are meeting or exceeding the company's expectations.

There are too many variables that affect sales to draw a definitive conclusion from the sales data, especially because the program is still in its early stages. So far, McDonald's hasn't put its national marketing muscle behind the drinks. In addition, most of the espresso drinks are hot, so they may not sell as well in summer, and customers may simply be switching from the espresso drinks to McDonald's iced coffees, which are tallied as a different category.

But chains like McDonald's never want to see the sales chart moving downward, especially when the product is at the core of the largest expansion to their menu in 30 years. Franchisees are quietly griping that the cost of renovating their restaurants to add the drinks, part of which McDonald's is paying, doesn't justify the expense. That is prompting some of them to skip the fancy beverage counter that executives want them to build and instead just add the machines that make the drinks. "Nobody wants to spend the money on that," one franchisee said.

AT&T results likely to suffer

BY VISHESH KUMAR AND ANDREW LAVALLEE

AT&T Inc. is expected to show an accelerated drop-off in landlines and weakness in its wireless business when it reports second-quarter earnings Wednesday, offering Wall Street an idea of how much the economic slump has affected the telephone business.

Many analysts and investors also expect the largest U.S. phone company to take a cautious tone and lower earnings guidance for 2008 as a whole.

Over the past month, AT&T shares have fallen about 10%, a steeper percentage decline than suffered by the broader stock market and rivals **Verizon Communications** Inc. and **Qwest Communications International** Inc., reflecting investor jitters about the results. The company declined to comment.

Phone companies used to be largely insulated from economic downturns because most consumers considered their home phone service a necessity. But 80% of Americans now own cellphones, making it easier for them to ditch their landlines. Others are dropping their landlines for cheaper services offered by cable operators.

In January, AT&T said the weak economy was hurting its landline and high-speed-Internet business. As gasoline and food prices have soared in recent months, AT&T's business has come under more pressure, analysts say.

Wachovia Capital Markets analyst Jennifer Fritzsche predicted last week that AT&T would report a year-to-year landline loss of 8% for the second quarter, up from a 7.7% loss in the first quarter.

Some of the clouds may have a silver lining. The company's results may have been hurt by customers putting off buying new cellphones in the quarter in anticipation of the launch of **Apple** Inc.'s 3G iPhone, sold exclusively by AT&T in the U.S. What Ms. Fritzsche calls the "iPhone pause" is likely to be offset in the third quarter by a healthy bump in new iPhone sales.

Merck, Schering face new Vytorin setback

BY PETER LOFTUS, LAUREN POLLOCK AND JACOB GOLDSTEIN

In the latest setback for cholesterol drugs marketed by **Merck** & Co. and **Schering-Plough** Corp., a new study suggested that Vytorin failed to show a benefit in people with a heart-valve problem.

It was the first study to show what effect the companies' jointly marketed drugs had on clinical outcomes such as heart attacks and looked at the drug's effect on aortic stenosis, the narrowing or obstruction of the valve that lets blood flow from the heart into the aorta. Previous studies primarily measured the drugs' effects on cholesterol levels and artery thickness.

Aortic stenosis isn't that common, but given the attention that Vytorin has received—and the absence of clear proof that it lowers the risks of heart attacks or strokes for people with routine high cholesterol—the study was being watched for implications beyond aortic stenosis.

Terje Pedersen, the leader of the research, known as SEAS, said the researchers would rather have presented the data at a conference or published them in a journal. He said the researchers released the data Monday because "there are a lot of rumors out there" about Vytorin and "we found it very difficult to maintain secrecy" about the results.

Merck and Schering-Plough had been scheduled to report results Monday morning, but they postponed them until after the market close because of the impending announcement of the SEAS results.

The results of the trial show that Vytorin reduced bad cholesterol by 61%, on average, compared with patients taking a placebo. There was no change in aortic-valve disease between the groups, though there was a reduction of atherosclerotic events in the treatment group.

Merck shares, which fell 6.2% in late-afternoon trading to $35.34, are now down about 39% year-to-date. Schering-Plough is off some 30% for the year and was down 13% to $18.63 late in the afternoon.

Vytorin is a combination of the drugs Zetia and simvastatin, which use different mechanisms to lower bad cholesterol. Both Vytorin and stand-alone Zetia are marketed by a joint venture of Merck and Schering-Plough; they had combined sales of more than $5 billion in 2007. Simvastatin is marketed under the brand Zocor by Merck, but since its 2006 patent expiration has been available as a cheap generic pill from several manufacturers.

U.S. prescription volumes for both Vytorin and Zetia have declined since January, when the "Enhance" study showed that Vytorin was no better than simvastatin alone at slowing clogging of the arteries, despite producing a greater drop in levels of bad cholesterol. Generic simvastatin sales have surged.

Relaunched Biogen drug may become blockbuster

BY KEITH J. WINSTEIN

Bloomberg News/Landov

Biogen still is dependent on revenue from **Avonex**, an older drug, also for multiple sclerosis, that accounted for $536 million in first-quarter sales.

Biogen Idec Inc. will mark two years this week since the relaunch of Tysabri, a potent drug for multiple sclerosis and Crohn's disease that is shaping up to be a blockbuster.

The drug was recalled in 2005 after three patients came down with a rare and serious brain infection and two died. In July 2006, the U.S. Food and Drug Administration allowed Tysabri to return, under restrictive rules and a monitoring program.

Patients generally are warned that Tysabri carries a 1-in-1,000 risk of developing the often-deadly infection, and the drug is frequently used as a last resort for MS patients unsatisfied with other drugs. In an interview, Biogen Chief Executive James Mullen predicted Tysabri's sales would pass $1 billion a year by the end of 2008—the conventional marker for blockbuster status.

"I think by most metrics, that goes in the category of pretty important drugs," Mr. Mullen said. Sales were $160 million in the first quarter, shared by Biogen and its marketing partner, **Elan** Corp., of Ireland. Biogen will announce its second-quarter results Tuesday. The company still is dependent on revenue from Avonex, an older drug also for multiple sclerosis that accounted for $536 million in sales in the first quarter.

Biogen has offset slowing growth in Avonex with price increases—most recently on June 20. The drug now costs $22,928 a year on average, up 25% from a year ago, according to data from Medicare. Tysabri now costs $30,090 a year, up 2%, but Biogen splits the drug's profits with Elan.

"They've done a great job recognizing that the MS market is not terribly price-sensitive at this point," said Mark Schoenebaum, an analyst at Deutsche Bank who has a "hold" on Biogen's shares. "They've done a very, very, very good job with the relaunch."

Mr. Mullen said Biogen, of Cambridge, Mass., was planning a "head to head" trial of Tysabri to compare its efficacy against a competing MS drug. No such studies have yet been run, meaning nobody knows for sure whether Tysabri is better than competing drugs or by how much.

"That'll be the next step in the evolution of this product, is running some more directed head-to-head comparators," Mr. Mullen said. But he cautioned that "the precise trial design has not been agreed upon" by Biogen and Elan and was "probably a few months away."

Such a study would let doctors better weigh the benefits of different MS drugs—competitors are made by Israel's **Teva Pharmaceutical Industries** Ltd. and a partnership of **Pfizer** Inc. and Germany's **Merck** KGaA.

"That wouldn't be a terribly wise trial," Mr. Schoenebaum said. "The vast majority of physicians already believe Tysabri is vastly more efficacious....On the off chance they lose on a trial like that, they have a lot more to lose than gain."

LG Electronics expects sales to slow after strong quarter

BY IN-SOO NAM

SEOUL—**LG Electronics** Inc.'s second-quarter net profit surged 84% due to strong sales of handsets and flat-screen television sets. But the company warned that sales will likely decline this quarter from the second.

"The ongoing global economic downturn resulting from the U.S. subprime-mortgage trouble will continue for quite a while," Chief Financial Officer James Jeong told analysts and investors. "We're very cautious about our second-half outlook."

LG—South Korea's second-largest electronics maker by revenue, after **Samsung Electronics** Co.—said profit in its digital-appliance unit will likely worsen as air-conditioner sales fall.

LG reported net profit of 706.9 billion won ($697.6 million), up from 384.6 billion won a year earlier. Sales rose 22% to 12.74 trillion won from 10.43 trillion won.

"The global economic downturn is causing weaker demand for traditional electronic products such as televisions, handsets and appliances," said James Kim, an analyst at Lehman Brothers. "LG's business momentum passed the peak in the second quarter."

LG, which overtook Sony Ericsson in the first quarter to become the world's fourth-largest handset maker by volume, said it shipped 27.7 million handsets globally in the second quarter, up from 24.4 million units in the first quarter. The company said sales of its premium models, such as Viewty and Voyager, were strong.

The company forecast that its handset business will continue to post double-digit operating-profit margin in the third quarter. However, it said intensifying competition is expected to lead to a drop in shipments and average selling prices from the second quarter. LG didn't provide specific figures.

Its second-quarter profit was boosted by a hefty gain from its 37.9% investment in **LG Display** Co., which makes liquid-crystal-display panels. LG Display this month said its quarterly net profit more than tripled from a year earlier on strong demand for flat-screen panels.

CORPORATE NEWS

Grupo SOS extends grip on olive oil with purchase

Spanish firm to buy Unilever's Bertolli in $998 million deal

Spanish food company **Grupo SOS** SA agreed to buy **Unilever's** Bertolli olive-oil and vinegar business for €630 million ($998 million) in a move to strengthen its position as the world's leading olive-oil bottler.

Grupo SOS, which owns brands such as Italy's Carapelli and Spain's Carbonell, already controls about 15% of the world's olive-oil output. The acquisition of Bertolli, the world's biggest olive-oil brand, will bring its market share to 20%.

By **Santiago Perez** *in Madrid and* **Roberta B. Cowan** *in Amsterdam*

The Spanish company has a market value of €1.76 billion and last year reported sales of €1.41 billion. The Bertolli acquisition, which will add €380 million in annual sales, is part of Grupo SOS's drive to secure a larger share of the coveted U.S. food market amid growing demand for healthier products.

"This transaction is absolutely strategic to Grupo SOS and it reinforces us as world-wide leaders in olive oil," said Chairman Jesus Salazar. "We share our focus on the Mediterranean diet with Unilever, and benefits will accrue to both our groups and to the consumer."

Consumption of olive oil has grown world-wide after being linked to health benefits such as longer life and lower cholesterol. Oil bottlers have also launched premium brands in recent years on rising global demand for international gourmet products.

Anglo-Dutch consumer-products company Unilever said it will keep using the Bertolli brand for other foods, including margarine, pasta sauces and frozen meals. The Bertolli brand had global revenue of about €700 million in 2007, Unilever spokesman Gerbert van Genderen Stort said.

Unilever, which makes Skippy peanut butter, Ben & Jerry's ice cream and Dove soap will book a profit of €450 million on the olive-oil and vinegar divestment, Mr. van Genderen Stort said. Unilever said in May that it might sell the Bertolli oil and vinegar business, but that it was considering keeping the Bertolli brand for other foods. The sale is part of a continuing divestment plan that includes businesses with combined annual sales of €2 billion.

Like other food companies, Unilever has been hit by rising commodity prices of corn, edible oils and milk. At the same time, it has been re-evaluating its brand portfolio, cutting jobs and costs as well as shedding units as it focuses on innovative and higher-priced products to boost profit.

UBS AG advised Grupo SOS and NM Rothschild & Sons Ltd. advised Unilever on the deal.

Dr. Reddy's German unit improves amid profit drop

BY RUMMAN AHMED

BANGALORE, India—**Dr. Reddy's Laboratories** Ltd. said its fiscal first-quarter net profit fell 26% from a year earlier, hurt by higher costs, but the market was more interested in the improving performance of the drug maker's German unit.

Dr. Reddy's also said the company would buy out for $18.5 million the approximately 84% stake held by Citigroup Venture Capital International Growth Partnership Mauritius Ltd. and ICICI Venture Funds Management Co. in Perlecan Pharma Pvt. Ltd., the drug-development company it had formed in partnership with these entities.

The company had set up Perlecan in 2005 to develop experimental drugs, a precursor to the recent trend among Indian pharmaceutical firms of demerging their research-and-development operations to insulate their core businesses from high drug-development costs.

Dr. Reddy's net profit fell to 1.35 billion rupees ($31.6 million) in the quarter ended June 30 from 1.83 billion rupees a year earlier. Revenue rose 26% to 15.04 billion rupees.

Selling and general expenses increased 50% to 4.7 billion rupees, Dr. Reddy's said. Net research and development expenses rose 30% to 1.05 billion rupees, representing 7% of total revenue.

The selling and general expenses "went up as a result of higher human resources and legal expenses and costs associated with acquisitions," said Dr. Reddy's vice chairman and chief executive, G.V. Prasad.

The company said revenue from its global generics business rose 25% to 10.3 billion rupees, driven by key North American, Russian and German markets. In the North American market, revenue grew 62% in the quarter.

Revenue from German unit Betapharm rose 20% to 2.5 billion rupees amid improvement in the raw-materials supply situation, resulting in higher market share.

Dr. Reddy's had been facing pricing and supply constraints at Betapharm.

"The Betapharm performance was a positive surprise. The recovery in the German unit's operations has boosted investor sentiment," said Alok Dalal, an analyst at Religare Securities in Mumbai.

Dr. Reddy's, listed in New York and Mumbai, had been facing intense pricing pressure and supply constraints at Betapharm. Revenue from the pharmaceutical-services and active-ingredients segment rose 28% to 4.6 billion rupees, led by markets in North America and India.

Shares in Dr. Reddy's ended up 1.7% at 675.75 rupees on the Bombay Stock Exchange.

GLOBAL BUSINESS BRIEFS

TUI AG

Mordashov raises his stake, supports Hapag-Lloyd break

Russian investor Alexei Mordashov said he raised his stake in German travel and tourism company **TUI** AG to 15%, making him its largest shareholder—the same day the group known as Hamburg Consortium said it submitted a bid for TUI's container-shipping business Hapag-Lloyd. In early July, the city of Hamburg said it would contribute to a consortium with logistics company **Kuehne Holding** AG and private bank **M.M. Warburg & Co.** to bid for Hapag-Lloyd. Mr. Mordashov's investment company **S-Group Capital Management** said it supports TUI's management in the decision to focus on tourism and backs the separation of Hapag-Lloyd. At the beginning of April, S-Group Capital Management had raised its stake in TUI to 10%.

E.On AG

The U.K. arm of German utility **E.On** AG and Denmark-based **DONG Energy** said they bought **Royal Dutch Shell** PLC's stake in the U.K.'s London Array offshore wind project for an undisclosed sum, giving each company a half share in the project. Paul Golby, chief executive of E.On U.K., said the first phase of the project is on track to begin operation in 2012. Before the deal, the three companies each held a one-third stake in the project. The announcement could help boost confidence in the U.K. offshore wind sector. The U.K. is counting on offshore wind to provide the bulk of the power needed to help meet a binding European Union target to get 15% of the country's total energy from renewable sources by 2020.

Kuehne & Nagel International

Swiss logistics company **Kuehne & Nagel International** AG reported a 13% rise in second-quarter net profit, saying it continued to outpace the global freight market. The company, founded in Hamburg, Germany, but now based in Schindellegi, Switzerland, said net profit was 154 million Swiss francs ($150.6 million), up from 136 million francs a year earlier. Net invoiced revenue, an important measure in the industry that strips out custom duties and levies, was 4.52 billion francs, up 7.7%. Kuehne & Nagel, one of the world's biggest sea-freight companies, said the continuing credit crisis in the U.S., the rising cost of oil and other commodities, and curbed consumer spending slowed global container-market growth to between 4% and 5% in the first half.

Volkswagen AG

Volkswagen AG said sales rose 2.4% in June to 573,000 vehicles despite deteriorating economic conditions in the auto sector. In the first six months of the year, Volkswagen's sales were up 5.8% from a year earlier at a record level of 3.3 million vehicles, driven by booming demand in China, Brazil and Eastern Europe. VW said it outperformed the global auto market, which saw 1% growth in the first six months of the year and a drop of 5.1% in June. In China, Volkswagen delivered 531,600 vehicles, up 23% from a year earlier, while deliveries in Brazil rose 22% to 316,000 vehicles. In Central and Eastern Europe, Volkswagen posted a 19% increase. Markets in India, Russia and Ukraine had the highest growth rates in the first half, Europe's biggest auto maker by sales said.

Hasbro Inc.

Hasbro Inc. reported second-quarter net income jumped and said toys tied to the "Iron Man" movie will exceed its expectations. But oil costs are taking a toll. Hasbro said it intends to raise wholesale prices for the second time this year, effective Sept. 1, to counter manufacturing and shipping costs. It is up to retailers to set their own prices. Hasbro posted net income of $37.5 million, or 25 cents a share, up from $4.8 million, or three cents a share, a year earlier. Last year's results included a 21-cent charge relating to warrants Hasbro bought from Lucasfilm Ltd. for licensing toy lines such as "Star Wars." Revenue rose 13% to $784.3 million. The mean estimates for analysts surveyed by Thomson Reuters were for earnings of 22 cents a share on revenue of $675.4 million.

Inmarsat PLC

Satellite-communications company **Inmarsat** PLC announced the end of takeover talks with hedge fund **Harbinger Capital Partners**, triggering a 9% drop in its shares at Monday's London close. Harbinger didn't make an offer or give a potential offer price for the company, Inmarsat said. Harbinger said it remains interested in acquiring control of Inmarsat, but cautioned that a lengthy regulatory process could put off a possible bid for as long as 18 months. On July 7, Inmarsat said it had received a "very preliminary approach" from Harbinger, which already owns 28% of the company. Inmarsat was bought by a consortium of private-equity firms for $1.5 billion in 2003 before going public in 2005.

Electronic Arts Inc.

Electronic Arts Inc. extended its tender offer for **Take-Two Interactive Software** Inc. a fifth time as it waits to see if the deal will be cleared by the Federal Trade Commission. The extension to Aug. 18 is the latest step in Electronic Arts' $2 billion hostile takeover bid for Take-Two, maker of the popular Grand Theft Auto franchise. In March, Take-Two urged its holders to reject the $25.74-a-share offer, deeming it too low and ill-timed. Electronic Arts' four-month-old tender has garnered little support from Take-Two holders. As of Friday, 11.7 million shares of Take-Two had been tendered and not withdrawn, representing about 15% of shares outstanding. The FTC has until Aug. 21 to complete its investigation of the proposed tie-up. After that, Electronic Arts has said it could then move to acquire the company.

Cadbury PLC

Cadbury PLC said it appointed Roger Carr as nonexecutive chairman, succeeding John Sunderland, who is retiring. Mr. Carr, 61 years old, has been the confectionery company's deputy chairman since 2003. He is also chairman of energy company Centrica PLC and nonexecutive director of the Bank of England, and was previously chairman of pub chain Mitchells & Butlers PLC. Cadbury, the maker of Dairy Milk chocolate, Trident gum and Halls cough drops, spun off its North American beverage operations in April to focus on its chocolate and chewing-gum brands. The company faces challenges as consumers' tastes shift toward premium chocolate and as it seeks to pass high commodities prices on to customers in the face of increased competition.

OAO Gazprom

OAO Gazprom Neft, the oil arm of Russian natural-gas monopoly **OAO Gazprom**, said its first-quarter net profit more than doubled, pushed up by rising oil prices and higher exposure to refining. Net profit rose to $1.41 billion from $672 million a year earlier. Revenue jumped 90% to $7.87 billion from $4.14 billion. The results were lifted by the consolidation of a 50% stake in production unit Tomskneft, which used to be part of bankrupt oil company **OAO Yukos**. Gazprom Neft didn't specify how much the subsidiary contributed to earnings but said Tomskneft accounted for 11% of the company's total crude supply to the market in the quarter. Gazprom Neft plans to boost output and expand its reserves considerably in the coming years.

Lenovo Group Ltd.

International Business Machines Corp. is selling 116.2 million shares in **Lenovo Group** Ltd., raising up to US$79.8 million in the latest sale of its shares in the Chinese computer maker, according to a term sheet. The Lenovo shares are being sold in a price range of $5.19 to $5.36 Hong Kong dollars each, or 67 to 68 U.S. cents, representing a discount of 4% to 7% to their closing price Monday of HK$5.58. The sale of the shares, amounting to a 1.3% stake in the company, will leave IBM with a 4.7% stake in Lenovo. In Hong Kong, sellers don't have to disclose sales if their stake in a listed company is below 5%. As part of Lenovo's US$1.25 billion acquisition of IBM's personal computer business, IBM bought 15% of the company in a deal that closed in mid-2005. Since then, IBM has been steadily selling down its stake in Lenovo.

China National Offshore Oil

China National Offshore Oil Corp., the country's third-biggest oil firm by assets, said its first-half net profit rose 35% from a year earlier on soaring oil prices. Cnooc posted net profit of 18.95 billion yuan ($2.78 billion), while its output of crude oil and natural gas during the period rose 2.4% to the equivalent of 20.7 million metric tons, the company said. Cnooc's revenue for the first half was 106.33 billion yuan, up 48% from last year. The statement didn't provide net profit, revenue or output figures for the first half of last year. Cnooc group's main business is oil and gas production in China and overseas, but it also has downstream operations, including chemical fertilizer, fuel oil and bitumen production, as well as electricity generation.

Continental AG

Closely held German engineering company **Schaeffler Group** said it raised its takeover offer for auto supplier and tire maker **Continental** AG to €11.3 billion ($17.9 billion), or €70.12 a share, from €69.37 a share. Schaeffler increased its bid to meet the average three-month price of Continental's shares, as calculated by German financial watchdog Bafin. Schaeffler said it welcomes Continental's willingness to enter talks, but it still wants a stake of more than 30% instead of the 20% suggested by Continental Chief Executive Manfred Wennemer.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

EUROPEAN UNION

German ministry objects to public ECB minutes


Associated Press

A GERMAN government spokesman said his finance ministry doesn't agree with French President Nicolas Sarkozy's calls to publish minutes from European Central Bank meetings.

In an interview on the Financial Times' Web site Sunday, Mr. Sarkozy, above, said publishing the minutes of the ECB's governing council meetings would make the panel more politically accountable.

Meanwhile, Germany's finance ministry and central bank reported that gross domestic product probably fell in the second quarter from the first, adjusted for seasonal swings. German GDP grew a relatively strong 1.5% in the first quarter.

U.K.

Treasury weighs changes to taxes on foreign profits


Associated Press

THE U.K. Treasury said it was "continuing to discuss" overhauls to the way it taxes foreign profits. The Financial Times reported the government had decided against tougher tax-avoidance measures, following strong opposition from senior executives. But a government spokesman said the Treasury was discussing details with business representatives. The Treasury's proposals in 2007 called for taxes on foreign dividends to be scrapped, and the government was expected to clamp down on tax avoidance by multinationals that keep their assets offshore. U.K. Chancellor of the Exchequer Alistair Darling, above, has indicated the Treasury was flexible. *—Laurence Norman*

RUSSIA

Putin denies political link to Czech oil-supply delays


Associated Press

RUSSIAN Prime Minister Vladimir Putin, left, ordered the guarantee of full oil supplies to the Czech Republic and denied that disruptions in July were linked to Prague's role in a U.S. missile-defense shield.

Russian officials have said the cuts in flows to the Czech Republic via the Druzhba pipeline were of a technical nature, after analysts said they suspected they could have been retaliation by Moscow.

Traders have said they believe the delays could be linked to a fight by the new management of pipeline monopoly **Transneft** to change the key coordinator on the route, trading firm **Fisotra Management** SA. *—Reuters*

U.K. tourism increases as pound declines

Bargain seekers boost hotels, travel firms; Britons stay home

BY JOE PARKINSON
London

ONE SLICE of the U.K. economy is looking forward to a bumper summer despite the economy's doldrums. Or rather, because of them.

U.K. tourism is increasingly winning against the sun-drenched charms of the Mediterranean and the sophistication of Paris as Britons save money by vacationing at home and as the weak pound lures more European visitors from across the English Channel. VisitBritain, the U.K. tourist association, says its last survey of members conducted in May showed inbound tourism would grow as much as 4% in 2008, rising to 33.9 million visitors from 32.6 million in 2007.

Travel companies and hotels report surges in U.K. business, perhaps enough to soothe the deterioration in the U.K.'s economy brought on by falling housing prices. Official data rank tourism as the U.K.'s fifth-largest business, valued at 3.5% of gross domestic product and employing 2.1 million people.

Major online booking agency **iknow-uk** Ltd. reports that inquiries for package holidays, accommodation and travel in the U.K. rose 60% in May compared with the same time last year. Similarly, **Lastminute.com**, a leading online travel agency, has recorded a 20% surge in the number of U.K. holiday bookings by continental Europeans this summer. It also says there has been a 16% rise in the number of Britons booking domestic holidays.

Bookings to European destinations from the U.K. are falling. Advantage Group, which represents 700 independent U.K. travel agents, reported a 5% fall in bookings year-to-year in overseas package holidays. In the three months to May, the number of Britons taking holidays abroad dropped 1%, the U.K.'s Office of National Statistics said.

"People in the U.K. are trading down, and British resorts stand to benefit from that," said Bob Cotton, chief executive of the British Hospitality Association, an industry body. "The sinking pound makes the sector much more appealing for Europeans looking for a bargain."

Leading U.K. politicians are following suit. U.K. Prime Minister Gordon Brown, who usually holidays on Cape Cod in the U.S., will stay at home in the eastern English seaside town of Southwald this summer. Conservative opposition leader David Cameron, who also usually vacations abroad, is heading for Cornwall on England's southern coast.

Francis Guildea, general manager of **Adnams** hotels in Southwald, said that despite the raft of gloomy news on the U.K. economy, bookings are up and demand is strong.

"The papers are filled with gloomy stories about the credit crunch, but for our business the news is good," he said. "Business is up 10% on last year, which means more people will be coming to the town to spend in the shops, pubs and restaurants."

A growing number of Britons eager to limit their vacation spending are camping or staying in apartments where they have the option of cooking their own meals, meaning bumper profits for U.K. companies such as Haven Holidays, which operates holiday parks and is part of **Bourne Leisure** Ltd., and **Blacks Leisure Group**, which sells outdoor equipment.


Associated Press

U.K. tourism is looking flush as Britons vacation at home, avoiding rising transport costs and lower purchasing power.

Thursday, Blacks reported 6.1% sales growth in July at stores open for more than a year, bucking the trend of falling sales. Haven reported a 30% rise in bookings for its campsites, while **Hoseasons**, the U.K.'s largest self-catering specialist, reported that it has almost sold out of accommodations for July and August because of surging demand.

Rising bookings from inside the U.K. and Europe are offsetting dwindling demand from U.S. tourists, whose dollars have plunged to record lows against sterling and the euro during the past year.

May data from the U.K.'s Office for National Statistics showed visits from Americans dropping 7% from a year earlier. Visits from countries that share the euro fell 1%, but travel agents such as Lastminute.com have said bookings for the narrower time period of the summer months are up strongly as Europeans look to cash in on sliding sterling.

"Traditionally an expensive destination for European tourists, the U.K.'s price competitiveness has improved dramatically due to the fall of the pound against the euro," said John Bevan, lastminute.com's U.K. managing director. "This summer the U.K. appears to be the place to be for all of Europe's nationalities."

Also staying at home is Mandy Canniford, a 46-year-old secretary from southwest England. She and her family, who normally vacation in the Mediterranean, will visit eastern England this year to save money.

"We usually holiday in Spain or Italy but more often than not end up spending more than we budgeted for," she said. "With the economic situation so uncertain, we feel better able to keep a lid on our spending in the U.K. than on the continent."

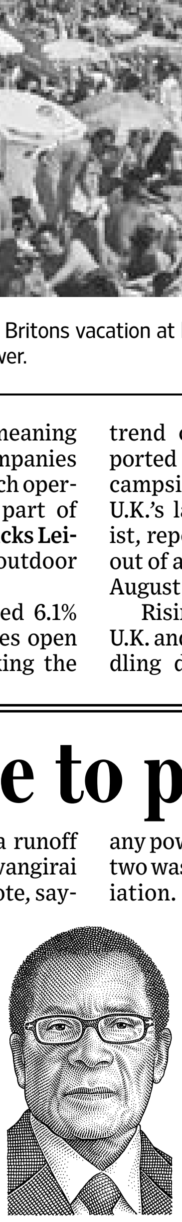
Zimbabwe foes agree to power-sharing talks

BY SARAH CHILDRESS
AND FARAI MUTSAKA

Zimbabwean President Robert Mugabe and opposition leader Morgan Tsvangirai agreed in Harare on Monday to begin negotiations over power sharing, a tentative first step in reconciling the two bitter rivals.

The agreement, which was mediated by South African President Thabo Mbeki, allows for a two-week window to hammer out details of a power-sharing government and a plan for holding new elections, which could require constitutional amendments.

Zimbabwe has been in political limbo since Mr. Tsvangirai won first-round elections in March, triggering violence by Mugabe supporters. Mr. Mugabe presided over a runoff election in June, but Mr. Tsvangirai pulled out days before the vote, saying that he feared for the safety of his supporters. The two sides spent the campaign trading barbs and accusations. The opposition Movement for Democratic Change, along with international human-rights groups, accused the government of orchestrating the killing of dozens of the party's supporters. Mr. Mugabe, meanwhile, blamed the violence on Mr. Tsvangirai's supporters.


Robert Mugabe

Though it is unclear how substantive the talks will be and how willing Mr. Mugabe really is to relinquish any power, the meeting between the two was a dramatic show of reconciliation. The two longtime rivals haven't met face to face in 10 years. It has taken weeks and significant international pressure to get the two men together at the bargaining table.

At the signing, Mr. Tsvangirai called the agreement a "first tentative step towards the search for a solution." Mr. Mugabe said the agreement would help "chart a new way, a new way of political interaction."

The agreement to negotiate follows a power-sharing deal reached earlier this year between rival political factions in Kenya. Disputed elections there triggered violent, ethnic bloodshed. But in Zimbabwe, there is still little incentive for Mr. Mugabe to cede power.

There appear to be no provisions for additional talks should the two sides fail to reach a deal.

Mr. Mugabe also doesn't have a history of sharing power well. When he was first elected to lead the country 28 years ago, he formed a unity government with another rival party that was quickly dissolved.

Still, Mr. Tsvangirai's MDC had few alternatives to the talks. It had hoped for greater international support in the form of economic sanctions or significant diplomatic pressure from neighboring African states, but neither materialized.

ECONOMY & POLITICS

Money flows in U.S. race

McCain spent big in June as Obama raised $54 million

By Mary Jacoby
And T.W. Farnam

WASHINGTON—John McCain's presidential campaign spent heavily on television and other advertising in June, a new report shows, as the campaign prepares for the official start of the general-election season in September.

At the same time, Barack Obama used his large network of small donors to pack away cash for the fall. He raised $54 million last month with 60% of the money coming in increments of less than $200, and spent only half as much as he raised.

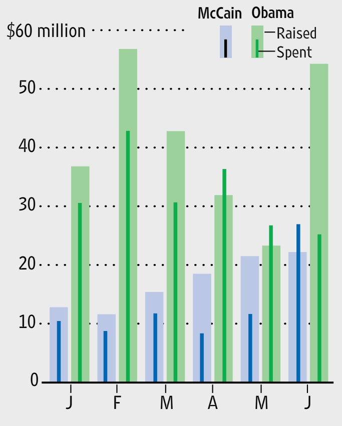
Sen. McCain's campaign spent $27 million in June, including $16 million on media, records filed over the weekend with the Federal Election Commission show. The Arizona Republican raised $22 million in June and ended the month with $26.8 million in the bank.

However, strong party fund-raising by Republicans makes the take for the presidential race nearly even. Sen. McCain's finances are increasingly tied to the Republican National Committee, which has joined with his campaign to woo donors and has started to run advertising on his behalf. The RNC reported raising $25.8 million in June and spending only $10.6 million, increasing Republicans' cash on hand for the fall.

The Democratic National Committee, which has consistently lagged behind the RNC in fund-raising this election cycle, collected and spent about $7 million in June, keeping its bank account stable at a little less than $5 million compared with nearly $70 million for the RNC.

Picking up

John McCain has increased spending in preparation for the fall, while Barack Obama is putting money in the bank.



Source: U.S. Federal Election Commission

Sen. McCain reported an uptick in the amount he took in from small contributors. While just a few months ago as little as 20% of his donations came in sub-$200 increments, in June the figure rose to over 40%.

Sen. McCain also reported raising nearly $9 million in June for a special fund to pay for his general-election legal and accounting expenses. Employees of **J.P. Morgan Chase** & Co. contributed $16,000 to the accounting fund, and $18,000 came from employees of energy company **Hess** Corp., records show.

The money that both presidential candidates raised in June will technically be spent on their primary campaigns: New spending and fund-raising rules kick in for the general election, which officially starts in September after the parties' nominating conventions.

All money Sen. McCain is raising now must be spent before Sept. 1; after the Republican convention, he will be limited to the $84 million in public money he has accepted from taxpayers. Sen. Obama has said he will forgo public financing in the general election and thus won't be bound by any spending limit.

For congressional races, the Democrats' House and Senate fund-raising arms raised more money in June than their Republican counterparts. The Democratic fund-raising advantage, along with polls showing a preference for Democratic control of Congress, has bolstered Democrats' hopes of widening their majorities in both chambers.

The Democratic Senatorial Campaign Committee, the campaign arm of Senate Democrats, raised $10.8 million in June and ended the month with $46.3 million to spend on electing Democrats to the Senate in November. The National Republican Senatorial Committee raised $6 million in June and had $24.6 million in the bank.

Democrats are aiming to increase their margin in the Senate, which is split at 49 Democrats, 49 Republicans and two independents who back the Democratic leadership.

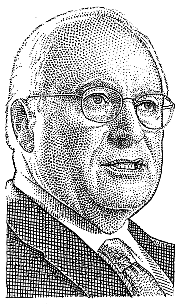
In the House, the Democrats' money advantage is even more lopsided. The Democratic Congressional Campaign Committee raised $10 million in June and ended the month with $55 million on hand, a new report shows. The National Republican Congressional Committee raised $6 million in June, but had only $8.5 million in the bank at the end of last month.

Cheney's office cited on climate

By Siobhan Hughes

WASHINGTON—Bush administration officials agreed that greenhouse gases could endanger the public and should be regulated under clean-air laws, but later reversed course amid opposition from Vice President Dick Cheney's office and the oil industry, a congressional report said.

The report, by the U.S. House Select Committee on Energy Independence and Global Warming, offers a look at the breadth of Bush administration support for regulations before such plans abruptly stopped. The report draws heavily on an interview with a former Environmental Protection Agency official who had told Congress that Mr. Cheney's office tried to censor federal testimony on the danger of global warming. It is also based on confidential interviews with EPA staff and documents subpoenaed from the EPA.



Dick Cheney

"This is the dysfunctions and motivations of the Bush administration laid bare," Chairman Ed Markey (D., Mass.) said in a statement.

The White House rejected the committee's findings. "Chairman Markey's report is inaccurate to the point of being laughable," said White House spokesman Tony Fratto.

For months, Congress has been investigating a series of decisions by EPA Administrator Stephen Johnson, including stopping California from regulating motor-vehicle greenhouse-gas emissions. Previous congressional reports showed that Mr. Johnson originally sided, at least in part, with EPA staff on several matters, including the idea that greenhouse-gas emissions pose a danger to the public and should be regulated. But the latest report suggests that Mr. Cheney's office came to play a key role in interagency discussions.

Megan Mitchell, a spokeswoman for Mr. Cheney's office, disputed the report. "I don't accept their premise," she said. The latest report said the oil industry argued against regulatory action and had the support of Mr. Cheney's office. In the end, the report said, the Bush administration backed off regulation. "Frankly, that's ridiculous," Ms. Mitchell said.

Jason Burnett, a former EPA associate deputy administrator who played a key role in coordinating the agency's climate-change activities, told the House committee that people in Mr. Cheney's office and the White House Office of Management and Budget felt regulations would hurt President George W. Bush's legacy. Mr. Burnett didn't return a phone call seeking comment.

The report said F. Chase Hutto III, Mr. Cheney's energy adviser, argued against new regulations, along with unidentified individuals from **Exxon Mobil** Corp. and the American Petroleum Institute. It also said Mr. Bush's deputy chief of staff, Joel Kaplan, and Energy Secretary Samuel Bodman, Transportation Secretary Mary Peters and Commerce Secretary Carlos Gutierrez had originally endorsed an EPA finding that greenhouse-gas emissions endanger public welfare and should be regulated under the Clean Air Act.

Energy Department spokeswoman Angela Hill said that Mr. Bodman "has not reversed course" and that the department considers the Clean Air Act fundamentally ill-suited to effectively regulating greenhouse-gas emissions.

Brian Turmail, a spokesman for Ms. Peters, said that she "was involved in an intellectual process to explore whether the Clean Air Act was an appropriate vehicle for regulating fuel-economy standards. The decision was 'no.' You shouldn't confuse engaging in an intellectual exercise with supporting the idea."

A Commerce Department spokeswoman didn't respond to a request for comment. American Petroleum Institute spokeswoman Karen Matusic said it isn't unusual for the group to meet with federal agencies "on areas of mutual concern." Exxon spokesman Alan Jeffers said he didn't know who made the company's case, but that "it's not a secret what our views are."

CAPITAL JOURNAL ▪ Gerald F. Seib

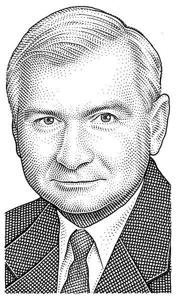
Reed's skill on Iraq would give Obama depth on the stump

If you were to construct the ideal Democrat to engage Republicans in debate over Iraq, he might look something like this:

He would be a military veteran with real experience, maybe even a West Point man. He would have opposed the war against Iraq originally, and maybe even have cast a vote against the war to prove it. But since then, he would have devoted himself to making the exercise a success, becoming an expert on U.S. policy and what is happening on the ground.

Hey, wait. There is just such a Democrat out there. He is Sen. Jack Reed of Rhode Island.

And he was at Sen. Barack Obama's side Monday touring around Baghdad. All of which raises an intriguing question: Is there a chance he also could be at Sen. Obama's side as vice presidential running mate?



Jack Reed

The question isn't out of bounds because Sen. Reed, even more than Sen. Obama, has helped shape the mainstream Democratic position on Iraq. And unlike Sen. Obama, he has done so with a background of personal experience, and with the benefit of a hefty investment of time on the ground in Iraq. Indeed, this week's trip is Sen. Obama's second to Iraq; it is Sen. Reed's 12th.

Sen. Reed has done all this while remaining relatively unknown, which is a shame because he has a uniquely American story to tell, much as Barack Obama and John McCain do.

Jack Reed was born in Cranston, R.I., son of a school-janitor father and a factory-worker mother. The father worked his way up the school-system ladder, while the son won himself an appointment to the U.S. Military Academy at West Point, from which he graduated in 1971.

From there, he became an Army Ranger and an officer in the 82nd Airborne. He resigned as an Army captain in 1979 and moved on to get a Harvard law degree. He was elected to the House in 1990 and moved up to the Senate in 1996.

He has been mostly a reliable liberal on domestic issues and a low-profile player on defense issues. Slight of build and unpretentious in manner, he has never been a high-profile player.

But he began to stand out on Iraq when he was one of 21 Democrats to vote against a resolution authorizing use of force in 2002. Once the war began, though, he adjusted, pushing for more funding for the conflict, and specifically money to ease the strains on his old service, the Army.

He also began a series of regular trips to Iraq, noteworthy for their emphasis on getting out of the protective bubble in Baghdad and into the field for interviews with Army officers, some of whom he knows from his own Army days. After each trip, he composes a lengthy written report and circulates several hundred copies to members of Congress and Army officers.

What has emerged from all this has been an intense focus on changing the role U.S. troops are playing in Iraq. He has been more cautious on an Iraq withdrawal than has Sen. Obama. While Sen. Obama has, as a presidential candidate, declared that he would start a withdrawal immediately and complete it within 16 months, Sen. Reed hasn't adopted that fixed timetable as his position.

Instead, his efforts in the Senate have focused on pushing repeatedly, in an amendment he sponsors with Michigan Sen. Carl Levin, to change the mission for U.S. troops from combat and security to counterterrorism and training. That amendment has been offered in various forms, and in one version called for withdrawing troops within nine months, but has focused more on the mission and a phased withdrawal than on a timetable.

Two other consistent themes run through the Reed critique on Iraq. The first has been that political changes by the Iraqi government were more important than military progress. And the second has been concern for the strains a drawn-out conflict are putting on his beloved Army. Like Republican Sen. Chuck Hagel of Nebraska, another former ground-combat man and Sen. Obama's other traveling companion this week, that concern reflects the Army grunt's view of war, in contrast to the fighter pilot's view of Sen. McCain.

Sen. Reed hasn't always been right on Iraq. The report he wrote after a visit to Iraq this past January appears, in retrospect, too downbeat on the prospects for President Bush's troop surge.

But he has clearly influenced Sen. Obama. Among other things, he advised him that a good way to get some unfiltered information about what is happening on the ground is to talk to junior officers and to journalists on the scene, both of which Sen. Obama has done.

The tantalizing question is whether any of this might translate into a vice-presidential bid. It doesn't seem highly likely. In electoral-college terms, Sen. Reed would deliver exactly nothing. His home state of Rhode Island is already reliably Democratic, having gone that way in every presidential election since 1984. And Sen. Reed isn't well-known around the nation.

But he does offer genuine national-security credentials and a similar view on Iraq, one rooted in personal and professional expertise. And for a candidate with Sen. Obama's profile, those wouldn't be bad things to have around.