THE WALL STREET JOURNAL.

WSJ.com

Dow Jones Newswires

EUROPE

DOW JONES A News Corporation Company

VOL. XXVI NO. 122

THURSDAY, JULY 24, 2008



*France's Rhodia cashes in on U.N. warming program*

NEWS IN DEPTH | PAGES 14-15

*China's antitrust rules still fluid amid criticism*

MONEY & INVESTING | PAGE 17

# What's News—

## *Business & Finance*

**A U.S. survey estimates** that about a fifth of the world's undiscovered, recoverable oil and natural-gas reserves are in an area north of the Arctic Circle. The finding may trigger territorial disputes over who controls the vast resources. Page 1

■ **Euro-zone factory orders fell** 4.4% in May, the biggest drop in five years. Growth in French consumer spending on manufactured goods slowed in June. Page 8

■ **Germany's borrowing costs** are rising as investors worry about the economy. Merkel expects a slowdown. Page 19

■ **The U.S. economy slowed** in June and early July, while price pressures were elevated, according to a Fed report. Page 2

■ **Shares in Volkswagen,** Peugeot-Citroën and Fiat rallied after the auto makers posted strong earnings. Page 3

■ **GM lost ground to Toyota,** reporting a 5% drop in quarterly global sales, while its Japanese rival had a 2% gain. Page 3

■ **Pernod will release** sales figures Thursday and plans to spend the next few years nurturing labels it already owns. Page 4

■ **GlaxoSmithKline posted** a 3% drop in earnings and announced an alliance with a South African company. Page 4

■ **ConocoPhillips reported** earnings of $5.44 billion as well as rising costs and weak refining, which might also hit other oil companies. Page 5

■ **European markets rallied** as auto and bank shares gained. U.S. blue chips edged higher on mixed profit news. Page 18

■ **Boeing reported** a 19% drop in second-quarter net amid charges related to surveillance-jet-program delays. Page 6

■ **Vodafone launched** a $2 billion share-buyback program in a bid to boost its stock price. Page 6

■ **Western investment banks** are rushing to the Persian Gulf, but business was disappointing in the first half. Page 17

### Markets 4 p.m. ET

| MARKET | CLOSE | NET CHG | PCT CHG |
|---|---|---|---|
| DJIA | 11632.38 | +29.88 | +0.26 |
| Nasdaq | 2325.88 | +21.92 | +0.95 |
| DJ Stoxx 600 | 286.77 | +5.87 | +2.09 |
| FTSE 100 | 5449.9 | +85.8 | +1.60 |
| DAX | 6536.09 | +93.30 | +1.45 |
| CAC 40 | 4408.74 | +81.48 | +1.88 |
| Euro | $1.5705 | -0.0131 | -0.83 |
| Nymex crude | $124.44 | -3.98 | -3.10 |

*Money & Investing* > Page 17

## *World-Wide*

**The EU suspended** about $800 million in aid payments to Bulgaria, criticizing its efforts to crack down on corruption and organized crime. The actions reflect concerns that Bulgaria's troubles could damage already weakening support inside the EU for further expansion. Page 1

■ **Half of all U.S. voters** say they are focused on feelings and attitudes toward Sen. Obama as they decide who should be president, while only a quarter say the same of Sen. McCain. Page 1

■ **Obama vowed** to preserve America's close ties with Israel, in a visit to the Holy Land where he also promised to push vigorously for a Palestinian state.

■ **The EU threatened** U.S. diplomats with new visa restrictions in retaliation for Washington's slowness in lifting visa requirements for 12 EU nations.

■ **U.S. leaders have reached** a compromise on a package that would permit the government to bolster mortgage lenders Fannie Mae and Freddie Mac and allow the government to insure up to $300 billion in refinanced mortgages. Page 10

■ **Britain's Brown is fighting** to retain a Parliament seat that should be a sure thing. Page 8

■ **Ahmadinejad said** U.S. participation in nuclear talks is a step toward recognizing Iran's right to acquire nuclear technology.

■ **Iraq's presidential council** rejected a draft provincial-elections law, dealing a blow to U.S. hopes for a vote this year.

■ **China will set aside space** in three Beijing parks for protests during the Olympic Games, but it isn't clear how much freedom demonstrators will have. Page 10

■ **Hurricane Dolly swept** into Texas, dropping heavy rain and raising the risk of levee breaches that could swamp thousands of residents. WSJ.com

■ **A South African official said** Zimbabwe's power-sharing talks were under way, but Zimbabwe's justice minister was quoted saying they were to start Thursday.

■ **Police rounded up** 26 people in Turkey amid an investigation into an alleged plot to topple the Islamist-rooted government.

## Editorial & Opinion

**Money doesn't smell**

Banning French luxury perfume from eBay ignores the reality of e-commerce. Page 12

# U.S. campaign shapes up as referendum on Obama

## *Voters' comfort level wavers in new poll; openings for McCain*

By Gerald F. Seib And Laura Meckler

WASHINGTON—Midway through the election year, the presidential campaign looks less like a race between two candidates than a referendum on one of them—Barack Obama.

With the nominations of both parties settled for more than a month, the key question in the contest isn't over any single issue being debated between the Democrats' Sen. Obama or the Republicans' Sen. John McCain. The question focuses on the Democratic candidate himself: Can Americans get comfortable with the background and experience level of Sen. Obama?

As a result, the campaign today is much more about the Democratic nominee than about his Republican opponent, a reality reflected in the blanket news coverage of Sen. Obama's current tour of the Middle East and Europe.

These trends are underscored in a new Wall Street Journal/NBC News poll. The new survey's most striking finding: Fully half of all voters say they are focused on their feel-

*Please turn to back page*

# EU suspends aid payments to Bulgaria

By Marc Champion

BRUSSELS—The European Union suspended about half a billion euros in aid payments to Bulgaria and criticized its efforts to crack down on endemic corruption and organized crime, in one of the toughest assessments the bloc has made of one of its member states.

The criticisms, delivered Wednesday in two reports, reflect concerns in the EU that Bulgaria's troubles could damage already weakening support inside the bloc for further EU expansion to include countries such as Serbia, Turkey or Ukraine, and hurt the credibility of the bloc as a whole, officials say.

"The fight against high-level corruption and organized crime is not producing enough results," said the main report, which measured Bulgaria's progress on commitments it made before joining the EU in January 2007. The report cited continuing cases of contract killings of politicians and businessmen that go unsolved, a failure to confiscate any significant criminal assets, and vote buying in two sets of recent local elections that have gone uninvestigated.

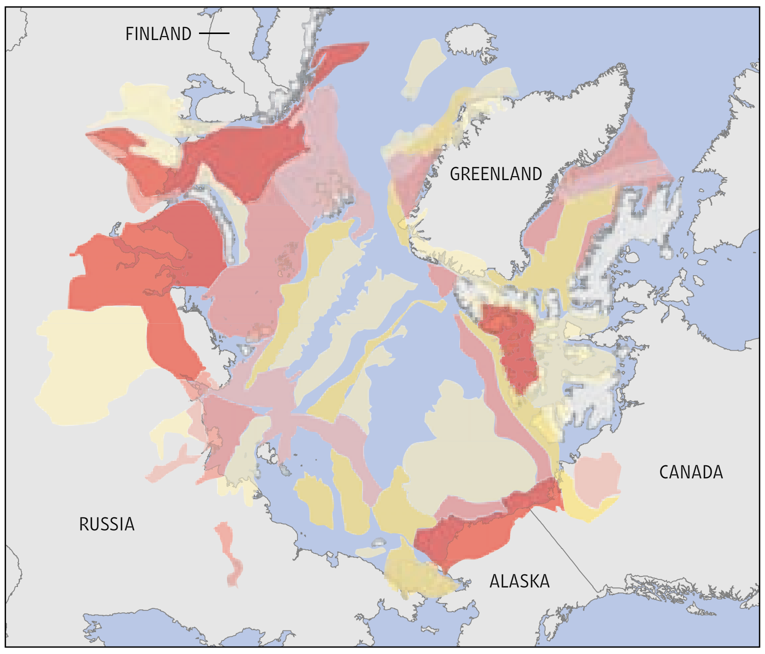
Failure to use aid effectively,

*Please turn to page 31*

### Arctic findings

U.S. Geological Survey's assessment of the probablility of the presence of at least one significant accumulation of oil or gas

100% | 50–100% | 30–50% | 10–30% | less than 10%




# Arctic energy trove tallied but will be hard to access

By Guy Chazan

The Arctic contains just over a fifth of the world's undiscovered, recoverable oil and natural-gas resources, according to a review released Wednesday, confirming its potential as Big Oil's final frontier.

A report by the U.S. Geological Survey found that the area north of the Arctic Circle has an estimated 1,670 trillion cubic feet of natural gas—nearly two-thirds the proved gas reserves of the entire Middle East—and 90 billion barrels of oil.

The report, the culmination of four years of study, is one of the most ambitious attempts to assess the Arctic's petroleum potential. One of its main findings is that natural gas is three times more abundant than oil in the Arctic, and most of that gas is concentrated in Russia.

The survey reflects growing interest in an area once off-limits to oil exploration that has become more accessible as global warming reduces the polar icecap, opening valuable new shipping routes, oil fields and mineral deposits.

But any attempt to create an Arctic drilling frenzy will likely meet strong resistance from environmentalists worried about the impact on what is still a near-pristine wilderness. And it could trigger a flurry of territorial disputes over who controls the oil and gas under the Arctic seabed.

The USGS report, which brings together disparate data held by individual countries as well as new information from geologists working in the field, is the first time anyone has produced a comprehensive, publicly available estimate of the Arctic's hydrocarbon treasures.

Its conclusions will be read closely at a time when concerns about future supply have driven up crude prices. But scientists cautioned that it will take decades to develop the Arctic's hard-to-get-at oil and natural gas.

"It will not ratchet up global production like a new Saudi Arabia," said Donald Lee Gautier, a USGS geologist who played a key role in the survey, known as the Circum-Arctic Resource Appraisal. "These are additions that will come over time."

Exploration in the area north of the Arctic Circle has already unearthed more than 400 oil and gas fields. They account for about 40 billion barrels of oil and more than 1,100 trillion cubic feet of gas, the USGS said.

But large parts of the Arctic, especially offshore, remain unexplored: the presence of near-permanent sea ice makes it almost impossible to acquire seismic data and drill exploratory wells.

Climate change is opening the region. The Northwest Passage, home to deadly ice floes that can crush ships, was ice-free last summer. Some predict it will turn into a new trade route between Europe and Asia, and a channel that oil companies can use to ferry workers, equipment and supplies around more freely.

Enticed by the promise of vast deposits, energy companies are flock-

*Please turn to page 31*

THE WALL STREET JOURNAL.

## LEADING THE NEWS

# Obama gets tough on Iran

### *Senator, in Israel, takes hawkish line on nuclear program*

By Jay Solomon

SDEROT, Israel—Seeking to woo Israel and Jewish-American voters, Democratic presidential candidate Barack Obama took a hawkish line on Tehran's nuclear program during a visit here.

The Democratic senator said that if elected president, he would "take no options off the table" in confronting the Iranian threat.

Sen. Obama's tour of Israel comes amid mounting fears in the Israeli government that Tehran could master the nuclear-fuel cycle in less then two years, an estimate more aggressive than Washington's. Jewish-American voters, meanwhile, have indicated in recent months that the containment of Iran's nuclear program is among their most-important electoral issues.

During meetings with Israeli leaders Wednesday, Sen. Obama again stressed that his preference is to use direct, high-level diplomacy to persuade Iran to freeze its nuclear activities. He welcomed the Bush administration's recent decision to send its No. 3 diplomat to directly engage Iran's chief nuclear negotiator earlier this month.

But Sen. Obama also struck a tough note on Tehran, saying an Iran with atomic weapons was a "game-changing event" that the West couldn't accept. His rhetoric contrasted with the more-conciliatory line he has struck toward the Middle East during most his weeklong trip to the region, particularly on the issue of Iraq. "A nuclear Iran would pose a grave threat, and the world must prevent Iran from obtaining a nuclear weapon," Sen. Obama told reporters in the city of Sderot, which has been hit by a stream of rockets from the Gaza Strip in recent months.

Associated Press

Palestinian President **Mahmoud Abbas**, right, and presumptive U.S. Democratic presidential candidate Sen. **Barack Obama** meet in Ramallah on Wednesday.

Israel alleges that Tehran has been supplying the militant group Hamas with many of the munitions it uses to attack Sderot and other Israeli cities.

Many Israeli officials fear Tehran may be seeking to wait out the Bush administration, on the belief that it might get a better deal from the next U.S. administration.

Israeli leaders, such as the conservative opposition leader, Benjamin Netanyahu, praised Sen. Obama's evolving stance on Tehran Wednesday. "The senator and I agreed that the primacy of preventing Iran from becoming a nuclear power is clear, and this should guide our mutual policies," Mr. Netanyahu said in a statement.

Sen. Obama seemed to confront the Iran question on virtually every stop during his day-long tour of the Jewish state Wednesday. At Yad Vashem, the Holocaust memorial in Jerusalem, Israeli journalists quizzed Sen. Obama on what he would do "to prevent a second Holocaust." One referred to what he described as the threat posed to Israel's existence by Iran's nuclear program.

In Sderot, the Israeli government lined up the remains of Katyusha and Qassam rockets that have struck the city from the Gaza Strip. Foreign Minister Tzipi Livni told reporters that Iran was a central player in supplying some of these munitions to Hamas and other militant groups.

Sen. Obama also traveled to the West Bank city of Ramallah and met with Palestinian Authority President Mahmoud Abbas and Prime Minister Salam Fayaad. The two sides discussed the peace process and economic development, and the senator pledged to be engaged on these issues from his "first day" in office.

*—Cam Simpson in Jerusalem contributed to this article.*

# U.S. economy is slowing amid pricing pressures

By Jeff Bater

WASHINGTON—The U.S. economy slowed in June and early July, while price pressures were elevated, with some manufacturers planning to charge more for goods, a Federal Reserve report said.

The Fed's summary of economic activity, known as the beige book, was released Wednesday. It was compiled by the Kansas City Fed and based on information collected through July 14. The report comes out about every seven weeks.

"Reports from the 12 Federal Reserve districts suggest that the pace of economic activity slowed somewhat since the last report," the beige book said.

All districts characterized overall price pressures as elevated or rising. input prices continued increasing, particularly for fuel, other petroleum-based materials, metals, food and chemicals, the beige book said.

"Many districts reported on manufacturers' plans to raise selling prices as a result of higher input prices, with several commenting on fears of a corresponding decrease in customer demand and overall sales volume," the beige book said.

Several companies in the Philadelphia district indicated sluggish demand has made it difficult to raise prices.

One producer in the Richmond district indicated that his company would try to pass along price increases to customers but that it might not be enough to offset cost increases.

Atlanta district businesses were hesitant to pass through increases because of a reduction in discretionary consumer spending.

Spending by consumers was reported as sluggish or slowing in nearly all districts, but tax-rebate checks boosted sales for some items.

Tourism was mixed.

Manufacturing activity declined in many districts but demand for exports remained generally high.

Residential-real-estate markets fell or were still weak across most of the country. Commercial real estate also slowed or remained sluggish in most districts.

In banking, loan growth was generally reported to be restrained, with residential-real-estate lending and consumer lending showing more weakness than commercial lending.

Agricultural conditions were reported as mixed. The energy sector kept getting stronger.

Despite elevated price pressures, retail-price inflation varied across the nation, with some districts reporting increases but June and others noting some stability, the Beige Book said.

Wage pressures were generally limited in most districts, as labor-

**Residential real-estate markets fell or were weak throughout the U.S.**

market demand was soft, the Beige Book said.

Fed policy makers are next scheduled to meet Aug. 5. Uncertainty over the economy and inflation suggests to analysts that the central bank will again leave interest rates unchanged. At their June 24-25 meeting, the Fed policy makers stood pat, seeing upside risks to inflation and downside risks to the economy.

## CORRECTIONS & AMPLIFICATIONS

**The question** of whether or not ethanol concentrations of more than 10% in gasoline could corrode engine parts in most vehicles, excluding specially modified flex-fuel vehicles, isn't settled. While the Alliance of Automobile Manufacturers believes that corrosion could occur, the U.S. Environmental Protection Agency hasn't been asked to address the question of higher concentrations for non-flex-fuel vehicles. A July 17 correction incorrectly implied that the question is settled.

## INDEX TO BUSINESSES

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






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



Editeur responsable: Daniel Hertzberg M-17936-2003


## INDEX TO PEOPLE

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

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

LEADING THE NEWS

# VW, Peugeot, Fiat ride strong net

## *Auto makers escape sector's gloom, keep earnings targets*

By Christoph Rauwald, David Pearson And Gordon Sorlini

Shares in **Volkswagen** AG, **PSA Peugeot-Citroën** SA and **Fiat** SpA rallied Wednesday after all three auto makers posted strong earnings and maintained profit targets despite slumping demand in Western Europe, rising raw-material costs and continued currency woes.

Solid sales in emerging markets, a limited exposure to the sagging North American market and improved cost-cutting measures helped the car makers escape the auto-sector gloom.

Volkswagen, Europe's largest auto maker by sales, said second-quarter net profit rose 35% to €1.64 billion ($2.59 billion) from €1.22 billion a year earlier, driven by rising vehicle sales in South America and China. Revenue grew 4.5% to €29.49 billion from €28.21 billion.

Shares in Volkswagen closed 6.9% higher at €209.55, while the DAX blue-chip index was up 1.5%.

The strong figures come at a time when many analysts have voiced concerns that some European auto makers might have to revise targets as the industry is squeezed by soaring prices for raw materials such as steel and oil, as well as lackluster economic conditions in key markets in the U.S., Japan and Western Europe.


Associated Press

**Volkswagen** is riding high with a 35% rise in second-quarter net profit, helped by strong sales in India, Russia and China.

The German auto maker reiterated it expects increases in full-year operating profit, revenue and vehicle sales, noting that the forecast doesn't take into account "the effects of the acquisition of further shares of Scania on volume, earnings and financing data."

Earlier this month, Volkswagen received regulatory approval to increase its voting share in Swedish truck maker **Scania** AB to 68.6%. "After consideration of the effects of purchase price allocation, we expect Scania to make a slightly positive earnings contribution to the Volkswagen group in the second half of the year," the company said.

Peugeot-Citroën, Europe's second-largest car maker by sales, said net profit rose 49% in the first half of the year to €733 million from €492 million a year earlier.

The earnings were helped by €882 million in cost savings generated by the French company's program to improve competitiveness, known as CAP 2010. The program is aimed at reducing warranty costs by improving quality, slashing overheads and fixed costs, and extracting productivity gains.

Revenue rose 1.6% to €31.3 billion from €30.82 billion. Peugeot-Citroën has boosted sales with a product offensive that will see it launch nine new models or derivatives in the second half of the year, in the wake of the 10 launched in the first six months.

The car maker reported an operating margin of 3.6% of sales for the first half, compared with 2.7% a year earlier, and reaffirmed its earnings forecast for 2008 despite the weakening European auto market.

Shares in Peugeot-Citroën closed 9.2% higher at €34.90 in Paris.

Fiat, Italy's largest industrial company by revenue, said second-quarter net profit rose 1.9% to €604 million from €593 million a year earlier, thanks to higher sales of cars, trucks and agricultural machinery. Group revenue totaled €16.97 billion, up 12% from €15.18 billion.

The company confirmed its 2008 and 2009 revenue and profit targets. Shares in Fiat closed up 14% at €11.86.

# Volvo net climbs 28%, but demand for trucks wanes

By Ola Kinnander

STOCKHOLM—**Volvo** AB's second-quarter net profit rose 28% as the Sweden-based truck maker's sales growth in Eastern Europe, South America and Asia offset a slowdown in Western Europe and the U.S.

Volvo said net profit rose to 5.13 billion Swedish kronor ($855.7 million), compared with four billion kronor a year earlier. Revenue increased 13% to 80.43 billion kronor from 71.45 billion kronor.

However, Volvo, the world's second-largest truck maker by sales after **Daimler** AG, warned that truck demand is weakening in Europe, its biggest market, even though demand in Eastern Europe remains strong.

"In Europe, the trend that we noticed in the first quarter, toward increased caution among our customers and in certain markets, strengthened—which was reflected in order bookings in the truck operations," Chief Executive Leif Johansson said. "However, demand for long-distance transport remains high, but there is a weakening in construction transport and construction equipment."

European truck sales rose 7% to 30.05 billion kronor, but orders fell 54% from a year earlier to 21,948 trucks—hurt by increased uncertainty about the economy, high fuel prices and a slowdown in the construction industry.

In North America, truck sales rose 14% to 6.94 billion kronor, while in Asia they gained 54% to 8.17 billion kronor. Demand for heavy trucks in North America is also slowing because of the weak economy, soaring fuel prices and the weakening housing-construction sector, Volvo said.

Last month, U.S.-based Caterpillar Inc. said it will stop supplying heavy-duty truck engines in North America by 2010, instead entering a partnership with Navistar International Corp. to make engines for trucks used in areas such as road construction.

In a conference call with reporters, Mr. Johansson said Caterpillar's exit from this market improves the picture for Volvo trucks in the U.S. "From our point of view, I don't think we can say it's anything but good news," he said. "It means that the marketplace looks a little more positive than before." Rising raw-materials costs have hurt the construction-equipment unit more than other divisions, Mr. Johansson said. "We need to offset that with price increases," he added.

Volvo's stock price fell 2.3% to 73.50 kronor Wednesday.

Daimler is scheduled to release quarterly earnings Thursday. **Scania** AB is due to report results Friday.

# GM falls further behind Toyota in sales race

By Sharon Terlep And Yoshio Takahashi

DETROIT—**General Motors** Corp.'s global sales fell for the second straight quarter, as sinking U.S. sales more than offset growth in foreign markets, pushing the auto maker further behind rival **Toyota Motor** Corp. in the global sales race.

The numbers released Wednesday by the auto makers underscore the importance of emerging markets such as China, Brazil and Russia, as the slump in the U.S. deepens while the Western European market shows increasing signs of weakness.

GM sold 2.3 million vehicles in the quarter ended June 30, a 5% drop from a year earlier, while Toyota's sales during the period rose 2% to 2.4 million. For the first six months of the year, Toyota sold 4.8 million cars and trucks while GM, which had long been the world's largest auto maker, sold 4.5 million.

The U.S. auto maker continues to notch double-digit gains in emerging regions, where increasing populations and growing middle classes have pumped up demand for vehicles. For example, the company's Asian-Pacific sales gain of 15% was sparked by a 33% increase in sales by its Chevrolet brand in China.

GM, like many U.S. manufacturers, is looking to sustained growth overseas to offset sinking sales in critical developed markets, namely the U.S. and Western Europe. As the global economic environment sours, there are questions about whether robust growth rates will be maintained in emerging markets.

GM, which has been restructuring its North American operations for three years, said Wednesday it expects growth in emerging markets to drive a 2.5% increase in global auto sales, to 72 million vehicles, in 2008.

But that growth isn't keeping pace with declines in GM's oldest and most-established markets, adding pressure on the auto maker as it struggles to restore profitability.

"There's just not quite enough volume in these emerging markets to offset weakness in North America," Mike DiGiovanni, GM's executive director of global markets and industry analysis, said during a conference call to discuss the quarterly sales.

Outside North America, GM's sales were up 10% in the second quarter to account for nearly two-thirds of the company's global sales.

But GM's sales in North America fell 20% to 963,929 vehicles, as weak economic conditions and high fuel prices have caused consumers to abandon the pickup trucks and sport-utility vehicles that have long sustained Detroit auto makers. GM says it has also been hurt by an inability to produce enough small cars to meet demand for fuel-efficient offerings.

In Europe, GM reported a 2.5% sales increase to 589,700 vehicles, thanks in large part to booming sales in Russia. GM noted that auto industry sales in Western Europe were down 3% in the first half of the year, while Central and Eastern Europe showed a 25% increase.

Soaring commodities costs, a troubled housing market and shaky consumer confidence—the same troubles dragging down vehicle sales in the U.S.—are beginning to weigh on Western Europe.

On Tuesday, **Nissan Motor** Co. Chief Executive Officer Carlos Ghosn said the auto industry is entering a global slowdown now that European auto sales are starting to decline and sales growth in China is moderating.

Amid the weakening sales environment, Toyota last week said it is reviewing its global sales plan for 2008. Local media recently reported the company will likely cut this year sales target for this year to about 9.5 million vehicles from 9.85 million.

GM is also reworking production plans. It recently announced plans to significantly scale back production of trucks and sport-utiltiy vehicles in North America while boosting capacity for hot-selling smaller vehicles and accelerating efforts to introduce fuel-efficient cars.

Toyota and GM have played down the significance of the closely watched sales race playing out since last year's first quarter when Toyota passed GM for the first time. GM, which had seen its global sales rise steadily until 2008, recovered the sales lead later in the year, but only by a few thousand cars and trucks.

Toyota didn't break out its performance by region in its announcement of global sales Wednesday. Earlier it said U.S. sales fell 7% on year in the half, while European sales fell 5% in the January-May period. Toyota's sales include its two listed units—truck makers **Daihatsu Motor** Co. and **Hino Motors** Ltd.

Toyota's American depositary shares were down 0.9% at $92.05 in early afternoon trading on the New York Stock Exchange. GM shares were up 4% to $14.89, benefiting from the recent decline of oil prices and lingering optimism stemming from GM's announcement of a plan to boost liquidity by $15 billion.

# U.S. auto makers reflect a Korean aspect

By Norihiko Shirouzu

These days, the Motor City seems to have a Korean accent.

In a bid to reconnect with consumers, Detroit's Big Three auto makers have been emphasizing bold designs. But some of the most eye-catching "American" vehicles they have created are actually products of a growing cadre of auto designers who were born and raised in South Korea and who are gaining influence.

Take the new Chevrolet Camaro that **General Motors** Corp. unveiled Monday. This revival of the iconic late-'60s muscle car is the product of Sangyup Lee, a 38-year-old designer who was doodling in kindergarten in Seoul the last time Camaros were hot in Chevy's showrooms.

In January, GM unveiled a concept design for a luxury midsize crossover called the Cadillac Provoq. The lead designer was 38-year old Hoon Kim, also a Seoul native.

The Chevy Volt, the sleek and heavily hyped plug-in electric car GM is working on, was masterminded by Young Sun Kim and In Ho Song, both Korean nationals.

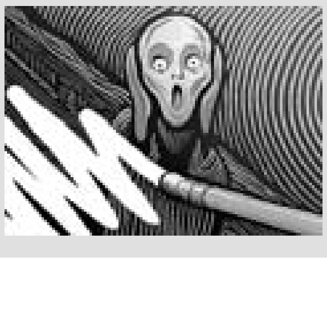
Over at **Ford Motor** Co., Amy Kim and Joann Jung, Korean-born designers who attended design school in California, help style the Lincoln MKT, a concept luxury crossover.

Korean designers are also exerting their influence on the products of auto makers beyond Detroit. **Toyota Motor** Corp. and **Nissan Motor** Co. both have Korean designers overseeing key new models, such as the Nissan Forum, a stylish minivan concept, by Joel Baek, a Korean-born designer, at a Nissan studio in southern California.

**Personal Journal**

## Attacking anxiety

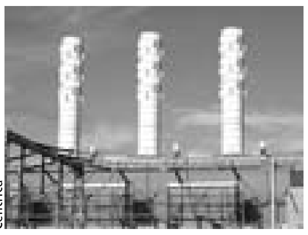
*Neuroscientists show how to erase fright before it wrecks your portfolio* > **Page 30**



# CORPORATE NEWS

**ENERGY**

## Gaz de France deal gives Centrica control of SPE


Centrica

CENTRICA PLC, the U.K.'s largest energy supplier, said it now has a controlling 51% stake in Belgian generation and supply company **SPE** SA after buying **Gaz de France**'s 25.5% share for €515 million ($813 million). The rest of SPE is owned by Belgian banks and local government. GDF, controlled by the French government, had to sell the business to win European Union approval to combine with Suez SA. SPE is the only major rival to Suez's Belgian electricity unit, Electrabel SA. **Centrica** said it expects to wrap up the purchase by September and will defer payment of as much as €105 million until it sees the results of a government deal with Electrabel to force open the market. *—WSJ Roundup*

**BEER**

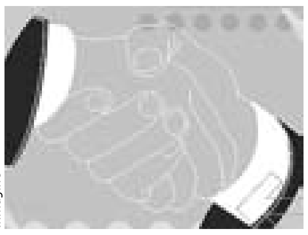
## Carlsberg sells its stakes in Turkish, Israeli brewers


Carlsberg

COPENHAGEN-based brewer **Carlsberg** AS said it sold stakes in two breweries for a combined value of about $116 million, the latest deal in the global brewing industry's recent transformation. Israeli beverage company **CBC Group**, Carlsberg's partner in Israel and Romania, bought Carlsberg's 95.6% stake in Turkey-based Turk Tuborg Bira ve Malt Sanayi for about $80 million minus interest-bearing debt, and its 20% stake in Israel Beer Breweries for $36 million. As part of the deal, Turk Tuborg and Israel Beer Breweries will continue the production of Carlsberg and a number of Tuborg brands. *—Anna Molin*

**BANKING**

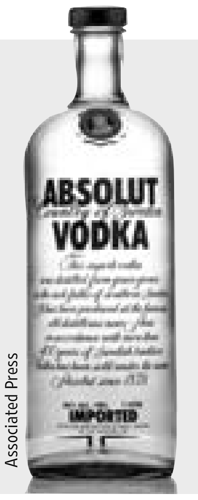
## Commonwealth in talks to buy ABN Amro assets


Inmagine

COMMONWEALTH Bank of Australia said it is in exclusive talks to buy ABN Amro Australia and New Zealand from **Royal Bank of Scotland Group** PLC, which some analysts estimate could be valued at $800 million Australian dollars (US$776.8 million). The negotiations come a day after **National Australia Bank** Ltd. walked away from talks to buy those operations. National Australia Bank didn't say why it withdrew. Commonwealth Bank, which already holds a strong position in the Australian retail stockbroking market, said its plan is incomplete and subject to further talks. *—Lyndal McFarland*

# Pernod to nurse its drinks

### *After Absolut deal, focus shifts to growth in current brands*



Associated Press

**Spirit boom**

Vodka's popularity with young people has been driving up sales and Pernod Richard's recent purchase of Absolut vodka, left, could keep overall French sales climbing. Total vodka sales, in selected countries*

| | Change from 2006-'07 | 2007 sales in millions |
|---|---|---|
| Poland | 17% | $3,742.9 |
| **France** | **13%** | **199.9** |
| Australia | 13% | 199.6 |
| U.K. | 11% | 1,436.1 |
| U.S. | 7% | 1,994.4 |

*Based mainly on sales of all brands at grocery stores and supermarkets

Source: The Nielsen Co.

*Paris*

By **Christina Passariello** *in Paris and* **Aaron O. Patrick** *in London*

OVER THE PAST seven years, **Pernod Ricard** SA has earned a reputation as the drinks industry's most aggressive player. By swallowing rivals, it has vaulted to the world's second-biggest spirits group by sales, after **Diageo** PLC, from a small family-run maker of pastis, the traditional French anise-flavored liqueur.

In March, amid the debt-market slump, Pernod plunked down €5.6 billion—nearly $9 billion—for Vin & Sprit, the parent of vodka icon Absolut.

Now, with its liquor cabinet nearly full, Pernod is changing course. Flush with brands including Chivas Regal whisky, Malibu rum and Martell cognac, the company plans to spend the next few years sitting tight and nurturing the labels it already owns.

"Organic growth is a must," says Managing Director Pierre Pringuet in an interview ahead of the company's release Thursday of sales for the year ended June 30. Pernod is expected to post like-for-like sales growth, stripped of currency fluctuations, of 8.4%, pushing annual sales up to €6.6 billion, according to Citigroup.

Mr. Pringuet—who in November will take over full day-to-day management from the Ricard family, which owns a 12.5% stake in Pernod—adds that "antitrust authorities will look at any new acquisitions even more carefully," making additional purchases difficult.

Pernod's bid for Vin & Sprit was generous by any count. It trumped offers by wealthy contenders including **Bacardi** Ltd. and Sweden's Wallenberg family, and came at the high cost of 21 times V&S's annual earnings before interest, taxes, depreciation and amortization.

The deal is expected to close this month—even as U.S. consumer spending continues to slow and credit markets keep tightening.

As a result, getting the Absolut acquisition right is crucial for Pernod's longer-term strategy. Because the company has grown so much in recent years, it could soon find itself in the same position as industry leader Diageo: unable to make big acquisitions because it already has dominant positions in most segments.

"Diageo can't do anything anymore; it's predictable and dull," says HSBC drinks analyst Erwan Rambourg. Nonetheless, he rates Diageo as a good investment. A Diageo spokesman says the company aims to "provide consistent returns to shareholders."

**Getting the Absolut acquisition right is crucial for Pernod's longer-term strategy.**

In the U.S., Absolut is losing market share amid competition from fashionable rivals such as Diageo's Ketel One and Bacardi's Grey Goose. Absolut's share of U.S. vodka sales year-to-date, is 12.3%, down from 12.7% in 2007, according to Nielsen.

The slowdown in U.S. consumer spending is expected to hit Absolut in the future. The brand is too expensive for budget-conscious consumers, analysts say, but not expensive enough to be popular in trendy bars. "The middle ground is being squeezed in this recession," says Richard Hurst, an alcohol analyst at Nielsen.

Mr. Pringuet says that Absolut has been subject to too many price promotions in the past and that he will ensure it doesn't stray far from $20 a bottle in stores. Grey Goose sells for more than $30 a bottle.

Mr. Pringuet also says he is going to scale back a recent drive to introduce flavored vodkas to the detriment of the basic product. Bartenders don't have space for all the variations of Absolut—there are at least 12—on their shelves, so each new flavor was cannibalizing an old one, Mr. Pringuet says. Instead of one new flavor every six months, Absolut from now on will introduce a new taste every year or two. Marketing will be redirected to the vodka's familiar original blue bottle.

"Everything has to be focused on the mother product," Mr. Pringuet says.

Pernod will also try to build Absolut's presence in China, where the company has successfully introduced two of its other brands: Ballantine's whisky and Chivas Regal, which Chinese drinkers often mix with a green-tea base.

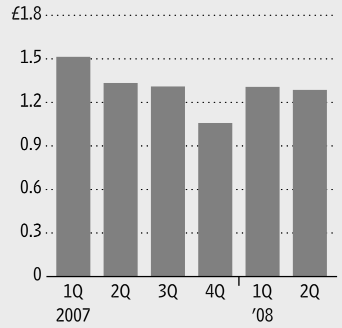
Mr. Pringuet says that Pernod won't lose its entrepreneurial spirit altogether, and that there could be future acquisitions once the company pays down some debt. Two of the gaps he sees in its portfolio: bourbon and tequila.

# Glaxo forms an alliance to target new markets

By Jeanne Whalen

**GlaxoSmithKline**

Net profit, in billions



Source: the company

**GlaxoSmithKline** PLC reported weak second-quarter earnings as it laid out additional changes to its drug-research team and announced an alliance with a company that sells low-cost medicines in emerging markets.

The world's second-largest drug company by sales, after Pfizer Inc., will also look for ways to "simplify" the company and cut costs, Chief Executive Andrew Witty said. Areas of particular focus for streamlining include the manufacturing division and global sales force, he said. He declined to say whether this would lead to additional job cuts beyond ones Glaxo announced last fall that it has declined to quantify.

Such changes are part of a three-pronged strategy Mr. Witty has been pushing since he became CEO in May: to diversify Glaxo's product mix and geographic focus; streamline its operations; and develop more breakthrough medicines. Mr. Witty has said repeatedly that tough times in the U.S. and European pharmaceutical markets are forcing Glaxo to change. Glaxo, along with other big drug makers, faces intense competition from generic rivals in those markets and higher safety hurdles to getting new drugs approved.

Glaxo's net income fell 3% in the quarter to £1.29 billion ($2.57 billion) from £1.33 billion in the year-earlier period, hit by competition from low-cost generic drugs and sluggish sales of diabetes pill Avandia and asthma inhaler Advair. Sales rose 4% to £5.87 billion from £5.67 billion, with strong vaccine sales marking one of the few bright spots.

To try to boost sales in emerging markets, the company signed an alliance with South Africa's **Aspen Pharmacare Holdings** Ltd. that will allow Glaxo to sell Aspen's low-cost medicines in countries where Aspen doesn't currently operate.

Aspen manufactures more than 450 inexpensive, unpatented drugs and sells them in Africa and a few other markets. Glaxo will start selling some of these products in new markets and will share profit with Aspen, the company said. It will make "limited" upfront payments to Aspen, though it didn't disclose terms of the deal. Aspen produces a variety of HIV medicines, antidepressants and antibiotics, among other drugs.

Mr. Witty also gave more details on his previously stated plan to break Glaxo's drug researchers into smaller groups. Glaxo is splitting the scientists into teams of seven to 80 people that will compete for funding from a new board that includes Glaxo executives as well as outside venture capitalists and experts from the biotech sector, Glaxo said. The new groups will continue to sit within Glaxo's Centres of Excellence for Drug Discovery, or CEDDs, which each include several hundred people.

Glaxo, of Brentford, England, is also dropping its research into disorders of the gastrointestinal, urinary and reproductive systems because it doesn't feel it can make much progress in these areas.

Glaxo disappointed investors by saying it would prolong a £12 billion share-buyback program to allow it to save more cash for investing in strategic priorities in the coming years. Glaxo said the program, previously planned to end in July 2009, would be extended indefinitely.

Glaxo's cost-cutting plans include reducing the variety of drug packaging Glaxo produces, a measure that could have nearly the same impact on the company's bottom line as a new blockbuster medicine, Mr. Witty said.

## CORPORATE NEWS

# ConocoPhillips posts huge net, but outlook shaky

By Russell Gold and Guy Chazan

**ConocoPhillips** reported a $5.44 billion net profit, kicking off a quarter of gargantuan earnings from global oil companies that some believe could be the top of the current cycle.

The second-quarter earnings release sounded notes of caution that are likely to be repeated next week when **Exxon Mobil** Corp., **BP** PLC and other large oil companies report: a weak refining environment, rising costs and falling production of crude oil and natural gas.

Oil companies face another issue: oil prices have risen so fast and so far that demand is eroding. This could send prices down and turn second-quarter earnings into a "peak" for the sector, notes Lehman Brothers. The bank pointed out that the cost of oil is 7% of global gross domestic product, the same as when oil prices topped out in the 1970s.

For the companies, the toughest challenge remains the struggle to increase the amount of oil and natural gas they produce. Western oil companies are having trouble gaining access to new resources while existing fields continue to decline. ConocoPhillip's output fell 7.8% from the same period a year earlier.

Record-setting oil prices continued to fatten the bottom line of Texas-based ConocoPhillips. It sold the crude it produced for an average of $118.01 a barrel, nearly twice the level of a year before.

Signs that global demand is weakening have led energy prices to fall this month, further clouding the outlook for the rest of the year. After hitting a record in early July of $145.29 on the New York Mercantile Exchange, oil prices have lost 14% and closed Wednesday at $124.44.

As expected, income from ConocoPhillip's refining segment was down significantly as the company had difficulty raising gasoline prices to keep pace with high crude-oil costs. Operating income from refining and marketing was $664 million, down 72%.

**Chevron** Corp., meanwhile, already has warned investors that it would report a second-quarter operating loss in its refining segment of at least $250 million, marking the first time since its 2001 merger with Texaco that this segment lost money.

There are increasing signs that cost inflation is eating away at the companies' ability to carry high crude prices to their bottom lines. ConocoPhillips reported $71.41 billion in revenue, up 51% from a year earlier. By comparison, its adjusted earnings were up only 13%.

In a recent note, Moody's Investors Service warned that the industry's capital and cash operating costs have increased steadily in recent years, with the average cost of producing oil and gas more than doubling to $22.97 a barrel in 2007, from $9.94 in 2002.

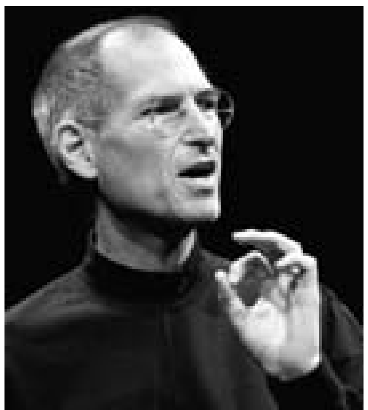
ConocoPhillips spent $2.5 billion in the second quarter purchasing its own stock and reiterated plans to spend $10 billion on share buybacks this year. It also reported $3.6 billion in capital spending.

J.P. Morgan analyst Michael LaMotte noted that the company's production guidance for the third quarter "echoes the familiar challenges around production declines" and said he expected refining earnings to remain weak.

# Fretting over Apple's Jobs

## *Investors worry about CEO's health as firm stays silent*

By Justin Scheck And Ben Charny



Newscom

One Apple fund **investor** said, "everyone's worried."

**Apple** Inc.'s refusal to discuss Chief Executive Steve Jobs's health is worrying investors, causing them to scurry for information while asking when an iconic CEO's health becomes material for a company.

During Apple's earnings conference call Monday, Chief Financial Officer Peter Oppenheimer declined to answer an analyst's question about Mr. Jobs's health, calling it "a private matter." Apple's demurral raised new concerns among investors, who have worried about Mr. Jobs's health since a 2004 bout with pancreatic cancer.

Their fears flared earlier this year when Mr. Jobs, 53 years old, looked gaunt at a public appearance; the company at the time blamed "a common bug." Now, one Apple fund investor said, "everyone's worried."

Apple shares fell as low as $146.53 Tuesday following the company's lackluster outlook for the current quarter. Some analysts suggested that concerns about Mr. Jobs's health also weighed on the stock, which was at $162.02, down $4.27, in 4 p.m. Nasdaq Stock Market composite trading Tuesday. In afternoon trading Wednesday, the shares were up $2.17 to 164.19.

Apple spokeswoman Katie Cotton on Tuesday reiterated that Mr. Jobs's health is private.

Mr. Jobs's well-being is key information for a company whose success is inextricably linked to its leader. The company, which he co-founded and later left, struggled until his return in 1997, when the shares traded at about $11 each. Mr. Jobs plays a key role in the development of Apple's products.

But corporate-governance experts say the laws governing when an executive must reveal his health problems are unclear. "This kind of disclosure is a balancing act," said Steve London, a securities lawyer and partner with Boston-based Pepper Hamilton LLP. "Unless there's the very unlikely scenario that Apple insiders are trading on some bad news about Jobs that they are keeping secret, I don't see Apple doing anything wrong here."

Still, Apple's refusal to offer reassurance that Mr. Jobs is healthy continued a pattern that began in 2004. That year, the company waited nine months to tell shareholders about Mr. Jobs's pancreatic cancer, which ended with surgery that the company said at the time "cured" him.

The late disclosure irked some investors, but a U.S. Securities and Exchange Commission investigation in 2006 and 2007 of Apple's past stock-option grants looked at Mr. Jobs's health issues and found no problem with the way Apple handled disclosure of them, a person familiar with the matter said.

## CORPORATE NEWS

# PepsiCo net climbs 9.1%

### *International sales grow rapidly, helping revenue to rise 14%*

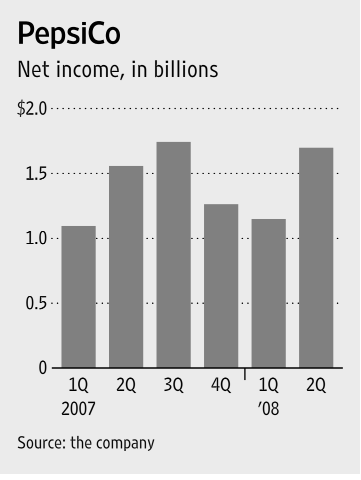
BY BETSY MCKAY

**PepsiCo** Inc.'s 9.1% rise in second-quarter profit shows that growing international sales, price increases on some products and cost-saving measures are helping the snack and beverage company navigate the weakened U.S. economy.

Beverages are among many consumer products to have been socked by the slowdown in the U.S. economy, as consumers cut back on discretionary spending to save where they can. The Purchase, N.Y., company said U.S. sales of Aquafina bottled water experienced a "double-digit" decline, while sales of juice and Pepsi-Cola soda also slipped.

But U.S. consumers are still snapping up PepsiCo's Frito-Lay and Quaker snack foods, the main drivers of its profit, even though the company has raised prices on chips to offset rising costs of vegetable oils, grains and other commodities.

PepsiCo also benefited from a weaker dollar as sales continued to grow rapidly in its beverage and snack businesses outside North America. Some analysts have been




concerned that a global economic slowdown is damping consumer spending in developing markets.

Indra Nooyi, PepsiCo's chairman and chief executive officer, said the company is "closely monitoring" each of its markets for signs of weakness but said, "We continue to see the fundamental long-term growth opportunities created by low per-capita consumption, a growing middle class and share expansion."

Net income rose to $1.7 billion, or $1.05 a share, up from $1.56 billion, or 94 cents a share, a year earlier. The results included gains in the value of the company's commodity-hedging positions. Without those gains, earnings were $1.03 a share, still ahead of an analysts' consensus of $1.02 a share, according to Thomson Reuters.

Revenue rose 14% to $10.9 billion, and global volume growth was 5%. The weak dollar added four percentage points to the revenue gain and made up three percentage points of the company's 12% growth in operating profit.

"We are tightening our belts," Ms. Nooyi said of the company's efforts to rein in costs. PepsiCo is weathering the storm in part by hedging a higher percentage of its commodities than it has to date, and taking longer positions. She said the company already has taken "significant positions" for 2009.

PepsiCo also has accelerated productivity initiatives. Capturing waste heat from Doritos ovens to make steam and installing high-efficiency infrared burners on baking ovens have helped Frito-Lay reduce water use by 2% and electricity use by 3% so far this year, the company said.

PepsiCo raised its revenue growth forecast for this year to the low-double-digits from an April forecast of high-single-digit growth. The company reaffirmed its expectations for earnings of at least $3.72 a share.

In late trading on the New York Stock Exchange, PepsiCo shares were up $1.37, or 2.1%, at $67.56 apiece.

Associated Press

**Boeing** posted a 19% drop in net income after a glitch in its defense business. Commerical-airplane earnings also fell, but the airline reaffirmed its growth outlook.

# Boeing net declines 19% amid defense-job delays

BY J. LYNN LUNSFORD

**Boeing** Co.'s net income dropped 19% during the second quarter after a charge on a troubled defense contract coincided with the delivery of a number of commercial jetliners that were sold at bargain prices during the last industry slump.

Although the results caught analysts by surprise, Boeing said it still plans to meet its projections for sales and earnings growth for 2008 and 2009, even amid growing concerns that high oil prices could lead to a wave of order cancellations.

"Right now, the demand for fuel-efficient new aircraft is still higher than what we can supply from our production plans," said Boeing Chief Executive Jim McNerney during a conference call with analysts and reporters.

Mr. McNerney said the company has seen little movement in its order books, but he noted that "we do expect we could have more deferrals and cancellations as our customers continue to wrestle with the new energy realities." If that happens, he said, Boeing officials believe there is enough overall demand that airlines desperate for earlier delivery slots will snap up those positions.

The Chicago aerospace company's earnings were hit hardest by a charge of $250 million, or 22 cents a share, for delivery delays of an aerial-surveillance plane for Australia's air force. The company reported net income of $852 million, or $1.16 a share, down from $1.05 billion, or $1.35 a share, a year earlier. Revenue slipped to $16.96 billion from $17.03 billion. The mean forecast by analysts surveyed by Thomson Reuters had been for profit of about $1.22 a share.

The biggest surprise came from the company's commercial-airplanes unit, where operating income was down 19%. Boeing said that expenses associated with the Dreamliner program are rising as the company prepares for full-scale production. Boeing also delivered three fewer high-margin 777 widebodies than expected due to parts shortages, and a handful of aggressively priced single-aisle 737s helped dilute the numbers further.

The company said the widebody Dreamliner continues to meet its revamped schedule. Last weekend, mechanics successfully tested the first airplane's hydraulic system and operated the flight controls for the first time, a key milestone to reaching its expected first flight during the fourth quarter.

Boeing said its total backlog of unfilled orders rose 6% to $346 billion, driven largely by commercial airplane orders.

Separately, in a move to shore up its position in the market for small unmanned aerial vehicles, Boeing said Tuesday it is acquiring closely held **Insitu** Inc., one of the leading makers of sophisticated remote-controlled aircraft. Boeing didn't disclose the terms of the deal.

*—August Cole contributed to this article.*

# Vodafone sets stock-buyback plan

BY STEVE MCGRATH

LONDON—**Vodafone Group** PLC on Wednesday launched a £1 billion ($2 billion) share-buyback program in an attempt to boost its share price following a disappointing reaction to its quarterly results.

The world's largest mobile-phone operator by revenue said the buyback "reflects the board's belief that the share price significantly undervalues Vodafone."

The move worked initially, with the stock trading up four pence, or 2.8%, at 133 pence shortly after the open Wednesday. Analysts and traders said the buyback should give the shares some support, but there is unlikely to be a sustained rally until the company shows it is more resilient.

The stock closed at 131.40 pence.

The company saw its stock fall more than 13% Tuesday, wiping about £10 billion off its value, after it said it expects full-year revenue at the low end of its previous forecast. It cited a weakening economy, which analysts believe could be the start of a worsening trend.

**The company's shares have fallen 31% since the start of 2008.**

The shares have fallen 31% since the start of 2008, underperforming a 17% drop in the FTSE 100, of which it is a major component, and a 30% decline in the Stoxx Europe 600 telecoms index.

Vodafone blamed the lower forecast on recent economic weakness, lower-than-expected equipment revenue and weakness in Spain, Turkey, Romania and Egypt.

Deutsche Bank said it thought the market overreacted to the fiscal-first-quarter results.

There is little evidence share-buyback programs help the share price of telecommunications companies "in any material way," Nomura said in a note to investors. "Nevertheless at current prices Vodafone shares have to be a far more attractive investment for Vodafone than any other acquisition target," it said.

Vodafone said the shares will be bought at no more than 105% of the average of the middle market closing price for the five business days immediately preceding the date on which shares are purchased.

# AT&T shows drop in total access lines

BY ROGER CHENG

**AT&T** Inc. posted a steep drop in total access lines in the second quarter, but results were buoyed by continued growth in wireless and data services.

The Dallas telecommunications company reported net income of $3.77 billion, or 63 cents a share, up 30% from a profit of $2.90 billion, or 47 cents a share, from a year earlier. Revenue rose 4.7% to $30.87 billion.

Given current economic issues, many on Wall Street were expecting a more dire quarter. Shares of AT&T have slid nearly 20% over the last two months. "It's a good quarter in the face of significant economic challenges and pessimism," said Todd Rosenbluth, an equity analyst at Standard & Poor's.

The wireless business continued to grow in the quarter, with revenue up 16% and revenue from data services, such as text messages, up 52%. Still, it faces pressure from rivals. The company added 1.3 million net new customers in the quarter, down 123,000 from a year earlier. It added 894,000 net new customers who signed long-term contracts. The turnover rate for those customers fell to 1.1% from 1.2%.

The figure falls short of **Verizon Wireless**, which said on Tuesday that it added 1.5 million net new customers in the second quarter.

AT&T was hurt by a slowdown in **Apple** Inc. iPhone sales as customers held off on purchases until the release of the iPhone 3G on July 11, after the end of the second quarter. Apple said it sold 717,000 iPhones in the second quarter. In the first 12 days following the launch of the new iPhone, AT&T, which is the exclusive carrier partner for Apple in the U.S., said iPhone 3G sales nearly doubled the mark set by last year's iPhone.

Wall Street was bracing for a sharp downturn in the landline business. The second quarter is typically weak because college students often disconnect their Internet and phone lines as they go home for the summer. In addition, many feared the downturn in consumer spending and weak housing market would take its toll on the telecom industry.

AT&T's total switched access lines fell 8% to 58.9 million. The company added 46,000 broadband connections in the second quarter, which Mr. Rosenbluth said was surprisingly weak. "Broadband has been a driver for AT&T, and we have some concern on the impact from that business," he said.

# Pfizer reports net-profit growth; restructuring weighs on Wyeth

BY PETER LOFTUS

Major pharmaceutical company **Pfizer** Inc. reported an increase in its second-quarter net profit, as international sales growth helped offset generic competition in the U.S., while restructuring charges weighed down profits at **Wyeth**.

Both drug makers are grappling with challenges including heavy generic competition and heightened scrutiny of drug safety in the U.S. They are both in cost-cutting mode in order to weather a difficult period until their drug-research efforts begin to bear more fruit.

New York-based Pfizer's challenges are many. It derives about one-fourth of its revenue from one product, the cholesterol-lowering drug Lipitor, which in 2011 will lose its U.S. market exclusivity and become exposed to generic competition.

Pfizer reported net income of $2.78 billion, or 41 cents a share, up from $1.27 billion, or 18 cents a share, a year earlier.

Sales rose 9.4% to $12.13 billion from $11.08 billion a year earlier.

Wyeth, based in Madison, N.J., said net income declined 6% to $1.12 billion, or 83 cents a share, from $1.20 billion, or 87 cents, a year earlier. Results for the latest quarter included charges of $110.5 million related to Wyeth's cost-cutting program, which includes the elimination of about 6% of its work force so far.

Sales rose 5% to $5.9 billion, with virtually all of the gain coming from the weak dollar.

# CORPORATE NEWS

## Anheuser's net increases 1.8%; new-drinks boost

By David Kesmodel

**Anheuser-Busch** Cos., which agreed this month to be acquired by Belgium's **InBev** NV, reported a modest increase in second-quarter profit Wednesday, as the beer giant raised prices and drinkers embraced its new Bud Light Lime brand.

The St. Louis brewer said net income rose 1.8% to $689 million, or 95 cents a share, from $677 million, or 88 cents a share, a year earlier. Net sales rose 4.6% to $4.7 billion.

The Budweiser maker, which controls nearly half the U.S. beer market, agreed July 13 to be bought by InBev, brewer of Beck's and Brahma, for $52 billion in cash. The deal, which will create the world's largest brewer, is expected to close by year end.

Anheuser said sales to retailers, a key measure of a beer maker's performance, rose 0.4% in the quarter ended June 30. The timing of the July 4 Independence Day holiday this year made for a difficult comparison against the 2007 period, the brewer said.

The company has boosted sales in part by successfully introducing

**Anheuser said it is accelerating plans to raise beer prices due to rising costs.**

new products, including Bud Chelada and Landshark Lager. Anheuser began selling Bud Light Lime, a lime-infused version of the world's best-selling beer, in May, backed by an aggressive advertising campaign.

"The series of initiatives that we have taken in the last two years to better position the company for long-term growth are gaining traction with consumers," Chief Financial Officer Randy Baker said in a conference call with analysts.

The brewer's results were again hurt by lower income from investments in other brewers. Such income, which comes largely from the beer maker's 50% stake in Mexico's **Grupo Modelo** SA, fell 14% to $167 million from $194 million a year earlier. Anheuser cited higher costs for raw materials and operations at Modelo, maker of Corona Extra and Pacifico.

Anheuser said it is accelerating plans to raise beer prices, responding to rising costs for commodities such as barley and rice. It will increase prices roughly 3% to 4% for the majority of its U.S. products in September and October.

In a few markets, beer drinkers are "trading down" to the company's economy brands amid the slowing U.S. economy, Mr. Baker said, but "we have a healthy industry and a healthy pricing environment."

He said the planned integration with InBev "is going relatively well. It's early in the process."

The company also said Wednesday that it raised its quarterly dividend to 37 cents a share from 33 cents. Anheuser shares were up four cents at $67.29 in late afternoon trading on the New York Stock Exchange.

# GLOBAL BUSINESS BRIEFS

### Continental AG

**Board rejects takeover offer from Schaeffler Group**

**Continental** AG's supervisory board Wednesday rejected the €11.3 billion (US$17.8 billion) takeover offer from **Schaeffler Group**, saying it doesn't value the company adequately, but added that an agreement with the closely held German engineering company is desirable. Continental said it is willing to enter talks with Schaeffler if the engineering company will negotiate about a premium for Continental shareholders or limiting their targeted stake. Last week, Continental's executive board rejected the offer, calling it opportunistic and well below the valuation the company puts on itself. Schaeffler on Sunday said it still wants a stake of more than 30% instead of the 20% Continental is willing to negotiate.

### Iberdrola Renovables SA

Spanish renewable-energy company **Iberdrola Renovables** SA said its net profit more than tripled in the first half from a year earlier. The world's biggest wind-power generator said its net profit rose to €194 million ($306.1 million) for the six months through June 30, from €46 million in the year-earlier period. Profit was boosted by the incorporation in late 2007 of the wind-power assets of **Scottish Power** PLC. An increase in installed capacity and higher electricity prices also helped, said Chief Executive Xabier Viteri on a conference call. Iberdrola Renovables has incorporated 851 megawatts in new capacity in the first half, 82% of which is outside Spain. First-half revenue more than doubled to €937.7 million, up from €349 million a year earlier.

### Merck KGaA

**Merck KGaA** said second-quarter net profit more than doubled from a year earlier, when charges hurt the German pharmaceutical-and-chemical company's earnings. Net profit increased to €207.4 million ($327.3 million) from €85.5 million. Merck, which became Europe's largest biotechnology company after purchasing Serono in 2006, said that write-offs related to the Serono acquisition, as well as high interest payments on debt it took on to finance the purchase, hurt 2007 earnings. Revenue, which includes royalty income, rose 6.1% to €1.9 billion from €1.79 billion, curbed by unfavorable currency fluctuations. Sales of cancer drug Erbitux rose 24% to €145 million, while revenue from multiple-sclerosis treatment Rebif increased 2.8% to €320 million. The company confirmed its 2008 outlook, despite currency head winds that will likely continue to weigh down revenue.

### Roche Holding AG

Switzerland-based pharmaceutical company **Roche Holding** AG said it plans to buy **Arius Research** Inc. of Canada for 191 million Canadian dollars (US$189 million), the latest in a series of purchases of North American biotechnology companies. Roche said the move would give it access to a new screening platform for antibody therapeutics, FunctionFIRST, which rapidly identifies and selects antibodies based on their ability to affect disease before progressing into clinical development. Lee Babiss, head of global research at Roche, said FunctionFIRST will help Roche strengthen its developmental portfolio, providing it with a library of antibodies.

### Lonza Group AG

**Lonza Group** AG reported an 83% jump in first-half net profit, boosted by the sale of its stake in **Polynt** SpA. The Switzerland-based maker of ingredients for the pharmaceutical, health care and life-science industries said net profit increased to 267 million Swiss francs ($259 million) from 146 million Swiss francs a year earlier. The earnings were lifted by a book gain of 91 billion Swiss francs from the Polynt sale, which was wrapped up in April. Sales climbed 6.5% to 1.46 billion Swiss francs from 1.37 billion Swiss francs, thanks to an improved product mix, higher pricing and efficiency improvements. Lonza confirmed targets, though Chief Executive Stefan Borgas said that the second half will be weaker than the first, because customers have postponed a number of projects.

### Telenor ASA

Norwegian telecommunications operator **Telenor** ASA said that second-quarter net profit rose 8.7%, but it reduced its revenue-growth outlook on economic concerns. Net profit rose to 3.54 billion kroner ($692.8 million) from 3.25 billion kroner a year earlier. Revenue increased 2.9% to 23.84 billion kroner from 23.16 billion kroner. Telenor said it now expects 2008 revenue growth of about 3%, down from a previous forecast of 5%, excluding its Ukrainian unit Kyivstar. Meanwhile, smaller Swedish rival **Tele2** AB reported a narrower second-quarter loss and said it would continue its growth plan in the former Soviet Union.

### KPN NV

Dutch telecommunications operator **KPN** NV's second-quarter net profit fell 12%, hurt by higher taxes and interest payments. Net profit declined to €353 million ($557 million) from €400 million a year earlier. Revenue was up 22% to €3.66 billion from €3.01 billion, boosted in part by the acquisition of information-technology-services company Getronics and Belgian mobile operator Base. KPN confirmed its outlook for 2008, reiterating that capital expenditure for the year is expected to be about €2 billion and free cash flow at least €2.4 billion. KPN said it now sees earnings before interest, taxes, depreciation and amortization, or Ebitda, for the Netherlands as flat, compared with its previous forecast for a €100 million Ebitda decline. Analysts said the company's underlying performance was better than expected.

### Deutsche Telekom AG

**Deutsche Telekom** AG said it will reduce the work force in its business-customer unit, T-Systems. The Germany-based telecommunications company will introduce a voluntary-severance package this fall, but won't rule out future job cuts. Deutsche Telekom declined to comment on the number of jobs affected. Severance, based on an employee's age and length of employment, will be offered to managerial and nonmanagerial staff, the company said. Separately, Austrian construction company **Strabag** SE said it will buy facility-management company Deutsche Telekom Immobilien & Service GmbH, or DeTeImmobilien, a 100% subsidiary of Deutsche Telekom. The companies declined to disclose the value of the deal. DeTeImmobilien employs about 6,240 people.

### STMicroelectronics NV

Switzerland-based **STMicroelectronics** NV, one of Europe's largest chip makers, posted a narrower second-quarter loss but trimmed its forecast for semiconductor market growth in 2008, citing the deteriorating macroeconomic environment. Still, the company said it expects to continue to expand its market share. Chief Executive Carlo Bozotti said STMicro revised its market-growth forecast to a range of 4% to 5% from a previous forecast of 4% to 6%. STMicro reported a net loss of $47 million for the quarter, compared with a year-earlier loss of $758 million. Profitability was again stifled by the dollar's decline against the euro. Revenue fell 1.1% to $2.39 billion after the company spun off its flash-memory division into a joint venture with Intel Corp. Stripping out the impact of that division, revenue would have risen 15%.

### Daily Mail & General Trust PLC

**Daily Mail & General Trust** PLC warned of continuing declines in U.K. advertising in its fiscal-third-quarter update. The London-based media group said sales in the three months ended June 30 rose 5% compared with a year earlier, reflecting a strong showing from its business-to-business divisions that offset declines in regional-newspaper revenue. Daily Mail derives about 50% of its operating profit from non-newspaper business-to-business operations, including a 67% stake in **Euromoney Institutional Investor** PLC, where sales rose 13% in the fiscal third quarter, and **DMG Information**, which reported a 6% rise in sales. But overall sales at Daily Mail's national division, Associated Newspapers, rose a marginal 0.4%.

### Deutsche Post AG

European Union regulators forbid express-cargo company DHL from receiving guarantees of as much as €500 million ($789 million) from Germany for establishing its European hub at the Leipzig-Halle airport. The deal between DHL, a subsidiary of **Deutsche Post** AG, and Germany violates EU rules against government subsidization of industry, said the European Commission. However, the commission did approve €350 million in public investments for a southern runway at Leipzig-Halle airport. Under the agreement, DHL would have been guaranteed as much as €500 million over 30 years from the German state of Saxony if the airport couldn't build the new runway. DHL will have to repay the money it already received, which totaled less than €1 million, said an EU antitrust spokesman.

### BP PLC

A court in Tyumen, Russia, upheld a lawsuit barring staff from U.K. oil company **BP** PLC from working at its Russian joint venture TNK-BP Ltd. The action was initiated by tiny Moscow-based brokerage ZAO **Tetlis**, which owns a small stake in a publicly traded unit of TNK-BP and objected to the fees paid by that company to BP's technical specialists. BP, which has faced a barrage of pressure amid a bitter fight with its Russian partners for control of TNK-BP, withdrew the last of its 148 specialists Tuesday. Tetlis first won a court order blocking the use of BP staff in May, although BP won an injunction lifting that ban in mid-July. Tetlis general director Aleksandr Tagaev said he is very satisfied with the court's decision but thinks TNK-BP will probably appeal. TNK-BP, half-owned by BP, wasn't available for comment.

### De Beers SA

**De Beers** SA, the world's largest diamond company, posted a 9.7% drop in first-half net profit, dented by higher taxes, but said rough-diamond sales were up 10% because of higher gem prices. Net profit fell to $316 million from $350 million a year earlier. Before taxes, income was up 20%, the Johannesburg-based company said. Overall sales rose 9.9% to $3.74 billion from $3.4 billion, including $3.3 billion in sales of rough diamonds. But De Beers warned that the turmoil in the U.S. economy could hurt demand for diamonds in the second half. Production for the first six months was 24.2 million carats, marginally down from a year earlier.

### McDonald's Corp.

**McDonald's** Corp. reversed a year-earlier second-quarter loss caused by the sale of its Latin American and Caribbean restaurants, as the company continued to show strong global growth. The U.S.-based fast-food chain, which has made a big bet on lattes and cappuccinos in an effort to compete with Starbucks Corp., reported net income of $1.19 billion, or $1.04 a share, compared with a year-earlier net loss of $711.7 million, or 60 cents a share. Revenue rose 4% to $6.08 billion. Sales at restaurants open at least 13 months, or same-store sales, rose 6.1% globally and 3.4% in the U.S. Wall Street was expecting a solid gain.

### Philip Morris International Inc.

**Philip Morris International** Inc., the cigarette marketer spun off from **Altria** Inc., posted a 23% rise in second-quarter net income on increased sales of Marlboros around the world and beneficial foreign-currency translations. The company, which sells only outside of the U.S., again boosted its 2008 earnings guidance. Philip Morris International now expects earnings growth this year of 19% to 21% to $3.32 to $3.38. April's boosted target was 14% to 16%. Profit in the latest quarter rose to $1.82 billion, or 86 cents a share, from $1.48 billion, or 70 cents, a year earlier. Revenue rose 20% to $16.7 billion. Excluding currency fluctuations, revenue increased 4%.

### Yahoo Inc.

Proxy advisory firm **Glass Lewis** & Co. harshly criticized three **Yahoo** Inc. board members, recommending their ouster at the company's annual shareholder meeting. In a report, Glass Lewis said shareholders should vote against re-electing Yahoo Chairman Roy Bostock and directors Ron Burkle and Arthur Kern. All three are on the company's compensation committee, which Glass Lewis criticized for implementing controversial severance plans and for failing to pay executives relative to the company's performance. All of Yahoo's directors are up for re-election at the Aug. 1 annual meeting.

*—Compiled from staff and wire service reports.*

# ECONOMY & POLITICS

## GERMANY

### New test for citizenship will present 33 questions

Associated Press

GERMANY is to introduce a test on German customs and history for would-be citizens in September after Chancellor Angela Merkel's Cabinet approved the plan. The Interior Ministry has presented 310 multiple-choice questions for citizenship applicants. Would-be citizens will be presented with 33 of the questions and will be required to answer 17 correctly. They range from "how many states does Germany have?" (16) through "what is the name of the current chancellor?" (see above) to "what happened on Nov. 9, 1938?" (Jewish homes and businesses were attacked in a Nazi-orchestrated pogrom). *—Associated Press*

## SPAIN

### EU will pay to help retrain laid-off car-parts workers

Peter Siu

MORE THAN 1,500 Spanish workers put out of work when a car-parts company moved to lower-wage Morocco will get €10.5 million (US$16.6 million) to help pay for retraining, the European Commission said.

The money will come from a special European Union fund set up to help the victims of globalization and will pay for programs to get 1,589 workers back into the labor market as quickly as possible.

The workers lost their jobs when the U.S.-owned car-parts maker **Delphi** Corp. shut its factory at Puerto Real in southern Spain last year and shifted production to Tangiers. *—Associated Press*

## FINLAND

### Trade battle prompts cut in taxes on timber sales

Fotosearch

FINLAND'S government will cut capital-gains taxes on timber sales to help its paper sector cope with a trade battle with Russia that has led to a raw-material shortage in one of the country's largest industries.

Finland's forests are mostly owned by individuals and the tax cut is meant to persuade more of them to sell wood to big paper makers such as **Stora Enso** Oyj and **UPM-Kymmene** Corp.

The companies are scrambling to get birch fiber, a main raw material for many of their pulp mills that has usually been imported from Russia. *—Reuters*

# Vote is new test for Brown

### *A lackluster showing in Glasgow may speed calls for replacement*

By Alistair MacDonald And Jason Douglas

IN A SIGN OF just how far Prime Minister Gordon Brown's popularity has sunk with the British people, he is fighting to retain a Parliament seat that should be a sure thing.

Thursday, voters in Glasgow's East district go to the polls to elect a member of Parliament. While most expect Mr. Brown's Labour Party to win, its candidate Margaret Curran, a local politician who was brought in after several of Labour's initial choices declined, is facing a tough challenge from the resurgent Scottish National Party.

Should Labour lose, or even see a big defection of votes in its Scottish stronghold, it could hasten calls for Mr. Brown to step down as prime minister.

A poll by London-based researchers ICM earlier this month gave Labour 47% of the vote against the Scottish National Party's 33%, but many analysts say the Scottish National Party has since gained support.

"If they can't hang onto this seat, what can they win? So Glasgow East might be the catalyst that makes the party panic and decide they want to get rid of" Mr. Brown, said John Curtice, professor of politics at the University of Strathclyde in Glasgow.

Glasgow East, an impoverished area of Scotland's biggest city, is holding an election after its member of Parliament retired due to poor health. Labour won 60% of Glasgow East's vote in the last general election in 2005. The party has dominated Scotland, Mr. Brown's home, since the swift decline of its industrial base soured voters on then-leader Margaret Thatcher and her Conservative Party.

But the government, and Mr. Brown in particular, have plummeted in polls as Britain's 15-year economic boom shudders to a halt amid falling home prices, higher inflation and increasing unemployment. According to a July survey by pollsters Ipsos MORI, 72% of the public is dissatisfied with the way Mr. Brown is doing his job as prime minister.

Mr. Brown has taken a beating in recent local elections in other so-called safe seats that have traditionally been pro-Labour. The Labour Party lost the Crewe and Nantwich seat in northern England in May with a massive swing of 17.6% of votes to the Conservative Party.

The political parties have shipped in some of their biggest hitters to Glasgow East, an area with high unemployment and male life expectancy five years below the Scottish average of 73 years. Four senior government cabinet members have campaigned on local streets. The Conservatives sent in party leader David Cameron. Thursday, 400 Labour Party activists were to begin knocking on doors at 5 a.m. to deliver 45,000 leaflets.

The Glasgow election is "a tough, hard fight and the result is likely to be tight," said David Cairns, a minister in the government's Scottish Office who is helping the Labour campaign.

Threatening to win votes away from Labour is the Scottish National Party, which recently won control of the Scottish Parliament in Edinburgh from Labour. The Scottish National Party wants eventually to secede from the U.K. altogether, a position supported by its candidate in Glasgow East, 51-year-old former accountant John Mason.

In many ways, Mr. Brown is in a no-win situation, politicians say. "Glasgow is such a safe seat that holding onto to it doesn't indicate we are out of the woods," said Graham Stringer, a Labour member of Parliament. Mr. Stringer has called for the Prime Minister to be replaced, something very few other Labour politicians echo publicly.

Mr. Brown "is having a difficult time, as any prime minister would during a tough economy after 15 years of growth," said Charlie Falconer, who as secretary of state for justice under Mr. Brown's predecessor Tony Blair headed the country's legal system. "But Gordon is a very big man, [and] he is the man with the most experience running the economy."


Reuters

**Margaret Curran**, the Labour Party candidate for Scotland's Glasgow East district election for Parliament, speaks to her supporters and the media on Wednesday.

# Euro-zone factory orders fall as outlook dims

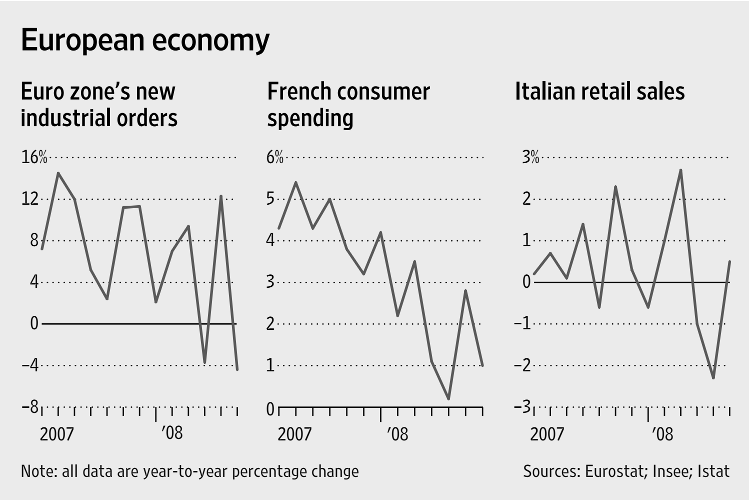
By Nicholas Winning

LONDON—Factory orders in the euro zone dropped at their sharpest rate in five years in May, as Wednesday brought a series of economic data releases showing demand slowing across Europe even as inflation is heating up.

New industrial orders in the 15 countries that share the euro fell 3.5% in May from April and 4.4% from a year earlier, the biggest annual drop since August 2003, according to European Union statistics agency Eurostat.

The indication of weakening euro-zone manufacturing underscored growing concerns that the region's economies were nearing stagnation during the second quarter, with diminishing signs of a significant pickup by the end of the year.

"The industrial upswing in the euro zone is screeching to a halt," said Holger Schmieding, chief Europe economist at Bank of America. "The data are highly volatile, distorted by the ups and downs of bulk orders for airplanes, ships and other transport equipment. Still, the trend is clear."




Stripping out volatile orders for transport equipment such as ships and railway and aerospace products, euro-zone new orders fell 4% year-to-year in May after soaring 12.4% the previous month.

The fall in industrial orders echoed French consumer-spending data issued Wednesday, showing that growth slowed in June. And though Italian retail sales were stronger than forecast, Italy's consumer confidence in June hit its lowest level since 1993.

The data supported the view that the European Central Bank is unlikely to raise interest rates again in coming months. The bank boosted rates to 4.25% from 4% July 3 to counter risks to price stability over the medium term from the recent acceleration in inflation.

But the ECB, forecasting that the region's annual inflation rate will rise to more than 4% this year, is also unlikely to lower interest rates soon because rising producer prices are feeding inflation.

European consumers, meanwhile, are becoming increasingly cautious as the economic outlook dims. Growth in French consumer spending on manufactured goods, the main driver of gross-domestic-product growth, slowed to 1% year-to-year in June from 1.7% in May, falling short of economists' predictions of a 1.3% rise.

"French growth won't be able to count on consumption until the summer of 2009," said Marc Touati, an economist at Global Equities.

Outside the euro zone, the U.K.'s Confederation of British Industry said industrial orders dropped sharply in July, while pricing intentions rose at their fastest pace in 18 years.The business group said its industrial order book balance fell to minus-8 in July from plus-1 in June, worse than economists' expectations of a deterioration to minus-5.

*—Joe Parkinson, Gabriele Parussini and Sofia Celeste contributed to this article.*

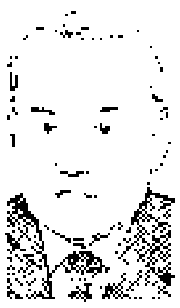
ECONOMY & POLITICS

# U.S. lawmakers voice unease over Kazakhstan

By Glenn R. Simpson And Susan Schmidt

WASHINGTON—Members of Congress expressed concern Tuesday about allegations of corruption and human-rights abuses in Kazakhstan, a strategic U.S. friend and energy producer.

At a hearing on Capitol Hill, lawmakers questioned the selection of Kazakhstan as the next leader of the Organization for Security and Cooperation in Europe, a multilateral organization devoted to European security.



*Nursultan Nazarbayev*

Kazakhstan has yet to make overhauls it promised last November when it was chosen to assume the chairmanship of the organization in 2010, said witnesses and members of Congress who recently returned from the OSCE's annual parliamentary meeting, held for the first time in Kazakhstan.

Sen. Benjamin Cardin (D., Md.) said in a written statement that "some opposition figures and journalists have been murdered or have died under suspicious circumstances." He said he found "quite sobering" President Nursultan Nazarbayev's assessment that Kazakhstan's democratization "cannot move faster than his giant neighbors Russia and China."

Rep. G.K. Butterfield (D., N.C.) said he was troubled by "very serious allegations" of corruption by Kazakhstan's president reported Tuesday in The Wall Street Journal.

The Journal reported new allegations of government corruption in the oil-rich nation that could further complicate its relations with the U.S. and the West. The former son-in-law of Mr. Nazarbayev, in hiding in Europe after being convicted in Kazakhstan of kidnapping and a plot to overthrow the government, said Mr. Nazarbayev has diverted billions of dollars in state assets to a network of offshore bank accounts.

The son-in-law, Rakhat Aliyev, once his country's deputy intelligence chief, also told the Journal that the Nazarbayev regime routinely rigged elections. He provided a handful of blank ballots he said were left over from ballot box stuffing during 1999 elections.

In an interview after the hearing, Rep. Butterfield said "the allegations are serious enough that we have got to look into it....We owe it to American companies doing business in Kazakhstan for them to know the truth."

The Kazakh government declined to comment on the allegations by Mr. Aliyev. "I have nothing," Askar Tazhiev, the embassy's chargé d'affairs said in an interview, adding he hadn't yet read the article.

Mr. Tazhiev said his country is essentially a one-party state and that the government is still seeking to address the issue, possibly by designating an opposition faction in its Parliament.

Mr. Nazarbayev's re-election with 91% of the vote in late 2005 prompted complaints of vote fraud. The Nur-Otan party, which supports Mr. Nazarbayev, won all 98 contested seats in a parliamentary election last August. Kazakhstan's pledges to institute overhauls haven't gotten off the ground, according to recent reports from the State Department and an independent human rights group, Freedom House.

At the hearing, which was convened by the Helsinki Commission, a U.S. agency that oversees relations with the European security group, Assistant Secretary of State Richard Boucher said political and economic overhauls are needed in Kazakhstan. "That is the only way to get away from corruption," he said.

# U.S. data sharing lags

## *Assessment varies on progress in steps to fight terrorism*

By Siobhan Gorman

WASHINGTON—Nearly seven years since the Sept. 11, 2001, terrorist attacks, the U.S. government still can't effectively measure whether it has made progress in information-sharing, according to a new government report.

The Government Accountability Office report, which was released Wednesday, underscores the difficulties the government has had in getting data-sharing practices to take root in federal departments. That raises questions about whether these efforts will survive into a new administration.

Failure among government agencies to share information is widely seen as one reason why the U.S. wasn't able to learn of plans for, and ultimately foil, the 2001 attacks.

A three-year-old information-sharing office created by Congress has instituted some programs to improve data dissemination, but it can't show how those activities are preventing terrorism, the report says. A central challenge to many counterterrorism efforts is measuring threats that have been thwarted or prevented.

The GAO also found that the government lacks a "road map" showing what results will be achieved and how, according to the report, a copy of which was seen by The Wall Street Journal.

In prepared testimony delivered before Congress on Wednesday, Eileen Larence, GAO's director of homeland security, was expected to say that such gaps need to be addressed "to provide Congress and the public reassurance that the flaws leading to 9/11 have been or are being corrected."

Her testimony will be part of a hearing by the Senate Homeland Security and Governmental Affairs Committee to assess government information-sharing. Committee Chairman Sen. Joseph I. Lieberman, a Connecticut independent, said the report shows that "federal agencies are working more collaboratively every day" but that they "still have much more to do" to ensure that key data are regularly shared.

Ambassador Thomas McNamara, head of the information-sharing office, formally called the Information Sharing Environment, was expected to defend his group's work. In his prepared testimony, he says "considerable progress has been achieved" in his two-year tenure. He acknowledged that information-sharing within the government "is functioning albeit haltingly and not at all in many areas" but added that "we have laid the basis for a fully functioning" effort in the future, according to his testimony.

John Cohen, a senior adviser to Mr. McNamara, said a number of measurements suggest that the government has improved information-sharing. These include the 250 Homeland Security Department and Federal Bureau of Investigation officials who work at 48 state "fusion centers" helping with terrorism information analysis at the state and local levels. These centers now have access to information from the National Counterterrorism Center, he said.

But he acknowledged that such measurements don't show whether the right information is being shared to help prevent terrorism. "The next step is working to determine: How do you know that the capabilities you've put in place are making a difference?" he said. "That's where we are focusing right now."

To achieve that goal, his office has set up programs such as one launched recently to have state and local officials collect possible terrorism-activity tips from police, vet the information in accordance with local privacy laws, and funnel legitimate tips to Washington.

That program was launched after the GAO completed much of its research for the report, he said. The program's first several weeks have already had some promising outcomes, with police officers identifying possible terrorist suspects during routine traffic checks. He declined to provide additional details.

Mr. Cohen disputed the GAO finding that the government doesn't have a road map. He said the goal has been to improve information-sharing with state and local officials, the private sector and foreign governments.

# Gates, Bloomberg to invest in antismoking programs

By Robert A. Guth

The Bill and Melinda Gates Foundation and New York Mayor Michael Bloomberg said they will invest $500 million in antismoking programs in developing countries, building on a continuing effort by Mr. Bloomberg to end what he called on Wednesday "the global tobacco epidemic."

*Bill Gates*

The effort gives Mr. Bloomberg a powerful ally in his long-term quest to fight tobacco that started in 2002 in New York City. That effort—which includes smoking bans in restaurants and workplaces—has led to 300,000 fewer smokers in New York City than there were in 2006, Mr. Bloomberg said at an announcement of the funding in Manhattan.

Success in New York "helped convince me to take on the global initiative," Mr. Bloomberg said.

Under the plan, Mr. Bloomberg's philanthropy over the next four years will increase by $250 million his earlier pledge of $125 million to fund antismoking and tobacco-control efforts world-wide.

The Gates Foundation said it will spend $125 million on similar efforts over the next five years, with $24 million of that going into Mr. Bloomberg's three-year-old antismoking program, the Initiative to Reduce Tobacco Use.

The funds will be used to promote tobacco-control programs, including media and education campaigns, as well as programs to help people quit smoking and efforts to promote higher taxes on tobacco products.

The new funding follows a report earlier this year by the World Health Organization—partially funded by Mr. Bloomberg—detailing the dangers of smoking that called on governments around the world to step up tobacco-control efforts. The pledge is the Gates Foundation's first funding of antismoking programs, and fits into its broader global-health programs.

*—Betsy McKay contributed to this article.*

## ECONOMY & POLITICS

# India bribe claim detailed

### *Opposition party goes on the offensive; corruption common*

BY NIRAJ SHETH
AND JACKIE RANGE

NEW DELHI—Fresh from a defeat in a confidence vote in Parliament Tuesday, India's opposition is staying on the offensive by detailing allegations of bribery against the government, in a familiar ritual of Indian political life.

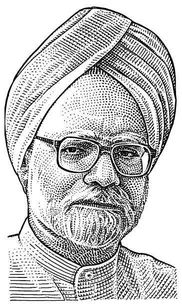
Three legislators from the conservative Bharatiya Janata Party—India's largest opposition group, with roots in Hindu nationalism—accuse the ruling Congress Party-led coalition and its allies of offering a total of about $2.25 million in exchange for abstentions in the vote. They allege the bribe was made over a series of meetings and phone calls Monday and Tuesday.

The allegations were aired on the Parliament floor Tuesday when the three members waved stacks of Indian rupees around on live television, claiming the cash was a down payment on a larger bribe. Officials of the government and its parliamentary allies have vehemently denied the allegations, saying they were fabricated to distract from the government's victory.

The government Tuesday survived the confidence vote, spurred by oppostion to a nuclear-energy deal with the U.S., by a 275-256 margin, with 10 abstentions.

However sensational the bribery allegations—and whether or not there is any truth to them—they are neither surprising nor unique. Corruption in the body politic is pervasive in the world's largest democracy, at the local, state and national executive and legislative levels. Anupama Jha, executive director of Transparency International India, an anticorruption watchdog, said corruption is so rampant "it has almost become a way of life."

Among other measures, Transparency International is calling for the introduction of a federal ombudsman with the authority to probe charges of corruption, abuses of authority and accumulation of illicit wealth for government officials and would-be politicians.



*Amar Singh*

Popular reaction was mixed as to whether the allegations were surprising, but embarrassment was a common response. Sabrina Bowen, an assistant general manager at the Hindustan Times, based in Mumbai, said, "India has been made a laughingstock in front of the world. Our government is our identity, and if your identity is clouded, it is a shame."

The BJP members claim that Amar Singh, leader of the Samajwadi party, a key Congress ally, made the offer to some BJP legislators at his residence Tuesday morning and delivered a down payment of about $250,000 in cash in bags later that afternoon. They also claim senior Congress official Ahmed Patel confirmed the bribe with them over the phone. Mr. Patel is political secretary to Congress President Sonia Gandhi.

The three BJP members say they invited the television station CNN-IBN to record meetings between legislators in which the three say the alleged bribe was offered. CNN-IBN says it did reporting on the matter but wouldn't air any recordings until it could further investigate the allegations. The speaker of Parliament has promised to conduct an investigation into the matter.

Mr. Singh and Mr. Patel forcefully denied the allegations. Mr. Patel said Tuesday he was ready to resign from public life if anyone proved he paid money to any BJP party members to abstain. Calls Wednesday to Mr. Patel's office were not returned, while Mr. Singh was unavailable for comment, according to a Samajwadi party representative.

Graft and accusations of graft are a staple of Indian politics. Three years ago, the Indian Parliament expelled 11 members for accepting bribes. In 2001, a magazine sting exposed a senior BJP leader accepting a bribe of about $2,500 from the magazine's reporters.

*—Vibhuti Agarwal contributed to this article.*

# Housing deal gets Bush's blessing

BY MICHAEL R. CRITTENDEN
AND DAMIAN PALETTA

WASHINGTON—U.S. President George W. Bush dropped his opposition to lawmakers' most aggressive effort to address the housing crisis, all but guaranteeing enactment of help for Fannie Mae and Freddie Mac and allowing the government to insure as much as $300 billion in refinanced mortgages.

White House press secretary Dana Perino announced Mr. Bush's switch in a conference call with reporters. "We believe this is not the time for a prolonged veto fight but we are confident the president would prevail in one," she said.

It was a dramatic split for Mr. Bush and congressional Republicans, many of whom are angrily opposed to the housing legislation, which they call a handout for irresponsible homeowners and unscrupulous lenders.

At a closed-door meeting Wednesday, House Republicans denounced the plan, although it is clear they don't have enough votes to prevent it from becoming law.

Rep. John Boehner, the House minority leader, told colleagues that he would "vote against this bailout bill, and that taxpayers deserve a lot better than this," according to a senior Republican aide.

The House was expected to approve the bill Wednesday, and the Senate may follow later this week.

The bill started as a relatively modest attempt to help struggling homeowners, but has since morphed into a sprawling piece of legislation.

It is the most expansive and potentially most expensive effort the government has put together to address the housing crisis and the broader financial contagion.

One of the most significant provisions—sparked by the recent crisis—will provide an explicit federal backstop for Fannie and Freddie. It will also significantly beef up oversight of the two publicly traded, government-chartered companies, which own or guarantee $5.2 trillion of U.S. home mortgages, or nearly half the total outstanding.

But the bill does much more than that, containing tax breaks for first-time home buyers, federal insurance for struggling homeowners and grants for states to buy foreclosed homes.

Treasury Secretary Henry Paulson said it was easy for him to recommend that the president support the legislation despite some disappointing points contained within it.

Mr. Paulson called the legislation "very important to the capital markets broadly and to confidence" in Fannie and Freddie. He said it is key to helping the U.S. turn a corner in the housing crisis. On Tuesday in a speech in New York, the Treasury secretary said he would rather not have to ask for extraordinary authorities to support the mortgage companies, "but I am playing the hand that I have been dealt."

The nonpartisan Congressional Budget Office said Tuesday that a temporary measure to prop up Fannie Mae and Freddie Mac could cost the government as much as $25 billion. Lawmakers also plan to include a $4 billion program that would allow local governments to buy and rehabilitate foreclosed properties.

"Nobody in America will agree with everything that is in this bill, but I think enough people in America will find it acceptable, so it will go to the president's desk to be signed," House Financial Services Committee Chairman Barney Frank (D., Mass.) said.

Senate Banking Committee Chairman Christopher Dodd (D., Conn.) and Sen. Richard Shelby (R., Ala.) issued a joint statement saying they were "optimistic about the prospects for this legislation."

The deal includes several compromises. It would allow Fannie and Freddie to purchase loans of as much as $625,000 in high-cost areas of the country, a lower number than many House Democrats wanted but higher than some Senate lawmakers originally envisioned. It would also give the new regulator for Fannie and Freddie more control over the compensation packages received by top executives at either housing-finance giant, an unusual mark of government control over a publicly traded company.

The exposure of Fannie Mae and Freddie Mac to the housing market's downturn has triggered fears about their solvency. Their stock prices plummeted this month before leveling off after Treasury and Federal Reserve officials announced a series of measures to keep the companies running if their positions worsened, a plan this legislation would endorse.

The $25 billion cost estimate from the CBO for the rescue plan was played down by Democratic and Republican lawmakers. "Everyone knows it's just a wild guess," said Sen. Jim DeMint, (R., S.C.). He called the plan a "huge gamble," but added that, "it's kind of: Guarantee a little now or pay a whole lot later."

*—The Associated Press, Maya Jackson Randall, Sarah Lueck and James R. Hagerty contributed to this article.*

AFP

**Chinese paramilitary policeman** line up at a military parade rehearsal outside Beijing's Olympic Stadium, known as the 'Bird's Nest.'

# China plans to designate protest zones for Games

BY MEI FONG
AND SHAI OSTER

BEIJING—China, which has cracked down on political dissent ahead of the Olympics and promised to deal harshly with illegal demonstrations, is taking the highly unusual step of setting aside space in three Beijing parks for protests during the Games.

The creation of designated protest areas was announced Wednesday. One of the parks that will have a protest spot is in the city's main diplomatic area. Another is in the university district near some Games venues, but away from the main stadiums.

"Chinese law protects legal assembly," Liu Shaowu, the security chief of the Beijing Olympic Organizing Committee, said during a news conference.

It remains unclear how much freedom any would-be demonstrators will actually have, as Chinese law requires anyone who wants to stage a protest to first receive a government permit. Few Chinese citizens go through the process.

Beijing Games officials said they didn't know if demonstrators in the designated protest areas would also need permits and referred questions to the city government and police. Neither responded to requests for comment.

Human-rights advocates complained that the protest areas are too far away from Olympic venues. They said people with real grievances likely would be too intimidated to show up.

"It's a fig leaf," said Nicholas Bequelin, China research director for the New York-based activist group Human Rights Watch. He said the move appeared designed to allow China and the International Olympic Committee "to pretend they respect rights to demonstrate when in fact they don't."

Beijing's decision to set aside protest spots came after prodding from the IOC. Giselle Davies, an IOC spokeswoman said in an email that "the Chinese authorities were encouraged to" find "ways to manage any protests."

Also Wednesday, human-rights groups said Chinese authorities arrested or detained several activists. Shanghai lawyer Zheng Enchong was taken away by public-security officers and had his home searched, according to China Human Rights Lawyers Concern Group. Mr. Zheng is helping evictees in Shanghai and had complained last month authorities were warning petitioners to stay away from Beijing during the Olympics.

Internet dissident Du Daobin also was arrested for violating his probation terms, said Reporters Without Borders. Mr. Du was jailed for subversion for writing online essays in support of other dissidents. He is the third Internet dissident to be imprisoned in the run-up to the Games, said the Paris-based group.

China's leadership this year has faced a wave of occasionally violent antigovernment protests across Tibetan areas in western China. There also have been antigovernment demonstrations among Turkic-speaking Muslims in the northwest. In addition, China's government has faced criticism from foreign human-rights activists on everything from its treatment of its own people to its support for unpopular governments in Sudan, Myanmar and North Korea.

Large and raucous pro-Tibet demonstrations marred parts of the international Olympic torch relay in Europe and the U.S., and Chinese officials are determined not to allow similar disruptions of the Games.

Last week, Beijing organizers said spectators would be barred from bringing banners, flags and posters with messages of a religious or political nature into Games sites. Even banners saying such things as "Go China," won't be allowed, according to a report by state-run Xinhua news agency.

The rules prohibit flags of nonparticipants in the Games—which would preclude any for Tibet. Similar rules will apply even in Hong Kong, which is hosting the Olympic equestrian events and traditionally enjoys greater political freedoms than mainland China.

These rules appear to be a relatively narrow interpretation of Article 51 of the Olympic Charter, which prohibits "political, religious or racist propaganda" in Olympic venues.

"I think the Games have moved from a coming-out party to a hunkering-down," said Russell Leigh Moses, a Beijing-based professor for Chinese studies.

He added, "The real question for China is, what happens after the Games? Do the Games represent a turning point? I doubt it. I think we've seen the real face of the regime, and that is a government interested in self-celebration."

But some analysts are cautiously optimistic. Xu Zhiyong, a law lecturer at the Beijing University of Posts and Telecommunications, said plans to allow even limited protests could be a promising sign.

*—Sky Canaves contributed to this article.*