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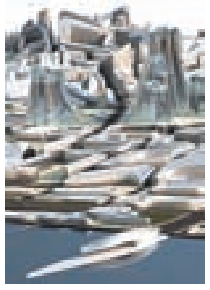

The development of the superstar urban plan

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Dutch cartoonist's arrest stirs a free-speech debate

NEWS IN DEPTH | PAGES 12-13

TNK-BP turmoil deepens as its CEO leaves Russia

Harassment is cited as Dudley departs for unknown location

By Guy Chazan

LONDON—Robert Dudley, head of **BP** PLC's Russian joint venture **TNK-BP** Ltd, abandoned Russia Thursday after what he called "sustained harassment of the company and myself," marking a key defeat for BP in its struggle with Russian partners for control of the venture.

Mr. Dudley left for an undisclosed location after Russian authorities refused to issue him a new work visa. His move could mean that BP loses control of a company that accounts for a quarter of its oil production and 19% of its reserves.

For months, Mr. Dudley and TNK-BP have faced a barrage of investigations and proceedings amid a shareholder dispute that has threatened at times to paralyze the venture, Russia's No. 3 oil producer.

His departure will dismay Western businessmen and governments who had watched the dispute for signs of the direction Russia was moving under Dmitry Medvedev, the new president, who has said he wants to improve the rule of law in Russia, especially for business. The fate of BP's landmark Russian ven-

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Reuters

Sen. **Barack Obama**'s speech before a huge crowd in Berlin Thursday was part of his bid to reassure skeptical U.S. voters of his ability to lead and to offer a new direction.

Obama vows to renew U.S.-European alliances

By Jay Solomon And Mike Esterl

BERLIN—Sen. Barack Obama, seeking to burnish his image as a global statesman ahead of the U.S. presidential election, made an impassioned call for rejuvenated U.S.-European ties in a speech before an estimated 200,000 Germans in this city's historic downtown Tiergarten.

The Democrats' likely nominee drew on Washington's historic role in rebuilding post-World War II Berlin to call for an enhanced U.S.-European alliance to combat everything from a resurgent Taliban in Afghanistan to the spread of nuclear weapons.

The Illinois lawmaker also sought to heal the trans-Atlantic rift fueled by President George W. Bush's 2003 invasion of Iraq by pledging a more humble and engaged American administration should he be elected in November.

"I know my country has not perfected itself. At times, we've struggled to keep the promise of liberty and equality for all of our people," Sen. Obama said, the words generating perhaps the loudest applause during his 25-minute address. "But I also know how much I love America....What has always united us...is a set of ideals that speak to aspirations shared by all people."

Sen. Obama's speech, however, also hinted at some of the divisions that will likely continue to hinder U.S.-European relations, even if as president he pursues a more concil-

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World's poor find champion at trade talks

By John W. Miller

GENEVA—This week's summit talks at the World Trade Organization aimed at securing a new global trade deal are turning into a bad-tempered marathon, with one man emerging as the pivotal figure: India's commerce and industry minister, Kamal Nath.

In negotiations that ran to 3:30 a.m. Thursday and resumed in the evening, Mr. Nath spoke for all the world's developing countries, from the tiger economies of Asia to the poorest in Africa. His role as the key to closing a deal in the so-called Doha Round of trade talks reflects the changing balance of power at the WTO, and in the global economy as a whole, trade officials say.

In an interview with a small group of reporters Thursday, Mr. Nath said poorer countries need to be able to use tariffs to protect nascent industries, like India's fledgling car sector, and key food products. At the same time, he is demanding more cuts in U.S. farm subsidies.

U.S. President George W. Bush asked Indian Prime Minister Manmo-

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What's News—

Business & Finance

TNK-BP'S CEO left Russia and will run the oil company from abroad, saying 'harassment' by the authorities forced him to go. Dudley's departure marks a win for BP's Russian partners in the battle for control of the joint venture. Page 1

■ **An Indian official is pressing** developing nations' demands in difficult WTO trade negotiations, reflecting a changing balance of power at the world body. Page 1

■ **Électricité de France** was close to a deal to acquire British Energy, in a move that could exceed $23.6 billion. Page 3

■ **Europe's economy is falling** rapidly and at greater risk of a recession this year, hampering ECB policy efforts as inflation also appears to persist. Page 2

■ **Oil prices' recent retreat** takes pressure off the Fed to raise rates, even as the inflation debate heats up. Page 9

■ **The Dow Jones industrials** shed more than 200 points as investors reacted to data on the housing sector and the job market. European shares fell, led by mining and autos. Page 16

■ **Two UBS AG units** are being sued by New York Attorney General Cuomo for falsely selling auction-rate securities as safe and liquid deals. Page 15

■ **Ford reported** an $8.7 billion loss for the second quarter and outlined a plan to to make more small cars. Page 4

■ **Daimler issued** a profit warning for the year as falling demand and rising raw-material costs ensnare the premium-auto sector. Page 4

■ **Renault's profit rose 12%** in the first half, helped by cost cuts. The French auto maker plans cuts in jobs and spending to achieve targets. Page 4

■ **Credit Suisse posted** a 62% fall in second-quarter net, but the results improved from a first-quarter loss. Page 20

■ **Eli Lilly and Bristol-Myers** reported higher profits. Page 5

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11349.28	-283.10	-2.43
Nasdaq	2280.11	-45.77	-1.97
DJ Stoxx 600	282.21	-4.56	-1.59
FTSE 100	5362.3	-87.6	-1.61
DAX	6440.70	-95.39	-1.46
CAC 40	4347.99	-60.75	-1.38
Euro	$1.5673	-0.0032	-0.20
Nymex crude	$125.49	+1.05	+0.84

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World-Wide

Sen. Obama made an impassioned call in Berlin for an enhanced U.S.-European alliance, and was cheered by tens of thousands in the city's historic downtown Tiergarten as he pledged a more humble and engaged America should he be elected U.S. president. Page 1

■ **An Israeli panel** approved a new West Bank settlement, infuriating Palestinians. It needs approval from Barak and Olmert.

■ **Iran signaled** it will no longer cooperate with the U.N. nuclear agency investigating for signs of nuclear-weapons programs.

■ **The U.S. is providing** 5,000 more visas per year and expanding eligibility for Iraqis who have put themselves at risk by working for the U.S. government.

■ **The IOC banned** Iraqi athletes from the Beijing Games because of government interference in sport. Four athletes had been expected to compete.

■ **Chinese officials said** they broke up a terrorist cell plotting attacks in Shanghai, which will host Olympic football. Page 9

■ **Turkey's highest court** will begin deliberations Monday on whether to dissolve the ruling party on charges of mixing Islam with politics. Page 2

■ **Dozens of insurgents** were killed in southern Afghanistan, a Taliban stronghold, after they attacked a military convoy.

■ **Libya halted** oil deliveries to Switzerland and barred Swiss ships from its ports to protest the arrest of Gadhafi's son.

■ **France took a step** toward ending the 35-hour workweek, giving companies more leeway to negotiate longer hours. Page 9

■ **Crews were cleaning up** more than 1.5 million liters of oil from the Mississippi River after the collision of a barge and tanker.

■ **House Republicans** blocked a plan to release 70 million barrels of oil from the U.S. stockpile.

■ **Serbia will reinstate** its ambassadors to the EU nations that have recognized Kosovo.

■ **The EU will join** Asian-Pacific countries in a disaster-relief exercise next year, with Asean nations agreeing to pool assets to tackle natural disasters.

Editorial & Opinion

Planet of the apes

Denying man's inherent dignity leads to the destruction of 'undesirable' life. Page 10

THE WALL STREET JOURNAL.

LEADING THE NEWS

Euro-zone data indicate greater risk of recession

BY JOELLEN PERRY

FRANKFURT—Further sharp falls in euro-zone business-activity and -confidence surveys Thursday raised the risk the bloc will face a recession this year, deepening the gloom in Europe and compounding the challenge for European Central Bank monetary-policy makers because inflation appears to be persisting as well.

A bevy of data confirmed that the 15-nation euro zone's $12.2 trillion economy, the world's largest combined economy after the U.S., is deteriorating rapidly amid high commodity costs, slowing global demand and the strong euro.

A key survey of purchasing managers at 5,000 euro-zone firms showed that activity contracted for the second month in a row, hitting its lowest level since November 2001. The RBS/Markit survey, which measures indicators such as new orders and output in the manufacturing and service sectors, slipped to 47.8 points from June's 49.3, further below the 50-point threshold separating expansion from contraction.

Business confidence in the bloc's three biggest economies also fell to multiyear lows. Gloomy assessments of current and future business conditions brought Germany's Ifo index, a survey of some 7,000 companies in Europe's largest economy, down to 97.5 points in July from 101.2 in June, marking the lowest level since September 2005. Slower orders and rising prices pushed France's Insee business-climate index to a three-year low. Italy's ISAE index hit its lowest level since October 2001.

"The risks of both a technical recession and a more protracted slowdown are rising," said Jacques Cailloux, an economist with the Royal Bank of Scotland in London, noting that Thursday's figures made a third-quarter contraction in the euro-zone economy more likely. Most economists already believe the bloc's economy contracted in the second quarter.

The euro fell to a two-week low of $1.5637 against the dollar after the data, as analysts pared back expectations the ECB might raise its key rate this year. Higher interest rates can attract investors to a currency. Financial markets still believe the ECB will raise its key rate a quarter point to 4.5% by February 2009, but most economists think policy makers will stay on hold at 4.25% this year before cutting next year as growth slows.

Other data Thursday compounded the pessimism. Spain's unemployment rate rose to a three-year high of 10.4% in the second quarter, as the country's housing-dependent economy struggles with a real-estate bust. The euro-zone purchasing managers' survey also showed that firms cut staffing levels for the first time in three years.

CORRECTIONS & AMPLIFICATIONS

An investment company linked to Russian billionaire Dmitry Rybolovlev paid $95 million for an estate owned by Donald Trump in Palm Beach, Fla., according to the deed recorded July 16 by Palm Beach County. A July 11 News in Depth article about Russians buying U.S. houses said Mr. Rybolovlev was paying nearly $100 million.

Turkey party trial nears

Court's deliberations may lead to banning of governing group

BY FARNAZ FASSIHI

Associated Press

The party of Turkish Prime Minister Tayyip Erdogan **could be banned**.

ISTANBUL—Starting Monday, Turkey's highest judicial branch, the Constitutional Court, will begin deliberation on whether to shut down the popular ruling Justice and Development Party, or AKP, on charges of mixing Islam with politics.

The verdict, expected in early August, could conceivably dissolve the party and ban 71 members, including its top leaders, Prime Minister Recep Tayyip Erdogan and President Abdullah Gul, from politics for as long as five years.

Analysts here say such a move could plunge Turkey into uncertainty, hinder its emerging market and booming economy and force early parliamentary elections in spring.

"It's very sad because we thought we had nurtured a modest relationship between the pious Muslims and seculars and now it's becoming undone," says Hakan Altinay, executive director of Open Society Institute Assistance Foundation in Turkey.

The current political crisis is rooted in a power struggle between a populist, elected government, with leanings toward political Islam and conservative views, and an elitist opposition that includes the judiciary and military and is vehemently secular.

Both sides express deep mistrust for the other and accuse each other of masking true intentions: the government contends that the coming court ruling is an unfounded judicial coup aimed at deposing its leaders from power; the opposition contends that the AKP has a hidden agenda to turn Turkey into an Islamic republic.

Tensions came to a head in February when the government sponsored a constitutional amendment that would lift a headscarf ban at universities. Turkey's chief prosecutor filed an indictment in March asking the Constitutional Court to ban AKP on the basis of threatening the republic's secular laws.

Last month, the court upheld the headscarf ban, delivering a blow to the government and the same panel of judges now will decide the fate of the party. Seven of the eleven panel members must vote in favor of the ban for it to hold. While Turkey has a history of banning political parties—more than 20 have been outlawed, many of them affiliated with Kurds and Islamists—it has never targeted a governing party.

AKP swept into power with 47% of votes a year ago and now has 341 seats of the 550-seat Parliament. In the most likely scenario, an interim caretaker government would run the country until new parliamentary elections are held in spring. If the party is outlawed, Parliament members affiliated with AKP would automatically become independent and could regroup under a new banner and form a party and run for office again. Mr. Erdogan could run as an independent candidate and get reappointed as prime minister.

"There is great solidarity in the party. We will immediately form a new party and all of us will join and we'd still constitute the largest bloc in Parliament. So what will this achieve other than to waste a lot of time?" said Suat Kiniklioglu, an AKP member of Parliament in a telephone interview from Ankara.

Other possible outcomes of the Constitutional Court verdict include a dismissal of the case altogether; a ban on party officials such as Mr. Erdogan without outlawing the entire party or just a financial penalty.

INDEX TO BUSINESSES

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

INDEX TO PEOPLE

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

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

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FROM PAGE ONE

TNK-BP's CEO leaves Russia amid conflict

Continued from first page
ture was seen as a litmus test.

Lord Robertson, a former British defense minister and TNK-BP board member, blasted the Russian shareholders for what he called a "focused campaign of harassment" that appeared to have supporters within the government. The Russian shareholders dismissed BP's claim that they have orchestrated the administrative pressure.

Speaking to foreign-policy analysts and diplomats at the Nixon Center in Washington, Mr. Robertson said he was "mystified" the Russian government "cannot see that these shareholders' actions are inimical to Russia's national security." British Prime Minister Gordon Brown and European Union officials have repeatedly raised concerns about the brawl in discussions with Russian officials, yet these have failed to lift the pressure on TNK-BP.

In an interview, Tony Hayward, BP's chief executive, denied the dispute threatened the British oil major's presence in Russia, the world's second-largest oil exporter after Saudi Arabia, and a key focus of BP's operations. "I don't think this is the end of BP's investment in Russia," he said. "[But] it does signal that we have entered a new phase in the conflict between BP and AAR with respect to the control and future direction of TNK-BP."

This latest twist is a victory for AAR, the consortium grouping together the Russian shareholders in TNK-BP, who have long sought Mr. Dudley's dismissal. In a statement, the company's CEO said he was leaving Russia only temporarily and would continue to run TNK-BP from outside the country. He said he had been advised such a scenario was "both lawful and better for all shareholders than the alternatives," adding that he hoped administrative pressure on TNK-BP would now ease. BP said Mr. Dudley continued to have the company's full backing.

There is no precedent for a Russian company being run from abroad in this way. BP said it didn't even know where Mr. Dudley had gone and acknowledged that he had made the decision to leave unilaterally. A person close to the company said it wouldn't be "feasible" for him to run TNK-BP this way for an extended period.

BP's Russian partners said Mr. Dudley's decision to run the company from abroad was a "vivid demonstration of BP's treatment of TNK-BP as a wholly owned subsidiary."

"TNK-BP is an independent oil company in which BP is not a controlling shareholder," said Mikhail Fridman, one of the Russian partners and chairman of the TNK-BP board, in a statement. He insisted that BP nominate a "new independent CEO who would be based in Moscow and manage TNK-BP in the interest of all shareholders, including minorities."

Since the conflict between BP and its Russian partners—Mr. Fridman of Alfa Group, Len Blavatnik of Access Industries and Viktor Vekselberg of Renova—blew up in the spring, dozens of TNK-BP foreign employees have been forced to leave Russia after difficulties renewing their visas. The company also has been subject to a flood of tax, police and other probes.

In the interview, Mr. Hayward said BP was considering taking legal action against AAR "where they are clearly in breach of the shareholder agreement" that established the company as a 50-50 joint venture in 2003. That included the partners' alleged actions preventing Mr. Dudley fulfilling his duties, he said, without elaborating. BP has previously accused top managers in TNK-BP of insubordination.

—Neil King Jr. in Washington contributed to this article.

In Berlin, Obama hails past in bid to enhance ties

Continued from first page
iatory line with Europe.

The massive crowd offered a muted response to Sen. Obama's call for Germany and other European nations to play a larger role in fighting the Taliban and al Qaeda along the Pakistan-Afghanistan border. Those in attendance also showed guarded enthusiasm for the candidate's call for greater European involvement in international efforts to combat Iran's nuclear program.

"He brings hope," said Manfred Brüss, a 60-year-old German who received powdered milk from American servicemen as a child in 1948. But "we Germans think we're doing enough," he added, citing the role of German peacekeepers in Kosovo, Afghanistan, Lebanon and elsewhere.

Some in the crowd said the sometimes-flat response to Sen. Obama's oratory was driven by poor acoustics and the lack of a simultaneous translation into German. Some complained that it felt like a campaign event. But most seemed thrilled to engage a politician already deemed a "superstar" in German magazines ahead of Thursday's performance.

Sen. Obama confidently walked onto a stage at the foot of Berlin's Victory Column to intermittent chants of "Obama, Obama, Obama." Some in the crowd compared the event, accompanied by vendors selling bratwurst and beer, to the music and sporting events that often take place in the Tiergarten.

"A lot of Germans think he can save us," said Andrea Loehr, a 29-year-old American studies major from Berlin. "People want to see the change."

A spokesman for the Berlin police estimated the crowd size at 200,000. That's more than twice the size of Mr. Obama's biggest rally in the U.S. to date, which was 75,000.

Germany remains tentative about dropping its post-World War II reluctance to engage in a muscular foreign policy. Its 3,500 troops in Afghanistan are based in the north of the country, away from the worst of the fighting. Polls indicate about two-thirds of Germans don't want their army in Afghanistan at all—something that German politicians are acutely aware of ahead of their own general elections next year.

Sen. Obama met with German Chancellor Angela Merkel earlier Thursday, but a spokesman for the leader would only say the encounter was "a very open and detailed discussion in a very good atmosphere." Topics included Iran, Afghanistan, Pakistan and the Middle East peace process, in addition to trade, climate, energy and the global economy, the spokesman added in an email.

Analysts and politicians in Europe also question whether Sen. Obama would be a fit when it comes to trade, where the candidate adopted a protectionist posture during the Democratic primaries. Germany's economy in particular is highly geared toward exports.

Eckhart von Klaeden, a member of Ms. Merkel's Christian Democrats on the parliamentary foreign affairs committee, described German-U.S. relations as already "very good," adding that Mr. Obama's Republican opponent, Sen. John McCain enjoys a lot of respect among his party colleagues. At the same time, he suggested it's a little early to join the public "euphoria" in Germany about Mr. Obama's candidacy. "It's wait and see," he said.

Still, polls in Europe suggest Mr. Obama is more popular than Mr. McCain, who many Europeans believe would not bring as much change to U.S. policy. The Republican candidate sought out his own German stage Thursday, at Schmidt's Restaurant und Sausage Haus in Columbus, Ohio. "Well, I'd love to give a speech in Germany...But I would much prefer to do it as president of the United States," he told reporters.

Mr. Obama will make shorter stops—and give no big public speeches—in France and the United Kingdom on Friday and Saturday. He will meet with President Sarkozy at the Elysee Palace in Paris, and the two will hold a joint news conference later in the day.

—Alistair MacDonald in London and Stacy Meichtry in Paris contributed to this article.

World's poor find champion at trade talks

Continued from first page
han Singh to compromise on trade in a phone call Thursday, another sign of the Asian nation's growing importance, U.S. officials said.

In an attempt to resolve the standoff, WTO chief Pascal Lamy is holding meetings for only seven negotiators from the 30-some attendees at the summit—the U.S., the European Union, China, Brazil, Australia, Japan and India. The EU's 27 nations negotiate trade as one.

The result on Wednesday was a 12-hour session that EU Trade Commissioner Peter Mandelson called "some of the most difficult and confrontational negotiations" of his four-year term. The reason, according to European, U.S. and Brazilian officials: Mr. Nath. "He just sat there and said 'No' for 12 straight hours," a trade official said.

"Success or failure of the Doha Round may very well lie in the hands of Kamal Nath alone," said Christopher Wenk, a director of policy at the U.S. Chamber of Commerce who is in Geneva. The talks were close to collapsing Thursday night, but still could last into next week.

Much of the 61-year-old veteran Indian politician's influence at the WTO lies in the promise of his country's economy. India's total imports have grown to $217 billion from $57 billion since the Doha Round began in 2001. The EU and U.S. business community says that in a slowing global economy, it needs access to India's growing market of a billion consumers.

The other reason for Mr. Nath's prominence is diplomatic. India recently joined the informal quartet of countries, with the U.S., the EU and Brazil, that lead trade negotiations. Previously, the U.S., the EU, Japan and Canada led discussions. The world's biggest exporter, China, chooses to keep a low profile in trade talks.

Mr. Nath is the only member of the four leading trade powers who belongs to both key groupings of developing countries: the so-called G-20 group of emerging economies, like South Africa, Argentina and Brazil, and the G-33, made up of developing nations seeking to protect their agricultural markets, including South Korea and Senegal.

On Monday, the EU improved its offer on agriculture tariff cuts to 60% from 54%. The next day, the U.S. said it would cap trade-distorting farm subsidies at $15 billion instead of $16.4 billion. Mr. Nath and Brazil's foreign minister, Celso Amorim, however, said the trans-Atlantic powers need to do more to fulfill the promise they made when they launched the Doha Round after the Sept. 11 terrorist attacks on the U.S.: to help the world's poor escape the poverty many security analysts believe creates a breeding ground for terrorist recruitment.

Doha "was meant to decrease poverty, not enhance prosperity," Mr. Nath said in the interview Thursday.

"In 2001, there was more idealism," said Adolfo Urso, Italy's top trade official at the WTO, who was at the round's inception. "Now, there are clear winners and losers, and that has fueled protectionism."

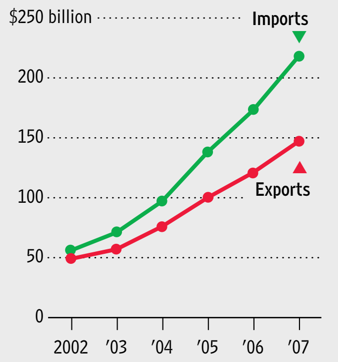
EU and U.S. diplomats say they must exact concessions from emerging economies to defuse domestic worries about trade.

That won't work for Mr. Nath. "I'm not willing to negotiate the livelihood of millions of poor people for the benefit of noncompetitive European industries," he said. "The future of automobiles is not in Detroit or Stuttgart, it's in Asia."

Mr. Nath denied he wants Doha to fail. "I'm very keen on the success of the round," he said. "The global economic outlook demands it. But not at the expense of millions of poor people."

Rising power

Indian exports and imports have risen sharply every year since 2002



Source: Global Trade Information Services

EDF is nearing accord to acquire British Energy

By Dana Cimilluca, Guy Chazan And Geraldine Amiel

Électricité de France SA Thursday was nearing an agreement to acquire U.K. nuclear-power generator **British Energy Group** PLC, in a deal that could exceed £12 billion ($23.99 billion) and end a months-long takeover saga, people familiar with the matter said.

The companies are in the final stages of discussions that could yield an agreement next week, the people said. Should a deal be reached, EDF would turn around and sell a stake of 20% to 25% in British Energy to **Centrica** PLC, the U.K.'s largest retail energy supplier, one of the people said. British Energy confirmed it is in "advanced discussions" with a party it didn't name.

The deal would be the latest in a wave of consolidation of Europe's power sector. In a separate development Thursday, Spanish gas supplier **Gas Natural SDG** SA said it was in talks to buy a majority stake in utility **Union Fenosa** SA. That deal would create one of Europe's biggest energy groups.

British Energy's share price closed up 6.2% Thursday to 728.5 pence, giving the company a market value of about £11.5 billion. A deal would value British Energy at £11.8 billion to £12.6 billion, one of the people said. The low end of that range would equate to a slight premium to the current market price, or about 745 pence.

Depending on how the deal is structured, EDF may need the approval of British Energy's minority shareholders, some of whom have indicated a price of less than 750 pence wouldn't be acceptable to them. British Energy indicated in early June it wouldn't accept less than 735 pence a share.

British Energy has been in play since March, when the U.K. government signaled it might sell its 35% stake in the company. The government is eager to raise cash and foster the development of nuclear power in the country as it seeks to reduce carbon emissions and dependence on imported fossil fuels. Nuclear power helps meet about 20% of electricity demand in the U.K.

After a flurry of early interest from a number of large European utilities, including Spain's Iberdrola SA and Germany's **RWE** AG, EDF was the only bidder to show up by a May 9 deadline. EDF plans to launch the bid following a meeting of its board on July 31, one person said. The company is scheduled to report earnings the next day.

EDF owns 58 nuclear power plants, more than any other company in the world. Britain is eager to import EDF's nuclear expertise, but the deal is politically sensitive in part because EDF is controlled by the French government. Centrica's participation is designed in part to make the deal more politically palatable in the U.K.

EDF, which already owns power-generation assets in the U.K., is mainly interested in British Energy to gain access to the sites adjacent to existing reactors that are earmarked for new nuclear construction. Centrica is interested in the output from British Energy's eight existing nuclear plants. By taking a stake in British Energy, Centrica would increase its power-generation capacity, an area in which it lags competitors such as **E.On** AG and RWE. The stake would allow Centrica to mitigate its exposure to volatile gas prices.

—James Herron and David Gauthier-Villars contributed to this article.

CORPORATE NEWS

ENERGY

E.On to take full control of its Swedish subsidiary


Associated Press

GERMAN utility **E.On** AG said it will take full ownership of Swedish subsidiary E.On Sverige in a €4.5 billion ($7.06 billion) deal with Norway's **Statkraft** AS.

E.On will acquire Statkraft's 44.6% stake in the subsidiary as well as a Swedish hydropower plant. State-owned Statkraft will get E.On shares valued at €2.18 billion and will take over dozens of E.On power plants in Europe. They include 40 hydropower and five district-heating plants in Sweden and 10 hydropower and two gas-power plants in Germany, the companies said. The deal is to be completed by year end, pending antitrust approval. *—Associated Press*

BANKING

Qatar lifts Barclays stake as part of capital raising

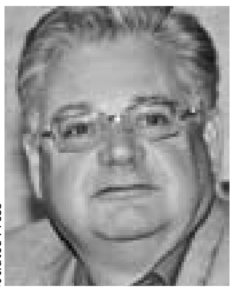
Associated Press

BARCLAYS PLC said the Qatar Investment Authority increased its stake in the U.K. bank to 6.42% as part of its involvement in Barclays's £4.5 billion ($9 billion) capital raising launched in June.

QIA, along with several Asian investors, agreed to invest in the group's rights issue, providing the bulk of the funds after the British bank said last Friday that 19% of its existing shareholders signed up to buy shares. The Barclays offer, which closed Thursday, was plagued by weakness in its own stock, as investors pounded U.K. banking stocks in recent weeks. Thursday, Barclays shares closed down four pence each, or 1.1%, at 348 pence.

INDUSTRIAL

Former Siemens manager faces a fine in funds probe


Associated Press

PROSECUTORS sought a two-year suspended sentence and a €180,000 ($282,442) fine for former **Siemens** AG manager Reinhard Siekaczek, left, over a corruption scandal at the industrial conglomerate.

Prosecutors allege that Mr. Siekaczek set up a complex network of shell corporations he used to siphon company money over several years. The money was allegedly used to secure contracts abroad.

In closing arguments at the Munich state court, the prosecutor said the defendant had contributed to clearing up the case, but that fact didn't take away from the "breaches of his obligations as a regular businessman." *—Associated Press*

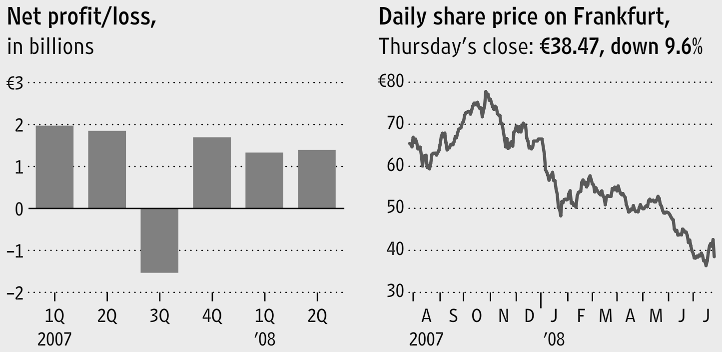
Daimler issues warning

German auto maker lowers profit outlook amid falling demand

By Edward Taylor And Christopher Rauwald

Rough road

German auto maker Daimler AG issued a profit warning Thursday, which sent shares down sharply



Sources: the company (net profit/loss); Thomson Reuters Datastream (share price)

FRANKFURT—**Daimler** AG, maker of Mercedes-Benz cars, issued a full-year profit warning Thursday as falling demand, rising raw-material costs and currency headwinds ensnare the premium-auto sector.

Daimler revised its full-year profit forecast "mostly related to markets," said Chief Executive Dieter Zetsche, as the company released its second-quarter earnings. Mr. Zetsche was referring to slumping demand for vehicles in North America and Western Europe in June and to currency headwinds such as the euro's strength against the dollar. Daimler shares fell 9.6% to end at €38.47 ($60.36) each Thursday in Frankfurt.

Daimler said it aims to achieve earnings before interest and taxes, or Ebit, from operations of "more than €7 billion" in 2008. Previously, it had expected to post earnings "significantly above" the 2007 level of €7.7 billion. The Stuttgart-based auto maker said a bigger-than-expected slump in demand for cars in North America and Western Europe last month was one of the main reasons for revising its full-year profit forecast.

Although Daimler is expected to continue posting higher-than-average margins for its cars, its profit warning came as a surprise and cast a pall over the premium-auto sector. Rival **BMW** AG is slated to release its second-quarter earnings on Aug. 5.

Thanks to continued demand outside the U.S. and Western Europe, Daimler expects total unit sales this year to surpass the 2.1 million vehicles in 2007. The auto maker said it wouldn't sacrifice profitability for the sake of volume targets and would reduce the high level of customer incentives in North America that helped prop up demand for vehicles in June. In 2007, Mercedes-Benz Cars posted €4.75 billion in Ebit. Daimler's second-quarter net profit fell 26% to €1.35 billion from €1.82 billion a year earlier. Daimler's quarterly revenue rose 6.5% to €25.38 billion.

Cost cuts boost Renault's net 12%

By David Pearson

PARIS—**Renault** SA reported a 12% increase in first-half net profit, helped by cost cuts.

The French auto maker confirmed its operating-margin forecast for this year and next despite worsening market conditions, but said achieving the targets will require it to cut jobs and reduce spending on production and research-and-development.

Chairman and Chief Executive Carlos Ghosn told reporters he is worried that auto sales in France and Germany, which have been holding up relative to markets like Spain and Italy, also may be about to nosedive. He said Renault is projecting a 4% contraction in Europe this year and doesn't see any improvement in 2009. The outlook is "mediocre," he said, "but it isn't doomsday."

Renault shares rose initially on the company's results, but reversed on Mr. Ghosn's downbeat remarks and hints that 2009 forecasts could slip. Shares ended down 3.4% at €55.90 ($87.71) in a broadly weaker Paris market.

Net profit rose to €1.44 billion from €1.28 billion a year earlier. Revenue rose 1.8% to €20.94 billion from €20.56 billion, on a 4.3% increase in vehicle sales.

The company's operating margin rose to 4.1% of sales from 3.5% a year earlier. Renault said it remains on track to achieve its target of a 4.5% operating margin this year and 6% in 2009, although the worsening economic climate makes this more "difficult to attain."

Mr. Ghosn said Renault's plan to preserve competitiveness is necessary due to the deterioration in the macroeconomic environment that is worse than anything the company had contemplated when it unveiled its turnaround plan two years ago. Like other car makers, Renault is being battered by rising oil and raw-materials prices, unfavorable currency movements, the financial crisis and slowing demand for autos.

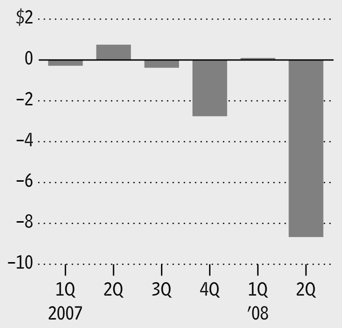
The company's plan calls for a 10% cut in corporate overheads through voluntary layoffs, chiefly in Europe.

Ford to bet on small cars after an $8.7 billion loss

By Matthew Dolan And Jeff Bennett

Ford Motor

Net income/loss, in billions



Source: the company

DETROIT—Slammed by high gas prices and a steep drop in truck sales, **Ford Motor** Co. reported an $8.7 billion loss for the second quarter and outlined a plan to reorient its North American operations to make far more small cars than it has in the past.

The bulk of Ford's loss, its worst quarterly setback to date, stemmed from $5.3 billion in noncash charges reflecting the drop in value of plants and equipment for making trucks. It took an additional $2.1 billion in write-downs for unprofitable auto leases made by its credit arm.

Ford outlined a plan to retool three truck plants to make small cars that it now makes and sells in Europe. By 2011, the company expects to produce six European cars in U.S. plants. The move is a bid to win over Americans who are turning their backs on pickup trucks and sport-utility vehicles and flocking to fuel-efficient cars.

The bet that small cars can save a company whose business has long been based on trucks is a gamble that raises two big questions: Will Ford have enough cash to keep going until the new European models arrive, and will it sell enough of those vehicles to make healthy profits?

Liquidity is a critical issue. In the first half of the year, Ford used up $8 billion in cash, leaving its cash reserves at $26.6 billion. In an interview, Ford Chief Financial Officer Don Leclair said overhauling a single truck plant could cost $250 million, but added he is confident the company will have enough money to carry out its strategy. About $4.5 billion of the cash Ford used so far this year represented a one-time payment to a trust fund that the United Auto Workers will manage and use to cover the cost of retiree health care. Ford also paid $1.6 billion to its credit arm, and expects those payments to decline in the future, Mr. Leclair said.

Chief Executive Alan Mulally said Ford is confident its small European cars will sell well in the U.S., even though past efforts to bring European models to America have flopped. "We have dynamite cars and [small SUVs]" in Europe, he said. "And we make a reasonable return on them."

Revenue fell 13% to $38.6 billion, from $44.2 billion a year earlier. Ford also posted an operating loss from continuing operations of $1.4 billion compared with a net profit of $258 million a year earlier. The deterioration stemmed largely from weakness in its North American auto business, which posted a pretax loss of $1.3 billion. Though Wall Street analysts had generally predicted a smaller loss, most expressed cautious optimism that Ford appeared pointed in the right direction and may be moving faster than **General Motors** Corp. to meet shifting consumer demand.

"They have been quicker to evolve their product strategy toward cars," said Brian A. Johnson, an auto analyst with Lehman Brothers Inc. Mr. Mulally has been "using this crisis to drive cultural transformation further," Mr. Johnson added.

In an interview, Mr. Mulally said Ford may pursue strategic partnerships in the future to increase the number of hybrids it can bring to market.

Outside of North America, Ford continued to show profits. Pretax profit at its European business rose to $582 million, from $262 million a year earlier, as revenue increased to $11.5 billion from $9.2 billion. Ford South America had a profit of $388 million, versus $255 million, while Asia Pacific Africa showed profit of $50 million, up from $26 million. The Ford Motor Credit business reported a pretax loss of $334 million, compared with a profit of $105 million a year earlier.

CORPORATE NEWS

Profits rise at Lilly, Bristol-Myers

Sales gains, cost cuts aid U.S. drug firms; weak dollar helps too

BY PETER LOFTUS

Eli Lilly & Co. and **Bristol-Myers Squibb** Co. reported improved second-quarter profits, helped by increased sales of drugs that treat cancer, mental illness and cardiovascular disease.

The U.S. drug makers' results also were bolstered by cost cuts and favorable currency-exchange rates—trends that are aiding profits throughout the industry at a time when large pharmaceutical companies are under pressure from generic competition and other challenges. Bristol-Myers disclosed plans for additional cost savings in coming years.

In late-afternoon New York Stock Exchange composite trading, Lilly's shares were up 43 cents at $48.05, while Bristol-Myers shares rose 31 cents, or 1.4%, ato $22.20.

Both Lilly and Bristol-Myers face patent expirations for top drugs in coming years, including Lilly's antipsychotic Zyprexa and Bristol-Myers's antiblood-clotting drug Plavix.

To offset the expected loss in revenue from generic competition for these products, both companies are developing drugs they hope will become big sellers. Lilly is awaiting word from U.S. regulators on an experimental heart drug, prasugrel, which it is developing with Japan's **Daiichi Sankyo** Co. Lilly executives said Thursday they continue to expect the Food and Drug Administration to make a decision by late September.

Bristol-Myers disclosed this week that it has applied for U.S. and European regulatory approvals of an experimental diabetes drug, saxagliptin, which it is developing with **AstraZeneca** PLC. Regulatory decisions are likely next year.

The companies' research efforts are inherently risky, as illustrated by Lilly's disclosure Thursday that it halted development of an experimental antiblood-clotting drug known as a factor Xa inhibitor. Lilly cited toxicity findings in animal studies; the drug had been in early stages of human testing.

Indianapolis-based Lilly reported net income of $958.8 million, or 88 cents a share, up 44% from $663.6 million, or 61 cents, a year earlier.

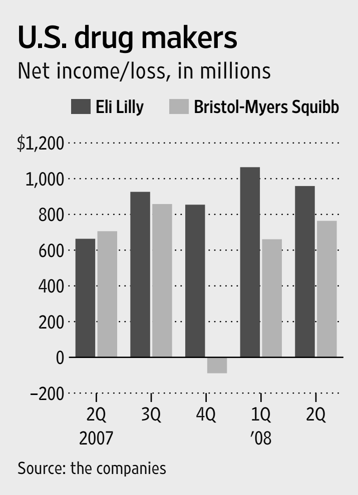
Goldman Sachs said Lilly's revenue was lower than the firm's expectations, while research-and-development spending was higher than expected. Also, Lilly boosted spending in preparation for the market launch of prasugrel.

Lilly's second-quarter sales rose 11% to $5.15 billion from $4.63 billion a year earlier. The weak U.S. dollar contributed about six percentage points of the sales growth.

Sales for Lilly's blockbuster antipsychotic Zyprexa rose 2% to $1.24 billion. U.S. sales of the drug were flat, while sales outside the U.S. rose 4%.

New York-based Bristol-Myers reported net income of $764 million, or 38 cents a share, up 8.2% from $706 million, or 36 cents, a year earlier. Sales rose 16% to $5.2 billion, with favorable exchange rates contributing five percentage points of growth.

Sales of the company's top product, the anticlotting drug Plavix, rose 17% to $1.39 billion. Bristol-Myers co-markets the drug with **Sanofi-Aventis** SA. Sales have rebounded solidly since 2006, when a generic version of Plavix was temporarily marketed in the U.S.



Bristol-Myers's antipsychotic, Abilify, had second-quarter sales of $529 million, up 28% from a year earlier.

The company's Mead Johnson nutritionals unit, which makes Enfamil baby formula, had sales of $728 million, up 17% from a year earlier. Bristol-Myers previously announced plans to sell a minority stake in the unit via an initial public offering this year.

Higher costs fuel 27% profit drop at Dow Chemical

BY BOB SECHLER

Dow Chemical Co. posted a 27% drop in second-quarter profit as two steep price increases failed to offset sharply higher costs for fuel and raw materials.

The Midland, Mich., chemicals giant said it spent an additional $2.4 billion on energy and hydrocarbon-based chemical feedstocks, or 42% more than in the year-earlier period. Dow's price increases, which averaged about 18% overall during the quarter, and other moves mitigated the impact but didn't overcome it entirely.

Chief Executive Andrew N. Liveris described the rising energy and feedstock costs as unparalleled in the company's history, calling Dow's second-quarter performance "remarkable" given the circumstances. Mr. Liveris expressed caution for the rest of the year, saying he expects the U.S. economy to worsen.

Dow shares were down 1.8% in early afternoon New York Stock Exchange composite trading.

The company reported second-quarter net income of $762 million, or 81 cents a share, compared with $1.04 billion, or $1.07 a share, in the prior year. Net sales rose 23% to $16.38 billion, helped by the increase in prices.

Despite the price increases, Dow said volumes were up 5% worldwide for the best quarterly rise in four years, with sales up in every business. Dow's agricultural segment had a 25% rise in sales.

Total volume in North America was down 6%, although price increases led to a 10% rise in revenue for the region. Revenue in Europe was up 36%, while revenue from India, the Middle East and Africa was up a combined 65%.

Dow's decision last month to raise prices across the board as much as 20% sparked inflation worries across the U.S. Three weeks later, Dow announced another across-the-board increase, of as much as 25%, saying the first had been deemed insufficient.

—David Benoit contributed to this article.

CORPORATE NEWS

Qualcomm finds peace?

Nokia settlement offers hope for rivals; impact in EU unclear

By Don Clark

A breakthrough settlement between **Nokia** Corp. and **Qualcomm** Inc. is raising questions about whether peace could break out more broadly between the U.S. chip maker and its opponents.

The 15-year pact, announced late Wednesday, ends a series of suits between the companies. Qualcomm, shares of which shot up 17% Thursday on the deal, said it expects to receive a "significant" one-time payment as well as continuing royalties from Nokia.

Nokia, which leads the industry in global cellphone shipments, said the settlement lowers its payments to Qualcomm by an undisclosed amount. The deal also seems to meet the Finnish giant's more fundamental demand—that Qualcomm offer licensing terms that recognize the countervailing value of Nokia's own patents.

That same issue is at play in an equally bruising battle between Qualcomm and **Broadcom** Corp., another Southern California chip maker that is angling to play a bigger role in cellphones. Broadcom, which has never reached a licensing deal with Qualcomm, has recently won court verdicts against its rival for violating Broadcom patents.

There are no signs of a deal between the two chip makers, but Broadcom on Thursday suggested it is open to one.

"We hope that yesterday's settlement reflects a new approach by Qualcomm to finally resolve these ongoing disputes in a manner that is equitable to both sides," said David Rosmann, Broadcom's vice president of intellectual-property litigation, in a statement Thursday. "We remain ready and willing to enter into an agreement that protects the intellectual property rights of both parties."

Paul Jacobs, Qualcomm's chief executive, insisted the company has always respected other companies' patents. He said talks with Broadcom, as with Nokia, have dragged on with little success so far but expressed some optimism.

"I hope that this is kind of a new stage in the industry and people will be more interested in finding compromises," Mr. Jacobs said in an interview.

Another question concerns Europe, where Nokia and six other electronics companies filed antitrust complaints against Qualcomm in 2005. Nokia agreed to drop its complaint as part of the settlement, removing one of the most influential European companies from that battle.

But no such moves have been announced by the other companies—Broadcom, **Matsushita Electric Industrial** Co., **NEC** Corp., **Texas Instruments** Inc. and **Telefon AB L.M. Ericsson**—and EU authorities are independently investigating Qualcomm. Mr. Jacobs said the Nokia move "could not hurt" his company in Europe, but said regulatory proceedings tend to take on their own momentum.

Even if other battles continue, the Nokia settlement is expected to have broad impact. Besides involving licensing rights for current cellphones, known by the designation 3G, Nokia agreed to license Qualcomm patents that cover so-called 4G technologies to be used in future networks known as WiMax and LTE, for long-term evolution.

Though companies were already expected to pay royalties on 4G phones that could connect with 3G networks, the deal paves the way for companies to pay Qualcomm if they make 4G-only products, said Nirav S. Parikh, a senior vice president of equities research at TCW Group Inc., a major holder of Qualcomm shares.

The settlement capped a confusing series of developments Wednesday. The opening of a federal court trial over contractual disputes between the two companies was postponed, with no explanation given. Qualcomm then delayed its earnings announcement later in the day, following two hours later with an announcement of the settlement and its financial results.

Qualcomm Thursday issued guidance for the fourth fiscal quarter and fiscal year that was below analyst estimates. But the company gave estimates for a positive financial impact from the Nokia settlement and said cellphone demand is good. "The thing I'm really happy about is that 3G is definitely taking off," Mr. Jacobs said.

Havas, Publicis expect ad cuts in autos, finance

By Aaron O. Patrick
And Suzanne Vranica

In a sign of the troubles facing the global advertising industry, French ad firms **Havas** SA and **Publicis Groupe** SA said that automotive and financial companies are paring back their marketing plans.

The outlooks came as Havas reported first-half revenue and Publicis posted first-half revenue and profit.

Havas, owner of the Euro RSCG Worldwide agency, said second-quarter revenue rose 8.4%, after stripping out the effect of exchange-rate moves, divestments and acquisitions, a key metric used in the ad industry. It was the biggest quarterly jump in years for the company and is a sign of its streak of winning accounts under a new management team appointed in 2005 and 2006 by Chairman Vincent Bolloré.

First-half revenue rose 3.6% to €755 million ($1.18 billion). Havas didn't disclose total revenue or profit for the second quarter, or its first-half profit.

Like other ad groups, the company has seen its share price hit by expectations that an economic slowdown will crimp marketing budgets. Havas shares have fallen 32% this year, ending at €2.27 Thursday on the Euronext stock exchange.

Chief Executive Fernando Rodes Vila said there are signs of moderating ad spending by auto and banking clients as consumer spending slows. "We're presuming the second half will not be as good as the first half" for Havas's revenue growth, he said in an interview.

Havas's major French competitor, Publicis, was hit by foreign-exchange fluctuations in the second quarter.

The company, which owns ad agencies such as Saatchi & Saatchi and media-buying firms such as Starcom MediaVest, said revenue rose 5.5% in the quarter, compared with a growth rate of 0.5% a year earlier, after stripping out the impact of acquisitions, disposals and currency fluctuations. Publicis said its business benefited from new-account wins and growth in emerging markets.

The decline of the dollar against the euro sent first-half net income down 3% to €192 million, while first-half revenue slipped 1% to €2.23 billion. "We have been seriously hurt by the exchange rate," said Maurice Levy, chief executive of Publicis.

Wall Street is watching ad-holding company results closely in an effort to gauge how marketers' ad budgets are faring during the economic slowdown. "We see clearly that there are indications of downturn that are not yet affecting our business," Mr. Levy said. He said Publicis was keeping a tight rein on costs.

Mr. Levy said he expects marketers' ad investments to fall in sectors such as automotive and financial, a result of the credit-market crisis along with rising commodity, food and gas prices. In terms of geographic regions, the company is seeing weakness in the U.K. and Spain, he said.

Publicis said it was sticking with its 2008 "organic revenue" growth targets.

Thomson selects Rose as its CEO

By Jethro Mullen

Thomson SA said it ended its months-long search for a new chief executive by appointing **Alcatel-Lucent** executive Frédéric Rose to the post. The appointment comes at a challenging time for the French technology and media-services firm, which also reported a sharply wider first-half net loss.

Frank Dangeard

Mr. Rose will take up his role in early September, filling a gap left by Frank Dangeard, who said in February he was leaving the position. Mr. Rose spent 15 years at Alcatel-Lucent, most recently heading the telecommunications-equipment maker's Europe, Asia and Africa region. Thomson, which provides set-top boxes and video-production services, said Mr. Rose "has a strong working knowledge of businesses and markets close to those of Thomson."

Thomson shares have shed about 68% since the beginning of the year amid growing concern over the company's financial stability. In April, the company scrapped its dividend for 2007 to focus on keeping its debt and cash flow under control.

And although its first-half net loss of €182 million ($285.6 million) was smaller than Thomson's forecast for a loss of about €220 million, it is still significantly wider than the year-earlier €20 million loss.

"Things were a bit better than expected," said Julian Waldron, chief financial officer and acting chief executive, without giving further details.

First-half revenue fell 15% to €2.2 billion from €2.59 billion. For the second half, Thomson said it expects higher revenue, profit and cash flow, mainly because of higher sales of DVDs and other products around Christmas.

However, the company's outlook remained pessimistic. Thomson doesn't expect any change in the macroeconomic environment, which it said creates uncertainty in many of its businesses. Thomson expects third-quarter revenue to decline in constant exchange rates at "around the same level as that experienced" in the second quarter. Second-quarter revenue dropped 12%.

Racing boss Mosley wins privacy case

By Aaron O. Patrick

LONDON—England's High Court found a tabloid newspaper guilty of breaching the privacy of a motor-racing executive, in a high-profile lawsuit filled with sensational details that has captivated the press here.

The court ruling ordered News of the World, Britain's biggest-selling newspaper, to pay £60,000, or about $120,000, to Max Mosley, president of the governing body for Formula One racing, the Fédération Internationale de l'Automobile. Under British law, the paper is also required to pay Mr. Mosley's legal fees, which are about £500,000, a spokeswoman for the paper said. She said it was considering an appeal.

Outside the courtroom Thursday, Mr. Mosley told journalists that the judgment "demonstrates that their Nazi lie was completely invented and had no justification." The court ruled the tabloid was wrong to publish details of a party Mr. Mosley had with five prostitutes he hired in March.

Mr. Mosley sued the paper, which has a circulation of 3.2 million, for reporting in a March 30 article that he organized a "sick Nazi orgy" with the women, who acted out a prisoner-guard role-play wearing uniforms and speaking German.

Mr. Mosley is famous in Britain; his father, Oswald Mosley, founded the British fascist party and supported Hitler before World War II.

In court, Mr. Mosley's lawyers argued the European Convention on Human Rights gave him a right to privacy. He said the party had no Nazi overtones. Lawyers for News of the World argued the party had Nazi connotations, making it a matter of public interest because of Mr. Mosley's high profile.

Thursday, High Court judge David Eady ruled that Mr. Mosley was entitled to privacy even though some people would regard his behavior with "distaste and moral disapproval."

Intel to develop microchips for goods beyond computers

By Don Clark

Intel Corp. has unveiled the first fruits of a new effort to make multifunction chips, a strategy that could accelerate a longtime goal to diversify beyond computers.

The Santa Clara, Calif., company said products it is developing—called SoCs, for systems on a chip—can be used in an array of devices, including car entertainment and information systems, TV set-top boxes, and industrial robots, as well as security and communications hardware.

Intel has the dominant franchise in microprocessors, the calculating engines in computers. It has a much smaller business in selling versions of those chips for what the industry calls "embedded" applications, which include office equipment and store point-of-sale terminals.

To attack that market as well as others, Intel plans to combine microprocessors on chips along with circuitry to handle other functions, such as networking, voice communications and video decoding. Besides its own technology, the company expects that special-purpose portions of future SoC products may be contributed by other companies.

While SoCs have been around for years, new requirements are emerging for varieties that have more capabilities and are connected to the Internet at all times, said Gadi Singer, vice president of Intel's mobility group and general manager of its SoC enabling group. That plays to Intel's strengths, he said.

Intel also argues that the x86 design, a mainstay of PCs, can provide an advantage in multifunction chips—because many people know how to write software for the technology. "That's a big plus," agreed Rich Wawrzyniak, a senior analyst at Semico Research Corp.

Intel faces many entrenched competitors. Companies with microprocessor designs that are widely used in SoCs include **ARM Holdings** PLC, **MIPS Technologies** Inc., **International Business Machines** Corp. and **Freescale Semiconductor** Inc.

For its eight initial SoC offerings, Intel is using a chip for laptop computers called the Pentium M as a foundation. But next year, it plans to begin using an ultrasmall microprocessor called Atom, which is initially being marketed for low-end laptops and pocket-size Internet devices.

Pricing will be an important issue. Intel's initial SoCs, available now, cost $40 to $95, a range that would make them too expensive for some applications. Mr. Singer wouldn't disclose Intel's pricing plans for future versions of the chips.

"There will be multiple competitors in this space," Mr. Singer said. "We have the elements to provide leadership."

GLOBAL BUSINESS BRIEFS

Iberdrola SA

First-half net jumped 78% on higher electricity prices

Spanish electricity company **Iberdrola** SA said net profit rose 78% in the first half, boosted by higher power generation and healthy electricity prices. Bilbao-based Iberdrola, the world's biggest wind-power generator, said net profit rose to €1.96 billion ($3.08 billion) from €1.1 billion a year earlier. Spanish electricity prices rose 47% in the first half from a year earlier, boosting Iberdrola's results, said Antonio Cruz, an analyst at Banesto in Madrid. Sales rose 79% to €12.02 billion from €6.72 billion. Iberdrola's U.K. unit Scottish Power PLC helped results, as did the company's rapidly expanding renewables unit Iberdrola Renovables SA, which late Wednesday reported that its first-half profit more than tripled to €194 million.

ABB Ltd.

Zurich engineering firm **ABB** Ltd. reported a 34% rise in second-quarter net profit, helped by higher profit margins, and said it expects to be able to pass on input-cost increases to customers for the rest of the year. Net profit totaled $975 million, up from $729 million a year earlier. Sales, buoyed by rising demand for power transmission and automation equipment, were up 27% to $9.03 billion from $7.14 billion. Analysts welcomed the results. "Investors have been concerned about any signs of a slowdown, particularly in the U.S., and about margin pressure, but none of that has materialized," Vontobel analyst Panagiotis Spiliopoulos said. Analysts said ABB's performance is particularly pleasing given a profit warning by rival **Rockwell Automation** Inc.

BG Group PLC

U.K.-based energy company **BG Group** PLC reported a 59% rise in second-quarter net profit, helped by stronger margins at its liquefied-natural-gas business and higher overall energy prices. The utility—which produces oil and natural gas in Europe, Central Asia and the Caribbean and is a significant player in the global LNG trade—said net profit totaled £747 million ($1.49 billion), up from £471 million a year earlier. Revenue increased 49% to £3.22 billion from £2.16 billion. Analysts praised BG's results in the LNG business, where operating profit more than quadrupled to £367 million. Chief Financial Officer Ashley Almanza said in a conference call that the strong LNG market is expected to continue through the rest of 2008.

EasyJet PLC

U.K.-based budget airline **easyJet** PLC reported a 32% rise in quarterly revenue but warned it expects full-year pretax profit to fall as much as 45% because of higher fuel expenses. Shares in the carrier slumped 10% after it said the increase in oil prices over the past few months has added about £185 million ($369.8 million) to its fuel bill this year. While easyJet has offset more than half that increase through increased revenue and reduced costs, it said the higher charges would result in a 2008 pretax profit of £110 million to £120 million, down from £201.9 million posted for 2007. The carrier said it will cut flights this winter to further trim costs. EasyJet reported that fiscal third-quarter revenue rose to £641 million from £487 million a year earlier.

Deutsche Lufthansa AG

Deutsche Lufthansa AG's Chief Executive Wolfgang Mayrhuber said the continuing wage dispute with employees is "absolutely superfluous and counterproductive" and could potentially harm Germany's largest airline. Mr. Mayrhuber's comments, made in an open letter to Lufthansa staff in the company's employee newspaper, Lufthanseat, are an effort to avert further strikes. He urged wage discipline at a time of sharply rising crude-oil and fuel prices and a weakening economy. Lufthansa faces strikes over wage disputes with ground and cabin staff and pilots at its regional airlines Eurowings and CityLine. The result of a vote on possible strike action by members of services union ver.di is expected Friday. A union spokesman said the airline was well positioned in terms of long-term fuel-delivery contracts and compared with its peers.

Rolls-Royce Group PLC

Rolls-Royce Group PLC reported a 3.9% drop in first-half net profit as healthy demand for the servicing of installed airplane engines failed to offset the weaker dollar and rising energy and raw-materials costs. Net profit fell to £294 million ($587.7 million) from £306 million a year earlier. Revenue rose 13% to £4.05 billion. Rolls-Royce said its outlook was positive despite the continuing deterioration of the dollar, which would have an incremental cost of about £100 million for the full year. The company's order book expanded 17% to £53.5 billion because of strong demand from Asia and the Middle East. Delays to the Airbus A380 and Boeing Co. 787 programs also had helped earnings, Rolls-Royce said, since other aircraft need more engine servicing and parts.

General Electric Co.

General Electric Co., adding another business to its sprawling health-care operations, agreed to buy medical-products maker **Vital Signs** Inc. in a deal that values the company at about $860 million, net of cash and investments. Vital Signs, based in Totowa, N.J., makes single-use medical products for anesthesia, respiratory, critical care and emergencies. GE Healthcare Chief Executive John Dineen said Vital's products "are a great complement to our existing anesthesia, monitoring and respiratory offerings." Vital holders will get $74.50 a share, a 28% premium to Wednesday's $58 close on the Nasdaq Stock Market. In midday trading Thursday, shares were up 26% to $72.85. The deal is expected to close in the fourth quarter.

TeliaSonera AB

Stockholm-based telecommunications operator **TeliaSonera** AB reported a 7.8% increase in second-quarter net profit, thanks to higher sales and contributions from its operations in Russia and Turkey. Net profit increased to 4.13 billion Swedish kronor ($685 million) from 3.83 billion kronor a year earlier. Sales rose 5.7% to 25.27 billion kronor from 23.9 billion kronor, as growth in Spain and the Nordic region as well as increased mobile-data usage helped offset weaker economic development in the Baltic countries. It said sales at its Eurasian operations—which include Russia, Turkey, Kazakhstan, Azerbaijan and Uzbekistan—totaled 2.86 billion kronor. Chief Executive Lars Nyberg said the company is still considering acquisitions in the region and farther east.

Elan Corp.

Ireland-based **Elan** Corp. posted a narrower second-quarter net loss, helped by cost cutting and sales of its multiple-sclerosis drug Tysabri, and said it was encouraged by Phase II trials of Alzheimer's drug AAB-001. Elan reported a net loss of $71.5 million, compared with a loss of $141.1 million a year earlier. Last year, Elan booked a charge of $52.2 million related to the sooner-than-expected approval of a generic competitor to its injectable antibiotic Maxipime. It also restructured its U.S. plants at a cost of $14.9 million. Revenue in the quarter rose 30% to $245.6 million from $188.5 million, helped by higher sales of Tysabri, as well as contract manufacturing revenue. Elan said it is confident its full-year revenue will approach $1 billion. Data from the Phase II trials of its Alzheimer's treatment AAB-001, a joint venture with **Wyeth**, is due July 29.

Deutsche Telekom AG

German telecommunications company **Deutsche Telekom** AG is internally discussing a share buyback, Chief Financial Officer Karl-Gerhard Eick said. But nothing has been decided, he said, adding that long-term cash flow must be taken into account. Mr. Eick declined to comment on possible takeover targets and said the company is busy integrating Greece's Hellenic Telecommunications Organization SA. In June, Deutsche Telekom bought a 25% plus-one-share stake in OTE, as the Greek company is known, for around €3.2 billion ($5 billion). The finance chief also confirmed the outlook for the year, adding that the company can live well with the current euro/dollar exchange rate, as long as the euro doesn't continually trade above $1.60.

Pernod Ricard SA

Pernod Ricard SA raised its full-year earnings outlook, even as the spirits company reported a 3% drop in fourth-quarter revenue. The France-based company also said it will sell assets valued at €1 billion ($1.57 billion) to reduce the debt incurred in its acquisition of Sweden's Vin & Sprit AB, the maker of Absolut vodka. In the quarter ended June 30, revenue fell to €1.5 billion because of the strong euro and slower sales growth in the U.S., Europe and China. For the full year, revenue increased 2.3% to €6.59 billion, as strong sales in emerging markets helped weather the economic slowdown in the U.S. as well as the strong euro. Chief Financial Officer Emmanuel Babeau called the year ended June 30 "Pernod's best year in 10 years."

Onexim Group

Russian billionaire Mikhail Prokhorov plans to invest $10 billion in mining projects over the next five years through a new exploration company, according to his holding company, **Onexim Group**. The company, Integreo, will get licenses for 12 fields across the country, containing an estimated 15 million metric tons of copper, nine million tons of nickel, one million tons of molybdenum and 90 million tons of titanium, Onexim said. Onexim controls $25 billion worth of assets in sectors including mining, energy, financial services, media and real estate. Earlier this year, Mr. Prokhorov sold his 25% stake in OAO Norilsk Nickel to United Co. Rusal.

Industrial Union of Donbass

Ukraine's Industrial Union of Donbass said it is engaged in continuing merger talks with steelmakers but hasn't yet reached a final decision on any deal. For the past two years, the closely held industrial conglomerate has been in talks with steel companies from several countries, including Russia and Brazil, said Alexander Pilipenko, Donbass's vice-president for corporate rights and investments. Donbass has been talking with steelmakers including **ArcelorMittal** and **Evraz Group** SA as well as Russia's **OAO Novolipetsk Iron & Steel Works**, Mr. Pilipenko said. ArcelorMittal and Evraz declined to comment. Novolipetsk wasn't reachable for comment. Evraz is one the largest integrated steelmakers in Russia and is partly owned by Russian billionaire Roman Abramovich.

Newmont Mining Corp.

Newmont Mining Corp. swung to a second-quarter profit as the latest results were boosted by soaring gold prices, a new mine and cost cutting. The Denver gold miner reported net income of $277 million, or 61 cents a share, compared with a year-earlier net loss of $2.06 billion, or $4.57 a share. That was caused largely by a $1.7 billion acquisition write-down and costs from eliminating the company's remaining gold hedge positions. Excluding certain items, earnings more than doubled to 51 cents a share from 23 cents. Revenue rose 19% to $1.52 billion. Miners are facing rising production costs, but gold's price has also surged. Newmont's realized price of an ounce of gold rose 35% to $900.

Occidental Petroleum Corp.

Occidental Petroleum Corp.'s second-quarter profit surged 63% amid increased production and higher prices for crude oil and natural gas, setting a new quarterly profit record for the oil-and-gas explorer and producer. Chief Executive Ray Irani said the earnings will be used to drill and recomplete about 400 wells, mainly in California, Texas and Colorado. Los Angeles-based Occidental reported net income of $2.3 billion, or $2.78 a share, up from $1.41 billion, or $1.68 a share, a year earlier. Revenue jumped 61% to $7.12 billion. The mean estimates of analysts polled by Thomson Reuters were for earnings of $2.75 a share and revenue of $6.77 billion. Occidental's oil-and-gas arm earnings more than doubled. Average production rose 5%, with average realized oil-and-gas prices up 86% and 41%, respectively.

Xerox Corp.

Xerox Corp.'s second-quarter earnings slid 19% due to a restructuring charge and lower margins, but the copy-machine and printer company maintained its 2008 profit outlook, despite concerns about the weak U.S. economy. Xerox, based in Norwalk, Conn., reported net income of $215 million, or 24 cents a share, down from $266 million, or 28 cents a share. The latest quarter's net was diminished by five cents a share in restructuring charges. Revenue climbed 8% to $4.53 billion, helped by a 19% gain in developing markets. Gains from currency conversion contributed four points of the revenue growth. Xerox's gross margin decreased 1.1 percentage points to 39.2%, and the company said it expects margins to be between 39% and 40% for the full year, trailing its normal target.

Vivendi SA

Vivendi SA posted a 15% rise in second-quarter revenue, boosted by its acquisition of broadband and fixed-line carrier Neuf Cegetel, and the French entertainment and telecommunications company confirmed its 2008 profit outlook. Revenue for the three months increased to €5.99 billion ($9.4 billion) from €5.20 billion a year earlier. Vivendi reiterated that adjusted profit growth for 2008, excluding the acquisitions of Neuf and videogames company Activision Inc., would be similar to the 8.3% increase posted in 2007. Vivendi owns Universal Music Group, the world's biggest record label.

Tata Motors Ltd.

Tata Motors Ltd., India's biggest auto maker by sales, said it plans to sell an electric car and other fuel-efficient vehicles as rising oil prices and pollution worries lift demand for such vehicles globally. "We are also competing for an ecocar project in Thailand," Chairman Ratan Tata, above, said at an annual meeting of shareholders in Mumbai. The electric car is being developed with a Norwegian company and will be introduced in the current fiscal year ending March 31, Mr. Tata said. The ecofriendly car for Thailand will be a variant of the Nano mini-car. The base model of the 623-cubic centimeter rear-engine car will cost 100,000 rupees ($2,377).

Canon Inc.

Canon Inc. reported a 13% decline in its fiscal second-quarter net profit, hit by the strong yen and continued rises in input costs. The Tokyo-based manufacturer of copiers, printers and digital cameras said net earnings for the three months to June 30 slipped to 107.84 billion yen ($1 billion) from 123.93 billion yen a year earlier. Sales edged down 1.9% to 1.106 trillion yen. Demand for its key products remains solid globally, but the weaker profit mirrors deteriorating margins. While the higher yen hit the digital-camera business hardest, "prices continued to be cut in the market and we had to cut our prices to compete," said Canon's managing director for finance, Masahiro Osawa. For the rest of the fiscal year, Canon hopes to counter weakening consumption in developed countries and falling prices by launching new products and cutting costs.

GlaxoSmithKline PLC

GlaxoSmithKline PLC said it teamed up with the Harvard Stem Cell Institute to develop new medicines as part of a five-year deal valued at more than $25 million. GlaxoSmithKline's investment, one of the largest by a drug company in stem-cell science, will support research in the areas of neuroscience, heart disease, cancer, diabetes, obesity as well as conditions affecting the body's muscles and skeleton, the two organizations said.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

EUROPEAN UNION

Safety concerns will keep Indonesia airlines banned


Associated Press

THE EUROPEAN Union is keeping Indonesian airlines on a blacklist that prohibits them from operating in any of its 27 member states, a move likely to hurt the Southeast Asian country's important tourism industry. A number of Indonesian airlines, including Mandala Airlines, which is controlled by Indigo Partners, a U.S. private-equity firm that invests in the airline industry, have been pushing to get off the blacklist and had expected that to happen Thursday. But the European Commission, the EU's executive arm, found that Indonesia's Civil Aviation Authority had failed to adequately improve its monitoring system to ensure local carriers stick to global aviation-safety standards.

U.K.

Internet-service providers to warn about file-sharing


Inmagine

THE U.K.'s music and film industries revealed a deal under which the country's six biggest Internet-service providers will send warning letters to those suspected of illegal file-sharing. The ISPs had previously argued they were merely conduits for the roughly six million Britons thought to engage in illegal file-sharing each year. The ISPs—including **British Sky Broadcasting Group** PLC and **BT Group** PLC—agreed to the deal after the British government said it would impose legislation if they didn't work to curb illegal file-sharing. The ISPs will send letters to prolific illegal downloaders each week under a three-month trial.

—Reuters

CYPRUS

Greek and Turkish leaders to weigh unification talks


Associated Press

THE LEADERS of Cyprus's rival Greek and Turkish communities will meet Friday to decide if conditions are right for them to embark on talks to reunify the ethnically divided island. Cyprus President Dimitris Christofias, a Greek Cypriot, has insisted that a starting date would depend on Friday's review of progress in the preliminary phase of a revived peace process. But the leader of the Turkish Cypriots, Mehmet Ali Talat, Wednesday signaled on CNN-Turk television that a September start to the full-fledged negotiations was likely. Top-level talks would mark the end of a four-year deadlock ushered in by a Greek Cypriot rejection of a U.N. reunification blueprint.

—Associated Press

U.S. presidential race is tightening

McCain advances against Obama in some key states

By Sara Murray

THE U.S. PRESIDENTIAL race is tightening in four battleground states, where John McCain holds a bigger advantage with white male voters and Barack Obama keeps his hold on the youth vote, according to a Quinnipiac University poll conducted in partnership with The Wall Street Journal and washingtonpost.com.

The poll shows Sen. Obama leading slightly in Michigan and by double-digits in Wisconsin, but by smaller margins than he did approximately one month ago. Meanwhile, Sens. Obama and McCain are running statistically even in Colorado and Minnesota, states where Sen. Obama held a five-point and seven-point lead, respectively, in June.

The findings underscore why both presidential campaigns are focusing on those four states, which are emblematic of broader groups of swing states that are crucial in this year's race. Michigan and Wisconsin, for example, are economically and demographically similar to other upper Midwest states, including Ohio and Pennsylvania, while Colorado is part of a group of fast-growing Western states that are in play.

The new survey suggests energy could be the pivotal issue in the race for these hotly contested states. Voters in each state consistently ranked gas prices as their number one financial concern. When asked which was more important, a candidate's position on the war in Iraq or his position on energy policy, voters in each state chose energy.

The energy concerns lead to mixed results for the candidates. Sen. Obama has an edge with voters in Minnesota, Michigan and Wisconsin, who said the presumptive Democratic nominee has a better plan than Sen. McCain to solve the energy crisis and reduce dependence on foreign oil. Colorado voters split evenly between the two candidates.


Associated Press

Sen. **John McCain**, at his Minnesota campaign headquarters, has pulled even in state polls with Sen. Barack Obama, who had led by seven points last month.

In one respect, the focus of the energy debate could be starting to shift in favor of Sen. McCain, the presumptive Republican nominee. Offshore drilling and drilling in the Alaskan National Wildlife Refuge appear to be gaining support among voters. While Sen. McCain supports offshore drilling, but not drilling in the Alaskan National Wildlife Refuge, Sen. Obama supports neither.

In Minnesota, where the candidates are tied, 59% of voters said they support offshore drilling, compared with 34% who didn't. Of those supporters, 9% said they used to oppose the plan. Similar results appeared in Michigan, Colorado and Wisconsin. Across all four states, roughly one in 10 voters now supports offshore drilling or drilling in Alaska when they used to oppose it.

Both candidates face political tradeoffs in handling the rising debate over offshore drilling. Exploring off the coasts is more politically popular in industrial Midwest states, where voters worry mostly about the rising cost of gasoline and the economic pinch that creates, while voters in key coastal states, especially Florida, worry more about the environmental risks in their own backyards.

The switch in sentiments in the Midwest could be a favorable sign for Sen. McCain as it is one of the primary factors that sets his energy plan apart from Sen. Obama's. Both candidates tout the importance of reducing U.S. dependence on foreign oil and both have expressed support, in different capacities, for nuclear energy.

> **"What we're seeing is a shift toward more drilling," says Peter A. Brown.**

Sen. Obama also stresses the importance of tax breaks for wind and solar energy, which Sen. McCain doesn't oppose outright but has said he's skeptical of.

Voters haven't abandoned those solutions. In each state they ranked renewable energy sources as the "best way to help solve the energy crisis and make America less dependent on foreign oil," by a wide margin.

But "what we're seeing is a shift toward more drilling," said Peter A. Brown, assistant director of the poll. "It gives McCain an opportunity to make the argument that he offers new solutions, or solutions that others aren't willing to take—others being Obama."

Energy policy could give Sen. McCain "an opportunity that is part of the economic matrix," as well, said Mr. Brown. The economy outranked issues such as the war in Iraq and illegal immigration as the single most important issue for voters. Sen. McCain trails Sen. Obama among those voters but capitalizing on the energy debate could help tip the scales. The idea hasn't been lost on the McCain campaign, which released an ad this week blaming those that don't support drilling, i.e. Sen. Obama, for high gas prices. The ad is airing in Colorado, Iowa, Michigan, Missouri, Nevada, New Hampshire, New Mexico, Ohio, Pennsylvania, Northern Virginia, and Wisconsin.

Existing demographic trends mostly held true. Sen. McCain leads the white male vote by more than 10 percentage points in each state except Wisconsin, where Sen. Obama trails by nine points. Though Sen. Obama still leads among voters age 18 to 34, the margins aren't as great. These four states tend to have older populations though, so the polls likely don't reflect the maximum benefit of Sen. Obama's sway with youth voters.

"If McCain is going to catch Obama it's almost certainly going to come from taking white voters away," said Mr. Brown. But "Obama doesn't have to win a majority of white voters to become president of the United States. He has to do reasonably well, and he's still meeting that threshold."

Of the four states polled, Michigan and Colorado may be the most pivotal in the two parties' broader plans for 2008.

"Colorado is the Democrats' attempt to bust the Republican stranglehold on the Rockies," which could be a sign that New Mexico and Nevada will also go Democratic this year, said Mr. Brown. Meantime, "Michigan is McCain's number one takeaway target," as far as states that John Kerry won in 2004, he said.

Jobless claims in U.S. register rise of 34,000

By Brian Blackstone And Jeff Bater

The number of U.S. workers filing new claims for unemployment benefits soared last week, suggesting no stabilization is in sight for labor markets.

Initial claims for jobless benefits rose 34,000 to 406,000 after seasonal adjustments in the week ended July 19, the Labor Department said Thursday. It matched the level of late March, which was the highest since September 2005, after Hurricane Katrina.

Meanwhile, total claims lasting more than one week fell slightly but remained at about the three-million mark for a 13th straight week, an indication that it is taking the unemployed much longer to find new work than it did a few months ago.

Goldman Sachs economists noted the level of initial claims—above 400,000—was close to the level during most of the 2001 recession. They added "initial jobless claims can be particularly volatile around this time of year, as the precise timing of auto industry shutdowns can vary year-to-year, making seasonal adjustment difficult."

Separately, existing-home sales in the U.S. resumed falling in June and the median price also dropped as inventories crept higher. Sales fell to a 4.86 million annual rate, a 2.6% decrease from May's pace, the National Association of Realtors said Thursday.

The median home price was $215,100 in June, down 6.1% from $229,000 in June 2007. The median price in May this year was $207,900.

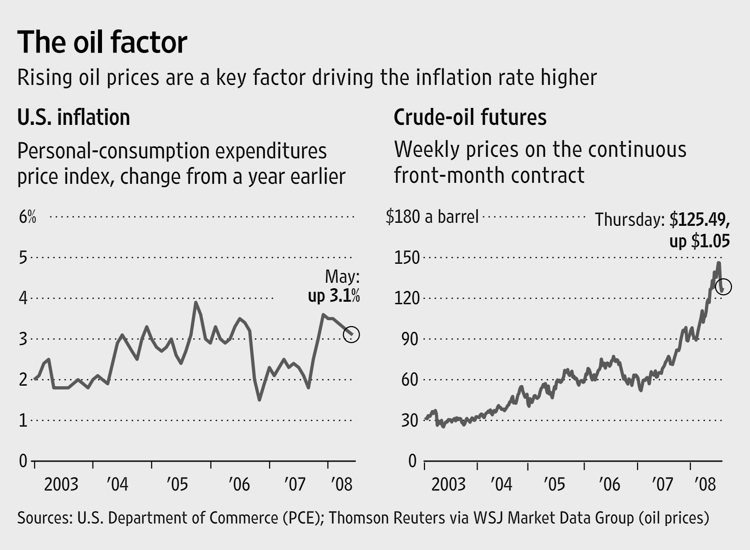
A Labor Department analyst explained Thursday that government statisticians "got the layoffs we were expecting, but not quite in the weeks we were expecting." The four-week average—which smoothes out weekly volatility—rose by 4,500 to 382,500, a three-week high.

Nonfarm payrolls have fallen for six straight months, and recent jobless claims data point to another decline when July data are released next week.

Oil's drop gives Fed room

Central bank debates if rate rise necessary to cut inflation risk

By Sudeep Reddy



The price of oil, a key variable complicating the U.S. Federal Reserve's economic outlook, may be poised to give central-bank officials some breathing room to hold interest rates steady—even as the debate about inflation intensifies.

Top Fed officials have been betting all year that the rapid increases in crude-oil prices wouldn't be sustained as the world economy cooled. A continuing surge in prices has defied those predictions until recently.

In the past two weeks, the price of crude oil has dropped about 15% from an intraday record $147.27 a barrel, in part because of weakening demand. Midday Thursday on the New York Mercantile Exchange, the price of oil edged up 0.1%, or 16 cents, to $124.60 a barrel.

The price relief, while modest, comes amid a heightened debate throughout the Fed system about whether the central bank needs to raise interest rates before long to counter inflation risks and prevent an inflation psychology that could send prices spiraling higher.

The Fed, when it meets next Aug. 5, is likely to hold rates steady at 2%. Most Fed officials support keeping policy on hold to give the economy more time to recover from deep turmoil in the financial and housing sectors.

After the Fed's most recent meeting in June, financial markets became more pessimistic owing in large part to worries about mortgage giants **Fannie Mae** and **Freddie Mac**. Fed officials haven't appeared as unsettled as markets about the latest developments. But they remain concerned about how troubles in the banking system might constrain lending that is key to economic growth.

Almost every Fed official in recent weeks has indicated greater concern about the risks from higher inflation, which has been driven by soaring prices for energy and food.

Policy makers, in a statement issued after their June meeting, said they expected inflation to moderate "later this year and next year." Because energy prices are far higher now than they were a year ago, officials are bracing for uncomfortably high readings—with annual inflation at or above 5%—in the coming months.

Fed officials don't have much confidence that higher rates would stop oil-driven inflation. "What the Federal Reserve can control is the increase in prices on the average, over the overall basket of consumer goods and services," Fed Chairman Ben Bernanke told House lawmakers last week. "The enormous jumps in oil prices, other commodity prices, are to some extent at least, because of real factors out of the control of the Federal Reserve. The Federal Reserve can't create another barrel of oil. It's the global supply and demand conditions which are affecting those particular things to the most significant extent."

Officials aren't taking great comfort yet in the latest pullback in oil prices. The oil market has been extremely volatile in recent years, sometimes showing false signs of stabilization. Moreover, higher oil prices could still push up other consumer prices beyond energy. They are also adding to uncertainty about the outlook for economic growth.

Several regional Fed bank presidents, including some who have votes this year on the Fed's policy-making committee, have sounded particularly worried about inflation risks. Some believe that the higher prices for oil and other commodities are already affecting people's perceptions.

How oil's recent moderation may affect the growth picture later this year remains unclear. The $100 billion in tax rebates from the government's economic-stimulus program have offset some of the consumer pain from pricey gasoline. But the impact of Federal rebate checks for households is expected to fade by year end, when some forecasters expect the economy to contract.

Shanghai official says Games terror plot foiled

By James T. Areddy

SHANGHAI—In the latest sign of Chinese government concern over security risks at next month's Olympics, officials announced they have broken up a terrorist cell they said had plotted possible attacks at events during the Games in Shanghai.

The comments, from a senior Shanghai security official and carried by the official Xinhua news agency Thursday, were vague and offered no indication of when police took action, who the suspects were or what the exact nature of the threat was to Shanghai, which is hosting Olympic football matches. The news follows a string of other official claims, often with little detail, to have disrupted terrorist networks in the weeks leading up to the Games, which start Aug. 8.

China's government has gone to great lengths to ensure the Games are safe in Beijing and six other cities that will host events. Officials report drills or raids on a daily basis. Analysts say the authorities have often defined threats in the broadest possible terms and imposed measures as varied as no-fly zones for commercial aircraft to visa restrictions on foreigners.

In another indication of how disruptive some of those measures have been, a foreign business group complained Thursday of new restrictions on visas for executives. The European Union Chamber of Commerce in China cited a notice on the Web site of the Shanghai Foreign Economic Relations and Trade Commission saying that visas for business visits to Shanghai have been suspended until mid-September in order to "ensure a stable, harmonious society" during the Olympics period.

"The introduction of such restrictions without warning creates serious problems for companies operating in China," the chamber said in a statement, adding that it is seeking confirmation that similar restrictions apply in other cities.

Separately, an official with Beijing's Municipal Bureau of Commerce told the Associated Press that the bureau has stopped issuing invitation letters for many business visas until late September. The bureau is still facilitating visas needed for employment or to execute contracts, but it isn't handling visas to attend conferences, visit factories or carry out negotiations, the official, Chen Yu, told the AP.

State-run news reports about the antiterrorist raid in Shanghai quoted Cheng Jiulong, the city's deputy director of public security and head of its security office for the Olympics, as making the comments at a scheduled news conference to discuss overall security preparations for the Games.

"We have obtained information that international terrorist organizations would likely launch an attack against an Olympic venue in the city during the Games," Xinhua quoted Mr. Cheng as saying. "We have staged raids and cracked a group of terrorists."

In the report, Mr. Cheng said police consider Shanghai's main venue safe but noted that police remain on alert. Shanghai, one of six secondary venues for the Olympics, will stage football matches starting Aug. 7 and finishing with the men's bronze medal match on Aug. 22. In recent days, the Shanghai stadium where the matches will be held has been sealed off, along with much of the surrounding area.

France to trim military, close sites

Associated Press

PARIS—France will reduce its military by 54,000 service members and close dozens of sites under a major restructuring plan aimed at modernizing and streamlining the country's defense structure, the prime minister said.

François Fillon said the restructuring will save billions of euros and allow for a smaller, more agile military better suited to today's defense needs.

Like other European countries, France is grappling with aging military equipment, budget constraints and threats such as terrorism, drug trafficking and Internet-based crime.

The total French military force today, including gendarmes, is believed to include about 350,000 service members. Mr. Fillon didn't say how the 54,000 service members would be removed from France's forces or what, if anything, would be done to help them find new jobs.

Mr. Fillon said that 83 sites are to be closed starting next year, slashing the cost of maintaining the small bases scattered throughout the country. Most of the French military's budget—60%—is spent on maintaining troops and sites, while 40% is used for operations, he said.

The French military will concentrate most of its remaining troops at 85-90 beefed-up bases by 2014, Mr. Fillon said. He defended the site closures and troop reduction, saying all the units slated for closure are "ones that are no longer adapted to today's threats."

Overhaul of France's 35-hour workweek proceeds

Associated Press

PARIS—French lawmakers took a step toward ending the country's decadelong experiment with a 35-hour workweek, passing a bill that gives companies greater latitude to extend working hours.

The new law, approved late Wednesday, retains the legal limit on working hours but allows companies to negotiate opt-outs with employees. It also lets companies increase the maximum number of working days for white-collar workers to 235 per year from 218.

Overhauling the 35-hour law was one of President Nicolas Sarkozy's pledges during last year's presidential campaign. Mr. Sarkozy says the 35-hour law was an economic mistake that didn't create jobs as it was intended to do, but he has promised not to abolish it outright.

Wednesday's move was the latest rollback to the controversial work-share plan introduced by a Socialist government 10 years ago. Successive conservative governments have already chipped away at it.

Waving banners with slogans like "There is life after work" and "I refuse to give my life to shareholders," members of two white-collar unions protested the new law Wednesday on a square near Paris's Luxembourg Gardens. Some protesters objected to the way the bill was passed during the summer vacation season when it would face the least resistance.

Japan's trade surplus slides on a rare decline in exports

By Akane Vallery Uchida And Yuka Hayashi

TOKYO—Japan's trade surplus tumbled last month as exports fell for the first time in nearly five years, a sign of declining consumer demand in many countries.

The grim export performance bodes ill for the world's second-largest economy since exports have been a key driver of Japan's economic growth over the past few years.

Even without the weaker export figures, many economists had grown pessimistic in recent weeks because of sluggish domestic consumer demand and deteriorating sentiment among corporations amid soaring energy and commodity prices.

"It now seems that exports may have also peaked and entered a decreasing trend," said Takeshi Minami, chief economist at Norinchukin Research Institute. The Japanese economy "will unavoidably face harsh conditions ahead," he said.

Japan's goods-trade surplus fell 89% last month from a year earlier to 138.6 billion yen ($1.28 billion), marking the fourth consecutive monthly decline, the Finance Ministry reported Thursday.

The larger-than-expected decline came as overseas demand for Japanese products weakened under the strain of the global economic slowdown and as imports hit a record because of rising prices for oil and other commodities.

Exports fell 1.7% from a year earlier, slipping for the first time since November 2003. Shipments to the U.S. and Europe dropped sharply, 15% and 11%, respectively. Exports to China and other Asian nations rose only modestly, disappointing those who had counted on Asian consumers to help pick up the slack left by their American and European counterparts.

"Exports to Asia are expected to fall [in the coming months] as demand there will shrink, since local central banks are tightening their [interest] rates," said Kyohei Morita, chief Japan economist at Barclays Capital.

REVIEW & OUTLOOK

Housing Bill Hammers Taxpayers

Combine a housing meltdown with election-year politics and the results were not going to be pretty. Add a crisis in confidence in Washington's favorite quasi-public companies and what we're getting is a rout for American taxpayers, especially those who kept their heads during the housing mania.

The House on Wednesday passed a housing bailout by 272-152. The White House has thrown its reservations overboard, despite the less-than-veto-proof majority. A few brave souls in the Senate are threatening a filibuster, which is where the last hope lies for stripping the most egregious and expensive provisions from this monster.

Even conservative estimates by the Congressional Budget Office say the cost for this bailout will run to $41.7 billion, with $16.8 billion offset by higher taxes. No one has any idea of the real cost. The most expensive provision gives the Treasury temporary authority to pour money into Fannie Mae and Freddie Mac. The CBO says this could cost $100 billion, or it could cost "nothing." So it threw a dart at the wall and assigned a $25 billion price tag to the Fan and Fred bailout.

Likewise, the bill's $300 billion to refinance and insure distressed loans through the Federal Housing Administration will supposedly cost just a few billion dollars. That assumes few homeowners and lenders will sign up for the program because lenders will have to take a 10% haircut to be eligible. If no one needs this program, why is it there? If lenders do take advantage, they're bound to dump their worst loans on the feds. So as with the Fan and Fred bailout, the FHA guarantee will be either superfluous or much more expensive than we're led to believe.

Alongside these big-ticket items, we suppose the $4 billion tax credit for first-time home buyers, or the $4 billion in "community development" pork grants, or the $180 million for housing counseling are merely routine outrages. On the other hand, the kid-glove treatment of Fannie Mae and Freddie Mac is very much worth worrying about. On the floor of the House Wednesday, Democrats argued that this bill was the least Congress could do "for the people," given the way the government had "helped" Bear Stearns. The cost borne by Bear Stearns was having its shareholders all but wiped out and half its employees pink-slipped. Countrywide was likewise sold at a fire sale price. Not so these two government-chartered giants.

Congress wants money to bail out reckless lenders.

Fannie and Freddie may well be too big to fail, as Treasury Secretary Hank Paulson keeps reminding us. That is true in large part because they were allowed—no, encouraged—to grow like Topsy while Congress shielded them from oversight. At a minimum, the cost of a lifeline ought to include some accountability and assurance they cannot get into such a fix again. Instead what we have is a promise that Fannie and Freddie will pay us Tuesday for an explicit taxpayer guarantee today. The Treasury will get unlimited authority to recapitalize the mortgage giants while a new regulator will have to run a gauntlet of confirmation and Congressional hazing over the companies' portfolios of mortgage securities.

This delay will give Fan and Fred time to consolidate their political position and fend off attempts to shrink them to a less risky size. At the same time, the $600 million "affordable housing" fund that the bill would skin off the hide of the two firms gives Washington a permanent stake in preserving their dominant market position. If Fannie and Freddie can't be brought to heel now, when weeks ago their very survival was in doubt, not even a newly empowered regulator will have any hope of reducing their claims on the public fisc once the dust settles.

Mr. Paulson might have kept an eye on the taxpayer's interest here by insisting that any money put into the companies come with some upside. Instead we are left to trust that Mr. Paulson or his successor will have the political nerve to resist the companies and their friends on Capitol Hill. Any money given to Fannie and Freddie should have been conditioned on receivership, including clearing out the management and boards that made this mess.

Mr. Paulson argues that the new regulator will have the Federal Reserve's clout behind it. But the Fed is also subject to Congressional sway, and no Fed Chairman is going to risk losing his running room on monetary policy to corral Fan and Fred.

For proof of how powerful they remain, even in their straitened circumstances, look no further than Majority Leader Harry Reid's refusal even to allow a vote on an amendment proposed by South Carolina Republican Jim DeMint to bar the two from lobbying in the future. Senator DeMint has threatened to filibuster if his amendment isn't aired.

Democrats are rushing this bill through because of the favors for Fan and Fred and new spending for left-wing activists like Acorn. But the reluctance of many Republicans to look out for taxpayers is harder to comprehend. They'll get little credit this year for letting the majority Democrats say they did something for "housing," and GOP voters will blame them for rescuing the irresponsible.

Meantime, the White House and Treasury are betting that this bill will put a floor under the housing market and buoy bank stocks, and thus avoid a deeper financial downturn. The rescue will only delay a housing market bottom, and it may or may not help bank stocks. The one certainty is that taxpayers are assuming a huge new risk.

Monkey Business

There's more than a whiff of hypocrisy that the land of bullfighting wants to become the world's leading defender of animal rights. The Spanish Parliament's environment committee passed a resolution last month urging the government to endorse the Great Ape Project.

Founded 15 years ago, this international organization calls for a "community of equals to include all great apes." That "community" would comprise chimpanzees, gorillas, bonobos, orangutans and, yes, you dear reader. Such a move would not raise the status of animals so much as it would diminish that of humans.

If the government in Madrid follows the committee's recommendation, Spain will become the first country to accord apes the rights to life, liberty and protection from torture. In practical terms, that would mean, among other things, that apes would be barred from circuses and, perhaps, zoos. They would also be prohibited from participating in scientific research—a move that would put the welfare of apes above the quest for human lifesaving drugs.

Elevating apes to our ethical realm dehumanizes humans.

The rights campaigners point out that apes share about 95% of our DNA. They argue that apes possess certain human characteristics, including emotions resembling love and hate, the ability to use tools, and communication skills. Many scientists, though, question the evidence showing the great apes' alleged humanlike qualities; only humans, they point out, can understand the concepts of right and wrong and be morally conflicted. In any case, we also share about 90% of DNA with mice but no one (so far) has suggested bestowing special rights on them. Societies are right to set high standards for the treatment of animals, and doing so may even encourage us to be more considerate to each other. The Great Ape Project, though, is likely to have the exact opposite effect. Insisting on rights for great apes elevates animals to our ethical realm and in turn dehumanizes humans. Rather than promoting moral behavior toward man and ape alike, it helps justify treating humans like animals.

Princeton Professor Peter Singer, a cofounder of the Great Ape Project, wants to "break down the barriers between human and nonhuman animals." Denying rights to animals is "speciesism," he says, a prejudice resembling racism.

This is the same Peter Singer who is already notorious for rejecting the notion that human life is sacred. Instead, his utilitarian philosophy has led him to condone the killing of certain handicapped infants up to a month after birth, and, under some conditions, of elderly people no longer able to think for themselves.

The singularity and sanctity of human life is the bedrock of civilization. Where humans are no longer considered invested with an inherent dignity, it quickly leads to the destruction of "undesirable" life.

Infanticide and euthanasia a la Singer are at one end of this spectrum. At the other end is mass murder. The victims of genocide are typically first dehumanized to justify their killing, often by likening them to animals. The Nazis compared the Jews to rats; the Tutsis in Rwanda were likened to cockroaches.

We have a responsibility to diminish animal suffering—a responsibility that derives from our unique human rights. Claiming these rights for animals as well is no moral victory but a slippery slope toward moral relativism.

Democratic Drill

Nancy Pelosi, Harry Reid and other liberal leaders on Capitol Hill are gripped by cold-sweat terror. If they permit a vote on offshore drilling, they know they will lose when Blue Dogs and oil-patch Democrats defect to the GOP position of increasing domestic energy production. So the last failsafe is to shut down Congress.

Majority Leader Reid has decided that deliberation is too taxing for "the world's greatest deliberative body." This week he cut off serious energy amendments to his anti-speculation bill. Then Senate Appropriations baron Robert Byrd abruptly canceled a bill markup planned for yesterday where Republicans intended to press the issue. Mr. Byrd's counterpart in the House, David Obey, is enforcing a similar lockdown. Speaker Pelosi says she won't allow even a debate before Congress's August recess begins in seven days.

The upward pressure on oil prices is caused by rising world-wide consumption and limited growth in supplies. Yet at least 65% of America's undiscovered, recoverable oil, and 40% of its natural gas, is hostage to the Congressional drilling moratorium.

The Democratic leadership is trying to smother any awareness of their responsibility for high prices. They are also trying to quash a revolt among Democrats who realize that the country is still dependent on fossil fuels, no matter how loudly quasi-mystical environmentalists like Al Gore claim otherwise.

Pepper . . . and Salt

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