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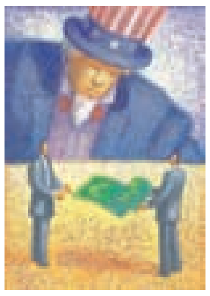

U.S. crises spark new wave of government regulation

ON OTHER FRONTS | PAGES 16-17

Middle majority stands at center of U.S. campaign

ECONOMY & POLITICS | PAGE 10

What's News—

Business & Finance

The Siemens bribes-for-business probe has yielded its first conviction, as a German panel of judges found a former sales executive guilty of breach of trust. The verdict is giving prosecutors fuel to pursue criminal and civil charges against higher-level executives at the engineering giant. Page 1

■ **Unilever is selling** its U.S. laundry business in a deal signaling the difficulties the head of its personal-care unit faces in the race to be CEO. Page 3

■ **A San Marino bank alleges** Barclays sold it customized securities that bore much greater risk than the San Marino bank understood. Page 1

■ **BAE Systems said** it is buying Detica for $1.06 billion, boosting efforts to target the homeland-security markets in the U.K. and U.S. Page 5

■ **A German survey** of consumer morale hit its lowest levels in five years as inflationary pressures took a toll. Page 9

■ **Frederic Mishkin used** his final speech as a Fed official to call for the setting of a specific target for inflation. Page 10

■ **Deutsche Bank** has cut its portfolio of corporate loans, positioning itself to be an acquirer in the second half. Page 19

■ **Financial stocks suffered** after investors in the U.S. and Europe turned skittish on worries about the economy and the outlook for banks. Page 20

■ **Oracle alleged** in court papers that SAP's board knew a subsidiary was stealing Oracle's trade secrets. Page 3

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11131.08	-239.61	-2.11
Nasdaq	2264.22	-46.31	-2.00
DJ Stoxx 600	278.73	-3.03	-1.08
FTSE 100	5312.6	-40.0	-0.75
DAX	6351.15	-85.56	-1.33
CAC 40	4324.45	-52.73	-1.20
Euro	$1.5737	+0.0062	+0.40
Nymex crude	$124.73	+1.47	+1.20

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World-Wide

Four explosions in Iraq killed at least 50 people and dealt a blow to public confidence in the nation's security after recent gains. Three apparent suicide bombers struck in Baghdad as thousands of Shiite pilgrims marched. In Kirkuk, a blast struck where thousands of Kurds had gathered to protest a provincial-elections law. Page 2

■ **U.K. prosecutors said** there isn't enough proof to charge anyone in the 2003 death of British journalist Terry Lloyd in Iraq.

■ **Turkey's top court convened** to consider whether to ban the Islamic-steeped ruling party, with political tensions heightened by the two Istanbul explosions Sunday that killed 17. Page 32

■ **China insisted** on its right to set high tariffs on rice, sugar and cotton, a move that threatened progress toward a global trade deal and drew a sharp rebuke from the U.S. Page 10

■ **Olmert said** Israel and the Palestinians won't reach their goal of a peace deal by year end.

■ **Zimbabwe's power-sharing** talks between the opposition and Mugabe's representatives broke down, officials said. Page 9

■ **Serbian nationalists plan** an antigovernment rally in Belgrade Tuesday evening, hoping to stop Karadzic's extradition. Page 9

■ **Indian police raided** the home of a U.S. citizen in Mumbai and seized a computer from which an email claiming responsibility for Saturday's bombings was believed to have been sent.

■ **Missiles hit** a building in Pakistan on the border with Afghanistan, and intelligence officials said they were investigating reports that a senior al Qaeda figure was among six killed.

■ **Bush praised** Pakistan's Gilani for being committed to the battle against extremists, after the leaders met in Washington.

EDITORIAL & OPINION

A short romance

Obama and Germany are on a break after the senator's calls for NATO solidarity. Page 11

KKR set for the spotlight

Public listings carry scrutiny, downside for money managers

By Cassell Bryan-Low, Peter Lattman And Gregory Zuckerman

As **Kohlberg Kravis Roberts** & Co. contemplates life as a public company, some of the world's biggest money managers can offer a glimpse of what it faces, warts and all.

After a number of private investment firms rushed to sell shares to the public in recent years, many of the funds' founders are now super wealthy. But the traditionally secretive money managers are also discovering a downside: disclosing key personnel departures, dealing with analysts, fielding shareholder lawsuits and watching stocks fall.

KKR's listing on the New York Stock Exchange won't include the sale of shares, as happens with an initial public offering. Rather, it is built around the acquisition of its listed European affiliate, KKR Private Equity Investors LP, shares of which had lost more than half their value since its May 2006 IPO in Amsterdam at $25 a share. Monday, KPE shares rose 32% to $13.90.

BlueBay Asset Management PLC, one of London's largest fund-management firms, with $18.7 billion in assets, saw its stock fall 14% in a day last month after it warned analysts that their earnings expectations were too high, although it didn't provide a specific figure. Chief Executive Hugh Willis cautioned full-year profit would be lower because of poor performance. It also halted redemptions on one of its largest hedge funds, the company said.

Gurjit Kambo, a London-based analyst at Numis Securities, a unit of Numis Corp., cut his estimates for

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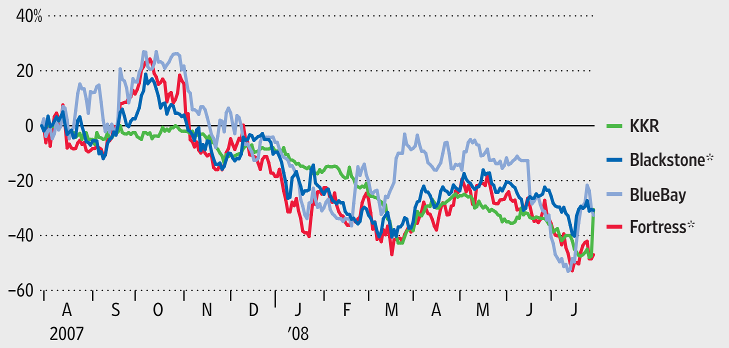
Trading down

52-week share performance of KKR Private Equity Investors, Blackstone Group, BlueBay Asset Management and Fortress Investment Group



*As of midafternoon Monday

Source: Thomson Reuters Datastream

Bribe verdict strengthens Siemens probe

By Mike Esterl And David Crawford

A German panel of judges delivered the first conviction Monday in a massive bribes-for-business investigation at **Siemens** AG, giving prosecutors in Munich more ammunition to pursue criminal and civil charges against higher-ranking executives from the engineering giant.

Klaus Kleinfeld

The criminal verdict of breach of trust against Reinhard Siekaczek came as the German conglomerate itself weighs suing about 10 former members of its management board, including current **Alcoa** Inc. Chief Executive Klaus Kleinfeld, for financial damages in the wake of a scandal that erupted in late 2006, according to people familiar with the matter.

Munich prosecutors already have begun civil proceedings against Mr. Kleinfeld and other former Siemens

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Small San Marino bank sues Barclays over losses

San Marino, an independent republic surrounded by Italy, is tiny, but allegations brought by a bank there are anything but.

A court case filed Monday against the U.K.'s **Barclays** PLC lays bare the risks as London banks provided advice and then designed and sold complex financial products in the months leading up to the credit bust. The suit, brought by **Cassa di Risparmio della Repubblica di San Marino** SpA before London's High Court, is one of an increasing number of lawsuits in which a small or midsize bank is taking a bigger bank to court over credit derivatives.

By **Carrick Mollenkamp** *in London and* **Serena Ng** *in New York*

The San Marino bank alleges that Barclays sold it customized securities, named after the Italian region of Umbria as well as towns that ring Italy's Lake Como, that bore much greater risk than the San Marino bank understood. The suit also says Barclays also sold it investments it didn't need.

The San Marino bank is seeking damages totaling €170 million ($267 million), according to a court claim and press statement the bank issued late Monday. The bank, founded in 1882 and operator of 16 branches, said it incurred €65 million in actual losses and €105 million in lost income. It had net income of €7.2 million in 2007.

A Barclays spokesman declined to comment.

Several institutional investors, banks and other financial firms have sued large investment banks that sold them credit derivatives backed by subprime mortgages, consumer debt and shaky corporate loans. Among their claims: The investment banks had positions in the derivatives that were in conflict with the investors' interests. Plaintiffs, who have pursued claims in U.S. state and federal courts, also allege that big banks withheld crucial information about the quality of the investments, which fell in value or defaulted months after being sold.

"What we are seeing this time around clearly is just a far greater prevalence of these products, far greater complexity, and far greater mix of interested parties," said Jay Tambe, a securities lawyer at the Jones Day law firm in New York, who isn't involved in the San

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THE WALL STREET JOURNAL.

LEADING THE NEWS

Iraq blasts kill at least 50

Attacks come despite strides in security; sustainable gains?

By Gina Chon

Associated Press

A police officer searches bags of female pilgrims Monday after **three suicide attacks** and a roadside-bomb explosion left at least 50 people dead across Iraq.

BAGHDAD—Four explosions killed at least 50 people across Iraq Monday, a reminder that despite recent security improvements lauded by U.S. and Iraqi officials, insurgents still have the capability to launch high-profile attacks.

Three apparent suicide attacks rocked Baghdad, where thousands had gathered for a Shiite pilgrimage. Another explosion ripped through the northern city of Kirkuk, where thousands of Kurds had gathered to protest a provincial-elections law.

Women suicide bombers were suspected in the three Baghdad attacks, according to an Iraqi security official and a U.S. military official. Women have been involved in more than a dozen suicide attacks this year.

Iraq has been seeing relative peace return to many areas of the country, where violence is down to its lowest level in years. For instance, in June 2007, there were 321 so-called improvised-explosive attacks in the central and southern area of Iraq, compared to 33 such explosions last month, according to the U.S. military.

But U.S. military officials have stressed that it is still too early to determine whether the security improvements are sustainable. In Baghdad, many roads had already been closed and a curfew had been imposed Monday to tighten security ahead of the pilgrimage to the Kadhamiya shrine.

Iraqi authorities said they suspected al Qaeda in Iraq was behind the three Baghdad explosions on Monday, and they blamed the Sunni extremist group for a separate attack on Sunday. In that earlier attack, seven people were killed by gunfire south of Baghdad as they made their way to the shrine.

A suicide bomber was also believed to be behind the Kirkuk attack. In that relatively peaceful oil town in the north, thousands of people had been protesting an elections law that called for splitting evenly the number of provincial council seats among Kurds, Turkmen and Arabs. All three ethnic groups lay claim to the oil-rich area, but the Kurds dominate the provincial government there.

The provincial-elections legislation was vetoed last week by Iraqi President Jalal Talabani, a Kurd. Parliament is now working to hammer out a compromise before the legislature takes a break in August.

Provincial elections were scheduled to take place in October, but will likely be delayed because of continuing disagreements over the elections law.

CORRECTIONS & AMPLIFICATIONS

The U.S. Commerce Department tracks manufacturing and trade-industry sales at a seasonally adjusted monthly rate. A graphic Monday that accompanied an Economy & Politics page article about the possibility of a U.S. recession incorrectly said sales data were seasonally adjusted at an annual rate.

KKR set for more scrutiny

Continued from first page

pretax profit to 19.1 pence (38 U.S. cents) per share for the fiscal year ended in June, from 22 pence. BlueBay reports its fiscal 2008 figures in September.

For asset managers, being publicly traded "is a tougher job for the company because they've got to keep so many stakeholders happy," including analysts and shareholders, says Mr. Kambo. "There's a greater scrutiny you get from the market and more costs involved in meeting the regulatory requirements."

Shares of BlueBay, as well as other public newbies **Blackstone Group** LP, **Fortress Investment Group** LLC, **GLG Partners** LP and **Och-Ziff Capital Management Group** LLC, all are trading below their listing prices—and in many cases well below. Fortress shares are off about 73% from their peak of $37 just after the initial public offering in February 2007.

Of course, hedge-fund executives who have taken their companies public have made billions of dollars. Blackstone executives Stephen Schwarzman and Pete Peterson pocketed $684 million and $1.9 billion in cash, respectively, on the company's IPO—and that doesn't include the value of their stakes in the firm. Daniel Och, who left Goldman Sachs Group Inc. in 1994 to launch Och-Ziff, made $1 billion last year when his firm went public. He plowed the money back into his hedge funds.

Hedge-fund executives say having publicly traded stock can be a useful tool to expand the business, either through making acquisitions or attracting talent. Some also say that being a publicly listed company—and the transparency it demands—helps lend legitimacy to the fund in the eyes of investors. One reason London-based hedge fund GLG gave when it went public, for instance, was a desire to raise its profile and expand into new markets such as the U.S. and the Middle East. That strategy worked for a while—GLG was able to raise billions of new money after going public.

But the listing also means GLG needs to air its dirty laundry. It disclosed in a U.S. Securities and Exchange Commission filing this spring that top trader Greg Coffey had resigned, rescinded his resignation and then decided to leave after all, but not until October. The flip-flop exacerbated investor concern about the departure of Mr. Coffey, who manages more than a fifth of the firm's roughly $24.6 billion in assets.

"One of the main motivations which we had in going public was to create a currency to attract and retain our key people. Obviously in this case, it didn't work," said GLG co-CEO Noam Gottesman on a May call with investors and media to discuss the firm's quarterly earnings results. That said, GLG has been able to use cash and stock generated by its public listing to lure four key employees from Wall Street firms like Goldman Sachs and Morgan Stanley to try to offset Mr. Coffey's departure.

A public listing can be a turnoff for some fund investors. Christopher Peel, head of BlackSquare Capital LLP, a London-based fund-of-fund group with about $300 million in assets, said public firms' funds are less appealing because public companies can't talk privately to big investors about information, like a manager's view of the markets. "From an investor's point of view, I like to be able to pick up my phone and communicate with my manager," Mr. Peel says.

Private-equity firm Blackstone used its public shares to help purchase credit-hedge fund GSO Capital Partners LP in March for as much as $930 million, with a substantial portion paid with Blackstone stock.

And, in the gossipy world of fund management, some firms are finding their businesses picked apart by rivals looking to profit from declines in their share prices. London's **RAB Capital** PLC, for instance, found itself the target of short sellers earlier this year. The shorts were betting against RAB because they saw its very public investment in troubled U.K. lender Northern Rock PLC sour. RAB lost large amounts of money when the U.K. government stepped in and nationalized Northern Rock this year.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

Unilever sells soaps unit

Detergents deal shows challenges for CEO candidate

BY AARON O. PATRICK

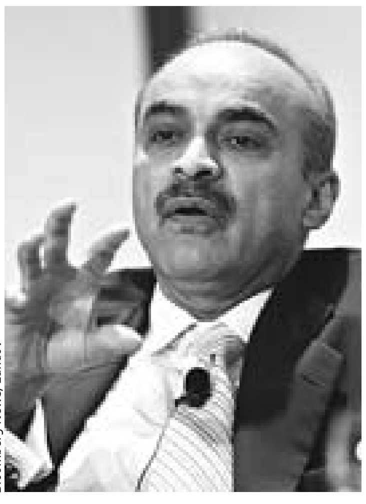
Unilever threw in the towel on the U.S. laundry-detergent business, agreeing Monday to sell All, Surf, Snuggle and other detergents to a private-equity firm.

The sale signals the depth of the challenges facing Manvinder Singh Banga, the consumer-products firm's head of personal-care and food products and a leading candidate to be its next chief executive.

The maker of Dove skin creams, Hellmann's mayonnaise, and Ben & Jerry's ice cream among other products decided to sell its North American laundry operations after calculating it had lost too many shoppers to rivals, primarily **Procter & Gamble** Co. **Vestar Capital Partners** Inc. agreed to buy them for $1.075 billion in cash and $375 million in shares in the company Vestar will form with the brands, to be called Sun Products Corp.

If Mr. Banga, 53 years old, can expand sales, launch more products, and unite Unilever's food and consumer-products businesses, which traditionally operated so separately that they didn't even share marketing ideas, he has a good shot at succeeding CEO Patrick Cescau, 59. The change is likely next year, a person familiar with the situation said. The company has retained Egon Zehnder International in London to help vet candidates.

Mr. Banga's background—he is from India and began his career at Unilever's operations there—also should help. Unilever is increasingly focusing on developing markets, where spending on consumer goods is growing quickly and P&G isn't as strong as in big Western countries. Developing markets account for about 44% of the company's annual sales of €40 billion ($63 billion).



Manvinder Singh Banga is a candidate to be Unilever's next CEO.

Mr. Banga will get a report card Thursday when Unilever posts second-quarter results. Unilever reported strong first-quarter results. At the time, analysts noted Unilever's turnaround plans seemed to be taking hold and several expect the momentum to continue. Mr. Banga declined to comment.

Mr. Banga is one of a group of potential CEO candidates from diverse backgrounds at Unilever, something Mr. Cescau has fostered. For the first time in its 79-year history, Unilever, headquartered in London and Rotterdam, has no English or Dutch people on its executive committee. On the committee: Mr. Banga and Harish Manwani, another star from Unilever's India operations, are the most likely CEO candidates, analysts say. Mr. Manwani is in charge of all emerging markets.

Unilever's president of Western Europe, Doug Baillie, also could be a candidate if he performs well this year, a person familiar with the situation said. Born in Zimbabwe, Mr. Baillie was chief executive of Unilever's Indian unit from 2006 until the start of this year. Mr. Baillie and Mr. Manwani didn't respond to emails seeking comment.

Mr. Banga joined Unilever's Indian subsidiary in 1977 out of one of India's top business schools, the Indian Institute of Management in Ahmedabad. He was steadily promoted and in the late 1990s was in charge of laundry detergents when P&G launched a version of its Ariel detergent in India. To fight Ariel, Mr. Banga put Unilever's Surf brand in containers with plastic handles, something new to India, a company spokesman said. It worked and Unilever's sales held up.

In 2000, he became chairman of the Indian unit. He took the surprising approach—which paid off—of expanding its production of traditional Indian bread chapatis to make Unilever less dependent on sales of tea, food oils and other products, says Muktesh Pant, a Unilever executive at the time, now chief marketing officer of Yum Brands Inc.'s international restaurants division.

The promotion of Indians like Mr. Banga to top jobs at Unilever are an example of the shifts in management taking place as developing markets like India become increasingly important, Martin Sorrell, chief executive of ad giant WPP Group PLC told analysts earlier this year. Unilever is a big WPP client.

At Unilever, when he took over the food businesses, Mr. Banga realized that sales of food consumers perceived as healthy were growing quickly, and "most Unilever products don't make health claims," he said at an analyst briefing last year.

Armed with data on the fat, salt and sugar in each of its 22,000 products, Mr. Banga's division began to redesign them. Salt was cut from soups. Unilever's scientists came up with a low-fat frozen yogurt, fruit and cereal snack, called Frusi.

To streamline research, Mr. Banga canceled 65% of food-research projects in Europe and is cutting 250 research jobs, figuring it would be more efficient to use start-ups and specialized research companies.

—David Enrich contributed to this article

Ex-Siemens executive convicted

Continued from first page

board members on suspicion of failed oversight, these people added. Mr. Kleinfeld, who stepped down as Siemens' CEO in June 2007, has denied any wrongdoing.

An Alcoa spokesman deferred comment Monday on behalf of Mr. Kleinfeld. "We think it is best to confirm details of this investigation with the German authorities who are conducting it," the spokesman wrote in an email.

A Munich court on Monday gave Mr. Siekaczek, a senior sales executive at Siemens until 2004, a two-year suspended sentence and fined him €108,000, or about $170,000, for breach of trust. The court ruled that he had funneled €49 million into slush funds between 2002 and 2004 for bribes to help win infrastructure contracts around the globe.

Prosecutors can use the conviction against Mr. Siekaczek, 57 years old, who received a lenient sentence after cooperating with authorities, as a building block in potential indictments against more-senior executives. Mr. Siekaczek testified that his superiors were aware of the bribery system, which he described as widespread at Siemens.

In October, Siemens flagged €1.3 billion in suspicious transactions that occurred between 2000 and 2006. The scandal has led to a dramatic shake-up at the trains-to-light bulbs conglomerate. Only one of the management-board members from late 2006, before the investigation started, remains on the board.

A spokesman for Munich prosecutors said Monday that authorities are pursuing leads on nearly 300 suspects in the criminal investigation.

Munich prosecutors have named three former management-board members—Heinz-Joachim Neubürger, Thomas Ganswindt and Uriel Sharef—as criminal suspects during the course of the investigation but those people haven't been charged. Messrs. Neubürger, Ganswindt and Sharef have denied any wrongdoing.

A lawyer for Mr. Siekaczek said his client won't appeal Monday's verdict. Mr. Siekaczek worked at Siemens for 38 years, eventually reporting to the board of the telecom-equipment unit, which in turn reported to Siemens' management board.

Mr. Siekaczek's testimony formed the basis of a Munich court ruling last October that fined Siemens €201 million for €12 million in bribes paid in Nigeria, Russia and Libya. More than 10 countries—including the U.S.—are investigating Siemens for wrongdoing, raising the specter of more fines and sanctions against the company.

Siemens' nonexecutive supervisory board plans to discuss at a meeting Tuesday whether to file civil lawsuits for financial damages against about 10 former management board members accused of not doing enough to clamp down on corruption, according to people familiar with the matter.

Munich prosecutors said in May they had begun civil proceedings against former Siemens Chairman Heinrich von Pierer and an undisclosed number of other former board members for failed oversight. Authorities haven't published the names of the other individuals but Mr. Kleinfeld is on the list, according to people familiar with the matter.

Mr. von Pierer has denied any wrongdoing.

Oracle claims SAP board knew trade secrets stolen

BY BEN WORTHEN

Oracle Corp. alleged in a U.S. federal-court filing Monday that members of the executive board of rival **SAP** AG knew that an SAP subsidiary was stealing Oracle's trade secrets.

The filing, Oracle's latest salvo in a lawsuit between the business-software giants, is part of a suit Oracle filed against SAP in U.S. District Court in San Francisco in March 2007. The suit alleged that TomorrowNow Inc., which SAP acquired in January 2005, illegally accessed and reused Oracle's software-support documentation. A trial in the case is set for February 2010.

TomorrowNow provides discounted technical support for businesses that use software from Oracle. SAP acquired TomorrowNow as part of a larger program designed to win over customers from Oracle. SAP last week said it will close TomorrowNow in October.

In July 2007, SAP admitted some inappropriate downloads on the part of TomorrowNow. SAP Chief Executive Henning Kagermann said he took steps to strengthen oversight of TomorrowNow as soon as he learned about the activity.

In an amended complaint filed Monday in the San Francisco Federal Court, Oracle alleges that Mr. Kagermann and other members of SAP's executive team knew that TomorrowNow misused Oracle's intellectual property before making the acquisition. The new allegations are based on documents uncovered during the discovery phase of the lawsuit and witness depositions.

An SAP spokesman said the complaint repeats themes and allegations Oracle has made in the past.

"Ultimately, the court and the legal system will determine the facts in this case," he said. SAP reports earnings for its second quarter on Tuesday.

A spokeswoman for Oracle declined to comment on the lawsuit.

In one document cited in Oracle's amended complaint, SAP executives were warned that TomorrowNow's access to the software "is very likely to be challenged by Oracle" and that TomorrowNow's operating practices "may be a serious liability." In another, a member of SAP's due-diligence team warned an executive board member that it was "very likely that TomorrowNow is using [Oracle's] software outside the contractual rights granted to them."

The amended complaint charges that SAP's senior leadership developed a plan to discontinue TomorrowNow's alleged illegal activity, but that the plan was never enacted.

Instead, SAP continued to let TomorrowNow download its rival's trade secrets, according to the Oracle complaint.

Barclays sued on derivatives

Continued from first page

Marino case. He expects additional disputes to land in court.

The San Marino bank says it turned to Barclays in 2003 for help in getting financing for two affiliated Italian consumer-finance companies, Carifin SpA and PlusValore SpA, both based in Bologna.

Barclays provided the financing, but it came through a complicated web of investments, according to the complaint against Barclays and affiliates in the Cayman Islands and Dublin.

The San Marino bank claims that Barclays agreed in 2004 to provide €700 million in financing for Carifin and PlusValore, but only on condition that the San Marino bank purchase €450 million of a complex tier of notes that were underpinned by structures known as credit default swaps and collateralized debt obligations, which had names such as Cernobbio and Como.

San Marino says it didn't know that the notes were backed by credit default swaps, or insurance contracts, that effectively put the tiny bank on the hook for debt owed by Carifin and PlusValore. The bank thought it was only serving as an insurer against consumer financing provided by those companies. The two companies are owned by a holding company, **Delta** SpA. At the time, the San Marino bank owned 100% of Delta; today it owns 30%.

Separately, the San Marino bank claims that those notes included CDO debt pools—made more complex because the pools were backed by other CDOs—called Umbria II and Como and Como II. As a result, the San Marino bank claims it incurred "heavy losses."

The complexity of such transactions makes the cases hard to win in court, because courts may have trouble grasping the structures and because of a lack of precedents, says Talcott Franklin, a Dallas lawyer at the Patton Boggs law firm, who isn't involved in these cases.

The San Marino suit follows others. Midsize German lender **HSH Nordbank** AG sued Switzerland's biggest bank, **UBS** AG, in New York state court in February. HSH alleges that UBS sold it $500 million in a debt structure that UBS's now-defunct hedge fund, Dillon Read Capital Management, used as a place to put troubled subprime-mortgage securities. HSH claims it suffered a loss of at least $275 million. UBS had sought a hearing in London's High Court—where UBS said it had committed no wrongdoing—but the court chose not to hear it. UBS is appealing that decision.

Last month, regional U.S. bank **M&T Bank** Corp., based in Buffalo, N.Y., sued **Deutsche Bank** AG over $82 million of soured investments.

At the heart of M&T's case: Last year, it bought highly rated notes in two CDOs from Deutsche. The German bank helped create and market the investments, and also owned a piece of the vehicle that ranked above M&T's holdings, meaning that Deutsche's holdings would receive income before M&T's. The notes are now close to default and worth a fraction of their original value.

In filings in New York state court, M&T says Deutsche sold the CDO notes as "safe, secure and nearly risk-free investments" but didn't say that the collateral backing the notes "was impaired and rapidly deteriorating." Deutsche also didn't disclose that it owned higher-ranking notes in the same vehicle, putting its interests in conflict with M&T, the bank alleges.

Deutsche hasn't filed a response to the lawsuit so far. A spokesman for the German bank declined to comment.

CORPORATE NEWS

ENERGY

Lukoil purchases Akpet of Turkey for €318 million

RUSSIA'S largest nongovernment-controlled oil producer, OAO **Lukoil**, said it paid $500 million (€318 million) for Akpet, as it expands more into European downstream assets.

Akpet, an **Aytemiz Group** subsidiary, operates 693 gas stations and has a 5% market share in Turkey, Lukoil said. Lukoil tried to buy Akpet last year and has an interest in expanding in Turkey because of the country's geopolitical importance and large market. The deal also includes eight oil-product terminals, five storage tanks for liquefied natural gas, three jet fuel terminals and a motor-oil production and packaging plant.

—Jacob Gronholt-Pedersen

COMPONENTS

Schneider Electric buys Canada-based Xantrex

FRENCH electrical-parts company **Schneider Electric** SA said it acquired Canada-based **Xantrex Technology** Inc. in a deal valued at 415 million Canadian dollars (US$407 million).

Schneider said Xantrex is focused on solar and wind inverters, which convert raw electrical power from renewable energy generators into power.

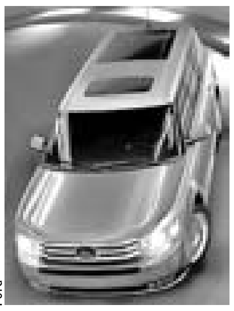
The deal is expected to close by October.

Schneider said Xantrex's largest shareholder, OCM Principal Opportunities Fund LP, which owns about 24.4% of the company, agreed to vote in favor of the offer of C$15 a share.

—Geraldine Amiel

WSJ.com

Ford's Flex crossover may test current market


Ford

THE THREE U.S. auto giants are putting themselves through the wringer to become more competitive in the small-car market. But the American auto industry's future may depend as much on whether car makers can build large vehicles that make sense in a world of expensive oil.

Not entirely by design, Ford is launching the Flex above, an automotive platypus. Ford sees the model as fuel efficient for its size and calls it a "crossover."

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

Drug makers seek antiobesity blockbuster

Firms test new ways to safely fight flab; cautious investors

By Jason Douglas
London

AHANDFUL of drug companies are testing new ways to treat obesity after years of research into the condition have failed to produce a blockbuster for big pharma.

These firms are hoping their drugs, most of which are at mid-stage phase II trials, will prove more successful. But after the disappointments of the past, investors remain cautious and are demanding data robust enough to convince them and the world's regulators that the drugs have what it takes to safely and effectively fight the flab.

The stakes are high. According to World Health Organization figures from 2005, there are 1.6 billion overweight adults in the world and at least 400 million who are classified as obese. That is forecast to rise to 2.3 billion overweight and 700 million obese by 2015.

"There's a huge market there," said Gareth Powell, manager of London-based Polar Capital Partners' Healthcare Opportunities fund.

Drugs to treat obesity have been around since early in the 20th century, but none have become true blockbusters. Figures from IMS Health show the handful of approved antiobesity medications posted combined world-wide sales of $1.76 billion in the 12 months to the end of the second quarter this year. That is tiny by pharmaceutical standards.

"The basic answer is we don't have the right benefit-to-risk ratio with any of the products on the marketplace," said Mads Krogsgaard Thomsen, chief science officer of Denmark's **Novo Nordisk** AS. In June, Novo Nordisk reported results from a phase II trial that found 75% of patients on its drug liraglutide lost more than 5% of their weight.

Another drug, **Amylin Pharmaceuticals** Inc.'s combination of pramlintide, also for diabetes, and metreleptin, an analogue of a hormone, reduced body weight on average 12.7% in a phase II study of 177 patients last year. The U.K.'s **Alizyme** PLC is developing Cetilistat, a drug that prevents the absorption of fat in a similar way to **Roche Holding** AG's Xenical. It too showed a statistically significant weight loss in a phase II trial, but fewer of the side effects seen with the Roche drug, the company said.

Arena Pharmaceuticals Inc. is recruiting about 7,000 patients into three phase III trials to test its antiobesity agent, lorcaserin, while Denmark's **NeuroSearch** AS is developing tesofensine. But all of these companies—and they are not the only ones with products in the clinic—have yet to convince physicians and investors that their drugs will do much better financially than previous weight-loss drugs.

Only three drugs have been approved for long-term use in the U.S.: **Wyeth**'s Redux, pulled off the market in 1997 after being linked to heart-valve problems; **Abbott Laboratories**' Meridia, sales of which don't meet Abbott's threshold for publishing figures; and Roche's Xenical, which despite a roaring start has failed to reach blockbuster sales, a failure blamed on its embarrassing gastrointestinal side effects. Acomplia, a weight-loss pill from France's **Sanofi-Aventis** SA, was refused marketing approval by the U.S. Food and Drug Administration in 2007 after reports of psychiatric side effects including suicidal feelings among users. It is approved in Europe.

Side effects might still be an issue for some of the new agents being tested. Arena's lorcaserin targets a receptor in the brain that is also affected by fenfluramine, a drug withdrawn in 1997 after being linked to heart-valve damage. NeuroSearch reported a slight increase in heart rate and blood pressure among some patients in its tesofensine trials, though it said these effects weren't clinically significant, and Arena said its drug is far more selective than fenfluramine and won't cause the same cardiovascular effects. That has so far been backed up by an independent review board, which has scrutinized data from patients in the first of its trials, the company said.

Both Novo Nordisk's liraglutide and Amylin's pramlintide product are injectable, which might put off some patients, and Alizyme has yet to find a partner to pay for the expensive phase III trials of Cetilistat. But Alizyme Chief Executive Tim McCarthy pointed out that his firm has already signed up **Takeda Pharmaceutical** Co. as its Japanese partner, and said discussions with other firms are continuing and are intensive.

Most investors want to see results from phase III trials before committing. "Agents today have produced a 5% weight loss, which takes an obese person and makes them slightly less obese," said Gemma Game, a senior health-care portfolio manager at AXA Framlington in London.

Price is also an issue. Arne Astrup, head professor at the University of Copenhagen's department of human nutrition, thinks obesity drugs so far simply haven't worked well enough to justify their high price. Except in a few extreme cases, insurers or state-run health authorities consider obesity a lifestyle issue and don't pay for the drugs to reduce it.

"When we have a better balance between the weight loss, efficacy and price, I have no doubt it will be patient driven," Prof. Astrup said. "People will stand in line and wait for them for hours." He and his patients have been involved in drug trials with both NeuroSearch and Novo Nordisk.

Big pharma, despite its past failures, has its own pipeline of antiobesity drugs in development. **Merck** & Co, **Pfizer** Inc., **Bristol-Myers Squibb** Co., **Solvay** SA and Sanofi-Aventis are among those with drugs in the clinic.

Nonetheless, such is the commercial opportunity of obesity that big pharma is tracking the progress of smaller companies very carefully, according to Edison Investment Research analyst Jacob Plieth, author of a recent report on obesity and the drugs being developed to treat it.

"If one or more of these products is successful, then it's going to be a huge in-licensing opportunity," he said.

Fat busters

Drug firms are pioneering ways to fight obesity, one of the world's fastest-growing health problems. These are among the products in mid-stage and late-stage clinical trials:

Company	Drug	Country
Alizyme	**Cetilistat**	U.K.
Amylin Pharmaceuticals	**Pramlintide/Metreleptin**	U.S.
Arena Pharmaceuticals	**Lorcaserin**	U.S.
NeuroSearch	**Tesofensine**	Denmark
Novo Nordisk	**Liraglutide**	Denmark

Source: the companies

Asset sales boost Endesa's profit

By Bernd Radowitz

MADRID—**Endesa** SA said first-half net profit rose sharply, boosted by capital gains from the sale of assets to German power company **E.On** AG.

Endesa, Spain's second-largest utility by market value after **Iberdrola** SA, posted net profit of €6 billion ($9.42 billion), compared with €1.26 billion a year earlier. The company booked gains of €4.55 billion related to the disposal of assets to E.On.

The agreement early last year to sell the assets followed a two-year bidding war over Endesa. During the battle, Spain's government tried to block E.On's offer to buy the Spanish utility. That sparked a conflict with the European Commission, the European Union's executive arm.

E.On eventually agreed to withdraw its bid for Endesa, clearing the way for a joint purchase of the Spanish utility **Enel** Spa (which is based in Italy) and Spanish construction company **Acciona** SA. The two companies now jointly hold 92% of Endesa, but in recent months have been at odds over senior management appointments and other business decisions.

In return for E.On's withdrawal, Enel agreed to sell the German company its Spanish electricity supplier, Viesgo, and certain Endesa assets, including operations in Italy, France, Poland and Turkey.

Endesa said that excluding the gains and other items, first-half profit rose 17% to €1.22 billion from a year earlier.

Sales rose 30% to €10.79 billion from €8.29 billion in the year-earlier period. Income from the company's Spanish and Portuguese activities rose 14%, while income from its Latin American activities jumped 32%.

The results were also helped by higher retail electricity prices in Spain and a rise in Endesa's output of nuclear energy.

Still, profit growth was curbed somewhat by soaring fuel prices and higher prices for carbon-dioxide-emissions rights. Skyrocketing prices for oil and gas have squeezed profit margins at European power companies recently as regulators have been slow to allow increases in electricity prices.

Spain's Industry Ministry in January approved a 3.3% increase in consumer electricity prices, but Endesa said the increase wasn't enough. The government granted a new 5.6% increase as of July 1.

The company had net debt of €12.56 billion as of June 30, down 40% from the Dec. 31 level.

CORPORATE NEWS

Ryanair swings to a loss

Aer Lingus charge and higher oil prices deliver one-two blow

A WSJ News Roundup

DUBLIN—**Ryanair Holdings** PLC, Europe's biggest budget airline by passengers carried, posted its first quarterly net loss since becoming a publicly listed company in 1997.

Chief Executive Michael O'Leary warned that Ryanair also could be headed for a full-year loss because of stubbornly high oil prices and tightening consumer spending.

"The emerging economic recession in the United Kingdom and Ireland caused by the global credit crisis and high oil prices means that consumer confidence is plummeting, and we believe this will have an adverse impact on fares for the rest of the year," Mr. O'Leary said. "We will respond as always with lower fares and aggressive pricing to keep people flying," he said.

Ryanair's unexpectedly poor results drove down shares in the carrier 23% in Dublin and hit airline stocks across Europe, particularly shares in rival U.K.-based no-frills carrier **easyJet** PLC, which fell 8% on the London Stock Exchange.

For the quarter ended June 30, Ryanair reported a net loss of €90.5 million ($142.1 million). The results were hit by charges for depreciating assets: €93.6 million for its stake in rival Irish carrier **Aer Lingus** PLC and €17.9 million on 15 aircraft being decommissioned in the coming year.

Accounting rules require Ryanair to record a loss on its Aer Lingus investment—even though it has stated no intention of selling its nearly 30% holding—because Aer Lingus shares have fallen in value for three straight quarters. Mr. O'Leary said Ryanair remains committed to acquiring Aer Lingus, though European Union competition authorities, the Irish government and Aer Lingus employees oppose the effort.

Excluding these charges, Ryanair would have posted a profit of €21 million, down 85% from €138.9 million in the year-earlier period.

Mr. O'Leary noted that Easter, a high-traffic holiday that normally boosts first-quarter results, fell in March instead of April this year.

Sales rose 12% to €776.9 million in the quarter from €693 million. Nonticket revenue grew 25%, a trend Ryanair expects to continue.

Traffic grew 19% to 15 million passengers, while load factor, a measure of how full planes are, was nearly flat at 81%, despite Easter's early date.

Mr. O'Leary said the airline's first-quarter fuel bill rose 93% to €367 million and represents nearly half of total operating expenses, up from 36% a year ago.

He said Ryanair was on course to either break even in fiscal 2009 or post a net loss of as much as €60 million. He based that forecast on a scenario in which oil prices remain near $130 through March 2009 and average Ryanair fares fall 5% during the traditionally lean winter months.

Howard Millar, Ryanair's deputy chief executive and chief financial officer, said the company would do a trial of a "zero-baggage" flight this winter in an attempt to cut costs. The savings would be generated by getting rid of check-in staff and baggage handlers, he said.

BAE to acquire consultant Detica

By Vladimir Guevarra

LONDON—U.K. defense and information-technology company **BAE Systems** PLC said it is buying **Detica Group** PLC for £531 million ($1.06 billion).

BAE, Europe's largest defense contractor by sales, said the proposed acquisition of the consulting company would boost efforts to target the homeland-security markets in the U.K. and the U.S.

U.K.-based Detica helps U.S. and European governments and businesses in developing databases of complex intelligence from different formats, such as email and spreadsheets. The company also helps companies build computer-hardware systems. Key clients include the U.K.'s Royal Navy and Ministry of Defense, as well as London's Metropolitan Police Service.

BAE has engineered a turnaround in recent years by improving relations with the U.K.'s Ministry of Defense. Its international focus expanded when the company bought two big U.S. land-vehicle producers—United Defense Industries Inc. for about $4 billion in 2005 and Armor Holdings Inc. for $4.1 billion in 2007—while demand for ground equipment has surged with the conflicts in Iraq and Afghanistan.

In a joint statement, BAE and Detica said their boards had "reached agreement on the terms of a recommended cash offer" of 440 pence a share, or £531 million. BAE also will take on £7 million of Detica's debt.

Detica shares rose 18% to 437 pence, while BAE shares fell 1.1% to 440.50 pence.

The offer from BAE represents a 57% premium to Detica's closing price July 17, the day before Detica said it received a preliminary approach. Detica shareholders remain entitled to receive a final dividend of 2.5 pence a share for the year ended March 31.

BAE's offer indicates a "very full valuation," said Panmure Gordon analyst George O'Connor. "It's a substantial premium, so I can see Detica shareholders doing cartwheels now," he said, adding, "At this price, it would be very hard to envisage a bidding war."

Mr. O'Connor said BAE's purchase "makes a lot of strategic sense" because it is "buying entry into a market around security and security services."

Detica Chief Executive Tom Black said the company believes its prospects for development under BAE's ownership will be attractive to customers and employees. "We expect to be able to generate continued growth in our core business and gain further critical mass in newer markets such as the U.S.," Mr. Black said.

Tesco ponders creating a retail bank

By Lilly Vitorovich

U.K. retailer **Tesco** PLC said it may eventually create a full-service retail bank after buying out **Royal Bank of Scotland Group** PLC's half of a finance joint venture.

Tesco, the U.K.'s biggest retailer by sales, said it paid £950 million ($1.89 billion) for RBS's 50% stake in Tesco Personal Finance Group Ltd., which provides loans, credit cards and savings accounts. Tesco will also buy subordinated shareholder loans held by RBS, at a market value of about £100 million.

Offering the services of a full retail bank could help Tesco bring in a total annual profit of £1 billion "in the foreseeable future," said Tesco Finance and Strategy Director Andrew Higginson. This would be more than double the £400 million profit it now makes from its retailing services, which also include telecommunications and Internet-shopping operations.

After taking a strong lead in the highly competitive U.K. retail sector in the past decade, Tesco has increasingly looked to diversify into services arena. "Services are bigger and faster-growing markets than food," Chief Executive Terry Leahy said in a statement. "As consumers look to make every pound work harder, it is a good time for Tesco to expand its presence."

The retailer said its current plans for the personal-finance unit include a bigger presence in Tesco's stores, a wider range of savings products and, possibly in the future, a checking-account product.

A new full-service retail-banking operation from Tesco is unlikely to pose a short-term threat to the U.K.'s big banks, which have diversified into other areas such as mortgage lending and, in some cases, investment banking, industry observers say. But with a huge customer base and a loyal following, and its tradition of offering value deals in any market it enters, Tesco could take retail-banking market share from the likes of Lloyds TSB Group PLC and RBS itself.

RBS said its gain on the sale is around £500 million, expected to go toward boosting the bank's balance sheet, which has been hit by write-downs and the acquisition of ABN Amro Holding NV last year.

BBVA's net declines 19% as charges offset growth

By Christopher Bjork

Banco Bilbao Vizcaya Argentaria SA posted a 19% fall in second-quarter net profit as charges for early retirements at its Iberian operations offset resilient growth in Mexico. Spain's second-largest bank by assets behind **Banco Santander** SA nevertheless stuck with its forecast of double-digit profit growth in Spain and Portugal.

Net profit fell to €1.16 billion ($1.82 billion) from €1.42 billion a year earlier, after the bank, which is based in Bilbao in the north of Spain, booked a €329 million charge for early retirements. Last year, in an effort to increase efficiency, BBVA announced the early retirement of nearly 1,000 employees.

Net interest income rose 24% to €2.95 billion.

For the first half, BBVA reported a 7.9% drop in net profit to €3.11 billion.

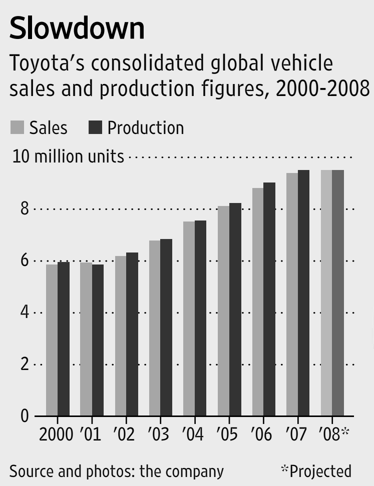
As with other Spanish banks that have released second-quarter earnings, BBVA's results showed operating trends in its home market are deteriorating. Total loans in Spain and Portugal rose 6.5% from a year earlier and the share of nonperforming loans nearly doubled to 1.22% of total loans by the end of June.

Still, BBVA was able to offset the softening by keeping its cost growth to less than the inflation level and by widening its lending margins. Excluding the early-retirement charge and other nonrecurring items, profit in the first half in Spain and Portugal would have risen 16% to €1.34 billion.

In Mexico, which contributes about one-third of total earnings, business activity eased, as loans grew at an annual pace of 23% at the end of the first half, down from 28% at the end of the first quarter. First-half profit in Mexico rose 7.6% to €950 million, while profit from South America rose 7.5% to €351 million.

Some analysts said the slowdown in activity showed that BBVA's Mexican business wasn't immune to a cooling U.S. economy.

"Obviously, Mexico is feeling the U.S. downturn, but its level of resistance is much higher than in other crises," said Chief Operating Officer José Ignacio Goirigolzarri.



Sales of the **Prius**, top, have been rising while those of the **Tundra pickup truck**, by contrast, have declined.

Toyota lowers sales forecast as U.S.'s truck demand drops

By John Murphy

TOKYO—**Toyota Motor** Corp. trimmed its world-wide annual sales forecast as demand for its trucks and sport-utility vehicles continues to crumble in the U.S.

Toyota's bleak outlook for the year shows that the Japanese auto giant will be unable to offset sales losses in America even as it continues an aggressive expansion in China, the Middle East and other emerging markets. Global auto makers are suffering from a steep sales downturn in the U.S. amid an economic slowdown. They also are scrambling to overhaul their production toward smaller, more fuel-efficient vehicles, as high gas prices push consumers away from once-popular larger vehicles.

Toyota, which has been closing in on General Motors Corp. for the crown of the world's largest auto maker, cut world-wide sales plans for 2008 by 350,000 units to 9.5 million units.

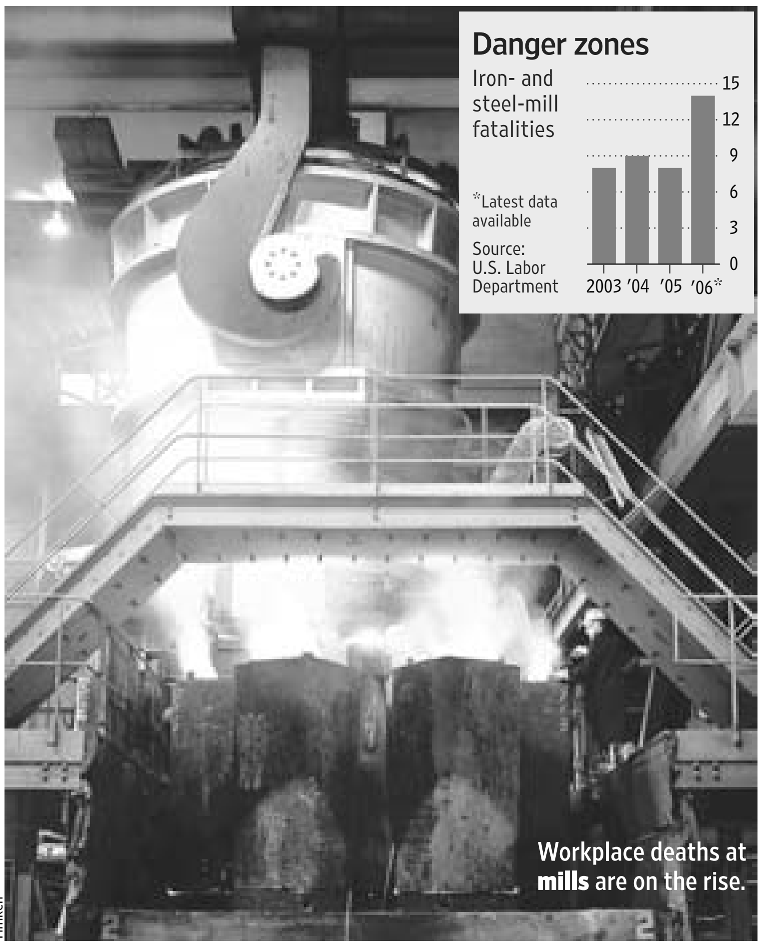
The new forecast represents a 1% increase above its global sales in 2007, and would represent Toyota's weakest growth since 2001. The company also reduced its global production plan for this year to 9.50 million vehicles from 9.95 million. The numbers include sales and production at its subsidiaries Daihatsu Motor Co. and Hino Motors Ltd.

Toyota expects the sharpest sales declines in the U.S., where the popularity of its Prius hybrid and other smaller cars hasn't been sufficient to help it overcome the slump in demand for its larger vehicles such as the Tundra full-size pickup truck and 4Runner SUV.

Fatalities vex steel firms

Industry seeks cause of job-related deaths rising unexpectedly

By Kris Maher
And Robert Guy Matthews



Workplace deaths at **mills** are on the rise.

Timken

At a time when steel mills in the U.S. are running flat out to meet increasing demand, the steel industry is trying to unravel the causes of on-the-job accidents that resulted in more deaths in the first half of 2008 than in recent full years.

The increase in fatalities has prompted the world's largest steelmaker by revenue and output, **ArcelorMittal**, to agree to tie more executives' compensation to plant safety performance and to establish joint health and safety committees in all of its facilities under an agreement with unions. ArcelorMittal has had four fatalities involving workers at four different plants in the U.S. this year.

Union officials and steel-company executives say 15 U.S. workers died in the first half in steel-mill accidents that included falls, an explosion and a number of cases in which workers were crushed by huge pieces of steel or equipment. In all of 2006, the latest full year for which government statistics are available, 14 workers were killed at iron and steel mills, an industry category tracked by the Labor Department.

The number of fatalities has risen from eight in 2005, nine in 2004 and eight in 2003, according to the U.S. data. Employment in the industry has remained steady over the past year at roughly 100,000 workers, but overtime has risen about 20% this year, the department says.

Officials at the United Steelworkers, which is negotiating labor contracts with **U.S. Steel** Corp. and ArcelorMittal, contend that pressure to boost steel output while the market is strong has led to some fatalities and that recent industry consolidation and ownership changes may have diverted attention and resources away from safety at some companies.

Steel executives say they don't believe higher production has compromised safety, or that their focus on safety has diminished. But they are at a loss to explain any specific reason for the rising number of worker deaths and are re-evaluating their safety practices to try to prevent more.

"Unfortunately, our company and our industry are missing that mark and, as a result, 15 people have died this year," John Surma, chief executive of Pittsburgh-based U.S. Steel, said in remarks before a group of steel executives in June. "There was no pattern of age or experience, poor health or drug use or exposure to a common unsafe condition that figured in the fatalities."

Mr. Surma added that "the only thing that was true in every case was that something went horribly wrong." In the case of a U.S. Steel mill outside Detroit, a worker was killed in January as the result of a gas-pipeline explosion.

Working amid molten steel and large machinery has never been accident-free. Nor does the steel industry rank as dangerous as the construction industry, for example, which had 1,239 fatalities in 2006, or a rate of 10.9 per 100,000 workers, according to government statistics. But the sudden rise in steel-workplace fatalities stands out and comes amid a decline in the steel industry's accidents of all types.

"There is more overtime, maintenance being deferred and cutbacks in company safety efforts," said Michael Wright, director of health, safety and environment for the United Steelworkers. Amid rapid consolidation of steel companies, "A lot of the [safety] personnel and the programs just disappeared," he said.

Steel executives adamantly deny that safety is being sacrificed for profits. "We have a zero-tolerance policy" for safety violations, said Keith Busse, CEO at **Steel Dynamics** Inc., a midsize steel company based in Fort Wayne, Ind. Mr. Busse also is board chairman of the American Iron and Steel Association.

This year's fatalities have occurred at big and small producers. Two workers were killed in different accidents at the same **Gerdau Ameristeel** Corp. mill in Jackson, Tenn. Mario Longhi, Gerdau Ameristeel's president and CEO, said that after each of these incidents, the company reiterated its safety procedures to employees.

In the case of a man who was crushed by a crane on March 24, Mr. Longhi said that the worker had been instructed on safety procedures implemented a year earlier that required the overhead crane to come to a complete stop before another worker—in this case, the victim—ascended the crane to begin his shift as operator. The man, a relatively new employee, didn't wait for the crane to stop and was crushed as he attempted to climb aboard.

In recent years, the steel industry has implemented safety improvements such as better protective clothing to protect workers from furnaces and reduce heat-related injuries, and improved harnesses for crane operators. In 2004, three steel-industry associations worked with the Labor Department's Occupational Safety and Health Administration to cut the number of injuries and fatalities. OSHA targeted the industry because of its high injury rate.

The three-year alliance ended in 2007, after a reduction in the injury rate across the industry, but also as the industry was ramping up production to both meet strong demand in the U.S. and take advantage of high prices.

Thomas Danjczek, president of the Steel Manufacturers Association, which represents 70% of the U.S. steel industry, said companies "have spent an awful lot of time trying to look for common or like reasons that have driven" the increase in worker deaths, but none have emerged. He said his group is working on a fatality prevention plan, targeting five areas, including cranes and worker falls, which have proved most hazardous.

Lufthansa cites minor strike hit

A WSJ News Roundup

A strike by **Lufthansa** AG ground and cabin staff over pay has barely disrupted flights to and from German airports, the airline said, but union officials said the impact will grow.

The open-ended strike, which officially started at midnight Sunday at some of Germany's largest airports, including international hubs Frankfurt and Hamburg, threatened to hit areas from catering and cargo to maintenance and repairs. The ver.di services union said more than 4,000 Lufthansa ground and cabin crew took part in Monday's strike to protest a breakdown in wage talks. The strike comes at the height of the holiday season.

Lufthansa said it had limited the impact of the walkouts by taking preventative action, such as reassigning nonstriking staff to other tasks.

Ver.di said the aim was to hurt the company rather than to cause many cancellations. A ver.di spokesman said the union intends to expand the walkouts to other airports.

Kraft, Wrigley post gains as costs squeeze Tyson

By Julie Jargon
And Lauren Etter

Passing along higher costs to consumers helped **Kraft Foods** Inc. and **Wm. Wrigley Jr.** Co. offset high commodity costs in the second quarter, but **Tyson Foods** Inc. hasn't been able to raise chicken prices enough to overcome high feed costs.

Both food and meat companies have been hit with higher costs as the world supply of grains hasn't kept pace with demand in markets like China and India. Packaged-food manufacturers have been able to cover much of their energy, packaging and ingredient costs with price increases, but because of an oversupply of meat, companies like Tyson haven't raised prices as quickly.

"There's no oversupply of Oreos, so the packaged-food companies have been able to offset enough inflation to post profit growth," says Edward Jones analyst Matt Arnold.

The average retail price of cereals and bakery products in the U.S. rose 10.4% in the year ended June 2008, according to the U.S. Bureau of Labor Statistics. But the average retail price of meats, poultry, fish and eggs rose just 2.9%.

Kraft's net income rose 3.5% to $732 million in the second quarter, and its revenue rose 21% to $11.2 billion. Kraft Chief Executive Irene Rosenfeld said she expected to see a significant decline in volume in the quarter, "but volume was only down 1% in the face of 7% pricing, which speaks well to the strength of our brands."

The maker of Oreo cookies and Kraft cheese on Monday raised its guidance for 2008 to 6% organic net revenue growth, up from its previous forecast of 5%. The company also raised its 2008 target for earnings, excluding items, to at least $1.92 a share, up from $1.90.

Wrigley, the maker of Juicy Fruit and Big Red, reported Monday that sales in the second quarter rose 14% to $1.57 billion, while net income rose 14% to $194 million. Wrigley attributed more than half its sales gain to foreign currency, with the rest of the sales growth coming from higher-priced products and increased product shipments in Asia.

Also on Monday, the European Commission cleared U.S. candy maker **Mars** Inc. to buy Wrigley. Mars and Warren Buffett's **Berkshire Hathaway** Inc. agreed last April to acquire Wrigley for about $23 billion.

Things weren't so rosy for poultry producer Tyson, which warned on Monday that its U.S. chicken business will take longer than expected to recover from high feed costs. Tyson reported net income of $9 million on sales of $6.8 billion for the fiscal third quarter ended June 28, compared with net income of $111 million on sales of $6.6 billion for the same period last year.

Dick Bond, Tyson's chief executive officer, warned that higher prices are on the horizon.

"The consumer really hasn't felt the $6 and $7 grain markets yet, either on beef, pork or chicken," he told investors Monday. "We are going to see the effects of that coming through at some point in time."

Emirates Airline receives first A380, orders more jets

A WSJ News Roundup

HAMBURG, Germany—**Emirates Airline** took delivery Monday of the first of 58 Airbus A380 superjumbo planes it ordered and said it signed a letter of intent to buy 60 other aircraft from the European plane maker.

The announcement came as the airline received the A380 in an elaborate handoff ceremony in northern Germany.

Dubai-based Emirates said the deal to buy 30 A330-300s and 30 A350 passenger planes is part of its plans to expand its international network. Financial terms of the order and a delivery schedule weren't disclosed. At current list prices, the deal was estimated to be valued at about $13 billion, though airlines usually negotiate big discounts to the list price.

The A330-300s and A350s "will enable Emirates to continue its growth using modern fuel-efficient aircraft," said Emirates Chief Executive Sheikh Ahmed bin Saeed Al-Maktoum.

Airbus said Emirates' new order is part of an agreement signed in November at the Dubai Airshow. Emirates had signed a contract to acquire 70 A350 planes with an option to buy a further 50. Airbus said Monday's order for 30 additional A350s is part of this option, bringing the number of Emirates' fixed orders for that plane to 100.

For almost two years, Airbus has been struggling to overcome production and delivery problems for the A380 caused by problems in installing wiring.

The A380 has been in service since Singapore Airlines took delivery of the first of the double-decker planes late last year. Singapore Airlines operates five of the 19 planes it ordered on long-haul routes to Asia, Australia and Europe.

The A380 plane Emirates received Monday is on the far edge of luxury and comfort—the airline said it is the only commercial airliner in the world equipped with showers. It also features spas, bars, lounges and private suites for some of the 489 passengers it can carry.

Emirates has orders for an additional 57 A380s—the most ordered by any airline—and plans to use the plane for service between Dubai and Australia, New Zealand, London and New York.

"The first time I flew in an A380, I knew we were making the right choice," Sheikh Ahmed said at the ceremony marking the delivery. "We might not be the first to fly, but we were the first to sign."

Emirates signed an order for 58 A380s in July 2000, in a deal valued at about €32 billion ($50.24 billion) at list prices.

Airbus, a unit of **European Aeronautic Defence & Space** Co., said it has 202 orders for the passenger version of the A380 so far. The next biggest orders are from Australia's Qantas Airways with 20, Singapore Airlines with 19, and German airline Lufthansa AG with 15 A380s.

CORPORATE NEWS

Comcast's moves on Web traffic earn FCC rebuke

By Amy Schatz

WASHINGTON—U.S. regulators are set to announce this week that **Comcast** Corp. wrongly slowed some of its customers' Internet traffic, in a victory for consumer groups and high-tech companies that have fought to keep Web traffic free from interference.

The Federal Communications Commission will rule that the cable giant violated federal policy by deliberately preventing some customers from sharing videos online via file-sharing services like BitTorrent, agency officials said. The company has acknowledged it slowed some traffic, but said it was necessary to prevent a few heavy users from overburdening its network.

The decision, expected Friday, would set an important precedent in the continuing fight about how far phone and cable companies can go to make more money from their Internet networks. Cable and phone companies are experimenting with new ways to deal with people who use a lot of bandwidth, including "Internet metering"—charging customers for the amount they use.

The FCC decision is likely to be challenged in court; if upheld, it would affirm the agency's right to play online cop and make sure Internet providers don't interfere with online traffic. FCC officials have grown more concerned about the issue as consumers watch more online videos, which take up growing chunks of bandwidth.

On Friday, a majority of the five FCC commissioners voted in favor of

The FCC will require Comcast to stop blocking or slowing Internet traffic.

finding that Comcast violated federal policy by slowing some Internet traffic. FCC Chairman Kevin Martin said in a statement that he believes it's important that all consumers have "unfettered access to the Internet."

The FCC will require Comcast to stop blocking or slowing traffic and better disclose its practices to customers. Comcast has already done most of what the agency is asking, and won't face a fine. But the FCC's investigation has had a chilling effect on other providers' efforts to find ways to make more money from their networks, such as providing faster service to commercial partners.

The FCC's action stems from a complaint filed last November that accused Comcast of blocking subscribers from using some file-sharing services.

Comcast said it has to do something about the small percentage of subscribers who swap large files on peer-to-peer networks because they use a disproportionate amount of bandwidth. Comcast said it didn't violate federal rules and argued that the FCC doesn't have the authority to enforce a set of "net neutrality" principles it passed in 2005.

"We continue to assert that our network-management practices were reasonable, wholly consistent with industry practices and that we did not block access to Web sites or online applications, including peer-to-peer services," said Sena Fitzmaurice, a Comcast spokeswoman.

Upstart Cuil takes aim at Google

Search engine claims triple Web coverage, faster page indexing

By Jessica E. Vascellaro

A start-up founded by engineers from **Google** Inc. and other tech giants is launching a search engine that claims to cover three times as many Web pages as Google.

The startup, **Cuil** Inc., unveiled its product Monday and aims to deliver better results than other major search engines by searching across more Web pages and studying them more accurately. The site's results page resembles an online magazine—a different look and feel from search juggernaut Google's.

"You can't be an alternative search engine and smaller," said Anna Patterson, Cuil co-founder and president, and one of the engineers who helped build Google's search index. "You have to be an alternative and bigger."

Cuil, based in Menlo Park, Calif., is the most recent in a long string of search-engine start-ups to try to take on Google in an industry that has been difficult for even giants like **Microsoft** Corp. to crack. Many have tried to compete by focusing on particular areas, such as searching images or allowing users to review and edit results. Many of these Google challengers have crumbled after failing to build enough scale to support their growth through advertising; a few others have been acquired by larger players.

Cuil has raised $33 million from venture-capital investors and has a deep bench of career search engineers, including Ms. Patterson and her co-founder and husband, Tom Costello. Mr. Costello built search technology for **International Business Machines** Corp. and was on the research faculty at Stanford University.

Greg Sterling, an Internet analyst with Sterling Market Intelligence, said that bench, along with the fact that the company has already built such a large search engine from scratch, bodes well for its ability to compete in the long term. But like all new search entrants, the company must still find a way to generate enough advertising revenue to fund the hefty infrastructure and technology costs of scaling a search engine, he warned. "It won't be clear at least for a year or so whether they can break into the top group," he said. Ms. Patterson said other search start-ups have failed because they haven't found a way to search more Web pages than Google.

Cuil, which claims to be able to search for results across 120 billion Web pages compared with across Google's estimated 40 billion, says it has solved that problem. Ms. Patterson said it has developed a faster and better way to index Web pages that relies on fewer machines.

In addition to looking at the popularity of a Web page, Cuil also analyzes the concepts on the page and their relationships—grouping similar results under different menus. A Cuil search for "Bruce Springsteen," for example, pulls up a section for results on the artist and a section for results pertaining to tickets.

A Google spokeswoman said the search giant welcomes "competition that stimulates innovation and provides users with more choice."

CORPORATE NEWS

Verizon gets wireless lift

Net rises as strength in mobile business counters weak units

By Roger Cheng

Verizon Communications Inc.'s profit rose nearly 12% as continued strength in the company's wireless operations made up for steep declines in its landline and Internet-access businesses.

The New York telecommunications company reported second-quarter income of $1.88 billion, or 66 cents a share, compared with a year-earlier profit of $1.68 billion, or 58 cents a share. Revenue rose slightly to $24.12 billion from $23.27 billion a year earlier.

"You're seeing a marked difference between Verizon and **AT&T** [Inc.] in terms of economic impact," said Christopher King, an analyst at Stifel, Nicolaus & Co. "Verizon doesn't seem to be seeing that at all."

Verizon said essentially all of its 1.5 million net new wireless customers in the quarter signed long-term contracts, indicating it was taking a larger share of the industry's more valuable clients at a time when more than four out of every five consumers already own a cellphone. Verizon Wireless, a joint venture with **Vodafone Group** PLC, reported its turnover rate fell to an industry low of 1.1%.

"Wireless really continues to be stunningly impressive," Mr. King added.

Associated Press

Verizon's wireless operations made up for declines in its other businesses.

A bigger test will be in the third quarter, when the carrier faces off against **Apple** Inc.'s iPhone, which is offered in the U.S. exclusively by AT&T Inc. Verizon President Denny Strigl said the impact of the new iPhone was similar to the phone's first launch and that the carrier would fight it with multiple new handsets.

The landline business, however, was far less impressive. Its most high-profile service, FiOS TV, added 176,000 net new customers; Bank of America had projected 260,000 net new additions. While Verizon added 187,000 FiOS Internet customers, it lost 133,000 digital-subscriber-line customers, bringing its net broadband additions to 54,000. The second quarter is typically a weaker period as college students tend to disconnect their lines when going home for the summer.

Verizon has had to face a slumping DSL business as it shifts its focus to FiOS. About 25% of the DSL losses came from migration to FiOS, according to Chief Financial Officer Doreen Toben. But in areas where FiOS isn't available, the company hasn't been able to keep up with the speed game, she said in an interview.

Mr. Strigl said he expects FiOS TV to pick up in the third quarter. Helping results will be strong promotions and the launch of FiOS TV in New York City, which began Monday. The company plans to make the service available to 30% of homes in the city as a whole and 57% of Manhattan by the end of the year.

The company's total number of landlines fell 8.5% to 38.3 million.

In addition to a deteriorating landline business, Verizon faces the prospect of a strike. Its contract with 50,000 Communications Workers of America employees expires Saturday, and the union members have authorized a strike. While the two sides have been bargaining for several weeks, "Right now, we're disappointed by the pace of progress," said Bob Master, a spokesman for the CWA. Mr. Strigl, however, said he was optimistic Verizon would reach a fair settlement and that the two sides were making good progress.

Pearson trims losses as sales rise

By Erica Herrero-Martinez

Pearson PLC, publisher of the Financial Times newspaper, Penguin books and textbooks for U.S. schools, posted a narrower first-half net loss as sales rose 16% on the strong performance of its education and FT Group divisions. U.K.-based Pearson reiterated its full-year forecast and said it was "on track for further progress in all businesses." Pearson's net loss narrowed to £62 million ($123.4 million) from a year-earlier loss of £104 million, as the losses continued because of charges related to discontinued operations.

It said the sale of its data-management business resulted in a charge of £51 million. Pretax profit from continuing operations rose 38% to £124 million.

Sales rose to £1.97 billion from a restated figure of £1.69 billion in the year-earlier period.

"Our momentum is strong, even in these tough economic conditions," said Chief Executive Marjorie Scardino, adding that she is "confident that 2008 will be another record year, and that we will continue to grow." She said that so far the company hasn't suffered from the economic downturn.

As a result, Pearson increased its interim dividend by 6.3% to 11.8 pence. "We continue to like Pearson, which is at the resilient end of the media sector," said investment bank Numis.

Pearson is seen as a more resilient media stock because its FT Group division also includes business-information companies including Interactive Data and Mergermarket, which are less exposed to the weakening U.K. advertising market. However, its textbook-publishing arm could come under pressure if U.S. education budgets are cut.

Last year, Pearson bought Harcourt Assessment, which provides assessment tests for various markets for $950 million. The publisher said integration of the business is "progressing well" with strong performances in state testing, catalogue tests and clinical assessments.

GM trims warranties on Saabs in U.S.

By John D. Stoll

General Motors Corp. is cutting back on the warranty agreement it is offering buyers of Saab brand vehicles in the U.S. market, as it looks to shave costs and reposition the brand to more effectively compete with premium European brands.

Saab vehicles will now come with a 4-year, 50,000 mile warranty rather than the 7-year, 100,000 mile warranty that is offered on vehicles sold through GM's other seven divisions in the U.S. Saab spokeswoman Joanne Krell said the move is related to high costs.

Saab will continue to provide free scheduled maintenance for the first three years or 36,000 miles of ownership, making it the only GM brand offering that perk.

Ms. Krell also said that other European brands, such as **Volkswagen** AG's Audi brand, don't provide such hefty warranty packages. "That's not what Saab customers value most," Ms. Krell said, referring to the warranty offer. She said the auto maker's new Saab warranty reflects what used to be offered on the vehicles, and "is a more appropriate package that competes" with the Swedish auto brand's peers.

GM in 2006 first rolled out the 100,000-mile pledge across its brands to help the auto maker lower its reliance on sales incentives, such as discounts, by bulking up the list of services and features that buyers receive with a GM car.

Saab, however, has been struggling to gain momentum in the U.S., despite introducing products in recent years to flesh out the lineup beyond its traditional two-sedan portfolio. Those new products—a U.S.-built SUV and small wagon—fell flat in the market.

On Friday, GM Chief Executive Rick Wagoner said Saab primarily exists as a key component of GM's European operation. He said Saab is profitable in Europe, but unfavorable exchange rates have forced GM to hold back on its plans for the U.S. arm of Saab.

GLOBAL BUSINESS BRIEFS

IBM

ILOG purchase will help automate customer service

International Business Machines Corp. reached an agreement to buy **ILOG** SA, a French business-software company, for €215 million ($337.5 million). IBM will pay €10 per share, representing a premium of about 56% over ILOG's one-month average of closing share prices prior to July 28, and a 37% premium to Friday's closing price. ILOG software helps businesses automate the process of handling customer inquiries and orders, making it easy to identify select customers for special treatment or change offerings in the face of competitive pressure. It will work as part of IBM's suite of business-process-management software that automates routine procedures. For the latest fiscal year, the company had profit of $500,000 on revenue of $181 million. ILOG employs more than 850 people world-wide.

Reckitt Benckiser Group PLC

Reckitt Benckiser Group PLC, the maker of cleaning and personal care products including Lysol and Clearasil, said second-quarter net profit rose 9.7%, helped by growth in its key brands. Net profit rose to £237 million ($471.7 million) from £216 million a year earlier, while sales were up 20% at £1.56 billion from £1.3 billion. Chief Executive Bart Becht said the company is on track to achieve its net-revenue growth target of 11% to 12% at constant exchange rates for the full year, as well as its net-income growth target of 11%, also at constant exchange rates. He said Reckitt Benckiser expects to further increase the prices of some products by year end to counteract the effect of rising commodity prices.

Informa PLC

Publishing and events company **Informa** PLC reported 33% drop in first-half net profit and said takeover talks with a private-equity consortium are continuing. Net profit for the six months fell to £46.5 million ($92.5 million) from £68.9 million a year earlier, predominantly because of goodwill amortization related to its acquisition of Datamonitor last year. Sales rose 18% to £627.6 million from £532.5 million. Informa said that in response to a decline in delegates for smaller conferences it has cut headcount by up to 14%, which has largely offset any revenue downturn. The publisher of Lloyd's List, a newspaper for the maritime industry, has been in talks with private equity firms **Providence Equity** LLP, **Carlyle Group** LP and **Hellman & Friedman** LLC since early July over a proposed £2.15 billion takeover.

TNT NV

Netherlands-based postal company **TNT** NV said its second-quarter net profit fell 16%, hit by higher fuel, labor and financing costs. Net profit dropped to €205 million ($322 million) from €244 million a year earlier, while sales rose 4.5% to €2.81 billion from €2.69 billion. The company's chief executive warned of a slowdown in European express-mail volumes in June, as customers shifted from sending packages by air mail to slightly cheaper but slower road traffic. Express-mail operating profit nevertheless rose 5.1% to €153 million, the company said, thanks to strength in emerging markets. TNT also said it would meet its financial targets of high-single-digit sales growth at its express division and low-single-digit sales growth at its mail division but added that growth is now likely to come in at the low end of those ranges. Shares in TNT were down 7.2% at €22.25 in Amsterdam, after a 10% rise on Friday.

Carrefour SA

Shareholders of French grocery chain **Carrefour** SA approved the formation of a new corporate-governance structure, which replaces the two-tier system of a supervisory and management board with a board of directors. Chairman Amaury de Seze said the change was necessary for the company to be able to react more quickly to the current global economic context, which he described as a "profound and lasting economic crisis." The new system will simplify Carrefour's governance with a structure that is more "fluid, flexible and decentralized," Mr. de Seze said. He added that Chief Executive Jose-Luis Duran, who prior to the meeting was also chairman of the management board, would focus on the operating sides of the business. Carrefour shares have dropped 35% since the beginning of the year, compared with a 23% drop in the CAC-40 index over the period.

Anglo Platinum Ltd.

Anglo Platinum Ltd. posted a 22% rise in first-half net profit, as a surge in prices offset rising costs and power shortages that disrupted mines in South Africa. The publicly traded unit of **Anglo American** PLC said net increased to 8.4 billion rand ($1.1 billion) from 6.9 billion rand a year earlier, as revenue rose 17% to 27.37 billion rand. Production of refined platinum, however, was down 16% at one million ounces, and the Johannesburg-based company said it had to sell 111,000 ounces from its working stock in order to meet customer contracts. Production in the second half of the year is expected to increase significantly, the company said, maintaining its forecast for full-year output of 2.4 million ounces.

Daimler AG

Daimler AG Chief Financial Officer Bodo Übber said the German auto maker has increased its hedging for 2008 and 2009 to limit the negative earnings impact of a strong euro against other currencies such as the dollar and yen. "For the current year, we hedged around 80%" of the company's exposure, Mr. Übber said, adding that the hedging rate for 2009 stands at 60%. Until now, Daimler had hedged 70% of its exposure for this year, and 40% for 2009. The car maker's overall dollar exposure is $12 billion, Mr. Übber said. Last week, Daimler gave a profit warning for the full year.

TNK-BP Holding

A director representing **TNK-BP Holding**'s Russian shareholders wrote a letter expressing concerns to partner **BP** PLC that the venture may be taxed in the country where its Chief Executive, Robert Dudley, has temporarily transferred. Mr. Dudley left Russia after problems renewing a work visa amid a dispute between TNK-BP's co-owners, BP and Russia's Alfa-Access-Renova, or AAR. The letter came from AAR Chief Executive Stan Polovets. A person close to AAR said a change to U.K. tax status could lead to hundreds of millions of dollars in extra taxes. BP referred questions on taxes to TNK-BP. TNK-BP said it was up to BP to comment.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

SERBIA

Karadzic supporters plan big antigovernment rally


Associated Press

EXTREME nationalists are planning a huge antigovernment rally in Serbia's capital Tuesday evening, and Radovan Karadzic's lawyer predicted the government will try to whisk the arrested war-crimes suspect off to the United Nations tribunal before the protest.

Belgrade was rife with fears there could be clashes in the streets, as the ultranationalists plan to prevent the extradition of the ex-Bosnian Serb leader to the U.N. tribunal at The Hague.

The rally organizers—the right-wing Serbian Radical Party—are busing Mr. Karadzic's supporters in from all over Serbia and Bosnia, where Mr. Karadzic is revered as a wartime hero. *—Associated Press*

ZIMBABWE

Power-sharing talks end as Mugabe digs in heels


Associated Press

POWER-SHARING talks between Zimbabwe's opposition and negotiators for President Robert Mugabe have broken off, officials said. One said the main sticking point was Mr. Mugabe's insistence that he remain president.

Two officials said the chief negotiators for Mr. Mugabe—Justice Minister Patrick Chinamasa and Social Welfare Minister Nicholas Goche—were expected to consult Mr. Mugabe about their mandate. Another official, in South Africa, said opposition leader Morgan Tsvangirai had left Zimbabwe and was driving to Pretoria, the South African capital where the talks were held, to consult with his negotiators. *—Associated Press*

SPAIN

May home sales fell 34%, new mortgages declined


Associated Press

SPANISH HOME sales fell at an annual rate of 34% in May, pointing to a deepening correction for Spain's once-flourishing home-building industry. Preliminary data released by Spain's National Statistics Institute also showed the number of new home mortgages fell 36%, also on an annual basis. In April, annual home-sales transactions fell 7.1% and new mortgages fell 9.4%. House prices that have soared to nearly three times 1997 levels, along with more expensive financing conditions, have curbed demand for new housing. The falloff is hurting economic growth, with Madrid lowering its forecast for 2008 gross domestic product growth to 1.6%, from 2.3%. *—Santiago Perez*

U.S. plan for fuel-efficiency is drawing fire

Idea strikes car firms as being too tough, Democrats, too easy

BY STEPHEN POWER
Washington

A BUSH ADMINISTRATION proposal to increase fuel-efficiency of automobiles to 31.5 miles per gallon by 2015 is raising hackles on two sides: from car makers, who say it is too tough, and from some Democrats, who say it isn't tough enough.

At issue is how to implement a landmark law passed last year that requires the industry to achieve a 35-mpg average for cars and trucks by 2020. The law gives the Department of Transportation authority to set interim standards.

The department's proposal for 2015 represents a 25% increase over the present vehicle-fleet average and amounts to the fastest leap in the 33-year history of the federal automobile-fuel-economy program, administration officials say. They add that the proposal would cost industry roughly $46 billion—among the most expensive federal rules ever—and save drivers more than $100 billion in fuel costs over the lifetime of the vehicles covered by the rule.

While auto makers warn of the threat to jobs, some lawmakers say a higher target would save even more gasoline and reduce the need for drilling in environmentally sensitive areas.

If the government forced car makers to hit a 35-mpg standard by 2015, according to calculations by the Natural Resources Defense Council, the U.S. would save an additional 300,000 barrels of oil a day in 2020. By comparison, the offshore areas currently subject to a federal drilling ban would produce about 220,000 barrels a day at peak production in 2025, according to the Energy Information Administration.

"The more efficient the vehicles...the less pressure there is to drill in wilderness areas," says Rep. Edward Markey (D., Mass.), who is chairman of the House Select Committee on Energy Independence and Global Warming.

The DOT is supposed to consider gasoline prices when it sets the fuel-economy rules, on the theory that higher prices should increase demand for fuel-efficient cars and make it easier for car makers to earn a quick return on new fuel-saving technologies.

Last year's law says the department should set the fuel-economy standard at the "maximum feasible" level, taking into account "economic practicability," among other criteria.

The department's current plan is based on a projection that gasoline would cost roughly $2.50 a gallon between 2016 and 2030. Some Democrats, citing today's $4-a-gallon prices, say that is too low. The department's analysis shows that using a higher assumption would justify setting a 35-mpg standard by 2015.

Administration officials say they are reviewing public comments and haven't settled on a final gasoline-price projection.

Auto makers, both domestic and foreign, say the DOT's proposal would wreak havoc on their production plans. This year is shaping up as the worst year for U.S. car sales in more than a decade. **Ford Motor** Co. last week announced an $8.7 billion second-quarter loss, a record in quarterly red ink.

Reuters

GM CEO Rick Wagoner, right, discussed **the Chevy Volt** earlier this month with Sen. John McCain, second from right, GM's Bob Lutz and Beth Lowery.

Ford warned in a June 30 letter to the DOT that the company "does not have adequate resources or lead time to make major product changes across most or all of our vehicle fleet (beyond what is already planned)."

Ford said it is retooling some factories to build smaller cars instead of trucks and sport-utility vehicles, but a spokesman says its statement in the letter stands.

General Motors Corp. says the department's proposal could result in plant closings and job losses. Even as GM has promoted its Chevy Volt electric concept car—showing off the vehicle to Republican presidential candidate John McCain earlier this month—the company has told the DOT that the Volt won't do much to boost GM's fleet-wide fuel-efficiency before 2015. A GM spokesman said the company's comments to the department reflect its belief in setting "very conservative expectations" about how many Volts it can produce initially.

Toyota Motor Corp. says the proposed 2011-2015 fuel-economy increases come "at a rate much greater than anticipated" by last year's law.

Tyler Duvall, the assistant secretary of transportation for policy, told Congress last month that the plan will help drive fuel-saving technologies. "From the societal prospective, the rule making makes a lot of sense, but we are extremely aware of the impacts on various manufacturers," Mr. Duvall said. "It's an extremely aggressive proposal."

Rust Belt lawmakers are coming to the industry's defense. "It seems sometimes to us in Michigan...that many in this Congress seem to be focused on bankrupting the domestic auto industry," said Rep. Candice Miller (R., Mich.) at a recent hearing.

Michigan is a closely fought state in the presidential race. Sen. McCain and Democrat Barack Obama both have been courting voters in Michigan and other Midwestern auto-making states while defending their support for state-level curbs on automobile greenhouse-gas emissions.

German consumers' morale drops

BY EMESE BARTHA
AND ROMAN KESSLER

FRANKFURT—Inflationary pressure is taking its toll on German consumers' morale, contributing to a worsening outlook in Europe's largest economy and until recently one of the euro zone's economic bright spots.

German market-research group GfK's forward-looking consumer climate index plunged to 2.1 points for August, from a downwardly revised 3.6 points in July, hitting its lowest levels since June 2003.

"Rising prices are threatening to deepen the economic slowdown by sapping household budgets and boosting production costs," said Carsten Brzeski, economist at Global Economics ING Financial Markets.

The first reading for the July data had been 3.9 points. The data come a few days after the closely watched German business sentiment index Ifo dropped for the fourth consecutive month in July.

While GfK's overall consumer-climate index refers to the next month, its three sub-indexes—economic expectations, income expectations and buying propensity—refer to the current month. All three sub-indexes fell for July, for the third month in a row. The sub-index showing consumers' intentions to carry out big-ticket purchases dropped to -26.2 points from -23.7 points in June.

"Fear of further erosion in purchasing power as a result of inflation is also being reflected in consumer sentiment," GfK said.

Germany's inflation in June accelerated to 3.3% on the year from 3.0% for the previous month, the fastest pace since December 1993. And inflation data from Germany's most populous state added to speculation that energy price pressures continued this month and haven't yet peaked.

Annual inflation in the state of North Rhine-Westphalia, home to the industrial, coal-mining Ruhr region, accelerated to 3.3% in July from a 3.0% rate in June, mainly driven by oil and gas prices, data from the region's statistics office showed. The state's July consumer price index increased 0.6% from a month earlier, twice the pace of June's 0.3% monthly rise.

High fuel and heating-oil prices again are among the main culprits for the surge, the office said. Energy prices for households rose 15.8% on the year, with heating oil up 60.1% from July 2007.

North Rhine-Westphalia is the first and largest of six German states that are scheduled to report regional CPI for July.

The state regional price surveys are the basis for Germany's preliminary CPI data due for release Tuesday afternoon.

Fed official urges target

In his final speech, Mishkin again calls for inflation goal

By Brian Blackstone

U.S. Federal Reserve Governor Frederic Mishkin on Monday used his last public speech as a policy maker to deliver a case for a specific inflation target, saying it would be "especially valuable" during times of financial stress.

"The establishment of an explicit numerical inflation objective can play an important role in promoting financial stability as well as the stability of employment and inflation," Mr. Mishkin said in prepared remarks to the Peterson Institute for International Economics.

Mr. Mishkin has long been a vocal supporter of inflation targeting and was a frequent collaborator with Fed Chairman Ben Bernanke in books and academic articles on the subject when both were academics. Mr. Mishkin returns to Columbia University in New York next month after nearly two years as a Fed Governor.

Yet inflation targeting hasn't advanced as far as some experts thought it would when Mr. Bernanke became Fed chairman in February 2006. He did set up a communications committee soon after becoming chairman that discussed inflation targets, among other things. And last autumn the Fed said it would extend its inflation forecast horizon to three years and appeared to encourage Wall Street to view that as a defacto objective.

But opponents, including many in Congress, worried an official target would weaken the Fed's dual mandate for both price stability and maximum employment, even though Mr. Mishkin stressed Monday that inflation targets are consistent with the dual mandate and have worked effectively in other countries that have adopted them. The credit crunch, which hit last summer, put the issue in the U.S. further into the background.

Mr. Mishkin tried to resurrect the idea Monday, saying a "strong nominal anchor can be especially valuable in periods of financial market stress, as we have been experiencing recently, when prompt and decisive policy action may be required to minimize the risk of a severe contraction in economic activity."

Frederic Mishkin

A specific goal would also provide a "firm anchor" for inflation expectations, he said. Consumer surveys of price expectations have risen somewhat in recent months but have stayed generally stable in light of the sharp rise in food and energy prices.

Mr. Mishkin conceded that the Fed's new, three-year forecasts "do not establish a transparent and credible commitment to a specific numerical inflation objective and hence do not provide a sufficiently firm nominal anchor."

In addition, the forecasts as they currently stand may not even reflect the inflation objective of individual policy makers, Mr. Mishkin said. "To the extent that some slack in economic activity is projected to persist through 2010, that slack might well induce a modest further decline in inflation, implying that policy makers' projections for inflation in 2010 might be a bit higher than their assessments of the mandate-consistent inflation rate," he said.

He made several recommendations Monday for the Fed "to go even further," including setting a specific objective—he suggested "2% or perhaps a bit lower" for headline inflation—instead of a range; further extending the Fed's inflation-forecast horizon; and indicating that the target would only change "for good scientific reasons."

The disadvantage of a range or comfort zone, Mr. Mishkin said, is that it may be interpreted as suggesting that policy makers are comfortable with inflation at the upper band. The Fed long operated with an assumed comfort zone of 1% to 2% for the price index for personal-consumption expenditures excluding food and energy. Its forecasts released in October suggested a preferred range of 1.5% to 2% for both headline and core personal-consumption expenditures.

Mr. Mishkin's plan wouldn't require changes to the Fed statute, he said.

Mr. Mishkin didn't address the economic or policy outlook. Next week's Federal Open Market Committee meeting, at which officials are widely expected to hold interest rates steady, will be Mr. Mishkin's last.

In his speech, Mr. Mishkin did say that "output growth in recent quarters has fallen below potential, and the unemployment rate is, as best as I can judge, above the natural rate."

"Similarly, sharp increases in the prices of many commodities have driven inflation above rates consistent with price stability," he said.

China defends its right on high tariffs

By John W. Miller

GENEVA—China abandoned its longstanding place on the sidelines of multilateral trade talks Monday, insisting publicly on its right to set high tariffs on rice, sugar and cotton in a move that threatened tentative progress toward a new global trade deal.

China's objection to a compromise proposal on farm tariffs and subsidies, presented late last week in talks at the World Trade Organization in Geneva, appeared to set back hopes of closing a deal in the so-called Doha Round, still struggling after seven years of negotiations. It also brought a sharp rebuke from the U.S.

China, according to deputy U.S. permanent representative to the WTO David Shark, was throwing the Doha Round into the "greatest jeopardy of its seven-year life." He added that China needed to understand the importance of its markets to the U.S. and especially, to the poorer countries of Africa and Asia.

China immediately hit back. Zhang Xiangchen, an official at the Chinese Ministry of Commerce, called the U.S. argument "absurd," according to Xinhua, a Chinese news service.

Trade representatives from some 30 countries meeting at the WTO headquarters in Geneva since last Monday are in the midst of a marathon attempt to revive the prospects of a Doha deal. The Doha Round was designed to give poor countries more access to wealth markets for their agricultural products, in exchange for giving rich nations access to their goods and services markets.

A final deal still looks tough to achieve, but trade officials declared a breakthrough late last week, when a compromise proposal on the key issue of farm tariffs and subsidies drew relatively wide support. China, which became a WTO member in 2001, has maintained near-total silence in these and other negotiations. Classified as a "developing" nation, China stands to benefit from fewer mandatory cuts in subsidies and tariffs than the U.S. and European Union, if a trade deal is completed.

On Friday, say U.S. diplomats, China agreed to the compromise proposal, which would cut U.S. farm subsidies in exchange for reciprocal tariff cuts in developing countries' farm and industrial sectors.

Not so, say Chinese diplomats. The country has always argued that "trade-distorting subsidies are illegal while tariffs are legal measures of protection," said Mr. Zhang, Xinhua reported. In particular, he said, China would seek to protect its sugar, cotton and rice sectors with higher tariffs. Chinese diplomats in Geneva refused to comment.

China also said it would oppose another part of the compromise deal: so-called sectoral agreements, which would set up tariff-free zones for a certain sector of industry, for example, chemicals or cars.

Seven years after joining the WTO, China—by dollars, the largest exporter on earth—is now likely to maintain a more aggressive posture in multilateral discussions, making a global trade deal more difficult to achieve.

"We haven't often heard it from the Chinese, but traditionally that kind of language is part of a trade negotiator's tool box," said Richard Weiner, a trade lawyer with Chicago-based Sidley Austin.

Over the weekend, Chinese diplomats broke their silence and moved to block the fledgling deal. U.S. diplomats say they were shocked. "It was like the man behind the curtain finally came out," said one.

Other developing economies lashed out at China. "We will not accept special [tariffs] for developing countries when it's not about emergency situations," said Rigoberto Gauto, Paraguay's ambassador to the WTO, referring to China.

Even after initial agreement, itself a tough prospect, any Doha deal would need months of further negotiation on details and then ratification by WTO states, including by the U.S. Congress. That too would be a difficult prospect. Negotiations, which originally were slated to end Saturday, were expected to go late on Monday night, and last until Wednesday.

CAPITAL JOURNAL ▪ Gerald F. Seib

Happy news for the middle: the candidates annoy supporters

AT THIS POINT in the presidential race, there's grousing on the left about Sen. Barack Obama, and grumbling on the right about Sen. John McCain.

Does that mean Americans who reside in the broad center of the political spectrum should be happy?

Perhaps so. If the Democratic contender's liberal base is unhappy with some recent Obama moves, and the Republican contender's conservative base remains uneasy over some McCain positions, that suggests one of the great early assumptions about this year's presidential campaign—that it had produced two unconventional nominees naturally inclined to reach across America's partisan divide—actually may be true.

This hardly means that either Sen. McCain or Sen. Obama has checked his ideology at the door. The Obama voting record in Congress reflects a general liberal tendency, and the McCain record, overall, is a conservative one.

Both men, though, succeeded in no small measure by basing their candidacies on the notion that they intended to bring people together in the middle, even if that meant telling their own partisans things they didn't want to hear.

In fact, it's sometimes easier to tell what's really happening in a campaign by looking at who is unhappy.

THE LEFT IS UNHAPPY with Sen. Obama's vote in favor of a bill authorizing warrantless wiretaps in pursuit of terror suspects, a plan he put forth for government support of faith-based institutions, and statements suggesting some limits on abortion rights and favoring gun owners' rights.

The resulting disillusionment among liberals has been palpable, and easiest to see in the political chatter on the Internet, a place where support for Sen. Obama also has flowered. Markos Moulitsas, founder of the prominent Daily Kos liberal Web site, wrote recently of Sen. Obama: "Much of his veneer as a transformational politician has faded. He's a gifted and inspirational politician, no doubt about that, and he will make a great president. But at the end of the day, he's a politician, with all the triangulating goodness that's become a hallmark of our presidential candidates."

Similarly, Joseph A. Palermo, a writer on the left-leaning Huffingtonpost.com Web site, declared: "It's time for Obama to dedicate a little of his time to the care and feeding of his base. The Obama campaign might be beholden to the mistaken belief that it can take progressive voters for granted and is probably already looking to the 2010 midterm elections."

Elsewhere on the Web, an entire "Liberals Against Obama" Web site has been born.

For Sen. McCain, the issue is more a longstanding dissatisfaction on his party's right wing, accentuated by a recent revival of anger over immigration policy and the emergence of conservative former Rep. Bob Barr as the Libertarian Party presidential candidate.

The McCain step that has most revived lingering fears about him on the right was an appearance before the National Council of La Raza, a large Hispanic organization, where he reiterated, in more muted terms, his support for immigration reform legislation he has long championed. Though he said that legislation couldn't advance until the federal government does a better job of securing its borders, its core idea of creating a path toward legalization and possible citizenship for many illegal aliens has long agitated conservatives—and is doing so again.

THE MCCAIN APPEARANCE aroused a venting online among conservatives akin to the one Sen. Obama has been enduring. On the Little Green Footballs Web site, one reader posted a comment reading: "John McCain is a liberal. I am a conservative, I am not voting for him, and if he doesn't win it will be his own fault." Another wrote: "It's bad when the guy you're voting for is trying NOT to get your vote." (Ironically, there's no sign the speech has done much to improve Sen. McCain's poor showing among Hispanics.)

The candidacy of Mr. Barr is a bigger problem for Sen. McCain, who in the past has engendered doubts among his party's conservative base because of his testy relations with religious conservatives and his support for campaign-finance reforms. Mr. Barr openly appeals to conservatives to peel off from Sen. McCain and come his way. In a recent article in The Wall Street Journal, for example, Mr. Barr wrote that, despite campaign-season words to the contrary, Sen. McCain can't be trusted to pick conservative judges: "His jurisprudence is not conservative," Mr. Barr wrote.

At this time of the cycle, candidates' efforts to strike more moderate poses usually are read as the typical election-year migration of presidential candidates who move to the middle as the seasons change from primary to general election.

And clearly some of that is going on. But in this unusual election year, the movement has deeper meaning.

These are two candidates whose histories suggest a commitment to break away from the partisanship that has helped gridlock Washington. For evidence, see Sen. Obama's precampaign book, "The Audacity of Hope," or Sen. McCain's entire career.

Moreover, there now is real-life evidence that a new, post-partisan governing style can work: In New York City, Michael Bloomberg runs the nation's largest city as a political independent, and on the opposite coast Arnold Schwarzenegger governs California as a virtual independent. Perhaps the political middle no longer has to be such a lonely place; perhaps even Sens. Obama and McCain can survive there.