THE WALL STREET JOURNAL.

WSJ.com

DOWJONES Newswires

EUROPE

DOWJONES A News Corporation Company

VOL. XXVI NO. 106 | WEDNESDAY, JULY 2, 2008

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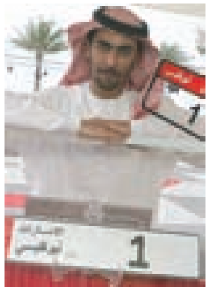


Persian Gulf driver takes vanity plates to a new level

ON OTHER FRONTS | PAGE 36

GM's chief has become the Sisyphus of U.S. industry

FOCUS ON AUTOMOBILES | PAGE 6

What's News—

Business & Finance

UBS unveiled board changes, responding to shareholders' criticism, but its shares fell to a 10-year low on mounting concerns over a U.S. probe into allegations that the Swiss bank provided wealthy clients with advice on avoiding U.S. taxes. Pages 1, 21

■ **GM's U.S. sales fell** 18.5% in June but were better than expected, helped by incentives. Toyota posted a 21% drop. Page 3

■ **New-car registrations slid** 31% in Spain and 19.5% in Italy year-to-year in June, but they edged up 2.1% in France. Page 6

■ **InBev offered** to remain friendly as long as Anheuser entertains its $46.35 billion bid. Anheuser was unswayed. Page 5

■ **U.S. stocks ended** higher, after GM's U.S. sales helped pluck indexes from bear-market territory. European shares fell to three-year lows. Pages 21, 22

■ **Global oil markets** will stay tight over the next five years, the IEA said. U.S. oil settled at a record $140.97 a barrel. Page 21

■ **The IMF's managing director** said high oil and food prices have pushed some developing nations to the "tipping point." Page 2

■ **BNP Paribas is reshuffling** its top management, including naming Jean-Laurent Bonnafé one of its two operating chiefs. Page 4

■ **Japan's corporate sentiment** fell to the lowest level in five years, its central bank's quarterly *tankan* survey showed. Page 26

■ **Moody's may dismiss** staffers involved in inaccurate ratings of certain debt instruments and the failure to correct them. Page 23

■ **A New York court threw out** a ruling that the NYSE's ex-chairman must return part of a $187.5 million pay package. Page 24

■ **Air travelers who booked** in advance are finding their flights canceled or rerouted, as airlines start cutting capacity. Page 4

■ **Manitowoc won** the auction for food-equipment firm Enodis with a $2.4 billion bid. Page 7

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11382.26	+32.25	+0.28
Nasdaq	2304.97	+11.99	+0.52
DJ Stoxx 600	283.00	-6.39	-2.21
FTSE 100	5479.9	-146.0	-2.60
DAX	6315.94	-102.38	-1.60
CAC 40	4341.21	-96.75	-2.11
Euro	$1.5754	-0.0006	-0.04
Nymex crude	$140.97	+0.97	+0.69

Money & Investing > Page 21

World-Wide

Denmark became the first EU nation to slip into a technical recession, and data indicated others could soon follow. Economists think Italy, Spain, Portugal and Ireland are most at risk. But such concerns aren't expected to deter the European Central Bank from raising interest rates Thursday. Page 1

■ **A U.S. nuclear pact** with Russia is being threatened by delays in Congress, the latest in a series of missteps in Bush's counterproliferation strategy. Page 2

■ **Prospects for a deal** between Zimbabwe's Mugabe and his rival appeared to grow more distant. Meanwhile, a banknote printer in Germany ended its dealings with Harare. Page 1

■ **Militants killed** more U.S. and NATO troops in Afghanistan in June than in Iraq for the second straight month, a milestone that analysts said underscores the Taliban's growing strength.

■ **Italy revised** restrictions on its soldiers in Afghanistan, allowing them to be more easily deployed in volatile areas.

■ **Turkish authorities detained** at least 20 ultranationalists, including two retired generals, in a probe into a suspected coup plot against the government.

■ **France's army chief resigned** following a military show in which 16 people were shot and wounded when real bullets were used instead of blanks.

■ **Olmert warned** Palestinian militants that Israel would respond if attacks from Gaza persist in defiance of a recent truce.

■ **Malaysia's opposition leader** lashed out at the ruling coalition, telling his supporters the government is trying to frame him in a sex scandal. Page 12

■ **Chinese officials reopened** an investigation into the death of a student that led to riots, while some bloggers took steps to slip past censors. Page 11

■ **Protesters in Hong Kong** called for promised direct elections, as the city's leaders celebrated 11 years of Chinese rule.

■ **Mongolia's president** declared a state of emergency in the capital after protesters stormed the ruling-party headquarters, claiming fraud at Sunday's election.

Editorial & Opinion

Windfall from profits

When rates were cut, U.S. firms invested $362 billion from their foreign operations. Page 13

UBS overhauls its board

Move comes as U.S. pressures Swiss bank for rich-client data

By Carrick Mollenkamp And Katharina Bart

UBS AG's new chairman says he has a plan to fix the many legal and financial problems facing the Swiss banking giant. But with every step Peter Kurer takes, new problems appear and old ones deepen.

On Tuesday, Mr. Kurer laid out changes: Four directors are departing and the bank will look for new ones from outside, a nod to shareholders who have faulted the board for allowing UBS to become one of the banks worst hit by the global credit crisis. Mr. Kurer also eliminated a layer of board management to speed decisions.

Investors, who had hoped for an update on UBS's expected losses, reacted with exasperation.

UBS shares hit 10-year lows, falling 5.3% to 20.30 Swiss francs ($19.87).

Since early October, when UBS reported the first of the write-downs that now total some $38 billion, shares have fallen nearly 65% from 62.60 Swiss francs. The plunge has

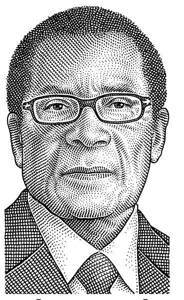
Please turn to page 35

Banknote printer ends its dealings with Zimbabwe

By Marcus Walker And Andrew Higgins

Robert Mugabe's embattled regime in Zimbabwe has just lost one of its props: The steady supply of fill-in-the-blank banknotes from high-security factories in the German countryside.

The notes, which have allowed Mr. Mugabe to pay his soldiers and other loyalists, are produced by **Giesecke & Devrient** GmbH, a secretive, family-owned Bavarian company that once made its money churning out worthless cash in the 1920s for the doomed Weimar Republic.

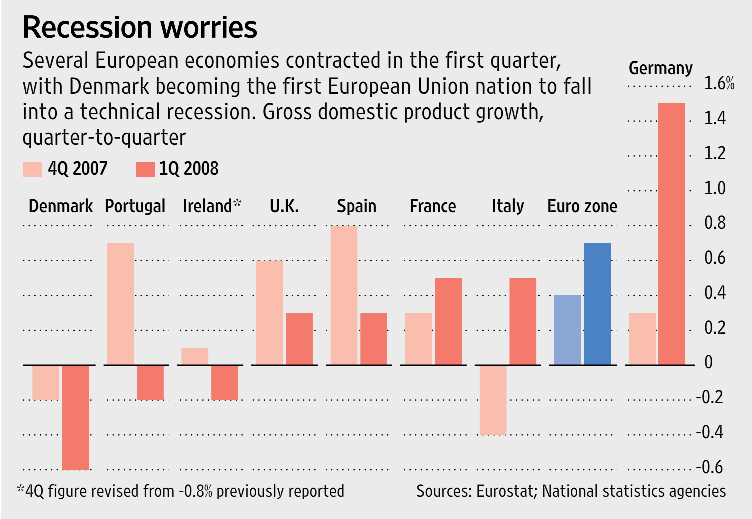


Robert Mugabe

The Munich-based firm on Tuesday caved in to pressure from the German government to stop its business with Mr. Mugabe's embattled government. The company has been airfreighting tons of blank notes to the Zimbabwean capital, Harare, where the central bank prints ever-higher numbers of zeros on the notes as astronomical inflation destroys the purchasing power of the Zimbabwe dollar.

Germany's foreign minister, Frank-Walter Steinmeier, telephoned Giesecke & Devrient's chief

Please turn to page 35



Recession fears deepen as Denmark is first to fall

By Emma Charlton And Joel Sherwood

LONDON—European recession fears grew Tuesday as Denmark became the first European Union country to slip into a technical recession and a raft of weak data indicated others could soon follow.

The Purchasing Managers Index for the euro zone's manufacturing sector contracted in June for the first time in three years, dropping to 49.2 from 50.6 in May, research group Markit Economics said. A PMI reading above 50 signals an expansion in manufacturing, while a level below 50 indicates a contraction.

Europe's economies are currently facing a toxic combination of elevated inflationary pressures, higher oil prices, strong exchange rates, weakening global growth and tight credit conditions. Denmark, Spain, the U.K. and Ireland also face falling housing prices after a recent boom, trailing a trend set in the U.S. after a two-year lag.

Such concerns aren't expected to deter the European Central Bank from raising interest rates Thursday. The central bank for the 15 countries sharing the euro has signaled it plans to raise its key rate to 4.25% from 4%. The plan appeared to be cemented by news that euro-zone inflation soared to 4% in June—twice the ECB's targeted inflation ceiling.

European stocks fell sharply as traders worried about the region's growth outlook. Economists believe Italy, Spain, Portugal and Ireland to be at most risk of following Denmark into recession. The U.K. and France face, at best, near stagnation.

There is "mounting evidence that the euro zone is heading for a major economic slowdown...with a no-longer negligible risk of a recession," said Holger Schmieding, an economist at Bank of America.

Europe's job market also is showing signs of erosion. Euro-zone unemployment increased for the second straight month in May, rising by approximately 67,000 after an increase of 52,000 in April, Eurostat data showed Tuesday.

Activity levels in three of the currency bloc's four largest economies wilted, with only Germany showing expansion over the month.

"France is clearly heading in the

Please turn to page 35

LEADING THE NEWS

Delays hurt nuclear pact

U.S. lawmakers seek guarantees Moscow has halted Iran ties

By Jay Solomon

WASHINGTON—The Bush administration's landmark nuclear-cooperation pact with Russia is being threatened by delays in the U.S. Congress, the latest in a series of missteps in the White House's counter-proliferation strategy.

U.S. lawmakers are voicing opposition to the agreement in part because of Moscow's history of trade with Iran in nuclear materials and ballistic missiles. Legislators are seeking greater guarantees from the White House that Russia has halted its military cooperation with Tehran.

The troubled Russia agreement comes as a similar U.S. nuclear-cooperation deal signed with India in 2005 appears unlikely to be passed into law before the end of President George W. Bush's second term, largely because of legislative opposition in New Delhi, U.S. officials say.

Democratic and Republican lawmakers are also working to block recent moves by the Bush administration to forge civilian-nuclear agreements with energy-rich Arab states, such as Saudi Arabia, the United Arab Emirates and Bahrain.

"The Bush administration has put nuclear commerce above common sense," says Rep. Edward Markey (D., Mass.), who is co-chairman of Congress's Bipartisan Task Force on Non-Proliferation.

The goal of the administration's nonproliferation strategy is to persuade developing nations to forgo their own development of nuclear fuel cycles. Washington's Global Nuclear Energy Partnership initiative, or GNEP, says the U.S. will assist in the development of civilian-nuclear power in return for commitments that countries will buy nuclear fuel from internationally monitored fuel banks. That could help keep nuclear fuel out of the hands of rogue states or terrorist groups.

Nuclear powers

Approximate stockpiles of nuclear warheads by country as of April 9

Russia	14,000
U.S.	5,400
France	348
China	240
U.K.	185
Israel	80
Pakistan	60
India	50
North Korea	10
Total	**20,373**

Note: Comprises operational weapons and those awaiting dismantlement

Source: Federation of American Scientists

Washington's conflict with Iran largely centers on Tehran's aggressive pursuit of the nuclear fuel cycle, which can be utilized for developing nuclear weapons. U.S. officials say they want to utilize GNEP to create an international regime to counter the Iranian model.

Last July, Mr. Bush and Russia's then-President Vladimir Putin signed a nuclear-cooperation pact in a bid to broaden relations between the two Cold War antagonists. Russia is a crucial partner in developing a fuel bank, due to the size of its domestic nuclear power industry, according to U.S. officials.

The deal would allow U.S. firms to sell a number of previously proscribed nuclear technologies to Russian companies. The two would also be allowed to cooperate in developing what U.S. officials say are more proliferation-resistant reactors. And the pact would facilitate the sale of Russian nuclear fuels into the U.S. market.

Still, a significant number of U.S. lawmakers say they are considering blocking the Russia deal, specifically because of Moscow's past support for Iran's nuclear activities and its long-range missile systems.

A U.S. official working on the Russia deal acknowledged that the Bush administration is running short of time but expressed confidence it would be finalized.

The White House has certified to Congress that Russia isn't aiding Iran in the pursuit of atomic weapons. But Rep. Markey and other U.S. lawmakers have questioned the accuracy of the intelligence provided by the administration. They have recently asked the Government Accountability Office to produce its own report detailing Moscow's military support for Tehran.

Russia is assisting Iran in building a light-water reactor in the city of Bushehr. The Bush administration supports the project because the nuclear fuel comes from Russia and is stored outside Iran. U.S. intelligence officials have acknowledged that Russia continues to provide Iran with conventional arms. But the administration nonetheless sees the pact as a way to get greater Russian cooperation.

The White House submitted the Russia agreement to Congress on May 13, meaning it would pass into law if lawmakers didn't move to block or amend the legislation during 90 consecutive working days.

Food, oil prices may put developing world at risk

By Tom Barkley

The jump in oil and food prices has pushed some developing countries to the "tipping point," putting governments in the difficult position of balancing the interests of the poor and economic growth, the managing director of the International Monetary Fund said Tuesday.

"If food prices rise further and oil prices just stay the same, then some governments will be unable to feed people and at the same time to maintain the stability of their economy," Dominique Strauss-Kahn said at a news conference to discuss a new IMF report on the impact on developing countries of a doubling in commodity prices since 2006.

While advanced countries are also dealing with the rising price pressures, the challenges are much greater for developing countries, which had been making strides in recent years in improving economic stability and reducing poverty, he said.

"The picture is a picture of a world in crisis," said Mr. Strauss-Kahn, noting that global financial markets are still enmeshed in the turmoil that began in the U.S. subprime mortgage market. Policy responses are needed from governments as well as the international community, he said.

Leaders from the Group of Eight leading nations have put the commodity-price crisis on the agenda for next week's meeting in Japan. Mark Plant, deputy director of the IMF's policy development and review department, said at the news conference that the G8 should work toward concluding the Doha round of global trade talks, ensuring adequate investment in agriculture in developing countries and addressing the diversion of crops toward biofuels.

In its first broad-based analysis of how rising commodity prices are affecting developing countries, the IMF found an increasing deterioration in inflation conditions and the balance of payments. And with oil and food prices expected to ease only gradually, the situation could worsen if governments don't take appropriate action, it said.

"The food and fuel price surges have greatly raised the policy challenges associated with reducing poverty, ensuring food security, and maintaining macroeconomic stability," the IMF said in the report, covering about 150 countries. The world is "in the midst of the broadest and most buoyant commodity price boom since the early 1970s," it said.

The IMF cited the rapid growth of emerging and developing countries as the "main source" of demand for commodities. The fund said rising demand and a "sluggish" supply response has been the main driver behind the run-up in oil prices. Financial conditions, such as the weak dollar and low real interest rates, have also likely contributed, it said. The IMF found "no compelling evidence" that commodity trading has affected price trends.

The rise in oil prices has fed into food costs, including the increase in biofuel production, the fund said, noting that corn-based ethanol output accounted for about three-quarters of the increase in global corn consumption in 2006-07. More recently, a growing number of countries have imposed limits on food exports, exacerbating the global problem, it said.

The fund found that inflation pressures have built up more than expected since the beginning of the year in developing countries, whose fiscal and balance-of-payment conditions have also worsened.

CORRECTIONS & AMPLIFICATIONS

Citigroup Inc.'s stock closed Friday's trading at $17.25 and **Lehman Brothers Holdings** Inc.'s stock closed at $22.25. A page-one article Monday about big financial companies incorrectly gave the closing prices as $17.67 and $22.61, respectively.

INDEX TO BUSINESSES

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

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

Editeur responsable: Daniel Hertzberg M-17936-2003

INDEX TO PEOPLE

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

LEADING THE NEWS

U.S. auto slump deepens

Firms unable to meet small-car demand; GM beats forecasts

By Kate Linebaugh And Matthew Dolan

DETROIT—The U.S. auto market shrank at a precipitous rate in June, in part because the industry couldn't produce small cars fast enough to meet demand.

Rapidly rising gasoline prices, a weak economy and a soft housing market combined to produce one of the weakest results in years for the month, normally a strong one.

Cash woes

CEO Rick Wagoner faces one of his biggest challenges yet at GM 6

General Motors Corp.'s sales came in stronger than expected, helped by a blow-out sale that boosted numbers in the final days of June. The sale included offers of 0% financing for as long as 72 months and rebates of as much as $7,000—the kind of big incentives that are known to eat away profits and that GM has been trying to get away from. Without the incentives, GM was at risk of being passed by **Toyota Motor** Corp. In trading on the New York Stock Exchange, GM shares rose 2.9% to $11.83.

But anyone who thinks GM "has regained momentum," as GM claimed in its conference call, is badly mistaken. Past history shows that with big incentives, sales go up-temporarily. At some point, the company will have to stop the incentives, and sales will drop like a stone.

GM reported June vehicle sales of 265,937 cars and light trucks, down 18.5% from a year earlier. **Ford Motor** Co.'s sales dropped 28% to 167,090 vehicles for the company's worst June since at least 1990, according to Autodata Corp. Toyota sold 193,234 vehicles, down 21%, an astounding drop for a company that has been consistently outperforming its Detroit-based rivals.

"We think it's going to persist for many months to come, maybe even longer," Jim Farley, Ford group vice president for marketing and communications, said of the sales slump on a conference call. "The inventory level for everyone's passenger cars is really kind of an artificial barrier."

Bucking the trend, **Honda Motor** Co. said its June sales rose 1.1% to 142,539 from a year earlier. Sales of its fuel-efficient Fit doubled.

High gasoline prices kept many consumers away from big purchases, particularly sport-utility vehicles and trucks, and will likely weigh on sales for the rest of year, executives of the auto makers said. Ford said it estimates the industry is on track to sell 14 million cars in 2008, a big drop from the 16.1 million sold in 2007.

A total for June sales was unavailable because some auto makers were still to report. Analysts forecast the month's seasonally adjusted annualized sales pace was about 13.5 million vehicles.

The sales figures underscore a major shift: American consumers long enamored of trucks and SUVs are now looking for fuel-efficient cars. Sales of Ford's SUVs fell 55%, and its formerly top-selling truck line dropped 38%. Toyota sold one-third fewer pickup trucks than it did a year ago.

Associated Press

An unsold 2008 Camry and SUVs at a Toyota dealership near Denver.

This is a blow to U.S. domestic auto producers whose businesses have been heavily reliant on larger vehicles. All of Detroit's Big Three are scrambling to change their production lines by closing truck factories and increasing small-car production capacity.

Production constraints are slowing sales of Ford's Focus, a small fuel-efficient car, for which retail sales doubled in May. In June, retail sales of the Focus rose only 9% because of limited availability of stock.

Demand for vehicles with hybrid engines was high, but companies were unable to produce hybrid cars fast enough to sate the market. Toyota, for instance, is only able to supply the U.S. market with 175,000 Prius hybrid vehicles. In the first half of the year, the company sold 91,440, more than half the annual allocation, though Prius sales in June fell 26%.

At the Fox Toyota in Rochester Hills, Mich., general sales manager Chad Ratliff said he has no stock of Yaris, Corolla or any of the Toyota hybrids. "Honestly, the trend is we don't have any cars," Mr. Yaris said. "It's been a bit of a nightmare."

CORPORATE NEWS

POSTAL SERVICE

EU court ruling to give Deutsche Post big refund

DEUTSCHE POST AG said it will get more than €1 billion ($1.57 billion) back after a European Union court ruled that regulators were wrong to make it return a German-government subsidy. The European Court of First Instance, the EU's second-highest legal authority, backed the German delivery company's challenge to a European Commission decision that fined Deutsche Post €572 million in 2002. The court said the EU's antitrust authority hadn't proved its case that Deutsche Post misused public funds—intended to pay for the country's postal service—to unfairly undercut private-sector rivals on door-to-door parcel-delivery services from 1994 to 1998. *—Associated Press*

TRADEMARKS

Groupe Danone appeals Chinese arbitration ruling

GROUPE DANONE SA has filed an appeal against a Chinese arbitration commission's ruling that found in favor of its Chinese joint-venture partner, **Hangzhou Wahaha Group** Co., in a dispute over the ownership of a trademark.

The Wahaha trademark was part of a 1996 joint-venture agreement between the French dairy maker and Wahaha.

According to Danone's appeal application, the commission erred in ruling in December that the transfer of the trademark from Wahaha to the joint venture had been terminated. Wahaha spokesman Shan Qining declined to comment. *—Michelle Ng*

AIRLINES

Lufthansa workers strike in bid to land pay raises

ABOUT 4,500 employees of **Deutsche Lufthansa** AG walked off the job for several hours early Tuesday in an effort to win more pay, disrupting flights across Germany, union organizers said. Lufthansa said that by midday it had been forced to cancel 44 domestic flights, while dozens of others were delayed. The strike mainly involved ground personnel at Frankfurt Airport, but employees in Munich, Stuttgart and Cologne also walked off their jobs for as much as four hours. The union is seeking a 9.8% pay raise for Lufthansa's roughly 60,000 ground and cabin personnel. The airline has offered a total of 5.5% in graded increases over the year. *—Associated Press*

Flight cuts hit early-bird planners

Those who booked air travel in advance get left up in the air

BY MATT PHILLIPS

AIR TRAVELERS who have booked trips this fall might want to check to see if their flights are still scheduled.

As airlines cut back, some people who followed the travel industry's advice to book their tickets in advance—from honeymooners to family vacationers—are finding themselves with seats on flights that no longer exist.

Carriers say they are doing the best they can to notify customers of disruptions and accommodate changes. But some travelers say the options presented by the airlines can be inconvenient, requiring them to use more vacation days, pay for longer—or additional—hotel stays or shave time off the start or end of their trip.

Even ostensibly tiny changes, such as later-than-planned departure times, could result in missed connections, tacking hours onto trips and adding to costs. And good luck getting your airline to pay for those expenses.

"If you have an itinerary beyond Labor Day, go online and make sure that flight is still there," even if you haven't been contacted by your carrier, says Terry Trippler, who watches air travel closely as the owner of travel Web site trippler-travel.com.

Since schedule changes are largely set to take effect this fall, the changes are most likely to affect people who have planned ahead. This year, domestic travelers bought their tickets for summer travel an average of eight weeks before their departure date, according to statistics provided by Web site Travelocity. But some travelers, such as those planning a wedding or honeymoon, plan much further in advance.

Milton Yang, a 27-year-old software engineer in Reston, Va., saw plans for his October honeymoon in South America thrown into disarray when **Delta Air Lines** Inc. moved his scheduled flight from Atlanta to Quito, Ecuador, back by one day.

Reuters

United Airlines employees work behind a check-in counter at O'Hare International Airport in Chicago. Parent UAL plans to slash its work force and domestic fleet.

After he was unable to find a solution by talking with customer-service representatives on the phone, Mr. Yang recently sent a complaint letter to Delta. He hopes it prompts the airline to offer a more convenient flight. "Right now all of our eggs are in the one basket of them helping us out," he said.

Another honeymooner, 30-year-old business-development manager Kimberly Kelly, had to cancel her September plans to honeymoon in St. Lucia after learning the first leg of her trip, an American Airlines flight from Newark, N.J., to San Juan, Puerto Rico, would be canceled in early September. After booking the flight in the spring, online travel-booking service Expedia notified Ms. Kelly around Memorial Day that her itinerary had changed.

Expedia told her that her flight would now leave from Miami, rather than Newark. "We were supposed to somehow get ourselves to Miami," said Ms. Kelly, who lives in Montclair, N.J. She ultimately canceled the flight and received a refund.

For his part, Salt Lake City resident Matthew Hanson hopes he can get Delta to reconsider the change it made to his November return trip home from Tampa, Fla. The 36-year-old software engineer had originally booked his family on nonstop flights to visit his parents in Tampa. But now, the flight from Tampa connects through Cincinnati, where he and his wife will have to haul their two children, ages eight months and 3½ years, onto a connection.

Mr. Hanson says he discovered the new schedule only after checking his itinerary online, and as of Tuesday, had yet to hear anything from Delta about the flight change. "The lack of the nonstop definitely is the killer," Mr. Hanson said. "Especially when you originally bought the nonstop."

Delta says it has begun contacting customers, but not all have been reached. Delta spokeswoman Betsy Talton says the airline makes every effort to contact customers whose flights have been canceled and work with them to accommodate them on other flights.

Airlines won't say how many passengers are affected by the cascade of cutbacks announced in recent weeks. Many of those reductions in flights won't take effect until the fourth quarter, after the peak summer travel season.

With surging crude costs pushing jet-fuel prices higher, airlines say they have little choice but to cut routes and schedules. That comes on top of recent measures such as charging passengers a fee for the first checked bag and eliminating free in-flight beverages and snacks.

Chicago-area travel agent Joanne Gardner has seen an increase in disruptions of her clients' bookings because of schedule cutbacks. "We're seeing more of these major ones than we've ever seen before," she said.

Airlines have chosen to cut flights after the peak season in part to reduce the impact on travelers and give them time to make alternate arrangements. "It's going to be very, very few customers who are going to be affected," said Tim Wagner, a spokesman for **AMR** Corp.'s American Airlines. American's first round of recently announced flight cuts—which includes flights from Boston to San Diego and Chicago to Buenos Aires—goes into effect Sept. 3.

Delta is cutting 13% of its domestic capacity in the second half of 2008, and **Northwest Airlines** Corp. intends to cut its mainline capacity—core operations that exclude regional flights—by as much as 9.5% in the fourth quarter. **UAL** Corp.'s United Airlines, **US Airways Group** Inc. and **Continental Airlines** Inc. will cut mainline capacity by as much as 14%, 8% and 11% in the fourth quarter, respectively.

Consumers have limited leverage with carriers when it comes to schedule changes. As long as the airline is willing to provide a refund, "there's no requirement that [the airline] get them on the next flight or a specific flight," said Bill Mosley, a spokesman for the Department of Transportation.

"It's a take-it-or-leave-it-or-we'll-give-you-your-money-back situation," Mr. Trippler says.

Some, like Ms. Kelly, say they won't let pared-down schedules keep them from flying. She remains set on a Caribbean honeymoon. "We are looking to rebook and make it happen," she said.

BNP reshuffles top management, emphasizes retail

BY NICOLAS PARASIE

PARIS—**BNP Paribas** SA said it will reshuffle its top management, in a move to strengthen the bank's ability to absorb shocks such as the credit crisis. The reshuffle bolsters BNP's retail-banking arm, which generates more than half of its revenue.

France's largest bank by market value promoted Jean-Laurent Bonnafé to be one of BNP's two chief operating officers. Mr. Bonnafé will work with Georges Chodron de Courcel, who was already in the position.

Insiders see Mr. Bonnafé's promotion as a sign that the 46-year-old is being groomed to eventually take the top job at BNP.

Mr. Bonnafé, a graduate of École Polytechnique, France's prestigious state-supported engineering school, led the integration of Banca Nazionale del Lavoro, which BNP acquired in 2006 for €9 billion ($14.17 billion). He joined BNP in 1994 as an investment banker and played a role in the merger process between BNP and Paribas in 2000.

Mr. Bonnafé will head the bank's retail arm, with a brief to boost cross-selling across different units, and will work alongside the head of the retail unit, Pierre Mariani. The move underlines the growing importance of the retail business as a stable revenue source. BNP has added two business lines to its investment-and-corporate bank at the group level, bringing the total number to five.

Jean Clamon, who was previously chief operating officer alongside Mr. Chodron de Courcel, will now become managing director, responsible for the coordination of BNP's internal-control unit.

Chief Executive Baudouin Prot said the aim of the changes is to "adapt the group's organization to the current trends of its businesses, and at the same time confirm the independence of the group's control mechanisms and improve their coordination."

—Vivek Ahuja in London contributed to this article.

CORPORATE NEWS

InBev presses Anheuser

Belgian brewer seeks a 'friendly' merger, hints at hostile move

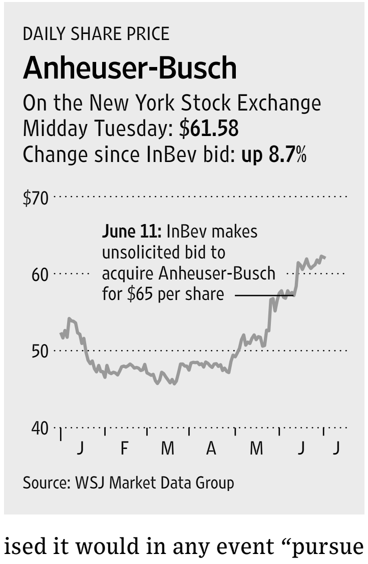
By Julie Jargon

In another attempt to court the "King of Beers," **InBev** NV issued a press release Tuesday offering to play nice—so long as **Anheuser-Busch** Cos. entertains its original $65-a-share offer.

Anheuser, for now, is sticking to its rejection of InBev's unsolicited bid. A spokesperson for the brewer said it stands by its announcement last week that $65 a share, or $46.35 billion, undervalues Anheuser.

"Given the seriousness of our firm proposal, we were surprised that we did not hear from Anheuser Busch's Board of Directors, management or advisors prior to the rejection ... Our firm proposal was rejected in favor of a newly formulated management plan with significant execution risks," InBev Chief Executive Carlos Brito said in a statement.

The Belgian company expressed a desire "to enter into a constructive dialogue to achieve a friendly combination," but promised it would in any event "pursue all available avenues that would allow Anheuser-Busch shareholders a direct voice."



This latest volley from InBev, maker of Stella Artois and Labatt Blue, places the ball back in Anheuser's court, and industry analysts say CEO August Busch IV has two choices: to convince shareholders that plans announced last week to cut costs and raise beer prices will boost earnings, or to sit down with InBev and negotiate.

"InBev clearly is saying, 'If we can get this done at $65, we'll get it done,'" says Morningstar Inc. analyst Ann Gilpin. "That's a pretty strong message to Anheuser-Busch." InBev has already shown a willingness to go hostile. The company last week filed suit in Delaware seeking to confirm that Anheuser shareholders can remove all 13 members of Anheuser's board without cause.

Several pension funds that hold small stakes in Anheuser have sued the company in recent days in an effort to the force the company to consider the bid.

Anheuser had approached **Grupo Modelo** SA, maker of Corona and Modelo, about doing a deal to thwart InBev, but the talks don't appear to have gone anywhere.

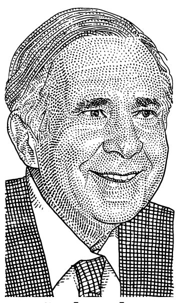
Mr. Busch "is in the position of saying, 'You're declaring war, come get me.' Or, option two, which is smarter for all concerned, is to open communications and sit down and seriously talk about value. Busch's only real defense is to rally his shareholders around the idea that InBev is coming to them on the cheap," says Tom Pirko, president of beverage advisory firm Bevmark.

That might be a tough sell, considering the $65-a-share offer represents an 18% premium to the October 2002 closing record high for the the stock, prior to the InBev bid.

Yahoo boosts critique of Microsoft

By Jessica E. Vascellaro And Lauren Pollock

Yahoo Inc. cast new doubts on whether **Microsoft** Corp. was ever committed to acquiring it, as the Internet company defended management decisions it has made since rejecting Microsoft's unsolicited bid.



Carl Icahn

In a 32-page investor presentation designed to rally shareholder support for its directors, Yahoo issued some of its harshest criticism of Microsoft's handling of negotiations between the two companies. The report accuses Microsoft of being "unresponsive and inconsistent" and sending mixed signals about the price it was willing to pay.

Responding to the report, Microsoft spokesman Frank Shaw said, "This is simply revisionist history" and declined to elaborate.

Yahoo in recent weeks has been trying to restore investor confidence, which has crumbled since Microsoft on May 3 pulled its offer to acquire Yahoo. Now, as investor Carl Icahn wages a battle to replace Yahoo's board at its Aug. 1 shareholder meeting, Yahoo is going on the offensive.

In its presentation, Yahoo, of Sunnyvale, Calif., continued to peel back the curtain on its talks with the Redmond, Wash., software company, listing the dates of more than 10 meetings between representatives from Microsoft and Yahoo since February. The detailed timeline appears designed to boost Yahoo's argument that it was bargaining for a better deal when Microsoft suddenly pulled out, contradicting the claim of critics who said the Yahoo board was insincere in the negotiations.

According to Yahoo's timeline, the Internet company sent a private letter to Microsoft in late April saying it was open to a deal—but not at the original offer price of $31 a share. On May 2, Yahoo said, Microsoft "orally" said it was willing to pay as much as $33 a share but warned Yahoo "not to come back at $38." The following day, the companies met to discuss the price. Yahoo then proposed $37 a share, but Microsoft withdrew its proposal "within hours" after the meeting, according to the Yahoo timeline.

Citigroup analyst Mark Mahaney said the timeline paints Microsoft's actions as somewhat "bizarre" at a time when investors have largely viewed Yahoo as the company that acted irrationally.

—Robert A. Guth contributed to this article.

World Trade Center plans are delayed

By Alex Frangos

NEW YORK—The World Trade Center construction effort was plunged into uncertainty as the lead agency involved in its rebuilding said it will take months to determine the project's budget and schedule.

Christopher Ward, executive director of the Port Authority of New York and New Jersey, the agency that owns the site targeted in the Sept. 11, 2001, terrorist attacks, called the current schedule and budget "not realistic," and said that several projects on the site face "significant delays and cost overruns." He made the statements in a letter to New York Gov. David Paterson after the governor ordered a review of the project in June.

"The promises of the past do not seem to be realistic," Mr. Paterson said Monday in response to the report. He described the status quo as "nothing less than unacceptable."

The report didn't specify the extent to which the project is overbudget or behind schedule. But people familiar with the matter said it is roughly $1 billion to $3 billion over its $15 billion budget and one to three years past its scheduled completion in 2011 to 2013.

The report was a rebuke to the half-decade-long effort to build office towers, transportation, stores and a memorial on the site of the Sept. 11 attacks. Regarding the Port Authority's central project, a rail hub unveiled in January 2004, the letter to Gov. Paterson said it is "difficult both to responsibly predict a completion date and total cost of the hub." The report said changes to the transit hub would be necessary to get that project closer to its latest $2.5 billion budget.

The National September 11 Memorial and Museum, a foundation in charge of the memorial, still hopes to open by its goal of the 10th anniversary of the attacks, Sept. 11, 2011. The developer of three of the five office buildings at the site, Larry Silverstein, said the problems wouldn't delay his target to complete his buildings by the end of 2012.

The report blamed the problems on poor coordination among the more than a dozen public agencies that own, monitor or regulate the site.

Starbucks's java strategy steams some customers

By Janet Adamy

A backlash is brewing against **Starbucks** Corp. over its Pike Place Roast coffee, which has perked up the company's sales by attracting new business, but has alienated a small yet vocal group of longtime patrons.

In April, the Seattle-based chain made the new, milder brew the main drip coffee at its about 11,000 locations across the country. The idea was to offer a more approachable cup of java with a smoother finish.

But the new strategy, which played down the company's more-established robust roasts, has touched off a debate about what customers think Starbucks should stand for: bold coffee for connoisseurs or a tamer brew for the masses?

Much of that debate is taking place on the company's customer-feedback Web site, which the chain launched in March. The site is littered with thumbs-down verdicts on the new roast. Some small competitors have posted messages there trying to woo away disenchanted Starbucks drinkers.

A customer with the handle Westend complained in a posting on the site that the flavor of Pike Place Roast is "weak, watery and no substitute for the bold." Another, ArtM, called the coffee "a fundamental, grievous error." Beccajav derided its finish as "reminiscent of a taste from the dentist's office."

But Starbucks executives say the chain's aggressive marketing of Pike Place Roast has been a success. Since its introduction, Starbucks's sales of drip coffee have risen by between 5% and 15%, depending on the part of the country, the company says.

"Our satisfaction metrics are up across the board," says Rob Grady, Starbucks's vice president, global beverage. Most of the sales increase in drip coffee has come from new customers "that historically might have not come into Starbucks," he adds.

Starbucks used to brew three types of coffee each day: one bold, one mild and one decaffeinated. The lineup changed weekly.

Now Starbucks outlets serve Pike Place Roast in regular and decaf versions every day. In the morning, stores also brew one of the chain's six bold flavors, like Gold Coast or Caffe Verona. But most Starbucks no longer brew a bold coffee after noon.

The new coffee has clearly struck a chord with some coffee drinkers. But other Starbucks patrons complain that it has gotten hard to buy the stronger-tasting blends on which Starbucks built its reputation. Two weeks ago, after getting thousands of pleas on its Web site, Starbucks again started brewing bold-flavored coffee in the afternoon at some of its locations.

Since New Coke flopped in the 1980s, food and beverage companies have been cautious about changing the taste or formula of their signature offerings. McDonald's Corp., for instance, has kept quiet about the changes in its cooking oil and Big Mac sauce in recent years, in part to minimize the potential for a backlash.

"The worst thing you can do is turn away your loyal customers," says Ron Paul, president of the food consulting firm Technomic Inc. "It's a very risky strategy."

For Starbucks, however, the controversy has succeeded in creating a buzz around the chain's brewed coffees after years in which it largely neglected them in favor of its fancier and pricier coffee-flavored drinks.

Starbucks's Mr. Grady adds that the chain's customers who want a stronger blend of coffee can always ask the barista behind the counter to brew them a cup specially. But some regulars say strong coffee shouldn't require a special order at a chain that popularized it. And some customers who say they have asked a barista to make them a cup of bold coffee say they have been refused.

Pike Place Roast, named for the first Starbucks, located in Seattle's Pike Place Market, has been widely interpreted as the company's attempt to address complaints that its coffee tastes bitter or burnt. But its executives say that wasn't their goal.

Customers were confused by the frequently changing blends available at the company's outlets and wanted something more consistent, says Anthony Carroll, Starbucks manager of green-coffee quality. Surveys of 1,500 consumers also showed they wanted coffee with a smoother finish, he says.

With Chief Executive Howard Schultz pushing for quick action to reverse the company's sliding same-store sales in the U.S., Starbucks developed Pike Place Roast and put it in the company's stores in six months. That is about a year less than it typically takes the chain to refine and implement major new ideas.

Last fall, Mr. Carroll and his colleagues "locked ourselves" in a tasting room at Starbucks headquarters and went through at least 50 coffee blends to settle on the new flavor, Mr. Carroll says. They adjusted the taste by changing variables like the temperature at which the beans were roasted.

"We know what the Starbucks profile is—it's very near and dear to all of us—and we weren't going to waver from that signature Starbucks flavor," Mr. Carroll says. He and his team narrowed the field to a group of blends that Mr. Schultz tasted to help make the final choice. Earlier this year, Starbucks tested the coffee with consumers, mostly in the Seattle area.

The new blend won Starbucks a more favorable review from Consumer Reports than the magazine's 2007 assessment, which declared Starbucks coffee "burnt and bitter."

"If you're a confirmed Starbucks drinker and like the taste you're familiar with, this may not be for you," the magazine wrote in a May posting on its Web site. "But if you're looking for coffee with a mild, medium-roasted flavor, Pike Place Roast might be the one to try."

Jolene Tapie of Rancho Cucamonga, Calif., decided the new coffee wasn't for her. "I just couldn't believe that Starbucks would even serve something that bland, tasteless, watery," she says. Ms. Tapie used to visit Starbucks at least three times a week on her way home from her job in a high-school records office. But when her nearby Starbucks replaced the bold blends she favored with Pike Place Roast in the afternoon, she started going to local coffee shops instead.

"I am shocked and disappointed that you have abandoned your original vision," a poster identified as WestPalm wrote on mystarbucksidea.com, the company's feedback site. "You need to wake up before it's too late." Thousands of votes of support for his stance and others like it helped persuade the company to restore a bold coffee variety to the afternoon lineup at about 900 of its locations.

Mr. Grady says Starbucks anticipated complaints. "Every time we change something ... there will be customers that liked it the way it was," he says.

Chrysler idles van plant

Cost-cutting aimed at meeting its goals; '08 sales down 14%

BY JOSÉE VALCOURT

DETROIT—**Chrysler** LLC said Monday it will idle a minivan plant outside St. Louis and eliminate a work shift at an adjacent truck plant later this year.

Chrysler's moves are aimed at keeping the company on track to meet the financial targets set by its majority owner, **Cerberus Capital Management** LP, despite the deep downturn in U.S. auto sales. When Cerberus bought the company last year, its business plan foresaw Chrysler losing money in 2007 and 2008, and then generating positive cash flow for part of 2009, people familiar with the matter said.

Although Chrysler's global sales have fallen about 14% this year, neither Cerberus nor Chrysler is considering revising the financial goals at this time, the people said.

The company's cash flow was positive in June, three people familiar with the matter said, crediting production cuts earlier in the year, the elimination of four money-losing models from its product line and a reduction in unprofitable sales to rental-car companies.

Chrysler is still in a tight financial situation, however, and must spend billions to develop new models and start a union-operated fund to cover retiree health-care costs. "The market is at a fairly slow point," Chrysler Vice Chairman Jim Press said in a conference call on Monday. If "we want to continue to meet or exceed our financial targets, we have to move responsibly."

General Motors Corp. has said it plans to shut four plants in North America. Ford Motor Co. is also slashing factory output of its larger sport-utility vehicles and pickup trucks.

Chrysler said it will idle its St. Louis South minivan plant indefinitely in October. The St. Louis North plant, which makes Dodge Ram pickups and now operates two shifts a day, will go to one shift in September. A total of 2,400 people will lose their jobs at both plants.

Sales of minivans have been trending down for years. This year, the decline worsened in response to higher gas prices and other economic woes.

—Neal E. Boudette contributed to this article.

New-car registrations tumble

BY CHRISTOPHER BJORK, WILLIAM HOROBIN AND JENNIFER CLARK

Deteriorating economic conditions and high oil prices cut into June car registrations in Spain and Italy—but French car makers fared better, as consumers registered slightly more cars in June than they did in June 2007.

Spain's registrations tumbled 31%, punctuating the slowing growth in that country. Annual growth in Spain's gross domestic product slowed sharply to 2.7% in the first quarter, from 3.5% in the fourth quarter, as a decadelong construction boom turned to bust.

In a release, Spanish car manufacturers' association Anfac said 114,958 cars were registered in June, down from 166,218 a year earlier. Car registrations are used as an indicator for car sales.

Italian new-car registrations dropped 19.5% to 184,275 vehicles. Analysts attributed the fall to increasing oil prices and a weaker economy weighing on consumer spending.

Fiat Group Automobiles SpA brands—Fiat, Alfa Romeo and Lancia—had a 32.7% market share of new-car registrations in June, in line with the May result.

Registrations of new cars in France edged up 2.1% to 265,616 in June.

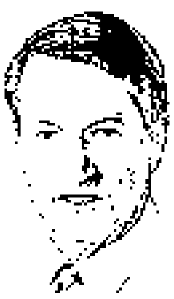
BUSINESS ▪ GEORGE ANDERS

Wagoner has survived GM's fall, but cash woes loom as biggest test

RICK WAGONER painted a rosy picture in June 2000 when he became **General Motors** Corp.'s chief executive. Global market share for GM and its affiliates could climb to 28% from 25%, he said. Profit margins would stay strong. GM would be in the top quarter of stock-market performers. "Future opportunities are virtually unlimited," he declared.

It hasn't worked out that way. Instead, Mr. Wagoner has become the Sisyphus of American industry, perpetually struggling to fix what may be unfixable. Some years, he makes progress cutting costs or perking up the product line. Then, a new crisis comes along, leaving GM in worse shape than before.

Last week, GM's stock touched a 53-year low, sinking below the nadirs it hit during the 1973-75 and 1980-82 economic downturns. Overall, GM's stock has tumbled 81% since Mr. Wagoner took the auto maker's helm. These days, GM's global market share is 12.5%.



Rick Wagoner

At most companies in similar straits, angry shareholders and directors would have sacked the CEO long ago. They might have found someone more promising. Or they might have played the scapegoat game, just as perennially losing sports teams keep replacing the head coach, regardless of how many other factors might be hurting performance.

SO WHY DOES Mr. Wagoner still have his job—and is there anything that could send him packing? Some unusual factors have been in play at GM in recent years, which deserve a closer look.

GM's one-of-a-kind characteristics start with its shareholder base. Activist investors often target companies with sagging stocks; they buy up big stakes, and then ram through management changes. But at GM, famous-name activists have had about as much impact as a toddler banging on the hood of a Denali sport-utility vehicle: some minor dents, but no destiny-changing results. Carl Icahn briefly dabbled in GM stock in 2000. Kirk Kerkorian owned much more in 2006. Neither succeeded in leading a coup; both eventually sold their stakes.

It seems that activists can't provide quick fixes to GM's biggest challenges, such as its high labor costs or unfavorable product mix. As a result, frustrated shareholders tend to cash out rather than stick around to fight. Filings with the U.S. Securities and Exchange Commission show that at least a dozen hedge funds or mutual funds with activist tendencies sold their entire GM positions of one million shares or more during the first quarter.

GM's directors also have played a crucial role in Mr. Wagoner's longevity. GM's lead independent director, George Fisher, the former head of Eastman Kodak Co., has declared at several crucial junctures that he believes GM is on the right track with current leadership.

In interviews with The Wall Street Journal in May and June, Mr. Fisher endorsed Mr. Wagoner's strategy and said GM's stock price isn't a major concern of the board or management. Other board members are opting to be quietly supportive. A spokesman for GM director Armando Codina, CEO of Flagler Development Group, said Mr. Codina believes GM executives should be the ones talking about the company's performance.

MR. WAGONER'S boosters have been willing to reset the scoreboard every year or two, letting lower levels of profitability and market share become acceptable as business conditions worsen. Supporters say Mr. Wagoner has made major headway in negotiating lower labor costs in North America. They also give him credit for expansion in China, Brazil and other emerging markets, for pushing GM to develop battery-powered cars and for improvements in GM's quality rankings.

"He's an excellent CEO," says David Cole, head of the Center for Automotive Research, an Ann Arbor, Mich., group funded partly by auto makers and their suppliers.

But GM's looming liquidity squeeze could prove to be Mr. Wagoner's toughest challenge yet. The company's operating losses are eating into its cash on hand, which was about $24 billion as of March 31, and is shrinking by at least $3 billion a quarter.

Analysts say GM's routine operating needs require it to have at least $7 billion of cash available at all times, meaning that it could be in a scramble to raise more money within the next year. GM has carried a junk-bond rating since 2005. In April, Moody's Investors Service changed its rating outlook for GM to "negative" from stable. Moody's current rating of B3 on GM puts it in a class of borrowers whose probability of default within a year is considered to be 13%; their likelihood of default within four years is deemed to be 26%.

GM could do a lot of things to raise cash fast, including selling assets, splitting off its profitable overseas businesses and borrowing more, using its stronger assets as security. By 2010, some of the labor-cost savings negotiated by Mr. Wagoner last year should kick in, easing the financial pressure on the company.

But GM's shaky stock price and ragged credit rating speak to market participants' uncertainty about whether the company can get through the next tough period. If GM's fate in 2009 depends on its financial resourcefulness, directors may want to revisit the question of whether Mr. Wagoner still is the best person for the job. One prospect to watch: Fritz Henderson, GM's former chief financial officer, who was promoted earlier this year to president and chief operating officer.

CORPORATE NEWS

Intel sees 'many core' era

A chief technologist offers vision of future as chip firm nears 40

By Don Clark

SAN FRANCISCO—A top **Intel** Corp. technologist used the company's impending 40th anniversary as an opportunity to make four broad predictions about the future of the chip industry. Not surprisingly, he sees the company's products evolving rapidly and spreading into many new places.

Patrick Gelsinger, a senior vice president who has served as Intel's chief technology officer, told reporters at a briefing here to expect a sharp acceleration in the number of computing engines packed on each chip. While today's personal computers have chips with the core circuitry of one to four microprocessors, Intel is laying the groundwork for the "many core" era—products featuring tens to hundreds of electronic brains.

That won't help with today's common computing jobs, like running word processors and spreadsheets, but Mr. Gelsinger predicted programmers will find many new ways to take advantage of the added processing power.

Medical images that take hours to process will become instantly available and interactive, speeding diagnoses, he said. Accurate speech recognition will replace typing input, and the basic interface software that controls the look and feel of computers will dramatically evolve to better interpret what users want.

"It becomes immersive, intuitive and interactive," said Mr. Gelsinger, who is general manager of Intel's digital enterprise group.

Another prediction is that the company's underlying chip design—often called x86, but also labeled IA, for Intel architecture—will push into cellphones, consumer products and other applications where it is not now commonplace. The biggest obstacles in cellphones include power consumption—even Intel's latest Atom chip draws too much power—and a stable of companies use an energy-efficient design from **ARM Holdings** PLC.

Intel's Atom chips are suited for ultra-small portable computers, and Mr. Gelsinger said the company is committed in the next version to target the cellphone market. The company's x86 technology also could bring huge software advantages, he said.

A third prediction concerns an even broader vision of ubiquity for Intel chips: that computing and Internet capability will become available to every person on the planet, 24 hours a day, Mr. Gelsinger said. That vision implies combinations of microprocessors, sensors and other devices that further enhance the capabilities of products such as automatic teller machines, cars and door locks.

A fourth prediction concerns Moore's Law, the oft-quoted prediction by Intel co-founder Gordon Moore about how the industry doubles the capabilities of chips every year or two. In particular, Intel is betting heavily that the industry will move to a new generation of the silicon wafers that serve as a substrate for chip manufacturing.

By moving to 450-millimeter wafers—up from 300 millimeter wafers today—the average cost of producing each chip can be driven down by 40%, Mr. Gelsinger noted. Intel is betting that the transition will be made by 2012 to 2015, despite heavy costs of retooling factories that has fueled opposition among some other manufacturers of chips and the tools used to produce them.

Manitowoc wins Enodis auction

By Marietta Cauchi, Margot Patrick And Doug Cameron

Construction-crane maker **Manitowoc** Co. emerged as the victor in an auction for food-equipment maker **Enodis** PLC, beating out **Illinois Tool Works** Inc. with a £1.21 billion ($2.4 billion) bid that ends two years of courtships.

In a one-round auction overseen by the U.K.'s Takeover Panel, Manitowoc offered 328 pence per share for Enodis, above its 294-pence-per-share agreed offer and the 280 pence offered by Illinois Tool Works in May. The panel didn't disclose Illinois Tool Work's auction bid.

Enodis, which is listed in London and has its headquarters in Tampa, Fla., produces commercial ice-making machines and deep fryers, with a client list including McDonald's Corp. and Wal-Mart Stores Inc.

It was wooed by a series of suitors during the past two years, as rivals look to increase their market share in supplying food equipment to businesses and to tap increasing demand for such commercial equipment in developing economies.

With the addition of Enodis, Manitowoc's crane business will account for 58% of group sales, down from the current 81%, according to Sterne Agee. Manitowoc's revenue in 2007 totaled $4 billion. The Manitowoc, Wis., company also produces ice and beverage dispensers and refrigeration equipment.

For Illinois Tool Works, Enodis would have almost doubled the size of its existing food-equipment unit.

The Takeover Panel called for the auction—a process that has been used only a handful of times in the U.K.—after a Friday deadline passed for the rival U.S. suitors to submit final offers.

Manitowoc and Illinois Tool Works had tussled for control of Enodis since April, with Enodis's board switching allegiance from side to side as the offer prices rose. Enodis shares closed Tuesday in London at 315 pence.

Shares in both Manitowoc and ITW have declined sharply since the bidding contest began. Analysts at Sterne Agee suggested the deal wouldn't be accretive to Manitowoc on a cash flow basis until 2011, based on a bid above 300 pence a share.

Manitowoc shares were down 85 cents, or 2.6%, at $31.68 in afternoon trading Tuesday on the New York Stock Exchange. ITW was off 39 cents, or 0.8%, at $47.12, also on the Big Board.

EMI weighs CEO candidates for unit

By Ethan Smith

EMI Group Ltd.'s shake-up of its recorded-music unit is touching the highest echelons of the company, with one top executive already out the door and a search on to fill another senior position.

Elio Leoni-Sceti, executive vice president for Europe at packaged-goods company **Reckitt Benckiser** PLC, is one of a small group of people being considered to serve as chief executive of EMI Music, according to people close to the company. The search comes on the heels of the departure last month of Jason Flom, who headed Capitol Music Group, EMI Music's largest U.S. label. The former CEO of EMI Music, Alain Levy, stepped down in January 2007.

The potential hiring signals broader structural changes at EMI. People close to the company say that **Terra Firma Capital Partners** Ltd., the private-equity group that bought EMI last year, is unlikely to name a single chief executive for the entire group. Instead, CEOs for the recorded-music and music-publishing operations are to report directly to Terra Firma CEO Guy Hands, who had initially been expected to step back from direct oversight of EMI once his own team was in place.

Mr. Leoni-Sceti, 42 years old, who doesn't have music-industry experience, isn't the only person being considered to run EMI Music, these people said, though they declined to name the other two to five candidates. EMI Music Publishing is to continue being overseen by Chairman and Chief Executive Roger Faxon.

Because of the broader restructuring, in which EMI Music's head count is being reduced to 2,500, from 4,500, Mr. Flom isn't expected to be replaced. Mr. Flom and Terra Firma had been negotiating an exit for several weeks, since it became clear that Mr. Hands wanted to reorganize the company in such a way that would sideline regional label heads like Mr. Flom. Under the new setup, department heads who used to report to label bosses are to report to top executives at the company's London headquarters.

Mr. Flom could remain with EMI, through a deal to run a small label or imprint as a joint venture with the company. That scenario remains under discussion.

At a recent private meeting, Mr. Hands told Terra Firma investors that EMI's recorded-music operation swung to a profit of £40 million ($79.8 million) in April and May, from a loss of £17 million a year earlier. The company hopes recent strong releases from Coldplay and Katy Perry, both of which are among this week's top-10-selling albums in the U.S., will bolster those results.

GLOBAL BUSINESS BRIEFS

Nokia Corp.

Warner Music Group joins song-download program

Nokia Corp. said that **Warner Music Group** joined the mobile-phone maker's music service, letting customers download and listen to tracks on Nokia handsets. Nokia users will be able to get millions of tracks from major artists at Nokia's music stores or through the company's Comes With Music program, expected to be launched later this year. In April, Nokia announced that **Sony BMG** had joined the music service, and last year it signed up **Universal Music Group**. Nokia, which in 2007 accounted for 40% of all cellphone sales, is providing more Internet services for its mobile customers to challenge rivals, including **Apple** Inc.'s iTunes and iPod.

HMV Group PLC

HMV Group PLC said its recovery plan was ahead of schedule as it posted a sharp rise in fiscal full-year profit, boosted by the sale of its unit in Japan. For the year ended April 26, the U.K.-based music and books retailer reported a net profit of £89 million ($177.3 million), up from £16.1 million the previous year. The results included a gain of £51.8 million from the sale of HMV Japan. Sales rose 11% to £1.94 billion. Net debt fell to £200,000 from £130.4 million, the company said. HMV's higher revenue, largely from video-game sales, was promising but digital downloads, online retailers and supermarkets pose a threat, said Richard Hunter, analyst at Hargreaves Lansdown Stockbrokers. HMV shares were down 13.1% at 112.50 pence at Tuesday's London close.

Edeka AG

Germany's antitrust regulator said it approved the merger of two leading discount supermarket chains, with certain conditions. The Federal Cartel Office said **Edeka** AG's Netto chain could take a majority stake in Plus, owned by the **Tengelmann Group**, to create what will be the country's third-biggest discount supermarket chain behind rivals **Aldi Einkauf** GmbH and **Lidl Dienstleistung** GmbH. But the regulator said about 400 Plus supermarkets must be sold in markets where Edeka is the clear market leader. Tengelmann also has to restrict its share in the new company, Netto Marken-Discount, to 25% instead of the 30% it wanted. The new company will have about 3,800 shops and 50,000 employees, with annual sales of €10.4 billion ($16.4 billion).

Crédit Agricole SA

French bank **Crédit Agricole** SA said that its €5.9 billion ($9.3 billion) capital increase was oversubscribed. New shares were offered to investors at €10.60 each, about 14% below Agricole's €12.37 closing share price Tuesday—a much sharper discount than analysts had expected, as an increasing number of banks turned to investors for more funds. Analysts had expected shares to be offered in the range of €13 to €14 a share. Agricole needed new capital to bolster its balance sheet and to plug a hole caused by subprime-related losses at its Calyon investment banking unit. A number of banks have been forced to make cash calls to reinforce capital, including UBS AG, Royal Bank of Scotland Group PLC and HBOS PLC. Analysts have said that the high level of new capital being sought from the market could cause some issues to be undersubscribed.

Samsung Electronics Co.

Samsung Electronics Co. agreed to manage **Samsung SDI** Co.'s unprofitable plasma-display-panel business to cut costs and enhance competitiveness at the affiliated panel maker. Samsung Electronics' visual-display division, which makes both PDP televisions and liquid-crystal-display TVs, will manage Samsung SDI's PDP business. Samsung Electronics owns about 20% of Samsung SDI and buys more than two-thirds of PDP modules produced at its affiliate for its PDP TVs. Samsung SDI, the world's second-largest PDP maker by volume after LG Electronics Inc., posted its sixth straight quarterly net loss in the first quarter.

Constellation Brands Inc.

Constellation Brands Inc. reported a 50% increase in fiscal first-quarter net income thanks to higher margins and efforts to streamline its business. For the period ended May 31, the wine-and-spirits company, whose brands include Robert Mondavi and Ravenswood, posted net income of $44.6 million, or 20 cents a share, up from $29.8 million, or 13 cents a share, a year earlier. Excluding acquisition and restructuring charges, earnings rose to 34 cents from 21 cents. Net sales, or revenue after excise taxes, rose 3% to $931.8 million; excluding acquisitions and divestitures the increase would have been 16%. Gross margin rose to 35.3% from 29.8%. The company has sold many of its lower-priced wine brands to focus on higher-priced offerings.

Rio Tinto PLC

Nippon Steel Corp., **JFE Steel** Corp. and **Posco** said they have agreed with **Rio Tinto** on the price for iron ore this fiscal year, accepting a sharp price increase in line with an earlier deal by **Baosteel Group** Co. of China. Nippon Steel, JFE and Posco said they accepted a 79.88% increase for so-called iron fine and a 96.5% increase for iron ore from the Anglo-Australian miner. Spokesmen for Nippon Steel and JFE declined to comment on whether and how much they will try to cushion the burden of higher costs for Australian iron by raising their product prices. Posco, based in South Korea, also declined to say whether it will raise steel prices.

Dubai International Capital LLC

One of the Middle East's most active government-owned investment vehicles is looking to expand its presence to North America. **Dubai International Capital** LLC has hired David Smoot, co-founder of **Morgan Stanley Private Equity**, to be managing director of its own private-equity division. Smoot will head a new DIC team focusing on secondary buyouts of U.S. firms that can add value to DIC's existing $13 billion portfolio, says Sylvain Denis, chief executive officer of DIC Private Equity. Mr. Smoot, 38 years old, says DIC isn't daunted by political tensions in Washington over Mideast investments in America.

—Compiled from staff and wire service reports.

SPECIAL ADVERTISING SECTION

OIL & GAS

GETTY IMAGES/China Photos

To achieve greater fuel efficiency, China is pushing consolidation in the cement and steel industries, forcing small plants to shut down and allowing more efficient ones to expand.

Government policies boost China's appetite for fuel

By **Brent Hannon**

SHANGHAI NATIVE Sean Shu, 28, loves his new car, a four-door Haima sedan that he bought in April. It gives him freedom, he says, and it helps him in his work as marketing manager for a foreign company. Mr. Shu's age 60-something parents are different. They never drive — they walk to their local markets and restaurants and when they do venture further, they take a bus.

The Shu family is not unique. Across China, young adults are giving up bikes and buses and switching to scooters and cars. Auto sales are rising almost 20% a year, and given China's demographics — 1.3 billion people and an economy that's growing 10% a year — increased car-buying, and therefore demand for oil and gas, are trends that are likely to persist.

A second sea change — the rapid rise of heavy industry in China — is also supercharging the country's power use. "The energy intensity of China is quite high, and that's because 80% of its energy is used in industry, and those industries tend to be highly energy-intensive, such as making aluminum, steel and cement," says Simon Powell, head of regional research in power, gas and utilities, for CLSA Asia-Pacific in Hong Kong, which provides brokerage and investment banking services.

As China approaches Western standards of living, its consumption of oil and gas will increase. And given the economic gulf that still exists between China and the West, there is plenty of room for a dramatic escalation of demand. "At this point in time, China's per capita consumption of crude oil, according to American statistics, equals the per capita consumption that the U.S. reached in 1907," says Burkhard Varnholt, chief investment officer of Bank Sarasin in Zurich.

Demographics aside, demand for oil and gas in China is also fueled by extremely low prices. When Mr. Shu fills up his tank, he does so with some of the cheapest gasoline on earth. A liter of gas in Shanghai costs about 75 cents, compared with about 96 cents in the U.S., and around $2.21 in Germany.

To control inflation, the government caps the prices of refined oil products. Currently, the cap is set at about $80 a barrel and the government and state-owned oil companies subsidize the difference between $80 and the market price. "With oil at $120 per barrel, that means if the government introduced market-oriented pricing, the ex-factory price of refined oil products would go up about 50%," says Grace Liu, an oil and gas analyst at Guotai Junan (HK) Securities in Shenzhen.

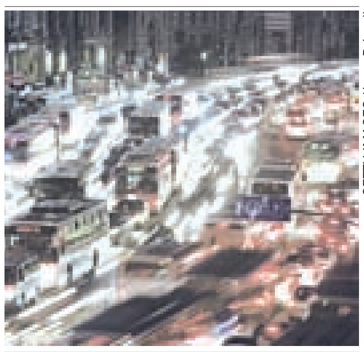
Because of the artificially low prices, China's demand for oil is growing much faster than it otherwise would, says Ms. Liu. "Normally, according to historical figures, the growth in demand would be about 6% a year, and now we have seen a very high 15.4% growth rate from January to April, and that is because of the price controls in China," she says.

Although China recently said it will raise domestic fuel prices, local prices will likely remain below international levels. The subsidies — and the resulting low retail prices — are unlikely to change anytime soon, says Jun Ma, chief economist for Greater China at the Hong Kong office of Germany's Deutsche Bank. "The government controls refining oil prices, it has controlled them for years and there is no chance of immediate liberalization," he says.

So while China faces the same imperative that many other countries do — securing and maintaining its sources of oil — its appetite is sharpened by the subsidies, which have caused an extraordinary spike in demand this year.

A similar distortion exists in the natural gas sector: Prices are controlled by the state, and are artificially low. Natural gas is cleaner than coal and China would like to burn more of it. But exporters of natural gas won't sell to China at the cheap domestic prices, and the country doesn't produce enough natural gas to meet its growing needs.

"Natural gas prices are very low in China, that is the key thing," says CLSA's Mr. Powell. "There is a big demand for it, they are using everything that's coming down the West–East pipeline and there is a huge ramping-up of consumption. But there is going to be a shortfall on the coast [due to the concentration there of industry and urban areas] and that needs to be met by imported liquefied natural gas. But that price is three to four times the price of domestic gas, so who's going to cover that shortfall? The gas price is going to have to go up."



GETTY IMAGES/Jerry Driendl

"Normally, according to historical figures, the growth in demand would be about 6% a year, and now we have seen a very high 15.4% growth rate from January to April, and that is because of the price controls in China."

China does have significant oil and gas reserves of its own — it was the world's sixth-largest producer of oil in 2007 — and it supplies about 51% of its oil needs. But China's oil fields are different from those in Saudi Arabia and some other locations in the Middle East, says Ms. Liu. They are harder to exploit, and the cost of production is much higher, often close to $30 a barrel, compared with less than $5 in some Middle East countries.

And because there is a high tax on oil production, China's oil companies have less incentive to find and exploit domestic sources. "There is a windfall tax on any domestic production of oil," says Tahnoon Pasha, head of equities, Asia, at MFC Global Investment Management in Hong Kong. "The tax increases with the selling price, and it rises from a 20% tax at $40 a barrel to 40% on anything over $60 a barrel. As you can imagine, that does tend to reduce the amount of investment that goes into the industry."

The actual extent of China's oil reserves is not known, but the general belief is that China is close to peak production. "Production growth rates were very low in the past few years in China, and I think production will remain at current levels for the next few years," says Ms. Liu.

So as demand rises, China will become increasingly dependent on foreign oil. In 10 years, says Ms. Liu, China will probably import about 70%, up from 49% today. China's leading suppliers are Angola and Saudi Arabia, while Iran and Russia are also significant sources.

Like other countries, China is taking measures to secure and maintain its access to oil. "China has a strong drive to acquire overseas oil fields and oil companies as a major policy response to the over-reliance on imported oil," says Deutsche Bank's Mr. Ma. "They can either buy oil fields that are not yet developed, or they can take equity stakes in oil companies in other countries. Both of these are being done."

With other countries pursuing similar goals, a competition arises that will be resolved in various ways, says Mr. Varnholt of Bank Sarasin. "With China in particular, already we can see today how it is securing all possible sources of oil. It is all over Africa and it is negotiating with potential suppliers of oil in the Gulf States and Russia," he says.

At the same time, China is trying to reduce its demand for energy. Luxury taxes have been introduced on cars with large engines, and manufacturers are trying to increase the fuel efficiency of their cars. In industry, the government is driving consolidation in the cement and steel industries, forcing small plants to shut down and allowing bigger, more efficient ones to expand. Similarly in the power sector, it is closing old power plants and building more efficient ones.

In the short term, however, China's energy consumption is likely to soar. The country recently overtook Japan to become the world's number-two consumer of oil, after the U.S., and given economic and demographic trends, and the artificially low prices of oil and natural gas, the upward trend is likely to continue.

Mr. Varnholt says China's demand for gas and oil will be both dramatically higher and dramatically lower in the future. "It will be dramatically higher because not only China but all the emerging markets have a very clear agenda when it comes to their economic strategy, and in the short- to medium-term that involves significant acceleration in their demand for fossil fuels. But at some point I would expect disruptive scientific and technological developments that will liberate Asia, the U.S. and Europe from their addiction to oil," he says. According to Mr. Varnholt, third-generation ethanol will eventually power transportation, and some form of solar power will provide electricity.

Until that happens, more people like Mr. Shu will be seen driving their new cars on the increasingly busy streets of China, and filling them up with some of the cheapest gasoline in the world.


Nearly 10% of the world's electricity needs could be met by geothermal energy.
So how many lights have we already turned on?
Finding geothermal reservoirs is difficult, with only one in five exploratory wells yielding viable energy that can be tapped. And while it's the kind of energy that can only be used close to its source, it's clean and renewable. So Chevron has become the world's largest producer of geothermal energy. Some call it human endeavor. We call it human energy.
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ECONOMY & POLITICS

POLAND

President says ratifying EU treaty is 'pointless'

POLISH President Lech Kaczynski, left, was quoted as saying that ratifying the European Union's new treaty after Irish voters rejected it last month would be "pointless."

The president's comments were reported on the day France takes over the EU's rotating six-month presidency. Ireland, the only country to put the treaty to a public vote, rejected the treaty in a referendum on June 12. Poland's Parliament overwhelmingly approved a bill allowing the president to ratify the treaty in April, but it still needs the president's signature to take effect.

EU leaders have delayed to October any decisions on how to overcome the Irish rejection. *—Associated Press*

INTERNATIONAL

Developed-world inflation accelerates to 7-year high

CONSUMER-PRICE inflation in the developed world accelerated to a seven-year high in May as energy costs rose, the Organization for Economic Cooperation and Development said. The Paris-based group said annual inflation in its 30 member countries accelerated to 3.9% from 3.5% in April—the highest level since June 2001, when inflation was 4.1%.

The numbers highlight the dilemma central bankers face as they seek to prevent more price gains while economic growth slumps. The European Central Bank has indicated it will raise its key policy rate by a quarter percentage point to 4.25% on Thursday. *—Natasha Brereton*

U.S.

Spending on construction falls, manufacturing rises

U.S. CONSTRUCTION spending declined in May, brought down once again by the sickly housing sector. Separately, the Institute for Supply Management's manufacturing index beat expectations in June by coming in at 50.2, compared with 49.6 in May, the first advance after four consecutive months of contraction. Readings above 50 imply expansion, while those under 50 indicate contraction. The June index figure had been forecast at 48. "The current level of the index is consistent with a stagnant manufacturing sector and a slowly growing overall economy," said Steven Wood, an analyst at Insight Economics. *—Jeff Bater*

More Chinese are seeking their day in court

Growing confidence in rule of law brings credibility and suits

THE EARTHQUAKE that rocked Sichuan province is emerging as an unexpected test of China's evolving legal system.

Parents in Sichuan whose children were killed when schools collapsed in the May 12 quake are demanding justice. Huang Lianghe, who lost his son in the collapse of the Dongqi Middle School in Dujiangyan, believes the quality of the school's construction was at fault and, with other parents, is looking for a good lawyer to take up his cause.

By **Geoffrey A. Fowler** *and* **Sky Canaves** *in Beijing and* **Juliet Ye** *in Hong Kong*

That Mr. Huang has that much faith in China's courts says much about rising expectations that ordinary Chinese enjoy basic legal rights, including the right to sue their government.

On television and the Internet, a new generation of Chinese lawyers teaches ordinary Chinese people to invoke their rights. At camps for survivors of the quake, volunteers recently distributed "law promotion" handbooks published by the Chengdu Justice Bureau that explain the laws that victims can use to sue government officials for certifying the building codes for thousands of classrooms that crumbled in the quake.

China's lawyers are filing lawsuits over discrimination, poor labor conditions, even censorship—actions once considered unthinkable. And sometimes they win.

China's legal system still doesn't work well, but there's reason for optimism, says Jerome Cohen, a professor at the New York University School of Law and an expert on Chinese law. "People who have an interest in seeing the rule of law increasingly implemented... are bubbling up from the bottom," he says. A growing army of lawyers is creating pressure for political change simply by airing the irregularities in the system, Mr. Cohen says.

Today, China has 122,000 full-time lawyers, up from 48,000 in 1997. That is still less than one lawyer for every 10,000 Chinese citizens, compared to about one in 300 in the U.S. But those lawyers are gaining in visibility.

Lawyers advertise and hand out business cards at courthouses. The narrow lane next to Beijing's Chaoyang District courthouse is crammed with small law offices that have sprung up in recent years to help with last-minute legal needs. On www.carlawyer.cn, traffic-accident expert Huang Haibo promises, "I will protect your legal rights."

Despite the legal system's flaws, Chinese people are increasingly turning to it for help. The number of civil cases filed by Chinese lawyers in 2006 was up 54% from 2001. Citizens with limited financial resources have taken to suing: In the first six months of 2007, China's 3,000-plus legal-aid centers handled 172,600 cases, a jump of nearly 40% from a year earlier, according to the Ministry of Justice.

On June 1, new legislation took effect aimed at overhauling how the profession is practiced here. Lawyers and their clients gained some rights long taken for granted in the U.S. and elsewhere. Defense lawyers are now allowed to meet with clients without first seeking permission from judicial authorities, although only after the clients have been interrogated without lawyers present. Police will no longer be allowed to monitor conversations between lawyers and clients.

Associated Press

Chinese lawyer **Liu Xiaoyuan** often appears on TV offering his legal opinions.

Some Chinese lawyers and academics had hoped for greater change than the new law delivers. The nation's justice system remains a far cry from what exists in many Western countries, especially when it comes to taking on the government itself. Chinese courts aren't independent of the ruling Communist Party and often refuse to hear politically sensitive cases. There are no juries.

Amnesty International and other groups have expressed concern about a crackdown on lawyers and other rights defenders who take up politically charged causes. By some estimates, as many as 300 lawyers have been jailed, some of them for speaking out on human rights.

Still, the system's credibility is growing. Several lawyers recently filed suits that test a law, which took effect May 1, that promises ordinary citizens greater access to government information. One is hoping to expose police "re-education through labor" practices, sometimes used to detain people without due process. Some lawyers manage to work China's legal system while skirting the political fault lines.

One of the most adept at that balancing act is Liu Xiaoyuan, a lawyer with a knack for self-promotion who writes a popular blog and often appears on TV offering his legal opinions. "You don't have to kill yourself to be a rights lawyer," Mr. Liu says. "You just have to be careful about the methods you use and the way you approach the truth."

Unable to play to a jury, Mr. Liu nitpicks court procedure, appealing to judges about the way they consider evidence and how the police present it. In addition, in Chinese courts "you don't move around continuously—a lawyer must stay seated," he explains. If he stood, "the judge could say that it was a breach of courtroom discipline."

In one of his biggest victories, Mr. Liu secured bigger payouts for the families of migrant workers killed in accidents. In 2006, he agreed to represent the family of Li Xiuneng, a migrant worker born in China's far-western Gansu province, who was killed by a car while riding her bicycle in Beijing. The driver offered her family wrongful-death compensation of 170,000 yuan, or about $25,000. That is far less than would go to the family of a victim born in Beijing, under local rules. The Li family felt cheated.

Mr. Liu argued that Ms. Li should be counted as a Beijing resident, since she had worked and lived in the city for years. A judge agreed, boosting the award for Ms. Li's family to 470,000 yuan. In recent months, Mr. Liu has won several similar migrant-death cases, which the news media have hailed as a victory for a new legal concept: "same life, same price."

Complaints are already mounting against local government officials in Sichuan over the large number of schools that collapsed during the earthquake. Local authorities say they are conducting their own investigations and have promised to report their findings within a month. Parents say they are talking to lawyers and seeking advice.

"It's still a bit early, but we expect to see a growing number of lawsuits in the coming months," says Chen Xia, a lawyer at the Henghexin law firm in Sichuan's provincial capital of Chengdu. Ms. Chen says her firm is likely to send lawyers into the field to offer legal aid once aftershocks subside and conditions improve.

Mr. Liu says he is ready to help, too. "If approached by any parent from that area, I will definitely take the case in accordance with the law," he says. "This is the lawyer's duty."

—Ellen Zhu in Shanghai contributed to this article.

WSJ.com

Online today
Read translated excerpts from Mr. Liu's blog, at
WSJ.com/ OnlineToday

The Property Report

Beefing up

How will real estate fare as Bologna, Italy, upgrades transportation? > **Page 32**