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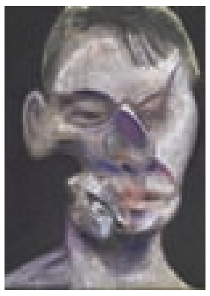

Art buyers largely played it safe at London auctions

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Microsoft seeks partners for a new run at Yahoo

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Business & Finance

Russian authorities promised to renew work permits for top foreign managers at BP's embattled TNK-BP, though tensions at the joint venture showed no signs of easing as BP's Russian partners renewed efforts to remove TNK-BP CEO Dudley. **Page 3**

■ **Marks & Spencer posted** a 5.3% drop in U.K. same-store sales and said tough conditions will persist. Shares slid 25%. **Pages 5, 19**

■ **Euro-zone producer prices** rose 7.1% year to year in May, the EU said, ahead of an expected ECB rate rise Thursday. **Page 2**

■ **Paulson called** for greater U.S. regulatory powers to ensure that the failure of a nonbank financial institution doesn't threaten the whole financial system. **Page 2**

■ **The Dow industrials slid** 166.75 to 11215.51, falling into bear-market territory as oil prices rose to another record. European shares fell. **Page 20**

■ **Deutsche Bank said** it won't need to raise new capital and expects to report a profit for the second quarter. **Page 19**

■ **Microsoft is positioning** itself for a new run at Yahoo's search business and has approached media firms about joining it in a wider deal. **Page 28**

■ **Nokia settled** two patent suits in U.K. courts with a U.S. company and received EU approval for its deal for Navteq. **Page 5**

■ **Adidas is focusing** nearly all of its Olympic TV-ad budget on China. The firm's biggest store opens Friday in Beijing. **Page 6**

■ **Informa received** a preliminary bid from a private-equity group valuing the U.K. publishing firm at $4.29 billion. **Page 6**

■ **French judges filed** preliminary charges against Airbus ex-CEO Humbert, amid a probe into alleged insider trading. **Page 7**

■ **AstraZeneca won** a court victory likely to delay U.S. generic competition for its schizophrenia drug Seroquel until 2011. **Page 7**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11215.51	-166.75	-1.46
Nasdaq	2251.46	-53.51	-2.32
DJ Stoxx 600	280.69	-2.31	-0.82
FTSE 100	5426.3	-53.6	-0.98
DAX	6305.42	-10.52	-0.17
CAC 40	4296.48	-44.73	-1.03
Euro	$1.5866	+0.0112	+0.71
Nymex crude	$143.57	+2.60	+1.84

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World-Wide

Colombia said its military rescued former presidential candidate Ingrid Betancourt, three U.S. military contractors and 11 other hostages from leftist rebels, without any loss of life. Betancourt, who holds dual Colombian and French citizenship, had become the face of Colombia's captives and a cause célèbre in Europe. **WSJ.com**

■ **A Palestinian driving** a construction vehicle went on a rampage in Jerusalem, killing three people and injuring dozens before he was shot and killed. Police said the man acted spontaneously and alone. **Page 10**

■ **Britain's Brown said** he plans to ban the military wing of Hezbollah over the group's alleged support of militants in Iraq.

■ **The World Bank's president** called on G-8 leaders to take immediate steps to deal with rising prices at their meeting in Japan next week. **Page 1**

■ **Russia's Medvedev outlined** plans for tougher criminal punishment for corrupt officials and more rigid requirements for civil servants and judges. **Page 12**

■ **A U.S. draft resolution** would impose sanctions on Zimbabwe's Mugabe and demand his government work with the opposition to resolve the political crisis.

■ **Protests in South Korea** widened to include strikes by workers at the nation's biggest companies. At the root is anger over a lack of opportunities. **Page 32**

■ **The U.S. wants** to negotiate a global solution to monitor airline emissions, and said a move by the EU is inconsistent with international accords. **Page 10**

■ **A small, regional party** could provide India's Singh with a way out of his dilemma over a nuclear deal with the U.S. **Page 12**

■ **A Chinese official made** a verbal attack on the Dalai Lama amid talks in Beijing with the spiritual leader's envoys. **Page 12**

■ **EU citizens would be able** to seek medical care anywhere in the bloc without prior authorization under draft rules. **Page 10**

■ **Poland said it finished** talks with the U.S. on a missile-defense installation but has yet to decide whether to accept a base.

EDITORIAL & OPINION

***Achtung!* Big Brother**

Heads must roll after Deutsche Telekom's spy scandal. Business Europe. **Page 14**

Russia oil wealth sits idle

Bank has billions to seed rebuilding; projects are scarce

By Gregory L. White

MOSCOW—Late last year, the Kremlin gave his bank $7.5 billion and a broad mandate to invest urgently in upgrading Russia's decrepit infrastructure and outdated industry.

But for the moment, Vladimir Dmitriev, chairman of state-owned **Vnesheconombank**, is holding on to most of his bank's money. The problem? Too few good deals to invest in.

"There aren't enough well-prepared investment projects," Mr. Dmitriev complains in an interview. After decades without major investments in Russia, he says, the basics needed to prepare big capital projects—engineering companies, project designers—have atrophied. "This is a big brake on implementing large projects," he says.

For now, Vnesheconombank has put about $4 billion of the oil money the government gave it last year into short-term deposits, helping the local banking system weather

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Associated Press

Kremlin boost

Vnesheconombank (VEB), a Russian development bank, has been investing billions in new industrial and infrastructure projects, such as the Sukhoi Superjet 100, pictured.

Some of the bank's latest investments:

Investment	VEB amount	Total cost
Development of new planes with United Aircraft Co.	7.5 billion rubles	Not available
Water supply in the Rostov region	4.5 billion rubles	42.9 billion rubles
Creation of auto-industry center in Kaluga region	2.4 billion rubles	6.6 billion rubles
Sukhoi Superjet 100 airliner development	$155 million	Not available

Source: VEB

Capone family

Claudio Capone provided 'sound waves' that touched Italian audiences.

A dubber dies, and Italy loses voice of Hollywood

By Stacy Meichtry

ROME—When Claudio Capone died of a stroke a week ago, actors John Travolta, Don Johnson and Ronn Moss all lost their voices—in Italian.

The 55-year-old Mr. Capone was a towering figure—a leading *doppiatore*, or dubber, in a land that has for decades shunned subtitles in favor of Hollywood popcorn blockbusters buttered with rapid-fire Italian staccato.

The best Italian dubbers are themselves actors who boast symbiotic relationships with Hollywood

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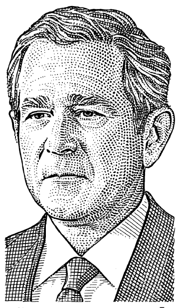
Despite warning, G-8 unlikely to act on prices

By John D. McKinnon, Marcus Walker And Sebastian Moffett

World Bank President Robert Zoellick called on world leaders to take immediate steps to deal with rising prices during their meeting in Japan next week, warning that the world is "entering a danger zone."

"I urge the Group of Eight countries, in concert with major oil producers, to act now to address this crisis," he said in a conference call with reporters, adding that more than 100 million people world-wide have been put at risk of falling into extreme poverty. The most immediate challenge is to meet short-term needs of $10 billion to help provide safety-net support and seed and fertilizers for the coming planting season, Mr. Zoellick said.



George W. Bush

But prospects for meeting that goal on food aid are doubtful, despite recent pledges of new money from the U.S. The chances of immediate relief on oil costs appear low as well. Meanwhile, leaders in the U.S., Europe and Japan also are dialing back expectations for a big breakthrough on climate change, another top issue on the agenda.

Instead, next week's meeting seems likely to produce more pledges underscoring G-8 member countries' long-term commitments to technology development, increased efficiency and expanded use of alternative fuels. Many of those ideas have been part of the emerging solution to climate change for years. Now they are being politically recycled to address the oil-price crunch as well.

In a Rose Garden appearance to preview the summit on Wednesday, U.S. President George W. Bush again plugged his proposals for expanded U.S. oil production and attacked Democrats for their inaction.

"It makes no sense...to watch these gasoline prices rise when we know we can help affect the supply of crude oil, which should affect the supply of gasoline prices," Mr. Bush said.

Congressional Democrats, for their part, urged the G-8 leaders to take up the Democrats' recent call for action to restrict oil-market speculators who they argue are bidding up prices.

G-8 meetings typically focus on serious long-term issues such as climate change, disease and development. But with so many world leaders on the same stage, the meetings also wind up generating lots of political theater. This year, with Mr. Bush on the way out and other leaders looking ahead to the next U.S. president's term, the element of political theater could be bigger than usual.

On the substance of climate change, U.S., European and Japanese officials appeared to be reining in expectations of a big breakthrough this week. Mr. Bush had hoped to use the G-8 meeting to persuade leaders of China, India and other emerging economic giants to commit to both a long-term aspirational goal for emissions reductions—say, by 2050—and a set of binding commitments for interim reductions by 2020 or so.

The emerging economies weren't covered by the current Kyoto Protocol limits, but Mr. Bush and other leaders say it is essential for them to join in the next interna-

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LEADING THE NEWS

Quest for 'nonbank' rules

Paulson sees threat to financial system without new powers

BY TOM BARKLEY

WASHINGTON—U.S. Treasury Secretary Henry Paulson called for an expansion of regulatory powers to ensure that the failure of a nonbank financial institution doesn't threaten the whole financial system.

Mr. Paulson, in the latest demonstration of how the near-collapse of Bear Stearns Cos. is changing the regulatory landscape, said in a speech Wednesday at the Chatham House in London that a new resolution process is needed to deal with firms such as investment banks facing failure.

"The financial landscape has changed, and nonbank financial institutions play a significantly greater role," Mr. Paulson said, according to prepared remarks. "We need to consider broadly the resolution regime in light of these changes."

His comments mark a further evolution of the Treasury's plan for a complete overhaul of the U.S. regulatory system. A blueprint released in March provided broad recommendations for realigning the patchwork system of supervisors to be more effective, with the Federal Reserve seen taking on the role of market stability "supercop."

However, the Fed's central role in facilitating J.P. Morgan Chase & Co.'s rescue of Bear Stearns that month has given more urgency to the effort. Last month, Mr. Paulson pushed for rapid progress in giving the Fed greater authority over investment banks, while suggesting that the issue of how to handle a nonbank failure also needs to be resolved.

In the U.S., the Fed regulates depository banks, while the Securities and Exchange Commission supervises investment banks. However, the Fed has been lending to investment banks through a new facility since March, so it is working with the SEC on a memorandum of understanding to formalize an information-sharing system.

Henry Paulson

While not prescribing a specific resolution process for nonbanks, Mr. Paulson for the first time laid out a broad outline that foresees a role for the executive branch.

"In my view, looking beyond the immediate market challenges of today, we need to create a resolution process that ensures the financial system can withstand the failure of a large complex financial firm," he said. "To do this, we will need to give our regulators additional emergency authority to limit temporary disruptions."

The current method by which an investment bank files for bankruptcy could disrupt the market, he said, while noting that insured depository institutions have a special resolution process given their importance to the financial system and the government backing.

Reiterating his concern that some institutions are seen as being "too big to fail," Mr. Paulson also cautioned on the need to balance reducing systemic risk with keeping market discipline intact. Thus, the bar for the new powers should be high and they should only be exercised in an "extraordinary event that requires the engagement of the executive branch," he said.

In addition, costs should be imposed on creditors and shareholders, with minimal impact on taxpayers, he said.

Mr. Paulson also said the market infrastructure needs to be strengthened to "reduce the expectation that an institution is too interconnected to fail."

He said "important work is underway" to improve practices in the over-the-counter derivatives market and in the tri-party repo system.

Mr. Paulson's recommendations follow a similar call by Federal Deposit Insurance Corp. Chairman Sheila Bair last month to devise a system to handle the failure of investment banks. One option Ms. Bair suggested was a receivership similar to the process her agency uses in dealing with the failure of commercial banks.

Fed Vice Chairman Donald Kohn told a Senate subcommittee last month that the central bank is receiving detailed internal information from the investment banks that it is lending to on a daily basis regarding their capital positions and potential counterparty risk. Still, Mr. Kohn cautioned lawmakers that the oversight is nowhere near the same as the central bank's oversight over banks.

"Specifically, the Federal Reserve is not supervising investment firms comprehensively to assess risk management. Rather our purpose is specifically to assess the adequacy of liquidity and capital," Mr. Kohn said.

Mr. Paulson and Fed Chairman Ben Bernanke plan to testify to the House Financial Services Committee next Thursday on the financial regulatory system.

—Michael R. Crittenden contributed to this article.

Europe's producer prices rise a troublesome 7.1%

BY ROMAN KESSLER

FRANKFURT—More European companies are raising prices to pass higher costs on to customers, increasing the risk of an accelerated inflation spiral.

High energy and commodities costs boosted producer prices in the euro-zone by 7.1% in May from a year earlier, the largest year-over-year increase since the European Union's Eurostat statistics office began collecting records in 1990. With May producer prices also up 1.2% from April, the jump presages higher consumer-price inflation in the months ahead, economists said.

The European Central Bank was widely expected to raise its main interest rate Thursday by a quarter of a percentage point to 4.25% to contain surging inflation.

Companies say they can't avoid raising their prices as the cost of inputs such as energy, raw materials and transportation continue to rise. Car-makers, airlines and consumer-products companies have all announced price increases or plans to raise prices in recent weeks.

"We can't go against the grain amid rising prices," said spokeswoman Claudia Fasse at **Beiersdorf** AG, which makes Nivea skin-care products.

"Persistent pressures in producer prices of consumer durables suggest that the rate of inflation in nonenergy manufactured goods is likely to trend higher in the coming months and quarters," said Klaus Baader, an economist at Merrill Lynch in London.

ECB policy makers fear that soaring oil, steel and food prices may trigger a self-perpetuating price spiral if the rising prices spark inflationary wage demands to offset living costs. Fresh evidence of future inflation could bring new interest-rate warnings from ECB President Jean-Claude Trichet at his news conference following the rate decision.

The May PPI data "will provide the hard-liners on the ECB's Governing Council with fresh ammunition to argue the case for continued hawkish rhetoric," said Martin van Vliet, an economist at ING Bank.

—Emma Charlton in London contributed to this article.

CORRECTIONS & AMPLIFICATIONS

The 2005 Energy Policy Act in the U.S. provided loan guarantees and other incentives for the nuclear-power industry. An article in Monday's Journal Report on Energy incorrectly said the act was passed in 1995.

When bank stocks trade at prices that are below their book value investors are typically saying they don't believe the values a bank is placing on its assets and so don't have confidence in its stated net worth. Tuesday's Heard on the Street column incorrectly stated that when a bank trades at half book value investors are saying its assets are only worth half of what they are worth. In most cases, there wouldn't be a direct link between the discount to book value and the value of the assets.

Food-equipment maker Enodis PLC, which is being taken over by **Manitowoc** Co., is based in London. A Corporate News page article Wednesday incorrectly said Enodis is headquartered in Florida. That is where its U.S. operations are based.

Chad Ratliff, general sales manager at Fox Toyota in Rochester Hills, Mich., was quoted in a Leading the News page article Wednesday about the U.S. auto market. The article incorrectly attributed his comments to Mr. Yaris. Yaris was one of the cars to which he referred.

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

Russia promises TNK-BP permit renewal

Foreign executives affected as pressure to replace CEO rises

By Gregory L. White

MOSCOW—Russian authorities promised to renew work permits for top foreign managers at **BP** PLC's embattled TNK-BP Ltd. joint venture, though tensions at the company showed no signs of easing as BP's Russian partners renewed efforts to remove TNK-BP Chief Executive Robert Dudley.

Mr. Dudley had warned earlier this week that the work-permit problems might force him and other top foreign executives at the company to leave Russia by the end of this month, when their current visas expire. But Wednesday, Russian officials said they'd expedite renewals for 49 foreigners, including Mr. Dudley and other top executives.

Though BP welcomed the move, it represents a victory for the Russian partners' efforts to slash the ranks of the 146 foreigners now working at TNK-BP. Those whose visas aren't renewed will need to leave Russia permanently by the end of the month, a TNK-BP official said. A Russian court order has prevented 148 more BP specialists assigned to TNK-BP from working. BP this week said most of them will now be reassigned to other parts of the world.

Foreign employees have become a flash point in the conflict at TNK-BP, which is Russia's No. 3 oil producer and one of the largest foreign investments in the country. BP accuses the Russian partners—led by billionaires Mikhail Fridman, Len Blavatnik and Viktor Vekselberg—of trying to take effective control over the 50-50 venture. BP officials suspect the Russians are trying to maximize their leverage before selling their stake to a state-controlled company like OAO **Gazprom**.

The Russian shareholders, known as AAR for the initials of their companies—**Alfa Group**, **Access Industries** and **Renova**—deny any such plans. They say BP and Mr. Dudley, a former BP executive, has mismanaged TNK-BP, spending too much on foreign staff and blocking international expansion efforts.

The fight is shaping up to be one of the first major tests for new Russian President Dmitry Medvedev, who has pledged to reduce the state's role in the economy. So far, he has said the conflict is a matter for the shareholders to resolve. European leaders discussed the case with Mr. Medvedev at a summit in Siberia last week and the issue is likely to come up at next week's Group of Eight meeting in Japan.

The rise in tensions between BP and AAR in recent months has been accompanied by a sharp increase in regulatory and other administrative pressure on TNK-BP, ranging from an industrial-espionage investigation to tax-evasion probes to repeated checks of the company by labor inspectors. People close to BP suspect AAR instigated many, if not all, of those efforts, an allegation AAR denies. BP officials have appealed to the Russian government to stop the administrative pressure, but have gotten little more than assurances so far, according to people close to the company.

Some people close to TNK-BP fear the British giant is steadily losing ground against AAR. BP officials say they're committed to defend their position in TNK-BP.

Talks between BP and the Russian shareholders over an end to the conflict have made little progress in recent weeks, according to people close to both sides. BP has offered to swap BP shares for AAR's stake in TNK-BP, as long as a state company like Gazprom then take a controlling stake in TNK-BP. AAR has expressed willingness to consider such a deal in 12 to 18 months, according to people close to the talks.

Mr. Dudley and BP blame German Khan, a partner in Mr. Fridman's Alfa Group and executive director of TNK-BP, for the work-permit difficulties. In April, Mr. Khan filed what Mr. Dudley said was an unauthorized request for a sharply reduced number of work permits for the year starting July 31. Mr. Dudley's efforts to increase the total were rejected by authorities.

In May, BP sought to have Mr. Khan removed for insubordination, but AAR refused. AAR, meanwhile, pushed to unseat Mr. Dudley, but BP blocked that. On Wednesday, AAR announced that Mr. Vekselberg has put the question of Mr. Dudley's removal to the board of a key Russian-registered subsidiary of TNK-BP, where Mr. Vekselberg is chairman of the board. In a press release, AAR said it wanted Mr. Dudley removed because of his violations of immigration, labor and Russian laws, as well as the company charter.

BP representatives control three of the five seats on the subsidiary board, according to company officials. But a person close to AAR said the Russian shareholders would likely sue in Russian court to seek Mr. Dudley's removal if the board rejected the proposal.

A BP spokesman called the latest effort to remove Mr. Dudley a "new version of the corporate-raiding tactics of the 1990s" and "an attempt to divert attention from the damage" caused to TNK-BP by the shareholders in management whom he blamed for the work-permit mess.

—Guy Chazan contributed to this article.

CORPORATE NEWS

RETAIL

Carrefour will raise stake in Chinese joint venture

FRENCH RETAIL giant **Carrefour** SA plans to raise its stake in a joint venture with Guangzhou-based **Grandbuy** Co. to 80% from 55%, the Chinese retailer said.

Carrefour agreed to pay Grandbuy 40 million yuan ($5.83 million) for its 25% stake in retailer Carrefour Guangzhou (China) Co., Grandbuy said. The deal is subject to the approval of China's Ministry of Commerce, the company statement said.

Taiwan food manufacturer Uni-President China Holdings Ltd. and Guangzhou Wansheng Enterprises Co., a local trading firm, each hold 10% of the joint venture.

—*Rose Yu*

ENERGY

Eni, Petrobras broaden ties in wake of crude find

ITALY's **Eni** SpA said it agreed to expand energy ties with Brazil's state-run **Petróleo Brasileiro** SA, reinforcing their relationship as U.S. and European oil companies are struggling to get access to global oil reserves. No financial terms were disclosed.

The deal comes after Petrobras's recent discoveries of potentially large volumes of crude oil in Brazil, in which Eni and other foreign oil companies have expressed interest. As part of the deal Eni will make available to Petrobras its heavy-oil technology and the companies will work together on developing international biofuel projects, Eni Chief Executive Paolo Scaroni said.

—*Spencer Swartz*

AUTOMOBILES

German registrations rise, defying Europe weakness

GERMAN industry association VDA said domestic new-car registrations for June were up 1% from a year earlier to 304,000 vehicles, in contrast to bleak data elsewhere in Europe, and confirmed it expects 3.2 million vehicle registrations for 2008.

Despite high fuel prices, skyrocketing raw-material costs and unfavorable exchange rates, first-half new-car registrations were up almost 4% from a year earlier in Europe's largest auto market. During the period, German car exports were 2% higher, at almost 2.3 million vehicles. Driven by robust demand abroad, German car production was up 2% at more than three million cars, VDA said.

—*Christoph Rauwald*

China becomes incubator of fashion talent

Designers Qiu, Shao are finalists in bid for Woolmark award

BY STACY MEICHTRY

AS YOUNG DESIGNERS, Karl Lagerfeld and Yves Saint Laurent dueled in a 1954 contest that helped put both on the fashion map. This year, the competition has been resurrected, and the finalists reflect the emergence of a new source of fashion talent: China.

Two Chinese designers, Qiu Hao and Shao Jia, are among 10 finalists who will Thursday unveil runway collections in a bid for the Woolmark award, which provides more than $150,000 for the winner's label.

After having buoyed the luxury-goods industry's growth for years, China is becoming an incubator of design talent, from young Europeans seeking jobs in the country's massive textile industry to a rising generation of homegrown Chinese designers.

Just hours before the Woolmark contest gets under way, Ma Ke will become the first Chinese designer to present an haute couture collection in Paris. Three more Chinese designers will appear on the Paris runways during ready-to-wear fashion week in September.

At the root of China's fashion moment is the growth of the country's middle and upper classes. For fashion companies, strong Chinese demand is now offsetting spending slumps in the U.S. Chinese tourists are boosting sales in Europe. "There is no question that China is an asset," says Didier Grumbach, president of the French Fashion Federation, the industry's main lobby group.

Not only are Chinese people buying more fashion, as families' incomes grow, parents are increasingly sending their children to pricey design schools, both in China and abroad. At London's Central Saint Martins fashion school, the alma mater of designers such as John Galliano of Dior, Chinese designers last year made up 15% of the school's foreign students.

The emergence of Chinese fashion designers represents the last leg of China's journey into the fashion industry. The country's low-cost labor has for years allowed it to pump out textiles at cutthroat prices. However, cultural traditions that prod children toward pursuing careers in medicine or finance have so far prevented China from grooming the kinds of iconic fashion designers who call the shots on Europe's runways.

That is now starting to change. Mr. Grumbach regularly travels to China; he is currently arranging for a group of Chinese designers to study at the Federation's vaunted fashion academy, which has trained designers such as Mr. Saint Laurent and Valentino Garavani, in August.

A French embrace of Chinese fashion designers could help improve a relationship that has recently been tested. When the Olympic Torch arrived in Paris in April, protesters mobbed Chinese supporters and lunged at torch bearers, including a wheelchair-bound Chinese woman. The mayor of Paris, Bertrand Delanoe, recently named the Dalai Lama, a fierce critic of China, an honorary citizen, provoking a testy exchange of letters with the mayor of Beijing.

Despite the fashion rapprochement, some of the French fashion elite say Chinese designers have yet to exhibit originality. Many Chinese designers continue to blend Japanese and European styles rather than developing looks of their own, says Veronique Philipponnat, editor-in-chief of the French edition of Elle and a judge in the Woolmark contest. "I can't tell you one Chinese brand at the moment that seems to be creative," she said.

If Chinese designers face a dearth of creative options, Europe is partly to blame, notes Pamela Goblin, fashion curator at Paris's Musée des Arts Decoratifs. For nearly a century, European designers have appropriated Chinese art and traditional dress to give their collections a whiff of exoticism.

Among the designers who over the years have used Chinese influences in their collections are Mr. Saint Laurent, Tom Ford, Miuccia Prada and Giorgio Armani. French fashion house Dior has drawn on glamorous images of Shanghai for its haute couture collections.

Qiu Hao; (left) Shao Jia (right)

At left, Shanghai-based designer **Qiu Hao**'s entries for the Woolmark Prize. At right, **Shao Jia** and her sketchbook drawings.

While showing Chinese influence risks appearing hackneyed, eschewing it carries risks, too. Mr. Qiu, 30 years old, recalls that a London-based critic once warned him that his designs would never turn heads in European department stores, because his designs weren't "Chinese enough."

Mr. Qiu's recent collections feature dresses with long flowing ends that echo the costumes used in Chinese opera, but he generally avoids overt nods to his heritage. "Incorporating very obvious elements such as dragons, phoenixes, red ponies or Chinese collars and knots is just not my style," says the designer, who works on his namesake collection from Shanghai.

The search for a distinct Chinese style also runs up against decades of authoritarian rule in China that spurned individual style in favor of utilitarian looks, such as the navy blue "Mao" jackets named after Mao Tse-tung.

Growing up, Mr. Qiu was no fan of the "camouflage" his parents used to wear to blend in. He instead marveled at the stories his grandmother told of her glamorous life in "grand Shanghai" before the Cultural Revolution. "The magical fashion sparks just went off in my eyes," he recalls.

Mr. Qiu got his start in fashion when his parents gave him more than $1,300 to buy a computer for college. He instead put the money toward a sewing machine and fabrics to stitch together his first collections, which he sold in a small boutique in his home town of Suzhou, just west of Shanghai.

More than 480 kilometers to the north, in the beer-brewing city of Qingdao (also rendered as Tsingtao), Ms. Shao's parents were socking away money to put their only child through college. Many parents in China expect their children to pursue a degree in a field such as accounting or engineering that provides a reliable return on investment.

Ms. Shao, now 24, had other ideas. She was accepted into a new program in fashion design at the Beijing Institute of Technology. After graduating, she took a job with the Chinese edition of the French magazine L'Officiel. She then persuaded her parents to send her to Milan for a master's degree at the European Institute of Design. Already fluent in English, she picked up Italian by living with a Milanese family and spent her summers in the hill towns of Tuscany.

Taking a cue from Italian designers such as Messrs. Armani and Garavani, Ms. Shao has tapped a college friend from Beijing with connections in the textile business to be her *braccio destro*, or "right-hand" partner. The two plan to open a studio for Ms. Shao later this year in Beijing.

At Thursday's Woolmark contest, Ms. Shao and Mr. Qiu will compete against eight other designers of varying nationalities, including Japanese, American and Belgian.

The Australian wool growers' association behind the Woolmark label is the same group that organized the showdown between Messrs. Lagerfeld and Saint Laurent more than half a century ago. For Woolmark, the prize's purpose is the same as it was back then: to find talented young designers and make sure they're using wool in innovative ways.

In 1954, Mr. Lagerfeld won the prize for best coat, while Mr. Saint Laurent won in the dress category. This year, as the contest is relaunched as an annual event, prizes won't be awarded in categories. Instead, one winner will take home all the prize money. Some of the funds will finance a fashion show for the winner's label at a coming Paris fashion week.

While both Ms. Shao and Mr. Qiu say they're ready for the showdown this week, neither yearns for the spotlight. Ms. Shao, who dyes her hair deep purple and wears oversize horn-rimmed eyeglasses, confesses to feeling camera-shy. Her designs for the Woolmark contest spurn some of the more flamboyant looks that have defined the Paris catwalks. The designer drew upon medical diagrams of spinal columns and muscle tissue to create dresses with sinuous strips of wool that interlock at the back.

Mr. Qiu, too, prefers to keep a low profile. Although self-promotion remains an inescapable reality in the fashion business, Mr. Qiu says he prefers to "just make clothes."

Nokia, InterDigital unit settle two patent suits

By Peppi Kiviniemi And Paula Park

Nokia Corp. settled two patent-infringement lawsuits in U.K. courts with a unit of **InterDigital** Inc., a wireless-technology developer.

InterDigital, based in King of Prussia, Pa., owns an array of patents on wireless technology that it contends are essential to making the high-speed-data phones that let people watch videos and surf the Web. Its patents have been licensed by companies such as **Apple** Inc. and BlackBerry maker **Research In Motion** Ltd.

Finland-based Nokia sued a unit of the company, InterDigital Technology, in the U.K. in July 2005, and InterDigital countersued in December 2006. The U.K. court upheld one of the patents and the settlement closes both cases.

Litigation in the U.S. continues. Nokia and InterDigital are involved in two cases in the U.S. District Court for the District of Delaware that are stayed, and one case in the U.S. District Court for the Southern District of New York that is on appeal to the Second U.S. Circuit Court. The cases relate to patent ownership, license rights, and licensing practices. Additionally, the U.S. International Trade Commission is investigating the patent dispute. Nokia said it will continue to vigorously defend itself in all of these matters.

Separately, the European Commission, which is the European Union's executive arm, on Wednesday cleared Nokia to buy U.S.-based digital mapmaker **Navteq** Corp. in an $8.1 billion deal.

Apple's new third-generation iPhone, set to ship this month, is expected to have a suite of services based on the global positioning system. Meanwhile, Dutch digital mapmaker and Navteq rival TeleAtlas recently signed a deal with **Google** Inc. to have its maps included on new Google services, including cellphones based on its Android operating system. TeleAtlas was recently acquired by Dutch navigation-device maker **TomTom** NV in a €2.9 billion ($4.6 billion) deal.

After investigating the market, the EU commission concluded that Nokia's acquisition of Navteq wouldn't hamper competition in Europe. Nokia is the largest maker of mobile phones in the world, while Navteq is one of two providers, along with TeleAtlas, of navigable digital map databases offering complete coverage of Europe and North America. These digital maps are used for navigation applications on mobile phones, as well as other mobile navigation devices.

—Adrian Kerr contributed to this article.

BA to buy French carrier

U.K. airline plans to integrate L'Avion into OpenSkies unit

By Daniel Michaels

British Airways PLC said it will buy upscale private French carrier **L'Avion**, in an acquisition that substantially deepens BA's commitment to its new Continental European subsidiary.

BA said it has agreed to buy L'Avion for €68 million ($107.3 million), which includes €33 million of L'Avion's cash. L'Avion will be merged into OpenSkies, a new BA-owned airline that began flying from Paris to New York last month. OpenSkies already uses some of L'Avion's space and landing slots at Orly Airport outside Paris.

So far, OpenSkies has only one airplane and one route. With the L'Avion purchase, OpenSkies will expand to three flights daily from one. BA set up OpenSkies in the wake of a new aviation treaty between the U.S. and the European Union. The treaty allows EU carriers to fly to the U.S. from any EU airport, not just a carrier's home country. BA already caters heavily to business travelers on its traditional service from London. OpenSkies is designed to let BA grab those same passengers flying to and from other European cities. Dale Moss, managing director of OpenSkies, said the deal "fortifies our position in Paris."

L'Avion

The **L'Avion** purchase will let BA's OpenSkies subsidiary expand to three daily flights from one. OpenSkies began flying between Paris and New York last month.

For L'Avion, owned by Paris-based **Société de Participation Aérienne**, the deal assures a future—albeit as part of OpenSkies—especially considering that similar premium-only carriers flying between London and the U.S. have closed.

With record fuel and falling traffic volumes, all carriers are being squeezed.

With fuel at record prices and traffic volumes dropping, all carriers are being squeezed. Big carriers such as British Airways, with huge networks and powerful frequent-flier plans, can weather downturns longer than less-established start-ups.

L'Avion, which was founded in January 2007, flies two Boeing 757 jetliners, which it operates under five-year leases, in an all-business-class setup. OpenSkies flies one 757 from BA in a three-class configuration. Mr. Moss and L'Avion Chief Executive Marc Rochet said they will now assess both products and potentially adapt them as the two operations are merged later this year. The acquisition is contingent on regulatory approval.

Mr. Moss said OpenSkies will announce its second European destination by early August and start flying there from New York in autumn.

Marks & Spencer's sales fall amid credit-crunch fallout

By Aaron O. Patrick

LONDON—**Marks & Spencer Group** PLC reported a surprisingly sharp fall in sales as the retailer was hit by a side effect of the global credit crunch: U.K. consumers switching to lower-cost purveyors of food and clothing.

Shares in Marks & Spencer fell 25% and a senior executive departed as the company said U.K. sales at stores open longer than a year fell 5.3% in the 13 weeks ended June 28, compared with the same period last year. In all stores, sales fell 0.5%.

Chief Executive Stuart Rose had warned in May that conditions were tough, but the size of the drop in sales came as a surprise to investors and analysts. Marks & Spencer shares closed at £2.40 ($4.79), off 78 pence in London, as analysts cut profit forecasts for the year ending March 2009.

The company also said Steven Esom, who oversaw food sales and was once seen as a potential CEO, would be leaving after 13 months on the job. He is to be succeeded by John Dixon, head of the company's home-furnishing and online divisions. Mr. Esom couldn't be reached for comment.

As the largest clothing retailer in the U.K. by market share, Marks & Spencer offers an important indicator of the broader health of the economy. In another sign of economic distress Wednesday, British house builder **Taylor Wimpey** PLC said it hasn't been able to conclude a deal with potential investors to raise further equity and announced 900 job cuts and a suspended dividend. Its share price fell 42%, or 25 pence, to 35 pence and dragged down shares of other home builders as well.

So far, government statistics don't show British consumers pulling back sharply on spending, despite the pressures of high food and energy prices and a downturn in the housing market. Two weeks ago, the Office for National Statistics reported retail sales rose 3.5% in May from April—the biggest increase since records began in January 1986.

Data from retailers, though, suggest consumers are switching to less-expensive food and clothing outlets. Asda, a chain owned by **Wal-Mart Stores** Inc., increased sales 7.5% in the 12 weeks ended June 15, according to Taylor Nelson Sofres PLC, a market-research company. **Aldi Einkauf** GmbH, a Germany discounter, raised sales 21% over the same period.

At Marks & Spencer, Sir Stuart said the rocky conditions could last two years. "We will come out of this, but in the meantime I think we are going to have a pretty tough run," he said on an analysts' call.

One analyst said the result called into question a plan to promote Sir Stuart to executive chairman at the company's annual meeting next Wednesday. The result "highlights" that Sir Stuart should be chief executive or chairman, said Tony Shiret, a Credit Suisse analyst who has rated Marks & Spencer shares as "underperform" since Jan. 10. "The position of the group is not really sustainable," Mr. Shiret said. "Their food prices are just too high."

A Marks & Spencer spokeswoman declined to comment on Mr. Shiret's comments.

CORPORATE NEWS

Adidas uses Olympics in race against Nike

Giant Beijing store reflects importance of China's consumers

BY MEI FONG

BEIJING—When it comes to China, is bigger better? Sportswear giant **Adidas** AG thinks so.

At midnight Friday, the German-based company will open here its biggest store anywhere. The reflective-glass-clad building, with panels at different angles creating a crinkled effect, is a marker of Adidas's ambition to use China as a battleground to overtake U.S.-based rival **Nike** Inc.

Measuring about 3,170 square meters, the shop is about 1½ times the size of Adidas's previous largest outlet, on Paris's swanky Champs-Elysées. The new store, in Sanlitun, the main entertainment district in the capital, also serves as a celebration of Adidas's role as the official sportswear provider for the Beijing Games, a privilege that cost an estimated $80 million to $100 million in cash and kind, according to people familiar with the matter. And it's just a few steps from a popular market that sells $20 knockoffs bearing the Adidas three-stripe and trefoil.

But counterfeit items aside, Adidas's business in China is booming, its executives say. Christophe Bezu, who heads Adidas Asia, says China will be the company's second-largest market by sales by the end of this year, after the U.S., overtaking Japan. China is already Adidas's most profitable market, having passed Japan and some other European markets on that measure at the end of 2007.

While the company won't disclose per-country sales, Chief Executive Herbert Hainer has said that Adidas's China sales will surpass €1 billion ($1.6 billion) by 2010. Mr. Bezu hinted in an interview this week that the company is "already likely to do that much earlier. We hope to make an announcement during the Olympics." The company is due to announce its first-half earnings on Aug. 5, three days before the Olympics' opening ceremony.

Adidas isn't the only sportswear company thriving here. China became Nike's second-largest market in 2007, and the company hit $1 billion in Chinese sales in fiscal 2008, a year ahead of schedule.

Growth in developing markets, including China, is vital to both sportswear titans because their sales are flattening in primary markets such as the U.S. Thanks in part to the frenzy surrounding the Olympics, China's sportswear market in 2009 is projected to increase 90% from 2006, to $7.2 billion from $3.8 billion, according to Shanghai-based sports consultancy ZOU Marketing.

By contrast, investors' fears about slowing growth in the U.S. caused Nike's shares to sink 9.8% last Thursday, to their lowest level in almost seven years, after Nike posted its quarterly earnings. Adidas's shares fell 3% the same day amid investor concerns as the U.S. is the major market for both countries. Wednesday in Frankfurt, Adidas's shares edged down nine European cents to €38.81 ($61.25), while Nike's shares were down seven cents at $58.92 Wednesday afternoon on the New York Stock Exchange.

Given China's huge population and relatively low retail rents, several retailers besides Adidas are betting on megastores. In 2006, for example, Swedish home-furnishings giant Ikea built its largest retail store outside its Stockholm headquarters in Beijing, which draws thousands of shoppers on weekends. This year, the Louis Vuitton brand opened its biggest Asian flagship store in Hong Kong, largely because of the lure of Chinese consumers.

Adidas

Adidas's store in **Beijing**, the company's biggest, will open Friday. The sportswear company wants to take the upper hand over Nike in the Olympic arena.

"Big is beautiful in China because it is still an unsophisticated market. Customers are dazzled by size," says David Hand, Beijing managing director of property company **Jones Lang LaSalle** Inc.

Also, given the strong sense of patriotism in China, consumers are flattered that retailers are choosing their country to establish their biggest stores, particularly in the nation's capital, he says. According to Jones Lang, average annual rent in the Beijing retail market is $986 per square meter, far below Shanghai's $2,265 and Hong Kong's $3,059.

The Adidas store is part of a huge retail and boutique-hotel complex in Beijing's central entertainment district that was chiefly designed by Japanese architect Kengo Kuma, who designed the Louis Vuitton brand's flagship store in Tokyo. The Adidas store was designed by New York-based ShoP Architects as a boxy edifice with strips of mirror and glass that protrude to reflect passing pedestrians and cars, creating a sense of movement and energy, according to ShoP's architects.

Adidas hopes to draw Chinese consumers with the promise of a healthy lifestyle, including free features such as an interactive zone in which shoppers will be able to test their skills in balancing, running and jumping on various machines developed by sports researchers at Germany's University of Freiburg.

A service called "sports concierge" will provide training and nutrition advice. Other services will offer customized football jerseys and sneakers.

Adidas also plans to use the store as a way to proclaim its dominance over Nike in the Olympic arena. That's particularly important because many Chinese consumers still think that Nike, rather than Adidas, is the Olympic sponsor, especially because of Nike's contracts with a host of sports stars such as Chinese hurdler Liu Xiang and its development of a range of shoes for Olympic athletes. According to a recent Nielsen survey, "Adidas faces a significant challenge from nonsponsors" **Li Ning**, a Chinese sportswear maker, and Nike, says Richard Basil-Jones, Nielsen's Asian-Pacific media managing director.

Locating its biggest store in the world's biggest counterfeit market also could be a challenge for Adidas, but it isn't one that its executives acknowledge. The company has said in the past that piracy isn't a big issue for it globally. Nonetheless, the company successfully sued **Payless ShoeSource** Inc. of the U.S. for trademark infringement this year, and a pending trademark-infringement suit against **Wal-Mart Stores** Inc. is scheduled to go to trial this fall.

In China, Mr. Bezu says, Adidas's status as an official Olympic sponsor has helped the company clamp down on copyright infringements because Beijing authorities are eager to protect the Olympic logo. The strong arm of the government has also helped curb the kind of ambush marketing typically found at every Olympic Games, when nonsponsors seek to associate themselves with the Olympic brand. Last week, Li Ning took the unprecedented step of bowing out of a deal to outfit sports presenters on China's main TV sports channel after pressure from authorities.

"Whatever we paid for, we pretty much made back, and the Olympics hasn't even begun yet. I'm happy with that," said Mr. Bezu.

Pleasing the Chinese has paid off in other ways, too. This year, the Shanghai-based ad agency TBWA China, a unit of Omnicom Group Inc., won China's first gold award at the Cannes International Advertising Festival for an Adidas campaign.

Chinese pride is central in Adidas TV spots

BY STEPHANIE KANG

Sportswear giant **Adidas** has spent three years developing the concept behind its Olympic television commercials. But most viewers won't see the spots on the tube.

That's because the company is focusing nearly all of its Olympic TV ad budget on China, and likely won't be airing the spots in top Adidas markets such as the U.S. and Europe.

ADVERTISING

The German company is using the Games to try to overtake rival **Nike** in market share in China. Its Olympic campaign not only will air primarily in China, but will feature Chinese athletes such as diver Hu Jia and basketball player Sui Feifei, and has as its driving theme Chinese pride at hosting and winning the Games. In one ad, computer-animated Chinese fans "help" Chinese athletes, whether it's blocking a volleyball shot, flicking a pass to a basketball player, or helping launch a diver into the air. In another spot, the Chinese women's volleyball team talks about overcoming heavy expectations from its countrymen to win a medal in the 2004 Olympic Games.

The campaign's outdoor ads won an award for Shanghai-based ad agency TBWA China at the Cannes International Advertising Festival. Later this month, Adidas will launch the final TV spot, which features the

Adidas

The ads will air in China and feature Chinese athletes such as diver **Hu Jia** and the women's volleyball team.

Adidas-made outfit that will be worn by members of the Chinese delegation on the medal stand. Adidas's Olympic ad campaign, which will include TV, outdoor, retail, mobile and online marketing, is one of the company's biggest ever in a single country. The China-only strategy for its TV spots is a change for the company, which typically blasts an array of TV commercials around the world for global sporting events.

Adidas is promoting Chinese nationalism at a time when other Olympic marketers are steering clear of specifically mentioning China, as activists continue to protest the host country's human-rights record and environmental practices. For instance, Visa's Olympic TV spots in the U.S. focus on the ability of the Olympics to bring disparate countries together. The ads feature athletes and fans from around the world, with very little mention of China.

"Every brand is taking a calculated risk at the Games," says Kevin Adler, chief solutions officer at Engage Marketing, a sports marketing firm in New York. "Is there a risk that Adidas faces more of a backlash than other marketers because of its China-centric marketing? Yes."

Adidas says it knew early on that focusing on Chinese pride would be the best way to use the Games to reach into China's consumer market. Paul Pi, vice president of marketing for Adidas's greater China region, says the company wanted to "touch a nerve" and "hit on an insight" about the Olympic Games.

"We found that this Olympics in China had a very high sense of nationalism and high sense of sport focused on the home team," says Mr. Pi.

While that's true to some degree for every host country, Adidas's market research found that more than 90% of people in China were interested in the Olympic Games. From that information, it was an easy decision to focus the campaign on "supporting the national team and showcasing [the idea of] 'Impossible is Nothing' in China," he said, referring to the companywide tagline.

The larger mission of the ad campaign is to help Adidas in its battle with Nike for the Chinese consumer market. According to sports-marketing experts, Chinese consumers associate both brands with the Beijing Olympics. While Adidas is an official sponsor of the Games and the Beijing Organizing Committee, Nike sponsors 22 out of 28 Chinese federations for the Olympics.

Informa receives takeover offer from consortium

BY RAGNHILD KJETLAND

LONDON—U.K.-based publishing and events company **Informa** PLC said it received a preliminary takeover offer from a U.S. private-equity consortium valuing it at £2.15 billion ($4.29 billion).

Informa, which owns trade publications and organizes conferences, said the 506 pence-a-share proposal was made by **Providence Equity** LLP, **Carlyle Group** LP and **Hellman & Friedman** LLC.

"Discussions continue to be at an early stage and there can be no certainty that an offer will be made," Informa said.

The purchase price represents a 34% premium to Informa's closing price of 378 pence Tuesday. Informa said the offer assumes no dividends or other distributions are declared and paid after to the final dividend for 2007. The consortium would also take on Informa's debt of £1.24 billion.

An earlier attempt to take over Informa by **United Business Media** PLC ground to a halt in June after Informa said it was approached by a third party. That merger would have created a company with a market capitalization of about£3.3 billion that would be listed on the FTSE 100.

CORPORATE NEWS

Starbucks plans pullback

Coffee giant to close 600 stores in U.S., cut 7% of work force

By Janet Adamy

Starbucks Corp. on Tuesday effectively ended its era of blanket expansion by saying it will close 500 more locations in the U.S. and cut 7% of its work force.

The pullback is a sign that the Seattle coffee giant is continuing to see weak sales as high gas prices and other pressures on consumer spending prompt Americans to cut back on extras.

It also shows how badly the specialty-coffee business is struggling just as mainstream companies, such as fast-food giant **McDonald's** Corp., are beginning to invest heavily in it.

Starbucks said the 500 stores just slated for closure, as well as 100 others it announced plans to close earlier this year, will shut down in 2008 or early next year.

The company said it will eliminate as many as 12,000 full-time and part-time retail positions in connection with the closures; some baristas will get jobs at other stores. Starbucks said it had 172,000 employees as of last year, the latest count available.

Starbucks didn't disclose which of its about 11,000 U.S. stores it will shut, but said the affected stores are spread across all major U.S. markets. About 70% of them have opened since the fall of 2005, it said.

Workers will find out whether their store is closing by the middle of this month.

WSJ Stock

Starbucks's plan to close **500 more stores** marks a significant pullback.

The closings are bad news for commercial real-estate developers who have relied on the cachet of Starbucks to attract other tenants. Starbucks said the sites earmarked for closure include those that aren't profitable at the moment or aren't expected to provide the company with acceptable returns on its investment.

During the past fiscal year, Starbucks opened about 2,500 new cafes across the globe, or about seven outlets per day. The purpose of its rapid expansion was to boost sales growth and siphon traffic away from some of its stores where long lines were driving away customers.

Also fueling the push was company research that showed people sometimes weren't willing to cross the street to buy a cup of coffee. But the density of Starbucks stores in places like New York and other large cities turned the chain into a symbol of ubiquity.

Last year, as Starbucks sales began to soften, it became clear that the company's expansion was cannibalizing its sales in a way that was threatening the chain's success, as well as causing the quality at its existing locations to slip. Analysts have said that Starbucks lowered the bar for choosing new locations in recent years.

The closures will "take pressure off some of the stores" located in the same immediate area, said Pete Bocian, Starbucks chief financial officer.

Starbucks has been struggling to attract customers amid the slowdown in consumer spending and increasing competition from other coffee and restaurant chains.

Longtime Chairman Howard Schultz took over as chief executive in January to revive the company, whose stock had lost about half its value in the previous year. The company's shares have yet to rebound.

In May, activist investor Nelson Peltz's Trian Fund Management disclosed it had taken a stake in the chain, putting pressure on Mr. Schultz to improve results.

Mr. Schultz has been pushing through changes, including the introduction in April of a new, milder daily brewed coffee that the company says has helped boost Starbucks's drip-coffee sales. But, in doing so, he has alienated a small group of loyal Starbucks customers who prefer strong coffees.

AstraZeneca win means likely delay of generic

By Jeanne Whalen

LONDON—**AstraZeneca** PLC has won an important court decision that is likely to delay U.S. generic competition to the U.K.-based drug maker's top-selling schizophrenia drug, Seroquel, until 2011.

The ruling removed a big cloud hanging over the company, sending its shares up 4.8% in London on Wednesday to close at £22.33 ($44.53).

Seroquel had global sales of $4 billion last year, about $3.5 billion of which came from the U.S., according to IMS Health. Some analysts had expected generic Seroquel to hit the market late this year.

The U.S. District Court for the District of New Jersey granted AstraZeneca summary judgment against generic companies **Teva Pharmaceuticals** Ltd. and **Novartis** AG's Sandoz unit, meaning that the case won't proceed to a trial previously scheduled to begin Aug. 11, AstraZeneca said in a statement.

Teva and Sandoz were seeking to sell low-cost copies of Seroquel, alleging that AstraZeneca had gained its patent for the drug unfairly, or through "inequitable conduct." Teva said it planned to appeal the decision, but analysts said it looks unlikely that generic Seroquel will make it to market before 2011, when Seroquel's patent is set to expire.

"We are pleased with the court's decision to uphold our valid intellectual property," said AstraZeneca chief executive David Brennan.

DAILY SHARE PRICE

AstraZeneca

On the London Stock Exchange
Wednesday's close: **£22.33, up 4.8%**

Source: Thomson Reuters Datastream

In a research note, analysts at Citigroup Inc. said AstraZeneca will have more time to market the product it hopes will replace Seroquel: Seroquel XR, a once-daily version of the drug. AstraZeneca started selling Seroquel XR in the U.S. last year, and aims to slowly convert patients to the patent-protected drug before a generic version of Seroquel becomes available.

The court ruling was AstraZeneca's second big patent victory in the last few months. In April, the company settled a lawsuit against India's **Ranbaxy Laboratories** Ltd. in a pact that will keep Ranbaxy's generic copies of blockbuster heartburn drug Nexium off the U.S. market until 2014.

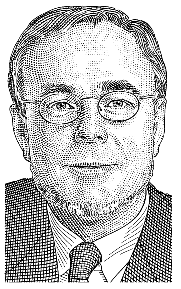
Nexium had global sales of $5.2 billion last year.

Ex-Airbus chief is being charged in trading probe

Associated Press

French judges filed preliminary charges against former Airbus Chief Executive Gustav Humbert as part of an investigation into alleged insider trading, a judicial official said.

Mr. Humbert is the third former executive at Airbus or its parent company, **European Aeronautic Defence & Space** Co., to face charges in the investigation. Two judges filed the charges then released Mr. Humbert on a bail of €350,000 ($552,000), according to the judicial official.



Gustav Humbert

Mr. Humbert had been in detention since Monday, and remains under judicial supervision, the official said. His lawyer didn't return phone calls and emails seeking comment.

Preliminary charges under French law mean investigating magistrates have determined there is strong evidence to suggest involvement in a crime. The filing gives the judges time to pursue an investigation that can result in a trial or in the charges being dropped. The judges are looking into stock trades at EADS in 2005 and 2006. Mr. Humbert and other top executives sold large share packages before delays to the superjumbo A380 were announced.

GLOBAL BUSINESS BRIEFS

Taylor Wimpey PLC

U.K. house builder **Taylor Wimpey** PLC said it failed to raise £500 million ($997 million) from existing shareholders and new investors to help bolster its depleted balance sheet and warned it could breach banking covenants. Shares in the company slumped 42% in London. The company said that while it remains in compliance with its banking covenants, without an amendment to the terms of its loans it might breach one or more in 2009. Net debt at the end of June was £1.7 billion. Taylor Wimpey said it plans to write down the value of its land bank and work-in-progress by about £660 million. The company also said it plans to close 13 of its 39 U.K. regional offices and cut about 900 jobs to reduce costs by around £45 million annually from the fourth quarter of 2008.

Iberdrola SA

Spanish power utility **Iberdrola** SA said it plans to invest €25 billion ($39.46 billion) through 2010 to gain scale and increase its presence in North and South America and in the U.K. In a presentation filed with Spain's stock-market regulator, Iberdrola said it targets annual net profit of more than €3.5 billion in 2010, up from €2.35 billion in 2007 and backed by 16% average growth in earnings per share. Iberdrola, based in Bilbao, Spain, said it has earmarked €6 billion of the planned investments for acquisitions and the rest for expanding existing businesses. It plans to maintain its current dividend policy. The company said it will make investments in Spain, the U.S., Canada, the U.K. and Latin America, with a focus on renewable energy, networks and generation.

TDC AS

Danish telecommunications operator **TDC** AS has put its **Hungarian Telephone and Cable** Corp. unit up for sale, people familiar with the matter said Wednesday. Shares in the Hungarian company closed at $17.95 Tuesday, giving the company a market capitalization of $294.7 million. TDC—owned by private-equity firms **Apax Partners**, **Blackstone Group** LP, **Kohlberg Kravis Roberts** & Co., **Permira** and **Providence Equity Partners**—has appointed **BNP Paribas** SA to run an auction process, the people said. TDC said the Hungarian company, which is 64.6%-controlled by TDC, had retained the Paris-based investment bank to review its strategic options. It isn't clear whether TDC is selling the whole of the Hungarian unit or just a stake.

Tate & Lyle PLC

U.K.-based sugar and ingredients company **Tate & Lyle** PLC said that it sold the majority of its remaining international sugar operations to U.S.-based agribusiness and food company **Bunge** Ltd. for an undisclosed amount. Chief Executive Iain Ferguson said, "The restrictions on exports from the [European Union] cane sugar refineries...have reduced the value of international sugar trading to Tate & Lyle." ABN Amro analyst Julian Hardwick said the disposal is positive because Tate & Lyle "is getting out of a low-margin commodity." The company's overall sugar operations were unprofitable in 2007. Tate & Lyle's remaining business areas include sugar refining, the production of Splenda artificial sweetener and the production of corn gluten feed. Demand for corn gluten feed has been buoyed by animal-feed makers who are using it to replace increasingly expensive corn.

Natuzzi SpA

Italian furniture maker **Natuzzi** SpA appointed Aldo Uva, a former executive at **Nestlé** SA, as its new chief executive. Mr. Uva was global vice president of beverages for Switzerland-based Nestlé and previously held positions with **Sara Lee** Corp., **Parmalat** SpA and **Indesit** Co. Natuzzi is facing a weakening number of orders, which it attributes to challenging business conditions and unfavorable currency exchange rates. In May, it announced it would reduce the work force at its Italian plants by 1,200 positions for 13 weeks, beginning May 19. Mr. Uva said he will focus on rationalizing production costs and boosting sales in key markets such as Brazil, Russia and the U.S.

DHL Worldwide Express Inc.

The European Commission ruled that €6.1 million ($9.6 million) in planned local government aid for courier company **DHL Worldwide Express** Inc.'s new hub at Leipzig airport in Germany is illegal and shouldn't be paid out. The European Union's executive arm cleared an additional €1.6 million in training aid for DHL, owned by **Deutsche Post** AG. The €6.1 million would have financed activities that DHL would have carried out anyway, the commission said. Neelie Kroes, the EU's competition commissioner, said that training aid can help foster economic growth and job creation, but that the larger aid package drawn up by the state of Saxony would have "seriously distorted competition" on Europe's express parcel market.

Siemens AG

German industrial conglomerate **Siemens** AG said it plans to cut jobs as a result of the current economic downturn. Siemens Chief Executive Peter Löscher and Personnel Chief Siegfried Russwurm said the company would hold discussions with labor representatives and then employees before confirming the number of cuts at a news conference next Tuesday. Mr. Löscher has promised to cut selling and administrative costs by €1.2 billion ($1.9 billion), or roughly a tenth, by 2010 to boost profit margins. Munich-based Siemens is active in 190 countries and employed 435,000 workers at the end of March. It issued a profit warning in March.

WPP Group PLC

WPP Group PLC has less than a week to decide whether to bid for market-research company **Taylor Nelson Sofres** PLC. Britain's Takeover Panel ruled that the advertising group has until Wednesday morning to make a firm offer or walk away. WPP has made three provisional offers for the London-based company this year, all of which have been rejected by TNS, which is pursuing a merger with German competitor **GfK** AG. TNS shareholders are scheduled to vote on the GfK merger July 18. GfK's largest shareholder group, GfK-Nürnberg, is scheduled to vote July 21.

—Compiled from staff and wire service reports.

MARTIN BUREAU/AFP/Getty Images

Sub-Saharan Africa goes offshore in bid to be a bigger player

By **Vaughan O'Grady**

MANY OF sub-Saharan Africa's newest and most promising oil finds have been offshore, making it easier to transport the oil to the thirsty refineries of the major economies. But that is by no means the only reason for the recent boom in oil exploration and production throughout the continent.

Sub-Saharan Africa — the African regions south of the Sahara — can be a challenging place for an oil company to operate: Infrastructure is often limited — and sometimes nonexistent; governments may be difficult to work with; and financial transparency and health and security are by no means guaranteed. No wonder a lot of major oil companies have for many years taken the apparently easier option of working in established oil-producing areas like Europe, the U.S. and the Middle East.

Until now, that is. In recent years, countries not previously associated with oil, like Ghana, Madagascar, Chad, Uganda, Kenya and Mozambique, have been attracting the interest not only of independent oil companies, which are more willing to take a chance on relatively untried markets, but of some of the majors like Exxon, Eni and Chevron, and even national oil companies with such diverse origins as Austria, China, Malaysia and Portugal.

Of course, sub-Saharan oil exploration is not new. Nigeria has for decades been the continent's leading oil producer and one of the world's major exporters. More recently, peace in Angola has boosted oil exports and fueled a reconstruction boom.

"Angola has become fertile ground for exploration since the country began its program of reconstruction in 2002," says London-based Robert Wine, spokesman for BP Angola, a unit of the U.K. oil major. Large resources have been found in deepwater, technically challenging, offshore blocks, but companies such as BP, in conjunction with Sonangol, have the global expertise to develop these economically, he says. Sonangol is an Angolan parastatal that manages the country's hydrocarbon resources.

New territories

Recently, however, activity has been moving from these established areas to new territories. There are a number of reasons for this. Oil quality is one.

"West African oil is mostly low-sulphur and light to medium gravity, which means it's attractive to refiners," says Roy Jordan, oil economist at Energy Market Consultants UK Ltd., a London-based company that specializes in the analysis and forecasting of long- and short-term developments in international oil and gas markets. This is in part because they are under pressure from Western governments keen to eliminate sulphur from transportation fuels for environmental reasons — a much less expensive business if the oil is low-sulphur already.

Africa is also conveniently situated geographically to serve both North American and European markets. The west coast is especially well positioned.

Thomas Pearmain, London-based energy analyst, sub-Saharan Africa, at forecasting company Global Insight Inc. of Boston, explains that oil from this area has open sea lanes to the U.S. He adds: "West African crude is predominantly light and sweet and tends to be in high demand by the refineries on the East Coast of the U.S., as it is more easily refined."

This positional advantage is further enhanced by the fact that many recent finds are not on the mainland. As Andrew Grosse, exploration and technical director of Sterling Energy in London, an upstream oil and gas company, points out: "In Africa, a fair amount of the prospective open acreage is offshore and most of our acreage is on the western margin of Africa, within easy reach of the U.S. East Coast."

Going offshore lessens the security, health and infrastructure problems that could be associated with onshore work in Africa. But the oil still has to be brought to the surface in difficult conditions. It's just as well, therefore, that modern drilling technology has made it easier to get at. "Technological advances have really helped in deepwater exploration; companies are now exploring and producing in more than 2,000 meters of water," Mr. Grosse says.

Mr. Jordan of Energy Market Consultants cites other important technological advances such as horizontal drilling, which applies both onshore and offshore, and improved application and evaluation of seismic activity, which allows a quicker and better view of where reservoirs could be. Equally important, he says, are improvements to transportation technology. Floating production and storage facilities are supporting oil company efforts offshore. "This means that they can produce the oil, store it and then transport it — all close to the well offshore," Mr. Jordan adds.

Quality and technology may help make oil and gas exploration in sub-Saharan Africa easier but, as Mr. Grosse points out, the real drivers are much simpler: availability and access. The North Sea and the U.S. are mature areas where production is declining. By contrast, estimated onshore and

MARTIN BUREAU/AFP/Getty Images

"In many countries in Africa, particularly where there hasn't in the past been production, they have been obliged to make the terms and conditions reasonably attractive to bring people in to explore and then to produce."

offshore reserves for the African continent are significantly higher (as much as 10% of the world total, according to some analysts) and most of it, until recently, underexploited.

In the Middle East, there are other challenges. Although the region contains most of the world's oil reserves, access is often limited. In countries like Saudi Arabia, Western oil companies can only work on a service contract basis. Add war in Iraq, sanctions in Iran and continuing fears about security and supply and you have a less-than-attractive working environment.

There are problems elsewhere, too. As Mr. Pearmain of Global Insight notes: "Over the past couple of years there has been a trend known as resource nationalism, where countries which have commercial reserves of oil have been changing the terms of the contracts to increase the government's revenue. This is played out throughout Latin America and in Russia especially."

Africa, however, is different. Says Mr. Jordan of Energy Market Consultants: "In many countries in Africa, particularly where there hasn't in the past been production, they have been obliged to make the terms and conditions reasonably attractive to bring people in to explore and then to produce."

Meanwhile, oil prices have escalated, and demand — especially from booming economies like India and China — is growing. It's hardly surprising, therefore, that previously ignored territories like Ghana and Uganda have become so attractive. And they are getting more attractive by the day. The share price of Tullow Oil, an exploration and production company listed on the London Stock Exchange, rose more than 150% in 12 months as estimates of the potential of its find off the coast of Ghana last year increased to nearly two billion barrels.

Inland Uganda is another promising prospect for the company, and a useful reminder that it's not just offshore — or indeed West Africa — where opportunities can be found. For example, although Sterling Energy has operations in Cameroon, Gabon, Guinea Bissau and Mauritania, Mr. Grosse is particularly excited about his company's acreage in Madagascar — and with good reason. It's so promising a prospect that the company is being partnered by oil giant Exxon to exploit it.

Of course, companies like Sterling have historically been at the forefront of activities in so-called frontier territories. "The smaller companies have always been risk-takers," Mr. Grosse says. But Exxon's involvement is, he suggests, an indication of what's happening within global markets at the moment. The majors need to keep up their volumes of reserves; hence Exxon has gone with Sterling into Madagascar. "It's a frontier basin," Mr. Grosse says. "There's no production offshore but there are some very large prospects which if successful will make an impact even to companies of Exxon's size."

Nor are they alone. Not just the big private companies but, says Mr. Jordan of Energy Market Consultants, less familiar names. National oil companies from Austria, China, India, Malaysia, Portugal and South Korea, to name only a few are now, or have been, in Africa looking for oil. "One of the reasons," Mr. Jordan says, "is that we are seeing a tightening in the world oil supply and therefore refiners in oil-importing countries are going to need access to crude in the future."

And given the size of recent finds, Africa may be where they find it. As Mr. Pearmain of Global Insights points out, no one thought a two-billion-barrel oil field would exist offshore Ghana. And with Kenya, Madagascar and Uganda looking promising, perhaps "East Africa will be the next big play for oil exploration," he suggests.

Of course it may be some time before any new fields reach the output of, say, Nigeria, where U.S.-based integrated energy company Chevron, through its subsidiary Chevron Nigeria Ltd., has been able to announce net oil-equivalent production in 2007 of 129,000 barrels a day, with new projects likely to add significantly to that number by late 2009.

Africa's new frontier

Nevertheless, the potential of Africa's new frontier is clear. Barring a continent-wide economic or social collapse, it appears that there are enough prospects to make sub-Saharan Africa popular with oil producers for some time to come. And with available oil supply tightening and non-OPEC production capacity and potential by no means guaranteed to rise, many analysts are convinced that three-digit oil prices are here to stay. "Anywhere where there's a possibility of finding new oil is going to be potentially attractive to an investor," Mr. Jordan says.

Clearly, a region that is conveniently situated for transport and offers a high-grade product which technology has made easier and cheaper to retrieve could be seen as attractive to investors. But the bottom line is much simpler. As Mr. Grosse of Sterling Energy points out: "In Africa there is still prospective acreage that can be licensed — so that's exactly what's happening."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DAVID J. O'REILLY
CHAIRMAN & CEO
CHEVRON CORPORATION
Energy will be one of the defining issues of this century. One thing is clear: the era of easy oil is over. What we all do next will determine how well we meet the energy needs of the entire world in this century and beyond.
Demand is soaring like never before. As populations grow and economies take off, millions in the developing world are enjoying the benefits of a lifestyle that requires increasing amounts of energy. In fact, some say that in 25 years the world will consume about 50% more oil than it does today. At the same time, many of the world's oil and gas fields are maturing. And new energy discoveries are mainly occurring in places where resources are difficult to extract, physically, economically and even politically. When growing demand meets tighter supplies, the result is more competition for the same resources.
We can wait until a crisis forces us to do something. Or we can commit to working together, and start by asking the tough questions: How do we meet the energy needs of the developing world and those of industrialized nations? What role will renewables and alternative energies play? What is the best way to protect our environment? How do we accelerate our conservation efforts? Whatever actions we take, we must look not just to next year, but to the next 50 years.
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INDIA

Truckers strike in protest of fuel prices and tolls

MILLIONS of truck drivers went on strike in India to protest rising fuel prices and road tolls, union leaders said. Talks with the government broke down Wednesday and the "strike is on until there is a solution from (the government's) side," union leader Gurinder Pal Singh said.

The All India Motor Transport Congress, which represents 4.8 million truckers, is demanding lower taxes on diesel and the repeal of a recent increase in toll-road fees, which they say eliminate profits. The government appealed to truckers to end the strike but said it would be unable to accommodate most of their demands. *—Associated Press*

EUROPEAN UNION

New rule would increase citizens' options for care

EUROPEAN Union citizens would be able to seek medical care anywhere in the 27-nation bloc without prior authorization and get reimbursed for the treatment by their insurer under draft rules presented by the EU executive.

The guidelines are meant to ease congestion in countries with long waiting lists for certain kinds of operations and allow people greater freedom to choose where they want to be treated.

However, the British government said its National Health Service wouldn't fund any care abroad that wouldn't be provided in Britain. *—Associated Press*

U.S.

Factory orders rise 0.6% on higher oil, food prices

U.S. FACTORY orders climbed a modest 0.6% in May, while a barometer of capital spending by businesses declined. The May increase in orders for manufactured goods followed a revised 1.3% rise in April, the Commerce Department said. Orders for durable goods, designed to last at least three years, were flat in May. Orders for nondurable goods climbed by 1.2%, after increasing 3.5% in April. The May increase partly reflected rising oil and food prices. Orders for nondefense capital goods orders excluding aircraft decreased 0.4%, after rising 3.1% in April. Those bookings are seen as a yardstick for capital spending by businesses. *—Jeff Bater*

Israel blames rampage on lone Palestinian

Authorities discount efforts to lay claim for deadly attack

BY CAM SIMPSON
Jerusalem

A PALESTINIAN construction worker took a 23-metric-ton tractor on a lunch-hour rampage down a main thoroughfare here, killing three and injuring more than 40 as he obliterated cars, toppled a commuter bus and chased panicked pedestrians before he was shot and killed.

Israeli police almost immediately declared it a terrorist attack, but had softened their statements by Wednesday evening, when they said the driver, 30-year-old Hossam Dawiath, acted spontaneously and alone.

Mr. Dawiath, a father of two from Israeli-controlled East Jerusalem, worked for a construction company using tractors, backhoes and other heavy equipment to build a light-rail line along busy and historic Jaffa Road, which was the scene of his attack.

"We are entirely focused on the fact that he acted completely and totally on his own," said Micky Rosenfeld, the Israeli Police spokesman, Wednesday night.

Three different Palestinian factions claimed responsibility, but Mr. Rosenfeld said police didn't believe any of them.

Mr. Dawiath's only previous brush with security officials involved a drug-related arrest, police said. Their investigation was continuing.

Mr. Rosenfeld and other authorities had quickly declared the rampage to be a terrorist attack, in part because it appeared Mr. Dawiath was heading toward the city center's crowded, Jewish pedestrian market before he was shot and killed. The market was a favorite target of Palestinian terrorists throughout the bloody years of the so-called Al Aqsa intifada, which ended in 2005.

An off-duty security officer apparently halted the mayhem when he climbed up to the cab of the Caterpillar 966F and shot Mr. Dawiath in the head, according to witnesses at the scene and footage aired on Israeli television. Others on the scene also fired at the driver. The worker who removed his body said the driver had been shot in the leg and head.

Mr. Dawiath used the tractor's massive front-end shovel, which is lined with large teeth, to pulverize cars, peel off roofs like tin cans and attack at least two commuter buses down a long swath of Jaffa Road.

Two people in two different vehicles were pronounced dead at the scene, while a third victim was later pronounced dead at Jerusalem's Shaare Zedek Medical Center, according to authorities and Shoham Rubio, a spokeswoman for the hospital.

"I saw the tractor go into the oncoming traffic and he hit a woman's car with the [shovel] of his tractor straight through her windshield," said Shai Rahmanoff, 21 years old, who runs a sandwich shop on Jaffa Road.

Mr. Rahmanoff had been chasing the tractor down the street with dozens of others after it plowed into the side of a bus and knocked it on its side in front of his shop.

"People were screaming," he said, "and people were shouting. Everyone was panicked."

Associated Press

A construction vehicle passed an **overturned bus** that was toppled when a Palestinian worker in a bulldozer went on a rampage in Jerusalem on Wednesday, killing at least three people before he was shot dead.

U.S. seeks global plan on airline emissions

BY ALESSANDRO TORELLO

BRUSSELS—The U.S. wants to negotiate a global solution to monitor airline emissions, and it contends a unilateral move by the European Union to hit airlines with charges is inconsistent with international aviation accords, U.S. officials familiar with the matter said.

Last week, the EU agreed that all flights to and from EU airports will be part of a program to trade carbon-dioxide allowances beginning in 2012. The program initially will force airlines to reduce emissions by 3% compared with average emissions in 2004-2006. The program still has to be formally ratified by the EU Parliament and the EU Council, where the bloc's 27 members have representatives, before becoming law.

But U.S. officials say the EU plan is inconsistent with a civil aviation convention signed in Chicago in 1944 that governs international air travel. Instead, they want the EU to participate in a multilateral plan to draw up new guidelines to help the airline industry address climate change.

The U.S. will seek to pursue those negotiations at a meeting of a 15-country group called to deal with climate change within the International Civil Aviation Organization, or ICAO, in two weeks time in Montreal.

The Americans want the EU to participate in drawing up new guidelines.

"This is a global problem and deserves a global solution. We believe the Group on International Aviation and Climate Change at ICAO can and will develop a globally acceptable framework," said Kurt Edwards, the U.S. Federal Aviation Administration's senior representative to the EU.

The ICAO was recognized by the 1997 Kyoto Protocol on climate change as the forum in which to address the issue of greenhouse gas emissions by the aviation industry.

An EU Parliament member who helped develop the emissions-trading program said that the EU decided to take the lead because ICAO hadn't gotten anywhere on the issue so far.

"It was necessary for the EU to step in," said Peter Liese, a conservative member of the EU Parliament from Germany.

The EU has made the fight against climate change a priority and wants to lead global negotiations on the issue at a United Nations climate change conference in Copenhagen at the end of next year. The airline plan is part of a broad initiative to cut CO_2 emissions within the 27-nation trading bloc by 20% in 2020 compared with 1990's levels.

The ICAO's recommendations should come in time for the Copenhagen meeting, Mr. Edwards said.

Airlines have raised concerns about the European plan because it will increase their costs at a time when they are already facing soaring fuel prices.

The Association of European Airlines estimates that the EU plan will cost its 35 member airlines a total of €5.3 billion ($8.36 billion) a year, compared with a total operating profit of €3.7 billion last year, spokeswoman Francoise Humbert said.

'Ingrid' is freed with 14 others in Colombia

A WSJ NEWS ROUNDUP

Colombia's military said it rescued 15 hostages, including former presidential candidate Ingrid Betancourt and three U.S. military contractors, from leftist rebels.

Ms. Betancourt, a minor presidential candidate when she was abducted in 2002, was one of about 700 hostages held by the Revolutionary Armed Forces of Colombia, or FARC, Latin America's oldest and largest insurgency. FARC funds itself largely through drug trafficking and kidnapping.

Ms. Betancourt, 46 years old, had become the face of Colombia's captives and their suffering. In Europe, she is a cause célèbre, so famous that she is simply known as "Ingrid."