



Winemakers hunt for old varietals in northern Italy

WEEKEND JOURNAL | PAGES W6-W7

Churches work on their message to win followers

ON OTHER FRONTS | PAGE 28

What's News —

Business & Finance

World-Wide

The ECB raised its key rate a quarter point to 4.25%, and the central bank's president said he had "no bias" about further increases while keeping his options open. Markets pushed back expectations of another increase, and the euro fell sharply against the dollar. **Pages 1, 18**

■ **Oil prices rose** to a record \$145.29 a barrel, as producers and consumers blamed each other. The global inflation threat is serious, Paulson said. **Pages 1, 2**

■ **WPP raised** its bid for market-research firm TNS, which plans to merge with Germany's GfK, to \$2.15 billion. **Page 2**

■ **GE plans** to turn Walter Engines of the Czech Republic into a turboprop competitor of arch-rival Pratt & Whitney. **Page 5**

■ **Vodafone agreed** to buy a controlling stake in Ghana Telecom from the country's government for \$900 million. **Page 6**

■ **U.S. blue chips rose** but Nasdaq shares fell in a preholiday session Thursday. Stocks rose in Europe after the ECB signaled no bias for more rate rises. **Page 18**

■ **U.S. payrolls shrank** for a sixth straight month in June. Some are advocating additional stimulus measures. **Page 3, 10**

■ **Sweden sold** property firm Vasakronan to Fastigheter for \$6.88 billion, continuing its privatization drive. **Page 6**

■ **A French judge ordered** Continental and five people to stand trial for alleged manslaughter related to a Concorde crash. **Page 5**

■ **Publicis agreed** to buy New York public-relations firm Kekst for an undisclosed price. **Page 8**

■ **India's Mahindra remains** bullish about entering the U.S. market in 2009 despite the collapse of truck and SUV sales. **Page 8**

■ **Yahoo has picked up** talks with Time Warner over a combination involving AOL. **Page 4**

■ **China is toughening** capital controls with a new system for monitoring funds brought into the country by exporters. **Page 22**

The Colombian military's daring rescue of Ingrid Betancourt and 14 other hostages is a blow to the diplomacy championed by France and Venezuela in dealing with the leftist rebels, and a vindication of Colombian leader Uribe's get-tough approach. In France and across Europe, meanwhile, people celebrated Betancourt's release. **Page 1**

■ **Some 200 supporters** of Zimbabwe's opposition sought refuge at the U.S. Embassy in Harare, amid new reports of violence against political dissenters. Two women who led anti-Mugabe protests were granted bail.

■ **France will build** a second of its new-generation nuclear reactors, saying fossil fuels have become too expensive. **Page 10**

■ **The Bush administration** is working with Obama and McCain to prevent the transfer of power in January from disrupting U.S. security. **Page 10**

■ **McCain shook up** his presidential campaign organization for the second time in a year, in a bid to sharpen its focus. **Page 11**

■ **China demanded** the Dalai Lama prove he doesn't support Tibetan independence and disruption of the Olympics, during talks with the spiritual leader's envoys, state media reported.

■ **Jude Shao**, a U.S. citizen arrested 10 years ago in Shanghai on charges of tax evasion, was freed on parole. **Page 10**

■ **Israel should cut off** outlying Arab neighborhoods from Jerusalem, the vice premier said, a day after a Palestinian went on a rampage in the city center.

■ **Turkey's deputy premier** defended the ruling party in court against charges it is steering the nation toward Islamic rule.

■ **The Indian government's bid** to secure support for a civilian nuclear deal with the U.S. stalled when a key regional party asked for more time to decide.

■ **Poland and the U.S. reached** a tentative deal to place 10 missile interceptors in Poland as part of a global defense shield.

■ **The U.S. extended** the combat tour of 2,200 Marines in southern Afghanistan by a month.

■ **An explosion killed** a local police chief in the breakaway Georgian region of South Ossetia.

EDITORIAL & OPINION

Happy Fourth

As America celebrates its birth, rumors of its imminent decline are exaggerated. **Page W10**

ECB raises rate as Trichet quells talk of more moves

Inflation 'worrying,' growth unflattering; sharp fall in services

BY JOELLEN PERRY

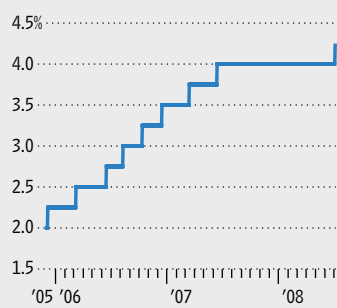
FRANKFURT—The European Central Bank raised its key interest rate by a quarter of a percentage point to 4.25% Thursday, as its president suggested a series of rate increases was unlikely even as he strove to keep his options open.

The ECB's decision to boost its key rate, its first interest-rate move in more than a year, was expected. In a news conference after the decision, ECB President Jean-Claude Trichet swatted down speculation about further increases, saying, "Starting from here, I have no bias."

The comments suggest that policy makers believe the present level of rates is sufficient to contain current price pressures, and that incoming data on both growth and infla-

Step up

The European Central Bank raised its key interest rate to 4.25% from 4%, as widely expected



Source: European Central Bank via Thomson Reuters Datastream

Markets, which before the news conference had expected a quarter-point interest rate increase by October, pushed back expectations of a second increase to January.

The euro fell in tandem, dropping to \$1.5697 in New York from \$1.5880 late Wednesday. Higher interest rates can attract investors to a currency.

European shares gained Thursday as investors, particularly in European commercial banks, priced in the possibility that Thursday's interest-rate increase could be the last for a while.

Surging food and oil prices are buffeting central banks globally. In recent weeks, U.S. Federal Reserve policy makers have ratcheted up their anti-inflation rhetoric. However, because the U.S. economy remains fragile, the Fed is not expected to raise its key rate from its current 2% until later this year, unless the inflation outlook deteriorates considerably.

Sweden's Riksbank raised its key rate. *Please turn to page 3*

Oil hits \$145 as supply fears push up prices

BY GUY CHAZAN

Oil soared to a record Thursday and appeared to have further to climb as supply concerns and fears of a blow-up with Iran intensified.

Meanwhile, a much-vaunted gathering of oil executives ended in Madrid without consensus on how to calm the market. Instead, producers and consumers blamed each other for oil prices that have doubled in the past year.

Crude-oil futures hit \$145.85 a barrel on the New York Mercantile Exchange during intraday trading Thursday, before falling back to close at a record \$145.29, for a gain of 1.2%, or \$1.72. But expectations are high that prices could reach \$150 in the near term, promising more grief for consumers. Traders cite rumors that Israel may be preparing to attack Iran's nuclear facilities, potentially threatening traffic from the Gulf through the Strait of Hormuz.

Adding fuel to the fire, Alexei Miller, chief executive of Russia's gas giant OAO Gazprom, said Europeans would soon have to pay much more for imports of natural gas. Mr. Miller, who last month predicted oil would shoot up to \$250 a barrel in the near future, said Russian gas would be sold in Europe for \$500 per thousand cubic meters by the end of the year—about a fifth more than the current price.

In Madrid, battle lines were drawn between ministers from the Organization of Petroleum Exporting Countries and the bosses of major western oil companies as the *Please turn to page 3*



Ingrid Betancourt, center, was reunited with her children in Bogota Thursday. "It was because of them that I kept up my will to get out of that jungle," she said.

Betancourt's rescue sparks criticism of Sarkozy tactics

The daring rescue of Ingrid Betancourt and 14 other hostages held by Colombia's guerrillas is a blow to the diplomacy championed by French President Nicolas Sarkozy

By David Luhnow in Bogotá and David Gauthier-Villars in Paris

and Venezuela's Hugo Chávez in dealing with the rebels and a vindication of Colombian President Álvaro Uribe's get-tough approach.

Thursday, Ms. Betancourt, a former Colombian presidential candidate and the most high-profile of the hostages, got to see her two children for the first time in six years af-

ter the pair flew in from France, where they live. Scenes of her hugging the children, Lorenzo, 19 years old, and Mélanie, 22, were broadcast live on Colombian and French television.

"It was because of them that I kept up my will to get out of that jungle," she said, fighting back tears. She said her children would soon get tired of her because she would stick to them "like chewing gum."

Ms. Betancourt, who was seized by the Revolutionary Armed Forces of Colombia in early 2002 and released by an undercover military operation Wednesday, also visited the *Please turn to page 3*

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11288.54	+73.03	+0.65
Nasdaq	2245.38	-6.08	-0.27
DJ Stoxx 600	283.08	+2.39	+0.85
FTSE 100	5476.6	+50.3	+0.93
DAX	6353.74	+48.32	+0.77
CAC 40	4343.99	+47.51	+1.11
Euro	\$1.5711	-0.0155	-0.98
Nymex crude	\$145.29	+1.72	+1.20

Money & Investing > Page 17

LEADING THE NEWS

Ad giant WPP sweetens offer for researcher TNS

BY AARON O. PATRICK

LONDON—Ad firm WPP Group PLC has increased its bid for Taylor Nelson Sofres PLC to £1.08 billion (\$2.15 billion), in an aggressive move that could put the U.K.-based market-research firm within its grasp.

Chief Executive Sir Martin Sorrell held meetings with TNS shareholders Thursday to build support for the offer, his fourth in three months, after the TNS board rejected his latest advance.

TNS Chairman Donald Brydon struck a defiant tone, saying Sir Martin was merely trying to derail TNS's plans to merge with German rival GfK AG, because of concerns it would be a stronger competitor to WPP. Buying TNS would make WPP the largest marketing company in the world by revenue, putting it ahead of U.S. rival Omnicom Group Inc.

"I am not running an auction," said Mr. Brydon. "With all this endless grinding and no serious offer I get to the conclusion that he wants to screw us up."

The suggestion WPP's bid is designed only to stop the TNS-GfK

merger is "dreamsville," Sir Martin said.

WPP's latest offer values TNS at £2.60 a share, and comprises £1.73 cash and 0.1889 WPP share for every TNS share. TNS shares closed up 8% at £2.43 in London on Thursday.

Some analysts previously said WPP should pay £3 for TNS, but falling share prices in recent weeks have reduced the value of most advertising companies. Gareth Thomas, an analyst at broker Collins Stewart, wrote in a note Thursday that the WPP offer "represents an excellent deal for TNS shareholders."

With financing in place, Sir Martin appears to be preparing to make a bid directly to shareholders at or slightly above his latest offer by Wednesday morning, the bid deadline set by the U.K. Takeover Panel. During a lunch at the London offices of Merrill Lynch & Co. Thursday, Sir Martin indicated he would launch a hostile bid if TNS didn't cooperate, one shareholder present said. A WPP spokesman said a hostile bid is an option.

Still, there is no guarantee a further bid will be made. "We can walk away," Sir Martin said.

TNS has agreed to a nil-premium stock merger with the Nuremberg-based GfK, arguing the two companies can achieve large cost savings by combining. TNS shareholders are scheduled to vote on the deal July 18.

Paulson sees cloudy skies

U.S. Treasury chief ends European tour citing inflation risks

BY LAURENCE NORMAN

LONDON—U.S. Treasury Secretary Henry Paulson ended a four-day European visit with a warning that the near-term economic outlook remains difficult and the global inflation threat is serious.

Days ahead of the Group of Eight leaders' summit in Japan, Mr. Paulson, after a meeting with British Chancellor of the Exchequer Alistair Darling, said high oil prices represent a "strong headwind" for the U.S. economy and are likely to prolong its slowdown. Mr. Paulson's trip also included visits to Russia and Germany.

On Thursday, the front-month crude-oil contract ended at a record \$145.29 a barrel, up \$1.72, on the New York Mercantile Exchange.

The Treasury secretary said the U.S. is facing a "tough" period, with the credit crunch and the housing market's woes also weighing on the economy. The U.S. economy grew at an annual rate of just 1% in the first quarter, and some economists say there is a risk of recession. The U.K. and euro-zone economies also are showing increasing signs of strain.

On Thursday, Markit Economics said the euro zone's Purchasing Man-



Associated Press

U.S. Treasury Secretary Henry Paulson, right, with U.K. counterpart Alistair Darling, said the U.S. economy would most likely be stronger at the end of the year.

agers Index for the services sector contracted in June for the first time in five years. The U.K. services PMI showed a larger-than-expected drop in June, and data earlier this week showed house prices fell sharply.

Mr. Darling insisted the U.K. will avoid a recession, although he acknowledged "the rate of growth will be slower" this year. He also warned that "it's of the utmost importance that we do not allow inflation to become entrenched in the U.K. again."

U.K. inflation, as measured by the consumer-price index, hit an annual rate of 3.3% in May, the highest rate since 1992.

In an interview Thursday with the

British Broadcasting Corp., Mr. Paulson said that while core inflation remained contained in the U.S., inflation had become a "huge problem" globally, especially in emerging economies like Russia and China.

In an effort to combat surging prices, the European Central Bank on Thursday raised its benchmark refinancing rate to 4.25% from 4%.

Mr. Paulson also called for an expansion of regulatory powers to ensure the failure of a nonbank financial institution doesn't threaten the whole financial system.

—Adam Bradbery and Tom Barkley contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Endeavour Capital LLP is a London hedge-fund manager, not Endeavor Capital as the firm's name was misspelled in a Money & Investing page headline on Thursday.

Construction spending in April in the U.S. was initially estimated by the government at \$1.12 trillion at an annual rate. In some June 3 editions, an Economy & Politics page article incorrectly said the initial estimate was \$1.12 billion.

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.

Abbott Laboratories6	Chery Automobile8	General Motors8,18	Kekst8	Norilsk Nickel21	Société Générale18
Advanced Micro Devices7	Chevron3	GfK2	Kohlberg Kravis Roberts8,17,18	Nvidia7,18	Sony27
Aer Lingus4	China Petroleum & Chemical22	Ghana Telecom6	Lehman Brothers Holdings8,18,20	Oce18	Southwest Airlines5
Air Baltic4	China Shenhua Energy22	GlaxoSmithKline8	L.M. Ericsson27	Omnicom Group2	Tata Steel21
Air Berlin4	Chrysler8	GLG Partners26	Lufthansa17	OMX6	Taylor Nelson Sofres2
Air France-KLM18	Citigroup18	Goldman Sachs Group18	Mahindra & Mahindra8	PetroChina22	TeliaSonera6
Air France17	Coca-Cola18	Google4,8	Great Wall Motor8	Platform Solutions6	Telkom6
American Airlines17,18	Continental Airlines5	HBOS26	Heineken6	PNC18	Time Warner4
Anheuser-Busch6,8	Daewoo Motor Sales8	IBM6	Iberia17,18	Publicis Groupe8	Toyota Motor8
AP Fastigheter6	Daimler5	ICICI Bank21	Industrial & Commercial Bank of China22	Reliance Communications6	UBS18,19
ArcelorMittal10,18	DLF21	InBev6	Interros21	Rio Tinto8	United Airlines17
Areva10	Dollar Thrifty Automotive Group7	Johnson & Johnson6	J.P. Morgan Chase17,18,20	Royal Bank of Scotland18	United Technologies5
Arriva8	Enterprise Rent-A-Car7	Jabre Capital Partners26	JFE Holdings21	Rusal21	Viacom8
AstraZeneca8,18	European Aeronautic Defence & Space5	Nippon Steel21	Johnson & Johnson6	Ryanair Holdings4	Vin & Spirit6
Austrian Airlines18	Everbright Securities22	Nordea6	Johnson & Johnson6	SABMiller6	Vodafone Group6
Avis Budget Group7	Exxon Mobil3	Norilsk Nickel21	Johnson & Johnson6	SBAB6	Walter Engines5
Bank of America18	Fannie Mae21	Norilsk Nickel21	Johnson & Johnson6	Seat24 Travel4	Washington Mutual18
Bank of China22	France Télécom6	Norilsk Nickel21	Johnson & Johnson6	Shenzhen Development Bank22	Weather Investments6
BHP Billiton8	Freddie Mac21	Norilsk Nickel21	Johnson & Johnson6	Shenzhen Development Bank22	Wells Fargo18
Blackstone Group17,18	Gazprom1	Norilsk Nickel21	Johnson & Johnson6	Shenzhen Development Bank22	WPP Group2
BNP Paribas18	General Electric5	Norilsk Nickel21	Johnson & Johnson6	Shenzhen Development Bank22	Yahoo4
Boston Scientific6		Norilsk Nickel21	Johnson & Johnson6	Shenzhen Development Bank22	
BP3,8		Norilsk Nickel21	Johnson & Johnson6	Shenzhen Development Bank22	
Bradford & Bingley26		Norilsk Nickel21	Johnson & Johnson6	Shenzhen Development Bank22	
British Airways17,18		Norilsk Nickel21	Johnson & Johnson6	Shenzhen Development Bank22	
Brussels Airlines4		Norilsk Nickel21	Johnson & Johnson6	Shenzhen Development Bank22	

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

Abramovich, Roman 9	Frantzen, Claude 5	Liu Xianjie 9	Roth, Steven 20
Armitage, Richard 10	Fuld, Richard 8	Lu, Harry 9	Scott, Larry 27
Batchelder, Harry C. 17	Fuller, Chet 5	Martin, David 8	Shao, Jude 10
Beguiristain, Xavier 8	Gao Lingzhi 22	McCann, Bob 8	Shapiro, John 21
Benassi, Paolo W5	Gates, Robert 10	McConnell, Mike 10	Shiller, Robert 10
Black, Ed 6	Getzug, Steve 4	McDonough, Denis 10	Song Ming 9
Block, Frederic 17	Goenka, Pawan 8	McKenzie, Frank 10	Sorrell, Martin 2
Brand, Jason 8	Greenhields, Simon 21	Merrilees, Craig 4	Swagel, Phillip 10
Brennan, Sage 22	Hayward, Tony 3	Miller, Alexei 1	Tannin, Matthew 17
Bryce, Colin 21	Herubel, Jacques 5	Mittal, Aditya 10	Taylor, John 5
Brydon, Donald 2	Hogan, Art 18	Mullen, Mike 10	Thomas, Gareth 2
Busch IV, August 8	Horsnell, Paul 3	Naimi, Ali 3	Tillerson, Rex 3
Capek, John 6	Hung, Antony 8	Nelson, Ronald L. 7	Tobin, Jim 6
Chan, Sherman 22	Hussain, Nayyer W5	Nuttall, Scott 17,18	Trichet, Jean-Claude 18
Chandan, Sam 20	Icahn, Carl 4	Page, David 3	Usmanov, Alisher 21
Cioffi, Ralph 17	Jen-Hsun Huang 7	Paulson, Henry 10	Watson, John 3
Cocchi, Gino W5	Kekst, Gershon 8	Paxton, Gary L. 7	Winsth, Annika 6
Dalmasso, Thierry 5	Khelil, Chakib 3	Perrier, Henri 5	Wise, Rick 6
Eskell, Melinda 6	Kopelman, Elisabeth 6	Pizsel, Anthony 21	Wood, Steven 3
Feith, Douglas J. 13	Kravis, Henry 17,18	Podgor, Ellen 17	Wu Yonggang 22
Fisher, Todd 17,18	Kurer, Peter 19	Qu Jun 9	Yang, Jerry 4
Flournoy, Michele 10	Lauvergeon, Anne 10	Riguardi, Peter 20	Zelin, Randy Scott 17
Ford, Stanley 5	Levy, Maurice 8	Roberts, George 17,18	Zetsche, Dieter 5
			Zhang Yang 22

THE FUTURE LEADERSHIP INSTITUTE / THE WALL STREET JOURNAL

BioSpain Investment Forum

Biotechnology businesses meet Europe's leading biotech investors

17 - 19 September
Granada, Spain

www.e-unlimited.com

Contact: gert.vanmol@dowjones.com

The Wall Street Journal Europe is read every day by 27,000 students at 180 top business schools and university campuses across Europe, a program supported by:

Banking & Finance

FREE daily access to WSJ.com

If you bought today's paper from a retail outlet, simply register at: wsj.com/reg/coupon or renew at: wsj.com

Today's code is: **EUROPE-N-468**

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 telephone: 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 Teletampa Centro Italia s.r.l. Printed in Spain by Belmont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basinevi.

Registered as a newspaper at the Post Office.
Trademarks appearing herein are used under license from Dow Jones & Co.
© 2008 Dow Jones & Company All rights reserved.
Editeur responsable: Daniel Hertzberg M-17936-2003

LEADING THE NEWS

OPEC, oil firms blame each other for prices

Continued from first page
two sides jostled over the cause of crude's rally and what to do to bring prices down.

OPEC officials rejected the argument that tight supplies are driving up crude, instead blaming geopolitical tensions and financial investors who have plowed billions of dollars into commodities as a hedge against inflation and a weak dollar. Saudi Arabia's oil minister, Ali Naimi, said the world's biggest oil exporter had no plans to boost output for now, because "all our buyers are satisfied and happy."

Western oil-company executives acknowledged oil wasn't currently in short supply, but might be in the future. "Most of the price increases we are seeing are related to fundamental concerns about the outlook for physical supplies in the long term," said John Watson, vice president of Chevron Corp.

The one thing the delegates in Madrid agreed on was that economic growth was powering the price surge, as millions escaping poverty in India and China bought cars and consumed more energy. But some speakers implied OPEC hadn't done enough to meet that mushrooming demand.

"2007 was the fifth year in a row that the global demand for energy was above average," Tony Hayward, chief executive of British oil major BP PLC, said earlier this week. "Yet OPEC production fell by 350,000 barrels of oil a day."

OPEC President Chakib Khelil said the cartel would boost capacity by four million barrels a day by 2012 with \$210 billion of investments in oil production and refining. Yet Exxon Mobil Corp. said that it alone was planning to invest nearly 60% of that figure—\$125 billion—in the same period.

Oil-company executives say the solution for tight global markets was for producing countries to remove barriers to investment. Currently large parts of the Middle East are off limits to the majors, who have also suffered at the hands of increasingly nationalistic governments in places such as Kazakhstan and Venezuela.

BP's Mr. Hayward said the obstacles to more supply were political rather than geological. "The problems in bringing on new production are not really below ground," he said. "They are above it." Similarly, Exxon's chief executive, Rex Tillerson, said "resource nationalism"



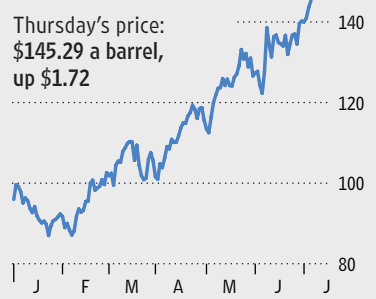
was slowing the spread of economic progress.

Mr. Khelil shot back, saying the U.S. could play its part by opening areas offshore of Alaska or Florida to oil exploration.

The rhetoric in Madrid dismayed some observers. "Verbal assaults on host-country governments are [un]likely to be a productive way to proceed," said Paul Horsnell, an ana-

Surging oil price

Daily settlement price on the continuous front-month contract on Nymex



Source: Thomson Reuters via WSJ Market Data Group

Traders work the crude-oil options pit at the New York Mercantile Exchange

lyst at Barclays Capital, in a research note.

He said some majors were distinguishing themselves by investing in new technologies, while others were sticking to tried and tested strategies. "It is perhaps time for the hold-outs among the major international oil companies to open their eyes and to check again if the future really is business-as-usual," he said.

Betancourt rescue is blow to rebel-diplomacy camp

Continued from first page
church where her father's remains are buried. Her father died while she was a hostage, causing her pain which, she said, she felt every day of her captivity.

Emotional scenes were repeated throughout Bogotá as the freed hostages were reunited with their families. Many of the hostages were Colombian police and military officials who had spent nearly a decade in the hands of the FARC, Latin America's oldest and largest guerrilla group.

Army Sergeant Erasmo Romero, seized by the FARC in 1998 and freed Wednesday, had never met his nine-year-old son. Sgt. Romero's wife was pregnant when he was kidnapped. His father died while he was in custody, and Sgt. Romero said that one of his first acts as a free man would be to pay respects at his father's grave.

The FARC still hold nearly 700 hostages in Colombia's jungles, the vast majority of whom are held for ransom. Until this week, at least 22

of those weren't held for ransom but rather as political bargaining chips to get the Colombian government to halt a military offensive against the rebels in recent years that has weakened them badly, driving them into remote jungles.

Ms. Betancourt is a dual French-Colombian national. Since her abduction, France has tried to negotiate her release either directly with the FARC or through the support of Latin American governments, particularly that of Mr. Chávez in Venezuela.

France also urged Colombia to refrain from attempting to release Ms. Betancourt through a military operation for fear the FARC would execute her.

Earlier this year, that approach seemed to gain the upper hand when the FARC released a handful of hostages.

But things changed dramatically March 1, when the Colombian military killed the FARC's No.2 man, Raul Reyes, in a bombing raid on his camp just across the border in Ecuador. Laptop computers that be-

longed to Mr. Reyes showed that Mr. Chávez and the FARC were using the negotiation process to try to gain the international legitimacy for the rebels' and force Mr. Uribe to call off his military offensive—winning the rebels valuable breathing room.

Emails in the laptops revealed that FARC had no intention of releasing Ms. Betancourt, calling her their most valuable negotiating card.

Thursday, Mr. Chávez congratulated Mr. Uribe on the mission and reiterated calls he had made in recent months, urging the rebels to lay down their arms.

In France and across Europe, meanwhile, people celebrated Ms. Betancourt's release. Photos of the former hostage that had been hanging outside buildings were plastered by stickers with the word "Libre," or Free. A group of Italian politicians said they planned to lobby for Ms. Betancourt's candidacy for the Nobel Peace Prize.

Mr. Sarkozy planned to welcome Ms. Betancourt, along with members of support groups that had mo-

bilized for her release, at the Elysée presidential palace soon after the former hostage's return to Paris on Friday afternoon, a spokesman for the president said.

Yet as video of the jubilant Ms. Betancourt filled television newscasts and talk shows across the country, many said Colombia's successful military operation was a blow to attempts at diplomacy by France and others.

"I have to recognize that the strong hand has prevailed," said human-rights activist Robert Ménard, founder and secretary general of Reporters Without Borders. "Our insistence on the need to negotiate with the FARC, hoping they would release their most valuable card, was foolish."

A French official defended the French president's actions. "Mr. Sarkozy deployed tremendous energy, contacting all heads of states" in the region, said French Industry Minister and government spokesman Luc Chatel. "It helped accelerate the process" of her release.

Ms. Betancourt herself expressed strong gratitude to France and its president. "I want to tell President Sarkozy—and through him all the French people—that they were our support, our light," she said in an interview with the Colombian television station RCN early Thursday. "If I'm alive today, it's because of them."

Mr. Menard and others said massive popular mobilization in France had been useful because it helped keep the hostage issue on top of politicians' agendas, both in France and Colombia.

Yet, he said that human-rights associations may have failed to draw a clear distinction between the FARC guerrilla who "lives off kidnapping and drug trafficking" and the Colombian government, "which is elected and immensely popular."

Upon her release, Ms. Betancourt herself gave a resounding endorsement of Mr. Uribe's government and the military. "I ask Colombians to believe in this army of ours—to believe that it will lead us to peace."

ECB raises rate, quashes talk of more moves

Continued from first page
rate to a 12-year high of 4.5% from 4.25% Thursday and said further increases are likely this year. Indonesia's central bank boosted its main rate by a quarter percentage point to 8.75%.

Euro-zone inflation hit 4% in the year to June, a level Mr. Trichet called "worrying." Oil and food prices are likely to push the rate—which is at its highest since official records began to be kept in January 1997, and double the ECB's preferred range of just below 2%—higher in coming months.

Consumer-inflation expectations are at their highest since December 2001, and many market measures of inflation expectations have also risen sharply. While a single interest-rate increase is unlikely to damp mounting global inflation pressures, it could bol-

ster the ECB's inflation-fighting credentials and bring down longer-term euro-zone inflation expectations.

"The fact that they're willing to sacrifice euro-zone growth in service of achieving their inflation goals shows they're serious," says David Page, an economist with Investec Securities in London, who believes a sharp slowdown will nonetheless force the ECB to cut its key rate to 3.75% by the middle of next year.

Although Mr. Trichet reiterated his faith that the euro zone possesses "sound" economic fundamentals, he suggested that both second- and third-quarter growth would not be "flattering," reflecting the darker turn recent data and surveys have taken.

Service-sector activity, which accounts for about three-quarters of the bloc's economy, contracted by more than expected in June, accord-

ing to the Purchasing Managers Index released Thursday by research firm Markit Economics. Some analysts said the results show France, Spain and Italy flirting with recession.

Euro-zone retail sales rebounded in May compared with April, statistics agency Eurostat said Thursday. But economists cautioned that the 1.2% monthly rise is likely temporary and suggested the trend is downward, noting combined sales volumes for May and April remain below the first-quarter average.

Britain's dominant service sector also contracted sharply in June, stoking fears that the British economy, which is outside the euro zone, could also slip into recession.

—Sudeep Reddy in Washington, Joel Sherwood in Stockholm, and Emma Charlton in London contributed to this article.

U.S. payrolls post decline again for June

BY JEFF BATER

U.S. payrolls shrank for a sixth month in a row in June as businesses struggling with rising costs and a weak economy shed more jobs.

Nonfarm payrolls fell by 62,000 last month, the Labor Department said Thursday. Since the beginning of the year, the economy has lost 438,000 jobs, or an average of 73,000 a month. The payroll declines reflect an economy beset by a housing slump and credit crunch. Consumer spending has weakened, hurting companies' revenues, while rising costs, especially for energy, have pressured profit margins.

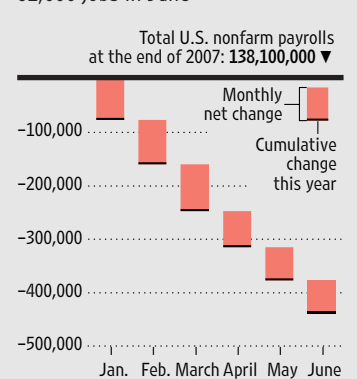
"The economy has clearly slipped into a mild jobs recession because the housing meltdown and credit-market turmoil have spread to the broader economy," Insight Economics analyst Steven Wood said. "Persistent job losses will eventually pull the overall economy into recession."

The unemployment rate held steady at 5.5% in June. Average hourly earnings increased six cents to \$18.01. That was up 3.4% from a year earlier. Meanwhile, a separate report Thursday showed that U.S. nonmanufacturing companies faced surging prices and an unexpected pullback in activity in June.

The Institute for Supply Management said that its overall index

Six straight losses

U.S. payrolls shrank by another 62,000 jobs in June



Source: U.S. Labor Department

for activity in the nonmanufacturing sector hit 48.2 in June, from 51.7 in May and 52 in April. The index had been expected to come in at 51. Levels below 50 indicate activity is shrinking.

In the wake of the jobs report, Sen. John McCain of Arizona, the expected Republican presidential nominee, called for tax relief and policies to put people to work. "From rising gas prices to home foreclosures, families are struggling to meet economic challenges that become greater every day," the senator said in a statement.

Sen. Barack Obama of Illinois, the expected Democratic presidential candidate, called for energy rebates for working families, and additional help for families facing foreclosures. "We need action now," he said.

Among industries losing jobs last month, construction was down by 43,000. Professional and business services lost 51,000 jobs. Manufacturing shed 33,000. Financial-activities jobs fell by 10,000. Health-care employment grew by 15,000 jobs.

—Michael S. Derby contributed to this article.

CORPORATE NEWS

CASINOS

Las Vegas Sands seeks loans for Macau project



LAS VEGAS Sands Corp., the hotel and gaming company run by casino billionaire Sheldon Adelson, is seeking to raise \$7 billion in loans for its Macau project, people familiar with the situation said.

The fund-raising for the Venetian Resort & Casino in Macau comes at a time when investors are seeking high risk premiums and banks are wary of making major loans. Coordinators for the loans are Citigroup Inc., Lehman Brothers Holdings Inc. and Goldman Sachs Group Inc., they said.

Another person said that while the fund-raising goal was "fluid" and could be lower if based on the extent of demand.

—Nisha Gopalan

PHARMACEUTICALS

Shire to buy Jerini, boost portfolio of genetic drugs



SHIRE LTD. said it is acquiring German biotechnology company Jerini AG for €328 million (\$521 million), in a move that will boost its portfolio of drugs for rare genetic diseases.

The acquisition will bring in Firazyr, an experimental drug that treats acute attacks of hereditary angioedema, a genetic disease characterized by recurring swelling in the hands, feet, face, larynx and abdomen. The European launch of Firazyr is expected later this year.

Shire, based in Basingstoke, England, said it expects the purchase, funded out of existing cash resources, to boost its earnings by the second half of 2010.

—Elena Berton

TOURISM

Airlines, travel operators face EU, Danish ad probe



EUROPEAN UNION and Danish officials named seven online travel operators and airlines in a continuing crackdown against misleading ads and consumer-price schemes.

Online travel sites run in Denmark by Ryanair Holdings PLC, Air Berlin PLC, Air Baltic Corp., SkyEurope Holding AG, Aer Lingus PLC, Brussels Airlines and Seat24 Travel AB were singled out for violating consumer law.

A spokeswoman for EU Consumer Affairs Commissioner Meglena Kuneva said that Seat24 pledged to bring its Web site in line with EU rules by August but that Ryanair and Air Berlin had disagreed with the Danish conclusions.

—Associated Press

Yahoo pursues talks with possible partners

Discussions resume with Time Warner; will Microsoft act?

BY JESSICA E. VASCCELLARO AND MERISSA MARR

AS MICROSOFT CORP. explores the possibility of making another move for Yahoo Inc., the Internet company continues to flirt with other potential partners.

Yahoo has picked up discussions with Time Warner Inc. over a combination, say people familiar with the situation. The renewed talks come after a lull following Microsoft's withdrawal in May of its \$47.5 billion offer to buy Yahoo. Still, the talks aren't as serious as they were in April, when a combination valued Time Warner's AOL unit at about \$10 billion. Yahoo's stock has since declined sharply.

The two companies are talking about a structure they began discussing several months ago—an arrangement whereby Time Warner would fold AOL into Yahoo and take a minority stake in the combined venture.

News Corp. also has been hover-



Yahoo CEO **Jerry Yang** has been pitching turnaround plans.

ing around the Yahoo camp. However, that has been more an effort to monitor the situation than any real discussion about a potential deal, according to people familiar with the situation. News Corp. owns Dow Jones & Co., publisher of The Wall Street Journal.

Yahoo's moves show that two months after Microsoft withdrew its

offer, the company faces intense pressure to boost shareholder returns. Striking a search-advertising pact with Google Inc. hasn't allayed shareholder concerns about Yahoo's ability to thrive independently. The company is weeks away from an Aug. 1 shareholder meeting at which investor Carl Icahn is attempting to replace its directors. The talks between Yahoo and other potential partners are part of the company's broader attempt to prove it is willing to ponder dramatic changes to get business back on track.

The company's shares were up 51 cents at \$21.39 late Thursday morning, well below their high of almost \$30 a share after Microsoft's bid was first announced. Yahoo Chief Executive Jerry Yang and other Yahoo executives have this week been pitching their plans for a turnaround to shareholders, who are pressing the company to reconsider its unwillingness to sell its search business.

In meetings, Mr. Yang has continued to defend his view that the company can't build a new cutting-edge online advertising system without retaining the search business, shareholders say. Yahoo shareholders also continue to pressure Microsoft to

sweeten its offer to acquire Yahoo's search business.

Microsoft is pondering crafting another Yahoo deal, partly in response to Yahoo's talks with other possible partners, people familiar with the situation say. Microsoft has spoken to News Corp. about possibly joining forces on some form of a Yahoo deal.

Under one scenario, Microsoft would take Yahoo's search business and News Corp. would fold its MySpace social-networking business into the rest of Yahoo, according to one person familiar with the situation. A big challenge of such a structure is that Yahoo may face a big tax hit from selling its search business and would need to secure a majority stake in any combination, say people familiar with the situation.

Microsoft and News Corp. have had only a preliminary discussion, say people familiar with the situation. Microsoft Chief Executive Steve Ballmer also called Time Warner Chief Executive Jeff Bewkes about joining that effort, although that hasn't led to a detailed discussion.

Time Warner has separately continued to talk to Microsoft about possible AOL options, according to people familiar with the situation, as Mi-

crosoft seeks ways to gain scale with or without Yahoo.

The talks return all four companies to a familiar dance of trying to fit together pieces of four big businesses to better ally themselves against overall online-advertising leader Google. Many of the combinations being considered have been discussed—and dismissed—before, often due to disagreements on price.

Yahoo has the scale that could help fix some of its rivals' problems but is in need of some help of its own. Its share of the lucrative search advertising market continues to fall, and many of its new initiatives, including a new tool for more easily buying display advertising online, remain in a very early stage. But any deal with AOL or News Corp. would likely be tougher for Yahoo to pull off than a sale to Microsoft, as Yahoo shareholders are likely to prefer a cash deal to a complicated asset swap.

Yahoo and Google face Justice Department scrutiny over their agreement to allow Yahoo to run some search advertisements sold by Google on its own sites in exchange for some of the revenue.

—John R. Wilke and Shira Ovide contributed to this article.

Slowdown looms over U.S. ports

BY ALEX ROTH

Port operators on the U.S. West Coast are concerned after dockworkers refused to extend a six-year labor contract even temporarily, a tactic the port operators fear could lead to staged work slowdowns that would disrupt service.

Negotiations continued this week between the Pacific Maritime Association, which represents the port operators, cargo carriers and stevedores, and the International Longshore and Warehouse Union to try to reach an agreement on a new contract covering 26,000 employees who work at 29 ports in California, Oregon and Washington. The union's most recent contract expired Tuesday after months of negotiations.

The two sides are divided over safety, productivity and other is-

issues. They say negotiations are more amicable than in 2002, when similar talks devolved into bitter recriminations that led to a 10-day lockout, snarling supply chains across the country and costing the U.S. economy billions of dollars.

Still, port operators were alarmed that the dockworkers didn't agree to extend their contract until a new agreement can be reached. Such a tactic suggests to the port operators that the dockworkers might be planning staged slowdowns similar to ones they employed in 2002, which resulted "in some cases in double-digit productivity losses," Steve Getzug, a PMA spokesman, said.

Had the current contract been extended, the ports would have had a mechanism for disciplining such conduct, Mr. Getzug said. "What we had hoped is that the union would

have stepped up and made a stronger statement to shippers and the public that there would be no disruptions at the ports," he said.

A union spokesman denied that workers are planning slowdowns. Craig Merrilees said the union's contract extension was "discretionary" and that the union simply exercised its choice not to extend.

"I think management would be better served by solving problems at the bargaining table" rather than engaging in "theories and fantasies about what might happen," Mr. Merrilees said.

West Coast ports handle more than one million tons of cargo a day, including clothing, electronics and furniture. In 2007, the two largest U.S. ports by volume, in Los Angeles and Long Beach, Calif., handled more than a third of all containers



Contract talks continued Wednesday for 26,000 dockworkers at 29 ports in California, Oregon and Washington. Above, the port of Los Angeles came to a standstill in May when dockworkers took time off to call for an end to the war in Iraq.

at U.S. ports, according to the Department of Transportation Maritime Administration.

Mr. Merrilees said despite the two sides' differences, talks are go-

ing smoothly. "I think both sides can see through enough of the fog to recognize the outlines of an agreement, but there's still a lot of work left to do," he said.

CORPORATE NEWS

GE takes on engine rival

Goal is to build up small Czech firm to challenge Pratt

BY J. LYNN LUNSFORD

General Electric Co. plans to turn a tiny airplane-engine company in the Czech Republic into a competitor against archrival Pratt & Whitney, the leading maker of turboprop engines for commuter airlines, corporate aviation and private aircraft owners.

GE's aviation unit this week completed the acquisition of Walter Engines, which has earned a reputation during its 85-year history for building rugged propeller engines used heavily in Eastern Europe and niche markets such as agricultural and cargo planes.

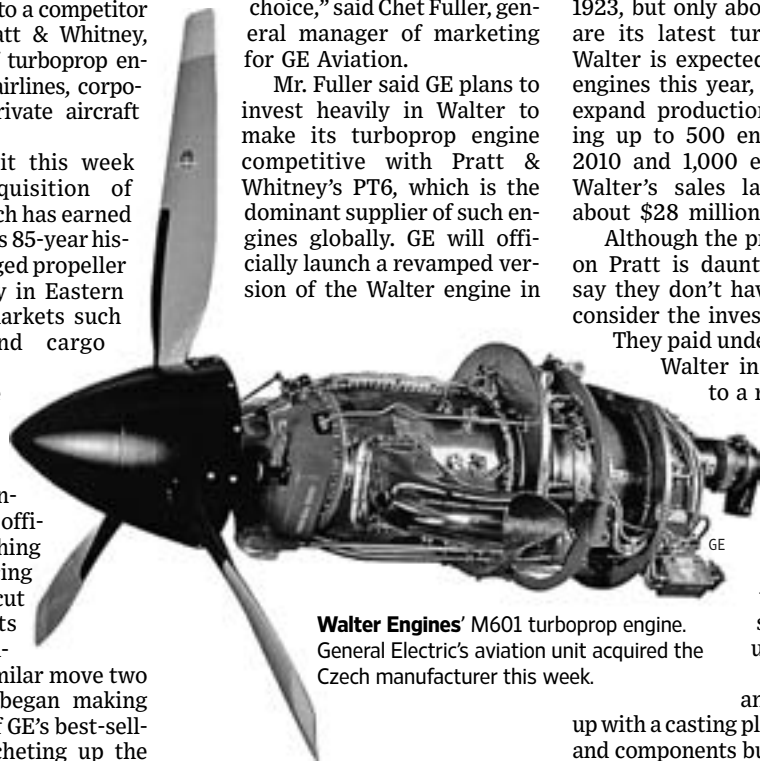
Although the small-engine business will fill an important hole at the low end of GE's jet-engine product line, GE officials are also relishing the prospect of forcing Pratt & Whitney to cut prices on one of its most lucrative products. Pratt made a similar move two years ago when it began making spare parts for one of GE's best-selling jet engines, ratcheting up the companies' longstanding rivalry.

Because of its large market share—roughly 15,000 of the 20,000 turboprop engines in the

general aviation market are made by Pratt—the company has been able to command a premium, particularly for spare parts and service. Pratt & Whitney, a unit of United Technologies Corp., doesn't release specific numbers for its small-engine division, but it accounted for just under a third of the unit's \$12.1 billion in revenue last year.

"We think the world deserves a choice," said Chet Fuller, general manager of marketing for GE Aviation.

Mr. Fuller said GE plans to invest heavily in Walter to make its turboprop engine competitive with Pratt & Whitney's PT6, which is the dominant supplier of such engines globally. GE will officially launch a revamped version of the Walter engine in



Walter Engines' M601 turboprop engine. General Electric's aviation unit acquired the Czech manufacturer this week.

late July. "Our plan is to take the advanced metals and designs that we use in our larger jet engines and adapt them into this already rugged

little engine," he said.

A spokeswoman for Pratt, which delivered almost 3,000 small airplane engines last year, said the company will "obviously take any competition seriously," but she noted that Pratt "has a 45-year head start," having produced more than 35,000 PT6 engines.

By comparison, Walter has produced roughly 37,000 engines since 1923, but only about 1,600 of them are its latest turboprop version. Walter is expected to produce 120 engines this year, but GE hopes to expand production rapidly, ramping up to 500 engines a year by 2010 and 1,000 engines by 2012. Walter's sales last year totaled about \$28 million.

Although the prospect of taking on Pratt is daunting, GE officials say they don't have to be No. 1 to consider the investment a success.

They paid under \$70 million for Walter in what amounted to a real-estate transaction involving the engine company's prime location in central Prague. The previous owners want to develop the site into something more upscale.

For that amount, GE ended up with a casting plant, a spare-parts and components business and an already certified engine. On its own, a new turboprop engine would cost roughly \$350 million to develop, GE says.

Continental to stand trial over Concorde accident

ASSOCIATED PRESS

PARIS—A French judge ordered Continental Airlines Inc. and five people to stand trial for manslaughter in connection with the 2000 crash of a Concorde jet that killed 113 people, a prosecutor said.

French investigators have long said that the crash was caused in part by a titanium strip from a Continental Airlines DC-10 that was lying on the runway when the supersonic jet took off. But the judge's order follows eight years of efforts to try to pin down who exactly could be tried in court.

Two of those being tried are employees of the U.S. carrier, said a statement from the office of Marie-Therese de Givry, prosecutor in the Paris suburb of Pontoise. Two others were employed by Aérospatiale, the maker of Concorde and a precursor of Airbus parent company European Aeronautic Defence & Space Co. The fifth is an employee of the French civilian aviation authority.

The Air France Concorde crashed shortly after takeoff from Paris's Charles de Gaulle airport in July 2000, killing all 109 people on board—mostly German tourists—and four on the ground when it slammed into a hotel.

French investigators said a metal strip from the Continental plane caused one of the Concorde's tires to burst, which sent debris flying that punctured the jet's fuel tanks. The French judicial inquiry also determined the tanks lacked sufficient protection from shock—and that Concorde's makers had been aware of the problem since 1979.

The tragedy forced modifications to the aircraft before it was taken out of service in 2003. The

flight, which was headed to New York, was the only fatal crash for the Concorde.

"These indictments are outrageous and completely unjustified," the airline said in a statement. "Continental remains firmly convinced that neither it nor its employees were the cause of the Concorde tragedy, and we will defend ourselves vigorously against these charges."

Thierry Dalmasso, lawyer for the former Aérospatiale employees, said the trial would likely take place in 2009. He said that the Concorde crash was impossible to predict based on past problems, and he said the court didn't listen to his clients' testimony arguing the case should be dropped. "No negligence could be proved," he said.

The prosecutor's office said Continental employee John Taylor had built and installed the metal strip "without respecting the instructions then in effect." Maintenance chief Stanley Ford must stand trial for validating the installation of the strip, the statement said.

Henri Perrier, ex-chief of the Concorde program; Jacques Herubel, a top Aérospatiale engineer; and Claude Frantzen, who handled the Concorde program for the French civil aviation authority, are accused of ignoring a host of problems, including "neglecting the risk of fires" on the supersonic jet, the prosecutor's statement said.

They also should have worked to reinforce a part of the aircraft that was vulnerable to projectiles, it said.

The case comes at a bad time for the aviation industry. Continental is cutting 3,000 jobs and grounding 67 jets to offset record fuel prices. Almost all American carriers have announced major cutbacks.

U.S. air-safety agency is assailed

BY CHRISTOPHER CONKEY

WASHINGTON—The Department of Transportation's inspector general said the Federal Aviation Administration is refusing to implement some measures designed to prevent serious lapses in airline oversight.

In a report released Wednesday, Inspector General Calvin Scovel singled out two recommendations made by his office: Establish an independent body to investigate safety concerns raised by agency employees, and periodically rotate inspectors to ensure they don't get too cozy with the airlines they regulate. He also said the FAA hasn't provided the national oversight needed to ensure that field offices consistently enforce safety standards.

The agency has moved to adopt several measures suggested by the inspector general, such as requiring a two-year "cooling-off period" for FAA inspectors who leave to work for an airline they used to regulate.

The FAA said it found the inspector general's report "extremely helpful" and welcomed his suggestions. "We at the FAA refuse to accept complacency on safety and were deeply troubled by events that surfaced following the Southwest Airlines revelations last winter," the agency said. It declined to comment on its differences with the inspector general.

The recommendations stem from a continuing probe into FAA lapses that allowed Southwest Airlines Co. last year to fly 46 Boeing 737s that were overdue for fuselage

inspections. The report found that some Southwest jets flew in violation of safety directives for as long as nine months, carrying six million passengers during the period.

The inspector general's office wants the FAA to create an independent body to examine safety issues aired by agency employees, because, the report said, internal mechanisms have failed to address such concerns or to shield employees from retaliation.

In the Southwest case, the agency was slow to respond to an

The FAA was cited for its refusal to implement some oversight measures.

inspector who raised concerns within the FAA about Southwest's compliance as early as 2003. The inspector was later removed from oversight duties for five months after an anonymous complaint was made against him, probably by a Southwest official, according to the report. A Southwest spokesperson said the airline forwarded an anonymous complaint about the inspector to the FAA but said she couldn't confirm the source of the complaint.

Meanwhile, the FAA manager who was complicit in the Southwest lapse was never completely removed from oversight duties, only transferred to another office, the report said.

In the wake of the Southwest case, many FAA whistle-blowers have come forward with safety concerns. The U.S. Office of Special Counsel is investigating at least 36 disclosures made by FAA employees this year.

In its response to the inspector general, the FAA laid out some of its objections to these recommendations. The agency said it has already set up a way to review employee complaints through a new complaint-tracking process known as the Safety Issues Reporting System. The program gives every complaint a tracking number and sends it to an internal review committee.

The inspector general and other critics have rejected this approach as insufficient, saying many employees feel they need to air their complaints outside the FAA to get them addressed.

"FAA's response is unacceptable," the inspector general's report read. "The actions taken do not demonstrate a commitment on FAA's part to address the root causes of the issues we identified."

The FAA opposes rotating inspectors, citing logistical challenges and cost. The main union representing FAA inspectors says it opposes rotating many inspectors but supports the concept of rotating supervisory ones. Congress has introduced legislation that would force the FAA to adopt the inspector general's recommendations. But that has stalled, along with broader legislation that would reauthorize the agency's programs and set aside funding to upgrade the nation's aging air-traffic-control technology.

Daimler sees car demand growing despite oil price

BY CHRISTOPH RAUWALD

Daimler AG Chief Executive Dieter Zetsche said global demand for cars is expected to rise further in coming years though the price for oil will remain high.

"There is good reason to assume that the 'second century of the automobile' has only just begun....The number of automobiles world-wide is currently growing five times faster than the world population," Mr. Zetsche said Thursday at a conference in Magdeburg, Germany.

"While it has taken more than 100 years to put 800 million vehicles on the roads, it will take less than 30 years to at least double that figure....In fact, by the year 2050, the number may almost triple," Mr. Zetsche said, adding that "emerging markets are growing dynamically and so is the demand for self-determined mobility."

However, Mr. Zetsche said he sees "pressure to reconcile the growing demand for mobility with an effective reduction of emissions" in times of skyrocketing fuel prices. "Oil is limited...there's no real expectation of it ever being cheap again," he said.

Mr. Zetsche said the biggest current risks to oil supply are related to politics, security and the cost of new oil projects, "not to mention that financial speculators appear to be turning oil futures into the 'dot-com' stocks of the new millennium." He said he expects excess or new oil reserves to be quickly absorbed by fast-growing countries such as India and China.

Environmental issues, such as reducing emissions of carbon dioxide, are a big concern for car makers, he said.

"The issue is not just CO₂ but other emissions as well...and at Daimler, we're not going to wait for new legislation...we're working to comply ahead of time. Daimler is leaving no stone unturned in meeting the challenge of reducing CO₂ and other emissions," Mr. Zetsche said. "Ultimately, we'll be driving zero-emission vehicles."

In the next two years, Daimler is investing almost €14 billion (\$22 billion) in research and development.

Mr. Zetsche said Daimler will start production of "the next-generation of fuel-cell drive systems" in a low-volume Mercedes-Benz B-Class series in 2010.



Dieter Zetsche

CORPORATE NEWS

Heineken set to keep shop

Brewer offers wares to reach young men, in marketing trend

BY AARON O. PATRICK

Dutch beer company Heineken NV is borrowing a marketing technique from Disney, Apple and Nike to reach an elusive audience: young men. On Saturday it plans to open a shop in central Amsterdam selling Heineken-branded clothing, music, concert tickets and, of course, beer.

The store isn't designed to make a profit—it is essentially a big beer ad. "Think about the number of TV commercials, but you only have one concept store," said Melinda Eskell, Heineken's global manager of brand communications.

With about 179 brands, including Amstel, Tiger and Murphy's, Heineken is the fourth-largest brewer by volume after InBev NV, Anheuser-Busch Cos. and SAB-Miller PLC. In Amsterdam it sells three of the most popular beers: Heineken, Amstel and Brand.

Heineken marketers got the



Heineken's new store in Amsterdam sells clothing, music and concert tickets.

idea for a shop after seeing how popular the Heineken museum, a former brewery in Amsterdam, is with young tourists. It draws some 500,000 visitors a year, a company spokeswoman said. Part of the attraction: several glasses of beer are included in the ticket price. (The museum is being renovated and will re-open next month).

So Heineken's Dutch unit decided to build a shop that would appeal to local customers, who are mostly men age 18 to 22, Ms. Eskell said. The shop will sell a new line of T-shirts, shoes, bags and a few skirts, all with the Heineken logo. The majority of the shoppers are expected to be Dutch, Ms. Eskell said.

The shop, at 31 Amstelstraat, near the city's Rembrandt Museum, will have a small music studio where customers can use synthesizers to create and record music. It will also sell tickets to concerts and sporting events that Heineken will sponsor, such as the Champions League European football competition.

Beer will also be on sale, chilled. But it isn't licensed to serve alcohol, so the beer can't be consumed in the shop.

In using a shop as a marketing tool, Heineken is following in the steps of companies like Apple, Nike, Disney and others who have opened stores to promote their products. "But I don't know of any beer brands that have a concept store like this one," Ms. Eskell said.

Heineken declined to discuss the cost of running the store, and Ms. Eskell said there are no plans to open similar shops elsewhere.

Abbott Labs coated stent gains approval from U.S.

BY SHIRLEY S. WANG

Abbott Laboratories received regulatory approval for its Xience V drug-coated stent, which is expected to be the top seller in the roughly \$2 billion U.S. market because it appears to be more effective than rival devices.

Stents are tiny mesh scaffolds used to prop open diseased arteries, and coated ones release a medication that prevents the passageways from becoming clogged by tissue buildup. Xience will compete primarily with Boston Scientific Corp.'s Taxus, which had \$1 billion in domestic sales last year, and Johnson & Johnson's Cypher, which brought in \$825 million in the U.S.

"It's the only approved stent that, from the beginning, the clinical trials were set up to show superiority to another market-leading stent," said Rick Wise, an analyst at health-care investment bank Leerink Swann.

The U.S. Food and Drug Administration's approval Wednesday also clears Boston Scientific to begin selling the Abbott-made stent under the name Promus, with Abbott receiving 40% of the revenue under a profit-sharing deal. Additionally, the approval triggers a \$250 million payment to Boston Scientific from Abbott, per an agreement linked to their 2006 joint purchase of Guidant Corp., which originally developed Xience.

As part of the approval, the FDA required Abbott to conduct a postmarketing study for five years—as it did when it approved Medtronic Inc.'s Endeavor stent earlier this year—to track the long-term safety of the device. The Abbott Park, Ill., company said it has identified the clinical centers that will carry out the study of 5,000 patients and is prepared to begin enrollment within days.

Abbott's marketing plan will emphasize that Xience evolved from the company's Vision stent, the top seller among bare-metal stents. Abbott believes doctors will find it helpful to offer patients a choice of identical stents with or without a drug coating, according to John Capek, executive vice president for medical products at Abbott. Some patients may not be suited to drug-eluting stents if they aren't willing to take the attendant ant clotting therapy.

"Vision becomes an important part of the marketing strategy," Dr. Capek said. "It gives Xience a launching pad in the U.S."

Boston Scientific, of Natick, Mass., said it intends to market both Promus and Taxus in an attempt to remain at the top of the niche. "Our basic approach is we want to be the leader in the coated-stent business, period," Boston Scientific Chief Executive Jim Tobin told analysts at a Goldman Sachs health-care conference last month.

—Jon Kamp
contributed to this article.

Vodafone sets deal for Ghana firm

BY CASSELL BRYAN-LOW

Vodafone Group PLC agreed to acquire a controlling stake in Ghana Telecom Co. for \$900 million, underscoring telecommunications companies' interest in Africa as one of the few remaining regions offering robust growth.

U.K.-based Vodafone, the world's largest cellphone-service provider by sales, said Thursday that it plans to acquire a 70% stake in the state-controlled operator from the government of Ghana, as expected. The government will retain a 30% stake.

About 35% of Ghana's population of roughly 24 million has a cellphone. Ghana Telecom operates the carrier under the brand Onetouch. It had about 1.4 million mobile customers as of the end of the first quarter and is the country's third-largest cellphone carrier in terms of market share behind MTN Group Ltd. and Millicom International Cellular SA. Ghana Telecom also sells fixed-line telephone service and has a virtual

monopoly in that market.

Vodafone will face stiff competition. Ghana has five mobile carriers and a sixth is to launch soon. That includes well-established pan-African companies like MTN that have significant experience operating on the continent and Onetouch has been losing share of new customers.

The U.K. firm said that Ghana Telecom plans to invest \$500 million over the next five years to expand the mobile network and Vodafone is targeting 25% mobile market share "over time." The Ghanaian government also agreed to transfer the country's fiber network assets to Ghana Telecom.

The transaction, which is pending approval from the Ghanaian Parliament, is expected to close this year.

The move extends Vodafone's African footprint, which includes a majority stake in Egyptian carrier Vodafone Egypt and a 40% stake of Safaricom in Kenya. Vodafone also owns half of South Africa's Vodacom; the rest is owned by Telkom SA. Vodafone has said it would be inter-

ested in increasing its stake in the joint venture.

Vodafone has spent billions of dollars in recent years pushing into fast-paced markets, including India, where it paid \$10.9 billion for a majority stake in Hutchison Essar Ltd., and has said it continues to look for deals in regions such as Asia and Africa.

Interest in African telecom operators has heated up as the continent continues to liberalize and the cost of mobile handsets declines. A group of private-equity firms recently agreed to buy a €1.1 billion (\$1.75 billion) stake in Weather Investments, which holds a controlling stake in Orascom Telecom Holding SAE, one of the biggest cellphone carriers across Africa and the Middle East. South Africa's MTN is in merger talks with India's Reliance Communications Ltd. And France Télécom SA is among those interested in Algeria's state-owned Algeria Telecom, which is expected to be privatized, though the timing has been delayed.

IBM to buy potential mainframe rival

BY WILLIAM M. BULKELEY

International Business Machines Corp. said it agreed to buy Platform Solutions Inc. in a deal that eliminates litigation and a potential competitor for its lucrative mainframe business.

IBM didn't disclose what it is paying for Platform, a venture-capital backed, Sunnyvale, Calif., company with about 30 employees and ambitious plans to sell powerful computers that run the same software that runs on IBM's Z-system mainframe computer.

The deal comes less than three months after European Union antitrust regulators said they would question IBM about its actions in

the mainframe market. The EU activity followed complaints by Platform Solutions. An IBM spokesman said the EU hasn't started a formal investigation. Platform dropped its complaint to the EU when IBM announced the acquisition, eliminating the EU's grounds for its inquiry.

The pre-existing complaint has "no bearing" on any merger examination, said Jonathan Todd, an EU spokesman. Under European regulations, companies have to seek antitrust clearance based on the amount of the parties' revenue in Europe.

The Computer & Communications Industry Association, a trade group that has long tangled with IBM over antitrust issues, said that "antitrust authorities should nevertheless re-

view this extinguishing of competition in the mainframe market."

IBM said Platform Solutions' revenues are too small to require review of the deal in either the U.S. or the EU. IBM said it will drop a 2006 lawsuit it filed against Platform in U.S. district court in White Plains, N.Y., alleging theft of trade secrets and copyright violations. It said Platform will drop a 2007 countersuit it filed against IBM.

Ed Black, president and chief executive of the trade group, said IBM's agreement to buy Platform "means it was scared about the case and wanted to get rid of the problem."

Platform wasn't immediately available for comment.

—Charles Forelle
contributed to this article.

Sweden sells property firm amid a privatization drive

BY GUSTAV SANDSTROM

STOCKHOLM—Sweden's government continued its privatization drive Thursday, selling Vasakronan to Swedish property company AP Fastigheter for 41.1 billion Swedish kronor (\$6.88 billion).

The sale of the wholly owned property company knocks another company off the government's shortlist of assets it is looking to sell in a 200-billion-kronor privatization drive that started in 2006.

Still to be sold are stakes in telecommunications company TeliaSonera AB, bank Nordea AB and mortgage company SBAB. The government has sold stock-exchange operator OMX AB and spirits company Vin & Sprit AB, the maker of Absolut vodka.

Sweden is selling the stakes in a bid to reduce state ownership in companies, cut debt and lower taxes. As with proceeds from other sales so far, the government said it will use the Vasakronan funds to pay off debt.

Most market-watchers say the sale of Vasakronan, which comes three days after France Télécom SA's takeover approach for TeliaSonera fell through, signals the government remains intent on keeping its privatization pace despite global financial-market turbulence.

"Considering the volatility of the property market and the amount of money the government has invested in this, it probably wanted to go ahead before prices fall further," said Nordea economist Annika Winsth.

Macroanalyst Elisabeth Kopelman at SEB said the sale is "clearly positive for the government" as Financial Markets Minister Mats Odell, who heads the privatization campaign, "is able to check off another company on his privatization list."

Ms. Kopelman said the 24.6-billion-kronor net gain from the deal is about five billion kronor lower than expected, but added it is still reasonable, as higher interest rates are pushing financing costs higher.

The government is TeliaSonera's largest shareholder with a 37.3% stake in the company, and holds 19.9% of Nordea. The other asset left to sell, SBAB, isn't nearly as big.

France Télécom's bid for TeliaSonera fell through Monday after the Nordic company said the offer, valuing it at \$42 billion, was too low.

Mr. Odell said he agreed and reiterated he is looking to sell the stake.

Personal Technology

Tips of the trade-in

Switching from Windows to Mac? Walter S. Mossberg can help > Page 27



ECONOMY & POLITICS

Avis downshifts forecast

Car-rental company issues profit warning amid high fuel costs

BY STEPHANIE CHEN

Avis Budget Group Inc., citing the chilling effect of high fuel prices on U.S. travel plans, issued a dire profit warning just as the peak car-rental season got under way.

The company said Wednesday that it expects its second-quarter and full-year results to fall short of year-earlier levels.

Avis, based in Parsippany, N.J., previously had projected growth for the year, but Wednesday said it expects pretax income of \$140 million. For last year, it reported pre-

tax profit of \$198 million and a net loss of \$916 million on revenue of \$6 billion.

The company didn't provide a specific estimate for the second quarter, but the quarter "turned out to be a significantly more challenging operating environment than expected," Avis Chief Executive Ronald L. Nelson said in a prepared statement.

Avis was the second rental-car company this week to scale back its expectations, joining Dollar Thrifty Automotive Group Inc., which manages the Dollar Rent A Car and Thrifty Car Rental brands. The two warnings come as rising fuel prices are discouraging business and leisure air travel and long driving trips. Fewer people are flying and renting cars at airports, and those who are renting cars are taking shorter trips,

travel experts say. In addition, many families are embracing "staycations" this summer, staying at home or traveling only locally.

This fall, several airlines plan to make additional cuts in their capacity, which is likely to further damp demand for rental cars.

In its warning Tuesday, Dollar Thrifty, which had forecast 2008 earnings of \$1 to \$1.50 a share, didn't offer a new forecast. But Chief Executive Gary L. Paxton said the company, based in Tulsa, Okla., expects to be profitable. About 90% of Dollar Thrifty's customers rent cars at airports, and it depends heavily on rentals in big vacation states like California, Florida and Texas.

One potential bright spot for Avis and Dollar Thrifty: Demand for rental cars this summer still could outpace supply, supporting higher

Slowing traffic

The 52-week share performance for three major U.S. car-rental companies.



Source: WSJ Market Data Group

Budget

Car and Truck Rental

Getty Images

rates for the companies. Dollar Thrifty, meanwhile, is considering adding more fuel-efficient cars to its fleet in the fall, and may also reduce the number of cars it has at airports, a company spokesman said.

The picture isn't equally dim for every rental-car company. Enterprise Rent-A-Car Co., which owns the National Car Rental and Alamo

Rent A Car brands, hasn't experienced a dropoff in rentals, a spokesman said. Most of the privately held company's locations are in neighborhoods, rather than at airports, and a significant portion of its business comes from referrals from insurance companies, the spokesman said.

—Donna Kardos
contributed to this article.

Nvidia discloses glitch in chips; shares fall 31%

BY DON CLARK

Nvidia Corp. disclosed an overheating problem with some of its chips for notebook computers—triggering a big charge—and said other problems also will hurt financial results for the second quarter.

The announcements Wednesday after the market closed sent the company's shares tumbling 31% in trading Thursday. On the Nasdaq Stock Market, the shares fell \$5.54 each to close at \$12.49.

The U.S. company said it is experiencing higher-than-normal failure rates in certain models of its graphics-processing units, or GPUs, as well as products called chip sets, which connect microprocessors to other parts of a system. It cited "weak" materials used to make the chips and their packaging, adding that the way notebook computers are designed and used might contribute to the problem.

Nvidia said it will take a one-time charge of \$150 million to \$200 million in the second quarter to cover anticipated costs associated with repairs or replacing those products.

The company, while hoping insurers will help cover those costs, has switched the materials it uses, and is discussing the problem and potential responses with suppliers and computer makers.

"We have a responsibility to our customers and will take our part in resolving this problem," said Jen-Hsun Huang, Nvidia's chief executive officer.

Meanwhile, the company said it is also being hurt by "end-market weakness around the world," delays in boosting production of a next-generation chip-set product, and price cuts on its GPUs to respond to competition. Rival Advanced Micro Devices Inc. recently introduced an improved product line.

Nvidia said it expects revenue of \$875 million to \$950 million for the second quarter, which ends July 27, or as much as 24% lower than the first period. In May, the company predicted a decline of about 5%. Nvidia said its gross profit margin also will be lower than its May prediction of an increase of about a percentage point from the 44.6% margin reported in the first period.



Knowledge



Understanding

KNOWLEDGE IS VITAL. BUT KNOWLEDGE IS NOTHING WITHOUT UNDERSTANDING.

From the day the humble pencil was first invented, sales pattered along at a steady pace for decades. Then along came Hyman Lippman who was the first man to understand enough about writers (and about business) to put an eraser on the end of each pencil. From that day on, sales have soared steadily to today's record figures of over seven billion per year.

That's understanding. That's The Wall Street Journal Europe.

25

YEARS

THE WALL STREET JOURNAL

1983 — EUROPE — 2008

SUBSCRIBE FOR 6 MONTHS AT THE SPECIAL PRICE OF € 113

✓ Please start my **6-month subscription** to The Wall Street Journal Europe now for only **€113**. That's **66% off** the cover price. Credit card customers will receive a €50 / £30 Amazon gift certificate.

Subscription details

- URL: www.services.wsje.com/media
 - E-mail: subs.wsje@dowjones.com
 - Phone: +32 2 741 14 14
 - Fax: +32 2 741 14 59
 - Address: Subscriber Relations, The Wall Street Journal Europe, Blvd Brand Whitlock 87, 1200 Brussels, Belgium.
- Your tracking code is HSDEB000C.** Always indicate your delivery details, payment preferences and tracking code.

Subscription price*

Eurozone	Switzerland	United Kingdom
€ 113	CHF 176,4	£ 54,6

©2008 Dow Jones & Company, Inc. All rights reserved.

Contact, delivery and payment information

Mr/Mrs/Ms Full Name:

Job Title**:

Delivery Address:

City:

Postcode:

Country:

Tel:

Email:

Signature:

Date:

Credit card no.:

Expiry date:

 Visa Amex Eurocard/Mastercard Please invoice me

We may provide your information to third parties, including companies outside of the EU, in order to fulfill your subscription request, process data and provide you with promotional information from WSJE, its affiliates and other carefully selected companies.

I do not wish to receive promotional materials from other carefully selected companies.

I do not wish to receive promotional materials from WSJE or its affiliates.

* For other currencies, please call us free at 00 800 9753 2000 or +32 2 741 14 14.

** Optional. All other information is required. Failure to provide obligatory information will result in subscription delays. Hand delivery subject to confirmation by local distributor. Offer only open to new subscribers.

Please allow 2 weeks for delivery to commence.

DOWJONES

CORPORATE NEWS

Mahindra bullish on U.S.

Indian firm believes diesel SUVs, pickups can buck downturn

BY JOHN D. STOLL

The head of Mahindra & Mahindra Ltd.'s automotive business said the Indian company remains bullish on its chances of success in the U.S. starting next year despite the collapse of the markets for pickup trucks and sport-utility vehicles, the only two product categories in which it can currently compete.

Pawan Goenka, the company's automotive president, in an interview expressed mild interest in talking to General Motors Corp. about potentially purchasing the auto maker's slumping Hummer division. But he said the two sides haven't had serious talks and that an acquisition probably "doesn't make any sense for us."

Instead, Mr. Goenka plans to take a small Mahindra-badged pickup to the U.S. next summer, and follow up with a midsize SUV, likely sometime in 2010. Mahindra and its distribution partner in the U.S. have delayed the SUV launch, partly because of shifting market conditions.

Mr. Goenka said that even though those two body styles have fallen out of favor—due to their association with poor fuel economy—Mahindra's plan to fit the vehicles solely with diesel engines will immediately put the brand on the map. Eventually, the company plans to launch crossovers and hybrid vehicles into the U.S.

"If anything, the current situation makes our vehicles more desirable," he said, pointing to the re-



Mahindra & Mahindra's Pawan Goenka is confident about the U.S. market.

cent success of smaller crossover SUVs as evidence that there is still life in the segment. Given that Mahindra is a new brand in the U.S., Mr. Goenka said people may be willing to take a flier on its diesel vehicles, which typically offer 20% to 30% better fuel economy than gasoline-powered ones.

Mahindra vehicles are already sold in several markets around the world, but tens of millions of dollars are being invested in an effort to re-engineer the vehicles for U.S. standards and consumer tastes.

Still, Mahindra's bet on the U.S. is risky.

The overall light-vehicle industry is moving at what is at least a decade-slow pace, and truck sales have declined by 28.4% this year as consumers wrestle with gasoline that costs more than \$4 a gallon.

Mr. Goenka believes there is still core demand for trucks and SUVs in

the U.S., especially among commercial buyers and families looking for roomy transportation. Mahindra is betting on the combination of utility and efficiency to help it sell at least 10,000 vehicles annually, which would be enough to break even in the U.S. business.

Diesel prices typically run at least 15% higher than gasoline. Diesel fuel costs have increased faster than gasoline over the past year in the U.S.

That means that the economic benefits of a more-efficient diesel engine will be somewhat offset.

When it comes to alternative fuels, Americans typically prefer hybrid-electric vehicles, such as Toyota Motor Corp.'s Prius. General Motors is investing heavily in vehicles that run mostly on batteries.

Although Mahindra's distribution partner in the U.S.—Global Vehicles USA, based in Atlanta—has signed up about 300 dealers to distribute the vehicles, the brand is unfamiliar to most Americans, who either associate the name with tractors that are sold in the U.S. or haven't heard the name at all.

Mahindra and its distributor plan to spend about \$50 million on advertising annually, said Global Vehicles' marketing chief, Xavier Beguiristain. Mahindra and Global Vehicles, which is closely held and independent of Mahindra, will both contribute to the budget.

Global Vehicles recently began a study of U.S. buyers who might be interested in Mahindra vehicles. Mr. Beguiristain said the results, though incomplete, are encouraging. "The India thing is not a big deal so far, and the diesel thing is not a big deal so far," he said. Mr. Beguiristain said consumers indicate they are interested in the off-road capability of Mahindra's vehicles.

GLOBAL BUSINESS BRIEFS

Microsoft Inc.

Subscription version of Office to be unveiled in U.S. market

Microsoft Corp. is introducing a subscription-based version of its Office software for U.S. consumers as competitors crowd its core desktop-product suites. The U.S. software company said the new service, called Equipt, combines office tools such as its Microsoft Word word-processing program and the Excel spreadsheet application. A one-year subscription will cost about \$70 and allow users to operate the software on three personal computers, Microsoft said. The product, which also includes security and maintenance software, will initially be available only in the U.S., starting July 15. Equipt was tested in the U.S. earlier this year under the code name "Albany." Microsoft has also previously experimented with some subscription sales of Office in emerging markets.

BP PLC

The U.S. Supreme Court rejected an attempt by victims of a deadly refinery explosion to block a plea deal between plant owner BP PLC and prosecutors. A federal judge in Houston can now decide whether to give final approval of the much-criticized plea deal, which settles criminal conduct by the London-based oil company related to the 2005 blast. The victims think the fine is too low. The agreement, which has a BP subsidiary pleading guilty to a violation of the Clean Air Act, calls for a \$50 million fine and sentences the oil company to three years' probation for its role in the Texas City blast that killed 15 people and injured more than 170. "We're disappointed," said Paul Cassell, one of the blast victims' attorneys. A spokesman for BP declined to comment but reiterated that the company plans to ask the judge to approve the plea deal.

Arriva PLC

Rail and bus operator Arriva PLC said it acquired Empresa de Blas y Cia., a closely held Madrid-based bus company, for £78.6 million (\$156.6 million). U.K.-based Arriva said De Blas has 222 buses and operates on 34 routes in and around Madrid, while also having "substantial depot facilities" and a 30% stake in a major Madrid train, bus and rail hub. Chief Executive David Martin said the acquisition puts Arriva in a good position to acquire a part of the dominant Madrid public-transportation system that runs 3,000 buses in the city and is expected to be put up for private tender in the future. Before this acquisition, Arriva owned 42 buses in the Madrid area, along with its bus services in Northwest Spain and Mallorca. Arriva operates in 10 countries in Europe.

Mitsubishi Motors Corp.

Mitsubishi Motors Corp. will enter the South Korean auto market with the launch of five models in late September and is targeting 5.5% of the Korean imported passenger car market by 2010. Mitsubishi Motors Sales Korea Corp., a joint venture between Daewoo Motor Sales Corp. and Mitsubishi Corp., will distribute Mitsubishi vehicles in South Korea. The Japanese auto maker said it aims to sell 3,000 vehicles a year by 2010 in the country. However, Daewoo Motor Sales said it has upgraded the target and the venture hopes to sell 2,000 units in 2009 and 5,000 in 2010. A Mitsubishi Motors spokesman said the auto maker wasn't aware of the revised target.

Google Inc.

A U.S. federal judge has denied a request to force Google Inc. and Google's YouTube unit to turn over the computer code at the heart of their search functions in a \$1 billion copyright-infringement lawsuit by Viacom Inc. In an order Tuesday, U.S. District Judge Louis L. Stanton in Manhattan granted Google's request for a protective order barring the disclosure of the source code, which controls the YouTube.com search function and Google.com's Internet search tool. Google contends that the source code is a trade secret and can't be disclosed without risking the loss of business.

Merrill Lynch & Co.

Merrill Lynch & Co. appointed Anthony Hung to head wealth management in the Pacific Rim. Mr. Hung, who is based in Hong Kong, will also remain head of fixed-income, currencies and commodities in the Pacific Rim until a successor is announced. In his previous role, he was responsible for sales, trading, liability management and structuring of fixed income, currencies and commodities products as well as principal investments in the region. His appointment is part of Merrill's drive to integrate its investment-banking and wealth-management businesses. Merrill counts Australia and Japan as part of the Pacific Rim, the fastest growing region in its high-net-worth business. Banks in the region are increasingly focusing on clients in India, China and South Korea as a source of business. Mr. Hung will report to Bob McCann, president of Global Wealth Management, and Jason Brand, president for Merrill Lynch in the Pacific Rim.

Chrysler LLC

Chrysler LLC has signed a memorandum of understanding with China's Great Wall Motor Co. to explore long-term business ties in various areas, including distribution, components and technology. The move is part of Chrysler's drive for greater involvement in China's auto industry, Chrysler said, without providing details. Chrysler sells more than 10 models in China but only four, including the 300C, are manufactured locally, via partnerships. The No. 3 U.S. auto maker is discussing joint ventures with a number of potential Chinese partners, including Chery Automobile Co. Chery finalized a deal last year with Chrysler to make compact cars under the Chrysler badge for sale in the Americas and elsewhere.

Skyepharma PLC

U.K. pharmaceuticals company Skyepharma PLC said Thursday that it successfully completed its third Phase III study of asthma drug Flutiform. Just one trial remains before the company can file for approval to market the drug in the U.S. and attempt to grab a slice of the \$10 billion asthma market. The company expects to file in the first quarter of 2009 and sell the drug by 2010. Skyepharma shares rose 7.8%, to 6.15 pence (12 cents). Flutiform is a combination of fluticasone, used in GlaxoSmithKline PLC's asthma blockbuster Advair, and formoterol, used in AstraZeneca PLC's Symbicort. Thursday's trial results echoed earlier studies, showing Flutiform was superior to either drug taken alone. Skyepharma has said it believes Flutiform will sell well because it works better than either drug on its own.

—Compiled from staff and wire service reports.

Publicis to buy image adviser Kekst

BY DENNIS K. BERMAN AND SUZANNE VRANICA

New York public-relations firm Kekst & Co. has been involved in some 3,000 deals during its 38-year history. This week, it was finally time to do one of its own.

The 70-person firm, run from a small office off Madison Avenue in Manhattan, agreed to sell itself to a giant of publicity and advertising, France's 43,000-employee Publicis Groupe SA. Terms of the all-cash deal weren't disclosed, which left the firm's rivals speculating the price was somewhere in the range of \$100 million to \$200 million.

Kekst occupies a tiny but critical niche in the Wall Street biosphere, playing a behind-the-scenes image adviser for merger deals and for CEOs in crisis, such as Kohlberg Kravis Roberts & Co.'s Henry Kravis, Lehman Brothers Holdings Inc.'s Richard Fuld, and August Busch IV of Anheuser-Busch Cos.

Founder Gershon Kekst helped shape much of the character of the

modern Street, where information is shaped and wielded for competitive advantage. For a CEO in need of protection from an unruly board or a deal maker trying to sell a transaction to shareholders, Mr. Kekst has been an adviser of choice.

That role helped forge a whole cottage industry of financial PR, where today a slew of firms try to shape perceptions about companies, transactions, and corporate executives. It is lucrative work. High-end PR can produce margins as high as 40%, with some of the most highly compensated players earning as much as \$900 an hour.

But for Mr. Kekst, 73 years old, times are changing. He has begun contemplating his succession, and is likely to choose from a coterie of

longtime associates for the chief executive role.

Competition is fierce among the handful of small Manhattan shops doing similar work. The business is becoming more international, which has been taxing on Kekst, which maintains only a New York office. Under the new arrangement, Publicis will own all of Kekst, which Mr. Kekst says will still function autonomously. The firm's employees will also be subject to an "earn-out," tying future pay to financial performance through 2011.

Publicis chairman and CEO of Publicis Maurice Levy said the deal was also attractive because of the strength of the euro versus the U.S. dollar.

U.S. clears BHP's bid for rival

BY ALEX WILSON

MELBOURNE, Australia—BHP Billiton's hostile bid for mining rival Rio Tinto moved a small step closer to getting regulatory approval.

BHP said the U.S. Justice Department and Federal Trade Commission closed their review under federal antitrust law without moving to a second phase.

European Union approval looms as the real challenge, however. The

EU antitrust regulator was expected to announce Friday that it would move to a second phase, which could extend its inquiry for months. The Australian Competition and Consumer Commission has given a provisional date of Aug. 13 for its ruling. U.S. regulators retain the right to reopen their inquiries during the offer period. Nonetheless, a BHP spokeswoman said the U.S. decision to end review "represents an important milestone in the progress of our merger clearances."

THE WALL STREET JOURNAL

Executive Travel Program

Guests and clients of 320 leading hotels and car rental agencies receive The Wall Street Journal Europe daily, courtesy of

addictlab.com
global creative think tank

ECONOMY & POLITICS

U.K.

Default rates on loans to households increase



DEFAULT RATES and related losses on secured lending to British households rose more than expected in the second quarter and are expected to rise further in the third, the Bank of England said.

In its quarterly credit-conditions survey, the central bank said demand for secured lending for house purchases had declined in the second quarter by more than anticipated. The survey indicated the global credit crunch continued to reduce the availability of secured and unsecured loans. Lenders' "expectations for the housing market, the changing economic outlook and the changes in their appetite for risk had contributed to the decline," it said. —Nicholas Winning

EUROPEAN UNION

Discord grips composers over online music rights



EUROPEAN music composers, led by Bee Gee member Robin Gibb, said selling online music rights EU-wide would harm authors and music making. The EU's executive arm is expected to conclude an antitrust investigation soon into how royalties are collected. The outcome might help large services like Apple Inc.'s iTunes sell from one store across Europe instead of setting up different stores with different products in several nations. Mr. Gibb and others representing the European Composer and Songwriter Alliance asked the EU executive not to overhaul Europe's current online music market too drastically because it might reduce musicians' royalties. —Associated Press

Mr. Gibb and others representing the European Composer and Songwriter Alliance asked the EU executive not to overhaul Europe's current online music market too drastically because it might reduce musicians' royalties. —Associated Press

RUSSIA

Billionaire Abramovich quits remote governorship



RUSSIAN billionaire Roman Abramovich, left, resigned as governor of a remote Arctic region, a position he has held for almost eight years and long wanted to leave.

His formal resignation request was denied two years ago by former President Vladimir Putin, a signal that the tycoon should continue serving as benefactor of the impoverished Chukotka region. Thursday, the new president, Dmitry Medvedev, cleared his departure.

Mr. Abramovich, the 41-year-old owner of the Chelsea football club who spends much of his time in London, has rarely been seen in Chukotka. —Associated Press

China strains with rebuilding after quake

Central government marshals resources; rush to big decisions

BY ANDREW BATSON
Dujiangyan, China

TIME IS RUNNING short. It has been nearly two months since a massive earthquake in China's Sichuan province leveled towns and left millions homeless.

Government officials have decided that by August they have to come up with a plan for rebuilding a disaster zone covering about 125,000 square kilometers, an area larger than South Korea. Dozens of towns and cities need to be rebuilt, some nearly from scratch. One of the biggest projects will be Dujiangyan, a scenic and historic city that was heavily damaged.

The rapid rebuilding program plays to the strengths of China's centralized, authoritarian government: its ability to mobilize physical and financial resources across a large nation, and to rouse popular enthusiasm with broad social campaigns.

City governments across China have "adopted" areas of Sichuan, sending in their own people to jump-start reconstruction. The central government, flush with cash from a booming economy, set aside \$10 billion for rebuilding in this year alone, with more to come. There has been little of the dickering over budgets and lines of responsibility that delayed the U.S. effort to rebuild New Orleans after it was devastated by Hurricane Katrina.

Yet the breakneck pace set by the government—three months to plan, three years to rebuild—is no small challenge. Dujiangyan, as home to a unique 2,000-year-old irrigation project designated a Unesco World Heritage Site, is under particular pressure to do reconstruction right.

The people charged with rebuilding the city need places to stay. With government offices rendered unsafe by the earthquake, planners set up temporary shops in a damaged building with cracks running up and down the walls and gaps in corners

because one wall leans outward. Qu Jun, director of the Dujiangyan City Planning Bureau, keeps a cot in his office. Meals of instant noodles and fruit are taken on folding tables in the parking lot.

Mr. Qu unrolls a map of the city and lays out the problem. "If we don't do it right now we've lost our chance," he says. "Over 100,000 people are basically homeless in Dujiangyan....It's inhumane if they stay [in temporary housing] for a long time. Half a year is already too much."

Few refugees will be lucky enough to spend only half a year in the barracks-like temporary housing now going up around Sichuan. About 7.8 million homes were destroyed by the earthquake, and three times that number were damaged. Even if the planning effort can be finished in August, officials say they won't be able to start building in earnest until winter.

Finding the space is the trick. The old city center is basically unusable: Mr. Qu estimates it will take two years just to clear out the rubble. The temporary housing also will occupy big swaths of land, further reducing the area available for permanent housing. So he thinks Dujiangyan will have to be rebuilt around a new city center, probably one of the small villages on the outskirts of the current town.

To supplement its own resources, the city government has asked architects and planners from France, Malaysia and Japan to contribute to the rebuilding plan. "Everyone realizes there will be a huge amount of real-estate activity going on in Dujiangyan," says Harry Lu, head of the Shanghai office of WWCOT, a Los Angeles-based architecture and design firm that is also participating.

But the urgent pace of disaster recovery means throwing standard working procedures out the window. "Usually, in order to do a master plan like this, we need to live on the site for at least three or four months, in order to understand what kind of weather they have, what kind of population, what kind of industry, what kind of flowers grow there," says Mr. Lu. Instead, he



Reconstruction of the quake-damaged Erwang temple will be part of the plan to revive the Dujiangyan tourist industry.

has a month to do everything. "The challenges are really huge. The more I think about this project, the more problems occur to me."

Big decisions will have to be rushed: Does Dujiangyan now need an airport? What kind of buildings could best survive another quake? The planners know they can't aim for perfection.

"We can't guarantee there will be no mistakes in the plan, but we just want to make sure there are no big mistakes," says Mr. Qu, the head of the city planning bureau. "Maybe after this urgent drive for reconstruction we can focus on improving the old town. Then we may have more time to focus on that. Now what we want to do is settle the people as soon as possible, and help tourism and the supporting industries recover."

The old city center was, however, one of the centers of Dujiangyan's busy tourism industry. The city has received more than five million tourists annually in recent years. The city's main park is still closed to the public, and it is easy to see why.

Liu Xianjie, head of the Sichuan Institute of Urban Planning and Design, stops at the base of a pile of rubble. "Before the earthquake, thousands of people came here ev-

ery day," he says, gesturing upward to an antique temple half-buried in stone and earth. "I'm afraid it will be very difficult for tourism to recover quickly."

To properly restore the Erwang temple—dedicated to the builders of the ancient waterworks—likely will take months of painstaking effort to ensure new work fits with original materials and design.

Nonetheless, tourism seems to be central to how the quake-stricken areas will revitalize themselves. Even away from major destinations like Dujiangyan, many mountain villages in the area have long had some small-scale tourism, offering local sights and rustic hotels. Those sources of income look to become much more important as sharpened safety and environmental concerns restrict industry in the quake-stricken counties.

Environmentalists have long argued that heavy industry isn't right for a seismically unstable region. For instance, chemical plants, of which there are dozens in the region, pose the risk that one disaster could cause another, if an earthquake led to toxic spills. Other worries have centered around dams, which if they collapse in an earthquake could unleash floods.

In the aftermath of the quake, more government officials now seem to agree. "Our initial thinking is that this place cannot be an industrial area," says Song Ming, Communist Party secretary of the county of Beichuan, a mountainous area to the north and east of Dujiangyan that was one of the places worst-hit by the quake.

In Beichuan, a mountainous county northeast of Dujiangyan, a county official says two-thirds of the factories are so damaged that they won't be able to restart operations in their original locations. And at least one hydropower project long planned for Beichuan, the Xuanping dam, is now unlikely to proceed, and proposals for new dams are unlikely to get much of a hearing, he says.

There aren't many obvious options to replace the jobs and incomes lost from industry. Tourism sounds good, but in the absence of established draws local officials are getting creative. The earthquake itself has provided some ideas.

Song Ming, Beichuan's Communist Party secretary, says he is looking into preserving the Tangjiashan "quake lake" as a tourist attraction. The body of water, formed when landslides blocked a river's flow, was the subject of news coverage for weeks as soldiers worked to prevent it from collapsing and flooding the homes of millions of people.

"Now the whole world knows Tangjiashan. It's a brand, and that's something very valuable," says Mr. Song, sitting outside at a tent at a resettlement camp in his county. A museum commemorating the earthquake is slated to be built in the old county seat of Beichuan, most of which was leveled by the earthquake.

For the locals, emotions are still raw, and such plans seem distant. "It's a place of tragedy and sad memories. My family and my house are all gone," says Yan Chun, a 29-year-old mother from Beichuan who lost her husband and her six-year-old son in the earthquake. "The only comfort for me now is my daughter," she says, shielding the 4-month-old's head from the Sichuan summer sun.

—Sue Feng
contributed to this article.

ECONOMY & POLITICS

More stimulus for U.S.?

New steps are sought amid recession fears; candidates weigh in

BY DEBORAH SOLOMON

WASHINGTON—As the last batch of stimulus checks show up in U.S. mailboxes, some economists and Democrats are rumbling that the government needs to again intervene to prop up the flagging economy.

The \$152 billion stimulus package was meant to provide a short-term boost to the economy, and many economists believe it prompted Americans to spend more money. But by July 11, most of the checks will have been sent out, and much of the benefit is expected to fade by August even as fears of a recession continue to percolate.

Already, Lawrence Summers, the former Clinton Treasury Secretary, and Yale University economist Robert Shiller, are advocating some sort of additional stimulus. Democrats on Capitol Hill are discussing legislation to boost the economy. And the presidential candidates also are mulling ways to spur growth.

Still, there is little agreement about what form a second stimulus should take or how quickly it should happen. Some favor another round of rebate checks, while others advocate investment in infrastructure.

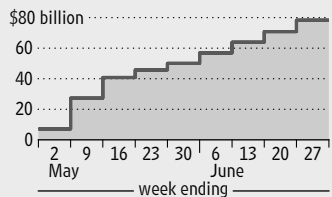
There also are plenty of people, including some economists, who think another short-term stimulus package is the wrong way to go, arguing that it does little to fix the underlying problems plaguing the economy.

The U.S. economy grew just 1% in the first quarter, buoyed in part by the stimulus checks. While similar growth is expected for the second quarter, analysts are concerned about what will happen later in the year as the impact fades. Consumer confidence has plunged amid concerns about jobs and soaring prices for oil, fuel and other commodities.

Short-lived boost

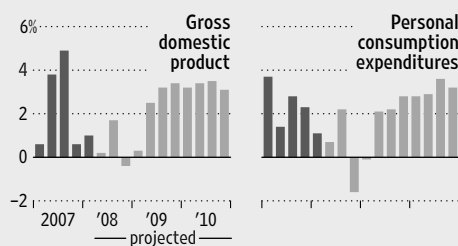
The U.S. government has sent out billions of dollars to taxpayers...

Cumulative amount of economic-stimulus payments



But the plan may not have a long-term positive impact

Adjusted for inflation, change from the previous quarter at an annualized rate



Sources: Treasury Department (stimulus payments); Commerce Department (historic GDP, PCE); Global Insight (GDP, PCE projections)

Inflation remains a concern and the Federal Reserve is likely finished with its interest-rate cuts. Economic projections show weakness throughout this year and into the first quarter of 2009.

The stimulus checks boosted retail sales and consumer spending but their impact has been blunted by the continued rise in oil prices. In a speech last month, Treasury Secretary Henry Paulson acknowledged that rising gas prices had undercut the government's effort.

"While the stimulus is making our economy stronger than it otherwise would have been, the headwind of high energy prices has the potential to lengthen the economic slowdown," Mr. Paulson said.

On Monday, President George W. Bush signed a bill including an extension of unemployment benefits, which could give unemployed workers additional money to spend. Beyond that, the administration has no plans to push another round of stimulus.

"Obviously we're always looking at ideas and always looking at the economy and people are talking about these things but we thought the stimulus done already was big enough to make an impact," said Phil

Swagel, Treasury's assistant secretary for economic policy.

Some top economists say there is little choice but to do something more. Mr. Summers said the U.S. could be in for a long economic downturn and that Congress should move quickly.

"Given that recessions associated with financial problems are never short and that the storm clouds are gathering rapidly there's far more risk of stimulus being too late than too early," Mr. Summers said. Among his remedies: Infrastructure investment, which he said would help create jobs, bolster the construction industry and provide a cash infusion to municipalities. Mr. Shiller, the Yale economist, in a recent New York Times column, argues for more rebate checks.

Sen. John McCain, who backed the stimulus checks and has proposed cutting taxes, is considering whether another round of checks makes sense, according to an economic adviser. "We're looking right now to see if there is any merit in trying that again," the adviser said. The adviser added that checks won't solve the underlying problems of low housing prices and rising costs.

White House, candidates work on transition plan

BY YOCHI J. DREAZEN AND SIOBHAN GORMAN

WASHINGTON—The Bush administration and the two major presidential campaigns are beginning an unprecedented attempt to prevent the transfer of power in January from disrupting defense and counterterrorism efforts.

The Obama and McCain campaigns are working to compile lists of potential nominees for dozens of national-security and counterterrorism positions so would-be policy makers can be vetted and confirmed as quickly as possible.

Given the inevitable gaps, Defense Secretary Robert Gates has asked senior Pentagon officials to be prepared to stay in their jobs for the first few months of 2009. The Obama campaign has endorsed the idea. Obama aides say the Illinois senator is considering asking Mr. Gates to stay as defense chief if he is elected.

At the Department of Homeland Security, career officials have been assigned to the No. 2 posts in critical areas so they can step in when political appointees leave. Director of National Intelligence Mike McConnell is forming a transition office and some of his senior aides have talked privately about staying on temporarily if requested.

"Barack Obama agrees that we will need to expedite transition in this wartime environment," said Denis McDonough, the Democratic candidate's senior foreign-policy adviser. "It will mean expediting the appointment and confirmation of his national security team and maintaining some personnel in slots where necessary and appropriate."

The push reflects the challenges posed by the first wartime political transition in more than 40 years and fears of a possible terrorist strike or major crisis in Iraq or Afghanistan during the next president's first months in office. The Office of the Director of National Intelligence and Department of Homeland Security have never been

through a transition.

The effort is designed to avoid the power vacuums that usually accompany a shift in administration.

"The downside risk is that you'd have a 'nobody home' phenomenon at a time when there's a crisis in Iraq or Afghanistan or a huge attack here at home," said Michele Flournoy, the president of the Center for a New American Security, a left-leaning think tank.

Ms. Flournoy and Richard Armitage, a former Bush administration official, published a recent op-ed noting that it took the Clinton and Bush administrations nearly six months to get major Pentagon and State Department personnel confirmed and into office. Both administrations faced crises shortly after taking office, and the next administration is "even more likely to be tested early," they wrote.

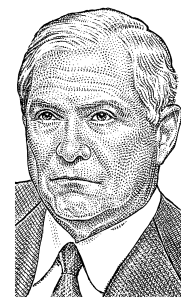
Ms. Flournoy and Mr. Armitage advocate keeping some Bush administration personnel in place until successors are confirmed, and expediting vetting and confirmation for the top 40 to 50 members of the next administration's national-security team.

Mr. Gates has endorsed those proposals, telling reporters in mid-June that he wanted to avoid having "a lot of empty seats on the civilian side" while U.S. forces were embroiled in two wars.

Mr. Gates, who has served in seven presidential administrations, has noted that this fall will mark the first wartime handover of presidential power since the Johnson administration ceded control of the Vietnam effort to the Nixon White House.

The nation's top uniformed military officer, Joint Chiefs of Staff Chairman Mike Mullen, has warned that the transition between administrations would be a "time of vulnerability" for the U.S.

Adm. Mullen tapped a one-star general, Frank McKenzie, to lead a small Pentagon team charged with ensuring that the military functions effectively during the political transition.



Robert Gates

China frees American in tax case

BY JAMES T. AREDDY

SHANGHAI—Jude Shao, a U.S. citizen arrested 10 years ago in Shanghai on tax-evasion charges who became among the U.S. government's highest priority human-rights causes, was freed on parole Wednesday, people familiar with the situation said.

Mr. Shao, a naturalized U.S. citizen, was serving a 16-year sentence for allegedly defrauding Chinese authorities of \$393,000 in taxes in his medical-equipment export business. Mr. Shao had completed his 10th year in prison in May. His parole comes slightly more than a month before Beijing hosts the Summer Olympics.

The U.S. Consulate in Shanghai confirmed Mr. Shao's release. "We welcome this development and urge China to continue to make progress on other prisoner cases and issues of domestic and international concern, including those raised at our recent human-rights dialogue," said a consulate spokeswoman. She said Clark T. Randt, the U.S. Amb-

sador to China, has spoken with Mr. Shao since his release.

Mr. Shao couldn't immediately be reached.

Critics of the decision to award Beijing the Olympics have often focused on its human-rights record. Beijing has taken some steps to address those concerns, including recently restarting bilateral talks on human rights with U.S. officials.

Mr. Shao's case had repeatedly been raised by U.S. government officials, including in February by Secretary of State Condoleezza Rice in Beijing when she met with China's foreign minister, Yang Jiechi.

At that meeting, China's foreign minister signaled his government's readiness to resume a bilateral dialogue on human rights with Washington, which had traditionally offered an opportunity for each government to voice concerns about specific prisoners and other human-rights cases. After a five-year hiatus, that dialogue restarted in May in Beijing. Mr. Shao's case was among those raised by U.S. officials, the consulate spokeswoman said.

Rather than deporting Mr. Shao, as China often does with prisoners freed in human-rights cases, prison authorities will require him to serve the remainder of the sentence period, through May 2013, in Shanghai, where he was born and has family. A statement from Dui Hua Foundation, a San Francisco-based group that focuses on Chinese prisoners, said Mr. Shao's agreement to serve the sentence in Shanghai was an important factor in winning his release on parole.

"Obviously, we're really excited for Jude, that he can hopefully put this behind him and resume his life," said Chuck Hoover, who said he has been in contact with Mr. Shao's family. Mr. Hoover, a classmate of Mr. Shao at Stanford Business School in 1993, has long campaigned for his release.

In a statement Thursday, the Shanghai High People's Court confirmed Mr. Shao's release on parole. "He has admitted the crime and obeyed the laws at the prison. He followed the discipline of the prison and accepted rehabilitation. He has shown the repentant behavior," the court said in offering a reason parole was granted.



Jude Shao

France plans nuclear reactor in new-generation plant push

ASSOCIATED PRESS

LE CREUSOT, France—France will build a second of its new-generation nuclear reactors, President Nicolas Sarkozy said Thursday, pledging a "new industrial revolution" in an era in which fossil fuels have grown too expensive.

France, the European country most reliant on nuclear power, has been constructing its first European Pressurized Reactor, or EPR, on the Normandy coast, with the unit expected to go into service in 2012. EPR reactors are meant to eventually replace aging reactors around the world.

The Normandy site is one of only two EPRs in the world currently under construction; the other is in Finland.

A decision about where to build a second French EPR will be made in 2009, Mr. Sarkozy said, adding that

construction will start in 2011.

"The era of inexpensive oil is over," Mr. Sarkozy said. "Nuclear power is more than ever an industry of the future and an essential form of energy."

He spoke while visiting metal workers at the Industeel plant in Le Creusot in the Burgundy region, which he said would produce most of the components needed for the reactor. Industeel is a subsidiary of steelmaker ArcelorMittal SA.

During Mr. Sarkozy's visit, Anne Lauvergeon, chief executive of French nuclear company Areva SA, and Aditya Mittal, chief financial officer for ArcelorMittal, signed a memorandum of understanding to increase production at Industeel for the nuclear market.

France's Green Party and environmental groups oppose the building of EPRs.