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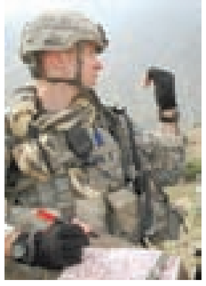

In Afghanistan, last patrol is perilous for U.S. troops
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U.S. played a supporting role in Colombian rescue
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Business & Finance

General Motors is preparing a round of white-collar job cuts as it reacts to a slump in sales and a plunge in its stock price. The auto maker is also considering shedding brands and at an August meeting may discuss boosting liquidity. Page 1

■ **GM is weighing whether** to speed its overseas-targeted fuel-saving Chevy Beat minicar to the U.S. in 2012. Page 5

■ **Oil at $200** would stir more political unrest in Europe and increase the clamor to cut petrol taxes, and push gas in the U.S. to well over $6 a gallon. Page 1

■ **Some car makers** are refusing to pay surcharges and threatening legal action to enforce contracts with steelmakers. Page 2

■ **BHP Billiton reached** a pact with Baosteel on an iron-ore price increase. Its bid for Rio Tinto drew scrutiny from the European Commission. Page 4

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■ **All Nippon Airways** may end its reliance on Boeing for large aircraft and is considering ordering A380s from Airbus. Page 8

■ **European insurance firms** are once again seeking closer ties with banks. Page 8

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11288.54	Closed	
Nasdaq	2245.38	Closed	
DJ Stoxx 600	279.53	-3.55	-1.25
FTSE 100	5412.8	-63.8	-1.16
DAX	6272.21	-81.53	-1.28
CAC 40	4266.00	-77.99	-1.80
Euro	$1.5692	-0.0019	-0.12
Nymex crude	$145.29	Closed	

Money & Investing > Page 19

World-Wide

World leaders arrived for the Group of Eight summit of major industrial powers in Japan, amid some of the greatest transformations in the G-8's history. Prospects were doubtful for this year's big initiative on greenhouse-gas limits, but Bush sought to dispel talk the summit may not be productive. Page 3

■ **Bush said** it would be an "affront to the Chinese people" if he didn't attend the Olympics' opening, and Japan's prime minister said he would go as well.

■ **A suicide bomber detonated** explosives near a police station in Pakistan's capital, killing at least 15, most apparently police.

■ **Iran indicated** it has no plans to meet a Western demand that it stop enriching uranium, after sending the EU a response to an international offer of incentives.

■ **Two retired generals** were detained in connection with an alleged plot to topple Turkey's Islamic-rooted government.

■ **The United Arab Emirates** canceled billions of dollars of Iraqi debt and moved to restore a full diplomatic mission in Baghdad.

■ **Britain called** for tough sanctions as well as diplomacy in the face of Zimbabwean President Robert Mugabe's defiance.

■ **A car bomb killed** six people and injured 14 others in northern Baghdad, Iraqi officials said.

■ **Afghanistan's president** ordered a probe into allegations that U.S. helicopter missiles struck and killed civilians Friday.

■ **Mongolia's government** ended a four-day state of emergency Saturday after violent election riots last week left five people dead and hundreds detained.

■ **At least 21 miners were killed** by carbon-monoxide poisoning after an apparent explosion in a coal mine in northern China.

■ **The Tibetan** government-in-exile said it canceled celebrations marking the Dalai Lama's birthday Sunday because of the suffering of Tibet's people.

■ **Rafael Nadal won** tennis's Wimbledon crown, ending Roger Federer's string of five titles. Venus Williams beat her sister Serena to win a fifth women's title.

EDITORIAL & OPINION

Closed Games

Beijing isn't delivering on its press-freedom promises for next month's Olympics. Page 13

Oil's fast jump stirs talk of $200 a barrel this year

Long list of factors keeps prices rising; releasing reserves?

By Neil King Jr.

Oil's historic ascent from $100 to nearly $150 a barrel in just six months is lending weight to a far grimmer prediction: crude could reach $200 a barrel by the end of the year.

Oil at that price would wreak deeper havoc on the world's airlines and automobile industries. In Europe, it would stir more political unrest and increase the clamor to cut the continent's stiff petrol taxes.

In the U.S., $200 crude would push the price of gasoline to well over $6 a gallon, causing commuters to alter their driving habits more sharply than they have already, while putting extreme strains on large sectors of the U.S. economy. In Asia, governments would be under pressure to cut fuel subsidies and risk a popular backlash.

Few oil watchers are now ready to bet that oil will hit $200 a barrel by New Year's Eve. But nearly all are wary of predicting how and when oil's

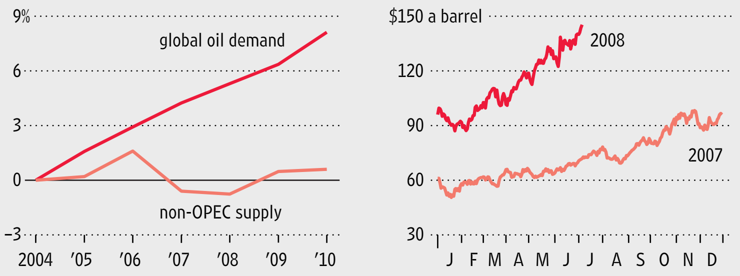
Please turn to page 31

Upward pressures

A deepening reliance on OPEC crude could push prices still higher in the years ahead. Prices this year are now running double what they were in 2007.

Oil supply and demand — Cumulative change in global oil demand and non-OPEC oil supply*

Crude-oil futures — Daily settlement price on the continuous front-month contract



*estimates

Sources: International Energy Agency; Thomson Reuters via WSJ Market Data Group

Emails show TCI chief grappling with bad bets

By Cassell Bryan-Low, Carrick Mollenkamp And Craig Karmin

For those agonizing over how to navigate the market turmoil of recent months, one of the world's most successful hedge-fund managers has been feeling your pain.

Christopher Hohn, head of **The Children's Investment Fund Management** LLP, has reached celebrity status for his outsized results: London-based TCI returned 42% on an annualized basis from its launch in 2004 through last year.

Christopher Hohn

But in the past several months, amid the sudden demise of Bear Stearns Cos. and the implosions of several highflying funds, Mr. Hohn has been having a rocky ride. And his discussions with colleagues illustrate how the market malaise has even big-shot investors feeling queasy.

"I am not sure what to do now....We have a real credit crisis," Mr. Hohn wrote in an email one Friday evening in early March—one of a number of messages recently filed in a court case involving a TCI investment. A few days earlier, he noted that the fund could soon be down as much as 15%. A spokesman for TCI, which manages more than $15 billion, says the fund was up through May.

In an interview, Mr. Hohn said further that the fund does "constantly have volatility" but takes a long-term view, with investors initially com-

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GM to cut jobs as it considers selling brands

By John D. Stoll

DETROIT—Reacting to a deep sales slump and a historic plunge in its stock price, General Motors Corp. is preparing a new round of white-collar job cuts to slash costs, and has begun considering whether it should shed other automotive brands in addition to the Hummer division, which is already for sale, people familiar with the matter said.

Both moves are part of a broader re-evaluation of GM's strategy and its ability to meet an internal projection of returning to profitability in 2010, these people said.

The job-reduction plan is likely to be approved when GM's board of directors meets in early August, these people said. Management may also present the board with options for shoring up liquidity to help GM make it through the downturn, they said.

The board will probably also hear management's latest thoughts on whether GM should trim the number of nameplates it offers in the U.S. market. The company currently sells vehicles under eight different brands, but five, including Buick, Saturn and Saab, struggle to attract buyers despite offering new models that cost GM billions to develop.

Discussions among top execu-

Please turn to back page

LEADING THE NEWS

Steel surcharges draw ire

Auto makers fight to uphold contracts; shortage drives price

By Robert Guy Matthews

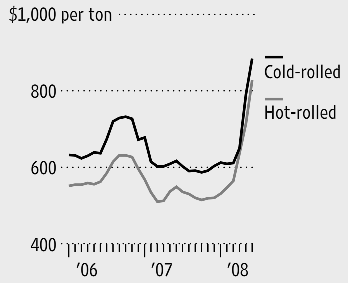
In an effort to curb the relentless rise in steel prices and bolster their own frail finances, some auto makers are beginning to push back on price increases, saying they won't pay surcharges on agreed-upon supply contracts.

The resistance is one of the first strong signals to steelmakers that their customers have reached a tipping point and may not be able to withstand higher prices.

Some auto makers are threatening to fight the surcharges in court, saying that financial terms of a contract can't be altered, according to people familiar with the matter.

Buying surge

U.S. spot indexes for cold-rolled and hot-rolled steel coil



Note: As of May

Source: Dow Jones Energy Service

The standoff comes as most steelmakers in the U.S., including **ArcelorMittal**, **U.S. Steel** Corp. and **AK Steel** Corp., are engaged in secretive negotiations with **Ford Motor** Co., **General Motors** Corp., **Toyota Motor** Corp. and others to set the price and terms of steel bought on a contract.

A lot of contracts are negotiated at this time of year. Representatives of Ford, GM and Toyota declined to comment on the negotiations.

Both sides concede that the price in the next cycle of negotiated contracts will be significantly higher than previous contracts, owing to higher costs for raw materials such as iron ore and higher energy prices.

On Friday, the world's largest miner by output, **BHP Billiton**, announced that it is charging steelmakers an average of 85% more for iron ore, a key ingredient in the production of steel. **Rio Tinto**, the world's third-largest miner by output, announced an average increase of 85% last month. (See article on page 4.)

But the auto makers are balking at surcharges steelmakers are attempting to impose.

ArcelorMittal, by all measures the biggest steelmaker in the world, has added a surcharge of $250 on each short ton of steel. The surcharge, announced in April, was slated to begin May 5, according to a letter the steelmaker sent to its customers. But now, two months later, some auto makers are still resisting.

"There are some customers who have accepted the surcharges and some who have not," says Aditya Mittal, chief financial officer at ArcelorMittal. "For those who have not, we are still in negotiations."

Other steelmakers haven't levied unilateral surcharges, but are negotiating surcharges individually with car makers. AK Steel spokesman Alan McCoy said the company is negotiating on a case-by-case basis. U.S. Steel declined to comment on price talks.

ArcelorMittal said it is confident that auto makers will end up paying the surcharges.

Indeed, as emerging countries such as China, Brazil and Russia increase their need for steel to build infrastructure, commercial buildings and automobiles in their respective countries, the demand for steel has outstripped supply. That has caused prices to shoot up, most drastically over the past year.

That has left U.S.-based auto makers, which had long dominated steelmakers during price negotiations, in a weak bargaining position. For decades, U.S. auto makers were the steelmakers' most lucrative customers and bullied them into selling them long-term contract steel at discount rates.

Although auto makers declined to comment on current talks, they have stated that steel and other raw-material costs are burdening the industry at one of its worst times. Hit by the falling sales of gas-guzzling sport-utility vehicles and pickup trucks, U.S. auto makers are seeing their sales plummet.

Sales in the U.S. tumbled 18% in June from year-earlier levels. GM's share price last week hit its lowest level since the 1950s. Ford's sales have been surpassed by Toyota, and privately held Chrysler is facing a liquidity crisis.

The auto makers are desperate to cut costs across the board, including on steel, which constitutes an increasingly smaller share of the cost to manufacture a car. For a $30,000 car, the amount of steel makes up just $1,500 of its cost.

It isn't clear whether threats to take steelmakers to court for changing contract terms are serious, or whether auto makers will eventually back down, given the relatively tight supply. They can't easily import steel because shipping costs would make foreign-made steel even more expensive than U.S. steel. Moreover, they can't easily or quickly switch to other materials, such as plastic or composite metals.

Steelmakers are generally trying to reduce the amount of steel sold in contracts because they can get more on the spot market. ArcelorMittal says just 20% of its sales are under contract basis now. About 15% of that contract business is with auto makers.

Even though auto makers are paying more for steel, they are able to recoup some of that cost. They are a big seller of scrap steel, which can be melted down to make new steel. Auto-bundled scrap steel is selling for about $800 a short ton, nearly three times the price this time last year.

Softer aluminum prices expected to hurt Alcoa

By Robert Guy Matthews

Aluminum prices appear to have crested and begun slipping in the latest quarter, a troublesome scene for all aluminum companies but particularly for **Alcoa** Inc., which Tuesday will report second-quarter earnings, the first blue-chip U.S. company to do so.

Along with softer prices, Alcoa is being hit by higher costs for energy and raw materials, which are eroding profits. Davenport & Co. has cut its second-quarter per-share estimate for Alcoa to 78 cents from $1.02, due to higher costs, including natural gas, diesel and coking coal. Credit Suisse projected earnings of 62 cents a share, which is 11 cents lower than its previous expectation, citing raw-material costs and flat aluminum prices. Last month, Alcoa itself lowered its earnings estimates by two cents to three cents after a gas explosion in Australia disrupted alumina supply. In the year-earlier quarter, Alcoa posted profit of 81 cents a share.

Although the long-term outlook remains bullish for aluminum given the building booms in China and other emerging nations, a slowdown in the U.S. and European economies has knocked about $200 a metric ton from aluminum prices. Aluminum is hovering around $3,000 a metric ton.

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

INDEX TO BUSINESSES

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

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G-8 strains to stay relevant as talks start

Greenhouse-gas plan may go up in smoke; host exhibits caution

By John D. McKinnon

RUSUTSU, Japan—As world leaders arrived in Japan Sunday for their annual summit, the Group of Eight is experiencing some of the greatest transformations—and troubles—in its history.

Prospects were doubtful for this year's big initiative on greenhouse-gas limits, amid concerns that strict emissions caps might burden the emerging nations that influence the G-8, and even harm some developed nations that are hurting economically.

In a news conference Sunday, U.S. President George W. Bush sought to dispel speculation that the summit may not be productive. "I've got a pretty good sense about when a G-8 is going to be a success or maybe not such a success, [and] this one's going to be a success," he said.

But the summit's host, Japanese Prime Minister Yasuo Fukuda, was more cautious about prospects for a substantial climate agreement. "What the results will be—well, we have to wait until the conclusion comes out," Mr. Fukuda said during his joint appearance with Mr. Bush.

The summit participants are headed toward an agreement for international food reserves to help the poorest countries deal with soaring grain prices. But progress on other fronts has appeared to slow in recent days, as differences between the old-line and emerging countries have become obvious, and more-immediate worries about the global economy have intensified.

Increasing disagreements are the price the G-8 is paying to maintain its relevance. The clubby group that became the G-8—conceived as the G-7 in the mid-1970s in the wake of the oil embargo of 1973 and the resulting global recession—traditionally is made up of the U.S., Japan, Canada and Europe's industrial powers—France, Germany, Italy and the U.K. Russia joined in 1998.

But starting with the 2000 Okinawa summit, worries about globalization led the G-8 to start inviting representatives of the emerging economies. And in 2005, concerns about climate change led it to invite China, India, Brazil, Mexico and South Africa, countries that have attended "outreach" sessions ever since.

Nonetheless, there are calls to expand or revamp the G-8's membership to reflect the new global realities. The traditional membership "no longer has the power and wealth to resolve the world's major problems," explains Carlos Pascual, director of foreign policy at the Washington-based Brookings Institution, a left-leaning think tank. On a variety of issues, "a much wider representation of countries has become necessary."

But as the G-8 meetings grow, it becomes more difficult to reach consensus on some fundamental problems. U.S. officials complain that protectionist sentiment among some of the big emerging economies has held up progress on the Doha Round of trade negotiations. The presence of Russia—an influential oil and gas producer—also complicates discussions on energy security.

The wave of change also is exposing old-line member countries—and particularly the economically wobbly U.S.—to uncomfortable new criticisms. Russian President Dmitri Medvedev—with whom Mr. Bush is scheduled to meet Monday morning—has been particularly outspoken in recent days, saying the U.S. is in a virtual depression and that it is time to reconsider the world's dollar-centric financial order.

Mr. Fukuda, the summit chairman, aims to act as the diplomatic bridge between the U.S. and its critics, particularly on climate change.

U.S. officials had hoped to reach agreements on binding interim limits for all the major economies through 2020, as well as long-term targets for global emissions by about 2050. But over the weekend, they said privately that they might fall short of their goal, due in part to resistance from emerging countries such as India. With per-capita energy consumption that is far below that of the developed countries, India faces political opposition at home to limiting its emissions growth.

Some environmentalists say the Bush administration and its allies aren't so eager for a breakthrough agreement on climate change. They say the U.S. is trying to avoid tough short-term curbs on its huge energy consumption, while it seeks to draw the emerging economies into a long-term climate-control regime that eventually will place strict caps on them.

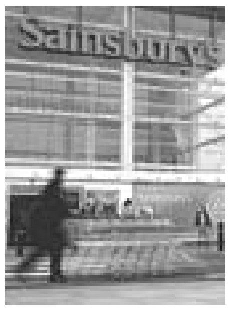
In a best-case scenario for the summit, the developing countries could agree to the need for a long-term global target—say, a 50% reduction in greenhouse-gas emissions by 2050—in exchange for broadly worded promises by the G-8 countries to take the lead in reductions over the next decade or so. That would leave the tough negotiations over specific country-by-country limits to be accomplished in time for an agreement that the United Nations hopes to conclude by the end of next year.

The developed countries also are expected to agree to put at least $6 billion in new money into a fund that would help emerging economies pay for pollution reduction.

CORPORATE NEWS

SUPERMARKETS

Qatar government raises J Sainsbury stake to 26%



THE government of Qatar has increased its stake in **J Sainsbury** PLC to 26%, a move that may fuel talk of an approach to take over the U.K. supermarket chain. The Qatar Investment Authority acquired five million shares on July 2, taking its stake to 26% from 25%, Sainsbury said. Qatar Investment and Sainsbury—the U.K.'s third-biggest supermarket chain by sales behind Tesco PLC and Asda Group Ltd., a unit of Wal-Mart Stores Inc.—weren't immediately available for comment. Sainsbury's stock and market value has fallen sharply since Qatar abandoned its £10.45 billion ($20.7 billion) takeover proposal in November because of credit-market volatility. *—Lilly Vitorovich*

AIRLINES

Air France may transfer some flights to railway

AIR FRANCE is looking into replacing some of its short-haul European flights with high-speed-rail service run in partnership with a French train operator.

Air France spokeswoman Brigitte Barrand said the French flag carrier, a unit of **Air France-KLM** SA, and Veolia Transport are examining the possibility of a strategic partnership "aimed at introducing a new player in the European high-speed rail sector." She didn't provide details on when the service could be launched, or what routes would be concerned. The earliest possible launch date would be Jan. 1, 2010, when the EU opens its international passenger rail market to competition. *—Associated Press*

RETAIL

Stake sale could save job for chairman of Baugur

ICELANDIC investment company **FL Group** Hf Friday paid 25 billion Icelandic kronur ($324 million) to acquire a 39% stake in **Baugur Group** Hf, a move meant to shore up the Icelandic retailer's capital and save its chairman's job. Last month, the Reykjavik Supreme Court found Baugur's chairman, Jon Asgeir Johannesson, guilty of improper bookkeeping, which bans him from working as a company director in Iceland. Baugur divested itself of Icelandic assets to focus on retail investments in the U.K., Scandinavia and the U.S. The investment from FL Group, in which Mr. Johannesson's family company Gaumur owns the majority stake of 40%, was financed by a share exchange and swap. *—Anna Molin*

De Beers works to polish its image

CEO Gareth Penny gives diamond seller a new business model

By Vanessa O'Connell

WHEN GARETH PENNY became De Beers Group's chief executive in 2006, the world's biggest diamond producer was mired in some of the worst crises in its 120-year history.

Rapper Kanye West's "Diamonds From Sierra Leone" in 2005 and the movie "Blood Diamond" in 2006 were triggering a wave of negative publicity about buying "conflict diamonds," which were sold in the 1990s by African rebels to help pay for their wars. De Beers had already worked with the United Nations, governments, and human-rights groups to introduce the Kimberley Process, a voluntary certification program for rough diamonds that allows the origin of the gems to be traced, but the company was vulnerable to a consumer backlash nonetheless.

On its home turf in South Africa, De Beers was criticized for not pushing hard enough for black participation, both in diamond cutting and its own upper ranks. And, after years of sparring with antitrust regulators in the U.S. and Europe, it was trying to settle class-action suits in the U.S. alleging that its monopolistic practices kept the price of rough diamonds artificially high.

Today, De Beers is "in transition," says Mr. Penny, 45 years old. The company, whose sales slipped 3% last year to $6.84 billion, has a new business model and is trying to polish its image. And Mr. Penny now casts himself as an unofficial ambassador for Africa who can help bring businesses and jobs to the continent. Excerpts from a recent interview:

WSJ: *When you took over, De Beers faced several crises. What remains?*

Mr. Penny: Over the last six or seven years we have dramatically refashioned the business that we are in, exiting third-party contracts and no longer trying to control supply. Our market share today is still significant, but it is 40% as opposed to 80% or 90% of the diamond business. It is now a very competitive business. We go head to head with all manner of major mining companies everywhere we do business and, on the retail side, with the Cartiers and the Tiffanys and the Bulgaris.

With regard to conflict diamonds, De Beers has worked with many governments around the world to form the Kimberley Process, which has been so successful in stemming diamonds used to fund conflict. One hundred percent of De Beers diamonds today are conflict free.

We have also completed a major black-empowerment deal so that 26% of our South African company is in the hands of a black investment vehicle. We have 50-50 partnerships with Botswana and Namibia. Annually we are investing something like $4.6 billion with partners into African economies.

And a judge has recently accepted the [$295 million] settlement reached in the U.S. class action. I am pleased to say we made significant progress.

WSJ: *What is the evidence of that progress?*

Mr. Penny: With conflict diamonds, the countries that the issues had been around—Liberia, Sierra Leone, etc.—are countries at peace. It is estimated that 99.8% of all diamonds in the world flow through the Kimberley Process, which is extraordinary.

If you look at the contribution that the diamond industry makes in a country like Botswana, 33% of gross domestic product is directly accountable to the diamond industry and to the mines that De Beers operates with its partners. And nearly two-thirds of foreign-exchange revenues are generated through the diamond business. I think all that points to the kind of contribution that we make. [Anglo American PLC owns 45% of De Beers, the Oppenheimer family owns 40% and the government of Botswana owns 15%.]

Charlie Powell

WSJ: *There haven't been significant mine discoveries since 1990. Does that mean prices are going to shoot through the roof?*

Mr. Penny: We spend $100 million a year looking for diamond mines around the world. If we are successful we may find one major discovery in a 10-year period. Demand is driven both by the existing markets but equally by the new emerging markets, most particularly, India and China. So you are seeing—and you are going to see—price rises. I wouldn't describe them as going through the roof, but I think they will be systematic and sustained.

WSJ: *What are your plans for the De Beers retail business?*

Mr. Penny: Well, it is still in start-up phase, [but] it is expanding very rapidly. By the end of this year it should have just short of 50 stores, which puts it probably in the top five [jewelry] retailers in the world. We will have to see how the year pans out as a whole, but I am pleased with the progress.

European Union steps up probe of BHP's Rio bid

By Alex Wilson And Carolyn Henson

The European Commission on Friday launched an investigation into Anglo-Australian miner **BHP Billiton** Ltd.'s unsolicited $170 billion bid for rival **Rio Tinto** Ltd., just as BHP closed out one of the most difficult years of negotiations between steelmakers and iron-ore providers.

BHP said Friday it had reached an agreement with China's **Baosteel** on an iron-ore price rise, with the increase in line with price increases already announced by Rio. The deal closes one of the longest and most heated rounds of annual negotiations for the key steelmaking input. BHP said it has agreed on a price of $1.4466 a metric ton for its fine iron-ore and $2.0169 for the premium lump product.

Rio Tinto struck a deal with Baosteel on the same terms on June 23, with the prices representing an increase of almost 80% on last year's price for fine and a nearly 97% increase for lump.

In past years, one of the big three iron-ore producers—BHP, Rio and Brazil's Companhia Vale do Rio Doce—has struck a price with a major steelmaker to set a benchmark which other miners and steel mills have then followed. This year, Rio and BHP pushed for higher prices than Vale had achieved with Asian miners in February.

Meanwhile, the European Commission—the European Union's executive arm—said its initial market investigation suggested particular concerns about a successful bid's impact on the EU's markets for iron ore, coal, uranium and aluminum and mineral sands, because the proposed takeover could result in higher prices and reduced choice for these companies' customers.

However, a decision to open an in-depth inquiry doesn't prejudge the final result of the investigation, it said. The commission now has 90 working days, until Nov. 11, to make a final decision on whether the concentration would significantly impede competition in the European Union.

GM plans to give minicar for U.S. higher priority

By Sharon Terlep

General Motors Corp. said it is giving a higher priority to deciding whether it will bring the next-generation Chevrolet Beat minicar—a vehicle it sells overseas—to the U.S. market in the 2012 timeframe.

Such a move would increase the stakes on GM's bet the U.S. market is undergoing historic change.

GM is conducting major surgery on the product plans it had set for the next decade, scrambling to react to falling demand for vehicles that consume a relatively large amount of gasoline. The next generation of GM minicars, on which the Beat is based, is slated to debut in several global markets in coming years and should be capable of at least 40 miles per gallon (17 kilometers per liter).

"We always thought we'd do it at some point, but now it obviously enjoys a much higher priority," GM Vice Chairman Bob Lutz wrote in an email. GM's U.S. sales were down 16% in the first half of the year, and the auto maker can't move fast enough to meet demand for its smallest, most fuel-efficient cars.

"The reality is that our future depends on selling a lot of small cars," David Sabolsky, sales manager of a Spitzer Chevrolet in North Jackson, Ohio, said. "They're going to be forced to come up with something like [the Beat] for this market."

GM

The **Chevrolet Beat** finished first in online voting by 1.8 million people.

GM is one of several players looking to eventually enter a minicar segment that currently is almost nonexistent. **Daimler** AG's Smart cars are the only serious minicars on the market, having gone on sale earlier this year, and thus far have shattered expectations.

Smart cars struggle to even fill half of a conventional parking space and are much smaller than BMW AG's stylish Mini products, for example.

Smart's sales through the first half hit 11,400 in the U.S., putting the company well on track to shatter the initial target of 16,000 sales in the first year. Initially a hit in trendy, coastal metro areas, Smart U.S.A. is now putting dealerships in cities like Tulsa, Okla., and Omaha, Neb. The company said buyers are using the cars as their primary mode of transportation.

Ford Motor Co. said Thursday it has no plans on the table to bring its microsized Ka minicar to the U.S., but it is monitoring the success that Smart is having.

"We have small cars on the shelf all around the world," Ford spokesman Jay Ward said. "If at some point we decide to bring [the Ka] over here, we would be in a position to do so."

Reliance firms continue battle

Letter seeks meeting for conciliatory talks on MTN Group deal

By Jackie Range

NEW DELHI—**Reliance Industries** Ltd. Thursday continued to pressure **Reliance Communications** Ltd.'s talks on a deal with **MTN Group** Ltd., writing to ask that Reliance Communications meet for talks in a possible prelude to going to court.

Reliance Industries' move represents the latest salvo in a dispute that has thrown a potential major telecommunications deal between MTN Group of South Africa and Reliance Communications into doubt.

Reliance Industries asserts it has a first right of refusal on any deal involving a change of control of Reliance Communications. The two companies are run by billionaire rival brothers and emerged from a Reliance business empire that was split when the two brothers fell out after their father died.

Reliance Communications is in talks on a deal with MTN Group that could create a combined entity spanning India, Africa and the Middle East. Reliance Communications denies that Reliance Industries has any right of first refusal over it.

On Thursday Reliance Industries issued a statement saying it has invoked the provisions of a dispute-resolution process and has invited Reliance Communications "to participate in the process of mutual conciliation prior to commencement of formal arbitration."

A Reliance Industries spokesman said that the invitation to talks needed to come 30 days ahead of any formal arbitration in the courts. A Reliance Communications spokesman said that "this is only a sign of Reliance Industries' increasing frustration and desperation."

Reliance Communications maintains that Reliance Industries' claim of a right of first refusal is a ploy to disrupt what it sees as the creation of one of the world's most valuable telecommunications companies.

EU firms gear up for raids

Price-fixing probes create new business; mock dawn searches

By Nina Koeppen

BRUSSELS—Europe's antitrust authorities are escalating their fight against price fixing—and creating a new type of business for corporate lawyers as a result.

The European Commission, the European Union's executive arm, has stepped up its investigative activities by adding staff and strengthening ties with national cartel offices since Neelie Kroes took the helm of the EU Competition Commission in late 2004.

Neelie Kroes

Penalties have surged: Fines imposed by the Commission amounted to roughly €3.3 billion ($5.18 billion) in 2007, more than eight times the €400 million levied in 2003. Investigations are also becoming more aggressive: Last year, regulators searched private homes for the first time in connection with a global probe into price fixing of marine hoses. Three executives in the U.K. were jailed after a probe by Britain's Office of Fair Trading into the matter.

While the surge in investigations has sent a shiver through European businesses, global law firms are benefiting by offering to advise their clients about how to act if they are raided. Among their services: staging early morning drills, also known as "dawn raids," in which they impersonate EU antitrust investigators to assess how employees react.

Linklaters LLP, a law firm with headquarters in London, carried out more than 20 mock raids in Europe in 2007, or four times as many as in 2004.

Lawyer Robert Jürgens in the company's Düsseldorf office, has gone on several. "We really make an effort to look the part," says Mr. Jürgens, who often wears a brown corduroy suit to look like a typical German bureaucrat.

Anne Federle, a Brussels-based partner at Linklaters, says jittery staff at one company responded to a mock raid by making frantic phone calls to other offices and stuffing legitimate documents into shredders.

On one occasion, the faux raiders were told a sales manager wasn't in the office. "Later that day," Ms. Federle recounts, "we learned that he had grabbed his agenda, jumped into his car and drove straight ahead for half an hour before stopping to call his secretary, who told him that it was only a test."

Fleeing isn't an advisable move, Linklaters says. Instead, the manager should have contacted the company's lawyers to help safeguard his company's rights.

Lawyers from Lovells LLP, another international law firm with headquarters in London, usually begin with their five dos and don'ts:

- Keep written notes of what the inspectors demand and do.
- Don't volunteer information. Keep your answers accurate and short.
- Don't sign anything without legal advice.
- Inform all staff about the do's and don'ts, even the cleaners.
- Don't break the seal if an inspector seals a room.

In January, Germany's **E.On** AG energy group was fined €38 million for breaking a seal that investigators had affixed to a door during a raid. E.On denied the charge, arguing that that there could be other explanations for the damage to the seal, such as a janitor's having scrubbed it with strong cleaning products.

"We'd advise our clients to have that door guarded," said Peter Citron, a Lovells lawyer who has helped the law firm develop an e-learning course that enables clients to role-play "dawn raid" scenarios online.

"A key challenge for companies is training staff on how to deal effectively with dawn raids and their aftermath," Mr. Citron said.

Another lesson is to take your medicine if you lose an appeal. EU regulators in February slapped a record €899 million penalty on **Microsoft** Corp. for failing to comply with sanctions the organization had saddled on the world's No. 1 software maker in 2004. Microsoft is appealing the fine.

European regulators aren't pleased by the new business for law firms. "It's very disappointing that companies do mock dawn raids," says Jonathan Todd, the Commission's spokesman on competition issues. "They should be investing time and resources to ensure that their staff do not indulge in anticompetitive practices in the first place, rather than trying to protect themselves from the consequences."

UBS reassures investors about its capital status

By Goran Mijuk

ZURICH—**UBS** AG Friday tried to calm fears of another capital increase this year by saying tax benefits and hedging gains had softened the impact of subprime-linked write-downs in the second quarter.

UBS, which so far has written down about $38 billion of investments linked to the U.S. home-loans market and has raised about 28 billion Swiss francs ($27.3 billion) in fresh money, said second-quarter results are likely "to be at or slightly below break-even."

Analysts had been bracing for a loss of about four billion francs, and, with it, the need for a new capital increase.

UBS said it had profited from its hedges, a three-billion-franc tax benefit and efforts to reduce the bank's subprime exposure. A spokeswoman for UBS said the tax benefit was related to UBS's previous subprime losses, adding that the bank was in talks with tax authorities around the world.

Analysts said hazards remain for UBS. It still owns substantial subprime-related assets and is likely to face more pressure at its private bank.

UBS will give an update on its subprime exposure in a report on the second quarter due Aug. 12. The exposure probably has fallen after UBS sold about $15 billion in assets to BlackRock Inc. in May.

UBS said, however, that its as-yet-unspecified second-quarter write-downs were mostly linked to its monoline insurance exposure. U.S. bond insurers were particularly hard-hit in the second quarter after their ratings were cut by leading ratings firms.

Despite the potential risks ahead, investors were reassured about the company's capital position, which might be enough to satisfy tighter balance-sheet requirements expected from Swiss regulators later this year.

UBS shares fell 54 centimes, or 2.6%, to close at 20.48 francs in Zurich Friday.

UBS said that because of its strong Tier 1 capital ratio of about 11.5%, the bank "has no need" to raise new equity.

UBS has tapped fresh money from shareholders and sovereign-wealth funds in two separate transactions, helping the bank maintain a high capital level. The Tier 1 capital ratio is a key measure of a bank's ability to absorb losses.

Under European banking rules, the minimum level is 4%, but the Swiss regulator has set higher minimum targets for its two leading banks, UBS and **Credit Suisse Group**. A spokesman for the regulator said that new capital targets and risk requirements are being discussed with the two banks and that fresh targets will be set in the fourth quarter.

Despite the slightly improved situation, analysts expect UBS to continue to suffer from more write-downs in the third and probably the fourth quarter as the situation in the U.S. subprime-mortgage market shows little sign of improvement.

"There are likely to be more write-downs but at a slower pace than in the past three quarters," said Dirk Becker, analyst at Landsbanki Kepler in Berlin, who rates the stock as a "buy," adding, "But what is really reassuring is that UBS is well capitalized and doesn't need new money."

Arrests made at Agriprocessors

By Miriam Jordan

Federal agents in the U.S. Thursday arrested two supervisors at **Agriprocessors** Inc., a large kosher meatpacking plant, on charges that they helped illegal immigrants secure fake documents and encouraged them to reside in the U.S.

The arrests marked the first by U.S. authorities of individuals in supervisory roles at the Postville, Iowa, plant. On May 12, Immigration and Customs Enforcement agents arrested 389 workers at the facility, most of them undocumented immigrants from Latin America.

Thursday, ICE agents arrested Juan Carlos Guerrero-Espinoza, 35 years old, and Martin De La Rosa-Loera, 43, on various criminal immigration and fraudulent-identity charges outlined in separate complaints filed in U.S. District Court in Cedar Rapids, Iowa. A federal warrant has been issued for the arrest of another manager, Hosam Amara, 43, who hasn't been located, according to a court statement.

Both Messrs. Guerrero-Espinoza and De La Rosa-Loera were charged with aiding and abetting the use of fraudulent identification before the raid. Mr. Guerrero-Espinoza is also charged with aiding and abetting "aggravated identity theft," according to the court. Both men were detained temporarily until their detention hearings Monday.

Illegal immigrants typically get jobs either by presenting Social Security cards and other identification carrying a fabricated name and number; or by utilizing the real name and Social Security number of a U.S. legal resident or citizen, which constitutes identity theft.

The court complaint, based on information from unnamed "sources" who worked at the plant, cites an instance in which Mr. Guerrero-Espinoza allegedly asked illegal immigrants for $200 and a photograph. The supervisor, who oversaw the plant's beef kill section, then allegedly provided the workers with fraudulent identification.

According to the complaint, Mr. De La Rosa-Loera, who oversaw the poultry kill division, allegedly asked illegal workers to secure new work papers to ensure that they could keep working at the plant just days before federal agents stormed the plant.

The complaint also alleges that the May 12 raid resulted in the seizure of dozens of fraudulent permanent alien resident cards in the human-resources department at Agriprocessors.

An Agriprocessors spokesman said after the arrests that the company couldn't offer any comment because "its attorneys are reviewing the paperwork pertaining to the federal action today."

The May raid marked the single-largest work-site operation by the Bush administration, which has recently stepped up enforcement at companies believed to employ illegal immigrants. Most of the detained workers were sentenced to five months in prison for engaging in identity theft, in addition to being charged with committing a civil offense for living in the U.S. illegally.

The raid exposed allegations that workers at the sprawling plant, which employed more than 900 people, were underpaid, physically abused, sexually harassed and extorted. Speaking on condition of anonymity, a U.S. government official who has visited the plant described the operation as "medieval." An investigation is still under way, and a court spokesman declined to disclose whether more arrests are likely.

The allegations about worker mistreatment at Agriprocessors have sparked a heated debate in the Jewish community. The raid has also disrupted kosher meat supplies, with shortages affecting customers at supermarkets and kosher restaurants.

Coke settles investor lawsuit over sales levels to bottlers

By Betsy McKay

Coca-Cola Co. agreed to settle a longstanding shareholder lawsuit filed by investors who claim the global beverage giant artificially inflated sales to boost its stock price.

The $137.5 million settlement, filed Thursday in U.S. District Court in Atlanta, ends an eight-year battle between the Atlanta company and plaintiffs led by **Carpenters Health & Welfare Fund**, an institutional investor based in Philadelphia.

In a class-action complaint originally filed in October 2000, the investors alleged that some key Coke bottlers had been forced in 1999 to purchase millions of dollars of excess beverage concentrate, an ingredient that Coke sells to its bottlers to make soft drinks. That practice, known as channel stuffing, helped Coca-Cola inflate its financial results, elevating its share price, the investors alleged in their complaint. The suit sought damages for investors who had acquired Coca-Cola stock between Oct. 21, 1999, and March 6, 2000.

The suit named Coke and four former company executives as defendants. The company said it settled without admitting wrongdoing. "We maintain these allegations are without merit and no admittance of wrongdoing is a part of the settlement," the company said in a statement emailed from a spokesman. "At this time, we have determined that it is in the best interest of our business to close this matter and put this distraction behind us."

Lawyers representing plaintiffs and the four former Coke executives couldn't be reached for comment.

In April 2005, Coke settled similar accusations by the Securities and Exchange Commission. The SEC concluded that Coke had misled investors by shipping excess beverage concentrate to bottlers in Japan from 1997 through 1999. Coke neither admitted nor denied the SEC's findings.

Marketplace

Going for the gold

As the Beijing Games draw closer, cities in the region hope to cash in > Page 29

CORPORATE NEWS

Banks turn peacemakers in BCE and Penn deals

By Peter Lattman

A group of banks and buyout firms helped salvage the $52 billion takeover of Canadian phone giant **BCE** Inc. The compromise closes a year of bickering about how to fund boom-era deals, which may at last help banks begin new lending commitments to corporations and buyout groups.

That follows an amicable agreement the day before, greased by bank lenders' concessions, to abandon a $6.1 billion acquisition deal for casino operator **Penn National Gaming** Inc.

In Penn, the banks paid handsomely to free themselves of underwriting $7 billion of unsold debt on which they would have had to take substantial write-downs.

The BCE deal, which will have its closing delayed until December, also lets the banks avoid having to sell BCE debt to investors amid brutal fixed-income markets and likely incur sizable write-downs. Their hope is that the credit environment will improve by December. Also, the banks buy themselves time to clear unsold debt on their balance sheets before having to bring this deal to market.

The banks had to play key roles in the BCE and Penn deals. In the BCE deal, banks led by **Citigroup** Inc. and **Deutsche Bank** AG helped craft the pact that delays the closing until December but maintains the transaction's original price struck one year ago.

BCE agreed to suspend its dividend payments through year end, leaving it with more cash and effectively lowering the purchase price.

The private-equity firms, led by **Providence Equity Partners**, agreed to small concessions on the $32 billion loan package, including paying a slightly higher interest rate to the banks.

In Penn National, the banks, knowing they would have to take big losses in order to sell the deal's debt, took the unusual step of agreeing to cover a $225 million breakup fee to Penn as well as $325 million in fees and expenses for the buyers, **Fortress Investment Group** and **Centerbridge Partners** LP.

Roughly one in five LBOs involving U.S. targets struck in 2007 have been terminated, a record number according to data provider FactSet MergerMetrics. In many of the situations where deals fell apart, banks and companies accused the private-equity firms of buyers' remorse, while the buyout firms have accused the banks of lenders' remorse. The truth is somewhere in between.

Some deals got done only after price cuts were agreed to, such as the sale of **Home Depot** Inc.'s supply unit and the **Clear Channel Communications** Inc. privatization, which is pending. Other LBOs failed to close, but the private-equity buyers invested in their targets to avoid litigation.

That was the case with Fortress and Centerbridge's stake in Penn National, as well as **Kohlberg Kravis Roberts** & Co. and **Goldman Sachs Group** Inc.'s investment in audio company **Harman International Industries** Inc.

Then there are the busted buyouts that have collapsed in litigation. Student lender **SLM** Corp. (or Sallie Mae) sued private-equity firm **J.C. Flowers** & Co. after the $25 billion buyout of the student lender fell apart; the case later was settled.

One more big legal battle remains, between **Huntsman** Corp. and **Apollo Management** LP, the last of the large unconsummated buyouts struck last summer. The scuffle is shaping up to be perhaps the nastiest of the lot. Apollo and its portfolio company, Hexion Specialty Chemicals, ran to court last month, asking a judge to scrap the $6.5 billion buyout of the chemical company. The Apollo side argues that, because of Huntsman's poor financial performance since the deal was struck, a combined company would be insolvent. Huntsman fired back, suing Apollo and its founders personally in Texas state court, accusing them of fraud.

Even though the most contentious period of the buyout boom is over, the ramifications will linger. A report by the Bank for International Settlements released Friday said companies will struggle to refinance the debt they have taken on in these deals. Companies bought in leveraged-buyout deals will have to roll over an estimated $500 billion in loans by 2010, according to the bank's Committee on the Global Financial System.

In the pact that BCE, its private-equity buyers and the banks hammered out, by keeping to the original $42-per-share deal price, BCE avoids having to ask shareholders to approve the transaction again. It also avoids having to repeat lengthy judicial and regulatory processes in Canada to clear the deal. In recent weeks, the banks financing the deal had argued for a lower price, according to these people.

Key to the pact is BCE's commitment to not pay out its dividend through year end.

Withholding its dividend payments would increase the company's cash by $900 million, giving Citigroup and Deutsche Bank greater comfort in providing the gargantuan loan package, roughly $32 billon.

BCE said in the past week it was skipping the payment of its $294 million second-quarter dividend.

Also, BCE is expected to generate roughly $600 million in cash flow through the balance of the year, further bolstering the company's balance sheet.

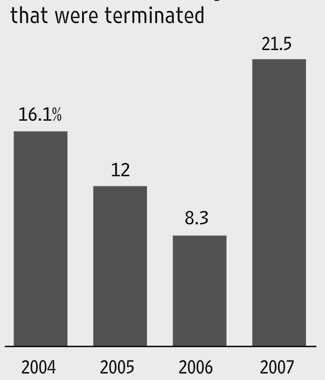
The retained dividend and earnings amount to roughly $2 a share in cash, effectively giving the banks a price reduction without having to change the price of the deal.

BCE is the dominant telecommunications carrier in Ontario and Quebec. As part of the deal's closing, the company announced the long-planned departure of its chief executive officer, Michael Sabia. He will be succeeded by BCE President George Cope.

—Tamara Audi contributed to this article.

Called off

Percentage of leveraged buyout deals with definitive agreements that were terminated



Source: FactSet Merger Metrics

BP sues Russian partners

Breach over TNK-BP grows as oil company seeks $370 million

By Gregory L. White And Guy Chazan

MOSCOW—Fighting back amid a deepening rift within its TNK-BP Ltd. joint venture, **BP** PLC has sued its Russian partners to recover a $370 million debt.

BP filed the suit against the Russian partners—led by billionaires Mikhail Fridman, Viktor Vekselberg and Len Blavatnik—in High Court in London on June 30, a spokesman said.

The debt stems from back-tax claims predating the creation of TNK-BP against one of the companies that the Russian partners put into TNK-BP when it was set up in 2003. A representative of the Russian shareholders said they viewed the amount BP is claiming as "inflated" and would fight the suit.

The AAR consortium, which represents the Russian-connected billionaires who own half of TNK-BP, said in a statement in Moscow on Sunday that the suit was "grossly inflated" and will be vigorously defended, according to Reuters. "AAR considers the claim as another example of BP's bullying tactics and an attempt by BP to deflect the focus away from its mismanagement of TNK-BP," said Stan Polovets, chief executive of AAR.

Relations between BP and its Russian partners have worsened sharply in recent months, with the Russians charging BP with mismanagement and the British company accusing its partners of trying to take over the 50-50 venture by stealth. The battle is playing out amid widespread expectations that a state-controlled company like OAO **Gazprom** ultimately is likely to take a stake in TNK-BP.

Adding to the tension has been a wave of regulatory and administrative pressure on TNK-BP, particularly on foreigners in top management, some of them BP veterans.

Earlier this week, immigration officials promised to renew work permits for 49 foreign executives, including TNK-BP Chief Executive Robert Dudley, promptly after the company had warned that delays in approvals could mean that many would have to leave Russia. TNK-BP also is seeking permits for about 36 more foreigners, and regulators have signaled some willingness to consider those, suggesting no more than a few foreigners would be forced to leave, according to people close to the company.

People close to BP said softening of the official position on work permits could be an effort to reduce potential bad publicity from the conflict at this week's Group of Eight summit in Japan. Western leaders are expected to raise the TNK-BP situation in private meetings with Russian President Dmitry Medvedev.

In recent weeks, foreign leaders and other officials have raised the conflict with their Russian counterparts repeatedly, highlighting what BP alleges is manipulation of regulators and courts by its Russian partners.

Publicly, Russian officials have said the conflict is one for the shareholders to resolve, though some have admitted in private conversations that administrative pressure is being abused, according to people familiar with the discussions. The Russian shareholders deny they have orchestrated a squeeze on TNK-BP.

But people close to both sides said they expect the pressure to resume later next week, with a series of court hearings scheduled, as well as continued inspections by labor and other regulators. The Russian shareholders also are renewing their push to remove Mr. Dudley as CEO and could bring that issue to court in Russia in a bid to overcome BP's opposition.

Top BP officials and the Russian shareholders are likely to meet July 11 at a board meeting of TNK-BP.

Discussions on the outlines of a settlement are moving slowly, according to people close to the talks.

The Russian shareholders are pushing for ways to raise the valuation of their stake, including possibly swapping their TNK-BP shares for stock in BP. But the British company would only agree to a deal that would raise its stake with approval from the Kremlin and a commitment from a state company to take ultimate control over TNK-BP.

The Russian shareholders say they don't intend to sell out in the short term, but acknowledge that they are likely to ultimately seek an exit.

CORPORATE NEWS

Insurers woo banks again

European companies seek looser alliances than mergers of past

By Goran Mijuk

ZURICH—European insurance companies are once again seeking closer ties with banks to help increase their sales to a wider range of clients. But unlike a decade ago, when takeovers were fashionable, today companies are looking at looser arrangements.

Bancassurance, or the idea that one company should offer both insurance and banking services under one roof, was a favored business model in the late 1990s. Deals such as the $70 billion merger between Citicorp and Travelers Group to form **Citigroup** Inc. paved the way for a flurry of mergers between banks and insurers in the U.S. and Europe, including **Allianz** SE's acquisition of Dresdner Bank in 2001.

While hopes for cost cuts and growth were high at the beginning, the plans were rarely successful, as the costs to fully merge a bank with an insurer often outweighed the expected benefits. Citigroup ultimately sold off most of its insurance business in 2005. And **Royal Bank of Scotland Group** PLC is planning to sell its insurance arm.

Despite those setbacks, some insurance companies are trying again, only this time by seeking sales agreements and other less-rigid forms of partnership. While such arrangements still offer some drawbacks—including high set-up costs for educating bank staff to sell policies and competition between banks and insurers that sell similar savings or investment-type products over a single counter—the risks are generally much smaller, while cost savings and growth rates seem healthy, analysts say.

Aviva PLC, Britain's largest insurer by premiums, has been a leader in this trend. In 2007, it signed agreements with banks such as **HSBC Holdings** PLC, **Banco Popolare** SA, UniCredit Banca and Caja Espana, giving it access to 50 million potential new customers world-wide, according to Andrea Moneta, chief executive of Aviva Europe.

Last year, the company sold 51% of its European life and pension policies via banks, up from 48% in 2006 and 44% in 2005, she said.

Other insurance companies are following. Last week, **Swiss Life Holding** AG signed a deal with Swiss bank **Zweiplus** Ltd. that will widen the insurer's range of potential clients.

"The cooperation with bank Zweiplus presents us with an ideal platform to again expand our range of financial products," said Paul Mueller, Swiss Life's Chief Executive for Switzerland.

Zurich Financial Services AG, meanwhile, appointed Antoine Baronnet, a former ABN Amro executive, last week to lead its newly created private-banking clients' unit, which will offer insurance services to wealthy individuals world-wide.

Although Zurich Financial declined to provide a forecast, it noted that "this segment offers a huge potential to serve private-banking clients who now have less than 1% of invested assets in insurance-related products."

The private-banking clients will be contacted through Zurich's bank partners, which it declined to detail. A spokesman said these agreements are part of Zurich's effort to augment its distribution system, which includes partners such as **Deutsche Bank** AG.

Other insurers have also launched efforts to curb costs for maintaining large sales teams and profit from the tightly knit networks of banks, especially in emerging markets.

Spanish insurer **Mapfre** SA has distribution agreements in place with HSBC Holdings and Spain's **Banco Santander** SA, helping the insurer sell policies in South America. Likewise, Austrian insurer **Uniqa Versicherungen** AG hopes its agreement with **Raiffeisen International Bank-Holding** AG will help it enhance its business in Eastern Europe.

ANA may buy Airbus jets instead of Boeing's latest

By Bruce Stanley

All Nippon Airways Co. is considering whether to end its reliance on **Boeing** Co. for large aircraft and order superjumbo A380s from rival Airbus.

A group of top executives for the carrier, Japan's second largest by passenger traffic, met for the first time last week to begin studying whether to order double-decker A380s for overseas routes with especially high demand. ANA's New Aircraft Selection Committee also is considering as alternatives buying Boeing's 747-8—the latest variant of that model—or not buying either.

"They'll meet as many times as they need to. They'll take their time," company spokesman Rob Henderson said Friday.

It isn't clear whether the move will lead to a deal for A380s. Major customers often pit Airbus and Boeing against each other to win discounts and other benefits.

A purchase from All Nippon Airways would represent a breakthrough for Airbus in one of the world's largest aviation markets, one that rival Boeing has dominated since the dawn of the jet age. Airbus, a unit of **European Aeronautic Defence & Space** Co., actively marketed the A380 to both ANA and the nation's No. 1 carrier, Japan Airlines Corp., but neither has ever purchased a widebody plane from the Franco-German company.

ANA is the launch customer for the twin-aisle Boeing 787 Dreamliner. It had expected to receive the first of 50 Dreamliners in May, but production problems have delayed delivery until the third quarter of 2009. The carrier has 31 smaller, single-aisle Airbus jets among its total fleet of 215 aircraft. Japan Airlines, known also as JAL, operates 22 twin-aisle Airbus A300-600s, but it inherited them from a third carrier it merged with in 2004, and it uses them only on domestic routes.

ANA hasn't requested detailed sales proposals for either of the planes. Mr. Henderson declined to specify how many A380s ANA might be interested in buying, nor would he disclose which routes it might want them to fly, though he said ANA would most likely operate such planes from Tokyo. If ANA ordered A380s, it wouldn't expect to take delivery of them until after 2012, he said.

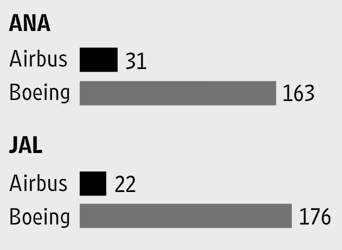
Boeing declined to comment on the implications of ANA's new aircraft-selection committee. An Airbus spokesman couldn't be reached for comment.

The A380 is the world's largest passenger plane, with about 550 seats. The plane represents a gamble for Airbus and EADS because of its size and complexity. Delays in its development two years ago contributed to a leadership overhaul at EADS and Airbus.

Boeing's 747-8 can carry as many as 467 people.

All Nippon Airways Airbus A320

Airbus



Fleet size

Airbus and Boeing aircraft owned by All Nippon Airways and Japan Airlines

Source: the companies

Société Générale fined for laxity

By Mimosa Spencer And Alice Dore

PARIS—The French Banking Commission said it fined **Société Générale** €4 million ($6.3 million) for failures in its internal procedures relating to the €4.9 billion loss linked to an alleged rogue trader fraud.

The commission said failures took place at the bank in the follow-up and control of the trader, Jérôme Kerviel, allegedly responsible for trading losses. Société Générale declined to comment. Société Générale announced trade losses in January, after unwinding unauthorized trades it alleges were carried out by then-employee Mr. Kerviel. The banking commission said the origins of gains made by the trader weren't sufficiently examined.

GLOBAL BUSINESS BRIEFS

Audi AG

Sales in China set record; A6, A4 models lead rise

German auto maker **Audi** AG said its sales for the first half of the year were up 23% in China. Audi said it sold 60,509 vehicles in China, including Hong Kong, from January to June, a record for the German auto maker that is part of **Volkswagen** AG. Audi produces its A6 model in Changchun, China, and the company said sales of that car rose 18% in the first six months, with buyers snapping up 42,969 vehicles. The Audi A4, also produced in China, posted sales totaling 10,819 in the same period, a 20% increase from the first half of 2007. In June, Audi began building a second production facility in Changchun to accommodate the rising demand. Audi has been in China since 1988 and sold more than 100,000 cars in the country for the first time last year.

Aker Solutions ASA

Norwegian engineering conglomerate **Aker Solutions** ASA said it bolstered its well and pipeline unit through the purchase of **QServ** Ltd., a closely held U.K.-based company, in a bid to beat competitors in a high-cost, tightly resourced marketplace. Aker Solutions will pay an initial 1 billion kroner ($196.8 million) and make an unspecified deferred payment in 2011. The companies already work together on the delivery of integrated intervention services for wireline tractors, light wells and logging. QServ's revenue was 500 million kroner last year and is expected to increase rapidly in coming years. It has operations in the U.K., West Africa, the Middle East and Southeast Asia.

Alliance & Leicester PLC

U.K. bank **Alliance & Leicester** PLC announced management changes aimed at beefing up risk management. Richard Banks, managing director for commercial banking, will become group risk director. The revised structure "emphasizes the importance we attach to maintaining the above average asset qualityof our customer loans and advances by creating a board-level role focused on the management of risk," said Chief Executive David Bennett. The bank's information-technology director, Ian Buchanan, will join the board as group manufacturing director. Finance director Chris Rhodes will take additional responsibility for the bank's treasury. Corporate banking director Bryce Glover will become managing director for commercial banking.

GfK AG

The administrative board of GfK-Nürnberg eV, the not-for-profit group that founded German market-research company **GfK** AG, Friday said it voted in favor of GfK's proposed merger with **Taylor Nelson Sofres** PLC. The approval comes as U.K.-based TNS continues to fight off a bid by Martin Sorrell's **WPP Group** PLC. The U.K. advertising firm Thursday made a sweetened offer that TNS again rejected. The TNS-GfK merger plan can't go ahead without the approval of the administrative board that owns 57% of GfK, as well as its members, said Raimund Wildner, head of the GfK-Nürnberg association. The association's members, more than 500 companies, institutions and private investors, will vote on the planned merger with TNS on July 21.

Royal Dutch Shell PLC

Royal Dutch Shell PLC is cutting its community-development programs in the Niger Delta as its business suffers from unrest and state underfunding. Militants and local communities in Nigeria have repeatedly attacked the company's facilities during the past two years, seeking a larger share of revenue. **Shell Petroleum Development** Co. has scaled back its plan for memoranda of understanding with communities "due to funding shortages from our government partner and increased community disruptions of operations," according to a Shell Nigeria note. SPDC is Shell's joint venture in Nigeria onshore and in shallow waters. The memoranda of understanding were aimed at equipping Niger Delta communities with infrastructure such as power generators.

Marks & Spencer Group PLC

Analysts' forecasts for **Marks & Spencer Group** PLC's profit for fiscal 2009 dropped by as much as 34% in recent days, pointing to an uphill climb for the British retailer after it posted a profit warning last week amid waning consumer confidence. Revised forecasts for underlying profit before tax and exceptional items for the company ranged from Goldman Sachs's 34% cut to £577 million ($1.1 billion) to a more modest downgrade of 6% to £800 million from Pali International, according to a Dow Jones Newswires survey of nine analysts. The new average figure puts the company's profit for next financial year at £696 million compared with the previous figure of £870 million.

SCi Entertainment Group PLC

Struggling videogame designer **SCi Entertainment Group** PLC, maker of the Tomb Raider series, appointed Robert Brent chief financial officer. The post was vacated in January after three top executives left the company and Phil Rogers, the finance chief at the time, became chief executive. Mr. Brent succeeds interim finance chief Malcolm Dunne, who had been finance chief of SCi's U.S. publishing business. Mr. Brent had been head of research at KBC Peel Hunt, where he researched the videogaming sector for five years. SCi publishes its games under the better-known Eidos Interactive brand, including the Tomb Raider series, Hitman, Kane & Lynch, and Age of Conan brands.

Daewoo Shipbuilding & Marine

South Korea's **Daewoo Shipbuilding & Marine Engineering** Co. said it has received a $2.33 billion order to build 16 large container ships for Danish shipping company **A.P. Moller-Maersk**. The vessels will be delivered to Maersk by June 29, 2012, the shipbuilder said. Maersk said it ordered the ships from Daewoo with individual capacities of 7,450 20-foot equivalent units and capable of carrying a record 1,700 refrigerated containers each. The ships will transport goods between the east coast of South America and Asia and Europe. Daewoo Shipbuilding has received $9.83 billion worth of vessel orders so far this year, accounting for 56% of this year's order target of $17.5 billion.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

INDIA

Truck drivers scrap strike after tolls are rolled back

INDIAN truck drivers called off their strike after the government met their demands to roll back rising road tolls, ending a standoff that could have paralyzed much of the Indian economy, union leaders and government officials said.

The government agreed to reverse a recent increase in toll-road fees after the All India Motor Transport Congress, which represents 4.8 million truckers, went on strike last week. The Transportation Ministry confirmed the agreement, pledging not to increase toll taxes on national highways for at least a year, according to a ministry statement.

—Associated Press

POLAND

U.S. missile-defense offer doesn't meet expectations

POLAND'S prime minister said the latest U.S. offer to persuade his country to place 10 missile-defense interceptors there as part of a shield against a possible Iranian attack is unsatisfactory, but stressed that negotiations with Washington will continue. Donald Tusk, above, said any deal must increase Poland's security. He said his government believes the latest U.S. offer doesn't fulfill that requirement. Mr. Tusk made it clear that Warsaw's decision wasn't a final rejection. "I wouldn't talk about the end, suspension, or interruption," he said at a news conference. "Negotiations, in my opinion, are continuing."

—Associated Press

TURKEY

Host aims to bring Israel and Syria into direct talks

TURKEY will host a fourth round of indirect talks between Israel and Syria later this month, with the aim of eventual direct talks, an official said.

Turkish mediators have been shuttling between the Syrian and Israeli delegations in Istanbul throughout three rounds of talks that began in May. No result has been made public. Syria demands that Israel return the Golan Heights, a strategic plateau Israel captured in the 1967 war. In the past, Israel has agreed in principle, but the two sides couldn't agree on a final border or terms of peaceful relations. A Turkish official said the fourth round of talks was scheduled for the end of July.

—Associated Press

Berwick hears call of bagpipes and benefits

English border town weighs joining Scots; Russia can be at ease

By Alistair MacDonald

FOR CENTURIES before the U.K existed, the town of Berwick-upon-Tweed changed hands 13 times in wars between the English and the Scots. The town ended up in English hands in 1482 and has stayed since.

But today, the walled town on England's windy northeast coast wants to be Scottish once more. Local calls to move the border between England and Scotland 2.5 miles to push Berwick into Scotland are being helped by the resurgent Scottish National Party, which is winning voters from Prime Minister Gordon Brown's Labour Party. It is yet another problem for Mr. Brown, whose popularity is at record lows.

A large part of Berwick's tartan yearning is a desire for some of the more generous welfare and health-care benefits north of the border, a situation that has stoked increasing resentment from people in England. Berwick has one of the U.K.'s lowest average wages and high unemployment. The Scots get their university tuition fees paid for, and they pay less for prescription drugs than the English do, in some case nothing.

"People see what the Scots, only a few miles away, have and it is like dangling a carrot in front of them," says Isabel Hunter, the leader of Berwick-upon-Tweed council. Some residents are pushing for the right to vote on the issue in a referendum.

Berwick already sees itself as an outlier, miles from London. "Edinburgh would know who we were. London doesn't know who we are, they don't know where we are, and they don't care," says Michael Ross, a retired policeman, who has been writing letters to local newspapers and politicians to advocate joining Scotland.

English separatism is being encouraged by the Scottish National Party, which recently won control of the Scottish Parliament in Edinburgh from the Labour Party. The Scottish National Party wants to secede from England altogether, splitting up the 300-year-old union.

In a big test for the party later this month, it is expected to give Mr. Brown's Labour Party a stiff fight in the Labour stronghold in Glasgow, with the Scottish National Party predicted to make gains, if not win a U.K. Parliament seat, in what would be a big blow for the prime minister.

The Scottish National Party says the boundary would be easy to shift. Policy makers could modify a recently passed piece of legislation that moved Berwick's council boundary south, or through new legislation that the U.K. Parliament would find hard to turn down if Berwick voted to support it in a referendum.

Local boundaries are redrawn frequently in the U.K. In 1999, the U.K. Parliament tilted a maritime boundary line northward from Berwick to give England about 6,000 square miles of once-Scottish North Sea waters. The move was seen in Scotland as an attempt by London to secure potential oil and gas revenues if Scotland moved for full independence.

Pete Wishart, the Scottish National Party member of the U.K. Parliament for North Tayside, brought up the issue of Berwick's borders in Parliament in London, reflecting the attention the issue is getting. "If that is what they want, we would be delighted to see Berwick back in Scotland," Mr. Wishart says. And a local councilor in Scotland opposite the Berwick border says he wants Berwick on his patch because it would bring in additional tax revenues and he would gain a train station and a port.

As the U.K.'s economy slows and unemployment rises, increasingly some English people are moving across the border as Scottish benefits look more attractive.

Euan Aitchison, a real-estate agent in Berwick, has sold about 25 Scottish properties to English people this year. Around a third of the buyers have cited the better benefits in Scotland as a reason for their move. Because Berwick is less than a 10-minute drive from the border, they can continue to work in and around the town but live in Scotland, as Mr. Aitchison himself does.

"With the credit crunch, people are increasingly doing just that," he says.

That said, some in Berwick, including the local member of Parliament, believe that turning Berwick Scottish would be impractical. Ms. Hunter says that because Scotland's legal and educational systems are different from England's, the change would be more work than it is worth. And residents disagree over where to draw the new border. Twempies—those on the southern side of the town, which is cut in two by the River Tweed— are less keen on joining Scotland than those on the north, the Berwickers.

"Twempies have never quite forgiven the Scots for insisting that Tweedmouth Castle be pulled down in the early 13th century," says Chris Green, the curator of the local museum.

Berwick has always had a schizophrenic identity. The local football and rugby teams play in Scottish leagues. And the local accent moves in and out of Scottish dialects and the so-called Geordie accent of northeast England. Tourists arriving in the walled town often think they are already in Scotland, says Steven Hope, who helps run the Sporran Gift Shop off the main shopping street. Last week, a group of American tourists thought they had crossed into Scotland and stocked up on Scottish shot glasses, a fake Scottish passport and bagpipe refrigerator magnets that play "Scotland the Brave," says Mr. Hope.

Berwick also has an identity of its own as a border town. For long periods between the 13th and 17th centuries, the borders were practically lawless, as the "border reiver" families of Scotland and England raided each other and the two countries' armies battled for dominance. In 1305, one of Scottish rebel Wiliam "Braveheart" Wallace's arms was displayed in the town after his execution and quartering in London.

For many years, because of its contentious status, the town wasn't a part of either country. In the 16th century, laws and official documents would talk of the Kingdom of "England, Scotland and Wales and the town of Berwick-upon-Tweed," says Mr. Green, the museum curator. This led to the unproven but popular story—one Mr. Green says he doubts—that having been left off the U.K.'s 1856 Crimea War peace treaty with Russia, Berwick was still officially at war with Russia. In 1966, according to the local tale, a councilor made peace with Soviet officials, asking them "to tell the Russian people that they can sleep peacefully in their beds."

U.K. labor market faces slowdown

By Joe Parkinson

LONDON—The British labor market is buckling under the weight of higher interest rates, accelerating inflation and sinking confidence.

Unemployment—traditionally the final symptom of a downturn—has risen steadily for the past four months in the U.K. to 5.3% of the work force as of April, according to official data.

Behind the government statistics are growing rolls of corporate layoffs as profits plummet.

As the housing slump worsens, U.K. home builders **Barratt Developments** PLC and **Taylor Wimpey** PLC last week said they will together cut nearly 2,000 jobs.

Real-estate agents, mortgage brokers and other service providers have all followed the financial sector by laying off workers in recent weeks. A survey from e-recruiter CV-Mail showed that almost three-quarters of commercial property agents expect to cut or freeze staffing over the next 12 months.

Insurer **Aviva** PLC announced plans to cut 1,800 jobs, while motor trader **Pendragon** PLC cut 500 jobs.

"We are witnessing the beginning of a serious slowdown in the U.K. labor market—unemployment may rise as much as one million by the end of 2010," said Vicky Redwood, an economist at Capital Economics. "Businesses are getting hit from all sides, by a fall in demand and the rising cost of energy and materials."

The U.K. also could be setting the trend for a broader rise in unemployment in Europe, where economies also show signs of cooling.

"The U.K. labor market is deteriorating faster than the euro zone, but Spain, Italy and France won't be far behind," said Howard Archer, an economist at Global Insight. "Businesses are getting hammered as price pressures rise, confidence slides and demand slows."

Bleak purchasing-managers' data last week showed the U.K.'s dominant service sector contracting sharply in June, with employment intentions hovering around a 12-year low. Manufacturing data also showed a sharp contraction and a decline in expectations for hiring.

Economists warn that mounting pressures could result in a rise in layoffs over the next year. And large job losses will put further pressure on the U.K.'s deteriorating public finances, as income-tax receipts drop and welfare costs rise.

"There's certainly no room for fiscal maneuver—you can forget a U.S.-style fiscal stimulus," said Philip Shaw, an economist at Investec.

ECONOMY & POLITICS

Israel's banker in a bind

Former IMF official confronts challenges in job at central bank

By Bob Davis

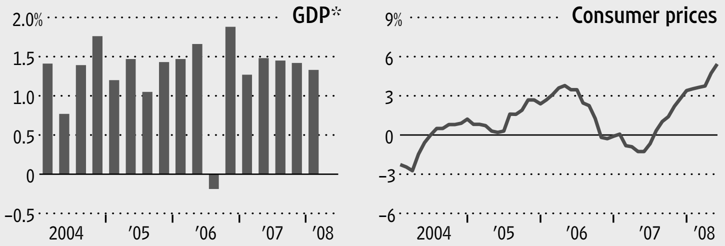
Tough job

Stanley Fischer, head of the Bank of Israel, is facing dilemmas that are bedeviling central bankers everywhere.

Stanley Fischer's career highlights:

- Governor, Bank of Israel, 2005–Present
- Vice Chairman, Citigroup, 2002–2005
- First Deputy Managing Director, International Monetary Fund, 1994–2001
- Head, Department of Economics, M.I.T., 1993–1994
- Chief Economist, World Bank, 1988–1990

Some of Israel's economic indicators; change from previous quarter



*Seasonally adjusted Source: Bureau of Statistics via Thomson Reuters Datastream

JERUSALEM—As the International Monetary Fund's No. 2 official, Stanley Fischer helped guide the global economy through the financial crisis that devastated Asia, Latin America and Russia in 1997 and 1998. Mr. Fischer was the IMF's main intellectual force, while his boss handled the politics.

Now, Mr. Fischer is governor of the Bank of Israel, putting him in charge of a one-time largely socialist economy that has embraced the classic IMF advice of tightening budgets, opening borders to trade and investment, and privatizing companies—and has prospered immensely. Over the past five years, Israel has grown at an average of about 5% annually, while inflation was often less than 2%.

THE OUTLOOK

Israel is a place where nearly everyone thinks he's an expert on nearly everything. "I get [advice] when I'm running on the beach," says the reed-thin 64-year-old economist. "People stop me. I never ignore it. I listen."

Mr. Fischer is confronting dilemmas that are bedeviling central bankers everywhere. When inflation is mounting and economic activity is declining, which should be attacked first? How should a country that's benefiting from globalization deal with the income inequality that often accompanies the gains? And how seriously should a country take IMF advice when the IMF is struggling to redefine itself?

Sitting in an office where he gazes at Bethlehem in the distance, Mr. Fischer says that Israel and many other countries are being battered by storms originating elsewhere: the economic slowdown and subprime mortgage fiasco in the U.S., the rise in commodity prices around the world and the tumbling dollar, which make Israeli high-tech exports more expensive internationally.

"The difficulty is the level of uncertainty. It's very hard to believe the price of oil can keep going up at the rate that it has been going up, but that's been true for some time," he says. Similarly, "we may be standing in front of an economy that's slowing markedly. So we're going to move relatively slowly as we watch developments unfold."

The current era reminds him somewhat of 1970s stagflation, when inflation soared and growth collapsed. But he thinks central bankers have learned the main lesson from that era: Make sure, above all, to keep inflation in check even if that means reducing growth. But translating that lesson into action is tough. If oil prices are likely to fall soon, raising interest rates is the wrong medicine.

"We don't want to do anything dramatic like say, 'We'll kill inflation for sure,' " he says. "One of the lessons of central banking is you don't try and get back to the target range on inflation in one shot because you have to take account of what you do to the real economy," he adds.

Israel can't use one of the Federal Reserve's tricks, he says—focusing on "core" inflation, which subtracts energy and food prices from overall inflation. While the Fed argues that core inflation gives a truer economic picture, the lower number also reduces political pressure to raise rates. Like many countries in Latin America, Israel has a history of hyperinflation, so, Mr. Fischer says, he must be hypersensitive to inflationary fears. Inflation is now running around 5% in Israel, well above the central bank's target of 1% to 3%.

"If I started becoming Mr. Core Inflation, the public would rightly think I'm trying to avoid the issue that the inflation rate is high," he says. Still, Mr. Fischer is coming in for criticism. A recent article in the Israeli newspaper Yedioth Ahronot headlined: "Fischer misses the target again and again."

For the most part, Mr. Fischer has been a soothing presence in a raucous country. His appointment was initially criticized because he wasn't an Israeli citizen before he took the job. (He now has dual U.S. and Israeli citizenship.) But his long ties with the Jewish state helped. As an 18-year-old, he volunteered on a kibbutz, and in the 1980s, he helped design Israel's anti-inflation strategy. Many Israelis are impressed by his diligence in learning Hebrew, which he speaks with the British-empire accent he picked up as a child living in what was then northern Rhodesia, and by his international connections.

He also has tried to address increasing income inequality in the country.

"Fischer is like the ambassador of globalization to Israel," says Leo Leiderman, a former Bank of Israel economist.

But the opening of the economy has downsides too. The shekel has appreciated 25% against the dollar in the past two years, bringing yelps from Israel's booming high-tech export sector. Mr. Fischer intervened heavily in March to buy dollars and drive down the shekel. He says he acted to help stabilize "disorderly" markets and head off problems in the banking sector. But the move is seen in Israel as a largely failed attempt to stem the rise of the shekel.

"I know the Israel economy and the shekel is too strong," says Shlomo Zohar, chairman of Israel Discount Bank.

In March, Mr. Fischer also directed the Bank of Israel to buy $25 million a day for two years to add $10 billion to what were then Israel's $28 billion in reserves. He argues this will help Israel weather potential crises, but, again, many analysts interpret the move as trying to put some kind of ceiling on the shekel. "We do not want to be guys who are in there every day making the market guess which way we will go and try to move the price on a daily basis," Mr. Fischer says, "because my experience is you don't succeed in that business."

He has tried to address another of the downsides that globalization often brings—increasing income inequality, as salaries in high-tech professions take off in comparison to other fields. In Israel, ultraorthodox men, who focus more on prayer than work, and Arab women who are blocked by custom and prejudice from the workplace are often left behind. They also frequently have large families.

Rather than boost child-care payments as ultraorthodox leaders want, Mr. Fischer has pushed for an Israeli equivalent of the U.S. earned-income tax credit, where those with low-income jobs get payments from the government. "It's undesirable to raise children's allowances and encourage people to stay out of the labor market," he says. "It's much better to give incentives to people to go into the labor market."

As to what he thinks of IMF advice, Mr. Fischer has now joined a long list of government officials who have rejected IMF proposals, specifically a suggestion that the Bank of Israel assemble a committee of experts to advise the government on fiscal policy. The bank doesn't need the help, he says, doing his best not to sound prickly. "In the case of the fund, I listen carefully, I read [their reports] and discuss them," he says. "But you don't have to accept" what the IMF says.

WSJ.com

Online today
See excerpts from Mr. Fischer's conversation with the Journal, at **WSJ.com/OnlineToday**

McCain campaign strives for tighter message focus

By Elizabeth Holmes And Laura Meckler

John McCain will spend this week talking about the economy, but the Republican candidate for the U.S. presidency isn't expected to say anything new. Rather, he will repackage proposals he has already outlined—ones the campaign fears nobody heard.

"We don't think we've made the case eloquently," Doug Holtz-Eakin, the campaign's policy director, said.

With four months until Election Day, and four months since Sen. McCain secured his party's nomination, the Arizona senator is relaunching his campaign. Trailing Democrat Barack Obama in the polls and dogged by the dismal approval ratings for the administration of George W. Bush, the campaign rearranged its staff last week. The primary reason: to sharpen its messages.

The goal is to put out a consistent message each day that can penetrate voters' minds. The ability to control a certain story line through a 24-hour news cycle is seen as one element of a successful modern political campaign and, so far, Sen. Obama has been seen as better at sticking to his chosen theme for a day than has Sen. McCain. The Illinois senator did seem to stumble Thursday, however, with comments suggesting he was moving away from his promise to pull troops out of Iraq—forcing him to hold a second news conference after a rare admission from the candidate that "I was not clear enough."

The McCain makeover involves a complex task: how to control a politician best known for ask-anything town-hall meetings and long, rambling conversations with reporters on his campaign bus—and, now, on his campaign plane, dubbed the Straight Talk Express.

A top adviser said they considered cutting back on those formats but concluded they couldn't. "It's John McCain, it's his brand," strategist Charlie Black said. "The fact he is engaging with average citizens and with reporters is part of his brand."

So the campaign will try to find ways to better manage what comes out of these sessions. Aides say they will push Sen. McCain for tighter delivery and to contain diversions—if not completely eliminate them. One senior adviser said the message will be executed "crisply" from now on.

Until recently, Sen. McCain began town halls with his standard stump speech that touched briefly on a variety of issues, from immigration to the economy.

Now, most town halls will begin with a scripted speech wound around a topic of the day. Sen. McCain is then supposed to weave that topic through his answers and come back to it at the end. He will still take questions on any topic from audience members. But the campaign said it recognizes that most questions cover familiar territory, so the candidate's answers aren't likely to make news that will upstage the message of the day.

Aides say the extended sessions with reporters will continue. The rolling campaign-bus conversations have been limited because Sen. McCain spends much less time on buses than he once did. The time available is usually given to local reporters, who better reach voters in battleground states. But the campaign's new charter airplane is outfitted with an area suitable for similar conversation in the air with traveling national reporters.

Sen. Obama rarely has such open-ended, informal meetings with the media, sticking instead to short news conferences or one-on-one interviews.

The McCain campaign will also rely more heavily on surrogates for the candidate, a technique they say they have used ineffectively in the past. To keep control on the message, aides will carefully brief surrogates on specific talking points and then deploy them to reinforce Sen. McCain's message. Mr. Black says they want "more surrogates, more appearances, more air time."

Behind the scenes, the campaign is centralizing power.

In his new role running day-to-day campaign operations, Steve Schmidt, who formerly served as a senior adviser and who had worked for the Bush-Cheney re-election effort in 2004 and ran California Gov. Arnold Schwarzenegger's re-election campaign, is taking over responsibilities that once fell to campaign manager Rick Davis.

Mr. Davis, a former lobbyist, will retain his title. But, rather than the daily messaging, he will oversee longer-term projects such as the party's September convention and the fall debates. Mr. Schmidt will report directly to Mr. Davis, but the campaign's roughly 300 employees will report to Mr. Schmidt.

Mr. Schmidt's first order of business was to reconfigure the structure of control. Mr. Davis had created a system of regional campaign managers, delegating considerable authority to people on the ground in each of 11 regions.

The idea was to delegate decision making to those closer to the targeted voters, but the campaign concluded more centralized decision-making was needed. Mr. Schmidt is now seeking to hire a national political director and a national field director.

Mr. Schmidt will also take control of campaign travel. Much of the schedule thus far has been dictated by fund raisers to bolster the campaign's coffers. As a result, some events have been held in inopportune locations or too late in the day to generate maximum news coverage.

Germany, Spain economies slow

A WSJ News Roundup

Germany and Spain issued unexpectedly weak economic reports, adding to signs that European economies are slowing.

In Germany, Europe's largest economy, May manufacturing orders fell for the sixth consecutive month, down 0.9% from April on weaker domestic demand, the German Economics Ministry said. Economists had expected a 0.8% rise on a seasonally adjusted basis.

In Spain, industrial production fell 5.5% in May from a year earlier, its sharpest fall since December 2001, the National Statistics Institute said, adding to fears that the euro zone's fourth-largest economy may be heading into recession.