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*Obama is facing resistance from top Clinton backers*

NEWS IN DEPTH | PAGES 14-15

*French budget crackdown puts spas in hot water*

ON OTHER FRONTS | PAGES 16-17

# InBev taps familiar name with picks for Anheuser

## *Board slate includes Adolphus Busch IV, signaling family rift*

By Julie Jargon

InBev NV's attempt to buy Anheuser-Busch Cos. took another hostile turn Monday when the European brewer announced it has a full slate of directors ready to replace the Anheuser board.

InBev's proposed board appointment of Adolphus Busch IV, uncle of Anheuser Chief Executive August Busch IV and half-brother of previous CEO August Busch III, signals a deepening family rift over the U.S. brewer's future.

After InBev made its $46.35 billion offer last month, Adolphus Busch IV sent a letter to Anheuser's board saying he supports a sale to InBev. "I believe that as directors you have a fiduciary duty to commence negotiations with InBev in order to bring about this deal," he said in the letter. Mr. Busch has said he owns a substantial block of Anheuser shares, though less than 1%.

But Anheuser's board, on which both August Busch III and August Busch IV sit, unanimously

*Please turn to back page*

**Emily Moyo** and son Amos shop at a market in Harare, Zimbabwe, where a bunch of vegetables cost five million Zimbabwe dollars.

Reuters

# Central banker answers to God and Mugabe

By Andrew Higgins

Custodian of a currency in free fall in a country ravaged by hyperinflation, Gideon Gono, Zimbabwe's central-bank governor, scoffs at "traditional economics" and seeks guidance elsewhere.

He says he reads the Bible.

This, says the guardian of Zimbabwe's monetary policy, has taught him the importance of obeying Robert Mugabe, the country's 84-year-old leader and architect of policies widely blamed for the destruction of a once-flourishing African economy.

"Anyone who says the bank governor should violate the head of state is violating a principle that Jesus Christ demanded of his disciples," says Mr. Gono, a churchgoing Christian and former commercial banker. "A key element Christ looked for in his disciples was loyalty."

Zimbabwe's central bank has lost all autonomy and provides no check on the ruinous course set by Mr. Mugabe and his corruption-riddled ruling party, Zanu-PF.

Mr. Gono "has to answer to his master," says Tapiwa Mashakada, an economist and the shadow finance minister of the opposition Movement for Democratic Change. "There is no dividing line anymore,"

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## Slow going on aid

The Group of Eight rich nations make little progress on Africa .....2

# Microsoft sets key condition for Yahoo talks

By Jessica E. Vascellaro and Gregory Zuckerman

Microsoft Corp. said Monday that it is interested in restarting talks to acquire some or all of Yahoo Inc. if the Internet company's board is replaced, as Carl Icahn continued his fight to convince Yahoo shareholders that he can mediate a deal with Microsoft.

Yahoo responded to Microsoft's statement by accusing Microsoft Chief Executive Steve Ballmer and Mr. Icahn of conspiring to force Yahoo to sell part of the company at a price Mr. Icahn would negotiate—something it said wouldn't be in the best interests of shareholders. "If Microsoft and Mr. Ballmer really want to purchase Yahoo, we again invite them to make a proposal immediately," the statement read.

The latest back-and-forth came as Mr. Icahn on Monday sent Yahoo shareholders a letter detailing his discussions with Microsoft and arguing that Microsoft "made it abundantly clear" to him in recent days that the company won't negotiate any deal with Yahoo's current board. Microsoft confirmed that

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# What's News—

## *Business & Finance*

**InBev proposed** a full slate of directors to replace the Anheuser-Busch board as the European brewer's takeover bid took another hostile turn. Nominees include former CEOs at major corporations and an uncle of Anheuser's chief. Page 1

■ **The Bank of England's** Monetary Policy Committee is likely to keep its key rate on hold at 5% as it battles to keep inflation under control. Page 2

■ **Microsoft is interested** in restarting talks to acquire some or all of Yahoo if the Internet company's board is replaced. Page 1

■ **A Cnooc unit** launched a $2.5 billion offer for Norway's Awilco, hoping to profit from the oil-exploration boom. Page 6

■ **U.S. financial stocks took** a hit after Fannie and Freddie fell sharply. Lower oil prices buoyed European shares. Pages 20, 21

■ **The ECB's raising** of a key interest rate is a signal to wage negotiators that it will keep inflation under control, Luxembourg's Juncker said. Page 9

■ **Spain's economy faces** recession in the second half, business leaders said. Page 10

■ **Germany's Fresenius** will buy APP in a $3.7 billion deal that reflects international interest in the U.S. drug industry. Page 7

■ **The battle for control** of Norilsk Nickel became more rancorous after its biggest shareholder won a skirmish to elect a new CEO. Page 5

■ **Merrill Lynch is closer** to selling stakes in BlackRock and Bloomberg to make up for coming write-downs. Page 21

■ **Air France-KLM scaled back** its capacity growth expectations for this winter and next summer amid soaring fuel costs. Page 5

■ **A financial-industry** group said proposals for improving bond ratings' credibility may not go far enough. Page 21

**Markets** 4 p.m. ET

| MARKET | CLOSE | NET CHG | PCT CHG |
|---|---|---|---|
| DJIA | 11231.96 | -56.58 | -0.50 |
| Nasdaq | 2243.32 | -2.06 | -0.09 |
| DJ Stoxx 600 | 283.17 | +3.64 | +1.30 |
| FTSE 100 | 5512.7 | +99.9 | +1.85 |
| DAX | 6395.75 | +123.54 | +1.97 |
| CAC 40 | 4342.59 | +76.59 | +1.80 |
| Euro | $1.5663 | -0.0029 | -0.18 |
| Nymex crude | $141.37 | -3.92 | -2.70 |

*Money & Investing* > Page 19

## *World-Wide*

**A suicide bomber drove** into the Indian Embassy in Kabul, killing 41 people and wounding about 140 in the deadliest attack in Afghanistan's capital since the Taliban's 2001 fall, further evidence of the country's increasing instability. Neighboring Pakistan also has seen a resurgence in violence, with two deadly blasts in as many days. Page 31

■ **G-8 nations focused** on Africa on the first day of a summit, but talks appeared to produce no clear progress on aid. Uncertainties were also apparent in personal relations between U.S. President Bush and new Russian President Medvedev. Page 2

■ **EU negotiator Solana**, France and the U.S. all reacted guardedly to Iran's response to an international offer of incentives to halt its uranium enrichment.

■ **Iraq's prime minister said** his country wants some type of timetable for a U.S. troop withdrawal included in the deal the two countries are negotiating.

■ **Obama's plane made** an unscheduled landing in St. Louis as a precaution after the crew had a problem keeping the nose up after takeoff from Chicago.

■ **Israel signed** an agreement to swap prisoners as well as bodies of dead fighters with Lebanese Hezbollah guerrillas.

■ **The IOC is meeting** this week to review subjects related to preparations for the Beijing Olympics. Organizers face many hurdles, including pollution. Page 8

■ **China urged** the Dalai Lama again to show support for the Beijing Olympics, apparently linking the demand more closely with continued talks.

■ **Austria's ruling coalition** of Social Democrats and the conservative People's Party crumbled, and new elections are expected as early as September.

■ **An Equatorial Guinea court** convicted British ex-officer Simon Mann of being the key player in a failed 2004 coup plot and gave him a 34-year prison sentence.

■ **The U.N. condemned** the killing of the U.N. Development Program's head in Somalia by unidentified gunmen but said there are no plans to halt operations.

## Editorial & Opinion

**Cool it**

G-8 leaders' hot air about global warming gets in the way of freeing up trade. Page 11

## LEADING THE NEWS

# G-8 acts slowly on Africa

### *Discussions over aid make little progress; Bush, Medvedev talk*

BY SEBASTIAN MOFFETT AND JOHN D. MCKINNON

RUSUTSU, Japan—The Group of Eight rich nations, meeting here to discuss global challenges from inflation to climate change, immediately faced more basic problems on Monday: Can they agree on anything significant, and will they follow through on any commitments?

The question was highlighted on the summit's first day, which focused on Africa. Discussions appeared to produce no clear progress on aid to the continent—and it appeared that the G-8 would only start to fix its aid promises next year.

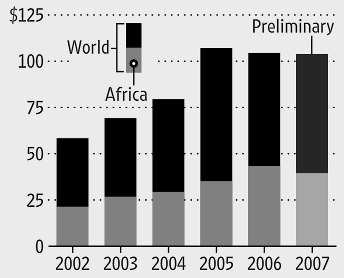
Uncertainties were also evident in the personal relations between U.S. President George W. Bush and the new Russian president, Dmitry Medvedev. In their first official bilateral meeting as heads of state, Messrs. Bush and Medvedev suggested they could work well together in the roughly 200 days that the U.S. president has left in office. But Mr. Bush stopped short of saying that he had glimpsed Mr. edvedev's soul, as he did in 2001 with Vladimir Putin, Mr. Medvedev's predecessor, who enjoyed warm personal ties with the U.S. president.

"I'm not going to sit here and psychoanalyze the man, but I will tell you that he's very comfortable, he's confident, and that I believe that when he tells me something, he means it," Mr. Bush said.

In his brief get-together with the U.S. president, Mr. Medvedev appeared relaxed. His aides were frank in noting areas of disagreement between the two leaders, especially the U.S. plan for a missile-defense system in Eastern Europe. Mr. Medvedev "stated that there is no real progress," said Sergei Prikhodko, chief political adviser to Mr. Medvedev.

**Development aid**

Total Official Development Assistance (ODA); in billions of U.S. dollars




Source: Organization for Economic Cooperation and Development

Later, in a meeting with British Prime Minister Gordon Brown, Mr. Medvedev shared his concerns about the current dollar-dominated global financial system. The men also discussed some of the problems that have thrown relations between the two countries to nearly a post-Cold War low. Even though Mr. Brown publicly said that the two sides had found "common ground" on a number of important issues, there was no clear movement on contentious issues, including the treatment of staff at British oil firm **BP** PLC's Russian joint venture, TNK-BP Ltd.

"It is clear that we are not going to solve all of these problems in one meeting," said a Downing Street spokesman.

The meeting lasted just over an hour, which was about twice as long as originally planned, a Downing Street spokesman said.

The G-8 took up the popular cause of African development in a big way at the 2005 summit in Gleneagles, Scotland, when the member nations promised by 2010 to sharply increase official development assistance. Three years later, nongovernment organizations say they are well behind schedule.

"Promises are not being met," said Charles Abani, representing Global Call To Action Against Poverty, an advocacy group. "We are in a crisis....Families have to choose food or education, and food or health."

White House Press Secretary Dana Perino said the Bush administration's commitment was to double development assistance to Africa by 2010, "and we are on track to meet that goal."

African leaders told G-8 leaders Monday that there was a need to monitor "whether implementation was sufficient," according to Kazuo Kodama, press secretary of Japan's Ministry of Foreign Affairs.

Mr. Kodama said the issue would likely be carried over for another year, to the next G-8 summit in Italy. He indicated that the best hope for concrete progress this year would come Tuesday, when the G-8 leaders were scheduled to meet among themselves. Then, he said, they would have the opportunity to increase the value of their commitments or extend the period of time they cover.

The G-8's broadened set of interests and largest-ever guest list—22 heads of government in total—come as the group can no longer adequately deal with many of the world's biggest problems among themselves.

On Wednesday, leaders from major developing economies will join discussions aimed at combating climate change, in particular how to reduce global emissions of greenhouse gases.

*—Alistair MacDonald contributed to this article.*

# U.K. is expected to hold key rate steady for now

BY NATASHA BRERETON AND LAURENCE NORMAN

LONDON—The Bank of England's Monetary Policy Committee is likely to keep its key interest rate on hold at 5% Thursday as it battles to keep inflation under control.

But some dismal activity figures—the latest showing the sharpest fall in industrial output in more than two years—have made it more likely the MPC will cut the rate before 2008 ends, economists say. In a poll last week, all 20 economists surveyed said they expected the MPC to leave the U.K. bank rate at 5%, following three reductions since December from a peak of 5.75%.

"We are firmly of the view that even with oil prices where they currently are, the MPC does not consider a recession to be necessary to deliver the inflation target over the medium term," said Michael Hume, economist at Lehman Brothers. "Consequently, once the MPC decides that a recession is more likely than not, we expect it to cut rates."

Recent economic data have indicated that growth could soften more dramatically than the MPC has projected. In the British Chamber of Commerce's latest quarterly survey of some 4,800 businesses, the domestic sales and orders results for the service and manufacturing sector both turned negative—the first time that has happened since the U.K. recession of the early 1990s.

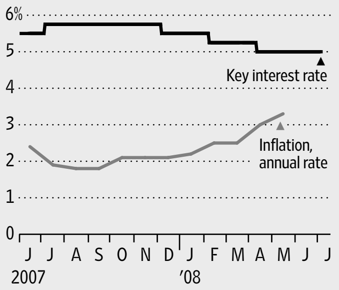
The chamber was to say Tuesday that the U.K. economy is facing a "serious risk" of a recession, as it urges the Bank of England to resist calls for interest-rate increases.

The central bank had expected the manufacturing sector to fare better as the pound's depreciation helped exporters to sell overseas. The chamber survey showed there was indeed some improvement in sentiment among manufacturers who are mainly involved in exports.

However, the manufacturing sector as a whole is suffering. The chamber's survey showed that the percentage of manufacturing companies that experienced a rise in domestic sales over the past three months fell to its lowest level since 2001, to minus 3% in the second quarter, from plus 12% in the first quarter. That means 3% more companies experienced a sales decline than increase.Similarly, U.K. government figures released Monday showed manufacturing output also weakened significantly in May, falling 0.5% from April and 0.8% from a year earlier.

**Inflation fears**

Rising prices of energy and food have complicated the Bank of England's attempts to keep inflation in check through interest-rate cuts




Sources: Office for National Statistics, U.K.; Bank of England via Thomson Reuters Datastream

Overall industrial production declined 0.8% from April and 1.6% from a year earlier in May, the sharpest yearly fall since December 2005.

*—Nicholas Winning contributed to this article.*

## CORRECTIONS & AMPLIFICATIONS

**The U.S. Labor Department** reported the price of Chinese goods sold in the U.S. rose 4.6% in May from the previous year. A July 1 News in Depth article incorrectly attributed the figure to the U.S. Commerce Department.

**A Weekend Journal** article July 4 about volunteer tourists was accompanied by a photo of a woman giving pencils to children at a Big Brother Mouse book party in Laos. A caption in some editions incorrectly said the photo showed visitors to the Sangkheum Center for Children in Cambodia.

## INDEX TO BUSINESSES

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





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## INDEX TO PEOPLE

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

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

# South Korean president revamps cabinet

## *Lee shifts ministers as U.S. beef deal spurs wider clamor*

BY KANGA KONG

SEOUL—South Korean President Lee Myung-bak revamped his cabinet, shifting three ministers, but the move isn't likely to placate an opposition party still driven by the recent resumption of U.S. beef imports.

Mr. Lee has been trying to quell the protests that have been filling Seoul's streets since his April 18 decision to resume near full U.S. beef imports. Those protests have snowballed into broader dissatisfaction with Mr. Lee's policies, sending his popularity ratings plummeting.

Most surprisingly, the president Monday dismissed Choi Joong-kyung, first vice minister of strategy and finance. The finance ministry was widely expected to escape the reorganization, because Minister of Strategy and Finance Kang Man-soo is close to Mr. Lee and the pro-growth policies that helped him win the presidency in December.

Analysts believe Mr. Lee felt the need for a scapegoat to assuage public anger over food and energy prices that have sent inflation to a near-decade high. Deputy Minister Kim Dong-soo will succeed Mr. Choi in the post, the presidential house said in a statement.

The change in personnel at the finance ministry will have little impact on markets but will underline the government's belief in using a strong won to tame inflation, said Citigroup Inc. economist Oh Suktae. "Some tend to equate Choi Joong-kyung's name to won weakness due to his support for strong intervention in the past," Mr. Oh said.

The shift of the three ministers, out of 15 total, was well flagged. Minister for Food, Agriculture, Forestry and Fisheries Chung Woon-chun will be succeeded by Jang Tae-pyoung, a former secretary-general of a state anticorruption panel, while Ahn Byong-man—a presidential adviser for state future planning—will take over the education minister's portfolio from Kim Doh-yeon.

Jeon Jae-hee, a lawmaker of the ruling Grand National Party, will succeed Kim Soung-yee as welfare minister.

Additionally, Mr. Lee appointed Shin Kak-soo as vice minister of foreign affairs and trade, a post that has been empty since Kim Sung-hwan left to become senior secretary to the president for foreign affairs and national security.

The moves left the president open to further criticism that he hasn't acted decisively enough to answer complaints from the public and the opposition.

The change in agriculture minister is unlikely to put an end to the U.S. beef deal. Mr. Lee has said there will be no renegotiation of the deal. The U.S. will sell South Korea beef that is less than 30 months old to avoid sales of older meat that many still fear is dangerous.

"The cabinet, which offered to resign en masse, lost its sense of risk and this is only for a show," said Cha Young, representative of the opposition United Democratic Party. "The president arrogantly ignored the people by not listening to their demand to change the finance minister."

Mr. Kang, the finance minister, was closely linked to the president's push for growth. However, his apparent preference for a weak won to boost exporters helped spur imported inflation amid sky-high oil prices. The government has recently turned its attention to curbing rising prices.

Mr. Lee's entire cabinet tendered its resignation last month to take responsibility for the beef backlash.

Mr. Lee agreed to resume almost all U.S. beef imports into Korea. South Korea suspended imports after the first U.S. case of mad-cow disease appeared in 2003. Restricted imports resumed last year but were put on hold after banned parts were found in a shipment.

# Vueling, Clickair near merger pact, benefiting Iberia

BY JASON SINCLAIR AND SANTIAGO PEREZ

MADRID—Spanish low-cost airlines **Vueling Airlines** SA and **Clickair** are on the verge of a merger agreement after months of negotiations, people familiar with the situation said Monday.

The proposed merger, which would require clearance from antitrust regulators, would give Spain's flag carrier, **Iberia Líneas Aéreas de Espana** SA, a tighter grasp on the country's low-cost segment, which has been besieged by discount carriers Ryanair Holding PLC and easyJet PLC.

Iberia is expected to emerge as the largest shareholder of the new, combined company, these people said. A tie-up between the two discount carriers would also allow Iberia to continue focusing on its most profitable long-haul trans-Atlantic flights amid a squeeze in the sector, as soaring fuel costs erode profits.

Earlier Monday, Spain's stock market regulator suspended trading in Vueling and Iberia, which is the key financial backer of Clickair, controlling 20% of voting rights and about 80% of its capital.

A formal announcement is expected to be released soon after getting the nod from both boards, these people said. Iberia and Vueling officials declined to comment.

In April, Vueling and Clickair agreed to start negotiations to study a merger.

A tough competitive environment had forced Vueling to issue several profit warnings since it began operations in 2004, prompting leading shareholder Jose Manuel Lara to reshuffle the management team.

Clickair, an unlisted company that took over many of Iberia's domestic and European routes, pushed back its projection of when it would become profitable, from this year to 2009.

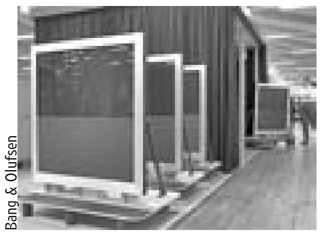
Vueling and Clickair are both based in Barcelona and operate similar fleets of about 20 Airbus aircraft. Vueling has twice the staff of Clickair.

Before the shares were suspended, Vueling stock traded at €5.40 ($8.47), a gain of 6.2%, and Iberia shares were up 3%, at €1.39.

# CORPORATE NEWS

**LUXURY GOODS**

## Bang & Olufsen issues third '08 profit warning


Bang & Olufsen

BANG & Olufsen AS issued a profit warning—its third in 2008—citing market uncertainty and fewer orders. The Denmark maker of luxury home-entertainment systems said it sees its operating profit for the year ended in May at about 195 million Danish kroner ($41 million), down from its previous prediction for a range of 225 million kroner to 275 million kroner. Bang & Olufsen blamed its revision on uncertain global market developments, reduced order bookings at the end of its fiscal year and legal costs. Chairman Joergen Worning said new Chief Executive Kalle Hvidt Nielsen, who takes office Aug. 1, will focus on quicker product development and improved sales efficiency. *—Gustav Sandstrom*

**AUTOMOTIVE**

## Daimler, Hero pick city in India to build trucks

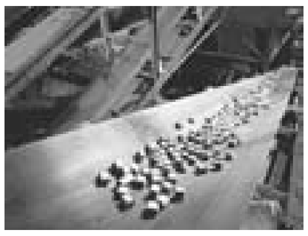
Associated Press

DAIMLER AG and India's **Hero Group** chose the Indian city of Chennai for a commercial-vehicle plant that will produce about 70,000 trucks a year, starting in 2010.

Construction involves an investment of about €700 million ($1.1 billion) over the next five years, the companies said. The joint venture will produce light-, medium- and heavy-duty vehicles for the Indian market to start but hasn't ruled out exporting them to other emerging markets. Daimler's truck unit posted revenue of €28.5 billion, with 467,667 trucks sold world-wide. Hero is an Indian conglomerate with sales of $4 billion. *—Associated Press*

**MINING**

## EU to extend its review of BHP's Rio Tinto bid



BHP BILLITON Ltd. said it has exercised its right to ask for a 20-day extension of the European Commission's review of its bid for rival **Rio Tinto** PLC, meaning an offer document for the bid could come as late as March 2009.

The European Commission announced Friday that its review would enter a second phase, giving it 90 days to complete its assessment with a final decision due by Nov. 11. Under European Commission regulations, BHP has the right to request a further extension and the miner said it was granted. BHP may now be able to post its first-half results before formally launching its offer. *—Alex Wilson*

# Better summer for air travel? Not this year

### *Weather, finances, air-traffic control add up to big delays*

BY SCOTT MCCARTNEY

SUMMERTIME travel misery is back—almost as dreadful as last year.

After last summer's grievous air-travel slog, with delays and cancellations leaving many travelers fuming and some stranded for days, airlines and the federal government, including President Bush, promised that things would improve this year.

So far, summer air travel has been much the same morass as last year, the result of bad weather, financially strained airlines and an air-traffic-control system still not able to cope with all of the nation's traffic.

**THE MIDDLE SEAT**

In June, nearly 30% of all flights were late or canceled, with the average delay running 62 minutes, according to FlightStats Inc., a flight-tracking service. That's just about as bad as June last year, when 31% of flights didn't arrive on-time and the average delay was 61 minutes, according to FlightStats.

And despite major efforts to improve New York's clogged airports, including caps on the number of flights that airlines can schedule at peak hours, LaGuardia Airport has been worse than last year. Only 52.3% of LaGuardia flights arrived on schedule in June, compared with 55.5% on-time last year.

"We're still struggling," said Robert Cordes, vice president of operations planning and performance at **AMR** Corp.'s American Airlines. "There has not been much change from last year, and last year was not a stellar year."

The nation's two biggest cities, New York and Chicago, have been its biggest bottlenecks this summer, and its two biggest airlines, American and **UAL** Corp.'s United Airlines, have had the most delays this summer.

At Chicago's O'Hare Airport, a major hub for both American and United, only 55% of June flights were on-time, compared with 65% last year. United says 31% of all flights at O'Hare had an air-traffic-control delay in June, compared with 21% last year. Those delays result from bad weather and airport congestion, a United spokeswoman said.

Airlines and the Federal Aviation Administration blame particularly bad weather this year, including the storms that caused flooding in the Midwest.

"It's been challenging," said Nancy Kalinowski, the FAA's vice president of system operations services. "There are a lot of things in place that we think are making a difference" but delays have increased at key airports, particularly in New York and Chicago.

Paul Keckley, a health-industry consultant, ran into a typical summer travel nightmare in late June when he was flying from Washington, D.C., to Las Vegas on **JetBlue Airways** Corp., which has also struggled in on-time performance. His plane sat waiting to take off for two hours. "The pilot made light of it," Mr. Keckley said, announcing 'We will know something in 30 minutes...' four times."

Instead of arriving at 10:25 p.m., he got to Las Vegas at 12:45 a.m. His hotel, Mandalay Bay, was overbooked, so after waiting 30 minutes in line at the front desk, he was sent to another hotel. He had time for a shower before he had to join phone calls at 4 a.m. Vegas time, then flew back later that day after meetings.

"I actually rumpled the sheets to make myself feel like I had a room even though I got no sleep," he said. "It's not fun to travel."

Many delays result from pre-storm decisions to ground airplanes, which can sometimes be overly aggressive, compounded by slow recovery by airlines and air-traffic controllers after storms. Airlines complain that some key airports, like Chicago's O'Hare, aren't handling as many planes per hour as they did just a few years ago.

Financial strains on airlines from high fuel prices are also contributing to bad performance. Bare-bones staffing can exacerbate delays; lack of spare crews and planes can turn long delays into cancellations and leave travelers stranded.


Associated Press

Travelers line up to pass through **security checks** as they prepare to board flights last Thursday at Miami International Airport.

American says it is moving to stock more spare parts at airports and spread schedules out more to provide buffers and minimize delays, missed connections and cancellations. But the changes won't take place until Sept. 1 because the summer schedule was already set.

Another change under consideration: Speeding up jets. Flights were slowed down to save fuel, but adding a couple minutes to each flight may end up increasing delays, eating away at fuel savings.

One bright spot: **US Airways Group** Inc. is performing much better this year than last summer, demonstrating how problems aren't all weather-related. US Airways invested in new baggage-handling equipment, acquired more gates to reduce delays, built more buffer into its schedule and established a "satellite headquarters" at its Philadelphia hub to fix problems there.

Last year's last-place airline in on-time performance among major airlines moved to second-best in June behind only **Southwest Airlines** Co., according to FlightStats. At LaGuardia, 65% of US Airways flights arrived on-time in June, compared with 40% for United and 44% for American.

"There are some airlines really suffering this year as much as we did last year, or even more," said Robert Isom, US Airways' chief operating officer who was hired last September to overhaul the airline's operations.

Recognizing that problems in New York cascade across the country, the FAA appointed a "czar" to oversee New York operations, forced airlines to reduce flights at peak periods at LaGuardia and John F. Kennedy airports and created new routes for airplanes to ease congestion. Despite the caps on peak-hour flights, LaGuardia saw more flights scheduled in June than last year because airlines simply spread flights out more instead of lumping them as heavily in peak hours. The traffic jam hasn't eased.

Ms. Kalinowski said LaGuardia had a lot of rain and unusual winds that slowed operations in June, and with all the congestion in the schedule still, despite the caps, "there's no recovery time."

Kennedy has improved this summer, with 58.6% of June flights arriving on-time, up from 52.8% a year ago, according to FlightStats, a unit of Conducive Technology Corp. But Newark Liberty International Airport in New Jersey has run about the same as last summer at 52.1% on-time. Only about half of arrivals at Newark were on-time in June, according to FlightStats.

**Continental Airlines** Inc. says weather affected its Newark hub on 16 days in June, compared with only 10 days last year. Caps on peak-hour capacity at Newark don't go into effect until July 16, she said, and many other changes are still in the works.

"It's going to take five years to fully implement all the changes for the New York-New Jersey airspace," Ms. Kalinowski said.

Travelers say airlines seem more inept at handling delays. Among complaints: churlish crews, stingy amenities and little ability to accommodate people when flights get delayed by storms.

Tim Pinney, an electrical contractor in Santa Rosa, Calif., saved up for a year to pay for a trip to Europe, including a family reunion for his girlfriend's gravely ill cousin near Normandy, France. Things went bad from the start when their United flight to Washington was delayed two hours by a mechanical problem, and they missed their connecting flight to Paris.

United rebooked the four, including Mr. Pinney's two teen-age sons, on a flight the following day to Frankfurt with a Lufthansa connection to Paris. Each was given a $10 voucher for dinner and $5 voucher for breakfast—the cheapest entree on the hotel dining menu was $17, Mr. Pinney says.

The next day, that flight was late, too, so they missed their connection in Frankfurt. By the time they got to Paris, the two days they had planned to see the city were mostly gone—they had a few hours to see the Arc de Triumph and Eiffel Tower and walk along the Seine.

After a news conference May 22 at LaGuardia to announce FAA plans to reduce summer delays, acting FAA Administrator Bobby Sturgell experienced travel struggles first-hand. His flight back to Washington was canceled because of storms. Another flight had a mechanical problem and Mr. Sturgell didn't land until 9 p.m., two hours late, a spokeswoman who traveled with him said.

Then the FAA chief and other passengers had to wait 30 minutes for a gate to open up.

## CORPORATE NEWS

# Air France-KLM cuts a prediction of future growth

By Steve McGrath

LONDON—**Air France-KLM** SA on Monday scaled back its capacity growth expectations for this winter and next summer, responding to soaring fuel costs, although it is still faring better than many of its U.S. and European rivals.

The world's biggest airline by revenue said it now expects capacity for this winter and next summer to be up 2% from a year earlier. It didn't say what its previous expectations were, but a spokeswoman said the carrier had cut back on its planned capacity expansion in response to higher fuel bills.

Many rival airlines, including British Airways PLC, have already announced they will cut capacity, citing record fuel prices and weakening economies. U.S. airlines have been even more drastic. AMR Corp.'s American Airlines plans to cut 12% of capacity in the fourth quarter.

On the back of soaring oil prices, jet fuel prices have shot up to over $1,300 a metric ton from $850 a ton at the start of the year. Fuel is now typically either the top or second-highest single cost item for airlines, representing about 34% of the cost base, according to the International Air Transport Association.

The trade body last month warned that airlines could post a combined net loss of $6.1 billion this year if the oil price remained at $135 for the rest of the year.

Despite the planned capacity cuts, many airlines are still enjoying passenger growth this summer. U.S. airlines last week reported passenger growth in June as travelers proceeded with summer-vacation plans, and several of Europe's big carriers also reported growth Monday.

Air France-KLM said traffic in June, measured in revenue passenger kilometers—which factor in how far passengers are flown—was up 2.6% from a year earlier. The number of passengers carried rose 1.3% to 6.8 million, although its load factor—a measure of how full planes are—fell to 81.5% from 82.7%, because capacity was up 4.1%.

The Franco-Dutch airline said last year's figures had been boosted by two important trade shows in Paris, while this year's figures were hit by an air traffic control strike at Paris's Orly airport. Its cargo operations fared less well, with traffic down 1.5% and capacity up 1.8%.

One of Europe's major short-haul budget airlines, **easyJet** PLC, said it carried 4.1 million passengers in June, up 20% from 3.4 million a year earlier. The rise is due mainly to the acquisition of GB Airways from British Airways, but analysts said the figures were solid. The carrier's load factor rose slightly to 86.9% from 86.8% a year earlier. It said that total revenue per seat continues to improve and nearly 70% of seats for the second half of this year have already been sold.

Meanwhile, Irish airline **Aer Lingus Group** PLC said it carried 7.6% more passengers in June than a year earlier, with short-haul numbers up 7.8% and long-haul numbers up 6.7%.

Scandinavian airline **SAS** AB said passenger numbers were up 0.3% in June to 4 million, while traffic measured in revenue passenger kilometers rose 3.5%. However, load factor fell to 74.7%, from 76.5%, because capacity was up 5.9%.

*—David Pearson contributed to this article.*

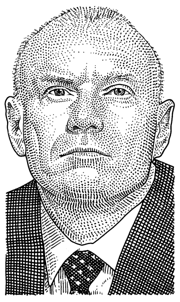
# Rancor mounts in Norilsk battle

## *Biggest shareholder wins skirmish to elect a new chief executive*

By Andrew Osborn

MOSCOW—A fierce battle for control of Russia's OAO **Norilsk Nickel** became more rancorous Monday after its biggest shareholder won a protracted boardroom skirmish to elect a new chairman and chief executive.

The meeting saw the company's two biggest shareholders—industrial groups backed by two of Russia's richest men—clash as both maneuvered for control as they tried to tee up rival combination plans. Aluminum company **United Co. Rusal** had said it wants to combine with Norilsk to create a multimining company such as **BHP Billiton** that might be worth more than $100 billion. Rusal, controlled by billionaire Oleg Deripaska, showed interest earlier this year by buying one quarter of Norilsk.



*Vladimir Potanin*

But it has faced resistance from **Interros**, a holding company controlled by billionaire Vladimir Potanin. Interros owns just less than 30% of Norilsk and has its own ideas for diversification. It has shown more interest in combining with iron-ore maker OOO **Metalloinvest**. Such a combination could include Rusal too, it says, raising the prospect of a three-way megamerger.

But one person familiar with Rusal's thinking says the company is unconvinced the offer is serious, fearing it could be a stunt concocted to thwart its own plans.

On Monday, Mr. Potanin won round one of what is becoming an increasingly bitter corporate struggle when he was elected chairman of the board, while in a surprise move one of his own executives, Sergey Batekhin, was appointed CEO.

Rusal had wanted an independent chairman and had pushed for the existing CEO, regarded as a neutral, to stay in place. It lost on both counts. A Rusal spokeswoman conceded the company didn't get what it wanted and made its disappointment clear.

"When two representatives of Interros hold key positions in the company, they bear huge responsibility for observing the interests of all shareholders," she said.

*Oleg Deripaska*

Analysts say the two sides will be forced to narrow their differences and eventually cut a deal. But they warn it could take months, a factor that will help fuel continued uncertainty around the world's biggest nickel producer, which has seen its share price fall from record highs. "Some kind of deal will happen," says Rob Edwards of Moscow investment bank Renaissance Capital. "But it's still some time off."

## CORPORATE NEWS

# Glaxo takes unusual step

### *Firm will give say to health systems in bid to lower costs*

By Jeanne Whalen

LONDON—British pharmaceutical giant **GlaxoSmithKline** PLC is taking the unusual step of giving government health-care systems a say in deciding which drugs advance in its research pipeline, a move it hopes will result in more products these customers will pay for.

Glaxo's new chief executive, Andrew Witty, said the effort is part of his drive to help the world's second-largest drug maker adapt to a tough pharmaceutical market. In recent years, soaring health-care costs have led insurers, governments and other drug buyers to tighten their belts.


Reuters

GlaxoSmithKline's incoming chief executive, **Andrew Witty**, right, with CEO J.P. Garnier, said he had no intention of selling the group's consumer health-care business.

"I'm going to deal with the pharmaceutical realities of the next 10 years, and they're very different from those of the 1990s," Mr. Witty said in an interview at a company town house here.

Bringing a single drug to market can cost hundreds of millions of dollars, so drug companies are constantly searching for ways to better target the money they spend. Knowing the preferences of state health-care systems, which pay for the vast majority of all drugs sold in Europe, could make a big difference.

A few weeks ago, Glaxo's chief of research and development invited a group of health-care officials from the U.K., France, Italy and Spain to London to examine the drugs Glaxo is developing. It "was an opportunity for us to say, 'Look, here's what the development pipeline at [Glaxo] looks like, here's what these drugs are going to be....Which one of these do you think, 'This is exactly where I would prioritize health-care dollars?' " Mr. Witty said.

The officials were mostly looking at the drugs Glaxo is testing in small, intermediate human trials. They gave some pretty blunt feedback on which drugs to prioritize and what sort of data Glaxo would need to show to make state health-care systems willing to buy the drugs, Mr. Witty said. Glaxo will change some of its development plans accordingly, he added, declining to give specifics.

Noël Renaudin, head of a French government committee that negotiates drug prices, said he attended the meeting but declined to comment further.

Glaxo isn't the only company seeking new ways to divine the needs of government buyers. Recently, **Novartis** AG approached Britain's state health system about an immunology drug and then altered its plans for the drug's human testing so its studies could answer Britain's concerns about efficacy and cost.

Like most big drug companies, Glaxo has struggled to bring new products to market in recent years. At the same time, it is facing generic competition to some of its biggest sellers, which is undermining its sales. The company has taken steps to improve its R&D and now has a relatively full pipeline of drugs in development. But Mr. Witty says more changes to R&D are needed.

To try to foster more innovation in Glaxo's research organization, Mr. Witty says he is considering organizing the scientists who discover drugs into smaller groups. The idea came in part by watching the small biotech companies Glaxo has acquired in recent years. At Domantis Ltd., of Cambridge, England, scientists work in groups of about 25 or so, a size that allows them to interact closely and constantly refocus their efforts on the most important projects. During a recent visit, Mr. Witty says he saw one scientist drop what he was doing and help a colleague who had had a breakthrough with an experiment.

That kind of intimacy and flexibility is key to innovation, Mr. Witty believes. Glaxo has already cut its thousands-strong research staff into groups of several hundred, but Mr. Witty wants to go further.

*—Carrick Mollenkamp contributed to this article.*

# Glaxo is dealt setback in U.K. on cancer drug

By Elena Berton And Jeanne Whalen

LONDON—In a setback for **GlaxoSmithKline** PLC, experts advising Britain's health-care system say the company's breast-cancer drug Tyverb isn't effective enough to justify its cost.

If the preliminary judgment holds, Britain's National Health Service won't pay for Tyverb, one of Glaxo's most important new drugs. The treatment, sold as Tykerb in the U.S., costs about £21,000 ($42,000) a year in the U.K. European regulators approved Tyverb for sale in the European Union last month.

Medical experts advising Britain's National Institute for Health and Clinical Excellence, or NICE, found that although Tyverb has shown some benefit in delaying tumor progression compared with the current standard treatment, its benefits aren't sufficient when weighed against its costs, NICE said Monday.

NICE will give Glaxo, patient groups and others a chance to comment before making a final recommendation. Its decisions are closely watched by governments and health insurers around the globe, which are increasingly seeking to cut costs and rein in drug spending. High-priced cancer drugs present a particular dilemma for these health-care payers.

Some patients and doctors have criticized NICE for its strict measurement of cost-effectiveness. The agency in the past has recommended that Britain not pay for certain drugs for Alzheimer's disease, rheumatoid arthritis and other forms of cancer.

Tyverb, known generically as lapatinib, treats breast cancer patients who have tested positive for a protein called HER2. Tyverb is aimed at patients whose disease has stopped responding to standard chemotherapy and Herceptin, a drug sold by **Genentech** Inc. and **Roche Holding** AG.

A Glaxo spokeswoman said the company will work with NICE during the consultation process. "Tyverb offers hope of slowing the disease to patients with advanced breast cancer who have few treatment options left if their cancer has continued to grow despite receiving Herceptin and other licensed therapies," she said.

Tyverb had modest global sales of £51 million last year, its first year on the market. But Glaxo hopes the drug will eventually become a big seller.

# Marketers find opportunity amid rising gasoline prices

By Suzanne Vranica

ADVERTISING

Gas prices may be causing major headaches for businesses, but they are also creating some opportunities: Companies are seizing on consumer anxiety over what is happening at the pump to sell a variety of things including airline tickets and cheeseburgers.

On Monday, **Aflac** Inc. kicked off a television commercial that reminds consumers that, with the company's supplemental insurance, they get cash to pay expenses—including fuel bills. In the ad, the company's loud-mouth pitch duck is watching the gas pump as the price escalates.

"To help pay everyday bills when you're sick and can't work, Aflac gives you cash," says the voice-over as the famous duck lets out a gasp. "Things can really add up." The spot was created by Kaplan Thaler Group, a unit of Publicis Groupe.

"It's a no-brainer that this will resonate with consumers," says Dan Almos, Aflac's chairman and chief executive. "You don't need a whole lot of research on this one, rich or poor; we are all in shock about gasoline prices."

Several airlines have also jumped on the bandwagon. **AirTran Holdings** Inc.'s billboards in Atlanta and Milwaukee announce: "Fares cheaper than a tank of gas" and "Round trips for less than a trip to the pump." Cramer-Krasselt, an independent ad agency in Chicago, crafted the AirTran ads.

Other companies are giving away free gas as a promotional enticement. The Journal News, a newspaper in Westchester, N.Y., outside New York City, has deployed salespeople to hang out at gas stations and offer a $20 gas card when someone signs up for a $234 annual subscription to the paper.

Marketers are always on the lookout for news events that they can exploit in their pitches, whether it is the presidential campaign or the Harry Potter frenzy. But branding experts say that trying to tap into consumer frustration with spiraling gas prices could backfire on advertisers. Using gas prices "reminds people of how much pain they are in and that is a bad association for a brand," says Allen Adamson, managing director at Landor, a branding firm owned by **WPP Group** PLC.

Several companies say their gas promotions have been fueling some nice returns. The Journal News, owned by **Gannett** Co., has in the past given away gift cards for department stores and bookshops but says the gas giveaway has been more successful.

**Recently, McDonald's** Corp. began running a Spanish-language TV commercial that features four teenage boys cruising with the low-fuel light illuminated. In their search for cheap gas, they yell out the different prices that they see at gas stations along the road, but opt for a $1 double cheeseburger at McDonald's. The kicker: They end up pushing the car.

McDonald's says the ad was such a hit with viewers that it is now running an English version of the ad. "We are getting positive email responses and calls to our customer-satisfaction line," says Marlena Peleo-Lazar, McDonald's chief creative officer.

**WSJ.com**

**Online Tody:**
See ad clips from McDonald's and Aflac, at **WSJ.com/OnlineToday.**

# Cnooc unit makes bid for Awilco

By Rick Carew

HONG KONG—China's top offshore-oil firm is diving into the global oil-field-services industry by launching a $2.5 billion friendly takeover of a Norwegian rival.

The deal is a bold move by China to capture a larger share of the profits from the global boom in exploration as oil prices soar. China's double-digit growth and voracious appetite for natural resources to fuel expansion are key factors pushing oil prices higher and driving much of the demand to tap new reserves.

The tender offer by the oil-services arm of **China National Offshore Oil** Corp., known as Cnooc, for Norway's **Awilco Offshore** ASA will make the Chinese company owner of the world's eighth-largest rig fleet, with 34 rigs including those under construction.

Spurred by soaring crude prices, oil companies are pouring billions of dollars into exploration, venturing into increasingly remote environments such as the Arctic Ocean and the deep waters off West Africa and Brazil. That has created huge demand for rig operators, resulting in some drillers being able to lease out their most advanced equipment to oil companies at rates of $600,000 a day.

The move by the Cnooc arm, China Oilfield Services Ltd., also shows a shift in strategy toward overseas acquisitions following Cnooc's failed $18.5 billion cash bid in 2005 to acquire Unocal Corp. of California. Since that bid ran into stiff political opposition in the U.S., Chinese oil companies have shifted their attention to buying businesses and assets in Africa and central Asia rather than in Western countries.

Now, Cnooc is testing the waters in the West with a safer, more strategic approach. Rather than directly pursuing a deal to secure oil in the West, it is pursuing a friendly deal in an energy-related business involving the means to tap reserves. Cnooc has already secured the support of two big Awilco shareholders, which own 40% of the Norwegian company, and the recommendation of its board.

The approximately $2.5 billion offer, which includes the assumption of a further $1.3 billion in debt, represents a 19% premium to the price at which Awilco shares closed Friday on the Oslo Stock Exchange. The deal will be China's fourth-largest cross-border full takeover to date.

"This year has been a breakout year for Chinese outbound investment, and we expect that this trend will continue to be a major theme in the second half," says Brian Gu, head of the Greater China M&A practice at **J.P. Morgan Chase** & Co., one of China Oilfield Services' advisers on the acquisition

In late June, The Wall Street Journal reported that the two companies were in advanced talks over the acquisition. China Oilfield Services had planned to lead a consortium making the acquisition that included **First Reserve** Corp. and **Goldman Sachs Group** Inc.'s private-equity arm. But the two private-equity investors pulled out after participating in due diligence for the deal, according to people familiar with the situation. The two private-equity investors had considered contributing roughly a combined $1 billion to finance the bid, one person said.

**Lehman Brothers Holdings** Inc. is another adviser to China Oilfield Services. **China International Capital** Corp., a Chinese investment bank, is also advising the Chinese side on the deal.

## CORPORATE NEWS

# Ambanis trade new barbs

## *Negotiation period for deal with MTN set to end Tuesday*

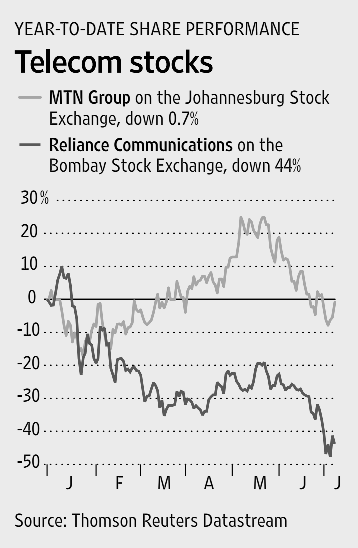
BY COSTAS PARIS, ROMIT GUHA AND P.R. VENKAT

BANGALORE—**Reliance Industries** Ltd. and **Reliance Communications** Ltd. traded accusations Monday in an escalating feud that could deal a big blow to Reliance Communications' hopes of sealing a merger with South Africa's **MTN Group** Ltd.

Reliance Industries, which is headed by Mukesh Ambani, has said it has the right of first refusal on any deal involving the sale of Reliance Communications, which is headed by Mr. Ambani's younger brother Anil. Reliance Industries has said it would take court action to enforce its rights.

Reliance Communications said Reliance Industries on Monday rebuffed its offer to meet next week to "clarify any doubts" that Reliance Industries may have had regarding Reliance Communications' talks with MTN.

Reliance Industries, in turn, said Reliance Communications officials didn't turn up for a "conciliation" meeting scheduled for earlier in the day. Reliance Communications said Reliance Industries wrote a third letter threatening legal action.




With the dispute showing no signs of being settled, MTN may be nervous about entering a deal with a company with a legal cloud hanging over it. An MTN representative couldn't be reached.

Since late May, Reliance Communications, India's second-largest telecom company by subscribers, has been in exclusive talks with MTN, Africa's largest telecom company by users, over a possible merger. The two companies entered into an exclusive 45-day negotiation period that ends Tuesday.

Reliance Communications said Monday that Reliance Industries' "sole objective is to derail talks with MTN and frustrate a possible combination."

Amid a slew of claims and counterclaims by both parties in the past few weeks, Reliance Communications' offer for talks raised hopes that it and MTN would extend their period of talks beyond Tuesday to accommodate the talks between the Ambani brothers' companies.

Talks between the two telecom operators have centered on Anil Ambani's likely sale of his 66% in Reliance Communications to MTN in a share swap. Under this scenario, Anil Ambani would emerge as the biggest shareholder of the merged entity, but Reliance Communications would become a subsidiary of MTN.

The deal frenzy surrounding MTN highlights the desirability of emerging-markets companies in an otherwise dour landscape for mergers and acquisitions. Should the talks fall apart, they could open the door for another deal for MTN or Reliance Communications. Western phone companies including **AT&T** Inc. and **Vodafone Group** PLC, for example, have expressed keen interest in India.

*—Jackie Range, Dana Cimilluca and Amol Sharma contributed to this article.*

# BMW sales declined in June amid slumps in U.S., Japan

BY CHRISTOPH RAUWALD

FRANKFURT—**BMW** AG said Monday its sales fell 2.8% in June from a year earlier to 146,138 cars as the auto maker felt the pinch from lackluster economic trends in crucial markets such as the U.S. and Japan.

However, in the first six months of the year, BMW's sales were up 4.7% from a year earlier at 764,874 cars, and the maker of the world's best-selling premium autos confirmed it expects to post a sales record for 2008.

"In the first half of the year we were able to report solid growth, as planned," said BMW executive board member Ian Robertson. "Despite difficult economic conditions in certain automobile markets, the BMW group aims to improve on last year's sales level for the year as a whole."

Mr. Robertson added the company will monitor world markets and their performance "so as to react as necessary."

While the company enjoyed rising sales in Europe and Asia in the first half of the year, demand in the U.S.—its single biggest market—fell 4% to 157,913 cars.

Mr. Robertson said last week that conditions in the U.S. used-car market had stabilized somewhat, adding that the company's risk provision is sufficient. In the first quarter, higher risk provisions shaved €236 million ($370.5 million) from BMW's earnings as the Munich-based auto maker took additional measures to shield against a drop in used-car prices, especially in the U.S., and to cover possible defaults on loans for leased cars.

Sales of the core BMW brand were up 2.4% from January to June at 637,569 vehicles.

**Daimler** AG's Mercedes-Benz, the world's second-best-selling premium brand, narrowed the sales gap with BMW in June, selling 106,000 cars, down 1.2% from a year earlier. In the first half of the year, Daimler sold 599,200 Mercedes-Benz cars, up 4.1% from a year earlier.

# Fresenius plans to acquire APP

BY LAUREN A.E. SCHUKER

**Fresenius** SE, a German global health-care group, said it will buy **APP Pharmaceuticals** Inc. for $3.7 billion plus the assumption of $940 million in debt in a deal that highlights international interest in the U.S. pharmaceutical industry.

APP Pharmaceuticals, based in Schaumburg, Ill., provides injectable pharmaceutical products to clinics and hospitals in North America.

APP founded in 1996, manufactures injectable pharmaceutical products for both hospital and home use. Therapeutic heparin, a widely used anticoagulant made of pig intestine, is among the products it makes, as well as injectable vitamin supplements, diuretics like Furosemide, and hormones like Progesterone.

During the recent scare involving tainted Heparin from China, APP was the only U.S. provider of the therapeutic form of the drug, and in fact made gains supplying Fresenius's kidney-dialysis centers in the U.S. The company reported $647 million in revenue for 2007.

# NBC-led group forges deal to buy Weather Channel

BY MERISSA MARR AND PETER LATTMAN

In one of the largest leveraged buyouts this year, **General Electric** Co.'s NBC Universal and two financial partners forged a deal to buy the Weather Channel and its related businesses for a price that people familiar with the situation pegged at nearly $3.5 billion.

The agreement comes after a long and challenging auction in which several bidders fell by the wayside and the price sank below the $5 billion owner **Landmark Communications** Inc. originally hoped it might fetch. Despite its high visibility—nearly every cable-television home in the U.S. receives the Weather Channel—the difficulty of the sale speaks to how depressed media assets have become and the challenges of current market conditions.

NBC Universal ultimately won out by bringing two partners on board, **Bain Capital** LLC and **Blackstone Group** LP. Terms of the deal weren't officially disclosed, but people familiar with the situation said the trio will hold roughly equal stakes in the Weather Channel.

**Deutsche Bank** AG advised the buying consortium, while **J.P. Morgan Chase** & Co. advised Landmark.

NBC Universal has been busy on the deal-making front.With the Weather Channel, NBC Universal not only wades more deeply into cable television, but it also boosts its Web presence with sites including weather.com.

Landmark announced it was putting the Weather Channel up for sale in January.

## GLOBAL BUSINESS BRIEFS

### Deutsche Lufthansa AG

#### Pilot strike at units leads to 559 flight cancellations

A strike by pilots at airlines CityLine and Eurowings, units of **Deutsche Lufthansa** AG, led to 559 flight cancellations Monday, spokeswoman Claudia Lange said. The two airlines had flown 680 flights the previous Monday. Pilots union Vereinigung Cockpit had called a 24-hour strike, which started Sunday evening. The union said 99% of cockpit personnel had voted to take part in the action, called after wage talks broke down. Management at Lufthansa's low-cost carrier Germanwings had presented the union with a new offer Friday, preventing a strike at that airline.

### EMI Group Ltd.

**EMI Group** Ltd. said it recruited an executive from a household-products company to head its recorded-music division, as its new private-equity owner continues to reach outside the music world for management talent. The new music unit chief executive, Elio Leoni-Sceti, 42 years old, was executive vice president of **Reckitt Benckiser** PLC, maker of skin-care product Clearasil, French's mustard and Nurofen pain reliever. At EMI his lines will include Lily Allen, The Beatles, Coldplay, Norah Jones and The Rolling Stones. **Terra Firma Capital Partners** bought EMI for £2.4 billion ($4.8 billion) last year. Chairman Guy Hands said he will now step back to become non-executive chairman of EMI. The president of EMI's Europe, Middle East and Africa operations, Jean-François Cécillon, will leave the company this week, according to a statement from Mr. Hands.

### Inmarsat PLC

Satellite communications company **Inmarsat** PLC confirmed it received a "very preliminary approach" from activist hedge fund **Harbinger Capital Partners.** On Monday in London, Inmarsat shares closed up 6% at 525 pence ($10.41), giving the company a market capitalization of about £2.4 billion. Harbinger already owns 28% of U.K.-based Inmarsat, as well as other satellite investments. "Discussions between the parties are at a very early stage and there can be no certainty that any offer will ultimately be made for Inmarsat or as to the terms of any such offer," Inmarsat said. U.S.-based Harbinger confirmed its approach, but said no decision had been made and that a lengthy regulatory approval process would be required if it were to make an offer. Inmarsat was bought by a consortium of private-equity firms for $1.5 billion in 2003. The company went public in 2005.

### Canon Inc.

**Canon** Inc. said it will spend about 17.4 billion yen ($163 million) to build a new digital-camera plant in western Japan in response to increasing demand. The move underscores Canon's efforts to gain traction in the battle for market share in the digital-camera market. While some rivals are shifting production of digital cameras outside Japan to take advantage of cheaper labor, Canon aims to strengthen its technological edge with a focus on production of high-technology items at home by skilled workers. Tokyo-based Canon, which makes a wide range of precision electronics equipment, said construction of the new plant in Nagasaki, Kyushu Island, is slated to begin in January, with operations to kick off in December 2009. The plant will have the capacity to churn out four million units per year.

### Toyota Motor Corp.

**Toyota Motor** Corp. said its joint venture in China will relocate a plant and more than double production capacity. The company said Sichuan FAW Toyota Motor Co., a joint venture with **China FAW Group** Corp., plans to relocate its Chengdu city plant to an economic and industrial zone in the city by the first half of 2010 and boost annual production capacity to 30,000 vehicles fom the current 13,000. Overall investment is esimated at 3.6 billion yuan ($525 million). Together with another plant in Changchun, Jilin province, the joint venture will have an annual capacity to churn out 40,000 vehicles.

### Carlyle Group LP

U.S. private-equity firm **Carlyle Group** LP said it has invested $87 million in **Sinorgchem Group** Co., a Chinese supplier of para-phenylene-diamines, a chemical additive in the production of rubber products. It didn't provide any other financial details but said Sinorgchem will benefit from partnerships with Carlyle's portfolio companies and global network. "Sinorgchem's overseas expansion will benefit from the operational expertise of our pool of senior chemical industry professionals, and from potential partnership opportunities with our portfolio companies and global network," said Yi Luo, managing director of Carlyle Asia Partners, which made the Sinorgchem investment. Carlyle Asia Partners, Carlyle's Asian arm, made the investment.

### Alibaba Group

**Alibaba Group** said it will invest two billion yuan ($291.6 million) over the next five years in wholly owned Taobao.com, a leading Chinese online-auction site. The investment will be spent on technological innovation and attracting new employees, Alibaba Chairman Jack Ma said. Alibaba Group said it has invested a total of 1.45 billion yuan in Taobao since it was established in 2003. Taobao, like eBay Inc., allows users of the site to buy goods from other users through online bidding. In 2007, users bought and sold 43.3 billion yuan worth of goods on the site, more than double the amount in 2006, according to company figures. Alibaba Group is 39%-owned by **Yahoo** Inc.

### High Tech Computer Corp.

Taiwan's **High Tech Computer** Corp., the world's largest maker of phones using **Microsoft** Corp.'s operating system in terms of shipments, said second-quarter unaudited net profit rose 7.7% from the previous year. Net profit was 6.44 billion New Taiwan dollars (US$211.9 million), up from NT$5.98 billion. Revenue in the period was NT$34.62 billion, up from NT$26.86 billion. High Tech didn't elaborate, but it will review its performance for the period and give an outlook for the third quarter at its quarterly investors conference July 31.

*—Compiled from staff and wire service reports.*

# ECONOMY & POLITICS

## EUROPEAN UNION

### Executive arm proposes uniform breaks on VAT

THE EUROPEAN Commission has proposed expanding the list of services for which reduced value-added-tax rates can be applied in all European Union member states,.

Some of the 27 EU countries have already gained exemptions from the full rate on various services until 2010, and the proposal Monday seeks to grant all states the same conditions.

The EU's executive arm hopes it will provide a boost to the services concerned and shift more consumers and workers from the black-market economy to the formal economy, thereby fueling economic growth. *—Associated Press*

## SERBIA

### New premier lays out plan in address to Parliament

SERBIA'S NEW prime minister, Mirko Cvetkovic, told Serbia's Parliament that his priorities would be "commitment to a European future," rejection of Kosovo's independence, strengthening of the economy and combating crime and corruption. His coalition of the two once-bitter rivals—combining a pro-Western group and the political party of late leader Slobodan Milosevic—has a majority in the 250-seat parliament and was expected to be approved in a vote by Parliament Monday. "Full fledged EU membership is the core interest of the Republic of Serbia and its citizens," said Mr. Cvetkovic, above. *—Associated Press*

## JAPAN

### Regional assessment of slowdown is unchanged

THE BANK of Japan left its core economic assessment of the regional economies unchanged for the first time in three quarters, even though eight of nine regions revised down their economic views. "Growth of the economy as a whole continued slowing recently, mainly due to the effect of high energy and material prices, although there were some regional differences," the central bank said in its quarterly "Regional Economic Report," released Monday. "Sluggishness [in consumption] became increasingly apparent, although it remained generally firm in the situation where household incomes continued rising moderately," the report said. *—Megumi Fujikawa*

# China scrambles to meet Olympic deadlines

## *Transit, construction fall behind schedule as pollution persists*

BY SHAI OSTER
AND LORETTA CHAO
*Beijing*

JUST ONE MONTH before the Aug. 8 opening ceremony of the Beijing Olympics at the city's new National Stadium, organizers still face numerous hurdles. Among their biggest worries is persistent pollution, a problem that will soon prompt the closure of scores of factories.

The primary Olympics sports venues are completed, but the rest of the city is a frantic construction site. The downtown station of a new airport railway is unfinished, and ticket prices haven't been fixed. New subway lines have just started trial runs for opening before mid-July. A major redevelopment of a historic district near Tiananmen Square is shrouded in billboards and construction dust.

The International Olympic Committee is holding meetings Monday through Wednesday to review a range of subjects, such as broadcasting, technology, catering, brand protection and Olympic Green operations. The IOC's focus is to guide and advise local organizers so they can rapidly iron out any final glitches ahead of the influx of athletes, sports officials and spectators in the coming weeks, said IOC spokeswoman Giselle Davies.

"It is actions now, not words, that count," Ms. Davies said. "The organizers need to deliver the services expected by the various stakeholders." Among the key preparations is the opening of the main press center for the expected arrival of tens of thousands of journalists.

Beijing's Olympic organizing committee wasn't available for comment, citing a move to new offices.

Other preparations continue apace. The government has said it will distribute free 40,000 English- and Chinese-language bibles, replete with Olympic Rings on the cover, apparently a first. A new 10-yuan note to mark the Olympics, bearing the image of the National Stadium, nicknamed the Bird's Nest, has also been issued.

Police have set up a bilingual lost-and-found hotline. Inspectors are checking for illegal use of the Olympics logo in ads and are conducting antidoping sweeps in hospitals. Engineers are readying the electric grid in Beijing for the biggest power surge in its history.

The masses are being exhorted to improve the "professional ethics and adopt good manners to create a sound social environment." On Wednesday, senior Chinese officials are expected to take part in a ceremony to celebrate the 30-day mark to the games.

Olympic preparations often involve a last-minute sprint, and Beijing may well finish preparations on time, as officials have repeatedly promised. Still, the amount of work left to be done is impressive—perhaps most significantly when it comes to pollution, a concern that literally hangs over Beijing.

The past few weeks have brought a noxious combination of warm temperatures and unusually heavy rain, though the downfalls haven't cleared stifling smog. In the 20 days up to July 7, air quality averaged 87.75, according to the government's air-pollution index. That's under the 100-point level China considers safe—though double the levels typical of developed cities in the West. Six days were close to or above 100; on such days, which China considers mildly polluted, outdoor activity for the young and old or sick should be reduced.

Even those figures could be suspect, some environmental analysts allege. Steven Q. Andrews, an independent consultant in Washington who has studied China's environmental monitoring, said officials manipulated data to mask an increase in pollution despite multibillion-dollar investments to contain it. He said Beijing has moved monitoring stations away from polluted downtown to cleaner suburbs and has loosened other air-quality standards of a key component of smog that can affect the performance of athletes.

The government denied his allegations and said air quality has consistently improved over the past decade. Much of the pollution is caused by Beijing's growing number of cars, now estimated at more than three million. In a sign of how serious the pollution problem remains, China's government will implement strict traffic controls from July 20 through mid-September. Traffic is to be halved by limiting cars to driving on alternate days depending on their license-plate numbers. Some stores and buildings sites are stockpiling supplies now because heavy trucks will be barred from Beijing.

Polluting factories across a huge area covering four provinces in northern China will be idled, reducing steel output by as much as five million metric tons, about 12% of the country's monthly output. They extend to the neighboring port city Tianjin, where 40 factories and 26 building sites will be shut. Most of the closures will be in mid-July.

In Beijing, the government has already suspended operations at two major facilities owned by **Beijing Eastern Petrochemical** Co. because they are near the Olympic venues. Rock quarries and cement factories in Beijing will also suspend work.

At the sprawling 13-square-kilometer factory campus of Capital Steel, also known as Shougang, on the outskirts of Beijing, workers said the expected shutdown might idle some 30,000 employees at home on half of their usual salaries. The plant has been one of the city's biggest sources of pollution and will be completely relocated to the coast by 2010.

Idled migrant workers are already leaving Beijing. Qiao Guilin of Chongqing, a worker at a steel factory near Beijing, was at the West Station one recent day waiting for a train to leave the city. The 25-year-old said that because of the Olympics, his factory was scaling down operations and asked at least 40% of its workers to leave until September. "In support of the party and government, this is not a big deal," he said.

Yang Zhanguo, 33, who works for a renovation company in Tianjin and was on his way home to central China, said local officials have been closing many decoration-material markets to maintain order for the Olympics. As a result, his company suspended operations for 100 days because of the shortage in supplies. He won't be earning his regular 3,000 yuan ($437) monthly salary during this time.

It is getting tougher for many people to get into the city. Special papers are required to buy train tickets, and police are checking the documents of migrant workers, deporting many. Foreigners aren't immune: Visa regulations have been tightened, forcing many to leave and keeping others out. That has pushed hotel-occupancy rates sharply down compared with last year. Meanwhile, in coastal Qingdao where Olympic sailing events will take place, soldiers and volunteers are battling a vast algae outbreak linked to warmer weather and water pollution. The outbreak has disrupted training for some teams, but Chinese officials have promised that the algae won't impede Olympic competitions.

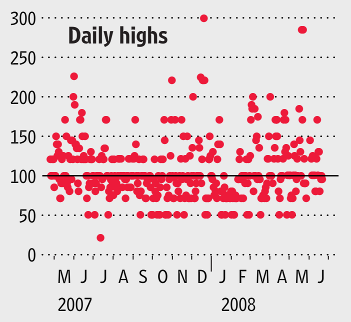
*—Gao Sen and Sue Feng contributed to this article.*

**The Qianmen redevelopment** project is meters away from Tiananmen Square

Shai Oster

**Beijing's pollution index**

Concerns remain about the air quality for the Olympics. In China's pollution index, daily readings of under 100 are considered safe.




Source: Ministry of Environmental Protection

**Personal Journal**

**Pangs of guilt**

*Feeling bad about putting weight back on? Blame evolution* > Page 30

# ECONOMY & POLITICS

CAPITAL JOURNAL ▪ Gerald F. Seib

## Threat from U.S. oil imports missed by focus on pump prices

Both U.S. presidential candidates are focusing on the economy this week, and for good reason: Gasoline at $4 a gallon has Americans sliding into pocketbook shock.

But pain at the pump is only one reason energy now should be the central issue of this year's campaign. Here's the other, more insidious one: High oil prices are producing a massive transfer of wealth from U.S. pocketbooks into the hands of bad actors around the world, most notably Iran, Venezuela and Russia.

The U.S., in other words, has an energy problem that is not only draining the bank accounts of its own citizens, but filling up the bank accounts of some who work against American interests around the globe. This national-security impact of the oil mess gets relatively little attention, yet it's hard to imagine an issue that more deserves campaign prominence.

To simplify the predicament, high energy prices hurt Americans in three ways. Only the first and most obvious one, the effect of high gasoline prices on voters' economic health, gets much attention.

The second way high oil prices hurt is by adding to the country's lack of economic independence. In much the same way the country has been borrowing money from China to pay for more Chinese imports, it increasingly is borrowing money from oil producers to buy more of their oil.

A new report from UniCredit Markets and Investment Banking summarizes the problem nicely: "Due to soaring oil prices, the U.S. current account deficit"—that is, the broadest measure of the nation's trade deficit—"has doubled since 2001. This excess consumption has been financed by huge capital inflows from Emerging Asia and oil-exporting countries."

At the same time, oil producers are joining other foreigners in buying the U.S. Treasury bonds that finance the federal government's budget deficit. Between 2004 and 2007, the report notes, foreigners bought 80% of all newly issued Treasury bills.

The outflow of petrodollars also translates into loss of financial independence on another front. Oil-producing countries are accumulating piles of excess cash that they can use—and are using—to buy pieces of American companies. A new analysis by McKinsey and Co. for instance, notes that Russia has "emerged as a major global financial player" because of oil money; it had $811 billion in foreign investment assets available at the end of 2007.

But it isn't just Russia that has money to invest in Western economies. The McKinsey report notes that the smaller exporting countries of Algeria, Iran, Libya, Nigeria and Venezuela also are gaining global financial clout.

"When oil prices were lower, these countries channeled the bulk of their oil profits into domestic spending, with little left over to invest abroad," the report says. "But as crude prices have climbed, these five countries are emerging as significant investors in foreign markets. They accounted for nearly one-quarter of net capital outflows from oil exporters in 2007."

Which leads to the third concern: that some of these mountains of petrodollars will in turn be used to advance anti-American political agendas. The McKinsey report summarizes the problem dryly but succinctly: "The rise of a broader range of countries with sovereign wealth funds heightens concerns about the potential noneconomic motives and political ramifications of their investments."

It doesn't take a lot of imagination to start seeing how the growing chunk of money in the hands of the wrong people can set back broader American interests. Iran is, at least indirectly, using some of its oil money to finance attacks on U.S. soldiers in Iraq and to build a troublesome nuclear program. Venezuela's President Hugo Chávez is financing his Western Hemisphere crusade against American influence with petrodollars. When Russia had a dispute with Ukraine two years ago, it simply cut off natural-gas supplies to increase its political leverage.

Brad Setser, a former U.S. Treasury Department official now at the Council on Foreign Relations, points out a couple of other uncomfortable side effects of the petrodollar flow. Some unsavory regimes, he notes, can use the cushion of high oil revenues to buy off would-be internal critics and prolong their life spans.

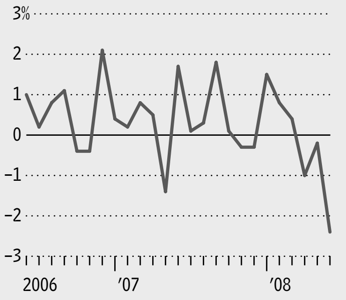
In addition, to the extent the U.S. has to lean on oil-exporting countries in places such as the Persian Gulf for both gasoline and debt financing, it loses its leverage to push for internal changes. "It is very hard to push your creditors to be democratic," Mr. Setser said.

To their credit, Sens. John McCain and Barack Obama are trying to raise awareness of the corrosive national-security effects of oil prices. In his recent centerpiece address on energy, Sen. McCain declared: "When we buy foreign oil, we are enriching some of our worst enemies." As far back as last fall, Sen. Obama said in a speech: "We know that the money that America spends on foreign oil is funding both sides of the war on terror."

But the country is a long way from consensus on what to do. When a Wall Street Journal/NBC News poll asked Americans a few weeks ago what should be done to address the rise in energy prices, it found the country split down the middle between steps to increase domestic oil production and steps to conserve and develop alternate energy sources. The challenge of the campaign—and of the next president—is to start finding common ground on what is now a genuine national-security problem.

**Falling in line**

German industrial production, month-to-month percentage change




Source: Deutsche Bundesbank via Thomson Reuters Datastream

## ECB rate increase signals a focus to tame inflation

By Emese Bartha and Adam Cohen

The European Central Bank's decision to raise its key interest rate was a signal to wage negotiators that it will keep inflation under control, Luxembourg Finance Minister and Prime Minister Jean-Claude Juncker said Monday.

The central bank on Thursday increased its key rate to 4.25% from 4%, its first move since June 2007. The bank's main worry is that with the annual rate of inflation at 4% in June, workers will demand higher wages, and employers will go some way toward meeting those demands, raising their prices to cover their increased costs. Mr. Juncker was speaking to reporters ahead of a meeting of finance ministers from the Euro Group, which he heads.

Ahead of the bank's decision, a number of euro-zone governments warned of the damage to economic growth a rate increase could have. The Spanish government was among that group, but the country's finance minister Monday stressed that he respects the central bank's right to set interest rates to tackle inflation. "It is one of the big challenges we have to tackle, there is no doubt about that," Pedro Solbes said.

"My deep concern is that we have to tackle the inflation problem world-wide and over a longer time than the current financial market crisis," Peer Steinbrück, Germany's finance minister, said.

Meanwhile, data from Germany gave another worrying sign that the resilience of Europe's largest economy is fading, in line with other euro-zone countries. German industrial production fell 2.4% in May in seasonally adjusted terms, the third straight drop, bucking market expectations for a rise, the Federal Economics Ministry reported Monday. However, the ministry noted that two public holidays might have caused some of the decrease, by encouraging workers to take an extra day off to build a four-day weekend.

"It is the usual suspects which are taking their toll on the heart of the German economy: high oil prices, a strong euro and a worsening of the global outlook," said Carsten Brzeski, an economist at Global Economics ING financial markets.

The fall in industrial production is bad not only for Germany but also for its trading partners, analysts said. "This is a worry given that Germany has been considered the powerhouse of Europe in recent years," said Melanie Bowler, analyst at Moody's Economy.com.

*—Jethro Mullen, Andrea Thomas and Ykje Vriesinga contributed to this article.*

# Spain's once-hot economy faces recession

## *Housing implosion threatens an engine of euro-zone growth*

By Jonathan House

MADRID—The Spanish economy could face recession in the second half, possibly depriving the euro zone of a principal engine for job creation and economic growth.

Gross domestic product has increased at average annual rate of 3.75% for the last ten years in Spain. But the implosion of a decade-long housing boom seems to be bringing the rest of the Spanish economy down with it.

In 2006, Spain built more than 700,000 houses—more than France, Germany and the U.K. combined—and investment in housing accounted for nearly 10% of gross domestic product, more than twice the euro-zone average.

Economists expect Spain to build fewer than 300,000 houses this year as the industry tries to digest accumulated debt alongside difficult financing conditions in the aftermath of the U.S. subprime-mortgage crisis.

Spain, like the rest of the euro zone, is saddled with soaring oil prices, strong inflationary pressures and, after the European Central Bank raised rates last week, tighter monetary policy. And like the U.K. and Ireland, Spain feels the added pressure of tumbling home values.

Rapidly rising unemployment together with climbing inflation is undermining consumer confidence and purchasing power. Spanish retail sales fell 5.3% in May, while car sales dropped 31% in June. Spain's unemployment rate edged up to 9.9% in May, the highest in the euro zone, according to the European Union statistics agency, Eurostat.

"There's a high likelihood the [Spanish] economy could be in recession at the end of the year," Fernando Eguidazu, vice chairman of the Circulo de Empresarios business association told journalists Monday.

The group urged the government to take action to help the economy rebound quickly.

Spain has launched a fiscal-stimulus plan, but business leaders say the country needs further labor-market overhauls and must open key sectors of its economy like retail and energy to further competition.

"The risk is that we could go into a long period of stagnation," said Mr. Eguidazu.

Spanish GDP slumped to a 2.7% annual growth rate in the first quarter, from 3.5% in the fourth quarter. Quarterly growth fell to 0.3% from 0.8%.

Bank of America's chief European economist, Holger Schmieding, said the likely stagnation or contraction of Spain's economy in the second half alone would shave nearly 0.1 percentage point off euro-zone quarterly growth. He forecasts quarterly growth of 0.2% for the euro zone in the third and fourth quarters.

Spain owes much of the growth of previous years to overhauls carried out to prepare the country for euro membership in 1999. It deregulated its labor market and reduced public-sector spending, putting it in a strong position to benefit from historically low interest rates. Large immigration inflows provided an abundance of low-cost labor and boosted consumption.

The housing boom peaked last year when prices reached three times their 1997 levels and a series of European Central Bank interest-rate increases made financing more expensive. The outbreak of the U.S. subprime-mortgage crisis last summer precipitated a correction by making financing even more expensive for Spanish home builders.

Jose Luis Echevarria, head of Venesa, a small Madrid construction company, said banks that used to lend to him at one-quarter percentage point over the Euribor reference lending rate are now charging Euribor plus one point and requiring additional guarantees, such as proof of advance sales.

Home builders "used to be banks' preferred customers. Now they just want to get rid of us," Mr. Echevarria said. He said he might be forced to postpone a project to build 50 apartments and has decided to lay off 10 of his 15 employees.

According to recent government data, Spanish home-sales transactions fell by 32% in the first quarter from a year earlier, new housing permits dropped 41% in April and nearly 100,000 construction jobs were lost in the first half.

**Career Journal**

### Firing offense

*When a dismissal borders on insulting, it becomes stuff of legend* > Page 29