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■ **The battle** between two of Russia's richest men to control metals giant OAO Norilsk Nickel heated up. Page 17

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■ **BMW introduced** a new 7-series flagship sedan, with design elements it hopes will make it more competitive with its Lexus and Mercedes rivals. Page 4

■ **Peugeot's global sales rose** 4.6% in the first half but the auto maker warned it expects a slowdown in Western Europe in the second. Page 4

■ **A commodities-trading** company is expected to unveil plans to launch a commodities exchange in Singapore. Page 17

■ **U.S. stocks rose,** buoyed by a drop in oil prices and comments from the Fed chief. European stocks fell on fears about the financial sector. Page 18

■ **Fannie Mae and Freddie Mac** likely won't be required to hold more capital because of accounting-rule changes, their top regulator said. Pages 7, 22

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11384.21	+152.25	+1.36
Nasdaq	2294.42	+51.10	+2.28
DJ Stoxx 600	278.97	-4.20	-1.48
FTSE 100	5440.5	-72.2	-1.31
DAX	6304.41	-91.34	-1.43
CAC 40	4275.61	-66.98	-1.54
Euro	$1.5675	+0.0012	+0.08
Nymex crude	$136.04	-5.33	-3.77

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World-Wide

G-8 leading nations endorsed a goal of halving global greenhouse-gas emissions by 2050 and promised "ambitious" cuts over the next two decades, plus big investments in new technology. Environmentalists said the statement failed to set meaningful near-term limits. The G-8 branded Mugabe's Zimbabwe regime as illegitimate. Page 3

■ **Medvedev said** his first meeting with Bush since becoming Russia's president brought no progress on deep disagreements.

■ **The Czech Republic** and the U.S. signed an initial agreement to base a U.S. missile-defense shield in Eastern Europe. Page 8

■ **Afghan officials implied** Pakistan helped plan Monday's suicide bombing of India's embassy in Kabul in which 41 died. Pakistan denied involvement. Page 8

■ **An Iraqi official said** the country wouldn't agree to any U.S. memorandum of understanding without "specific dates" to withdraw foreign forces from Iraq.

■ **Iranian President** Ahmadinejad said he doesn't see the possibility of a war with the U.S. or Israel, at a summit of developing Muslim nations in Malaysia.

■ **The Slovak koruna's** final conversion rate against the euro was set by EU ministers, the last formal step before Slovakia begins using the euro Jan. 1. Page 8

■ **A bloc of Communist** and left-wing parties withdrew their support from India's ruling coalition to protest a proposed nuclear-energy deal with the U.S. Page 31

■ **EU lawmakers approved** a deal with governments to include aviation from 2012 in the bloc's Emission Trading Scheme.

■ **The Church of England's** ruling body voted for steps to allow women to become bishops but is years away from a final vote.

■ **South Korea's opposition** party said it will end its boycott of the legislature over U.S. beef imports starting on Thursday.

■ **The breakaway Georgian** republic of Abkhazia rejected a U.S. proposal to deploy an international police force there.

■ **Died: John Templeton,** 95, fund pioneer and philanthropist in religion and science, of pneumonia in the Bahamas. Page 32

EDITORIAL & OPINION

Sixty-three years late
Finally, a German successfully assassinates Hitler. Review & Outlook. Page 11

In Iraqi Kurdish region, age of 'easy oil' isn't over

Flowing crude draws prospectors, hubbub; exporting problems

By Neil King Jr.

TAWKE, Iraq—The Canadians are squeezing oil from sand. The Brazilians want to nurse it up through miles of seawater, sandstone and salt. But here in the far north of Iraq, oil is literally bubbling to the surface.

Oil executives lament that the age of "easy oil" is over. It isn't over here. For companies that have stumbled into this corner of Iraq known as Kurdistan, it's an era that has just begun.

"Look at this," said Magne Normann, Middle East director for **DNO International** ASA of Norway, as he stood beside a pond of oil oozing up on a hillside. For fun, he heaved in a stone. "What a sight," he said, as the liquid shot 90 centi-

Please turn to back page

Slowing demand
Rising oil prices are forcing Asian consumers to cut back 10

Reuters

Fed Chairman Ben Bernanke said the U.S. central bank plans many moves to help financial markets and may extend its temporary lending program to investment banks.

Fed sets new measures to steady U.S. markets

By Damian Paletta

WASHINGTON—Almost one year after housing fears exposed deep cracks in global credit markets, U.S. Federal Reserve Chairman Ben Bernanke said Tuesday the central bank plans multiple moves to shore up mortgage lending and help financial markets operate smoothly.

But he suggested more sweeping, fundamental changes could be necessary to restore stability. For example, he said "a strong case can be made" for giving the Fed more "explicit" power over the payment-and-settlement framework that processes the way money moves through the financial system.

Mr. Bernanke's comments underscore his continuing concerns about the health of the financial system. Despite some improvement since the credit crisis hit a year ago, markets remain fragile and financial institutions are under intense pressure to raise capital to offset their losses. Turmoil that began in the housing sector is continuing to spread, hitting lending more broadly and threatening to exact a deeper toll on the overall economy.

Many of the changes Mr. Bernanke raised could be authorized only by the U.S. Congress, and his comments will likely escalate the posturing by regulators and financial companies that began earlier this year.

For the first time, Mr. Bernanke

Please turn to page 31

Airline merger flags shakeout in budget space

By Davide Berretta

PARIS—The merger of Spanish no-frills airlines **Vueling** and **Clickair** is one of the first signs that Europe's vibrant budget airline sector could be headed for a major shakeout as soaring fuel prices eat into low-cost carriers' tight budgets.

Barcelona-based Vueling—which was founded in 2004 and operates 54 routes around Europe—said the deal, which was announced late on Monday, was aimed at creating a big new presence in the Spanish airline market.

"In this environment, any kind of consolidation is good," said Alfonso Claver, a Vueling spokesman.

Analysts say more consolidation—or even closures—may lie on the horizon as the finances of many budget airlines worsen, rattling investors.

Shares of Vueling, Slovakia's **SkyEurope Holding** AG and Germany's **Air Berlin** PLC were all trading at or around historical lows before Monday's announcement. On Tuesday, following news of the merger, Vueling shares bounced up by 19%.

Since the start of the year, stock in Bratislava-based SkyEurope has fallen 70%, and shares of industry

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THE WALL STREET JOURNAL.

EU endorses tightening ratings-firm oversight

Ministers also back weekly crude data to aid transparency

By Andrea Thomas, Adam Cohen And Jethro Mullen

BRUSSELS—European Union finance ministers Tuesday backed plans to regulate credit-rating companies more directly, after the agencies' voluntary code of conduct was deemed inadequate to prevent future financial crises.

The ministers also discussed inflation in the EU, rising oil prices and slowing growth, agreeing on few concrete measures other than to publish oil-stocks data on a weekly basis to ensure greater market transparency, as the U.S. does.

Firms' adherence to a code of conduct would be monitored by regulators.

The ministers' declaration on ratings firms adds force to the European Commission's plans for legislative proposals, expected in the fall. Ratings companies have been blamed for failing to spot bad loans on banks' balance sheets and underestimating the potential for the crunch in structured credit products. In the U.S., credit-ratings firms such as Standard & Poor's Corp., Moody's Corp. and Fitch Ratings have been registered since last year and have had to abide by the U.S. Securities and Exchange Commission rules.

The commission's chief market regulator, Charlie McCreevy, has described ratings firms' code of conduct as a "toothless wonder."

"I wouldn't want to leave the implementations solely up to them [the ratings firms], not after the experiences we have" had, said German Finance Minister Peer Steinbrück.

In the EU, the Paris-based Committee of European Securities Regulators would serve as a pan-European registry and monitor ratings firms' adherence to a code of conduct, rather than leaving the firms to assess themselves. A key part of the commission's rules will make the firms wall off the divisions that charge companies for advice on bonds from those that rate bonds.

Fitch Ratings and Standard & Poor's, a unit of **McGraw-Hill** Cos., expressed their support for coordinating regulations across borders. S&P said the EU and U.S. should work together in supervising ratings companies.

"It's important that any new external oversight of rating agencies follows a globally coordinated approach," said an S&P spokesman.

"A coordinated, pan-European regulatory framework is preferable to a proliferation of country-specific regimes," said David Weinfurter, a managing director at Fitch Ratings, a unit of **Fimalac** SA.

The ministers also called on banks to contribute to market confidence by fully disclosing "their exposures to distressed assets and off-balance-sheet vehicles and of their write-downs and losses." The ministers are due to review banks' behavior during their monthly meetings in September and November, their statement said.

The EU ministers' agreement on the oil data follows a call earlier Tuesday by leaders from the Group of Eight leading nations, who are meeting in Japan, for "greater transparency" in oil markets so as to better balance oil's supply and demand.

Ministers are concerned that high crude prices, which have recently topped $140 a barrel, are contributing to inflationary pressures while also posing a threat to economic growth. The Italian government is among those seeking action to curb oil-market speculation.

Ahead of the meeting, Italian Finance Minister Giulio Tremonti had called on the commission to look into possible collusion in the oil markets, although he didn't specify who the potential culprits might be. His view appeared to have failed to gain traction Tuesday. There is "considerable doubt as to whether speculation is leading to increases in oil markets or in other markets," said Mr. McCreevy at a news conference.

CORRECTIONS & AMPLIFICATIONS

Peter Clarke is the chief executive of U.K.-based hedge-fund firm **Man Group** PLC. A Money & Investing article Tuesday misspelled his last name as Clark.

Iraq produced about 3.5 million barrels of oil a day in 1979. A page-one article in some editions July 1 incorrectly gave the figure as 3.5 billion barrels.

Pressure on TNK-BP ratchets up

By Gregory L. White

MOSCOW—Administrative pressure rose on **BP** PLC's embattled TNK-BP Ltd. Russian venture, as BP's Russian partners continue their bid to remove CEO Robert Dudley, whom BP staunchly supports.

The Russian shareholders, led by billionaires Mikhail Fridman, Len Blavatnik and Viktor Vekselberg, charge Mr. Dudley with mismanaging the company and have demanded he be removed. BP rejects those assertions and has accused its Russian partners of using them as a smokescreen for an effort to gain control over the 50-50 venture. The fight over TNK-BP is playing out as many industry executives expect control of the venture ultimately to wind up in the hands of a state-controlled company like OAO **Gazprom**.

People close to BP said the British company suspects the Russian shareholders, seeking to increase their leverage, have instigated a tidal wave of regulatory and other pressure that has hit TNK-BP in recent months.

"The administrative pressure always gets ratcheted up before a crucial meeting, and that seems to be what's happening now," said a person close to BP. TNK-BP's board of directors meets for a regularly scheduled session in Cyprus on Friday. That meeting isn't expected to lead to resolution of the tensions, people close to both sides say. The last board meeting ended without a quorum when the Russian shareholders' representatives declined to participate.

—Guy Chazan in London contributed to this article.

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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LEADING THE NEWS

G-8 sets goal to halve emissions by 2050

Developing nations may be reluctant to endorse the effort

BY JOHN D. MCKINNON AND SEBASTIAN MOFFETT

RUSUTSU, Japan—The Group of Eight leading nations formally endorsed for the first time a goal of halving global greenhouse-gas emissions by 2050 and promised "ambitious" cuts over the next two decades, plus large investments in new technology.

The declaration drew quick criticism from environmentalists, who said it failed to set meaningful near-term limits.

They added that the accord's success could depend on winning hard-to-secure commitments from reluctant, fast-growing emerging economies to join in the effort by pledging unprecedented pollution reductions of their own.

The declaration sets up a high-stakes negotiation on Wednesday between the old-line G-8 powers, such as the U.S., U.K., Germany and Japan, and the major developing countries such as China and India. (The other G-8 nations are Canada, France, Italy and Russia.)

The big question is whether the emerging economies will conclude that the developed world's broadly worded promises are meaningful enough to induce them to enter into a treaty in the coming year for a global system of limits.

Early indications were that the emerging economies would drive a hard bargain, seeking to make the developed countries shoulder much of the burden of reducing emissions.

Meeting in Sapporo, near the site of the G-8 meeting, their leaders issued a communiqué calling for developed countries to pledge to cut emissions by between at least 25% and 40% by 2020 and between 80% and 95% by 2050. "It is essential that developed countries take the lead," the reply said.

In response, a senior U.S. official said the developing countries' communiqué reflected an opening bid. The official predicted "modest" progress across the board at Wednesday's meeting, including on emission reductions in the emerging economies' industrial sectors.

The skirmishing suggests that the negotiations over a successor to the Kyoto Protocol are likely to remain a pitched battle between the developed and developing worlds for months to come, with many emerging economies seeking to avoid binding limits on their emissions.

But the day's events also showed how the two sides are gradually coming closer. United Nations officials hope to conclude a treaty by the end of 2009.

Even if there is no breakthrough agreement on Wednesday, the G-8 declaration also allowed U.S. President George W. Bush and Japanese Prime Minister Yasuo Fukuda—the host of this year's G-8 and a U.S. ally on climate change—to claim a modest political victory.

It allows them to say they are leading the summit's long-term 50% reduction goal, even though it is nonbinding. Many experts regard a 50% reduction as essential to prevent the worst effects of climate change. But the U.S. previously had been a holdout.

European Commission President José Manuel Barroso praised the outcome.

"Without a big step of the United States, you cannot achieve an agreement," he said at a news conference.

The statement also reflects the G-8's endorsement of Mr. Bush's long-held view that any successor to the Kyoto Protocol after 2012 wouldn't be effective unless the emerging economies are covered, because of their anticipated rapid growth. They weren't covered by Kyoto.

The G-8 leaders' statement says that "in order to ensure an effective and ambitious global post-2012 climate regime, all major economies will need to commit" to "meaningful" reduction plans in the next treaty.

That is something the emerging economies have resisted, arguing that most of the buildup of greenhouse gases is the developed world's fault. The emerging nations also fear the impact that limits could have as they try to catch up to the developed world.

But the statement's broad language opens the door for a deal. It says developing countries can undertake very different commitments from those of the developed world, and that the old-line industrial economies bear more of the burden for the foreseeable future.

"We recognize that what the major developed economies do will differ from what major developing economies do, consistent with the principle of common but differentiated responsibilities and respective capabilities," the statement said. Leaders also acknowledged "our leadership role," and promised ambitious economywide midterm goals.

G-8 countries also plan to pay billions of dollars to develop new technologies that will be needed to reduce emissions, and to help the emerging economies buy them.

A top White House negotiator, Dan Price, said the statement represented "significant progress," both for its recognition that the developed world can't solve global warming on its own, and its emphasis on the need for new technologies.

In particular, the Bush administration has put emphasis on clean-coal technologies for power generation, as well as automobile batteries that would depend on electricity. Some environmentalists regard that with suspicion.

While Messrs. Bush and Fukuda played central roles, the statement also represented a victory of sorts for German Chancellor Angela Merkel, a former scientist and climate negotiator who has been the highest-profile proponent of the goal of halving emissions by 2050.

Under her influence as G-8 host last year, the G-8 countries said they would "seriously consider" the goal of cutting emissions by 50% by 2050.

White House officials said a big difference is that this year's declaration looks outward to the developing world for more of a commitment.

The immediate question is whether the countries that will join the discussion on Wednesday—which also include Australia, Brazil, Mexico, South Africa and South Korea, in addition to China and India—will think the developed world's commitment is enough to induce them to join in the long-term 50% reduction effort.

Some environmentalists rejected the statement as all but meaningless.

Alden Meyer, director of strategy and policy at the Union of Concerned Scientists, described the statement as a missed opportunity. "What was needed was a clear signal that the world's major industrialized countries would provide real leadership in cutting their own emissions...between now and 2020," Mr. Meyer said.

He suggested that the Bush administration—which has set a goal of halting emissions growth by 2025—continues to hold up the process.

Others noted that the statement's wording would give the developed world a significant break, allowing it to measure future reductions from 2008.

The Kyoto Protocol measured percentage changes from 1990, a tougher baseline for many countries. Some also criticized the vagueness of the statement, particularly concerning the G-8 countries' plans for midterm emissions reductions.

Phil Clapp of the Pew Environmental Group said the emerging economies likely will be looking for greater specificity on the developed world's commitments to midterm reductions, and more on exactly what will be demanded of the emerging economies.

The emerging economies might prefer to strike a deal with Mr. Bush now, rather than with a new U.S. president who might seek bigger concessions.

The G-8 also sought to burnish its leaders' images on other hot topics, including the vulnerable global economy, aid to impoverished countries in Africa and the political crisis in Zimbabwe.

South African unions ponder how hard to press Mugabe

BY MARGARET COKER

BEITBRIDGE, South Africa—As the United Nations Security Council weighs sanctions against Zimbabwe, a powerful group already squeezing President Robert Mugabe is divided on whether to unleash more of its vast economic leverage against his regime.

The Congress of South African Trade Unions, or Cosatu, a 1.8-million-member organization and a key political base within South Africa's ruling African National Congress party, has for a decade engaged in low-volume protests against Mr. Mugabe. This spring, public opinion in South Africa swung further in Cosatu's direction when port workers, members of one of the group's 21 affiliates, blocked a Chinese ship laden with arms for land-locked Zimbabwe from offloading the weapons in South Africa. Other African countries quickly supported the action, forcing the ship back to China.

The action, along with the violence of this year's Zimbabwean election campaign, pushed the ANC to take a public stand against Zimbabwe's leader for the first time. That shift left South Africa's President Thabo Mbeki alone in his support for his longtime friend.

Despite that victory, Cosatu is balking for now at a broader economic embargo. Its radical wing has pushed for shutting down the border crossing here in Beitbridge, a low-slung, muddy town on the Limpopo River that is one of the busiest trade corridors in southern Africa.

South Africa is Zimbabwe's biggest trading partner, and Zimbabwe receives approximately 65% of its imports through Beitbridge. Much of Zimbabwe's exports—platinum and gold—heads toward world markets through the crossing. Union leaders say a blockade here could deny Zimbabwe its main source of much-needed foreign exchange. That could cripple the government and bring about Mr. Mugabe's downfall.

But union leaders also worry that such an action could backfire. Some of their union colleagues in Zimbabwe were rounded up and jailed during the arms-shipment standoff. Retaliation by Mr. Mugabe against Zimbabwe's workers and opposition supporters could be more severe if any South Africa union action started to bite.

"We regard ourselves as a revolutionary trade union in regard to social and trade issues. Zimbabwe, for us, is a moral issue," says Randall Howard, the secretary general of South Africa's Transport Workers Union. The group is the Cosatu affiliate whose workers led the April port strike in Durban that stranded the Chinese ship. "But blockades, sanctions?" Mr. Howard adds. That's "a complex situation."

South African domestic political considerations are also at play. Jacob Zuma, whom Cosatu members helped elect as the new ANC president late last year, has been an outspoken critic of Mr. Mugabe, in marked contrast to Mr. Mbeki, whom Mr. Zuma beat in the party race.

Zimbabwe opposition leader Morgan Tsvangirai pulled out of a runoff with Mr. Mugabe last month, citing violence and intimidation. His party, the Movement for Democratic Change, says government supporters killed 110 of its members. Mr. Mugabe has blamed the opposition for the violence.

After Mr. Mugabe declared victory, the African Union, a political alliance of African states, called on him to share power with Mr. Tsvangirai. The two have agreed to negotiate, but each wants to be named the senior member of any unity accord.

Western diplomats, who say they will recognize only a government led by Mr. Tsvangirai, are now scrambling for a way to force out Mr. Mugabe, who has ruled Zimbabwe for 28 years. A draft Security Council resolution under consideration would slap sanctions against him and 13 senior members of his Zimbabwe African National Union-Patriotic Front party and the heads of his security forces. The measures would bolster a three-year-old U.S. travel and economic ban against 120 ZANU-PF members.

But some persuasive voices inside South Africa are calling on the country's trade unions to take matters into their own hands in order to force Mr. Mugabe out of power.

"Mugabe is a monster who kills his own people. The way [to deal with him] is to strike the artery keeping his regime alive," says Blade Nzimande, the general secretary of the South African Communist Party. The party and Cosatu make up the left wing of the ANC.

Cosatu spokesman Patrick Craven says the union would adopt stronger actions toward Zimbabwe if colleagues at the Zimbabwe Congress of Trade Unions asked for their help. So far, the ZCTU has stayed silent on the issue of an economic blockade, as has Mr. Tsvangirai, himself a former union leader.

"We are beaten and defenseless. It's up to the international community to help us," says Lovemore Matombo, the umbrella group's president. "It's very significant what Cosatu is doing. I'd call on them not just to close [Beitbridge] once, but keep it closed."

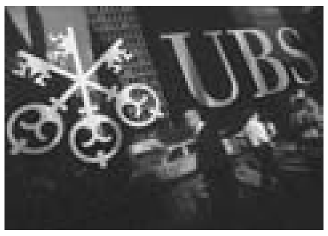
Reuters

Members of the Congress of South African Trade Unions **protest in Beitbridge**, on the border with Zimbabwe.

CORPORATE NEWS

BANKS

UBS Saudi shop approved as Mideast interest grows



UBS AG unveiled substantial investments in its Middle Eastern operations, seeking new business as it whittles down its investment bank in New York and London.

The Zurich-based bank is moving fixed-income banker Mohamed Sammakia to Saudi Arabia from London. The market authority has approved UBS to set up a Saudi Arabia shop by year end. UBS is also applying for a license to operate in Qatar.

UBS will double its Middle East investment banking team, which gives advice on mergers and acquisitions, and cover Middle East stocks from the region instead of London. *—Katharina Bart*

TELECOMMUNICATIONS

VimpelCom sets terms for venture in Vietnam

OAO Vimpel Communications agreed on the terms for its mobile joint venture in Vietnam and said it will be ready to accept subscribers next summer.

Vimpel Communications will provide the venture, GTel-Mobile, with $267 million to set up the network, and will take a 40% stake. The remainder will be held by Vietnamese state company **Global Telecommunications** Corp. and its daughter company, GTEL TSC. "We're now predicting around 15 to 20 million subscribers, and therefore plan to invest $1.8 billion over the next five years," said VimpelCom Chief Executive Alexander Izosimov. *—Will Bland*

AIRLINES

EU emissions-cap plan could raise air-travel cost

THE EUROPEAN Parliament approved a proposal to include airlines in the bloc's strategy to cut carbon-dioxide emissions, a move that could raise the cost of air travel and provoke a dispute with the U.S.

Under the plan, all flights starting or landing in the European Union, including intercontinental flights, will be included in the EU's emission-trading system beginning in 2012.

The U.S. contends that the EU can't force airlines using European air space to participate in their emissions-caps program and prefers a voluntary agreement among nations. *—Associated Press*

BMW revamps flagship

New 7-series moves from rad to refined; taking on Lexus LS

By Edward Taylor

FOR ITS NEW flagship 7-series sedan, German auto maker **BMW** AG is abandoning some of the more radical design elements that characterized the current model—and turned off some lovers of the luxury brand.

The move to change a design direction introduced with the 2002 model comes as the conservatively styled rival Lexus LS has overtaken BMW's sales in the top end of the luxury-sedan segment.

The fifth-generation 7-series, which will hit showrooms in 2009, no longer has a much-ridiculed bulging trunk lid, dubbed the "Bangle butt" (after its designer, Christopher E. Bangle). Nor does it have "tearful" headlights, described that way because of the accentuated curves of the lower "eyelash." BMW introduced these elements with the 2002 model to help customers distinguish between the designs of its 3-series, 5-series and 7-series sedans, which to some had become the same car in small, medium and large.

The new 7-series, which was unveiled last week, combines elements of the 3-series coupe and the 5-series, which have a more traditional look than the 1-series and Z4 convertible. BMW is also showcasing radical innovations "under the skin," such as a thermal imaging camera that can spot pedestrians at night, Internet access and four-wheel steering, which reduced the turning radius making for smoother turns and easier parking.

Although the car hasn't yet hit showrooms, photos and video of the car are available online. James Dills, a 33-year-old manager of a sporting-goods store in Sacramento, Calif., says the new design is a "definite improvement." He still prefers the pre-2001 design to the current one but thinks the new design has BMW "heading in the right direction."

The launch of the 7-series is a crucial step for the auto maker as it seeks to boost sagging profit margins. The luxury sedan is one of the few vehicle categories where margins are robust, thanks to well-heeled, status-conscious buyers who tend to order vehicles with expensive options such as metallic paint, electric heated seats, navigation systems and entertainment systems.

The current 7-series was heralded as a new design direction and marked a radical break from the Munich-based company's traditional conservative styling. BMW toned down some of the fourth generation's extreme details in 2005 with some cosmetic changes.

In designing the new car, BMW placed as much emphasis on making the 7-series "elegant" as it did on making it "distinctive," Chief Executive Norbert Reithofer said at a presentation in Munich last week.

Mr. Reithofer said the final design of the new model is the product of an evaluation process that started out with six potential designs, submitted by competing teams. "The entire management board was involved in weeding out designs that were deemed unsuitable," Mr. Reithofer said.

Although the current 7-series is the most successful ever in terms of unit sales, it hasn't kept pace with its main competitors. Sales never managed to overtake **Daimler** AG's market-leading Mercedes-Benz S-Class.

Last year Mercedes-Benz sold 85,500 S-Class cars, helped by the fact that it presented a new generation in 2005. In 2007, BMW sold fewer than 50,000 7-series.

Perhaps more troublesome for the auto maker, sales of the 7-series were overtaken by the **Toyota Motor** Corp.'s Lexus LS-series in 2007. Lexus boosted sales of its LS to 71,760 in 2007 after a redesign. BMW aims to boost sales of its 7-series with the new model.

Adrian Van Hooydonk, director of design at BMW automobiles, who styled the exterior of the new 7-series, says the car is distinctive and designed to reflect "authenticity and engineering precision." The new BMW now has a "stance and proportion" to express "power and dynamics," Mr. Van Hooydonk said.

Analysts at HSBC said the global premium-car market has grown by 20% since 2003 to 6.75 million units in fiscal year 2007. Growth is expected to rise 24% between 2007 and 2013, HSBC said in a research report last month.

Separately, BMW said on Tuesday it is exploring a cooperation deal with **Fiat** SpA of Italy to jointly develop components for MINI and Alfa Romeo vehicles. Both companies declined to disclose details of the possible collaboration.

BMW (2); Toyota

The **BMW 7-series 2009 sedan**, top, has a more conservative exterior design than the old 7-series, bottom left. At bottom right, the current 2008 Lexus LS.

Peugeot warns of sales slowdown in Europe

By David Pearson

PARIS—**PSA Peugeot Citroën** SA said global vehicle sales rose 4.6% in the first half, but the French auto maker warned it expects a slowdown in Western Europe in the second half.

Peugeot reaffirmed its target of an overall sales increase of about 5% for the full year, though it predicted that sales in Europe will fall about 4%.

Car sales in many European markets are being hurt by the rising cost of fuel combined with softer economic activity and consumer worries about inflation. Car makers in Europe are also being battered by the surge in the prices of steel and other raw materials as well as the strong euro, which makes exported vehicles more expensive. In France, where Peugeot-Citroën derives 22% of its sales, the auto market has been holding up well, thanks to government financial incentives for new, low-emission cars. But Carlos Ghosn, chief executive of French rival **Renault** SA, said over the weekend that this positive effect is starting to fade and predicted a "difficult" period for car sales in France after the summer holidays.

Peugeot-Citroen said worldwide vehicle sales rose to 1.845 million in the first six months of the year from 1.764 million a year earlier.

Sales of the Peugeot brand climbed 8% in the first six months, helped by the launch of the Peugeot 308 small family carand strong sales of the supermini Peugeot 207. Peugeot Chief Executive Jean-Philippe Collin said Tuesday that the brand will continue to raise prices in the coming months to offset rising raw-material prices and preserve profit margins.

Meanwhile, Citroen sales were virtually flat in the first half, held back by falling sales in China and Russia. The brand plans to launch a family minivan version of its small C3 car in the first quarter of next year. Gilles Michel, chief executive of the Citroën brand, said the company aims for annual sales of 110,000 of the new C3 Picasso, which will be built at Peugeot-Citroën's assembly plant in TrnavaSlovakia.

Sales for both brands together in Western Europe, where margins tend to be fatter, fell 2% in the first half. The company's market share in the region was stable at 14%, helped by a 15% increase in sales of light vans. Sales outside Western Europe rose 20% in the first half.

The company said it continues to expect sales growth in the double-digit percentages in such regions as South America, China and Eastern Europe, and that sales in the second half of the year will be underpinned by the addition of new cars and vans to its catalog.

Western declines

Peugeot Citroën's strength in Western Europe is slowing but rapidly growing in smaller markets

	Vehicle sales, first-half '08	Chg. from a year ago
Western Europe	1,210,000	–2%
Russia	26,000	56
Brazil/Argentina	124,000	32
China	104,000	1
Eastern Europe*	70,000	2
Rest of world	145,000	–6

*Croatia, Hungary, Poland, Czech Republic, Slovakia, Slovenia, Lithuania, Latvia, Estonia, Cyprus, Malta

Source: the company

Buy-to-let woes mount

City Lofts collapse shines light on pain hitting U.K. market

By Nick Timiraos

The British housing market has been spared the subprime debacle that has devastated its counterpart in the U.S. But there is something else in the U.K. that is causing a growing amount of pain as its housing market weakens: the build-to-let business.

Over the past decade, developers have built hundreds of thousands of downtown apartments to sell to investors who would rent them out rather than living in them. But now sales of those build-to-let units are evaporating and these developers are getting hammered.

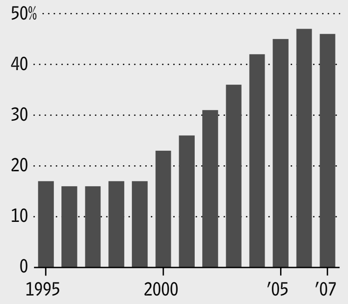
In a prime example of the pressure being faced, developer **City Lofts Group**, which was taken private by **JER Partners** and **Lehman Brothers Holdings** Inc. last year, collapsed last week and named **Ernst & Young** LLP as administrators of the firm. The company had 3,000 build-to-let apartments in its pipeline in 2006.

Also last week, U.S. private-equity group **TPG** pulled out of a deal to take a 20% stake in U.K. mortgage lender **Bradford & Bingley** PLC, which specializes in buy-to-let loans to landlords, after Moody's Investor Service cut its long-term credit rating. Shares fell below the 55-pence price at which investors are being asked to buy into a £400 million ($792 million) rights issue. (Please see related article, page 18.)

Like subprime mortgages, the buy-to-let business was born out of the easy-money era. With financing readily available, the investment exploded in popularity over the past decade because the apartments offered the promise of better returns than pension plans, stocks and other investments. In 2002, at the height of the craze, average annual yields reached double digits.

Flat bubble

New construction of flats and mansionettes, as a percentage of total U.K. housing starts



Source: NHBC

But in some markets, investors' return on a buy-to-let property has fallen below that of a standard savings account because financing has become more expensive and difficult to obtain. Also, some downtowns are suffering from overbuilding, putting a damper on rents. "There have been a number of developers who have had an overdependence on this type of buy-to-let investor," says Nick Jopling, head of U.K. residential real estate for CB Richard Ellis.

To be sure, some British rental markets are still hot, like in London, and oversupply of housing remains less of a problem in the U.K. than in the U.S. But City Lofts was overexposed in cities that have been hardest hit by overbuilding and big price declines, such as Leeds. Analysts say the default rates are rising in these cities because investors can't rent out their units.

"We believe it is payback time for years of speculation," Alastair Stewart, an analyst at investment bank Dresdner Kleinwort, said in a February housing report. Flats and mansionettes—as opposed to detached single-family homes—increased to 47% of all housing starts in 2006, up from 17% in 1999, according to Britain's National House-Building Council.

City Lofts listed on the London Stock Exchange's Alternative Investment Market in 2003, and an investor partnership formed by JER Partners and Lehman took the company private by increasing to 28% its stake in the company last year. The partnership paid £12.9 million to buy out minority shareholders and invested an additional £18 million for finance and development. JER held 75% of that partnership and Lehman owns 25%. The other 72% stake in City Lofts is held by founding shareholders. Representatives for City Lofts, Ernst & Young, Lehman and JER declined to comment.

Signs of trouble for the developer emerged in April, when the company said it would redesign plans for two new developments. Last week, the company said that it had been forced to place 250 unsold apartments in receivership in six cities, including Leeds and Manchester. **HBOS** PLC, Britain's largest mortgage bank, appointed property services firm **Allsop** as the receiver for six buildings.

Allsop receiver Jon Gershinson said City Lofts represents the first such casualty for a downtown-apartment developer in the current cycle.

—Ragnhild Kjetland contributed to this article.

Washington Post names Brauchli executive editor

By Russell Adams

The Washington Post Monday named Marcus Brauchli, the former managing editor of The Wall Street Journal, as its executive editor, effective Sept. 8.

Mr. Brauchli, 47 years old, will succeed Leonard Downie Jr., who recently said he would step down in September after 17 years on the job.

Marcus Brauchli

Mr. Brauchli will take over a paper in transition after decades of unparalleled stability. The Post has had only two top editors since 1965 and has been resilient in turbulent economic times for the newspaper industry. The Post is a unit of **Washington Post** Co.

But the Post has been struggling with the same forces that have devastated the newspaper industry in recent years: defections of readers and advertisers to the Web. Over the past 24 months, the paper's weekday circulation has dropped 7.1% to 673,180, according to the Audit Bureau of Circulations. Print-ad revenue fell 13% in 2007, according to the Post. While Washington Post Co. has been somewhat insulated from the impact of these changes by its profitable Kaplan education business, the paper has lately taken steps to cut costs. It eliminated more than 100 newsroom positions, bringing the total newsroom count to about 700 from its peak of more than 900 in 2003. Some staffers worry that further cuts are coming.

Mr. Brauchli was appointed by newly appointed Publisher Katharine Weymouth, a member of the Graham family, which controls Washington Post Co. Ms. Weymouth, who succeeded Boisfeuillet Jones Jr. as publisher, began meeting with potential successors to Mr. Downie shortly after assuming her post. She eventually whittled down the list to Mr. Brauchli, Post Managing Editor Phil Bennett and New York Times Deputy Managing Editor Jonathan Landman.

One of Mr. Brauchli's chief tasks will be to merge the paper's online and print staffs, which operate in different buildings and in culturally distinct environments. To help him accomplish that, Jim Brady, executive editor of Washingtonpost.com, will report to him, along with the paper's managing editor, Mr. Bennett.

Mr. Brauchli stepped down as managing editor of the Journal in April, less than a year after taking the job but four months after the Journal's parent company, Dow Jones & Co., was acquired by **News Corp.**

Siemens to trim work force and streamline its business

A WSJ News Roundup

German electronics and engineering company **Siemens** AG confirmed it will cut 16,750 jobs, or about 4.2% of its global work force, to streamline its operations in the face of a slowing global economy.

The Munich maker of products ranging from light bulbs and medical equipment to high-speed trains and power turbines said that the cuts, mostly administrative positions, include restructuring projects at its various units. World-wide, the company employs about 400,000 people.

Siemens said it will consolidate its businesses from the current 1,800 separate legal entities to fewer than 1,000 and take its 70 regional companies and transform them into 20 regional clusters.

"The speed at which business is changing world-wide has increased considerably, and we're orienting Siemens accordingly," said Chief Executive Peter Löscher in a statement announcing the cuts. "Against the backdrop of a slowing economy, we have to become more efficient."

Siemens shares closed down 1.6% to €69.67 ($109.50) in Frankfurt after the announcement.

Mr. Löscher said Siemens was conferring with unions and labor representatives on the cuts and that it wanted to make the changes rapidly.

"We want to begin negotiations with the employee representatives quickly in order to make the cuts in a way that will be as socially responsible as possible," Chief Financial Officer Siegfried Russwurm said. He added that the company would use transfers and part-time preretirement programs, with contracts terminated "only as a last resort."

Around 5,250 jobs will be cut in Germany, affecting sites in Erlangen, Munich, Nuremberg and Berlin. Siemens employs about 136,000 workers in Germany.

Werner Neugebauer, the regional director for the IG Metall union in Bavaria, where Siemens is based, criticized the plan, saying Siemens's order book was full and it was financially sound. In a statement, he called the job cuts "incomprehensible" and "exaggerated" considering the context.

The company said the cuts were part of an effort to reduce total costs by €1.2 billion by 2010 and that it would reduce costs further by trimming expenditures for information-technology infrastructure and consultants, and the recent streamlining of its management structure and divisions.

CORPORATE NEWS

AMD loses DreamWorks

Animation studio picks Intel to supply chips for shift to 3-D

By Don Clark

DreamWorks Animation SKG Inc. has chosen **Intel** Corp. to supply chips and other technology for its big computer-animation operations, a shift that will cost **Advanced Micro Devices** Inc. one of its most prestigious customers.

The pact is expected to replace the studio's computing hardware, which now includes 1,500 **Hewlett-Packard** Co. server systems and 1,000 workstations that use AMD microprocessors, with H-P systems that use Intel chips. DreamWorks Animation said the resulting increase in computing power would substantially shorten the time needed for many computing chores and aid the studio's planned shift next year to 3-D animation.

"For our artists, the impact is going to be really nothing less than monumental," said Jeffrey Katzenberg, DreamWorks Animation's chief executive officer.

Paramount/Everett Collection

DreamWorks Animation's 'Monsters vs. Aliens' needs a lot of **processing power**.

Financial terms are not being disclosed. Mr. Katzenberg stressed that the move was based on capabilities of two forthcoming generations of Intel chips. "They are radical game-changers for the entire field of computing," he said.

Intel's next major chip family, code-named Nehalem, is expected to offer as many as eight processors and hit the market this year. In the second half of 2009, Intel is expected to deliver a chip dubbed Larrabee that can manage graphics in computers and perform other chores that could help customers such as the animation studio.

Besides helping speed up the studio's hardware, Intel will send a team of programmers to help DreamWorks Animation adapt its software to exploit Intel's new chips and aid in the shift to creating 3-D effects, said Paul Otellini, Intel's CEO. DreamWorks, in turn, will help Intel develop technologies that could find their way into chips used in personal computers and portable devices."It's a broad collaboration around visual computing," Mr. Otellini said.

Animators are heavy users of computing power, particularly in a process called rendering, which adds textures and lighting effects to objects and scenes that start as simple geometric models.

DreamWorks Animation's decision to use Intel-powered systems is a blow to AMD, which has heavily courted tech-savvy animation houses. AMD announced a three-year pact with the studio in April 2005, and Mr. Katzenberg has spoken at major AMD events.

Alcatel wants verdict reinstated

By Fawn Johnson

Alcatel-Lucent appeared before a U.S. federal appeals court Monday asking that a $1.53 billion jury verdict for it against **Microsoft** Corp. be reinstated.

The case, in which Alcatel-Lucent says Microsoft's Windows Media Player infringed on two of its patents, has the highest profile of several patent cases pending between the two companies.

Alcatel-Lucent spokeswoman Mary Ward said the company plans to defend its patents. "The reason we're pursuing this particularly vigilantly is this is our intellectual property. It's really a vital asset, and we're going to defend it."

At trial last year, Alcatel-Lucent argued that Microsoft's audio software violated its patents relating to MP3, the most popular file format used to store digital audio.

In August, a district judge said Microsoft didn't have to pay the $1.53 billion jury award because it wasn't in violation of one patent and had licensing rights to the other. On the second point, the judge cited a joint ownership agreement of the MP3 patent held by Germany's Fraunhofer Institute and **AT&T** Inc.

During oral arguments Monday before the U.S. Court of Appeals for the Federal Circuit, Microsoft attorney John Gartman defended Microsoft's licensing agreement with Fraunhofer, saying that license covers the patents asserted by Alcatel-Lucent.

Mr. Gartman told the three-judge panel that the joint ownership rights held by AT&T and Fraunhofer extend to any license or intellectual property that stems from their collaboration.

Microsoft spokesman David Bowermaster said the district judge's decision to reverse the jury verdict was "a triumph for common sense in the patent system" because he recognized that "Microsoft properly licensed the technology embodied in the [MP3] patent from its co-owner and industry-recognized MP3 licensor Fraunhofer."

The MP3 patents were originally filed by researchers at Bell Labs, the research-and-development arm of the old AT&T. When AT&T spun off Lucent Technologies in 1996, Lucent retained much of the Bell Labs patent portfolio. French firm Alcatel agreed to acquire Lucent in 2006, forming Alcatel-Lucent.

Alcatel-Lucent initially sued computer makers **Gateway** Inc. and **Dell** Inc. over a series of patents in 2003, and Microsoft subsequently stepped in on their behalf. Alcatel-Lucent claimed computers made by Gateway and Dell using Microsoft products infringed on its patents.

A judge later divided the case into several parts based on the types of patents involved.

The U.S. Federal Circuit Court, which hears all patent appeals, is likely to hear more about the original Alcatel-Lucent complaints against Dell and Microsoft. In April, a jury ordered Microsoft to pay $367.4 million to Alcatel-Lucent over another patent violation. Last month, a district judge upheld the jury verdict and added to the damages, saying Microsoft owed some $500 million. Microsoft plans to appeal that decision.

The litigation could spark some interest on Capitol Hill, where lawmakers have been considering changes to patent law, including relief from large damages. The $1.53 billion verdict against Microsoft is often cited as an example of out-of-control damages.

Merck rebounds after drop on report

By Avery Johnson

Merck & Co.'s shares recovered some of Monday's 4.8% fall, which followed an analyst report questioning whether sales of the cervical-cancer vaccine Gardasil have met Wall Street estimates for the second quarter.

UBS pharmaceuticals analyst Roopesh Patel cut his rating on the U.S. drug maker, saying U.S. Gardasil sales may have fallen about $50 million short of expectations. The downgrade appeared to be a tipping point of bad news for investors. But Tuesday afternoon the stock was up 41 cents, or 1.1%, at $37.01 on the New York Stock Exchange.

With Merck already struggling on several fronts right now, fresh concerns about one of its brightest prospects don't bode well for the company's earnings, due out on July 21. "If you were thinking about selling going into the quarter, the added questions about Gardasil pushed some investors over the edge," said Catherine Arnold, a drug-industry analyst at Credit Suisse.

This winter a controversial study that suggested the cholesterol pill Vytorin may be no better than a cheaper generic dinged sales of that blockbuster medicine, which Merck sells with **Schering-Plough** Corp. In April, the U.S. Food and Drug Administration rejected Merck's most promising experimental drug, cholesterol pill Cordaptive.

Asthma medicine Singulair, which brought in $4.3 billion in 2007 sales, has been hurt by a possible link to suicide and a market that is flush with generic and over-the-counter alternatives.

BUSINESS ▪ George Anders

In takeover rift, Black's argument trumps Huntsmans' rhetoric

FOR THE past three weeks, billionaires Jon Huntsman and Leon Black have been banging heads about the fate of a $10.6 billion takeover agreement struck at 2007's lofty prices. So far, Mr. Huntsman and his son have the spicier rhetoric—but it looks like Mr. Black's side has the stronger arguments.

In their quarrel, Mr. Huntsman is the moralist. He agreed last summer to sell **Huntsman** Corp., the chemical company he founded 50 years ago, to Hexion Specialty Chemicals Inc., controlled by Mr. Black's **Apollo Management** LP. The price: $28 a share, or $6.5 billion, plus about $4 billion of assumed debt. Huntsman's fortunes have stumbled since then, but even so, Mr. Huntsman wants the deal upheld.

Mr. Black's camp, by contrast, is the home of expediency. His side contends that the combined company couldn't survive the debt load originally envisioned in the deal. With Huntsman stock today at less than $11 a share, Hexion and its backers at New York-based Apollo don't want to carry out the original deal, and they haven't shown any eagerness to renegotiate terms. They would rather walk away. They contend that their liability at most would be a $325 million breakup fee.

Such disputes have been part of American capitalism for more than a century, arising whenever chaotic market conditions upend the economic value of a contract. The basic tug of war hasn't changed much since robber baron Jay Gould was fighting about coal leases in the 1870s.

IF THE ORIGINAL contract terms make one side shudder—while the other side vows to preserve its rights—the dispute almost certainly is headed to court. Sentimentalists try to portray the old days as a time when "a man's word was his bond." That might have been true on occasion, but there also have been plenty of instances when contracts didn't turn out to be as unyielding as their defenders hoped.

In this case, Hexion struck first, filing a suit June 18 in state court in Delaware, where both companies are incorporated. Huntsman a few days later initiated its own suit in Texas state court, a venue it prefers. (Huntsman's operating headquarters is in The Woodlands, Texas.) Hexion is trying to get the case consolidated in Delaware.

The Huntsmans have shared their frustrations widely. In an interview last month with this newspaper, Jon Huntsman's son, Peter, who is chief executive of Huntsman Corp., branded Apollo's bid to walk away from the deal "pathetic." Peter Huntsman also has taken aim at Hexion's conduct in interviews with the Deseret News, the hometown newspaper of the Salt Lake City-based Huntsmans.

As for Jon Huntsman, when the New York Times last month asked him about Apollo executives, he said: "I shouldn't have trusted those guys."

Mr. Black has stayed mum so far. But his side's lawyers have been busy. They argue that Huntsman Corp.'s weaker operating earnings and greater debt load amount to a "material adverse change"—a legal term for a severe enough decline that under the Huntsman-Hexion merger contract, the deal can be abandoned.

The contract is written so that a Huntsman downturn as part of a general chemical-industry slump wouldn't qualify as a material adverse event. Mindful of those provisions, Hexion argued in court papers this week that Huntsman's first-quarter earnings before interest and taxes were down about 35%, while the peer group that Huntsman references in regulatory filings posted an average 18% gain.

Knowing what amounts to a material adverse change, or MAC, is a delicate legal call. But Mark Wolinsky and Peter Hein, the Wachtell, Lipton, Rosen & Katz attorneys for Hexion and Apollo, have shown a deft touch to date.

IN A LANDMARK Delaware case in 2001, the Wachtell attorneys successfully helped meatpacker IBP Inc. beat back an MAC challenge to its acquisition agreement. Then earlier this year, they represented the buyout firm of J.C. Flowers & Co. as it invoked material adverse change to avoid paying a breakup fee on its aborted plans to acquire a student-lending company, SLM Corp.

Both sides are filing legal material almost daily, stoking the feud.

Investors don't seem to be holding out much hope that Hexion will eventually pay $28 a share or anything close to it for Huntsman. Laurence Alexander, an analyst at Jefferies & Co., calculates that Huntsman's current valuation based on either operating earnings or a sum-of-the-parts model is essentially equal to its current trading price.

"It's trading as an ongoing business, excluding any settlement," he says.

The Huntsman-Hexion litigation could be tried in the Delaware court in September or October. Both sides are filing legal material almost daily at this point, stoking the feud. They will attempt to agree on a trial schedule Wednesday.

If Huntsman doesn't prevail in court, it has one other recourse. It could try to rebuild its operating profitability to the point that Apollo and Hexion would be deeply sorry they didn't do a deal at $28 a share when they could. That isn't an easy goal. But it would be the most authentic victory.

CORPORATE NEWS

Airlines curb long flights

Fuel-saving measure comes as jets can go greater distances

BY DANIEL MICHAELS

Getty Images

Thai Airways plans to cut flights and sell its Airbus **long-haul carriers**.

As the airline industry grapples with record fuel prices, long intercontinental flights are taking a big hit.

Several U.S. carriers are delaying the start of new flights to China and Russia, while global airlines are ditching even longer flights.

The shift comes despite new airplanes from Airbus and **Boeing** Co. that can carry hundreds of people for more than 18 hours on routes that previously required at least one stop, such as between Singapore and New York or Dubai and Los Angeles. These direct links save passengers time, and airlines charge 20% more for the convenience of flying nonstop.

But weakening passenger traffic is making flights of more than 12 hours or so particularly vulnerable to fuel prices.

The U.S. government in recent days has said it will allow **US Airways Group** Inc. to postpone by one year its planned launch of a 13-hour daily flight linking Philadelphia and Beijing, without giving up its right to the route. In May, when US Airways asked for the postponement, it told its employees fuel increases would raise the cost of running the one daily Beijing flight to more than $90 million, from $50 million when it applied for the route a few months earlier.

The Department of Transportation last week also granted **Northwest Airlines** Corp. permission to suspend for a year seven weekly all-cargo flights it was operating between the U.S. and Guangzhou, China. **UAL** Corp.'s United Airlines last week asked the government for permission to postpone the launch of a Washington-Moscow flight by five months, until the end of March. Earlier this year, United won a year's reprieve on its planned launch of San Francisco-Guangzhou flights. These postponed flights would not use the latest globe-spanning aircraft.

On flights of more than 15 hours, the economics can get even more precarious.

The reason long flights are so vulnerable to the mix of high fuel prices and weak airline traffic is a combination of physics and economics. A passenger on a 15-hour flight uses more fuel for each mile of the trip than someone on an eight-hour trip, but the airfare per mile generally does not rise proportionally. When fuel is cheap and traffic strong, airlines can absorb the difference.

A few years ago, airlines hyped marathon flights as the industry's next big thing. Australia's **Qantas Airways** promised "hub-busting" flights that would eliminate annoying stopovers. Boeing and **European Aeronautic Defence & Space** Co.'s Airbus predicted that the sheer range of their new planes would open lucrative markets.

Instead, the promise remains unfulfilled and super-long flights are a tiny niche. Among the hundreds of intercontinental routes world-wide, barely two dozen are longer than 15 hours.

Thai Airways International recently said it will end its 17-hour Bangkok-New York route, launched in 2005, and reduce Bangkok-Los Angeles flights. As a result, Thai plans to sell its Airbus super-long-haul jetliners.

When fuel is expensive, "the equation doesn't work the same any more," said Montie Brewer, chief executive of **ACE Aviation Holdings** Inc.'s Air Canada, which flies two extra-long routes.

Raj Nangia, an aeronautical engineer who has analyzed the issue for Britain's Royal Aeronautical Society, says flying 18 hours in one hop could double the cost of flying the same route with three stops. To fly far, a plane needs lots of fuel onboard, and to carry all that fuel, it needs even more fuel, just as a car burns more fuel when it is heavily loaded.

"With these flights, what you get is a flying tanker with a few people onboard," said Pierre-Henri Gourgeon, chief executive of **Air France-KLM** SA, which does not fly marathon routes.

Monday, Air France-KLM scaled back planned capacity growth to 2% on its whole network for this winter and next summer from a year earlier because of higher fuel bills, a spokeswoman said. The airline did not say what its previous target for growth had been.

The airline business faced a similar reality check 35 years ago, when the supersonic Concorde was touted as heralding a new era of ultrafast jetliner travel. The 1973 oil crisis ended that dream, and the Concorde was relegated to a niche service that ceased operations in 2003.

Today, only a handful of distant city pairs generate sufficient high-paying traffic to support direct flights. Qantas shelved its "hub-busting" plan in 2005, and Chief Financial Officer Peter Gregg says that with today's fuel prices, the business case is even worse.

Today, airline executives say, coach passengers are increasingly opting for one-stop routings, which carriers generally price below nonstops to offset the inconvenience. Without sufficient economy-class traffic, most long-haul routes become unprofitable.

It's a misconception "that you can command a significant premium for nonstop service," said Enda Corneille, corporate affairs director at Ireland's **Aer Lingus Group** PLC, which just announced plans to drop its 12-hour Dublin-Los Angeles service.

The few super-long flights available illustrate the challenging mix of ingredients required for success: buoyant markets at both ends, preferably with lots of traffic fed through a big carrier's hub.

—Susan Carey, Phisanu Phromchanya and Steve McGrath contributed to this article.

Fannie, Freddie get calming words

BY DAMIAN PALETTA

ARLINGTON, Va.—The top regulator for **Fannie Mae** and **Freddie Mac** said future accounting rules will likely not lead regulators to demand that the U.S. mortgage-finance giants hold more capital, addressing fears that punished the stock prices of both firms Monday.

Time to buy?

Fannie and Freddie are cheap, but common-stock risks lurk 22

"From our standpoint, an accounting change should not drive capital," James Lockhart, director of the Office of Federal Housing Enterprise Oversight, told reporters at a housing conference. "It would be no difference in the risks of the two firms."

The Financial Accounting Standards Board is considering new accounting standards related to the way firms keep securities off their balance sheets.

"I think it would be very strange for a regulator to let an accounting principle drive a capital decision," Mr. Lockhart said.

Mr. Lockhart said the firms have collectively raised more than $20 billion in capital in the past eight months. He said Freddie Mac "has another $5.5 billion that they have committed to."

Both firms "are really using this capital to do new business, and that's what's needed to be done in this marketplace," he said.

Mr. Lockhart wouldn't speculate on what caused the stock prices at both firms to slide Monday, when Fannie Mae fell 16% and Freddie Mac 18%. "There's a lot of reports out," he said. "There are a lot of nervous people out there. But if you look at the financials of these two companies, and how they are prudently growing their books of business and frankly how we're very close to them and what they're doing, it was hard to imagine what happened" Monday.

Tuesday afternoon on the New York Stock Exchange, Fannie Mae shares were up 4.6% at $16.46, while Freddie Mac was up 6% at $12.62.

GLOBAL BUSINESS BRIEFS

Philips Electronics NV

TPV set to assume control of PC-monitors business

Philips Electronics NV said it will transfer its PC-monitors business, IT Displays, to Hong Kong-based **TPV Technology** Ltd., in a continuing effort to improve profitability. The Netherlands-based electronics company didn't disclose financial details. The new deal with TPV is similar, albeit smaller, than a deal with Japan's **Funai Electric** Co. that marked the first step of a Philips restructuring plan announced in April. TPV, a PC-monitor producer, will assume responsibility for sourcing, distribution, marketing and sales of IT Displays' activities world-wide. It will have exclusive rights to use the Philips brand name for PC monitors. In exchange, Philips will receive revenue-based royalty payments. The company expects to complete the five-year deal this year.

Repsol YPF SA

Spanish-Argentine oil company **Repsol YPF** SA said it is in talks with Russia's OAO **Rosneft** about buying a stake in one of the oil-and-gas fields off the Sakhalin Islands in eastern Russia. It is negotiating to purchase about 24% of the Veninsky block in the Sakhalin III project, where exploration is slated to start soon, according to a filing to Spain's stock-market regulator. A company representative in Madrid said a deal could be announced in the coming days or weeks. Rosneft, which owns 74.9% of the project, declined to comment. Petroleum & Chemical Corp., a unit of China's **Sinopec Group**, holds the remaining 25.1%. Sakhalin III is one of five offshore projects off the Sakhalin Islands, which are located north of Japan on Russia's Pacific coast.

British Broadcasting Corp.

British Broadcasting Corp.'s commercial arm, BBC Worldwide, reported a 17% rise in operating profit for the year ended March 31, but it warned that changing economic conditions could dent margins for the current financial year. Operating profit rose to £117.7 million ($232.7 million) from £100.6 million the previous year, while sales rose 13% to £916.3 million. Profit and sales were boosted by growth at its Sales & Distribution, Home Entertainment and Content & Production businesses. The company also plans to make further significant investments in new businesses, such as Kangaroo, the commercial on-demand content media player it is developing jointly with **ITV** PLC and **Channel 4**.

Roberto Cavalli

Italian fashion house **Roberto Cavalli** is no longer for sale, the company said. Roberto Cavalli said he halted the sale of his namesake fashion house after an auction failed to fetch the €1.4 billion ($2.2 billion) price tag he was seeking. In an interview with Italian daily Il Sole 24 Ore, the designer said the stock-market decline has made it harder to get a good price for his company. The fashion house had drawn interest from private-equity funds including **Candover**, **Lion Capital** LLP, **Carlyle Group** LP and **TPG**, formerly known as Texas Pacific Group. The designer says he is unlikely to reconsider a sale before 2009.

Airbus

European commercial-aircraft builder Airbus said it delivered 245 aircraft in the first half, including 44 in June. The June deliveries included one A380 superjumbo to **Singapore Airlines** Ltd., eight wide-bodied A330-200 jets and one A340-500. The rest were medium-range aircraft of Airbus's A320 family of narrow-bodied planes. Airbus, a unit of **European Aeronautic Defence & Space** Co., said it booked 525 orders in the six months, for a net total of 487 after taking into account 38 order cancellations. Airbus didn't identify the customers that had canceled orders.

Pepsi Bottling Group Inc.

Pepsi Bottling Group Inc. posted a 7.4% rise in second-quarter net income amid solid revenue gains, particularly outside the U.S., but the company trimmed back its sales outlook for the year. The world's largest bottler for **PepsiCo** Inc. said net income rose to $174 million from $162 million a year earlier. Revenue rose 4.8% to $3.52 billion. World-wide case volume fell 3%, with volume in the U.S. and Canada down 4%. European volume rose 1%, driven by growth in Russia and Turkey. Pepsi Bottling overcame the shipment drops with an 8% jump in net revenue per case, driven by "robust" growth in Europe and Mexico. Pepsi Bottling lowered its expectations for full-year revenue growth to 5% from 6%, but affirmed its per-share earnings forecast.

Eni SpA

Italian oil-and-gas company **Eni** SpA said it started selling natural gas in Russia last month, becoming the first European company to enter the Russian downstream market, which is dominated by gas monopoly OAO **Gazprom**. Eni said its Russian unit had signed contracts with Russian power company TGK-9 to sell 350 million cubic meters of gas by 2010. Although that represents less than 1% of the Russian downstream market, it is another example of the growing energy ties between Italy and Russia. The Rome-based company said the contracts with TGK-9, which has power plants in the Perm region, would allow it to reach its target of selling 900 million cubic meters of gas in Russia in 2011. Eni last year sold nearly 100 billion cubic meters world-wide.

Marks & Spencer Group PLC

Taiwan's **President Chain Store** Corp. and the U.K.'s **Marks & Spencer Group** PLC said they will end their Marks & Spencer brand joint venture in Taiwan and close all the stores on the island. President Chain Store, which operates 7-Eleven stores in Taiwan, holds a 40% stake in the joint venture that operates three Marks & Spencer shops in Taiwan, said President Chain Store spokeswoman Lily Lin. Ms. Lin said President Chain Store would like to focus on "better-performing" channels. "There's a gap between the sales [at the Marks & Spencer stores] and what we had expected," Ms. Lin said. She declined to elaborate on the sales figures for the joint-venture company.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

EUROPEAN UNION

Free-produce plan takes aim at childhood obesity

THE EUROPEAN Union will aim to spend €90 million ($141 million) a year to provide free fruit and vegetables to schools across the continent to tackle child obesity. An estimated 22 million children in the EU are overweight. More than five million of these are clinically obese and this figure is expected to rise by 400,000 every year, the EU said. "You only have to walk down any high street in Europe to see the extent of the problems we face with overweight kids. Let's do something about it," EU farm commissioner Mariann Fischer Boel said in announcing the program. The European Parliament and EU member states have to sign off on the plan. *—Associated Press*

CZECH REPUBLIC

Deal allows U.S. to place missile shield in region

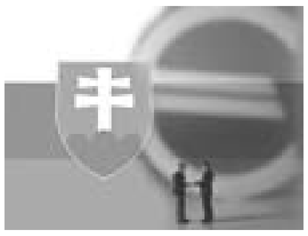
THE U.S. and the Czech Republic on Tuesday signed an initial agreement to base a U.S. missile shield in Eastern Europe, saying the planned defensive umbrella will help protect U.S. allies from the threat of a bellicose Iran.

The next American president will have to decide whether and how to go forward with the missile-defense system, said Secretary of State Condoleezza Rice, above left, with Czech Minister of Foreign Affairs Karel Schwarzenberg, while arguing that the threat from Iran is growing. The U.S. also hopes to place another part of the system in Poland.

—Associated Press

SLOVAKIA

EU finance ministers pave the way for switch to euro



EUROPEAN Union finance ministers set the Slovak koruna's final conversion rate against the euro at 30.126 korunas, the last formal step before Slovakia starts using the euro Jan. 1.

The country will have to spend several months preparing its banks and businesses for the change. Finance Minister Jan Pociatek said the switch to the euro will boost Slovakia's annual economic-growth rate by one percentage point. To help control inflation in Slovakia, EU policy makers in May agreed to revalue the koruna, which has traded in a controlled band against the euro. They strengthened the koruna's central rate to 30.12 korunas from 35.44 korunas. *—Adam Cohen*

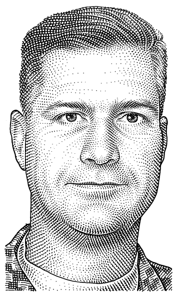
Soldiers' tea date aids Afghan-border ties

U.S. colonel's visit to Pakistan officer aims to cut tensions

BY MICHAEL M. PHILLIPS
Arandu, Pakistan

ONE MORNING last week, U.S. Army Lt. Col. Chris Kolenda walked out of Afghanistan, crossed into Pakistan's rough-and-tumble North-West Frontier Province, and had tea with his counterpart from the Pakistani army.

The event will likely remain a footnote in the history of the Afghan war. But it was also something of a coup. Insurgents use Pakistan as a launching pad for attacks into Afghanistan, and Col. Kolenda, commander of 500 American soldiers on the Afghan side of the border, had been trying for almost 15 months to set up a face-to-face meeting to ask the Pakistanis to crack down on the fighters.



Chris Kolenda

"We're on the same side, and we have the same goal," Col. Kolenda told the Pakistani officer, Lt. Col. Raja Zafar, deputy commander of the Chitral Scouts.

Relations are tense between Pakistan and Afghanistan, with the U.S. caught somewhere in the middle. The lawless border region is one source of Afghanistan's increasing instability, and a recent spate of violence has sparked a war of words between the two neighbors. On the front lines, it's up to commanders like Col. Kolenda to navigate the increasing tension, even if it means discussing only mundane items such as radio frequencies.

When he walked back to Afghanistan an hour later, Col. Kolenda hadn't gotten nearly as much as he wanted. But he did secure Col. Zafar's pledge to take up U.S. concerns with his superiors. He also left with a sense that the Pakistani officer had a genuine interest in improving security along the mountainous frontier.

Afghanistan has accused Pakistani intelligence agents of colluding in a failed attempt to assassinate Afghan President Hamid Karzai, who has threatened to send Afghan forces into Pakistan in pursuit of militants. This week, Afghan officials implied that Pakistan helped plan Monday's suicide bombing against India's embassy in Kabul. Pakistani Prime Minister Yousaf Raza Gilani denied involvement.

But the U.S. says Pakistan is allowing al Qaeda, the Taliban and other extremist groups to operate freely along the border. Pakistan, for its part, described as "unprovoked and cowardly" U.S. airstrikes that it says killed 11 soldiers on the Pakistani side of the border last month. The U.S. says its warplanes were in pursuit of militant fighters.

Col. Kolenda's unit, the First Squadron of the 91st Cavalry Regiment, had requested half a dozen meetings with the Pakistanis since it arrived in eastern Afghanistan in March 2007. Each time, the Pakistanis canceled. "It's my guess that we'll get there, and they won't show up," said Capt. John Williams, one of Col. Kolenda's commanders, as they prepared for the most recent attempt.

The border crossing is a concrete bridge that passes over a fast-moving, rocky creek. On the near end, Afghan Border Police in washed-out tan fatigues manned a metal gate. Manning an identical gate on the far end were a few Pakistani Border Police, outfitted in charcoal-gray uniforms.

Michael M. Phillips/WSJ

John Williams, a U.S. troop commander in First Squadron, 91st Cavalry Regiment, walks through Dokolam, the village on the Afghan side of the border.

The Afghans intended to host the Pakistanis at a lunch at a nearby police station. It quickly became apparent that the Pakistanis also wanted to play host.

"We can't go over there, on the one-in-a-million chance that something might go wrong," said Capt. Williams. Col. Kolenda joked he'd be willing to set up chairs in the middle of the bridge. The Pakistanis persisted.

After a few minutes of small talk about family and military service, Col. Kolenda decided to accept the invitation. The colonel believes understanding local culture and personalities is central to waging a successful counterinsurgency campaign.

"We're going to go over there," he said. "It would be insulting to them not to."

At 8 a.m., the Afghans raised their gate, and the Pakistanis raised theirs. Col. Kolenda and his group walked into Arandu, a quiet village on the Pakistani side.

The Pakistani troops led them a couple of hundred yards to a grassy compound under a star-and-crescent Pakistani flag. They met Col. Zafar, who was dressed in a pressed khaki uniform with two rows of colored service ribbons on his chest. He had a thick moustache and an 18-inch, dark-wood swagger stick, tipped in silver on both ends.

Col. Kolenda took off his heavy body armor and helmet, a trusting gesture. The guests sat down in a cool, whitewashed room, where a Pakistani soldier served them lemon soda with folded paper napkins.

'We are honored to sit down with our Pakistani allies,' the U.S. officer began.

"We are honored to sit down with our Pakistani allies," Col. Kolenda opened, pausing to allow the interpreter to convey his gratitude.

"No need to translate," Col. Zafar said in fluent English.

Top on Col. Kolenda's wish-list was a direct radio link that would allow local commanders to easily confer. At the moment, the Americans didn't even know what radio frequency to use to contact the Pakistanis.

"You have communications with our headquarters in Peshawar," Col. Zafar objected.

"They don't respond," the American said.

"They must be too busy," Col. Zafar said with a laugh. He agreed radio links would be a good idea, but added that such a decision would have to be made at a higher level.

They moved on to security. Maj. Mahboob, an Afghan army commander, said al Qaeda and Taliban fighters regularly cross the border to attack Afghan targets.

"We both have the same enemy," Col. Zafar answered. "I have to secure my border." He repeated the refrain that he would talk to his superiors.

Among themselves, the Americans call the insurgents AAFs: anti-Afghan forces. Col. Kolenda chose the term favored by the Pakistanis: "We get lots of reports of miscreant activities," he said.

They pored over a Pakistani map, marked secret, to identify the passes where militants operate. "I assure you there is no such activity," Col. Zafar said. "This is my area." He added: "Rest assured if there is some activity, it will be crushed."

Col. Zafar had his own concerns. First on his list: U.S. helicopters flying unauthorized into Pakistani air space. He warned that an incident—a militant firing on a U.S. helicopter in Pakistan, provoking a U.S. response—could worsen relations.

"We know it's not intentionally, but it should be occasionally and not routinely," he said. Everyone laughed. Col. Kolenda agreed. "I will talk to the pilots about the border violations, and we will get that corrected," he said.

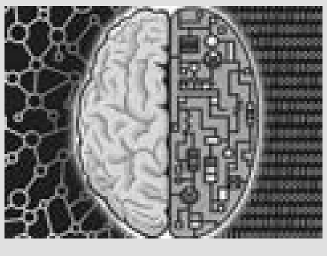
The Pakistanis invited the Americans and Afghans to the next room for tea, cakes, French fries and battered vegetable pakora. Everyone posed for pictures.

Walking back to Afghanistan, Maj. Mahboob, the Afghan commander, considered the promises made: "The Afghans are honest with their neighbors," he said. "In the past, the Pakistanis haven't been honest with us. Let's hope that will change."

Personal Journal

Synapse lapse

Equating brains and computers is a common fallacy > **Page 30**



2008 U.S. PRESIDENTIAL ELECTION

U.S. economy takes center stage

Presidential rivals turn their attention to pocketbook woes

By Christopher Cooper And Elizabeth Holmes

The U.S. presidential candidates are turning back to a sharp battle over the economy this week, with John McCain emphasizing energy relief and tax cuts and Barack Obama advocating a second stimulus package that has a taxpayer rebate at its core.

Faced with a near-flat economy, spiraling gasoline and food prices and a credit crunch that has sparked foreclosures and sent the stock market into bear territory, Sens. Obama and McCain are both angling to become the wage earner's friend.

Both have come up with a grab bag of proposals, most already familiar to many voters.

Sen. McCain's campaign has dusted off some of President George W. Bush's unfulfilled promises: balancing the federal budget within four years and revamping the Social Security system. But he left some questions unanswered Monday after a campaign appearance in Denver. Though aides said he pledged to balance the budget within four years, the campaign didn't say how he plans to do this, beyond cutting pork, which many analysts and government watchdogs say is unlikely to get him there. Moreover, he has promised tax cuts in the past and promised them again Monday—"I will cut them where I can"—which will make it harder to close a spending gap.

Sen. McCain made his budget-balancing promise in the spring before backing off the pledge, saying it might take eight years instead.

Though Sen. Obama criticized his Republican rival as adopting too many failed policies from President George W. Bush, he is also borrowing from the current administration with his proposed stimulus package.

This week, both men are offering up a bit of populist meat that may not spur the economy.

Sen. McCain admitted as much, telling a campaign crowd Monday that his plan for a suspension of the gasoline tax isn't wowing economic experts.

"Some economists don't think much of my gas-tax holiday," Sen. McCain admitted. "But the American people like it and so do small-business owners."

Both men are proposing economic solutions that are unlikely either to pass Congress or to have major immediate impacts on the economy if they are implemented. Sen. Obama's stimulus package, which he has been talking about in recent weeks, faces a deeply uncertain future in Congress, given that the Bush administration is against it.

"A few days ago, I called on Sen. McCain and all members of Congress to come together—Republicans and Democrats—in support of this $50 billion stimulus package," Sen. Obama said Monday in remarks prepared for a speech in North Carolina but delivered to a handful of reporters instead, after his plane developed mechanical problems. "And so while I haven't received a response from Sen. McCain yet, I look forward to hearing one soon."

Sen. Obama also renewed some promises he has made in the past: not to raise taxes on families making less than $250,000 annually; to eliminate all income taxes on retirees making less than $50,000 a year; to expand the child-care tax credit; and to eliminate capital-gains taxes on small businesses. He proposes to pay for much of this by ending the war in Iraq, which costs taxpayers about $100 billion a year.

Sen. Obama's campaign rhythm was disrupted when his charter plane developed a problem, shortly after lifting off from Chicago Monday. A crewman said pilots were having difficulty getting the plane level; it was diverted to St. Louis and landed without incident. The campaign scratched a planned event in Charlotte, N.C.

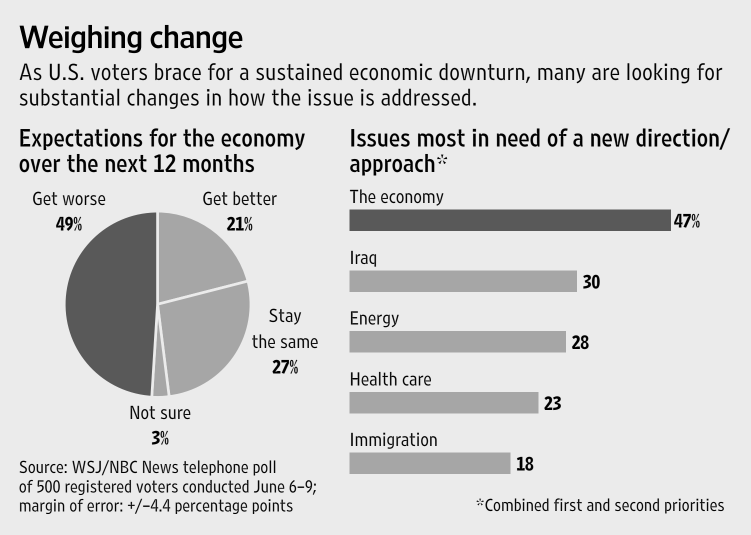
Sen. McCain has included his own longer-term proposals that seem unlikely to affect the current economic situation. In a speech in Denver Monday, he outlined three of them—a plan to expand oil drilling off the U.S. coasts, a call to develop 45 new nuclear-power plants and a cry to deploy so-called clean-coal technology to take advantage of U.S. reserves. Clean-coal technology isn't complete; experts say the other two proposals would take 10 years or more to become reality.

For Sen. McCain, the economy talk served as a platform for the relaunch this week of his campaign, which has undergone a recent staff shuffle. The message wasn't new: He advocates free trade and tax cuts, coupled with fiscal restraint in Washington.

Following his three-day trip to Latin America last week, he came out swinging against Sen. Obama, at one point mocking the Illinois senator's campaign motto. For someone with a motto of " 'Yes, we can,' Senator Obama's agenda sure has a whole lot of 'No, we can't,' " Sen. McCain said. The McCain campaign followed the speech with a flurry of conference calls and news releases, most branding Sen. Obama a high-tax advocate.

Sen. Obama had his own riposte on Sen McCain's economic proposals: "It hasn't worked, it won't work, and it's time to try something new."

Sen. Obama spoke on economic policy in Atlanta on Tuesday and was scheduled to do so again on Wednesday in Washington. Sen. McCain was in Washington on Tuesday and will be campaigning in Ohio on Wednesday.



Clinton's convention role is being negotiated

By June Kronholz

Hillary Clinton won a hefty 1,600 convention delegates in six months of primaries. A big question now is whether to let them vote at the Democratic convention.

High on the list of matters Sen. Clinton and likely Democratic presidential nominee Barack Obama are negotiating as her campaign closes down is whether and how her name is put into nomination at the August convention in Denver, said party activists in both camps.

A full roll-call vote that reminds everyone how close she came to being the nominee could reveal party rifts going into the fall campaign, they said, but keeping her name off the roll call could anger her supporters.

It is a "bone of contention" in the negotiations between the Clinton and Obama camps, Democratic consultant Donna Brazile said.

The Obama campaign said Monday that the Illinois senator would accept the nomination at the 76,000-seat stadium where the Denver Broncos football team plays so that thousands of nondelegates could attend. But the campaign has not settled other key questions about the convention, including whether Sen. Clinton's name will be put into nomination, Obama spokesman Bill Burton said.

Sen. Clinton's campaign office did not answer emails seeking comment.

Under party rules, her huge delegate count gives Sen. Clinton the right to put her name into nomination. "But do you do it?" Ms. Brazile asked. "Politically, does it heighten tensions?"

Neither party has faced this problem in decades. Minor candidates typically get a few votes at the conventions, but no party has had a roll call with two candidates since the 1976 Republican convention, when then-President Gerald Ford beat Ronald Reagan by 57 votes.

Republicans have their own awkward convention problem: What to do about President George W. Bush and Vice President Dick Cheney. As the party's senior officeholders, they are entitled to a spot at the September meeting in St. Paul, Minn., but they are deeply unpopular with voters.

Sen. Obama could resolve the issue of Sen. Clinton's delegates by naming her his running mate, in which case she would have her own roll call as the party's vice presidential candidate. Barring that, political observers said, the Clinton and Obama camps may be mulling a handful of other options.


Associated Press

After Hillary Clinton endorsed Barack Obama last month, her role is **being debated.**

Sen. Clinton could decline to have her name put forward, and Sen. Obama then could be nominated by acclamation. Party rules require a roll call, but the party's rules committee could adopt any agreement the two campaigns reach, said political consultant Tad Devine, who helped script the roll-call votes for Walter Mondale in 1984 and Michael Dukakis in 1988.

Dropping the roll call would require a vote by the delegates and would need choreographing to prevent protests by disappointed Clinton delegates. A unanimous nomination would send the message that Sen. Obama had unified the party, while allowing Sen. Clinton to ingratiate herself with his campaign.

The problem is "there's a strong feeling" that Sen. Clinton's delegates need the chance to vote for her, Mr. Devine said. Many are still angry with a party decision they feel deprived her of delegates from Michigan and Florida. "You don't want a situation where anybody feels they've been cheated," he said.

A second option would be for Sen. Clinton to be nominated, complete with laudatory speeches and happy floor demonstrations. By prearrangement, Sen. Clinton then would take her name out of consideration and endorse Sen. Obama's nomination.

"There's nothing symbolically wrong to putting her name in," followed by a scripted withdrawal, Ms. Brazile said. But the spectacle of a rapturous welcome for Sen. Clinton would be irresistible to television and could embarrass Sen. Obama.

The two camps also could agree to hold a "friendly" roll call, with the states tossing verbal bouquets to Sen. Clinton before voting for Sen. Obama.

Slide caused diversion of Obama's jet

By J. Lynn Lunsford And Christopher Conkey

An airplane carrying Barack Obama and his campaign entourage from Chicago to Charlotte, N.C., made a precautionary landing in St. Louis Monday after an emergency slide inflated inside the plane's tail cone, causing it to pinch some control cables, officials said.

The plane, a McDonnell Douglas MD-80 that had been used by the Clinton campaign, was chartered by the Obama campaign from Milwaukee-based Midwest Airlines because the larger Boeing 757 the campaign normally uses was down for maintenance.

The airplane remained grounded after it landed safely, and the senator and other passengers completed their trip aboard another chartered jet. The National Transportation Safety Board said it was sending a team to St. Louis to conduct an investigation.

According to the safety board, the pilots disconnected the autopilot after takeoff from Chicago while being directed around some thunderstorms "when they reportedly felt elevator control forces that were heavier than normal."

After landing, maintenance crews discovered that the rear emergency-exit slide had inflated inside the tail cone. Some of the cables that control the plane's up-and-down movement are exposed at the base of the tail, just above the rear emergency door.

In a telephone interview, safety board Chairman Mark Rosenker called the in-flight slide deployment a "highly unusual occurrence that we rarely, if ever, see," and one that could potentially lead to an accident. He said it was the worrisome "nature of the incident" rather than the "high visibility" of Sen. Obama that justified an investigation.

The MD-80, which seats 82 people, previously was used by the presidential campaign of Democratic Sen. Hillary Clinton, according to Michael Brophy, a spokesman for Midwest Airlines. Midwest acquired the plane, which was manufactured in 1981, 10 years ago, he said. A Federal Aviation Administration spokesman said the plane had no previous accidents or incidents in its file.

Pilots have been particularly wary of problems involving MD-80 tail controls since the fatal crash of an Alaska Airlines MD-80 in January 2000 off the coast of California. In that case, a mechanism known as a jackscrew failed because of shoddy maintenance, causing the plane to become uncontrollable. It dived into the Pacific Ocean, killing all 88 people aboard.

Deployment of emergency slides while in flight is almost unheard of, particularly not if the tail cone stays attached to the airplane. The rear emergency exit on MD-80s is designed so that the tail cone is supposed to fall away when the emergency lever is pulled, causing the slide to inflate.

More Asians conserve oil

Prices rise at pumps as subsidies are cut; consumers curb use

By Patrick Barta

BANGKOK—Consumers in some Asian countries are reining in their oil consumption as prices climb, raising hopes that the region will relax its pressure on energy markets if prices stay high.

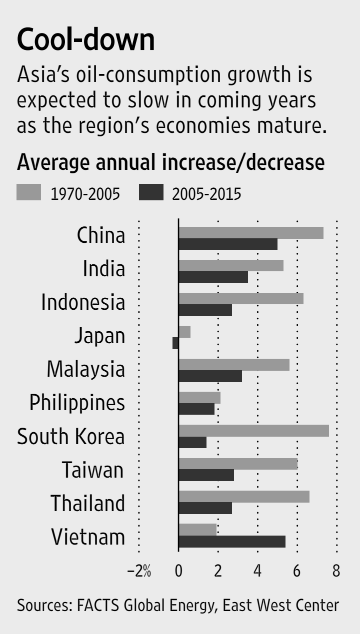
Asia is the world's biggest source of new oil demand, with China alone accounting for half the world's increase this year. Now, as many Asian governments unwind their subsidies and prices rise, there are signs that the rapid growth in demand is slowing.

After Malaysia in early June raised gasoline prices 41%, Steven K.C. Poh, a marketing consultant near Kuala Lumpur, says he sold one of two large cars in favor of a smaller, more fuel-efficient vehicle, and saves over 100 ringgit ($31) in fuel a month.

Affandi Samson, a supervisor at a Shell petrol station near Kuala Lumpur, says his business has dropped at least 30% since the price of petrol increased. He now needs at least one fewer tanker of fuel each week. "We are open 24 hours and strategically located, so business should be good," he says, but it isn't.

Many forecasters already have lowered their estimates of Asian oil demand this year. FACTS Global Energy Group, a consultancy in Singapore, says it now expects Asian oil demand to rise 2.7%, compared with an earlier estimate of 3.3%, though it notes that even at slower ratesAsian consumption growth is still strong. In Thailand, where officials long ago cut some subsidies to let international price fluctuations filter through, bike sales are soaring. Traffic on the subway system has risen 10% to 15% in the past month. Some farmers have parked their tractors in favor of using livestock.

In Indonesia, television producer Khrisman Surya says he has left his car in the garage and is using a motorbike to ride to work every day. He saves about one million rupiah, or about $110, a month by doing so, he says.



It will likely take several months to get a more complete picture of the impact of this year's fuel-price spike in Asia. Some Asian consumers curbed energy use after price increases in Indonesia and elsewhere in 2004 and 2005, only to reverse their behavior once oil prices stabilized and other government-assistance programs kicked in.

And it is too early to tell whether high prices are significantly curbing consumption in India and China, the two biggest sources of new demand in Asia. In India, officials raised fuel prices by only about 10% in early June. "That's not sufficient—it can be weathered," says Dharmakirti Joshi, an economist at Mumbai ratings agency Crisil. Nymex crude-oil futures for August delivery were down 3.7% at $136.08 a barrel at midday Tuesday.

Still, the increases in India triggered massive protests, with as many as four million truckers going on strike. And anecdotal reports suggest more drivers are outfitting their cars to run on fuel made from natural gas, rather than more-expensive gasoline or diesel. Rickshaw and bus drivers—whose vehicles already used natural gas—face longer lines at stations as a result.

In China, where authorities raised state-controlled gasoline prices 17% last month, many analysts are expecting demand to increase in the short run because Chinese processing companies were undersupplying the market before to avoid selling fuel at artificially low prices. Now that retail prices are higher, analysts believe the refiners will release more supplies to satisfy pent-up demand .

Even isolated, anecdotal reports of slackening demand are heartening to economists, because they point to what could happen across Asia as more countries take steps to match prices with international levels. Economists believe Asia needs to endure the same kind of price shock that hit the U.S. and other countries in the 1970s.

There are reasons to expect consumers will make more meaningful—and more enduring—changes this year than in the past. When prices first spiked a few years ago, economic growth was accelerating in Asia, boosting incomes and allowing many people to ignore higher fuel costs. This year, growth is slowing and inflation for food and other necessities is making it harder to disregard fuel-price increases.

"Our salaries do not increase" as fuel prices rise, says Rupert Agregado, who works for a wireless-communications company in Manila. "So I cut back." He used to drive to work every day. But since March, he has been using public transportation four days a week, saving his car for Fridays only.

—Josephine Cuneta in Manila, Celine Fernandez in Kuala Lumpur, Wilawan Watcharasakwet in Bangkok, Yayu Yuniar in Jakarta, and Krishna Pokharel in New Delhi contributed to this article.

China may aid hunt for Darfur oil

By Benoît Faucon

LONDON—Chinese oil-services companies are in talks to help Sudan search for oil in its troubled Darfur region, with the Sudanese army keeping the geologists safe, people familiar with the talks said Tuesday.

Ansan Wikfs Investments Ltd., which has operations in Yemen and Sudan, and its partner, Sudan's state-owned **Sudapet**, are preparing the first exploration deep into the Darfur region since conflict erupted there in 2003. One of the Chinese companies would help with the so-called seismic work, sounding out deposits of oil and gas by monitoring vibrations sent into the ground. If deposits are found in the area known as Block 12A, commercial crude production would start several years later.

Atrocities committed in southern Sudan and Darfur have led to criticism of the Sudanese government's use of its oil revenue, as well as China's role in supplying arms to Khartoum. China has helped many African regimes in return for access to the metals, oil and gas that China needs to feed its economy's rapid growth.

Sudan is already one of Africa's largest oil producers, with an output of 500,000 barrels a day. More than 200,000 barrels a day are imported by China.

Geologists consider Darfur a promising area for exploration, since it has many similarities with the nearby Fezzan basin of Libya, which has commercial oil production, according to Ansan Wikfs's Web site. The two Chinese companies in talks to assist Ansan Wikfs, according to a person familiar with the talks, are Zhongyuan Petroleum Exploration Bureau, owned by China's state-run **Sinopec**, and BGP, the geophysical-services unit of state-owned **China National Petroleum** Corp.

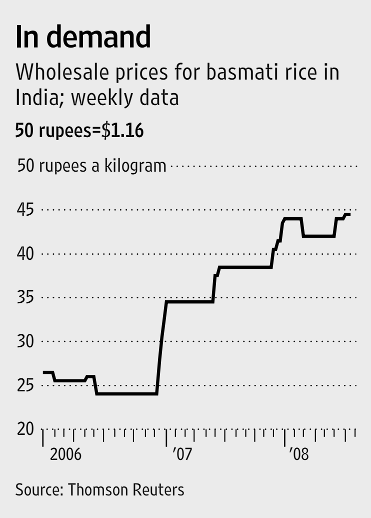
The geophysical unit of CNPC, which controls New-York-listed **PetroChina** Co. Ltd., is already doing seismic work in a block controlled by **Petroleum Oil & Gas Corp. of South Africa**, or PetroSA, that neighbors the one in Darfur.

BGP has looked into working in Block 12A and asked for an assessment of security conditions, according to people familiar with the matter. Seismic surveys would only begin once the army has "provided security passages in the area," a person with knowledge of the oil-exploration plans said.

The army has started work on that secure passage. A border station left over from Sudan's colonial days called Karab Al Toum, located between Block 12A and PetroSA's acreage, "is now under (Khartoum's) military control," said a person familiar with Ansan Wikfs's plans. "We are awaiting progress reports about the situation more in the south of Block 12A before awarding contracts." Ansan Wikfs's headquarters couldn't be reached to comment.

Sudapet, Ansan Wikfs and Saudi Arabia's **Al-Qahtani Group** are the joint operators of Block 12A, according to a person familiar with the matter. Sudanese Oil Minister Zubair Ahmed al-Hassan said in April that members of the consortium "are not operating up until now because [they] are afraid...of the image in the media saying things are terrible in Darfur."

Given "the vulnerable condition of civilians in Darfur as the conflict there continues," the beginning of seismic work on the block would warrant scrutiny, said Nina McMurry, an advocacy analyst at the Washington-based Sudan Divestment Task Force.



Niraj Sheth/WSJ

A rice retailer haggles with a customer in Old Delhi's Chandni Chowk bazaar.

Mideast demand pushes up price for basmati rice

By Niraj Sheth

NEW DELHI—In the world of rice, India's basmati has always stood alone. Only a handful of species grown in specific areas can claim the basmati name. Its fans claim that it is the only rice you can taste.

Now it has another distinction. Amid soaring prices for rice the world over, basmati has seen some of the biggest increases. In some Indian markets its price has risen about 200% since September 2006, while other kinds of rice cost 70% more here, and benchmark prices in Thailand have seen a roughly 100% increase. Basmati rice prices are expected to stay high or rise further as the September harvest approaches.

The reason for basmati's rise has nothing to do with the Vietnamese pests, commodity investors, Chinese demand or poor weather conditions that have driven up prices elsewhere. Rather, it is surging demand from the Middle East and Iran and from India's aspiring middle class.

At a rice bazaar here, Sonali Sharma, a 42-year-old housewife and mother of two, gathers handfuls of white grains from open sacks, taking sniffs of different kinds. "Basmati is the only one with that delicious fragrance," she says.

Because basmati is traded in smaller volumes than other commodities such as nonbasmati rice and wheat, its impact on the commodities run-up hasn't been great. Instead, the basmati price increase shows how higher commodity prices, triggered by changes in demand, are trickling through the entire production chain in India.

Indians prize basmati for its longer grains—better for soaking up taste from foods—and an earthy aroma that adds another level of flavor to dishes. It was long considered a luxury of the rich, but in recent years middle-class Indians have started buying it, too.

Mrs. Sharma switched to basmati from cheaper varieties two years ago when her husband, who works at a cellphone-service provider, got a promotion and a raise. Now, even though she complains about how expensive food is becoming, Mrs. Sharma says she won't switch back.

A large Indian distributor estimates that the domestic market for basmati, traditionally an export item, has been growing at 30% a year. The landscape in the export market has changed, too. For decades, the main customers of basmati were the Indian diaspora in the U.S. and U.K. In recent years, appetites have emerged in the Middle East and Central Asia. Saudi Arabia, Kuwait and the United Arab Emirates are now India's largest trade partners for basmati, accounting for 68% of India's 1.045 million metric tons of basmati exports in fiscal 2007, the latest data available. Meanwhile, the volume of exports to Iran grew to 15,000 metric tons in fiscal 2007 from 6,300 tons the previous year.

Exporters and Indian regulators say India has been shipping more rice to the Mideast and Iran because Pakistan, the only other sizable producer of basmati and the traditional source for countries like Iran, has slowed its production and put more restrictive duties on rice exports.

Liyan Morvarid Novin, a rice importer and distributor in Tehran, says demand for basmati rice in Iran has been growing as locally grown Iranian rice has become more expensive. Though Iranians prefer rice grown in their own country, there is a growing shortage of it, and people are turning to basmati instead, he said. Currently, basmati sells for roughly half the price of locally grown Iranian rice. It is especially favored by restaurants, and Tehran's booming restaurant scene has fueled a large part of the growth, he said.

In March, the Indian government raised the minimum export price on basmati by 20% to $1,200 a metric ton to keep more stock at home. But the demand from the Middle East and Iran is so strong that buyers there are undeterred, exporters say. According to the Ministry of Commerce and Industry, which registers export contracts, exported basmati rice in May fetched $1,500 a metric ton on average.

People involved in the long chain of rice production here, from farmers to retailers, are preparing for high basmati prices to linger. Mohan Bajaj, who owns a farm with his three brothers in the northern state of Harayana, in the middle of India's basmati heartland, says climbing prices have encouraged neighboring rice farmers to switch to the grain.

"It's great to be a rice farmer right now," he says as he navigates dirt roads in a secondhand white hatchback—a luxury for most of India's impoverished farmers, which he said he bought after prices began to climb. Prices for his raw rice paddies, the part of the plant that holds the grain, have shot up from 10 rupees (23 cents) a kilogram three years ago to more than 45 rupees, he says.