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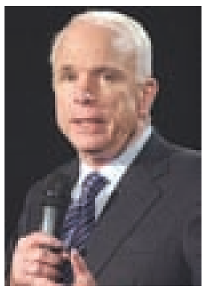

McCain's energy policy defies easy categorization

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Business & Finance

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■ **United Airlines intends** to furlough 950 of its 6,500 pilots by the end of 2009 as a result of plans to reduce its fleet. Page 6

■ **NYSE Euronext agreed** to buy a 25% stake in Doha Securities Market and will team up with Qatar to launch a stock-and-derivatives exchange, dealing a blow to the LSE. Pages 1, 15

■ **Hong Kong plans** to launch a new exchange that will trade fuel-oil contracts as soon as next year's first quarter. Page 23

■ **GM said** it will cut output further and offer new incentives, as it is close to losing its U.S.-sales crown in June to Toyota. Page 4

■ **Britain's BG revived** a $13.16 billion bid for Origin Energy of Australia just weeks after its friendly offer was rebuffed. Page 5

■ **U.S. stocks fell** moderately, as oil prices rose 26 cents to $137 a barrel in New York. European shares declined. Pages 16, 18

■ **U.S. consumer confidence** sank in June to the lowest level since 1992. Declines in home prices quickened in April. Page 8

■ **Bradford & Bingley shares** rose 17% as investors cheered the emergence of a new suitor for a stake in the lender. Page 16

■ **The U.S. SEC will propose** removing barriers to U.S. investors who trade securities with foreign brokerage firms. Page 19

■ **Leading companies** in Italy's and Russia's energy sectors signed two deals valued together at about $3.65 billion. Page 4

■ **Nokia launched** a cash offer for the 52% of Symbian it doesn't already own in a deal valued at about $409.8 million. Page 5

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11807.43	-34.93	-0.29
Nasdaq	2368.28	-17.46	-0.73
DJ Stoxx 600	292.54	-2.27	-0.77
FTSE 100	5634.7	-32.5	-0.57
DAX	6536.06	-53.40	-0.81
CAC 40	4473.76	-37.61	-0.83
Euro	$1.5595	+0.0117	+0.76
Nymex crude	$137.00	+0.26	+0.19

Money & Investing > Page 15

World-Wide

An Israeli police officer fatally shot himself at an airport departure ceremony for France's Sarkozy, sparking fear of an assassination attempt. Meanwhile, Palestinian militants fired homemade rockets into southern Israel, threatening to unravel a fresh cease-fire. Israel closed vital border crossings into Gaza.

■ **A bomb exploded** in a municipal building in Baghdad's Sadr City, killing 10 people, including four Americans working to restore civil government in the former Shiite militia stronghold.

■ **The U.N. Security Council** said a fair election in Zimbabwe is impossible, while an aide said opposition leader Tsvangirai was fleeing soldiers when he took refuge at the Dutch Embassy.

■ **Anatoly Chubais**, one of Russia's leading economic reformers, said he believes Medvedev will deliver on vows to loosen the Kremlin's grip on economic and political life. Page 3

■ **The EU and Russia plan** to re-examine their political and economic relationship. Page 3

■ **Belarusian lawmakers gave** final approval to a crackdown on Internet journalism, one of the nation's last remaining independent sources of information.

■ **The number of millionaires** in emerging markets grew much faster than the number in the U.S. last year, a report found. Page 1

■ **Racist violence persists** in the U.K. and most nations aren't taking advantage of tough legislation to crack down, the bloc's rights agency warned. Page 7

■ **Insurgent attacks** in eastern Afghanistan are up 40% this year from last year, the U.S. said.

■ **Sharif supporters protested** a ruling in Pakistan that barred the ex-leader from running in parliamentary by-elections.

■ **Iran said it would consider** any formal request by the U.S. to set up some type of diplomatic presence in the nation, after U.S. officials floated the idea.

■ **Rescuers found** only bodies during a search of a ferry that capsized in a typhoon in the Philippines, with hundreds aboard.

■ **Somali pirates kidnapped** a German family of three and a French captain from a yacht.

EDITORIAL & OPINION

Zimbabwe after Mugabe

The Africans can push him out and then direct the clean-up, says Paul Wolfowitz. Page 11

Wealth's new reality: big money moves east

Emerging markets capture the bulk of new millionaires

By ROBERT FRANK

The U.S. is losing its market share of global millionaires.

The population of millionaires in emerging markets grew five times as fast as the U.S. last year, according to a survey released Tuesday. That was the largest divergence between the U.S. and the big emerging markets since the comparisons were first published in 2003.

The number of millionaires in Brazil, Russia, India and China jumped 19% in 2007, compared with growth of 3.7% in the U.S.—its slowest growth since 2002, according to the World Wealth Report, produced by Merrill Lynch and Capgemini.

The U.S. still dominates the millionaire economy world-wide. It has more than three million financial millionaires, defined as those with investable assets of $1 million or more. That's up 100,000 from 2006.

Yet emerging markets captured the bulk of the millionaire growth last year, with Brazil, China, India and Russia adding 133,000 new millionaires. India's millionaire population grew 23% last year, the fastest in the world.

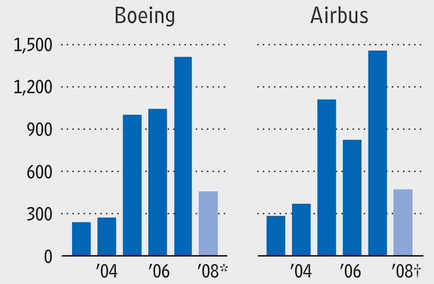
After climbing for years, America's market share of the world's millionaires declined slightly, to 30% in

Please turn to back page

A **Boeing 787** on the assembly line.

Orders in jeopardy?

Boeing and Airbus are at risk of seeing as much as a third of their orders for new jets get postponed or disappear altogether because of high oil prices. Net world-wide aircraft orders:



*Through June 17
†As of May 31
Source: the companies

Airbus, Boeing at risk of losing new-jet orders

By J. LYNN LUNSFORD AND SUSAN CAREY

As climbing oil prices cause even the strongest airlines to struggle, Airbus and **Boeing** Co. are at risk of seeing as much as one-third of their record-breaking orders for new jets postponed or disappearing altogether.

Driven largely by demand from airlines outside the U.S., the rival manufacturing giants have racked up almost 7,000 orders for modern fuel-efficient jets during the past three years. For now, both jet makers say they are sold out for much of the next three years and are continuing with plans to raise production rates to meet demand.

But the landscape is shifting as oil prices skyrocket and rattle the underlying economics of the airline industry. Some airlines, including **JetBlue Airways** Corp. and **Delta Air Lines** Inc. in the U.S., are already scrambling to defer deliveries or rid themselves of orders. Others are starting to repeat steps they took after the Sept. 11, 2001, terror attacks, permanently parking gas guzzlers and selling newer jets to leasing companies for cash before leasing them back on a monthly basis.

The combined value of Airbus's and Boeing's order books exceeds $500 billion at list prices, so large-scale cancellations and deferrals could easily amount to tens of billions of dollars and would affect not only the manufacturers but suppliers of jet engines and other components.

Officials at Boeing and Airbus, a

Please turn to back page

Qatar, NYSE set exchange tie-up in a blow to LSE

By NEIL SHAH

LONDON—In the latest twist to the battle among Arab sheikdoms to build a regional financial hub, the state of Qatar has agreed to sell a 25% stake in its Doha Securities Market to global exchange operator **NYSE Euronext** and team up to start a stock-and-derivatives exchange.

The deal is a blow to **London Stock Exchange Group** PLC, which along with **Deutsche Börse** AG was among the bidders for the partnership with the Qatari exchange. The 300-year-old London exchange's share price fell 4% Tuesday amid concerns it had missed an opportunity to tap the oil-rich region as a source of growth. Deutsche Börse lost 1.8%.

The deal also represents a riposte to the ambitions of nearby Dubai, which has been competing with Qatar to link up with Western exchanges and become the dominant regional financial center. Dubai has a roughly 20% stake in both the LSE and **Nasdaq OMX Group** Inc., and it is working with

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THE WALL STREET JOURNAL.

LEADING THE NEWS

The price display at the **Doha Stock Exchange**, which plans an overhaul.

Reuters

Qatar forges NYSE alliance

Continued from page 1

Nasdaq OMX to build up its own exchange. The Qatar Investment Authority has a 15% stake in the LSE.

The NYSE Euronext deal "is the cornerstone in bringing the Qatar financial sector to a level where it can compete globally," said John El Khair, adviser to the prime minister of the state of Qatar. "This is part of a master plan to completely overhaul the financial structure in Qatar." He said it will give the Doha Securities Market access to other markets and products, create liquidity and bring the market up to international regulatory standards.

The new stock-and-derivatives exchange would be built using NYSE Euronext technology, and it is expected to be finished by the fourth quarter. NYSE Euronext, which owns the New York Stock Exchange as well as stock markets in Paris, Amsterdam, Brussels and Lisbon, also will manage the operation of the new exchange and will receive three of the 11 seats on the Doha Securities Market's board of directors.

"We are very proud to be chosen," said NYSE Euronext Deputy Chief Executive Jean-François Theodore. "We think this market has a huge potential."

Qatar has suffered significant setbacks in its bid to engage the West in recent months. Last September, the Qatar Investment Authority almost clinched a deal to buy a near-30% stake in the LSE from Nasdaq. Unexpectedly, Dubai struck a deal with Nasdaq that effectively gave the stake in the LSE to Dubai.

The LSE and Qatar had long been in talks on joining forces in the Middle East. The LSE's shares have slumped 58% this year partly on concern the established exchange will lose significant market share to more nimble competitors. Tuesday's drop in its share price could make it still more difficult for the LSE to expand through acquisitions.

"We would have liked to support Qatar, but our proposal needed to be... something that would have been attractive to all of our shareholders," said LSE spokesman John Wallace. Mr. El Khair said Qatar plans to remain an investor in the LSE for the long term.

—Ragnhild Kjetland and Doug Cameron contributed to this article.

Contraction possible in Germany

By Andrea Thomas And Emese Bartha

BERLIN—Rising commodities prices have damped German consumer sentiment, a new survey showed, while the government warned that the economy could stagnate or even contract this summer.

German Deputy Economics Minister Walther Otremba said Europe's largest economy could contract in the second quarter because its strong growth at the beginning of the year was exaggerated by statistical effects.

"Stagnation would be a good result. I cannot rule out negative growth. It would in principle be a correction of the 1.5% [growth] in the first quarter and the average of both quarters would still show growth," Mr. Otremba told reporters.

Also Tuesday, German market-research group GfK said its consumer-climate index fell to 3.9 points for July from a downwardly revised 4.7 points for June. The July reading is the lowest level since December 2005, when it was 3.5 points.

Meanwhile, Germany's Ifo Institute, another of Germany's main economic think tanks, said Tuesday that Germany's economy will slow significantly during the remainder of this year. In its latest economic forecast, it said high energy prices, the strong euro and weak global growth will cut foreign demand while price pressures will bite into the domestic economy.

"German consumers have now really thrown in the towel," said Andreas Rees, an economist at UniCredit.

CORRECTIONS & AMPLIFICATIONS

British Airways PLC flies three times a day round-trip between London and Los Angeles. The Middle Seat column on Tuesday incorrectly said twice daily.

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

Medvedev gets key backer

Chubais, a critic of Putin, says Russia is now on right track

By Andrew Osborn

MOSCOW—The architect of Russia's post-Soviet privatization program said he believes new President Dmitry Medvedev will deliver on promises to loosen the Kremlin's grip on economic and political life. But Anatoly Chubais, one of Russia's leading economic reformers, also defended the growing clout of state gas giant OAO **Gazprom**, denouncing as "madness" Europe's efforts to check the company's expansion.

Mr. Chubais said in an interview that President Medvedev's pledges to improve the rule of law, strengthen democracy and implement market reforms are more than just rhetoric.

"We're going in a liberal direction," Mr. Chubais said.

Mr. Chubais's optimism follows years of occasionally biting criticism of former President Vladimir Putin, who chose Mr. Medvedev as his successor. In December, Mr. Chubais slammed Mr. Putin's United Russia party as "Soviet," calling parliamentary elections that handed it a landslide victory "disgusting." In January, he denounced the Kremlin's confrontational foreign policy as harmful to the economy.

His optimism about Mr. Medvedev reflects hope among some liberals that years of growing authoritarianism are about to give way to a softer, looser style of government. Some other liberals fear that Mr. Medvedev's pledges are just rhetoric.

Mr. Chubais, 53 years old, was speaking as he prepared to step down as CEO of state-controlled electricity giant RAO **Unified Energy Systems**. In what he said was the only major economic-liberalization move of its scale under Mr. Putin, UES has been broken up into nearly two dozen companies that are to compete in a market for electric power.

Mr. Chubais's overhaul has attracted billions of dollars in foreign investment to build power plants. In a meeting last week, Mr. Putin, now prime minister, endorsed the effort as "a pilot program for reform," according to Mr. Chubais. Once UES ceases to exist next week, Mr. Chubais said he plans to retire.

Mr. Chubais said that while there has been little concrete evidence that Mr. Medvedev will loosen the Kremlin's grip over politics and the economy, he was encouraged by the president's recent speeches.

"We don't need a revolution... full freedom or democracy starting on Monday. That's not workable for Russia," Mr. Chubais said. "But this is the historical vector we need. Mr. Medvedev's personality and political resources suggest we are going in this direction."

At the same time, Mr. Chubais defended some of the Kremlin's most-controversial economic policies of recent years. He said Gazprom was right when it briefly cut supplies to Ukraine in a pricing dispute in 2005. He rejected Western criticism that the move amounted to using energy as a political weapon.

"Putin was 100% right," Mr. Chubais said, noting that Russia had been subsidizing prices for its neighbors for years. "If it was any other country than Russia it would have been perceived as normal."

Mr. Chubais also criticized European Union attempts to curb Gazprom's expansion in Europe. The result, he said, would be higher prices as Europe's gas supply was reduced. "It means forcing your own population to pay for your political fears," he said. "It's madness."

Mr. Chubais is one of Russia's leading liberal reformers, a reputation he won in the 1990s when he masterminded the sale of state assets that were controversially bought at bargain-basement prices by canny businessmen who became known as oligarchs. He is highly respected by some in governing circles, but many ordinary people, particularly older Russians, blame him for the anarchic carve-up of post-Soviet assets that enriched a few but left many mired in poverty.

Reuters

Anatoly Chubais

- **1991:** Appointed head of powerful state-property committee by President Boris Yeltsin
- **1992:** Started controversial privatization program of state assets by handing out vouchers to the population to exchange for shares
- **1995:** Launched "loans for shares" auctions of prime state assets, helping to create today's oligarchs. Assets were theoretically leased to businessmen in exchange for loans. But assets and loans were never returned
- **1998:** Became CEO of state electricity monopoly RAO Unified Energy Systems (UES)
- **2005:** Survived assassination attempt when his car was ambushed by armed men
- **2008:** Leaving UES after selling all its generating and supply companies to Russian and foreign investors. Government will keep control of the national grid

EU-Russia talks to re-examine strained relations

Associated Press

MOSCOW—The European Union and Russia are poised to re-examine a political and economic relationship soured by issues ranging from energy to security to human rights.

A summit meeting Thursday and Friday will give the EU a chance to sound out Russia's new president, Dmitry Medvedev, as the sides try to rebuild a relationship that deteriorated under Mr. Medvedev's predecessor, Vladimir Putin.

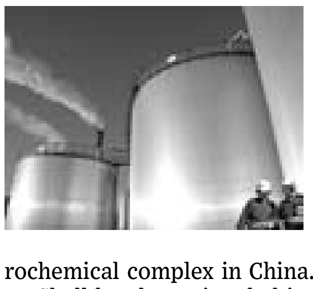
The talks in Siberia will lay the groundwork for negotiations to start on July 4 on a wide-ranging cooperation agreement regulating the way the two sides do business and, the EU hopes, set in stone Russia's security and human-rights obligations.

The goal is to have a new "strategic partnership" in force by July 2009, EU officials said. Energy security tops the EU's priority list. The EU also wants Russia to commit to bolstering democratic reforms and better preserving human rights.

CORPORATE NEWS

OIL

Shell to consider refinery in China with 2 partners



ROYAL Dutch Shell PLC said late Monday it has signed a letter of intent with **PetroChina** Co. and the international arm of **Qatar Petroleum** to study the feasibility of a new refinery and petrochemical complex in China.

Shell has long signaled its desire to gain a stake in a refinery in China, even though state caps on gasoline, diesel and jet-fuel prices mean domestic refineries are losing money right now.

Shell and Qatar Petroleum International will each have 24.5% stakes in the potential refinery and petrochemical facility, with PetroChina having majority control with a 51% interest. *—David Winning*

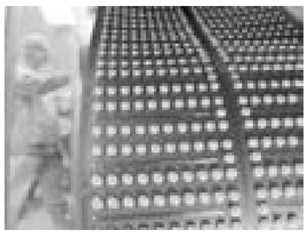
BANKING

Wealth management is focus of UBS's Dutch deal

UBS AG, one of the banks hardest hit by the credit crisis with more than $37 billion in mortgage write-downs, said it is buying a small Dutch private bank in a bid to bolster its money-management arm for the wealthy. The Zurich-based bank said it will buy Amsterdam-based **VermogensGroep**, which manages €4 billion ($6.2 billion) in client assets, for an undisclosed price. The deal puts renewed focus on UBS's private bank, which is suffering from the fallout of major investment-banking losses and write-downs after an ill-fated foray into mortgage securities. The problems have caused **UBS** to report three consecutive quarterly losses, and many analysts expect another for the latest quarter. *—Katharina Bart*

PHARMACEUTICALS

Bayer taps Barr to market its contraceptive in U.S.



GERMAN chemical and pharmaceutical company **Bayer** AG said it signed a supply and licensing agreement with U.S. generic-drug maker **Barr Pharmaceuticals** Inc.

Under the agreement, Barr will market a generic version of Bayer's Yasmin female contraceptive in the U.S. The generic version of Yasmin can go on sale starting July 1, Bayer said. A license has also been granted for Barr to market a generic version of YAZ, another female contraceptive, in the U.S. in 2011.

Barr will pay Bayer a fixed percentage of the revenue from both products, but further details weren't disclosed. *—Associated Press*

GM acts to retain crown

Rebates are offered to lift sales as Toyota threatens to take lead

BY JEFF BENNETT, NEAL E. BOUDETTE AND SERENA NG

ON THE VERGE of ceding its crown as America's best-selling car company, **General Motors** Corp. announced further production cuts as well as sweeping new incentives on many 2008 models—a reversal of recent strategy and a fresh sign of how badly rising gasoline prices are slamming auto makers.

GM, **Ford Motor** Co. and **Chrysler** LLC have been trying for more than two years to back away from heavy sales incentives, which eat into profit margins and tarnish brands in the eyes of some consumers. But a worsening of the slump in car and light-truck sales this month is forcing the Detroit companies to go all out to halt sales declines.

Through the first half of June, normally a strong period, U.S. auto sales were running at an annualized rate of about 12.5 million vehicles, according to J.D. Power & Associates. It was the lowest level for June in decades and a huge drop from the year-ago rate of 16.3 million vehicles.

For GM, the June swoon has an added peril: Without a sales surge in the next few days, it risks losing its U.S.-sales crown to **Toyota Motor** Corp. for the month. That would be a first and would represent a powerful symbol of Detroit's long decline.

GM's stock-market value now stands at just $7.8 billion, compared with Toyota's $154 billion. The GM figure reflects a further fall of 6.4% Monday when GM shares closed at $12.91, near a 33-year low, in 4 p.m. trading on the New York Stock Exchange. In late-morning trading Tuesday. GM shares gained 44 cents, or 3.4%, to $13.35.

While offering incentives on 2008 models, GM said it intends to raise prices on 2009 vehicles in the U.S. an average of 3.5% to help offset a surge in steel prices and rises in the costs of other materials.

In hopes of spurring vehicle sales, GM said it will offer zero-percent loans for up to 72 months or cash rebates of up to $7,000. In a conference call, GM's top marketing executive for North America, Mark LaNeve, said the offers should help dealers move some of the pickups and SUVs they have in inventory, which have become hard to sell and are rapidly falling in value.

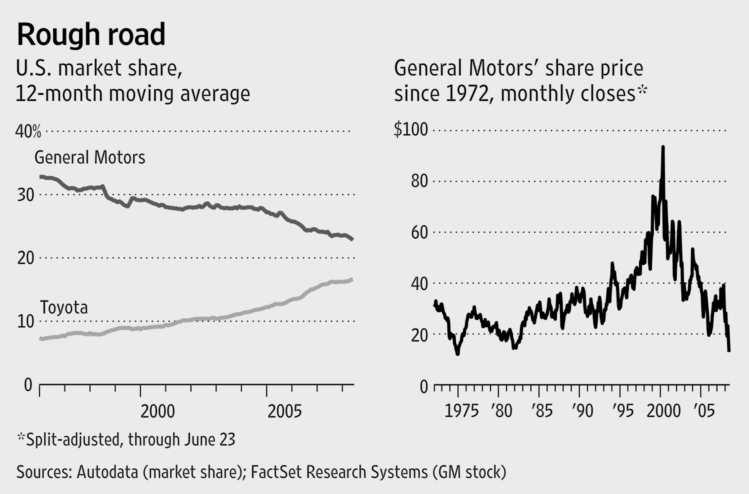
"Zero percent seems to work," Mr. LaNeve said. He added that recent declines in the values of used trucks have left some customers driving vehicles worth less than is owed on them, making it hard for owners to trade them in on new models. "A lot of customers are out of equity, and zero percent helps [with] that issue," he said.

A GM spokesman said the new round of incentives isn't aimed at keeping GM ahead of Toyota.

Decades ago, GM controlled half the U.S. market. By 2000, its share was down to 30%, but that was still triple the 9.3% Toyota had. In the past several years, Toyota has expanded its lineup, adding light trucks and luxury vehicles that have increased its market share.

Even as fuel prices began rising, GM guessed light trucks would remain big sellers. Last month, with sales of such vehicles in free-fall, GM's share of the U.S. vehicle market sank to 19.4%, according to Autodata Corp.—the first time in a half century or more it was below 20%.

Toyota, meanwhile, gained share on strong sales of its passenger cars. Toyota's market share in May reached a high of 18.6%, less than one percentage point behind GM's.



In May, GM's U.S. sales of trucks and SUVs were 37% less than those of May 2007, the biggest decline in the segment among the major auto makers.

GM said Monday it plans to shutter assembly plants in Arlington, Texas; Fort Wayne, Ind.; Janesville, Wis.; Shreveport, La.; Silao, Mexico; and Oshawa, Ontario, for anywhere from one to 10 weeks from July through the remainder of the year. These shutdowns will be in addition to the usual two-week summer down-time schedule.

Just a few weeks ago, GM announced it would close four plants permanently between now and 2010.

The company said Monday it is adding shifts at car and crossover-vehicle (car-based SUVs) plants in Fairfax, Kan., and Lansing, Mich.

GM now expects to produce 170,000 fewer light trucks—a category that includes pickups and SUVs—in the second half of this year than in the second half of 2007. It plans to increase car production by 47,000 from the total in the second half of 2007.

Last week, Ford announced similar cuts in light-truck production.

The new GM incentives could spur Ford and Chrysler to make similar offers. The Big Three typically match one another's incentives. Ford said it monitors incentives by competitors but has no plans at this time to match GM's. Chrysler said it doesn't plan to increase incentives.

Toyota, which has pushed into trucks and SUVs in the past few years and has bloated inventories of those models, could also be forced to join the incentive game.

The drop in pickup and SUV sales has raised concerns about whether GM, Ford and Chrysler have enough cash to keep them going through this difficult period. On Wall Street, the cost of insuring against a default in GM's bonds has soared to a high in recent weeks as fears of a bankruptcy-court filing have grown.

An investor who wants to buy credit protection on $10 million in GM's bonds for five years currently has to pay $2.8 million upfront and $500,000 annually for that insurance, through what are called credit-default swaps. A year ago, that protection cost only $400,000 annually, with no upfront cost, according to Credit Derivatives Research LLC.

A spokesman for GM said it has sufficient liquidity for 2008. He declined to comment on 2009.

Italy, Russia further ties with 2 energy deals

BY LIAM MOLONEY

Energy ties between Italy and Russia were cemented further after two deals, valued together at about €2.35 billion ($3.65 billion), were signed by some of the countries' leading companies in the sector.

The news is the latest in a string of deals between the two countries as Italy shores up energy supply and Russia pushes deeper into Western Europe. OAO **Lukoil Holdings**, Russia's biggest nongovernment-owned oil producer, said it is investing €1.35 billion in a new joint venture with Italian refiner **ERG** SpA.

Separately, Italian oil-services company **Saipem** SpA, which is controlled by **Eni** SpA, said it signed a contract valued at more than €1 billion to lay the twin Nord Stream underwater natural-gas pipeline connecting Russia and Germany via the Baltic Sea. Russia's OAO **Gazprom** is a leading figure in this project.

Gazprom and Eni are also working on a feasibility study for a South Stream gas pipeline that will ship Russian gas to Europe via the Black Sea. The line will pump as much as 30 billion cubic meters of gas a year and is estimated to cost €10 billion.

Russia is one of Italy's biggest suppliers of natural gas, meeting more than a quarter of the country's needs. In the joint venture between ERG and Lukoil, the Italian company will take a 51% stake; the Russian company, 49%. ERG will have an option to sell its stake to Lukoil over five years after the first year following the deal's close.

The Lukoil-ERG venture "is the biggest Russian investment in Italy and allows us to strengthen our position as [an energy partner] with significant international growth prospects," said Adolfo Urso, Italy's undersecretary at the Industry Ministry.

The venture will include ERG's Isab refinery in Priolo, Sicily, as well as 99 megawatts in thermoelectric-power-generation capacity and a minimum crude and product operating inventory of 745,000 metric tons.

Lukoil has pledged to invest $25 billion in its downstream business by 2017 and has been looking to bolster its presence in Europe in particular. The company owns refineries in Bulgaria, and Romania and runs gas stations in the U.S., Hungary, Finland, Poland, Serbia, Romania, Macedonia, Cyprus and Turkey.

The Russian company plans to fully integrate its share of the Isab refinery into its supply chain, noting that the plant can process Russia's benchmark Urals-blend crude. Isab can refine about 320,000 barrels of oil a day and is well positioned to meet growing European demand for kerosene and diesel, Lukoil said.

Lukoil said the deal should add about 1% to net profit from 2009, assuming it closes on schedule in the fourth quarter.

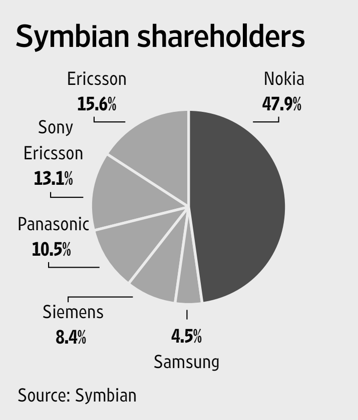
—Andrew Langley and Sabrina Cohen contributed to this article.

CORPORATE NEWS

Nokia bids for Symbian

Finnish firm to buy rest of U.K. maker of cellphone software

By Cassell Bryan-Low



Source: Symbian

Nokia Corp. of Finland is acquiring full ownership of U.K.-based **Symbian** Ltd., a provider of software for advanced cellphones, in a move that will likely increase competition for **Apple** Inc.

Nokia said it has launched a cash offer for the 52% of Symbian it doesn't already own. The deal is valued at roughly €264 million ($409.8 million).

Nokia said investors holding some 91% of the relevant Symbian shares—including **Sony Ericsson Mobile Communications** AB, **Telefon AB L.M. Ericsson** of Sweden, **Panasonic Mobile Communications** Co. and **Siemens** AG—had irrevocably agreed to accept the offer. Nokia said it also expects **Samsung Electronics** Co. to accept.

In the face of mounting competition from Apple and cellphone-industry newcomers such as **Google** Inc., established players such as Nokia are looking for ways to bring more innovative products to market—and to do so more quickly. Symbian specializes in making software for so-called smart phones, which are equipped to handle media-rich features such as email or Internet browsing and are the fastest-growing and most lucrative part of the global cellphone market. Symbian, formed by a consortium in 1998, reported £43.5 million ($85.5 million) in revenue during the first three months of 2008.

Many of Nokia's rivals, which rely on Symbian software, have been concerned about the Finnish handset maker's influence in Symbian and the degree to which Symbian software is being developed to suit the needs of Nokia alone. But they appear to have put those concerns aside. Symbian, in any case, denies it has favored Nokia. "We service all of our customers equally," said Symbian Chief Executive Nigel Clifford.

The acquisition by Nokia is part of a broader move toward cooperation among several handset makers and cellphone-service providers under the auspices of a new group called the Symbian Foundation. Participants include the four other largest handset makers after Nokia: **Motorola** Inc., Samsung, Sony Ericsson and **LG Electronics** Inc. Symbian's more than 1,000 developers will become Nokia employees, and the nonprofit foundation will be responsible for marketing and coordination for developers everywhere.

Symbian also will blend its several different flavors of cellphone software into one, to create one open-source software platform. That includes folding in user-interface software from UIQ Technology AB, a joint venture between Motorola and Sony Ericsson that was spun off from Symbian. UIQ's know-how includes touch-screen technology, made fashionable by Apple's iPhone.

The efforts will enable "faster, better products," said Kai Oistamo, head of Nokia's devices unit.

Earlier this year, Motorola chose Symbian as a main platform for its high-end phones after owning a stake in the software company from 1999 to 2003. Motorola's reliance on disparate software platforms in recent years has delayed the rollout of new phones.

"This is going to stimulate the developer community a lot," said Alain Mutricy, a senior vice president in Motorola's mobile-device unit.

BG revives $13.16 billion bid for Origin despite rejection

By Lyndal McFarland And Bill Lindsay

Source: Thomson Reuters Datastream

SYDNEY—**BG Group** PLC revived a A$13.83 billion (US$13.16 billion) takeover bid for Australian integrated energy company **Origin Energy** Ltd., just weeks after its friendly proposal was rebuffed by the target's board.

BG's bid, which includes around A$190 million for Origin share options, would be the second-biggest foreign takeover of an Australian company behind Mexican cement maker Cemex SA's A$16.7 billion acquisition of Rinker Group Ltd. in 2006 if it proceeds.

With the bid of A$15.50 for each Origin share, U.K.-based BG is hoping to circumvent the Origin board with an appeal directly to shareholders, claiming that the rejection of its bid was based on inappropriate assumptions and incomplete information.

Buying Origin would boost the presence of BG in the booming Asian-Pacific region, giving it access to Origin's coal-bed-gas reserves for its planned A$8 billion liquefied-natural-gas export operation in the Australian state of Queensland.

Origin recommended shareholders take no action in response to the BG bid at this stage.

BG highlighted the risks and lengthy time frame required to develop Origin's largely unproved reserves, but said it plans to invest in all of Origin's energy businesses in Australia.

"We're not here as a reserve exploiter that's just interested in the [coal-bed-gas] resources; that's part of the larger picture," BG Chief Executive Frank Chapman said.

"We're buying the whole company because we have pursued successfully this integrated energy chain strategy on a global scale."

BG is one of at least four parties planning natural-gas plants near the central Queensland state port town of Gladstone, seeking to convert the fuel trapped in the state's abundant coal beds into liquefied-natural gas. The liquefied-natural gas has the potential to attract big premiums to Australian domestic gas sales when shipped to energy-hungry Asian markets.

The U.K. group's offer represents a 48% premium to Origin's closing price of A$10.47 on April 29, the last trading day before the announcement of BG's initial approach.BG said it has arranged and agreed to financing for a buyout of Origin, including cash reserves and a syndicated loan from a consortium of leading banks including Banco Santander, HSBC Bank, Société Générale and Royal Bank of Scotland.

BG said its bid is conditional on investors representing 50.1% of shares accepting the offer and on regulatory clearance and foreign investment approvals in Australia and New Zealand.

UPS reduces earnings outlook as volume drops

By Kathy Shwiff

United Parcel Service Inc. cut its second-quarter earnings estimate, citing an "unprecedented increase" in fuel costs and blaming an "anemic" U.S. economy for lower-than-expected volume.

UPS, along with rival **FedEx** Corp., is considered a barometer for the U.S. economy because the transportation company moves everything from documents to building materials. Combined, the two companies move an average of 22 million packages a day. UPS handles 15 million daily.

The company now expects second-quarter earnings of 83 cents a share to 88 cents a share, down from its April forecast of 97 cents to $1.04. The shipper plans to report second-quarter results July 22.

UPS said the weak U.S. economy is hurting its international business because fewer packages are being sent into the country. However, its supply-chain and freight operation continues to exceed expectations.

UPS's U.S. group in April cut its full-year earnings forecast as the company reported a 7.5% rise in first-quarter net income and said domestic customers were trading down from its premium air-freight products in favor of ground shipment.

UPS first witnessed a sharp drop in domestic activity in February after two months of modest volume gains, a change Chief Executive Scott Davis said was a surprise. UPS is intensifying cost-cutting efforts and expects a new labor contract with improved work-force flexibility to start benefiting operations in August.

Last week, FedEx projected earnings below analysts' expectations as it posted a loss for its fiscal fourth quarter.

BUSINESS ▪ George Anders

Strong companies see hard times as chance to squeeze weaker rivals

MOST COMPANIES play it safe in hard times, cutting expenses and scaling back growth plans. Ambition gives way to caution. But some aggressive companies are shrugging off their own challenges and, in the words of management scholar Walter Ferrier, "going for the jugular of weak rivals."

Hewlett-Packard Co., **Southwest Airlines** Co. and **FedEx** Corp. all have been sharpening their claws lately. Tactics include hiring extra salespeople, making acquisitions, expanding into carefully chosen new markets or holding down prices in a bid to pry business away from the competition.

There is a risky side to these measures, because they can put additional pressure on short-term profit. But executives believe the long-term results will justify their audacity. As they see it, market share is most likely to be up for grabs in a downturn, when some competitors are too hard-pressed to defend their position vigorously.

New customers won today may become profitable accounts for years to come. H-P's chief executive officer, Mark Hurd, laid out the case for well-aimed expansion in a visit with Wall Street Journal editors a few weeks ago. His computing and printing company has been expanding its sales force lately, particularly to target small- and medium-size businesses. That market has been "underserved" by H-P for some time, Mr. Hurd said.

H-P isn't just looking to sell machines to such customers, Mr. Hurd added. The company wants to bring them on board as service customers, too, helping them run their information-technology departments more effectively. Such add-on business isn't just extra revenue for H-P; it also creates a tighter link with those customers, making them less likely to bolt to other vendors later on.

Deepening its commitment to the computer-service sector, H-P last month agreed to buy **Electronic Data Systems** Corp. for more than $13 billion.

SOUTHWEST AIR, meanwhile, has been exploiting a huge cost advantage it enjoys over other airlines, which are reeling from the impact of oil's rise to $130 a barrel or more. Southwest isn't paying nearly that much for its aviation fuel this year, thanks to its active hedging program. As a result, Southwest can profitably add flights to attractive markets, even as other carriers are forced to retrench.

Southwest entered the Denver market just 2½ years ago, with 13 daily flights. It currently averages 95 Denver flights a day. Nationwide, Southwest's domestic passenger count in 2008's first quarter was up 7.9%, to 24.7 million, according to U.S. Department of Transportation statistics. By contrast, passenger traffic for AMR Corp.'s American Airlines, Delta Air Lines Inc. and UAL Corp.'s United Airlines, the next three largest carriers in terms of domestic passengers served, was down 1.9% to 8.5%.

Bill Owen, Southwest's lead schedule planner, says the airline's move into Denver was driven by Colorado's strengthening economy, rather than an attempt to target competitors. But rivals have certainly felt the impact of Southwest's arrival. Earlier this year, Frontier Airlines, which uses Denver as its hub, filed for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code.

Southwest also has been expanding service in Las Vegas and several Florida cities. But the carrier's business plan also includes some cautious elements. It has deferred some plane deliveries and is paring back service on some less-profitable routes. It has said overall growth could be flat in 2009 if the fuel and economic climates don't improve.

At FedEx, the company's freight business has been picking up market share at the expense of long-established trucking companies. Douglas Duncan, president of FedEx Freight, says FedEx originally entered that market with a premium-priced service tied to its ability to guarantee on-time delivery. That's been popular with companies needing help keeping a just-in-time inventory system working well, he says.

BUT FEDEX'S recent gains in freight-market share have grown out of it is decision last July to reduce its diesel-fuel surcharge by 25%, Mr. Duncan says. Competitors generally haven't matched that price cut, and customers at first waited to see if FedEx would stick with it, Mr. Duncan says. As it became clear that FedEx's price break was here to stay, he says, it has proved to be a powerful tool in winning new business.

In other industries, such as financial services, the hallmark of companies eager to grow in a downturn has been a willingness to acquire weakened rivals. **J.P. Morgan Chase** & Co. extended its Wall Street presence in March by agreeing to buy cash-strapped Bear Stearns Cos. **Bank of America** Corp. is purchasing **Countrywide Financial** Corp. to gain a bigger slice of the home-mortgage business. Mortgage markets are a mess at present, but Bank of America executives have said they believe those markets will eventually mend and become attractive again.

Meanwhile, in some high-tech markets, such as chip-making equipment, aggressive strategies are all about continuing to roll out more-advanced products even when demand is weak. "That's how the market recovers from down cycles," says Michael Splinter, CEO of **Applied Materials** Inc. "Customers want new products."

Traditional business-school theories suggested that market leaders didn't have much reason to squeeze out small, marginal players, says Prof. Ferrier, a management professor at the University of Kentucky's Gatton College of Business and Economics. "But our research shows that they have every incentive to fight off the little guys." Strong firms, in particular, are more competitively aggressive in weak industry conditions, he says.

CORPORATE NEWS

United to furlough pilots

Oil costs spur airline to trim roster by 950 by end of next year

BY SUSAN CAREY

CHICAGO—United Airlines' 6,500 pilots were notified Monday that their employer intends to furlough about 950 of them by the end of 2009 as a result of plans to reduce the fleet by 100 aircraft to cope with surging oil prices.

In a message to the aviators, Keith Rimer, the airline system's chief pilot, said that because of the number of pilots on military and personal leaves, furlough notices will be sent to more than 1,400 of the airline's least-senior pilots in order to cut the active roster by 950. The pilots are represented by the Air Line Pilots Association union, which is working with the company on ways of mitigating the number of involuntary furloughs. An ALPA spokesman couldn't be reached for comment.

United parent **UAL** Corp. earlier this month announced plans to cut its domestic capacity by around 15% by the fourth quarter of this year, compared with a year earlier, and trim its seats on offer for all of 2008 by 8% from a year earlier. As a result, it said it is adding 70 more aircraft to the 30 already targeted for early retirement, which will shrink the overall fleet to 360 jetliners by next year.

At the time, United said it would cut about 1,000 more salaried and management jobs than the 500 already announced, or about 20% of that work group. The impact on its other unionized workers, including mechanics, ramp employees and flight attendants, hasn't yet been quantified. The second-largest U.S. airline by traffic after **AMR** Corp.'s American Airlines, it currently has about 55,000 employees. United confirmed the pilot layoffs Monday, saying that as the carrier cuts its fleet, "we must take the difficult but necessary steps to reduce the number of people we have to run our business."

The pilot cuts will begin with 100 jobs to be reduced in September, the month the airline starts to shrink, and will proceed into 2009, said the chief pilot. "Furloughs are an unfortunate and difficult reality for the airline industry," he said in his message.

United furloughed thousands of employees after the 2001 terrorist attacks. But in the past couple of years as it returned to profitability the company was recalling some furloughed employees and even hiring new flight attendants.

Other big airlines also have announced plans in recent weeks to shrink their operations, ground older aircraft, defer deliveries of new planes on order and cut jobs. **Delta Air Lines** Inc. shed 4,000 jobs through voluntary buyouts. American Airlines, **Continental Airlines** and **US Airways Group** Inc. also have announced plans for reducing their headcounts and fleets.

Associated Press

United's pilot cuts will start with 100 jobs in September. Above, pilots picket on June 12.

Kodak refund, buyback lift shares

BY WILLIAM M. BULKELEY

Eastman Kodak Co. received a $581 million windfall from the U.S. Internal Revenue Service, and said it will use it to help fund a stock buyback of as much as $1 billion, spurring a rebound in its long-depressed stock.

The tax refund covered taxes paid on the 1994 sale of its Sterling Winthrop subsidiary and $300 million in interest since then. Kodak's claim of losses on the sale was initially disallowed, but it had appealed. It said subsequent IRS regulations provided the basis for its refund.

Kodak stock, which had been trading near 40-year lows, jumped 15%, or $1.90, to $14.24 a share in afternoon trading on the New York Stock Exchange. Kodak's market value had fallen Monday to $3.7 billion, and it said the buyback could potentially reduce its shares outstanding by about 25%.

Kodak's sales last year fell 2.5% to $10.3 billion, and it posted a loss of $205 million from continuing operations after restructuring charges. Its stock has fallen steadily.

Ulysses Yannas, a broker with Buckman, Buckman & Reid Inc., a longtime Kodak follower, called the buyback, coming when the stock was trading just 30% above book value, "masterful."

Some analysts weren't so ebullient. "The share repurchase will provide some support," said Shannon Cross of Cross Research/Soleil Securities, Short Hills, New Jersey. But she said, "At the end of the day, they need to improve fundamental results to bring in new shareholders."

Tech firms address chips' energy drain

BY DON CLARK

Rising power consumption in computer rooms is a big issue in Silicon Valley. Now, two companies are taking aim at a major contributor to the problem: the memory chips used in server systems.

Spansion LLC, working with a start-up called **Virident Systems** Inc., is mounting a campaign to replace the ubiquitous chips known as DRAM, or dynamic random-access memory, in servers used for jobs such as managing large Web sites. DRAM chips are very fast at recording and fetching data but tend to be heavy users of power because they require a constant flow of electricity to retain data.

Spansion and Virident propose that server makers use a variant of a chip called NOR flash memory, which is often used to store software in cellphones. NOR chips retain data when power is off, but they are usually too slow at recording data to be considered a replacement for DRAM.

Spansion, a NOR-chip supplier in Sunnyvale, California, that was spun off from **Advanced Micro Devices** Inc., has developed EcoRAM, a design it says is much faster than NOR while consuming about one-eighth the power of DRAM. The company has invested in Virident, a closely held company in Milpitas, California, which is developing companion technology that will allow EcoRAM to be used in the same kind of modules as DRAM.

The two companies say the new technology allows them to offer more data-storage capacity per module, making it possible to replace four DRAM-based servers with one system using EcoRAM chips. Customers can either reduce energy consumption in a data center by about 75% while keeping total memory capacity constant, or seek four times the memory capacity of existing servers at the same total power consumption, the companies said.

"We can offer green and growth at the same time," said Raj Parekh, Virident's chief executive.

Mr. Parekh says server makers can adopt EcoRAM-based memory modules with few modifications. Still, convincing them to change such a fundamental building block may not be easy, and Spansion is not disclosing customers yet.

Jonathan Koomey, a consulting professor at Stanford University who has studied data-center power consumption, said the idea of using flash memory in servers to reduce power consumption is promising and "has been tantalizingly on the horizon for the past year or so."

GLOBAL BUSINESS BRIEFS

WPP Group PLC

Core revenue grows 4.5%, falling short of expectations

U.K.-based advertising company **WPP Group** PLC, which owns agencies including JWT, Young & Rubicam and Group M, said revenue rose 15% in the first five months of the year. However, organic revenue growth—a closely watched industry metric that strips out the impact of acquisitions, disposals and currency fluctuations—was 4.5%, missing market expectations and sending WPP shares lower. The stock was down 4.2%, or 22 pence, at 498 pence at Tuesday's London close. WPP, which indicated in its first-quarter statement that revenue growth in western continental Europe had slowed in March, said the second quarter was showing a similar pattern.

Société Générale

French bank **Société Générale** SA is winding up its only structured investment vehicle, **Premier Asset Collateralized Entity** Ltd., after a temporary credit line provided by the bank expired. PACE was the only SIV the bank sponsored and was fully consolidated on SocGen's balance sheet late last year after it was hit by the global credit crunch. SocGen, France's second-largest bank by market value after **BNP Paribas** SA, said at the time that it would give PACE a credit line of as much as $4.3 billion, allowing time to explore restructuring alternatives. Instead, SocGen said it bought all of PACE's assets on June 13. Proceeds of the asset sale and liquidity draws were used to pay its senior liabilities, including payment in full of PACE's outstanding commercial paper and medium-term notes.

OMV AG

Austrian oil and gas company **OMV** AG said that the European Commission has serious concerns about its proposed unsolicited takeover of Hungarian peer **MOL Nyrt.**, but that OMV remains committed to the acquisition. OMV, which holds 20.2% of MOL, has proposed a bid valuing its Hungarian target at $20 billion. MOL has repeatedly rejected the bid, which it considers hostile. The commission's competition office sent a statement of objections to OMV naming the areas of refining and marketing of products as potential stumbling blocks for the merger. A MOL spokesman said that the commission's statement is "an important milestone in the process." OMV said the company would analyze the statement of objections and present its view of how the issues can be resolved to the commission.

ArcelorMittal

Australian miner **Macarthur Coal** Ltd. said its talks with **ArcelorMittal** ended without any takeover proposal being made by the world's largest steelmaker. Last month, Luxembourg-based steel giant ArcelorMittal secured a 14.9% stake in the miner, including a 4.3% stake from founder Ken Talbot and a 10.4% holding from investor Nathan Tinkler, and started talks with Macarthur's board, which could have led to a takeover bid. However, the end of ArcelorMittal talks won't spell the end to speculation of a potential A$4.4 billion (US$4.2 billion) bidding war for the Brisbane, Australia-based Macarthur. Soaring coal prices have put Macarthur, the world's biggest supplier of pulverized coal used in steelmaking, in the sights of mills and metals traders eager to profit from its annual production of 3.6 million metric tons. Since ArcelorMittal secured its stake in May, Macarthur's stock has risen 13%.

Daiwa Securities Group Inc.

Daiwa Securities Group Inc. said it plans to raise its stake in **Saigon Securities** Inc., Vietnam's largest brokerage by market capitalization, to 10% from 4.75%. The move will help the Japanese brokerage firm expand its business in Vietnam, Daiwa Securities said. It bought a 1.25% stake in SSI for 1.3 billion yen ($12.1 million) in July 2007 and later raised the stake to 4.75%. **Australia & New Zealand Banking Group** Ltd. is also increasing its stake in SSI, saying this month it will buy shares on the market to lift its holding to 13.89% from 11.39%.

Baoshan Iron & Steel Co.

Baoshan Iron & Steel Co. said its parent, **Shanghai Baosteel Group**, plans to set up a new steel mill in the southern Chinese province of Guangdong, in a move that will merge two existing steel companies. Baosteel Group will invest 28.69 billion yuan ($4.17 billion) for an 80% stake in the new company, which will be named Guangdong Iron & Steel Group. State-owned Asset Supervision and Administration Commission of Guangdong province and Guangzhou municipality will invest assets in Shaoguan Iron & Steel Group and Guangzhou Iron & Steel Enterprises Group into the new company for a 20% stake. The move reflects the government's efforts to encourage consolidation in the steel sector to improve efficiency and reduce internal competition, analysts said.

Dongwon Group

Dongwon Group said it will buy a controlling stake in Starkist from **Del Monte Foods** Co. for more than $300 million, in the latest push by South Korean food makers for global expansion. The tuna company, whose affiliate Dongwon F&B holds about 75% of the country's canned-tuna market, said it will disclose the exact size of the stake and other details at a press conference Thursday in Seoul. Del Monte was exploring a possible sale of StarKist as the unit, acquired in 2002, has weighed on its profits in recent quarters as the cost of skipjack tuna soared. Dongwon Group is South Korea's best-known brand for processed fishery food, with affiliate Dongwon F&B holding about 75% of the country's canned-tuna market.

Lowe's Cos.

Lowe's Cos. is seeing "unprecedented requests for price increases" from suppliers and is raising retail prices itself as it can, Chief Financial Officer Robert Hull said. "Unfortunately, the market sets the retail price, so retail hasn't necessarily moved with supplier prices," Mr. Hull said Tuesday during a Wachovia Research investor conference on the Internet. As the year progresses, however, the U.S. home-improvement retailer expects it will be able to raise retail prices overall enough to cushion the hit to its gross margin, he said. Mr. Hull reiterated company expectations that Lowe's will continue to increase market share, citing opportunities to take sales from **Sears Holdings** Corp. and other retailers. Lowe's was up 1.2% at $22.05 in late trading on the New York Stock Exchange.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.K.

Mortgage approvals fell 56% to record low in May

U.K. MORTGAGE approvals last month fell to the lowest level since record keeping began in 1997 and net lending dropped sharply, as the credit crunch continued.

Approvals for house purchases fell to 27,968 in May from a revised 34,752 in April, the British Bankers' Association said. The latest figure was down 56% from May 2007 and far below the average of 40,570 for the past six months.

Net mortgage lending tumbled to £4 billion ($7.86 billion) from £5.2 billion in April. Gross mortgage lending dropped to £16.2 billion from £17 billion and was down 15.9% from a year earlier. *—Joe Parkinson*

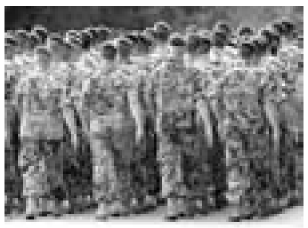
EUROPEAN UNION

Rights agency hails U.K., France for fighting racism

RACIST violence and discrimination persist across the European Union, and most members of the bloc aren't taking advantage of tough legislation to crack down, the EU's rights agency warned. Britain and France lead a list of nine countries credited with actively fighting racism and xenophobia, but most other EU members aren't making the most of a tough EU-wide "racial equality directive," the EU Agency for Fundamental Rights said. Between 2006 and 2007, Britain punished 95 offenders, more than the other 26 member states combined, the agency said. It also lauded Bulgaria, France, Ireland, Italy, Hungary, Romania, Finland and Sweden.

GERMANY

More troops, longer stay in Afghanistan proposed



GERMANY confirmed plans to increase the number of troops in Afghanistan by 1,000 this fall, which would bring the total German commitment to the NATO-led International Security Assistance Force to 4,500, Defense Minister Franz Josef Jung and military chief Wolfgang Schneiderhan said.

They also recommended extending the deployment of the troops until December 2009, which would keep the issue out of next year's election campaign.

There are about 43,000 North Atlantic Treaty Organization forces in Afghanistan. About 13,000 U.S. troops operate in a separate U.S.-led coalition.

—Associated Press

Follieri is charged in U.S.

Italian businessman is accused of fraud in real-estate deals

By John R. Emshwiller

Raffaello Follieri, a charming but controversial Italian entrepreneur who did business with billionaire Ron Burkle, rubbed shoulders with Bill Clinton and dated actress Anne Hathaway, was criminally charged Tuesday in Manhattan federal court with fraud and conspiracy in connection with his attempt to build a real-estate empire by using Vatican connections to acquire Catholic Church properties.

Reuters

Italian businessman **Raffaello Follieri**, charged with fraud in an alleged real-estate investment scheme, arrives at this year's Oscars with actress Anne Hathaway.

The 12-count criminal complaint, filed by the U.S. Attorney's office in Manhattan, alleges that the 29-year-old Mr. Follieri stole hundreds of thousands of dollars of investor money to fund an opulent lifestyle that included a $37,000-a-month New York apartment, private jet travel, expensive restaurants and clothes, medical expenses for his girlfriend and father and even a dog-walking service for his pet.

Mr. Follieri allegedly obtained investor money by vastly overstating his ability to get favorable deals on Catholic Church property in the U.S. through his purported ties with top Vatican officials, according to the complaint.

The complaint identifies the victim of Mr. Follieri's alleged fraud simply as the "Principal Investor," which it says is a "private-equity investment company" in California. That, however, appears to be a reference to Mr. Burkle and his closely held **Yucaipa** Cos., based in West Hollywood, California.

A Yucaipa partnership had in 2005 entered into a joint venture with Mr. Follieri to buy and redevelop Catholic Church properties in the U.S. While that venture purchased a number of properties, it collapsed last year when Yucaipa filed suit against Mr. Follieri in Delaware state court, contending that he had misappropriated at least $1.3 million to fund his personal expenses.

Tuesday's criminal complaint closely mirrors last year's Yucaipa civil complaint, which was recently settled by the parties on undisclosed terms.

Neither Mr. Follieri, who was arrested Tuesday in Manhattan, nor his attorney could be reached for comment. In connection with the Yucaipa lawsuit, Mr. Follieri had consistently denied wrongdoing. A Yucaipa spokesman declined to comment on the criminal case against Mr. Follieri.

As recently as Monday, Mr. Follieri had been talking to people about his plans to revive his real-estate development efforts.

Mr. Follieri and Ms. Hathaway reportedly recently broke up after a several-year relationship. For a time, Ms. Hathaway sat on the board of the Follieri Foundation, a charitable organization connected to his real-estate firm. Ms. Hathaway wasn't charged with wrongdoing in either last year's Yucaipa suit or Tuesday's criminal complaint. A spokesman for Ms. Hathaway declined to comment.

According to the criminal complaint, Mr. Follieri kept various ceremonial robes, including those of senior clergymen, at his New York office. On one occasion, according to the complaint, he asked a priest traveling with him to put on a robe of a more senior clergyman in order to create the false impression that he had close ties to the Vatican. He also allegedly enlisted a Vatican employee and a reporter for an Italian news publication to help bolster his image as a Vatican insider. At one point, according to the complaint, he claimed to be the "chief financial officer" of the Vatican. No such position exists. A Vatican spokesman declined to comment. Mr. Follieri, according to the complaint, caused more than $350,000 "to be wired to the Vatican;" it didn't elaborate.

His arrest on criminal charges marks the latest twist in a tumultuous several years since he arrived in the U.S. from Italy with the aim of building a global real-estate empire based on the purchase of Catholic Church properties.

He managed to make high-level connections in Mr. Clinton's camp. This included Mr. Burkle. Indeed, Mr. Clinton was an adviser to and profit participant in the Yucaipa investment fund that did the real-estate deal with Mr. Follieri. Through his representatives, Mr. Clinton has said he didn't know Mr. Follieri well. Representatives in Mr. Clinton's office couldn't immediately be reached Tuesday about the criminal complaint against Mr. Follieri.

Currency independence aids Iceland, Haarde says

By Natasha Brereton

LONDON—Iceland's Prime Minister, Geir H. Haarde, said he believed the benefits of having an independent national currency outweigh the costs, although he also noted that the Icelandic currency is probably weaker now than it deserves to be.

In a speech in London, Mr. Haarde said having its own currency gives Iceland more flexibility than being part of a monetary union, as it means that the authorities can react to changes in local economic circumstances. He also defended the country's banks from charges that they have been "irresponsible risk-takers" while rapidly expanding their overseas operations in recent years.

Iceland's currency has fallen by around 14% against the U.S. dollar over the past month, leading to calls from some business leaders for the country to consider adopting the euro, the currency used by 15 other European nations.

Mr. Haarde dismissed those concerns.

"We can adapt much more quickly by using those independent tools that we have, rather than having to rely on, let's say, the decisions taken by the European Central Bank in Frankfurt, if we were to become members of the euro zone," he said.

"My feeling is that when the European Central Bank in Frankfurt makes interest-rate decisions, if we were members of that club, they wouldn't particularly be thinking about the economic situation on the margins such as in our country," he said.

Mr. Haarde also said that before its recent sharp falls, the krona's exchange rate had been pushed higher by speculative trading amid inflows of capital connected with big investment projects.

As a result, "an adjustment was inevitable," and the degree of the krona's initial appreciation was "bound to exaggerate" the necessary downward adjustment when it came, Mr. Haarde said.

"The krona was inevitably going to come down. But I think that move has been exaggerated to some extent and that the krona right now is lower in value than its equilibrium value really should be," Mr. Haarde said.

An important factor is the health of Iceland's real economy, Mr. Haarde said. "If you look at the actual production capacity of the economy, the employment level, the investment that's possible...even though we're going through this turbulence right now, I think that the outlook for the longer term...is quite healthy."

Nevertheless, the international credit crunch and the weakening of global growth will "aggravate" the slowdown of the Icelandic economy, Mr. Haarde said.

Like most other Western countries, Iceland faces reduced lending by local banks, a weaker real-estate market, and rising food and energy prices, although it's shielded from the latter thanks to its access to renewable energy, he said.

"There are no quick fixes...We expect that economic growth in Iceland will be below trend this year and next, unemployment will rise somewhat, while the current account deficit will fall to sustainable levels, inflation will subside and interest rates decline," Mr. Haarde said.

The krona has fallen by around 14% against the dollar over the past month.

The prime minister said local Icelandic banks had felt the effects of global financial turmoil, and that they—like the Icelandic economy as a whole—had witnessed a "large divergence in fundamentals and perception."

The negative image painted by some commentators of Icelandic banks as being "irresponsible risk-takers on the verge of collapsing" was unfair, Mr. Haarde said.

"A comparison of their operations and accounts with that of their peers and competitors in Northern Europe shows that nothing is further from the truth, and in many instances the Icelandic banks are more prudent and healthier than their peers," he said.

ECONOMY & POLITICS

U.S. recession fears grow

Consumer confidence sinks as home prices continue to decline

By Kelly Evans

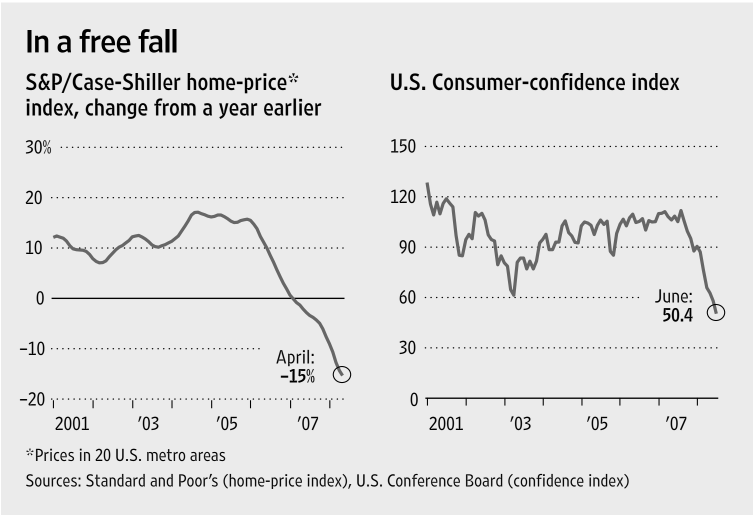
Plunging consumer confidence and quickening declines in home prices pushed concerns about a possible U.S. recession back onto the front burner.

Consumer confidence sank to its lowest level since 1992 this month, according to data from the Conference Board, a New York business-research group. Consumers' assessment of current conditions dropped to 50.4 from 58.1 in May, while their expectations of conditions six months ahead plunged to 41—an all-time low.

Meanwhile, home-price declines accelerated, according to two reports. Prices in 20 major cities dropped by a record 15.3% in April from a year earlier and are now at 2004 levels, according to the Case-Shiller home-price index released by Standard & Poor's Corp.

Separately, the Office of Federal Housing Enterprise Oversight, which oversees mortgage giants Fannie Mae and Freddie Mac and tracks prices of homes purchased with their mortgages, said home prices were down 4.6% in April from the previous year.

The S&P/Case-Shiller index shows larger price declines in part because it tracks metropolitan areas where prices are more sensitive than in rural locations. Ofheo, meanwhile, may understate the weakness because it tracks only "agency-backed" mortgages, which excludes homes purchased with subprime loans.



The drop in consumer confidence is worrisome because consumption drives more than two-thirds of U.S. economic growth. Though consumer attitudes have worsened in recent months, consumer spending has remained fairly resilient. The economy grew at a 0.9% annual pace in the first quarter and many economists expect a similar gain in the April-June period.

Economists say spending could drop as consumers become gloomier and the temporary boost from government economic-stimulus checks fades.

"The final quarter [of 2008] could be a big mess," said John Lonski, chief economist at Moody's Investors Service. He noted that rising prices, continued pain in the housing market and tepid consumer spending pose a significant risk-through early next year.

"That might be when we finally observe back-to-back quarterly declines" in gross domestic product that typically signify recession, he said.

Reignited fears about recession overshadowed concerns about inflation, even as companies and consumers noted the sting of rising prices. **United Parcel Service** Inc. said Monday that an "unprecedented increase" in fuel costs and the weak economy would hurt its second-quarter earnings. **Dow Chemical** Co., meanwhile, announced Tuesday its second round of price increases in a month.

Worries about economic growth will likely cause the Federal Reserve to announce Wednesday that it is holding its key overnight interest rate steady at 2%. Low rates help make mortgages cheaper, which could draw buyers back into the market.

Trading curbs may ease oil prices, U.S. panel told

By Ian Talley And Gregory Meyer

WASHINGTON—Lawmakers eager to curb speculation in oil markets got support from witnesses who told a U.S. House of Representatives subcommittee that oil prices could fall sharply if Congress put strict limits on trading in energy futures by investment banks, pension funds and other financial investors.

But officials of the Commodity Futures Trading Commission disputed the findings of a Congressional study that concluded 70% of trading in certain key oil futures contracts is now speculative. And leaders of the world's two leading oil exchanges, the **New York Mercantile Exchange** and the ICE Futures Europe, based in New York and London, respectively, argued against increasing the amount of capital investors would have to put down to buy futures contracts, saying such limits would drive commerce offshore.

"Speculators" in the oil futures market have become a prime target to $65 to $70," said Mike Masters, a hedge-fund manager testifying before a congressional panel probing speculation in the energy markets.

Benchmark light, sweet crude futures rose 26 cents to settle at $137 a barrel Tuesday on the New York Mercantile Exchange.

Fadel Gheit, managing director and senior oil analyst at Oppenheimer & Co., said prices could come down to $45-$60 a barrel. Edward Krapels, a special adviser at the consultancy Energy Security Analysis Inc., said he would expect the retreat from energy markets to be fairly fast.

"I think the amount of speculation is really substantial, [and] I don't think it would take 30 days after the president signed the bill; it would happen more quickly than that," he said.

Mr. Dingell and others at the subcommittee meeting said Congress should consider forcing speculators to put up margin, or collateral, worth 50% of the value of energy futures in which they seek to trade. Today margins requirements for most

Associated Press

A panel of **energy-market witnesses** are sworn in in Washington; from left, Fadel Gheit, Roger Diwan of PFC Energy, Mike Masters and Edward Krapels.

in Washington, as lawmakers look to respond to voter anxiety about soaring motor-fuel prices. A hearing Monday before the House Energy and Commerce subcommittee on Oversight and Investigations highlighted fundamental disputes over the role of financial investors in the recent spike in oil prices.

Lawmakers in both the House and Senate are aggressively exploring ways to rein in what they believe is excessive speculation driving sky-rocketing oil prices.

Many legislators are seeking to curtail—or, in some cases, to ban—swaps and bilateral trading in the energy futures markets, and set limits on investments on foreign exchanges operating in the U.S.

House Energy and Commerce Committee Chairman Rep. John Dingell, a Michigan Democrat, said lawmakers should set firm limits on the size of energy speculators' positions, require full disclosure of all energy trading from investment banks, and prevent pension funds from investing in commodities as they seek to diversify their holdings.

To back that view, an energy subcommittee investigating the role of speculation in energy prices heard from a panel of energy-market participants who said crude-oil prices would fall with stricter regulation, with retail gasoline prices following.

"Prices would probably drop over a reasonably short period of time back to somewhere closer to the marginal production cost of oil, traders in oil futures are often in single-digit percentages.

In written testimony prepared for the hearing, the chairman of ICE Futures Europe, owned by **IntercontinentalExchange** Inc., rejected the idea of "artificially increasing" margin levels, saying it would "drive business either to futures markets in other jurisdictions where there are no such constraints, or to off-exchange [over-the-counter] marketplaces where clearing is not available."

The Energy and Commerce subcommittee also Monday unveiled new data it said came from the CFTC that showed speculators have increased their share of futures contracts to about 70% in April from 37% in 2000.

The Commodity Futures Trading Commission has traditionally said that speculators represent only about 30% of the market, but after lawmakers asked the agency to reclassify swaps dealers as speculators, and not commercial hedgers such as airlines, the ratio flips.

Acting CFTC Chairman Walter Lukken said a large portion of those swaps deals would be for commercial businesses looking to hedge fuel costs. "Morgan Stanley manages all of United Airlines' risk," Mr. Lukken told reporters on the sidelines of the subcommittee hearing. He said the CFTC's old data showed that speculation wasn't pushing prices up, "But I think what would be admitted is that our data could be improved."

Iran still backs Shiites, U.S. says

By Yochi J. Dreazen

WASHINGTON—A new U.S. military report accused Iran of continuing to funnel weapons and money to Shiite militants across Iraq and described Iran as the "greatest long-term threat to Iraqi security."

The report offered a generally upbeat assessment of Iraq's security and political situation, stating that violence there has fallen to the lowest levels in more than four years.

It also praised Iraqi Prime Minister Nouri al-Maliki, a Shiite, for ordering the army to crack down on a powerful Shiite militia, a move credited with persuading Sunni lawmakers to rejoin Iraq's political process.

The quarterly assessment said security gains were fragile and that there was evidence that al Qaeda in Iraq, the Sunni group blamed for many of the bloodiest attacks against Iraqi civilians, had survived a recent U.S.-Iraqi onslaught in northern Iraq and begun reconstituting itself elsewhere in the country.

"Iraq is in a much better place than it was a year ago, across the board," Adm. Mike Mullen, the chairman of the U.S. Joint Chiefs of Staff, told a gathering of military and civilian officials shortly before the report's release. "We're not at the sustainable point yet. We're not at the irreversible point yet."

The report had harsh words for Iran, accusing Tehran of breaking its promise to curtail the flow of Iranian armaments into Iraq. It said U.S. and Iraqi forces operating in Basra found large caches of Iranian-made weapons that had been manufactured earlier this year, after Iranian officials told their Iraqi counterparts that they would take measures to curb such shipments.

Iran has denied knowingly funneling weapons into Iraq or training the country's Shiite militants.

Foreign direct investing likely to drop

By Paul Hannon

LONDON—The Organization for Economic Cooperation and Development said it expects global flows of foreign direct investment to fall sharply this year as cross-border mergers and acquisitions slow to a trickle.

"While 2007 was a record year for both OECD outflows and inflows, sharp declines are expected in 2008," the OECD said Tuesday.

The OECD said companies from its 30 member countries made cross-border investments of about $1.82 trillion in 2007, a 50% increase from 2006 and a record. In the same year, some $1.37 trillion in foreign investments were made in companies based in the OECD member countries; those investments came from OECD economies and from other, primarily emerging-market, countries.

The OECD, a Paris-based multilateral organization, expects investment flows to fall dramatically this year, based on first-quarter evidence from the U.S. and a number of other developed economies. Cross-border investments made by OECD-area companies could fall 37%, or $680 billion, while investments in OECD-area companies could fall by 24%, or about $335 billion, it said.

"A slowdown in international mergers and acquisitions, which make up a significant share of FDI, during the first half of 2008 also suggests sharp declines for OECD FDI flows in 2008," the OECD said.

M&A activity has been hit by the reduced availability of financing for takeovers since the credit crunch began in mid-2007, as well as by falling share prices.

The records set in 2007 for OECD inflows and outflows were helped by the fall in the U.S. dollar against most other major currencies, the group said. In addition to greenfield investment and M&A, the FDI total includes reinvested earnings, cross-border loans and capital transactions between related firms.

REVIEW & OUTLOOK

Political Speculators

Every dogma has its day, and so it is with the posturing that blames the run-up in oil prices on "speculators." The new political consensus is that further "common-sense regulation" of the energy futures market is necessary. Let's grant that the sentiment is common, but the sense—like the evidence—is nonexistent.

On Sunday, Barack Obama rolled out a proposal that will supposedly thwart market manipulation by "a few energy lobbyists and speculators." John McCain chimed in that Mr. Obama was merely following his lead; last week, the Republican denounced "some people on Wall Street" for "gaming the system." If there's a Congressman who isn't calling for his own crackdown, he's gone into witness protection. And sure enough, even this week's impromptu oil summit in Jeddah blamed "speculators" for high prices.

The futures market may be a convenient scapegoat, but it's simply a price discovery mechanism. Major energy consumers—refiners, airlines—buy and sell these contracts to lock in goods at a future price, as a hedge against volatility. Essentially, they're guesses about coming oil supply and demand, as well as the rate of inflation. The political theory is that such futures trading is creating a bubble in the spot market (i.e., oil purchased for immediate delivery) beyond oil fundamentals. Thus, $4 gas.

But there's no inherent reason to "bet" that commodities will go up rather than down. Bet wrong—place all your chips on red, say—and you lose. If a company purchases the future right to buy oil at $140 a barrel and it instead sells for $130, the option is worthless. Besides, somebody has to take the other side of any futures contract: Some are trying to predict where the price will go in the future, while the other side is attempting to sell its future price risk. But no one knows how things will end up.

McCain and Obama shoot the price messengers.

Mr. McCain calls such exchanges "reckless wagering." But speculators—normally known as "traders"—are really managing the exposure risks of American businesses to higher oil prices. Traders not affiliated with major producers or consumers provide liquidity to the market. Without the second group, futures markets would be determined exclusively by commercial participants. Another word for this is a cartel.

One omnipresent talking point is that the so-called "Enron loophole" must be closed. A provision inserted in U.S. legislation in 2000 exempted certain oil contract exchanges where transactions were made via computer and telephone, rather than on a trading floor, from regulations that govern other exchange-traded commodities. But Congress ended that practice as part of its most recent farm bill, and there's no evidence that "over the counter" trading has caused the increase in oil prices. The political enthusiasm seems to arise solely from the word "Enron."

Mr. Obama and his fellow Democrats are also exercised because the U.S. Commodities Future Trading Commission (CFTC) doesn't directly oversee U.S. subsidiaries of foreign exchanges. For instance, the global futures market of London-based Intercontinental Exchange is regulated by the U.K. Financial Services Authority. But the FSA has extensive information-sharing agreements with the CFTC. It also has similar standards for the daily position and trade monitoring that ensures market integrity and transparency. In this global business, some of the more stringent antispeculation proposals would merely divert futures trading to Dubai or less regulated exchanges.

Another supposed problem is the rise of commodity index funds, a newer market that is estimated at anywhere from $140 billion to $250 billion. Michael Masters, a Virgin Islands-based fund manager who has the ear of Democrats, blames pension funds and university endowments. He calls them "index speculators." Essentially, these investors buy futures and roll them from month to month as they come due, allowing a constant investment without holding oil or natural gas stocks.

Yet these financial instruments are only new in the sense that they apply traditional stock-market indexing to commodities. It's hard to see how this is irresponsible, and if anything it's the reverse: Indexing is favored by investors who think it's imprudent to gamble on short-term price swings.

* * *

On the other hand, inflation does lead to a misallocation of resources, so it's not surprising that the Federal Reserve's weak dollar policy has driven investors to commodities to protect themselves. Loose monetary policy has caused price jumps across nearly all commodities, including surges in grains and precious and base metals. The Fed's rate-cut bender is the most important reason oil is up so sharply since last August.

The other major factor is supply and demand, as prosaic as that might seem amid today's political agitation. Energy consumption is surging in China and India, and global supply is not growing fast enough to keep up. Congress could do something useful if it opened up America's vast natural resources, which are blocked by environmentalist romanticism. But then, it's so much easier to shoot the price messengers.

British Rationing

While American politicians mull a carbon cap-and-trade system for industry, their British cousins are already contemplating the next step: personal CO_2 rations. And you thought the talk about a "war" on global warming was just rhetoric.

A Parliamentary committee last month proposed giving all British adults "carbon allowances" that they would be required to spend—along with, you know, real money—when buying gasoline, airline tickets, electricity or natural gas. Britons who wanted more credits than they were issued could try to buy them—again, with real money—from those who hadn't spent their allotment. All of this is supposed to give people a financial incentive to shrink their energy consumption and thus their carbon footprint.

Cap and trade: It's not just for companies anymore.

The Labour government, which is already in a precarious political state, isn't dumb enough to support the rationing plan, which Environment Minister Hilary Benn calls "ahead of its time." Instead, it favors a climate-change bill that Parliament is on the verge of passing that would lay much of the necessary groundwork. But eco-eager Britons don't have to wait for Westminster to act. A private test program for personal cap-and-trade began two weeks ago with 1,000 volunteers keeping tabs of their gasoline usage.

It would cost a country like Britain billions of dollars a year to run a personal cap-and-trade system nationwide, but set that aside for a moment. This is the clearest picture yet of how environmentalists want to touch every aspect of modern life, with wartime-like rations for energy. The duration of this fight would make the decade and a half of British rationing for World War II seem like a fleeting moment. The pending climate-change bill calls for a 60% cut in carbon emissions from their 1990 levels by 2050. And once 2050 rolls around, just who exactly will declare the end of hostilities?

The specter of CO2 rationing should also put paid to the idea that the cost of curbing carbon emissions would fall to the owners of dirty old factories. That notion was always a green herring: Like corporate taxes, any carbon-cutting costs that firms accrue will simply be passed on to consumers.

It will come as a shock to most consumers to be asked to pay directly for their carbon emissions. Politicians are still trying to avoid a truly transparent carbon-pricing mechanism such as a tax. The recent protests world-wide over fuel prices have surely stiffened governments' resolve to keep the price of their policies as invisible as the gases they want to curtail.

Britons may or may not think global warming is a dire enough threat to justify this radical overhaul of their lives. In a recent Ipsos MORI opinion poll in the U.K., respondents were evenly split as to whether "climate change might not be as bad as people say."

But Americans haven't even embarked on cap-and-trade for industry yet, although both Barack Obama and John McCain say they favor such a system. Now is the time for U.S. voters to ask the candidates whether they, too, plan to put the "ration" in irrational responses to rising temperatures.

Intolerant Indonesia

With the World Peace Forum under way in Jakarta today, Indonesia is happy to boast of its commitment to interfaith dialogue. The 200,000 members of the Ahmadiyah sect would disagree.

On Thursday, Islamic radicals sealed off more than 10 Ahmadiyah mosques in Indonesia. This was the predictable outcome of a June 9 government ruling barring the Ahmadiyah from "dissemination activities," whatever that means. Their crime? Peacefully worshipping a liberal form of Islam.

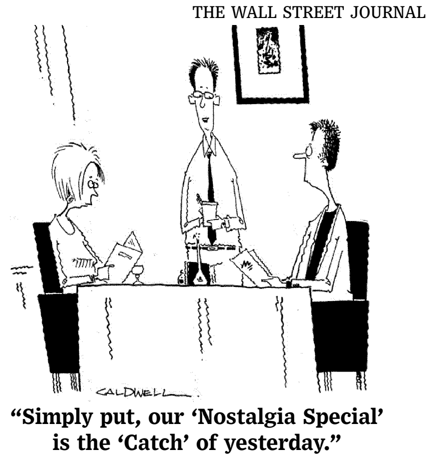
President Susilo Bambang Yudhoyono sold the ruling as a way to forbid a "deviant" Islamic group from propagating their ideas but not banning them outright. But it was really a cave-in to radicals such as the Islamic Defenders Front, who advocate strict interpretations of Islam and have made their views known by beating up people in the streets.

Now, a coalition of Islamic fanatics, the Forum Umat Islam, has taken the ruling as a pretext to shut down Ahmadiyah mosques. In response, Mr. Yudhoyono has ignored the Indonesian constitution's freedom of religion clause and done nothing.

Perhaps he is worried about sparking wider violence if he opposes the well-funded and well-organized Forum Umat Islam. Or perhaps he wishes to court what he perceives as the "Muslim vote." But short-term gain could have serious long-term consequences.

If radical thugs are allowed to target Ahmadiyah houses of worship today with impunity, what prevents them from targeting other kinds of Muslims tomorrow? Or Christians? Or Sikhs? The government's refusal to protect the Ahmadiyah threatens the underpinnings of Indonesia's tolerant society. It's a familiar theme in history, and one that has not boded well for liberal democracies.

Pepper . . . and Salt



"Simply put, our 'Nostalgia Special' is the 'Catch' of yesterday."

Bookshelf / *By David A. Shaywitz*

Free to Choose, Often Wrong

Consider Linda, a 31-year-old woman, single and bright. As a student, she was deeply concerned with discrimination and social justice and also participated in anti-nuclear protests. Which is more probable? (a) Linda is today a bank teller; (b) Linda is a bank teller and active in the feminist movement.

When psychologists Daniel Kahneman and the late Amos Tversky conducted an experimental survey in the early 1980s asking people to answer this simple question, they discovered, to their surprise, that most respondents picked "b," even though this was the narrower choice and hence the less likely one. It seems that *saliency*—in this case, Linda's passionate political profile—trumps logic.

> We are neither as rational nor as wise as we think we are.

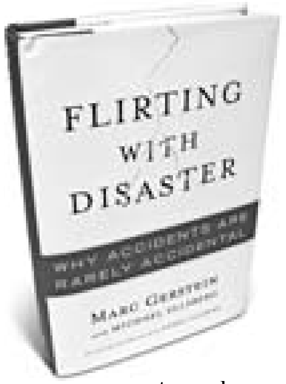
Over the past quarter-century, Mr. Kahneman and his colleagues have gone on to identify a range of flaws in our critical faculties, reshaping the study of economics by challenging the assumption that a person, when faced with a choice, can be counted on to make a rational decision.

While Mr. Kahneman (who won the 2002 Nobel Prize in economics) has confined most of his writing to academic journals, his ideas have found their way into popular culture through books such as Barry Schwartz's "The Paradox of Choice" and Nassim Taleb's "The Black Swan." "Sway," by brothers Ori and Rom Brafman, is the latest addition to this literature. It offers a breezy introduction to the science of decision-making and shows the many ways in which logical thought can be subverted or "swayed."

Sway
By Ori Brafman and Rom Brafman
(Doubleday, 206 pages)

Flirting With Disaster
By Marc Gerstein, with Michael Ellsberg
(Union Square, 340 pages)

Value attribution—transferring "value" signals from one thing to another—may explain why hot-dog sales at the Coney Island food stand of "Famous Nathan" Handwerker shot up when he recruited local doctors to shop there while wearing their white coats and stethoscopes. *Procedural justice* may be the reason why venture capitalists favor the entrepreneurs who communicate with them most; a willingness to observe the dictates of process is taken as a proxy for quality.



Some examples in "Sway" are less forceful than others. It seems a bit much, for instance, to blame value attribution for the failure of morning commuters to applaud a virtuoso violinist performing in jeans and a baseball cap at the entrance to a subway station. A simpler explanation: People were in a hurry to get to work. But the pacing of "Sway" is so fast that even questionable examples are gone in seconds, and soon you're on to the next enlightening, vignette.

While the Brafmans are amused by our irrationality, Marc Gerstein is troubled by it and wants to understand why we don't recognizeour mistaken thinking before it is too late. In "Flirting With Disaster," Mr. Gerstein (assisted by Michael Ellsberg) explores the psychology underlying a series of disasters, including the Challenger explosion, the flooding of New Orleans, the collapse of Arthur Andersen and the fall of Long-Term Capital Management, a hedge fund run by supposed "geniuses." Mr. Gerstein believes that each disaster resulted from a series of bad decisions that could have easily been avoided. Why weren't they?

In some cases, such as the 1981 collapse of the skywalk of the Kansas City Hyatt Regency, the central problem was a design change that was not properly evaluated. In New Orleans, bureaucratic inertia stripped the intensity from a series of urgent warnings. Another source of danger is the conviction that sophisticated models will enable us to capture complexity and defeat uncertainty. Long Term Capital fell as a result of such hubris.

Mr. Gerstein is interested in people and disappointed when they behave badly; he is especially critical of bystanders—workers who know enough to speak out but who decide not to do so or who stop short of preventing a bad thing from happening. For Mr. Gerstein the question isn't just why NASA pushed for a Challenger launch over the objections of its engineers; he also wants to understand why the engineers relented despite their obvious concerns. Similarly, he is frustrated by employees at Arthur Andersen who reported gross irregularities to their managers but simply gave up when their complaints were ignored.

Mr. Gerstein concludes that there are too many disincentives to speaking up; he would like to see more whistleblowers and more attention paid to warnings from experts. An important question raised by "Flirting With Disaster," though, is whether unheeded expert warnings are either as significant or as potentially useful as he implies. There may be some selection bias here, as such warnings may be extremely common, especially in high-risk activities such as space flight or options trading. But we only notice them when they happen to be both ignored and right.

Moreover, the distinction between good ideas and dangerous ones—or between good leaders and bad—is seldom as clear as Mr. Gerstein would have it. Decisions must always be made with imperfect information, even when launching a rocket or introducing a new drug or medical device. There is always a trade-off between action and reflection. Even if we could address every conceivable concern, disasters would still occur —only they would be accompanied, in the long run, by considerably less innovation and progress.

As Mr. Gerstein urges, though, we could all do more—in our personal and professional lives—to reduce error, learn from mistakes and resist the passive acceptance of a flawed status quo. The question is whether we're rational enough to respond to the challenge.

Dr. Shaywitz is a management consultant in New Jersey.

THE WALL STREET JOURNAL.
EUROPE

LETTERS TO THE EDITOR

What the Aims in Iraq Should Be Now

Regarding Fouad Ajami's op-ed "Why America Went to Iraq" (June 4): The winds are shifting in the Middle East.

The Iraq war may become the first television war in which a political leader overcomes fear of shifting public opinion and does what is right. U.S. President George W. Bush ignored popularity and constant negative TV coverage to do what the Congress of 1974 failed to do when it restricted, and then cut funding to support South Vietnam: He stood steadfast. The lesson Americans should take away from Vietnam is when they abruptly left, the region fell into suffering at the hands of despots in Hanoi and the Khmer Rouge. The fallout for America from such an outcome in Iraq is incomprehensible.

Lessons from Vietnam.

Corbis

Ryan Crocker's call is for resolve on the path to stabilization and transformation. If America follows this course, al Qaeda and other groups will find the going even tougher. Resolve: That was the theme repeated over and over by this president in 2001 and 2002 when he said the war on terrorism might take a generation or more. Mr. Ajami's reminder helps put in perspective what is at stake here and in this election.

Jay N. Strong
Chapel Hill, N.C.

Fouad Ajami does not dedicate time, six years after the attack on Iraq, to address how the coalition went to war. His competence could be of assistance in addressing what options were before the heads of governments of the U.S., the U.K., Australia, Spain, Portugal and Italy in the fall of 2002. In fact, in an interview which appeared both in the U.S. and the Spanish press, Prime Minister José María Aznar spoke of a real possibility to create the political conditions for a peaceful, but one not immune from prosecution, transfer or exile, for Saddam Hussein, which could have averted a military intervention.

Some sort of action against Iraq was certainly necessary, and long time due. The choices that were made to pursue the ousting of Mr. Hussein have not only proven to be expensive, and not yet as effective as predicted, but have also disqualified the promotion of democracy as a weapon of mass attraction, for which we could pay dearly in the future.

Marco Perduca
Senator
Radical/Democratic Party
Rome

Sovereign Wealth Funds: The Potential for Mischief

Peter Mandelson ("Sovereign Wealth and Politics," op-ed, June 6) seems to understate the potential of Sovereign Wealth Funds (SWF) to create mischief. SWFs today may be simply looking for the biggest gain with the least risk. Surely we can trust Norway, a democratic government without an aggressive political agenda. But when it comes to autocratic governments—Saudi Arabia, Singapore and China—will they always be passive? Mr. Mandelson is right to call for transparency, but we should do more. We might think of a different set of trade rules that would shrink our trade deficits rather than contribute billions of dollars a week to already hugely endowed and powerful SWFs.

Sen. Sherrod Brown
(D., Ohio)
Washington

Peter Mandelson's commentary offers some insight on the issue of sovereign wealth fund transparency, an issue that has been thrust to the political and regulatory forefront. Talks between funds and the IMF have gotten off to a "prickly" start, according to Mr. Mandelson. Although it may seem like a complicated task for the IMF, establishing a code of conduct that is seen as reasonable by the sovereign wealth funds might not be so difficult if they listen to Edwin Truman, a senior fellow at the Peterson Institute for International Economics. He recently authored "A Blueprint for Sovereign Wealth Fund Best Practices." In this policy brief, he presents an interesting scoreboard of elements on sovereign wealth funds that he says can be integrated into the best practices. The best practices are based on the principle that no fund will be asked to do something that at least one other sovereign wealth fund does not already do.

I believe Mr. Truman's blueprint is a reasonable code, as funds declining to take part would have no cogent reason for doing so. As Mr. Truman points out to the fund managers who decline participation, why would another fund be doing something that is not in their best interests?

Chris McGoldrick
Lafayette, New Jersey

The IMF Has Lots to Offer

"Global Gold Diggers" (Review & Outlook, June 7) claims the International Monetary Fund is irrelevant because it hasn't responded to the latest global economic challenges. A broader perspective is needed.

Increasingly open markets for trade and finance have contributed to the unprecedented global growth and poverty reduction since 1990. And in such a world of expanding capital markets, the IMF's direct financing role should and will fade in importance.

Today's IMF represents a unique international center of expertise on budget policies, tax systems, financial sector development, monetary policy, and on exchange rate policies. It also conducts cutting-edge research on such issues as the linkage between financial sector developments and the real economy. It is a principal source of economic and financial data. Your implicit claim is either that these activities convey no benefits or that IMF activities should be financed out of its lending spread. In fact, the IMF's development of a new income model reflects a decision to put its finances on a rational footing. The outside advisers who proposed the new model are distinguished current and former public servants, including some from the U.S. Moreover, the proposal was accompanied by the implementation of a new expenditure envelope that includes a reduction in annual costs by more than 15% in real terms and a reduction in staff to pre-1997 levels. The income proposals are straightforward. Costs relating to lending should be covered by a lending spread (except for the poorest countries). Expenditures that constitute public goods should be funded from broad-based sources, and activities that provide direct benefit to individual members should be funded in some degree by user charges.

Part of the proposed income will comprise returns from existing IMF assets, including from an endowment created by gold sales. These sales involve the IMF's own gold and not gold owned by individual countries. Sales would be part of the existing plan for central bank gold sales, so they would not influence market conditions. The new model—including gold sales—was overwhelmingly approved by the IMF's 185 member countries in a direct vote. Thus, your suggestion that there needs to be a Congressional appropriation instead of gold sales is a diversion.

Masood Ahmed
Director of External Relations
International Monetary Fund
Washington

Comments? The Journal welcomes readers' responses to all articles and editorials. It is important to include your full name, address and telephone number. Please send letters to the editor to: **Letters@WSJ.com**