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As growth fades in Ireland, its immigrants are leaving

NEWS IN DEPTH | PAGES 14-15

European rate shift could cost banks, hedge funds

MONEY & INVESTING | PAGE 19

U.S. Fed halts rate cuts

Move signals concern over sluggish growth and inflation risks

By Sudeep Reddy

The Federal Reserve, for the first time since the credit crisis began last summer, didn't lower interest rates at its meeting, signaling rising worries about inflation risks.

The U.S. central bank's concerns were tempered by language indicating continued worries that the aftershocks of the credit crisis that triggered its rate cuts could weaken the economy further.

The Fed left the federal-funds rate, charged on overnight loans between banks, at 2%. In a statement accompanying the decision, the Fed's language suggested it will continue trying to balance the economy's risks from stubbornly high inflation with the threat of continued weak growth in the second half of the year. Thus, an increase in interest rates, while it cannot be ruled out, likely isn't imminent.

"Although downside risks to growth remain, they appear to have diminished somewhat, and the upside risks to inflation and inflation expectations have increased," the Fed said.

The Fed's policy committee voted 9-1 to keep rates on hold. Richard Fisher, president of the Federal Reserve Bank of Dallas, cast his fourth straight dissent this

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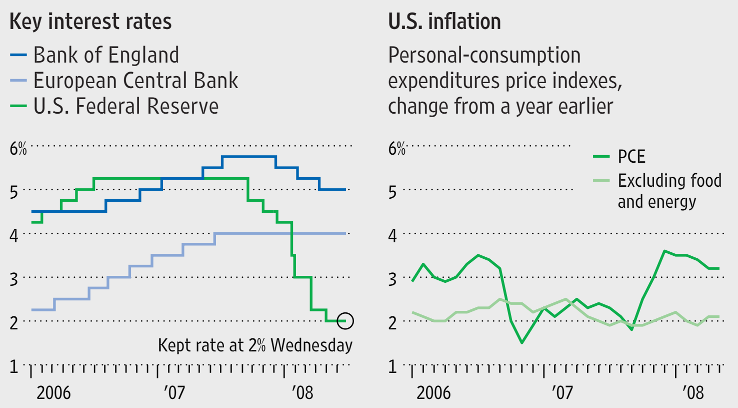
Shifting makeup

Three panel vacancies present a challenge to Bernanke 22

Steady as she goes

The Fed leaves short-term rates unchanged, though inflation jitters mount.



Sources: Thomson Reuters Datastream (interest rates); U.S. Commerce Department (PCE)

What's News—

Business & Finance

The Fed held rates steady for the first time since the credit crisis began last summer, signaling rising concern about inflation as it kept its key rate at 2%. The central bank's statement suggested it will continue trying to balance inflation risks with the threat of weak growth and that a rate rise likely isn't imminent. Pages 1, 22

■ **ECB chief Trichet reiterated** the central bank may raise rates to curb inflation despite signs of slowing growth in Europe. Page 10

■ **Tensions in Europe's** short-term lending markets are on the rise again, as banks hoard cash before the quarter ends. Page 1

■ **MasterCard agreed** to pay $1.8 billion to American Express to settle a suit alleging it limited AmEx's ability to expand. Page 4

■ **Barclays aims** to raise $8.9 billion through a share issue that will include Asian and Mideast investors, in a move to shore up the bank's balance sheet. Page 19

■ **U.S. stocks closed** higher after the Fed's decision and as oil prices fell to $134.55 a barrel. European markets rose. Page 20

■ **InBev told** Anheuser-Busch it secured financing for its $46.4 billion bid and remained interested in friendly talks. Page 32

■ **The U.S. is considering** a bill that would require all U.S.-listed oil, natural-gas and mining companies to publicly disclose payments to governments. Page 3

■ **BP's Russian partners** in TNK-BP said the oil firm planned to conspire with the Kremlin to squeeze the partners' group out of the joint venture. Page 3

■ **The U.S. high court ruled** a $2.5 billion damages award in the 1989 Exxon Valdez oil spill can't exceed $507.5 million. Page 5

■ **Publicis unveiled** a digital-ad system that links together technologies from Google, AOL, Microsoft and Yahoo. Page 8

■ **A New York court handed** NYSE ex-chief Dick Grasso a victory in the case over his $187.5 million pay package. Page 21

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11811.83	+4.40	+0.04
Nasdaq	2401.26	+32.98	+1.39
DJ Stoxx 600	296.10	+3.56	+1.22
FTSE 100	5666.1	+31.4	+0.56
DAX	6617.84	+81.78	+1.25
CAC 40	4536.29	+62.53	+1.40
Euro	$1.5570	-0.0025	-0.16
Nymex crude	$134.55	-2.45	-1.79

Money & Investing > Page 19

World-Wide

Zimbabwe's election crisis is shaping up as a major test of the Southern African nations' willingness to act and the extent of their diplomatic influence on Mugabe. Nelson Mandela said the leadership has failed in Zimbabwe, while Britain's queen stripped Mugabe of his ceremonial knighthood, as more world leaders spoke out. Page 1

■ **Taliban militants have** extended their campaign of violence in Pakistan toward Peshawar, a staging post on the supply route to NATO troops in neighboring Afghanistan. Page 9

■ **An Afghan official accused** Pakistan's top spy agency of organizing an April assassination attempt on President Karzai.

■ **The WTO called** a meeting of top trade officials to negotiate on stalled Doha talks amid some progress toward agreement on agricultural products. Page 10

■ **Global climate change will** have broad implications for U.S. national-security interests over the next two decades, an intelligence analysis found. Page 9

■ **The Hamas militant group** said it remains committed to a cease-fire with Israel but added it won't use force to stop militants who breach the truce.

■ **Russia and Georgia must** make progress in resolving a dispute over the breakaway Abkhazia region before Georgia can join NATO, Germany said.

■ **The Kurdish government** in Iraq awarded oil contracts to South Korea despite objections by the central government.

■ **A roadside bomb killed** three American soldiers and an interpreter north of Baghdad.

■ **Saudi Arabia said** it has detained 520 suspected al Qaeda-linked militants since January.

■ **Prospects dimmed** for a U.S.-India nuclear deal as India's government bought itself more time to resolve a standoff with left-wing allies. Page 31

■ **Tehran criticized** Britain for its decision to remove an Iranian opposition group from a list of banned terror organizations.

■ **Pakistan's Supreme Court** postponed a by-election to give it time to decide whether to allow ex-leader Sharif to run.

Editorial & Opinion

No more terrorism?

The West shouldn't rush to embrace the People's Mujahedeen, Amir Taheri warns. Page 13

Associated Press

'The time for action is now. The people of Zimbabwe cannot wait any longer,' said **Morgan Tsvangirai**, center, leader of Zimbabwe's main opposition party, on Wednesday.

Crisis in Zimbabwe tests African neighbors' will

By Sarah Childress

Zimbabwe's election crisis is shaping up as a major test of the Southern African nations' willingness to act—and the extent of their diplomatic influence on President Robert Mugabe.

Since announcing Monday that the opposition party would withdraw from Friday's presidential runoff election against Mr. Mugabe, opposition candidate Morgan Tsvangirai has repeatedly called for the international community, especially African nations, to take action.

"The time for action is now. The people of Zimbabwe cannot wait any longer," Mr. Tsvangirai said Wednesday after slipping out briefly from his refuge in the Dutch embassy in Harare, where he has been staying in fear of his life.

Mr. Tsvangirai won the first-round elections in March but decided this week to pull out of the runoff to spare his supporters, who have endured torture and beatings by backers of Mr. Mugabe since March, from more bloodshed.

Mr. Tsvangirai said Tanzanian President Jakaya Kikwete had promised him that regional powers would soon take action.

The United Nations Security Council issued a statement that the runoff wouldn't be free or fair; Western countries have threatened sanctions; and a host of former African leaders have criticized Mr. Mugabe's regime, while a few cur-

Please turn to page 31

Bank lending under pressure as fears persist

By Neil Shah And Carrick Mollenkamp

LONDON—Tensions in Europe's short-term lending markets are on the rise again, repeating a pattern that central bankers had hoped to end by pumping in hundreds of billions of dollars in recent months.

The pressure partly reflects an end-of-quarter effect, as banks hoard cash to make sure their finances look healthy when they report second-quarter results in coming weeks.

But it also demonstrates that fears of further write-downs and possible failures aren't going away. Bankers and analysts say those worries could keep interest rates high for months, compounding the adverse impact of the credit crunch on the broader economy.

"We didn't get into this problem quickly and we're not going to get out...quickly," says Howard Simons, a bond strategist at Bianco Research in Chicago.

Banks' hunger for cash stems largely from their need to build up insurance against further losses, as their woes spread from mortgage securities to consumer and corporate loans.

In coming weeks, second-quarter reports by U.S. and European banks and brokers will highlight the challenges financial firms face. Analysts expect Germany's **Deutsche Bank** AG, **Barclays** PLC of the U.K. and Switzerland's **UBS** AG will need to raise capital or report billions of dollars in fresh write-downs on mortgage investments and loans

Please turn to back page

LEADING THE NEWS

Hungarian gas well suddenly worth drilling

Soaring prices make tapping deep troves potentially lucrative

By Guy Chazan

BUDAPEST—Beneath the onion and garlic fields of southeastern Hungary lies one of Europe's best-kept energy secrets—a huge reservoir of natural gas long thought to be out of reach.

For decades, the Makó Trough was known only to a small group of petroleum engineers. But that changed in April when **Exxon Mobil** Corp. of the U.S. bought into a venture hoping to tap the reservoir's riches. Before long, headlines here were proclaiming that not only would Hungary be self-sufficient in gas, it would be able to supply all its Eastern European neighbors too.

That won't happen anytime soon because Makó (pronounced "mah-ko") is a tough nut to crack. The gas is trapped in rock that isn't porous and permeable enough to let molecules flow through it easily. In past decades, major oil companies dismissed Makó and other so-called unconventional oil-and-gas reservoirs as too difficult and expensive to exploit.

But soaring energy prices and advances in technology have turned these ugly ducklings into prime real estate. Gas locked in coal, sandstone or shale is now economically viable to extract. And the billions of dollars being invested to tap these resources may ultimately help ease the burden of spiraling global demand.

Until recently, the U.S. was one of the only places where oil companies were extracting "tight" gas, like the kind in Makó, with most of the action in the Rocky Mountains and eastern Texas. Exxon is drilling in Colorado's Piceance Basin. **BP** PLC is developing the Jonah Field in Wyoming, as is Canada's **EnCana** Corp., which is also active near the Texas-Louisiana border.

Part of the success of those ventures is because of "fracing," a method of fracturing rock to get the gas moving. Now, oil companies are expanding their use of the technique beyond the U.S. BP is exploring tight gas in Oman. **JKX Oil & Gas** PLC, a small independent, is testing deep, tight gas reservoirs in Ukraine. Encana is active in southwest France. Exxon will soon be applying the lessons it has learned in the Piceance Basin to Makó.

Wedged into southeastern Hungary near the Romanian border, Makó is often cited as one of the world's biggest unconventional plays. Denver-based **Falcon Oil & Gas** Ltd., which operates there, estimates its license area alone contains a resource of some 1.2 trillion cubic meters. That is three times as large as Britain's proven gas reserves.

Hungarian geologists have known about Makó for years. In the 1970s, a team of Hungarian geologists from the state-owned oil and gas company tried to evaluate its potential. The results were mixed. "We knew there were hydrocarbons there, but we also knew the rock was low permeability and low porosity," says György Szabó, one of the geologists who took part in the survey.

In the late 1980s, the World Bank financed a deep drilling program in Hungary, supervised by experts from the U.S. Geological Survey. The program piqued Western interest in the region.

The data from that review ended up in the hands of John Gustavson, a Danish-born American geologist, who was touring former Warsaw Pact countries in 1991 on the lookout for oil and gas. He liked the look of Makó because it bore such a close resemblance to Wyoming. In 1998 he acquired the license for a big chunk of the trough.

Mr. Gustavson gathered all the seismic data produced by Hungarian geophysicists in the 1970s and '80s and reprocessed it using state-of-the-art computers. In 2002, he tried to lure major oil companies into the project. None took the bait.

One of the few oilmen the project attracted was Marc A. Bruner, who had been the head of Ultra Petroleum, one of the first companies to see the potential of Wyoming. "He went wild when he heard what I had going," says Mr. Gustavson.

Mr. Bruner formed Falcon to explore Makó and later bought Mr. Gustavson's license. Starting in December 2005, Falcon mapped out the borders of the trough with three appraisal wells, then drilled another three in the center of the basin. Helping them was Dr. Szabó, who became one of Falcon's directors in 2006.

They soon hit pay dirt. By May 2007 Falcon had won from the Hungarian government a production license, which, covering about 100,000 hectares, was one of the largest ever granted in Europe.

Makó's reserves are widely thought to be the biggest onshore gas find in Western Europe since the massive Groningen field was discovered in the Netherlands in 1959. But if its potential is gargantuan, so are the technical challenges it presents. Much of Makó's gas is buried at depths of more than 6,000 meters, and the further down it is, the hotter it is. The temperature of the gas can reach200 degrees Celsius.

That is because Makó is in a spot where the Earth's crust is unusually thin, with molten rock lying not far below the surface. "It's still cooking," says Mr. Gustavson. "The joke was, if we drill a bit more, the lava will come up and hit us."

The heat and pressure pushed up drilling costs: One of Falcon's wells cost $50 million to drill, a fortune for a company as small as Falcon.

There were still many unknowns. Falcon couldn't work out what the flow rates of the gas would be, so it was unclear if the company could produce the gas economically. The company was also running out of money.

So Falcon looked for a partner. In April, after months of negotiations, it finally found one, entering into a $300 million production-and-development deal with Exxon Mobil. A few days later, Exxon announced another deal, with **MOL** Nyrt, the Hungarian national oil company, to start a joint exploration program in MOL's contract area in Makó.

Though Makó is tougher than some tight gas plays, it has one big advantage. Most of the large gas finds left in the world, such as offshore Nigeria, are far from global markets. By contrast, Makó is in the middle of the existing European gas-pipeline grid. That would make it easy to export the gas to Hungary's neighbors.

"There's a ready-made market that can pay for the gas internally," says Zoltan Aldott, head of exploration and production at MOL. Exports to neighbors such as Slovakia, Poland and Austria are also a possibility further down the line. "Marketing the gas in the region will not be a problem," he says. "Europe is short of gas."

CORRECTIONS & AMPLIFICATIONS

A June 18 indictment alleged that during an investigation last summer, evidence requested by regulators concerning Bear Stearns Cos. hedge funds managed by Ralph Cioffi and Matthew Tannin went missing. Articles in the Money & Investing section on Monday and Tuesday incorrectly said the indictment alleged the men destroyed evidence.

In response to a lawsuit filed by a group of bondholders and shareholders against Italian dairy company **Parmalat** SpA's former auditors and some banks, **Bank of America** Corp. denied wrongdoing. A June 17 article about the lawsuit incorrectly said the firms involved in the suit weren't available to comment. In fact, there was no attempt to get comment from some of the banks, including Bank of America, **Intesa Sanpaolo** SpA's Nextra asset-management unit, **Morgan Stanley** and **Deutsche Bank** AG, as well as former auditors **Deloitte & Touche** and **Grant Thornton.**

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

TNK-BP owners cry foul

Russian partners say that BP and Kremlin plotted a takeover

BY BENOIT FAUCON

LONDON—**BP** PLC planned to conspire with the Kremlin to squeeze its billionaire Russian partners out of their joint venture, TNK-BP Ltd., a representative of the partners' consortium claimed Wednesday.

Stan Polovets, chief executive of Alfa-Access-Renova, told reporters BP believed it could "work with the Russian government...on a scenario where the Russian shareholders would be compelled to sell" their stake to a state-run Russian company such as OAO **Gazprom**, the natural-gas giant. "This was a strategic mistake," he said.

BP, he said, would be "more comfortable with having a state company as a partner" to protect its interests than the AAR consortium. Meanwhile, teaming up with Gazprom in TNK-BP would advance BP's plans to form an international alliance with the Russian gas company, he added.

A BP spokesman denied the allegations. "We can't tell the [Russian] government what to do," he said.

The accusations mark the latest phase of an increasingly acrimonious dispute between the British oil major and the group of Russian billionaires who co-own TNK-BP—Mikhail Fridman and German Khan of Alfa Group, Viktor Vekselberg of Renova, and Len Blavatnik of Access Industries.

TNK-BP has experienced raids by the Russian security services, has had one employee detained in an industrial-espionage probe and has struggled to obtain visas for some foreign workers.

BP says the campaign of harrassment has been orchestrated by its Russian partners, whom it has accused of trying to seize control of the company. It says that would allow AAR to extract the maximum value from their stake in TNK-BP as it prepares to sell it to Gazprom or another state energy company.

AAR denies being behind the official pressure, and says it is engaged in a straightforward dispute with BP over management strategy. It has demanded the resignation of TNK-BP's chief executive, Robert Dudley, claiming he is running the company in the interests of BP alone.

The dispute has hurt BP, which made a bigger bet on Russia than has any of its Western rivals. TNK-BP accounts for nearly a quarter of BP's global output and 19% of its reserves.

AAR also said it is withdrawing its three candidates to the board of directors of TNK-BP's core unit, TNK-BP Holding, which holds its annual shareholders' meeting Thursday. It stressed its representatives would still attend the meeting. BP said the board would be able to approve dividend payments to minority shareholders. Mr Polovets said the corporate dispute so far hasn't had an "adverse impact" on TNK-BP's operations.

A person close to BP said the TNK-BP holding board is largely a rubber-stamp body to monitor corporate governance and has no operational control. However, BP fears AAR might seek to take over the board, which would give it effective control over TNK-BP in Russia.

U.S. may make energy firms list payments to governments

BY IAN TALLEY

WASHINGTON—The U.S. House Financial Services Committee will consider legislation Thursday that would require all U.S.-listed oil, natural-gas and mining companies to publicly disclose payments to governments where they are exploring and producing, despite warnings the measure could restrict access to the world's dwindling petroleum resources.

The bill—sponsored by Rep. Barney Frank, a Massachusetts Democrat and chairman of the Congressional committee—would require companies to disclose all payments over $100,000 in their financial statements to the Securities and Exchange Commission.

The rule would apply to both U.S. and international companies listed with the SEC. Currently, companies can do so voluntarily—and many participate in a global program called the Extractive Industries Transparency Initiative—but they are under no obligation.

But oil-industry representatives said the proposal could create another hurdle in the growing competition for resources against national oil companies from energy-hungry nations such as China and India.

That is at a time when fears of declining resources have helped to push crude prices to levels around $135 a barrel.

"The main fear is that if the host countries don't buy into this—which would be a unilateral move—that U.S. companies would be penalized, and they wouldn't be able to make deals in those countries," said Karen Matusic, spokeswoman for the American Petroleum Institute.

Supporters of the bill, such as the Revenue Watch Institute and the Open Society Policy Center, say it could establish a much stronger foundation to fight corruption globally. The legislation—comparable to the voluntary EITI established several years ago—is designed to fight the so-called "resource curse," the paradox under which countries with an abundance of natural resources tend to have less economic growth than those without.

CORPORATE NEWS

BANKING

U.S. unit of RBS to open branches in supermarkets

CITIZENS Financial Group, a U.S. banking unit of **Royal Bank of Scotland Group** PLC, said it plans to open 57 supermarket bank branches in New York state this year and next, just after announcing the sale of 18 bank branches.

Dana Drago, vice chairman for retail and business banking at Citizens, said the bank plans to open 16 new in-store bank branches in Stop & Shop supermarkets in New York this year and 41 next year. The move comes after RBS said earlier Wednesday that Citizens sold 18 small rural branches in upstate New York with gross assets of $631 million to Community Bank System Inc. *—Vladimir Guevarra*

AUTOMOBILES

To cut costs, Volvo lays off 1,200 workers in Sweden

VOLVO CARS said it gave layoff notices to 1,200 employees in Sweden as part of an effort to reduce costs by about four billion kronor ($661.2 million).

The company said it started negotiations with unions representing staff in Göteborg and Olofström. A previously announced cancellation of the third shift at the Torslanda plant in Göteborg is included in the layoffs. Volvo, owned by **Ford Motor** Co., will also cancel contracts with about 500 consultants and plans to reduce its overseas work force by 300 people. The company cited the continued decline in the U.S. market and weaker conditions in Europe. *—Associated Press*

AVIATION

Despite job cuts, Airbus sees labor force growing

EUROPEAN airplane maker Airbus will see its labor force increase by about 1,500 people in 2008, despite substantial job cuts in parts of the company, said an executive at its parent company, **European Aeronautic Defence & Space** Co. Frederic Agenet, director of human resources for France at EADS, said the headcount increase in 2008 will occur despite the fact the company is cutting jobs under its Power8 restructuring program. Documents provided to a meeting of EADS's European works council show that as of the end of last month, 1,806 Airbus employees—or 41% of the planned 4,419 job cuts through 2010—are no longer with the company. *—David G. Pearson*

Sarkozy galls telecoms

Tax to offset ban of ads on public TV touches off a battle

By Leila Abboud
And David Gauthier-Villars
Paris

PRESIDENT Nicolas Sarkozy's proposal to ban advertising from state-owned television channels is touching off a battle with France's biggest media and telecommunications companies.

Mr. Sarkozy wants to gradually phase out ads from France's public TV stations, starting in January. To plug the resulting hole in the state media's budgets, he would levy two new taxes on private broadcasters, such as **TF1** SA, and telecom operators, such as **France Télécom** SA.

Private TV companies slammed the new tax, saying it would essentially force them to subsidize their state-backed competitors. Telecom companies complain that they are being unfairly singled out to shoulder the extra cost for ad-free public TV.

"We'll fight this by every means possible," said Maxime Lombardini, chief executive of Internet-service provider **Iliad** SA, which would have to pay the new tax.

The companies said they now plan to lobby French and European Union politicians against Mr. Sarkozy's plan, which needs to be drafted into law and presented to Parliament.


Nicolas Sarkozy

In its current form, the proposal calls for a new 3% tax on the advertising revenue of private broadcasters with the aim of raising some €80 million ($125 million) every year. Another tax of 0.9% will be charged on the revenue of telecom operators and Internet-service providers.

The government estimates public broadcaster **France Télévisions** will lose about €450 million in revenue a year by getting rid of ads.

The ad ban represents an effort by the center-right president to burnish his cultural credentials by borrowing an idea that has long been championed by the left in France.

"We need to free public-service television from the tyranny of real-time audience measurement," Mr. Sarkozy said in a speech at the Élysée Presidential Palace on Wednesday. "It leads state TV to treat viewers like consumers."

France Télévisions, the main state-owned broadcaster, now gets two-thirds of its annual budget of €2.78 billion from an annual fee of €116, levied on all residents in France who own a television. The rest comes from advertising and sponsorship.

Yet the proposal to get rid of ads on public television comes at a time when the entire French media landscape is changing rapidly.

All broadcasters have struggled with deteriorating advertising revenue over the past year, as French people spend less time in front of the TV and embrace new technologies like Internet video.

While U.S. broadcasters have been struggling with these problems for several years, European television stations have been more protected because they have fewer competitors and are often subsidized by states. That now seems to be changing: TF1, the country's biggest commercial-television station, has seen its share price cut nearly in half in the past year, reflecting investor anxiety over declining ad revenue.

When Mr. Sarkozy first floated his plan in January, he said he wanted France's public-service broadcasters to focus on quality programs and leave the pursuit of ads to private channels. "Otherwise, what is the point of having public channels?" he said at the time. Under his proposal, ads on public TV would be reduced in January and eliminated completely by 2011.

Explaining his motives, Mr. Sarkozy recalled how, as a child, he enjoyed watching live theater productions that were broadcast on French public television. The president said his proposed ad ban will allow public-service channels to broadcast more culturally ambitious programs such as plays and concerts.

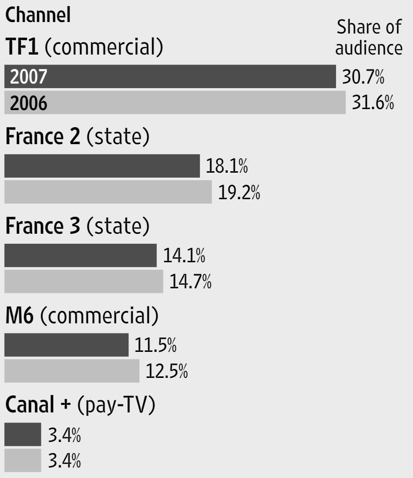
But Bertrand Meheut, the CEO of Canal +, **Vivendi** SA's pay-television unit, said Mr. Sarkozy's plan would set up a perverse incentive because France Télévisions would receive funds even if its viewership declined.

Executives also warn that the move would lead to higher costs for French consumers. Mr. Lombardini said Iliad would have to raise the price of its package of Internet, television and phone services, which now costs €30 month. "We wouldn't have a choice," he said.

Attention deficit

French people are increasingly watching niche TV channels and Internet video, leaving both state-owned and commercial broadcasters with shrinking audience.

Measure of annual television audience for people age 4 and up



Source: Mediametrie

AmEx to gain $1.8 billion from MasterCard lawsuit

By Shara Tibken

MasterCard Inc. agreed to pay $1.8 billion to **American Express** Co. to settle a four-year-old lawsuit that claimed the big payments network imposed rules on its bank customers that limited AmEx's ability to expand during the 1990s and early 2000s.

The settlement follows a similar $2.25 billion pact reached between AmEx and **Visa** Inc. in November. The settlements are among the largest ever for an individual company.

David Boies, of Boies Schiller & Flexner LLP, which handled both cases for American Express, said AmEx's combined wins dwarf the largest class-action antitrust cases as well. Kenneth R. Feinberg, the former administrator of the 9/11 victims fund, acted as arbitrator in the case during secret negotiations that lasted eight weeks..

The settlement will provide some welcome relief to AmEx, which has been hurt badly by rising delinquencies and charge-offs in its card-issuing business. AmEx, based in New York, both issues cards and owns a proprietary network upon which electronic payments are processed.

AmEx Chairman and Chief Executive Ken Chenault said in a statement Wednesday that credit indicators have weakened "beyond our expectations." He said the antitrust settlement should "help to lessen the impact of this weakening economic cycle."

The circumstances surrounding the lawsuit date back a decade, to when the U.S. Justice Department sued Visa and MasterCard on antitrust grounds for preventing their member banks from issuing credit and debit cards on rival networks. In 2001, a court ordered Visa and MasterCard to eliminate those rules, paving the way for **Discover Financial Services** and AmEx to start soliciting banks to issue cards that could be processed on their respective networks. AmEx has since struck a number of such deals with banks, including **Citigroup** Inc. and **Bank of America** Corp.

Discover and American Express each sued Visa and MasterCard, contending that the restrictive rules had inhibited their ability to expand during a period of tremendous expansion in the card industry.

Beginning in the third quarter, MasterCard will make 12 quarterly payments of $150 million to AmEx. Coupled with the Visa payments, AmEx will receive $880 million annually for the next three years.

MasterCard will take a $1 billion charge in the second quarter for the settlement. "We are pleased to have reached a settlement with terms that will enable us to keep our strong balance sheet intact," said MasterCard President and Chief Executive Robert W. Selander. He added that "eliminating the uncertainty" of a prolonged court case is in the best interests of shareholders.

MasterCard had prevented banks from issuing cards on rival networks.

The Discover lawsuits are still pending. Earlier this month, documents unsealed in those cases revealed that Discover is seeking to collect more than $6 billion in damages from Visa and MasterCard.

—Robin Sidel and John Wilke contributed to this article.

Technology Journal

Shifting diet

Firms pinched by rising commodity prices strive for tech efficiency > **Page 29**

Valdez damage award cut

U.S. top court aligns Exxon spill payment with compensation

BY MARK H. ANDERSON, RUSSELL GOLD AND JESS BRAVIN

The U.S. Supreme Court said punitive damages can be levied against **Exxon Mobil** Corp. for its role in the 1989 Valdez oil spill but ordered lower courts to reduce the $2.5 billion award to no more than $507.5 million.

The ruling from a fractured court is the latest deriving from one of the largest environmental accidents in U.S. history, whose aftereffects have battered Exxon's reputation. The decision is likely to feed into rising public and congressional discontent with the oil industry as oil and gasoline prices rise to records.

The court's decision also continues a tradition of striking down punitive-damage claims but stopping short of crafting iron-clad rules to determine how they might be used.

Justice David Souter, in the court's majority opinion, said the punitive-damages award should be brought into line with compensatory-damages calculations made by lower courts earlier in the litigation.

"The award here should be limited to an amount equal to compensatory damages," Justice Souter wrote, adding the high court ruling endorses a $507.5 million amount calculated by a federal trial judge in 2002. The original award in the lawsuit, not including interest and other costs, was $287 million.

The high court split 4-4 on whether maritime laws allow Exxon to be punished for the actions of the oil tanker's captain. But a 5-3 majority concluded that federal environmental laws don't bar punitive damages against the oil giant.

Chief Justice John Roberts Jr. and Justices Antonin Scalia, Anthony Kennedy and Clarence Thomas joined Justice Souter in the majority holding limiting the punitive damages. Justices John Paul Stevens, Ruth Bader Ginsburg and Stephen Breyer dissented, saying the court went too far in restricting punitive damages to a one-to-one ratio with compensatory damages.

This split vote occurred because Justice Samuel Alito, who has a sizable investment in Exxon Mobil stock, was recused from the case. Last year, Justice Alito voted with the majority to limit punitive damages in a case involving Altria Group Inc.'s Philip Morris unit, but it isn't clear how his participation might have altered the Exxon case.

Shortly after midnight on March 24, 1989, the Exxon Valdez—a 300-meter-long tanker filled with Alaskan crude oil—grounded on the Bligh Reef. Most of its cargo tanks ruptured and 41 million liters of crude oil spilled into Prince William Sound.

This began an environmental catastrophe and massive cleanup. The company has paid over $3.4 billion in remediation, fines, compensation and other costs.

The Exxon Valdez incident negatively colored the public's image of the oil industry, something the industry is still struggling with.

The spill had a long-reaching impact on energy policy in the U.S. by lowering the public's confidence in the industry's promises of operating safely and in an environmentally friendly manner. This killed numerous efforts in recent years to build liquefied-natural-gas terminals and could hurt current efforts to open up more U.S. areas to offshore drilling.

The case before the court was brought by a class of 32,677 fishermen and other interests that had business disrupted by the oil spill. The case has been in litigation for 13 years, a timeframe in which the plaintiffs allege 20% of those eligible for damages have died.

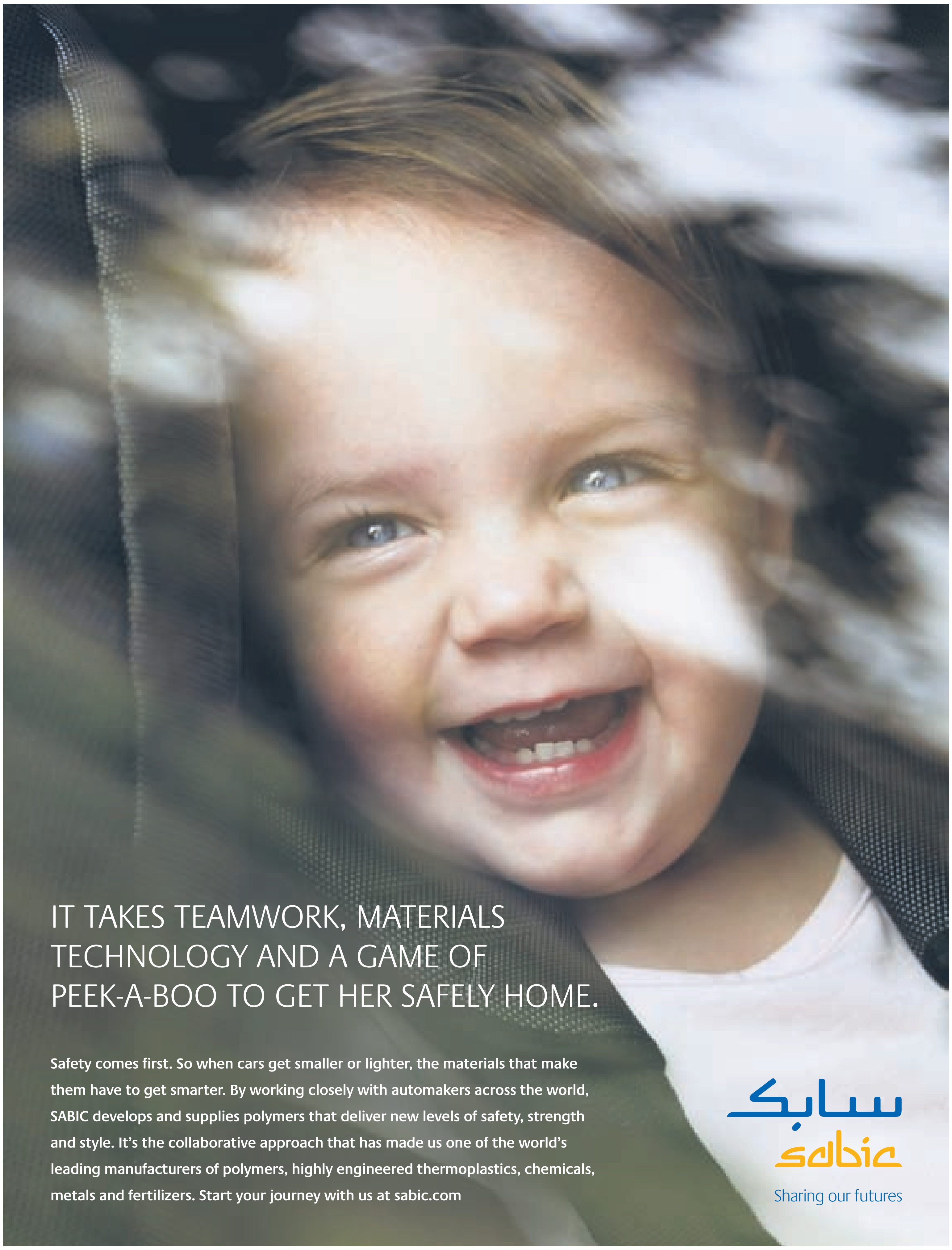
Exxon Mobil attacked the award on several fronts, arguing that maritime law doesn't allow punitive damages awards.

The lawsuit before the court began in 1994. After a lengthy trial, a jury awarded those harmed by the spill $287 million in compensatory damages and $5 billion in punitive damages.

The Ninth U.S. Circuit Court of Appeals in San Francisco first ruled in the case in 2001, when it upheld damages against Exxon Mobil but ordered the trial court to reduce the award. A second appeal to the Ninth Circuit was decided in 2006 and upheld the $2.5 billion in punitive damages.

Associated Press

The **Exxon Valdez**, which spilled an estimated 41 million liters of crude oil into Prince William Sound, Alaska, on March 24, 1989, causing massive environmental damage.



CORPORATE NEWS

Some cars bucking the downtrend included the **Ford Edge** (right) and the **Honda Fit** (bottom).

Wieck

Sales of the **Lexus LX 570** (top), a fuel-thirsty SUV, have more than doubled so far this year.

Gas guzzlers still selling

As small cars boom, some SUVs, pickups post U.S. sales gains

By Jonathan Welsh

In an era of expensive gasoline, it is no surprise that hybrids and subcompacts are selling well. But what about the Lexus LX, a giant sport-utility vehicle that averages just six kilometers per liter? Its sales for the first five months of the year have more than doubled.

The latest U.S. auto-sales data, released earlier this month, show a glum market—sales of cars and light trucks were down 11% in May from a year earlier. But a few cars have bucked the downward trend. A number of them are small: Sales of the tiny Fit from **Honda Motor** Co., a four-door hatchback that gets more than 14 kilometers per liter on the highway, have risen 64% since the beginning of the year. The **Toyota Motor** Corp. Scion xB, another recently redesigned compact, is up 59%.

But there are also some surprising winners—including a handful of gas guzzlers. Sales of the Toyota Sequoia, a large SUV, rose 29% to 14,100 in May from a year earlier, making it the only vehicle in the "large utility" segment for which sales have grown this year, according to research company J.D. Power & Associates. Sales of the Dodge Viper, a sports car with a fuel-swilling 10-cylinder engine, more than doubled to 515.

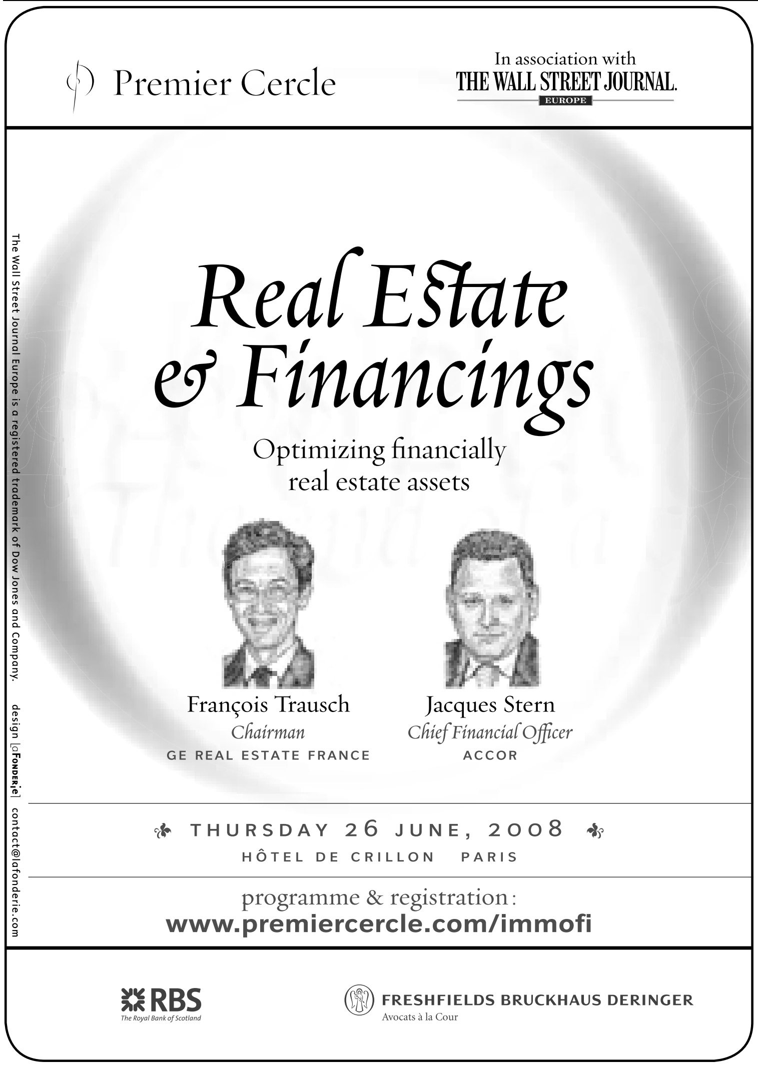
The reasons for the increases are varied. The Lexus LX 570 was redesigned for the 2008 model year, according to Lexus, Toyota's luxury division, and **Chrysler** Corp.'s Viper received mechanical and cosmetic updates. Such styling changes typically boost demand for a vehicle. The LX isn't a huge seller—with 3,547 sold this year through May—so an increase of a few thousand vehicles makes a big impression. Still, any boost in sales is surprising as consumers focus increasingly on fuel economy and car makers like **General Motors** Corp. and **Ford Motor** Co. scramble to adjust their mix of vehicles.

Karen Bean of Albany, New York, says she bought an Lexus LX 570 earlier this year because she likes how it looks, drives and accommodates her tall family. Having a comfortable, attractive interior and a vehicle that she enjoys driving is important enough that she is willing to accept the fuel expense. She can afford it, she says. Ms. Bean thinks that buyers of higher-end SUVs haven't altered their spending habits, despite a sluggish economy and high gas prices. "If you're buying an $80K+ car, you better be able to afford the gas that goes in it," she says.

Another big vehicle showing a hefty sales jump is the Toyota Tundra, a pickup truck that averages a little more than six kilometers per liter. Its sales have risen 8.5% to 66,278 since the beginning of the year, even as sales of large pickups have slumped 22% overall. Toyota said the Tundra's sales gains in part reflect low year-earlier sales, as production was just getting going in early 2007. Whatever the reason, the bright start to the year doesn't look sustainable. The truck's sales slumped in May, and Toyota has applied incentives of up to $3,000 cash back or 0% financing to lure buyers. Toyota also has slowed the assembly lines building the Tundra, as well as Sequoia.

Sales of **Daimler** AG's Mercedes-Benz M-Class luxury SUV are up 20% for the year to date. Unlike some of the other sales winners, the car wasn't recently redesigned. But increased awareness of the diesel model might have helped, and the company attributes the uptick to subtle marketing changes. First, the company added sporty-looking wheels, chrome trim and a different grille. Then it began running new ads for the M-Class, which is unusual for an older design. The ads reminded consumers of the vehicle's merits, says spokesman David Larsen, and "the appearance package made it look refreshed."

The market for large vehicles is being supported not only by high-income consumers but also by families. Many of these shoppers are turning to midsize "crossover" vehicles like the Ford Edge, driving the segment up 7.1%. Crossovers with three rows of seats, like the Mazda CX-9 and the GMC Acadia, have also sold well, appealing to people who want a big vehicle that is more efficient than a Chevy Suburban or other traditional large SUVs.



U.S. report details flaws in awarding of contract

By August Cole

The fight for a $40 billion U.S. Air Force jet contract just got tougher for **Northrop Grumman** Corp.

Wednesday the Government Accountability Office issued a report that detailed the reasons behind its ruling last week that found major flaws in the contentious U.S. Defense Department contract's award. These errors led the GAO to conclude that bidding could be reopened.

The Air Force's decision to go with an aerial tanker jet made by **European Aeronautic Defence & Space** Co.'s Airbus and sold to the U.S. by Northrop Grumman, said the GAO, was "undermined by a number of prejudicial errors that call into question the Air Force's decision that Northrop Grumman's proposal was technically acceptable and its judgment concerning the comparative technical advantages accorded Northrop Grumman's proposal."

The Air Force also was wrong in saying Northrop's plane was cheaper to operate, the GAO said. The Air Force had maintained that Northrop's Airbus A330-based offering was a better value for taxpayers than **Boeing** Co.'s 767-based design. If the Air Force had stuck to its contracting guidelines, held equal discussions with both companies and better handled cost calculations, the GAO wrote that "Boeing would have had a substantial chance of being selected for award."

The 67-page report gives Boeing's supporters ample ammunition to renew their assault on the Air Force's contracting body and make a political case for running a new competition and reversing the award, which still is in Northrop's hands. The Air Force wants to buy 179 tanker jets capable of hauling cargo and refueling other airplanes in midair.

A Boeing spokesman said the full GAO report, which was redacted by each company, validated the company's protest. "It is clear the award was the result of a flawed process," the Boeing spokesman said.

"The document makes clear that the GAO's issues with the contract do not reflect on the tankers' capabilities," said Paul Meyer, Northrop Grumman tanker program manager in a statement.

Northrop is now faced with a difficult choice about how to handle the next phase of the defense industry's most contentious contract. Following about three months of intense media campaigns and lobbying from Boeing and Northrop, a sort of cease-fire is in place in Washington. Northrop has ceased sending out its daily email alert, known as "Tanker Truths." Ads on local radio endorsing the Northrop plane, known as the KC-30 after the Airbus A330 on which it is based, are no longer in rotation.

But the stakes for both sides are only getting higher. The GAO ruling last week is likely to force a new round of competition between the two companies. Ousted Air Force Secretary Michael Wynne said Friday that he expected the bidding to be reopened. The contract, which is the Air Force's top acquisitions priority, has also become a front-burner issue for top Defense Department officials.

Since the firing of Mr. Wynne and Chief of Staff Michael Moseley earlier this month over a nuclear-security issue, the expectation grew that Defense Secretary Robert Gates would have to step in to guide the service through one of its rockier periods.

Wednesday, senior Pentagon officials were also set to meet to discuss the tanker program, according to people familiar with the situation. Attendees were expected to include Mr. Gates, his deputy Gordon England, senior Air Force officials and the Defense Department's top weapons buyer, John Young.

Pilots at Delta, Northwest reach a tentative agreement

By Susan Carey

Negotiators for the unions representing pilots at **Delta Air Lines** Inc. and **Northwest Airlines** Corp. agreed to a tentative joint contract covering all 11,000 aviators, Delta said.

The negotiators also agreed Tuesday on a method for integrating the groups onto a single seniority list by the time the planned Delta-Northwest merger closes, Delta said.

Leaders of the two unions, both branches of the Air Line Pilots Association, are meeting this week to vote on the tentative accord. If they approve it, the deal will go out for membership votes. The two airlines, the U.S.'s No. 3 and No. 5 by traffic, respectively, hope to complete the merger late this year.

Lack of agreement between the 5,000 Northwest pilots and their 6,000 Delta colleagues on how to meld their seniority almost sank merger talks earlier this year. Seniority affects which plane a pilot flies, and whether as captain or first officer, along with pay and other issues.

Without agreement on seniority, the two airlines wouldn't be able to reap the scheduling, fleet and operating efficiencies they plan after the deal closes.

In April, the merger plan was salvaged, with Delta extending the current contract with its own pilots through the end of 2012, giving them a 3.5% equity stake in the new company and other enhancements that weren't disclosed. Delta left negotiations with the more senior but lower-paid Northwest pilots for later, which led to hard feelings.

Negotiations recently began anew between Delta, its pilots and the Northwest pilots. An earlier idea—that the Northwest group be brought up to Delta pay rates over three years—was dropped, said one person familiar with the talks.

The tentative agreement raises the Northwest pilots to pay parity on the first day the companies merge, an $80 million annual cost, this person said. Over the course of a four-year contract, the Northwest pilots would reap pay increases of at least 30%.

With soaring oil prices forcing airlines to cut back, the Northwest pilots are expected to like the proposed contract.

SPECIAL ADVERTISING SECTION

POLAND

Government plans ambitious program of liberal reforms

By **Catherine Bolgar**

POLAND has been a star economic performer in the past couple of years, with gross national product surging 6.5% in 2007.

Poland retooled its economy through a series of reforms, largely to qualify for its 2004 entry into the European Union. Now, as it gears up to join the euro currency by 2012, Poland faces a combination of challenges to its fast-lane economy. At least some of its economic success was cyclical, and all cycles must come to an end. At the same time, global problems such as inflation and a credit crisis could exacerbate pressures within Poland, such as its need to improve productivity.

"The country woke up and took the benefits of EU accession," says Zbigniew Kominek, Poland economist for the European Bank for Reconstruction and Development (EBRD), based in London. "The fact that the economy has moved faster than expected has created a positive influence."

Poland's new government, elected last November, has put back on track some reforms, such as privatization, that had stalled under the previous government.

That government paid more attention to political and governance issues and as a result domestic economic reforms moved to the back burner, says Thomas Laursen, Warsaw-based lead economist for Central Europe and the Baltic countries for the World Bank. In addition, the run-up to EU accession involved a flurry of activity, and momentum has since slowed. "It's partly a natural fatigue that you often find after bursts of reforms," he says.

Business environment

Besides reviving the sale of state shareholdings, the new government is pushing for deregulation and streamlining the process for starting a new business — an area where Poland lags. Poland ranked No. 49 globally for labor market efficiency in the 2007-2008 Global Competitiveness Report compiled by the World Economic Forum. The government also wants to raise employment among certain hard-hit groups, such as people over age 50, by offering retraining and cutting incentives for early retirement.

"The new government clearly has high expectations and a fairly ambitious program of liberal reforms," Mr. Laursen says.

On privatization, the government is planning to sell off its shareholdings in 740 companies in such sectors as financial services, chemicals, furniture, clothing and construction.

Emigration is slowing as wages and opportunities in Poland rise.

"It's a welcome move," says Mr. Kominek of the EBRD. "There's no great reason" for the government to be involved in many of those sectors, he says.

The government expects the four-year selloff program to bring in 27 billion zlotys (€8 billion). That may help balance the fiscal deficit, which is edging up toward 3% of GDP — the limit for euro members. However, privatization is only a one-time boost, and the government needs sustainable fiscal changes.

Tax reduction

For example, two of the other priorities — easing business regulations and raising employment — would benefit from a reduction in taxes, says Mr. Laursen of the World Bank. Overall taxes and social security contributions are high, either deterring people from starting businesses, from working or prompting them to work off the books in the gray economy. A cut in taxes could rejuvenate the economy, but it would have to be accompanied by cuts in spending, especially in social programs such as the pension system, he notes.

> For long-term growth, Poland needs to make its labor market more flexible and move toward an innovation- and services-driven economy.

Poland's business climate ranks lowest among new EU members, according to the World Bank's 2008 Doing Business report. It ranks 156th out of 178 countries world-wide for the ease of dealing with licenses. Its overall ranking, No. 74, fell six places from a year earlier. Poland needs to work even harder to avoid slipping further because many countries around the world have woken up to the importance of improving the ease of doing business, and they have been making the necessary reforms, Mr. Laursen says.

Besides the overall tax burden, the mere process of paying taxes is complicated, as is the number of different tax payments, he says. Business climate also is affected by legal and judicial reforms, such as for enforcing contracts, as well as licenses and approvals from various authorities, which "is quite cumbersome," Mr. Laursen says.

An improved business climate could stimulate employment. Unemployment has dropped to 8% as of February from 10.8% a year earlier, according to Luxembourg-based Eurostat, the EU's statistical office, and around 20% a few years ago. Poland even has worker shortages in some sectors, such as construction. Shortly after Poland joined the EU, emigration, especially to the U.K. and Ireland, surged, further tightening the labor market. About 46,745 Poles left their country in 2006. However, that has already slowed and may brake further as wages in Poland rise and opportunities expand, Messrs. Kominek and Laursen say. At the same time, overall participation in the labor market, at 54.5% in 2006, according to Eurostat, is the lowest in the EU.

For long-term growth, Poland needs to make its labor market more flexible and move toward an innovation- and services-driven economy, Mr. Kominek adds. Poland has benefited from foreign investment for sectors that need geographic proximity to Europe, but labor-intensive investments and manufacturing are moving to lower-cost Asian countries like China and India, especially as wages in Poland have risen faster than productivity in the past few years.

REUTERS/Kacper Pempel


Led by Prime Minister Donald Tusk, Poland's new government is putting economic reforms back on track.

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CORPORATE NEWS

Sanofi revs up vaccines

Drug maker expects global sales to double as it boosts capacity

By Jeanne Whalen

Sanofi-Aventis SA expects global vaccine sales to double to €22 billion ($34 billion) by 2016 and will invest €4 billion by then to expand its production capacity to meet soaring demand, the head of the company's vaccine unit said Wednesday.

The French pharmaceuticals company expects economic growth in the developing world to drive much of the new demand, Wayne Pisano, chief executive of vaccines, said in an interview. As people earn more in countries such as China and India, they are increasingly seeking vaccination for flu and a variety of pediatric diseases, he said.

"We have a number of diseases where there is not enough capacity today, where there is demand and there's not enough supply," Mr. Pisano said at a company vaccine factory northwest of Paris, which Sanofi recently enlarged to ship more shots for flu and other diseases around the world.

Mexico immunizes 15 million people annually for seasonal flu but is aiming to boost that to 45 million people annually, while China immunizes 20 million people annually for flu out of a total population of about 1.2 billion, he said. In the U.S., by comparison, about one-third of the population gets immunized each year for seasonal flu, he said.

Vaccine sales are a bright spot in the drug industry, growing faster than sales of other prescription medicines. Governments and other drug buyers generally see vaccines as offering good value for money at roughly $10 to $80 a shot, because they prevent diseases that could otherwise lead to higher costs for health systems and insurers. Buyers have been willing to accept price increases in recent years even as they cut their spending on other drugs.

Vaccines represented about 10% of Sanofi's sales of €28 billion last year, but the company expects that to rise to 15% by 2016, Mr. Pisano said. Other pharmaceuticals companies, including **GlaxoSmithKline** PLC and **Novartis** AG, are also aiming to boost their vaccine sales as sales growth of other prescription medicines slows.

Sanofi is expanding production capacity or building new capacity at 15 sites world-wide, Mr. Pisano said. The company recently finished building a flu-vaccine factory in China and is building a new facility for meningitis vaccines in Pennsylvania.

The U.S. factory will produce Menactra, a vaccine that prevents four types of bacterial meningitis. Sanofi charges about $82 per dose for the vaccine, a price initially seen as high when the vaccine was rolled out in 2005. Flu shots, by comparison, cost around $20 per shot. But demand for Menactra has been high, and Sanofi is aiming to roughly quadruple its output to 40 million doses a year with the new factory. Glaxo and Novartis are hoping to launch rival meningitis vaccines soon.

Sanofi is also boosting its research and development spending for vaccines and is putting increased focus on diseases of the developing world. The company is testing shots for dengue fever, a disease that puts half a million people in the hospital each year, killing up to 5% of them.

Publicis unveils digital-ad system

By Emily Steel

In the latest sign of maneuvering between major ad-holding companies and Internet giants, **Publicis Groupe** SA unveiled a new digital-advertising system that links together technologies from **Google** Inc., **Time Warner** Inc.'s AOL, **Microsoft** Corp. and **Yahoo** Inc.

The system uses Google's advertising technology—which manages online ad sales and serves up an ad each time a consumer opens up a Web page—to connect its media-buying agencies with the Web ad space sold by Google, AOL, Microsoft and Yahoo. It is the first initiative to be rolled out by a new Publicis unit, dubbed the VivaKi Nerve Center, which is focused on creating new ad technologies to be used by all Publicis agencies.

Curt Hecht, formerly chief digital officer of GM Planworks, a unit of media-buying firm **Starcom MediaVest**, will lead the VivaKi Nerve Center.

"We are putting the four competitors around the same table," and "that will drive prices down so that we are using the money of our clients in the best possible way," says Publicis Chief Executive Maurice Lévy.

Publicis hopes to get those better prices by creating a broader entity called VivaKi that bridges the digital assets of all of its media-buying agencies with Digitas, the digital-marketing concern it acquired last year for $1.6 billion. Publicis says the new structure gives it an advantage on several fronts, such as gaining media-buying clout in the digital sector and creating new proprietary technologies.

The move is an echo of what happened in the traditional media world during the late 1990s, when ad-holding firms separated media buying from creative shops as a way to pool together their buying clout and go up against media giants in the broadcast world. To be sure, each of the Publicis media firms will continue to operate independently and getting them to work together is likely going to be a tough task.

David Kenny, formerly CEO at Digitas, will lead this new venture with Jack Klues, formerly chairman of the Publicis Groupe Media unit. Laura Lang, former CEO of Digitas USA, assumes Mr. Kenny's duties as CEO of Digitas.

In addition, Publicis also announced that it is working with Yahoo to develop technologies for mobile advertising as well as systems to ease the way ads are bought and sold online through Yahoo's Right Media Exchange, an electronic system for advertisers and Web sites to buy and sell online ad space.

Publicis is committing to work with Yahoo's new ad system, AMP, expected to be available to some partners in the third quarter and handle a variety of digital ad types, such as display, mobile and video.

The partnership with Yahoo comes on the heels of similar deals Yahoo formed in recent weeks with rival ad-holding firms **WPP Group** PLC and **Havas** SA. None of these deals are exclusive.

Publicis Groupe already worked with each of the Internet giants separately. Some analysts say Publicis's publicizing of the relationships is, in part, an attempt to prove to Wall Street that it has the digital capabilities needed to capture revenue as more and more ad dollars flow to the Web.

"We are not doing the deals only to do a deal," Mr. Lévy says. He added, digital revenue should represent more than 25% of the group's total revenue by 2010 compared with 18% in the first quarter of this year.

Former Samsung chief to retire, but link to group remains strong

By In-Soo Nam

SEOUL—Lee Kun-hee, who resigned as chairman of **Samsung Group** following his indictment on charges of tax evasion and breach of trust, is retiring after 42 years at the company.

Mr. Lee will officially sever employment ties with Samsung Group July 1 by leaving **Samsung Electronics** Co., its flagship company, a group spokesman said. "Former Chairman Lee leaves Samsung to keep his promise to do so. He will only remain as a shareholder of Samsung companies," the spokesman said.

Mr. Lee, 66 years old and one of the country's most powerful figures, remains officially employed by Samsung Electronics although he stepped down as its chairman and chief executive in late April.

Analysts said they expect Mr. Lee to remain an influential figure in the group, South Korea's largest conglomerate by assets, even though he is no longer involved in its operations.

Mr. Lee will remain the companies' biggest individual shareholder. He holds 1.9% of Samsung Electronics, a 3.7% stake in resort developer Samsung Everland and 4.5% of Samsung Life Insurance Co. He controls another 16.2% stake in the life insurer under borrowed names, and the group has said that holding will officially fall into his ownership after the accounts are transferred back to him.

Samsung Group also said it is dismantling its strategic-planning office at the end of this month to give individual units more power in making decisions, in the final round of a series of changes announced in April. When Mr. Lee and other key executives stepped down, the group announced a series of reforms, including the dismantling of the strategic-planning office. It has overseen scores of Samsung companies for nearly 50 years.

GLOBAL BUSINESS BRIEFS

Deutsche Lufthansa AG

Operating earnings to reach record level of last year

German flagship airline **Deutsche Lufthansa** AG confirmed its outlook for 2008. Despite rising fuel prices, the company still expects full-year operating earnings to reach last year's record level, the company said at its investor conference in Munich. Lufthansa expects fuel costs of about €5.6 billion ($8.72 billion) but said greater efficiency, cost savings and fuel surcharges would compensate for the high fuel costs. The airline said it plans to continue growing organically as well as through alliances and partnerships.

BT Group PLC

BT Group PLC said it won a contract to supply call services to 1.1 million customers of **British Sky Broadcasting Group** PLC, beating a bid by **Thus Group** PLC, the current supplier. The three-year deal will support the expansion of Sky Talk, BSkyB's residential telephony service, BT said. The companies didn't reveal financial details of the contract but analysts estimate it to be valued at about £200 million to £300 million, or around $400 million to $600 million, over three years. Sky Talk has added more than 740,000 new customers in the past year, said Delia Bushell, director of broadband and telephony at BSkyB. This month, Thus Group's board unanimously rejected an indicative offer of £302 million from **Cable & Wireless** PLC, saying it was too low.

StatoilHydro ASA

The European Commission said it suspended its antitrust probe into Norwegian oil company **StatoilHydro** ASA's plan to purchase 274 automated gas stations from **ConocoPhillips** in Scandinavia because of missing information. The probe is pending until the company supplies the commission with the full information it has asked for, a commission spokeswoman said. The European antitrust regulator launched an in-depth review of the deal on concerns that it would limit competition on the motor-fuel retail markets in Sweden and Norway. Statoil said in September that it wanted to buy JET-branded gas stations in Norway, Denmark and Sweden for an undisclosed sum.

Taylor Nelson Sofres PLC

Taylor Nelson Sofres PLC, the world's third-largest market-research and information company by sales, said revenue grew nearly 20% in the first five months of the year from a year earlier. Underlying revenue growth, which strips out exceptional items, was about 6%. The company, which agreed to merge with German peer **GfK** AG, said it expects a similar underlying revenue performance for the full year. U.K. advertising company **WPP Group** PLC recently had three bids rejected by TNS, which wants its shareholders to support a stock-swap combination with GfK instead. The tie-up with GfK would create the world's second-largest market-research company by revenue behind **AC Nielsen** Corp.

Alitalia SpA

Cash-strapped **Alitalia** SpA needs a capital increase before it starts searching for a foreign partner, Chairman Aristide Police said, in the first indication of how Italy's new government hopes to turn around the airline. "I am confident that by the end of July we will have a very clear view of our future horizon and I am certain it will be shared by labor unions," said Mr. Police, who took over in April after takeover talks with **Air France-KLM** SA collapsed, as he entered a meeting with Italy's civil aviation authority. Italian Economy Minister Giulio Tremonti said domestic lender **Intesa Sanpaolo** SpA had been given a two-month deadline to work on Alitalia's sale and that the government hopes to have a decision soon. The government controls 49.9% of Alitalia.

Resolution Ltd.

Financial-services restructuring firm **Resolution** Ltd. expects to soon receive the green light from the board of troubled U.K. mortgage lender **Bradford & Bingley** PLC to begin due diligence. Resolution, fronted by insurance entrepreneur Clive Cowdery, has revised its funding proposal for B&B to address concerns raised by the bank, a company spokesman said. Under the revised terms, a group of shareholders will underwrite the £400 million ($788 million) equity injection and then all other retail and institutional investors will be able to subscribe later in the process.

Carrefour SA

French supermarket group **Carrefour** SA will rebrand its Champion supermarkets in France, giving them the Carrefour name and the Carrefour brand's reputation for aggressive pricing. Chief Executive Jose Luis Duran said the rebranding will cost €200 million ($311 million) in capital expenditures and eventually yield €200 million a year of operating benefits. Mr. Duran said the capital expenditures for the rebranding will be funded from existing programs. He also said the €200 million of operating benefits will come from more sales, improved margins and a better product and market mix.

Rockwell Automation Inc.

Rockwell Automation Inc. warned that it probably won't meet fiscal-year profit targets, citing a slowdown in recent weeks from the U.S. and Europe. The U.S. provider of industrial automation services said it "no longer believes" it will meet its fiscal-year earnings forecast of $4.25 to $4.45 a share. For the fiscal third quarter ending Monday, Rockwell projected earnings of 93 cents to $1 a share on revenue growth of about 12% to 14%, including a five-percentage-point boost from the weaker dollar. Chief Executive Keith D. Nosbusch said he continues "to have confidence in the long-term growth prospects for this business."

Monsanto Co.

Monsanto Co. posted a 42% rise in fiscal third-quarter profit, but a product-mix shift in its flagship seed and trait business trimmed the segment's profit margins. Monsanto boosted its fiscal-year outlook for the fourth time this year, citing improved demand. The St. Louis seed producer reported net income for the quarter ended May 31 of $811 million, or $1.45 a share, up from $570 million, or $1.03 a share, a year earlier. Revenue climbed 26% to $3.59 billion. Monsanto was down 2.1% at $132.88 in late trading on the New York Stock Exchange.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

JAPAN

Higher oil prices reduced trade surplus during May

RISING crude-oil prices caused Japan's trade surplus to shrink for a third straight month in May and contributed to the 22nd straight month of rises in the prices that businesses charge each other for their services.

Japan's surplus in trade of goods with the rest of the world stood at 365.61 billion yen ($3.39 billion) in May, Ministry of Finance data showed, down 7.6% from a year earlier. Imports rose 4.4%, boosted by higher oil prices, while exports climbed 3.7%. However, Japan's exports to Europe slipped for the first time in 31 months, and exports to the U.S. fell 9.5%. The Bank of Japan said corporate service prices rose 0.6% in May from the previous year.

RUSSIA

Write-off of Tajik debt for space facility advances

THE LOWER house of the Russian Parliament ratified a deal with Tajikistan that envisages writing off its debt to Moscow in exchange for handing over a Soviet-built space-tracking facility.

The Okno (Window) complex in Nurek is capable of automatically tracking objects that are 2,000 to 40,000 kilometers from Earth. The facility, located 50 kilometers southeast of the Tajik capital, Dushanbe, involves telescopes housed in several large spheres. The ratification must be approved by the upper house of Parliament and signed by President Dmitry Medvedev, above.

—Associated Press

EUROPEAN UNION

Commission plans to ease small-business operations

THE EUROPEAN Commission unveiled proposals to make it easier for small businesses to operate within the 27-nation bloc. The proposals, which will need to be approved by the European Parliament, seek to cut red tape in a sector that accounts for 99% of all businesses in the EU. "Small and medium-sized enterprises are the job-creation machine in Europe, but policy makers at all levels don't sufficiently grasp this," EU Industry Commissioner Guenter Verheugen said. The proposals include laws that would allow small businesses to be set up with just €1 ($1.56) of capital and operate across the EU.

—Reuters

Taliban extend reach toward Pakistan city

In Peshawar, troops patrol as militants menace supply routes

BY ZAHID HUSSAIN
Peshawar, Pakistan

TALIBAN MILITANTS have extended their influence and campaign of violence to the outskirts of this ancient provincial capital, a key staging post on the supply route to NATO troops operating in neighboring Afghanistan.

Sunday, armed Taliban militants kidnapped 15 paramilitary soldiers after raiding a security check post in the Khyber tribal region, an area that includes part of the city of Peshawar and is just a few kilometers from the city center. Wednesday, the 15 continued to be held by the militants. The raid occurred hours after security forces foiled a suicide attack by a teenager in the same region. Ambushes of military supply convoys also have increased in frequency.

"The militants have the ability to challenge the state anytime. Their location on the main arterial roads gives them the capacity to cut off the communications at will," said Khalid Aziz, a former chief secretary of North West Frontier Province who now heads the Policy Research Institute, a think tank, in Peshawar.

Also last weekend, armed militants from the Khyber region raided a house in Peshawar and kidnapped 16 members of a local Christian community who had gathered for a religious ceremony. The provincial government later secured their release after negotiations with the militants but the incident has increased the sense of insecurity, particularly among non-Muslims.

Now, troops patrol the streets in the garrison district of Peshawar and paramilitary soldiers with machine guns are posted by sandbags at government buildings. "The city is virtually under siege, with militants sitting just on the city's outskirts," one senior government official said.

Peshawar, home to about three million people, has been a major business and trading hub for centuries and is the capital of the North West Frontier Province, one of Pakistan's four provinces. It also is home to the 10th Corps of the Pakistani army, which is leading a campaign against militants in the region near the Afghan border.

The militants encircling Peshawar are organized under the banner of Tehrik-e-Taliban Pakistan, a militant group allied with the Taliban that used to rule Afghanistan. Tehrik-e-Taliban already controls large swaths of that border region, known as South Waziristan. It also has established a parallel government in parts of the North West Frontier Province, including the cities of Dera Ismail Khan and Nowshera as well as the Swat Valley, in a direct challenge to provincial authorities.

"The political management of the province is not possible if large pockets of militancy continue to develop," the senior government official said.

Tehrik-e-Taliban is headed by Baitullah Mehsud, who is blamed by Pakistani security forces for masterminding many of the suicide attacks carried out last year in Pakistani cities. Mr. Mehsud, 35 years old, also is accused by Pakistan's government of planning the December assassination of former Prime Minister Benazir Bhutto. He denies it.

Reuters

Anti-Taliban tribesmen guard **a highway near Peshawar** in Pakistan, an ancient trading hub and now part of a supply route used by NATO troops in Afghanistan.

The Associated Press said Wednesday that militants loyal to Mr. Mehsud killed at least 22 rivals from a pro-government faction after taking dozens of captives. It also reported that five girls' schools in Swat were burned down by suspected militants Tuesday night.

After years of military campaigns against the militants, which saw suicide bombings in Pakistani cities reach a new high last year, the nation's newly elected government changed tack. It has been negotiating with the militants to reach a peace deal. The government of the North West Frontier Province, for instance, last month signed a peace deal with militants in Swat, which had become the main battleground for the antimilitant campaign in the past 18 months. The valley is about 100 kilometers from Peshawar.

The provincial government justified the deal by saying it has brought peace to the area. "If these agreements were scrapped, there would again be war between security forces and militants," said Wajid Ali Khan, a member of the negotiating team and a minister in the provincial government in Peshawar.

The approach has resulted in a marked decline in the number of suicide attacks. But there is little sign of the militants' laying down their arms, as the deal requires. Some analysts and Western officials are skeptical that such agreements will last, and they worry that the deals could provide breathing room for the militants to regroup.

"Peace deals cannot work until the writ of the government is established. But it is not happening," said Mahmood Shah, a retired brigadier and formerly a top official in Peshawar covering tribal affairs.

As the militants press steadily closer to Peshawar, some analysts and government officials fear they might be able to keep extending their reach. Peshawar is a two-hour drive from Islamabad, Pakistan's capital.

Climate study warns of risks to U.S. stability

BY SIOBHAN GORMAN

WASHINGTON—Global climate change will have "wide ranging implications for U.S. national-security interests" over the next two decades, affecting the stability of some developing countries and potentially contributing to civil conflict, according to the first public intelligence analysis of the security impacts of global warming.

The report's sweeping conclusions will likely add fuel to the political debate as battles over climate change and energy heat up on the U.S. campaign trail. Last year's congressional mandate for this intelligence report sparked fierce partisan clashes as Republicans argued that intelligence resources shouldn't be used for a report that relied on information that wasn't secret.

Partisan fights over the security impacts of climate change date at least to the Clinton administration, when then-Vice President Al Gore launched an initiative at the Central Intelligence Agency in 1997 to study the security implications of environmental degradation. It collapsed a few years later under political pressure from congressional Republicans.

The biggest impact on U.S. security will be indirect, the report finds, resulting from "climate-driven effects on many other countries and their potential to seriously affect U.S. national security interests," Thomas Fingar, chief of analysis for the director of national intelligence, told Congress on Wednesday.

Climate-driven resource problems—such as water shortages, extreme weather and increased disease—are likely to have the greatest impact, prompting conflict over dwindling resources and spurring migration as climate grows harsher, analysts found.

While intelligence analysts found that climate change is unlikely, by itself, to prompt states to fail, the analysts say it is likely to amplify existing problems stemming from poverty, social tensions and weak political institutions. Environmental decline could contribute to civil wars, or, less likely, conflicts between countries.

Climate change has the potential to affect domestic stability "in a number of key states," as well as international trade, and the broader global economy, according to Mr. Fingar. In the U.S., analysts anticipate more severe storms, a rising demand for energy and increased pressure on infrastructure. Government and business efforts to mitigate these problems may affect U.S. national-security interests more than the direct impact of climate change, analysts found.

The impact on global economic growth through 2030 is likely to be minimal, the analysts found.

CAPITAL ▪ DAVID WESSEL

On economy, McCain and Obama should ponder these broad issues

PRESIDENTS get more credit and more blame for short-term swings in the U.S. economy than they deserve. And they get less scrutiny for decisions that have long-lasting economic consequences, say the bipartisan agreement to expand Medicare to cover prescription drugs without any visible means of financial support or the price tag on the Iraq war.

Similarly, presidential campaigns—when they move beyond coverage of the candidates' wives dresses—can bog down in details of proposals that will never be implemented as proposed. Neither President McCain nor President Obama, no matter what he says, can do much that will make an immediate difference to higher energy prices, falling house prices, rising unemployment, sagging wages. And no matter how many briefings by learned advisers or position papers posted on Web sites, no candidate can honestly tell us exactly what he'd do in office.

So ask not for details and spreadsheets, ask for broad brush strokes. Here are four of the biggest economic issues about which the next president, and those who elect him, ought to be thinking.

The budget deficit. It isn't a problem now. It's getting bigger, as it should in a recession or near-recession. And foreigners are still willing to lend the U.S. money. The problem is tomorrow: The U.S. government has made promises to pay health and retirement benefits that will cost far more than projected taxes will yield. Neither candidate talks much about how—or even if—he'd try to fix this; most voters don't want to hear about it. All one can glean is that Sen. Obama leans toward bigger government (more taxes, more spending) and Sen. McCain leans toward smaller government (less taxes, less spending.)

Health care. Until the housing bust and credit crunch, the political system was inching toward tackling this one after the election. That seems less likely now, despite the consensus that the U.S. doesn't get its money's worth from its health-care spending. The system is so complex it's hard to describe; same applies for proposed solutions.

"What we want to know from each candidate is his broad approach toward creating a health system that is affordable and accessible to all…and spends less than we would otherwise spend," says Robert Reischauer, the head of the Urban Institute think tank who, despite the cynicism that accumulates from a lifetime as a political insider, is one of the loudest, clearest advocates for common sense in Washington.

Sen. Obama offers a mix of changes, many but not all involving government money, and argues the best solution will emerge from some experimentation. Sen. McCain would, instead, make the market for health insurance more like the market for computers or cars, relying more on individuals shopping for insurance to create competition now largely absent in health care.

Inequality. The gap between economic winners and losers in the U.S. is growing; the trend didn't begin with President Bush's election, but he didn't do much to arrest it. Economists Emmanuel Saez of the University of California, Berkeley, and Thomas Piketty of the Ecole d'Economie de Paris calculate that even excluding capital gains, 75% of the pretax-income growth in what they call the Bush expansion (2002-2006) went to the best-off 1% of American families versus 46% in the Clinton expansion (1993-2000). There is significant disagreement among politicians and voters about how hard the government should restrain market forces that are widening the income gap, particularly how much the tax code should redistribute income.

The differences between the candidates are sharp: Sen. Obama would wield the tax code more aggressively than Sen. McCain.

Globalization. It isn't going away. But for all the benefits it brings American consumers (and Chinese workers), the toughening competition is frightening to Americans, both as workers and as parents. Sens. Obama and McCain both assert the virtues of globalization (at least some of the time.) The next president needs to respond to calm public anxiety about it. The backlash is intensifying, both in the U.S. and elsewhere. A new Council on Foreign Relations report by lawyer David Marchick of Carlyle Group and Matthew Slaughter of Dartmouth's Tuck School of Business warns of a "protectionist drift" in government policy toward foreign-direct investment.

The solution doesn't lie in tweaking trade laws (though they could use tweaking) or in applying band aids to an archaic, inefficient system of assisting laid-off workers (though that system needs replacing.) It probably lies in assuring Americans that they aren't fending for themselves in an increasingly competitive economy—that their health insurance won't evaporate if they lose a job and that the U.S.'s schools are preparing their children to succeed.

On this issue, the candidates risk becoming caricatures—Sen. McCain harping on the benefits of free trade, Sen. Obama on its costs. But the debate is likely to evolve now that Sen. Obama no longer has to worry about Hillary Clinton.

Note to readers: This will be the last Capital column for a while. I'm taking a leave to write a book and will return in early 2009. Send reader comments on this week's column to WSJ.com/CapitalExchange. Or email capital@wsj.com.

Doha trade talks revive

Farm-tariff progress may ease stalemate; new political urgency

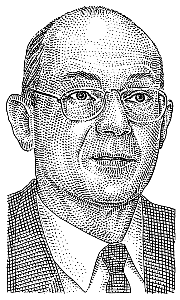
By **John W. Miller** *in Brussels and* **Alistair MacDonald** *in London*

The World Trade Organization called a rare meeting of top trade officials to negotiate further on the stalled Doha round of global trade talks amid a closing political window on a deal and some progress toward agreement on agricultural products.

WTO Director General Pascal Lamy asked trade ministers from about 40 countries to meet in Geneva July 21 for up to a week of talks. It would be the first meeting in two years and a last-ditch effort to secure an agreement before U.S. elections and turnover at European Union institutions make any serious negotiations unlikely until 2010.

Trade officials said recent lower-level meetings have brought the EU, the U.S. and other countries closer to a deal to cut tariffs and subsidies for agricultural products, creating optimism. Agriculture has proved the key obstacle to progress in the seven years of the Doha round's talks.

But trade officials say the odds on a quick deal remain long. India and Brazil still refuse to significantly cut tariffs on manufactured goods—a key element in any deal that U.S. and European officials say they would need to sell cuts in farm subsidies at home.



Pascal Lamy

U.K. Prime Minister Gordon Brown, who has taken a prominent role in trying to revive the Doha talks, said Wednesday they were now in an "end game." He said he would push the issue at the annual summit meeting of Group of Eight leaders next month.

Mr. Brown said that trade barriers and subsidies cost around $15 billion a year and that a failure on Doha may cause wider damage to global trade. Without a deal, he said, "I suspect that a lot of people will conclude that protectionism is here to stay."

The Doha round began in Qatar in 2001 to offer farmers in poor countries more access to rich countries' food markets. After the Sept. 11 terrorist attacks that year, the U.S. and its allies saw trade as a way of lifting the developing world out of the despair that may lead to terrorism. But negotiations stalled repeatedly. At the last formal meetings in Geneva, in July 2006, talks again broke down over agricultural tariffs and subsidies.

In recent weeks, however, delegates from the WTO's 152 members said they have neared agreement on dozens of agriculture-related items. They have written new rules prohibiting aid donors, such as the U.S. and EU, from forcing recipients to buy goods from donors' own farmers. They also have compromised on how many sensitive products each country gets to protect with exceptionally steep tariffs.

The EU is pledging to cut farm tariffs by 54%, while the U.S. says it will keep farm subsidies between $13 billion and $16 billion a year. If the Bush administration signs a Doha deal, it would have to get Congress to cap annual payments under $20 billion.

When the Doha talks began, the U.S. and EU asked developing economies to open their markets for Western-made goods and services, in exchange for breaks on agriculture. Countries led by Brazil and India initially agreed, but they have lost enthusiasm as the talks have dragged on and as they have more manufacturing industries to protect.

ECB to stay focused on inflation

BY MARCUS WALKER

European Central Bank President Jean-Claude Trichet underlined his determination to fight rising inflation pressures, despite signs of faltering economic growth in Europe.

Mr. Trichet also waded into the debate over record-high oil prices. He said he doubted "speculation is the major culprit" and called on oil producers to expand output.

Speaking to the European Parliament, Mr. Trichet said the ECB could raise interest rates "by a small amount" to anchor inflation expectations, repeating comments he made in early June. Many analysts expect the ECB to raise rates by 0.25 percentage point to 4.25% next week.

"I didn't say that we would envisage a series of increases," Mr. Trichet told lawmakers. "We never precommit." He said the governing council was in a state of "heightened alertness," against a backdrop of strong inflation pressures.

ECB officials worry that high oil and food prices could push up other prices as workers seek higher wages and businesses seek to pass on higher costs. The risk of a spiral of rising wages and prices "is particularly acute," Mr. Trichet said.

Inflation in the 15 nations that use the euro reached 3.7% in the year to May, far above the target of just below 2%. Mr. Trichet said it was imperative to keep people's inflation expectations at levels consistent with stable prices.

Elsewhere in Europe, Norway's central bank raised its key interest rate 0.25 percentage point to 5.75% Wednesday, and Poland opted for an increase of the same size to 6%. Inflation in both countries is well above targets and threatens to rise further.

Recent euro-zone data have indicated a sharpening slowdown in the region's economy as high energy prices, slowing world demand and the strong euro take their toll. The ECB believes the slowdown will be limited: Its midpoint forecast is for about 1.8% growth this year.

Quarterly growth will reach its lowest point "in mid-2008, before recovering gradually thereafter," said Mr. Trichet. Many economists expect close to zero growth, or even a small contraction, in the second quarter, after the region's economy expanded by a strong 0.8% in the first quarter.

Not everyone shares Mr. Trichet's confidence in an improvement during the second half. "In our view, the weakness is more entrenched and will last longer," said Luigi Speranza, economist at BNP Paribas in London.

—Nina Koeppen contributed to this article.

U.S. economic data remain weak

BY KELLY EVANS

Orders for big-ticket U.S. manufactured goods were flat in May, and sales of new homes slumped.

The U.S. Commerce Department said orders for manufactured durable goods—equipment, cars and machinery intended to last three years or more—were essentially unchanged in May from the month before at $213.6 billion. April's 0.6% decline was revised to a larger 1% drop from the month before. Orders were down 0.2% in March.

"A flat number after two consecutive monthly declines is hardly a sign of vibrant growth," said Wachovia economist Tim Quinlan. "Businesses are scaling back."

Sales of new single-family homes in May fell 2.5% from the month before to a seasonally adjusted annual rate of 512,000—a 40.3% decline from May 2007. Sales were weakest in the Northeast and West and better in the Midwest and South. Inventories of unsold homes grew to a 10.9 months' supply at the current sales pace from a 10.7 months' supply in April.

"None of this bodes well for near-term conditions," said Joshua Shapiro, chief U.S. economist at MFR Inc. in New York, "and prices will need to fall further to help stimulate demand." The median sales price of a home last month was $231,000, according to the report, a 5.7% drop from a year earlier.

New-home sales have been particularly hard-hit during the housing bust, thanks to the frenzy of building activity during the housing boom, which resulted in a huge oversupply of homes. The numbers for May's existing-home sales, which make up about 85% of the total market, will be released Thursday.

Consumers and companies continue to battle eroding economic conditions and soaring fuel and commodity prices. Orders for manufactured goods last month were buoyed in part by volatile aircraft and defense orders, while underlying demand continues to soften.

Excluding aircraft and other transportation, durable goods orders fell 0.9% in May from the month before. A key gauge of future business spending—orders for nondefense capital goods excluding aircraft—dropped 0.8% last month after posting a 3.1% gain in April.