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The case for—and against—nuclear power

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Voter registration plays a bigger role in U.S. election

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What's News—

Business & Finance

U.S. carriers facing growing financial problems could start seeking foreign investments and pushing for a relaxation of U.S. laws that limit foreign ownership or control of airlines, British Airways' chairman said. BA doesn't envision making a major investment in a U.S. carrier anytime soon, he added. Page 1

■ **The Dow industrials are off** 19.9% from their October peak, on the cusp of a bear market. Markets have a gloomy view of financial firms' future. Pages 1, 17

■ **U.S. incomes and spending** got a big boost from stimulus checks in May, but consumer sentiment sank in June. Page 10

■ **Fortis is tapping** Russian billionaire Suleiman Kerimov for a $630 million injection. Page 4

■ **An expected ECB rate rise** may weaken the dollar and boost oil prices, which hit a record $140.21 a barrel Friday. Page 22

■ **Inflation accelerated** in Germany, Spain and Belgium in June, while euro-zone economic sentiment declined. Page 10

■ **Rising prices are luring** investors to Africa's food sector, persuaded they can turn a profit for the first time in decades. Page 2

■ **Several technology titans** including Google and Verizon are allying to defend themselves against patent lawsuits. Page 6

■ **Anheuser unveiled** a business plan including job cuts and increased beer prices that is unlikely to deter suitor InBev. Page 7

■ **Siemens plans** to slash 17,200 jobs, or 4% of its global work force, to cut costs amid tough economic conditions. Page 7

■ **U.K. consumer confidence fell** in June to the lowest level in 18 years, a survey showed. Page 10

■ **Restructuring firm Resolution** withdrew its offer for Bradford & Bingley, sending the U.K. lender's shares down 21% Friday. Page 20

■ **Sony Ericsson warned** its mobile-phone sales and earnings would be hit by slowing demand and shipping delays. Page 6

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11346.51	-106.91	-0.93
Nasdaq	2315.63	-5.74	-0.25
DJ Stoxx 600	287.34	-1.14	-0.40
FTSE 100	5529.9	+11.7	+0.21
DAX	6421.91	-37.69	-0.58
CAC 40	4397.32	-28.87	-0.65
Euro	$1.5751	+0.0001	+0.01
Nymex crude	$140.21	+0.57	+0.41

Money & Investing > Page 17

World-Wide

Mugabe was sworn in for a sixth term as Zimbabwe's president and promised talks with the opposition. Many countries condemned the runoff vote, in which Mugabe was the only candidate. Opposition candidate Tsvangirai, who withdrew because of violence against his supporters, said the inauguration was meaningless. Page 8

■ **Pakistani troops drove out** Islamic militants threatening a supply route to NATO forces in Afghanistan. The offensive signaled a major shift in tactics by Pakistan's government as it tries to combat extremism. Page 8

■ **Israel's government agreed** to free a Lebanese gunman convicted in a 1979 attack in return for the bodies of two soldiers killed by Hezbollah guerrillas.

■ **France takes over** the rotating EU presidency Tuesday, with Sarkozy's first task to be trying to save parts of a treaty meant to ease decision-making. Page 3

■ **The head of the Labour Party** in Scotland resigned, in more bad news for British Prime Minister Brown and a party hitting new depths of unpopularity.

■ **A Basque regional parliament** approved plans for a referendum seen as a veiled push for breaking away from Spain, setting it on a collision course with the central government. Page 3

■ **The number of civilians** killed in fighting in Afghanistan has risen by nearly two-thirds in the first half of the year, to almost 700, a U.N. official said.

■ **Afghanistan now rivals Iraq** as the biggest cause of concern for U.S. policy makers. Page 3

■ **Malaysian authorities began** investigating allegations that opposition leader Anwar sodomized a male aide, further clouding the political outlook. Page 9

■ **Two militant attacks** in Russia's Chechnya region killed three police officers and three civilians, an official said.

■ **Two bombs exploded** in a resort town in Georgia's breakaway Abkhazia province, injuring six.

■ **China will hold** a new round of talks with representatives of the Dalai Lama early next month, state media reported.

EDITORIAL&OPINION

McCain's Treasury chief

Phil Gramm wants to cut taxes and balance the budget. The Journal interview. Page 12

A lift for U.S. airlines?

BA chairman sees foreign investment, easing of owner limits

By Daniel Michaels

LONDON—Faced with growing financial problems, U.S. air carriers could start seeking foreign investments and pushing for a relaxation of U.S. airline-ownership laws, **British Airways PLC** Chairman Martin Broughton said in an interview.

BA, which flies more passengers to and from the U.S. than any other overseas airline, doesn't envision being able to make a major investment in a U.S. carrier anytime soon, said Mr. Broughton.

However, the BA executive said that an eventual relaxation of U.S. airline-ownership rules could spark a world-wide wave of cross-border deals in the next five to 20 years. That would help the troubled aviation sector function more like other industries, he added.

The U.S. forbids foreigners from holding more than 25% of the voting stock in a U.S. airline or from indirectly controlling any U.S. carrier.

Airlines and officials from the European Union have for several years pressed Washington to relax those rules, but the U.S. Congress has opposed changing legislation to lift those limits. The EU limits non-EU

Please turn to back page

Flying across borders

Only a few airlines world-wide are multinational operations. Here are some of them:

Airline/Investor	Cross-border links
Air France-KLM	Air France acquired KLM Royal Dutch Airlines
Air Asia	Malaysian budget carrier established linked subsidiaries in Thailand and Indonesia; carriers operate as one
LAN Airlines	LAN Chile established linked subsidiaries in Peru, Ecuador and Argentina; carriers operate as one
Lufthansa	The German airline acquired Swiss International Air Lines
Scandinavian Airlines System	National airlines of Denmark, Norway and Sweden cooperate as if one carrier
Grupo TACA	National airlines of El Salvador, Guatemala, Honduras, Costa Rica and Nicaragua cooperate as if one carrier
Virgin Group	Sir Richard Branson's British investment firm established Virgin Atlantic (U.K.), Virgin Blue (Australia), Virgin Nigeria and Virgin America; carriers operate independently

Sources: the companies, WSJ research

BP is in the dark in battle to save Russian venture

By **Gregory L. White** *in Moscow* and **Guy Chazan** *in London*

As it fights to preserve its TNK-BP Ltd. Russian joint venture, **BP PLC** is struggling with two big unknowns: What does the Kremlin want and what are BP's Russian-billionaire partners really after?

Lacking clear answers to those questions, BP has been fighting trench warfare to keep its partners from gaining control inside TNK-BP even as it continues high-level talks with them. BP has also marshaled support from London, Washington and Brussels to quietly convey the message to Russian officials that Western capitals are watching the fight as a key test of newly elected President Dmitry Medvedev.

So far, there is little outward sign BP's strategy is working.

Its Russian partners—Mikhail Fridman of **Alfa Group**, Viktor Vekselberg of **Renova** and Len Blavatnik of **Access Industries**, together known as AAR—have unleashed a barrage of public attacks and lawsuits denouncing BP as arrogant and underhanded. Russian officials echo AAR arguments, publicly distancing themselves from the conflict. Meanwhile, pressure on TNK-BP from prosecutors, labor regulators and lawsuits continues unabated, while more than 100 BP employees as-

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Banks' bonds hold up even as their stocks fall

By Tom Lauricella

World stock markets are taking a gloomy view of the future of big financial companies, and while regulators won't allow big banks and brokers to collapse, the outlook for their profits looks increasingly grim.

This has hammered their stocks but not their bonds and credit-market instruments. While the stocks of big banks and brokerage firms have tumbled to new lows as investors brace for more credit-crunch-related write-downs and capital raisings, the bonds of these institutions, and insurance bets called credit-default swaps tied to their fortunes, are holding up relatively well. Earlier in the year, bonds and swaps were the first and loudest in signaling problems for banks and brokers.

In other words, stock investors and bond investors are now looking at banks in completely different ways. This makes some sense. Stock investors care about future profit growth, which looks bad for many banks and brokers. Bond investors simply want to receive their interest payments and get their initial investment back.

The poor performance of financial stocks signals that investors have a grim view of the longer-term fundamental outlook for these companies, even if the risk of short-term collapse has diminished. Important businesses—like the bundling of mortgages—have collapsed. And the reduced reliance on debt, or leverage, to finance their activities also diminishes profitability.

This new dynamic suggests that the way ahead for broader stock indexes could be volatile and fraught with more downside risk. This past week, investors recalibrated their risk expectations and sent global

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THE WALL STREET JOURNAL.

LEADING THE NEWS

Food prices spur investment in Africa farms

Agriculture draws backers from abroad; Mr. Djité's peppers

By John W. Miller

ROME—Rising prices are luring more private investors to Africa's food sector, where they are convinced for the first time in decades they can make a profit. The hitch is finding the right businesses in which to invest.

Commercial banks, charities and governments have set up funds worth hundreds of millions of dollars over the past few years to invest in private farm and food projects in Africa, while several major companies have expanded operations there.

Most of last year's $36 billion of foreign direct investment in Africa was sunk into digging up the continent's rich mineral resources, such as oil, copper and diamonds. The Food and Agriculture Organization of the United Nations says that actual investment in farming was too small a fraction to count separately, but that there is a clear upward trend.

Private investors say a number of factors make the African food sector look like a business opportunity. These include vast lots of empty, arable land, rising food prices and, since 2001, zero tariffs for exports from poor countries to the lucrative European Union market. Rising fuel costs are also driving up the cost of imported foods, making local production more competitive in Africa.

That is welcome news at a time when the U.N. is struggling to persuade governments to come up with $30 billion to fight world food poverty, mainly in Africa. But the trouble private investors are having in placing their money suggests a wider problem, says Rustom Masalawala, business development specialist for Columbia University's Earth Institute, a development think tank.

"We know how to hand out billions in aid money, but you can't beat hunger in Africa without local food companies learning how to prosper," says Mr. Masalawala. That means training farmers in the basics of creating a business, as well as fixing laws and improving government, he said.

African countries consistently rank toward the bottom of World Bank surveys on enforcing contracts, granting licenses, corruption and other measures.

Despite these obstacles, the continent is starting to attract more capital. Higher fuel costs recently prompted beverage makers **Heineken** NV and **Diageo** PLC to change recipes at some of their African breweries. They replaced imported barley, which doesn't grow in Africa, with sorghum, which does. In Sierra Leone, Heineken secured a loan package valued at $150,000 for local farmers so they could plant more sorghum.

"The fuel prices mean you want to contract the supply chain as much as possible," says John Mbonu, Heineken's deputy general manager for Sierra Leone. Heineken said the sorghum brew is for African markets, and will be introduced gradually.

The Dutch bank that provided the loans, **Rabobank Group**, recently opened a $75 million fund to invest in developing-world agriculture, especially in Africa. French banks, including **BNP Paribas** SA and **Crédit Agricole** SA, have similar plans.

The U.K., Germany, the Netherlands and Belgium have started state-backed funds with amounts to spend ranging from the tens to the hundreds of millions of dollars. The funds focus on giving low-interest loans or grants to private businesses.

Singapore-based **Olam International** Ltd., a nuts and grains producer, doubled its annual investment in Africa last year to around $200 million across 23 countries, says Moochikai Ramesh, regional director for south and east Africa. In Nigeria, for example, the company has invested $3 million in a formerly defunct rice-milling plant, he said, adding that Olam now generates 30% of its $4 billion annual turnover in Africa.

Africa's farm sector, long decimated by cheap imports, badly needs investment. Global wheat prices, for example, until recently were under $200 per metric ton, too low for African farmers to compete. Many farmers abandoned the land to go to cities. Today, only 15% of Africa's arable land is farmed, according to the FAO.

Now, demand in Asia, drought and the biofuels market have pushed wheat prices past $300 per ton. That kind of inflation gives farmers an incentive to grow on a larger scale. But high entry costs for seeds, fertilizer and tractors mean that "outside investment is essential," says Calvin Miller, FAO director of rural finance.

A recent conference at the FAO's Rome headquarters organized by a Brussels-based nonprofit, the European Market Research Centre, sought to put investors and African businesspeople together. About 250 African entrepreneurs and outside investors showed up.

Mamadou Djité, chief executive of Agral Export Senegal, was looking for $800,000 over the next five years. His company shipped $750,000 of chili peppers, pineapples and other produce last year, from a cooperative of 200 farmers outside Dakar, the Senegal capital, to Europe. "We can expand if we have money to pay for irrigation, seeds and fertilizer," he said.

CORRECTIONS & AMPLIFICATIONS

Edward Price was formerly senior vice president for exploration at Saudi Aramco. A page-one article Friday incorrectly said he was formerly the company's president.

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LEADING THE NEWS

EU term will keep Sarkozy busy

Key issues include Irish 'no' on treaty and Beijing Games

BY DAVID GAUTHIER-VILLARS

PARIS—From climate change to immigration, French President Nicolas Sarkozy had hoped to tackle sweeping global issues during France's six-month presidency of the European Union, which begins Tuesday. Yet after Ireland's recent rejection of a major EU treaty, Mr. Sarkozy has a far less glamorous task ahead—notably trying to save parts of the treaty that were intended to ease decision-making within the 27-nation bloc.

People close to Mr. Sarkozy say the French president will still forge ahead with plans to propose a tough EU pact on immigration and strict targets to limit greenhouse-gas emissions. Mr. Sarkozy also hopes to convince France's EU partners to spend more on security and build up a military-command structure that would be disconnected from the U.S. Yet the treaty's defeat in Ireland means that "the institutional questions will be time- and energy-consuming," said Pierre-Jérôme Hénin, a spokesman for Mr. Sarkozy.

One of the French president's first moves will be to travel to Dublin on July 11 to consult Irish officials on how the so-called Lisbon Treaty can be rescued. Mr. Sarkozy, who was instrumental in drafting the treaty, is hoping to persuade the Irish to vote again on the pact once the EU's 26 other members have ratified it. So far, 19 countries have approved it.

The treaty was aimed at helping the EU find solutions to key issues: Should it accept more members? Should it keep relying on the U.S. for security? Should it continue spending 45% of its budget on agriculture? The bloc has so far struggled to come up with answers, because most decisions require unanimity.

Helping rescue the treaty would be a coup for Mr. Sarkozy—especially since he has in the past bypassed the very EU institutions he now says he wants to strengthen. When he was France's interior minister, for example, Mr. Sarkozy regularly preferred to discuss issues of cross-border security with a small group of counterparts rather than within the EU as a whole.

"I quickly understood that pushing a 25-member group into action would be very difficult or impossible," he said in a book published in 2006.

Since becoming French president, Mr. Sarkozy has collided repeatedly with EU institutions. He has lashed out at the European Central Bank for its money-tightening policy. He has slammed the European Commission over issues including global trade talks and aid to fishermen suffering from high fuel prices.

Mr. Sarkozy has backed down on some occasions. For example, he promised to rethink one of his projects—the creation of a pan-Mediterranean partnership separate from the EU—after Germany raised strong resistance to the idea. The reworked plan, which is still in an embryonic stage, now includes all EU members, not just those that have a Mediterranean shore.

"Mr. Sarkozy has shown he can learn from his mistakes," said Sami Andoura, an analyst with the Royal Institute for International Relations in Brussels.

Nicolas Sarkozy

Mr. Sarkozy has an immediate opportunity to test his skills at building consensus with his EU partners: the Beijing Olympic Games. People familiar with the situation say Mr. Sarkozy is planning to attend the Games' Aug. 8 opening ceremony to represent France's EU presidency. Yet before making an official decision, Mr. Sarkozy plans to consult with other European leaders, who are at odds over whether the EU should boycott the event in reaction to China's police repression in Tibet.

"Mr. Sarkozy will announce his decision in July, once he has talked to his [European] colleagues," his spokesman Mr. Hénin said.

U.S. raises alarm as Taliban gains in Afghanistan

BY YOCHI DREAZEN

WASHINGTON—In a remarkable shift, Afghanistan, where U.S. officials were once confident of victory, is now rivaling Iraq as the biggest cause of concern for American policymakers.

According to a new Pentagon report, Taliban militants have regrouped after their initial fall from power and "coalesced into a resilient insurgency." The report paints a grim picture of the conflict, concluding that Afghanistan's security conditions have deteriorated sharply while the fledgling national government in Kabul remains incapable of extending its reach throughout the country or taking effective counternarcotics measures.

Spain will move to block vote in Basque region

ASSOCIATED PRESS

VITTORIA, Spain—A Basque regional parliament narrowly approved plans Friday for a referendum seen as a veiled push for breaking away from Spain, setting it on a collision course with the central government.

Spain's government vowed to block the referendum, saying it was unconstitutional. "The plan will be appealed and suspended," said Deputy Prime Minister Maria Teresa Fernández de la Vega.

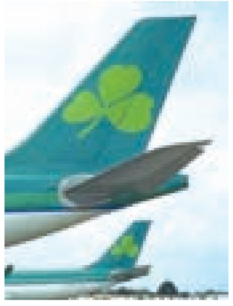
The government will file a lawsuit with the Constitutional Court, which is Spain's highest court. Once it agrees to consider the motion, this has the effect of automatically suspending plans for the referendum, which Basque authorities want to hold Oct. 25.

The referendum would ask Basques if they favor a negotiated solution to the separatist conflict if the armed militant group ETA is willing to end violence.

CORPORATE NEWS

AVIATION

Ryanair director switches to CFO of Aer Lingus



RYANAIR Holdings PLC said director Sean Coyle quit to become chief financial officer at rival **Aer Lingus** PLC, in which **Ryanair Holdings** holds a 29% stake after a failed takeover bid.

Aer Lingus said Mr. Coyle, director of scheduled revenue at Ryanair, Europe's biggest budget airline by passengers carried, would join the company Aug. 11.

"Challenging times bring unique opportunities and we are delighted that Sean is joining us," Aer Lingus Chairman John Sharman said.

Mr. Coyle, a 35-year-old accountant, worked at KPMG before joining Ryanair in 1998.

—Reuters

CHEMICALS

EU Commission targets producers in alleged cartel

THE EUROPEAN Commission said it sent an official list of charges to companies allegedly involved in a cartel in the calcium-carbide and magnesium-powder industries.

Dutch chemical maker **Akzo Nobel** NV said it is cooperating with the investigation. Its Casco Carbide unit in Sweden is one of Europe's biggest calcium-carbide producers.

Steelmakers use the products to increase the strength of steel and purify it, while industrial-gas companies turn calcium carbide into acetylene gas, used for cutting and welding. Companies can be fined up to 10% of their annual revenue if found guilty of price-fixing and other collusive activities.

—Carolyn Henson

MACHINERY

Doughty Hanson acquires Svendborg of Denmark

PRIVATE-EQUITY firm **Doughty Hanson** & Co. said Friday it bought Denmark-based **Svendborg Brakes** AS in a deal valued at €460 million ($726.4 million).

Svendborg Brakes provides braking systems for the wind-power, mining, crane and offshore-oil industries from 10 sales sites and four production sites world-wide. London-based Doughty Hanson said it expects to capitalize on the wind-energy sector, where demand is estimated to grow at a rate of 20% to 25% a year until 2020. Between 2005 and 2006, Svendborg Brakes more than doubled its annual revenue, said Jan Amethier, who heads Doughty Hanson's private-equity activities in the Nordic region.

—Marietta Cauchi

Coke's new CEO takes over in flat market

Stock price tumbles amid slowing sales; 'some tough times'

BY BETSY MCKAY

COCA-COLA CO. President and Chief Operating Officer Muhtar Kent is taking over as chief executive just as the beverage market is losing some of its fizz.

When the company announced late last year that Mr. Kent, the 55-year-old protege of Chairman and Chief Executive Officer E. Neville Isdell, would ascend to the top spot on July 1, the global beverage giant appeared to be finally shaking off years of malaise.

But since then, Coke's stock has fallen 21% from an eight-year high in January. In recent weeks, two of Coca-Cola's biggest bottlers in Europe and the U.S. have issued profit warnings, clear indicators that the deteriorating economy is cutting into beverage sales. At least one analyst says U.S. sales have recently slowed in Glaceau drinks, which Coke acquired in a $4.1 billion acquisition of Energy Brands Inc. last year, a deal Mr. Kent drove.

Mr. Kent insists that the beverage industry is better positioned than many other businesses to weather economic difficulties. He says rapid urbanization and blossoming of the middle class in big emerging nations are juicing demand for on-the-go beverages. So many people are moving to urban centers that it is like "adding a city the size of New York to the world every three months," he said in a recent interview.

Coke said in late May that it remains confident in its "global business outlook" for the second quarter and the full year. Coke has also said in recent months that Glaceau sales are strong, and a Coke spokesman said the company is pleased with its acquisition.

But Mr. Kent acknowledges that he faces stronger headwinds than were expected seven months ago. He has indicated that as CEO he'll stick to the strategic plan emphasizing closer cooperation with retailers, improved marketing, and aggressive expansion into juice and other drinks.

"No one knows what the world macro scene is going to be like in the next six to eight months," he said. "But my prediction is there will be some tough times, and we'll be best poised to deal with them, with our bottling partners."

Mr. Kent says Coke can revive soft-drink growth in the U.S. "I don't want to put a number on the table in terms of how soon, but we feel that we're working towards it," he said, cautioning that growth would still be "not high."

Mr. Kent, the son of a Turkish diplomat and who holds dual U.S.-Turkish citizenship, has been a major force in a turnaround led by Mr. Isdell that put the global giant back on track after years of turmoil.

He has been gradually making the transition into the CEO role since December. He will retain the title of president. Mr. Isdell, 65 years old, will remain chairman until April 2009. It isn't clear whether Mr. Kent will also assume that role then.

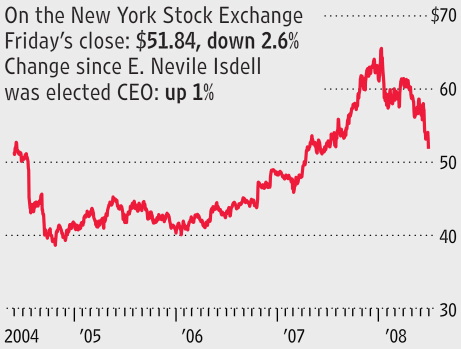
Working closely together, Messrs. Isdell and Kent found a U.S. hit in Coca-Cola Zero, the company's new diet cola, and accelerated international soft drink sales by fixing ailing bottlers and troubled markets like Japan, India and the Philippines. But they haven't managed to reverse declines in U.S. sales of carbonated soft drinks. Now, the weak economy, along with negative publicity about the environmental impact of plastic bottles, is turning some U.S. consumers off once fast-growing drinks like bottled water, juices and teas.

Coca-Cola Enterprises Inc., which handles Coke sales in most of the U.S., warned in May that second-quarter profits would slip. **Coca-Cola Hellenic Bottling Co.**, whose sales territory includes Eastern Europe, earlier this month lowered its forecasts, citing slowing sales in Italy, Romania, and Ukraine.

DAILY SHARE PRICE

Coca-Cola Co.

On the New York Stock Exchange
Friday's close: **$51.84, down 2.6%**
Change since E. Nevile Isdell was elected CEO: **up 1%**



Source: WSJ Market Data Group

Muhtar Kent, right, to succeed Isdell as CEO as of July 1

Russian resolution: Fortis taps tycoon Kerimov for funds

Russian investors could be the new benefactors for Western banks seeking cash to shore up their shaky finances.

In a sign that banks are looking beyond Asian and Middle Eastern investors for help, Dutch-Belgian bank **Fortis** NV is tapping Russian billionaire Suleiman Kerimov for a €400 million, or about $630 million, capital injection, according to people familiar with the matter.

By **Carrick Mollenkamp** *in London and* **Gregory L. White** *in Moscow*

The midsize European bank, which last week surprised shareholders with plans to raise some €8.3 billion, has secured the money from Mr. Kerimov's Swiss-based investment vehicle, **Millenium Group**, as part of a €1.5 billion share issue, the people said. Millenium Group already owns about 2% of Fortis shares along with stakes in U.S. investment bank **Morgan Stanley**, Swiss bank **Credit Suisse Group** and **Deutsche Bank** AG of Germany, according to a person close to Millenium.

Mr. Kerimov has a reputation for being demanding of the companies in which he invests—an approach that could turn up the heat on Fortis CEO Jean-Paul Votron. In an interview last week, Mr. Votron said he had the full support of the Fortis board for the capital-raising efforts, which he said are necessary because of a rapidly worsening economic outlook. A Fortis spokesman declined to comment, citing shareholder confidentiality.

Banks in the U.S. and Europe may have little choice but to look further afield for money in coming months. Regulators and investors are demanding that financial institutions build stronger capital cushions against losses that are expected to increase through 2009. At the same time, Asian and Middle Eastern investors' appetite for financial stocks may wane as more banks turn to them—and return to them—for help.

European banks' recent approaches to investors have met with varying success. Last week, U.K. bank **Barclays** PLC sold stakes to investors from Qatar, China, Japan and Singapore as part of a 4.5 billion British pound ($8.97 billion) capital-raising effort. Millenium also took part in a £12 billion sale of shares to existing shareholders by the **Royal Bank of Scotland Group** PLC, investing about €700 million, according to a person familiar with the matter. An RBS spokeswoman declined to comment.

A person close to Millenium said he agreed with other investors' concerns over how Fortis management has handled its share offering. The stock plunged nearly 20% Thursday after Fortis announced its capital-raising plans, which included selling assets and withholding a €1.3 billion midyear dividend.

Fortis moved quickly to prop up its share price. Shortly before the London market closed Thursday, Count Maurice Lippens, a powerful Belgian businessman and Fortis Chairman, telephoned Allen Vine, a veteran of Merrill Lynch & Co. who heads Millennium, to ask him to join in the share offering, according to a person familiar with the conversation.

Mr. Vine, along with other investors, agreed to buy shares at €10 apiece. On Friday, Fortis shares rose 4.4% to €10.65 a share. Mr. Kerimov, 42 years old, keeps a low profile even though he is one of Russia's richest men. His name did make the news in 2006 when he was badly burned after his Ferrari crashed in the French Riviera town of Nice.

A person familiar with Mr. Kerimov's holdings said he has about $30 billion in equities, dominated by large holdings in OAO **Gazprom** and a stake of about 7% in OAO **Sberbank**, the national savings bank. Outside Russia, his main positions are in oil, metals and mining shares, with beaten-down financial stocks held for diversification, this person said. All these holdings are portfolio investments—Millennium hasn't sought board seats or other management influence, this person said.

Mr. Kerimov, a native of the impoverished Caucasus republic of Dagestan, made his fortune in the rough-and-tumble world of Russian business in the 1990s, with interests in finance and trading.

U.S. labor audit frustrates some big firms

Review delays plans for foreign workers; limits set on advice

By Nathan Koppel

Some of the biggest American companies are expected to face delays in securing green cards for some foreign workers because of a U.S. Labor Department audit that has sparked anger in legal and business circles.

The department announced earlier this month that it was auditing labor applications filed by immigration law firm **Fragomen, Del Rey, Bernsen & Loewy** LLP of New York, which the department alleged had improperly advised some clients seeking permanent-resident status, or green cards, for foreign workers.

People familiar with the firm said it has about 3,000 green-card applications pending on behalf of companies, including **International Business Machines** Corp., **General Electric** Co. and **Bank of America** Corp.

The audit is expected to delay those applications, the department said. GE said it has 70 applications subject to the audit.

"Our actions on behalf of our clients have at all times been lawful and proper," said Austin Fragomen Jr., the firm's chairman.

Gregory Jacob, the Labor Department's solicitor, said the department routinely audits applications for green cards "to ensure the integrity of the program." The audits typically delay the applications by no more than eight months, he said. The department hasn't indicated that Fragomen's clients engaged in wrongdoing.

At issue are Labor Department regulations that limit the extent to which immigration lawyers can advise companies in the green-card application process. Many companies recruit highly skilled foreign workers, especially in certain fields such as engineering and physical sciences. Foreign workers typically can remain in the U.S. on temporary visas only for as many as six years, prompting companies to sponsor the workers for green cards, which would allow them to remain indefinitely.

As a condition for such green cards, companies must first certify that they haven't been able to find "minimally qualified" U.S. workers willing to fill the jobs at issue. The Labor Department contends its regulations limit the role lawyers can play in advising companies whether American workers can be deemed minimally qualified. The department has said the regulations safeguard "against the use of attorneys to find reasons not to hire U.S. workers."

The department's "new interpretation of the regulations has no basis in law and deprives the [Fragomen] firm's clients of their constitutional right to counsel," said Aaron R. Marcu, who represents the firm in the audit.

The Labor Department said the firm improperly instructed some clients to contact Fragomen lawyers before hiring apparently qualified U.S. workers. "There is no legitimate reason to consult with immigration attorneys before hiring apparently qualified U.S. workers," the department said in announcing it would audit every application Fragomen lawyers had filed for companies seeking green cards for foreign workers.

"We do not tell our clients whom to hire or not hire," said Mr. Fragomen.

The audit, say immigration lawyers, could deter companies from asking lawyers to help them decipher Labor Department rules. "Attorneys need to be involved in [the green-card] process," said New York immigration lawyer Philip Kleiner. "It's more complicated than tax work."

—Miriam Jordan contributed to this article.

News Corp. joins Permira to take NDS private

By Shira Ovide

News Corp. is teaming up with a big European private-equity firm to take private its majority-owned U.K. affiliate **NDS Group** PLC in a deal worth \$3.6 billion.

As part of the deal, News Corp. will reduce its stake in NDS to 49% from its current level of 72% equity and 96% of the voting. The private-equity firm leading the buyout, **Permira Advisers** LLP, will end up as the majority owner of NDS.

NDS provides technology for television set-top boxes, including those used by News Corp.'s satellite-TV services **British Sky Broadcasting Group** and **SKY Italia.** While the company has been doing well lately—its operating income rose 28% in the nine months to March 31—its ownership structure had made it difficult for News Corp. to tap the unit's cash without taking a substantial tax hit. News Corp. owns Wall Street Journal publisher Dow Jones & Co.

News Corp.'s take from the deal will be \$1.7 billion in cash and debt, the company said. Stripping out about \$696 million in cash on NDS's balance sheet, the purchase price represents a premium of about 27% to Friday's closing price.

News Corp. said the deal represents an "attractive alternative" for public shareholders to cash out of an "illiquid investment at an attractive price in a very challenged financing and economic market environment." A Permira spokeswoman declined to comment.

—Peter Lattman contributed to this article.

CORPORATE NEWS

Sony Ericsson's warning

Profit, margin hit by slowing demand, delayed shipments

BY IAN EDMONDSON AND ADRIAN KERR

STOCKHOLM—**Sony Ericsson Mobile Communications** AB issued another profit warning Friday, saying second-quarter sales and profit would be hit by slowing demand and a delay in shipping new products.

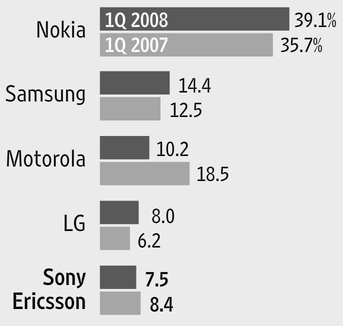
The profit warning is the second in as many quarters as the mobile-phone maker continues to be hit hard by a weakening economy in Western Europe, hurting demand for the mid- to high-end handsets it specializes in. In contrast, rival **Nokia** Corp. has a much broader portfolio of devices in the low and midtier segments, as well as higher sales in emerging markets.

The announcement signals a difficult start for Sony Ericsson's president, Hideki Komiyama, who took over from Miles Flint late last year. Mr. Komiyama has said Sony Ericsson, which focuses on high-value music and camera phones, plans to expand its sales networks and take other steps to boost sales in Europe and emerging markets. Sony Ericsson issued a profit warning in March, citing slower growth in Western European markets.

The company, a joint venture between Sweden's **Telefon AB L.M. Ericsson** and Japan's **Sony** Corp., said it plans to ship about 24 million phones during the second quarter with an estimated average selling price of €115 ($181), for a possible €2.76 billion in sales.

Top five mobile makers

Global market share of handset sales



Source: Gartner Inc.

In the first quarter, Sony Ericsson shipped 22.3 million units with an average selling price of €121, and reported revenue of €2.7 billion.

Gross margin is expected to decline both from a year earlier and from the first quarter, and pretax profit is estimated to be about break-even, the company said.

Aldo Liguori, vice president of communications, said a number of new products expected for release during the second quarter "started shipping later than we had originally planned," without elaborating. He said further details would be provided with second-quarter results July 18.

Mr. Liguori said the company continues to invest in research and development in high-end products. He said the first product in the company's new sub-brand, the Experia X1 slider phone, will ship in the fourth quarter.

Despite a growing global cellphone market, research firm Gartner said Western European mobile-phone sales fell 16% in the first quarter from a year earlier, the first drop in the region since Gartner began tracking device sales in 2001.

With its reliance on Western Europe, Sony Ericsson slipped to fifth-largest mobile-phone maker in terms of units shipped in the first quarter behind Nokia, **Motorola** Inc., **Samsung Electronics** Co. and **LG Electronics** Inc., according to Gartner.

Market leader Nokia increased its share to 39% in the first quarter from 38% in the fourth quarter; Sony Ericsson saw its market share drop to 7.5% from 9% in the fourth quarter.

Nomura analyst Richard Windsor said investors had expected Sony Ericsson to recover in the second half of the year despite challenges from its high exposure to the weak Western European market and competition from Korean peers such as Samsung and LG.

Still, it may no longer be just European markets that are the problem. "In the past few weeks we've been having more negative reports from emerging markets," where growth may not be as strong as anticipated, said Gartner research director Carolina Milanesi.

Ericsson shares fell five Swedish kronor (84 cents), or 7.6%, to 60.80 kronor in Stockholm. Nokia fell 73 European cents, or 4.5%, to €15.38 in Helsinki trading.

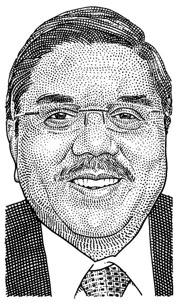
Suzlon faces obstacles to its U.S. ambitions

BY TOM WRIGHT

NEW DELHI—The grand U.S. ambitions of Indian wind-turbine manufacturer **Suzlon Energy** Ltd. are facing mounting problems.

The Indian company, the world's fifth-largest wind-turbine maker by sales, acknowledged earlier this year that 65 giant blades on turbines it had sold in the U.S. Midwest were cracking because of the extreme gusts in the region. The company is reinforcing 1,251 blades, almost the total it has sold in the U.S.

Now, other problems are emerging, in part because the company quickly ramped up U.S. sales to meet burgeoning demand for alternative energy.



Tulsi Tanti

Suzlon turbines at wind-farm projects managed by **Deere** & Co., one of its largest U.S. customers, with 250 Suzlon turbines, aren't producing enough power to meet Suzlon's sales contracts, according to people familiar with the matter. Like other turbine producers, Suzlon promises its customers that turbines will be available to produce power at least 95% of the time the wind is blowing, with only limited downtime for maintenance and repairs. But in some cases the so-called availability rate has been significantly lower, potentially exposing the company to penalties, these people said.

Some turbines have failed to produce enough power because of incompatibility with the U.S. electricity grid. The power grid in India, where Suzlon has most of its operations, runs on a power frequency of 50 hertz, or cycles per second. U.S. electricity grids run on 60 hertz. Suzlon quickly converted turbines to work in the U.S. without extensive testing, these people said.

In written answers to questions, Suzlon said it has a 60-hertz version of its main turbine that is suitable for the U.S. grid. It declined to comment further.

Other Suzlon turbines have broken down because of cold weather in the Midwest, said one person familiar with the matter. Suzlon engineers had to install heaters for the control panels, which sit just behind the blades atop the windmill's 80-meter tower. Those heaters caused electrical problems, the person said.

Suzlon, based in Pune, India, said it was committed to fixing the troubles it has encountered in the U.S. "In the initial stages of entry in a new market, it is common to have some teething problems and we are fully geared to take care of these," the company said. To date, Suzlon has disclosed only the problems with the turbine blades, which it is spending $30 million to fix. A spokesman for Deere declined to comment.

Suzlon shot into the top ranks of global wind-turbine manufacturers in less than a decade. Founder Tulsi Tanti saw an opportunity to license European technology and manufacture it at cheaper rates in India. Suzlon's international expansion has tapped into the soaring global demand for green energy, which in many countries, including the U.S., is promoted through tax breaks.

Three years ago, 90% of Suzlon's sales were in India; today, international sales account for 60%. Suzlon's presentations to investors predict exports will jump to 75% of total sales next year, with the U.S., China and Europe accounting for an equal share. Since it began its push into the U.S. in 2005, Suzlon has secured an 8% share of the U.S. wind market, the world's fastest growing.

Mr. Tanti has been able to exploit a shortage of turbines from more-established manufacturers like Denmark's **Vestas** AS, the world's largest wind-turbine producer, and **General Electric** Co.

Tech firms ally to fight patent suits

BY AMOL SHARMA

Several tech-industry heavyweights are banding together to defend themselves against patent-infringement lawsuits. Their plan: to buy up key intellectual property before it falls into the hands of parties that could use it against them, say people familiar with the matter.

Verizon Communications Inc., **Google** Inc., **Cisco Systems** Inc., **Telefon AB L.M. Ericsson** and **Hewlett-Packard** Co. are among the companies that have joined a group calling itself the Allied Security Trust, these people say.

One high-profile case that sent shivers through the tech industry was BlackBerry maker **Research in Motion** Ltd.'s $612.5 million settlement in 2006 with a small Virginia company, **NTP** Inc., which held patents related to wireless email delivery but had never produced a mobile-email device.

Also troubling for tech firms, a number of companies have emerged in recent years with a business model based on acquiring intellectual property and using it as leverage to extract royalties from operating companies. These companies, which critics call "patent trolls," look for patents that come on the market from companies going out of business, universities and individual inventors.

The Coalition for Patent Fairness, a group of technology and financial-services companies that has lobbied for patent legislation in Washington, says the number of patent-related lawsuits rose to nearly 2,500 through October of last year from 921 in 1990. The "trolls" aren't the only ones suing. Many companies, including **Qualcomm** Inc. and **Rambus** Inc., have been aggressive about enforcing their patents on their rivals.

The new Allied Security Trust aims to purchase patents that might otherwise be used to bring what they consider frivolous infringement claims against them. Companies will pay roughly $250,000 to join the group and will each put about $5 million into escrow with the organization, to go toward future patent purchases, the people familiar with the initiative said.

Tech companies have tried various maneuvers to protect themselves, including investing in Intellectual Ventures LLC, a patent-holding firm founded by former **Microsoft** Corp. executive Nathan Myhrvold. The companies provide money to help Mr. Myhrvold purchase patents, and he in turn grants them a license to his portfolio. But some in the tech industry fear that Mr. Myhrvold's venture, which has aggregated thousands of patents in areas such as networking and software, may itself become an aggressive patent enforcer down the road. Myhrvold has said litigation isn't part of his venture's strategy, but hasn't ruled it out.

To head off such concerns, companies in the new group will sell the patents they acquire after they have granted themselves a nonexclusive license to the underlying technology. "It will never be an enforcement vehicle," said the group's chief executive Brian Hinman, a former vice president of intellectual property and licensing at **International Business Machines** Corp. "It isn't the intent of the companies to make money on the transactions." He declined to confirm who the group's member companies are.

Ron Epstein, chief executive of patent brokerage IPotential LLC, says companies that aggregate intellectual property are a boon to individual inventors who otherwise struggle to make money from their work. Mr. Epstein, formerly director of licensing at **Intel** Corp., said any company should be free to enforce its patent rights, regardless of whether it produces any products or services. "That seems to me a distinction without a difference," he said.

—Don Clark contributed to this article.

Managing

Getting a grip

More companies are linking manager pay to employee retention > **Page 28**

ABC Learning hints at sale of its entire U.K. operations

BY SUSAN MURDOCH

MELBOURNE, Australia—Child-care operator **ABC Learning Centres** Ltd. said Friday it may sell all of its operations in the U.K., expanding on the current sale of its U.K. vouchers business.

Investors are likely to welcome plans to sell the U.K. operations, which could allow ABC to further pay down debt and focus on lifting the performance of its Australian and New Zealand business.

Shares in ABC were at 1.15 Australian dollars (US$1.10), up 12 Australian cents, or nearly 12%, on the Australian Stock Exchange, extending a rally in the stock from Wednesday.

"The company is now considering selling the U.K. nurseries business with the vouchers business and the U.K. property assets in a single transaction," ABC said in a statement. "A number of highly conditional indicative proposals for the entire U.K. business have been received."

The announcement follows media reports this past week that six bids have emerged from rival child-care centers and private-equity firms for the whole U.K. operation or the two parts of the operation separately.

ABC acquired the U.K.-based Busy Bees business in December 2006 for £71 million ($141.6 million), including 33 centers and a voucher business, which allows parents to pay child-care fees from their pretax income. ABC spent another £31.2 million in August 2007 to buy Leapfrog Nurseries, which runs a further 88 centers.

The company had previously given guidance of a A$100 million gain on the sale of the vouchers business, with a transaction expected to be completed in the first half of the financial year to June 30, 2009.

"If the company concludes a sale for the entire U.K. business, the profit would be lower as the sale would crystallize into cash the previously recognized A$51.1 million discount on the acquisition of the Leapfrog Nurseries business," it said.

ABC, one of Australia's most high-profile casualties of the global credit squeeze, Wednesday said it had completed the sale of a 60% stake in its U.S. business.

CORPORATE NEWS

Anheuser maps strategy

Cost cuts, buyback of stock are unlikely to deter rival InBev

By David Kesmodel
And Matthew Karnitschnig

Anheuser-Busch Cos., trumpeting a new business plan after rebuffing an unsolicited takeover bid by rival **InBev** NV, said Friday it planned to slash about 1,000 jobs, raise beer prices and buy back more of its shares.

The St. Louis brewer's strategy, laid out in a conference call with investors, included $500 million in new cost savings, and higher earnings targets. But the plan is unlikely to deter InBev, which has hinted it might turn hostile and take its $46.35 billion bid for the dominant U.S. brewer directly to Anheuser's shareholders.

Anheuser executives said they intend to cut $1 billion in costs by 2010. They said that the cost-cutting plan exceeds a previous program to trim costs by about $500 million over four years, and that the new effort was in the works before InBev made its bid on June 11.

The U.S. brewer reiterated its view that InBev's $65-a-share cash offer "substantially" undervalued the brewer, but indicated it would be open to considering higher offers. People close to the company said it would entertain an offer in the $70-a-share range.

Anheuser estimates that the measures it is undertaking to improve earnings would result in a share price of $62, or a few dollars below InBev's $65 offer. Anheuser stock, which has been boosted by InBev's offer, closed on Friday at $62.26, up 91 cents, in 4 p.m. New York Stock Exchange composite trading.

"There's nothing they are offering that we can't do ourselves," said one person close to Anheuser. "They're trying to push people into a corner."

While investors generally welcomed Anheuser's plan, some questioned whether it would substantially boost the company's shares, given the recent sharp declines in the overall market.


August Busch IV

The two sides have fundamentally different views of how Anheuser should be valued.

InBev prefers a calculation that doesn't include Anheuser's 50% stake in Mexican brewer **Grupo Modelo** SA or its 27% stake in Chinese brewer **Tsingtao**. By that method, InBev's offer values Anheuser at 12 times 2007 earnings before interest, taxes, depreciation and amortization. InBev argues that its bid for Anheuser values the brewer above other recent beer industry transactions that, by its calculation, have been in the 11-12 times Ebitda range.

Anheuser prefers to reflect the value of both Modelo and Tsingtao, however. Including those holdings, it says InBev's offer is only worth 11.5 times Anheuser's 2007 Ebitda. What's more, it puts the value of other recent beer deals, including the purchase of Scottish & Newcastle PLC by Heineken NV and Carlsberg AS in the 13-14 times Ebitda range.

As part of its new cost-cutting plan, Anheuser said it would offer an early-retirement program in this year's third quarter that, combined with attrition, would pare its salaried work force of about 8,600 people by 10% to 15%.

The brewer said beer sales this summer have exceeded expectations. It said the cost cuts and planned price increases would help raise its revenue per barrel and its earnings. Its earnings forecast is $3.13 a share for 2008 and $3.90 a share for 2009. Both estimates are above analysts' projections.

"I have absolute confidence in the team," Anheuser Chief Executive August Busch IV said in an interview. "We have been working seriously on this for a long time."

He said Anheuser's plan to drive shareholder value was superior to InBev's because "we know where the costs are."

The brewer said it had decided against selling its theme-park and packaging businesses.

"I didn't expect much meat on the bones, but they gave a very compelling presentation," said Dan Poole, an analyst with National City Corp.'s private-client group in Cleveland, which manages $33 billion, including Anheuser shares.

GLOBAL BUSINESS BRIEFS

Pernod Ricard SA

Antitrust review is extended for planned Vin & Sprit deal

The European Commission extended by 10 working days its antitrust probe into French wine-and-spirits company **Pernod Ricard** SA's plan to buy Swedish alcohol producer **Vin & Sprit** AB, the maker of Absolut vodka. The extension comes after Pernod made certain commitments to clear competition hurdles. The commission, the European Union's executive arm, didn't specify what the company offered, but commitments often include asset sales to address market concentrations deemed to be too high. The new deadline for the commission to rule on the deal is July 17. The deal, valued at about $9.24 billion, excludes V&S's 10% stake in **Beam Global Spirits & Wine** Inc. and Absolut's U.S. distributor, which will be sold to **Fortune Brands** Inc.

Volkswagen AG

Hail the size of table-tennis balls damaged some 30,000 new vehicles at a Volkswagen plant in Germany, a company spokesman said. The hailstorm on June 22 hit a lot filled with new cars at a plant in Emden, on the North Sea coast. The cars were waiting to be shipped overseas. Most of the vehicles sustained heavy paint and body damage, but little glass was broken, **Volkswagen** AG spokesman Christoph Adomat said. "We can't make a damage estimate yet," he said. Volkswagen was insured against the damage, and each vehicle will be repaired and inspected before being put up for sale, Mr. Adomat said.

Tesco PLC

The U.K.'s biggest retailer, **Tesco** PLC, said it is confident of sustaining strong growth, just over two weeks after warning that sales growth of nonfood items was slowing as shoppers become more cautious about spending. On June 10, Tesco said sales growth of items such as clothes, electronics and household goods had been slower than growth in food items "for the first time in a long while." Growth in food sales had also slowed. At the time, Tesco reported a 9.4% rise in U.K. sales for the 13 weeks ended May 24. Total sales jumped 14%, thanks to a 27% rise in international sales. Tesco operates about 3,320 stores, of which 1,990 are in the U.K.

Pearson PLC

U.K.-based **Pearson** PLC, which publishes U.S. educational materials, the Financial Times newspaper and Penguin books, posted sales and profit figures for 2007 to reflect a new, geographical way of reporting results. The company republished last year's figures in order to provide investors with comparative numbers for first-half 2008 results due July 28. The breakdown reflects a new management structure the company announced in April. Pearson said 2007 sales totaled £1.67 billion (US$3.33 billion) at its North American education division, £735 million at its international education division and £226 million at its professional division.

—Compiled from staff and wire service reports.

Siemens plans to slash 17,200 jobs world-wide

By Mike Esterl

Siemens AG plans to slash 17,200 jobs world-wide—or about 4% of the German engineering company's work force—in a broad cost-cutting drive amid tougher global economic conditions, according to a person familiar with the matter.

The downsizing, aimed primarily at white-collar employees, coincides with Chief Executive Peter Löscher's first anniversary at the helm of the conglomerate, which makes products ranging from trains to light bulbs. Mr. Löscher has promised to cut selling and administrative costs by €1.2 billion ($1.89 billion), or roughly a tenth, by 2010 to boost profit margins.


Peter Löscher

Siemens has focused on shedding blue-collar jobs. Mr. Löscher is taking steps to thin out management ranks after collapsing the company into three divisions and combining 70 regional administrations into 20. Munich-based Siemens is active in 190 countries.

Germany will be particularly hard hit by the restructuring, with 6,400 jobs earmarked for elimination, according to a person briefed on the plans. The remainder of the cuts will be divided between the rest of Europe and other parts of the world. Siemens employed 435,000 workers at the end of March, including 136,000 in Germany.

In a letter to employees Friday, Mr. Löscher said a "significant" part of the €1.2 billion in cost savings will come from trimming external consulting expenses and information-technology costs. He added that "a further substantial contribution" will be derived from streamlining administrative functions.

"This is all the more important right now because the risks for the world economy have substantially increased," wrote Mr. Löscher. "We must assume that we, too, will feel the effect of these risks in the coming months."

Siemens issued a profit warning in March because of project delays, rising costs and canceled orders. It said in April that it expected revenue in the fiscal year ending Sept. 30, to grow twice as fast as the global economy and that operating profit would match that of the previous year, but didn't rule out more restructuring costs.

Mr. Löscher hopes to avoid forced layoffs, and affected employees will be offered financial incentives, said a person familiar with the matter. The plans are to be detailed at a July 7 meeting with worker representatives, and negotiations should begin shortly afterward, the person added. Siemens said in February it would reduce the work force at one of its telecommunications-equipment units by 6,800. It is in talks with potential partners and buyers to divest the unprofitable unit as it focuses on energy, health care and industrial infrastructure. The 17,200 planned cuts are in addition to the reductions at the telecom-equipment unit.

Revenue rose 1% to €18.09 billion in the quarter ended March 31 from a year earlier.

ECONOMY & POLITICS

ITALY

Berlusconi, other officials may get immunity via bill

ITALY'S government proposed legislation that would grant immunity from prosecution to the country's top four officials, including Premier Silvio Berlusconi. Mr. Berlusconi, left, is currently a defendant in a corruption trial in Milan. The Cabinet approved the measure during a meeting in Rome and sent it to Parliament for a vote, Justice Minister Angelino Alfano said. Both houses of Parliament are controlled by Mr. Berlusconi's conservative forces. The bill would grant immunity from prosecution to the president, the premier and the speakers of both houses of Parliament during their mandates.

—Associated Press

EUROPEAN UNION

Deal to cut CO_2 emissions includes flights in region

EUROPEAN Union officials have reached a preliminary deal to include airlines flying to and from the EU in the bloc's strategy to cut carbon-dioxide emissions—a move that could raise the cost of flying and provoke a dispute with the U.S. Under the deal, all flights starting or landing in the EU, including intercontinental flights, will be included in the EU's emission-trading system from 2012. Pollution permits granted to airlines would initially be capped at 97% of their average emissions for 2004-2006. From 2013, the cap would drop to 95%. The deal still needs to be formally approved by the EU's 27 member states and by the European Parliament, which will vote in July.

—Associated Press

RUSSIA

EU cooperation talks continue amid disputes

RUSSIAN and European Union officials will continue their discussions over a wide-reaching cooperation agreement this week in Brussels, after disputes over energy investment and human rights hindered the start of talks last week in Siberia.

"The future agreement will be an instrument to draw Russia and the European Union closer," said Russian President Dmitry Medvedev. The EU wants Moscow to open its energy sector to investors, but the Kremlin intends to maintain its control. Moscow has pushed for more opportunity for its companies to invest in oil- and gas-distribution assets in Europe to diversify its energy business.

—Associated Press

Pakistani troops rout Islamic militants

Successful offensive signifies major shift in official approach

BY ZAHID HUSSAIN
Islamabad

PAKISTANI SECURITY forces on Sunday drove out Islamic militants who were threatening the main supply route through Pakistan to NATO forces in neighboring Afghanistan.

As a result of the offensive, which signaled a significant shift in tactics by Pakistan's government as it tries to combat growing extremism, the government's talks with the militants appear to have collapsed.

The government forces destroyed several militant hideouts and killed a senior militant commander in the Bara district close to Peshawar, capital of the North West Frontier province. The troops also have occupied the militants' posts on the surrounding hills and have enforced a strict curfew in the area.

More than 1,000 army and paramilitary troops, backed by tanks and helicopter gunships, launched the operation Saturday. The offensive came after Peshawar, a city of about three million and a key staging post for supplies to NATO forces in Afghanistan, was put under a virtual siege by militants in the past week.

The offensive is the first major military action Pakistan's government has launched against militants since it took power after February's landmark elections, which ended nine years of military-backed rule. The new government pursued peace negotiations in an effort to stop the militant attacks that have grown in Pakistani cities in the past year. But that approach has been accompanied by growing alarm about the consolidation and spread of militant influence in the northwest.

In the offensive, troops dynamited the house of Mangal Bagh, a commander whose fighters had been closing in on Peshawar. Mr. Bagh, whose group is known as Lashkar-e-Islami, or Army of Islam, has hundreds of heavily armed men under his control. He had established his own Islamic-justice system in the areas he controls, executing people after summary trials. Mr. Bagh fled to the Tirah Valley near the Afghan border.

Associated Press

Pakistani forces bombard suspected militant hideouts on Saturday, helping drive out militants who were threatening the main supply route through Pakistan

A senior security official said Mr. Bagh's followers had ganged up with criminals who have regularly ambushed supply convoys bound for coalition troops in Afghanistan.

Major Gen. Mohammed Aslam Khattak, the operation's commanding officer, said maximum force was used to clear the area of militants and re-establish the authority of the government. He said the operation could be extended against other militant leaders.

The area where the offensive took place in the Khyber tribal area, home to the historic Khyber Pass. It had been relatively peaceful until militants tried to extend their control to the main cities of the area. Hundreds of people have died in clashes over the past several months.

Last week the government of Prime Minister Yousaf Raza Gilani authorized Gen. Ashfaq Kayani, the chief of army staff, to start the operation. Mr. Gilani said the government wouldn't talk to militants until they laid down their weapons and renounced violence. "We cannot surrender to the people who are beheading people and burning down girls' schools," Mr. Gilani said Sunday.

The offensive has halted the government's peace negotiations with militants in the South Waziristan tribal region and in the Swat Valley. Baitullah Mehsud, a top militant commander, said he was suspending talks between his allies and the government and warned that his forces could restart attacks in Pakistan's main cities.

Mr. Mehsud, who is head of a movement called Tehrik-e-Taliban Pakistan, has been accused of masterminding dozens of suicide attacks targeting security forces and government installations in Islamabad and in Rawalpindi, the headquarters of Pakistan army. He has also been accused of organizing the December assassination of former Prime Minister Benazir Bhutto, though he denies any involvement.

Mugabe starts sixth term as African leaders debate action

ASSOCIATED PRESS

HARARE, Zimbabwe—Robert Mugabe was sworn in for a sixth term as Zimbabwe's president and promised "serious talks" with the opposition. He was sworn in soon after the election results were announced Sunday.

Many countries throughout the world have condemned the presidential runoff as a sham. Mr. Mugabe was the only candidate in the runoff. Opposition candidate Morgan Tsvangirai withdrew from the race because of widespread state-sponsored violence against opposition supporters, and he is calling for negotiations.

Some African leaders have urged Mr. Mugabe to enter power-sharing talks with Mr. Tsvangirai.

"The inauguration is meaningless," Mr. Tsvangirai, leader of the opposition Movement for Democratic Change, told Associated Press Television News. "The world has said so, Zimbabwe has said so. So it's an exercise in self-delusion."

The 84-year-old Mr. Mugabe, Zimbabwe's president since independence from Britain in 1980, was expected to depart for an African Union summit that opens Monday in Egypt. There, he can expect to come under pressure from other African leaders to negotiate a power sharing agreement with Mr. Tsvangirai, who said he believed members of the ruling ZANU-PF party were ready for talks.

"I think that the reality has dawned on all the elites in ZANU-PF," Mr. Tsvangirai said. "Without negotiating with the MDC this is a dead-end."

Total results, according to the electoral commission, were more than two million votes for Mr. Mugabe, and 233,000 for Mr. Tsvangirai. Turnout was put at about 42%, and 131,000 ballots had been defaced or otherwise spoiled. Neither candidate got credit for the spoiled ballots.

Independent observers had said many of those who did go to the polls voted out of fear, and Mr. Tsvangirai's supporters may have spoiled their ballots rather than vote for Mr. Mugabe.

In Bulawayo, official results showed Mr. Mugabe got 21,127 votes, Mr. Tsvangirai 13,291, while 9,166 ballots were spoiled. Bulawayo is Zimbabwe's second main city and an opposition stronghold.

A high number of spoiled ballots had been noted earlier Sunday by Marwick Khumalo, a member of parliament from Swaziland who led a team of election observers from across the continent under the auspices of the AU-sponsored Pan-African Parliament. Mr. Khumalo said some ballots were defaced with "unpalatable messages." He declined to elaborate, but left the impression the messages expressed hostility toward Mr. Mugabe.

In contrast, observers from the Southern African Development Community have been split over whether to declare the vote free and fair, reflecting dissension among Mr. Mugabe's neighbors over how hard to push for reform.

Human Rights Watch said in a statement Sunday that Mugabe supporters beat people who couldn't prove they voted.

Mr. Tsvangirai won the most votes in the first round of presidential voting in March, but not enough for an outright victory. Official results in March gave Mr. Tsvangirai more than 47% of the vote and Mr. Mugabe 43%. Results Sunday gave Mr. Mugabe 85% of the vote.

Mr. Mugabe said on the eve of the vote he was open to talks, but pressed ahead with the election, apparently hoping a victory would give him leverage at the negotiating table. It now appears he will be able to draw little legitimacy from the runoff.

Mr. Khumalo, the observer, urged African and regional leaders to "engage the broader political leadership in Zimbabwe into a negotiated transitional settlement."

With the election discredited and attention turning to the possibility of negotiations, Mr. Mugabe's role in any future government could be a sticking point.

ECONOMY & POLITICS

Malaysia's Anwar faces allegations again

Politician is accused of sodomy as he seeks prime minister post

By James Hookway

Malaysia's police opened an investigation into allegations that main opposition leader Anwar Ibrahim sodomized a male aide, further clouding the nation's political outlook as Mr. Anwar vies to become the country's next prime minister.

The allegation of sodomy—a criminal act in Malaysia—is virtually identical to a charge made against Mr. Anwar a decade ago that left him in Malaysia's political wilderness for years before the party he helps lead gained significant ground in elections in March.

Saying his life was under threat, the 60-year-old Mr. Anwar took refuge at the Turkish Embassy in Kuala Lumpur early Sunday morning.

In a prepared statement, he called the sodomy allegation made in a police complaint by the 23-year-old aide "a complete fabrication." Mr. Anwar said the accusation was trumped up "to undermine the forces of reform and renewal which were unleashed in the March 2008 election."

His wife, Wan Azizah Wan Ismail, at a news conference called it a political conspiracy to marginalize her husband and "a repeat of what happened 10 years ago."

Mr. Anwar's People's Justice Party, or Parti Keadilan Rakyat, won 82 seats along with a group of allies in the 222-seat lower house of Parliament in the March 8 vote. The alliance needs 30 more seats to replace the National Front coalition that has ruled the country since independence in 1957. The charismatic Mr. Anwar has been trying to attract others to his alliance in the hopes of meeting that target by September and forcing a change in government.

In the March election, Mr. Anwar's alliance scored strongly with ethnic-Chinese and Indians growing frustrated with Malaysia's decades-long affirmative-action policy designed to benefit the majority Malay population. An increasing number of Malay voters who are tired of corruption and sex scandals involving politicians are turning to another alliance member: the conservative Muslim movement known as Parti Islam Se-Malaysia.

Swiss bank UBS said in mid June that if Mr. Anwar's loose alliance gets the numbers it needs, the current government could be replaced by an "eclectic mix of parties in a hastily assembled coalition."

The political tensions unleashed in Malaysia in recent months have combined with growing discontent over rising fuel and food prices to form an uncertain outlook for the multiethnic nation of 26 million people, one of Southeast Asia's leading exporters of palm oil, rubber and electronic components.

The allegation against Mr. Anwar adds to the political pressures being felt across the region. Thailand is still seeing large street protests against what demonstrators see as the continuing influence of former Prime Minister Thaksin Shinawatra, a billionaire populist ousted in a military coup 21 months ago. Vietnam's Communist leaders are facing labor strikes as inflation reached an annualized rate of 27% in June. Rising inflation also is creating political backlash in India, Indonesia and the Philippines.

Mr. Anwar first came to prominence as a student firebrand who promoted Muslim issues. In the early 1980s, then-Prime Minister Mahathir Mohamad brought him into the largest ethnic-Malay party, the United Malays National Organization. Mr. Anwar quickly climbed the ranks, overtaking more senior colleagues.

In early 1998, Mr. Anwar was a high-flying deputy prime minister and finance minister, and considered Dr. Mahathir's heir apparent. But later that year, at the height of Asia's financial crisis, he challenged Dr. Mahathir's handling of the economy, especially his promotion of large, ethnic-Malay conglomerates with strong ties to the ruling party. He was sacked by Dr. Mahathir from his posts and almost immediately charged with sodomy and corruption—allegations that Mr. Anwar has always maintained were cooked up to prevent him from challenging the prime minister for power. Dr. Mahathir has denied his former ally's allegations.

In his statement early Sunday, Mr. Anwar said, "I believe we are witnessing a repeat of the methods used against me in 1998 when false allegations were made under duress."

Anwar Ibrahim

After his arrest in 1998, Mr. Anwar appeared in a Kuala Lumpur court with a black eye after being beaten behind bars by Malaysia's then police chief. He instantly became a figurehead for the country's opposition parties, which long bristled at the authoritarian manner in Dr. Mahathir and the National Front ruled Malaysia.

Mr. Anwar was eventually convicted on both charges. But Malaysia's highest court overturned the sodomy conviction and freed him in 2004. His corruption conviction—for allegedly abusing his power to cover up the sodomy allegations—stood and he was banned from seeking public office until April 14 this year.

The opposition leader has said he will contest the first by-election that comes up; if he gets a seat, he would be eligible to become prime minister.

Dr. Mahathir retired in 2003 after 22 years in power and was succeeded by Abdullah Ahmad Badawi. Regarding Mr. Anwar and the new police investigation, Mr. Abdullah on Sunday told reporters that the government "has no intention of wanting to make life difficult for him or harass him." The prime minister also said, "We don't have any plan to do something to him [just] because he said he has made a political comeback."

Police, meanwhile, warned Mr. Anwar's supporters not to take to the streets to protest the allegation made against him, as tens of thousands of them did in 1998.

Bakri Zinin, the federal police chief for criminal investigations, said Mr. Anwar's aide filed a complaint on Saturday stating that Mr. Anwar had sodomized him at a luxury Kuala Lumpur condominium.

Mr. Anwar's supporters identified the aide as a volunteer who joined the party in March. At her news conference, Ms. Wan Azizah, Mr. Anwar's wife, displayed photographs that she said showed the alleged victim with prominent members of the ruling party.

U.K. confidence plunges

Rising costs of fuel, worries of slowdown may crimp spending

By Joe Parkinson
And Laurence Norman

LONDON—British consumers are feeling gloomier than they have in 18 years, indicating that consumer spending could slow sharply in the months ahead, according to a survey by polling firm GfK NOP.

The survey's headline measure of consumer confidence fell to minus 34 in June from minus 29 in May—its lowest level since March 1990, when the U.K. was in a recession.

Economists surveyed by Dow Jones Newswires were expecting the measure to drop to minus 31. The headline measure has plummeted since the credit crunch began in August, when it stood at minus 4.

The drop in confidence reflects worries about the global credit crisis, falling U.K. house prices, rising fuel and food costs and concerns that the U.K. will follow the U.S. into a significant slowdown, the polling company said.

Meanwhile, Hometrack, which specializes in providing research and data on the residential property market, said house prices fell 1% in June from May. That compares with a month-to-month decline of 0.5% in May.

In the year to June, house prices fell 3.2%, compared to a decline of 1.9% in the year to May, the company said.

It was the ninth straight month of price declines, and the annual drop in prices was the steepest since September 2005.

The GfK NOP measures covering the economic outlook for the next 12 months and the climate for major purchases were at their lowest level since equivalent records began—and were even weaker than when the U.K. was in the grip of its last recession in the early 1990s.

"This month the index score continues to tumble and is almost at its lowest level since the survey began in 1974," said Rachael Joy at GfK NOP.

"With rising inflation, gloomy forecasts for interest rates and soaring fuel, utility and food prices dominating the front-page headlines, it's no surprise that confidence in the general economy is in free-fall," she said.

The decline in consumer confidence lends weight to the argument for a further cut in the Bank of England's key interest rate, which stands at 5%, following three cuts since December. However, Bank of England Governor Mervyn King stressed Thursday that the Monetary Policy Committee's mounting concerns over rising inflation trump fears of a consumer slowdown.

Data point to ECB rate boost

By Roman Kessler
And Paul Hannon

FRANKFURT—Euro-zone inflation continued to accelerate and consumer and business confidence fell, ahead of an expected move by the European Central Bank to raise interest rates.

Germany's statistics office said the country's European Union-harmonized consumer-price index jumped 3.4% in June from a year earlier, faster than May's 3.1% increase. Similar rises also were seen in Spain, where inflation jumped to 5.1% from 4.7%, and in Belgium, to 5.8% from 5.2%.

Economists said country reports suggest annual inflation in the euro zone is now close to 4%, well above the ECB's medium-term target of just below the 2%. If official figures, due Monday, confirm those estimates, economists say the ECB is almost certain to raise its key interest rate Thursday to 4.25% from 4%.

A European Commission survey released Friday said its overall measure of economic sentiment fell more sharply than expected, to 94.9 in June from 97.6 in May. Before the credit crunch erupted last summer, the index stood at 110.4 in July.

With consumers becoming more pessimistic about the economic outlook and their own job prospects, the measure of consumer confidence fell to minus-17 from minus-15 in May, slightly weaker than the minus-16 forecast by economists.

Stimulus checks spark spending, saving in the U.S.

By Kelly Evans

U.S. incomes, spending and savings got a huge boost from economic-stimulus checks last month, but Americans' glum attitudes underscore the risks facing the economy once the effects of those payments fade.

Personal incomes rose 1.9% in May from April, as Americans received some $48 billion in federal stimulus payments, the Commerce Department said Friday. The increase is the largest since hurricane-insurance payments boosted incomes in September 2005. Stimulus payments are scheduled to total $107 billion.

Inflation-adjusted disposable incomes after taxes, which had been stagnant in recent months, jumped 5.3% in May, the biggest increase since 1975. But excluding the stimulus payments, incomes were flat.

A welcome development for Federal Reserve policy makers was lower-than-expected underlying inflation. The price index for personal consumption expenditures rose 0.4% in May from the month before, and was up 3.1% from a year earlier. Core prices, which exclude food and energy, rose just 0.1%, and were up 2.1% from a year earlier, slightly above the 1.5%-2% range the Fed considers price stability.

Consumer spending rose 0.8% last month, and after inflation jumped 0.4%, the largest gain in nine months. The increase was stronger than economists expected, according to a survey, and led some to boost estimates of second-quarter gross domestic product. On Thursday, the government said GDP expanded at a 1% annual pace in the first three quarter; analysts generally expect similar performance in the second quarter. Personal savings, meanwhile, soared to 5% of disposable income in May, compared with 0.4% in April, as people put part of their stimulus checks in the bank.

But the better-than-expected growth in the first half may be offset by declining economic activity in the months ahead as the last of stimulus payments are spent.

THE OUTLOOK ▪ Justin Lahart

High fuel prices spread pain in U.S. through transport costs

EVERY day, planes filled with fresh flowers from Ecuador and Colombia land at Miami International Airport, where the flowers are transferred to refrigerated trucks cooled to about 1 to 2 degrees Celsius. Two-person teams of drivers race through the U.S., stopping only to drop off flowers at wholesalers.

The operation, designed to get flowers from the South American highlands to American flower shops as quickly as possible, was a better business before fuel costs surged.

"Last year this time, we were paying about $19 a box to bring flowers to Miami," says Victor Giorgini, president of Miami-based **Equiflor** Corp., which imports more than 100 million roses a year. "Right now we're paying in the neighborhood of $28. It's hurt us a lot—it's eroding profits."

Since the mid-1980s, U.S. businesses that rely on quick delivery for time-sensitive products—from sushi restaurants to flower shops to manufacturers that use just-in-time delivery strategies—have benefited from inexpensive transportation costs. Now, with oil closing at a record $140.21 a barrel on Friday, those businesses are being hit hard.

Over time, the increasing expense of moving goods could lead to a broad restructuring in the way America conducts commerce. But for now, businesses pinched by lower profits are just looking for ways to survive: from raising prices to forming alliances with local producers.

The entire economy is a bit like someone who bought a big sport-utility vehicle at the beginning of last year, when gasoline cost around $2.25 a gallon, says Morgan Stanley economist Richard Berner. Now the driver is stuck with a gas guzzler he can't afford to unload yet.

Just as the SUV owner will eventually switch to another car, U.S. businesses will find ways to cut their transportation bill. But it will take time.

Indeed, low transportation costs are a big part of what has made globalization possible. "We fly across the Pacific Ocean with all these components," says Mr. Berner. "It's still maybe profitable to do that, but the equation has changed."

Some of the fish that Denver-based Sushi Den uses is shipped from the Nagahama fish market in southern Japan. In the past three months, the cost of doing that has risen 15%, says founder, Yasu Kizaki. "We basically have to pass on that increase to the customers," he says.

Bob Mosey, owner of Moseys' Production Machinists in Anaheim, Calif., which makes machined components for aerospace, laser, medical-technology and oil-drilling equipment manufacturers, also is feeling the effects of higher transportation costs. Companies that sell him metal have been slapping on fuel surcharges. Meanwhile, his 10-year-old truck, which he uses to deliver parts to local customers, gets just six or seven miles (9.7 to 11 kilometers) to the gallon.

On the other hand, he says, some U.S. manufacturers that used to buy most of their components from Asia—goods that have become more expensive due to the higher transportation costs—now are more interested in U.S.-made components. "I'm hearing some customers still waving the China flag," says Mr. Mosey. "I hear others saying, 'We're bringing stuff back.'"

For many other U.S. businesses, there is no upside. Timothy Northrup's company is one of them. From his Northrup Gallery in Oneonta, N.Y., he sells furniture—both direct from the factory and antique—mostly through eBay.

When the price of shipping began to rise, he absorbed some of the cost increases. Now he is starting to pass them on to to customers, who often blanch when they hear how much they will have to pay.

"Anything that has to get on a truck and get somewhere, it's going to affect the price and it has," he says. "I've lost deals because the freight is just too high."

BUSINESSES are doing what they can to reduce costs. In an effort to shave fuel use, U.S. trucking firms have reset the governors on their trucks to so they can't exceed a certain speed and air-cargo carriers are washing plane engines more often. But there are bigger changes yet to come, thinks Rick Schwein, senior vice president of Minneapolis-based **Grain Millers** Inc.

"Our society has been built on cheap energy, which means low-cost transportation," he says. "We very possibly will enter an era where we restructure manufacturing distribution. As opposed to large processing plants distributing any type of product nationwide, we'll have more regional processing centers working on a smaller scale."

Wheat millers already are beginning to do that, he says, forging relationships with local farmers and looking to distribute their products closer to home. Grain Millers, as one of only a handful of oat millers operating nationally, doesn't have that luxury. The company, however, is working with trucking companies to ensure that when delivery trucks bring them a load of raw oats, they also leave with a load of milled oats. That saves on fuel costs by reducing the miles trucks drive unloaded, or "deadhead."

Lee Klass, an independent trucker working out of Portland, Ore., who says he will haul "anything that doesn't moo or cluck or glow in the dark," is using the same tactic.

"There was a time I might have gone 200 or 300 miles to pick up a load," he said. "I don't do that anymore."

Early this week, Mr. Klass will be hauling 20,000 pounds (9,000 kilograms) of potato chips just over 1,000 kilometers from Salem, Ore., to Salt Lake City. His 1999 Freightliner gets six miles to the gallon. At today's diesel prices, the fuel for the trip will cost more than $650. Five years ago, it would have cost a little over $200.