

## Beirut's tourist scene roars back to life amid calm

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## Putin appears presidential on foreign affairs

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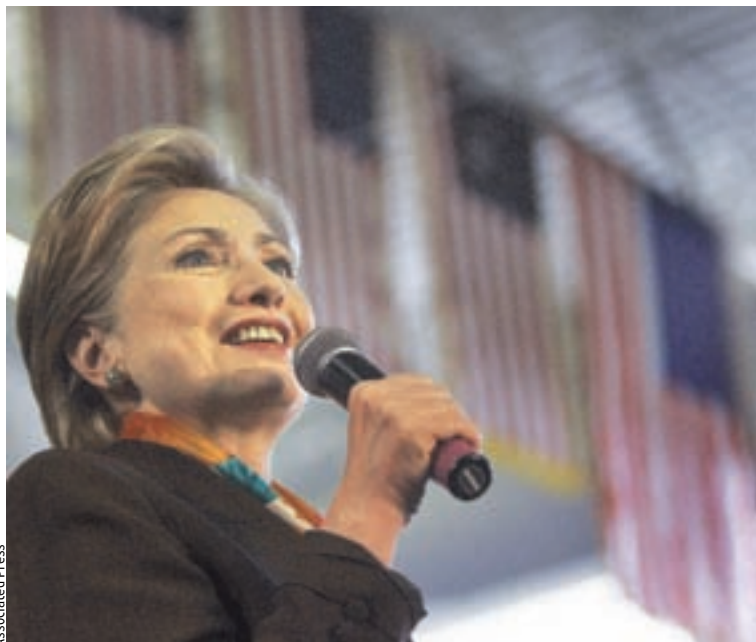
# Why Hillary Clinton lost

A weak inner circle, message and strategy in caucuses sank bid

BY JACKIE CALMES

Hillary Clinton, once positioned to be Democrats' "inevitable nominee," now inevitably won't be. Inside the campaign and out, the finger-pointing has begun. But the bottom line is this: She called the biggest plays, and she got them wrong.

Conversations over time with dozens of Clinton staffers, advisers and supporters suggest that over



Sen. Hillary Clinton, speaking in Yankton, South Dakota, on Monday, grew to be a good campaigner but made 'grievous mistakes,' said one confidant.

### Mending ties

- Obama strategists have begun wooing the Clinton camp .....14
- Some Democratic superdelegates remain on the fence .....15

her 17-month campaign, the second-term New York senator and former first lady was smart, substantive and tireless. The surprise was how good a campaigner she grew to be.

Still, these people say, Sen. Clinton is responsible for what one confidant called "grievous mistakes." Those explain why Sen. Clinton—the best brand name in Democratic politics, and an early favorite to be her party's first female presidential nominee in U.S. history—appears to have lost the race to a relative newcomer who would be the first African-American major-party nominee.

A campaign spokesman said the Clintons were unavailable for interviews.

The mistakes boil down to mismanagement, message, mobilization. Please turn to page 31

## Bernanke hints at dollar support by U.S. officials

BY SUDEEP REDDY, JOANNA SLATER AND DEBORAH SOLOMON

U.S. Federal Reserve Chairman Ben Bernanke, in a rare public foray, said the Fed was monitoring movements in the dollar and hinted that its weakness could play a part in future interest-rate decisions.

Mr. Bernanke's remarks, which break with a long tradition of the Fed not commenting on the dollar's direction, suggest a concerted attempt by U.S. officials to signal their opposition to further declines in the dollar, which could feed a growing conviction among investors that the dollar's long decline may be touching bottom. The dollar rallied strongly against both the euro and yen on Mr. Bernanke's remarks.

"In collaboration with our colleagues at the Treasury, we continue to carefully monitor developments in foreign-exchange markets," Mr. Bernanke said in remarks delivered via satellite to an interna- Please turn to back page

## What's News—

Business & Finance

World-Wide

**Bernanke issued a rare warning** about dollar weakness, boosting the currency against the euro and yen. The Fed chairman hinted that such weakness could play a part in future interest-rate decisions. **Pages 1, 20**

■ **Some Wall Street voices** predict the oil market could soon tilt sharply south if the dollar strengthens and crude demand weakens. **Page 1**

■ **BP and its Russian partners** in TNK-BP have failed to approve financial statements for last year and a budget for 2008. **Page 17**

■ **Porsche's plan to take a majority stake** in VW got a negative response as Credit Suisse downgraded its stock. **Page 2**

■ **GM said it plans to close** four North American plants, possibly costing 10,000 jobs, and to introduce more fuel-efficient vehicles. **Page 2**

■ **The U.S. auto industry's** sales slump deepened in May, with GM, Ford and Chrysler posting big drops. **Page 4**

■ **U.S. stocks fell** in the afternoon, pulled down by finance shares. Utilities and banks lifted Europe's shares. **Page 18**

■ **Pfizer's ability to maintain** its dividend may be in jeopardy in coming years amid increasing generic competition. **Page 4**

■ **Staples raised its bid** for Dutch firm Corporate Express by 14% to \$3.15 billion. **Page 19**

■ **Taylor Nelson Sofres and GfK** agreed to merge in a bid to create the world's second-largest market-research firm in terms of revenue. **Page 6**

■ **BBVA is adding** to its stake in Citic Group, positioning it to tap into high-growth banking business in China. **Page 6**

■ **Ryanair's fiscal-year net fell** 10%, hurt by a write-down and high fuel costs. Passenger growth helped lift revenue 21%. **Page 5**

■ **U.S. Treasury prices rose** for a third straight day as renewed worries about the financial sector spurred flight-to-quality flows. **Page 20**

**Obama clinched** the Democratic presidential nomination effectively, based on an Associated Press delegate tally, becoming the first black candidate to lead his party into the fall U.S. election. Rival Clinton, whose mistakes were costly, signaled an interest in joining his ticket as running mate. **Pages 1, 14, 15**

■ **The U.K.'s Brown said** he believes a new global trade deal is within reach that could act as a defiant message to rising protectionism around the world. **Page 3**

■ **The U.N. urged** nations at a global agriculture summit to rethink output of biofuels and drop food-export restrictions, saying the policies drive up food prices and exacerbate hunger. **Page 3**

■ **Lawmakers allied to Maliki** said talks over a U.S.-Iraqi security pact and the future status of U.S. troops were stumbling, with most issues in dispute.

■ **U.S. Defense chief Gates said** the U.S. had no evidence that North Korea was helping countries other than Syria develop nuclear capabilities. **WSJ.com**

■ **Gen. David McKiernan**, who led U.S. troops into Iraq, took command of the 40-nation NATO-led campaign in Afghanistan.

■ **Max Mosley won** a confidence vote to remain head of motor racing's governing body despite a sex scandal, but the German federation broke off cooperation.

■ **Travelers to the U.S.** from nations whose citizens don't need visas will have to register with the U.S. government before they arrive, starting in 2009. **Page 31**

■ **Chinese officials clamped** down on protests by parents angry over their children's deaths in the quake and curbed media access in some towns. **Page 10**

■ **Human Rights Watch urged** China to release about 130 prisoners still held for taking part in 1989 protests. China's students today are more likely to favor nationalistic causes. **Page 10**

■ **Pro-Tibetan activists said** in Athens they will mount protests world-wide during the Olympics and probably in Beijing itself.

■ **The brother of the United Arab Emirates' president** and several others were killed in a helicopter crash off the Gulf coast.

### EDITORIAL & OPINION

#### Iraqi history

The war's critics are left to rehash preinvasion arguments, Fouad Ajami writes. **Page 13**

**Markets** 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	12402.85	-100.97	-0.81
Nasdaq	2480.48	-11.05	-0.44
DJ Stoxx 600	321.05	+2.61	+0.82
FTSE 100	6057.7	+50.1	+0.83
DAX	7019.13	+10.36	+0.15
CAC 40	4983.71	+48.50	+0.98
Euro	\$1.5457	-0.0069	-0.44
Nymex crude	\$124.31	-3.45	-2.70

**Money & Investing > Page 17**

## More Wall Street voices say oil prices will ease

BY GUY CHAZAN AND NEIL KING JR.

Is there an oil bubble that is about to burst?

Some big voices on Wall Street think so, predicting the oil market could tilt sharply south soon if the U.S. dollar strengthens and demand for crude weakens in some key consuming countries. Tightness on the supply side could also ease, they say, as some big refineries and new oil fields come onstream over the next few months and the outlook for the Chinese economy clouds over.

But don't count on a price plunge just yet. While oil has eased off its record of just over \$133 nearly two weeks ago, there are still strong reasons to believe that the benchmark U.S. crude could hover around \$120 a barrel well past summer.

At issue are deep disagreements over what is driving the run-up in

oil prices. In the search for scapegoats, many on Capitol Hill in the U.S. and elsewhere are now blaming oil-futures speculators, noting the vast cash inflows into commodity index funds. But those skeptical of a sharp price fall point to a raft of continued gloomy news on the fundamental supply-and-demand side, arguing that an already tight market isn't likely to loosen for months.

The bearish argument has grown increasingly loud over the past week. Lehman Brothers on Friday compared the rally to the one-upmanship of the dot-com boom: Wall Street analysts have repeatedly raised their price forecasts as oil prices have soared, driving new investor flows that have pushed prices to still higher levels, leading to still higher price forecasts. Lehman sees the "classic ingredients of an asset bubble," with financial investors driven by a "herd" instinct and chasing. Please turn to page 32

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LEADING THE NEWS

# Porsche plan fuels fears

## Proposal to take majority stake in VW prompts downgrade

BY EDWARD TAYLOR

FRANKFURT—Porsche Automobil Holding SE got an early peek at how life might change if, as planned, it takes a majority stake in its much larger partner, Volkswagen AG.

The German luxury-car maker has said that increasing its share in VW to more than 50% by year end from the current 30.6% will help make both companies stronger as they face increased international competition. Porsche, a small sports-car maker based in Stuttgart, Germany, will gain access to the research-and-development clout of much-larger VW. That could help Porsche reduce its vehicles' emissions and fuel consumption ahead of the introduction of stringent new rules in the U.S. and Europe.

Porsche has traditionally been able to weather swings in the economy, because its wealthy clientele is less price-sensitive than customers of mass-market brands. Amid a drop in demand in the U.S., the company is redirecting sales to emerging markets such as Russia and China. Porsche delivered 3,004 cars in North America in May, a 17% decline from a year earlier.

Porsche has said it won't seek to merge with VW and will run the companies independently, so customers are unlikely to notice any change in Porsche's upmarket status. But financial markets may regard Porsche as being more exposed to mass-market problems, because VW will become a unit of a Porsche holding company. Porsche doesn't offer discounts on its vehicles, which helps it maintain industry-leading profits. But mass-market manufacturers often have to react to discounts offered by rivals,

eroding profit margins.

Porsche spokesman Frank Gaube says Porsche shouldn't be looked at as a mass-market auto maker. "This underestimates the contribution Porsche is making. It is precisely because we are so profitable that we are able to make this transaction," he says.

Porsche will secure access to the technology and expertise honed by VW, which has been developing its Lamborghini, Bugatti, Bentley and Audi brands. Porsche—which makes about 100,000 vehicles a year, compared with Volkswagen's 6.2 million—also will be able to leverage VW's economies of scale for purchasing raw materials such as steel.

But some industry analysts have begun to worry whether they should continue to treat Porsche as a premium-brand firm, able to weather swings in the global economy better than mass-market auto makers. On Tuesday, just days after Porsche made public that it plans to increase its share in VW to a controlling stake by year end, Credit Suisse downgraded Porsche's stock from "outperform" to "underperform," and lowered the target price to €110 (\$170.94) from €150 to "account for the risks associated with VW's mass car business."

"We believe a Porsche valuation should and will be dominated by its holding in VW," analysts at Credit Suisse said. After Porsche completes its acquisition of a majority stake in VW, 92% of their joint revenue and

77% of earnings before interest and taxes will be derived from VW, according to Credit Suisse.

Also worrying some analysts is the track record of previous efforts by Germany's premium car brands to swallow mass-market rivals—BMW AG's purchase of the U.K.'s Rover Cars, and Daimler AG's acquisition of U.S. brand Chrysler. Both BMW and Daimler eventually sold the acquired companies, taking large losses.

Porsche shares closed down 2.5% to €116.36 in Frankfurt Tuesday.

Luxury auto makers' higher margins let them better absorb increases in the cost of raw materials or deal with economic swings. Porsche's operating margin, which compares earnings before interest and taxes to revenue, was 64.3% for the year ended July 31, analysts at Citigroup say. At VW, the operating margin for the year ended Dec. 31 was 6.3%. In March, Citigroup also lowered its target for Porsche shares to account for taking a bigger slice of VW.

There are reasons to think that a Porsche-VW tie-up could be different from previous luxury-mass deals, though. Unlike BMW and Daimler, Porsche is buying a healthy mass-market manufacturer that will help the company secure access to a raft of technologies.

Not all analysts are worried about Porsche's earnings power. Lehman Brothers on Tuesday reaffirmed its "overweight" rating on Porsche.

# GM to close four factories, broaden fuel-efficient lineup

BY JOHN D. STOLL

General Motors Corp., battered by a decline in sales of pickup trucks and sport-utility vehicles, said it plans to close four North American plants and introduce additional fuel-efficient cars and engines.

The top U.S. auto maker by sales announced its latest restructuring moves ahead of its 100th annual shareholders meeting. GM also said it has launched a review of its Hummer brand, which could lead to a sale. GM Chief Operating Officer Fritz Henderson said the company decided to review Hummer, considered a poster

child for gas guzzlers, because of "a lot lower sales." A few weeks ago, he told investors that killing brands has proved expensive. But now the auto maker is considering all options.

At the same time, the Detroit auto maker reaffirmed its commitment to the Chevrolet Volt plug-in electric-hybrid vehicle, with a target of hitting showrooms by late 2010.

The latest moves, which represent the second major restructuring in three years, could result in 10,000 job cuts, or 14% of its work force.

—Mike Barris, Jeff Bennett and Stephen Wisniewski contributed to this article.

## CORRECTIONS & AMPLIFICATIONS

A recent securities-fraud suit involving JDS Uniphase Corp. in the U.S. is one of only four of 2,105 federal shareholder securities-fraud suits filed since 1995 to be tried to a verdict, according to Stanford University Law School. A Managing page article Monday didn't specify that the statistic referred only to federal securities-fraud suits.

The chart that accompanied Tuesday's Letter From The City column was labeled incorrectly in some editions. A corrected chart appears here.

### Reducing risk

Forecast change in 2008 in issuance of securitized debt in each market in Europe



Source: European Securitisation Forum

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## LEADING THE NEWS

## Food fears

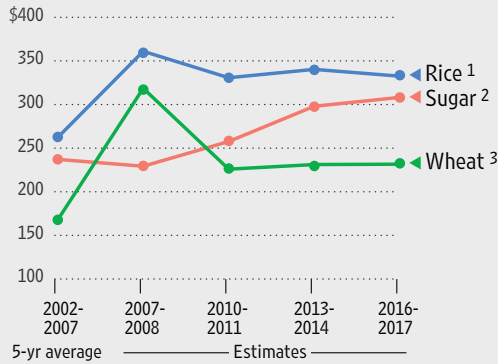
Food prices are expected to drop a little, but they will stay higher than in the past.

World crop prices, in dollars per metric ton

<sup>1</sup> Milled, 100%, grade B

<sup>2</sup> Raw, bulk spot price

<sup>3</sup> No. 2 hard red winter wheat, ordinary protein.



Sources: Organization for Economic Cooperation and Development; U.N. Food and Agriculture Organization

## Nations spar over causes of world food difficulties

By Marcus Walker

ROME—The United Nations called on countries at a global agriculture summit to rethink the production of biofuels and drop restrictions on food exports, saying these policies drive up food prices and cause hunger in poor countries.

The U.N. took sides in the two heated debates Tuesday as it sought to mobilize aid for and investment in developing countries' farm sectors and secure access to food for the world's poor, as soaring food prices have triggered hunger and civil unrest in several developing countries.

U.N. Secretary-General Ban Ki-moon said in a speech here that world food output needs to rise 50% by 2030 to meet the needs of a growing world population. "We have a historic opportunity to revitalize agriculture," Mr. Ban told delegates.

The U.N.'s Food and Agriculture Organization, which is hosting the three-day conference, wants to reverse decades of low investment in global agriculture that has led to stagnating farm productivity in many countries.

Many of the 183 governments represented at the Rome gathering, however, disagree starkly about the causes of rocketing food prices and about the right way forward.

Major producers of biofuels, led by the U.S., Brazil and the European Union, reject claims that they are contributing to rising food prices by diverting farmland to the production of crops for transport fuel. The U.S., represented by Agriculture Secretary Ed Schafer, said biofuels account for 2% to 3% of an expected increase in world food prices this year of over 40%.

"Biofuels are not the real causative factor," Mr. Schafer said in an interview. The main causes of rising food prices, he said, were rising energy costs and rising demand for food.

The FAO and other international organizations, including the Organization for Economic Cooperation and Development, don't agree. They say subsidies and other incentives for biofuels such as corn-derived ethanol are responsible for a significant part of recent food-price increases.

Billions of dollars in annual subsidies "have had the effect of diverting 100 million tons of cereals from human consumption, mostly to satisfy a thirst for fuel for vehicles," FAO Director-General Jacques Diouf told the conference in an impassioned speech.

Compared with that, Mr. Diouf said, it was hard to understand that the world was unable to find \$30 billion a year to feed those who are going hungry, a group he estimated at 862 million people world-wide.

Mr. Schafer admitted that the U.S.'s insistence on the marginal impact of biofuels was "a hard sell" at the conference. Mr. Schafer's own economists in Washington expect the U.S. ethanol-fuel industry's voracious appetite to keep the price of his nation's largest crop—corn—in record territory into next year, raising the food industry's costs of producing everything from soft drinks to chickens. The U.S. ethanol industry is projected to use a record four billion bushels of corn, or one-third of the crop now in the ground across the American farm belt.

Mr. Ban criticized countries that have recently tried to keep domestic food prices down by stopping their farmers from exporting food. India, Argentina, Egypt and others have erected tariffs or other barriers to food exports in a quest to keep prices low at home, but critics say these policies are adding to the shortage of supply on world markets.

"Beggars-thy-neighbor policies cannot work," Mr. Ban said. "They only distort markets and force prices even higher." He called on countries "to resist such measures."

The FAO is calling on governments to massively expand their funding for multilateral efforts to raise farm productivity in poor countries as well as providing more emergency food relief to alleviate hunger in the short term. Non-governmental organizations such as Oxfam say they hope the Rome summit will mobilize a new level of political will among governments, but also fear that the summit might achieve little.

A successful effort to boost farm productivity could echo the so-called green revolution in postwar decades, when investment in technology resulted in a massive increase in farm production, especially in Asia. But in more recent decades, low food prices led to dwindling investment and development aid for agriculture. Now the world's farm output can't keep pace with food demand, which is soaring partly due to rapid economic development in countries such as China.

The delegates in Rome include about 40 heads of state or government, including French President Nicolas Sarkozy, Brazilian President Luiz Ignacio Lula da Silva, and, controversially, Iranian President Mahmoud Ahmadinejad and Zimbabwean President Robert Mugabe. The U.S. and European officials say they won't be meeting with those two leaders, who most Western countries view as pariahs.

—Luca Di Leo and Scott Kilman contributed to this article.

# Brown pushes Doha deal

U.K. leader supports free-trade pact as foil to 'protectionist' talk

By Alistair MacDonald, John W. Miller and Daniel Hertzberg

LONDON—British Prime Minister Gordon Brown believes the world is within "touching distance" of sealing a new global-trade deal that could give the slowing global economy a \$100-billion-a-year boost and act as a message of defiance in light of increasing protectionist talk around the world.

"We are just on the edge of midnight...but we have a lot to do to make sure it actually happens," Mr. Brown said in an interview Tuesday.

Some trade experts don't share Mr. Brown's optimism, and the prime minister, who described current negotiations as a last chance, acknowledged there are barriers to getting the so-called Doha round of global trade talks off the ground after many years of impasse.

Mr. Brown, a fierce advocate of free trade, has become a key figure in the efforts to reach a trade deal. In recent days, he has talked to the leaders of the U.S., Japan, Brazil and India and said he is set to talk to President Luiz Inacio Lula da Silva of Brazil again soon.

Later this week, ministers are expected to meet on the sidelines of a conference at the annual meeting of the Organization for Economic Cooperation and Development in Paris.

Adding time pressure: Officials want to resolve a trade deal ahead of the U.S. presidential election.

"The U.S. election creates a difficulty," said Peter Power, spokesman for EU Trade Commissioner Peter Mandelson. "It's now, or potentially never." The Doha round was launched in 2001 in Qatar with the goal of offering farmers in poor countries more access to rich countries' food markets.

Negotiations stalled because trade officials couldn't agree on cuts to EU agriculture tariffs and U.S. farm subsidies.

Mr. Brown's push and the fresh negotiations come as world leaders gather in Rome for a summit to address increasing food shortages. Public subsidies and trade restrictions have, in part, been blamed for the huge increases in the cost of food.

The inflationary impact of rising costs for food and other products is also making it harder for central banks to cut interest rates and stimulate slowing economies, including Britain's.

"If we don't get this deal done now, I think it will be very difficult to come back, and maybe be diffi-

cult to come back to any multilateral deal," Mr. Brown said.

Showing the increasing clout of rising trade powers, it was Brazil and India—not the EU and the U.S.—that scuttled the last serious talks, in Potsdam, Germany, in June 2007. They refused to lower tariffs on industrial goods, such as heavy machinery, trucks and factory equipment, or to allow access to their economies for EU and U.S. service companies.

That is still the case. Negotiators are getting closer to an agreement over farm policy, but they are still far apart on industrial goods and services.

British officials, and some elsewhere in Europe, have been looking with increasing alarm at the protectionist rhetoric of the U.S. presidential candidates.

"Getting a trade deal would actually be a counterweight to what has been protectionist sentiment growing in America and Europe," Mr. Brown said.

Mr. Brown said trade negotiators and World Trade Organization Director-General Pascal Lamy have done a good job moving the issue forward, but now it needs national leaders to get to the final stage.

"With a bit of flexibility on all sides we can get the agreement. The division between us in numbers is not as great as it might have looked a few months ago," he said.



Gordon Brown

  
**BREITLING**  
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INSTRUMENTS FOR PROFESSIONALS™



AVENGER SKYLAND

## CORPORATE NEWS

## PROPERTY

## Beijing Vantone to lease space in Freedom Tower



**A** BEIJING real-estate company signed a tentative agreement to move into the Freedom Tower, which would make it the first corporate tenant in the signature skyscraper planned at the World Trade Center site in New York, the site's owner said.

Beijing Vantone Real Estate Co. agreed to preliminary terms to open a Chinese business center on five floors of the 541-meter tower, the Port Authority of New York and New Jersey said. Xue Ya, director of the China Center Project, said the tower was a "high-quality building." New York's city, state and business leaders have wooed Beijing Vantone for three years.

—Associated Press

## INSURANCE

## Aviva plans a hiring push to beef up U.S. presence



**U**.K. INSURER Aviva PLC said it will hire more than 300 employees in the U.S. over the next year—bringing staff there to 1,720—as part of its expansion plan and its goal to reach a U.S. sales target of

£5.6 billion (\$11.01 billion) in 2009. The company will also invest \$135 million to \$150 million in building its U.S. headquarters in Des Moines, Iowa, which is expected to be completed in May 2010. The growth targets highlight Aviva's bullishness on its U.S. business, which has been largely unaffected by the subprime crisis. Last year, Aviva's U.S. sales grew to £3.6 billion, or 11% of its world-wide sales.

—Vladimir Guevarra

## EXCHANGES

## Technical problems delay Nordic markets' trading



**T**ECHNICAL problems paralyzed trading on the Nasdaq OMX Nordic stock markets for almost seven hours in some countries, severely delaying exchange openings in Sweden, Denmark, Finland, Iceland and in the Baltic region. Nasdaq OMX members had difficulties in logging on to a newly installed version of a trading system. Tuesday's stoppage led to fierce criticism from both shareholders and traders who said the incident risked hurting the confidence for the Nordic exchanges. Nasdaq Stock Market Inc. in February took control of Stockholm-based OMX.

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—Associated Press

## Dividend could challenge Pfizer

## Wall Street worries about firm's funding of generous payout

BY AVERY JOHNSON  
AND JOANN S. LUBLIN

**P**FIZER INC., stuck in a rut of stagnating revenue and profit as it struggles to find new drugs, is facing another headache: how to keep funding its generous dividend.

The \$8 billion in dividend payments Pfizer made to shareholders last year is widely considered to be among the few reasons many investors still hold the pharmaceutical giant's stock. At 6.67%, its dividend yield—a gauge of investor returns—is well above the drug-industry average of 3.37% and 2.18% for the Standard & Poor's 500.

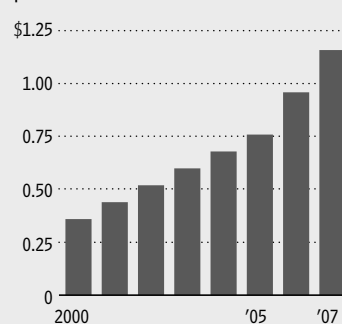
Some on Wall Street worry that the payout, the industry's richest, may be in jeopardy in coming years because of the limited amount of money Pfizer is thought to hold and generate in the U.S. Pfizer's board of directors is keeping a close eye on the company's ability to maintain the dividend because "it has been a floor for the stock," a person close to the board says. Without that floor, some Pfizer directors worry the company's shares, now trading at a 10½-year low of \$19.18, would plunge to \$10 or \$12.

So far, Pfizer has continued to assure Wall Street that the dividend is safe, projecting that it will grow 10% this year. In an interview, Frank D'Amelio, Pfizer's chief financial officer, said the company would continue the payout at least at current levels short of "significant events," such as a major economic downturn.

On the surface, cash wouldn't seem to be a problem for Pfizer. As of the end of last year, it held \$25 billion in cash and short-term investments. But most of that money is outside the U.S., and Pfizer probably would have to take a big tax hit to repatriate it, which in turn could hurt its earnings, says David Risinger, a drug-industry analyst at Merrill Lynch.

## Medical strength

Pfizer's cash dividends per common share



Sources: the company (dividends); WSJ Market Data Group (stock)

Pfizer's shares are at a 10-year low Tuesday midafternoon: \$19.00  
52-week change: down 30%



The dividend concerns underscore the strategic impasse at Pfizer, the world's largest drug company by sales. With its \$13-billion-a-year cholesterol drug Lipitor set to face generic competition as early as 2010, Chief Executive Jeffrey Kindler is having trouble convincing investors that he has figured out how to keep the company growing.

Last month, prospects for one of Pfizer's few promising new drugs, the smoking-cessation medicine Chantix, were damaged by a report showing it has been linked to a large number of potential side effects, ranging from heart problems to seizures, since its 2006 launch. The drug has already been associated with depression and suicidal thinking.

Coming on top of the Chantix scare, the dividend issue is adding urgency to Wall Street's calls for Mr. Kindler to do something more drastic to jump-start the company's growth. Ideas circulating among analysts range from spinning off some businesses, such as animal health or oncology, to selling enough assets to become a leaner and more attractive takeover target.

Analysts' persistent questions about Pfizer's cash situation and ability to fund its payout have rankled Mr. Kindler in recent months, another person close to the Pfizer board says. James Kilts, a former Gillette Co. CEO and relatively new Pfizer director, told Mr. Kindler he should ignore such criticism and keep running the drug maker as he sees fit, this person says.

"Meeting with analysts is something I enjoy, even if we don't see eye-to-eye," said Mr. Kindler. "Pfizer has a very clear strategy in place to return shareholder value, and our job at this time is to stay focused on flawless execution, rather than play into market speculation."

Pharmaceutical companies like Pfizer have long exploited tax laws that let them register intellectual property for medicines in foreign countries with lower tax rates, says Gary McGill, an international tax expert at the University of Florida. The maneuver enables them to avoid the U.S.'s 35% corporate-tax rate on much of their profits. Last year, Pfizer's adjusted tax rate was just 21%.

The rub is that Pfizer's dividend has to be paid in dollars from cash held in the U.S., and its U.S. cash position is strained. Morgan Stanley pharmaceuticals analyst Jami Rubin estimates that more than three-quarters of Pfizer's cash pile is overseas, a number Pfizer won't confirm. Moreover, Pfizer's U.S. cash holdings probably dipped into the red last year, when the company spent \$10 billion buying back shares on top of the \$8 billion spent on the dividend, Ms. Rubin says.

During a 2005 tax break, Pfizer returned about \$37 billion in profits from overseas, but earnings permanently reinvested overseas have doubled since then, suggesting that Pfizer's cash stockpile abroad has been replenished again, says Lillian

Mills, an associate professor of accounting at the University of Texas at Austin, who reviewed Pfizer's recent SEC filings.

In a sign that Pfizer may be struggling with a cash crunch domestically, the company suspended its share buybacks in the first quarter and borrowed more money, raising its short-term debt to \$8.9 billion at the end of March from \$5.8 billion at the end of last year. Mr. D'Amelio said that it didn't buy back shares in the first quarter because it wanted to use its money elsewhere, and that the debt increase was due in part to foreign-exchange rates.

Pfizer said it launched a big buyback last year in part because it was flush with money from selling its consumer business for \$16 billion.

The moves prompted several analysts to question in recent research reports whether Pfizer will have enough cash this year to pay for the dividend. Analysts peppered Pfizer's management team with questions on the issue at a meeting in March and again on an April earnings call. The people close to Pfizer's board say it is monitoring the dividend issue closely and continues to have faith in Mr. Kindler. However, some board members aren't convinced Pfizer will be able to fund the dividend without repatriating some of its overseas cash.

Without a faster pace of new-product introduction, "you have to repatriate," one of the people close to the board says. "There comes a time when that gets very, very expensive."

Mr. D'Amelio, the Pfizer finance chief, declined to say whether the company's U.S. cash position was low, but said it doesn't matter because Pfizer has enough total cash to pay the dividend, repatriate money or borrow.

He expressed confidence that Pfizer would be able to avoid any blow to earnings through strategic tax planning and by executing on Mr. Kindler's plan to raise cash and reduce costs. If, hypothetically, Pfizer were forced to repatriate some cash and that raised its tax rate to about 28%, Mr. D'Amelio said, that would take just a 15-cent-a-share bite out of 2012 earnings. "Is it significant? Sure. Is it huge or horrific? No."

## U.S. auto sector sees sales slump deepen in May

BY MIKE BARRIS

The U.S. auto industry's sales slump deepened in May, with General Motors Corp., Ford Motor Co. and Chrysler LLC posting big drops that reflected the effect of another fuel-price surge on sales of pickup trucks and sport-utility vehicles.

The gasoline crunch pushed Toyota Motor Co.'s Camry and Corolla cars ahead of Ford's previously best-selling F-150 truck in monthly sales for the first time. Still, Toyota's overall sales showed a 4.3% decline, and at the luxury Lexus line, sales fell 17%.

GM, which Tuesday also announced four plant closures in a bid to fix its North American operations, reported a 28% drop for May sales. Ford sales slid 16%.

In May, GM sales of cars and light trucks totaled 268,892, down from 371,056 a year earlier. Sales of light trucks fell 37% to 138,777, while car sales fell 14% to 130,115.

GM said it lost about 15,000 to 18,000 sales in May mainly because of the work stoppage at American Axle Manufacturing Inc.

GM now expects second-quarter production of 835,000 vehicles, down 115,000 from the prior forecast to reflect the impact of the American Axle strike.

Ford reported May sales of 217,268 light vehicles, compared with 258,123 a year earlier. Sales of Ford trucks and SUVs were down 26%, with F-series truck sales tumbling 31%. Ford's total passenger car sales edged up 2.8% to 91,634.

Toyota's Corolla and Camry cars each outsold Ford's best-selling F-150 truck—with 52,826 and 51,291 vehicles compared to 42,973 trucks.

Toyota sold 257,404 vehicles in May, down from 269,023 a year earlier. Toyota's passenger-car sales inched up 0.4% while light-truck sales slid 12%. Toyota brand division sales fell 2.7%.

Chrysler's total vehicle sales slumped 25% to 148,747 from 199,393. The company, a heavy seller of trucks and SUVs, posted a 22% slump in truck and SUV sales while car sales tumbled 33% as total fleet sales were cut by 40%.

## CORPORATE NEWS

BUSINESS ■ GEORGE ANDERS

## For start-up founders, passing the baton can be a timeless drama

LOTS OF BUSINESS dramas over the years have involved strong-willed company founders who couldn't let go in their 60s or 70s. Put much-younger founders into the mix, and tensions can be even greater.

There's no shortage of ambition among corporate top lieutenants. But if they collide with a founder who mightn't yet have reached age 40, that's a recipe for management upheaval. It's also likely to provoke intense anxiety among investors, customers and employees.

Anyone attending The Wall Street Journal's D: All Things Digital conference last week saw how challenging such human interplay can be. Three famous high-tech founders—Microsoft Corp.'s Bill Gates, Yahoo Inc.'s Jerry Yang and Facebook's Mark Zuckerberg—took the stage for separate appearances. Each was joined by his company's most powerful nonfounding executive.

While all the speakers did their best to act nice, it didn't take a Geiger counter to sense that off stage, each management team might have a few issues to work out.

Microsoft's executives were the most candid about the challenges. Mr. Gates said he had a hard time pulling back from day-to-day decisions, after handing over the CEO's job to longtime colleague Steve Ballmer in 2000. The two met as Harvard undergraduates in the 1970s.

At the conference, Messrs. Gates and Ballmer talked about how it has taken a while for them to establish that Mr. Ballmer has risen to be the "senior partner" in their business relationship, while Mr. Gates has become the "junior partner." Both men are 52.

YAHOO'S leadership history has taken the opposite path, with Mr. Yang stepping in as CEO in 2007 after the Internet company parted ways with Terry Semel, a boss brought in from outside.

Mr. Yang's conference appearance was colored by the recent breakdown of merger talks with Microsoft. That put him on the defensive for much of his time on stage, arguing that Yahoo wasn't "under siege" and hadn't suffered a loss of momentum.

"I think I'm the best person to run Yahoo," the 39-year-old CEO said. "It isn't just because I bleed purple," the main color of Yahoo's logo. "It's my time to take Yahoo to the next level."

But Mr. Yang's toughest moment came when he was asked to define Yahoo's business. "We want you to start your day with Yahoo," he said. "We want you to come to Yahoo multiple times a day."

That brought a quick interjection from Sue Decker, the company's 44-year-old president, who built her career on Wall Street before joining Yahoo in 2000. Aware that Yahoo has been criticized in the past for sprawling into too many areas, she said: "It's a little

bit of a change. We still do hundreds of things. But we want to focus Yahoo on four things"—its home page, search, email and mobile communications.

After the Yahoo presentation, conference attendees were buzzing about what struck them as a hazily defined strategy. With Mr. Yang and Ms. Decker emphasizing different elements and share-

holders unhappy about Yahoo's falling stock price since the Microsoft deal fell apart, the status quo doesn't seem stable.

Facebook's Mr. Zuckerberg and his recently recruited chief operating officer, Sheryl Sandberg, 39, went on stage with different challenges.

The 24-year-old Mr. Zuckerberg, dressed in jeans and a hooded olive sweatshirt, was grilled on why he is remaining CEO of his fast-growing social-networking Web site. When a growing company needs more-experienced management, the norm in Silicon Valley is for young founders to let someone else become chief executive.

Mr. Zuckerberg offered a job description that suits him well. "CEOs do two things basically," he said. "They set the vision, and they build the team."

**B**UT FACEBOOK'S vision was set years ago. Some of the company's biggest challenges now involve managing fast-paced expansion in an orderly way and dealing briskly with privacy concerns about users' data. As the company's "grown-up," with previous managerial experience at Google Inc. and the U.S. Treasury Department, Ms. Sandberg is the logical person to take command of both areas.

Ms. Sandberg and Mr. Zuckerberg have been working together for only a few months. Their on-stage remarks at D were separate soliloquys. It's anyone's guess whether they can establish true working harmony and divide up duties effectively.

"Once you've founded a company, you tend to think extremely highly of your abilities," says David Lewin, a professor at the UCLA Anderson School of Management. "And in some ways you should." But founders' hubris can often get them in trouble, he cautions.

A more philosophical view comes from Adam Galinsky, a professor at Northwestern University's Kellogg School of Management who studies ethics and decision making. Founders' challenges in letting go have been studied for decades, he observes, without ever being solved in a lasting way.

"These are timeless issues," Prof. Galinsky says. "Many people have to learn the lessons themselves. Their own experience counts for much more than anything anyone else will tell them." Often it's only on a second or third start-up that founders are more mindful of how—and when—they pass the leadership baton, he says.



Bill Gates

# Ryanair net drops 10%

## Write-down and cost of fuel hurt profit; revenue jumps 21%

BY QUENTIN FOTTRILL

DUBLIN—Ryanair Holdings PLC Tuesday posted a 10% drop in fiscal full-year net profit, hurt by a write-down and high fuel costs, but said revenue rose thanks to passenger growth and higher sales of items other than tickets.

Europe's largest budget airline by passengers carried said it expects to break even in 2009 if oil prices stay at \$130 a barrel, cautioning that the outlook was "entirely dependent" on oil prices. But some analysts said Ryanair could do better than break even for the year thanks to aggressive cost cuts and a forecast 5% rise in average fares.

Ryanair shares were up 5.2% at €2.84 (\$4.41) in Dublin, benefiting from what analysts see as the resilience of its business model in the face of record-high oil prices. The stock is still down about 39% from the start of the year.

For the year ended March 31, the airline posted a net profit of €390.7 million, down from €435.6 million the previous year. Excluding items such as a €91.6 million write-down on its 29.2% shareholding in Ireland's flag carrier Aer Lingus Group PLC, profit would have risen 20%, Ryanair said.

Ryanair Chief Executive Michael

O'Leary told the BBC: "The overriding concern for airlines, passengers and investors currently is the irrational price of oil."

The price of oil recently hit \$135 a barrel, although it has since come down somewhat. European full-service carriers have raised fuel surcharges on tickets to recoup some of the higher fuel prices, but Ryanair doesn't use a fuel surcharge.

"We will continue to absorb these higher oil costs, even if it means that our profits will fall in the short term, while we continue to deliver lower fares," Mr. O'Leary said. He added that Ryanair's earnings will rebound should oil prices fall. "We do not believe that oil prices of \$130 per barrel are sustainable over the medium term, but equally we don't know when they are going to fall," Mr. O'Leary said.

Ryanair recently announced cost cuts including job cuts in its Dublin call center, the renegotiation of airport maintenance and handling contracts, and increased discretionary charges for baggage and airport check-in.

The carrier also plans to ground 20 aircraft, or 10% of its fleet, next winter, mainly at Dublin and London Stansted airports. It blamed higher "unjustified" airport charges at these airports, which helped send unit costs up 2%. It had grounded planes at Stansted last winter.

Chief Financial Officer Howard

Miller said it would "probably make good sense" to hedge fuel costs if prices came down to \$100 a barrel, as Ryanair is effectively unhedged.

About 25 smaller airlines have gone out of business around the globe in the past six months, hit by higher fuel prices. Silverjet PLC, the unprofitable U.K. business-class airline, last week became the latest carrier to cease operations.

Monday, the International Air Transport Association warned that the global airline industry could rack up a net loss of \$6.1 billion in 2008 if the crude-oil price stays at \$135 a barrel the rest of the year.

But Merrion Capital said Ryanair has the "flexibility and capability to react effectively" to the challenging backdrop, citing its low-cost model and strong balance sheet. Analysts at Credit Suisse concurred and said Ryanair will emerge "bigger and stronger" from the industry downturn.

Revenue rose 21% in fiscal 2008 to €2.71 billion from €2.24 billion the previous year, thanks to a 20% rise in passengers to 50.9 million people.

Average fares—which include baggage charges—fell 1% as Ryanair opened new routes and bases to stimulate a 20% growth in traffic. Rising competitor fares and fuel surcharges helped to limit this winter fare decline to well above Ryanair's 5% decline expectation. Ancillary—or nonticket—revenue grew 35% to €488.1 million.



Michael O'Leary

Booz &amp; Company

## booz&co.

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## CORPORATE NEWS

# TNS, GfK agree on merger terms

*Rejected suitor WPP could make new bid, some analysts say*

BY MONICA MARK

LONDON—U.K.-based Taylor Nelson Sofres PLC and GfK AG of Germany on Tuesday agreed to merge in an all-stock deal that would create the world's second-largest market-research company by revenue behind AC Nielsen Corp.

The combined company, to be named GfK-TNS, would have had combined revenue of €2.7 billion (\$4.2 billion) last year and would have a market value of £4 billion. TNS and GfK shareholders would each hold about half of the combined company's share capital following completion of the merger, expected during the fourth quarter of 2008.

Still, analysts weren't ruling out a further approach for TNS from Martin Sorrell's advertising company WPP Group PLC. TNS rejected a sweetened £949 million offer from WPP in early May.

WPP's offer of 154 pence in cash and 0.1214 WPP share for each TNS share valued the market-research company at 241.5 pence a share at the time.

Lehman Brothers said in a trading note that WPP could pay as much as 280 pence a share, assuming £80 million of synergies, before the deal became "value destructive."

Numis analysts said that despite the commercial logic of the GfK-TNS merger, they would expect WPP "to return with an improvement on its last offer for TNS in light of the announcement of merger terms."

WPP declined to comment on whether it would increase its offer for TNS, or if it remained interested in the combined GfK-TNS.

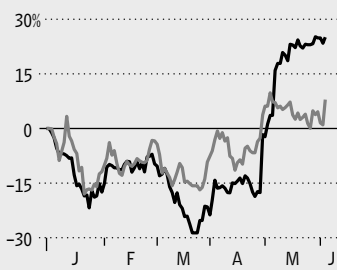
The terms of the agreement between GfK and TNS include issuing 11.74 new TNS shares for each GfK share, and allowing GfK to appoint one nonexecutive director to the combined company's board, as long as GfK retains a 15% stake.

GfK Chief Executive Klaus Wubbenhorst will join the board as a nonexecutive director and as a representative of GfK-Nürnberg, which will be GfK-TNS's largest shareholder following completion of the merger.

## YEAR-TO-DATE SHARE PERFORMANCE

### Market-research companies

— Taylor Nelson Sofres: up 25%  
— GfK: up 8%



Sources: Thomson Reuters Datastream

Annual pretax savings are expected to total at least €97 million by the end of the third full year following completion, with one-time costs of about €120 million.

GfK Finance Director Christian Weller von Ahlefeld said the figures showed the merger was "above all, about growth." The deal would allow the companies to cut production costs in areas such as data collection,

while leveraging on others, such as GfK's experience in outsourcing, to recoup revenue growth, he said.

"A combined GfK-TNS is a wonderful opportunity and now is the right time to bring our businesses together," he said.

TNS Chief Executive David Lowden said the merger would enable the combined group to extend coverage across 111 countries. GfK currently has a strong presence in Central and Eastern Europe, while TNS leads in Asia.

"The new business we are creating will be a global leader in the market-information industry," he said. "We believe that this merger will also create substantial value for both sets of shareholders."

The companies' clients include British Airways, Procter & Gamble, Unilever, Panasonic and Henkel.

The companies said they have hired five banks—Barclays Capital, Dresdner Kleinwort, Royal Bank of Scotland Group PLC, Société Générale SA and Unicredit SpA—to arrange €1.1 billion in credit facilities to refinance their existing debt.

—Erica Herrero-Martinez contributed to this article.

## BBVA will boost Citic investment in a bet on China

BY SANTIAGO PEREZ

MADRID—Banco Bilbao Vizcaya Argentaria SA said it will invest about €800 million (US\$1.2 billion) to boost its stake in China's Citic Group, highlighting European banks' interest in key Asian markets.

The Spain-based financial company said it considers the investment strategic, positioning it to tap into high-growth banking business in China. BBVA has expanded aggressively in recent years, focusing most of its efforts in Latin America.

Since entering the Chinese market in November 2006, BBVA has invested about €1 billion in the government-controlled Citic Group, one of the largest investments ever made in China by a Spanish company.

"BBVA is emerging as one of the few international banking groups with a significant presence in these markets...with an important Chinese business group," the bank said.

The agreement will double BBVA's stake in Hong Kong-listed Citic International Financial Holdings Ltd. to about 30%, the bank said. The deal will involve BBVA and Citic Group taking Citic International private.

BBVA will also increase its ownership in China Citic Bank Corp. to 10% from about 5%. BBVA also maintains an option to buy additional shares within the next two years in China Citic Bank, up to 15%.

Sandra Neumann, an analyst at WestLB, welcomed the move, noting that cultural and language differences make it hard for European banks to perform well in Asia without local partners.

"We firmly believe that local knowledge is essential when doing business in any country," she wrote in a note to investors.

BBVA said it will be entitled to appoint three directors to the board of Citic International and two directors to China Citic Bank's board.

Lehman Brothers Holdings Inc. was the sole adviser to both BBVA and Citic.

Citic International said Citic Group and BBVA will act "in concert" to take the Hong Kong company private.

Citic Group owns 55% of Citic International, while BBVA has a 15% stake. Thus, the two companies need to buy the 30% of Citic International that is publicly traded to take it private. The buyout would be valued at HK\$9.85 billion (US\$1.26 billion), based on Citic International's most recent share price of HK\$5.70. Trading in the stock was suspended on Tuesday morning.

The agreement between BBVA and Citic Group is subject to regulatory clearance and the delisting of Citic International.

—Bernd Radowitz and Jeffrey Ng contributed to this article.

# Time Warner Cable's boss airs growth plans

BY VISHESH KUMAR

Media giant Time Warner Inc. will soon spin off its Time Warner Cable arm. The plan puts a spotlight on 59-year-old Glenn Britt, who for seven years has led the unit, the U.S.'s second-largest cable company after Comcast Corp. All told, he has been with Time Warner for 30 years, working in Time Inc.'s magazine business and later at HBO.

His soon-to-be-independent Time Warner Cable will be freer to pursue broadband and telephone services. But there are challenges: in the spinoff, the company will take on an additional \$10.9 billion of debt to pay a massive, one-time dividend, 84% of which will go to Time Warner.

Saddled with this debt and facing mounting competition, it will be essential for Mr. Britt to keep improving cash flow. Last week, phone giant Verizon Communications Inc. said it had moved a step closer to acquiring rights to offer video, broadband and voice services in New York City, a Time Warner Cable stronghold. But Mr. Britt says he is less concerned about telecom rivals luring away cable subscribers than about the threat his business faces from a growing number of TV networks offering their programs free on the Web.

In an industry with no shortage of larger-than-life, wheeling-and-dealing CEOs, Mr. Britt may be the exception. He spends his free time reading and has a penchant for history books. He is currently reading David Halberstam's "The Coldest Winter," a study of the Korean War. He is also an avid golfer, and Pebble Beach is his favorite course. But unlike many executives who like to use golf as a forum for making high-stakes deals, he insists that talking business on the course is taboo.

Excerpts from an interview with Mr. Britt:

**WSJ:** Cable operators pay TV-channel owners for the right to carry their channels. You have said if programmers are going to put their con-



tent on the Internet free, they shouldn't come to you expecting bigger fees.

**Mr. Britt:** There is a model today for financing TV programming where the cable networks rely on subscription revenue as well as advertising revenue. As cable companies, we are in effect retailers. We buy programming wholesale, we put it in a package and we sell it to subscribers.

On the wholesale side, we are guaranteeing revenue to the networks. That allows them to turn around and go to movie studios and other producers and to have the programming created. This whole formula works quite well and has resulted in arguably the richest choice of programming in the world.

Programmers shouldn't think that if they put the same content on the Internet for free—at the same time we're showing it—that we're going to pay the same wholesale

price as we were paying before. I'm not too worried about the cable business, but I am about the whole entertainment economic ecosystem.

**WSJ:** Don't programmers—the networks and their parent companies—have to follow consumers to the Web?

**Mr. Britt:** Yes, but on the Internet, there seems to be only one source of revenue, and that's advertising. If all of the programming goes to the Internet, and it's free, then there is a whole source of revenue that the entertainment business is not going to have anymore.

I think we will have to have a new formula for financing television programming, or else we just aren't going to get the same quality and quantity that we are used to today. That's just pure economics. People should think things through before they just go willy-nilly put-

ting things on the Internet.

**WSJ:** Why the spinoff?

**Mr. Britt:** For investors, it will be a more liquid company with an appropriate capital structure. It is going to be a pure-play cable company. We don't own any programming or anything else. But the business has evolved. We are no longer just a television company. We now offer broadband, telephone and a lot of other new services. We are becoming more of a telecom company. Being separate, and not part of a big media company, will allow us to explore that direction, wherever it may take us.

**WSJ:** As part of the spinoff, you agreed to take on much more debt than anyone thought. Can you explain how you came to that arrangement and arrived at that figure?

**Mr. Britt:** All the public investors had been saying, "Gee, your balance sheet looks like it has too little debt. That means your cost of capital is too high. What are you going to do to have an appropriate balance sheet?" This answers that question: We are going to have an amount of debt that is more appropriate for a cable company. It also expresses a confidence in the business because we will de-lever quite rapidly. We generate a lot of cash.

**WSJ:** You invested \$550 million in Clearwire Corp., which is building a wireless broadband network. Why?

**Mr. Britt:** We saw that as a defensive move. The business today is largely about making voice telephone calls, text messaging and some data.

This venture is about very fast broadband delivery, but the technologies and the products are as yet not fully defined. It's a bit of a start-up, leap-of-faith kind of thing.

**WSJ:** What about the idea of mobile video delivered to portable devices?

**Mr. Britt:** I know people talk a lot about mobile video, and I certainly think there is some application for it. But I quite honestly haven't seen it as a big deal.

## The Mossberg Solution

### Flipping cool

Pure Digital's new mini video camera is a trim travelmate > Page 30



SPECIAL ADVERTISING SECTION

## CONTEMPORARY ART

# Market is booming despite the global economic gloom

By Helen Jones

WHILE the global economy looks increasingly gloomy, the contemporary art market is booming as wealthy individuals from the U.S., Europe, Russia and Asia compete to buy the best pieces.

In May, London-based Sotheby's New York sale of contemporary art was the best auction in the company's history, reaching \$362 million (€232 million). And rival London-based auction house, Christie's, achieved sales of \$348 million from its May New York sale.

Contemporary art is attracting buyers from around the world. Many are entrepreneurs with "new money" as Alex Branczik, Sotheby's London-based deputy director for contemporary art, explains: "In the last three or four years we have seen new buyers from places that haven't traditionally been markets for contemporary art — Russia, China and the Far East and the Middle East, with wealth generated by oil, property and development."

Some of these high-net-worth individuals will be flying into Switzerland by private jet this week for Art Basel 39, one of the world's leading contemporary art fairs where 300 galleries from around the world will show the work of more than 3,000 artists.

"Last year over 60,000 people attended and we expect around the same number this year. The New York sales showed there is still great demand for contemporary art and we're confident Art Basel 39 is going to be as successful as last year," says Peter Vetsch, Art Basel's communications director.

Karl Schweizer, global head of art banking at UBS, the Basel and Zurich-based wealth management, retail and investment bank, says that for serious collectors "Art Basel is absolutely the place to be — there is a huge choice of top-quality pieces." And Jonathan Binstock, senior adviser on postwar and contemporary art at Citi Private Bank's Art Advisory Service in New York, adds: "The best art fairs are very important ways for collectors to see a lot of material, gauge the market and keep in touch with dealers."

## Breaking records

There is no official publication of prices at art fairs, or figures on the volume of pieces sold, but a lot of money is expected to change hands at Art Basel. At auctions, where prices are transparent, contemporary art has been breaking records.

At Christie's New York sale in May, eight auction records were established for artists including American Sam Francis — who's abstract expressionist work "Black" sold for just under \$5.2 million — and American Leon Gottlieb — who's "Cool Blast," which was estimated at between \$2 million and

\$3 million, reached \$6.5 million. But the star of the show was British artist Lucian Freud's "Benefits Supervisor Sleeping," a life-size nude. It fetched \$33.6 million — a record for a living artist.

In the same week, Sotheby's had its best-ever sale which included Francis Bacon's "Triptych 1976," the most important of Bacon's works in private hands. It sold for \$86.2 million, the record for a contemporary work of art at auction, and is thought, like the Freud at Christie's, to have been bought by the Russian tycoon Roman Abramovich.

"We saw hunger for great works of art from a truly global community," says Tobias Meyer, world-wide head of contemporary art at Sotheby's.

## New wealth

Michael Moses, professor of management at the Stern School of Business, New York University, who tracks art prices says: "New wealth is interested in new art. There are 1,000 billionaires in the world and it only takes two of them to be interested in the same object to produce record prices."

"There is no way you can put a future price on a piece of art, although you can always speculate."

Contemporary art is reaching such high prices that some art lovers are looking at other areas. "Sophisticated collectors seek quality and value and both may be found in the contemporary market. [But] the old masters market seems undervalued in general and so our clients are also looking there," says Citi's Mr. Binstock.

## A passion for art

"I believe the most important reason to collect contemporary art should be your connection and attraction to the work and the possible financial return should be seen as an added bonus," says Pilar Ordovas, head of postwar and contemporary art at Christie's in London. "But having said that," he adds, "the market has transformed so much in the last few years that it has proven to be a very good investment."

An interest in art is important, says Sotheby's Mr. Branczik. "It's true that some pieces have sold and then been resold in a relatively short space of time and have quadrupled in price. But I would be amazed if people are spending this much and are not driven by a passion for art," he says.

UBS's Mr. Schweizer says that buyers can be divided into three groups: "The Europeans are often very sophisticated and very selective and probably not so hype oriented. The Americans have a tendency to pay high prices to get a particular piece — the younger buyers, hedge fund managers for example, do things



Eight records were set at Christie's New York contemporary art auction in May.

you couldn't explain for financial reasons — they just do it. And the Asians are more financially motivated; they appreciate art but often think of it from an investment point

of view."

But, he adds, investing in art is always risky. "There is no way you can put a future price on a piece of art, although you can always speculate.

Clearly, quality can't be duplicated so the higher the quality of the piece, the better the chance that someone will want to buy it when you come to sell, but there is no guarantee."

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## CORPORATE NEWS

# U.K. links Sanofi drug to 5 deaths

*Antiobesity pill launched in 2006, but U.S. rejected it*

BY ELENA BERTON  
AND AVERY JOHNSON

LONDON—Sanofi-Aventis SA's anti-obesity pill Acomplia has been linked to the deaths of five patients, according to findings by the U.K. drug regulator, raising concerns about the controversial treatment and another similar medicine.

One of the deaths was a suicide, said the Medicines and Healthcare products Regulatory Agency, which recorded adverse events from the U.K. launch of the drug in 2006 until May 9.

That is significant because a U.S. Food and Drug Administration panel rejected Acomplia for sale in the U.S. last year on concerns that the drug increases the number of psychiatric events such as depression and suicidal thinking among users. The drug is approved for sale in the U.K. and European Union.

A spokesman for Paris-based Sanofi-Aventis said two of the deaths were the result of heart attacks, a risk that is linked to obesity. One patient died of infectious disease, and the fifth died from "sudden death," he said. The deaths occurred mostly before 2008, he said. He declined to comment further.

With such "real-world" reports, it is often unclear if the drug was the culprit. It isn't clear what actions regulators will take, if any. All approved drugs must have surveillance programs after they go on sale to record adverse reactions or deaths in patients taking them. The document, posted Tuesday on the agency's Web site, is a routine report.

That said, this report may draw more scrutiny, given Acomplia's difficulty getting approval in other countries.

With so many people suffering from obesity around the world, drug companies have been eager to find drugs to treat the disease. Before regulators' concerns, Acomplia and a drug from Merck & Co. had initially seemed promising, offering a new kind of obesity treatment that blocks certain brain receptors that regulate appetite.

The U.K. regulator also linked the drug to 720 cases of adverse reaction since its U.K. launch in 2006. The drug regulator couldn't be reached for comment.

A spokeswoman for the European Medicines Agency declined to comment on the report, but she said Acomplia's product information in the EU was recently strengthened to reflect the risk of psychiatric side effects in patients not being treated for depression.

The Acomplia news could damp the prospects for a similar anti-obesity drug Merck is developing, called

taranabant. After the FDA's objections to Acomplia, Wall Street widely discounted prospects for that medicine, which Merck is studying in late-phase trials and plans to submit to the FDA by the end of the year.

C. Anthony Butler, a pharmaceuticals analyst at Lehman Brothers,

## Weighty issues

❖ **The news:** The U.K. drug regulator found antiobesity pill Acomplia linked to the deaths of five patients.

❖ **The history:** Acomplia has been a controversial drug for regulators, and the U.S. declined to approve it last year.

❖ **Going forward:** The news could damp the prospects further for a similar antiobesity drug Merck & Co. is developing, taranabant.

handicaps the chances that the FDA will approve taranabant at 25%. Taranabant, like Acomplia, is linked to psychiatric side effects, and a high-profile panel's recommendation last year that the FDA reject Acomplia makes it clear that regulators are wary of the group of medicines, he says.

"I think there's this 'How do we let a drug out onto the market that may cause some depressive symptoms,' feeling at the FDA, and they don't have an answer to that yet,"

Mr. Butler says.

Merck spokeswoman Amy Rose said it would be premature to comment on the effects the Acomplia report may have on taranabant's prospects.

Ms. Rose said taranabant has been linked to anxiety, irritability and depressed mood. An increase in those symptoms at higher dosages prompted the company to refocus its Phase III program on the lower 2 milligram dose in December. Ms. Rose said taranabant showed some differences from Acomplia in preclinical studies, which could make a difference for the Merck medicine.

Once touted as a multibillion-dollar product, Acomplia, known generically as rimonabant, posted sales of €79 million (\$122.8 million) in 2007. It is on sale in the EU but carries safety warnings and cannot be given to patients suffering from depression.

Despite withdrawing its application to market the drug in the U.S., Sanofi-Aventis plans to resubmit it to the FDA and other regulators in 2009 for approval as a treatment for Type 2 diabetes.

In a study released in 2006, Acomplia showed promise as a diabetes treatment after patients who took the pill for a year reported improvements in blood-sugar control and cholesterol, along with modest weight loss.

# Intel targets low-cost PC market with Atom

BY DON CLARK

Intel Corp. plans to formally introduce a much-anticipated chip for use with low-priced computers, though recent product delays likely will loom over the chip maker's announcements at a big trade show in Taiwan.

The technology company plans to use the Computex show to tout a line of chips dubbed Atom, which will serve as calculating engines for so-called Nettops and Netbooks, Intel's term for extremely low-priced desktop and portable computers. The U.S. company estimates the notebook variety will sell in the \$200 to \$350 range, while the desktop machines will cost about \$200 to \$300.

Some companies expected to unveil Atom-based Netbooks at the show include Taiwan's Acer Inc. and Asustek Computer Inc., which introduced a popular product called

EeePC last year that helped define the category.

Intel's executive vice president and general manager of its sales-and-marketing group, Sean Maloney, said in an interview that he expects customers to show off at least 30 machines as part of his keynote speech. He reiterated past company statements that supplies of the chip may be tight, because of unexpectedly strong orders.

Hewlett-Packard Co. and Dell Inc., the U.S. companies that hold the top two positions in global PC sales, also have plans for Netbooks, though they haven't disclosed specific plans to use the Atom chip; H-P recently introduced a model called the Mini-Note that uses a chip from Via Technologies Inc.

Intel is expected to disclose that Atom chips for Netbooks will carry a list price of \$44 and operate at 1.6 gigahertz, while Atom chips for

Nettops will list for \$29 each.

In other developments at Computex, Intel plans to announce what it calls the Series 4 chipset, designed to help PCs handle high-definition video, according to Erik Reid, a director in Intel's mobile-platform group. Chipsets are a class of products that work to connect microprocessors to the rest of a system.

Intel also plans to provide an update of deployments for WiMax, a wireless technology for long-distance data communications, and discuss momentum in new pocket-size products the company calls MIDs, for mobile Internet devices.

But a bigger battle at the moment is being waged over conventional laptops, an Intel stronghold where rival Advanced Micro Devices Inc. is trying to play a bigger role. Intel had expected to deliver a long-awaited chipset for that market, dubbed Montevina, in June. But technical

glitches and delays in receiving government approval for a wireless-communications component recently forced the company to push back the introduction to July 14.

That initial version of the chipset comes only with Wi-Fi short-range communication. A version that comes with chips to communicate using WiMax is expected in the second half of 2008. Though Intel had once predicted that 2008 would be the "year of WiMax," network operators aren't expected to widely offer a mobile version of the service until next year.

The delays aren't expected to hurt Intel's finances but are clearly a disappointment. "Oh Montevina, you crafty minx. You broke our hearts with the launch delay," Craig Raymond, a senior Intel technical marketing engineer, wrote in a company blog.

# China Web-search firm criticized over music piracy

BY AARON BACK

BEIJING—Chinese and international record companies stepped up their battle with Baidu.com Inc., calling for advertisers to consider punishing China's Internet-search leader for its alleged complicity in music piracy.

A joint statement Tuesday by three industry associations and several of the biggest domestic and foreign companies in the music business called Baidu "the largest and most incorrigible purveyor of pirated music in China." The statement said that "resolutely countering Baidu" has "become a common

goal in China" and that the group of companies and associations has sent a letter to advertisers asking them "to carefully consider whether they should continue to place advertisements on pirating media."

Music companies have long complained that Baidu, which gets by far the most traffic of any Web-search site in China, has facilitated piracy by providing links in its music-search results to unlicensed versions of songs on other sites. Its search engine provides such "deep links" to thousands of sites that Baidu has been the target of several lawsuits by record companies in Chinese courts.

Baidu, which lists shares on the Nasdaq Stock Market, has repeatedly denied wrongdoing. Tuesday, the company said it "believes in copyright protection" and "continues to fight piracy on the Internet by developing innovative business models." Baidu said it has entered into agreements with several music companies to offer free advertising-supported music, using licensed versions of songs.

Tuesday's statement was signed by the International Federation of the Phonographic Industry, which represents international music companies; the Music Copyright Society of China; and the China Audio-Video

Copyright Association. The groups said record companies that had signed the statement included Universal Music Group, EMI Group PLC, Sony BMG Entertainment and Warner Music Group Corp., in addition to Chinese companies like Taihe Rye Music and R2G, a company that helps record companies distribute licensed content online in China.

The statement is the first issued jointly by the three music-industry groups, organizers said. The companies involved cover more than 80% of China's total music market, it said.

## GLOBAL BUSINESS BRIEFS

### Bouygues SA

#### Net Profit Increases 17% Despite Weak TV Results

Bouygues SA on Tuesday reported a 17% increase in first-quarter net profit, despite a weak performance at Television Francaise 1 SA. The building-to-broadcasting conglomerate said net profit rose to €224 million (\$348.1 million) from €191 million a year earlier. Bouygues said the contribution of French engineering company Alstom SA, in which it holds a 30.07% stake, to its net profit tripled in the first quarter, rising to €81 million from €27 million. Last month, Bouygues said first-quarter sales rose 15% to €6.82 billion from €5.92 billion. The company slightly raised its 2008 sales forecast to €32.4 billion from €32.3 billion. Bouygues's broadcasting arm, TFI, in which it holds a 42.9% stake, last month reported a drop in quarterly profit and that full-year revenue is expected to fall about 3%.

### Hyundai Motor Co.

A Seoul appellate court upheld its earlier verdict in Hyundai Motor Co. Chairman Chung Mong-koo's embezzlement trial. The Seoul High Court gave Mr. Chung a three-year jail term, suspended for five years, the same sentence as in its September ruling. He also will have to do 300 hours of physical labor and other community service. The ruling comes after prosecutors again called for a six-year jail term for Mr. Chung, saying "the suspended sentence is not severe enough to punish him" for embezzlement and breach of trust. In April, the Supreme Court sent the case back to the lower court for a sentence review.

### LVMH

LVMH Moët Hennessy Louis Vuitton SA Chairman Bernard Arnault extended his holdings to yachts and recycling through two investment companies. L Capital, an investment fund sponsored by LVMH, is buying Princess Yachts International PLC of Britain in a deal valued at about £200 million, or about \$393 million, it said. L Capital, which also makes investments for the Arnault Group, the holding company of Mr. Arnault, said the deal value included debt and that co-investors included the Belgian investment group Cobepa. Separately, the Arnault Group said it was investing €100 million (\$155 million) in French recycling company Paprec as part of a capital increase.

### Alitalia SpA

The board of Alitalia SpA named Intesa Sanpaolo SpA as its adviser as the airline tries to find a buyer. The Italian government, which owns 49.9% of Alitalia, has been trying to sell the airline for almost two years and Prime Minister Silvio Berlusconi has made fixing Alitalia, which is close to bankruptcy, a priority. Earlier this year, Air France-KLM SA withdrew an offer for the Italian carrier after objections from Alitalia unions. Mr. Berlusconi, during his recent election campaign, had also sharply criticized the Air France offer. However, on Tuesday, during a press conference in Rome with French President Nicolas Sarkozy, he said that Alitalia could forge an alliance with Air France-KLM in the future.

—Compiled from staff and wire service reports.



## ECONOMY &amp; POLITICS

## SLOVAKIA

## EU's finance ministers back bid to join euro zone



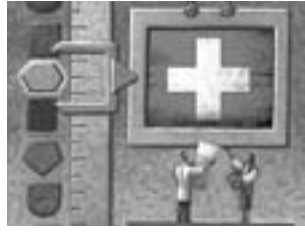
EUROPEAN Union finance ministers set EU newcomer Slovakia on its way to joining the euro zone next year by approving its membership and recommending EU leaders do the same at a summit in two weeks.

Slovakia cleared a crucial hurdle in May when it won backing from the European Commission and European Central Bank that it had met a set of strict economic standards to allow it to swap its koruna for the euro on Jan. 1. A final decision from finance ministers in July will be the last step clearing the country to become the 16th euro nation and only the second of 10 new EU members to adopt the currency.

—Associated Press

## SWITZERLAND

## Rising consumer prices make a rate cut unlikely



SWISS consumer prices rose at a faster-than-expected pace in May due to high oil prices, quashing expectations the Swiss central bank will begin to lower rates anytime soon.

Switzerland's consumer prices were up 0.8% from April and 2.9% from last May, the statistics office said. Economists said the surge in May was worrying even though inflation is expected to gradually lessen in the second half. UBS, one of the banks forecasting a Swiss rate cut by the end of this year, said its predictions now look aggressive. The Swiss National Bank is widely expected to leave interest rates unchanged at a policy-setting meeting June 19.

—Martin Gelnar

## EURO ZONE

## Strong economic growth suggests an ECB rate rise



A SURGE in investment spending fueled a stronger-than-estimated rise in the euro-zone economy during the first three months of the year. That growth, coupled with a record-

tying annual rise in euro-zone producer prices in April, suggests that the European Central Bank will be more likely to raise than cut its key interest rate this year to control inflation. Analysts see chances of rate increases rising if forecasts of a slowdown in the second quarter are proven wrong. Figures released by Eurostat showed gross domestic product in the euro zone during the first quarter was 0.8% higher than in the fourth quarter.

—Paul Hannon

## Putin, now premier, plays presidential role

## Office extends reach into foreign affairs; Medvedev upstaged

BY ALAN CULLISON  
AND MARC CHAMPION  
Moscow

BEFORE HE stepped down from the Kremlin last month, Vladimir Putin vowed that he wouldn't take presidential powers with him to the new job of prime minister.

But in his first month in that post, Mr. Putin has been upstaging his hand-picked successor, leaving some foreign capitals to behave like Russia has two presidents.

Mr. Putin ceded his former office near Red Square after an ornate May inauguration that swore in Dmitry Medvedev as president. Since then, Mr. Putin has expanded the staff and reach of the prime minister's office and installed former presidential aides who now oversee Russia's affairs much as they did before. He has taken over the regular

Monday meetings with top cabinet members he used to run as president. Mr. Medvedev doesn't hold similar sessions.

In his first trip abroad as prime minister last week, Mr. Putin told the French newspaper *Le Monde* that he is "a humble servant who is concerned with economic and social affairs" of Russia. But he also said he would "to some degree" be dabbling in foreign affairs, an area that had previously belonged to the president.

Indeed, Mr. Putin soaked up many of the honors of a head of state during his visit to France. He held a lengthy working dinner with French President Nicolas Sarkozy, with whom he discussed political and military aspects of bilateral ties. In his *Le Monde* interview, he lashed out at North Atlantic Treaty Organization expansion and compared the U.S. to a "frightening monster" from whom France should keep its distance.

In the past, Russian prime ministers avoided commenting on for-

eign policy, which under the constitution is a presidential prerogative.

On Monday, Mr. Putin appointed Russia's longtime ambassador to the U.S., Yuri Ushakov, to a newly created job coordinating foreign relations for the prime minister. Mr. Putin's spokesman, Dmitry Peskov, denied the move is a sign that Mr. Putin is seeking any new foreign-policy muscle.

Analysts and foreign diplomats have been closely analyzing the speeches and trips of Messrs. Putin and Medvedev to gauge which powers will belong to whom. Both men have said they will run the country in "tandem." Kremlin critics decry the arrangement as unstable, and say Mr. Medvedev, a lawyer who owes his career to Mr. Putin, lacks political heft and will inevitably become Mr. Putin's puppet.

Mr. Medvedev has made some moves that seemed to contrast with his predecessor. Tuesday, he removed the chief of the General Staff, Gen. Yuri Baluyevsky, a Putin appoint-

tee who had clashed openly with the defense minister over efforts to tighten Kremlin control over defense spending. But Mr. Medvedev softened the blow, giving Gen. Baluyevsky a medal and a post in the Kremlin Security Council.

Some foreign capitals have fostered hopes that Mr. Medvedev will emerge dominant, since he has at least paid lip service to some liberal ideas. On Thursday, Mr. Medvedev travels to Germany for talks with Chancellor Angela Merkel, who has staked out a position to make room for the new Russian president to develop a less confrontational relationship with Europe.

Ms. Merkel, who clashed with Mr. Putin when he was president, has won some gratitude in Russia by weighing in on Moscow's side in the latest confrontation over NATO expansion. But German officials now say they are concerned by what they see as aggressive Russian actions in Georgian separatist regions since.

German officials don't expect much change in foreign policy under

Mr. Medvedev but they do hope for improvement to the rule of law within Russia, said Eckart von Klaeden, foreign-affairs spokesman for Ms. Merkel's Christian Democrat Union party in the German Parliament. "We want to take Medvedev at his word and give him a chance to make a difference."

Sergei Markov, a legislator from the pro-Kremlin party United Russia, said some confusion over the tandem rule in Russia is natural early in the administration of Mr. Medvedev. The West, he said, is responsible for some of the confusion, because media there tend to pay so much attention to Mr. Putin on his foreign trips.

Within Russia, Mr. Putin will be an unusually visible prime minister because of his abiding popularity. Polls show nearly as many Russians want the two men to share power as say they would like Mr. Medvedev to lead alone. State-controlled media, a key guide to influence in Russia, also have been giving Mr. Putin more airtime than his successor in recent weeks.



Dmitry Medvedev



Vladimir Putin

## Beirut's tourist scene roars back to life amid calm stretch

BY FARNAZ FASSIHI

BEIRUT, Lebanon—This long-favored destination for the Arab party set is enjoying a sudden, remarkable comeback after squabbling political parties defused the country's worst internal fighting since 1990.

While the city has sprung back to life, a setback could come at any moment with another car bomb or political assassination. But hotel occupancy in Beirut tops 60%, compared to a mere 10% last week, and is climbing daily. Flights into Beirut, from any European or regional city, are fully booked until the middle of August, according to a travel agent.

Most car-rental agencies are fully booked and have stopped taking reservations for the next two months. Restaurants in the downtown area, which was blockaded by Hezbollah militiamen with thick

beards and walkie-talkies until last week, are now open 18 hours a day, catering to locals and tourists.

New Mastercard billboards around the city show a bikini-clad woman shimmying under a disco ball, with the slogan: "Living it up in Beirut. Priceless."

The tourism ministry is hoping for 1.6 million visitors this summer, estimated to bring in tens of millions of dollars in revenue.

"This is a crazy country. This is Lebanon," says Charles Asmar, the 50-year-old manager of well-known downtown restaurant *Place de l'Etoile*, where business has picked up over 150% in one week. The restaurant has expanded its staff to keep up.

The troubles of the past few summers here almost killed the tourism industry. It began with the Hezbollah-Israeli war in July 2006, fol-

lowed by a long internal political battle between the Western-backed government and the opposition, including the Shiite Islamist group Hezbollah. Hezbollah blockaded the popular downtown area with tents and barbed wires, forcing businesses to shut down or drastically cut back hours. At the start of last summer, a string of car bombs targeted popular shopping areas as the army fought an al-Qaeda-inspired militant group in the Nahr el-Bared Palestinian camp in Tripoli. Inbound visitors canceled flights and hotel bookings.

Last month, militiamen and snipers on both sides fought in the streets with machine guns and rocket-propelled grenades, forcing residents to evacuate many neighborhoods. The fighting ended when the two sides agreed to elevate a compromise candidate as presi-

dent, filling the office that had been vacant since November. Michel Suleiman was sworn into office May 25.

Lebanon has long beat out other regional tourist centers, including safe and stable Dubai in the United Arab Emirates. Dubai has glitzy malls, combed beaches and an indoor ski slope. But Lebanon's moderate climate means good weather when many other Middle East cities are sweltering. It has beaches, mountains, lemon and olive groves, and vibrant nightlife with rooftop bars, beach parties and concerts. Lebanon is more open than other Arab countries, where local women dress conservatively and alcohol is banned or, as in Dubai, limited to hotels.

"It's the best of all worlds. Beirut looks like the south of France except everyone speaks Arabic and it costs 10 times less," says Saleh Ibrahim, a

41-year-old businessman from Saudi Arabia who arrived for a two-week vacation this week.

In the lobby of the Phoenicia Intercontinental Hotel, with its palace-size crystal chandeliers and ballroom staircase, guests arrived this week in hordes from Saudi Arabia, Egypt, Kuwait and the United Arab Emirates, rolling carry-on luggage and sporting designer sunglasses.

Kafah and Abdul Rahman Al-Osaimi, a Kuwaiti couple in their 40s, cut their trip to Istanbul short and flew to Beirut on the same Sunday that President Michel Suleiman was sworn into office.

"Because we love Lebanon very, very much," said Ms. Al-Osaimi, wearing a long dress that reached her toes and a colorful scarf covering her head. "I told my husband I don't want to waste a single day, let's go to Beirut."

## ECONOMY &amp; POLITICS : FOCUS ON CHINA

## Students rally, often in support of Beijing

## Patriotism that drove Tiananmen protests now backs leadership

BY JASON LEOW

**BEIJING**—Last year, Peking University's administrators tore down three notice boards at a corner on campus called the "sanjiao di" that students had long used to display social and political commentary. In the spring of 1989, the boards had helped rally student sentiment at China's most prestigious school for big democracy demonstrations in Tiananmen Square.

Now, 19 years after the government's bloody June 3-4 crackdown on the Tiananmen Square democracy movement, sanjiao di boasts just a few pine trees and some wispy grass, a stark reflection of how student sentiment has changed in China.

Wang Jianbin, an undergraduate studying law, says students stopped posting political content on the boards several years ago, long before they were removed. "Students were posting rental requests and information about test-preparation programs," he says.

Instead of staging protests for democracy, today's college students in China are more likely to favor nationalistic causes, and to look for ways to work within China's one-party governmental system, than to challenge it. The patriotism that drove young people to criticize authorities in the 1980s is now seen by many students as best expressed by supporting China's leadership—despite its flaws—for the progress it has achieved in expanding China's economy and raising its international profile.

That sentiment has been strengthened in recent months by the political crisis in Tibet, the Sichuan earthquake and the coming Beijing Olympics. Students rallied against foreign criticism of Beijing's policies in Tibet, where violent anti-

government riots in March were met with a harsh crackdown, and they have often lauded the state's response to the devastating quake. Thousands of Beijing students have volunteered to help with logistics of the Summer Games, which they see as a national triumph.

The student support for the government is a sharp contrast to the image of Chinese students shaped by the Tiananmen Square protests that still lingers for many in the West. China's government has never said how many people died in its crackdown that ended those demonstrations, but outside groups say the number was anywhere from several hundred to several thousand.

Ahead of the Olympics, international groups like Human Rights Watch have renewed their calls for Beijing to release some of the estimated 130 people who remain in jail for their involvement in the demonstrations.

In some ways, much of the symbolism of the Olympics appears aimed at redefining an international view of Beijing still darkened by the Tiananmen crackdown. The square has been used for such Olympic functions as the starting ceremony for the global torch relay. At a routine press conference Tuesday, Ministry of Foreign Affairs spokesman Qin Gang declined to answer a question on the Tiananmen protests. The question was omitted from a transcript of the briefing posted on the ministry's Web site.

Many young people in China don't know what took place in 1989 and don't seem especially keen to find out. Unlike young people in many countries, China's students to-

day aren't especially antiestablishment or openly critical of authority—a product both of their own experiences and of an active effort by Communist Party leaders to better shape and co-opt student opinions in the years since 1989.

In the 1980s, China's leadership sometimes encouraged construc-

tion on June 4 is usually scrutinized extra carefully," she says.

Virtually all Chinese universities house student groups and clubs allied with the party's Communist Youth League, which claims more than 75 million members, including most college students. That makes antigovernment activism immediately taboo, and encourages public displays of support for the authorities. "China is a very well-run country, and our future will be better," says Ren Shaopeng, an engineering student and vice chairman of the Students' Union at the Beijing Science and Technology University.

Young people in China often equate the notion of government with country—a phenomenon they acknowledge could be puzzling to the West. Student support is also rooted in the tremendous economic progress experienced by most Chinese young people—all of whom were born well after market-oriented liberalization began three decades ago. Grass-roots affection reached a peak during the earthquake,

support for the government. In the 1980s, students were angered in part by huge social problems, like double-digit inflation rates, and remnants of the old communist system that impeded opportunities, such as the government work-assignment system that dispatched them to state jobs after graduation, with no heed paid to their personal preferences.

Today's Chinese students live in an era of relative prominence and plenty—and there are far more of them, thanks to a major expansion of college enrollment. Higher-education funding rose sixfold between 1996 and 2005, the last year for which China's government has numbers.

"Chinese students are pragmatists now," says Ruth Cherrington, author of "China's Students: the Struggle for Democracy," and a lecturer at Warwick University in the U.K. "They have a lot more economic incentives to stay with the present brand of patriotism."

Young Chinese have far greater access today than their parents did to international media and other sources of information from abroad. Yet many feel their country and their government are deeply misunderstood in the West. That feeling flooded out amid protests in some Western cities against the Olympic torch relay. The protests upset many Chinese students, who counterattacked with demonstrations and campaigns to boycott Western conglomerates.

Many students accept the Chinese government's argument, which might seem anathema on college campuses in the U.S. or Europe, that unfettered freedom of expression can be destabilizing.

Mr. Wang, the Peking University law student, plans to head to law school at the U.S.'s Duke University's after he graduates in July. He rejects the idea that "democracy" and "human rights" are universal notions. "Unlike in the West, we don't stand on a higher plane and spot problems with democracy and human rights in other places," he says. "You have your values, we have ours."

—*Geoffrey A. Fowler in Hong Kong and Shai Oster in Beijing contributed to this article.*



Wang Jianbin



Student sentiment in China has changed in the 19 years since the Tiananmen Square protests.



Reuters

ive criticism from students, believing that public criticisms could foster national unity. But today political challenges are frowned on, and Chinese schools teach virtually nothing about the Tiananmen protests, or June 4, as the event is known in China. "All I know is that on June 4, the school authorities get a little bit antsy," says Yang Linyan, a senior in international politics at the Beijing International Studies University. "Any student activity you want to or-

when many expressed appreciation to the central government for mobilizing troops and supplies and for Premier Wen Jiabao's rapid arrival in the disaster zone.

"The authorities have performed very well," says Xu Xuexin, a senior at top-ranked Tsinghua University in Beijing. "I hope foreigners can see the unity of the Chinese people and their government."

Economic prosperity has played a major role in generating student

## Beijing restricts protests, media access in quake zone

BY MEI FONG

**MIANZHU, China**—Chinese officials clamped down on protests by parents angry over the deaths of their children in last month's earthquake, with police breaking up at least one demonstration and attempting to prevent media access to other quake-stricken towns Tuesday.

In some cases, local officials cited what they said were newly imposed media regulations, although they gave scant and sometimes contradictory information on these new rules. The new measures appear to scale back some of the media freedoms granted after the May 12 earthquake, which so far has killed almost 70,000 people.

In the hard-hit town of Dujiangyan, police hauled away more than 100 parents of children killed in a school during the quake who were protesting in front of a courthouse, the Associated Press reported. An AP reporter and two photographers, as well as two Japanese reporters, were detained briefly when as they tried to observe the event, the report said.

Several eyewitnesses said the parents wanted to go into the courthouse and file a lawsuit but they were blocked by hundreds of police. "The government has been talking about the investigation for such a long time. We still have no answers," said Ms. Wang, who lost her niece at Juyuan Middle School and declined to give her full name. She accompanied the girl's mother to the court in Dujiangyan Tuesday morning, where she says there were about 200 to 300 parents, each holding pictures of their lost children.

The clamor of grieving parents—who say poor construction led to their children's deaths—has emerged as a sensitive issue for Chinese authorities. Just two months before the media glare surrounding the Beijing Olympics, they are juggling the demands of disaster-relief work with the need to manage growing pockets of unrest among parents, many who lost their only child when schools collapsed in the quake.

Columbia University Prof. Xiaobo Lu, who studies Chinese politics, said it was just a matter of time

before the Chinese government pulled back from its relatively liberal attitude toward news coverage of the Sichuan quake. "In the back of the authorities' mind, there is a fear of looming unrest. Their approach is to address the problem in a way they can control," said Prof. Lu.

The restrictions appeared tightest in areas where collapsed schools killed hundreds of students, places that have become the scenes of increasing protests by parents over the past week.

A Wall Street Journal reporter present during a peaceful protest in Hanwang town on Tuesday was questioned repeatedly by police there, with one officer attempting to stop the reporter from taking photos. Later on, propaganda officials tailed the reporter by car out of town and pulled the reporter over for questioning.

On the same day, police also blocked roads to Wufu, another town with a school that collapsed while surrounding buildings survived, and prevented several Chinese reporters from entering the town, according to people present.

The Chinese government is investigating the causes of collapse at many of these schools, but parents are chafing at the delay in results, which could take several more weeks.

The anger appears to be fueled, in part, by the disclosure that family-planning officials were offering to give annual sums of \$144 per parent as partial compensation for their loss, which many felt was too low.

When the magnitude-7.9 quake occurred on May 12, hundreds of foreign and domestic news organizations swarmed to Sichuan to cover the disaster, initially with few or no restrictions.

Now, the new rules appear to limit access to the areas where parents have been protesting. Yan Hua, an official from the Mianzhu propaganda department, told a reporter that as of Monday, journalists were required to obtain permission from the local-government office in Deyang and media passes issued by the Foreign Affairs Office of the Sichuan Provincial People's Government were no longer valid.

A spokeswoman from the Foreign Affairs Office of the Sichuan Provin-

cial People's Government confirmed that the department is issuing new media passes, but she said the passes would cover all Sichuan—so reporters wouldn't have to seek individual permission from the province's various municipalities.

While the new regulations were put into place Monday, she said, the new passes aren't yet available and further details about how to obtain them would be posted on the Sichuan government's Web site. But a check of the Web site Tuesday evening offered no further information.

Highlighting the often-contradictory information about the new media rules, Qin Gang, a spokesman for the Ministry of Foreign Affairs, told reporters in Beijing Tuesday: "I don't know of any new regulations there. The principle remains unchanged for transparency and openness."

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