News in Depth: The going gets tougher for President Obama

THE WALL STREET JOURNAL.

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What's News

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Agence France-Presse

DIGGING IN: China's eastern coast was pummeled Sunday night, forcing nearly a million people to flee after Taiwan saw its worst flooding in 50 years. Above, rescuers provide aid in Chiatung, Taiwan. **Page 12.**

Debt burden to limit gains in U.S. stocks

By E.S. Browning And Annelena Lobb

In the U.S., economists are boosting growth forecasts. Employment numbers are improving. Manufacturing activity is bottoming. Housing demand is strengthening. Business leaders are starting to say the worst may be over.

Markets are celebrating, hoping the good news will keep on coming.

The Dow Jones Industrial Average now has jumped 43% from the 12-year low hit March 9. It finished Friday at 9370.07, its highest close since Nov. 4. Risky credit investments, such as junk bonds and even mortgage-backed securities, also have been recovering.

But there is a smudge on the pretty picture. A surprisingly large number of money managers and economists are warning that, despite the hopeful signs, the economy is still deep in the woods, not strong enough to support a long-running stock and bond recovery.

After the big market gains, "the question now is, 'Where do we go from here?' " John Osterweis, chief investment officer of Osterweis Capital Management, told clients in a recent report. "The simple answer is probably, 'Nowhere fast.' "

According to this view, the market surge of the past five months has been a celebration of the government's success in staving off financial doom. Stocks deserved to rise from panic lows. To keep rising in the future, the market needs a sign of real economic recovery, and that requires a surge in consumer spending, business investment and home buying.

That's what is in doubt, and one word explains why: debt. Despite an uptick in consumer saving, debt levels have only barely begun to come down. Even after the recession ends, economists expect the gradual reduction of the nation's massive consumer debt to take years. In the meantime, they are warning that the economic-growth surge expected for the second half of this year could be followed by slower growth and a softer stock market in 2010.

A survey of six leading Wall Street stock strategists, ordinarily a bullish bunch, shows them on average forecasting the Standard & Poor's 500-stock index at about 1033 by year's end. Their forecasts range from 930 to 1100. The S&P 500 finished Friday at 1010.48, already nearly at the average forecast.

On Wednesday, in the wake of encouraging manufacturing and auto-sales data, economists at Goldman Sachs Group tripled their forecast

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U.K. supermarkets find value in crisis

By Cecilie Rohwedder

BRADFORD, England—The global recession is spoiling the summer for a lot of industries, but not the U.K.'s supermarkets. They're loving it.

With an estimated five million Britons staying home this summer instead of traveling, the country's leading grocers are slugging it out for shoppers' time and money. They're slashing prices, launching new budget brands and taunting the price claims of rivals in advertising.

"Look at this full barbecue for £4," or about $6.50, says Marc Bolland, chief executive of **Morrisons Supermarkets** PLC, touring a store in this northern town where his company is based. "Three different meats, two salads and dinner rolls for four people—that's just £1 per person."

Commercials for rival chain **J Sainsbury** PLC feature celebrity chef Jamie Oliver teaching women to grill

Please turn to page 31

In the aisles

U.K. food retailers' market share for 12 weeks ended July 12

30.8%	Tesco
17.0	Asda
16.0	Sainsbury's
11.6	Morrisons
24.6	Other

Source: Taylor Nelson Sofres World Panel

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Gordon Ramsay faces tough times in his restaurant empire
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Markets

	CLOSE	PCT CHG
DJIA	9370.07	+1.23
Nasdaq	2000.25	+1.37
DJ Stoxx 600	230.68	+1.22
FTSE 100	4731.56	+0.87
DAX	5458.96	+1.66
CAC 40	3521.14	+1.25
Euro	$1.4209	-1.11
Nymex crude	$70.93	-1.40

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Switzerland SF 5 - Syria S£ 210 - Turkey TL 4.5 - U.S. Military (Eur) $2.20 - United Kingdom £1.50

THE WALL STREET JOURNAL.

LEADING THE NEWS

Jakarta foils terror plot

Police are checking if one of those killed is on most-wanted

BY TOM WRIGHT

JAKARTA—Police are investigating whether a man they killed over the weekend is one of Southeast Asia's most-wanted terrorists, following a pair of dramatic raids that may have foiled a plot to kill Indonesian president Susilo Bambang Yudhoyono.

Indonesian police killed three suspected terrorists—including one who a senior antiterrorism official said was believed to be Noordin Mohamed Top, the main suspect behind last month's deadly suicide bombings at the JW Marriott and Ritz-Carlton hotels in Jakarta—and uncovered a large bomb cache for future attacks. Police said they believe the deaths and five arrests unraveled a plan to blow up the private residence of Mr. Yudhoyono, who has made fighting terrorism a hallmark of his administration since coming to power in 2004.

Some experts on Sunday questioned whether police had killed Mr. Noordin, the self-proclaimed representative of al Qaeda in Southeast Asia. The uncertainty surrounding the fate of Mr. Noordin, who has eluded capture several times, underscores how difficult it has been to stamp out terrorism in the world's largest Muslim-majority country, despite significant strides earlier in the decade.

Police Chief Bambang Hendarso Danuri declined to confirm Mr. Noordin's death Saturday afternoon, saying police would wait for DNA tests on the body, which should take about a week. Later, pictures began to circulate of the man shot dead in the bathroom of a farmhouse near Temanggung, a town in central Java, a province on Indonesia's main island where Mr. Noordin is believed to have spent most of the past six years on the run. Those pictures didn't look like Mr. Noordin, according to people who have seen them.

Sidney Jones, an expert on Indonesian terrorism with the International Crisis Group, a Brussels-based conflict-resolution body, said police were sure Mr. Noordin was in the farmhouse based on information from two people arrested on Friday in Temanggung, and had confirmed his death after the siege ended. But she now doubts they killed Mr. Noordin, citing the photographs.

If Mr. Noordin is not dead, it would be the latest in a number of near-miraculous escapes and could add to his stature among Indonesian jihadis. "I think he probably was in the house at some point," but may have escaped, Ms. Jones said.

Other intelligence sources continue to believe Mr. Noordin was in fact killed, and even if not, that other aspects of the weekend raids were successful enough to deal a major blow to the embattled network of terrorists in Indonesia. Authorities in recent years have made great strides in combating terrorism in Indonesia, a secular Muslim country of 240 million people, arresting hundreds of alleged militants, and Mr. Noordin's network is now believed to number only around 30 people.

The live television coverage of the police offensives captivated Indonesian audiences. Local news channel tvOne showed live pictures of black-clad antiterrorism police carefully entering the farmhouse near Temanggung after they had riddled the dwelling with a volley of shots and sent in robots to sweep for bombs.

Earlier, police had set off controlled explosions in the house, shaking the building and sending plumes of smoke into the sky. The tvOne news channel reported that a man inside the building at one point called out "I am Noordin M. Top." After the siege ended, ambulances arrived and men carried coffins into the ruined house while police shook hands and congratulated one another, television pictures showed.

At the other raid, before dawn on Saturday near Jakarta, the capital, police uncovered 1,000 pounds of bombs and a car specially modified to carry them. Police opened fire on the car that returned to the house before dawn, killing two people and leading to the arrest of three others. Local media reported that the men tried to hold out, throwing pipe bombs at the police. The car, which had fake plates, had been driven from central Java, police said.

Police said that the target of the bomb was Mr. Yudhoyono's private residence, located about three miles from the house, and that terrorists planned to hit the residence two weeks from now.

"I extend my highest gratitude and respect to the people for their brilliant achievement in this operation," Mr. Yudhoyono said on Saturday, the Associated Press reported.

Police also said the dwelling was used as a safe house by Mr. Noordin and his associates two days after the Jakarta hotel bombings last month. One of the men arrested had reserved a room in the JW Marriott that the terrorists used as their command center.

Police said one of the men killed at the house was Aher Setyawan, a terrorist involved in a 2004 truck bomb attack on the Australian embassy in Jakarta, which killed nine people including the suicide bomber. He was arrested in July 2004 before the embassy bombing but was released two months later, just after the attack, due to lack of evidence and didn't go to trial, according to Ms. Jones, the expert on Islamist groups in Indonesia.

Despite those successes, the ultimate value of the weekend's missions could hinge upon whether police brought down Mr. Noordin.

The 40-year-old former Malaysian accountant emerged as Asia's most wanted terrorist in recent years, especially after recent arrests of Islamic militants hobbled Jemaah Islamiyah, a Southeast Asian terrorist network linked to al Qaeda that was responsible for the 2002 nightclub bombings in Bali, which killed 202 mostly Western tourists.

After that, the senior leadership of Jemaah Islamiyah renounced violence and Mr. Noordin and some hard-core followers struck out alone. His hallmark has been to hit symbols of Western power. Last month's attack on the JW Marriott and Ritz-Carlton, which killed nine people including two suicide bombers, hit a breakfast business meeting of Western businessmen.

Existing photos of Mr. Noordin, believed to date from his 30s, show a well-groomed Malaysian man with a goatee and short dark hair. In other photos, he wears glasses and parts his hair down the middle. But he has also adopted a number of disguises, posing as an itinerant Muslim cleric, a beggar and a businessman.

Police, since 2003, have at times been close on Mr. Noordin's tail. In October 2003, Indonesian police tracked Mr. Noordin to a building in the city of Bandung in west Java. When police raided the house, Mr. Noordin had vanished, leaving behind some tattered identification cards and six unexploded bombs.

Police came close again in September 2005, following his path to a safe house in Java before he escaped the search. Then, in November 2005, Indonesian police tracked Mr. Noordin and an associate to another safe house in central Java. His associate died in a hail of bullets after refusing to surrender, according to police officers at the scene, but only after Mr. Noordin had left. Mr. Noordin avoided the police yet another time in 2006 in a raid on a house in Wonosobo, a central Java town not far from Temanggung.

Most recently, in June, police arrested a man in Cilacap, central Java, called Syaefuddin Zuhri, alias Sabit, who was believed to be a close associate of Mr. Noordin. That arrest came too late to stop the Jakarta hotel bombings the following month, which police believe were organized from Cilacap. But the detention gave police information they used to further their investigations.

Soon after the attacks, they raided an Islamic boarding school in the town run by Mr. Noordin's father-in-law and found explosives similar to an undetonated bomb in Room 1808 of the JW Marriott. Police also arrested Mr. Noordin's wife in Cilacap.

Early on Friday, their search led them to arrest two people in a market in Temanggung in connection with the hotel attacks. It was unclear what evidence drew the police to Temanggung, but questioning of the two arrested men led them to the farmhouse, which is owned by their uncle, an elderly Islamic school teacher. Hundreds of police arrived at the farmhouse on Friday and began shooting at around 5 p.m. local time. The standoff lasted through the night.

Around dawn on Saturday, a major explosion was heard in the house and later police snipers on a nearby wooded hill intensified their attack on the property. After the siege ended, police cleared the house, bringing out the dead body that officials later said they believed to be Mr. Noordin.

Agence France-Presse/Getty Images

Indonesian police guard the bullet-riddled farmhouse in Beji village, Central Java, on Sunday, where commandos believe they killed terrorist Noordin Mohammed Top.

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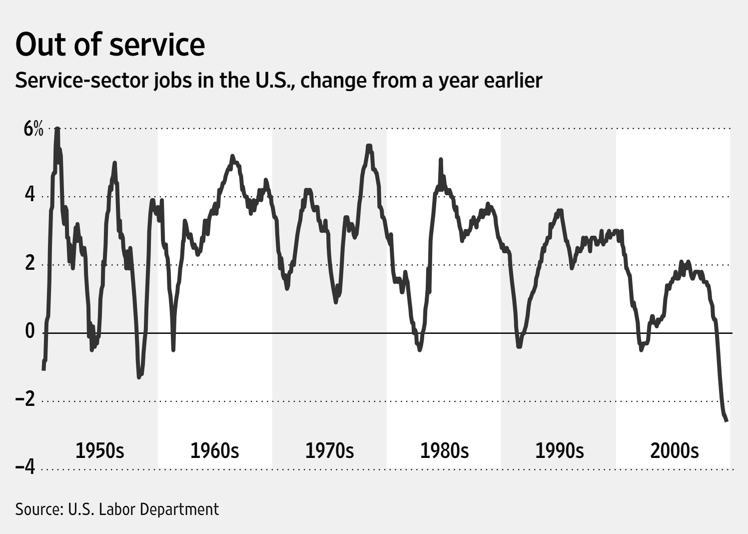
For more people in the news, visit CareerJournal.com/WhosNews

LEADING THE NEWS

Stage set for jobs rebound



American businesses could hire quickly as economy improves

BY JUSTIN LAHART

The rapid pace at which businesses shed jobs during the recession comes with a flip side: Workers will need to be hired back quickly as the economy improves.

So deep have companies cut jobs that Friday's employment report, which showed that the U.S. economy lost a quarter-million jobs in July, was seen as a relief. Since the recession began in December 2007, U.S. payrolls have fallen by 6.7 million, according to the Labor Department. That's a 4.8% decline, a level not seen since the late 1940s.

THE OUTLOOK

"Firms were unusually aggressive in cutting costs and cutting employment," said James O'Sullivan, an economist with UBS. "The flip side of that remains to be seen, but it could mean that companies will be quicker to bring back people because they were more aggressive about getting rid of them."

Businesses say they are running lean. Philadelphia staffing and outsourcing company CDI Corp. has seen demand for its services fall sharply in response to the recession. Its engineering services business, for example, has seen a 22% drop-off, said Chief Executive Roger Ballou. But the company has cut staff deeply enough that it doesn't have many idle hands, and Mr. Ballou said that's true at CDI's customers as well.

"I'm unaware of any firm out there today that has lots and lots of people sitting on the bench, waiting for business to come back," said Mr. Ballou. As a result, he thinks jobs will come back more quickly as the economy recovers than they did in 2001.

To be sure, even as more companies begin to hire as the economy recovers, it could take years before payrolls reach their prerecession level. With Americans spending more cautiously in response to the massive losses in wealth associated with this recession, some jobs may simply never come back.

"We are going through an important transition in the U.S. economy away from consumer discretionary and housing expenditures towards more exports and research and development," said Northern Trust economist Paul Kasriel. "It's going to take a lot of time for workers to retrain and get skills in those areas."

Moreover, with manufacturers continuing to make strides at wringing more production out of fewer workers, even as demand picks up, they may be able to hold off on hiring. Manufacturers began cutting workers in 1998, long before the 2001 recession started, and they kept cutting them through the subsequent recovery and into the current downturn.

And a quick labor-market recovery would be a break from what has happened in recent downturns. After the brief 2001 recession ended, the economy continued to shed jobs for nearly two years, and after the 1990-91 recession, jobs growth sputtered. The two experiences led economists to conclude that there had been a shift in the behavior of the job market, which in the past recovered quickly after recessions.

That said, one thing different about this recession—and one more reason the job market may come back more quickly than in the downturns of 2001 and 1990-91—is that so many of the job losses have been at the service-related companies that have come to dominate U.S employment. Since the recession began, 3.3 million service-sector jobs have been lost, a 2.9% decline that is the largest in data going back to 1939. In comparison, the previous two recessions each saw service-sector jobs fall by 0.5%.

Many service-related firms may have a more pressing need to rehire workers as demand comes back than manufacturers do.

"In our industry, staffing is driven strictly by the number of guests we have to take care of," said Peggy Mosley, owner of the Groveland Hotel in Groveland, Calif. "In the hospitality business, that's where we have to excel."

With 30 employees, Ms. Mosley's hotel, near the northern entrance to Yosemite National Park, is at its highest staffing level in 19 years of business. More Americans are vacationing closer to home, she said, and because she doesn't cater to business travelers she hasn't seen the drops in occupancy many of her counterparts across the country have seen.

But the biggest reason jobs might bounce back quicker from this downturn than the past two recessions, said Comerica Bank economist Dana Johnson, is that the economy looks likely to see a much bigger bounce as it recovers.

Gross domestic product—the value of all goods and services produced by the economy—has fallen by 3.9% since economic output peaked last year, marking the steepest decline since the end of World War II. In contrast, the 2001 and 1990-91 recessions were among the shallowest on record.

History says that given the depth of the downturn, GDP should grow at a 6% to 8% rate over the next year, according to Mr. Johnson. But because of the financial stress that has come with this recession, he expects it will grow at a 4% rate.

"What people forget is that a deeper recession has consequences," Mr. Johnson said. "There is a considerable relationship between the depth of recessions and subsequent recoveries."

U.S. changes strategy in Afghanistan to counter Taliban

The Taliban have gained the upper hand in Afghanistan, the top American commander there said, forcing the U.S. to change its strategy in the eight-year-old conflict by increasing the number of troops in heavily populated areas like the volatile southern city of Kandahar, the insurgency's spiritual home.

*By **Yochi J. Dreazen** in Kabul and **Peter Spiegel** in Washington*

U.S. Gen. Stanley McChrystal, center, meeting with Afghan citizens, said he will shift troops to cities to counter a surge in violence.

Gen. Stanley McChrystal warned that means U.S. casualties, already running at record levels, will remain high for months to come.

In an interview with The Wall Street Journal, the commander offered a preview of the strategic assessment he is to deliver to Washington later this month, saying the troop shifts are designed to better protect Afghan civilians from the rising levels of Taliban violence and intimidation. The coming redeployments are the clearest manifestation to date of Gen. McChrystal's strategy for Afghanistan, which puts a premium on safeguarding the Afghan population rather than hunting down militants.

Gen. McChrystal said the Taliban are moving beyond their traditional strongholds in southern Afghanistan to threaten formerly stable areas in the north and west.

The militants are mounting sophisticated attacks that combine roadside bombs with ambushes by small teams of heavily armed militants, causing significant numbers of U.S. fatalities, he said. July was the bloodiest month of the war for American and British forces, and 12 more American troops have already been killed in August.

"It's a very aggressive enemy right now," Gen. McChrystal said in the interview Saturday at his office in a fortified NATO compound in Kabul. "We've got to stop their momentum, stop their initiative. It's hard work."

In an effort to regain the upper hand, Gen. McChrystal said that he will redeploy some troops currently in sparsely populated areas to cities like Kandahar, and that many of the 4,000 American troops still to arrive will be deployed in urban centers.

The Obama administration is in the midst of an Afghan buildup that will push U.S. troop levels here to a record 68,000 by year end. There are roughly another 30,000 troops from North Atlantic Treaty Organization countries and other allies.

Gen. McChrystal's predecessor, Gen. David McKiernan, had an outstanding request for 10,000 more troops. Gen. McChrystal said he hadn't decided whether to request additional U.S. forces.

Several officials who have taken part in Gen. McChrystal's 60-day review of the war effort said they expect him to ultimately request as many as 10,000 more troops—a request many observers say will be a tough sell at the White House. The U.S. war effort in Afghanistan currently costs American taxpayers about $4 billion a month.

Gen. McChrystal also said he would direct a "very significant" expansion of the Afghan army and national police—which would double in size under the plans being finalized by senior U.S. military officers here—and import a tactic first used in Iraq by moving U.S. troops onto small outposts in individual Afghan neighborhoods and villages.

One person briefed on the assessment said it will recommend increasing the Afghan army to 240,000 from 135,000 and the Afghan police to 160,000 from 82,000.

One official noted that the emerging American plans to double the size of the Afghan army and police will require thousands of additional U.S. trainers. The U.S. will also need more troops if security conditions in north and west Afghanistan continue to deteriorate, the official said. "The demand and the supply don't line up, even with the new troops that are coming in," he said.

The prospect of more U.S. troops rankles some of Gen. McChrystal's advisers, who worry that the American military footprint in Afghanistan is already too large. "How many people do you bring in before the Afghans say, 'You're acting like the Russians'?" said one senior military official, referring to the Soviet occupation of Afghanistan in the 1980s.

There are signs of growing U.S. unease about the direction of the war effort. Initial assessments delivered to Gen. McChrystal last month warned that the Taliban were strengthening their control over Kandahar, the largest city in southern Afghanistan.

American forces have been waging a major offensive in the neighboring southern province of Helmand, the center of Afghanistan's drug trade. Some U.S. military officials believe the Taliban have taken advantage of the American preoccupation with Helmand to infiltrate Kandahar and set up shadow local governments and courts throughout the city.

Gen. McChrystal said in the interview that he planned to shift more U.S. troops to Kandahar to bolster the Canadian forces that currently have primary security responsibility for the region. Despite the mounting concern about the Taliban's infiltration of Kandahar, the additional American troop deployments there have only begun in recent days, with the arrival of new reinforcements that will continue into the fall.

Gen. McChrystal defended the military's decision to focus first on Helmand. The current operation was meant to disrupt the Taliban's lucrative drug operations there, he said.

Gen. McChrystal said his new strategy had to show clear results within 12 months to prevent public support for the war from evaporating in both the U.S. and Afghanistan.

"This is a period where people are really looking to see which way this is going to go," he said. "It's the critical and decisive moment."

LEADING THE NEWS

Russia's superluxury-car dealers do a 180

As demand skids, even Maybach, Rolls resort to promotions

By Daria Solovieva

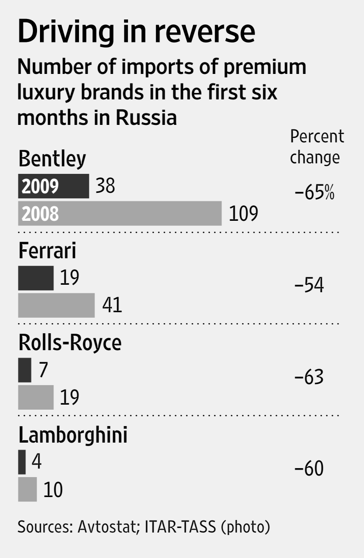
MOSCOW—The recession has halved auto sales in Russia, so it isn't surprising that the streets here are plastered with ads touting deals on new cars.

But along with the familiar pitches for Fords and Toyotas are seldom-seen financing and trade-in offers on superluxury brands like Bentleys and Ferraris.

Before the global economic slowdown, Russia's superrich quickly snapped up such cars. Brands like Bentley, Lamborghini and Ferrari scrambled to open local dealerships to keep up with demand. Even so, would-be buyers had to wait months, dealers say.

But the once-red-hot Russian market has gone cold so fast that even the auto industry's most upmarket nameplates, obsessed with preserving their exclusive images, aren't just advertising, but resorting to mass-market promotional tactics like trade-ins.

"Everyone is offering discounts now," says Yuri Yanykin, a trade-in manager at Avilon, a Moscow dealer for Maybach, **Daimler** AG's superluxury brand. He says Avilon is offering a €100,000 ($141,850) discount on a 2008 Maybach 62 sedan, bringing the price to €650,000. (In Russia, luxury cars are typically priced in euros, rather than rubles.)



A Ferrari displayed at the Royal Yacht Club in Moscow last year

"The luxury market is dead right now," says Vasily Kuznetsov, the president of Russia's Supercars Drivers Club, an association of exotic-car owners. "I do not know anyone who has bought a new car since the crisis hit."

Still, luxury-car sales have held up better than the Russian market as a whole, declining 36% in the first half, less than the 50% decline in the overall market.

Superluxury brands don't report sales regularly, but Avtostat, an auto-industry group that monitors Russian imports, reported an average 60% decline in imports of the Bentley, Ferrari, Rolls-Royce and Lamborghini brands in the first half of this year.

Mercury, a luxury-goods company that is the official Russian dealer for Bentley, Ferrari, Maserati and Lamborghini, doesn't disclose sales figures. But Oskar Akhmedov, head of Mercury's automotive division, says it will maintain 2008 sales levels this year for Ferrari and Maserati, because of limited production.

At Mercury's Ferrari dealership here, there is still a waiting list of five to six months for the popular California, but other models such as the F430 Spider and F430 Scuderia are available immediately. A 2008 Scuderia Spider, which cost €325,000 last year, now costs €295,000, nearly a 10% discount, according to salesman Andrei Shibayev. He says discounts can range from 10% to 30% on new cars.

Mr. Akhmedov, however, says there are no direct discounts, adding that the Scuderia Spider's lower price is because the car has been used in test drives.

"We used to have waiting lists, but not anymore," says Vyacheslav Kuzera, a Bentley salesman at Mercury's Tretyakovsky Proezd location, behind Moscow's Red Square. Mercury also has a dealership in St. Petersburg and a showroom in Krasnodar.

Bentley reached its peak in Russia in 2006, selling 265 Bentley cars, making Russia its largest market in Europe behind the U.K. and Germany.

This spring, Moscow's most fashionable streets were festooned with banners advertising finance and trade-in offers on Bentleys. Though the banners have since been taken down, car owners can still trade in a used car of any model and of any vintage for the latest Bentley, Maserati or Lamborghini or other brands Mercury specializes in.

The Bentley finance program combines a trade-in program with a loan program. "A new Bentley can cost €6,000 to €9,000 a month," says Mercury's Mr. Akhmedov. Bentley and Lamborghini buyers also can buy discounted insurance through the dealership, which can save an average of €6,000 to €9,000 a year, according to Mercury.

"These are not discounts," says Mr. Akhmedov. "This is active development of financial and other instruments that allow us to attract new clients."

A Bentley spokeswoman in Europe said she wasn't aware of the scope of Mercury's trade-in program for Bentleys and expressed surprise to hear it allowed to trade-ins of nonluxury brands. A Ferrari spokesman in Italy said lower prices were standard practice, but not discounts.

Russian car dealers have been more aggressive than their European counterparts in tackling plunging sales, analysts say. "In Russia luxury-car dealers work hard to get these discount programs, and aren't afraid to experiment," said Alexander Yeremenko, managing director of consulting firm Brand Lab Russia. "In Europe they have been trying to build these brands there for too long to experiment."

EU regulator draws rebuke for lapse involving Intel review

By Charles Forelle

BRUSSELS—The European Union's ombudsman issued a rare rebuke of the bloc's antitrust regulator, saying it failed to record "potentially exculpatory" evidence from a witness in its investigation of chip giant **Intel** Corp.

The case ended in May with a finding of monopoly abuse and a €1 billion ($1.44 billion) fine. The ombudsman, P. Nikiforos Diamandouros, has no authority to change the outcome, but he is one of the few independent checks on the EU's powerful executive arm, the European Commission.

The ombudsman's report, which followed a July 2008 complaint from Intel, shines an embarrassing light on normally opaque procedures at one of the world's most powerful and aggressive antitrust enforcers. The commission is establishing a record of taking on U.S. tech giants including Intel and **Microsoft** Corp., but its procedures are increasingly a focus of complaint from targeted companies.

In the as-yet-unpublished report, reviewed by The Wall Street Journal, Mr. Diamandouros said the commission committed "maladministration" by not recording in the case file a formal account of an August 2006 meeting between commission investigators and a senior **Dell** Inc. executive who was providing evidence in the case. The reports says that the executive, who isn't identified, is believed to have told investigators that Dell viewed the performance of Intel rival **Advanced Micro Devices** Inc. as "very poor."

That could imply that Dell chose Intel chips for technical reasons, rather than because it was muscled into doing so. The EU concluded in the case that some manufacturers bought all or nearly all of their chips from Intel out of fear of losing valuable rebates if they turned to AMD.

Largely because there was no record of the discussion, it isn't clear precisely what the executive said—nor what time period his statements referred to. In fact, that year Dell broke years of de facto exclusivity and began selling servers with AMD chips.

A Dell spokesman said the company cooperated with the EU, but he declined to elaborate. An EU spokesman declined to comment on the ombudsman's report, as did a spokeswoman for AMD and a spokesman for Intel.

The evidence from the single Dell meeting isn't likely to have swayed the huge and complex case one way or the other. The EU has said it identified anticompetitive conduct in Intel's dealings over five years with five computer manufacturers, including Dell, and one computer retailer. It is impossible to assess the evidence because the EU's 542-page decision condemning Intel and imposing the fine remains confidential.

The Intel case was marked by rancor on both sides. In the investigation, Intel took the unusual step of going to an EU court in Luxembourg to force the commission to add documents to the case file; the regulator dismissed that as a delaying tactic. In another appeal lodged with the Luxembourg court in July, Intel claims among other things that the regulator violated human-rights protections meant to ensure a fair defense.

Complaining to the ombudsman, who is known for thorough and relatively rapid investigations but usually sets his sights on smaller-bore targets, is a rare step in an antitrust case. Irish budget carrier Ryanair Holdings PLC, a frequent antagonist of EU authorities, alleged in 2007 that the commission had leaked documents related to its never-consummated merger with Aer Lingus to the press. The ombudsman didn't support the allegation but requested the commission tighten up its confidentiality procedures.

In August 2006, commission investigators interviewed the Dell executive, who had also testified about Intel in 2003 before the U.S. Federal Trade Commission. In early 2008, Intel asked for a copy of the record of the interview. (Typically, in formal interviews, minutes are taken and the interviewee is asked to acknowledge his agreement with them.)

The commission told the company that it "did not interview" the Dell executive during the meeting "and no minutes of the meeting were taken," according to the ombudsman's report.

The commission later said one investigator wrote an "aide memoire" six days later that included his impressions of the meeting, but that it was an internal document that Intel couldn't look at. The commission also argued that it had discretion to determine what should and should not be considered exculpatory evidence, and that the information provided by the Dell executive might have duplicated other material already in the case file.

The ombudsman found that the commission's discretion wasn't so broad and that some information provided by the Dell executive wasn't already in the file at the time of the meeting.

U.S. says Kim's overture won't change Obama's nuclear stance

By Jess Bravin
And Jay Solomon

WASHINGTON—North Korean leader Kim Jong Il told former U.S. President Bill Clinton last week that Pyongyang wants to improve ties and hold bilateral talks with the U.S., in an apparent effort to break the North's growing isolation.

U.S. officials said Mr. Kim's overture, which they outlined for the first time on Sunday, wouldn't alter President Barack's Obama's strategy in pushing Pyongyang to give up its nuclear-weapons program.

Appearing on "Fox News Sunday," National Security Adviser Jim Jones said Messrs. Clinton and Kim spoke for about 3½ hours during Mr. Clinton's trip there last week to seek the release of two American reporters held by Pyongyang.

"Reportedly, they discussed the importance of denuclearization, in terms of weapons systems, of the North Korean peninsula, the Korean Peninsula, and in addition to ... talking about other things that the former president may have wished to discuss," Gen. Jones said. "The North Koreans have indicated that they would like a new relation, a better relation with the United States."

Gen. Jones said Mr. Kim was "in full control of his organization, his government. ... He certainly appears to still be the one who is in charge." Other U.S. officials played down reports that the reclusive North Korean leader had pancreatic cancer.

Pyongyang tested a nuclear device in May and has launched a series of missiles in recent months, dealing a blow to progress that had been made under the Bush administration during so-called six-party talks aimed at denuclearizing the Korean peninsula. Besides North Korea and the U.S., those talks included China, South Korea, Russia and Japan.

The U.S. officials reiterated that the U.S. was open to holding bilateral talks with North Korea, but only through the six-nation framework. They added that Washington wouldn't provide any new economic or diplomatic incentives to North Korea until it lives up to its previous commitments to disarm.

CORPORATE NEWS

Project adds supplier of gas for Asia

Apache of the U.S. signs on to Canada's Kitimat terminal as North American discoveries reshape energy market

By Ben Casselman

Houston-based **Apache** Corp. has agreed to provide natural gas for export to Asia through a proposed project in Canada, the latest sign that huge gas discoveries in North America are reshaping global energy markets.

Kitimat LNG Inc., the Canadian company planning to build the liquefied-natural-gas export terminal in Kitimat, British Columbia, will announce today that Apache has become the second major North American gas producer to sign on to the project. Last month, another Houston-based gas producer, **EOG Resources** Inc., signed a similar deal.

If the Kitimat project is completed in 2013 or early 2014, as planned, it would be the only North American LNG export terminal south of Alaska. The terminal would be in the ideal location for serving Asia, where gas prices are higher than in the U.S. because demand is stronger and sales contracts are usually linked to the price of oil, which is higher than the price of gas.

"We're pretty excited about the potential to open up some other markets," said John Crum, president of Apache's North American operations.

Apache and other British Columbia gas producers are looking for buyers for the trillions of cubic feet of natural gas they expect to pump in coming years. Apache recently said it could drill as many as 3,000 wells in British Columbia with the potential to produce 10 billion cubic feet of gas each. Other companies active in British Columbia include **EnCana** Corp., **Devon Energy** Corp. and industry giant **Exxon Mobil** Corp.

The Kitimat project is still in the planning stages, and the deals with Apache and EOG are memorandums of understanding—essentially, agreements to negotiate. Nonetheless, the agreements underscore the rapid shift in the North American natural-gas market.

Just three years ago, most experts thought North American natural-gas production was in permanent decline and predicted the U.S. and Canada would become major importers of gas from overseas.

Instead, new technology led to the discovery of vast new gas fields from New York to Louisiana, sending gas production soaring and pushing down prices in the U.S. to below $4 per million British thermal units from more than $13 per million BTUs last summer.

Most gas producers have said they believe low prices are temporary, the result of weak demand due to the recession. The Kitimat project, however, is one of the first signs that some in the industry believe there is a long-term oversupply of gas in North America.

"We're confident that there's going to be plenty of gas available for export for a long time," said Greg Weeres, vice president of **Pacific Northern Gas** Ltd., which is planning to build a pipeline to supply gas to the Kitimat facility.

The Canadian project originally was conceived as an import terminal that would receive liquefied gas shipped from the Middle East and Australia, convert it back into a gas and transport it via pipelines to Canada and the western U.S.

But Kitimat LNG President Rosemary Boulton said the company, based in Calgary, realized about a year ago that new North American gas supplies made such a facility unnecessary. "Suddenly North America is awash in natural gas," Ms. Boulton said.

So in September, Kitimat announced it would build an export terminal instead.

Kitimat

The Kitimat liquefied-natural-gas export terminal in British Columbia, shown in a rendering, is expected to be completed by early 2014.

Kitimat, which is backed by private-equity firm **Denham Capital Management** LP and others, isn't the first company to discuss exporting gas from North America. Last year, **Chesapeake Energy** Corp. said it had hired investment bankers to study exporting liquefied gas from the Gulf of Mexico.

Chesapeake Chief Executive Aubrey McClendon said in an interview that he ultimately decided to focus instead on trying to boost demand for natural gas in the U.S. But he expects operators of existing natural-gas import facilities to look into converting them to hybrid import-export terminals.

"I don't see how anybody can arrive at the conclusion that there is not a decades' long supply of natural gas," Mr. McClendon said.

The Kitimat facility will take about 700 million cubic feet a day of natural gas produced in Canada and supercool it tominus 160 degrees Celsius, which converts the gas to a liquid. The liquefied gas can then be shipped to overseas markets. Kitimat has the necessary permits for the project, but still needs to raise the $2.5 billion to $3 billion to build it.

Ad firm Publicis to buy Microsoft's Razorfish

By Ruth Bender

PARIS—**Publicis Groupe** SA Sunday said it will acquire **Microsoft** Corp.'s digital advertising agency Razorfish for $530 million, a move that allows the French advertising company to reach its digital revenue target earlier than expected and solidify its position in the only sector still growing amid the current ad slump.

Competition for Razorfish was fierce among advertising holding companies as they increasingly bet on digital activities to boost revenue.

Paris-based Publicis, which owns agencies Saatchi & Saatchi and Leo Burnett, won the race against seven initially interested parties to beat Japan's **Dentsu** in the final stage of negotiations, Publicis Chief Executive Maurice Levy told a conference call. Rival **WPP Group** and **Omnicom** Inc. had also expressed interest in the agency.

Publicis has made digital acquisitions a key strategy in recent years. In early 2007, it bought Boston-based Digitas for $1.3 billion, followed by the purchase of search-marketing agency Performics from **Google** Inc. last year, as well as a series of small agencies around the world. It has also closely aligned itself with technology giants to improve its expertise digital advertising.

"When we complete this transaction, approximately a quarter of our annual revenues will come from digital communications," Mr. Levy said. The group had earlier targeted to make 25% of its revenue from digital activities by the end of 2010, compared with 20.8% at the end of June.

Publicis will pay for Razorfish with a combination of cash and 6.5 million shares that aren't publicly traded, the company said. Microsoft will hold about 3% of Publicis' capital after the deal, Mr. Levy said.

Microsoft is also committing to spending a minimum amount for digital marketing services with Razorfish each year, Publicis said. The agreement follows a partnership signed in June, when the companies said they will work together to develop new content, improve marketing performance and better target digital advertising audiences.

Finnair chief to resign

Airline posts loss as effort to cut costs faces a union battle

BY OLA KINNANDER

Finnair Chief Executive Jukka Hienonen said he wasn't satisfied with the pace of change at the airline and would resign.

Finnair Oyj turned in its fourth consecutive quarterly net loss Friday, prompting its chief executive to announce he is resigning.

"I am not satisfied with the results achieved; the rate of change has been insufficient," Chief Executive Jukka Hienonen said in a statement.

Finnair has sought to cut costs in response to its declining revenue, a casualty of the global economic downturn. However, the cost-cutting effort has faced fierce resistance from the carrier's unions.

Mr. Hienonen's resignation is worrying, said FIM analyst Jaako Tyrvainen. "He had good spirit and the drive to lead the company the right way," Mr. Tyrvainen said. "If Hienonen can't change the structures in the company, I don't know who can."

Mr. Hienonen, who has led Finnair since early 2006, wasn't immediately available for an interview, his secretary said.

He is likely to remain with Finnair until early February as his contract requires him to give six months' notice. Finnair didn't indicate who might succeed him.

In his statement, Mr. Hienonen, 48, painted a bleak picture of the state of the airline industry and of his own company's financial situation. The airline sector "is facing its deepest crisis," he said, as the downturn has taken a big bite out of business travel and industry overcapacity has pushed down airfares.

To cope with the downturn, Finnair last year launched a plan to reduce annual spending by €200 million ($283 million). Of this, €120 million would come from lower labor costs, mainly a result of lower compensation.

However, Finnair's seven unions have been reluctant to agree to lower pay. The airline has been struggling to pin down a new deal with the key Finnish Airline Pilots' Association since the most recent one expired last November.

"The most significant points of contention [with the pilots union] relate to pension benefits, restrictions on business management decision-making and working time arrangements," Finnair said.

One exception to the tussle with its unions was Finnair's announcement Thursday that it had reached a new labor agreement with 1,600 employees in its technical-services unit. Finnair estimates the move should save it €14 million by the end of 2010.

The airline—which is listed on the Helsinki exchange but is controlled by the Finnish government, which holds a stake of about 57%—said it was getting ready to launch new rounds of talks with some of the other unions.

Finnair's net loss for the three months ended June 30 was €26.1 million, compared with a €13.4 million net profit a year earlier. Revenue fell 22% to €427.4 million from €545.2 million.

Finnair had planned to invest heavily in new aircraft over the next couple of years, but Mr. Hienonen said the company now will "relax the timetable for aircraft acquisitions."

Mr. Tyrvainen said slowing those purchases would be necessary considering Finnair's weakened cash situation. "To survive, they have to postpone their investment plan and adjust their capacity to the declined demand," he said.

Also Friday, **SAS** AB, Finnair's biggest Nordic rival, added to the industry's grim picture. SAS said it carried 2 million passengers in July, down 14.1% from a year earlier.

TeliaSonera scores in Turkcell row

BY DOMINIC CHOPPING AND GUSTAV SANDSTROM

STOCKHOLM—**TeliaSonera** AB's long-running battle to acquire a controlling stake in **Turkcell Holding** AS inched closer to being resolved.

A resolution to the issue would significantly raise TeliaSonera's exposure to the fast-growing Turkish market. A final settlement may still be some way off, however.

Stockholm-based telecommunications operator TeliaSonera said Friday that an arbitration tribunal has ordered Turkish conglomerate **Cukurova Holding** to hand over all its remaining shares in mobile operator Turkcell to TeliaSonera. The dispute has been rumbling for nearly four and a-half years.

The tribunal, of the International Chamber of Commerce, told Cukurova it must transfer the shares to TeliaSonera in exchange for $3.1 billion in cash. It said TeliaSonera can claim damages of $1.8 billion if the shares aren't handed over.

Cukurova, which is unlisted, agreed in March 2005 to sell its stake in Turkcell to TeliaSonera for $3.1 billion. The move would have increased TeliaSonera's stake in Turkcell to 64.3% from 37.3%. Cukurova later withdrew from the deal, according to TeliaSonera. The Nordic company started arbitration proceedings in May 2005 to force the agreement through.

TeliaSonera now intends to apply to a Turkish court to ensure Cukurova acts on the latest ruling, said TeliaSonera's head of group communications, Cecilia Edstrom. She said it is uncertain whether TeliaSonera will have to buy out the remaining minority stakeholders in Turkcell if it gets Cukurova's shares, but that its chief aim is for a controlling stake.

It may be some time before a final settlement is reached. "TeliaSonera does not yet know if Cukurova is willing to, or able to, proceed with a transfer of the shares to TeliaSonera, but a quick resolution of the ownership dispute is not to be expected," the Swedish company said.

The $1.8 billion damages sum is equivalent to around 6.5% of TeliaSonera's market value.

Cukurova wasn't available to comment, and a spokesman for Turkcell declined to comment.

With about 36 million subscriptions, Turkcell has roughly a 56% market share in Turkey, ahead of the local unit of **Vodafone Group** PLC and Turkish operator Avea, in which **Telecom Italia** SpA has a 49% holding.

TeliaSonera wants to raise its stake in Turkcell to take advantage of the rapid growth of the Turkish telecom market, Ms. Edstrom said. With a population of around 70 million, relatively low mobile penetration and the recent award of third-generation licenses to operators, Turkey has significant market potential, she said.

Compared with second-generation services that are limited to voice and text-messaging, 3G technology allows operators to transfer larger amounts of data, giving users the ability to download music and surf the Internet wirelessly.

RHJ to sweeten its offer for GM's European unit

BY DANA CIMILLUCA

Belgian investment firm **RHJ International** plans to sweeten its bid for **General Motors** Co.'s European unit in an effort to overcome German government opposition to its bid.

RHJ is developing a revised bid for GM's Opel/Vauxhall operations that would lower the amount of German taxpayer-funded loan guarantees required to as little as €3.6 billion ($5.1 billion) from €3.8 billion, people familiar with the matter said Friday. That would be €900 million below the amount of state aid envisioned in a rival offer from car-parts maker **Magna International** Inc.

RHJ appears to be pressing recent signs of momentum in its bidding war with Magna and its partner, Russian lender Sberbank, for GM's German and U.K. operations. Although Magna's offer has widespread support in Germany, GM appears to prefer RHJ's offer. GM's lead negotiator on the deal said in a blog post Thursday that RHJ's offer is simpler and GM and Magna still have issues to work through.

A deal with Magna and Sberbank poses risks for GM that a deal with RHJ wouldn't. Magna supplies parts to GM rivals and plans to join with Russian auto maker OAO **GAZ** if it wins the auction. GM is concerned its intellectual property would leak to Magna.

Magna said it would create a "firewall" to keep trade secrets of its customers safe should its Opel bid succeed.

As part of any sweetened offer, RHJ could boost its €275 million equity component, one of the people said. The proposal also envisions the elimination of 10,000 jobs.

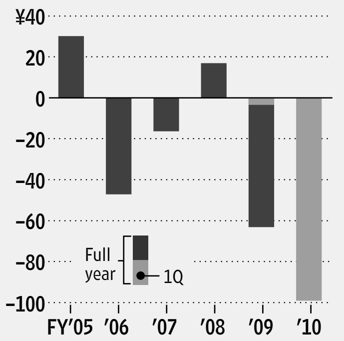
RHJ faces an uphill battle. German officials are on the record saying they will only support Magna.

JAL's loss broadens as flu, economic slump hit demand

BY YOSHIO TAKAHASHI AND TOR CHING LI

Japan Airlines

Net profit/loss, in billions of yen



Note: Fiscal years end March 31 of the year shown
Source: the company

TOKYO—**Japan Airlines** Corp. posted a wider net loss for its fiscal first quarter, its third straight quarter in the red, as it continues to cope with faltering business- and leisure-travel demand.

Hit by both the economic downturn and the outbreak of swine flu, the air carrier commonly known as JAL reported a net loss of 99.04 billion yen ($1.05 billion) in the three months ended June 30, broader than the net loss of 3.41 billion yen it posted a year earlier.

Revenue dropped 32% to 334.8 billion yen, and the airline fell into an operating loss of 86.1 billion yen.

"The net loss was 10 billion yen more than expected," Yoshimasa Kanayama, a JAL senior vice president, said at a news conference.

JAL and other airlines have been feeling the pinch from the economic downturn, which is crimping demand for business trips and cargo transport. The spread of swine flu has also prompted travelers to cancel their trips in some countries, while rallying oil prices present another headache for the industry.

JAL is striving to turn around its slumping earnings by cutting staff, streamlining nonairline businesses and upgrading aircraft to fuel-efficient jets.

The airline also received a syndicate loan of 100 billion yen from two government-backed banks—Development Bank of Japan and Japan Bank for International Cooperation—and three commercial banks, aimed at helping it turn around. JAL said its air-transportation segment, its core business, racked up an operating loss of 82.4 billion yen as first-class and business travel dropped significantly.

Despite operating-cost cuts throughout the air-transportation segment—except for aircraft depreciation, which remained flat—a reduction in the company's fuel surcharge and a decline in premium travelers meant lower yield per passenger.

As part of its cost-cutting measures, JAL said separately it will suspend flights on two international routes, from Chubu to Paris and Incheon, and reduce flight frequency on eight other routes from Japan to China, India and Korea from Oct. 25. It will also reduce aircraft sizes on 14 international routes to destinations such as the U.S., India, Singapore, Thailand and Korea. This brings cost-cutting measures affecting flight routes to a record 26 for the fiscal year ending in March 2010.

For the full fiscal year, JAL maintained its forecast for an overall net loss of 63 billion yen.

Marketplace

Peace anthem

Radiohead circumvents convention with a tribute to a soldier > **Page 30**

CORPORATE NEWS

China says Rio Tinto costs it $100 billion

Government alleges miner used 'deceit' to gain information

By James T. Areddy

SHANGHAI—A Chinese state-secrecy watchdog accused miner **Rio Tinto** PLC of using "deceit" for six years to illegally obtain information that resulted in the nation's steelmakers being overcharged more than $100 billion for iron ore, in a possible indication of how the government might pursue a case against a group of detained Rio Tinto employees.

The accusations against the Anglo-Australian miner were published in reports during the weekend on China Secret Protect Online, a Chinese-language Web site that says it is affiliated with the Communist Party's State Secrets Bureau. The reports were written by officials in state-secret bureau offices that are part of a number of organizations that China maintains to monitor and protect state secrets.

While not legal charges, the accusations appear to reflect how seriously Beijing believes its economy has been damaged by high prices of imported iron ore, a mineral used in steelmaking.

For six years, Rio Tinto engaged in "winning over and buying off, prying out intelligence, routing one by one, and gaining things by deceit" that led to 700 billion yuan, or $102 billion, in overpayment for iron ore by China's steel industry, one report says. "The large amount of intelligence and data from our country's steel sector found on Rio Tinto's computers and the massive damage to our national economic security and interests are plainly obvious," it concludes. The report was written by Jiang Ruqin, who has in past government reports been described as chief of the Secret Protection Bureau of Huai'an city in eastern Jiangsu province.

A second report considers the case from a broader perspective, saying it serves as an example of risks that China's business sector faces from overseas spying threats and industry's duty to protect state secrets.

Last month, State Security agents in Shanghai detained four Rio Tinto employees, and official Chinese reports at the time accused them of stealing state secrets. The detentions came at a time of prickly relations between Rio Tinto and China's government-backed metals industry, and the case has raised fears among foreign businesspeople about the risks of being involved in big-dollar contract negotiations in the country.

A Rio Tinto spokeswoman declined to comment on the latest development and referred to a company statement made July 17 that said its employees weren't involved in bribery and at all times acted with integrity. One of the four, Stern Hu, is an Australian citizen, while the others are Chinese nationals.

Beijing hasn't brought official charges against Rio Tinto or its employees, or spelled out details of the bribery allegations. But publication of the weekend reports suggests the kind of arguments prosecutors might cite in building a case based on theft of national secrets, a charge that carries criminal penalties.

China's definition of a state secret is so broad that it can encompass virtually any information that hasn't been officially published.

The large price tag on damages is particularly eye-catching. The report that mentions it doesn't say how the figure was calculated. One notation says "economic spies" took the equivalent of $73 out of the pockets of each Chinese citizen.

The amount appears to reflect how benchmark prices set by Rio Tinto in negotiations with Chinese steelmakers are used throughout the steel industry. The figure of $100 billion far exceeds what Rio Tinto itself has reported generating from business in China in recent years. Rio Tinto's annual report for 2008 says the iron ore-group globally contributed about $16.5 billion in revenue—China was the largest market.

China imported almost 445 million metric tons of iron ore in 2008, according to Chinese customs data. A Chinese government agency valued a ton of iron ore at $76 in the first half of this year, 43% below last year's average. In recent years, China has objected to international price levels of iron ore but typically paid the same amount, according to industry officials.

Detention of the Rio Tinto employees on July 5 came days after the company and a government-backed association of Chinese steelmakers missed a deadline to establish a benchmark 2008 price for iron ore. Rio has so far refused to reduce prices as much as desired by the association.

Yet the world price for the mineral has since soared, and industry data suggest iron-ore imports by China remain high as individual steel mills buy on the spot market.

Auto sales surge in China as domestic economy gains

By Patricia Jiayi Ho

BEIJING—Auto sales in China rose 63.6% in July from a year earlier to 1.09 million vehicles, the fifth straight month of more than one million vehicles sold, boosted by the domestic economic recovery and supportive government policies, a semi-official auto-industry group said.

China's auto sales rose to 7.2 million vehicles in the first seven months of 2009, up 23.4% from the year-earlier period, the China Association of Automobile Manufacturers said. It didn't provide year-earlier figures for comparison.

July is traditionally a slow time for auto sales, the association said.

Sales of passenger vehicles in July rose 70.5% from a year earlier to 832,600, and sales of commercial vehicles rose 44.2% to 253,000, it said.

The recovery of China's economy and Beijing's efforts to encourage small-car purchases have helped the country buck the global trend of auto sales, which have been hit hard by the financial crisis.

GLOBAL BUSINESS BRIEFS

Puma AG

Net profit declines 16% on higher operating costs

Puma AG said Friday its second-quarter net profit dropped 16% as higher operating costs and lower interest rates on investments weighed down its earnings. Herzogenaurach, Germany-based Puma, the world's third-biggest sporting-goods company after **Nike** Inc. and **Adidas** AG, said net profit in the April-to-June period fell to €38.5 million ($54.6 million) from €46 million a year earlier. However, sales for the period were 4.1% higher, climbing to €600.3 million from €576.8 million. The company said higher operating expenses contributed to the decline in profit. Puma said those costs included development and design expenses. Nike, Adidas and Puma have all launched cost-cutting programs. French retail and luxury-goods company **PPR** SA owns 64% of Puma.

Creative Technology Ltd.

Creative Technology Ltd. posted a loss in the fiscal fourth quarter amid lower sales and an exceptional loss, and the consumer-electronics maker warned of difficult market conditions ahead. Creative reported a net loss of $14 million in the quarter ended June 30, compared with a net profit of $116.2 million in the year-earlier period when the company booked an exceptional gain of $147.9 million on the sale of its headquarters. The company said it booked a provision of $12.8 million for potentially unrecoverable loans made to a former manufacturing subsidiary in Malaysia that it divested in July 2007. Net sales for the quarter fell 38% to $86.1 million. Creative recorded a net loss of $137.9 million for the full fiscal year, compared with a net profit of $128.2 million in the previous fiscal year.

Ayala Land Inc.

Ayala Land Inc. said second-quarter net profit dropped 11%, although core earnings showed some improvement as the high-end residential market recovered. Ayala Land, the Philippines' largest property developer by market capitalization, said net profit was 964 million pesos ($20.1 million) in the quarter ended June 30, down from 1.08 billion pesos at the same time last year. The result was up from last year's core profit of 907 million pesos. Core profit excludes one-off items that Ayala Land booked last year. Ayala Land said second-quarter revenue fell 2% to 6.98 billion pesos. Revenue from residential developments rose 19% to 3.71 billion pesos.

Samsung Securities Co.

Samsung Securities Co., South Korea's largest brokerage by market capitalization, reported a 4.3% rise in its fiscal first-quarter net profit amid an increase in brokerage commissions. The company said net profit was 79.8 billion won ($65.2 million) in the quarter ended June 30, up from 76.5 billion won a year earlier. However, net profit declined 11% from the 90 billion won reported in the fourth quarter ended in March because of a rise in marketing costs and general expenses, the company said. First-quarter revenue rose 36% from a year earlier to 763.3 billion won. Brokerage commissions rose 33% to 123.5 billion won in the first quarter.

Suntory Holdings Ltd.

Suntory Holdings Ltd. said its first-half net profit fell 28% from a year earlier, hurt by higher raw-materials costs and the impact of the yen's strength on profit from overseas. The privately held Japanese food and beverage company, which also bottles and distributes **PepsiCo** Inc.'s products in Japan, posted a group net profit of 8.16 billion yen ($86.2 million), down from 11.35 billion yen a year earlier. Sales rose 1% to 731 billion yen. Suntory and **Kirin Holdings** Co. said last month that they had started merger talks. For the fiscal year ending in March 2010, Suntory expects group net profit to rise 12% to 36 billion yen, with sales rising 2.8% to 1.555 trillion yen.

Orient Overseas (International)

Orient Overseas (International) Ltd. reported its first interim net loss in 10 years, citing plunging freight rates, but the container-shipping company expects the worst may be over as rates have improved since July. The company said it expects weak conditions to continue into the second half and hurt demand. Orient Overseas, listed in Hong Kong, reported a net loss of $231.8 million in the half ended June 30, compared with a net profit of $158.3 million a year earlier. Revenue fell 35% to $2.07 billion.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Iraq's Maliki seeks tighter grip

Push to control political parties, NGOs and media could curb freedoms, lawmakers say

BY CHARLES LEVINSON

BAGHDAD—Prime Minister Nouri al-Maliki has proposed a series of laws that lawmakers, Western officials and nongovernmental organizations say could curb democratic freedoms in Iraq.

If successful, the push would tighten government control over political parties, NGOs and the media, aiding Mr. Maliki's efforts to centralize authority over the country as the U.S. role in Iraq dwindles.

"Maliki is using all his political power to push through constitutional changes that will centralize power in his hands under the umbrella of security," said Julia Pataki, an adviser to Iraq's parliament working for the U.S. State Department-funded Institute for International Law and Human Rights. "These laws show Maliki appears to have a well-defined strategy and vision for Iraq, but they send mixed messages about just how democratic that vision is."

The prime minister's office says many of the new laws are necessary to confront security challenges and to minimize the influence of Iraq's neighbors.

In a reminder of just how daunting those security challenges remain, a series of bombs targeting Shiite worshippers killed at least 36 people in Mosul and Baghdad on Friday.

The bombings, which hit a Shiite mosque in Mosul and several minibuses ferrying Shiite pilgrims back to the capital Baghdad, appeared to be the latest attempt by insurgents to rekindle the sectarian warfare that shook the country in 2006 and 2007.

"We are fully committed to making Iraq a free and democratic country," an aide to Mr. Maliki said. "But we also face some of the most extraordinary security threats of any country in the world and have to be prepared to confront these threats on every level."

Mr. Maliki and his allies in government have submitted the proposed laws to parliament. Many of the bills are unlikely to be passed by the stalemated legislature before national elections in January. Mr. Maliki has a lot of political jockeying to do if he hopes to muster adequate support for them within parliament.

Reuters

Iraqi Prime Minister Nouri al-Maliki, right, with President Jalal Talabani, visited Kurdish leaders on Aug. 2 to address renewed territorial conflicts.

The bills include a proposal to give official legal status and expanded powers to a controversial body called the State Ministry for National Security, creating a "political crimes directorate" to monitor political parties and nongovernmental organizations, among other things, according to a draft of the law reviewed by The Wall Street Journal.

Mr. Maliki established the ministry in 2005—in what U.S. officials complained was an effort to circumvent the authority of the U.S.-backed Iraqi intelligence chief. But parliament stripped the ministry of its funding this year, saying Iraq's constitution doesn't allow such a body.

The aide to Mr. Maliki said the ministry has had a number of significant security achievements, including preventing assassination attempts against senior officials.

The U.S. Embassy in Baghdad declined to comment on Mr. Maliki's proposals.

Another proposed law would give the government extraordinary control over Iraqi NGOs, such as requiring government approval of every donation and project, and every new office opened.

The law was drawn up by the Minister for Civil Society Thamer al-Zubaidi, a close Maliki ally and member of the prime minister's Islamic Dawa Party. A spokesman for Mr. Zubaidi says the legislation is intended to fight rampant corruption among Iraq's 6,000 registered NGOs.

Hundreds of Iraqi NGOs are fictitious or surreptitiously funded by terrorist organizations, foreign governments or corrupt politicians, the spokesman said.

NGO leaders say they fear the government will also use the law to quash the activities of groups critical of the government, or pursuing agendas, such as women's rights, that some powerful Islamist parties oppose.

Critics say the draft ignores recommendations from a two-year project by the United Nations, Iraqi lawmakers and civil society leaders to frame new legislation on the issue.

"So many articles in this law go against what it means to have a free civil society, against the fundamental principles of liberty, and even against our own constitution," says Kurdish lawmaker Alaa Talibani, who heads the NGO committee in parliament and was part of the project.

Another draft law before parliament would put hefty restrictions on the media, requiring all journalists to be licensed by a quasigovernmental body that would also have final say over all hiring of journalists by domestic media organizations.

The proposed law also would restrict the use of anonymous sources and forbid the publication of articles that "compromise the security and stability of the country."

Mr. Maliki's office said in a statement that the government is committed to protecting press freedoms in Iraq and said the law is aimed at protecting journalists from violence.

Mr. Maliki also asked the Ministry of Communications to start blocking pornographic Web sites in Iraq, the first such restriction on the Internet here, raising alarms among free-speech advocates.

"We are afraid that once the government starts blocking Web sites to protect the morality of society, or taking other small steps to restrict democratic liberties, it is sure to soon include others," said Saad Eskander, the director of Iraq's National Archives and Library.

Pakistan Taliban seem in turmoil with loss of chief

BY ZAHID HUSSAIN

ISLAMABAD—Pakistan's Taliban appear to be in turmoil as a leadership battle following the apparent death of their chief last week escalated into violent clashes between the rival groups that left at least one more senior leader dead, according to the Pakistani government.

Last week's apparent slaying of Baitullah Mehsud, leader of the Pakistan Taliban, in Pakistan's mountainous northwest, by a U.S. missile launched from a pilotless drone prompted a "shura," or meeting, of his Taliban faction to decide on a successor, which turned violent, according to government and intelligence officials.

Rehman Malik, who heads Pakistan's interior ministry, said at the weekend that a shootout between Wali ur Rehman and Hakimullah, the two leading contenders to take over from Mr. Mehsud, left one of the two dead. "I can only say one of them has been killed," said Mr. Malik, in an interview with a private TV news channel.

Earlier, a report on the state-controlled Pakistan Television said both the militant leaders were killed in the clashes.

Wali ur Rehman, the senior Taliban commander and a former spokesman for Mr. Mehsud, on Sunday denied the reports of clashes in a telephone call with reporters and said Mr. Hakimullah was alive and would soon speak with reporters.

"There was no shura meeting, and there was no gun battle," he said. Mr. Hakimullah couldn't be reached for comment.

The various claims couldn't be independently verified. But senior Pakistani security officials said the militants were in complete disarray because of infighting, with one official saying the clashes between rival groups had left scores of militants dead.

Mr. Hakimullah, a Taliban leader known for attacks on NATO supply lines to Afghanistan, also at the weekend denied that Mr. Mehsud, the former Taliban chief, was dead. But Mr. Malik, head of the interior ministry, Sunday said the Taliban leaders were deliberately spreading the confusion and challenged them to provide evidence in support of their claim.

Analysts said the denial could be a part of a strategy to maintain unity in the ranks. In the past, the Taliban have denied the killings of leaders.

U.S. National Security Adviser James Jones told Fox News on Sunday that the U.S. believes Mr. Mehsud is dead. "All evidence that we have suggests that," he said. "There are reports from the Mehsud organization that he's not. But we think ... that it looks like he is."

He added that there appears now to be dissention in the ranks of the Pakistani Taliban. "That's not a bad thing for us," he said. "I won't say it's a tipping point, but it certainly shows that we're having some success" due to cooperation with both Pakistan and Afghanistan.

Meanwhile, a spokesman for a Taliban group that was opposed to Baitullah Mehsud, Maulvi Saifullah Mehsud, said that Baitullah Mehsud's supporters were turning on one another in the struggle to find a new leader.

—Siobhan Gorman in Washington contributed to this article.

Iraqis detain U.K. contractor after shootings

BY CHARLES LEVINSON

BAGHDAD—Iraqi authorities detained a British security contractor working for a company contracted by the U.S. government Sunday morning, saying he allegedly shot and killed two colleagues during a late-night altercation in Baghdad's Green Zone.

Iraqi officials said they held ArmorGroup employee Danny Fitzsimmons, a Brit, and were investigating the incident, which occurred after midnight Sunday morning. Mr. Fitzsimmons also allegedly shot and critically wounded an Iraqi while trying to escape, Iraqi police spokesman Abdul Karim Khalaf said.

"The gunman had a fight with two people, and he shot them both, and then he shot and wounded an Iraqi while trying to run away," Mr. Khalaf said. "We have the suspect in custody in an Iraqi police station and are investigating."

Two U.S. soldiers eventually chased down the alleged gunman and disarmed him before handing him over to Iraqi security forces, according to a spokesman for the U.S. Embassy in Baghdad. The U.S. military denied it played any role in detaining the suspect. The U.S. military turned formal security responsibility for the Green Zone over to Iraqi authorities this year, but the U.S. military still has a formidable presence in the walled-off enclave, home to many Western organizations and embassies.

If Iraqi authorities charge Mr. Fitzsimmons with a crime, it would be the first known case of a Western security contractor facing charges under Iraqi law since a new U.S.-Iraqi security agreement took effect Jan. 1. Before that, most private security contractors enjoyed immunity from Iraqi law.

In June, five American contractors were detained by Iraqi police after a U.S. citizen was found bound and stabbed to death in his car in the Green Zone, but the five later were released into U.S. custody.

The two victims in Sunday's shooting have been identified as Paul McGuigan, from the U.K., and Australian Daren Hoare, according to Patrick Toyne-Sewell, a spokesman for ArmorGroup, the company that employed the two victims and the alleged gunman.

"I can confirm the deaths of two Armor Group Iraq employees in the early hours of this morning in a firearms incident in the International Zone in Baghdad," said Mr. Toyne-Sewell. "We are working closely with the Iraqi authorities to investigate the circumstances of their deaths."

Mr. Fitzsimmons was described by an acquaintance as an "old hand in Iraq," having worked as a security contractor there since 2004. He had been outside of Iraq since mid-2008, however, and had just returned to Baghdad in the past few weeks, the acquaintance said.

ArmorGroup, a subsidiary of **G4S** PLC, an international private security firm with headquarters in London and McLean, Va., is one of the largest security firms working in Iraq, where it employs more than 1,000 people, according to Mr. Toyne-Sewell.

ECONOMY & POLITICS

Associated Press

Afghan President Karzai has avoided public appearances for security reasons. He spoke at a rally Friday for about six minutes.

Karzai befriends rivals

Afghan president's deal-making prowess expected to secure win

By Matthew Rosenberg And Anand Gopal

KABUL—When the U.S. and its allies first anointed Hamid Karzai as Afghanistan's president nearly eight years ago, he was seen at home and abroad as an adept politician uniquely suited to forge compromises among the country's warring factions.

As Afghanistan has deteriorated, so has Mr. Karzai's reputation. The same traits that once earned him praise are now criticized as signs of a mercurial and vacillating leader. He publicly denounces the U.S. presence. He is widely blamed for all that ails Afghanistan: the rampant corruption, the flourishing opium trade, the Taliban's resurgence. And, until he began campaigning for re-election when the nation goes to the polls Aug. 20, he rarely ventured beyond the confines of his palace. At a rally on Friday he made only a brief appearance, speaking for about six minutes.

Yet the deeply unpopular Mr. Karzai, 51 years old, is heavily favored to win another five-year term. The reason, according to allies, foes and diplomats: Despite his many shortcomings, Mr. Karzai has become a passive strongman, a leader whose deal-making touch and conciliatory instincts have allowed him to sideline rivals or turn them into allies. That is expected to translate into victory at the polls, in a system in which voters tend to follow their traditional and ethnic leaders.

Yet he also lacks the clout to dominate the unruly collection of former warlords, tribal elders, small-time politicos and businessmen who preside over Afghanistan. That has left the country in a permanent state of barely contained chaos and Mr. Karzai as the most powerful among a roster of nearly 40 national candidates, many of them politically weak.

If Mr. Karzai wins another five-year term, it is likely to mean little or no progress on overhauls needed to bolster Afghanistan's economy and civilian institutions to complement the North Atlantic Treaty Organization's intensified military campaign against the Taliban. Mr. Karzai's office didn't respond to requests for an interview or for comment on Mr. Karzai's governing style.

Neither Mr. Karzai's government nor its Western benefactors have "created or trained a proper, competent government apparatus," said Robert Finn, the U.S. ambassador to Afghanistan for the first two years of Mr. Karzai's presidency. As a result, Mr. Karzai has "fallen back on traditional power structures—the local powerbrokers, the tribal chieftains or whoever they are."

One of Mr. Karzai's two vice-presidential running mates, for instance, is Mohammed Fahim, a Tajik warlord known for his brutality during the civil war in the 1990s that followed the retreat of the Soviet Union.

Mr. Karzai has promised to reappoint as army chief of staff another ex-warlord, Uzbek leader Gen. Rashid Dostum, say people involved in the negotiations.And Mr. Karzai has courted the Hazara minority, a key swing vote, by promising to appoint more Hazara ministers and create a province dominated by the ethnic group, said Muhammad Mohaqeq, a Hazara leader.

Such moves echo Mr. Karzai's efforts early in his presidency to force warlords to abandon their fiefs and join the central government.

The president's choice of allies has done little to endear him to a wary public. Private polling in recent weeks indicates he is losing ground to second-place candidate Abdullah Abdullah, a former foreign minister, and unlikely to win the 50.1% needed to secure victory in the first round on Aug. 20, say people who have seen the numbers. He would be expected to win in a second round between the top two finishers.

Mr. Karzai is in talks with another contender, Ashraf Ghani, a former finance minister, about a deal that could help ensure his victory in the first round, say people in both camps. The deal would see Mr. Ghani drop out of the race and sign on to Mr. Karzai's camp. In exchange, Mr. Ghani, a capable technocrat, would become a "chief executive" in the new administration and handle much of its day-to-day management.

Neither camp would publicly comment. A Ghani campaign staffer said the candidate hadn't yet ruled out such a deal.

The U.S. would likely support such a move in the hopes it would avoid prolonged instability before a second round of voting, a U.S. official in Washington said, although American officials in Kabul have repeatedly said they favor no single candidate.

Mr. Karzai's style, while suiting him, also has been dictated by the fact that Afghanistan remains a weak nation dominated by provincial interests. "This isn't a federation, it's not even a confederation," said a senior Western official in Kabul. "It's a herd of provinces and people that sometimes runs in the same direction." Asked whether anyone else could have managed any better with the hand the president was dealt, the official said: "Probably not."

Building the institutions that underpin a democracy—strong ministries, a competent and apolitical bureaucracy, real political parties—"is going to take years," said Haroun Mir, the co-director of Afghanistan's Center for Research and Policy Studies. It will also, Mr. Mir said, require the cooperation of the people Mr. Karzai is criticized for appeasing.

U.S. officials have already begun forging stronger ties with provincial officials in anticipation of continued weakness in Kabul.

That's an art that Mr. Karzai, the son of the paramount chieftain of the Populzai tribe of the Pashtun, Afghanistan's largest ethnic group, mastered long ago. "Ever since he was a child in his village he knew how to get along with people and balance everyone," said Hajji Aga Lalai Dastagiri, a tribal leader from Kandahar, a southern province, who has known the Karzai family for many years.

With corruption rife and Afghanistan's limited bureaucracy chronically incapable of shepherding development projects, Mr. Karzai instead often "deals directly with locals," said Nek Muhammad, a spokesman for the president's re-election campaign in Kandahar, a southern province.

He cited a road project in the province's remote Panjway district. It took more than eight months for the local government to find a contractor. Even then work didn't begin because of a series of bureaucratic hold ups.

"Then Karzai came one day, met with the locals and ordered construction to start," Mr. Muhammad said. "Work started within three days."

Those who aren't visited by the president can make the trek to Kabul and attend one of the audiences he regularly holds at the Gul Khana, or Flower House, the part of the royal palace where he works.

"Last year, mullahs from my village asked me if I can send them to Hajj," the Muslim pilgrimage to the holy city of Mecca in Saudi Arabia, said Mr. Dastagiri, the tribal elder. "I couldn't afford it from my own pocket so I went to the president," he continued. "I told him that they are good mullahs, very loyal to the government. I asked him to sign a president's decree and send them to the hajj. He did it."

Afghans pin their hopes on mining as attacks rise

By Devon Maylie

Afghanistan's mining ministry, emboldened by its first copper tender and undeterred by escalating violence, is inviting more bids in hopes the industry can eventually drive economic growth and help bring security.

The rising number of attacks by Taliban insurgents around the country is already deterring investors with a high resistance to risk. In the latest in a series of incidents in which civilians were victims, roadside bombings in Southern and Western Afghanistan this past week have killed at least 15 people. On Thursday, four U.S. service members were killed by a roadside bomb in the West, and five Afghan policemen were killed in the South.

For now, the government's focus is on the short term, and whether the country's Aug. 20 presidential election, which incumbent Hamid Karzai is expected to win, will bring about greater stability or heightened unrest. Afghanistan's economy is heavily reliant on foreign aid and, in addition to coping with violence, the country must deal with poppy cultivation and the opium trade, high unemployment, little infrastructure and corruption.

Yet it also has one of the largest untapped copper deposits in the world and substantial oil and gas deposits. "In five or six years we hope Afghanistan can stand on its own two feet through mineral reserves," said Minister of Mines and Industries Muhammad Ibrahim Adel, a Russian-educated engineer who was appointed by Mr. Karzai.

Mr. Adel's ministry has awarded one mining license so far—in a Taliban stronghold.

The Aynak copper deposit, in Logar Province, south of Kabul, was discovered in the 1970s by the Soviet Union. The area is a former Taliban training ground and once hid Osama bin Laden, Mr. Adel said. Work to remove land mines continues and roadside attacks regularly disrupt work.

The 30-year lease was awarded in 2008 to a Chinese consortium with state-controlled **China Metallurgical Group**, or MCC, and **Jiangxi Copper** Co., beating U.S. miner **Freeport-McMoRan Copper & Gold** Inc. and London-based **Kazakhmys** PLC. The award won the government a $808 million signing bonus.

A commencement ceremony last month marked the official start of the project, and it will be at least five years before mining can begin, largely because of security issues, Mr. Adel said. He said the government will provide a ring of security around the mine site and the investors will be responsible for security in the mine area.

Eventually 90% of the project's work force in Afghanistan must be local, and the government hopes higher employment could help make the area more stable. "Employment will bring more peace," said Rahman Ashraf, a German-trained geologist and senior adviser on mines and energy to Mr. Karzai.

The ministry is now holding tenders for the Hajigak iron-ore deposit west of Kabul and three hydrocarbon blocks. Its plan was to have bidders visit the sites in August and September and then submit bids, but instability surrounding the election could delay the process.

France's **Total** SA, Swiss-based **Addax Petroleum** Corp. and Canada-based **Nations Petroleum** Co. are on a list of seven finalists the ministry selected as bidders for the oil and gas blocks. Oil companies are more used to working in areas where there is instability.

Most of the bidders for the iron-ore deposit are smaller companies from India and China, including MCC. Among them is India's **JSW Steel** Ltd. "It's good potential and good quality, so why not?" said Tuhin Mukherjee, the company's executive director for mining.

Companies are increasingly forced to operate in more treacherous regions to secure supplies. "Peru and Chile are still favorable areas for copper exploration but there is competition there," said CRU Group analyst David Duckworth. "Companies will have to go to high-risk areas to develop new projects, such as Afghanistan."

So far, many of the Western mining majors have stayed away. **Rio Tinto** PLC said security risks are too high. "We aren't averse to going into more difficult countries, but one of the key factors is safety of staff and I would suspect safety is an issue in Afghanistan," said a Rio Tinto spokesman.

The Taliban's leadership has asked its fighters to avoid killing civilians, according to a newly issued rule book from the movement. But insurgents have been responsible for a growing share of civilian casualties—nearly 60% in the first half of this year, when more than 1,000 civilians were killed by insurgents and foreign troops, according to the United Nations. Military officials attributed the shift to the Taliban's increased use of roadside bombs.

—Anand Gopal in Kabul contributed to this article.

Russian probe blocked

Judge rejects plea for a new inquiry into reporter's death

BY ANDREW OSBORN

MOSCOW—A judge rejected a plea for a fresh investigation into the 2006 murder of Russian investigative reporter Anna Politkovskaya, disappointing her family and colleagues who say the search for the truth has become a farce.

That means the retrial of three men accused of being low-level accomplices in her murder will proceed against the Politkovskaya family's wishes. The family says it believes there is insufficient evidence to secure credible convictions. A jury acquitted the men in February but Russia's Supreme Court later ordered a retrial.

"It will just be a waste of time, something that there's less and less of," Vera Politkovskaya, the late journalist's daughter, said of the retrial. "We really don't want to take part in this circus."

The case has become a test of President Dmitry Medvedev's promise to restore the rule of law in Russia and foster its tiny civil society and independent media.

Anna Politkovskaya, a journalist for the liberal newspaper Novaya Gazeta, was shot dead in the elevator to her Moscow apartment in 2006.

A fierce Kremlin critic, she was scathing about then president and current Prime Minister Vladimir Putin. She worked to expose human-rights abuses in Chechnya, accusing the region's Kremlin-backed president Ramzan Kadyrov of numerous crimes, which Mr. Kadyrov has denied.

Colleagues of the late journalist suggest a high-level official coverup is under way. The Kremlin denies any involvement in the murder and says it is committed to solving the crime.


Associated Press

Investigative journalist Anna Politkovskaya, above, was 48 when she was killed in 2006. She had worked for the weekly publication Novaya Gazeta.

Lawyers representing her children say her murder hasn't been properly investigated. They insist more evidence is needed for jury members to be able to make a proper judgment on the three alleged low-level accomplices. They also want the trial merged with investigations into the alleged gunman and the identity of the person who ordered the killing.

But a judge Friday formally rejected the family's wishes, ruling that the second trial should proceed without delay and without a new probe.

Family lawyers said they will appeal, contending the trial would otherwise be a pointless sideshow. The credibility of any new verdict—be it guilty or not guilty—would be zero, they argued. "We don't need the conviction of just anybody," said Karina Moskalenko, one of the lawyers.

A jury will now be convened for the new trial but will examine the same evidence as the first jury.

Massive Internet attacks targeted critic of Russia

BY JESSICA E. VASCELLARO

As Facebook, Twitter and other popular Internet services investigated the cause of last week's massive computer attacks, attention turned to a blogger whose writings blasting Russian officials may have been the target.

There were also signs the attacks continued Friday after knocking Twitter offline for about two hours and disrupting Facebook's service Thursday. **Twitter** Inc. co-founder Biz Stone wrote in a blog post Friday that attacks against Twitter were "ongoing" and "appear to have been geopolitical in motivation."

Facebook Inc. said it rooted out the cause of the attack after noticing that the compromised computers that began flooding its site Thursday morning were directing traffic to the page of a single blogger, who uses the account name "Cyxymu," which represents the name for the city of Sukhumi in the former Soviet republic of Georgia.

The blogger has been a prolific critic of Russian officials through accounts on Facebook, Twitter, LiveJournal and YouTube, **Google** Inc.'s video-sharing service. On Twitter—where he calls himself George and describes his location as "Georgia, Tbilisi"—he has written "Russia is aggressor." On YouTube, he has posted video clips of Russian politicians with mocking comments.

On Thursday, the writer updated his now-inaccessible LiveJournal blog with a message calling the computer attack "a special attack against me and Georgians," according to a translation. After responding to an initial email inquiry, he didn't answer further questions.

The attack coincides with the one-year anniversary of Russia's brief war with Georgia over the region South Ossetia. Since then, security experts say both sides have launched cyberattacks against each other, including denial-of-service attacks.

Denial-of-service attacks are designed to overwhelm Web sites with traffic, often by using hundreds or thousands of PCs that have been infected with virus software that causes them to take actions without their owners' knowledge.

But last week's attack didn't fit the mold of the previous incidents, said Don Jackson, director of threat intelligence for the counter-threat unit of SecureWorks Inc., which provides information security services to organizations.

"I can't even find evidence that Russians were behind it," he said, noting that none of the tools, techniques and major computer systems that known Russian hackers have used before appear to be involved.

A Facebook spokesman said the attackers tried to scramble where the hits appeared to be terminating in order to confuse Facebook's systems. "We were able to figure out pretty quickly that it was all going to one place," he said.

The Facebook spokesman said the company is talking to authorities to find the perpetrators and hold them accountable, but declined to comment on which authorities.

A **LiveJournal** Inc. spokesman declined to comment on the cause, saying its investigation was still under way. A spokesman for Google also declined to comment on the likely cause of the attack.

In recent days, the "Cyxymu" blogger has been the target of a spam attack that sent out emails with links to his LiveJournal blog in an apparent attempt crush the blog with traffic. Late last year, he said in a Twitter post that his blog was hit by a denial-of-service attack and that he was moving its location.

IMF says Russia's bank ills need a proactive approach

BY ANDREW LANGLEY AND WILL BLAND

MOSCOW—Russia should take a more hands-on approach to tackling problems in its banking sector and redirect its stimulus package toward more temporary spending to build on early signs of an economic recovery, the International Monetary Fund said.

The IMF—which sees the Russian economy shrinking 6.5% in 2009—also welcomed Friday's latest interest rate cut by the central bank but warned against being too aggressive in easing monetary policy further amid volatility in the currency's exchange rate.

"Banks' financial situation and loan portfolios are now deteriorating at a notably faster pace. The key immediate challenge facing the authorities at this time is how to deal with these mounting problems," the IMF's executive board wrote in an annual report.

It said Russia should be more "proactive" in addressing the issues affecting the sector to avoid a prolonged credit freeze. It advised authorities to recapitalize struggling lenders, stress-test the largest institutions and beef up the central bank's supervisory powers, in part to better understand thus-far opaque asset quality.

The central bank cut rates for the fifth time since April but acknowledged that private banks are still reluctant to lend, and said this is delaying a revival of the country's economy.

The 0.25 percentage point cut in the benchmark refinancing rate to 10.75% was smaller than previous ones, and it reflected central bank concerns over larger-than-expected consumer-price inflation in July of 0.6% from June.

A Russian finance ministry spokesman declined to comment on the report immediately, saying the ministry hasn't had time to review it fully.

The IMF said the lower lending rates will eventually filter through to the real economy, but the country needs to make structural changes to get banks to lend the funds.

Battered by lower commodity prices and scant access to credit, Russia's economy shrank by more than 10% on the year between January and June. Gross domestic product will fall by 8.5% for the whole 2009, according to the latest government forecasts.

But recent reports on manufacturing and rail cargo suggest that the worst of Russia's first recession in a decade has now passed and that the second half of the year will be better.