Leading the News: Scotland sparks uproar as it weighs freeing Lockerbie bomber

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Europe outlook brightens

Signs that Germany, France are out of recession shift focus to ECB moves

By Nina Koeppen And Terence Roth

Unexpected news that the German and French economies may have pulled out of recession in the second quarter has rewritten the script for Europe's economic outlook. Euro-zone gross domestic product dropped just 0.1% from the first quarter in April to June, data revealed Thursday. The smallness of the fall was mostly due to a rebound in the area's two largest economies. Germany grew at an annualized pace of 1.3% in the second quarter, while France expanded at an annualized rate of 1.4%.

That shifts the focus in the weeks ahead to the European Central Bank and the timing of its exit from monetary expansion programs. There will also be a search for signs that the recovery is real.

Forward march

Euro-zone interest-rate futures—a guide of market expectations for the ECB's 1% refinancing rate—have already started to reflect expectations that rates may go up earlier than had been forecast. Earlier this month, the majority of European economists didn't think ECB rates would go up until the middle of next year.

European stocks rose on hopes of recovery as skeptics warned that the recovery likely will be slow, held back by high unemployment, the continued scarcity of credit, and the expiration of government fiscal stimulus.

Indeed, a similar stock rally in the U.S. based on expectations of a late-year economic rebound fizzled Thursday after it emerged that U.S. retail sales fell 0.1% in July despite the debut of the government's "cash for clunkers" program.

The Dow Jones Industrial Average, which leapt 120 points on Wednesday, was up almost 36 points at 9397.

Reactions among European governments were mixed. Finance Minister Christine Largarde declared that France has pulled out of recession. German Economics Minister Karl-Theodor zu Guttenberg was less confident. "There is still a long way to go before our economy regains its level of a year ago," he said in a statement.

Reuters (U.K., India); Miguel Bustillo/The Wall Street Journal (Brazil); Associated Press (U.S.)

Wal-Mart-owned stores in the U.S.; U.K.; India and Brazil (counterclockwise)

Global footprint | Wal-Mart is adapting to local retailing methods in order to find success

Company	Home country	2008 net sales (in millions)	Pct. change 2007-2008[1]	Total stores (including company-owned and networked)	Number of countries
Wal-Mart Stores	U.S.	$401,244	7.1%	7,888	14
Carrefour	France	127,958	4.3	15,430	30
Metro	Germany	102,070	5.6	2,195	32
Tesco[2]	U.K.	100,786	14.9	4,308	14
Schwarz[3]	Germany	79,800	14.0	9,000	23
Aldi[3]	Germany	73,600	15.0	8,900	18

[1]Sales growth rates are in domestic currency [2]Based on preliminary results [3]Privately held company; financials and store counts are estimates Sources: Company reports; news reports; Retail Forward

Wal-Mart thinks outside the big box

By Miguel Bustillo

SÃO PAULO—Having powered its way to the top in U.S. retailing, **Wal-Mart Stores** Inc. is looking to do the same in foreign markets.

But that, it is learning in Brazil and elsewhere, is going to mean tweaking its formula.

Traffic-choked São Paulo, for instance, initially proved inhospitable to the kind of vast stores with which Wal-Mart dominates in American suburbs. At the same time, Brazilian retailers that Wal-Mart acquired have a knowledge of local markets that has proved invaluable to Wal-Mart. Its challenge abroad: how to combine the power of its global purchasing might with an adaptation to local tastes.

Finding new frontiers for expansion has become crucial for Wal-Mart. The company reported nearly flat second-quarter earnings Thursday, including a 1.2% decline in sales at U.S. stores open for at least a year. But Wal-Mart said it notched a significantly stronger performance abroad. The company estimated its foreign unit posted a 13.3% rise in profits and an 11.5% increase in sales, if currency fluctuations are taken out of the equation.

Wal-Mart has been gradually boosting its international spending in recent years, even as it reduces overall capital expenditures. It has estimated it will spend up to $5.3 billion on foreign expansion projects in the fiscal year that began Feb. 1. And that figure doesn't include its splashiest new move, the acquisition of a controlling stake in Chile's largest grocery chain, **Distribucion & Servicio D&S** SA.

Wal-Mart's international division already includes more than 3,650 stores and provides nearly a quarter of the company's $401 billion in annual sales. In all but one of the 14 countries where Wal-Mart International does business, executives say, its sales are growing faster than the national retail market.

Yet the Bentonville, Ark., retailer wants its international business to be much

Please turn to page 27

UBS chief says bank targeting new areas

By Stephen Fidler

ZURICH—Now that Swiss banking giant **UBS** AG has agreed to give up the identities of thousands of its clients to U.S. tax authorities, the country's secretive banking sector is facing a new challenge: how to rebuild a business that can no longer promise secrecy or ironclad protection from the tax man.

The answer, says UBS Chief Executive Oswald Grübel, is to explore new business strategies throughout the world, particularly in places such as the Middle East and Asia, where Swiss banks hope to sell the country's traditional virtues of political and economic stability to a growing crop of billionaires.

"These are the markets where even we are growing," Mr. Grübel said in an interview over lunch at UBS headquarters in Zurich. "From the emerging markets, Switzerland looks a lot better than the U.S., the U.K. or any other country."

For no one is the challenge greater than for Mr. Grübel, the man who was brought out of retirement in February to rescue UBS, Switzerland's largest bank by assets. The bank's reputation has been through the wringer, both from the aggressive methods it used to gather assets from

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What's News

Geithner said the Obama administration wouldn't allow Wall Street to resume business as usual and that plans to overhaul financial oversight were on track. The U.S. Treasury secretary, in an interview, said the financial system's return to profitability is a "necessary precondition to a stronger economy." Page 4

■ **Volkswagen agreed** to merge with Porsche, taking an initial stake for $4.7 billion this year. Page 5

■ **Ford boosted** its vehicle production plans for the rest of the year to keep up with demand sparked by the U.S. clunkers program. Page 5

■ **Magna sweetened** its offer for GM's Opel unit and tried to address criticisms of its initial proposals. Page 5

■ **The Dow industrials** added 36.58 points, with downbeat data cooling the previous day's euphoria. European shares rose. Page 18

■ **U.S. retail sales fell** 0.1% in July as consumers proved to be a weak spot amid signs of an economic recovery. Page 4

■ **American taxpayers** who hold 52,000 UBS accounts face a dilemma in whether to confess their tax-evasion sins or keep quiet. Page 17

■ **Anheuser said** cost-cutting boosted profit, but disappointing sales and a cautious outlook sparked unease. Page 7

■ **Las Vegas Sands** completed an amendment to its Macau credit facility, and said the president and vice president of its Marina Bay project in Singapore resigned. Page 8

■ **China said it won't force** the installation of Internet-filtering software on computers except in public places. Page 11

■ **Prudential's loss widened** sharply in the first half, as the insurer's exit from Taiwan weighed on results. Page 20

■ **Ukrainian President** Yushchenko rejected criticism from Medvedev, saying Russia is to blame for souring ties.

■ **Israeli soldiers killed** 11 unarmed Palestinian civilians carrying white flags during the offensive in Gaza earlier this year, a rights group said.

■ **Pakistan gunships hit** a Taliban commander's bases, killing at least 12 insurgents.

■ **Died: Les Paul**, 94, guitarist and inventor, of pneumonia, in White Plains, New York.

EDITORIAL&OPINION

Putin's Decade
What Russia has lost in the past 10 years.
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Breaking news at europe.WSJ.com

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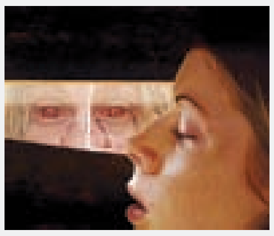

Scare tactics

European filmmakers find a fresh voice in horror genre
Weekend Journal, page W6

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9398.19	+0.39
Nasdaq	2009.35	+0.53
DJ Stoxx 600	230.48	+0.80
FTSE 100	4755.46	+0.82
DAX	5401.11	+0.95
CAC 40	3524.39	+0.49
Euro	$1.4295	+0.58
Nymex crude	$70.52	+0.51

THE WALL STREET JOURNAL.

LEADING THE NEWS

Potential Lockerbie release sparks uproar

Relatives of victims, U.S. denounce move to free Libya bomber

By Alistair MacDonald
And Paul Sonne

Associated Press, left; Agence France-Presse/Getty Images, right

Abdel Baset Ali Mohmet al-Megrahi, left, was convicted of murder in the bombing of a Pan Am flight over Lockerbie, Scotland, right.

Scotland will soon decide whether to grant a "compassionate release" to the terminally ill Libyan agent convicted in the December 1988 Lockerbie bombing, a possibility that was immediately denounced Thursday by both victims' families and the U.S. government.

The uproar stems from the fact that the convicted bomber, Abdel Baset Ali Mohmet al-Megrahi, has prostate cancer and is seeking to be released, backed by the Libyan government. Mr. al-Megrahi was sentenced in 2001 to a minimum of 27 years in prison for his involvement in blowing up a New York-bound Pan Am airliner as it flew over the Scottish town of Lockerbie, killing all 259 people on board and 11 people on the ground. Many on the flight were American citizens traveling home for the holidays.

The Scottish government said Thursday that its justice secretary, Kenny MacAskill, is considering two applications, either of which would result in Mr. al-Megrahi's release from prison. One is a request to release him from prison on so-called compassionate grounds, owing to his cancer.

The other, from the Libyan government, would allow him to serve out the remainder of his sentence in a Libyan jail.

The Scottish government—which rules on some local issues—will make its decision some time this month, a spokesman said. He denied reports on the British Broadcasting Corp. and Sky News that the decision to free Mr. al-Megrahi had already been made.

A U.S. official said the State Department had been told that "no decision has been made" on the status of the convicted Libyan and that there was no information that a deal had been struck for his release. The U.S. government believes "he should serve out his sentence in the Scottish prison," the official said.

That sentiment is shared by many victims' families. Babette Hollister, a New York resident whose 20-year-old daughter Katherine died on the flight, said she would be angered to see Mr. al-Megrahi released.

Families of some U.K. victims have been less critical about an early release.

"I don't want to grant him any form of clemency," she said. "If he has to, let him die in prison." Ms. Hollister said she and other family members of victims had known for almost a year about the possibility that Mr. al-Megrahi could be released on account of his cancer diagnosis.

The determination to keep Mr. al-Megrahi in prison is especially fierce among families of victims in the U.S. In Britain, prisoners can be granted compassionate release if they are suffering from a terminal illness, are likely to die soon, and their release doesn't put the public at risk. In England and Wales, 48 prisoners have been granted compassionate release since 2004.

In 2001, a panel of three Scottish judges found Mr. al-Megrahi responsible for putting a suitcase containing a bomb aboard a flight from Malta to Frankfurt. From there the suitcase went on to London and was transferred to the New York-bound Pan Am flight. Mr. al-Megrahi had entered Malta on a false Libyan passport a day before the Dec. 21, 1988, bombing.

The families of some British victims have been less critical about the idea of an early release. They are also less sure that Mr. al-Megrahi, who was handed over by Libyan authorities in 1999, is guilty.

Jim Swire, a doctor whose 23-year-old daughter Flora died on the Pan Am flight, has spearheaded a drive in the U.K. to prove that Mr. al-Megrahi is innocent.

"It is crucial for me that this guy gets sent home to his family," said Dr. Swire, from Chipping Campden, England.

Dr. Swire said that the majority of British victims' families are uncertain of Mr. al-Megrahi's guilt, while "almost all American families are certain that this guy was guilty as charged."

But Susan Cohen, a New Jersey woman whose 20-year-old daughter was also killed, said: "There was actually an enormous amount of evidence in that trial record that Megrahi was guilty. They will let Megrahi go and then [Libyan leader Col. Moammar] Gadhafi will get what he wants, which is the end of Lockerbie."

Mr. MacAskill, the Scottish minister, last week visited Mr. al-Megrahi in Greenock prison, western Scotland, for about an hour. Mr. MacAskill has also met with representatives from the victims' families, as well as the Libyan government.

As relations thaw between the two countries, Libya has lobbied Britain for Mr. al-Megrahi's release. Mr. Gadhafi brought the issue up in a meeting with British Prime Minister Gordon Brown in July's meeting of the Group of Eight leading countries in Italy. A spokesman for Mr. Brown said that the prime minister had told the Libyan leader that the matter was being handled by the Scottish government.

Mr. Brown asked Mr. Gadhafi to help a British woman, Sarah Taylor, get back a daughter who was abducted by her Libyan father. That situation hasn't been resolved.

The Scottish government spokesman said the decision was Mr. MacAskill's alone.

Britain took the lead in successfully persuading Libya to abandon its pursuit of weapons of mass destruction in 2003, a deal that saw Libya shake its status as rogue state.

British oil giants BP PLC and Royal Dutch Shell PLC have since built up significant oil interests in Libya since international sanctions against the country were eased in 2004. In May 2007, BP signed a $900 million natural-gas exploration deal with the Libyan government in the presence of then-British Prime Minister Tony Blair. That marked the British company's return to a country it had left in 1971, when Col. Gadhafi nationalized its operations there. Shell entered Libya two years earlier, also winning rights to explore and develop natural gas in the country.

—Jay Solomon in Washington and Guy Chazan in London contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Nestlé's powdered- and liquid-beverages division grew 4.7% in the second quarter of 2009. A graphic running with a Corporate News article Thursday incorrectly labeled the division.

UBS AG is closing its U.S. offshore wealth-management business but remains committed to its onshore business in the U.S. A Thursday Money & Investing article about the settlement of the bank's tax case with the Internal Revenue Service incorrectly implied that the bank would pull out from other businesses in the U.S.

Passengers on a disrupted **British Airways** PLC flight last March who recently reached a settlement with the airline were represented in the case by Irish law firm **Lavelle Coleman**, which cooperates with EUclaim, a Dutch company that initially processed the passengers' compensation claims. A Travel Journal article Thursday incorrectly said EUclaim itself had reached the settlement agreement with BA.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

Europe moves to join Asia-led recovery

Weak bank lending and unemployment put rebound at risk

The news that Europe's economic engine is rebounding suggests the region is joining the recovery under way in China and increasingly elsewhere in Asia. The green shoots beyond the Continent are exemplified by India's announcement Wednesday that industrial production in June was nearly 8% higher than a year earlier.

*By **Marcus Walker** in Berlin and **David Gauthier-Villars** in Paris*

That contrasts with continued patchiness in U.S. consumer spending: Retail sales unexpectedly fell 0.1% in July, suggesting American households are hurting from job losses, a weak housing market and tight credit.

In contrast to previous upturns, which relied heavily on U.S. consumers, spending by governments and households in Asia and Europe is providing a platform for recovery in both regions. That could benefit the U.S. economy in coming months by lifting American companies' exports while consumers rebuild their battered finances.

"We're used to the U.S. leading the way to recovery, but this time we're having to look eastwards to Asia and to a homegrown recovery in Europe," said Julian Callow, chief European economist at Barclays Capital in London. However, the rebound will probably turn global in the current quarter, he says: "Just as it was a synchronized recession, it will largely be a synchronized upturn," he says.

Although U.S. gross domestic product was still falling last quarter, there have been signs of improvement, including indications that housing prices are stabilizing and a report last week showing that the jobless rate fell to 9.4% in July, the first decline in more than a year.

The return to modest growth in Germany and France meant that GDP in the 16-nation euro currency zone fell at an annualized rate of 0.4% in the second quarter—a big improvement on the euro zone's 9.7% pace of contraction in the first quarter.

The euro zone's combined GDP of $13.6 trillion in 2008 is second only to the U.S., and accounts for around 22% of the world economy, according to the International Monetary Fund.

Doubts remain about the sustainability of the recovery in Europe's economic heartland next year. Stimulus measures including car-scrapping schemes will peter out, while European banks are still cutting back lending as they try to digest losses from the financial crisis and rebuild their capital.

Unemployment is still rising because continental Europe's strictly regulated labor markets react with a delay to the business cycle. Layoffs in France, for example, can involve lengthy legal proceedings. The strong euro could hold back a recovery in exports to other world regions. And some economists fear a spreading swine-flu epidemic this fall might cripple business, notably in the retail sector.

That makes some economists fear a W-shaped recovery, with a risk of stagnation ahead before growth becomes more robust.

Even in France and Germany, business activity is picking up at a very depressed level, so that the tentative upturn still feels like a recession to many people.

On Aug. 5, steel giant **ArcelorMittal** SA said it was restarting its blast furnace in Florange, eastern France, after a four-month stop caused by a dearth of demand.

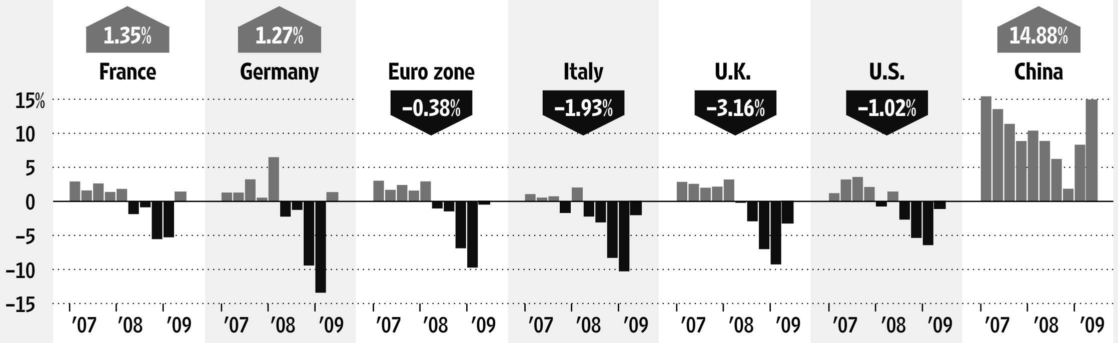
"That's really good news," said Sylvie Brosius, a Florange resident. "But we are all wondering whether it's restarting for good." In a town where ArcelorMittal is the largest employer, for sale signs are visible on many houses, and Ms. Brosius says most people she knows have reined in spending.

The European Central Bank has so far sounded cautious about the euro-zone outlook for the rest of 2009, predicting a return to sustained growth only in 2010. Some economists say they now believe the ECB is behind the curve. Many indicators and business surveys imply further strengthening in the near term, such as the purchasing managers index for euro-zone manufacturing, which rose to an 11-month high in July.

Customers at the recent opening of a new Media Markt in Munich

Agence France-Presse/Getty Images

Rebounds | Arrows are change in GDP in second quarter, charts are quarterly change



Note: Seasonally adjusted annualized rates

Source: J.P. Morgan

"The picture for the third quarter is quite encouraging," says Davide Stroppa, chief economist at Italian bank UniCredit in Milan. Weak banking lending is the "big 'if' " for Europe, he said, adding, "On the other hand, most Europeans don't need to rebuild their personal savings, something that will put a cap on consumer spending in the U.S."

At German family-owned firm **Walter Kottmann** GmbH, which makes tools for the construction and home-improvement sectors, new orders started to rise again in June and July, after falling nearly 40% in the year to May. The pickup is noticeable in Northern Europe, but not in Southern Europe, says owner and Chief Executive Stefan Kirschsieper.

The strong euro, which rose to $1.42 on Thursday following the GDP news, isn't helping Mr. Kirschsieper's U.S. sales to recover. Overall, his order book is still 30% emptier than a year ago.

German government subsidies for the wages of workers whose hours have been cut prevented hundreds of thousands of job losses this year, say analysts and business groups. Some fear the policy has merely delayed layoffs until this winter. But many of the family-owned firms that dominate Germany's economy are hoping to avoid layoffs altogether.

Mr. Kirschsieper is holding on to his workers until it becomes clear how strong the economy is in mid-2010, he says. "Companies that are shedding skilled workers now will struggle to find them again later," he says.

In France, a snapshot of the packaging industry, which is seen as a good yardstick of the broader economic environment, suggests some sectors are emerging from recession while others remain depressed.

Demand for paper-based packaging from agro-food industries was up 11% in the first six months of 2009 from a year earlier, says Stéphane Teicher, a director at CLIFE, France's federation of packaging makers. Demand from building-material firms was down 20% over the period, he said.

Some euro-zone members are on a slower path to recovery. Italy's GDP shrank at an annualized 1.9% in the second quarter, according to data published Wednesday, while Spanish data due for release Friday are expected to show an annualized contraction of nearly 3.6% last quarter.

Italy is struggling from structural problems including weak consumer spending and a loss of international competitiveness. Spain is feeling the implosion of its once-booming construction sector, while Spanish households and firms continue to cut spending in an effort to pay down their mountains of debt.

The U.K., Europe's third-biggest economy and the largest outside the euro zone, was still contracting in the second quarter: GDP fell at an annualized rate of 3.2% as tight bank lending hit consumer spending and business investment. The Bank of England cast doubt last week on the chances of a speedy rebound. Many economists expect the U.K. to return to growth by the fourth quarter at the latest.

Europe's "cash-for-clunkers" incentives to scrap old cars and buy new ones are playing a big role in supporting industry and consumer spending. German car dealers sold 2.4 million vehicles from January to July, a 27% increase from the year-earlier period, the German auto industry federation VDA said last week.

The success of Germany's €2,500 ($3,540) subsidy for trading in a clunker has led to its emulation by other countries including the U.S. But Germany has said it won't extend its program into 2010, which means new-car sales are likely to fall again. Next year, Europe's biggest car maker **Volkswagen** AG will look to emerging markets such as China, Brazil and India for growth, says company spokesman Peik von Bestenbostel.

French car makers **Renault** SA and **PSA Peugeot Citroën** SA sold 12% more cars between them in July than a year ago, thanks to incentives pushing up demand for their mostly small and medium-size cars.

The French government is expected to extend its cash-for-clunkers program beyond this year, for fear its sudden end could nip growth in the bud. "We are considering ways to phase out the program gradually," a French finance ministry official said.

Steady consumer spending in Germany and France isn't only about cars. Above all, households in both countries generally didn't get into heavy mortgage or credit-card debt, unlike many in the U.S., U.K. or Spain. French and German consumer spending has remained stable throughout the recession, rising modestly even in the first quarter when the overall economy suffered a massive plunge.

At present Germany is one of Europe's most stable markets for food retailers, says Gordon Campbell, managing director of **Spar International**, the Netherlands-based holding company at the center of the Spar supermarket franchise.

In contrast, Spar's business is down in Spain, Italy and Ireland, Mr. Campbell says. The recession isn't over in these and other markets, including in Europe's struggling East, he says.

With money tight, a bank takes parmesan cheese as collateral

By Sabrina Cohen

MILAN—As the economy bites into the business of Italy's cheese makers, one bank takes a creative approach to financing them.

For years, Italy's **Credito Emiliano** bank has been accepting Parmigiano Reggiano as collateral for the loans it gives producers of the pungent Italian cheese. So far this year, the bank has extended loans worth some €90 million ($127.9 million)—a considerable amount for a small regional bank—in exchange for certificates for the value of the wheels of Parmigiano, according to William Bizzarri, head of Magazzini Generali delle Tagliate, the unit of Credito Emiliano that handles the transactions.

There has been a 10% increase this year in requests for this special kind of cheese-based financing, says Mr. Bizzarri.

Italy's agriculture sector has been one of the hardest hit by the country's economic downturn. The parmigiano industry had already been suffering from a decline in prices—thanks in part to discounting in Italian supermarkets. Parmigiano makers even received a bailout from the Italian government, which earlier this year said it would buy 100,000 wheels of parmigiano and donate them to charity.

Credito Emiliano's warehouses have a storage capacity of 440,000 wheels of Parmigiano, valued at more than €130 million.

When the loan is about the expire, the cheese maker can either reimburse the bank or let it sell the parmigiano at market prices.

"Each round of cheese is branded with a serial number and has a certificate of authenticity," said Mr. Bizzarri.

LEADING THE NEWS

Geithner says financial overhaul is on track

Treasury chief sees no cause for alarm in Wall Street profits

BY DEBORAH SOLOMON

Timothy Geithner, shown in July, said it was a a good sign that the financial system is returning to profitability.

WASHINGTON—U.S. Treasury Secretary Timothy Geithner said the Obama administration wouldn't allow Wall Street to resume business as usual and that plans to overhaul financial-market regulation were on track.

In an interview with The Wall Street Journal, Mr. Geithner pushed back against criticism that Wall Street, which is returning to profitability, hasn't changed its ways.

"I don't think the financial system is reverting to past practice, and we won't let that happen," Mr. Geithner said. "The big banks are running with much less leverage now, much more conservative liquidity cushions. There has been a significant shrinking of their balance sheets, getting rid of bad assets and cleaning up. And the weakest parts of the system don't exist anymore."

Some banks, including those that received government bailout money, are earning record profits, increasing pay and ramping up risk. **Goldman Sachs Group** Inc., for instance, recently recorded its most profitable quarter ever and boosted its degree of risk-taking as measured by how much money it could lose in a single day.

Mr. Geithner said the fact that the financial system is returning to profitability isn't cause for concern and is a "necessary precondition to a stronger economy."

"The consequence of achieving stability is that people can raise money, can raise equity, can borrow more easily at lower rates, that these markets have liquidity again," Mr. Geithner said. "The fact that the core parts of the U.S. financial system look like they're profitable is overwhelmingly good."

Still, the administration is concerned about the potential for populist anger, particularly as banks resume paying high salaries and bonuses to executives.

Last week, **Wells Fargo** & Co. said it increased base salaries for top executives as a way to get around government rules capping bonuses for firms receiving bailout funds. A recent report from the New York attorney general's office said nine banks that received government aid paid bonuses of nearly $33 billion last year—including more than $1 million apiece to nearly 5,000 employees.

Government officials are in a tough spot when it comes to curbing pay. While the large numbers may shock some, officials believe that banks should be able to compensate employees as they see fit, as long as the pay doesn't encourage unnecessary risk-taking and is more closely tied to a company's long-term health.

"The president continues to believe, as he has long before he got here, compensation has to be based... not on reckless risk-taking, but on value that you're providing and doing so in a way that doesn't jeopardize your firm or taxpayers," White House Spokesman Robert Gibbs said Wednesday. "I don't think the American people begrudge that people make big salaries."

To help blunt criticism, the administration has appointed an official, Kenneth Feinberg, to set and review pay for the top 100 highest-paid employees at seven firms receiving the largest sums of government money. Those firms must submit packages for their top 25 employees Friday, and Mr. Feinberg has 60 days to rule on the proposals.

Mr. Geithner said the financial-services sector does need better oversight and tougher rules if the U.S. is to avoid a repeat of the financial crisis. He said the administration's regulatory revamp would offer better protection by having the Federal Reserve oversee the country's largest financial firms, a new regulator for mortgages and credit cards and tougher oversight of credit derivatives and hedge funds, among other things.

The administration's proposal has lost momentum since it was unveiled in June, with lawmakers postponing votes on key portions, the industry criticizing much of it and regulators battling over turf. But Mr. Geithner said the effort is "doing fine" and predicted the administration will get most of what it was seeking when Congress returns in September.

"There's a high probability we'll get stronger protection for consumers and authority to constrain excess risk-taking and create a more stable system," Mr. Geithner said.

He was more certain about the administration's other efforts, including giving the government the power to take over and break up large faltering companies.

"We will get resolution authority and help reduce moral hazard and contain damage of future financial crises," he said. "We'll get a council overseeing the whole system and making sure we have strong standards and are looking ahead for gaps."

U.S. retail sales decline unexpectedly; jobless claims rise

BY SARA MURRAY AND ERICA ALINI

Amid signs of an economic recovery, U.S. consumers proved to be a disappointing weak spot as retail sales dropped in July.

The Commerce Department said Thursday that retail sales fell 0.1% last month, surprising analysts, after making gains in May and June. The "cash for clunkers" car trade-in program boosted sales of autos and parts by 2.4%, but it wasn't enough to prop up losses in other categories.

Excluding autos and parts, sales dropped 0.6% from declines in gasoline prices and building-material sales. Overall, retail sales have fallen 8.3% in the past year, not adjusted for inflation.

Consumers continue to weigh on the economy despite expectations of improved gross domestic product this quarter and signals that the battered manufacturing and housing markets are beginning to stabilize.

Separately, initial claims for jobless benefits rose to 558,000, a 4,000 increase, for the week ended Aug. 8, the Labor Department said Thursday. The four-week average of new claims, which aims to smooth volatility in the data, rose 8,500 to 565,000.

The combination of stagnant wages and insecurity in a labor market that's still shedding jobs has prompted Americans to save rather than spend, a trend that's likely to continue through the second half of the year, excluding bumps provided by government programs such as cash for clunkers.

July was no light at the end of the tunnel at Waltham Floor Covering, a family-owned business in Waltham, Mass. "We were off for the month and off for the year," said Donald Parrella, one of the owners. Business is down by about $300,000 from the same period last year, which ended with sales totaling $1.2 million.

Floor-installation orders in July have been volatile, says Mr. Parrella, with upticks in the beginning and at the end of the month, and a slump in the middle. To cut costs and ride out such fluctuations, Mr. Parrella and his two brothers laid off all of the floor installers on payroll by March and now rely on outside contract labor.

Declines in retail spending bruised nearly every sector, from electronics and appliances to department stores and home furnishings. Clothing stores, bars and restaurants, and health and personal-care stores experienced slight gains.

The latest consumer data are a reminder the economy isn't likely to experience a blockbuster third quarter, but it doesn't rule out growth.

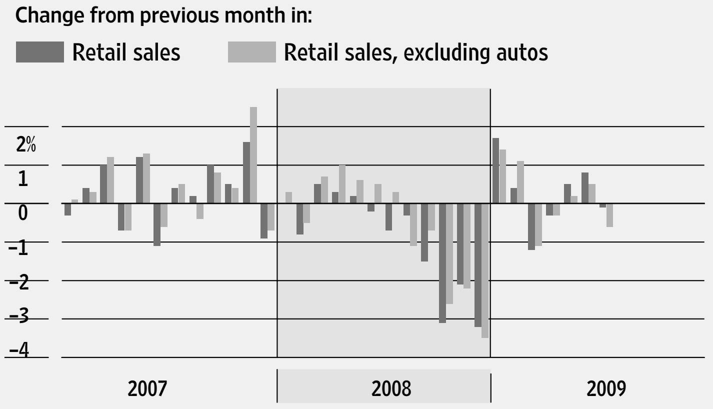
"The consumer was never going to be the linchpin of the first stage of a recovery," said Stephen Stanley, a RBS Securities Inc. economist. "While it's disappointing that retail sales were softer than anticipated, it's not necessarily a deal killer for a positive GDP number in the third quarter." Growth in the second half of the year is expected to be primarily dependent on the clunkers program and stabilization in business investment and the housing market.

The drop in sales, as well as other economic news, led Macroeconomic Advisers to revise its third-quarter GDP forecast down to 2.8% growth from 3.4% previously.

Business inventories fell 1.1% in June to a seasonally adjusted $1.35 trillion, the Commerce Department said Thursday.

Trouble in store?

Change from previous month in:



Source: U.S. Department of Commerce

Abercrombie loses lawsuit

A WSJ NEWS ROUNDUP

Riam Dean, shown in June, wore a sweater to cover her prosthetic arm.

LONDON—A law student with a prosthetic arm has won her suit for wrongful dismissal against U.S. clothing retailer **Abercrombie & Fitch** Co. after she was ordered to work in the stockroom of its London store.

Riam Dean says she was removed from the London sales floor, because the cardigan she wore to cover her missing left forearm violated the teen-apparel merchant's strict dress code.

The 22-year-old testified that her manager taunted her about her disability. Abercrombie, which is based in New Albany, Ohio, denied this. A London employment trial ordered Abercrombie to pay Ms. Dean about £9,000 ($14,800) in compensation for injured feelings, lost earnings and wrongful dismissal.

Abercrombie has gone to great lengths to promote its version of the all-American youth, stocking its selling floors with scantily clad employees, for example. But the practice has brought a host of lawsuits. In 2004, Abercrombie settled for about $50 million three class-action diversity lawsuits alleging that the company's "appearance policy" favored white employees.

CORPORATE NEWS

U.S. car makers plan production boosts

Ford, GM and Chrysler see customer demand grow from 'cash for clunkers' rebate program for older vehicles

By Jeff Bennett

DETROIT—**Ford Motor** Co. boosted its production plans for the rest of the year as U.S. consumers, spurred by the "cash for clunkers" program, continue streaming into showrooms to buy.

Ford increased its third-quarter production to 495,000 vehicles, driven primarily by the demand for the Ford Focus car and Escape crossover. The company will build 6,000 more Focus vehicles during the quarter through overtime and Saturday shifts.

It is the third time the car maker has tweaked its output, which now will be 18% higher than the year-earlier period.

Ford also said it will now build 570,000 vehicles in the fourth quarter, 33% higher than year-earlier levels and 15% above planned third-quarter output.

Chrysler Group LLC, Ford and **General Motors** Co. are attempting to respond to the unexpected demand created by the clunkers program. Consumers are provided as much as $4,500 to trade in their old vehicles and buy new, more fuel-efficient models.

Ford's chief economist Ellen Hughes-Cromwick said the clunkers program could generate as much as 750,000 in new-vehicle sales for the industry and is now on pace to run out of money within the next three weeks.

United Press International

A Ford dealership in Virginia advertises the 'cash for clunkers' program, which has boosted demand.

"This is what fiscal stimulus is supposed to do when you are in the financial situation we were in," Ms. Hughes-Cromwick said.

A total of 338,659 vehicle sales qualified for the clunkers program as of Thursday morning, according to the U.S. Department of Transportation. More than $1.42 billion of the $3 billion allocated for the program has been spent.

Ford's European executives said Wednesday they are holding formal talks with different governments to continue similar clunkers programs that are boosting sales in such countries as Germany. Russia, which is in a deep economic slump, said Wednesday it, too, will start a scrappage offer.

George Pipas, Ford's sales chief, declined to say if the auto maker will formerly press the Obama administration to continue funding the clunkers program.

Most auto makers, caught by surprise with the popularity of the program, had been keeping their inventories at historic low levels amid the U.S. recession that started about a year ago. Consumers quickly ate into that inventory as buyers—both those who were qualified for the clunkers program and those who were ineligible for the rebate—started to flock to showrooms at the end of July.

Mr. Pipas said he doesn't think Ford will be left with too much inventory once the program ends. "We will find that when we get to the end of the year, our inventory levels will still be viewed at historic lows," he said.

Auto parts makers are "being stretched thin" in some areas due to the production increases but there have been no delivery problems to date, Ford spokesman Mark Truby said.

Chrysler already increased output of its minivans and pickup trucks while GM is in the midst of reviewing production figures and forecasts to determine the scope of its increase.

Despite the production boosts, automotive sales still remain historically low. The U.S. annualized selling rate at the end of July jumped to 11.2 million new cars and pickups after meandering in the mid-nine million range for the first half of the year. Sales totaled 13.2 million in 2008 and 16.1 million in 2007.

Ford shares were up 19 cents, or 2.4%, to $7.89 in 4 p.m. composite trading Thursday on the New York Stock Exchange. Chrysler and GM aren't publicly traded.

Magna sweetens its bid for Opel

By Nico Schmidt
And Sharon Terlep

FRANKFURT—A consortium led by Canadian car-parts maker **Magna International** Inc. on Thursday appeared to move a step closer to securing a deal to acquire the majority of **General Motors** Co.'s Eurpean arm after it tried to address GM's criticisms of its initial proposals.

GM confirmed Thursday it received a revised offer from the Magna group for a majority stake in its Opel and Vauxhall brands and said it will review the proposal over the next few days.

The German government, which must provide financial guarantees and financing for any deal, also received the new proposal, but hasn't yet decided on the funding package it will provide, according to GM Group Vice President John Smith, the company's lead Opel negotiator.

The German government, which has so far favored Magna over rival bidder **RHJ International** SA, declined to comment.

The terms of the revised Magna proposal weren't been disclosed.

Magna is being backed by Russian savings bank OAO **Sberbank** and Russian car maker OAO **GAZ**. In either Opel proposal GM will retain a stake in the car maker and its sister British brand, Vauxhall, as will the German government and labor unions.

GM had signaled it had issues with Magna's initial proposal. The U.S. car maker feared that a deal with Magna could essentially hand over advanced engine and transmission technology to Russia and stymie the auto maker's ability to compete in that country down the road.

A Magna spokeswoman said all outstanding issues between GM and the Magna bidding group had been resolved. Among other things, the spokeswoman said, Magna and its partners agreed that if Sberbank later decides to sell its 27.5% stake in the Opel and Vauxhall business, it couldn't sell it to any party other than Gaz or the Russian state development bank VEB without GM's approval.

GM Chief Executive Frederick "Fritz" Henderson on Thursday stopped short of saying the revised Magna bid fully addressed GM's concerns.

"We are evaluating it [the Magna proposal], and we will spend the next few days evaluating it," Mr. Henderson said at an event to show off a new battery facility near Detroit. The CEO said he expects to brief the GM board next week on the revised offer.

In an interview earlier in the week, GM's Mr. Smith said the company expects to have an agreement with one of Opel's bidders by the time German elections heat up during the last week in August.

In their earlier proposal, Magna and Sberbank each wanted a 27.5% stake in Opel in return for €500 million ($710 million) of capital. GM would retain a 35% stake and 10% would be placed in the hands of employees.

At the end of May, the German federal governments and states with Opel locations said they would provide €1.5 billion in an emergency credit line as well as €4.5 billion in state guarantees.

RHJ, meanwhile, has said publicly it wants to invest €275 million in Opel, but requires a lower amount of state backing than Magna. Initially, RHJ asked for state guarantees of €3.8 billion, but according to media reports over the past few weeks the amount shrank to less than €3 billion.

RHJ wasn't immediately available to comment.

Opel's employee representatives and German state and federal governments have repeatedly vocalized their preference for Magna's bid, and a spokesman for German Chancellor Angela Merkel said earlier this week she is ready to get personally involved in the talks.

A person familiar with the matter said Thursday that a German government task force, which includes representatives from the federal government and the states with Opel locations, will meet on Monday to discuss the latest bids from Magna and RHJ International.

Economy & Politics

Coordinated strike

A Taliban leader's killing in Pakistan has broader implications > **Page 9**

Volkswagen and Porsche reach merger agreement

By Kevin Kingsbury
And Ulrike Dauer

German auto makers **Volkswagen** AG and **Porsche Automobil Holding** SE Thursday said they reached a broad agreement to merge the premium sportscar manufacturer into Volkswagen.

As part of the deal, Volkswagen said it will pay as much as €3.3 billion ($4.7 billion) to take a 42% stake in Porsche's core sports-car arm by the end of 2009, a precursor to a full merger of Porsche's holding company with VW in 2011.

The deal represents a dramatic turn of events for Porsche, which made a bold attempt to take over its much-larger rival by accumulating a roughly 70% stake through shares and options. That effort was derailed by the slump in auto demand brought on by the global economic downturn.

As part of the arrangement, VW Chief Executive Martin Winterkorn will take over as CEO of Porsche on Sept. 15, replacing the recently deposed head of Porsche Wendelin Wiedeking.

In an effort to pay for the deal and maintain its investment-grade credit rating, Volkswagen will finance the acquisition by selling as much as €3.3 billion in preferred shares the first half of next year, subject to shareholder approval.

To help whittle down a €10 billion debt load, Porsche also plans to sell shares in the first half of 2011 in an amount that could exceed €5 billion. To help pay for their end of the capital increase, the Piech and Porsche families that own Porsche plan to sell Europe's biggest auto-distribution business to Volkswagen, the companies said.

Talks for a state-backed Qatari investment fund to buy options on Volkswagen shares from Porsche will continue, the companies said. Qatar would become the new group's third largest shareholder once it exercises the options, after Porsche and the German state of Lower Saxony.

Talks for a Qatari fund to buy options on VW shares from Porsche will go on.

The state of Lower Saxony—which includes Wolfsburg, where VW is headquartered—will remain the new group's second largest shareholder. It will keep a blocking minority and name two supervisory board members in the new group.

The companies expect to finalize details of the deal in the coming weeks.

The deal will create an integrated automotive group with 10 car brands and annual sales of around 6.4 million vehicles. The merger will boost Volkswagen's operating profit by some €700 million annually over the long term, the car maker said.

GM boosts China exports

GM

A GM venture will expand sales of the Wuling N200 in South America, the Middle East and North Africa, building up the auto maker's use of China as an export hub.

Local joint venture to ship microvans to emerging markets

BY NORIHIKO SHIROUZU

BEIJING—**General Motors** Co. said it and its Chinese partners will expand exports of low-cost micro-minivans to additional markets in South America, the Middle East and North Africa, apparently part of a wider strategy to become more globally competitive by using China as an export hub.

While GM's primary focus in China will continue to be the domestic market, the world's only major market growing in the global economic downturn, "we're keen to develop exports," said GM China President Kevin Wale in a telephone interview.

"Obviously, as we develop more expertise and a broader range of product [in China] there will be more opportunities for us to export them," he said.

GM said Thursday its three-way joint venture SAIC GM Wuling Automobile Co. will expand exports of two micro-minivans designed and produced in China: the Wuling N200 and N300 models, vehicles that Chinese farmers and other rural residents use for both commercial and personal use. The company plans to sell both models under the Chevrolet brand through GM's distribution channels in South America, the Middle East and North Africa.

GM, which holds a 34% stake in Wuling, didn't disclose any official target for volume. But Mr. Wale said GM expects the business to grow to shipments of "tens of thousands" of vehicles a year over time. Last year, GM exported 3,200 Wuling vans and 12,000 GM cars from China.

Though the plan had to be scrapped in the end, GM tried earlier this year to position China as a factory floor for the U.S., much the same way American apparel, shoe and electronics producers have used China's relatively low labor rates to make products more affordable and boost profit margins.

When GM disclosed earlier this year plans to export a new line of compact cars from China to the U.S., while seeking tens of billions of dollars in U.S. government assistance to shed debt and keep afloat, it sparked an outcry from the United Auto Workers union and Congress.

The union and lawmakers successfully put pressure on the Obama administration to persuade GM to drop the plan, forcing it to retool an existing plant in Michigan to produce those compact cars.

It wasn't immediately clear the extent of GM's ambitions to export from China. But Mr. Wale made it clear Thursday that it plans to go beyond shipping Wuling's low-cost vans. Though volume is still limited, "we already export cars to many countries around the world," including Buicks GM makes in China with a Chinese partner, Mr. Wale said. "We will continue to do that as opportunity arises."

In an interview with The Wall Street Journal earlier this year, then-GM Asia Pacific President Nick Reilly said that in the future GM "will probably generate fairly significant exports" out of China. Mr. Reilly now heads GM's international operations.

Honda Motor Co. is one of the biggest exporters among foreign car makers in China. The Japanese company ships a subcompact car, the Honda Jazz (called the Fit in the U.S.) to Europe from a plant in Guangzhou.

U.S. judge allows Chrysler creditors to sue Daimler

BY DAVID MCLAUGHLIN

NEW YORK—A judge Thursday said Chrysler's creditors can sue its former parent, **Daimler** AG, which the creditors accuse of stripping Chrysler of its most valuable assets in 2007.

Judge Arthur Gonzalez of the U.S. Bankruptcy Court in Manhattan cleared the way for the committee representing unsecured creditors to sue Daimler in a bid to boost their recovery in Chrysler's bankruptcy case.

Creditors have said in court papers that Daimler's 2007 restructuring of Chrysler caused billions of dollars in damages and left Chrysler at or near insolvency. Daimler sold Chrysler to **Cerberus Capital Management** that year.

A lawyer for the committee said its recovery from the lawsuit could be in the billions of dollars.

A Daimler lawyer told Judge Gonzalez at a hearing Monday that there was no merit to the lawsuit.

Many of the details of the complaint have been redacted in court papers.

On June 1, Judge Gonzalez approved the sale of the bulk of Chrysler's assets to a new company owned by **Fiat** SpA of Italy, the U.S. government and the United Auto Workers Union. The remnants left in bankruptcy, formally called Old Car Co. LLC, are being wound down.

CORPORATE NEWS

Food firms fault climate measure

U.S. industry claims House bill is unfair; prices may increase

By Lauren Etter

Some of the U.S.'s biggest food and agriculture companies are planning to release a flurry of studies in coming weeks that scrutinize the potential impact of climate-change legislation, warning that it could lead to higher food prices.

A group of agriculture giants including **Cargill** Inc., along with meat company **Tyson Foods** Inc. and food maker **General Mills** Inc., is concerned the companies might bear a disproportionate share of the costs of such legislation, according to a memo reviewed by The Wall Street Journal.

The group also is worried that a U.S. House bill passed in July doesn't provide sufficient incentives for food and agricultural companies to receive and generate carbon credits to offset their carbon emissions.

The meat industry is anxious that the legislation might put restrictions on the ability of livestock operations to generate carbon credits that could offset their greenhouse gas emissions. Livestock and food companies emit greenhouse gases in a number of ways, including using trucks to transport food and slaughterhouses that run on natural gas.

Under the proposed climate-change legislation, a carbon offset, or credit, can be generated when a company reduces the amount of greenhouse gas emitted into the atmosphere through a variety of approved projects. Livestock facilities, for example, would like to generate offsets by trapping methane from manure lagoons, among other things.

Associated Press

The U.S. meat industry worries operations like this hog facility in Auxvasse, Mo., will bear a disproportionate share of costs.

The resulting offsets can then be sold to other polluters or used by the producer to reduce its overall emission totals. Certain companies would have to pay penalties if they emit more than allowed without offsets.

Other members of the food coalition include the Grocery Manufacturers Association, the National Turkey Federation, the American Meat Institute and the American Frozen Food Institute.

The coalition, which formed informally about two months ago, is becoming more active after concluding that member companies didn't win enough concessions in the House climate legislation, industry lobbyists said. The Senate is expected to take up its own climate bill when senators return from recess next month.

The farm lobby won several favorable provisions in the House bill, including an exemption from having to cap many carbon emissions from farms. The House bill also sets up a number of programs that will allow farmers to generate carbon credits that will offset their emissions.

But the big food and agriculture companies feel they came up short. In a letter sent last month to Democratic Sen. Barbara Boxer of California and Republican James Inhofe of Oklahoma, the coalition said the House bill "will increase food and feed prices and reduce the international competitiveness of our businesses."

The letter said Congress "must take extreme care to avoid adverse impacts on food security, prices, safety, and accessibility to necessary consumer products." The letter also criticized the House bill for failing to provide transitional assistance to "low-income households struggling with rising food prices."

When the group's studies are released, possibly this month, they are likely to reignite tensions between food and ethanol producers sparked in 2007 when Congress passed energy legislation that gave a big boost to the corn-ethanol industry.

Trading drives earnings higher at utility RWE

By Jan Hromadko

FRANKFURT—German utility **RWE** AG posted a 37% increase in second-quarter net profit Thursday, but said the lack of dynamic recovery in the real economy is likely to continue crimping demand from its industrial users.

Net profit rose to €477 million ($677 million) from €347 million a year earlier, even though revenue fell 13% to €9.56 billion.

RWE said earnings were driven by exceptionally high profit contributions from its trading business and the gas midstream activities of RWE Supply & Trading. Higher realized power prices in the power-generation business offset lower power and gas-sales volumes, which reflected weak demand during the recession.

The economic condition of RWE's European markets remains poor, Chief Executive Jürgen Grossmann said in the company's earnings statement. "This will be reflected by the electricity and gas meters of our key industrial customers," he said.

German energy consumption in the first half of 2009 fell by an average of about 8% from a year earlier because of a sharp drop in demand from energy-intensive industries that cut back on production during the recession, Germany's energy and water lobby group BDEW said last week.

RWE said it nevertheless expects full-year earnings before interest, taxes, depreciation and amortization as well as operating profit to come in at 2008 levels.

RWE's remarks echoed comments by its main domestic competitor **E.ON** AG, which said Wednesday that 2009 results aren't expected to fall by as much as it had feared.

Both RWE and E.ON said selling its power production several years ahead of delivery protected the companies from short-term effects on their earnings, despite lower volumes.

RWE also said its high portion of "take-or-pay" contracts—in which industrial clients and distributors agree to pay provisions in case they decide not to take the agreed volumes—limited the impact from the economic recession.

At the beginning of the year, RWE had already sold more than 90% of its 2009 power production. The company realized considerably higher average prices than it would have achieved on the spot market.

Bloomberg News

RWE, owner of this German plant, sees industrial demand staying weak.

Cost cuts boost brewer Anheuser's earnings

By Matthew Dalton

BRUSSELS—**Anheuser-Busch InBev** NV said cost-cutting boosted its second-quarter earnings, but disappointing sales and a cautious second-half outlook from the company sparked unease among investors.

The Leuven, Belgium-based beer giant, the world's largest brewer by sales after its $52 billion takeover of Anheuser-Busch last year, said Thursday that cost-cutting across its far-flung beer empire—particularly in the U.S.—helped offset exchange-rate losses and flagging sales in other markets.

Net profit was $1.07 billion. The company's year-earlier net profit amounted to $836 million, but that figure doesn't include Anheuser's results since the takeover closed in the fourth quarter of 2008.

Sales slipped 9.1% to $9.5 billion from $10.45 billion, assuming the consolidated company already existed in the year-earlier period. InBev alone posted sales of $5.79 billion in the second quarter of 2008.

Earnings before interest, taxes, depreciation and amortization, or Ebitda, adjusted for one-time items, rose 13% to $3.6 billion from $3.18 billion, a figure that combines year-earlier results from InBev and Anheuser-Busch. Adjusted Ebitda is closely watched by the markets because it strips out fluctuating tax rates, interest expenses and one-off costs, focusing on the company's operational performance.

Overall volumes in the quarter fell 1.1%.

The brewer's strongest performance came in the U.S., a result of aggressive cost-cutting to help pay for the Anheuser takeover. Adjusted Ebitda in its North American division, which is mainly the U.S. market, jumped 43% to $1.74 billion.

The brewer's broad portfolio of beers in the U.S.—which includes cheaper beers such as Natural Light and Busch that have gained as the economy has slowed—also helped support sales and profits.

Bud Light Lime, which sells at a 25% premium to Bud Light, continued to be a strong seller in the U.S., despite sluggish economic conditions that tend to disadvantage more expensive drinks. The beer has captured 1.2% of the entire U.S. beer market since its introduction in May 2008, according to market estimates. It is the fastest-growing beer in the U.S., and ranks 13th in total sales, the company said.

Anheuser also beat expectations in a number of its other markets, as the company managed to lower costs more than expected. The biggest surprise came in Western Europe, where Ebitda rose 11%.

"While recognizing the industry has been weak, and there's no indication of short-term improvement, we have been performing well, market-share wise," said Felipe Dutra, the brewer's chief financial officer, on a conference call with reporters.

Anheuser's executive team, led by Carlos Brito, has pledged $1 billion of cost savings from the merger in 2009 alone, and $2.25 billion in 2008-10. They have been trimming the company's work force in the U.S. and the U.K., cutting sales and marketing costs and using the brewer's increased size to get better deals from its suppliers.

The brewer said it is on track to meet the $1 billion synergy target for this year and already has achieved $610 million of those savings.

Sales in Brazil, the brewer's second-largest market after the U.S., also held up well, but its bottom line in the region suffered because the Brazilian real has fallen against the dollar.

A combination of weak currencies and soft sales hurt profit in Anheuser's Central and Eastern European operations. The brewer is in talks to sell part of that division, excluding Russia and Ukraine.

In Brussels Thursday, Anheuser shares fell 6% to €27.06. Analysts said the brewer's share decline reflects worries about its disappointng sales figures and second-half outlook.

CORPORATE NEWS

Sands amends credit pact

Macau wins leeway; Executive changes made in Singapore

By Patricia Kowsmann And Jonathan Cheng

Associated Press

Las Vegas Sands said the president and vice president of hotel operations at its Marina Bay Sands project in Singapore have resigned.

Las Vegas Sands Corp. said it was able to amend its $3.3 billion Macau credit facility, boosting the interest rate but giving the casino operator more flexibility to sell a minority interest in those operations.

Last month, Sheldon G. Adelson, chairman and chief executive of Las Vegas Sands, said his company was considering an initial public offering or sale of Macau assets to raise about $3.5 billion. At the time, Mr. Adelson said the U.S. casino operator needed about $2 billion to finish five hotel projects in Macau, which were halted in the face of the global economic downturn.

Las Vegas Sands' shares jumped following news of the credit pact.

Separately, the casino company's massive Singapore project, the Marina Bay Sands, said Thursday that its president and vice president of hotel operations resigned, a high-level shuffle that comes as the project nears its opening early next year.

The Marina Bay Sands said its president, Nigel Roberts, and vice president, Tony Cousens, left the company this week. The executives couldn't be reached for comment. Spokesmen for Las Vegas Sands, which also owns the Venetian casinos in Macau and Las Vegas, didn't reply to requests for comment on the departures.

The $5 billion Marina Bay Sands resort-casino complex, in Singapore's showcase downtown harbor, was originally scheduled to open late this year, but now is slated for an opening early next year, because of delays related to labor and material.

Marina Bay Sands said it appointed Thomas Arasi, formerly chief executive of hotel operator Lodigian Inc., as its new president and chief executive. Ronen Nissenbaum will be the new executive vice president for operations. He was the regional vice president of operations in North America for Intercontinental Hotels Group.

Casinos around the world have been suffering from a sharp drop in revenue and visitors. Last month, Las Vegas Sands posted a quarterly loss of $175.9 million l, compared with a loss of $8.8 million a year ago.

—John Kell contributed to this article.

Thomas Cook to miss profit target

By Kaveri Niththyananthan

LONDON—U.K.-based travel company **Thomas Cook Group** PLC said it will miss its profit target for next year because of the industry downturn, after posting a slightly wider loss for the first nine months of its fiscal year.

Thomas Cook said it will still meet this fiscal year's targets despite the widened loss, but it won't make the £480 million ($792 million) in earnings before interest and taxes, or Ebit, it had targeted for next year.

The company's net loss widened to £175.6 million for the nine months ended June 30 from £174 million a year earlier. Revenue rose 11% to £5.85 billion, as Thomas Cook increased the price of holidays and the sterling's weakness boosted revenues from outside the U.K.

The company booked a tax gain of £110.8 million from Germany, where it is able to claim back tax because of recent losses.

However, the gains weren't enough to offset £107.3 million in costs related to the 2007 merger of MyTravel and Thomas Cook, as well as costs for other acquisitions and restructuring measures.

Thomas Cook has been taking out capacity to match lower demand and has been cutting costs, driving up margins and Ebit. However, it doesn't see market conditions improving sufficiently to meet its 2010 Ebit targets.

Chief Executiv Manny Fontenla-Novoa said rising unemployment will make next year tougher than previous years. Over the past four weeks, bookings for winter holidays are down 8% in the U.K. and flat across Northern Europe.

Thomas Cook's comments echoed those from larger rival **TUI Travel** PLC, which on Wednesday said it faces a tough winter because consumers are forgoing second holidays during the economic downturn.

TUI Travel's parent company, **TUI** AG on Thursday posted a sharply wider second-quarter net loss because of charges for at container-shipping unit Hapag-Lloyd AG .

For the three months ended June 30, the company posted a net loss of €536.9 million ($736.1 million), compared with a year-earlier loss of €56.4 million. However, it made a profit of €207.4 million for the first half of the year, up from €148 million in the whole of 2008, mainly thanks to a €990 million gain booked in the first quarter from the sale of a stake in Hapag-Lloyd.

The second quarter was hit by a €371 million adjustment in interest on loans it gave out to Hapag-Lloyd, but it reassured the market the loans will be repaid.

— Hilde Arends and Natali Schwab in Frankfurt contributed to this article.

Premiere reports a wider loss

By Archibald Preuschat

DUSSELDORF, Germany—**Premiere** AG said its net loss widened in the second quarter and Chief Executive Officer Mark Williams expressed confidence that he will make the pay-TV company profitable in 18 months under its new Sky brand.

But he declined to release new subscriber numbers or elaborate further on how far the company has progressed in the current third quarter. He only said that "net growth of subscribers has gained significant momentum" since its rebranding as Sky on July 4.

In November 2008 Premiere won the pay-TV rights for the country's top national soccer leagues for four years. Securing the rights was critical for Premiere and for the ambitions of **News Corp.**, which has a track record of using soccer to turn around its unprofitable pay-TV companies in Europe, notably Sky Italia and **British Sky Broadcasting** Group PLC, which is partly owned by News Corp.

News Corp., which is also publisher of The Wall Street Journal, last week raised its stake in German pay-TV company to 39.96% from 30.5%

Premiere's net loss for the quarter ended June 30 was €365.8 million ($519.9 million), compared with a loss of €37.8 million in the year-earlier quarter, weighed by a €253.9 million write-down on the Premiere brand name in the second quarter.

Sales were down to €230.6 million from €252.1 million.

GLOBAL BUSINESS BRIEFS

Raiffeisen International Bank

Loan provisions push net profit 93% lower

Austria-based **Raiffeisen International Bank Holding** AG's second-quarter net profit dropped 93%, hit by rising risk provisions for deteriorating loans in Eastern Europe. Net profit fell to €21.9 million ($31.1 million) from €311.3 million a year earlier. Loan-loss provisions jumped to €523.3 million from €108.3 million, reflecting a steep rise in nonperforming loans in the first half, mainly in Ukraine, Russia and Hungary, said Raiffeisen, the Central and Eastern European-focused publicly listed arm of Raiffeisen Zentralbank AG. On June 30, nonperforming loans made up 6.8% of the bank's total credit portfolio, up from 3.7% at the end of 2008. Net interest income fell 7.3% to €728.7 million from €786.5 million, while fees income dropped 22% to €291.1 million.

Anglo American PLC

Anglo American PLC said Thursday it raised about 4.2 billion rand ($520 million) from the sale of its almost 50% stake in South African sugar producer **Tongaat Hulett** Ltd. The disposal, which increases the company's concentration on commodities ranging from coal to diamonds, takes advantage of a roughly 64% rise this year in London-traded white-sugar futures that has helped buoy Tongaat's share price. It also comes as Anglo American fends off the merger advances of rival **Xstrata** PLC. The London-based company said the 51.2 million shares it held in Tongaat were placed with institutional investors at a price of 82 rand each. Tongaat's shares have risen about 40% since the beginning of the year.

Escada AG

Fashion company **Escada** AG filed for bankruptcy protection after being unable to obtain sufficient financing, a Munich district court said Thursday. The Munich-based company, famous for expensive women's fashion and accessories, was expected to make the filing this week after it failed to get the necessary support for an earlier bond swap. Escada was once one of the biggest fashion brands in the world, but has seen its sales and earnings decline in recent years. The company said a number of restructuring measures had been contingent on the bond swap working, but it didn't get enough support from the bondholders. A plan to raise €30 million, or about $40 million, through the company's bigger investors had been contingent on the bond exchange going through.

Estée Lauder Cos.

Estée Lauder Cos. posted a fiscal-fourth-quarter loss as the company absorbed restructuring charges and consumers cut spending on beauty products and fragrances. Net sales tumbled approximately 16% to $1.68 billion for the quarter ended June 30. The sales slump was most acute for fragrances, which reported a 35% drop, pushing the segment into the red. The much larger skin-care and makeup businesses reported drops of 13% and 12%, respectively, with profit falling sharply. The company, whose lipsticks, mascaras and perfumes are sold in department stores, posted a loss of $17.9 million, or nine cents a share, compared with a year-earlier profit of $120.2 million, or 61 cents a share. Excluding restructuring charges, the latest quarter's earnings would have been 20 cents a share.

IzhAvto

Russian auto maker **IzhAvto** has filed for bankruptcy, leaving more than 5,000 jobs on the line. IzhAvto filed last week, according to documents posted on the Web site of the Arbitration Court in Udmurtia, the central Russian region here the company is based. IzhAvto, the region's major employer with nearly 5,500 people on the payroll, assembles vehicles for South Korea's KIA and Russia's AvtoVAZ. An IzhAvto official said the company is withholding comment until proceedings commence. IzhAvto has been incurring losses since the third quarter of 2008, according to the Russian Audit Chamber, which attributed the poor performance to the management's "ineffecient financial policy." As of April, its debt stood at 11.3 billion rubles ($354 million).

Google Inc.

Google Inc.'s acquisition of video compression software maker **On2 Technologies** Inc. has been challenged in court by On2 shareholders who claim the deal's $106.5 million price tag is "unfair." The complaint, filed in Delaware Court of Chancery Monday, seeks class-action status and a permanent injunction blocking the deal. The plaintiffs also demand that the defendants, which include On2's board as well as Google, account for all damages caused.Google declined to comment on the complaint. On2, which produces software that makes high-definition video playback possible on mobile devices, wasn't available for comment. Under the terms of the deal, each On2 share will be converted into 60 cents in Google stock.

Rio Tinto PLC

Smelting activities at Anglesey Aluminium Metal Ltd. in Wales are to cease at the end of September when the existing power supply contract expires and the plant will move to become a remelt facility, the company said Thursday. Majority owner U.K.-listed **Rio Tinto** PLC and 49% shareholder U.S. **Kaiser Aluminum** Corp. have been trying to negotiate a way to continue at least some operations at the plant, on the island of Anglesey, Wales. To help with the anticipated higher costs as the contract expires, the governments of the U.K. and Welsh Assembly offered Anglesey Aluminium £12 million a year for four years. But the owners said this wasn't enough to bridge the gap. More than 390 people will be laid off.

Astellas Pharma Inc.

Astellas Pharma Inc. said a U.S. court rejected its appeal challenging the Food and Drug Administration's decision this week on immune-system drugs. The Tokyo-based pharmaceutical maker had petitioned the FDA to instigate more rigid procedures for prescribing generic versions of its Prograf drug, an oral immunosuppressant for organ-transplant recipients. Astellas said the court also rejected its request for a preliminary injunction keeping the FDA from approving generic versions of Prograf while the court reviewed the case. Astellas said in a statement it is still reviewing its options following the decision. Sandoz, the generic-drug unit of Novartis AG, on Tuesday said the FDA had approved its generic version of Prograf.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Militant's death shows U.S.-Pakistan ties

Killing of a Taliban leader appears to have cemented nations' bond in fight against Islamic extremism

By Gerald F. Seib

The headlines a few days ago told a seemingly simple story, of a missile strike launched from an American drone that killed Pakistan's top Taliban leader.

But that missile strike, in Pakistan's remote South Waziristan province, did more than kill one terrorist thug, a man named Baitullah Mehsud.

CAPITAL JOURNAL

The attack may well have cemented a much tighter U.S.-Pakistani bond in the broader fight against Islamic extremism.

If so, that represents a significant development and quite a change from just a few months ago. At that time, it was easy to cruise around Washington and find U.S. officials who would complain that Pakistani officials weren't taking the threat they faced from the Taliban seriously enough and were balking at real cooperation with the U.S. in fighting it.

In one of the big and underappreciated stories of the year, that has turned around. Starting early this year, there was a marked pickup in an officially unacknowledged program in which Pakistani and American intelligence officials cooperate to pinpoint Taliban and al Qaeda leaders and strongholds, then strike at them from unmanned Predator drones under American control. One by one, the U.S. and Pakistan, in this new partnership, have been seeking out a list of some 20 high-value al Qaeda and Taliban leaders. More than half of them now have been killed or captured.

The strike against Mr. Mehsud illustrates how far the program has come and may open the way for deeper cooperation. (Some Taliban spokesmen have insisted since that Mr. Mehsud wasn't actually killed in the strike, but both U.S. and Pakistani officials are confident he was.) Indeed, a similar missile strike in the same region was launched Tuesday, reportedly targeting another Taliban compound.

Reuters

Policemen stand guard on the streets of Bannu, Pakistan, in June. The nation's new partnership with the U.S. is bearing fruit.

For their part, American officials describe the strike as a sign of much better cooperation between two intelligence agencies, Pakistan's ISI security services and America's Central Intelligence Agency. Those two have tended to view each other with a healthy degree of mutual suspicion. The CIA has long thought the ISI harbored agents sympathetic with Islamic extremists. The ISI viewed the CIA as an organization with too little appreciation for the nuances of the fight against Islamic extremism.

But the combination of a new Pakistani president, Asif Ali Zardari, and a new Pakistani army chief of staff, Ashfaq Kayani, has changed the atmosphere. Despite deep initial American doubts about Mr. Zardari's commitment and courage, and uncertainty about the attitude of Mr. Kayani, they have cleared the way for greater, if still-quiet, cooperation.

U.S. officials say that intelligence on the whereabouts of extremist leaders increasingly is shared in real time and that a system for making decisions on when to strike them has become sleeker. Pakistan often condemns American airstrikes in public, to deflect charges that it is allowing U.S. forces free rein, but the pattern of attacks in the past six months bespeaks a high level of cooperation, which pleases the Obama administration.

More important, though, may be the effect the Mehsud attack has on Pakistani attitudes. Previously, Pakistani officials suspected that their American partners were far more interested in hunting for targets of concern to the U.S.—principally al Qaeda leaders and the camps they used to plot attacks on American targets in neighboring Afghanistan—rather than those Pakistani officials viewed as most directly threatening them.

Mr. Mehsud, though, was the terrorist leader at the top of Pakistan's most-wanted list; he was, after all, thought to be behind the 2007 assassination of former Prime Minister Benazir Bhutto. Hence, the complex effort to track him down and take him out had more to do with eliminating a threat to Pakistan's government than with making the U.S. war effort in Afghanistan easier.

As a result, this attack, unlike many other Predator strikes, was met with general public approval in Pakistan. Now one Pakistani official says it will open "a new era of trust between the two intelligence services."

We'll have to see, of course, and suspicions about motives and intentions on both sides won't go away overnight or because of one success. There also are some analysts who think the Predator strikes, by arousing anger among Pakistanis sympathetic to the Taliban and antagonistic toward the U.S., may do as much long-term harm as good.

Still, U.S. officials consider the strike both a milestone in its own right, as well as an event that might have a positive spillover on the effort to stabilize Afghanistan next door. While Mr. Mehsud was principally focused on making trouble in Pakistan, he had experience fighting in Afghanistan as well, and he had a network of supporters there. Perhaps more important, U.S. officials think he was instrumental in facilitating cross-border traffic between Taliban groups on both sides of the border and also helped al Qaeda fighters move back and forth.

To the extent the Mehsud organization now is disrupted or locked in a succession struggle, that can't be bad for U.S. efforts. More broadly, while Pakistan remains a nation with deep problems, and one facing manifold threats, a simple missile strike has offered at least a glimmer of good news, for Pakistani officials and for America's own long struggle in the region.

North Korea releases worker from South held for 4 months

By Gordon Fairclough

SEOUL—North Korea freed a South Korean worker it had been holding for more than four months—another sign Pyongyang is looking to restart international negotiations after a series of increasingly provocative acts and months of internal political maneuvering.

The worker—who crossed the demilitarized zone dividing the Korean peninsula to return home late Thursday—was let go a week after a visit to Pyongyang by former U.S. President Bill Clinton that helped secure the release of two American journalists imprisoned in the North for illegally entering the country in March.

"It's a positive development," said Daniel Pinkston, a Seoul-based senior analyst for the International Crisis Group. The release of the prisoners, he said, indicates the North Korean leadership is "ready to engage again with the outside world."

Since dictator Kim Jong Il fell ill a year ago, North Korea, which conducted its second nuclear test in May, has taken a markedly harder line in its dealings with other nations while, analysts say, the North's political elite worked to solidify its control domestically.

The South Korean freed Thursday, identified as Yu Seong-jin, worked as a maintenance supervisor at an industrial park in Kaesong, North Korea, where South Korean companies run factories employing low-cost North Korean laborers. Mr. Yu was accused of criticizing the North's political system and encouraging a North Korean woman to defect.

"I am happy to be back safely," Mr. Yu said in brief remarks to reporters after arriving in the South. He expressed his gratitude to all who worked for his release and declined to give details about his detention.

He was released after a visit to Pyongyang by the chairwoman of Hyundai Group, one of whose units manages the industrial park and employs Mr. Yu. Hyundai Group and its Hyundai Asan Corp. subsidiary in recent years have played an important role in facilitating commercial contacts between the North and South.

Relations between the two countries have deteriorated since conservative South Korean President Lee Myung-bak took office last year. Among other things, Mr. Lee ended a policy of essentially unconditional economic assistance for the North, instead insisting that aid be linked to progress on ending Pyongyang's nuclear programs.

It is unclear whether Mr. Yu's release will prompt much of a thaw. The North is still holding the four-person crew of a South Korean fishing boat seized after it strayed into North Korean waters late last month. North Korea Thursday told the South that it is still investigating their case, the South Korean government said.

Mr. Yu's release "is fortunate for the family of Mr. Yu," said Cho Hyun-jin, a spokesman for the South Korean president's office."Our government will maintain a consistent policy" toward the North, he added.

U.S. officials have said Kim Jong Il, who met with Mr. Clinton, said he wanted to improve ties and hold bilateral talks with Washington. The U.S. has said discussions must take place within the framework of so-called six-party talks that for years have sought to persuade the North to give up its atomic ambitions. China, Japan, Russia and South Korea also participate in those talks.

"To restart the dialogue with the U.S., Kim Jong Il knows that North Korea also needs to talk to South Korea, a U.S. ally," said Jeung Young-tae, a senior researcher at the Korea Institute for National Unification, a government-funded think tank.

Analysts also said they believed the freeing of Mr. Yu is part of an effort by the North to win new cash infusions from the South to shore up its tottering economy, which is under further pressure since the imposition of new United Nations sanctions after May's nuclear test.

"They are absolutely short of money," said Mr. Jeung, and likely want to restart visits by South Korean tourists to a resort on the North's east coast. The visits provided the country with steady income before they were halted last year after a South Korean tourist was shot and killed by a North Korean soldier for reasons that are unclear. Pyongyang is also seeking more benefits from the Kaesong industrial park.

In June, North Korea outlined a series of demands related to the industrial park, calling, among other things, for a $500 million payment to allow continued use of the land on which the complex is built. It also wants to bring forward, to next year from 2015, the start of previously agreed annual land-use payments.

The North also wants Kaesong factory workers' wages to be raised to $300 a month from the current $75. That money is paid by South Korean employers to the North Korean authorities. It is unclear how much actually ends up in the pockets of the workers.

Mr. Clinton's trip, and the release of the two American journalists, prompted some in the South to urge their government to do more to win the freedom of its citizens held in the North. More than 500 South Korean civilians are believed to have been abducted by the North since Korean War hostilities ended with an armistice in 1953.

"Kim Jong Il is a terrorist. We shouldn't accept his behavior," said Choi Sung-yong, president of the Abductees' Family Union, which represents relatives of the missing. He said Seoul "shouldn't hold any dialogue with the North unless it first frees the South Korean abductees and gives up its nuclear weapons."

—Dongjin Park contributed to this article.

In Africa, Clinton balances criticism, praise

U.S. seeks to protect economic ties by use of 'soft power' plan

BY SARAH CHILDRESS AND JAY SOLOMON

Reuters

Hillary Clinton as she boards her plane Thursday in Abuja, Nigeria, and heads for Liberia, the sixth nation on an 11-day tour of Africa.

NAIROBI, Kenya—U.S. Secretary of State Hillary Clinton, midway through her swing across Africa, on Monday met with Angola's President José Eduardo dos Santos, who has ruled the oil-rich country for the past three decades, and whose government has been accused of cronyism and corruption by watchdog groups, and his military accused of human-rights violations.

In public remarks to Angola's foreign minister, Mrs. Clinton said, "We have our work cut out for us, Mr. Minister." But she hailed the government's move toward transparency as a "positive step."

Mrs. Clinton's seven-nation trip through Africa, which ends Friday, has been a balancing act between calling for good governance, while protecting U.S.-African economic ties. Those relationships are especially important now, as China, a U.S. economic competitor in Africa, has increasingly invested in the continent, offering loans, building roads and striking deals for commodities.

Advisers to Mrs. Clinton dismiss talk of a US-China rivalry as a "Cold War paradigm." But the close relationship Beijing has with many African countries, in particular oil producers like Angola, has not escaped their notice.

The Obama administration has recognized that direct criticism of oppressive regimes could backfire, harming American economic interests and pushing African nations closer to Beijing.

Mrs. Clinton reserved more critical language for town-hall forums with young people in Kenya, the Democratic Republic of Congo and Nigeria, encouraging citizens to take a stronger role in holding their governments accountable.

The diplomatic mission was overshadowed for a time by a heated reply Mrs. Clinton gave at a town-hall forum in Kinshasa to a Congolese student, who appeared to ask her for Bill Clinton's views on a local issue. "My husband is not secretary of state, I am," she said. "If you want my opinion, I will tell you my opinion." She was asked again about the exchange on Thursday, but didn't respond to the question, speaking instead about the positive experiences she'd had on the trip.

Mrs. Clinton's Africa trip is the latest example of her push for so-called personalized diplomacy, which focuses as much on meeting businessmen and civil-society groups as heads of state and diplomats. In her speeches, the secretary underscored the Obama administration's commitment to "soft power" and using trade, technology and aid in addition to military power, to protect American interests.

Mrs. Clinton largely kept to this strategy as she moved across the continent, raising concerns about governance in gentler terms with leaders from Angola and Nigeria, the two biggest oil producers in sub-Saharan Africa, both of whom export oil to the U.S. She concentrated on the progress that Nigerian President Umaru Yar'Adua, who won in 2007 in an election characterized by widespread fraud, had made in attempting to curb corruption.

In South Africa, Mrs. Clinton avoided any mention of President Jacob Zuma's past legal troubles, focusing instead on encouraging the government to take a stronger leadership role, as the continent's most powerful economy, in resolving political crises such as the leadership dispute in Zimbabwe.

The one exception was Kenya, which needs American aid more than the U.S. needs its exports. Mrs. Clinton made her harshest statements to government officials in this struggling country. The current government was cobbled together with support from the U.S. and African leaders after violence erupted from disputed elections in December 2007, and has failed to pass any necessary changes, such as establishing a constitutionally protected local tribunal to try perpetrators of the violence, and has become notoriously corrupt.

The shift in strategy may improve relations with African governments who chafe at Western criticism, but win less support from Africans themselves. Mrs. Clinton's trip comes as Africans have begun to question their leaders, even under oppressive regimes, more openly.

In Kenya, Mrs. Clinton's public condemnation of the government won her praise from people weary of bad leadership. At a rowdy town-hall meeting in Nigeria, she won the most applause when she mentioned the country's history of corruption and flawed elections.

The approach is a stark departure from that of the Bush administration, which in some cases openly challenged close allies. But the soft approach may cause problems of its own. Human-rights organizations could seize on the strategy as a waning of American resolve to exert influence. President Barack Obama's political critics could claim the approach places economic interests over moral obligations.

Mrs. Clinton arrived for a brief visit to Liberia on Thursday, where she met with President Ellen Johnson-Sirleaf, the first African stateswoman. It is a significant show of support at a time when Mrs. Johnson-Sirleaf has faced calls to resign following an investigation by Liberia's Truth and Reconciliation Commission for her ties to former President Charles Taylor, now on trial for war crimes at The Hague.

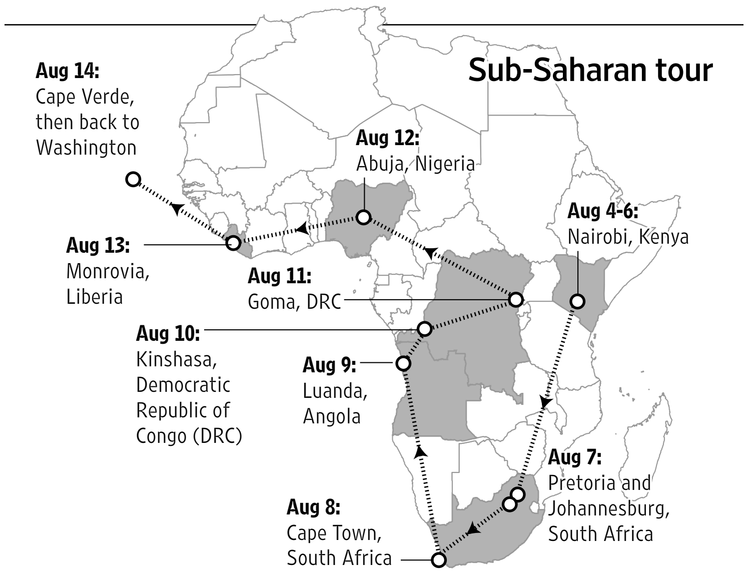
In remarks following their meeting, Mrs. Clinton said Liberia was a "model of successful transition" from conflict to peace. She said that she and Mrs. Johnson-Sirleaf had discussed Liberia's sound fiscal policy and democratic progress.

Mrs. Johnson-Sirleaf has said she helped Mr. Taylor raise money, but that she didn't realize he was involved in atrocities at the time. The commission recommended that she be banned from political activity for 30 years for her alleged involvement.

Mrs. Johnson-Sirleaf has otherwise been praised for her efforts to help Liberia recover from a devastating civil war that ended six years ago. She has pushed international companies farming rubber and harvesting timber to offer better concessions and improve wages for their employees, and channeled revenue to revive the agricultural and fishing industries.

Liberia has strong historical ties to the U.S.; the nation was founded by freed American slaves.

Mrs. Clinton's final stop will be in Cape Verde, a tiny island nation with a strong democracy, and a major recipient of U.S. aid.



U.S. airlines set to begin requiring more passenger data

BY CAM SIMPSON

WASHINGTON—Airlines this week will begin requiring some people making reservations for U.S. domestic flights to submit their dates of birth and genders as part of a screening process aimed at keeping boarding passes out of the hands of suspected terrorists, the Transportation Security Administration said.

The agency said the screening would all play out behind the scenes, meaning there should be no additional delays for passengers at airport terminals. The change will be phased in starting Saturday. Not all airlines are fully participating and might not request the data.

The TSA said it would be up to individual airlines or travel agents to decide how to collect the required information at the time a reservation is made. The program, called Secure Flight, is aimed at meeting congressional mandates, including those passed in 2007 to put into practice recommendations from the commission that investigated the 2001 terrorist attacks. The government's goal is to vet all passengers on domestic commercial flights by early next year.

The TSA said the additional data would make it easier for the agency to more accurately match prospective passengers with the thousands of names on the government's terrorism watch lists. The advanced-screening program is being phased in slowly. The first step came in May, when people making reservations were required to begin submitting their names exactly as they appear on government-issued identifications needed to board planes.

TSA officials have been criticized for refusing to allow passengers to board if their names were the same, or even similar, to those on the watch lists. Civil-liberties groups and privacy advocates have criticized the watch lists, saying they should be more narrowly focused on suspected terrorists. One government estimate put the number of names appearing on its lists at more than 700,000 two years ago.

TSA's own lists, however, are smaller. A TSA spokesman said the agency doesn't release updated information about its data, but officials said publicly late last year that there were fewer than 16,000 names on the lists TSA uses for banning fliers or for subjecting them to special scrutiny.

People who receive gate passes, which allow them to proceed into secure areas of airports without boarding passes so they can assist other passengers, also could be required to furnish the additional data.

Associated Press

Passengers check in at the Boston airport last month. Starting Saturday, some people making reservations will have to submit their dates of birth and gender.