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## What's News

Iraq's Prime Minister Maliki said in an interview ahead of his Washington visit that he plans to thank the U.S. for its sacrifices in Iraq and that he is open to negotiate a political settlement on Kurdish issues. **Page 10**

■ **G-8 nations committed** \$12 billion to food security, making another summit pledge that largely fell short of expectations. **Page 2**

■ **German businesses said** difficulty in getting credit could hinder the country's economic recovery. **Page 2**

■ **Most economists** in a Wall Street Journal survey said the U.S. doesn't need another round of stimulus now. **Page 28**

■ **New jobless claims** in the U.S. fell unexpectedly last week, though the data don't necessarily imply better days ahead for the labor market. **Page 10**

■ **U.S. stocks hovered** near break-even on banking gains and health-care softness. Europe shares rose, ending a five-session losing streak. **Page 18**

■ **The ECB said** the rate at which the euro-zone economy can expand without triggering inflation may have fallen due to the global crisis. **Page 28**

■ **London police don't plan** to reopen a probe into allegations News Corp. tabloids used dubious methods to obtain personal information. **Page 5**

■ **Man Group said** a year-long exodus of client funds has slowed in recent months. **Page 17**

■ **Spain's Iberia said** Chairman and CEO Fernando Conte has resigned for personal reasons and will be succeeded by Antonio Vazquez. **Page 5**

■ **Sprint plans to pay** as much as \$5 billion to Ericsson over the next seven years, hiring the Swedish telecom firm to run its network. **Page 6**

■ **Hitachi will outsource** its TV production in the U.S. and Europe in a cost-cutting effort to turn around its loss-making TV business. **Page 7**

■ **Britain's Brown said** he will propose changes to the Nuclear Non-Proliferation Treaty requiring states suspected of seeking to build weapons to prove that they aren't.

■ **Urumqi's tense calm** held as some signs of normal life returned in the Chinese city. Politburo leaders met and promoted ethnic harmony. **Page 3**

### EDITORIAL OPINION

**Regulatory fumble**  
Neither British party has it right on financial reform. **Pages 12 and 13**

Breaking news at europe.WSJ.com

## BOE goes slow on bonds

In surprise move, central bank will wait to decide on expanding purchases

By NATASHA BRERETON

LONDON—The Bank of England unexpectedly chose to hold off on expanding a bond-buying program aimed at jump-starting the U.K. economy, raising concerns among investors that its recession-fighting efforts could be coming to an end.

The British pound gained and prices of U.K. government bonds fell sharply after the central bank said it would wait an additional month to decide whether to increase

the £125 billion (\$200.7 billion) already pledged to its so-called quantitative-easing program. Many analysts had expected the bank to increase the program to the £150 billion limit authorized by the U.K. government, and possibly even seek permission to spend more.

The bank's Monetary Policy Committee announced its decision after a two-day meeting that ended Thursday. The central bank didn't elaborate on its decision, leaving markets guessing whether it

plans to wind down the program, under which it has already spent some £112 billion on purchases of mostly government bonds.

"The BOE does not pander to market expectations but it is normally mindful of them," said Daragh Maher, deputy head of global currency strategy at Calyon Bank. "It is therefore a little strange that it has chosen to surprise the market in this way."

The program, which is aimed at spurring lending by putting more cash in the bank

accounts of bond sellers, so far hasn't been a resounding success. While banks' cash reserves have risen sharply, there is little evidence that they are using the money to make new loans.

Quantitative-easing programs also tend to drive down long-term interest rates, making it cheaper to borrow, by boosting prices for bonds.

In May, one broad measure of the money supply—M4 lending to busi-

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## Antigovernment activists crowd Tehran streets



**REKINDLED OUTCRY:** Iranian women raise their arms in protest as demonstrators burn rubbish. Protesters were met by force and tear gas as they defied government warnings to stage a march commemorating student unrest at Tehran University in 1999. **Page 10.**

## China raises stakes in espionage case

China said a detained Australian mining executive and three colleagues "stole Chinese state secrets for a foreign country," raising the stakes of what appeared to be a business dispute and straining the economic relationship between two nations that depend on each other for growth.

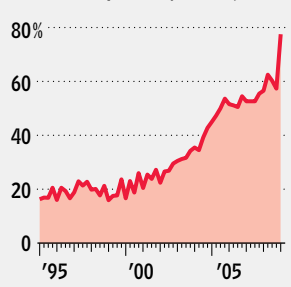
By Andrew Batson, Alex Wilson and Rachel Pannett

The actions of the four Shanghai-based employees of mining giant Rio Tinto PLC, who have been detained since Sunday, "hurt China's economic interests and economic security," said foreign ministry spokesman Qin Gang, breaking Beijing's official silence on

### Tension down under

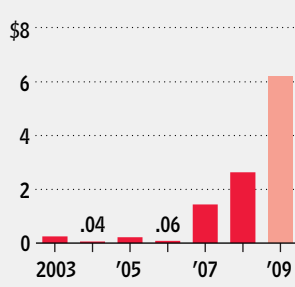
Chinese exports and investments are increasingly important to Australia's economy

China's share in Australia's iron-ore exports, quarterly data



Sources: Australian Bureau of Agricultural and Resource Economics; Dealogic

Chinese M&A in Australia, in billions of U.S. dollars



the case.

Mr. Qin didn't say what secrets are alleged to have been stolen. China's state-secrets law has a broad reach

that could cover the commercial information of state firms.

The allegations relate to the employees' actions in re-

lation to negotiations between Rio Tinto and Chinese steelmakers on the price of iron ore, according to reports in the Chinese press that an official at the State Security Bureau in Shanghai said were accurate.

Price negotiations between iron ore suppliers and the China Iron & Steel Association broke down last week.

Rio Tinto, in June agreements with steelmakers in South Korea and Taiwan, had set a higher price benchmark than the China Iron & Steel Association has been demanding. Also last month, Rio Tinto walked away from a \$19.5 billion deal to expand an alliance with Aluminum Corp. of China, or Chinalco, in favor

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## Ruling allows asset sale for GM

By SHARON TERLEP AND JOHN STOLL

DETROIT—General Motors Corp. is expected to leave bankruptcy protection Friday after a stay expired on court approval for the sale of most of its assets to a new entity.

Chief Executive Fritz Henderson will host a press conference at 9 a.m. EDT Friday, joined by Edward Whitacre, who will serve as chairman of the post-bankruptcy GM, to be called General Motors Co.

The company is hammering out final details to close the sale quickly so GM can formally exit Chapter 11, said spokeswoman Julie Gibson.

The expected move comes after one of the most dramatic federal interventions in U.S. industrial history, culminating in the effective privatization of the world's second-largest auto maker.

GM filed for bankruptcy protection on June 1, and its exit comes much earlier than many observers expected, amid concerns that a lengthy process could spill over into the distressed auto-supplier sector.

GM had estimated the bankruptcy would take 60 to 90 days, though the process is in on track to be complete in closer to 40. Earlier this year, GM had warned that the process could take many months, if not years.

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### Inside



#### Sunny ride

Six great European summer driving excursions  
**Weekend Journal, page W8**

### Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8183.17	+0.06
Nasdaq	1752.55	+0.31
DJ Stoxx 600	199.41	+0.70
FTSE 100	4158.66	+0.45
DAX	4630.07	+1.26
CAC 40	3025.94	+0.54
Euro	\$1.3979	+0.59
Nymex crude	\$60.41	+0.45

LEADING THE NEWS

# G-8 commits to food aid

*Pledge of \$12 billion misses expectations as summit nears end*

BY JONATHAN WEISMAN

L'AQUILA, Italy—The Group of Eight summit looks set to limp to a close Thursday, with several pledges made by the world's largest industrial democracies—particularly on climate change, food aid and trade—falling short of expectations.

The lackluster results left officials here defending the continued existence of the G-8, particularly as the rising economic clout of countries such as China and India makes them essential participants in international negotiations.

On the eve of the final day of meetings, the leaders of the U.S., Canada, Japan, France, Germany, Britain, Italy and Russia looked set to commit \$12 billion to a "food security initiative" for the world's poorest countries. That is less than the \$15 billion promised days ago.

U.S. President Barack Obama was trying to persuade other nations to follow the U.S. lead and put up new money for the project. Senior U.S. officials said \$15 billion was now a ceiling—not a floor—for food-aid pledges.

"One of the things we're going to have to do is fight the temptation towards cynicism," Mr. Obama said Thursday after climate-



Government leaders break after posing for a picture during the Group of Eight summit in L'Aquila, central Italy, on Thursday.

change talks concluded.

The disappointing results on food aid come a day after the 17-member Major Economies Forum, including developed and developing countries, failed to agree on setting short-term or long-term targets capping greenhouse-gas emissions. Instead, Mr. Obama announced that finance ministers had been directed to develop programs for financing climate-change mitigation and climate-control technologies before the Pittsburgh meeting of the Group of 20 nations in September, and to reach emissions reduction targets before December.

The G-8 on Thursday pledged by the end of 2010 to have concluded global trade negotiations. The talks—known as the Doha Round, after the Gulf State city where they began—would focus on where they foundered: agricultural subsidies and trade barriers to services.

The timing is "a reflection frankly of the pragmatic facts that it takes awhile to complete these rounds," said Michael Froman, deputy White House national security adviser for international economics. The food initiative is the latest snag in G-8 talks in this mountain town. Mr. Obama had hoped to secure a robust agricultural aid program ahead of his Saturday trip to the West African nation of Ghana, where he will tell the Ghanaian Parliament that recipients of U.S. assistance must develop programs to bring to their agricultural aid programs the same efficiencies and effectiveness that have been applied recently to health efforts, especially on AIDS, and education programs.

—Stacy Meichtry contributed to this article.

# German businesses warn tight credit hits rebound

BY NINA KOEPPEN AND MARCUS WALKER

FRANKFURT—German companies' difficulty in getting credit threatens to hinder the recovery of Europe's biggest economy, according to leaders of German business associations.

Werner Schnappauf, managing director of the Federation of German Industries, warned that companies' financing problems could "come to a head ... in late summer or in early fall."

"Loans have become costlier, [banks'] demands for security higher," Mr. Schnappauf said. "It's particularly hard for companies that need large, long-term funding," he added. With national elections set for Sept. 27, politicians are worried about rising job losses and are calling on banks to lend more to businesses.

Finance Minister Peer Steinbrück said this week he is considering "unprecedented measures" if banks don't boost lending volumes, but wouldn't specify how the government might intervene. The German Engineering Federation, representing one of Germany's key export sectors, also said banks' restrictive lending is becoming a drag on the economy.

"There should be pressure on banks, which have received liquidity from the European Central Bank, to make those funds available to companies," said Hannes Hesse, the association's executive director. However, economists say there is no evidence of a broad credit crunch in Germany.

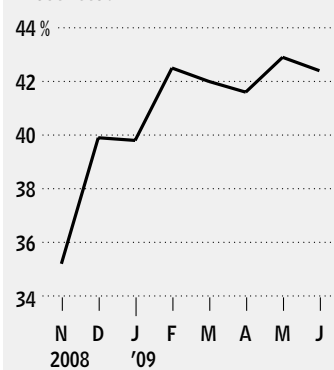
"There is a tightening of credit standards, especially in individual sectors," said Andreas Rees, economist at HVB in Munich. "But it is not so bad that the 'green shoots' of recovery could get swamped."

Recent data suggest Germany's industrial recession is ending, although a return to the levels of output before Lehman Brothers' September collapse remains a long way off.

German exports edged up by 0.3% in May from April, the government said Thursday. German industrial production jumped by 3.7%; manufacturing orders rose 4.4% on the month.

## Credit jam

Share of German firms that indicated that credit access is "restricted"



Source: Ifo

Bundesbank surveys show bank lending to companies and households has remained stable. Some measures of credit volumes suggest banks are reducing long-term loans in favor of more short- to medium-term loans.

The number of businesses complaining of restrictive lending practices eased in June to 42.4%, from 42.9% in May, according to a survey by the Ifo economics institute in Munich. The survey shows that significantly fewer German firms now are struggling to get loans than in the country's last slowdown in 2003, when more than 60% of companies said banks were restricting lending.

Mr. Schnappauf said companies need more credit now to invest and meet gradually reviving demand. "The industrial-orders situation has improved: Demand from China, India, Brazil, but also Japan and the U.S. is rising," he said. "Companies need financing now, in order to produce."

Germany's banking associations reject the notion that they aren't doing enough, pointing out that regulations force them to raise their capital buffers and rein in lending as default risks rise at recession-hit businesses.

## CORRECTIONS & AMPLIFICATIONS

**Pope Leo XIII** wrote the 1891 encyclical "Rerum Novarum." An Economy & Politics article Wednesday about Pope Benedict XVI's encyclical "Caritas in Veritate" incorrectly said that Pope Leo XII wrote the 1891 encyclical. The article also misquoted Kishore Jayabalan, who heads the Rome office of the Acton

Institute think tank, discussing the root causes of the financial crisis. Mr. Jayabalan said: "Was it market failure or government intervention? To a theologian, it's probably not clear which of those is the correct answer." The article incorrectly quoted him saying invention instead of intervention.

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## LEADING THE NEWS

# Tense calm holds in Xinjiang after riots

*Ethnic anger festers but some search for reconciliation*

BY SHAI OSTER  
AND JASON DEAN

URUMQI, China—Zhang Weiye grew up in Urumqi, the capital of China's Xinjiang region, a second-generation Han Chinese resident living alongside the ethnic Uighurs native to Urumqi. Today, he is afraid to go home, after ethnic riots Sunday that left 156 dead, many of them Han killed by Uighur mobs. Among the dead is his father, a man who had embraced the city's ethnic diversity.

"We never thought something like this could happen," the 24-year-old Mr. Zhang says, sobbing. "We buy vegetables together, we eat the same food," he says, referring to his Uighur neighbors. "They were my classmates."

Among the victims of this week's violence in Urumqi were many Han who have lived for years or even decades in the region, people who arguably represent the government's best hope for its ethnic integration efforts. Whether people like Mr. Zhang and his Uighur neighbors can find a way to reconcile will be a key factor in determining whether peace can hold in the region.

On Thursday, Urumqi experienced a second straight day of relative calm, and some signs of normal life began returning amid the presence of huge numbers of armed troops and police. Cars were allowed to pass freely on city streets,



Chinese security forces stand by as others on a truck are driven off outside a main mosque in Urumqi, China, on Thursday.

pedestrians seemed more at ease, and the makeshift weapons wielded by vigilante mobs on Tuesday were nowhere to be seen.

State-run media said Chinese President Hu Jintao held a meeting of top leaders in which they vowed "severe punishment" for those responsible for the recent violence. The reports were the first public account of Mr. Hu's actions since he hurried home from the Group of Eight summit in Italy early Wednesday to oversee the government's response to the turmoil.

The meeting late Wednesday of the Politburo standing committee,

the Communist Party's ultra-powerful nine-man governing group, also called for calm and ethnic harmony. "The Han people are inseparable from the ethnic minorities, and the ethnic minorities are inseparable from the Han," it said.

The Uighurs are a Turkic-speaking, mostly Muslim people who number fewer than 10 million, and who have lived in the Xinjiang re-

gion for centuries, albeit under various identities. Han, who make up more than 90% of China's 1.3 billion people, have been migrating to Xinjiang in ever larger numbers since China's Communist Party took control of the region in 1949. The government has encouraged the trend, in part to develop the economy and in part to help maintain control. Today, Hans account for at least 40%

of Xinjiang's roughly 21 million people.

Many Uighurs resent the Han influx, which they see as an effort to dilute their culture and usurp economic opportunities. Those frustrations were aggravated this month by reports of a deadly clash between Uighur and Han workers far away, in the southern province of Guangdong. Uighurs in Urumqi staged a protest Sunday that, for reasons that still aren't clear, erupted into the large-scale ethnic violence.

For some Hans and Uighurs, anger over the violence—fanned by gruesome pictures on the Internet—has yet to subside. "They came into our neighborhoods trying to kill us," says one Uighur woman. "When they beat us, they shouted, 'We welcome the death of the Uighurs.'"

But among others in Urumqi, there are hints that some sort of reconciliation might be possible. Wu Peiqing, a Han who teaches at a tourism trade school, joined a club-wielding mob Tuesday out for revenge.

"It was something I had to do," says the 32-year-old, who works with Uighurs, speaks their language and relies on the allure of their culture for his industry. "After they killed so many of us, we all felt hate. But it's a complex feeling. We still have to live together. We still want to live peacefully. But we had to vent our anger."

## China protests surge as labor makes demands

BY IAN JOHNSON

BEIJING—Labor disputes in China have surged over the past year as workers have taken to the streets to demand better working conditions, according to a study released Thursday by a labor-rights group.

The Hong Kong-based China Labour Bulletin said the number of protests last year rose to about 127,000 from 87,000 in 2005, the last year that the government issued such figures. The latest figure was based on published reports.

The number of labor arbitration cases rose to 693,000 last year, compared with 350,000 in 2007, the study said, citing government figures.

The role of the workplace as a national flashpoint was highlighted this week by the violent unrest in China's northwestern Xinjiang region. The riots are believed to stem from a toy-factory incident in China's southern Guangdong province, where managers imported hundreds of Uighur workers at lower wages than the previous, ethnic-Han Chinese work force.

Tensions came to a head over rumors that the Uighurs had raped a Chinese woman, prompting attacks by the Han against the Uighurs. State media reported that two Uighurs were killed as a result and the news spread back to Xinjiang, triggering protests and violence.

"It's a bit of a wake-up call for management that they can't just take these shortcuts," said Geoffrey Crothall, one of the authors of the study.

The group attributed part of the surge in disputes to China's new labor law, which took effect last year and promises workers collective-bargaining rights. Although many of the provisions have been flouted, it has increased worker consciousness, said Li Qiang, a New York-based labor expert.

"There has been a lot of publicity about the new law," Mr. Li said. "Many workers didn't understand their rights beforehand."

Another reason for the upsurge, according to the study, is that workers don't have effective grievance procedures. The 212 million member All-China Federation of Trade Unions is supposed to represent workers, but as a wing of the government, it often sides with management. That forces workers to protest instead of being able to resolve differences through a collective-bargaining process, said Mr. Crothall.

"You need a credible trade union in the workplace to represent concerns and grievances," he said, adding, "currently, conditions are dictated by management, and workers' only option is to protest."

During China's boom years, workers could easily quit and find another job, but now this is rarely an option.

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## CORPORATE NEWS

## GM's fortunes will ride on Chevrolet

Success will depend on re-establishing cachet of cars after trucks' inroads; bringing back the Camaro

BY KEVIN HELLIKER  
AND JOHN D. STOLL

Late this week, General Motors Corp. and the administration of U.S. President Barack Obama are expected to launch the new GM as a house of four brands. But forget Buick, Cadillac and GMC. The fate of GM will mainly ride on Chevrolet.

"In the next year, Chevy could get upward of 70% of total GM sales," says Ed Peper, the Chevy chief at GM.

Is Chevy fit to carry that load? The built-for-duty image of the division's Silverado pickups may suggest that Chevy can carry anything, but the trucks illustrate a problem.

To lift the fortunes of a parent company that is closing or casting off three car brands—Pontiac, Saturn and Saab—Chevrolet will probably need to recapture the glory days of its sedans. But two-thirds of its sales and most of its profit now come from trucks, and its most celebrated cars are sports models, the Corvette and the newly launched Camaro.

Among Chevy cars, says David Champion, senior director of Consumer Reports' auto-test division, the subcompact Aveo "is dismal," as is the compact Cobalt. He says the Impala is pretty long in the tooth and the Malibu is the only model in the lineup "that is legitimately able to help them get back on their feet."

But that isn't how many Chevy dealers see it. In their view, the brand boasts strengths that have been overlooked amid the eight brands that have long vied for parent-company resources and attention. For several years, for instance, Chevy has been the first- or second-ranking brand in the U.S., selling more vehicles than ev-



Chevy General Manager Ed Peper speaks at the Chicago Auto Show last year. GM is relying on the brand to rejuvenate its car line.

ery other brand, with the occasional exception of Toyota. Inside GM, it already accounts for about 60% of sales.

Surveys of brand strength also consistently rank Chevy among the leaders world-wide. "Chevrolet is as well-known as McDonald's," says Ron Pinelli, president of Autodata Corp., which tracks vehicle sales in the U.S.

In contrast, the three other GM brands expected to remain after the company's emergence from Chapter

11 bankruptcy protection serve niches, with Cadillac selling luxury vehicles, Buick premium vehicles and GMC only trucks.

Chevy, meanwhile, sells everything from subcompact cars (the \$13,000 Aveo) to sport-utility vehicles (the \$40,000 Suburban) to sports cars (the \$105,000 Corvette ZR1). Of the 33 models to be sold by the new GM, half will be Chevrolets, up from 31% under the auto maker's

previous eight-brand portfolio.

In the new GM, Chevy is "going to get a lot more marketing dollars," says Mr. Peper, who boasts that the Chevy brand is already mentioned in 900 songs. Late next year, Chevy is also positioned to take charge of GM's most anticipated new launch in years, the electric-powered Volt.

For all of these reasons, Texas dealer Tom Durant has doubled his portfolio of Chevy stores to four in

recent months. "I believe Chevy is going to be the best franchise to own, better than Toyota," says Mr. Durant, owner of a dozen dealerships in the Fort Worth area selling foreign and domestic vehicles.

Chevy's Mr. Peper, a 47-year-old former college athlete, says the Chevy car comeback is well under way. Since the redesign of the Malibu for the 2008 model year, the car has won market-share gains against the Toyota Camry as well as rave reviews.

Moreover, Mr. Peper says, the Malibu shows that GM can raise its price on cars. By strictly limiting dealer incentives and sales to rental fleets, he says that Chevrolet successfully raised the average transaction price of the Malibu to \$23,000 from \$17,000 before the redesign.

"With the Malibu, we attracted a younger, more affluent and better-educated driver to the Chevy brand," he says.

In recent weeks, Chevy has also launched the Camaro to laudatory reviews and sales so brisk that many buyers have had to wait for delivery.

Yet as a two-door sports car, the Camaro is a niche vehicle, and the Malibu has yet to persuade consumers that Chevy is producing sedans reminiscent of the 1960s rather than the 1970s, the decade of the highly forgettable Chevy Chevette.

Wisconsin Chevy dealer John Bergstrom fears that the Obama administration, which has already vowed to attach tax incentives to fuel-efficient cars, could weaken Chevy's truck sales.

"Whether Chevrolet is going to be the top franchise going forward lies in whether the government is going to mandate us out of the truck business," he says.

## Panasonic taps emerging markets

BY DAISUKE WAKABAYASHI

TOKYO—Panasonic Corp. wants a bigger share of sales in developing markets, but knows that its \$1,200 large-screen plasma-display TV sets and \$3,000 nanotechnology refrigerators are beyond the reach of low-wage families.

So the company is planning a new line of offerings that could include TVs for \$50, air conditioners for \$100 and washing machines in the \$200 range—but reaching those prices means offering scaled-down models that lack many of the features typically found in such products.

By reducing features and localizing design and manufacturing, Panasonic believes it can save money on labor, materials and overall development, and offer such products to millions of people in Asia, Russia, Latin America, Africa and elsewhere.

In pursuing the strategy for emerging markets, Panasonic will be going head to head with local bargain brands with years of experience squeezing costs to maintain razor-thin profit margins. To cut costs, Panasonic said it will need to perform a complete overhaul of how it conceives, designs and manufactures its products.

The electronics maker said it isn't ready to reveal details about its product strategy, but Panasonic acknowledges it will have to make tough decisions about what is essen-

tial and what can be left out.

The number of doors on a refrigerator is one example. Models in Japan often have four to six doors, because Japanese consumers like compartments, even though it reduces usable space. But eliminating extra doors simplifies the manufacturing process and requires fewer parts, reducing the overall cost.

The company already has some experience tailoring products to different markets. For instance, a refrigerator sold in Vietnam has a big freezer and makes ice cubes in under two hours, as consumers there like ice.

"To compete at this level, we have to change completely how the entire company thinks about these products," said Hitoshi Otsuki, 62 years old, who runs Panasonic's overseas consumer-products business.

Such a shift in production methods and prices is already transforming other industries. India's Tata Motors Ltd. is selling a car, the Nano, for a bargain price of \$2,500. With the Nano, Tata installed only one windshield wiper, used narrow tires and didn't include a radio or air conditioning. Nokia Corp. and other cellphone makers also have introduced bare-bones phones for emerging markets.

While Panasonic would be the first Japanese company to go after ultralow-price customers in emerging markets, it has got ready-made

competition from South Korean rivals Samsung Electronics Co. and LG Electronics Co. Samsung, for instance, is selling a \$220 automatic washing machine in India.

Panasonic's new plan is to use "lifestyle research" from its local marketing teams to design products specific for each market. The production will be done locally and, in some cases, handled by a contract manufacturer.

The first batch of Panasonic's new cut-rate products is expected to hit store shelves in emerging markets after October.

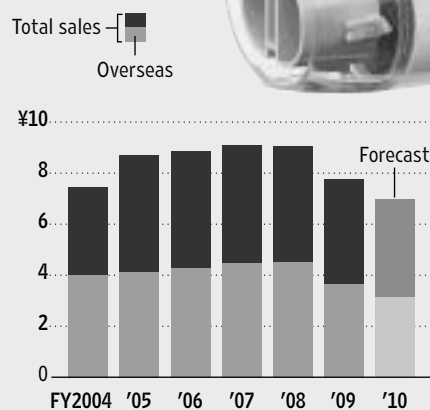
Over the past couple of years, Panasonic waded into these fast-growing markets with what it calls Emerging Markets Win, or EM-WIN, products. These are mostly appliances and electronics designed and sold in Japan, but with fewer features and modified slightly for local consumers. The EM-WIN goods sold well, targeting upper middle-class consumers, identified by Panasonic as the "next rich," within those countries.

But Panasonic executives discovered there was a limit to how much it could shave costs for products originating in Japan since they use relatively expensive materials and molds. Also, engineering and testing costs are greater than elsewhere due to higher Japanese wages.

"If it starts with a Japanese idea or Japanese design, this [strategy] is impossible," Mr. Otsuki said.

## Falling sales

Panasonic sales, in trillions of yen



Note: Fiscal years end March 31 of year shown  
Source: the company (sales and photo)

Mr. Otsuki was pivotal in implementing the EM-WIN, which tailored many products to local needs, such as a washer sold in India that was easy on saris.

In one sense, Panasonic is going back to its roots with its low-priced offerings. The company's founder Konosuke Matsushita, a Japanese industrialist in the mold of Henry Ford, encouraged his employees in 1932 to make Panasonic's products "like tap water"—so inexpensive and abundant that they would be attainable to every consumer.

Panasonic said it sees emerging markets—defined by the company as Brazil, Russia, India, China, Viet-

nam, Mexico, Indonesia, Nigeria, Turkey and the Balkan states—overtaking North America and Europe as the biggest overseas market by 2013.

While these millions of consumers are not the poorest of the poor, they have little disposable income. Some households earn as little as \$2,000 a year.

Panasonic expects its annual sales of consumer products, which excludes parts and factory equipment, in emerging markets to rise nearly 20% to about 500 billion yen, or roughly \$5 billion, in the fiscal year that ends March 31.

—John Murphy  
contributed to this article.

## CORPORATE NEWS

# Citigroup shuffles top executives

*Moves seen as effort to pacify regulators; Pandit remains CEO*

BY DAVID ENRICH  
AND ROBIN SIDEL

After two weeks of internal drama, Citigroup Inc. shook up its top management in an effort to appease U.S. banking regulators who remain worried about the struggling company's leadership and financial health, according to people familiar with the situation.

The overhaul keeps Chief Executive Vikram Pandit at the helm of the company, although he is still grappling with mounting concern over his leadership.

The management shakeup came after two weeks of behind-the-scenes upheaval in which Citigroup lost a key executive, saw its chief financial officer hand in—and then withdraw—his resignation, and the company's chairman pushed for additional changes. There is likely to be more shuffling in coming weeks, including a possible change in leadership at the company's consumer-banking unit, according to people familiar with the matter.

On Thursday, Citigroup said Edward Kelly is stepping down as chief financial officer, a post he assumed just months ago, and is becoming a vice chairman. His replacement is Citigroup's chief accountant, John

Gerspach, who will become the bank's fifth CFO in as many years. Citigroup also hired banking veteran Eugene McQuade to become CEO of its Citibank NA subsidiary, which is the unit that includes the company's retail-banking operation in the U.S. That job had been held by Bill Rhodes, a 50-year Citigroup veteran.

The shuffle appears aimed largely at defusing tensions with Citigroup's overseers in Washington, in particular the Federal Deposit Insurance Corp. Since last fall, officials at the agency have repeatedly tussled with Citigroup executives, including Messrs. Pandit and Kelly.

The changes are exacerbating the turmoil within Citigroup's upper echelons. The company has suffered from a string of departures of top executives. The latest came Thursday, as Gary Crittenden, the bank's well-regarded former CFO who moved into the role of chairman of the holding company just months ago, also announced his departure. Mr. Crittenden, a former CFO at American Express Co., is expected to soon join a private-equity firm, according to people familiar with the matter.

In recent months, several senior executives have complained to Mr. Pandit and Citigroup Chairman Richard Parsons about Mr. Pandit's management style, according to people familiar with the matter. They feel he has surrounded himself with a

small group of longtime confidants and isn't open to hearing from officials outside that tight-knit circle. That was one factor leading to the recent departures of Mr. Crittenden and Ajay Banga, the head of Citigroup's Asia-Pacific operations, these people say.

Seeking to address concerns of regulators and some executives and directors that Mr. Pandit's team lacks commercial-banking experience, Citigroup has been striving to beef up its ranks. This spring, its board recruited a handful of seasoned banking veterans, including former U.S. Bancorp CEO Jerry Grundhofer and Michael O'Neill, a

former CEO of Bank of Hawaii Corp. Those ranks were further deepened Thursday with the hiring of Mr. McQuade, a former top executive with Merrill Lynch & Co. and FleetBoston Financial Corp.

Those hires could weaken Mr. Pandit's grasp on the CEO job, which he assumed in December 2007, by providing a stable of potential successors, according to people familiar with the matter.

Mr. Kelly, who has enjoyed a meteoric rise within Citigroup since joining the company in early 2008 as one of Mr. Pandit's first big hires, has been at the heart of the recent turmoil.

Last month, a simmering feud between Citigroup and the FDIC intensified when Mr. Kelly, in an interview with The Wall Street Journal,

referred to the agency as "our tertiary regulator" behind the Federal Reserve and the Office of the Comptroller of the Currency. The remark was widely perceived as a slap at the agency.

It also raised red flags on Citigroup's board, according to people familiar with the matter.

Regulators, including the FDIC, told Mr. Parsons that they weren't only uncomfortable with Mr. Kelly's poor relations with the FDIC but also with his lack of experience as a finance chief, especially given Citigroup's size, complexity and array of problems.

Mr. Parsons, who has taken over responsibility for mending Citigroup's relationship with Washington, orchestrated Thursday's shakeup. Last week, after consulting with regulators, he informed Mr. Kelly that he needed to step down as finance chief, according to people familiar with the matter. Mr. Kelly, who had just returned from a weeklong vacation, was upset that he wasn't told by Mr. Pandit directly, one person said.

Shortly before the July 4 holiday, Mr. Kelly informed Mr. Pandit that he would leave the company. "Regulators are making it impossible for me to do my job," he said, according to a person briefed on the conversation. "I'm becoming a hindrance to the company."

Mr. Pandit pleaded for Mr. Kelly to reconsider and considered offering him a newly created position such as chief operating officer, one person said.



Edward Kelly



Gary Crittenden



Vikram Pandit

## London police won't reopen News Corp. probe

BY AARON O. PATRICK  
AND CASSELL BRYAN-LOW

LONDON—London police said they had no plans to reopen an investigation that dealt with allegations that News Corp.'s tabloid newspapers here repeatedly used dubious methods to obtain personal information on celebrities, politicians and other public figures, even as a Parliamentary committee said it will examine the allegations.

London's Metropolitan police indicated they had addressed many of the issues in the complex investigation of a 2006 case. In that case, a News of the World reporter, Clive Goodman, was jailed for paying a private investigator, Glenn Mulcaire, to help intercept voice-mail messages for the staff of Prince Charles and his two sons, princes Harry and William.

"No additional evidence has come to light since this case has concluded," said John Yates, an assistant commissioner of the Metropolitan Police. "I therefore consider that no further investigation is required."

On Wednesday, the Guardian

newspaper alleged that dozens of journalists at two of News Corp.'s big U.K. tabloids, the Sun and the News of the World, bought private information—such as details of mobile-phone voice mails—from private investigators.

The information was allegedly obtained via a practice known as "blagging," in which an individual lies to obtain private information such as unlisted phone numbers, addresses and voice mail PIN codes.

According to the Guardian, the papers' use of such tactics was more extensive than previously known. It said that News Corp. paid more than £1 million (\$1.6 million) to settle lawsuits accusing its journalists of using private investigators to obtain personal information on individuals, and kept the settlements secret through confidentiality agreements.

In a statement, News Corp.'s U.K. newspaper arm, News International, said it has been working for the past two and a half years to ensure its journalists comply with privacy laws and the industry's code of conduct. It didn't confirm or deny the allegations in the Guardian arti-

cle, including a claim News International paid £1 million to settle litigation from people who accused the company of obtaining their personal information.

"News International is prevented by confidentiality obligations from discussing certain allegations made in the Guardian today," the statement said.

News Corp. owns Dow Jones & Co., publisher of The Wall Street Journal.

A Parliamentary committee which monitors media policy—the lower house committee on culture, media and sport—plans to hold hearings into the matter as early as Tuesday. The committee has invited Les Hinton, the current chief executive of Dow Jones and the former head of News Corp.'s U.K. newspaper operations, to give evidence. A spokesman for Mr. Hinton declined to comment.

The latest allegations stem directly from the previous case involving Messrs. Goodman and Mulcaire. At their trial, Judge Peter Henry Gross said the private investigator, Mr. Mulcaire, had duped mobile phone network operators into pass-

ing him pin numbers to access messages left on the mobile phones, according to reports at the time. Mr. Mulcaire passed the PIN numbers on to the reporter, Mr. Goodman, and between them the pair made hundreds of calls to the voice mails of three senior members of the royal household.

The men also targeted Gordon Taylor, the head of Britain's professional soccer players' union. Mr. Taylor sued News Corp. and, according to the Guardian, received £700,00 in damages and legal costs.

The newspaper reported Wednesday it had obtained court documents from Mr. Taylor's court case that showed the practice of obtaining private information through private detectives by News Corp. papers was widespread.

Mr. Taylor couldn't be reached for comment.

Publicity around the 2006 case accelerated a toughening of security procedures by phone operators.

Britain has a tough law prohibiting the release of personal data and an independent agency dedicated to enforcing the law, the Information Commissioner's Office.

## Panama Canal bidding victory bolsters Sacyr Vallehermoso shares

BY CHRISTOPHER BJORK

MADRID—Shares in Sacyr Vallehermoso SA rose sharply Thursday after a consortium including the Spanish construction company was selected as the preferred bidder for a

\$3.12 billion contract to build new locks for the Panama Canal.

The bid from the consortium, which is led by Sacyr and Italy's Impregilo SpA, beat out some of the biggest names in the engineering sector.

The new locks will double the ca-

nal's traffic capacity and allow larger ships to move between the Atlantic and Pacific oceans.

The consortium led by Sacyr and Impregilo beat a group led by Bechtel Group Inc. and another group, which included Actividades de Con-

struccion y Servicios SA, Acciona SA, Fomento de Construcciones y Contratos SA and Germany's Hochtief AG.

Sacyr shares in Sacyr were up 12% in Madrid, after rising as much as 18% in the first trades of the day.

## Iberia chief quits as merger talks with BA linger

BY JASON SINCLAIR

MADRID—Iberia Líneas Aéreas de España SA on Thursday announced a management shakeup, saying that Chairman and Chief Executive Fernando Conte has resigned for personal reasons.

He will be succeeded by Antonio Vazquez, a former board member of the Spanish flagship carrier and ex-chief executive of Spanish tobacco company Altadis SA.

The move, which comes after nearly a year of protracted merger talks between Iberia and peer British Airways PLC that began last July, could give a push to efforts to finalize a deal.

Mr. Vazquez has experience as a dealmaker. As CEO of Altadis, he negotiated the sale of the company to Imperial Tobacco Group PLC for €12.6 billion (\$17.49 billion). Also while at Altadis, he helped negotiate a joint venture with the Cuban government to sell cigars internationally, including emblematic brands such as Cohiba and Montecristo.

An Iberia spokesman said Mr. Conte had planned to retire at age 60, after seven years at the helm of Iberia. The spokesman said Mr. Conte's departure wasn't related to the British Airways merger plans, adding that talks between the two companies continue.

## Antonio Vazquez, a former CEO of Altadis, will succeed Fernando Conte.

"This has been a very carefully thought-out decision ... which I did not want to make until my successor had been decided," Mr. Conte said in a statement. Messrs. Conte and Vazquez couldn't be reached for further comment.

British Airways CEO Willie Walsh welcomed Mr. Vazquez's appointment. "We are confident that his business and leadership skills will ensure that the relationship with British Airways will continue to develop," Mr. Walsh said.

Iberia also named Rafael Sanchez-Lozano as its new chief operating officer, an appointment praised by Mr. Walsh. "As an important member of Caja Madrid, one of Iberia's core shareholders, we have worked with him over the last eight years and have every confidence in both his ability to contribute to the future success of Iberia and further develop the relationship with British Airways," Mr. Walsh said.

Spanish savings bank Caja Madrid is Iberia's top shareholder, with a 23% stake. Iberia shares have lost about 54% of their value since late 2007, when Caja Madrid increased its ownership to fend off an unsolicited bid from a group of private-equity firms and British Airways. Last month, Caja Madrid Chairman Miguel Blesa said he hoped the two carriers could reach agreement about the merger before summer, but added little progress had been made in recent months.

Analysts say British Airways' pension deficit of more than £1.7 billion (\$2.73 billion) remains a key hurdle in merger negotiations. Iberia has no debt and roughly €2 billion in cash.

—Kaveri Niththyanathan  
in London  
contributed to this article.

## CORPORATE NEWS

# India's generics sector takes hits

**Ranbaxy drug recall, EU probe of Lupin add to industry woes**

MUMBAI—India's generic-drug makers got into more trouble in some of their major export markets after Ranbaxy Laboratories Ltd. recalled a batch of capsules to treat skin infections in the U.S., and Lupin Ltd. said it is facing an antitrust probe by the European Commission.

By Rumman Ahmed, Deepali Gupta and Romit Guha

Ranbaxy, Lupin, Cipla Ltd. and Sun Pharmaceutical Industries Ltd. already face actions from the Food and Drug Administration in the U.S.

over issues such as test data, manufacturing practices and drug quality.

Ranbaxy said Thursday it voluntarily recalled one lot of 40-milligram Sotret isotretinoin capsules in the U.S.

In Europe, Lupin said it is under investigation by the European Commission, the European Union's executive arm, for a delayed introduction of the generic version of perindopril, a blood-pressure medicine.

Analysts said the incidents come as regulators in developed markets including the U.S. and European Union become more strict in efforts to ensure the safety, effectiveness and availability of food and drug products.

Ranbaxy, a unit of Japan's Daiichi Sankyo Co., said the recalled lot, No. 1876846, is within FDA specifications and that the move is one of caution. "This is a Class III recall, which signifies that the use of, or exposure

to, the product is not likely to cause adverse health consequences," Ranbaxy said. The recall is being conducted with the FDA's knowledge, the company said.

The company didn't explain what was wrong with the drug. According to the FDA, Class III recalls are for products that violate manufacturing or labeling norms, regarding, for example, container quality.

"One lot is too small to affect Ranbaxy's revenue. But in the long term, there could be a negative impact on the Sotret brand," said Sarabjit Kour Nangra, vice president of research at Mumbai-based Angel Broking.

Ranbaxy also faces a U.S. ban on some of its drugs because of manufacturing violations at two plants in India. The FDA halted the review of drug applications from one of those plants, saying the company falsified data and

results of tests held at the facility.

Lupin said it is assisting the EU in the probe into allegations that French drug maker Les Laboratoires Servier struck "possibly restrictive" agreements with several drug makers, including Lupin, to slow the entry of generic perindopril. Servier said it has "defended its [intellectual property] rights where appropriate" and has "settled litigation with some companies." It declined to comment further.

Lupin said it is confident about its position and is in the midst of introducing perindopril in several EU markets.

"The investigation is still at an early stage and the [European] Commission has confirmed that the publication of its statement doesn't imply it has proof of an infringement of the competition rules," Lupin said.

## Ericsson is hired to watch over Sprint's network

By Kerry Grace Benn

Sprint Nextel Corp. has agreed to pay as much as \$5 billion over the next seven years to L.M. Ericsson Telephone Co., turning over day-to-day operations of its network to the Swedish telecommunications company as Sprint looks to focus on new products and customer retention.

The wireless-communications provider has struggled with subscriber losses and repeatedly said it expects those losses to stabilize.

Under the deal, Sprint will retain ownership and control of its network assets. About 6,000 Sprint employees will start performing their network functions as Ericsson employees sometime in the third quarter, Sprint said.

## U.S. Army grants DynCorp, Fluor Afghan contracts

By August Cole

DynCorp International Inc. and Fluor Corp. won U.S. Army contracts that could be valued at \$15 billion over the next five years to build bases and other infrastructure for U.S. forces in Afghanistan.

The deals show how lucrative logistics contracts in Afghanistan will be, because the country has a far-less-developed infrastructure than Iraq. Each company could receive as much as \$7.5 billion, depending on the Pentagon's needs.

KBR Inc. held the predecessor contract that covered Afghanistan, Iraq and elsewhere, but lost out in bidding for the new Afghanistan work. KBR could still be retained down the line. KBR said Wednesday it would request a briefing on the selection and would decide later whether to lodge a protest.

The Obama administration's strategy in Afghanistan is at a turning point as Gen. Stanley McChrystal assesses how many troops are needed for a new counterinsurgency strategy.

Meanwhile, Pentagon acquisition officials are trying to make sure logistics contracts avoid the types of snafus and scandals that dogged work in Iraq.

Fluor, Aliso Viejo, Calif., said this latest round of work, on a large Army contract known as Logistics Civil Augmentation Program IV, will cover 74 bases in northern Afghanistan. It will include power, water, housing, construction services, base operations and logistics support.

DynCorp, Falls Church, Va., said its first year of work, which will cover southern Afghanistan, will be valued around \$644 million. DynCorp gave a conservative value for the total contract at about \$5.9 billion for the next five years.

While the Obama administration has been pushing to bring thousands of systems-engineering and weapons-acquisition jobs back onto the government payroll, logistics work such as that won by Fluor and DynCorp hasn't received the same level of attention, said David Bertheau, who directs defense-industry research for the Center for Strategic and International Studies, a Washington think tank.



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## CORPORATE NEWS

## Hitachi retunes its TVs

Output is outsourced in U.S. and Europe following big loss

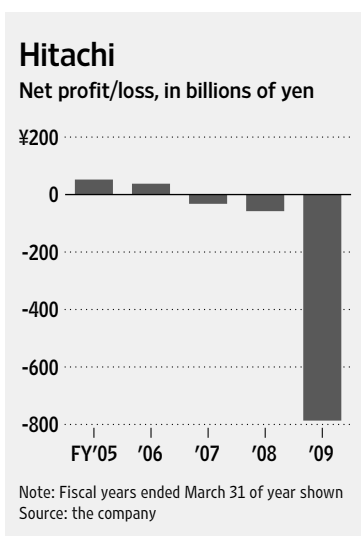
BY YUZO YAMAGUCHI  
AND DAISUKE WAKABAYASHI

TOKYO—Coming off the worst annual loss in company history, Hitachi Ltd. said it is changing course and turning to contract manufacturers to produce its televisions in the U.S. and Europe as part of a cost-cutting effort to turn around fortunes at its loss-making TV business.

Hitachi split off its consumer electronics business into a new company on July 1 as part of a series of restructuring measures implemented on the heels of the company's 787 billion yen (\$8.5 billion) loss in the past fiscal year, the biggest-ever annual loss by a Japanese manufacturer.

Shutoku Watanabe, president of the newly formed Hitachi Consumer Electronics Co., said in an interview that his first goal is to stop the bleeding at its television unit, which accounted for most of the \$1 billion-plus loss at Hitachi's digital products division. As part of the restructuring, Mr. Watanabe is outsourcing more of its manufacturing and procuring key components from outside the company.

In the past, the Japanese elec-



tronics conglomerate sought to differentiate its televisions with in-house production using Hitachi-made components. But the sharp slide in TV prices abroad and the ensuing losses have made that strategy difficult to pursue.

As Hitachi scales back its own television production overseas, Mr. Watanabe says it is in the final stages of selling a television assembly plant in Mexico and considering selling its other Mexican TV production facility. He declined to disclose the name of the potential buyer and the price.

The two Mexican television factories, located in Tijuana, used to sup-

ply televisions to the U.S. market. Hitachi ended production at those plants this spring after output dropped to less than 500,000 units last fiscal year from a peak of more than 1 million units in the last 1990s.

It is leasing out a TV assembly plant in the Czech Republic, its former production hub for the European market, to another undisclosed electronics company.

One bright spot for the company is its domestic television business. Hitachi still manufactures most of its televisions for the Japan market, where electronics makers are less susceptible to sudden declines in prices.

Hitachi plans to sell more than half of its televisions in Japan where it has a 10% market share. Mr. Watanabe said he expects shipments of LCD and plasma display televisions in Japan for this fiscal year ending March 31 to be about 20% higher than its May forecast of 700,000 units.

The entire Japanese television sector has benefited from a government incentive program to encourage consumers to buy more ecologically friendly consumer electronics.

Sharp Corp., Japan's top LCD television maker, announced that it would boost monthly production of LCD panels used in televisions by 11% at its main factory in western Japan based on improving demand.

For the year ended March, Sharp reported its first annual loss in more than five decades.

## Companies fight Korean virus

BY EVAN RAMSTAD

SEOUL—Two antivirus companies offered free software to combat a rogue software program that again caused temporary disruptions at South Korean Web sites on Thursday, though not as badly as earlier in the week.

The Web sites of several companies, including that of Kookmin Bank, South Korea's largest by asset value, were hit shortly after 6 p.m. Korea time. Many identified as targets, however, were working normally Thursday night.

Some companies ran programs to counter the attacks after authorities had warned that some prominent local sites could become inaccessible on Thursday evening.

Software analysts at South Korean antivirus companies AhnLab Inc. and Hauri Inc. said they detected a scheduling element in the program that indicated it would launch the attacks at 6 p.m. "The hid-

den code is well-designed," says Cho Dong-soo, a vice president at AhnLab. "It's not just an individual's work. It took a professional group."

The virus program appeared to try to continue its spread Thursday. Versions were sent via email to tens of thousands of people with "Independence" as the sender's name and "Memory of" in the subject line.

The virus commandeers the recipient's computer to launch denial-of-service attacks on government and commercial Web sites in South Korea and the U.S. In recent days, the virus has created disruptions at the Web sites of the U.S. Department of Defense, the National Security Agency, the Treasury Department, other agencies and some businesses. In South Korea, it disrupted the site of the presidential Blue House, the National Assembly and others.

On Wednesday, South Korea's intelligence agency said it was investigating whether North Korea, which

developed a cyberwarfare team in recent years, developed and deployed the virus. A person at the North Korean mission to the U.N. said Wednesday the accusation was groundless. The program hasn't resulted in the theft or leakage of data, but it has inconvenienced people who use the disrupted Web sites.

The program embeds itself in a person's computer and then uses it to try to access Web sites at a scheduled time. It's a crude but disruptive means of hurting Web sites, taking advantage of their inability to process thousands of requests at once. The resulting clog of data requests renders Web sites inaccessible.

Hauri's analysis of the virus program showed that each attack on Web sites is designed to last for 24 hours, a company spokeswoman said. Both AhnLab and Hauri offered free programs that will search a person's PC for the virus and remove it.

—SungHa Park  
contributed to this article.

## Fuji Heavy considers Chinese car plant

BY YOSHIO TAKAHASHI

TOKYO—Fuji Heavy Industries Ltd. said it is considering producing vehicles in China, in a move that would make it the last major Japanese automobile maker to make a full-scale foray into the emerging market.

Fuji Heavy, the manufacturer of Subaru-brand cars, is initially aiming for production capacity of 50,000 autos a year in response to local demand growth for its sport-utility vehicles. However, it hasn't yet determined costs or decided when or where the production facilities will be established, a company spokesman said.

The auto market in China is one

of few major markets posting solid growth, with sales in the first six months of this year rising 17.7% from a year earlier, according to the state-run Xinhua news agency. This is in stark contrast with other key markets such as the U.S. where the economic crisis has depressed demand. Indeed, China could even top the U.S. to become the world's largest market as early as this year.

Seven other Japanese car makers, including Toyota Motor Corp., Honda Motor Co. and Nissan Motor Co., already have production plants in China. Fuji Heavy, on the other hand, balked at beginning local production there as sales of its main-

stay models—sporty cars and SUVs—were relatively slow.

However, since starting to export its vehicles to China from Japan and the U.S. in 2004, Fuji Heavy's sales there have roughly doubled each year, with its 2008 figure coming to 19,010 vehicles.

The car maker is also studying if it should produce vehicles in China on its own, through a tie-up with local car makers or with Toyota, its biggest shareholder with a 16% stake, a spokesman for Fuji Heavy said.

A spokesman for Toyota said he couldn't comment on such a prospect as his company hasn't been informed about the matter.

## GLOBAL BUSINESS BRIEFS

## Microsoft Corp.

## Company veteran is named president of Windows unit

Microsoft Corp. promoted Steven Sinofsky to president of its Windows division, nearly a year after he was named as part of a team to help lead the Windows and Windows Live division. Mr. Sinofsky will assume responsibility for the Windows business, including the engineering and marketing functions for Windows, Windows Live and Internet Explorer. He started at Microsoft in 1989. Last year, the software giant split its platforms and services division in two, with the newly formed Windows/Windows Live division being led by Mr. Sinofsky, Jon DeVaan and Bill Veghte. Microsoft also announced Wednesday that Tami Reller, currently chief financial officer for the Windows division, would take on additional responsibility for marketing.

## Segro PLC

U.K. industrial property landlord Segro PLC on Thursday reached an agreement to buy troubled rival Brixton PLC for £109.4 million (\$175.7 billion), as expected. The acquisition will create the largest industrial real-estate investment trust in Europe by property portfolio value, with a combined worth of £5.5 billion. Segro will swap 1.75% of its shares for each Brixton share, valuing the share capital of Brixton at £109.4 million. In order to maintain financial flexibility, Segro, which raised about £500 million through a rights issue in April, said it would seek to raise an additional £250 million to reduce borrowing. Segro said it will create a more robust business through operating synergies, reduction of vacancies and improvement of rental income.

## Associated British Foods PLC

Associated British Foods PLC said Thursday its sales continued to grow strongly in the third quarter—boosted by currency benefits and accelerating growth at its low-cost clothing retailer Primark—but a higher interest charge means there will be little growth in full-year earnings. The producer of food brands such as Twinings tea and Kingsmill bread said sales from continuing operations for the 16 weeks to June 20 were up 15% from a year earlier. This marks a slight slowdown from the first half. Sales in the first nine months of the year grew 19%; stripping out the benefit of the weak U.K. currency, nine-month sales were up 8%. AB Foods said in April its profitability would improve in the second half of the year as costly hedges associated with its vegetable-oil business unwind.

## Hays PLC

Recruitment company Hays PLC on Thursday posted a 37% drop in net fees for its fiscal fourth quarter, which ended June 30, and warned that demand continued to weaken in both temporary and permanent placement. The U.K. company said it was well placed to take advantage of long-term opportunities thanks to leading market positions, its balance between permanent and temporary-placement businesses, the strength of its balance sheet and actions it has taken already to reduce its cost base. However, its forecast offered few specifics because of continued poor visibility. The outlook echoed the pessimism voiced by rival Michael Page International PLC, which said Tuesday that it was too early to call a recovery in the recruitment industry.

## Air France-KLM SA

Air France-KLM SA plans to continue scaling back its employee headcount as there is no sign of a rebound in business this summer or even this fall, Chief Executive Pierre-Henri Gourgeon said at the company's annual shareholder meeting Thursday. He said the company will maintain the pace set by the 2.5% reduction in jobs in the fiscal year ended March 31, 2009. To reach that headcount-reduction target, Mr. Gourgeon said, Air France-KLM will use early retirements, sabbaticals, more temporary work contracts and increased mobility of its employees between different activities and regions. The executive also told shareholders the company's fuel bill, after hedging, will rise over the current and following two fiscal years. He said Air France-KLM expects to spend €6.8 billion (\$9.4 billion) on fuel in fiscal 2010 ending next March 31, then €8 billion for fiscal 2011 and €8.5 billion in fiscal 2012.

## GlaxoSmithKline PLC

The World Health Organization approved a second cervical-cancer vaccine, this one made by GlaxoSmithKline PLC, for distribution to developing countries. Glaxo said in a statement the approval would help speed up access to Cervarix. WHO had previously approved Gardasil, a competing vaccine made by Merck & Co. More than 80% of the estimated 280,000 cervical-cancer deaths a year occur in developing countries. It isn't clear whether Merck or Glaxo might sell their vaccines to donor agencies at a discount.

## 3Com Corp.

3Com Corp. swung to a fiscal fourth-quarter profit, but a slowdown in China and Europe weighed on the networking-equipment maker's forecast. 3Com is refocusing on the U.S. market as its overseas businesses continue to struggle. In particular, the conclusion of a partnership with Chinese vendor Huawei Technologies Co. has resulted in a rapid sales deterioration. For the first quarter, 3Com expects revenue of \$270 million to \$280 million, less than the \$301 million analysts were expecting. Much of that shortfall stems from Huawei. For the fourth quarter, 3Com reported net income of \$20.2 million, or five cents a share, compared with a year-ago loss of \$166.7 million, or 41 cents a share. Revenue fell 8.2% to \$295.1 million. 3Com sells network-security services to the U.S. Defense Department, a business line that sank its proposed \$2.2 billion buyout last year by Huawei and private-equity firm Bain Capital Partners LLC.

—Compiled from staff  
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## ECONOMY &amp; POLITICS

## White House ponders Bernanke's future

Wall Street backs Fed chief's reappointment amid heightened scrutiny from lawmakers; other candidates surface

As the White House begins to ponder whether to reappoint or replace Ben Bernanke when his term expires in January, the Federal Reserve chairman's standing on Wall Street is on the rise while attacks on him from Congress mount.

By Jon Hilsenrath, Sudeep Reddy and David Wessel

Treasury Secretary Timothy Geithner is expected to play a key role in advising President Barack Obama on whether to reappoint Mr. Bernanke. Mr. Geithner has worked closely both with Mr. Bernanke and with the leading alternative for the powerful post—Lawrence Summers, the former Treasury secretary, who is currently the president's top economic adviser.

Before making a decision later this year, the White House also is expected to look at other economists, including Roger Ferguson and Alan Blinder, former Fed vice chairmen; Janet Yellen, president of the San Francisco Federal Reserve Bank; and Christina Romer, chairman of Mr. Obama's Council of Economic Advisers.

Mr. Bernanke's reputation on Wall Street has ebbed and flowed. But a Wall Street Journal survey conducted this week of 46 private-sector economists found that 43 endorsed his reappointment. "Bernanke's leadership during this financial crisis was outstanding, but not flawless," said Scott Anderson of Wells Fargo & Co., one of those surveyed. "But given human limitations and the limitations of economic and financial knowledge he deserves another tour of duty."

Some saw benefits to continuity. "Don't change horses in midstream," said David Wyss of Standard & Poor's. Others cited the alternatives: "Stated differently: Don't appoint Summers," said Nicholas Perna of Perna Associates.

The White House isn't rushing to decide on reappointing Mr. Bernanke, who hasn't sent any signal that he wants to leave the post. The Intrade online wagering Web site puts 60% odds on reappointment. But a bad turn in the economy could prompt Mr. Obama to seek a new helmsman of his own choosing, or new embarrassing revelations about Mr. Bernanke's handling of the financial crisis could alter the picture before the president makes a decision.

For now, the White House is concentrating on finding new members



The White House is weighing whether to reappoint Fed Chairman Ben Bernanke, top. Other contenders for the post include, below from left: Christina Romer, chairman of the White House Council of Economic Advisers; Janet Yellen, president of the San Francisco Federal Reserve Bank; and Lawrence Summers, the president's top economic adviser.



for the Fed board. Two of the seven seats are vacant. Two sitting governors—Kevin Warsh, 39 years old, and Donald Kohn, 66—are widely believed to be eyeing the exits. The White House is seeking at least one candidate with financial-market experience, a tough task at a time when likely choices are tainted by Wall Street ties.

Waiting to decide on Mr. Bernanke has its costs. "The uncertainty about Mr. Bernanke being reappointed has helped to stoke some of



the inflation concerns because it does add to the risk that monetary policy gets politicized," said Michael Feroli, a J.P. Morgan Chase economist.

Mr. Bernanke has come under tough questioning on Capitol Hill, and new powers that the Obama administration proposes to give the Fed have intensified congressional scrutiny of the central bank.

"If these new powers are going to be granted to the Fed, then maybe a professor of economics will never again be the best choice for the Fed



chairman," said Darrell Issa (R., Calif.). Rep. Brad Sherman (D., Calif.) accuses the Fed of "a Wall Street mentality." Regarding Mr. Bernanke, he said, "Of those who are infected...better than average," but he said he would prefer a Fed chairman with "populist Democratic values."

Still, Mr. Bernanke has influential admirers—including Rep. Barney Frank (D., Mass.), chairman of the House Financial Services Committee, and Rep. Carolyn Maloney (D., N.Y.), chairman of the Joint Eco-

nomics Committee. Ms. Maloney, who backs Mr. Bernanke's reappointment, said, "He's basically an academic working in a nonpartisan way to save the economy."

Mr. Bernanke would need to be confirmed by the Senate if reappointed for a second four-year term. Both the chairman of the Senate Banking Committee, Christopher Dodd (D., Conn.), and the panel's senior Republican, Richard Shelby of Alabama, have been critical of the Bernanke Fed.

Mr. Bernanke's chief rival, Mr. Summers, is widely regarded as one of the sharpest economists of their generation. But his blunt, domineering style makes some bristle and could be greeted with trepidation at the Fed.

Mr. Summers also could meet resistance on Capitol Hill. He was forced out of his job as president of Harvard University, in part because of tense relations with the faculty and comments about women. Antipathy toward Wall Street could also be a factor. Mr. Summers raked in \$5.2 million from hedge fund D.E. Shaw in the year before he joined the White House and was an advocate of financial deregulation in the 1990s.

For those and other reasons, other names are surfacing. Among them is Ms. Yellen, who was an adviser in the Clinton White House and Fed governor during the tenure of former Chairman Alan Greenspan. She has strong academic credentials and fans inside the administration, but is in the dovish wing of the Fed. "I think the predominant risk is that inflation will be too low, not too high, over the next several years," she said in a recent speech. That image could unsettle financial markets—whose opinions matter to presidents picking a Fed chairman. Ms. Yellen declined to comment for this article.

Another candidate is Mr. Ferguson, who was Mr. Greenspan's loyal deputy and is now chief executive of financial-services firm TIAA-CREF and a member of the President's Economic Recovery Advisory Board. "Ben Bernanke has led the Fed well during this crisis and, in my view, well deserves to be renominated," he said in response to an inquiry. "I am eager to continue leading TIAA-CREF, but honored to be mentioned in this regard."

Mr. Blinder, now a Princeton economist, said, "I don't want to engage in rumors about myself or anybody else, except to say I didn't spread any of those rumors." Ms. Romer, who was a University of California at Berkeley professor, declined to comment.

## Fed steps up fight to stay independent of outside influence

BY GREG ROBB  
MARKETWATCH.COM

WASHINGTON—Donald Kohn, the No. 2 official at the Federal Reserve, urged Congress Thursday to respect the central bank's independence to conduct monetary policy.

In testimony on Capitol Hill, Mr. Kohn argued that greater oversight would hurt the economy by injecting politics into the process and unsettling financial markets.

"The insulation from short-term political pressures—within a framework of legislated objectives and accountability and transparency—that the Congress has established for the Federal Reserve has come to

be widely emulated around the world," the Fed vice chairman said. "Any substantial erosion of the Federal Reserve's monetary independence likely would lead to higher long-term interest rates."

As a result of the recession and financial crisis, interest in the Fed as an institution is at a high level in Congress, where members admit being startled by the ability of the Fed to flood financial markets with cash and make loans to troubled financial institutions like American International Group



Donald Kohn

Inc. The Fed was able to take these extraordinary actions without asking the White House or Congress for permission.

One oversight measure, to give the Government Accountability Office broader authority to examine the Fed's conduct of monetary policy, has gained broad support across party lines.

Mr. Kohn strongly opposed the legislation, saying the measure would be seen as an intrusion of politics into monetary policy. Interest rates could rise as a result and economic

growth would suffer, he warned.

Rep. Ron Paul, the Texas Republican who is the author of the GAO bill, denied that it would make monetary policy a political football. "We want to know how [monetary policy] is being done," Mr. Paul said.

Financial-market participants already are worried that the Fed won't be able to stand up to the Obama administration and Congress. With the federal government needing to borrow so much money in capital markets, the sentiment is that the Fed would be pressured to keep interest rates low, letting the inflation genie out of the bottle in the process.

Mr. Kohn said that greater con-

gressional scrutiny of the Fed's power to set key interest rates would serve only to magnify those concerns.

Some lawmakers want to give the Fed greater power to oversee institutions across the financial sector, including insurance giants, if they present "systemic risk." Some observers think this is too much power in one institution, but Mr. Kohn sought to sound a reassuring tone, saying such fears are groundless.

"I believe that U.S. and foreign experience shows that monetary-policy independence and supervisory and regulatory authority are mutually compatible and even have beneficial synergies," he said.



## ECONOMY &amp; POLITICS

# U.S. fights Afghanistan war on two fronts

*Taliban battle comes as political patience at home wears thin*

BY GERALD F. SEIB

The Obama administration is fighting two battles on Afghanistan now. One is the newly expanded fight on the ground against the Taliban. The other is a fight against the clock in Congress, where patience could wear out before the Taliban do.

On the military front, a week has passed since Marines launched the biggest Afghan offensive in years, driving into the country's troubled southern Helmand province to root out the Taliban. That signaled a new phase in the war effort and has produced some success on the ground.

But the offensive also has illustrated anew that success in Afghanistan will come at a cost: Ten American soldiers died in the past week. Meanwhile, U.S. officials talk of a glaring need to train more Afghan soldiers to help in the fight, and the Pentagon's top military leader says it will take 12 to 18 months to turn around the struggle with the Taliban.

That's where political considerations enter the picture. Key Democrats in Congress have made it clear that they have limited patience with the fight in Afghanistan, now finishing its eighth year. Some lawmakers wanted to start cutting off money for the fight this year. Ultimately, Congress decided to fully fund the effort but implied that the Pentagon and White House would have to show progress by early next year or see war funding imperiled.

In sum, the Obama administration has hatched a new military strategy in Afghanistan, installed a new military commander there, committed 21,000 additional troops

(with the possibility of more to come) and launched the first of what may be several new offensives—all while hearing a political clock ticking in the background.

Military leaders are well aware of this bind. When Adm. Mike Mullen, chairman of the Joint Chiefs of Staff, talked about Afghanistan at a luncheon at the Center for Strategic and International Studies this week, his remarks about Afghanistan included these phrases: "accelerate," "as quickly as possible," "as rapidly as we can" and "as rapidly as possible." You think he doesn't get it?

But Adm. Mullen wasn't promising instant success. He said bluntly that "the trends have been negative for the last three-plus years in terms of levels of violence, the comprehensiveness of the insurgency" in Afghanistan. "The enemy's getting better and tougher. And we need to turn that around in the next 12 to 18 months, start to turn that around, so the trends go in the other direction."

Is there that much time, though? When lawmakers were asked this spring to approve a bill to fund the wars in Iraq and Afghanistan, Rep. David Obey, the powerful and strong-willed chairman of the House Appropriations Committee, declared himself "extremely dubious" that the administration could succeed militarily in Afghanistan, and he openly drew comparisons with Vietnam. The Wisconsin Democrat pushed through a bill that provided money for the fight this year but that also requires the administration to deliver a progress report early next year.

Other congressional leaders say there is more patience than that outcome may suggest. "We're cognizant of the need to re-establish order after the Bush administration unraveled it," says Rep. Debbie Wasserman Schultz of Florida, a leading Democrat on the Appropriations Committee. As a result, she says, "my sense is that there is quite a bit of patience in the [Democratic] caucus broadly" to establish security and in-



Ten American soldiers died in Afghanistan in the past week, illustrating anew that success there will come at a cost.

stitute a "democratic process there."

Yet creating order and democracy in Afghanistan look to be fairly tall orders at this point. Afghanistan will hold a national election in August, and President Hamid Karzai is likely to be re-elected. But that will be a mixed blessing, for he increasingly is viewed as a weak reed on which to lean, a leader whose ability to knit together the country's disparate factions, root out government corruption or build strong security institutions is limited.

Meanwhile, the list of assets the U.S. military thinks it needs to succeed in Afghanistan is starting to come together. The most glaring need is more help from indigenous Afghan forces, both military and police. Adm. Mullen says the Afghan military has something above 80,000 soldiers, a level that needs to rise to at least 134,000. The national police force numbers about 82,000, but its training is suspect. The U.S. is rushing about 4,000 military trainers to

Afghanistan to help beef up its forces.

In the meantime, the new American commander on the ground, Gen. Stanley McChrystal, is conducting a 60-day review of American troop levels. They are headed toward 68,000, including the 21,000 additional forces the administration already has approved. The review is to determine how many troops are needed for Gen. McChrystal's new strategy. That involves fanning American soldiers farther afield in Afghanistan to execute a counterin-

surgency strategy using small patrols operating at the grass roots to take villages and towns from the Taliban and then, more crucially, to hold those places.

"It's not about how many enemy we kill; it's about how many civilians we protect" from the Taliban, says Adm. Mullen.

The long-range risk, though, is that the Taliban, knowing the political clock is ticking, view the Americans as short-timers and choose to simply outwait them.

## CIA, Democrats in new dispute

BY SIOBHAN GORMAN

WASHINGTON—Central Intelligence Agency Director Leon Panetta has told U.S. lawmakers that the agency "concealed significant actions" from Congress, according to a letter released Wednesday from seven Democratic lawmakers.

The letter contends that Mr. Panetta said CIA officials have misled Congress since 2001.

House Intelligence Committee Chairman Silvestre Reyes sent a separate letter Tuesday to the top Republican on his committee saying that Mr. Panetta's appearance led him to conclude that the CIA had "affirmatively lied" to the committee. Mr. Reyes, a Texas Democrat, said the issues Mr. Panetta disclosed to the committee may lead to a full committee investigation.

"I believe that CIA has, in the vast majority of matters, told the truth," Mr. Reyes said in a statement. "But in rare instances, certain officers have not adhered to the high standards held, as a rule, by the CIA with respect to truthfulness in reporting."

Neither letter described the nature of the actions hidden. Both lawmakers and the CIA declined to provide details.

The public tussle threatens to further undermine congressional relations with the CIA. Congress exercises oversight over U.S. intelligence agencies. The House and Senate intelligence panels often receive classified briefings in private.

The relationship between the CIA and Congress grew poisonous over the course of the Bush administration after revelations concerning programs such as the CIA's coerced interrogations. All but two members of each of the House and Senate intelligence panels at the time knew nothing of them, though the four top House and Senate lawmakers were informed. Mr. Panetta has vowed to repair relations with Congress.

CIA spokesman George Little said, "It is not the policy or practice of the CIA to mislead Congress." Mr. Little said the CIA itself "took the initiative to notify the oversight committees" about the lapses. Mr. Panetta brought the issue to lawmakers' attention June 24.

Rep. Anna Eshoo, a California Democrat who signed the letter, gave the director "credit for coming up and meeting with us and informing us," adding that Mr. Panetta had learned of the matter the day before

the June 24 briefing, but said she was deeply disturbed that the CIA actions had been concealed from all lawmakers.

Peter Hoekstra of Michigan, the House Intelligence Committee's top Republican, in a statement dismissed the two letters as "blatantly political."

The Democratic lawmakers' letter, which they sent to Mr. Panetta, asked him to revise his May 15 statement to the intelligence panel, in which he said: "It is not our policy or practice to mislead Congress. That is against our laws and values." Mr. Little said Mr. Panetta stands by that statement.

The release of these letters is the latest twist in a struggle between House Democrats and the CIA. This year, House Speaker Nancy Pelosi accused the CIA of misleading her in a 2002 briefing on interrogation practices.

The flap over Mr. Panetta's recent disclosures reignites a broader debate between Congress and the executive branch over the limits of executive power. The release of the letters came the day before the House is scheduled to debate an intelligence bill that will test those limits once again.

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## ECONOMY &amp; POLITICS

## Iraq's Maliki offers gratitude

Premier, in interview, plans thanks to U.S., dialogue with Kurds

BY GINA CHON

BAGHDAD—Prime Minister Nouri al-Maliki struck a conciliatory tone ahead of his trip to Washington, talking about his gratitude for U.S. sacrifices in Iraq, and offering to negotiate a settlement between Iraq's federal government and the country's Kurdish enclave as tensions heighten between the two.

In an interview with The Wall Street Journal as he prepared for a visit to the U.S. on July 21, Mr. Maliki said he planned to thank America for its shared sacrifice with the Iraqi people in the tumultuous post-Saddam Hussein years since the U.S.-led invasion in 2003.

"We have [achieved] a combined victory against terrorism, and there have been sacrifices from both sides that brought fruitful results and democracy to Iraq," Mr. Maliki said.

During the June drawdown of U.S. troops from Iraqi cities, Mr. Maliki praised the Iraqi security services' ability to take over from American forces. But he shied away from offering praise or thanks to U.S. soldiers.

Some American commanders have said they understood that Mr. Maliki's seeming slight was driven by domestic politics. Still, a gesture by Mr. Maliki acknowledging U.S. sacrifice could help to placate some rankled American commanders on the ground.

Meanwhile, the rising tension between Baghdad and the Kurdish government is emerging as one of the biggest concerns among local and U.S. officials and military commanders this summer.

In the interview, Mr. Maliki accused the Kurdish Regional Government of "provocations," including a controversial draft Kurdish constitution and alleged territorial incursions by the Kurds' armed militia. But he also said he was convinced the two sides could settle their problems through dialogue.

"Self-discipline is something we need at this stage," Mr. Maliki said in his office at the prime minister's palace here. "I am struggling for the unity of Iraq, and Iraq cannot be divided into two."

Some American commanders worry that political squabbles centered on Kurdistan—a semiautonomous region governed by the KRG—could erupt into fresh violence. For



Iraq's Nouri al-Maliki in London in the spring. The premier says he is open to negotiating a settlement between Baghdad and the Kurdish enclave.

years, Iraqi officials in the federal government in Baghdad and in the KRG have sparred over issues such as oil-revenue distribution, the right to award oil-exploration contracts, and the Kurds' armed militia.

Last month, tensions ratcheted higher after Kurdish politicians approved a draft constitution for their region. The document, among other things, claims for the KRG territory long fought over by both sides, including the oil-rich area around Kirkuk.

The new constitution emerged ahead of regional elections in Kurdistan. Kurds are to vote for a new parliament and president on July 25. Kurdish parliamentarians also had hoped to subject the draft constitution to a referendum on the same day. But Iraq's federal electoral commission ruled that out, citing a lack of time to expand the ballot to include the constitutional vote.

Senior U.S. military commanders are closely watching several areas of northern Iraq where Iraqi Army soldiers and Kurdish militia are across from each other. A senior U.S. officer who served in Iraq last year said the two sides came close to outright combat in 2008.

During a particularly tense moment, he said that U.S. drones took footage of columns of Iraqi troops and Kurdish fighters racing toward each other. The U.S. was able to talk both sides into standing down "but it was a really close call," he said. "They were both itching to fight."

Maj. Gen. Robert Caslen, head of American forces in northern Iraq, said in an interview last month that more American forces could be deployed to those areas to help build trust among the Kurdish militia and

Iraqi military. He said the withdrawal of U.S. combat troops from urban areas will allow them to focus on other problematic situations.

Iraqi security forces already are coping with a surge in high-profile bombing attacks that have coincided with the American drawdown.

On Thursday, two suicide bombers detonated devices at the home of a security official in the northern town of Tal Afar, killing at least 30 people, authorities said. Three roadside bombs in Baghdad, meanwhile, killed seven people Thursday. On Wednesday, car bombs in the Mosul area of northern Iraq killed more than 15 people.

Mr. Maliki's key challenge for the remainder of this year will be maintaining security amid the U.S. pullback. In the latest sign Washington is eager to turn over more security responsibility to Iraqis, the U.S. on Thursday released five Iranian diplomats to Iraqi authorities.

The Iranians were detained in northern Iraq in 2006, suspected of aiding Shiite extremists. It is unclear whether Baghdad intends to press charges or turn the Iranians over to Tehran.

The Kurdish standoff, meanwhile, is turning into an equally daunting balancing act for Mr. Maliki. He and his political allies contest nationwide parliamentary elections early next year. If he is able to navigate a negotiated settlement with the Kurds that appears tough but fair, he could bolster his reputation as a national leader among Arabs and Kurds alike. Pundits, however, say chances of a real resolution are slim before the polls.

—Yochi J. Dreazen in Washington contributed to this article.

## Antigovernment activists take to streets in Tehran

ASSOCIATED PRESS

TEHRAN, Iran—Hundreds of young men and women chanted "Death to the dictator," confronting police wielding batons and firing tear gas in the capital Thursday as opposition activists sought to revive street protests despite authorities' vows to "smash" any new marches.

For days, supporters of opposition leader Mir Hossein Mousavi had been calling for new protests in Tehran and other cities on Thursday, their first significant attempt to get back on the streets since security forces crushed massive demonstrations nearly two weeks ago in Iran's postelection turmoil.

Tehran governor Morteza Tamaddon warned that any new march would meet the same fate. "If some individuals plan to carry out any antisecurity actions by listening to calls by counterrevolutionary networks, they will be smashed under the feet of our aware people," he said, according to the state news agency IRNA in a report late Wednesday.

Thursday afternoon, a stepped-up number of uniformed policemen along with plainclothes Basij militiamen stood at intersections all along Revolution Street and at nearby near Tehran University, some of the sites where protests were called.

Still, a group of around 300 young people gathered in front of Tehran University and began to chant "Death to the dictator," witnesses said. Many of them wore green surgical masks, the color of Mr. Mousavi's movement.

Police charged at them, swinging batons, but the protesters fled, then regrouped at another corner and resumed chanting, the witnesses said. Police chased them repeatedly as the protesters continued to regroup, the witnesses said, speaking on condition of anonymity because they feared government retribution.

Within an hour, the number of protesters grew to about 700, who marched toward the gates of Tehran University, the witnesses said. A line of policemen blocked their path, but they did nothing to disperse the gathering as the protesters stood and continued to chant, the witnesses said.

At another location, on Valiasr Street, about 200 protesters gathered, and police fired tear gas to disperse them, but the demonstrators sought to regroup elsewhere, the witnesses said.

Soon after the confrontations began, mobile-phone service was cut off in Tehran, a step that was also taken during the height of the post-election protests to cut off communications. Mobile-phone messaging has been cut in the country for the past three days.

They were the first such protests in 11 days, since the crackdown—though they didn't compare with the hundreds of thousands who joined the marches that erupted after the June 12 presidential election, protesting what the opposition said were fraudulent results.

The calls for a new march have been circulating for days on social-networking Web sites and pro-opposition Web sites. Opposition supporters planned the marches to coincide with the anniversary Thursday of a 1999 attack by Basij on a Tehran University dormitory to stop protests in which one student was killed.

Ahead of Thursday's planned march, authorities appeared to have taken other steps to prevent participation, including closing down universities, and called a government holiday on Tuesday and Wednesday, citing a heavy dust and pollution cloud that has blanketed Tehran and other parts of the country this week.

Mr. Mousavi and his pro-reform supporters say he won the election, which official results showed as a landslide victory for incumbent hard-liner Mahmoud Ahmadinejad.

## New U.S. jobless claims decline unexpectedly

BY BRIAN BLACKSTONE

WASHINGTON—New claims for state unemployment benefits in the U.S. unexpectedly tumbled last week to their lowest level since the beginning of the year, as anticipated layoffs in the automobile industry failed to materialize as much as the government expected.

Still, the data don't necessarily imply better days ahead for American workers who have seen job prospects dry up in the severe recession. Weekly figures tend to be volatile this time of year as government statisticians try to predict the timing of annual layoffs at auto and other manufacturing plants, leading to choppy swings in the seasonally adjusted data that could be reversed in coming weeks.

Initial claims for jobless benefits plunged 52,000 to a seasonally adjusted 565,000 in the week ended July 4, the Labor Department said in a weekly report Thursday. Economists surveyed by Dow Jones Newswires had expected claims to fall by 4,000.

The four-week average of new claims, which aims to smooth volatility in the data, declined 10,000 to 606,000.

Separately, U.S. wholesale inventories fell again in May as distributors kept working to clear their shelves of excess supply built up by the reduced demand of the recession.

Wholesalers lowered inventories 0.8% to a seasonally adjusted \$402.2 billion, the Commerce Department said Thursday. April inventories fell 1.3%, revised from an originally reported 1.4% drop.

A gauge of excess supply, the inventory-to-sales ratio, fell for a second straight month, indicating wholesalers were slowly getting inventories under control.

The sales of these middlemen of the economy crept up 0.2% in May to a seasonally adjusted \$311.3 billion, after staying flat in April. April sales were originally seen down 0.4%. For the year, sales in May were 19.9% lower.

Year over year, inventories were down 7.6%.

—Jeff Bater contributed this article.

## Dutch return antiquities to Iraq

ASSOCIATED PRESS

THE HAGUE—The Dutch government turned over dozens of antiquities stolen from Iraq to Baghdad's ambassador on Thursday and urged other countries to clamp down on the illicit trade. The 69 pieces include cylindrical stone seals older than 2000 B.C. and a terra-cotta relief depicting a bearded man praying.

"These things should not be bought and sold," said Diederik Meijer, an archaeologist with the Dutch National Museum for Antiquities, which will display the treasures before they are returned to Iraq. He declined to put a value on the artifacts, saying it could encourage ille-

gal trade.

Dutch Education, Culture and Science Minister Ronald Plasterk said the ancient artifacts were surrendered by Dutch art traders after police informed them they were stolen. U.S. customs authorities and Interpol had alerted Dutch officials that the items were being sold here.

Mr. Plasterk said the artifacts came from the "cradle of civilization," the area between the rivers Tigris and Euphrates that once was known as Mesopotamia.

Among other items Mr. Plasterk handed to Iraq Ambassador Siyama Banaa was a sawn out fragment of a flagstone with an inscription of King Nebuchadnezzar dating

from 570 B.C. and a decorated nail from 2100 B.C. that would have been used to anchor a building's foundations to the ground.

"We should cherish and honor the start of civilization in Iraq," Mr. Plasterk said, "and consider it the responsibility of the world to make sure it stays there. These objects lose a lot of their value if they are stolen from their site."

Mr. Banaa praised the Netherlands for tracing and returning the stolen goods and said he hoped other countries would "emulate the Dutch example." It was not immediately clear when the antiquities were looted.