Money & Investing: Charting a course to stock gains in sea of joblessness

THE WALL STREET JOURNAL.

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UBS, U.S. ask for a delay

Settlement sought in dispute over Swiss privacy laws and tax-evasion case

By Carrick Mollenkamp

UBS AG, the Swiss government and the U.S. Justice Department jointly asked a U.S. federal court for a 15-day delay of a hearing scheduled for Monday to give the two sides a chance to negotiate a settlement and potentially enable UBS to avoid turning over thousands of client names to the Internal Revenue Service.

In a filing Sunday morning, UBS and the Justice Department asked that the hearing in Miami be rescheduled for Aug. 3 and 4 if an agreement couldn't be reached. The move attempts to stave off a diplomatic fight between the U.S. and Swiss governments over whether Swiss privacy laws allow UBS to hand over the client information.

In a statement Sunday, the Justice Department said it remained determined to obtain client information. The department said a settlement would still require UBS to give the IRS information on a "significant number of individuals with UBS accounts."

The request for a stay, which a federal judge will hear Monday, could give UBS time to try to figure out how it can potentially meet that demand and deliver some information to the Justice Department and the IRS without turning over details on some 52,000 account holders that the IRS said it was seeking in February as part of a months-long tax-evasion investigation. UBS and the Swiss government contend that turning over the names would violate Swiss law.

The court filings and the Justice Department statement suggest a potential framework for a settlement that would enable UBS to cite actual fraud in some accounts, thus enabling UBS to

Please turn to page 31

NATO deaths mount on battlefields in Afghanistan

Reuters

COMBAT CASUALTIES: A series of insurgent attacks is raising the numbers of dead and wounded as fighting against the Taliban escalates. The issue is becoming especially divisive in the U.K., with the deaths of 15 British soldiers in less than two weeks. **Page 11.**

Beijing runs risk of losing business

Australian officials warned that China's handling of espionage allegations against employees of **Rio Tinto** could fuel broader concern among foreign businesses, highlighting the risks Beijing is taking by its move to detain four employees of the Anglo-Australian mining giant.

By Andrew Batson in Beijing and Lyndal McFarland in Melbourne

"It should also be a concern for the Chinese government that if foreign businesses feel that their degree of uncertainty is high, it will change the way that foreign businesses around the world approach business in China," Chris Bowen, Australia's minister for financial services, told local television. He warned that the situation could make foreign businesses less willing to base executives in China.

One key risk for Beijing is that its actions will set back years of efforts to persuade the world that Chinese state-owned enterprises are independent, commercially run entities, lawyers say. Cash-rich Chinese state companies, scouring the world for deals in an increasingly aggressive international expansion drive, must present themselves as profit-driven independent enterprises to overcome suspicions that they are

Please turn to page 31

France's new thrift is trouble for Europe

By Sebastian Moffett

PARIS—The French are getting thriftier, and that poses a problem for the European economy.

For more than a decade, consumer spending has driven growth in France and buoyed the economy of the nations—now 16—that share the euro. The danger for France and for Europe is that this turns into a longer-term trend.

THE OUTLOOK

France boasts one-third of Europe's camp sites, and this year more people are expected to stay in them than in either holiday apartments or hotels, according to Protourisme, a travel consultancy. Matei Liska, a security guard from Gonesse, a town north of Paris, normally rents an apartment in the country for his summer vacation. This year, he has gone camping. "It's pleasant and less expensive," he says.

The site he chose, La Petite Beauce, filled up this year by late June for the first time, says Leslie Wawer, who runs the site with her husband. "People want to get back to nature," she says. "And also there's the price."

In France, like most other countries, holiday spending is forecast to fall this summer. French households were planning to spend an average of €1,822 ($2,556) on their vacations this year, 6% less than last, according to market-re

Please turn to page 31

What's News

Obama has tried to define, in four speeches in four different countries, what aides call a new era of American diplomacy, trying to coax cooperation by emphasizing shared interests with the U.S., and then laying out stern demands. **Page 9**

- **Porsche set** July 23 as the date its supervisory board will consider a $7 billion investment by Qatar. **Page 2**
- **A lack of finance** is less of a hindrance for global trade, but conditions haven't yet returned to normal. **Page 19**
- **Shares of low-price leaders** such as Wal-Mart are expected to do well as the U.S. heads into what is likely to be a jobless recovery. **Page 19**
- **Obama trumpeted** the U.S.'s $787 billion stimulus plan and said it needs more time to show results. **Page 2**
- **A series of attacks** in Afghanistan killed four U.S. and eight British troops, stoking concerns about a spike in battlefield deaths. **Page 11**
- **Iran's proposals** for new nuclear talks with the West could signal it is willing to rebuild diplomacy. **Page 3**
- **General Motors emerged** from bankruptcy, with its CEO promising to make the auto maker leaner and more customer-focused. **Page 4**
- **Beijing Auto said** the possible purchase of GM's Opel unit would be a centerpiece of the firm's effort to gain a global presence. **Page 4**
- **Exxon's shale-gas find** in Canada appears to be large, an executive said. **Page 5**
- **The EU will propose** this week rules to increase the bloc's preparedness for natural-gas shortages. **Page 20**
- **CIT Group is preparing** for a possible bankruptcy filing after failing to win U.S. government guarantees to help it borrow. **Page 22**
- **Al Qaeda-linked militants** freed an Italian Red Cross worker in the Philippines. Also, a Swiss tourist taken hostage in North Africa was released.
- **Opposition calls** for a boycott of the Republic of Congo's presidential election appeared to be hurting voter turnout.
- **Bulls gored** four runners on the sixth day of the San Fermin festival. A Spaniard was gored to death Friday.

EDITORIAL & OPINION

Tehran's Achilles heel
Gasoline sanctions could hit the regime in one of its weakest spots. **Page 15**

Breaking news at europe.WSJ.com

Inside

The enforcers

Inside the paramilitary force behind the Iranian crackdown
News In Depth, pages 16-17

Markets

	CLOSE	PCT CHG
DJIA	8146.52	-0.45
Nasdaq	1756.03	+0.20
DJ Stoxx 600	197.25	-1.08
FTSE 100	4127.17	-0.76
DAX	4576.31	-1.16
CAC 40	2983.10	-1.42
Euro	$1.3940	-0.28
Nymex crude	$59.89	-0.86

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THE WALL STREET JOURNAL.

LEADING THE NEWS

Obama defends stimulus

As criticism grows, president says plan needs time to work

By Louise Radnofsky
And Christopher Conkey

U.S. President Barack Obama, facing mounting criticism of the $787 billion stimulus package passed earlier this year, devoted his weekly radio address to trumpeting the successes of the plan, and suggested it had to be given more time to show results.

"The Recovery Act was not designed to work in four months—it was designed to work over two years," Mr. Obama said, after telling listeners that the plan hadn't been intended "to restore the economy to full health on its own, but to provide the boost necessary to stop the free fall."

The president highlighted the portions of the package that have begun to be implemented, including unemployment insurance and health insurance for laid-off workers, as well as some of the tax cuts—such as the payroll-tax credit—that make up one-third of the package's price tag.

Questions about the plan's effectiveness have intensified amid steep U.S. unemployment figures for May and June. Mr. Obama said joblessness wasn't the only economic indicator that should be used, arguing that "unemployment tends to recover more slowly than other measures of economic activity."

The administration admitted it has been on a "learning curve" with the stimulus package, but that it has figured out how to spend some of the available billions more quickly.

Many tax cuts have already taken effect. But only $60.4 billion of the remaining $499 billion has been spent. Most of the money was always likely to be spent this summer, at the earliest, as departments wrestled with the increased workload and new requirements imposed by the bill.

The White House said it isn't changing its goal of spending 70% of the funds by September 2010. But amid unemployment worries, the administration has been pressuring agencies to get some money out the door more quickly.

The slow speed at which money for infrastructure projects is getting out has come under attack, including from Republican lawmakers who blame excessive regulation.They were were swift to denounce the president's performance. Rep. Eric Cantor of Virginia, one of the party's top congressional members, issued his own address, saying: "The plain truth is that President Obama's economic decisions have not produced jobs, have not produced prosperity, and simply have not worked."

Mr. Cantor said the Republicans' alternative was to reduce taxes for middle-class families and small businesses, and for Washington to "live within its means."

Getty Images

U.S. President Barack Obama, left, and his family arrived at the White House early Sunday. Mr. Obama touted the $787 billion stimulus plan in a weekly radio address.

CORRECTIONS & AMPLIFICATIONS

Fluor Corp. is based in Irving, Texas. A Corporate News article on logistics contracts for U.S. forces in Afghanistan in the Friday-Sunday edition incorrectly gave its location as Aliso Viejo, Calif.

The price for a 100-ounce gold contract on Wednesday was $90,900. A News in Depth article on gold investors in the Friday-Sunday edition incorrectly reported the contract as worth $909,000.

Porsche board to take up investment by Qatar

By Christoph Rauwald

FRANKFURT—**Porsche Automobil Holding** SE scheduled an extraordinary supervisory-board meeting, setting the stage to clinch a deal with the Qatar Investment Authority crucial to shoring up its balance sheet.

A Porsche spokesman said Friday that the sports-car maker's supervisory board will meet July 23. He added that the supervisory board's goal remains to forge an integrated company with **Volkswagen** AG.

A person close to Porsche's supervisory board said that at the July 23 meeting, the board is set to discuss an offer worked out between the car maker's executive board and QIA. Under the offer, the Qatari state-owned investment firm would take a stake in the German sports-car maker, and it would also acquire options for Volkswagen stock from Porsche.

The deal could be valued at more than €5 billion ($7 billion), the person said.

The person added that the supervisory board will also discuss a separate offer from Volkswagen to take a 49% stake in Porsche's core sports-car operations. However, Volkswagen's offer appears to have little chance of success if the deal with Qatar gets the nod.

A spokesman for QIA declined to comment. A spokesman for Volkswagen wasn't immediately available for comment.

Getting an outside investor on board would mark a shift for the Stuttgart-based auto maker. The Porsche and Piëch families currently control 100% of Porsche's voting rights.

Signs of economic recovery appeared in May, OECD says

By Terence Roth

Some of the world's leading economies showed tangible improvement in May, according to the latest leading indicators issued Friday by the Organization for Economic Cooperation and Development.

They suggested many major economies—including the U.S., the euro zone and China—could end their declines later this year.

Overall, the OECD lead indicator rose by 0.8 point to 94, the sharpest rise this year, but it was still down 7.3 points from May 2008. The indicators are designed to indicate turning points in economic activity about six months in advance, and the calcuations are based on a wide variety of data.

Among leading economies, the U.S. rose by one point to 92.2, though it was 9.4 points off its reading a year ago. The 16-country euro zone also showed signs of recovery, rising by a point to 96.5, which was 4.7 points lower than May 2008.

The leading indicator for Japan slipped 0.3 point to 88.4, down 14.1 points from a year ago. The result for the U.K. increased by 0.8 point in May to 98.3, but was 2.7 points lower than last year. Among the big developing economies, China added 1.1 points in May, India rose 1.4 points and Russia rose 0.7 point.

In France, increased refining and coking as well as tranport-material production rose in May. Industrial output in May increased 2.6% from a month ago, national statistics office Insee said. Italy's production was flat for the month, though it declined 19.38% on the year.

"The outcome of Italian industrial production was less spectacular than the sharp rises seen in France and Germany but still good news, against expectations for another sizable drop," BNP Paribas economist Luigi Speranza said in a note..

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

Iran prepares proposals for West

State media suggest plan seeks to resolve nation's nuclear issue

BY CHIP CUMMINS

DUBAI—Iran is preparing a package of proposals it hopes to use as the basis for fresh negotiations with Western governments over its nuclear program, its government said over the weekend, a possible signal that Tehran is willing to rebuild diplomatic links after weeks of drubbing the U.S. and Britain for alleged complicity in election unrest.

The announcement of the proposals, made by Iran's foreign minister at a news conference in Tehran Saturday, came as five Iranian officials, who had been held by U.S. forces in Iraq for more than two years, returned home after being released. The return of the men, three of whom Iran has identified as diplomats, could remove a major stumbling block to further, high-level talks between U.S. and Iranian officials.

Amid Iran's diffuse power structure, it is difficult to determine if the announcement of the package is a serious effort to kick-start new talks. It could also be window-dressing aimed at distracting foreign critics from still-sporadic protests and the regime's heavy-handed crackdown on dissent after June 12 presidential elections.

Still, the two developments together could represent a thaw in the increasingly heated rhetoric between Iranian officials, who have accused the West of stoking election unrest, and Western officials, who dismiss those allegations and criticize Tehran for its violent crackdown.

Despite the recent bloodshed in Iran, U.S. President Barack Obama and other Western leaders have signaled they are committed to pursuing dialogue with Tehran over its nuclear program but say they won't extend an open invitation. On Friday, at the end of a summit of the Group of Eight leading nations in Italy, Mr. Obama said September—when the Group of 20 industrial and developing nations convenes in Pittsburgh—should be considered a "time frame" for assessing progress.

Saturday, Iranian Foreign Minister Manouchehr Mottaki said that Tehran had begun work on new proposals that Iran will offer as a basis of discussion with the West, according to state media. He didn't detail the proposals. He also didn't say whether any part of the package would deal specifically with Iran's nuclear program, but state-controlled media suggested the package was aimed at resolving the nuclear standoff.

Western and Arab powers suspect Iran of seeking weapons as part of its nuclear-energy program. Tehran says the program is aimed solely at peaceful energy.

"We are formulating a new package, which covers a range of political, security and international issues and can be a basis for talks on regional and international affairs," Mr. Mottaki said, Iran's state-run, English-language news outlet, Press TV, reported.

President Mahmoud Ahmadinejad earlier this year described a similarly vague set of proposals that he said Tehran was readying. Last summer, Western officials crafted a package of economic incentives aimed at persuading Iran to halt nuclear-fuel enrichment. But they determined that Tehran's response to the package was inadequate. The U.S. and others have threatened more economic sanctions against Tehran if the nuclear issue isn't resolved.

Mr. Mottaki's statement Saturday is the first comment on the subject since last month's contested presidential elections. Iranian officials declared Mr. Ahmadinejad the winner of the poll by a landslide, triggering weeks of sometimes-violent protests.

Mr. Ahmadinejad and other Iranian officials have accused Western governments and foreign media of stoking the unrest. Tehran expelled two British diplomats and briefly detained some Iranian employees of the British embassy in Tehran over the issue.

On Sunday, Iranian state media said the five Iranian officials landed in Tehran after more than two years in U.S. detention in Iraq. Last week, U.S. forces handed the five to Iraqi authorities as part of a bilateral security pact between Washington and Baghdad. The Iranians were detained in northern Iraq, suspected by the U.S. of aiding Shiite extremists.

Export figures from U.S., China boost prospects

BY ALEX FRANGOS AND PETER STEIN

Tentative signs of life in global trade are emerging, buoying growth forecasts in the U.S. and China.

U.S. exports grew in May, while imports fell, helping to narrow the trade deficit to its smallest level in nearly nine years. The report prompted economists to revise up their estimates of second-quarter gross domestic product. Some even suggested the U.S. economy might have grown slightly in the second quarter.

The trade gap shrank to $26 billion in May from April's $28.8 billion, the Commerce Department said Friday. Exports rose 1.6% in May to $123.3 billion on a seasonally adjusted basis. Imports fell 0.6% to $149.3 billion.

New figures from China offered more support for the prospect that the massive drop in global trade is abating. Exports in June fell 21.4% from a year earlier, a smaller drop than May's 26% decline, the Xinhua news agency reported Friday.

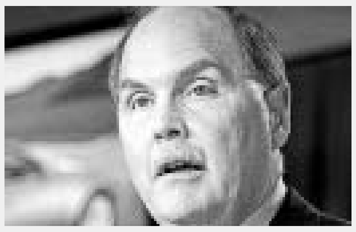
CORPORATE NEWS

GM emerges to take a new direction

Car maker leaves bankruptcy and announces a plan to streamline layers of management, reach out to customers

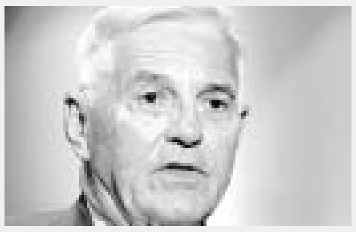
By John D. Stoll
And Sharon Terlep

Taking the reins | GM's incoming leadership



Fritz Henderson
Chief executive

Lifetime employee who has been running GM since the ouster of Rick Wagoner in March. He has promised a smaller, simpler management team. He embraced tough actions and the possibility of a bankruptcy filing for GM.

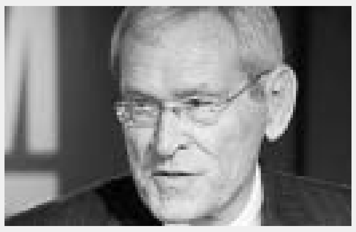


Bob Lutz
Head of sales and marketing

Industry icon who planned to leave the company at year's end but asked that he be 'unretired.' After building a career creating automotive hits, he will leave his design job to focus on marketing and communications.

Nick Reilly
Head of international operations

Current head of GM Asia, will oversee all international operations from a base in Shanghai. Reilly has held several international posts and was the first chief executive on GM's Daewoo venture in South Korea.



Ed Whitacre
Chairman

Former executive who turned AT&T into the world's largest telecommunications company. He was recruited by the Obama administration and is orchestrating the restructuring of GM's board.

Photo credits: Getty Images (Henderson); Associated Press (Lutz, Whitacre); Bloomberg News (Reilly)

General Motors Co. kicked off a new era following its exit from bankruptcy protection on Friday, with Chief Executive Frederick "Fritz" Henderson promising to transform the auto maker into a leaner and more customer-focused company.

The new company will put a premium on speed, accountability and risk taking, and root out the layers of management that had hobbled decision making, he said at a news conference.

"Business as usual is over at GM," Mr. Henderson said. "Everyone at GM must realize this and be prepared to change, and fast."

In a preview of a broader management shakeup to come, Mr. Henderson said the company was scrapping a number of senior posts and has disbanded two committees of top executives that made key decisions for the company's automotive operations. Mr. Henderson expects hundreds of middle managers to be let go in the weeks ahead, and the company's sales and marketing operation will be reorganized.

"Our culture to this point has been an impediment," Mr. Henderson, a 25-year GM veteran, said. "This is all about flattening the management structure."

Mr. Henderson said he is adopting some techniques used by the alliance of Renault SA and Nissan Motor Co., led by Carlos Ghosn. Several of GM's highest-ranking executives studied Mr. Ghosn's approach in 2006 while GM's board weighed a potential merger with Nissan-Renault.

Mr. Henderson and his top lieutenants also are planning to hit the road in August to talk to dealers and consumers to gain insight into the U.S. market. In the past, GM based much of its decision making on market-research studies, focus groups and strategy meetings among executives. Dealers said the company needs to reconnect with consumers.

Jason Warren, a sales manager at Community Chevrolet in Burbank, Calif., said customers often are concerned that if they buy a new Chevrolet, there won't be a company to service it down the road. He said the sales team's job now is not to persuade customers to buy, but to convince them the company isn't about to disappear.

"Just last week, I went out to say hi to a customer," Mr. Warren said. "And the first thing he said was, 'So, when are you guys closing?' " With the economy sputtering and California housing prices in a deep slump, Mr. Warren said his dealership has seen sales fall to 50 cars a month from 250 to 300 a few years ago. His sales team has shrunk to 10 from 25.

Mr. Henderson also plans to engage in Web chats and to field criticism and suggestions on an "Ask Fritz" Web site.

GM said it also will start a pilot program with **eBay** Inc. aimed at potentially introducing a new avenue for buyers. The online-auction site, however, suggested Friday the announcement was premature. "At this time, no plans have been finalized with General Motors. We hope to support GM's new company and vision going forward," the San Jose, Calif., said in a statement.

GM filed for bankruptcy protection June 1. Friday morning, General Motors Corp.'s best assets, such as its Chevrolet and Cadillac brands, were sold to a new company—General Motors Co.

The 40-day stay in bankruptcy reorganization left the company with lower costs, a lighter debt load and four automotive brands instead of eight. The new GM is also getting several new directors appointed by the U.S. government, which now owns 60% of the company thanks to $50 billion it committed to invest in the auto maker.

Mr. Henderson expects hundreds of middle managers to go in coming weeks.

"We all want to win, and we are going to win," said Edward E. Whitacre Jr., the former AT&T chief executive selected to serve as chairman by the Obama administration's auto task force. "I know most Americans want this company to succeed [and] we certainly have the fundamentals" to do so, Mr. Whitacre said.

Mr. Henderson has been leading GM since the late-March ouster of former CEO Rick Wagoner. From his first day, the 50-year-old Mr. Henderson has set a tone of urgency, first by embracing the possibility of a bankruptcy filing and then taking tougher actions than Mr. Wagoner when it came to downsizing.

"There certainly is no question who is the leader," said Wisconsin car dealer John Bergstrom, the owner of several GM stores. "Now we need to get back to total focus on selling cars and trucks."

The government made his task easier in recent weeks when it decided to convert nearly all of the money it provided GM into a 60% equity stake. The United Auto Workers union, bondholders and the Canadian government followed suit, converting billions into sizable minority stakes in the new GM. Mr. Henderson said he plans to repay the government loans before the 2015 due date.

In an interview Friday, GM Chief Financial Officer Ray Young said the company will spend the next few weeks forecasting whether it needs as much as the government has offered and trying to accelerate repayment of the government loans.

Among the first moves Mr. Henderson will make will be moving longtime product czar Bob Lutz, who planned to retire at year's end, from the design studio to the marketing department. After building a career on creating automotive hits ranging from the Ford Explorer to Dodge Viper, Mr. Lutz, 77 years old, will return to his professional roots and run marketing and communications.

"It's the other half of the business that I didn't have before, and I found that somewhat frustrating," Mr. Lutz said. "My entire academic and professional background is in marketing; I was practicing without a license in product development."

Nick Reilly, head of GM Asia, will oversee international operations from Shanghai. An increasing amount of GM's sales come from outside North America, including China. Mr. Henderson said the company will consider introducing fresh blood into the executive suite but said the task will be hindered by the stringent compensation oversight GM is under because of the government bailout.

One executive not expected to work long for the new GM is sales and marketing chief Mark LaNeve. Mr. LaNeve has been laboring for several years to salvage GM's image in the U.S. and stanch market-share losses without heavy use of sales incentives. GM, however, continues to lose considerable market share on an annual basis and spends far more than Toyota Motor Corp. or Honda Motor Co. on U.S. vehicle incentives.

—Sabrina Shankman contributed to this article.

Beijing Auto seeks global growth

By Norihiko Shirouzu

BEIJING—**Beijing Automotive Industry Holding** Co. sees a possible acquisition of **General Motors** Co.'s Adam Opel GmbH unit as a centerpiece of its effort to gain a global presence and to survive a looming consolidation of China's auto industry, a top executive of the Chinese company said.

In an interview, the executive said Beijing Auto would aim to build Opel's brand in China if it wins the contest for the German company. "We need to be more global," said the senior Beijing Auto executive, who is closely involved in the company's bid for Opel. "And Opel is underrepresented" around the world, and "needs to penetrate the global market place as well," he said. Amid the current shake-up of the global auto industry, "you need to be a global player to survive," he said.

Beijing Auto so far hasn't publicly discussed its bid for Opel, which is up against two other competing bids. One potential hurdle for the Chinese government-owned company, analysts say, has been the concern that it could turn Opel into a competitor for GM in China, the only major car market still growing and one of the few bright points in GM's global business in recent years.

The Beijing Auto executive, however, argued that its strategy would benefit GM, which would continue to own 49% of Opel under Beijing Auto's plan. Beijing Auto is offering to invest €660 million ($921 million) for a 51% stake in Opel.

The executive said that a deal would give GM a second partner in China, which is on track to surpass the U.S. this year as the world's biggest vehicle market by unit sales, the executive said. GM currently has only one primary local partner, **Shanghai Automotive Industry** Corp., whereas rivals such as Germany's **Volkswagen** AG and Japan's **Toyota Motor** Corp. have two joint-venture partners to produce and market cars in China.

Opel, now largely focused on Europe, "has a very good growth potential in China," the Beijing Auto executive said. Beijing Auto is expected to set up a distribution network of dealers for the cars.

The executive said Beijing Auto plans to pay for the Opel acquisition, should it win the bidding, with bank loans and with money raised from a small group of investors. He wouldn't say who those investors are.

GM hasn't publicly commented on Beijing Auto's bid. Last week a person close to GM called Beijing Auto "a formidable bidder."

In May GM signed a memorandum of understanding to sell a majority stake in Opel and British sister brand Vauxhall to a group led by Canadian auto-parts supplier **Magna International** Inc. Magna's group is offering to invest at least €500 million in Opel and is seeking €4.5 billion in loan guarantees from the German government. Beijing Auto is asking for €2.64 billion in German government guarantees.

China bid
Beijing Auto sees an Opel acquisition as a way to become a global player

Beijing Automotive Industry Holding

Number of employees: 48,000

Major operations:

- Joint venture with Hyundai Motor Co.
- Joint venture with Daimler AG
- Foton Motor commercial vehicle maker
- Beijing Auto Works (BAW)
- 22 auto parts joint ventures with Delphi, Johnson Control and others

Sales: Sold 780,000 vehicles in 2008 and is aiming to sell one million vehicles this year

The Beijing Auto display at the auto show in Beijing last year.

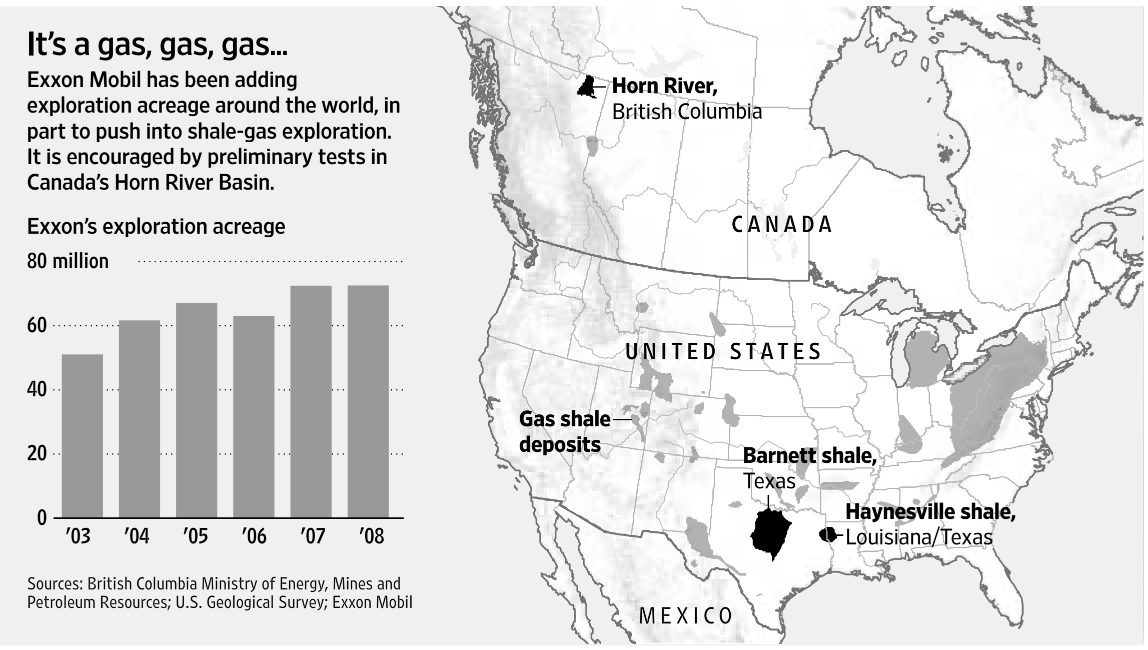
Sources: the company; Associated Press (photo)

CORPORATE NEWS

Exxon shale-gas find looks large

Firm's Canada wells show abundance in early results

By Russell Gold



HOUSTON—**Exxon Mobil** Corp. has been scouring the globe for natural gas locked inside shale formations, and said it thinks it may have a world-class find in Canada.

In an interview with The Wall Street Journal, Tim Cejka, Exxon's head of global exploration, said the company has been bullish on shale-gas exploration since 2003, locating promising gas-bearing rock formations and snapping up leases on them.

Exxon is most encouraged by the exploration of 250,000 acres, or 100,000 hectares, it has leased in the Horn River Basin, in northern British Columbia. Mr. Cejka said results from the first four wells lead the company to conclude that each well will produce between 16 million and 18 million cubic feet of gas a day.

That's five times the size of average wells in Texas's Barnett shale and comparable to big wells in Louisiana's Haynesville shale, two major shale-gas fields that already have moved the U.S. natural-gas market from scarcity to abundance.

Though Exxon is better known as the U.S.'s largest oil company, "We are really interested in shale gas," Mr. Cejka said, detailing the company's push into the energy-exploration business, which was once dominated by scrappy independent companies.

Given that the world is awash with natural gas already, the addition of still more gas from shale fields in Canada and Europe could further depress prices, especially as industrial demand continues to stagnate amid the global economic downturn. But Exxon is taking a longer view.

"The industry is going to have to bring on oil, gas, coal, nuclear, hydro, wind and solar to meet the world's energy demand," Mr. Cejka said. "The economies of the world will come back. Demand will grow again. We are going to be there for the next 20, 30, 40, 50 years."

Other energy companies also are excited about the Horn River field. "This may be the best shale play in North America," said Michael Graham, an executive vice president at **EnCana** Corp., a Calgary company that already has a big Horn River presence. Mr. Graham said EnCana's latest wells are approaching Exxon's in terms of initial production.

Exxon's Mr. Cejka said that his company also has pieced together substantial leases in prospective shale-gas formations in Germany, Hungary and Poland, and is still adding acreage. Tests on two wells in Hungary, where Exxon and partners hold 400,000 acres, or 160,000 hectares, are expected this year. It will be the first time the shale there has been tested.

The company also plans 10 wells on 750,000 acres, or 300,000 hectares, it holds in northern Germany's Lower Saxony Basin this year to better study the geology.

Exxon is interested in all these projects because the amount of gas trapped in shales is enormous. The company estimates there are one quadrillion cubic feet of shale gas worldwide, equal to about a decade's worth of global natural-gas demand, though not all of that is currently recoverable.

Shale gas is one of the "unconventional" gases that are trapped in dense rocks, rather than in porous rocks that form underground reservoirs. To reach it, energy companies must crack the rocks open by injecting them with high-pressure liquids. Improvements over the past few years in the technology to fracture dense rocks and drill vertical wells that turn and run horizontally underground have made it possible to develop unconventional gas.

Before the emergence of the Barnett and other shales, the industry expected the U.S. to become a big net importer of gas by 2009. Instead, the U.S. faces a glut that has driven natural-gas prices below $3.50 per million British thermal units, down 39% this year, and kept imports of liquefied natural gas at anemic levels.

Earlier this decade, companies such as **Devon Energy** Corp. and **Chesapeake Energy** Corp., both based in Oklahoma City, were among the first to use the shale-gas extraction technique. Their success spawned a host of imitators and competition for acreage in Louisiana, Arkansas, Texas, Pennsylvania and elsewhere.

Rather than compete with these smaller exploration companies, Exxon began looking for shale formations that were outside the U.S., but near major energy markets. The strategy set it apart from its big globe-trotting competitors, which built up unconventional-gas reserves through acquisition. **BP** PLC, for instance, spent $3.65 billion on a pair of deals with Chesapeake. **Royal Dutch Shell** PLC spent $6 billion to acquire Canadian Duvernay Oil Corp. and its acreage in a prospective unconventional-gas formation.

So far, companies are drilling for shale gas only in North America and to a lesser extent in eastern Australia, said Rhodri Thomas, head of consulting firm Wood Mackenzie, in Edinburgh, Scotland.

"Where we've successfully developed these, the volume of the resource has changed the gas market dramatically," he said.

Libya near decision on Canadian oil firm sale

By Spencer Swartz

After months of delay, the Libyan government is close to deciding whether to allow the sale of a small Canadian oil exploration firm with operations in the country, resolving a drawn-out saga that has highlighted the reasons why Libya's oil sector hasn't blossomed since it reopened in 2005.

In February, Calgary-based **Verenex Energy** Inc. announced it would sell itself to **China National Petroleum** Corp. for roughly $430 million. The state-run company wants Verenex for the sizable crude reserves it has discovered in Libya.

But the deal has been waylaid for five months by the Libyan government, wreaking havoc with Verenex's operations and share price and causing the Canadian government to register its concern with Libyan authorities over its handling of the issue.

Libya says it will either allow the CNPC deal to go forward; deny it on the basis of national interests; or purchase Verenex itself, invoking a clause in Verenex's drilling contract with Libya that allows the state to take over a deal if it sees fit.

"All things are under consideration and we hope to reach a decision by August, if not before," said Shokri Ghanem, head of Libya's national oil company.

The case has underlined both the promise of Libya's big untapped proven oil reserves, the eighth-largest in the world, and the hazards of doing business in the North African country more than five years after international sanctions against it were dropped.

The reopening of Libya's state-run oil sector in 2005 to foreign oil companies promised potential profits for Libya, isolated for years by economic sanctions for its support of terrorist activity, and new supply for the world oil market.

Western oil companies, largely blocked from pumping crude in most other big petroleum countries, were keen to get access to an oil state widely viewed by analysts as underexplored.

But despite signing billions of dollars worth of drilling deals the past four years with firms like France's **Total SA**, Libya's state oil company in June slashed its production forecast to 2013 by nearly 25% to 2.3 million barrels a day. Some analysts say Libya, with a current production capacity of about 1.8 million barrels a day, may even miss that lower target.

Verenex's situation helps illustrate how Libya's medium-term production prospects have flopped. A big complaint is that government decision-making is often gummed up by too many departments that aren't transparent, causing it to lag behind many other oil states, such as Saudi Arabia, analysts say.

"The decision delays we see by the government are a problem for companies and hurt [oil drilling] work programs," said Susan Mance, an analyst at Wood Mackenzie. She added the delays highlight a long-term oil market concern about "above-ground" issues hampering the timely delivery of new oil supply.

In an interview, Verenex Chief Executive Jim McFarland said his company has halted all drilling in the country in recent days because of the government "unreasonably withholding" a decision on CNPC's buyout offer.

Mr. Ghanem, Libya's top oil official, declined further comment on details of the Verenex case.

Verenex and its non-operator partner, **PT Medco Energi** of Indonesia, are aiming to start pumping 50,000 barrels a day of Libyan crude by 2011 and five times that amount in the next decade. The two firms have collectively sunk $311 million into their Libyan operations.

To add to the uncertainty, Libya announced in June it was investigating whether Verenex may have improperly qualified for the 2005 oil licensing round in which it was awarded operator of one oil field. The announcement sent Verenex shares tumbling more than 20% and led some analysts to downgrade the company's stock.

With the charge coming four years after the bidding round, analysts say the investigation could be a ploy to force Verenex to sell itself to the government at a discount to CNPC's offer. CNPC agreed to purchase Verenex for 10 Canadian dollars a share (US$8.59). The price is about a 70% premium to Verenex shares' Friday close of C$5.87 on the Toronto Stock Exchange.

The government may also want more money from CNPC for green-lighting the company's buyout. CNPC is already required to pay the government an approval fee of $40.4 million.

Bourke convicted as U.S. crackdown on bribery grows

By Chad Bray
And Dionne Searcey

A federal jury in the U.S. convicted Connecticut investor Frederic Bourke Jr. on Friday of engaging in a scheme to bribe Azerbaijan government officials, marking a big victory for the Justice Department as it ratchets up its pursuit of overseas corruption.

Mr. Bourke, co-founder of the **Dooney & Bourke** handbag company, was found guilty in U.S. District Court in Manhattan of conspiracy to violate the Foreign Corrupt Practices Act and the travel act and making false statements to federal law-enforcement officials. Each count carries a term of as long as five years in prison. The jury found him not guilty on a single count of money-laundering conspiracy.

Prosecutors accused Mr. Bourke of bribing officials in Azerbaijan in connection with the privatization of **State Oil Co. of the Azerbaijan Republic**, known as Socar.

The conviction is a boost for the Justice Department's push to crack down on overseas bribery of government officials. The department is investigating at least 120 companies for violations of the Foreign Corrupt Practices Act. A decade ago only a handful of companies were in its sights.

Mr. Bourke's trial on foreign-corruption charges is rare; most companies and individuals facing similar charges in recent years have reached plea agreements or settlements with the department. Former Congressman William Jefferson is facing similar charges in a trial in a Virginia federal court, with prosecutors alleging he intended to bribe Nigerian officials with $100,000 cash federal officials found stashed in his freezer.

Prosecutors from the U.S. attorney's office in Manhattan had alleged Mr. Bourke was aware of an improper plot by Viktor Kozeny, president and chairman of Oily Rock Group Ltd., to bribe Azeri officials in the late 1990s to allow Mr. Kozeny's investment consortium to buy a stake in the state oil company.

Mr. Bourke met Mr. Kozeny when they were neighbors in Aspen, Colo., where Mr. Kozeny allegedly convinced Mr. Bourke to invest in his scheme, prosecutors said. Mr. Kozeny, who is facing federal criminal charges as well as state larceny charges, is in the Bahamas where he has so far has successfully fought extradition to the U.S.

During his opening statement last month, Robertson Park, a Justice Department lawyer, said Mr. Bourke invested with Oily Rock, sought details about the underlying scheme and asked people working with Mr. Kozeny several times as the scheme went along if Mr. Kozeny was "paying the Azeris enough money," Mr. Park said. Mr. Bourke invested more than $5 million personally in Oily Rock.

In her opening statement last month, Saskia Jordan, a lawyer for Mr. Bourke, said her client was a victim and that Mr. Bourke's "zeal for justice" led to her client to be prosecuted. Mr. Bourke had cooperated with federal investigators, succumbing to extensive interviews. She said that Mr. Kozeny tried to hide the scheme because he knew Mr. Bourke and other wealthy investors, which included former U.S. Sen. George Mitchell, would back out at the mention of anything illegal.

Veolia's U.S. transit deal

New Orleans system looks for savings with outsourcing

By Christopher Conkey

New Orleans plans to outsource nearly every aspect of its mass-transit system to a French company, an approach that could appeal to other cash-strapped American cities looking to cut spending without eliminating bus or rail services.

Under terms of a deal struck earlier this month, the New Orleans Regional Transit Authority will pay a subsidiary of **Veolia Environnement** about $56.3 million each year, and potentially $600 million over the next decade, to finance, manage and operate the city's bus and streetcar lines.

The deal could save Norta—which spends about $72 million a year to run its system—as much as 30%, according to Chairman Cesar Burgos.

"This is a model that will grow jobs...and create an enormous opportunity for cities," said Mark Joseph, chief executive of Veolia's transportation unit.

It is unusual for a big-city transit agency in the U.S. to delegate so much control to a private company, but the New Orleans deal shows how far some cities may go to preserve key services as the recession drags on. Across the country, the traditional revenue streams that transit agencies rely on are declining, but interest in bus and rail service is growing. The economic-stimulus package will eventually provide transit agencies an additional $8.4 billion to bolster capital needs, but that won't solve the larger challenge of paying for day-to-day operations as labor costs rise.

Faced with a budget crunch, an increasing number of cities may join New Orleans in seeking to curb costs by turning operations over to private companies that can potentially run systems more efficiently.

Officials in Savannah, Ga., are negotiating a similar contract with Veolia to the one New Orleans worked out. Patrick Shay, a board member of the regional authority who has been involved in the talks, says Savannah needs help in areas ranging from software to supply-chain management in order to improve its bus system. "Veolia can bring additional resources to the table that we as a relatively small system can't," Mr. Shay said.

In the Phoenix area, Valley Metro's new 30-kilometer light-rail line is being operated by private contractor Alternate Concepts Inc., and the transit authority plans 60 kilometers of new rail service in the years ahead. Already, Valley Metro outsources its bus services.

"We live, breathe and eat with our contractors," said Susan Tierney, a Valley Metro spokeswoman.

In April, the transit authority in Houston awarded a $1.5 billion contract to Parsons Transportation Group to build, operate and maintain four new light-rail lines. Transit agencies in Dallas and Fort Worth, Texas, are seeking a private partner to finance, build, maintain and run a 100-kilometer passenger-rail network starting in 2013.

Outsourcing, particularly the kind of wholesale delegation coming to New Orleans, can't work for every transit agency. In Los Angeles, the Metropolitan Transit Authority contracts out service on 21 of its 200 bus lines at savings of roughly $45 per hour of operation, according to spokesman Rick Jager. Despite the savings, Mr. Jager says the authority has no further plans to outsource because labor agreements with its unionized work force prevent it.

Many agencies with older systems "can't get off first base with contracting because the labor unions are so powerful," said Cal Marsella, general manager at Denver's Regional Transportation District. "It's basically, you'll pay as much as we demand, or we'll shut the city down."

Mr. Marsella's authority outsources about 47% of its fixed-route bus service to Veolia and Ohio-based First Transit Inc. Buses operated by the companies are on time at roughly the same rate as the buses driven by RTD employees, Mr. Marsella says, but the privately run buses produce a 30% cost savings. Among the reasons: Starting pay for bus drivers employed by RTD is $15.49 per hour, versus $12.25 for ones the companies hire.

In New Orleans, the city's unionized bus drivers will become Veolia employees, and their labor agreements will be honored, Veolia's Mr. Joseph said.

Miner Anglo American names a new chairman

By Dana Cimilluca
And Guy Chazan

LONDON—Global mining giant **Anglo American** PLC named veteran executive Sir John Parker as its new chairman, as the company seeks to ward off an unwelcome approach from rival **Xstrata** PLC.

Sir John, who will take over the chairmanship Aug. 1 from Sir Mark Moody-Stuart, joins a company widely perceived to be underperforming its rivals in the sector—and which angered shareholders by cutting its dividend in February. Last month, Anglo rejected Xstrata's proposed merger that could displace **Rio Tinto** as the world's third-largest miner by market value, saying the terms were "totally unacceptable."

Cynthia Carroll

Sir John's appointment has raised questions as to whether someone with a fresh perspective will be more receptive to Xstrata, which has unsuccessfully sought negotiations between the two companies. Analysts have also questioned whether the company's embattled chief executive, Cynthia Carroll, will enjoy the support of a new chairman.

In an interview, Sir John said Ms. Carroll has his "full support," but added that he would "hold management accountable for delivering" value. Stressing that he didn't want to make "judgments from the sidelines," he said of the rejection of the Xstrata approach that "on the face of it they've been well advised and have taken the right decision."

Anglo's options in fending off Xstrata may be limited though.

One option Anglo is considering is selling a minority stake in its Minas-Rio iron-ore mine in Brazil, possibly to an Asian entity, people familiar with the matter said. Such a move could help Anglo boost its profits by speeding development of the project. The challenge for the company in such a move would be getting an acceptable price. The company bought Minas-Rio in a $6.7 billion deal in 2008. Any deal valuing the mine at significantly less than that could reinforce criticism of Ms. Carroll's leadership.

Investors welcomed Mr. Parker's appointment. "My hope is that he will be more responsive to shareholder sentiment," said Matt Brenzel, portfolio manager at Cadiz African Harvest Asset Management, a shareholder in Anglo. "There's a big desire [among investors] for an Anglo-Xstrata merger to go through."

Some analysts said the arrival of Sir John would increase the probability of a deal—either with Xstrata or another big player, like Brazil's **Cia. Vale do Rio Doce**.

"We believe this appointment weighs in favor of future dialogue between Anglo and another strategic party," said Michael Rawlinson at Liberum Capital. He added, though, that it "extends the timetable by three to four months at the very least," since Sir John will need time to assess the company.

Born in Northern Ireland into a farming family, and with a background in shipbuilding, Sir John, 67 years old, is a widely respected figure in British business. He has chaired eight listed companies and is currently chairman of U.K. utility **National Grid** PLC, a post he will retain.

—Jeffrey Sparshott contributed to this article.

Toyota considers closing factory after GM pulls out

By Kate Linebaugh

Toyota Motor Corp. said it is considering closing a vehicle-assembly plant in California that it jointly operates with **General Motors** Co. after the U.S. auto maker decided to pull out.

"We need to determine whether it can be economically feasible to contract with Nummi without GM," Toyota said in a statement referring to the plant, called New United Motor Manufacturing Inc. "Under the current business circumstances, Toyota regrettably must also consider taking necessary steps to dissolve the joint venture."

Nummi has mostly been a money-losing operation since GM and Toyota established the partnership in 1984. GM announced last month that it was going to pull out of the plant, where the auto maker produces the Pontiac Vibe. Toyota said GM's decision to end its involvement has "prompted a set of difficult and complex decisions for Toyota."

Toyota, which posted its first annual loss in 58 years last year, is struggling with excess North American capacity and slowing vehicle sales that will lead the company to project another loss for this fiscal year, ending March 31, 2010.

The decision on what to do with Nummi involves weighing the political sensitivity surrounding the plant's future against the economic realities of the global auto industry. Because of its location in the San Francisco Bay area, the 4,600-worker Nummi facility is a high-cost plant for the Japanese auto maker.

Akio Toyoda, the 53-year-old great-grandson of Toyota's founder, took over the company last month. In his first news conference as Toyota president, he pledged not to shutter any plants despite difficulties in Japan, North America and elsewhere.

Nummi makes the Pontiac Vibe car for GM and the Corolla compact car and Tacoma pickup truck for Toyota. One of the plant's purposes was to have GM and American workers learn Toyota's production methods. For Toyota, Nummi served as a beachhead for it to push deeper into the U.S. market and a learning lab to figure out how to effectively use American labor within the Japanese company's "lean manufacturing" system. Toyota has since built more than a dozen manufacturing facilities in North America, including seven plants that assemble most of the company's U.S.-sold vehicles.

Hubs secure their spokes

U.S. airports step up incentives so routes, carriers don't take off

BY JOEL MILLMAN AND MIKE ESTERL

PORTLAND, Ore.—Portland is one of a handful of cities willing to pay big bucks to keep it connected with the rest of the world.

The city's port authority voted last week to make a one-time cash payment of $3.5 million to **Delta Air Lines** Inc. to maintain the city's only direct link to Asia, a daily nonstop flight to Tokyo that the carrier had planned to terminate in September.

Deutsche Lufthansa AG confirmed last week that it would end its Portland-Frankfurt route in September because it wasn't profitable, leaving Delta's nonstop to Amsterdam as Portland's sole direct link to Europe. Last year Portland lost its only scheduled nonstop service to Latin America, a Mexicana Airlines flight to Guadalajara.

Virginia M. Cahill

Port officials in Portland, Ore., say direct Tokyo flights generate $61.2 million in annual economic impact to the region.

Smaller cities in the U.S. are ramping up subsidies to keep airlines from cutting routes as a stiff recession sends air traffic tumbling. "Airports are desperate," said Brian Busey, co-leader of the aviation practice at the law firm Morrison Foerster LLP in Washington.

Incentive programs have become increasingly common in recent years as airports and communities recruit carriers to fly routes that wouldn't otherwise be profitable. A longstanding federal program also provides funding to connect small cities by air.

But the Portland pact with Delta points to a new trend in which airports are giving away money to simply retain airline routes rather than recruit new ones. The direct payment also departs from typical deals that waive landing fees, share in marketing expenses or provide revenue guarantees.

Peter Kirsch, a partner at Kaplan Kirsch & Rockwell LLP in Denver, said his law firm is advising "several" U.S. airports on possible retention deals with airlines on domestic and international routes. Portland's pact extends Delta's Tokyo service until May.

In lobbying for the deal, Port of Portland officials said direct Tokyo flights generate $61.2 million in annual economic impacts to the region, helping local companies more effectively compete in the global marketplace.

David Zielke, Port of Portland's manager for air services, told port commissioners the pact would allow Portland to continue being the country's smallest city with both trans-Pacific and trans-Atlantic air links. The city has about 575,000 residents, with a metro-area population of more than two million.

Recession-battered airlines are expected to post $9 billion in losses globally this year, including a $1 billion loss among North American airlines, according to the International Air Transport Association. Passenger revenue globally and in the U.S. fell about 30% in May from a year earlier.

Airlines are continuing to scale back flights to trim losses. Seat capacity has shrunk by more than 5% since last year. But midsize airports have suffered a particularly steep falloff in international passenger traffic. Scheduled cross-border flights at such U.S. airports—including Portland's—are down 25% this month from a year earlier, according to the Airports Council International-North America, an umbrella group for airports.

Major airlines' traffic through Portland declined nearly 6% last year to less than 10 million passengers, said Bill Wyatt, executive director of the Port of Portland. Through the first six months of 2009, traffic was down 13% from a year earlier, he said.

Tucson International Airport in Arizona is weighing an incentive program to try to restart cross-border flights. Despite its name, the airport hasn't had any international routes since Aeromexico stopped flying to Hermosillo, Mexico, in September.

Pittsburgh International Airport inked a pact with Delta in February to launch service to Paris—the city's first direct European link in several years. To attract Delta, the airport authority agreed to waive landing fees for two years and kick in $300,000 in marketing funds. A local economic-development group provided revenue guarantees.

Such incentives are "especially important given the current economic recession," said Deborah McElroy, a vice president of policy in Washington at Airports Council International, the industry group.

To pass muster with the Federal Aviation Authority, Portland wasn't allowed to use airport revenue to pay Delta. The money will come from general funds of the Port of Portland. It also would have to offer the same financial support to any other carrier that wants to offer the service.

Continental is cleared to join global alliance

BY SUSAN CAREY

The U.S. Department of Transportation gave final approval for **Continental Airlines** Inc. to enter a cooperative agreement with nine other airlines for international routes, largely brushing aside concerns from the Justice Department.

The DOT order came two weeks after the Justice Department blasted the plan as harmful to consumers and competition. The order gave the Star Alliance airlines nearly everything they wanted and imposed only modest concessions.

The DOT, which has sole authority to give antitrust immunity to international airline cooperation pacts, granted a provisional go-ahead to the plan in early April and had been expected to issue its final order on June 1. But behind-the-scenes wrangling with new appointees at the Justice Department delayed the timetable.

The Justice Department weighed in late last month with a lengthy statement of concerns, and called for the DOT to scale back the plan. It asked that the airlines be limited to cooperating in trans-Atlantic markets and that overseas routes where they offer overlapping service be excluded.

Justice Department officials also raised concerns about international cooperation spilling over and tainting the planned domestic code-sharing relationship between Continental and **UAL** Corp.'s United Airlines. Such arrangements, in which airlines feed each other passengers, aren't allowed to involve fares or capacity because that would be collusive.

"We are pleased that DOT addressed some of our antitrust concerns about competition in certain overlapping markets," said Department of Justice spokeswoman Gina Talamona. "The department ... recognizes that DOT is the final decision maker on airline antitrust immunity issues."

Some observers saw the Justice Department's belated broadside as the latest sign of tougher antitrust scrutiny under the new Democratic administration. The department already is looking into whether large telecommunications companies are abusing their market power, investigating **Google** Inc.'s settlement with authors and publishers over its Book Search product and targeting payments pharmaceutical producers sometimes make to generic-drug makers to delay cheap copies of medicine.

While the DOT didn't bend as much as some in the airline industry anticipated, the objection by the Justice Department was viewed by some as a sign that the department intends to try to curb an airline model that has been accepted practice for nearly two decades.

The DOT's order could bode well for **AMR** Corp.'s American Airlines, which is seeking immunity so it can more closely cooperate with **British Airways** PLC and **Iberia Lineas Aereas de Espana** SA across the Atlantic. American is hoping the DOT will render a decision by late October.

The DOT said it gave Continental antitrust immunity to join Star and participate in a four-carrier joint venture within the alliance because it will support increased service in international markets, shorten travel times and reduce fares. The four-way venture will allow Continental, United, **Deutsche Lufthansa** AG and **ACE Aviation Holdings** Inc.'s Air Canada to jointly set capacity, sales and marketing and share revenue in many international markets.

—Elizabeth Williamson contributed to this article.

Lufthansa takeover faces hurdles

BY PEPPI KIVINIEMI

Deutsche Lufthansa AG's chances of taking over troubled Austrian Airlines are fading fast after the European Commission said Friday it is unlikely to receive antitrust clearance before a deadline at the end of July.

A Lufthansa deal would keep the ailing Austrian Airlines from failing. But Lufthansa has said the deal hinges on approval from the commission—which is concerned that the combined airline would have too big a share of some key European routes.

The airline submitted an informal proposal of antitrust remedies to the commission Friday, but failed to adequately address the commission's concerns, said Jonathan Todd, the commission spokesman for competition issues. "Regrettably, these revised remedies are worse than what was offered before," he said.

The commission won't be in a position to make a decision by the end of the month, which Lufthansa has said is a paramount condition for the deal, "unless there is a miracle," said Mr. Todd.

A Lufthansa spokeswoman said the airline already made far-reaching concessions to European regulators years back when it formed a cooperative alliance with Austrian Airlines.If the €4.49 ($6.25) a share offer were to fall through, it wouldn't necessarily be bad news for Lufthansa, said Merck Finck analyst Robert Heberger. The deal might offer more risks than opportunities in the current environment, he added.

"We are in constant contact with both Lufthansa and the European Commission, and we are convinced that they are both working hard to reach a solution," said Daniel Kapp, spokesman for Austrian Finance Minister Josef Pröll. "It is our clear impression that both sides are working towards a compromise."

Should the sale fail, Austrian Airlines could eventually have to file for insolvency. Austrian Airlines reported a net loss of €429.5 million in 2008, and another of €88.1 million in the first quarter of 2009. It has received a €200 million bridge loan from the Austrian state to help keep it afloat until the closing of the sale.

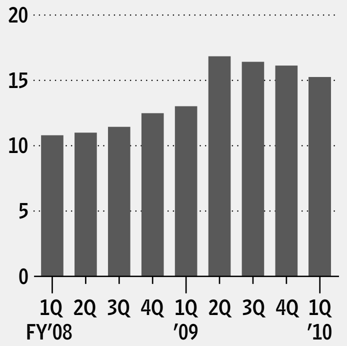
Austrian Airlines Chief Executive Andreas Bierwirth has previously estimated that the airline will need to shed half of its roughly 100 aircraft to regain profitability without Lufthansa. Peter Michaelis, head of the state holding company that is the controlling shareholder of Austrian Airlines, said: "What would be left wouldn't be an Austrian Airlines. It would rather be Vienna Airlines."

—Flemming Hansen in Vienna and Erin Fines in Frankfurt contributed to this article.

CORPORATE NEWS

Infosys Technologies

Net profit, in billions of rupees



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

Infosys reports 17% rise in net as sales increase

By Romit Guha And Rumman Ahmed

BANGALORE, India—**Infosys Technologies** Ltd. posted a 17% rise in quarterly profit, but cut its full-year forecast in rupee terms, reflecting the the currency's sharp gains.

Infosys, India's second-largest software exporter by sales after **Tata Consultancy Services** Ltd., raised the lower end of its full-year earnings forecast in dollar terms, as the currency has fallen against its European counterparts, Chief Executive S. Gopalakrishnan said.

Bangalore-based Infosys is the first major Indian technology firm to report quarterly earnings, and its results are often considered a bellwether. Its results raised expectations that TCS, **Wipro** Ltd. and **HCL Technologies** Ltd. will also report stronger-than-expected numbers.

Infosys's consolidated net profit for the three months ended June 30 rose to 15.27 billion rupees ($314.3 million), or 26.66 rupees a share, from 13.02 billion rupees, or 22.75 rupees a share, a year earlier.

Sales rose 13% to 54.72 billion rupees from 48.54 billion rupees a year earlier, helped by the addition of 27 new clients.

In dollar terms, the company's first-quarter revenue declined 3% from a year earlier to $1.12 billion, while profit rose 2% to $313 million, or 55 cents a American depositary share.

The company expects revenue of $4.45 billion to $4.52 billion for its fiscal year that began April 1, down 4.6% to 3.1% from a year earlier.

For the current fiscal year, the company now expects margins to be one percentage point to 1.5 percentage points lower than a year earlier. The company earlier had forecast a decline of three percentage points.

News Corp. rebuts claims

Company calls allegations on tactics 'unsubstantiated'

By Aaron O. Patrick

News Corp. issued a detailed rebuttal Friday to allegations that two of its U.K. tabloids used dubious and possibly illegal tactics to obtain personal information about high-profile figures, describing the reports as "irresponsible and unsubstantiated."

In a three-page statement issued through its U.K. newspaper arm, News International, News Corp. denied most aspects of the allegations raised in London's Guardian newspaper. The Guardian alleged that journalists at the Sun and the News of the World bought personal information from private investigators who used dubious and possibly illegal techniques to obtain the data.

The News of the World and the Sun are regarded as aggressive news gatherers even by the standards of Fleet Street. The Guardian's allegations threatened to become a political and legal headache for News Corp. in the U.K.—with several media lawyers encouraging individuals who think their privacy may have been breached to sue the company. The Crown Prosecution Service—the government's prosecution unit—said Thursday it will review its files on the case, a move that could lead to legal action.

News Corp. said it delayed responding while it checked the facts of what happened. "All of these irresponsible and unsubstantiated allegations against News of the World and other News International titles and its journalists are false," Friday's statement said.

The statement denied one particularly sensitive allegation: that News Corp. journalists had received information from voice mails of a former deputy prime minister, John Prescott.

The News Corp. statement showed that one aspect of the Guardian reports was correct: News of the World staff obtained information from a voice-mail account connected to Gordon Taylor, the head of a union for professional soccer players. News Corp. didn't address the Guardian's claim that it paid Mr. Taylor £700,000 ($1.1 million) in compensation and legal costs. Both sides agreed to keep the payment secret, the Guardian reported.

"Immediate steps were taken to resolve Mr. Taylor's complaint" when the News of the World's executives discovered in April 2008 that its staff accessed information from the voice-mail account, News Corp. said. "Neither this information nor any story arising from it was ever published," News Corp. said.

Mr. Taylor hasn't commented since the original Guardian report was published Wednesday.

In a statement Friday, the Guardian called on News International to publish the legal documents relating to Mr. Taylor's suit and asked the police to release details of its investigation into the News of the World.

Three years ago, a News of the World reporter, Clive Goodman, received a four-month jail sentence 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. Mr. Mulcaire got a six-month sentence.

News Corp. executives have said in the past that they believe Mr. Goodman was acting on his own. News Corp. owns Dow Jones, publisher of The Wall Street Journal.

Venture rejects Centrica offer

By *Lauren Pollack, James Herron and Selina Williams*

U.K. utility **Centrica** PLC on Friday launched a bid to buy the 71% stake it doesn't already own in gas producer **Venture Production** PLC, which rejected the offer as "opportunistic" and not reflective of the strategic value of its reserves and resources,

The offer, which values the company at £1.3 billion ($2.13 billion), is worth 845 pence a share, a 7.6% premium to Friday's closing price; some Venture investors were seeking more than 850 pence a share.

Centrica wants Venture to help solve a longstanding problem: a dwindling base of natural-gas reserves to supply its 15.5 million gas and electricity customers. The former unit of British Gas has found itself increasingly exposed to the U.K.'s volatile wholesale energy markets and vulnerable to competition from big European utilities.

In an effort to boost its reserves, Centrica has been buying up exploration acreage in Norway, Nigeria and the Caribbean. Most significantly, it boosted its electricity resources by buying 20% of the U.K.'s largest nuclear producer, British Energy, from **Electricité de France** SA earlier this year.

But transformative gas deals have been harder to come by.

Venture, which has 10 producing fields in the North Sea and East Irish Sea, nine in some stage of development and many exploration prospects, could be an expensive source of gas in a global context and has high operational and development costs compared with other opportunities, said Numis analyst Sanjeev Bahl.

The recent drop in both prices and demand for gas world-wide also could provide alternatives such as liquefied natural gas, he added. Centrica was able to buy plenty of LNG on the market last winter.

But in a statement, Venture said the value per barrel implied in Centrica's offer "is materially below the average achieved in the sale of comparable large North Sea asset portfolios in recent years."

In urging shareholders to reject the offer, it said the bid "substantially undervalues Venture given its near and long-term prospects and the strategic position and high quality of its U.K. gas reserves and resources."

Venture's hydrocarbon production in the first half of this year averaged 52,900 barrels of oil equivalent per day, the bulk of which was natural gas. Its proven and probable reserves total 240 million barrels of oil equivalent.

Centrica on Friday increased its stake in Venture to 29% from the 23.6% stake it acquired in March for 725 pence a share. Centrica shied away from a full takeover bid at the time and has pursued off-and-on talks with Venture's management since then. Last month, the panel that supervises corporate takeovers in the U.K. gave Centrica until Monday to make a bid or back off for at least six months.

If Venture investors reject this bid, Centrica wouldn't ba able to make another bid for 12 months without that panel's consent.

U.S. clears Lilly and Daiichi's Effient

By Peter Loftus

The U.S. Food and Drug Administration approved the blood-thinning drug Effient on Friday in a long-awaited victory for its developers, **Eli Lilly** & Co. and **Daiichi Sankyo** Co.

The drug, however, will carry a strong warning on its prescribing label alerting doctors that Effient can cause sometimes-fatal bleeding. The prominence of the warning, known as a boxed warning, could reduce the drug's commercial potential.

The FDA said it approved the drug, also known by the name of its active ingredient, prasugrel, to reduce the risk of blood clots in patients who undergo angioplasty, a common procedure to unblock a clogged artery.

Some analysts think Effient could be a big seller. It will compete with Plavix, the blockbuster anticlotting drug marketed by **Bristol-Myers Squibb** Co. and **Sanofi-Aventis** SA.

A spokeswoman for Indianapolis-based Lilly confirmed receipt of the FDA approval letter but declined to comment further. A spokeswoman for Daiichi, of Japan, couldn't be reached.

Lilly and Daiichi initially applied for FDA approval for the drug in late 2007 and had hoped for agency action by mid-2008.

But the FDA extended its review several times. An FDA advisory committee of outside experts in February recommended approval. A large patient study showed that prasugrel reduced the risk of heart attacks and related events versus Plavix but increased the risk of bleeding.

The FDA said the new drug shouldn't be used in patients with active pathological bleeding, a history of ministrokes or stroke, or an urgent need for surgery, including coronary artery bypass graft surgery.

"Effient offers physicians an alternative treatment for preventing dangerous blood clots from forming and causing a heart attack or stroke during or after an angioplasty procedure," said John Jenkins, director of the FDA's Office of New Drugs.

GLOBAL BUSINESS BRIEFS

Infineon Technologies AG

Apollo Global Management to get control in rights issue

Infineon Technologies AG said it will raise up to €725 million, or about $1 billion, in a rights issue that could make investor **Apollo Global Management** LLC the majority shareholder in the German semiconductor maker. Infineon will issue up to 337 million new shares at €2.15 ($3) each. Apollo, which is based in New York, agreed to acquire up to 326 million new, unsubscribed shares, subject to certain conditions, effectively underwriting the placement. Friday's announcement, which was widely expected, comes days after Infineon said it would sell its wire-line operations to U.S. private-equity firm Golden Gate Capital LLC for €250 million.

OAO Mechel

OAO **Mechel** said it plans to sign a deal in coming days to restructure $3.5 billion of its $5.8 billion in debt. The Russian coal and steel group said it doesn't plan more borrowing this year. Mechel in June said it wouldn't be able to survive as a going concern unless its creditors agreed to restructure its loans. The company made Friday's announcement after it posted a first-quarter net loss of $690.1 million, compared with a net profit of $500 million a year earlier. Mechel attributed the loss to lower demand for steel and coal and a loss of $592 million caused by the ruble's sharp drop against the dollar. Revenue fell 49% to $1.18 billion from $2.33 billion.

Mabey & Johnson Ltd.

Bridge builder **Mabey & Johnson** Ltd. will plead guilty to charges of corruption and breaching U.N. sanctions, a company executive said in court Friday. Company representatives appeared Friday in Westminster Magistrates Court. The charges relate to activities in Jamaica and Ghana between 1993 and 2001, and a violation of U.N. sanctions against Iraq in 2001-2002, the Serious Fraud Office said. The U.N. inquiry into the oil-for-food program had identified Mabey & Johnson as a company that paid kickbacks. "We deeply regret the past conduct of our company and we have committed to making a fresh start, wiping the slate clean of these offenses," Peter Lloyd, managing director of Mabey & Johnson, said outside court.

Nomura Holdings Inc.

Nomura Asset Management Co., a wholly owned unit of **Nomura Holdings** Inc., will buy a 35% stake in LIC Mutual Fund Asset Management Co. It will also acquire an equal stake in LIC Mutual Fund Trustee Co., Life Insurance Corp. of India said Saturday. Nomura will pay 3.08 billion rupees ($63.1 million) for the 35% stake in the asset-management company, which will include a capital infusion of 800 million rupees, LIC Mutual Fund Chief Executive Sushobhan Sarkar said. LIC Mutual Fund had 324.15 billion rupees in average assets under management in June. LIC Mutual Fund is ranked seventh in the Indian asset-management industry with a 4.8% market share.

—Compiled from staff and wire service reports.

Obama mixes encouragement, demands

Ghana speech is fourth major international address to stress mutual interests and then lay out needed changes

By Jonathan Weisman

ACCRA, Ghana—President Barack Obama, giving major addresses in four foreign capitals in his first half-year in office, has tried to define what aides call a new era of American diplomacy: a rhetorical balance of "tough" and "love."

In Prague, Cairo, Moscow and then here on Saturday, Mr. Obama tried to show his willingness to engage in diplomacy on the basis of mutual self-interests, aides say, and he defined his top concerns: nuclear proliferation, terrorism, energy security, and effective governance and development in the Third World.

But in all four speeches, lavish praise at the outset and an offer of seemingly endless U.S. resources were followed with forthright, often uncomfortable, demands.

To the Czechs, the president said Bush-era missile defenses would likely be deployed. To the Muslims, he said Israel must be accepted. Russians must respect the sovereignty of former Soviet states and end the Cold War mentality of a zero-sum game between superpowers. Africans must accept responsibility for continental poverty and instability.

Republicans have questioned the content of the speeches, calling Prague's disarmament pledges naive, l, the Moscow speech insufficiently critical of democratic abuses, and the speech here as overly generous. Some conservatives say the series has amounted to an "apology tour" for U.S. democratic lapses.

Even for Obama supporters, the question remains: Can words stir whole cultures and continents to action, and can the United States afford the president's quid in hope of that quo?

The promises made or reiterated in this foreign-policy opening

Agence France-Presse

U.S. President Barack Obama waves to the crowd in Accra, Ghana, Saturday, moments before departing for Washington.

are substantial, especially for a nation grappling with a domestic budget deficit approaching $2 trillion, and a president wrestling to pay for his domestic agenda.

In Ghana, he talked up a $63 billion, six-year global health initiative and the $3.5 billion he pledged in L'Aquila, Italy, for agricultural development. In Prague, he promised more resources for international inspection of nuclear weapons sites.

In Cairo, he spoke of $1.5 billion a year to build roads, schools, hospitals and businesses in Pakistan over the next five years; hundreds of millions more to help Pakistanis displaced by war; more than $2.8 billion for Afghan development, expanded student exchange programs with the Muslim world, more scholarships, investment in online learning for teachers and children, and a new online network "so a teenager in Kansas can communicate instantly with a teenager in Cairo."

That largess was aimed at buying something of less quantifiable value: stronger relations with old enemies and suspicious nations that could put Washington in a stronger position to isolate Iran and North Korea, advance arms control and nuclear non-proliferation, combat terrorism and secure energy resources.

"If you don't engage, then you have no chance to overcome tensions, hostilities, phobias, however you want to put it," another senior administration official said.

"The point we are making by identifying the four speeches is that early in his administration, the president has unmistakably laid out his national security priorities, defined America's interests, articulated a vision of universal principles, and spoken to a huge diversity of audiences around the world," said Benjamin Rhodes, Mr. Obama's chief foreign-policy speech writer.

The addresses are aimed at standing in contrast to George W. Bush's more forthright criticism, which Obama aides see as ineffective, and to Bill Clinton, who seemed to use the adulation he received abroad to bolster his flagging political power at home. Obama White House officials say they purposely chose only one outdoor venue open to the public, in Prague, with the aim of creating a more sober atmosphere for the speeches than appearances during the campaign.

"It doesn't necessarily yield results immediately," one White House aide said.

Some of the promises already appear to lack follow-through. In Prague in early April, he vowed to "immediately and aggressively pursue U.S. ratification of the Comprehensive Test Ban Treaty." Three months later, there is little sign of that.

But the president also said repeatedly that such deals will be difficult.

"It won't be easy," he cautioned Africans as he urged them to lift themselves from poverty, violence and corruption. "There will be suffering and setbacks."

"The issues that I have described will not be easy to address," he told the Muslim audience in Cairo and beyond. "But we have a responsibility to join together on behalf of the world we seek."

"This will not be easy," he told the graduates of the New Economic School in Moscow last week. "It's difficult to forge a lasting partnership between former adversaries."

The immediate power of Mr. Obama's oratory has fluctuated depending on settings, crowds and even fatigue. In Prague, he spoke to a throng spilling onto the square of Prague Castle, a cool spring sunshine buoying speaker and crowd. The Cairo speech was the most anticipated and the most carefully prepared, since "the risk factor" was the highest, aides said.

In contrast, a visibly fatigued president got little support from students and faculty in Moscow. White House counselor David Axelrod said culturally, the Muscovites were never going to interrupt his speech with applause and cheering, a point made by Russia scholars as well. But that only underscores the observation that Mr. Obama, famous as an orator, feeds off his audience.

But Mr. Axelrod said the immediate response to speeches of such weight is less consequential than the reverberations sent out by their message.

After airing Mr. Obama's speech live on only one cable channel with little distribution, Russian network television ran the speech again Tuesday night on a late-night news show known for its vitriolic anti-American attacks. Russian diplomats actually gave it positive reviews, according to Russian officials.

Response in Ghana even to the toughest sections was ecstatic. Mr. Obama responded to the buoyant members of parliament, bedecked in colorful kente cloth. He remarked on the trombonist who greeted his arrival.

"If the goal was simply adulation, he would not have given two of the four speeches in places like Cairo and Moscow where relations with the United States have grown so strained in recent years," Mr. Rhodes said.

U.S. sets new limits on arrests of illegal immigrants

By Miriam Jordan

The U.S. Department of Homeland Security said Friday that it was revising a program that authorized local police to enforce federal immigration law, a controversial aspect of U.S. border policy.

Opponents said the program, known as 287g, was intended to identify criminal aliens but instead has led to racial profiling; it allowed local police to identify and arrest illegal immigrants for such minor infractions as a broken tail light. Program supporters said it has been an effective tool for combating illegal immigration.

The new guidelines sharply reduce the ability of local law enforcement to arrest and screen suspected illegal immigrants. They are intended to prevent sheriff and police departments from arresting people "for minor offenses as a guise to initiate removal proceedings," according to Homeland Security. The program will instead focus on more serious criminals.

"In a world of limited resources, our view is that we need to focus first and foremost on people committing crimes in our community who should not be here," said John Morton, assistant secretary of U.S. Immigration and Customs Enforcement. Mr. Morton said his agency would sign new contracts with local law enforcement that would bolster federal oversight.

In the past two years, more than 120,000 suspected illegal immigrants were identified through the program, and most ended up in deportation proceedings. By comparison, ICE removed 356,739 illegal immigrants from the U.S. during the fiscal year ended Sept. 30, 2008—a 23.5% increase over the 2007 total.

An active local enforcer has been Joe Arpaio, the sheriff of Arizona's Maricopa County. He said Friday that he would continue pursuing illegal immigrants, arguing that state laws allow neighborhood crime sweeps and worksite raids.

"If I'm told not to enforce immigration law except if the alien is a violent criminal, my answer to that is we are still going to do the same thing, 287g or not," said Mr. Arpaio. His deputies have identified in jail or picked up on the streets more than 30,000 illegal immigrants in the Phoenix area. "We have been very successful," said the five-term sheriff.

The Department of Justice is investigating whether Mr. Arpaio's deputies have used skin color as a pretense to stop Latinos suspected of being illegal immigrants.

Mr. Obama's policy change is expected to bolster his standing with Latinos and some Democratic legislators. The administration is seeking to set the stage for a sweeping overhaul of immigration legislation that could put millions of illegal workers on the path to U.S. citizenship.

President George W. Bush had pursued a similar goal. After the efforts failed in Congress, his administration stepped up enforcement with raids and the expansion of such programs as 287g.

The provision was created by Congress in 1996 and designed to train local police to help federal immigration authorities locate criminal aliens. It took six years for the first state, Florida, to sign on to the program.

The Bush administration promoted the program among sheriffs and police chiefs, turning it into a symbol of a crackdown on illegal immigration.

Since January 2006, more than 1,000 state and local law-enforcement officials have been certified. Many jurisdictions used those officers in jails, where they could sort through many inmates in a single shift.

Southern states account for more than 40 of the 66 existing participants. There are 42 applications pending, most of them in the South. Both Virginia and North Carolina, where the Latino immigrant population has grown, each has nine 287g agreements, more than other states.

"I think the program is working great," said Wake County, N.C., Sheriff Donnie Harrison. "If the highway patrol brings someone to our jail, and they say they are foreign born, then they are flagged for 287g. They have committed a violation of some sort to be brought to our jail...from broken tail lights to murder and rape."

Raleigh, N.C., resident Maria Hernandez was booked into a Wake County jail after failing to show up for her 6-year-old son's truancy hearing, according to her account and that of her attorney, Marty Rosenbluth.

Ms. Hernandez, a housecleaner who came to the U.S. illegally nine years ago, is now in deportation court. "I don't understand why they come after people like me," she said.

Homeland Security Secretary Janet Napolitano ordered a comprehensive review of 287g shortly after taking her post earlier this year. Members of Congress and the Government Accountability Office had raised concerns the program was being used "to process individuals for minor crimes, such as speeding, contrary to the objective of the program."

The shift on 287g follows other recent modifications to immigration policy by the Obama administration, reflecting an effort to shift the burden of immigration enforcement to employers, while making it difficult for illegal immigrants to get hired.

In the past two weeks, Ms. Napolitano said federal contractors would be required to check the identity of new hires against a federal database. DHS also will audit hundreds of companies to verify whether their employees are eligible to work.

Cheney told CIA to conceal program

Associated Press

WASHINGTON—Former U.S. Vice President Dick Cheney directed the Central Intelligence Agency eight years ago not to inform Congress about a nascent counterterrorism program that CIA Director Leon Panetta terminated in June, officials with direct knowledge of the matter said Saturday.

Subsequent CIA directors didn't inform Congress because the intelligence-gathering effort hadn't developed to the point that they believed merited a congressional briefing, said a former intelligence official and another government official familiar with Mr. Panetta's June 24 briefing to the House and Senate Intelligence committees.

Mr. Panetta didn't agree. Upon learning of the program June 23 from within the CIA, Mr. Panetta terminated it and the next day called an emergency meeting with the House and Senate Intelligence committees to inform them of the program and that it was canceled.

Mr. Cheney played a central role in overseeing the Bush administration's surveillance program that was the subject of an inspectors-general report last week. That report noted that Mr. Cheney's chief of staff, David Addington, personally decided who in President George W. Bush's inner circle could know about the secret program.

Dick Cheney

But revelations about Mr. Cheney's role in making decisions for the CIA on whether to notify Congress came as a surprise to some on the committees, said another government official.

An effort to reach Mr. Cheney was unsuccessful.

Exactly what the counterterrorism program was meant to do remains unknown. A former intelligence official said it wasn't related to the CIA's rendition, interrogation and detention program. Nor was it part of a wider classified electronic-surveillance program that was the subject of a government report to Congress last week.

Meanwhile, U.S. Attorney General Eric Holder is considering whether to appoint a criminal prosecutor to investigate the Bush administration's interrogation practices, a move that would run counter to President Barack Obama's wishes to leave the issue in the past. Mr. Holder plans to make a final decision within the next few weeks, a Justice Department official said.

Report cites flaws in U.S. wiretapping

By Siobhan Gorman

WASHINGTON—Extensive secrecy limited the effectiveness of the U.S. National Security Agency's warrantless surveillance program, according to an internal review of the program completed Friday.

The review, the first comprehensive independent look at an unprecedented program that roused extensive debate during the Bush administration, also questioned the legal basis for the original program and cast doubt on some of the administration's justifications.

For the first month of its existence in October 2001, the program was running without a Justice Department legal opinion. The first legal memo for the program wasn't drafted until the following month, the report found.

The report by the inspectors general of five government bodies involved in the program also recommended that the current version of the program, which Congress authorized last year, "should be carefully monitored."

In recent months, lawmakers in both parties have raised alarms that the program was collecting far more domestic data than intended. The Obama administration says it has added safeguards.

Bush officials repeatedly described the warrantless-surveillance program as critical to U.S. national security. As recently as May, former Vice President Dick Cheney said that it "prevented attacks and saved lives."

Agence France-Presse/Getty Images

From left, Italian Prime Minister Silvio Berlusconi, Russian President Dmitri Medvedev and Libyan Leader Col. Moammar Gadhafi at the G-8 summit in Italy.

G-8 leaders defer issues to summit of G-20, U.N.

Obama airs doubts on groups' suitability to tackle challenges

By Jonathan Weisman

L'AQUILA, Italy—The Group of Eight leading industrial democracies pushed many priorities of their summit here off to larger groups of countries, placing the next moves in trade negotiations, climate-change talks and containing Iran's nuclear program in front of the so-called G-20 and the United Nations in September.

In his parting news conference here, President Barack Obama took a swipe at both the G-8 and the United Nations as antiquated, as other leaders also talked of formalizing a new grouping that would add a half-dozen of the biggest developing nations to the current G-8.

"There's no sense those institutions can adequately capture the enormous changes that have taken place during those intervening decades" since their founding, Mr. Obama said. "The one thing I will be looking forward to is fewer summit meetings."

Senior White House officials said the president has more clearly defined expectations for the September meetings.

The nations gathered in L'Aquila did achieve one parting success, a $20 billion pledge over three years to overhaul food and agricultural assistance to the poorest countries. Only about half that pledge is new money, according to the White House, but it roughly doubles nonemergency agricultural assistance.

Thursday, it had seemed that the total would be only $12 billion, below the level intended just days before. Instead, last-minute pledges came from Canada and the European Union, among other countries. Mr. Obama, in a Friday morning session, made an emotional, personal appeal, saying richer nations had an obligation to act. But he also said recipient nations had to acknowledge that they were complicit in their poverty, through corruption, a lack of transparency and other barriers to growth.

"Wealthier nations have a moral obligation as well as a national security interest in providing assistance," he told reporters. "The flip side is that countries in sub-Saharan Africa and elsewhere in the world that are suffering from extreme poverty have an obligation to use the assistance that's available in a way that is transparent, accountable, and that builds on rule of law."

On Iran, Mr. Obama edged closer to an ultimatum, saying there would be consequences if Tehran continues to pursue nuclear weapons and shuns negotiations by the time the G-20 meets. "We're not going to just wait indefinitely .... and wake up one day and find ourselves in a much worse situation and unable to act," he said.

On trade, nations agreed to a series of bilateral meetings at which developing countries will outline for which products and services they intend to maintain protective tariffs and other barriers, and which they will allow to compete globally. The idea, according to a U.S. official, is to achieve clarity to speed up global trade talks that the 17-nation Major Economies Forum pledged to complete by 2010.

The forum also pledged to deliver plans to the G-20 meeting to finance clean technology and reforestation programs to combat climate change, and to help poor countries adapt to an already warming world.

That demand was a surprise move sprung by Mr. Obama behind closed doors Thursday, to come up with something concrete after developing countries unexpectedly balked at accepting firm targets for emissions reductions.

Progress on all of the issues will depend in large part on Mr. Obama's sway both with the U.S. Congress and balky partners such as Russia. Congress on Thursday cut his aid request to help developing countries respond to climate change. The Senate Appropriations Committee on Thursday cut $100 million from the $500 million requested by the president to help developing countries finance climate change projects. On the same day, the House pared the request back to $225 million.

Russian President Dmitry Medvedev also struck a discordant tone after a week of wooing by Mr. Obama. He suggested no progress on Washington's arms control agenda is possible until Mr. Obama scraps the East European missile-defense site. "If there is no positive decision on this particular issue, than all others will also fail," he said.

—Stacy Meichtry contributed to this article.

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Online today
See photos and video from the G-8 meeting at WSJ.com/World