Leading the News: U.S. businesses continue to slash inventories

THE WALL STREET JOURNAL.

VOL. XXVII NO. 113 | EUROPE | WEDNESDAY, JULY 15, 2009

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What's News

British Airways said it is exploring a convertible bond issue to raise funds to help it through an industry downturn. It also predicted premium air traffic, a key part of its business, may never fully recover from the slump. Page 3

■ **European governments** are bolstering their powers to take over troubled financial institutions that might cripple the economy if they go bankrupt. Page 17

■ **The EU Parliament elected** Polish ex-premier Buzek as president, showing solidarity with Eastern Europe. Page 8

■ **U.S. stocks mustered** only small gains despite strong earnings from Goldman Sachs. European shares rose for a second session. Page 18

■ **Britain prepared to roll** out a large-scale vaccination program to protect against the swine flu virus. Page 30

■ **Italy's Edison agreed** to build a natural-gas pipeline linking Greece to Bulgaria, to help reduce Bulgaria's reliance on Russian gas. Page 29

■ **UBS said it sees** encouraging signs for its second-quarter performance. Page 18

■ **Exxon Mobil plans** to partner with Synthetic Genomics, spending $600 million in an effort to develop biofuels from algae. Page 29

■ **The U.K.'s inflation rate** dropped below the BOE's 2% target in June for the first time in nearly two years. Page 9

■ **Dell said** global technology spending is weak and likely will remain so as firms delay computer purchases. Page 5

■ **Steven Rattner**, the chief architect of the U.S. bailouts of GM and Chrysler, is leaving after less than six months on the job. Page 9

■ **South African unions** rejected new pay offers for miners and paper and chemical workers. Page 6

■ **Liberian ex-leader Taylor** testified at his war-crimes trial, denying he commanded rebels who killed and tortured civilians in Sierra Leone.

■ **Two French security** advisers on a mission to train Somali forces were kidnapped at a hotel where they had checked in as journalists.

■ **Iran hanged** 13 members of a Sunni rebel group convicted of bombings and killings in the southeast, state media said.

Editorial & Opinion

Patented green
Intellectual-property rights can help save the environment. Page 13

Breaking news at europe.WSJ.com

U.S. probes credit derivatives

London's Markit, which helped build the market for CDS, will turn over its pricing data

By Clare Connaghan, Neil Shah and Emily Barrett

LONDON—The U.S. Department of Justice has opened an investigation into credit derivatives, according to **Markit Group Holdings** Ltd., a key provider of data for the arcane but booming market that played a leading role in the credit crisis.

The Justice Department's antitrust division has requested information relating to price transparency in the credit derivatives and related markets, a person familiar with the inquiry said Tuesday. The requests were sent to London-based Markit and its shareholders, which include the big banks most active in credit derivatives.

"We will work with the department to provide any information requested of us," Markit said in a statement.

The move puts further pressure on a market whose loosely regulated, over-the-counter structure has proved lucrative for the banks that facilitate most trading. Advocates say the light-touch approach has made it easy to disperse risks and that the market sends important signals of trouble at borrowers. Critics charge the market is susceptible to manipulation and destructive speculation about companies' creditworthiness.

"It is obvious that this has to be seen as another step towards regulating the over-the-counter market," Philip Gisdakis, head of credit strategy at UniCredit SpA, said in a note to clients Tuesday.

Credit derivatives essentially work like insurance contracts, paying off for the buyer if the underlying debt goes into default. The instruments exploded in popularity over the past decade because they offered banks, hedge funds and others a way to place bets on the creditworthiness of companies, mortgage holders and even countries.

Rising prices for credit protection set off alarm bells about troubled financial institutions such as Lehman Brothers Holdings Inc. during the crisis. Since trading generally takes place over the counter—for the most part directly between banks and brokers—regulators worry it is hard to tell who is doing what in the market.

Regulators also are con-

Please turn to page 31

Testing the British public's patience for war

Getty Images

MILITARY SUPPORT: As U.K. troops join the U.S.-led surge in southern Afghanistan in recent weeks, the flow of coffins through Wootton Bassett near Royal Air Force Lyneham has turned from a trickle to a stream. Page 8.

Lehman unit nears fund plan

By Peter Lattman

Administrators representing **Lehman Brothers Holdings** Inc.'s main European unit have set forth a plan to return about $12 billion in client funds that have been in legal limbo since the investment bank collapsed last September.

Under the U.K. court filing expected to be made Wednesday, roughly 1,000 clients still owed money by Lehman's European arm have until the end of 2009 to submit their claims. The plan, which requires court approval, targets the first quarter of 2010 for those assets to be returned.

"This scheme will allow our clients to get finality on their financial positions," said Steven Pearson, an administrator of the unit, called Lehman Brothers International Europe, and a partner at **PricewaterhouseCoopers**.

Lehman Brothers' Chapter 11 filing spawned financial chaos across the globe, as nearly 80 Lehman subsidiaries world-wide were forced to fold. When Lehman filed for legal protection from creditors in the U.K., many client assets held in custody there were essentially frozen under the court proceeding. A number of those clients were hedge funds that maintained Lehman accounts for holding bonds, stocks, and other securities.

The protracted process of identifying clients' claims and returning assets raised the ire of these clients, several of which filed lawsuits against Lehman to reclaim their funds.

The administrator has returned about $14 billion of $32 billion in total client assets. Those funds were distributed to only about 35 of Lehman's largest clients, mostly large financial institutions and hedge funds. That left nearly 1,000 clients that are still owed money by Lehman's European arm.

Complicating matters, roughly $7 billion of European client assets remains tied up with Lehman's U.S. operations. The European unit is continuing to negotiate the release of those assets.

Mr. Pearson worked with a creditors' committee, including **Ramius LLC** and **GLG Partners** Inc., to devise a plan to return the assets.

Earlier this year, Lehman's U.S. estate pushed for an international framework for coordinating bankruptcy proceedings. That global protocol was approved by the court in June and signed by nearly every Lehman subsidiary. Lehman Brothers International chose not to participate in the international agreement, saying it lacks practicality and they are governed by their own local rules.

Inside

'Invisible man'

Ban Ki-moon struggles to make his mark at the U.N.
News In Depth, pages 14-15

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8359.49	+0.33
Nasdaq	1799.73	+0.36
DJ Stoxx 600	203.50	+1.34
FTSE 100	4237.68	+0.85
DAX	4781.69	+1.26
CAC 40	3081.87	+0.98
Euro	$1.3944	-0.03
Nymex crude	$59.52	-0.28

Goldman net leaps; bonuses set to soar

By Susanne Craig And Aaron Lucchetti

In one of the biggest market-share grabs in Wall Street history, **Goldman Sachs Group** Inc. saw its profit swell by 65% to $3.44 billion at a time when many of its competitors are struggling to survive.

The firm's stellar earnings, which include record net revenue of $13.76 billion and the sixth-largest quarterly profit in the firm's 10 years as a publicly traded company, were fueled by increased business and better spreads across the board as rivals like Lehman Brothers Holdings Inc. and Bear Stearns Cos. have disappeared and others like **Citigroup** Inc. have stumbled, leaving billions of dollars in business up for grabs.

Giving it another leg up, Goldman is one of a handful of firms that recently freed itself from the government's grip, repaying the federal loan it accepted in the fall of 2008 when the financial crisis reached fever pitch.

"Right now, they're one of only a few people on the beach, so they're getting all the girls," says Roy Smith, a finance professor at New York University and a former Goldman partner. "It's about to get more crowded, though."

He points to rival firms that also have paid back the government loans, such as **J.P. Morgan Chase** & Co. and **Morgan Stanley**, as well as to smaller boutique firms and foreign banks that have

Please turn to page 31

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THE WALL STREET JOURNAL.

LEADING THE NEWS

Signs of a turnaround have yet to arrive

U.S. consumers keep a lid on spending as inventories slide

BY ALEX FRANGOS AND ELIZABETH HOLMES

If U.S. businesses add merchandise to store shelves again and consumers gobble up the goods, the signs of an economic turnaround have arrived. They aren't here yet.

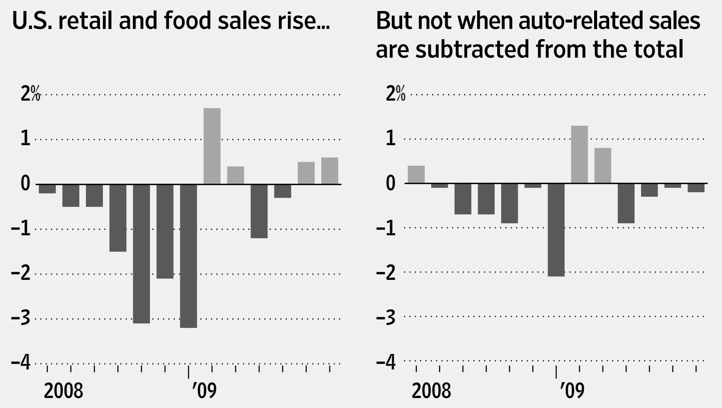
U.S. retail sales rose in June, but mostly because of higher gasoline prices and volatile auto sales, the Commerce Department reported Tuesday. Meantime, businesses continued to slash inventories. While inventory reductions drive down economic growth because it means companies aren't making new things, the continued destocking raises the hope that companies are getting closer to having to turn around and restart production, giving the economy a jolt.

Retail sales climbed 0.6% in May from a month earlier on a seasonally adjusted basis to $342.1 billion, according to the Commerce Department. Excluding gas and autos, retail sales actually declined for the fourth consecutive month. High unemployment combined with stagnant wage growth is forcing prolonged thriftiness among consumers.

Holding back on spending is likely to persist in the second half of the year, even as some economists predict the economy will begin to grow again. "People will continue to prioritize spending until income growth comes back—until mid-2010 at the earliest," said Adam York, an economist at Wells Fargo. "People will have to be really careful about where they are spending. Eating out, recreation will continue to be tough."

Pumped up by gasoline prices

Change from previous month in U.S. retail and food sales, with and without sales of gasoline, motor vehicles and car parts



Source: U.S. Commerce Department

That shift in consumer behavior is prompting retailers to keep stocks of goods low, seeking to avoid another discount bloodbath like last year, where they were forced to liquidate merchandise in order to raise cash.

In managing inventory, companies are carefully streamlining to highlight strong sellers and drop duds in preparation for the back-to-school and end-of-year holiday selling seasons.

Terry Lundgren, president and chief executive of **Macy's** Inc., said in an interview that he doesn't expect a repeat of the panic promotions from last year, because supply and demand are "relatively at parity again."

"There will not be the same level of promotions to clear inventory" as there was last year, Mr. Lundgren said.

Meanwhile, companies are continuing to pare inventory. Businesses cut inventories 1% in May from the month earlier on a seasonally adjusted basis to $1.368 trillion, according to the Commerce Department. That follows a 1.3% decline in April. Inventories are down 8% from a year earlier.

The hope among more optimistic analysts is that eventually businesses—and consumers—will work through their stocks of goods and be forced to procure new goods again.

"Low inventories will contribute to increased production, which will bring people back to work," said Robert Dye, an economist at PNC Financial Services. "The groundwork is being put in place, and we'll see that cycle re-engage" in the second half of the year, he said.

Aluminum titan **Alcoa** Inc. told investors last week that it has reduced inventories 23% since the start of the year. Audio equipment maker **Audiovox** Corp. has reduced its inventory by 25% since this time last year, according to company financial results.

Now the question is, with the number of products on warehouse and store shelves relatively low, will businesses ramp up production in the expectation that consumers will soon boost spending?

Some businesses say restocking could begin soon. Rick Gold, chief executive of wireless equipment manufacturer **CalAmp** Corp., thinks the cutting is over, and his customers are beginning to wade back into purchasing again. "The inventory correction in the markets we serve is done," he said. CalAmp, based in Oxnard, Calif., had $98 million in revenue last year. It cut inventory for the fifth quarter in a row in the period ended May 31. Its stock of equipment declined by 6.5%. "Now we are seeing the demand from the end user," Mr. Gold said.

Retailers that began cutting inventory early, and are easing back now, are in the best position to take advantage of a possible rebound, said Rick Darling, president of the U.S. division of **Li & Fung** Ltd., a large manager of retail supply chains.

Kohl's Corp., for example, aggressively cut inventory levels early and has more recently been actively restocking goods, Mr. Darling said.

Lower inventory means companies run the risk of being out of stock on popular items. To increase the speed of replenishment and decrease costs, some sellers are narrowing their assortment of materials or customer choices.

Clothing retailer **Aeropostale** Inc. has cut down on the number of different fabrics it uses. By having a smaller range of fabric, Aeropostale can be more flexible in the use of its materials and restock more quickly, said Mindy Meads, the company's president.

Sealy Corp., the large mattress manufacturer, has reduced its inventory by cutting out some of the choices it provides consumers, such as different quilting patterns on mattress borders.

Another wild card in the economic recovery is energy. Gasoline prices sent wholesale prices sharply higher in June. The producer price index rose 1.8%, compared with a month earlier, though it is still 4.6% off from a year ago, according to Labor Department numbers released Tuesday.

Economists downplayed the spike as oil prices have since retreated sharply from their highs and remain well below the year-earlier levels.

Monsanto rouses wheat-seed plan

BY DOUG CAMERON

Monsanto Co. has revived plans to develop higher-yielding wheat seeds, five years after dropping research into the crop amid concerns that genetically modified varieties could hinder U.S. exports to markets opposed to biotech farming.

The world's largest seed producer by revenue said Tuesday it acquired the assets of U.S. wheat-seed developer **WestBred** LLC for $45 million, as part of a long-term program to develop more drought-resistant strains. WestBred specializes in wheat germplasm, the crop's seed genetic material.

The company won't try to develop genetically modified wheat seeds resistant to its Roundup herbicide, a plan it dropped in 2004, though it will "explore herbicide-tolerant and disease-resistant biotech traits."

Wider resistance to genetically modified crops has crimped interest from seed developers and farmers.

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.

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 Fax: 32 2 741 1600
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799
Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Patience Wheatcroft M-17936-2003

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

LEADING THE NEWS

BA faces world with less premium travel

Airline contemplates a convertible bond to get it past crisis

By Steve McGrath
And Kaveri
Niththyananthan

LONDON—**British Airways** PLC said Tuesday it is exploring a convertible bond issue to raise funds to help it through an industry downturn. It also predicted premium air traffic, a key part of its business, may never fully recover from the slump.

"Our current liquidity is above our desired minimum of 15% of revenues," British Airways Chairman Martin Broughton said in a speech to the company's annual general meeting. "However, an extended economic downturn would be stretching."

The unprofitable airline, which is in talks with Spain's **Iberia Líneas Aéreas de España** SA about a merger, said it didn't believe market conditions were right for a rights issue. Issuing a convertible bond would aid British Airways by allowing it to avoid having to issue new shares at the current deflated price.

Because such bonds give the holder an option to buy company stock, a convertible bond carries a much lower interest rate than conventional debt, making it a cheaper way to raise debt financing. Another advantage is that it doesn't risk diluting the holdings of existing shareholders as much as a rights issue, in which a company offers holders the chance to buy additional shares.

Air carriers world-wide have been issuing stock and debt in recent weeks to boost their cash cushions.

British Airways, which has been especially hard hit by the downturn because of its heavy reliance on premium trans-Atlantic traffic, has taken several steps to trim its losses. They include reducing capacity and jobs, reaching lower pay deals with pilots and engineers and asking employees to take a month off without pay.

The airline also plans to cut capital spending to £580 million ($941.5 million) for the fiscal year ending in March 2010 from an original target of £725 million.

Agence France-Presse/Getty Images

Union activitists protested what they saw as poor leadership of British Airways executives by displaying lemmings outside the shareholder meeting.

Chief Executive Willie Walsh is trying to thrash out a deal with cabin-crew personnel, who are angry the airline is planning to employ more short-term workers on lower salaries. Current cabin-crew employees worry this will lead to a change in the airline's employment practices.

Mr. Walsh, who was interrupted by heckling from disgruntled employees at the meeting when he referred to the need to reduce pay and costs, insisted both sides were committed to reaching a deal. Cabin-crew workers have warned they could strike if the airline tries to push through its planned changes.

After posting a £375 million loss for the year ended March 31, British Airways faces several financial issues, including a gaping pension-fund deficit it expects to have grown by at least £1.2 billion since September.

The airline warned the pension funds' trustees that it can't afford to increase its contribution to the funds, and that a new funding plan would have to be agreed on after the latest actuarial review is completed. Mr. Walsh said he would refer the matter to Britain's pension regulator if a deal can't be struck by June 2010.

British Airways said the current downturn has led to a permanent structural change in the air-travel market, and that the likely long-term reduction in premium traffic is a fundamental challenge to the company's business model, as well as a strong reason to push ahead with a tie-up with Iberia. Mr. Walsh said British Airways wouldn't accept less than a 53% stake in a deal with the Spanish carrier.

CORPORATE NEWS

Divorce sheds light on executive's flying

United Technologies chairman used corporate aircraft for hundreds of personal trips and to ferry unescorted guests

BY JOHN EMSHWILLER
AND DIONNE SEARCEY

A divorce proceeding involving a top official at **United Technologies** Corp. has uncovered potentially embarrassing records showing he made extensive personal use of company aircraft.

Over the past seven years, George David, United Technologies' chairman and former chief executive, and his guests have used corporate planes and helicopters for personal travel on several hundred separate flights, company records show.

Among other things, the records show that on about a dozen occasions, Mr. David allowed guests to travel on board without him, including to join him on vacation—which he said in court was "normally not" permitted under company policy.

In response to questions from the Journal, United Technologies said Mr. David had authorized a "handful of flights by unescorted guests" on company aircraft. It said Mr. David had reimbursed the company for those flights, but declined to provide further details, such as when the reimbursements were made.

Earlier, a United Technologies official had said the company couldn't accept reimbursement from executives because of certain Federal Aviation Administration rules. In a written statement Monday, the official said the reimbursements were "FAA-compliant," but didn't elaborate.

The records of the 67-year-old Mr. David's personal air travel from 2002 to 2008, which were reviewed by The Wall Street Journal, became available as a result of a divorce battle between Mr. David and his wife, Marie Douglas-David, in a Connecticut court. Ms. Douglas-David, 37, is seeking tens of millions of dollars from Mr. David.

Mr. David stepped down as CEO in April 2008 after 15 years in the top job at United Technologies, which makes Sikorsky helicopters, Otis elevators and Pratt & Whitney airplane engines. During his tenure, annual earnings soared from $585 million in 1994 to $4.69 billion last year, and the company's stock-market value grew some 12-fold to $75 billion.

United Technologies, based in Hartford, Conn., said company policy required Mr. David, as well as CEO Louis Chenevert, to use company aircraft for personal flying for security reasons. The company estimated that more than 80% of Mr. David's flight time on corporate aircraft was for business travel. "Information about his flight itineraries, exchanged in the litigation, has been disclosed outside the courtroom in an obvious attempt to embarrass him," the company said in a statement.

Like many companies, United Technologies doesn't charge its executives for personal travel on corporate aircraft. It uses a formula to estimate the cost of a given trip and adds that amount as income when reporting the executive's compensation to the Internal Revenue Service. The taxes on this imputed income are often much lower than the cost of chartering a private plane.

Through a United Technologies spokesman, Mr. David declined to be interviewed.

Personal use of company jets is a major issue for some shareholder activists and government officials seeking to clamp down on executive perks. The Securities and Exchange Commission began several years ago to press companies to be more open about the cost of executives' personal travel. Proxy filings, including those by United Technologies, routinely estimate this cost.

Some companies, including **Sears Holdings** Corp. and **Ford Motor** Co., have begun selling their corporate aircraft.

Records show Mr. David's travels ranged from international flights to a helicopter ride in the Hamptons on New York's Long Island. In a statement, United Technologies said "selective references have been made to certain flights...in an attempt to devalue" Mr. David's record.

In March 20 court testimony as part of his divorce case, Mr. David was asked by one of his wife's lawyers whether flying unescorted guests was allowed under company travel policy. "Normally not," Mr. David said.

The question arose in connection with Mr. David's use of a company jet to fly unescorted guests to Italy to join him and his wife on a yachting vacation in 2005.

The records of Mr. David's personal travel list about 900 flights, or the equivalent of about 450 round trips, though some of the flights were legs of the same journey.

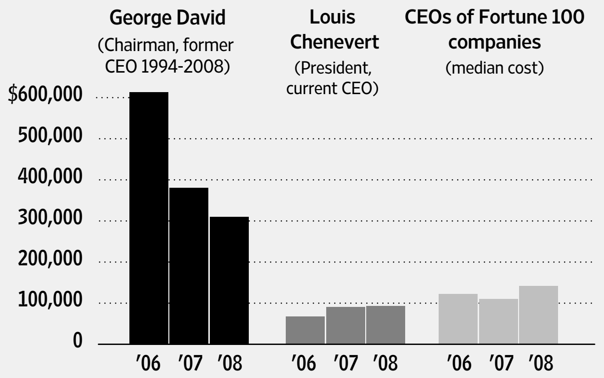
A review of SEC filings of Fortune 100 companies by Equilar Inc., an executive-compensation research firm, shows that the median reported value of a chief executive's personal travel was $141,477 last year. For 2008, United Technologies reported Mr. David's personal travel at $309,865 and that of Mr. Chenevert, the current CEO, at $93,435.

United Technologies proxy statements show Mr. David's personal travel costs have declined from a 2006 level of $612,303.

—Mark Maremont contributed to this article.

Clearing the air

Annual cost of personal travel on corporate aircraft for two United Technologies executives compared with Fortune 100 CEOs.



Note: Methods to estimate costs can vary from company to company.
Sources: the company (cost data on Mr. David/Mr. Chenevert); Equilar, Inc. (Fortune 100 cost)

Associated Press

George David arrives at court in Hartford Connecticut in March for divorce proceedings.

China seeks leverage on ore prices

China's espionage allegations against employees of Anglo-Australian mining company **Rio Tinto** come amid an effort by Beijing to strengthen the bargaining power of its steel industry against the biggest iron-ore suppliers.

*By **Gordon Fairclough** in Shanghai and **Chuin-Wei Yap** in Beijing*

The government on July 5 detained four Rio Tinto executives, including Stern Hu, an Australian who heads Rio's iron-ore business in China. The State Security Bureau in Shanghai has accused them of bribing Chinese steelmakers to obtain secret information related to iron-ore price negotiations. An official at steelmaker **Shougang** Corp. was also detained.

Chinese press reports Tuesday cited anonymous sources saying executives at several Chinese steel companies have been questioned or detained as authorities investigate. The reports couldn't be confirmed. An official in the iron-ore trading arm of China's largest steel maker, **Baosteel Group**, said he was unaware of anyone there being questioned, as one newspaper reported. Spokesmen at other companies either declined to comment or didn't answer their phones.

In a case that threatens to chill bilateral relations, Australian Prime Minister Kevin Rudd said that the well-being of an Australian citizen was in the national interest and "comes first," before economic relations and other bilateral issues. "We will handle each of the other elements of our relationship in their own terms," he said in a radio interview with the Australian Broadcasting Corp.

Qin Gang, a China Foreign Ministry spokesman, said China isn't signaling it will restrain the activities of multinationals in the country.

Some analysts say the investigation is part of a broader push by Beijing to assert greater control over the pricing of iron ore, a crucial material for China's economy because it is needed to make the steel used in buildings, bridges, and cars.

"This may be the strongest ever message sent by authorities that China is trying to assume control over iron-ore price talks" in a more direct way, said Xiangfan Ren, of IHS Global Insight, a research firm.

The government wants smaller steel companies to work with bigger ones to negotiate iron-ore prices, and is considering reducing the number of companies allowed to import iron ore, the analysts say.

China is the world's largest importer of iron ore, and its purchases are soaring as its economy pulls out of a slowdown that started last year. Iron-ore imports in June soared 46% from June 2008 to 55.29 million metric tons.

Benchmark iron-ore prices are set in annual talks between steel producers and major ore suppliers: Rio, fellow Anglo-Australian miner **BHP Billiton** Ltd. and **Vale** SA of Brazil. This year's talks failed to strike a deal by the June 30 deadline.

Beijing wants to hold down prices, but has been frustrated by a lack of unity among its ore buyers and by a resurgent economy. When this year's talks got under way, China expected to gain more leverage over pricing as the downturn in the global economy damped steel demand. The Chinese side wanted bigger price cuts than those negotiated with steel producers in South Korea and Japan.

But as talks dragged on and world spot iron-ore prices began to rise, the miners refused to budge and the deadline passed. Chinese negotiators blamed small and medium-size steel mills that they said had cut separate supply deals with Rio and other miners, undermining their ability to conclude an umbrella deal at a low-enough price. China has more than 1,200 steel mills.

Now, Hou Zhiyun, an analyst at the Beijing Lange Steel Information Research Center, and others say China is considering cutting the number of companies allowed to import iron ore, currently 112.

Regulators want "to lessen the number so the rest can be better under control," said Ms. Hou. The goal as well would be to get companies to toe the negotiating line set by the China Iron & Steel Association, which took over as the lead negotiator this year from Baosteel. Mills failed to help the association by limiting iron-ore imports in the run-up to the negotiations as a tactic to hold spot prices down.

Reuters

A worker installs steel bars in Shanxi province Tuesday. Steel has been the backbone of China's growth and pricing for state mills is a key government concern.

It's unclear what will happen with the talks now. Rio has been the lead negotiator for the suppliers. The company declined to comment, as did the China Iron & Steel Association.

One of the biggest reasons for China's failure to win bigger price concessions on iron ore is the success of the its massive fiscal stimulus. As government infrastructure spending has kicked in, China's steel prices have been rising, and iron-ore imports have surged. Mills have pursued independent purchase aaccords to avoid the risk of higher spot prices if the global economy picks up later this year, according to J.P. Morgan China analyst Jing Ulrich.

Michelle Applebaum, an analyst with the Chicago-based Steel Market Alliance, said China's tough stance has backfired and that ore producers could cut back on sales in China and favor customers who have already agreed to the prices set in other negotiations.

Some analysts say China is likely to have to settle for the same prices set for Japan and South Korea. "Steel prices are rising and market demand is warming up," said Cui Jingyi, steel analyst at Guotai Junan Securities in Shanghai. She said China would probably insist on a shorter, six-month term for the agreement.

—Ellen Zhu in Shanghai and Rachel Pannett and Ross Kelly in Sydney contributed to this article.

CORPORATE NEWS

BBC looks to trim costs

Executive bonuses are halted amid fears over TV license fee

By Kathy Sandler

LONDON—The British Broadcasting Corp. has suspended executive bonuses indefinitely and will look to trim the salaries of top stars, as the broadcaster cuts costs amid concerns it could lose some of its license fee to commercial channels.

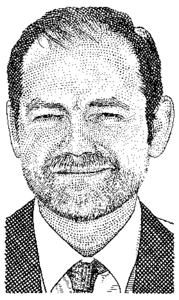
Under an arrangement unique to the U.K., the BBC is funded by the license fee paid by the public. Anyone who owns a television has to pay a license fee.

In an annual report published Tuesday, Sir Michael Lyons—the chairman of the BBC Trust, which oversees the use of the license fee—said the BBC would suspend executive-board bonus payments indefinitely and redouble efforts to trim remuneration for its presenters and actors.

The savings will contribute to the BBC's cost-cutting target of around £1.9 billion by 2013 after it achieved savings of £237 million in the 2008-2009 financial year.

BBC Director-General Mark Thompson earned £834,000 ($1.4 million) in the 2008-2009 financial year, while his deputy, Mark Byford, pocketed £485,000. The figures prompted criticism when they were published last month along with details of executive expenses.

The BBC also has been criticized for the salaries it pays to some of its talent, like popular talk-show host Jonathan Ross.



Mark Thompson

Since revelations in 2006 about pay at the BBC, the trust has recommended improvements to attract and retain popular presenters and actors while delivering value for money for the BBC.

The BBC faces the threat of having to cede around 3% of its license fee to commercial rivals if government plans to ensure the provision of regional news and other public-service broadcasting is implemented.

In its recent Digital Britain report, the U.K. government said it would propose "top slicing," or skimming off a portion of the BBC's license fee to help struggling commercial rivals produce public service TV.

The BBC Trust is vehemently opposed to top slicing, and both it and the government have made their positions clear in the media.

The ad slump has hastened plans to unburden beleaguered broadcasters like **ITV** PLC, and the government is also proposing a rescue plan for Channel 4, the government-owned but commercially funded channel that is facing a £100 million budget shortfall. It is currently being lined up to merge with the BBC's commercial arm, BBC Worldwide.

The U.K. government has been facilitating discussions about a merger between BBC Worldwide and Channel 4, and BBC Worldwide Chief Executive John Smith said in an interview that the negotiations have accelerated.

Mr. Smith said negotiations had stalled over the question of each company's valuation, but since BBC Worldwide proposed a smaller deal three weeks ago that avoids that sticky question, progress has been rapid and the initial terms of an agreement could be reached within weeks.

Dell cites weak tech spending

By Justin Scheck

AUSTIN, Tex.—**Dell** Inc. executives said world-wide technology spending is weak and likely will remain so for the near future as companies delay computer purchases and consumers gravitate to low-cost devices.

"We're going to run the business assuming relatively weak demand continues," said Dell Chief Financial Officer Brian Gladden, speaking at the Round Rock, Texas, company's annual conference for Wall Street analysts.

Chief Executive Michael Dell added that big customers are delaying new technology purchases during the recession and are "elongating the life cycle" of personal computers. He said spending should pick up next year.

The remarks came a day after Dell said its profit margins are shrinking because of high component prices and other factors, which Mr. Dell said the company didn't see coming. The computer maker has been trying to turn itself around amid a weak market, but progress has been slow. In late-afternoon trading Tuesday on the Nasdaq Stock Market, Dell shares were down $1.11, or 8.5%, to $11.91.

At the conference, Dell executives outlined their latest strategy to revive profit growth. They said Dell is cutting costs to expand profit margins and likely will acquire other companies, but they provided little specific information on future plans.

"I think investors were hoping to hear more," said Shaw Wu, an analyst with Kaufman Bros. In a report Tuesday, Mr. Wu lowered his revenue and profit predictions for Dell's current fiscal year and said Dell's problems seem to be "company-specific," since the overall PC industry is improving.

Dell has been struggling to grow since 2006, when its direct-sales model faltered and it lost market share to Hewlett-Packard Co. H-P eventually toppled Dell as the world's largest PC maker by units and revenue. Company founder Mr. Dell returned as CEO in 2007 and promised a turnaround staked on cutting costs and expanding in areas like consumer sales.

Dell's consumer division accounts for only about 20% of company revenue, and its operating-profit margin of 2.4% last fiscal year was lower than other Dell businesses. Dell's consumer chief, Ron Garriques, on Tuesday said consumer operating margins should reach the "mid-single digits" in two or three years.

Mr. Garriques said he is trying to sell more devices through cellular carriers. Dell already sells netbooks—mini-PCs that cost less than $500—through carriers, which subsidize devices for consumers.

—Ben Charny contributed to this article.

Fiat interested in car designer Bertone

By Milena Vercellino And Giada Zampano

Italian car maker **Fiat** SpA said Tuesday it has expressed interest in buying car designer **Bertone**.

The high-profile design firm, located a few miles away from Fiat's Mirafiori plant in Turin, was put in special administration in February 2008 to prevent bankruptcy.

The deadline for presenting offers for Bertone is Thursday. One offer has been made, by former Telecom Italia SpA manager Giandomenico Rossignolo, and two companies besides Fiat have submitted expressions of interest. The committee supervising the sale and the Industry Ministry are expected to pick the favorite bidder by Monday.

Unions welcomed Fiat's interest, but asked for clarifications over the group's plans regarding Bertone's 1,146 employees and the implications of a buyout on Fiat's production strategies in Italy.

Reuters

Bertone, which has designed cars for Opel, Volvo, BWM and Fiat, among others, entered special administration in 2008. Above, its 2004 Aston Martin design.

Bertone has designed cars for Fiat and General Motors Corp.'s Opel as well as produced vehicles for auto makers.

Meebo

Meebo's browser-based instant-messaging tool, as shown on Cafemom.com, works across Web sites.

Google moves to boost online applications

By Jessica E. Vascellaro

Google Inc.'s plans for a new operating system based on its Chrome Web browser is a big bet that online programs can eventually surpass desktop software.

Now the Internet giant is pushing hard to make that happen, enticing developers to take advantage of several technologies to improve the speed, esthetics and reliability of software running in a Web browser.

Google is trying to spur a new market for software that can run entirely in a Web browser, such as Google Docs. The search giant believes that online applications will be one of its next big businesses, as its core search and search-advertising businesses mature.

But it faces heavy competition, including from rival **Microsoft** Corp., which Monday announced it will offer online versions of its popular Office software to consumers free.

Web browsers originally were used mainly to view static pages of text and images. Their capabilities for playing video and animation have improved using technologies such as Adobe Systems Inc.'s Flash—software that is used by Google's YouTube service—and others that require users to download a program called a plug-in.

But browsers still can't typically handle many chores conventional PC software users take for granted, like some mechanisms for copying and pasting text and playing games that use three-dimensional graphics.

"There is still a big difference between Web pages and Web apps," said Francisco Tolmasky, chief executive of **280 North** Inc., a maker of software programming tools and applications.

Google hopes to change that by accelerating the adoption of HTML 5, the acronym for an extension of the hypertext markup language that is a foundation of the Web. The proposed programming standards—which are likely years from being finalized, and include technology from Google and others—are designed to let developers build more advanced applications that can run within a browser.

A number of software developers and browsers have already incorporated some aspects of HTML 5, such as faster video streaming and storing more data in the browser for faster retrieval—all without having to download additional software.

In May, Google executives delivered a keynote to thousands of software developers exclusively on the technology, discussing and demonstrating features like the ability to allow users to draw on Web pages with their cursors, and urging them to try it.

Vic Gundotra, a vice president of engineering at Google, said in an interview Monday that Google has "heavily influenced and participated in the standard."

"We are very concerned about making sure the Web moves forward," he said. To that end, Google is actively pushing for inclusion of features such as ability to drag and drop files from a desktop into a Web browser, a PC-style function not typically possible now, and support for 3D graphics, he said.

To advance the latter, the Mountain View, Calif., company recently released its own small piece of software that allows users to run 3D graphics within a Web browser.

Dozens of companies, from Microsoft to tiny start-ups, also are developing technology to bring more parity between desktop and online software.

Last week, for example, Microsoft released the latest version of Silverlight, its technology for running visually rich applications across many different types of browsers. The new version, which requires a small download, has features that include improved support for streaming video. Adobe, meanwhile, has been improving its support for 3D animation with its widely used Flash format.

Google and other backers of HTML 5 believe that over time, plug-ins won't be necessary as browsers become more powerful. A Microsoft spokeswoman said the latest version of the company's Internet Explorer browser already supports some elements of HTML 5 and that Microsoft is also a member of the working group responsible for pushing the standard along.

HTML 5 is already making a difference for some developers. **Meebo** Inc., a service that allows users to chat across multiple instant-messaging services within a Web browser, recently used a feature of HTML 5 called postMessage. It used the technology to build a "chat bar" for third-party Web sites that stays loaded and updated with a user's current conversation even when he switches between Web pages.

But Meebo CEO Seth Sternberg believes that a significant amount of new technology needs to be developed before online applications can be as powerful as desktop applications.

South African miners reject offer

Unions hold firm for 15% pay increase, threaten to strike

BY ROBB M. STEWART

Unions for South African miners and paper and chemical workers rejected new pay offers on Tuesday and said they may strike, in an echo of the continued strike by tens of thousands of construction workers that has slowed work on stadiums intended for the 2010 soccer World Cup.

Workers in a number of industries are holding out for above-inflation pay increases as they renegotiate pay packages that companies say they can ill afford. Demand has slumped as South Africa struggles through its first recession in 17 years.

Trade unions on Tuesday rejected an improved offer from mining companies **AngloGold Ashanti** Ltd. and **Gold Fields** Ltd. and warned of a strike if a double-digit increase isn't tabled in the next round of talks, set for next week.

The unions have held firm to demands for a 15% pay increase. They have warned that roughly 150,000 miners could down tools across South Africa, the world's third-largest gold producer behind China and the U.S.

AngloGold and Gold Fields had made what the Chamber of Mines said was a final offer that would take the entry-level wage for underground miners to 4,000 rand ($490) a month by the end of 2010, from 3,300 rand currently.

The chamber, which negotiates biennial wage packages on behalf of gold companies, said the two Johannesburg-based companies have offered all other employees an 8.5% wage increase in the first year, backdated to July 1, and consumer price inflation plus one percentage point in the second year. They had previously offered a 7% increase.

"The offer is totally rejected," said Lesiba Seshoka, spokesman for the National Union of Mineworkers. "We see it as an insult."

NUM and the Solidarity and UASA unions have said they will hold out for a double-digit pay increase for their members. Africa's biggest economy is struggling with its first recession in 17 years, and official inflation eased to 8% on the year in May.

"If next week's talks fail the unions will ask for a certificate to strike," Solidarity spokesman Jaco Kleynhans said.

The Chemical, Energy, Paper, Printing, Wood and Allied Workers Union said Tuesday that pay talks had failed and that its 65,000 members would strike at companies including petrochemicals firm **Sasol** Ltd. and paper producers **Sappi** Ltd. and **Mondi** Ltd.

A date for the industrial action has yet to be finalized, the union said. Companies in 2007 offered a package that included a pay increase of 8.5% for most workers in the first year and a minimum 8% rise in the second.

In an emailed statement, the union said a strike by its members would result in shortages of gasoline, pharmaceuticals and pulp.

Solidarity is demanding a 12% increase in pay and a 10% rise in the workers' shift allowance.

J&J's earnings decline by 3.6%, hurt by generics

BY PETER LOFTUS

Johnson & Johnson's second-quarter profit fell 3.6%, with sales hurt by unfavorable currency rates, competition from generic drugs and tighter consumer spending.

In a sign of the significant challenges facing J&J's drug business, the unit's quarterly sales were eclipsed by those of the medical-device operation for the first time in 10 years.

Analysts said J&J's weakness was tempered by cost controls, less harmful currency rates than expected, and higher-than-expected sales of some products, including the blockbuster arthritis drug Remicade.

The New Brunswick, N.J., company reported second-quarter net income of $3.21 billion, or $1.15 a share, compared with $3.33 billion, or $1.17 a share, a year earlier.

Sales fell 7.4% to $15.24 billion from $16.45 billion. The stronger U.S. dollar accounted for six percentage points of the decline.

"This was one of the most challenging quarters for year-over-year comparisons in our history," J&J Chief Financial Officer Dominic Caruso told analysts on a conference call Tuesday. But he said the maker of Tylenol pain reliever and Band-Aid bandages is strong and well-positioned for long-term profit growth.

Drug sales dropped 13% to $5.5 billion. The division was hurt by the loss of patent protection for two of the company's top sellers: antipsychotic Risperdal tablets and epilepsy-and-migraine treatment Topamax. The drugs' sales fell 66% and 73%, respectively.

Another top J&J drug rebounded. Sales of the Remicade treatment for rheumatoid arthritis rose 24% to $1.1 billion. **Schering-Plough** Corp. markets Remicade outside the U.S.

Remicade's sales growth slipped to 3% in the first quarter amid signs that high-priced biologic drugs, those engineered from living cells, felt the pinch of tighter consumer spending. The second quarter's gain could be a good sign for other biologics, such as **Abbott Laboratories**' Humira and Enbrel from **Wyeth** and **Amgen** Inc.

Sales in the device unit slipped 3.1% to $5.89 billion. The DePuy division, which makes joint-reconstruction and other products, had roughly flat sales of $1.3 billion. Sales rose 2.1% for the Ethicon surgical-products division to $1.04 billion.

Mr. Caruso, the finance chief, said it was too early to tell whether sales of Tylenol would be hurt substantially by recent recommendations of a U.S. Food and Drug Administration panel to lower dose limits to avoid liver injuries. Tylenol products for adults generate about $1 billion in annual sales.

J&J has made a flurry of new drug applications and continues efforts to beef up its drug pipeline. J&J this month agreed to pay $1.5 billion for a minority stake in **Elan** Corp. and control of Elan's rights to experimental Alzheimer's drugs. J&J also closed its $1 billion acquisition of Cougar Biotechnology Inc., which is developing cancer drugs.

But J&J continues to run into roadblocks in bringing new products to market. The company said Tuesday that the FDA has asked J&J for more information on experimental anticlotting drug rivaroxaban. J&J said it was unlikely to submit all the requested data before the fourth quarter.

GLOBAL BUSINESS BRIEFS

Software AG

Firm to pay $668 million for rival IDS Scheer

Germany's **Software** AG said Tuesday it plans to acquire fellow software company **IDS Scheer** AG in a bid to increase its presence and global competitiveness. Darmstadt-based Software said it would likely spend €477 million ($668 million) for all outstanding shares of Saarbrücken-based IDS Scheer at about €15 a share, 39% above Monday's closing share price of €10.80. It said it already had a commitment from the company's two main owners for their 48% combined stake. The transaction would start in August and end in September, Software said. The firm is currently Germany's second largest software company after SAP AG. The combined company could see revenue of €1 billion in 2010 if the integration progresses quickly, Software spokesman Paul Hughes said. In 2008 Software generated revenue of €720 million.

Britvic PLC

U.K. soft-drinks maker **Britvic** PLC posted a 5.9% rise in revenue for its fiscal third quarter and said it would post full-year profit ahead of market expectations thanks to strong sales of its carbonated drinks. Revenue rose to £249.1 million ($404.3 million) for the 12 weeks ended July 5, said the second-biggest supplier of carbonated drinks by sales in the U.K. behind Coca-Cola Co. "As a result, the board now anticipate the full-year outcome is likely to be ahead of the peak of current market expectations," Chief Executive Paul Moody said in the company's third-quarter update.

Garuda Indonesia

Indonesia's state-owned airline plans to start flying to Europe next year and take other steps to expand its operations after the European Union lifted a two-year ban on selected Indonesian carriers in response to the country's efforts to improve safety standards. Emirsyah Satar, the chief executive of Garuda Indonesia, the country's flagship carrier, said Garuda would fly first to Amsterdam in the first half of 2010 and would look at other destinations in Europe after that. On Tuesday, the European Union lifted a flight ban on Garuda and three other Indonesian operators, after Indonesia moved to address safety concerns.

Galp Energia SGPS SA

Spain's antitrust authority said Tuesday it will open a probe into Portuguese oil company **Galp Energia SGPS** SA for a possible violation of Spanish laws in a case that dates back to 2006. The authority, called the CNC, said it would open an 18-month investigation into a complaint by a group of gasoline service stations that Galp imposed unfair contracts on them. The investigation was delayed by a couple of purchases by Galp of service-station networks in 2007 and 2008, which had a direct bearing on the complaint against the company, the watchdog said. Galp will cooperate with the antitrust authority in the probe, a spokesman for the company said.

—Compiled from staff and wire service reports.

CORPORATE NEWS

Russia thins down its beer ads

Phantom drinkers, frolicking bottles slated to disappear

By Andrew Osborn

MOSCOW—For nearly five years, Russia, the world's third-largest beer market, has banned the depiction of people in commercials for the brew.

To compensate, beer marketers have used such devices as offscreen voices or animated beer bottles to suggest some kind of living presence in their ads. They say these ploys are legitimate ways to skirt the ban.

But amid a new Kremlin-backed clampdown on alcohol abuse, regulators have started to tighten the rules, which are designed to make beer less appealing to young people.

The result: Russia's noisy offscreen beer drinkers are set to disappear from the airwaves, as are frolicking beer bottles.

"Every human touch will be killed off," says Yulia Krantikova, an executive at Moscow-based ad agency Publicis United, a unit of Paris-based **Publicis Groupe**. "It's going to be even more difficult than it already is to create an ad that stands out from the crowd."

In recent months, public figures here from President Dmitry Medvedev to Patriarch Kirill, the head of the Russian Orthodox Church, have called for urgent action on underage drinking, singling out excessive beer consumption among minors as a particular worry. Though Russia's legal drinking age is 18, beer is often exempted because it isn't classified as an alcoholic beverage.

As hard liquor, such as vodka, has become less fashionable among the young, Russia's beer consumption has more than tripled in the past 15 years, boosted by cheap prices, ready availability and lax regulation. With annual sales estimated at around $17 billion, Russia is now the third-biggest beer market in the world by net consumption, after China and the U.S. Foreign brewers, who control more than 80% of the market, have been the main beneficiaries.

Agence France-Presse/Getty Images

Young women drink beer on a street in Moscow in 2007. Russia's beer consumption has soared in the past 15 years, fueling concerns about underage drinking.

As the global downturn puts hundreds of thousands of Russians out of work, the country's policy makers say the climate is ripe for more stress-related alcohol consumption. So, the Kremlin is turning its attention to beer.

Russia's Federal Anti-Monopoly Service is leading the regulatory charge. The agency says the use of offscreen voices and animated bottles and glasses in beer ads violates the spirit of the country's ban on the use of people and animals in such ads.

"It creates the impression that someone is present," says Andrei Kashevarov, deputy head of the FAS. "We don't want this trend to continue."

Mr. Kashevarov cites a series of commercials for a brand owned by Dutch brewer **Heineken** NV as an example of what won't be acceptable in future. One of the ads for Three Bears beer simulates a picnic scene, complete with forest, river, campfire and, of course, beer.

The fire crackles, invisible hands pour ice-cold beer, phantom drinkers propose playful toasts, and a trio of unseen male drinkers exchange banter with a pair of naked female swimmers. The audience knows the women—also never seen—are naked because their clothes are shown hanging on deck chairs, and they can be heard saying they have forgotten their swimsuits.

Mr. Kashevarov says the series raised regulatory eyebrows. It is fine, he says, for companies to get creative, but brewers have gone too far.

In May, his agency summoned the country's biggest brewers—**Carlsberg** A/S, Heineken, **Efes Beverage Group** and **Anheuser-Busch InBev** NV—and ad agencies and told them the rules were about to be interpreted more strictly. Comply, it said, or face legal action against ads deemed over the line. Under Russian law, the FAS has the power to hit offending companies with big fines.

The agency told brewers it didn't want to hear any more offscreen voices belonging to drinkers or the sound of chinking glasses. Inanimate objects, such as beer bottles, should no longer exhibit human qualities, it added.

One of the two giant state-owned companies that control TV advertising in Russia—Gazprom-Media—has already written to ad agencies telling them to comply with the new guidelines from Aug. 1.

At the same time, a Kremlin-backed lawmaker, Anton Belyakov, has introduced a bill in the Russian parliament that would impose a complete ban on beer advertising on TV and radio. Its chances of becoming law remain unclear. Mr. Belyakov, a former doctor, calls beer ads "mass propaganda for an unhealthy way of life."

Brewers say past experience in Russia suggests tighter ad regulation won't dent beer sales. "Several studies which investigate the relationship between advertising and alcohol consumption show no conclusive evidence that advertising affects overall levels of alcohol consumption or drinking patterns," says Irina Arkhipova, corporate affairs and communications director at SUN InBev Russia, a local unit of Anheuser-Busch InBev that is Russia's second-biggest brewer by sales.

Other brewers say they will always be able to find a way of reaching consumers. "If advertising on TV is completely banned, we'll redirect our media activity in such a way so that current consumption levels [of beer] are at the very least maintained," says Daniil Briman, vice president of corporate affairs at Carlsberg-owned OAO Baltika, Russia's biggest brewer by sales.

Vadim Drobiz, an independent liquor-industry analyst, says the official drive to discourage alcoholism is politically motivated, aimed at appeasing conservative elements of Russian society, such as the increasingly influential Russian Orthodox Church. Like the last major antialcohol campaign, in the 1980s, which included closing vodka distilleries and sharply restricting the hours when alcohol could be sold, it is doomed to failure, he says.

"You can curb advertising," Mr. Drobiz says. "But there'll be no effect."

Japan brewers' deal talks pose antitrust test

By Carlos Tejada And Yoshio Takahashi

Deal talks between **Kirin Holdings** Co. and **Suntory Holdings** Ltd. promise to test Japan's antitrust laws.

Kirin confirmed Tuesday that it is in merger talks with Suntory, but said nothing has yet been decided and discussions are at an early stage.

A combination of the two would create a company with $40.9 billion in revenue that would be better able to deal with the competitive threat posed by the world's leading brewer, **Anheuser-Busch InBev** NV.

Observers said a number of complicated issues would need to be cleared up before any deal could be reached.

The hurdles are likely to include significant antitrust scrutiny. Depending on the details of any transaction, a combined company would control about half of Japan's beer market and roughly one-third of its soft-drink market. It would also have broad holdings in packaged food and liquor.

"Kirin and Suntory would become the first-ranked beer maker [in Japan] if they merged. That could become a constraint on competition," said Naoki Watanabe, a partner at law firm Clifford Chance in Tokyo.

A spokesman at Japan's Fair Trade Commission, known as the FTC, declined to comment on the deal talks.

Japan has cracked down on cartels and price fixing, but its antitrust system when it comes to mergers is generally regarded as more lenient than in the West. Blocking major deals is unusual. However, Japan's antitrust regulators are also moving to match the practices of others in the developed world.

One potential argument for the merger is that Japan's beer market already has players with significant heft, making it unlikely that one major player would hold market dominance. **Asahi Breweries** Ltd. holds 37% of the beer market.

The companies could also argue greater size is necessary as the global beer and beverage industries consolidate. Both companies have sought to broaden their presence abroad, potentially putting them in competition with Anheuser-Busch InBev, **SAB-Miller** PLC and **Coca-Cola** Co. and other major players. That argument may not be as convincing, Mr. Watanabe said, "but it might be a good argument, because the FTC should look at the overall market."

Japan's economy is in the midst of its worst slowdown since World War II, but some economists have been urging Japanese companies to consolidate and rationalize, arguing that growth could follow profits.

Globally, the combined company is unlikely to run into major antitrust issues. Based on preliminary data, market-research firm Euromonitor estimates the combined beer operations would amount to the world's ninth largest by volumes. In the Asia-Pacific region alone, a combined company would be only the fifth largest soft-drink maker, based on last year's data, according to Euromonitor.

—Yuka Hayashi contributed to this article.

Town is witness to U.K.'s rising war grief

Growing frequency of sad processions, as crowds swell to thousands, tests country's patience for Afghanistan fighting

By Alistair MacDonald

WOOTTON BASSETT, England—With its cricket field, pubs and a centuries-old church, this is a typical southern English town in all respects but one: Every corpse that returns from Britain's wars abroad passes through it in a public show of respect.

Wootton Bassett is near Royal Air Force Lyneham, the base to which the country's war dead are returned. Starting about two years ago, townspeople began gathering for the processions of each soldier as the body, in a flag-draped casket, was moved from Lyneham to a coroner's office in Oxford.

The first processions were attended by just a dozen saluting war veterans. Crowds recently have swelled to the thousands. Now, the repetition of these sad processions is testing the U.K. public's patience for the war—and throwing up another potential obstacle to continued support for U.S.-led efforts in Afghanistan.

In recent weeks, the convoy of coffins through Wootton Bassett has turned from a trickle to a stream, as U.K. troops join the U.S.-led surge in southern Afghanistan. The recent rise in casualties—15 soldiers died in 10 days—is raising new questions from the public, politicians and local media about Britain's continued role.

On Tuesday, an estimated 7,000 people gathered in the sun on Wootton Bassett's High Street to pay their respects to the bodies of eight soldiers who were killed in one 24-hour period late last week. At 4:36 p.m. a solitary church bell tolled, the road was closed off, and an undertaker stepped out of a hearse to lead the bodies in the procession. As the eight passed, relatives and friends were held in tight embraces, tears fell, and a round of applause followed the coffins down the road.

"We have to support our troops," said Percy Miles, who in early 2007 arranged the first turnout in the town, for 10 people killed when their C130 Hercules transport aircraft was shot down in Iraq. But with deaths mounting, the 77-year-old Mr. Miles, a British Army veteran, added: "We shouldn't be there. It's not a war of our making, it's a U.S. war.

British Prime Minister Gordon Brown disagrees; he told Parliament on Monday that the U.K.'s security depends on defeating al Qaeda and the Taliban in an area where three-quarters of the serious terrorist threats to Britain originate. In recent days he and government ministers have campaigned to shore up public support, as a host of opposition politicians, retired military officers and media commentators have criticized what they see as a lack of objectives and poor equipment for the forces.

Nick Clegg, the leader of the opposition Liberal Democrats, said in Parliament that the government's policy in Afghanistan is "overambitious and underresourced." Critics have focused, for instance, on what they see as a lack of helicopter cover. The Conservative Party blame the government for cutting the helicopter budget by £1.4 billion ($2.3 billion) in 2004, a move the government says it is now rectifying.

At stake are future troop numbers from the U.S.'s biggest ally in Afghanistan. Britain has 9,000 military personnel in the country, more than half of which are currently fighting with U.S. troops to seize Taliban-held territory in Helmand province ahead of an Afghan presidential election next month.

Mr. Brown now has to decide, given the current pressures on his forces, if he keeps around 700 troops in Afghanistan that were scheduled to come home after the local elections next month. The prime minister says he is continuously evaluating the situation with commanders.

Associated Press

One of eight hearses carrying the bodies of eight U.K. soldiers killed in Afghanistan last week passes mourners on the High Street in Wootton Bassett on Tuesday.

A poll by ICM for the Guardian newspaper late last week, as news of the latest casualties broke, showed opposition to the war at 47%, about the same as the 46% who support it. However, public backing for the war in Afghanistan has increased by 15 percentage points since a similar poll in 2006.

Some recent German deaths in Afghanistan have heightened opposition to the war there, and other North Atlantic Treaty Organization countries are also showing fatigue from the conflict. It would be a particular blow to the U.S. effort if the U.K. were to decide its involvement in Afghanistan is too politically fraught to continue at current levels.

Support for the British effort owes partly to a campaign by the British government and military to shore up support for the British armed services. Des Browne, as minister of defence, helped push some of the changes. There was a desire to "address the balance of decades of neglect," he said.

British military uniforms, once common on the street, were less frequently seen due to worries about terrorists linked to Northern Ireland. Some analysts say the military also fell from civilian view in part in deference to Britain's Muslim population, parts of which disagreed with the wars in Iraq and Afghanistan and amid general rejection of war.

A 2007 report on the relationship between the armed forces and the public suggested a number of improvements, including the wearing of uniforms in public again; shifting homecoming parades and medal presentations to public places; and creating a British Armed Forces Day. On June 27, the armed services hosted events around the country, from military parades to children's shooting ranges. Wootton Bassett influenced the government's thinking, Mr. Brown said.

In 2005, Mr. Miles—then the town's mayor—was told by the station commander at RAF Lyneham that the bodies of the personnel from the base would be passing through his town. Mr. Miles remembers going upstairs to put on the chain and robes that are a symbol of his post and walking with his wife to the local war memorial.

Now, when RAF Lyneham hears of a "repatriation," a base official calls secretaries at the Town Hall, who email and call around 30 local people who have their own lists of 10 numbers each to call. Through what locals call a "jungle telegram," news spreads. So far 166 coffins have passed through in 79 ceremonies.

What transpires during the processions is often not about politics, but rather grief, said Alison Aldridge, 40, after watching Tuesday as her nephew Will Aldridge's coffin was driven past. At 18, one of the youngest soldiers stationed in Helmand, Mr. Aldridge was killed in an explosion as he helped to retrive casualties hurt in an earlier blast.

"The army was what Will wanted all his life. It just didn't have a happy ending," she said, holding tears back behind dark glasses.

Buzek storms into Parliament post

By Carolyn Henson

BRUSSELS—The European Union's new Parliament elected Poland's former Prime Minister Jerzy Buzek as president, the first East European to head one of the bloc's big institutions.

Jerzy Buzek

Though the president of the 736-member body has few powers, the choice of Mr. Buzek is symbolic for the former communist-bloc nations that have joined the EU since 2004, and have sometimes felt they were secondary to longer-serving EU member states.

The 69-year-old told an inaugural session of the parliament his election was "a tribute to the millions of people who didn't bow to a hostile system," referring to communism. "There is now no 'you' and 'us'; we live in a shared Europe."

Mr. Buzek, a member of the conservative European People's Party, received a resounding endorsement with 555 of 644 votes. His nearest opponent, Green party member Eva-Britt Svensson of Sweden, got 89 votes.

Mr. Buzek was Poland's prime minister from 1997 to 2001, helping guide the country into the North Atlantic Treaty Organization and launching its membership talks with the EU. He was one of the original members of Poland's Solidarity union, which played a prominent role in toppling communism. Solidarity veterans have since split into two conservative factions, and Mr. Buzek has sided with the more moderate Civic Platform party, headed by Prime Minister Donald Tusk.

A chemical engineer, lecturer and former director of Poland's Academy of Science, Mr. Buzek represented Poland until 1997 in the International Energy Agency's program to assess technologies believed to contribute to global warming.

He will serve a 2½-year term—half the new Parliament's five-year mandate—before handing over to the socialist-bloc leader, Germany's Martin Schulz, under a pact by the body's two biggest factions.The European Parliament is the EU's only elected institution, serving alongside the executive European Commission and the European Council of national governments. The Parliament doesn't initiate legislation on its own—that role belongs primarily to the commission.

The Parliament has joint powers to approve some legislation with the council. A new EU treaty, the Treaty of Lisbon, if voted through by Ireland on Oct. 2, would extend those powers to virtually all areas where the EU has the right to act.

—*Marc Champion contributed to this article.*

Reuters

A milk producer, walking with his livestock, protests falling milk prices in front of the European Parliament building in Strasbourg, France, on Tuesday.

Bloomberg News

Steven Rattner led the U.S. overhauls of GM and Chrysler that shed thousands of jobs and eliminated heavy debt loads.

U.S. auto czar steps down

Architect of bailouts for GM and Chrysler quits after six months

By Neil King Jr.

WASHINGTON—Steven Rattner, chief architect of the U.S. bailouts of General Motors Co. and Chrysler LLC, is leaving the Obama administration after less than six months on the job and just days after ushering GM through a speedy bankruptcy-court proceeding.

Mr. Rattner, a former investment banker and onetime partner of the New York private-equity firm Quadrangle Group, is closely identified with the bailout's successes and controversies. He led revamps that shed thousands of jobs and eliminated heavy debt loads. He also drew criticism from those who objected to the U.S. government's intervention in the automobile sector. All told, the bill could hit $100 billion.

His return to New York appears to have cut short, at least in the medium term, Mr. Rattner's goal of parlaying the task-force position into a second, political career. The statement announcing his appointment as a Treasury adviser in February made clear he would have responsibilities beyond the automobile sector.

His departure sparked speculation about what might have derailed the plans, especially since it leaves his future endeavors unclear.

The move comes as the New York attorney general's office has intensified scrutiny of Quadrangle Group and Mr. Rattner, 56 years old, as part of a long-running probe, according to a person familiar with the matter.

The attorney general is overseeing a broad investigation into alleged payments to secure business with New York state's large public-pension fund.

There is no indication that Mr. Rattner's return to New York is connected to the probe. The fact he has been named in an ongoing investigation could have complicated any administration effort to appoint Mr. Rattner to a more permanent post.

A spokesman for Quadrangle declined to comment. Neither the firm nor Mr. Rattner has been charged with wrongdoing.

Mr. Rattner didn't return calls seeking comment.

Mr. Rattner won't be returning to Quadrangle Group, according to people close to him. His departure from the firm he co-founded came at a tough time for the firm and irked some former colleagues.

The move triggered a clause that allowed investors in the firm's flagship buyout fund to withhold money they had pledged. In the end, investors in Quadrangle Group's private-equity vehicle elected to keep their financial commitments.

In a written statement, Treasury Secretary Timothy Geithner said that with the heavy lifting of the auto bailout over, Mr. Rattner had "decided to transition back to private life and his family in New York City."

Former labor negotiator Ron Bloom, also a prominent member of the administration's auto task force, will take over as head of the restructuring team. Mr. Bloom spent much of the past few months negotiating labor deals central to the auto rescues. Several top administration officials said they were impressed with his work and wanted to keep him on board.

Mr. Rattner, by contrast, was seen more as a negotiator and deal maker.

"This is natural," said one administration official. "Steve is a great deal guy, and the deal time is over."

Mr. Rattner won high marks from within the companies themselves. GM Vice Chairman Bob Lutz said in an interview that Mr. Rattner "has a brilliant mind and showed tremendous energy" during the GM rescue.

Mr. Rattner was a lightning rod for bailout critics. Dealers objected to the government's support for plans to eliminate thousands of GM and Chrysler dealerships. Auto-parts manufacturers complain they haven't been helped enough. Some of loudest criticisms have come from business circles and among conservatives who objected to what they saw as Mr. Rattner's heavy-handed treatment of the secured lenders in the Chrysler case.

Jack Fitzgerald, an auto dealer who was mandated to close Chrysler and GM stores in Maryland and Florida, said the task force, under Mr. Rattner's lead, failed to truly grasp the nature of the auto retailing business.

"They're cutting back services to domestic car buyers," he said, referring to the decision to slash thousands of dealers seemingly overnight from the Chrysler and GM networks. "The task force simply looked at the number of dealers Toyota had... without grasping what a dealer really does," he said. "They just did everything wrong."

During his brief stay in Washington, Mr. Rattner worked to keep a low profile. He rarely granted interviews and usually deferred to his bosses within the Treasury Department and the White House.

He remained a focus of attention because of his deep ties to Wall Street, his wealth and his involvement in the pay-to-play investigation in New York. His transition to Washington power circles was also followed because of his prominent role for years in Democratic Party circles in New York.

He and his wife, Maureen White, ranked among the city's biggest fund-raisers for Democratic candidates and he was one of the few prominent administration officials with an extensive business background.

In recent years, Mr. Rattner has made no secret of his ambitions to work for a Democratic president. In 1997, he turned down a post under President Bill Clinton. When he jumped at the opportunity to spearhead the Obama auto task force, many in Washington assumed he would later ascend to other jobs at the Treasury or the White House.

Mr. Rattner's most prominent task came in late March when, on behalf of Mr. Obama, he personally demanded that GM's chief executive at the time, Rick Wagoner, step down.

Mr. Geithner, in his statement, said the administration was entering "a new phase of the government's unprecedented and temporary involvement in the automotive industry."

Mr. Bloom, he said, would lead the effort now that it was moving away from "day-to-day restructuring to monitoring this vital industry and protecting the substantial investment the American taxpayers have made" in the companies.

—John D. Stoll, Craig Karmin and Peter Lattman contributed to this article.

U.K. inflation rate falls below the BOE's target

By Natasha Brereton

LONDON—The U.K.'s annual rate of inflation fell below the Bank of England's 2% target for the first time in almost two years in June, and analysts expect it to remain there for months to come.

The decline below target has taken longer than the BOE had expected, in part because the pound's weakness pushed up import prices.

But with the annual rate of inflation set to fall further in response to weak demand, the BOE is likely to once again consider boosting its bond-buying program, which is currently set at £125 billion ($203 billion) in May, up from £75 billion from its start in March.

Data released by the Office for National Statistics Tuesday showed that the consumer-price index rose 1.8% from June 2008, the first time the inflation rate has been below 2% since September 2007. Prices fell 0.1% in the euro zone over the period, the first-ever drop on record and well below the European Central Bank's target.

Economists say the large amount of spare capacity in the economy will drag the inflation rate significantly lower for the rest of this year.

According to a survey of 2,500 companies commissioned by lender Lloyds TSB, businesses see little scope to raise their prices. Some 16% said they will cut their prices over the next six months, 15% said they will raise their prices, and the rest intend to leave their prices as they are.

The retail price index—a broader measure of inflation that includes mortgage payments—fell 1.6% from June 2008, a record drop. The RPI has traditionally been used as a basis for wage negotiations, and could weigh on pay deals and public expectations of inflation.

The risk that inflation will move more than temporarily away from its target will likely persuade the BOE of the need to increase its bond buying, or its "quantitative easing," program, economists said.

"Inflation is likely to be subdued for the foreseeable future," said David Page, an economist at Investec Securities. "We continue to expect the MPC [monetary-policy committee] to purchase assets beyond the £125 billion it is currently targeting—a move we think it will announce in August alongside the inflation report and a fresh set of medium term forecasts."

The central bank's monetary policy committee last week surprised investors by making no change to the size of its quantitative-easing program.

—Paul Hannon, Nicholas Winning and Laurence Norman in London contributed to this article.

Euro-zone output increases for first time in nine months

By Ilona Billington

LONDON—Factory output in the euro-zone economy rose in May for the first time since August, adding to evidence that the worst of the region's economic contraction has passed.

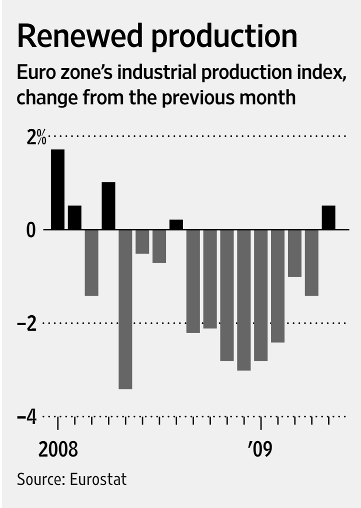
But German financial observers grew more pessimistic about the outlook in July for the 16 countries that use the euro, anticipating a long, slow and uncertain crawl toward recovery.

According to the European Union's official statistics agency Eurostat, industrial production rose 0.5% in May from April. That was the first rise in nine months. The year-to-year decline slowed to 17%.

The pickup in output was confirmation that a series of surveys pointing to a turnaround in the sector hadn't been misleading. The hard data and surveys together suggest that factory output could post a quarter-to-quarter increase as soon as this period, but it may take longer for other key parts of the economy to revive.

"In all, though, it still looks as though any recovery in euro-zone activity will be slow to get started," said Capital Economics' European economist Jennifer McKeown.

That cautious view is shared by German financial analysts surveyed by the Center for European Economic Research, or the ZEW. The measure of sentiment for economic development in Germany for the following six months fell 5.3 points to 39.5 in July, from 44.8 a month earlier. It was the first decline after nine straight months of gains, and reflected concerns about the scarcity of bank lending to consumers and business.



The respondents expected gross domestic product to be flat in the third and fourth quarters of 2009, as their assessment of the current economic situation stabilized in July after falling steeply in recent months. The ZEW also said it expected German GDP to contract 6% for the whole of 2009 compared with 2008.

The ZEW survey of German sentiment for economic development in the currency zone overall for the following six months also fell to 39.5, down 3.2 points from June.

The European Central Bank welcomes any sign of a recovery, but will likely remain cautious and keep interest rates at a low level for some time, as well as maintaining or possibly extending its current additional policy support.

— Roman Kessler and Geoffrey T. Smith in Frankfurt and Quentin Fottrell in Dublin contributed to this article.

ECONOMY & POLITICS

Goals of CIA plan emerge

Initiative on fight against al Qaeda stirs political battle

BY SIOBHAN GORMAN

WASHINGTON—The revelation of a secret Central Intelligence Agency initiative examining how to assassinate al Qaeda members—axed by Director Leon Panetta—has intensified a battle between the U.S. executive branch and Congress over the conduct of the CIA and intelligence operations.

The initiative examined how to use hit teams on the ground, according to current and former national-security officials familiar with the matter. The goal was to assemble teams of CIA and special-operations forces "and put bullets in [the al Qaeda leaders'] heads," one former intelligence official said.

The plan was never carried out, and Mr. Panetta canceled the effort on the day he learned of it, June 23. The next day, he alerted Congress, which didn't know about the plan.

"The agency hasn't discussed publicly the nature of the effort, which remains classified," said agency spokesman Paul Gimigliano. The Wall Street Journal reported Monday that the effort stemmed from a presidential order dated September 2001 that directed the CIA to find ways to kill or capture al Qaeda leaders.

Democrats in Congress are calling for an investigation into whether it was properly briefed on the matter. Meanwhile, Sen. Kit Bond, the top Republican on the Senate intelligence panel, said the thrust of the plan should be resurrected. "The general concept in the plan is one that should be explored somewhere, whether it's a modification of this plan or some related plan," he said in an interview.

Congress frequently feuded with


Agence France-Presse

The decision by CIA director Leon Panetta to cancel the assassination initiative has put him in a tough spot.

the Bush administration over intelligence matters. Democrats expected that tension would abate under the Obama administration, but lawmakers have frequently found themselves at odds with President Barack Obama's decisions to continue or not investigate controversial intelligence policies initiated under President George W. Bush.

The tug-of-war will enter a new round as soon as this week, when the House is expected to take up a bill that would expand congressional oversight of intelligence activities, especially of covert-action programs. The White House has said it would veto the bill if passed.

The White House has evaluated whether or not to declassify information on a case-by-case basis, making any pattern hard to discern.

Had it become fully developed, the CIA's aborted plan would have been a covert-action program. At the outset, the potential operation wouldn't have been limited to particular countries. The use of hit teams was in accordance with the authority granted by the 2001 order, said a former national-security official familiar with it.

In the most recent iteration of the project, top CIA leaders instructed officers involved to narrow its focus and report the plans to Congress if they reached a critical point, according to a former senior intelligence official.

Targeted killing of terrorists is prohibited by presidential orders banning assassinations that date back to the Ford administration. But the president can waive that order, said Vicki Divoll, a former CIA counsel, because there is no specific federal law that bans the practice. There's also no legal difference, she said, between killing al Qaeda targets with a hit team or with an unmanned drone, because the "intent to kill a targeted person" defines an assassination.

One official with direct knowledge of the secret program said that assassination teams could be more effective than taking out al Qaeda leaders with drone-fired missiles. "We're talking about the difference between two feet and 50,000 feet," said one official with direct knowledge of the program. "Do you want the collateral damage of 50,000 feet or two?"

Mr. Panetta's decision to kill the assassination initiative has put him in a tough spot. His recent moves to stand up for the agency in disputes with the director of national intelligence and House Speaker Nancy Pelosi—who recently accused the agency of "lying all the time"—have bolstered his support within the agency, veterans said. But lawmakers' rapid-fire calls to investigate Bush-era efforts like the secret assassination program threaten to undermine that support.

Geithner assures Saudis on U.S. dollar, deficit

BY MOHAMMED ALY SERGIE

JEDDAH, Saudi Arabia—U.S. Treasury Secretary Timothy Geithner reassured Saudi Arabia that the U.S. is committed to reducing its deficit and backing a strong dollar—a concern for many countries in the Persian Gulf that maintain a dollar peg and ramped up their foreign assets as oil prices surged.

"Policies of the United States are designed to lay the conditions for a strong dollar," he said on Tuesday, adding: "We are very committed ... to making sure that as we get through the crisis, we bring down fiscal deficits and we reverse these extraordinary interventions we've taken."

Mr. Geithner, on a swing through Middle East and European financial capitals, plans meetings Wednesday in Abu Dhabi, the capital of the United Arab Emirates. He is expected to discuss issues such as oil-price stability and revamped foreign-investment laws.

When Mr. Geithner's predecessor, Henry Paulson, visited the region last year to drum up support for the U.S. dollar and American financial institutions, the economic situation in the oil-rich Persian Gulf states was drastically different. Crude prices were climbing and petrodollars were flooding back into developed economies, lifting the foreign assets of Gulf Cooperation Council central banks and sovereign-wealth funds.

Since then, the Saudi Arabian Monetary Agency, or SAMA, the Saudi central bank, has seen its savings fall. SAMA's "non-reserve foreign assets," which consist mostly of foreign bonds and U.S. dollars, have fallen from about $412 billion in the fall to $365 billion in May, according to Rachel Ziemba, an analyst at RGE Monitor, an economics consultancy.

The region's economic slowdown and the repatriation of foreign assets to spur local growth is limiting oil producers' ability to invest in U.S. debt as the Obama administration rolls out a projected $2 trillion in bond offerings this year, some analysts say.

"With oil prices down, the trade-off between the domestic economy and the accumulation of foreign assets became more acute," said Jarmo T. Kotilaine, chief economist at NCB Capital, the investment-

The U.S. aims to cut the deficit and back a strong dollar, Mr. Geithner says.

banking arm of the Saudi government-owned National Commercial Bank.

In Abu Dhabi on Wednesday, Mr. Geithner is to meet with the crown prince of the emirate, Sheikh Mohammed bin Zayed Al Nahyan, as well as with the city-state's massive sovereign fund, the Abu Dhabi Investment Authority, and with officials of the finance ministry and central bank.

"This is a reassurance trip," a U.A.E.-based economist who works for a government agency said. "Geithner wants to let Abu Dhabi and Saudi know that their investments in the U.S. are safe."

—Maya Jackson Randall and Maria Abi Habib contributed to this article.

Iran announces new rules aimed at restricting media

BY ROSHANAK TAGHAVI

DUBAI—An Iranian regulatory agency announced a new set of guidelines Tuesday that it says are designed to ensure "objectivity" in Iran's domestic media.

The move appears to be the latest in a series of measures aimed at reining in the local and international press, after contested June 12 presidential elections and the sometimes-violent clashes between demonstrators and authorities that followed.

In the aftermath of the vote and amid massive protests, Iran clamped down on international and domestic journalists, refusing to extend visas and eventually forbidding correspondents from attending unapproved gatherings or news conferences. Regime officials also rounded up scores of local journalists, and have accused the foreign media of inciting violence or working as agents of foreign governments during the unrest.

Forty-one journalists and bloggers are being held by authorities in the Islamic Republic, according to media watchdog Reporters Without Borders. Iran expelled the British Broadcasting Corp.'s correspondent in Tehran, Jon Leyne, and has held Iranian-Canadian reporter Maziar Bahari, who has reported for Newsweek, in detention since mid-June.

Iran's State Inspectorate Organization, a sort of superregulatory agency that supervises a wide range of government administrations, said the guidelines will ensure that any criticism communicated through state media is "constructive," "nonjudgmental" and doesn't "stray from objectivity," Iran's state-controlled English-language news site Press TV quoted SIO chief Mostafa Pourmohammadi as saying.

He didn't give details of the new rules, and it wasn't clear which outlets are being specifically targeted—the government-controlled media or the heavily monitored, independent press. It is also unclear how much clout the agency has in pursuing violations or referring them to authorities for enforcement.

Still, the public decree appeared to ratchet up pressure on journalists inside the country. Press TV said only that the new guidelines came after "provocative, insulting, derogatory and defamatory" reports in the run-up to the June 12 elections and in its immediate aftermath. Election officials declared President Mahmoud Ahmadinejad the winner, triggering weeks of widespread protests.