Leading the News: Obama administration digs in to rebuild domestic support for free trade

THE WALL STREET JOURNAL.

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What's News

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Copying Mugabe?
South Africa's land reform plans sound eerily familiar. Page 15

Breaking news at europe.WSJ.com

Banks paying big for stars

BofA hires top bond salesman with a guaranteed $6 million for first year

By Kate Kelly And Sara Schaefer Muñoz

Some big banks that have received government bailouts in the U.S. and Britain are offering handsome pay packages to lure stars and reverse last year's steep losses.

Bank of America Corp. recently hired a top bond salesman with a guaranteed two-year deal valued at about $6 million for the first year, people familiar with the matter say. **Citigroup** Inc. offered nearly $2 million in an attempt to recruit a top brokerage executive. And **Royal Bank of Scotland Group** PLC, Britain's largest recipient of government bailout funds, is offering pay packages to lure or retain some people that are at or above the industry's peak pay in 2007, people familiar with the deals say.

The offers come in the wake of an uproar about lofty pay packages in the financial world. Some strong banks such as **Goldman Sachs Group** Inc. are ramping up pay amid big profits. But some weaker banks buoyed by governments on both sides of the Atlantic also need to keep pay high enough to remain competitive, while avoiding the wrath of lawmakers.

"The state is helping these banks stay in business ... so they are essentially offering this compensation using state money," says Chicago-based compensation consultant Mark M. Reilly. "This has really been a surprise for other banks, who thought compensation was going to drop."

Bank of America's offer shows how some banks that have received U.S. government help under the Troubled Asset Relief Program, or TARP, are likely to navigate new pay strictures. Under the new rules adopted this year, the U.S. Treasury Depart-

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Iran looks for reasons for air disaster

Reuters

FIERY ACCIDENT: A Caspian Airlines Tupolev passenger plane crashed a quarter-hour after taking off from Tehran on its way to Armenia, killing all 168 people on board. A volunteer searches the wreckage of the jet Wednesday. **Page 2.**

U.K. data reflect weak jobs market

By Joe Parkinson and Jonathan House

LONDON—Britain unveiled unemployment data that offered a bleak picture of the jobs market, while Spanish house prices posted their biggest decline in more than 22 years.

The U.K.'s Office for National Statistics said the jobless-claims count rose 23,800 in June, less than May's downwardly revised increase of 30,800 and the smallest gain in 13 months.

Unemployment, according to the broader International Labor Organization measure, rose by 281,000 to 2.38 million in the three months to May, the highest quarterly increase since records began in 1971. That pushed the unemployment rate to 7.6%, up 0.9 percentage point from the previous three months.

"The big picture is that unemployment still has significantly further to rise," said Vicky Redwood, an economist at Capital Economics.

Economists said the increasing divergence between the two key measures could indicate that newly jobless workers aren't claiming benefits as they hunt for vacancies, which remain at a record low.

The British economy is facing its worst recession in 50 years, although recent indicators have suggested that pros-

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Chechnya activist is kidnapped, killed

By Alan Cullison

MOSCOW—A prominent human-rights activist was kidnapped and killed on Wednesday in Russia's troubled Caucasus area, the latest incident in a spiral of violence in a region that the Kremlin had recently declared pacified.

Rights advocates blamed the pro-Kremlin strongman in the region, Chechen President Ramzan Kadyrov, for the murder of Natalya Estemirova. Mr. Kadyrov, who swears loyalty to the Kremlin and calls Russian Prime Minister Vladimir Putin a hero, has seen his own authority in Russia boosted in recent months, as the Kremlin declared an end to the war in Chechnya and turned over most antiterrorist operations to his troops.

A number of Mr. Kadyrov's critics have been killed recently outside Russia in places such as Dubai, Istanbul and Vienna, crippling his political opposition. Mr. Kadyrov, 32 years old, denies involvement in those killings and scoffs at allegations by human-rights groups that he and his forces torture, kidnap and kill opponents within Russia.

Mr. Kadyrov couldn't be reached to comment on Wednesday.

Ms. Estemirova worked for the Russian human-rights group Memorial, gathering evidence of abuse by authori-

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Chinese car maker Geely expands to take on Detroit
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DJIA	8616.21	+3.07
Nasdaq	1862.90	+3.51
DJ Stoxx 600	209.08	+2.74
FTSE 100	4346.46	+2.57
DAX	4928.44	+3.07
CAC 40	3171.27	+2.90
Euro	$1.4087	+1.03
Nymex crude	$61.54	+3.39

LEADING THE NEWS

Iran plane crash kills 168

Caspian Airlines jet leaves no survivors; cause isn't known

By Roshanak Taghavi

DUBAI—An Iranian Tupolev passenger plane bound for Yerevan, Armenia, crashed Wednesday morning 16 minutes after taking off from Tehran, killing all 168 people on board, according to state media.

Iran's Civil Aviation Organization spokesman Reza Jafarzadeh said the Caspian Airlines plane crashed in northwest Iran's Qazvin province. The crash victims appeared to be mostly Armenians and Iranians, based on a list of passengers provided to state media. Members of Iran's Junior Judo squad, including eight athletes and two coaches, were among those killed, the state-run Press TV reported. Former member of parliament Leon Davidian, who represented Armenians in northern Iran, was also on the flight, state media reported.

The cause of the crash wasn't known. Iranian officials say sanctions aimed at halting Tehran's nuclear program have significantly reduced its ability to import equipment maintain the country's aging fleet of aircraft.

Sina Shiri/AFP/Getty Images

Iranians gather at the site of the Caspian Airlines plane crash northwest of Tehran on Wednesday. Officials said all 168 people on board were killed.

Caspian Airlines, however, uses Russian-made Tupolevs, whose maintenance would be less impaired by U.S. sanctions.

President Mahmoud Ahmadinejad ordered an investigation into the crash. A Qazvin official told state press the military was searching for the plane's "black box," which records flight data and cockpit conversations. Conversations between the pilot and the ground appeared normal, the managing director of Iran's airport authority said, according to reports. A witness, quoted by the semi-official ISNA news agency, said the plane's tail burst into flames in the air and the plane circled before crashing.

Iceland's long debate over joining EU reflects rifts

By Charles Forelle

BRUSSELS—A tense debate in Iceland's parliament on whether to apply to join the European Union stretched into its fifth day Wednesday, continuing in the evening past the time that a vote had been planned.

The marathon session reflects deep rifts in Iceland over how best to resurrect the country after its financial meltdown last fall, when excessive overseas lending wrecked Iceland's overextended banks and with them its tiny currency, the krona.

On Wednesday, the debate was prolonged by a demand that the government reconsider a deal to pay back foreign countries whose depositors lost out in the collapse of Icelandic banks, and by extended debate on EU regulations governing chicken and pig farms.

Many in Iceland believe the nation needs the safe haven of the EU's common currency, the euro, even if signing up to the EU means the country must cede precious sovereignty over lucrative fishing grounds. Last October's financial collapse caused chaos on an island that paid for its imports of cars, food and building materials with kronur that suddenly lost value.

U.K. reiterates support for Blair as EU president

By Alistair MacDonald And Marc Champion

U.K. Prime Minister Gordon Brown's government reiterated its support for former leader Tony Blair to become the first president of the European Union.

That leaves several details for Mr. Blair to iron out should he decide to seek the position—such as the fact that the job doesn't yet exist and his support elsewhere in Europe, and even Britain, is less than certain.

Tony Blair

Glenys Kinnock, Britain's minister for Europe, told journalists Wednesday at the European Union's Strasbourg, France, Parliament that Tony Blair is the U.K. candidate for president of the European Council and that she was "sure" government wouldn't support a Blair candidacy "without asking him."

The post of EU president will be created if the bloc's 27 countries ratify the Lisbon Treaty, which is aimed in part at amplifying the group's voice in the world. Most already have; the Irish rejected it last year and hold a second referendum on Oct. 2. Recent opinion polls suggest they may vote to approve.

Mr. Blair, who ended a decade as prime minister in 2007, is a special envoy to the Middle East for the United Nations, the U.S., the EU and Russia. He has yet to announce publicly an interest in the EU presidency. "There is nothing to be a candidate for, since the job doesn't actually exist," Mr. Blair's spokesman said in a statement.

The new EU president's powers and influence aren't well defined. He or she likely would vie for influence with the president of the commission and a newly strengthened high representative for foreign policy, as well as with national leaders. The European Commission is the EU's executive arm.

That is one reason why many analysts see Mr. Blair's candidacy as a long shot, despite his strengths as a politician and salesman for Europe. French President Nicolas Sarkozy has in the past publicly said Mr. Blair would be a good candidate. But officials from smaller EU countries worry openly about the risks of having the job go to someone from one of the EU's big powers, who might overshadow national leaders.

Crucially, Mr. Blair also comes from a country that is resented in many parts of the EU for opting out of some of the bloc's core projects, including the euro currency. He is remembered with bitterness in parts of Europe for having sided with the U.S. in launching the Iraq war in 2003. During a decade in office, he notched resentments on other issues. He blocked a Belgian prime minister, Guy Verhofstadt, from becoming president of the European Commission in 2004, a slight Belgian officials haven't forgotten.

Mr. Blair also faces a stumbling block closer to home in the opposition Conservative Party. Mr. Brown must call an election before June. Should the Conservatives, who are 17 percentage points ahead of Mr. Brown's Labour Party, win that election before the presidency is put to the vote, Mr. Blair would lose British backing.

—David Gauthier-Villars contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Russian lender OAO Sberbank posted a first-quarter net profit of 583 million rubles ($18.1 million), down from 31.11 billion rubles a year earlier. A Money & Investing article Wednesday incorrectly said Sberbank posted a net profit of 600 million rubles.

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

LEADING THE NEWS

U.S. in tight spot on trade

Aim is to boost exports without igniting protectionist backlash

By Bob Davis And Greg Hitt

WASHINGTON—Looking to revive support for free trade within the U.S., the Obama administration plans to press foreign nations to increase imports of U.S. agriculture and manufacturing, but not to push so hard as to ignite a protectionist backlash.

"In order to save trade, we've got to deal more honestly with those who feel like [trade's] benefits haven't been manifested for them," U.S. Trade Representative Ron Kirk said in an interview Tuesday. "We've got to be serious about enforcement."

Ron Kirk

Thursday, Mr. Kirk plans to travel to Mon Valley Works, a steelmaking complex in Braddock, Pa., to tell steelworkers that the U.S. will begin regular reviews of countries whose regulations and other practices limit American exports of agriculture and manufactured goods. In agriculture, for instance, the U.S. would target health-based import restrictions that Washington considers bogus—such as bans of American pork products by Russia, China and other nations in reaction to the outbreak of H1N1 influenza.

The U.S. effort would rely largely on trying to embarrass countries into changing policies, rather than directly threatening tariffs or other commercial penalties. The U.S. could decide to refer some of the disputes to the World Trade Organization, but getting cases decided there can take years.

"One of the legitimate complaints levied against our trade policy is people feel like we just let our partners run roughshod over us," Mr. Kirk said, at the cost of U.S. jobs. "I don't think it's too much to ask of our trading partners that you live by the rules that you agreed to."

White House economic-policy makers argue they need to jump-start trade to fight the global recession, but they acknowledge that they have little political room at home to maneuver. President Barack Obama wants to win approval of three free-trade deals and finish negotiations on a global trade deal by the end of next year. The initiative Mr. Kirk plans to unveil Thursday could ease public skepticism, mollify union allies and raise prospects for those deals on Capitol Hill.

Globally, trade continues to contract. Wednesday, the Organization for Economic Cooperation and Development reported that the value of exports in 30 OECD countries during the first quarter fell 13.4% from the previous quarter, and imports declined 15.2%.

Boosting trade could help revive economic prospects in the U.S. and elsewhere. Mr. Kirk said the initiative would translate into jobs, as U.S. partners were forced to follow through on commitments to open markets. "It has real practical value in our overall economic strategy," he said.

The Obama administration has had a tough time articulating a clear policy on trade. As a presidential candidate, Mr. Obama ran as a trade hawk, urging the renegotiations of the North American Free Trade Agreement. As a president, he has supported free-trade measures, including pledging at several G-20 summits not to take protectionist measures, and softening "Buy America" provisions in the stimulus package that would limit foreign companies from bidding on U.S. government contracts.

To win over a public skeptical about trade, he is now following a course plotted by earlier Republican and Democratic administrations: appear to get tough with trade partners and show that trade deals can boost exports and jobs, then use that credibility to push for new trade deals.

Mr. Kirk said the administration would mobilize the departments of Commerce, Agriculture and Labor, as well as the USTR, to press offending countries to lift regulatory barriers. The administration is also working on a separate initiative to enforce labor rights in bilateral free-trade pacts. Generally, those agreements require U.S. trading partners to enforce their own domestic labor laws and work to raise them to international standards.

Mr. Kirk would expand upon annual U.S. reviews of intellectual-property protection abroad, and produce similar reports on agricultural and manufacturing restrictions. By "naming and shaming" countries, the U.S. tries to build pressure for change. Many developing countries fear that being placed on so-called watch lists can limit foreign investment.

The intellectual-property effort has had mixed success. Bootlegged software and movies are still available throughout China, for instance, despite years of U.S. pressure on Beijing to crack down.

Three's company | A look at the Opel bidders

Magna International	RHJ International	Beijing Automotive Industry Holding
Canadian-Austrian automotive supplier	Holding company based in Belgium, connected to U.S. buyout firm	Chinese company with joint ventures with Western auto makers
Attraction: Has support of Opel unions and German government; well placed to expand in Russian market	**Attraction:** Believed to be seeking less state aid than Magna; might sell Opel back to GM later	**Attraction:** Offering more cash and seeking less state aid than others
Downside: Needs the most financial help from Germany; has differences with GM over access to markets and technology	**Downside:** Little synergy with Opel; faces opposition from German politicians and unions	**Downside:** Is a GM rival in China; wants Opel's technology more than its factories

Agence France-Presse/Getty Images

German aid may depend on Magna winning Opel

Germany's government sent a message to **General Motors** Co. on Wednesday: If GM sells its European car business to somebody other than **Magna International** Inc., then Germany might withdraw its offer of state aid.

*By **Marcus Walker** in Berlin, **John D. Stoll** in Detroit and **Dana Cimilluca** in London*

The warning comes as German politicians grow increasingly nervous about who will win the auction for GM's European operations, centered on its Opel brand, a major employer in Germany and several other European countries.

Germany's strong hint could bolster Magna's chances, despite intense interest from other parties. Without government help, investors would struggle to finance the money-losing Opel and GM's Vauxhall in Britain.

Six weeks ago, Germany thought GM was on course to sell control of Opel to Magna, a Canadian-Austrian automotive supplier that has promised to keep Opel's German factories running. German politicians, facing national elections Sept. 27, pledged to support Magna's plan with €4.5 billion in loan guarantees.

Since then, the divergent interests of Detroit and Berlin have become clear, and the auction is turning into a game of chicken between GM and Germany.

A newly confident GM, emerging faster than expected Friday from bankruptcy proceedings, is growing cool on Magna after failing for weeks to bridge differences with Magna over issues including access to GM technology and world markets.

GM's preliminary, nonbinding accord with Magna in late May was "a shotgun wedding" under political pressure from Germany, said one person close to GM.

Now, said people familiar with the matter, GM is closing in on an alternative agreement with **RHJ International** SA, a Brussels-based holding company whose largest shareholder is U.S. financier Timothy Collins, founder and head of buyout firm Ripplewood Holdings.

GM is confident that Germany wouldn't block a sale to RHJ, risking Opel's bankruptcy so close to the election, these people said.

However, GM can't complete a deal without Germany's aid and approval, German officials point out. And GM's controlling shareholder, the U.S. government, is unlikely to want to anger a major European ally at a time when President Barack Obama is seeking more help from Chancellor Angela Merkel on a number of international security issues, such as pacifying Afghanistan.

Against this political background, Magna is confident that it can still secure the deal by reaching compromises with GM in coming days, said people close to the company. Magna is preparing to offer concessions on outstanding issues including the royalties it would have to pay GM to use its technology, these people said.

A third bidder, **Beijing Automotive Industry Holding** Co. of China, is also a contender, but the contest appears to be narrowing down to Magna and RHJ.

Taxpayer aid for a private-equity buyout of a storied German car maker would be hard for German politicians to swallow, or sell to voters. German leaders have blamed the global economic crisis on U.S. financial players, and some have in the past attacked private-equity firms as "locusts" preying on German industry. **Cerberus Capital Management** LP's unsuccessful ownership of Chrysler LLC also doesn't inspire confidence in Germany that private- equity firms should run car makers.

Amid rising concern that GM might try to sell a majority stake in Opel to RHJ, the government in Berlin stressed Wednesday that state aid can't be taken for granted.

German authorities agreed to give financial guarantees only if Magna wins Opel, a spokesman for Chancellor Merkel, Thomas Steg, told reporters in Berlin. "Consequently, if GM were to reach a deal with another bidder, which is purely hypothetical, it would have to say what it expects from the government, and that would have to be negotiated," he said.

Mr. Steg said Germany always knew GM might choose another bidder over Magna, and stressed that Berlin's main requirement is a viable business plan for Opel.

German states that host Opel factories, and which are contributing €1.5 billion of interim loans to keep Opel alive, also said Wednesday that an alternative buyer would have to renegotiate state aid.

China's BAIC is offering more cash and seeking less government aid than the other bidders, but it has made clear that its main interest lies in transferring Opel technology to Chinese car plants. That's problematic for German politicians and unions who want to preserve German jobs, and for GM, which competes with BAIC in the Chinese market.

VW-Porsche saga nears climax

By Christoph Rauwald

FRANKFURT—A decision on the planned integration of **Volkswagen** AG with **Porsche Automobil Holding** SE could be made as early as next week, following three months of public wrangling.

Porsche and Volkswagen, its much larger German peer, have been seeking to build an integrated car company since May, but a fierce power struggle behind the scenes over future influence has so far prevented a concrete decision.

Volkswagen said Wednesday that its supervisory board is set to hold an extraordinary meeting in Stuttgart, Germany, on July 23. Volkswagen spokesman Michael Brendel declined to comment on the agenda.

Porsche, which is based in Stuttgart, said Friday that its supervisory board planned to meet July 23 as well to discuss an offer for a capital injection from Qatar Investment Authority.

A person close to the Porsche supervisory board said Friday that the board was set to discuss an offer worked out between Porsche's executive board and QIA. Under the proposed deal, the Qatari state-owned investment firm would take a stake in the German sports-car maker, as well as acquire options on VW stock from Porsche. The deal could be valued at more than €5 billion ($6.97 billion), the person said.

The person added that the supervisory board also will discuss a separate offer from VW to take a 49% stake in Porsche's core sports-car operations.

Since 2005, Porsche has raised its shareholding in Volkswagen, Europe's largest auto maker by sales, to almost 51% and accumulated a complex set of options to raise its stake by a further 20%.

But Porsche's net debt tripled to €9 billion as it built its holding, effectively forcing it to abandon its push for a 75% stake and to get access to Volkswagen's cash reserves.

The dispute escalated in recent weeks as Porsche Chief Executive Wendelin Wiedeking was rushing to hammer out a deal with Qatar to shore up the car maker's balance sheet and improve his position in talks with Volkswagen.

On Wednesday, the German weekly Wirtschaftswoche reported that Mr. Wiedeking is leaving the company, with a successor to be named shortly. The publication didn't cite its sources, and Porsche strongly disputed the claim.

"We fiercely deny this report," Porsche spokesman Albrecht Bamler said. Mr. Wiedeking, he said, will attend the planned supervisory board meeting July 23 as chief executive.

Remarks by VW's powerful supervisory-board chairman and former CEO, Ferdinand Piëch, made May 11 during one of his rare public appearances sparked speculation about the future of Mr. Wiedeking as Porsche's chief executive. Mr. Piëch advocated Volkswagen Chief Executive Martin Winterkorn as the right person to lead a combined company.

Getting Qatar on board as an outside investor would mark a sea change for Porsche, in which the Porsche and Piëch families control 100% of the voting rights. The families agreed May 6 to enter talks with Volkswagen over combining the two car makers and are expected to emerge as majority shareholders of an integrated company.

On Wednesday, Porsche supervisory-board member and top labor representative Uwe Hueck urged the owner families to keep their promise and ensure Porsche's independence, referring to a pledge made to him May 18 by Hans Michel Piëch and the company's supervisory-board chairman, Wolfgang Porsche.

But Ferdinand Piëch, who also sits on Porsche's supervisory board, favors an outright sale of Porsche's core sports-car operations to Volkswagen. Mr. Piëch is a brother of Hans Michel Piëch and a cousin of Wolfgang Porsche.

Meanwhile, VW is planning to invest $1 billion to expand its only production facility in North America to to produce a "completely new" vehicle model, a company spokesman said Tuesday, without providing further detail. The plant, in Puebla, Mexico, produced more than 450,000 vehicles last year, including the Jetta, Beetle and SportWagon.

CORPORATE NEWS

Seeking fame in Apple's sea of Apps

With more than 65,000 applications in online store, developers use discounts and other ploys to stand out

By Yukari Iwatani Kane

Apple Inc.'s App Store has spawned a cottage industry of software developers trying to profit from games and other applications that people can download onto their iPhones.

But with more than 65,000 free and paid applications in the online store, success has hinged on an app's ability to stand out. So developers are increasingly coming up with various strategies to make a splash, employing everything from temporary discounts to guerilla marketing tactics.

PopCap Games Inc., maker of the popular Bejeweled puzzle game, experimented in June by cutting the price on its Peggle game from to 99 cents from $4.99 for four days. Peggle, which had been ranked at around 60 in top paid apps, shot up to second place within 24 hours.

Andrew Stein, PopCap's director of mobile business development, declined to provide revenue figures but said sales during the discount period increased 20 to 25 times the previous volume.

For Apple, the one-year-old App Store has been a key driver of sales of its iPhone and iPod touch devices, by giving consumers new applications to keep coming back to download. Rivals like **Palm** Inc. and **Research In Motion** Ltd. are also pushing application stores for their devices.

Apple, which approves every app before putting it in the store, gets 30% of any third-party app sales. On Tuesday, the company said customers had downloaded more than 1.5 billion free and paid apps so far. Apple doesn't disclose the store's revenue.

"The App Store is like nothing the industry has ever seen before in both scale and quality," Apple Chief Executive Steve Jobs said in a press release. "With 1.5 billion apps downloaded, it is going to be very hard for others to catch up."

Developers say the key to succeeding on the App Store is to appear on the lists of top-ranked apps that Apple compiles. The 25 most downloaded apps appear on the first page of the store when someone accesses the site from their iPhone. People also find apps through keyword searches or by browsing categories.

"If it appears in the top 100, then everybody will see it," said Vijay Chattha, head of VSC Consulting, a San Francisco marketing firm that is launching a business to help iPhone app developers promote their wares.

For many developers, their strategy to get on the top-ranked list starts when they submit their app to Apple for approval. Many developers jostle to release their apps around weekends, when consumers are most active on the store.

Some developers attempt to boost their profile in the App Store by listing their apps in categories that are less crowded. Apple requires developers to put their app into one of 20 categories. The largest category, games, has more than 13,000 apps, according to data-tracking firm Mobclix Inc. The smallest, weather, has 310 apps.

DistinctDev Inc., which created a quiz game dubbed the Moron Test, chose to list the 99-cent app in the less competitive entertainment category. The Moron Test has been one of the App Store's top 10 paid apps since its mid-April launch.

Still, developers say no tactics will help if an application is low quality. "If your application isn't good, it might get to the top, but it's not going to stay there," said Mike Monaco, co-founder of DistinctDev.

Some developers try to capitalize on popular brands by embedding those brand names into their own apps' descriptions. For example, a recent search for EA, the brand for game giant **Electronic Arts** Inc., turned up 15 games from a company called **Digital Chocolate** Inc. A close look at the games' description showed that the word "each" was abbreviated to "ea." Digital Chocolate Chief Executive Trip Hawkins was a co-founder of EA.

An EA spokesman called the tactic "barnacle marketing." On Monday, Digital Chocolate stopped using the abbreviation.

Photo illustration by Sergio Capursi/The Wall Street Journal

Land Securities sees property bust ending

By Anita Likus

LONDON—**Land Securities** PLC, the U.K.'s largest real-estate investment trust, said Wednesday it has started to assess acquisition opportunities and plans to start two major developments in London's West End next year amid evidence of growing investor interest in prime and midquality properties.

The U.K.'s commercial-property market has been hit hard as a lack of real-estate financing and demand have caused values to plummet.

Land Securities said that while market indexes show that property values are still declining, the drop in property values is likely to bottom out at about 45% to 50% below the peak reached in summer 2007, before the financial crisis struck.

Data suggest the drop in property values may be stabilizing. The U.K.-based Investment Property Database, which measures commercial real-estate performance, said on Tuesday that capital values for U.K. property fell 0.9% in June from the previous month, the shallowest drop since August 2007. That brought the peak-to-trough decline for U.K. properties to 44.1% at the end of June.

"We are confident that our financial flexibility and scale will give us competitive advantage to capitalize on these opportunities as the cycle turns," said Francis Salway, Land Securities' chief executive.

Land Securities, which hasn't begun any developments since 2006 because of the downturn, is planning to start two West End developments next year: Park House, an office, retail and residential building; and Selborne House, which will predominantly be office space.

"We have been consistent in our view that the West End will bounce back quicker than other markets and that the timing of these developments will meet rising occupier demand and rising rental values. There is limited supply and relatively low vacancy rates, which bode well for developments timed as ours are," Mr. Salway said.

Analysts welcomed the announcement from Land Securities. J.P. Morgan said the statement "confirms management's rather upbeat tone," while KBC Peel Hunt analyst Keith Crawford said he would upgrade the stock to "buy" from "hold," based on "price weakness since the start of May 2009, and the fact that the company has made considerable headway in deleveraging the balance sheet."

Shares in Land Securities closed 5.1% higher in London.

Economists warned that growing amounts of empty property available for rent might hurt landlords' rental income. Land Securities said that on a like-for-like basis, empty space available for rent rose to 5.1% of its portfolio as of June 30 from 4.6% at the end of March.

Capital Economics forecast that rising amounts of empty space could take as much as 5% off a typical landlord's income over the next year and a half. It also pointed out that new leases would carry lower rents.

Land Securities Group

Rendering shows Park House, an office, retail and residential development planned for London's West End next year.

Trade declined in first quarter at a slower pace

By Paul Hannon

LONDON—The value of exports from and imports to developed economies fell again in the first quarter, although less sharply than in the final three months of last year, the Organization for Economic Cooperation and Development said.

The Paris-based think tank said the value of exports of goods and services measured in U.S. dollars fell 13.4% from the fourth quarter, while the value of imports fell 15.2%. That was slower than an 18.6% drop in exports in the fourth quarter from the third quarter, and an 18.5% drop in imports over the period.

The scale of the decline in trade flows is "unprecedented," the OECD said. Compared with the first quarter of 2008, exports were down 27.1% and imports were down 27.9%.

The OECD said the volume of exports of goods from members of the Group of Seven leading economies fell 13.6% in the first quarter, while the volume of imports fell 10.5%. That was faster than the pace of decline in the fourth quarter from the third quarter, when G-7 export volumes fell 9.8%, and imports 5.7%.

The trade figures show how the links that bind the global economy suffered as the financial crisis intensified after the collapse of Lehman Brothers Holdings Inc. last year.

CORPORATE NEWS

Burberry growth shrinks

Luxury retailer sees sales slow, remains confident

BY LILLY VITOROVICH

LONDON—**Burberry** PLC on Wednesday reported a further slowdown in sales growth for its fiscal first quarter as the economic downturn continued to hold back demand. However, the U.K.-based luxury-goods company said it remains confident it can deliver growth over the long term.

Burberry, known for its raincoats and handbags, is focused on cutting costs and improving operational efficiency as it continues to gain market share across the board in the luxury sector, said Stacey Cartwright, the company's chief financial officer and executive vice president.

Sales in the quarter ended June 30, traditionally a slow period, rose 8% to £229 million ($373 million) from £211 million a year earlier. However, that was a slowdown from the 14% growth recorded in the fourth quarter of fiscal 2009 and the 30% rise seen in the third quarter.

The performance was driven by Burberry's operations in the U.K. and South Korea. Conditions remain difficult in the U.S., where retail revenue, stripping out currency fluctuations, fell 14%.

Sterling's weakness helped inflate sales denominated in other currencies. Stripping out currency fluctuations, total first-quarter sales fell 4%. That compares with a 5% drop in the fourth quarter of fiscal 2009 and 9% rise in the third quarter.

Reuters

Models sport the Burberry Prorsum line during Milan Fashion Week in June.

"Burberry has made a solid start to the year in what remains a challenging environment," said Chief Executive Angela Ahrendts. "We continue to execute on our strategies by product, region and channel, while driving operational and cost efficiencies. Our brand momentum, strong product designs and continuing back-of-house improvements mean that we are well-placed to deliver sustainable long-term growth."

Retail revenue, stripping out currency fluctuations, rose 12% from a year earlier. Retail sales from sales open at least a year were unchanged from a year earlier.

But, in an indication of how department stores world-wide continue to scale back their orders, wholesale revenue tumbled 28%. That figure was also dented by the closure of stores, particularly in Spain, and the conversion of Burberry Middle East to retail from wholesale. The steep drop, however, is consistent with company forecasts that wholesale revenue would be down about 25% in the first half of fiscal 2010 from a year earlier.

Shore Capital analyst Kate Calvert said Burberry has delivered a "very reassuring, robust performance," noting the results are up against "very tough" comparable figures. "The numbers are generally in line with consensus, with slightly better retail making up for a weaker wholesale performance," Ms. Calvert said.

In May, Burberry said it swung to a net loss of £6 million for the year ended March 31 from a net profit of £135.2 million the previous year, hurt by restructuring costs and heavy discounting. The loss was partly due to the company writing down the value of stores in Spain, as well as from a £55 million charge for its cost-cutting program, which included a 15% reduction in its work force. However, annual sales rose 21% to £1.2 billion.

The company is scheduled to report earnings for the six months ended Sept. 30 on Nov. 17.

H&M sales dropped 5% in June

BY ANNA MOLIN AND OLA KINNANDER

Hennes & Mauritz AB continued to feel the pinch of global consumers' shrinking budgets in June, as it posted a worse-than-expected drop Wednesday in comparable-store sales.

H&M, the world's third-largest fashion chain by revenue behind U.S.-based Gap Inc. and Spain's Inditex SA, said June same-store sales fell 5% compared with June the previous year. Seven analysts polled by Dow Jones Newswires on average predicted sales in stores open longer than a year would fall 1.4%.

H&M's total sales, which include sales in new stores, rose 4%, underperforming analysts' forecast of an 8.4% rise. H&M reports only percentage changes for its monthly sales, not actual revenue.

Shoppers have cut spending amid a general rise in unemployment. To attract buyers, the retailer started its summer sale in May this year, instead of June.

For the first time it also got a prominent designer to put together a summer collection—having previously limited the highly popular gambit to fall and spring collections. Britain's Matthew Williamson, who also put together a spring line for H&M this year, designed the summer collection.

"There's a general weakness in the retail market right now and then there's the early discounting period that's probably hitting it also," said Evli Bank analyst Anders Wiklund.

Nonetheless, he expects H&M to outperform peers during the downturn because of its cheap-and-chic clothing business concept. "H&M has many qualities that will enable it to fare better than the competition," Mr. Wiklund said.

The total number of H&M stores world-wide increased by 14% to 1,827 June 30 from 1,600 a year earlier.

Union blasts GE stance on U.S. manufacturing

BY PAUL GLADER AND KRIS MAHER

United Steelworkers President Leo Gerard accused **General Electric** Co. Chairman and CEO Jeff Immelt of hypocrisy for touting GE's new focus on American manufacturing, saying the company doesn't support "Buy American" policies.

"GE needs to stop saying one thing publicly and doing the other in business," said Mr. Gerard in a June 17 letter he sent to Mr. Immelt. "As it stands now, many people would believe GE has a perception problem in Washington and with the American people." He criticized the company for its policy of purchasing supplies like wind turbines from countries with the lowest costs.

Leo Gerard

GE spokesman Gary Sheffer said Mr. Immelt's recent comments about manufacturing aren't incongruous with the company's business practices and its opposition to a "Buy American" provision in the federal stimulus bill. "Protectionism here leads to similar actions by other nations and countries, which would result in the loss of U.S. jobs," he said.

The company said it exported $19 billion of goods and services in 2008 and protectionism would hamper its export business.

Mr. Immelt has given several speeches in recent months calling for a renewal of American manufacturing. The company, in June, said it would open a research-and-development facility near Detroit to eventually employ 1,200 scientists and researchers. The company has announced plans to open a battery plant in upstate New York and an electric-water-heater plant in Kentucky. GE is also running an ad campaign highlighting its efforts in American manufacturing.

Jeff Immelt

"We must make a serious commitment to manufacturing and exports. This is a national imperative," Mr. Immelt said during a speech in late June at the Detroit Economic Club.

Mr. Gerard at the USW wrote that Mr. Immelt's comments had made the rounds in the industrial community, which appreciates the company's "realization that GE and the country as a whole needs to change course."

But Mr. Gerard suggested that GE's opposition to "Buy American" provisions in the stimulus bill is hypocritical. He said that **Allegheny Technologies** Inc. casting plants in LaPorte, Ind., and Alpena, Mich., which supply wind turbine and locomotive engine parts, laid off 302 workers, mostly union members, largely because of an $8 million order cancellation from GE in December.

Mr. Gerard said Allegheny had made more than $30 million in improvements to the plants to make the products for GE, which are now being sourced from Germany and China. Executives at ATI Casting, a division of Pittsburgh-based Allegheny, didn't dispute the example Mr. Gerard cited but didn't offer further comment.

"This is an unacceptable example for the country and the promise that the 'green' economy will lead to a manufacturing revival," said Mr. Gerard.

Mr. Sheffer at GE said Mr. Immelt's comments focus on "how America can become more competitive and said specifically that protectionism should not be part of that plan."

Mr. Gerard said ATI management offered to accept orders from GE at the same prices China offers in order to keep its plant open but GE declined any orders from ATI, even at Chinese pricing levels. "It was a commercial negotiation with ATI that focused on terms and conditions, not price," said Mr. Sheffer. "We get our orders canceled on us by people every single day. It's not unusual in business."

He said Messrs. Immelt and Gerard talked by phone on Monday and planned to talk again about manufacturing.

The Alliance for American Manufacturing, a lobbying group, says that roughly 40,000 U.S. manufacturing plants have closed in the past decade with millions of jobs lost. It said that another 136,000 manufacturing jobs were lost in the last month as the U.S. unemployment rate reached 9.5%.

Levi's posts loss, dismisses IPO plans

BY ELIZABETH HOLMES

Levi Strauss & Co. swung to a loss during its fiscal second quarter on a 3% sales drop as executives brushed off the chance of an initial public offering of stock.

While other retailers are consolidating in the ailing economy, San Francisco-based Levi's said it is expanding its footprint.

"Retail continues to be an important part of our growth strategy," said Robert Hanson, president of Levi Strauss Americas. "It really allows us to showcase our product offering."

This week, Levi's completed the purchase of 73 Levi's and Dockers outlets for $72 million from **Anchor Blue Retail Group** Inc. Levi's also opened more than 30 new stores world-wide during the quarter, in part by taking advantage of other casualties of the recession, including the closure of small, individual stores.

However, company executives dismissed the likelihood of a near-term IPO. Levi's recently hired Blake Jorgensen, a former chief financial officer of Yahoo Inc., as its financial chief, fueling speculation of a public offering for the closely held company.

"I do have some of that experience in my background, but I think more important, I saw this as an incredible brand and a unique opportunity," Mr. Jorgensen said in a telephone interview. He declined to comment further.

When asked if he would say Mr. Jorgensen's hiring increased the possibility of an IPO, Chief Executive John Anderson replied, "I would not."

Levi's reported a net loss of $4.13 million for the quarter ended May 31, compared with $701,000 in net income a year earlier. Revenue fell 3.4% to $904.5 million. Levi's attributed the revenue decline to currency-exchange rates. On a constant-currency basis, the company said net revenue increased 5% for the quarter.

The Americas was the strongest region for the company, with revenue up 8% to $518 million despite adverse currency effects.

Europe and Asia Pacific revenues declined 17% and 13%, respectively. Asian sales were hurt by slowing wholesale orders in Japan.

American Airlines parent posts loss as traffic falls

BY MIKE ESTERL

American Airlines parent **AMR** Corp. on Wednesday reported a $390 million second-quarter loss as collapsing travel demand continued to erase gains from lower fuel costs.

The results are the latest evidence that the airline industry is flying through one of its toughest summers ever. A weak summer flying season, when the industry typically sells higher-price seats and accumulates cash, is likely to exacerbate financing concerns. If conditions don't improve, credit-rating agencies have warned some carriers could face bankruptcy filings by this winter.

AMR, of Fort Worth, Texas, said second-quarter revenue fell 21% to $4.89 billion from a year earlier. Average fares fell 15%, even as the No. 2 U.S. airline by traffic cut its capacity by 7.6% from the year-ago quarter as travelers stayed home.

A 41% decline in year-on-year fuel costs saved the company $910 million, curbing its losses. But nonfuel costs rose 5% from the 2008 quarter, driven by the capacity cuts and pension expenses. The $390 million net loss, or $1.39 a share, is narrower than the loss of $1.5 billion, or $5.83 a share, in the second quarter of 2008. The year-earlier quarter was weighed down by $1.1 billion in noncash charges.

CORPORATE NEWS

Car sells in North Korea

Company from South makes a small profit; legacy of Rev. Moon

BY SUNGHA PARK

SEOUL—A South Korean company that builds and sells cars in North Korea made money—albeit a small amount—for the first time last year, the company said Wednesday.

Pyeonghwa Motors Corp., closely linked to the Unification Church, earned about $700,000 on the sale of about 650 cars in North Korea, a company spokesman said. The company remitted $500,000 of the net profit to its headquarters in Seoul in a U.S. dollar-denominated transactions through Hong Kong, he said.

South Korea's Unification Ministry, a government agency that works with North Korean relations, said it marked the first time a South Korea-based company repatriated profits from North Korea.

The Pyeonghwa spokesman didn't disclose revenue figures but said last year's vehicle sales were just over twice the 2007 level. The company has already sold more cars this year, 742, and expects to sell more than 1,500 for the full year, he said.

The performance is the culmination of an 18-year effort that began when church founder Rev. Moon Sun-myung met North Korea's then-ruler Kim Il Sung in Pyongyang to propose several business ventures. In 1999, the church spent $55 million to build the auto factory in the port city of Nampo, on North Korea's west coast. The Unification Church, based in South Korea, has a number of investments in tourism, construction and trade.

Since completing the factory in 2002, Pyeonghwa has imported partially built cars from manufacturers such as Italy's **Fiat** SpA and China's **Brilliance Automotive Holdings** Ltd.

Pyeonghwa completes the cars and puts its own nameplate and brand names on them.

North Korea's government is a partner in the company and took about 30% of the profit.

When it started production, the company touted North Korean dictator Kim Jong Il's role in naming several cars. One sport-utility vehicle, built from the design of Fiat's Doblo model, was named by Mr. Kim as the Ppeokkugi, or Cuckoo.

Agence France-Presse

North Koreans walked by a billboard for the Pyeonghwa car last year. The auto maker said it earned about $700,000 on the sale of about 650 cars in the North.

Pyeonghwa, like other companies that do business in North Korea, faced difficulty moving its money out of the country. Many Chinese businesses resort to buying commodities in North Korea with their profits, then exporting them to China to be sold for Chinese currency.

GM announces new R&D chief, general counsel

BY KATHY SHWIFF AND KENNETH RAPOZA

General Motors Co. Chief Executive Frederick "Fritz" Henderson announced management changes at the auto maker, including a new general counsel and a new head of research and development.

Separately, GM's Brazilian unit said it is in talks with two government banks for long-term loans to complete a planned three-year, $2.5 billion investment program.

Two longtime GM employees announced their retirements: Larry Burns, vice president of research and development and strategic planning, and Steve Harris, vice president, communications.

Mr. Burns, 58, has worked at the company for 40 years and championed electric vehicles and GM's costly fuel-cell project, among others. He will be succeeded by Alan Taub, 54, who currently oversees GM's seven science labs and will oversee the R&D operations becoming part of the auto maker's product-development organization.

European communications chief Chris Preuss, 43, will succeed Mr. Harris, who is leaving after more than 40 years in public relations.

GM also said Associate General Counsel Michael Millikin, 60, will succeed Bob Osborne, 54, as general counsel. Mr. Osborne will return to private practice, it said.

Upon GM's exit from bankruptcy protection Friday, Mr. Henderson promised to transform GM into a more customer-focused company while shedding executive ranks some 35%.

Meantime, General Motors do Brasil said it signed on to a roughly $172 million loan with state-run Rio Grande do Sul Development Bank and is in talks with Banco Regional de Desenvolvimento Economico, BRDE, in south Brazil, and the nation's leading development bank, BNDES, to cap off its financing needs.

GM Brazil's chief executive, Jaime Ardilla, announced another $1 billion investment, completing a planned $2.5 billion that will be used to create two compact and midsized vehicles to be built in Rio Grande do Sul, Brazil's southern-most state. None of the financing is coming from GM's headquarters, the regional unit said.

CORPORATE NEWS

Ford

With a combined fuel economy of 18 miles a gallon, a 2000 Ford Crown Victoria LX is eligible for trade-in under the U.S. 'Cash for Clunkers' program.

U.S. car dealers pin hope on 'cash for clunkers'

Advertising ramps up but concerns grow about trade-in limits

By Jeff Bennett

U.S. auto dealers are starting to ramp up advertising built around Washington's "cash for clunkers" program, even as they are growing more concerned that the incentives won't provide enough of a spark to revive U.S. auto sales.

Restrictions on eligibility combined with delays in launching the program—which promises rebates as high as $4,500—have quashed hopes that the U.S. will see the same sort of car-shopping craze experienced by countries such as Germany and Brazil that implemented similar plans.

Cash-for-clunkers, formally known as the Car Allowance Rebate System, will provide about $1 billion in federal funds as incentive money. Eligible owners of gas guzzlers will receive a credit if they turn them in and buy or lease a new, more fuel-efficient vehicle.

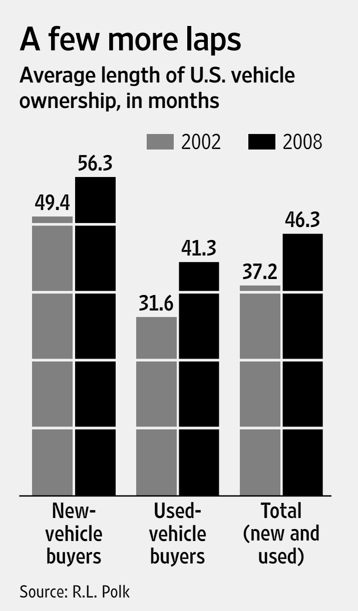
The program was approved June 1, but final details on eligibility have yet to be released. That information is expected "on or around" July 24, according to the program's Web site, www.cars.gov.

'These will be sales that are pulled ahead and not new demand.'

Dealers are gearing up with online and newspaper ads inviting potential buyers to stop by and see if they are eligible. Some dealers have set up special Web sites. But the lag between passage of the measure by Congress last month and implementation has cooled consumer sentiment, dealers across the country say.

Preliminary rules saying clunkers must be less than 25 years old and get 18 miles per gallon or less in combined city/highway mileage also have hurt.

"We like the idea behind the program; however, the eligibility could be a little too strict and may keep some of my people away," said Alan Helfman, vice president of Houston's River Oaks Chrysler-Jeep.



The program might boost sales by 175,000 vehicles in 2009, said IHS Global Insight analyst Rebecca Lindland. That isn't much help given the hole the industry is in. U.S. auto sales ran at an annualized rate of 9.69 million vehicles in the first six months of the year, down from 13.69 million in the same months of 2008.

"And these will be sales that are pulled ahead and not new demand," Ms. Lindland said. "We don't see that many people willing to trade in to take on new debt."

Ford Motor Co. and **General Motors** Co. have rolled out Web sites dedicated to answering questions. Ford has also established a 1-800 hotline. "We have seen 300,000 people go to the Ford.com site to check their eligibility," said Jim Farley, Ford's marketing chief. "We are seeing customers at least coming in and talking to dealers about it."

Hyundai Motor Corp. dealers are already starting to offer discounts based on the expected rebates, funded by loans from Hyundai that cover the difference until the program officially starts.

The National Automobile Dealers Association is encouraging dealers not to make any offers until the final details of the program are known so they don't put their own money at risk.

The clunkers program will run through Nov. 1 or until the funds are exhausted. A similar program in Germany drew more than one million applications for vouchers. That program, at $6.5 billion, is larger than the U.S. version. That's true of China as well, which offered $4 billion.

—Josh Mitchell contributed to this article.

Incentives mask European car glut

By Christoph Rauwald

FRANKFURT—Europe's auto industry has weathered the worst downturn since World War II with help from government-backed scrapping incentives, but as these programs expire, the spotlight will shift back to a lingering issue that car makers failed to confront during the slump: overcapacity.

The European car industry has about 35% more production capacity than it needs, depending on market cycles, analysts say. That means production lines aren't running at full steam and can even be idle.

Incentives, which typically offer consumers discounts on new vehicles if they scrap aging gas guzzlers, have inflated demand during the recession and meant auto makers haven't been forced to address capacity, something observers say was necessary.

"Scrappage schemes are significantly distorting the dynamics of the European market, in our view, helping to protect jobs and prevent insolvencies—but at what cost?" said Credit Suisse Group analyst Stuart Pearson.

Registrations of new cars in Europe climbed 2.4% in June from a year earlier, the first growth in 14 months, largely thanks to scrapping incentives, the European Automobile Manufacturers Association said Wednesday. Take-up has varied from country to country. In the U.K., for example, new-car registrations, an indicator of sales, in June were down from a year earlier, but in Germany, which offers some of the most generous terms, registrations soared 40%.

But most incentives likely will be exhausted by the end of this year. Industry experts for months have said the incentives weren't the answer to problems in the car industry and analysts expect a slump in sales in 2010 as demand dries up.

PricewaterhouseCoopers expects 14.8 million vehicles to be assembled in Europe this year and 15 million in 2010. However, there are enough plants and equipment to assemble far more.

"We estimate excess capacity in the European Union in 2009 as being 6.8 million units and for 2010 at 7.2 million," said PwC analyst Calum MacRae.

In contrast, excess capacity in North America this year is estimated at 6.2 million vehicles, and that figure is expected to fall to 3.25 million by 2011.

Several European car makers, such as **Volkswagen** AG and **BMW** AG, have reduced headcount in recent years, though they have so far shied away from closing plants because of strict labor laws.

Some industry representatives say car makers already are doing enough to address overcapacity.

"You can be assured that our auto manufacturers as well as suppliers are reducing capacities enormously in the current crisis," Matthias Wissmann, president of German auto-makers association VDA, told reporters earlier this month. He didn't provide data.

Still, analysts remain unconvinced that efforts made so far will put a dent in the level of overcapacity.

"Weak demand and lower sales will exacerbate the general overcapacity of the auto industry, and lead to sometimes painful and forced restructurings," Fitch Ratings analyst Emmanuel Bulle said in a recent note.

Volkswagen and **Fiat** SpA, with their extensive offerings of small cars, have been the biggest beneficiaries from the scrapping incentives and now face the biggest risk of a backlash. Volkswagen has enjoyed a strategic advantage thanks to its more diversified product portfolio and improved cost structure following a wide-ranging restructuring between 2005 and 2007.

French auto makers **PSA Peugeot-Citroën** SA and **Renault** SA also saw sales soar in some markets, fueled by incentives. But the underlying risk related to their strong exposure to the small-car segment was highlighted last month when Standard & Poor's lowered Renault's credit rating into junk territory.

Peugeot-Citroën and Renault didn't return calls or emails seeking comment.

A broader consumer shift toward smaller cars has been a major concern for many auto makers amid heavy investments in green technology as smaller cars tend to have smaller profit margins. Mr. Pearson said he fears that the scrapping incentives might lead to "a permanent price erosion" for smaller cars.

That's also a threat for the European operations of **Ford Motor** Co. and **General Motors** Corp., which both rely heavily on sales of compact cars and hatchbacks.

"History suggests that new-vehicle incentives are very difficult to remove once introduced," Mr. Pearson said.

As volume auto makers are heading for a sobering 2010 in Europe, the pain for luxury brands like BMW and **Daimler** AG's Mercedes-Benz brand is expected to ease. They received less support from scrapping incentives because those measures mainly fostered demand for smaller vehicles. The two premium brands have a much larger exposure to the U.S., where after a steep slump the market is expected to recover faster than in Europe.

MAN to buy 25% of China truck firm

By Christoph Rauwald

FRANKFURT—German truck maker and engineering company **MAN SE** on Wednesday said it plans to acquire a stake of 25% plus one share in China's **Sinotruk** Ltd. to forge a long-term strategic partnership.

MAN is set to invest €560 million ($780.6 million) in Sinotruk by subscribing to convertible bonds and purchasing existing shares from Sinotruk's parent, **China National Heavy Duty Truck Group** Co., according to Sinotruk's statement to the Hong Kong Stock Exchange. MAN said the price represents Sinotruk's 60-day trading average plus a 21% premium.

On full conversion of the convertible bonds, MAN will emerge as the largest single minority shareholder, with a 25%-plus-one-share stake, with Sinotruk's parent company holding 51%.

The deal marks MAN's latest move to increase its footprint outside its core European market, particularly in the so-called BRIC countries—Brazil, Russia, India and China—where demand for transportation is expected to rise in the long term along with economic growth.

MAN only four months ago finalized the acquisition of **Volkswagen** AG's Brazilian heavy-truck operations in a deal valued at about €1.18 billion. With a 29% stake, Volkswagen is MAN's biggest shareholder.

Munich-based MAN said it would license to Sinotruk its TGA truck technology, including engine, chassis and axle technologies, as a basis for the production of a new heavy-duty truck series.

The deal "is based on the good relationship we have had with Sinotruk for many years," said MAN Chief Executive Hakan Samuelsson. "MAN's investment in Sinotruk lays the foundation for the joint development of a new heavy-truck series tailored to emerging markets."

The company aims to have four of Sinotruk's 17 supervisory-board seats, Mr. Samuelsson told reporters.

Sinotruk sold about 100,000 heavy trucks in 2008 and accounts for a market share of about 20% in China. In 2008, it posted revenue of approximately 26 billion yuan ($3.81 billion) and reported earnings before interest and taxes of 1.25 billion yuan.

"Sinotruk and MAN will work together closely to shape our future and maintain our position as one of the leading heavy truck manufacturers," said Sinotruk Chairman Chunji Ma.

J.P. Morgan Chase & Co. advised Sinotruk on the deal. MAN was advised by **Goldman Sachs Group** Inc.

Former GM chief gets compensation deal

By Kathy Shwiff

General Motors Corp. said Tuesday that former Chairman and Chief Executive Rick Wagoner will receive an annual salary of $74,030 for his lifetime and annual benefits of $1.6 million for five years.

Mr. Wagoner's benefits are reduced in line with cuts given other retired GM executives. His pension was valued at $20 million at the end of 2008, according to regulatory filings.

The Obama administration demanded Mr. Wagoner step down in March because GM wasn't making enough progress in demonstrating it would be viable. He remained on the payroll at $1 a year.

GM said Mr. Wagoner will retire effective Aug. 1 and receive benefits based on his 32 years at the auto maker. He will continue to receive liability insurance at a level similar to other retired executives until Jan. 1, 2010. He also will receive company-paid life insurance or its cash value, currently $2.6 million.

GM filed for bankruptcy June 1 and emerged Friday.

CORPORATE NEWS

China convicts former oil official

Ex-chief of Sinopec is sentenced amid crackdown on graft

BY SHAI OSTER

BEIJING—The former chairman of China's second-largest oil company, **Sinopec** Corp., was convicted of corruption for taking close to $28 million in bribes, making him one of the most prominent officials from a state company to be punished for graft.

Chen Tonghai was given a suspended death sentence, the state-run Xinhua news agency reported Wednesday. Chinese courts found him guilty of accepting the bribes during an eight-year period starting in 1999, when he was deputy general manager in a unit of the company, and ending with his arrest in 2007, when he was chairman of Sinopec, Xinhua said. Sinopec, which lists shares in Hong Kong and New York, is also known as China Petroleum & Chemical Corp.

China's Communist Party has struggled to fight corruption among government agencies and state-owned companies, with a string of high-profile cases in recent years. Party leaders have called corruption one of their most serious problems, at a time when China's population is increasingly demanding greater accountability and transparency from its government.

On Sunday, China unveiled new anticorruption efforts that called for officials in the government and state-owned companies to be sacked in case of accidents or abuse caused by dereliction of duty. The new regulations also make mishandling protests or harmful conduct a firing offense.

In recent weeks, the government has also stepped up efforts to clean up the military and set a bounty on corruption.

Xinhua provided few details of Mr. Chen's crimes. It said Mr. Chen used his position to dole out contracts, land transfers and interests in company operations in exchange for money. A spokesman for Sinopec couldn't be reached for comment.

Agence France-Presse

Former Sinopec Chairman Chen Tonghai at an April 2007 meeting in Hong Kong.

Xinhua said Mr. Chen confessed and cooperated with authorities, and as a result his death sentence was suspended for two years. The report didn't indicate if others have been or will be arrested in connection with the crimes, nor who paid the bribes.

Typically, such sentences are commuted to life in prison.

Mr. Chen's case illustrates how opaque China's corporate and judicial systems remain. When he abruptly resigned his post as head of Sinopec and its state-owned parent company in June 2007, company officials said he was leaving for personal reasons.

It wasn't until October 2007 that a government official revealed that Mr. Chen was under investigation. Three months later, Xinhua said he had been expelled from the Communist Party for graft.

The departure of Mr. Chen, then 58 years old, jolted investor confidence in Sinopec. Mr. Chen, who had run the company since 2003, was credited with helping transform it, doubling profits during his term.

Since his departure, the company has struggled with losses stemming from refinery operations hobbled by state-controlled fuel prices.

Mr. Chen was succeeded by an outsider, Su Shulin, a petroleum engineer who had made his career at rival oil company China National Petroleum Corp. and its listed arm, **PetroChina** Co.

Rio Tinto warns on aluminum production

BY ALEX WILSON

MELBOURNE, Australia—**Rio Tinto** Ltd. posted a big leap in second-quarter iron-ore production Wednesday, but warned that factors affecting its struggling aluminum business would have a negative impact on first-half earnings.

Iron ore production for the quarter ending June 30 was 45.2 million metric tons, up 8% from the same period a year earlier. It was 43% more than the first quarter, when the global downturn saw some of Rio's Chinese steel-making customers refuse to accept shipments under long-term contracts.

The resurgence in iron ore output was well ahead of most analysts' expectations and underlines the strong return of Chinese buyers to the market.

Rio maintained its guidance for full-year iron ore production of about 200 million tons, adding it expects the recovery of Chinese steel demand to continue in the second half of 2009.

The miner said it has sold about half of the iron ore it has produced in the first half on the spot market.

The market response to the strong iron ore figures was tempered by an ominous warning from the company on earnings from its struggling aluminum division.

Aluminum output for the quarter fell 5% from the same time last year to 942,000 tons and alumina slipped 6% to 2.1 million tons after Rio pared back output to match sagging demand.

Rio said its cost-reduction program in aluminum will improve margins, but strengthening Canadian and Australian currencies and noncash effects were having an impact on earnings.

"These foreign-exchange effects, together with the noncash impact of balance sheet translation movements and other noncash effects, are expected to have a negative impact on earnings before interest, tax, depreciation and amortization in the first half of 2009," Rio said.

Rio said market conditions remained tough in the second quarter, especially for aluminum, and that it will press ahead with cost-reduction programs and continue to act to align production with demand and bring down levels of net debt.

Mined copper production eased 1% to 208,200 tons due largely to lower head grades and mill throughput at the Escondida joint venture in Chile.

South African construction workers end huge strike

BY ROBB M. STEWART

JOHANNESBURG—Tens of thousands of South African construction workers agreed Wednesday to end a weeklong strike that threatened the completion of football stadiums for the 2010 World Cup, as two unions representing chemical-industry workers said they would walk off the job Monday.

A deal providing construction workers with a 12% increase in pay was worked out with unions early Wednesday and signed that evening, the South African Federation of Civil Engineering Contractors said. Schalk Ackerman, a spokesman for the federation that represents companies including **Murray & Roberts Holdings** Ltd., said employers were looking forward to work resuming on projects from early Thursday.

As many as 70,000 workers have been on strike since last Wednesday after wage talks deadlocked, halting work on power stations, ports, railroads and other projects. Unions had demanded a 13% rise in pay, while employers offered 10.4%.

The strike took place as unions representing miners and other industries have threatened to put down their tools to press their own demands for pay increases in a country where poverty and unemployment remain high, and the economy has been hit by the first recession in 17 years.

Two unions representing tens of thousands of chemical-industry workers have said their members will strike against companies, including petrochemicals company **Sasol** Ltd. as well as paper producers **Sappi** Ltd. and **Mondi** Ltd., to press demands for double-digit pay raises. The strike could begin as early as Monday.

Abbott loses out to generic competition

BY PETER LOFTUS

Abbott Laboratories' second-quarter profit fell 2.6%, hurt by charges, unfavorable currency rates and competition from generic drugs.

Abbott on Wednesday reported earnings of $1.29 billion, or 83 cents a share, down from $1.32 billion, or 85 cents a share, a year earlier. The latest quarter included charges of six cents a share for cost-cutting moves and Abbott's February purchase of Advanced Medical Optics Inc.

Sales rose 2.5% to $7.5 billion. Unfavorable currency-exchange rates reduced growth by eight percentage points. Pharmaceutical sales declined 4.3% to $3.95 billion.

Sales of arthritis drug Humira, Abbott's top seller, rose 20% to $1.3 billion. But the strong dollar reduced non-U.S. sales growth 24 percentage points to 20%. U.S. sales rose 21%.

There are signs the overall market for similar drugs has picked up after a weak first quarter. **Johnson & Johnson** on Tuesday reported accelerating sales growth for Humira competitor Remicade.

Abbott reiterated its forecast that Humira sales would rise 15% to 20% for the year. Nevertheless, that marks a sharp slowdown from last year's 48% growth, to $4.5 billion.

Sales of antiseizure drug Depakote dropped 75% to $102 million after losing patent protection last year.

Abbott forecast third-quarter earnings of 88 cents to 90 cents a share. The mean estimate of analysts polled by Thomson Reuters was 90 cents. Abbott is hoping an expansion of its cholesterol-drug business and the introduction of other drugs help revive pharmaceutical growth. Abbott also has tried to further diversify with its $1.4 billion of Advanced Medical. Abbott Chief Executive Miles Whitehas said the company is interested in more such nonpharmaceutical deals.

GLOBAL BUSINESS BRIEFS

Total SA

Blast at petrochemical plant kills two people, injures six

An explosion at a petrochemical plant in France on Wednesday killed two people and injured six, the French oil giant **Total** SA said. Several others were buried under the rubble, local authorities said. The blast occurred at Total's factory in Carling-Saint-Avold, near the border with Germany, the company said in a statement. Local officials said several people were buried under the rubble. The explosion occurred after workers tried to restart a machine recently closed down because of bad weather. Separately, Total said European refining margins narrowed 64% in the second quarter from the previous three months, amid weak demand for petroleum products, high supply of diesel in Europe and higher prices for heavier feedstocks.

SKF AB

Industrial-bearings maker **SKF** AB posted a 77% drop in second-quarter net profit but said the slump appears to be bottoming out. Net profit fell to 314 million Swedish kronor ($39.6 million) from 1.34 billion kronor a year earlier as revenue declined 12% to 14.17 billion kronor. SKF's bottom line was weakened by 500 million kronor in restructuring costs, mostly for layoffs. Since autumn, about 3,800 workers have been cut at SKF, which had 42,422 employees at the end of June. For the current third quarter, the Goteburg-based company said it expected demand to be stronger for its auto division and slightly lower for the industrial division as the downturn "shows signs of leveling off."

Campbell Soup Co.

Campbell Soup Co. reiterated its guidance for the year and said it is expanding further in its newer markets of Russia and China. The company—which last year had to increase prices in response to higher raw material prices—said it is seeing cost pressures moderate. At an investor day Wednesday, executives said the food company is launching new products, lowering sodium levels in its soups and improving marketing to drive sales. Executives said higher prices have put pressure on sales. On a currency-neutral basis, Campbell expects fiscal 2009 profit excluding special items to exceed a growth range of 5% to 7% from its fiscal 2008 earnings $2.09 a share. Its fiscal 2009 ends Aug. 2.

Gannett Co.

U.S. publisher **Gannett** Co., which owns more than 80 daily newspapers, including USA Today, reported a better-than-expected second-quarter profit of $70.5 million, or 30 cents a share, compared with a prior-year loss of $2.29 billion, or $10.03 a share, when it had taken a big write-down. But revenue decreased 18% to $1.41 billion amid weak advertising, which has forced deep work-force cuts. Print revenue dropped 26%, while broadcasting fell 21%. Ad revenue at Newsquest, the company's U.K. operations, fell 37% in constant-currency terms. Gannett's closely watched digital business posted a 84% gain in pro forma operating profits.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Getty Images

Former U.S. Treasury Secretary Henry Paulson, pictured last year, has been criticized for his role in the government's bailout efforts.

Paulson rejoins fray

Former U.S. Treasury secretary to testify on role in Merrill deal

By Deborah Solomon
And Michael R. Crittenden

WASHINGTON—Former U.S. Treasury Secretary Henry Paulson has adopted a low profile this year, declining speaking engagements and public appearances as he races to finish a book he hopes will repair a legacy battered by the financial crisis.

But a growing flap over the marriage of **Bank of America** Corp. and Merrill Lynch threatens to disrupt that plan. Lawmakers are gearing up to grill Mr. Paulson at a congressional hearing Thursday about his role in pushing the deal to completion, as well as his broader $700 billion effort to stabilize the financial system.

The bulk of the hearing is expected to examine how Mr. Paulson pressured Bank of America Chief Executive Kenneth Lewis to complete the Merrill deal. Lawmakers want to know what promises or threats he made and whether he told Mr. Lewis not to disclose the negotiations.

Mr. Paulson's return to the limelight reflects the deep level of skepticism many on Capitol Hill still harbor about the government's bailout efforts. At the same time, there are signs his much-criticized efforts are bearing fruit.

Observers say much of what he tried to do has been validated by the nascent banking recovery. The Obama administration has largely adopted Mr. Paulson's approach to fixing the banking system by expanding and toughening a program to provide capital to financial institutions. That effort seems to have helped stabilize the financial sector, with many banks strong enough to raise private capital and return their government cash.

Mr. Paulson's original plan to buy troubled assets, such as real estate-backed securities, has also been embraced by the current administration. Treasury Secretary Timothy Geithner last week announced the details of a $30 billion program to purchase those assets.

"There is a lot of overlap," said Douglas Elliott, a fellow with the Democrat-heavy Brookings Institution. While the Obama administration changed some details, such as imposing stronger executive-compensation rules, "they kept the basic concept that this was a solvency issue and that capital would be available."

Mr. Paulson's friends say he hopes his book will better explain the government's actions last fall. Mr. Paulson was roundly criticized for shifting gears and investing directly in banks, as well as for losing public support for the bailout efforts.

Most economists in The Wall Street Journal's survey give him low marks for his handling of the crisis. "He's worried about his legacy and how he's portrayed," said a former Treasury official and friend of Mr. Paulson's.

A spokeswoman said Mr. Paulson declined to comment.

According to a copy of Mr. Paulson's written remarks, he plans to tell lawmakers he acted appropriately in warning Mr. Lewis that the firm's management could have been ousted if it walked away from its deal to buy Merrill Lynch, saying such a move would have suggested a "colossal lack of judgment."

Any attempt to cancel the merger would have threatened the viability of both Bank of America and Merrill, as well as the broader financial system, he plans to say. "I believe my remarks to Mr. Lewis were appropriate," the text says.

Federal Reserve Chairman Ben Bernanke and Mr. Lewis have already appeared separately before the committee. Bank of America eventually received $20 billion in Troubled Asset Relief Program funds to help it complete the deal for Merrill Lynch.

Rep. Dennis Kucinich, an Ohio Democrat who has focused heavily on events surrounding the merger, said a main question is why Mr. Paulson did not remove Mr. Lewis. "A lot of people would like to believe the question is 'Why did the government threaten Mr. Lewis?' That's a red herring. The question is why did the government let him stay?" he said in an email.

Congressional investigators cite sworn and public statements as evidence that Mr. Lewis has been inconsistent and contradictory, particularly on the issue of when Bank of America received a commitment of aid from the government. They hope to use Mr. Paulson's testimony to test that conclusion, according to a person familiar with the matter.

A spokesman for Mr. Lewis declined to comment.

Mr. Lewis may also be asked to make a second appearance under oath on Capitol Hill based on the panel's findings, the person said.

One bright spot for the former Treasury secretary: Mr. Paulson won't have to face his own emails, a problem that unsettled Mr. Bernanke during his testimony last month. The panel has received dozens of pages of documents from the Treasury, according to the person familiar with the investigation, but nowhere near the breadth of information obtained from the Fed. That is in part due to Mr. Paulson's reluctance to use email.

U.S. urges China to clean up emissions

By Shai Oster

BEIJING—China's greenhouse-gas emissions growth is on course to wipe out gains from Western conservation efforts unless the nation intensifies clean-up efforts, U.S. Energy Secretary Steven Chu told audiences in China Wednesday.

In meetings with senior Chinese energy officials and in a speech at prestigious Tsinghua University, Mr. Chu continued the Obama administration's efforts to push for greater action on climate change.

While acknowledging that the world's developed Western nations have contributed most of the carbon dioxide already trapped in the atmosphere, Mr. Chu warned that China could add more in the next few decades than everything the U.S. emitted since the Industrial Revolution. Carbon dioxide is the most common greenhouse gas.

Chinese officials acknowledge the problems of global warming but insist the developed world should foot the bill and worry that curbing carbon could stymie economic growth. China's resistance to any caps on its carbon emissions is contributing to difficulties in forging a successor to the Kyoto Protocol, the first global pact on greenhouse gases, which expires by the end of 2012.

CAPITAL ▪ David Wessel

Little-discussed 'exchanges' are key to U.S. health overhaul

THE DEBATE in the U.S. over covering the uninsured and slowing the growth of health costs revolves around two lightning-rod issues: Should the government offer a public insurance plan of its own to compete with private insurers? (The right says: No way. The left says: It's essential.) And how will the government pay for subsidies and spending required to achieve near-universal coverage? (Everyone agrees someone else should pay.)

It's easy to understand a battle over whose taxes should be raised or fights that pit believers in the efficacy of government against skeptics. But health-care insiders are focusing just as closely on the workings of what are dubbed "exchanges," new marketplaces in which individuals and employers (though not big ones, initially) could comparison-shop for health insurance offered by private insurers and, perhaps, by a government plan. Bills pending in the House and Senate would require states to organize such exchanges and offer subsidies to help many families buy coverage there.

"The public option is not the biggest question in reform," says Paul Starr, a Princeton University sociologist who has stirred controversy in the blogosphere by differing with others on the left who champion a public plan. "The far bigger question is how those exchanges work."

Markets for insurance don't tend to organize themselves to achieve what's in society's best interest. Insurance companies have incentives to cherry-pick: Better to cover the healthy, for instance, than the sick. That can have virtues: If it's more expensive for smokers to buy life insurance, perhaps some smoker will quit. But there's little virtue in a health insurance system that, say, leaves a woman with cancer without insurance because she lost her job and can't afford or find coverage.

One alternative to the market is to have the government provide health insurance to everyone. If everyone—healthy and sick, fit and flabby—is in the same giant pool, then there is no cherry-picking. Hard-core advocates and foes of creating a public plan alongside Medicare for the elderly and Medicaid for the poor see the option similarly: as a step toward government-provided health insurance for all. Their disagreement is on whether this is a good idea. Whatever the merits, the U.S. isn't going to embrace it now.

SO THE THRUST of the White House and congressional Democrats' health plans, in essence, is to perfect the market for health insurance. But when government tries to perfect a market, it doesn't always get it right—see, for example, the California experience with the deregulation of electricity prices in the early 1990s.

"The exchanges only work when you subsidize people," says David Cutler, a Harvard University health economist who is a supporter of the Obama effort. "If it's just a level playing field, the exchanges just get the sick people," the ones who can't get a better deal elsewhere. And that will make insurance provided through the exchange so costly that only the sick and the subsidized will use it.

There are two solutions, he says. Subsidize the purchase of insurance through the exchange generously to lure a lot of people, sick and healthy, which will keep the pool of participants broad so premium costs are low enough to lure people who aren't eligible for subsidies because they can't get a better deal outside the exchange. Or use the regulatory hammer and force health insurers outside the exchange to play by all the rules that apply inside the exchange, such as requiring them to accept any applicant regardless of health without charging extra.

CONGRESS IS leaning toward the first option, but it's expensive to taxpayers. So the Senate, for instance, has moved to dilute the subsidies to save money, a worthy goal given the federal deficit. But if senators go too far, they risk the vicious cycle Mr. Cutler describes.

And the public plan? Backers say it will provide stiff competition for private insurers; foes say it will be unfair competition. Mr. Starr's fear is more subtle: Unless all this is designed right, the public plan will become the insurance analog of a homeless shelter.

"Within the exchange," he writes on the American Prospect's Web site, "the public option would compete against private insurers, many of which have built their businesses by avoiding people with high medical costs. Some...techniques they have used in the past would be prohibited, but they are still likely to be able to game the system."

If the public plan proves popular among the chronically ill and those with disabilities, it will have higher costs. And, Mr. Starr adds, "In the world of health insurance, no one wants to be in a club with sick people so over time the healthy could migrate to private plans, and the public option would become a choice of last resort."

The health-care system is huge and intricate. The new House bill is 1,000 pages. Important but seemingly technical elements often are obscured by easier-to-follow debates that make the headlines. But the exchanges are more than an inconsequential detail. Their design will determine whether what emerges from Congress, if anything, actually works as intended.

Write to me at capital@wsj.com. Discuss at wsj.com/capital.

India picks sites for U.S. plants

American companies will build reactors for nuclear power

BY AMOL SHARMA

India selected two sites where U.S. companies can eventually build nuclear-power reactors, a significant step as the countries look to implement the landmark nuclear pact they completed last fall, according to people familiar with the matter.

But the selection, which could be announced when U.S. Secretary of State Hillary Clinton visits India this week, is unlikely to lead to quick contracts for companies such as GE-Hitachi and Westinghouse Electric Co. to begin building plants.

The U.S. companies must still overcome a range of regulatory and legal hurdles in both countries and are concerned that state-backed rivals from France and Russia—which face fewer barriers in both India and on their home turf—have an advantage in India's $100 billion nuclear energy sweepstakes. India has already designated sites for French and Russian nuclear reactors.

The U.S.-India agreement ended a 34-year U.S. moratorium on nuclear trade with India following the country's first nuclear tests in 1974. The deal opened the door for U.S. and foreign companies to sell reactor technology and fuel to India and required India to allow greater international inspections of its civilian nuclear facilities. The pact took more than three years to complete and was hailed in both countries as a major foreign policy breakthrough.

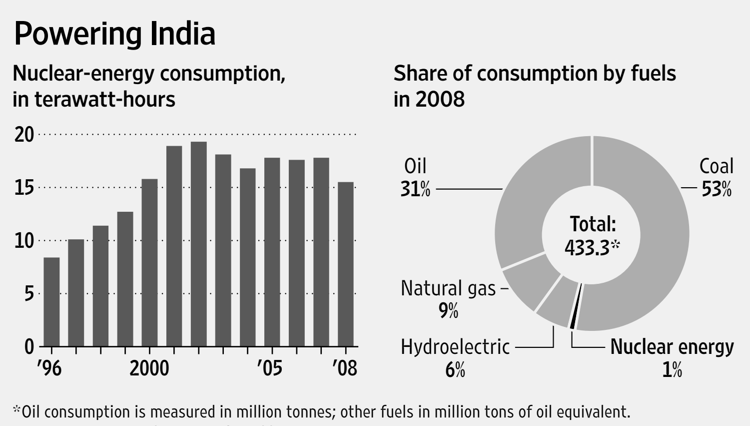
During her visit, Mrs. Clinton is expected to highlight several areas of "strategic dialogue" with India, including national security, trade, education and the environment, people familiar with the visit said. After decades of estrangement over the nuclear issue and Cold War differences, the U.S. and India have improved their relationship markedly in recent years. Bilateral trade is expanding and reached $45 billion last year. Military cooperation is increasing.

The two countries may also use Mrs. Clinton's trip to announce completion of an agreement for the U.S. to track sales of defense equipment and ensure it is used for its stated intent, according to people familiar with the matter. That "end-use monitoring" agreement will be crucial, experts say, as U.S. companies compete for major contracts such as India's plans to purchase 126 fighter jets at an estimated cost of $11 billion.

A spokesman for India's Ministry of External Affairs said that some agreements will "naturally" be finalized between the U.S. and India during Mrs. Clinton's trip but declined to elaborate.

The Obama administration's assistant secretary of state for South Asia, Robert Blake, said the U.S. was hoping to announce the two nuclear sites, as well as the end-use agreement, during Mrs. Clinton's visit to New Delhi on Monday. Mr. Blake also disputed charges that the U.S.-India civil nuclear accord was failing to develop as quickly as U.S. corporations had hoped. "I don't think there should be any apprehension about the future of the civil nuclear agreement," Mr. Blake said.

There are still points of tension that Mrs. Clinton will have to address. Indian officials are concerned about what they perceive to be growing protectionism in the U.S. over India's strength in low-cost business outsourcing. And they object to climate-change legislation moving through Congress that would impose tariffs on products from countries that don't reduce greenhouse-gas emissions.



*Oil consumption is measured in million tonnes; other fuels in million tons of oil equivalent.
Source: BP Statistical Review of World Energy, 2009

The nuclear sites the Indian government is likely to name for U.S. companies are in the states of Andhra Pradesh and Gujarat. But there are still several roadblocks preventing U.S. companies from cutting deals with India. The U.S. Department of Energy, for instance, hasn't granted American companies the licenses needed to engage in sensitive technical discussions about their products with Indian companies.

U.S. regulators are seeking "nonproliferation assurances" from India that U.S. technologies won't be transferred to any parties other than the original importer, including subcontractors. The State Department's top officials on arms control, former Rep. Ellen Tauscher and department veteran Robert Einhorn, are hard-line nonproliferation advocates who criticized the India nuclear deal. But President Barack Obama and Mrs. Clinton voted for the deal in Congress and have said they intend to follow through on it.

Meanwhile, U.S. companies are waiting for India to sign an international convention that limits the liability of private nuclear companies in case of nuclear accidents. India hasn't passed the necessary legislation.

Thomas Rumsey, a spokesman for GE Energy, a unit of **General Electric** Co., said the liability issue is the biggest remaining hurdle. "The Indian government is very aware of this. They understand what has to be in place," he said. Hitachi Ltd. owns the other part of the joint venture.

But some experts say there are domestic political considerations for India. "There are people in India who say, 'Why do we have to make these changes so quickly just because American companies want them?' " said Seema Gahlaut, director of the South Asia program at the University of Georgia's Center for International Trade and Security.

India is also pressing the U.S. for the right to reprocess uranium fuel it imports, an issue that wasn't tackled as part of the nuclear deal.

Foreign companies, meanwhile, have charged ahead. France's **Areva** SA last week submitted a bid to build two reactors in the western Indian state of Maharashtra, and announced strategic alliances with local Indian construction and engineering companies. Foreign companies from France and Russia don't face the same export-licensing requirements as U.S. companies and can invoke sovereign liability protection as state-controlled companies.

—Rebecca Smith, Paul Glader, Niraj Sheth and Jay Solomon contributed to this article.

Russia needs deeper reforms, OECD urges

ASSOCIATED PRESS

Russia must use fast and decisive stimulus to pull its economy out of an unexpectedly deep hole, but also prepare difficult reforms to ensure longer-term prosperity, the Organization for Economic Cooperation and Development said Wednesday.

The recommendations came as officials announced Russia's economy had shrunk by 10.1% in the first half of the year. That's in line with its forecasts of a decline in gross domestic product this year of 8% to 8.5%.

Russia's government responded swiftly and aggressively when the global financial crisis hit last fall, the Paris-based OECD said, but more action is needed. "It has become increasingly clear that Russia is facing a deeper and longer downturn than was imagined a few months ago," it said.

In the short term, the OECD said, Moscow should encourage growth by cutting lending rates and allowing the ruble to depreciate. At the same time, it should shore up its shaky banking sector and control government spending.

As the crisis eases, the OECD said, "Russia will face the challenge of putting in place a healthier model for sustained catch-up growth."

It urged adoption of long-awaited reforms to an economy hobbled by "the legacy of the Soviet era as well as the backlash after the chaotic early years of transition to a new system."

Russia also set up Wednesday a $7.5 billion crisis fund to help former Soviet nations weather the global economic crisis. The fund was created to aid Belarus, Kazakhstan, Kyrgyzstan and Tajikistan, all members of a group called the Eurasian Economic Communit.

In recent months, Russia has used its huge pile of cash and assets to dole out billions of dollars to governments in the former Soviet bloc.

Higher Greek taxes face public ire and rampant evasion

BY ALKMAN GRANITSAS

ATHENS—The Greek government's ballooning budget deficit has forced it to raise unpopular taxes, but the real question is whether it can overcome its country's expertise in tax evasion and collect them.

Greece's unreported—and untaxed—shadow economy is equal to about one-quarter of gross domestic product, according to Friedrich Schneider, chairman of the department of economics at the Johannes Kepler University of Linz and an expert on shadow economies worldwide. That compares with 22% in Italy and 20% in Spain and Portugal, according to his estimates.

In the past few months, the government has ramped up audits of tax cheats, launched a public awareness campaign, and taken measures to fight tax evasion. Most importantly, it is trying to revamp Greece's dysfunctional tax bureaucracy itself.

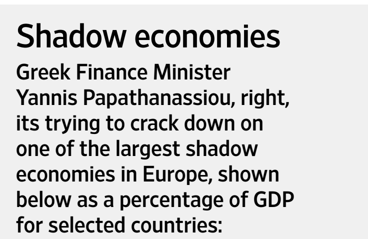
"If there was no tax evasion, we wouldn't have to introduce new taxes," said Finance Minister Yannis Papathanassiou. "So we are trying to establish a more systematic method of audits, and trying to look at where we ourselves have organizational problems."

The center-right New Democracy government, which controls just a slim one-seat majority in parliament and is behind in public opinion polls, will have an uphill struggle making any reforms stick. With official GDP of €240 billion ($334 billion), Greece's underground economy is estimated at about €60 billion a year. Assuming a gross effective income tax rate of about 25%, that translates into some €15 billion in lost revenues each year, say economists, more than double last year's budget deficit of €6.1 billion.

That hurts in a country struggling to bring its budget deficit below European Union-mandated levels of 3% of GDP next year, down from 5% in 2008 and a targeted 3.7% level this year.

Greece already has a raft of measures designed to tackle tax evasion, mostly based on cross-checking whether someone's spending habits match their declared income. So under Greek law, both individuals and family businesses can be taxed—at the discretion of an auditor—in a government-proscribed imputed income if the auditor thinks that their declared income is too low.

These new measures failed to produce a significant increase in tax-evasion charges, leading many to urge reforms of Greece's tax bureaucracy. Early this year, Mr. Papathanassiou appointed an outsider from the private sector to head up the Special Control Service—the tax police—with a mandate to overhaul the service.



Reuters

Since then, the SCS has ramped up its visibility. In June, SCS auditors—with television cameras in tow—swarmed an Athens marina and started checking yacht registrations to see whether the tax declarations of the boat owners was commensurate with a yacht-owning, luxury lifestyle.

For the first time ever, the 1,100 auditors in the service are now required to meet specific performance goals. And to tackle corruption, SCS auditors are now assigned to tax inspections based on a case number randomly generated by computer—previously they could pick and choose whom to audit.

Along the same lines, the SCS will soon begin dispatching auditors from one region of Greece to do audits in another, part of an effort to break up the sometimes-too-cosy relationship between local tax offices and the local companies they inspect.

"I want to emphasize the importance of internal checks," said Pashalis Bouhoris, the newly appointed head of SCS. "We have to change the mind-set in the service itself."

Those efforts have borne fruit. For the year's first five months, the government collected €700 million in unpaid taxes and fines, a 30% rise over last year. For the full year, it aims to collect more than €2 billion from tax evaders, a 52% increase.

The government has yet to show whether it has the will to prosecute politically powerful tax evaders—something past Greek governments have been unwilling to do. Mr. Papathanassiou says that this time will be different. "We are ready to go after some big names," he said. "In fact, a crackdown on tax evasion has to start with the big fish, we're not interested in the small fry."