Money & Investing: Paulson and Lewis take more heat for Merrill deal

# THE WALL STREET JOURNAL.

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## What's News

**Iceland's parliament voted** narrowly to apply to join the EU after a six-day debate, exposing the rift in popular support for the move, which was prompted by the country's financial collapse. Page 2

■ **Vaccine makers say** they are having difficulty on swine flu because viruses used to make the shots are yielding a low level of antigen. Page 3

■ **Nokia posted** a smaller-than-expected drop in quarterly profit but cut its forecasts, while Sony Ericsson reported a loss. Page 5

■ **Novartis reported** a 9.5% decline in quarterly profit, but the drug maker raised the guidance for its flagship pharmaceutical unit. Page 3

■ **U.S. stocks climbed,** but CIT's woes weighed on bank shares. Europe shares gained as lenders rose. Page 21

■ **U.S. jobless claims fell** sharply a second week in a row, an encouraging sign, but reflecting seasonal adjustments in hiring. Page 13

■ **A U.N. panel imposed** new sanctions against North Korean officials and companies aimed at curbing the nation's nuclear program. Page 32

■ **The U.S. agreed** to resettle 1,350 Palestinians displaced by fighting in Iraq. Page 11

■ **Russia could join** the WTO by mid-2010 if the U.S. backs its bid, a Russian deputy premier said. Page 12

■ **A veteran U.N. official** was shot dead along with a guard while resisting kidnappers at a Pakistan refugee camp.

■ **The EU proposed** rules to better prepare for natural-gas shortages as friction between Ukraine and Russia risks disrupting supplies. Page 2

■ **China's GDP jumped** to 7.9% in the second quarter, spurring a debate about a cooling-off period, but Beijing said the rebound is unstable. Page 13

■ **Rio Tinto told** its expat staff to leave China or not to return, amid fears authorities would widen allegations beyond four detained. Page 8

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### EDITORIAL & OPINION

**Democracy and Islam**
Indonesia, the largest Muslim country, embraces free institutions. Page 15

Breaking news at europe.WSJ.com

# EU court backs regulator

*Penalty against commission in Schneider antitrust ruling is overturned*

By Charles Forelle

BRUSSELS—European Union antitrust regulators don't have to compensate a French electrical-equipment maker for losses it suffered when its acquisition of a rival was wrongly blocked, Europe's highest court said.

The judgment from the Court of Justice in Luxembourg overturned a 2007 lower-court ruling that held the European Commission must pay France's **Schneider Electric** SA compensation that could have risen to a billion euros.

The 2007 ruling had given the commission—already stung by a string of rulings overturning its merger prohibitions—another reason to tread carefully before saying no to deals.

Thursday's high-court decision undoes most of the penalty, though the court let Schneider collect some legal costs. Alone, the judgment isn't likely to usher in an era of vigorous merger review, but it makes plain that the commission faces little risk of paying big penalties.

"Even if you think the commission has been manifestly erroneous, you are going to have a steep uphill struggle to get substantial compensation," said Juan Rodriguez, an antitrust lawyer at Sullivan & Cromwell in London.

Schneider said only that it "acknowledges" the

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## Medvedev pledges that rights activist's killers will be found

Associated Press

Russian President Dmitry Medvedev, left, met with German Chancellor Angela Merkel in Munich on Thursday in talks that focused mainly on trade. At a news conference there, Mr. Medvedev renewed a pledge that the killing of human-rights activist Natalya Estemirova this week will be investigated thoroughly. "I am sure the killer will be found" and punished he said.

# J.P. Morgan net jumps 36%

By Robin Sidel

J.P. Morgan Chase & Co., extending its status as one of the strongest firms in the banking industry, reported robust quarterly earnings and expressed cautious optimism that some of its businesses that were hammered in the early days of the credit crisis may be starting to stabilize.

As a result, Chief Executive James Dimon indicated that the bank may start thinking about a range of actions that weren't on the table just a few months ago, including potentially reinstating the dividend next year and buying back its stock.

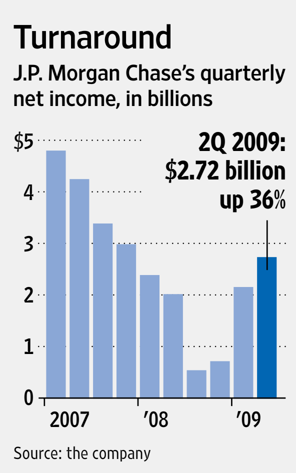
He also said the New York company is in a good position to make an acquisition "if something presents itself." Last year, J.P. Morgan snapped up Bear Stearns Cos. Inc. as it careened toward bankruptcy and acquired failed thrift bank Washington Mutual in government-assisted transactions.

The results came three days after **Goldman Sachs Group** Inc. reported blockbuster results that drove up stocks of financial institutions. As at Goldman, J.P. Morgan's investment bank, which runs its Wall Street businesses, contributed to a large chunk of the firm's earnings. Commercial banking, retail banking and asset management also turned in strong performances.

The strong earnings report, however, was damped by unrelenting trouble in two of J.P. Morgan's most important businesses: credit cards and consumer lending. Mr. Dimon said that the bank's big credit-card portfolio, which already was expected to be in the red for 2009, isn't likely to turn a profit next year either.

"J.P. Morgan's results sum up a lot about the industry—half of the results are tied to capital markets which were strong and the other half is

*Please turn to page 31*




## Inside

**New nemesis**

Cool vampire kids give Harry Potter a run for his money
**Weekend Journal**, page W6

## Markets

4 p.m. ET

| | CLOSE | PCT CHG |
|---|---|---|
| DJIA | 8711.82 | +1.11 |
| Nasdaq | 1885.03 | +1.19 |
| DJ Stoxx 600 | 209.86 | +0.37 |
| FTSE 100 | 4361.84 | +0.35 |
| DAX | 4957.19 | +0.58 |
| CAC 40 | 3199.68 | +0.90 |
| Euro | $1.4115 | +0.20 |
| Nymex crude | $62.02 | +0.78 |

# New curbs on banker pay urged in U.K.

By Stephen Fidler

LONDON—A new report commissioned by the U.K. government calls on banks' independent directors to implement tough new curbs on bankers' pay, saying they should keep chief executives in check to prevent them from assuming too much risk.

The independent review of the way big financial institutions are run, written by David Walker, a former executive director of the Bank of England and now a senior adviser to Morgan Stanley, suggests cozy board meetings should be a thing of the past.

The review, which offers a hint of the likely direction of government action, stops short of calling for an absolute cap on pay. It does, however, recommend that at least half of bankers' bonuses should be deferred for from three to five years.

Sir David, in a statement, said the proposals on remuneration were "as tough, or tougher, than anything to be found anywhere else in the world."

The pay proposals immediately drew claims that, if implemented, they could chase business away from London to competing financial capitals.

The plan to defer bonuses for as long as five years is too harsh and would be "an unacceptable sea change for senior traders," said Nicholas Stretch of the CMS Cameron McKenna law firm. Reflecting a widespread concern in the City, London's financial center, he said the proposal "will put the U.K. financial sector at a huge disadvantage in comparison with European and other financial centers where these restrictions do not apply."

The proposals take the U.K. debate on bankers' pay well beyond where it has gone in continental Europe and in the U.S., where governments have focused more on limiting the pay of bankers whose institutions have received taxpayer bailouts. The U.S.'s Obama administration has outlined broad principles to govern bankers' pay but hasn't gone into detail.

In an interview, Sir David said he recognized that his proposals could mean more conflict within company boards and could be resisted by bank bosses. But he said the complexity of banks justi-

*Please turn to page 31*

## LEADING THE NEWS

# Iceland votes to apply to the EU

### *Narrow margin in parliament poll exposes national rift*

By Charles Forelle

BRUSSELS—Iceland's parliament voted narrowly Thursday to apply to join the European Union after six days of grueling debate, a move prompted by the country's dramatic financial collapse.

The marathon debate and 33-to-28 vote in favor, with two abstentions, just clear of the 32 votes required, reflects deep rifts in Iceland over how best to resurrect the country after its financial meltdown during the global crisis last year. Excessive overseas borrowing wrecked Iceland's banks and its currency, the krona.

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. Many in Iceland believe the nation needs the haven of the EU's common currency, the euro, even though signing up to the EU means the country would cede precious sovereignty over the size of its catches in its lucrative fishing grounds. Fish and seafood accounted for 37% of Iceland's exports in 2008.

A vote for closer union with Europe would have been unthinkable just a year ago in the moonscaped country of 300,000, which declared independence from Denmark in 1944 and has long exulted in the go-it-alone streak of its Viking forebears. For decades, Iceland's leaders had been drawn from the anti-EU Independence Party, which is closely allied with the fishing industry.

Joining the EU would likely take at least two years and face a popular referendum. Moreover, once in the EU, Iceland would have to meet additional stringent requirements before it could adopt the euro.

Still, Iceland is far closer to EU membership than other aspirants, such as Albania, which wrestles with poverty and corruption, and Turkey, whose large Muslim population has caused consternation in France and Germany. A member of the European Economic Area, Iceland has already signed up to many of the EU's common-market rules, as well as environmental and social legislation, meaning the tedious job of overhauling its laws to conform to EU norms would be greatly shortened.

The parliamentary vote was repeatedly delayed, the last time Wednesday 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 talks about the impact of EU regulations that govern chicken and pig farms.

Many Icelanders are steaming over an agreement the government reached last month with the U.K. and the Netherlands under which Iceland would take responsibility for £2.35 billion ($3.86 billion) paid to Britons who had money with Icesave, an Internet arm of a now-defunct Icelandic bank, and for €1.32 billion ($1.86 billion) paid by the Netherlands to Dutch depositors. Iceland has 15 years to pay it back, but the sums total more than a third of the country's annual economic output. The agreement requires the approval of Iceland's parliament.

The deal is a "terrible contract," says Birgitta Jonsdottir, a poet who is one of four members of parliament from the Civic Movement, a party that sprang out of the protests that followed the economic collapse. On Wednesday, the Civic Movement demanded the payback accord should be renegotiated—a move that would incense EU member Britain.

Still, Ms. Jonsdottir says Iceland needs a new currency, "and it would be natural to take the euro." Of joining the EU, she says, "Being an anarchist, I don't like big structures. But I am not an isolationist either. So I am torn—like many Icelanders."

Pushing the EU vote in parliament were the Social Democrats, under Prime Minister Sigurdardottir, who took office early this year. The party has 20 seats; 32 votes are needed for the measure to pass, giving small parties like the Civic Movement outsize leverage.

The Independence Party—which was in power during the meltdown, and had for years positioned Iceland as a mini-financial engine free of the strictures of European regulation—is greatly weakened. It has suffered a searing backlash that has, in effect, opened the door to EU membership.

In a May speech, the EU commissioner in charge of the union's enlargement, Olli Rehn of Finland, said Iceland had already completed the largest part of the "marathon" that is the process of joining the EU. Mr. Rehn's spokeswoman said last week that an application from Iceland "would be welcome."

**Europe, a little bit bigger?**

**The financial crisis wrecked Iceland's currency; now, the island nation's parliament has voted to apply for EU membership.**

How many krona one euro buys, scale has been inverted to show the decline


| | EU | Iceland |
|---|---|---|
| POPULATION | 499.8 million | 319,326 |
| GDP in 2008 | €12.5 trillion | €10.2 billion |
| SIZE, in square kilometers | 4.2 million | 0.10 million |

Sources: WSJ Market Data Group (currency); Eurostat; Statistics Iceland (regional facts)

# Cost of clearing trades has decreased in Europe

By Adam Bradbery

LONDON—The cost of trading and clearing stocks and bonds in the European Union has dropped by between 20% and 80% since 2006 as a result of regulatory changes and pressure on exchanges and trade-processing companies from the European Commission, according to a study from research company Oxera.

But some settlement houses, which ensure that both sides of a trade can make good on the deal before putting it through, have increased their tariffs. In some countries, the overall cost of trading is rising, possibly as a result of orders being split by brokers to get the best price for the securities they sell, the study shows.

The study, which was commissioned by the EU's executive body, provides evidence that the Market in Financial Instruments Directive, or Mifid, and the commission's code of conduct on clearing and settlement are starting to achieve their goal of reducing dealing costs in the region.

"I particularly welcome the study's findings concerning the decreases in costs for trading and clearing and, to some extent, also for settlement services since 2006," said Charlie McCreevy, EU internal markets commissioner.

Mifid was introduced by the commission in November 2007 in a bid to increase competition between trading platforms to reduce trading costs for market users.

A code of conduct was hammered out in late 2006 to boost transparency and competition between trade-processing companies for the same reason.

# EU proposes rules to prevent gas-supply crisis

By Alessandro Torello

BRUSSELS—The European Commission proposed new rules to ensure the European Union is better prepared to face natural-gas shortages, as a potential payment dispute between Ukraine and Russia risks disrupting supplies again.

If the new rules are adopted, the EU would be able to "speak with one voice and act as one entity" in case of an emergency, Energy Commissioner Andris Piebalgs said. He said a gas-supply crisis couldn't be excluded even as early as August.

The proposals come months before they were expected, as new friction between Russia and Ukraine over natural-gas payments suggests there may be a repeat of January's problems, when a price dispute between the two countries caused disruptions to natural-gas supplies for several EU countries for weeks. Some factories and schools were shut and many households went without heat.

Under the proposals, each of the EU's 27 countries would have to designate an authority to look after security of their gas supplies, preparing plans aimed at preventing disruptions and dealing with any shortages that arise. The new rules would give the commission—the EU's executive arm—authority to ask for changes to these national plans if it considered them "not effective" or incompatible with those of other EU countries.

The commission would also be able to declare an EU-wide emergency, in which case it would coordinate the actions of the bloc's national authorities as well as interaction with third countries. This would happen at the request of one EU member, or if the EU lost more than 10% of its daily imports from third countries.

The European Parliament and the 27 EU governments must back the proposal before it becomes law. Talks are expected to take months and might lead to a watered-down version of the rules.

Also Thursday, Matthias Warnig, managing director for Russia's planned Nord Stream pipeline, said after meeting Mr. Piebalgs that he expected to have the national permits he needs by year-end, and that construction would begin in 2010.

## 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

Associated Press

Workers prepare eggs that are being used to produce a vaccine for the H1N1 swine-flu virus at the Sinovac Biotech laboratory in Beijing on Monday.

# Low virus yield impedes swine-flu vaccine output

By Jeanne Whalen

Swine-flu vaccine is proving difficult to manufacture because the viruses used to make the shots aren't yielding a large amount of active ingredient, two large vaccine makers said Thursday.

Their comments echoed similar statements from the World Health Organization earlier this week, and mean that the millions of vaccine doses ordered by many governments could arrive later than expected.

A growing list of countries is counting on vaccine doses to arrive in the coming months. The U.S., U.K., Canada, Australia and many other nations have ordered enough doses to cover much of their populations. France this week placed a €1 billion ($1.4 billion) order for 94 million doses, and said it expected the shots to arrive between October and January.

To make vaccine against a flu virus, the virus is cultivated, inactivated and blended into antigen, the main ingredient used in the shots. But the H1N1 virus being used for swine-flu vaccine is so far yielding a "low" level of antigen, Swiss drug maker **Novartis** AG said Thursday. It said the yield so far is about 30% to 50% of what the company normally gets for seasonal flu vaccines.

Robert Parkinson, chief executive of **Baxter International** Inc. of Deerfield, Ill., also described "yield optimization" Thursday as a challenge.

The WHO said Monday it is attempting to tweak the H1N1 virus and send manufacturers a new copy that might yield more vaccine. "We hope that as soon as possible the situation can be improved upon, but for the time being there is no reason to be really anxious," Marie-Paule Kieny, a vaccine expert at the WHO, told a news conference.

In the meantime, Novartis said it is attempting to adjust its production process to improve the yield.

Experts aren't yet sure how much antigen will be needed per shot; human studies to be carried out later this summer will make that clear. The less antigen necessary, the more shots can be produced. Booster ingredients called adjuvants will also be used to increase the effectiveness of the antigen.

# U.K. calculates fatality rate in a 'worst-case scenario'

By Laurence Norman

LONDON—New calculations from the U.K.'s Department of Health suggest that, in the worst-case scenario, 63,000 people in the country could die after contracting the H1N1 flu virus in the first wave of the pandemic.

Officials said Thursday that 29 people had died thus far.

However, a health department report said a "reasonable worst case scenario" was for some 30% of the population to get flu-like symptoms from swine flu, with some 2% of these hospitalized.

The paper suggested that the fatality rate for swine flu could be anywhere between 0.1%-0.35% of those who suffer flu-like symptoms, similar to the fatality rate from influenza.

That would mean between 18,000 and 63,000 people in the U.K. population of about 60 million could die in this worst-case scenario.

The paper said that based on experience in other countries, the fatality ratio was likely to be closer to 0.1%.

Liam Donaldson, the U.K.'s chief medical officer, told the BBC some parts of the country are already experiencing swine flu at epidemic levels and there was an upward trend in cases everywhere.

However, he said Thursday's calculations were intended to help the National Health Service make worst-case plans and that death rates may well be lower.

"We should remember that when we were planning for bird flu there were much larger numbers of deaths estimated. Swine flu is not as severe," he said.

In Thursday's paper, the health department also estimated that as much as 12% of the work force could be absent from work at the peak point of the first wave of swine flu.

# Novartis profit, sales slip

### *Firm raises outlook for pharmaceuticals; Diovan still strong*

By Julia Mengewein

**Novartis** AG said Thursday that its net profit fell 9.5% in the second quarter, weighed down by currency fluctuations and expenses related to a bond issue, but it raised its outlook for its flagship pharmaceutical unit.

The Basel, Switzerland-based drug maker said its net profit fell to $2.04 billion in the three months ended June 30 from $2.25 billion a year earlier. The results were hurt by the weakness of the euro and Swiss franc against the dollar. Novartis books a significant portion of its sales in euros and francs but reports its earnings in dollars.

The bottom line was also hit by financing costs for a €1.5 billion ($2.12 billion) bond issued in the second quarter as well as expenses related to its stake in eye-care company Alcon Inc.

Novartis said second-quarter sales fell 1.7% to $10.55 billion from $10.73 billion. Measured in local currencies, sales would have risen 8%.

The company raised its full-year forecast for its pharmaceuticals unit, which generates the bulk of its revenue, saying it now expects sales at the unit to grow at a high-single-digit rate, at minimum.

Novartis also confirmed a previous forecast of 2009 group sales growing at a mid-single-digit rate in local-currency terms. The group-sales forecast doesn't include sales from pandemic vaccines, Chief Financial Officer Raymund Breu said.

The higher forecast reassured investors, and shares in Novartis closed up 3.1% in Zurich.

"The market had focused much on potential problems in the pharma divisions, such as the mature drug Diovan, which loses patent protection over the next three years," said Rahn & Bodmer analyst Birgit Kuhlhoff.

**Results were hurt by the weakness of the euro and Swiss franc against the dollar.**

Diovan, a blood-pressure lowering agent that will lose patent protection in 2011 in Europe and 2012 in the U.S., remained the company's best-selling drug, bringing in $1.53 billion.

Novartis expects the drug to continue generating multibillion-dollar sales, even after its patents expire.

"We still see Diovan sales of above $2 billion by 2014," Joseph Jimenez, CEO of Novartis's pharmaceuticals division, said in a conference call. In 2008, Diovan generated sales of $5.7 billion.

Mr. Jimenez said Diovan works better to lower blood pressure than competitors' drugs. Novartis is also working on raising the currently low penetration of the drug in Japan, which accounts for 20% of Diovan sales, Mr. Jimenez said.

Novartis's operating income in the second quarter fell 3.9% to $2.36 billion from $2.46, but thanks to progress in the company's cost-cutting program, the figure came in slightly above analysts' estimates of $2.35 billion. The company said it has "now achieved cumulative cost savings of $1.7 billion and exceeded the 2010 goal of $1.6 billion 18 months ahead of plan."

Sales at Novartis's pharmaceuticals division as a whole rose 2.7% to $7.12 billion, driven mainly by its oncology portfolio and newly launched drugs. Analysts had expected sales to fall in U.S. dollars.

Cancer drug Gleevec, the company's second-best selling product, contributed $990 million in sales.

Sales from new products, such as recently launched cancer drug Afinitor and blood-pressure treatment Tekturna, accounted for 16% of sales in the second quarter, Novartis said. Tekturna may generate sales of up to $300 million in 2009, Mr. Jimenez said.

Novartis said it expects to submit one of its most important experimental drugs, the multiple-sclerosis treatment FTY720, for U.S. and European regulatory approval at the end of the year.

## CORPORATE NEWS

# Wal-Mart to assign new 'green' ratings

*Labeling program requires all suppliers to calculate and disclose the environmental costs of producing goods*

By Miguel Bustillo

**Casting a big shadow** | Wal-Mart initiative will affect many suppliers in a broad range of industries

**Wal-Mart's heft...**
Wal-Mart's U.S. sales as apercentage of U.S. retail sales*

**And its girth**
Fiscal 2009 U.S. merchandise sales breakout, in billions


*Retail sales exclude food services, motor-vehicle and parts dealers
Note: Wal-Mart figures are for fiscal years that end Jan. 31.

†Include sporting goods, fabrics and crafts, automotive accessories and outdoor furniture

Source: Commerce Dept. (retail sales); the company; photo by Bloomberg News

**Wal-Mart Stores** Inc. unveiled an environmental labeling program for the products it carries, in a step that could redefine the design and makeup of consumer goods sold around the globe but also boost costs for suppliers and customers.

Wal-Mart Thursday told suppliers they must calculate and disclose the full environmental costs of making their products, then allow Wal-Mart to distill the information into a rating system that shoppers will see alongside prices for everything from T-shirts to television sets.

The world's largest retailer by revenue, once disparaged by environmental groups, said the new initiative represents a bold new step in its efforts to reduce energy consumption, cut waste and introduce sustainable products. It will take years to fully take form. Some of its earlier efforts have had wide-ranging impact—from selling more than 100 million low-energy fluorescent bulbs to the creation of concentrated detergents that use less packaging and water.

Consumers are not likely to see the first labels for years. The company estimated it could take a half decade or longer, although outside experts involved in the project said it could start sooner, perhaps as early as 2011. What the labels will look like and exactly what they will attempt to illustrate has yet to be determined.

The most immediate impact of Wal-Mart's latest drive will be felt by its 100,000 suppliers, which will bear the costs of the company's environmental mandates, at a time in which many are struggling economically. Wal-Mart said it was premature to estimate the cost to suppliers. Outdoor clothing maker Patagonia Inc., which has been an early pioneer in reducing the environmental footprint of its products, declined to disclose figures, but said its efforts had been costly.

Wal-Mart insisted there will be no exemptions. Asked what relationship Wal-Mart would maintain with suppliers that don't supply the data, Matt Kistler, the retailer's senior vice president of sustainability, said bluntly, "We probably don't have one."

Similar pioneering efforts to convey environmental information to consumers have proved controversial, with even supporters of the idea complaining that the resulting "eco-babble" was of little practical use.

Len Sauers, Procter & Gamble Co.'s global vice president for sustainability, said the labels would need to be scientifically accurate, yet understandable to consumers. He said similar efforts in Europe "have been quite difficult, because they have not really provided the consumer with information that makes sense."

Wal-Mart executives said they plan to develop labeling easily understood by consumers. "I envision the day that you look at a piece of apparel, you flip a tag over, and learn about how sustainable it really is," Wal-Mart Chief Merchandising Officer John Fleming said. "It would be like nutritional labeling is today. But there is some standardization that needs to take place."

People familiar with the company's plans said that Wal-Mart is angling to get ahead of potential U.S. environmental labeling regulations—they've already begun appearing in Britain and Japan—and to set a standard on its own terms that the retail industry can adopt to communicate the green hue of goods it sells.

Wal-Mart disputed that it was seeking to preempt regulations. Mr. Fleming, who is helping lead the effort, said he wanted to improve the quality of the products sold by the discounter, which had $401.2 billion in sales last year.

Retail industry groups claim Wal-Mart made a political calculation recently when it endorsed employer-mandated health insurance, a key component of President Barack Obama's plan to expand health-care coverage to nearly all Americans. Wal-Mart said it supports the mandate in part because it could help control rising health costs.

Wal-Mart Chief Executive Officer Mike Duke launched the project on Thursday in a speech to employees and suppliers. He called for "a new retail standard for the 21st century," and asked the company's largest suppliers to provide details, such as water use and carbon dioxide emissions, by October. All suppliers eventually will have to answer a preliminary, 15-item questionnaire, covering waste generation, resource use and community involvement.

The company's goal is to build what it terms a comprehensive sustainability index that measures the environmental impact of each product Wal-Mart sells. For example, an index might flag how much each contributes to global warming and if it contains wood harvested in ways that deplete natural stocks.

"You can design something that is carbon neutral, that does not contribute to climate change, and yet is still detrimental to human health in other ways," said Jay Golden, a professor at Arizona State University who will be co-chairman of a consortium that will help Wal-Mart compile the data and design standards. "So you have to look comprehensively at what sustainability really means, and that is what Wal-Mart is trying to do here in a very big way."

The index will judge products not only by the environmental cost of producing them, but also by the impact over their life span. Company buyers will be judged in part by whether they improve the ratings of the products they purchase from suppliers over time.

The information will be available to anyone, Wal-Mart said, including rivals, in hopes it will help mold a standard. Although Wal-Mart advisers envision spot audits and dissections of products to determine what they contain, they say transparency is what will ultimately curb potential cheating by suppliers.

"A lot of suppliers are scared, but there is an opportunity here for them," said Michelle Harvey of the Environmental Defense Fund, which has worked with Wal-Mart in the past and is assisting on the project. "I think the most significant improvement will come before the consumer ever sees a score," she said.

Eventually, through product labels, the experiment will test whether consumers pay more for environmentally superior products. Wal-Mart does not believe consumers now are prepared to pay much more, but it believes that will soon change as those born in the 1980s become the company's primary customers.

In the past several years, Wal-Mart successfully pressured suppliers to minimize product packaging and develop more sustainable products, but some suppliers say the changes, such as reducing packaging, came at a high cost to them.

Some advisers to Wal-Mart concede that the index is likely to raise supplier costs and affect prices consumers pay. Tim Marrin, one of P&G's chief liaisons to Wal-Mart, said the goal was to avoid that outcome.

*—Ann Zimmerman contributed to this article.*

# Retailer's image morphs from demon to darling in U.S.

By Ann Zimmerman

In the past four years, Wal-Mart Stores has undergone a stunning metamorphosis—from whipping boy of the political left to corporate leviathan now welcomed with open arms by a Democratic White House.

In the summer of 2004, several Democratic congressmen running for re-election, including Vice President Joseph Biden, made anti-Wal-Mart rhetoric a key part of their campaign speeches. They cozied up to labor unions by excoriating Wal-Mart's labor practices, health benefits and general business dealings.

They had plenty of ammunition. At the time, Wal-Mart was facing scores of lawsuits around the country alleging the company had made employees work over time without paying them. Almost half the children of their U.S. workers either were uninsured or on Medicaid. And towns all over the country were fighting expansion of Wal-Mart's giant stores that were seen as the epitome of urban sprawl.

At the behest of Wal-Mart's board, headed by Rob Walton, the son of the company founder Sam Walton, the corporate communications department commissioned a reputation survey and found that Wal-Mart in just a short time had gone from corporate darling to demon.

> **Wal-Mart began donating money to Democrats as well as Republicans.**

The board gave then Chief Executive Officer Lee Scott distinct marching orders: Fix it.

The company's early efforts were ham-handed. They hired public-relations firm Edelman to help burnish their reputation. It dispatched two bloggers to criss-cross the country writing about the virtues of shopping at Wal-Mart. The stunt blew up when it was revealed that one of the bloggers was a relative of an Edelman worker. Edelman also created a pro-Wal-Mart group that hired former Atlanta Mayor Andrew Young as its spokesman. He stepped down after an embarrassing episode where he tried to paint Wal-Mart's lower prices as a savior for inner cities, where he claimed Jewish, Korean and Arab shopkeepers sold inferior products at jacked up prices.

But slowly, Wal-Mart went from being politically tone deaf to developing near perfect pitch, an effort that got a big boost when Mr. Scott hired longtime Democratic political operative and Edelman executive Leslie Dach to head corporate communications.

Mr. Scott stopped defending the company's practices and started changing them. Three and a half years ago, he championed a newfound commitment to the environment. He outlined ambitious initiatives for reducing waste, cutting energy consumption and using renewable energy at the company. He cast the efforts as sound business investment that would save money in the long run.

Critics saw it as the company's attempt to improve its public image. Suppliers griped that its mandate to reduce packaging was costing them money.

But as Wal-Mart proved it was serious-launching a high profile campaign to sell compact fluorescent bulbs, launching a solar power initiative in California—some of its critics started to come around. Others claimed Wal-Mart was just picking low hanging fruit.

In a radical departure, Wal-Mart, which traditionally supported Republican political candidates, began donating money to Democrats as well. It formed a coalition with union leader Andy Stern, once one of Wal-Mart's harshest critics, to help explore solutions to the country's mounting health insurance crisis.

In the last month alone, Wal-Mart broke with business groups and a majority of other retailers in supporting a employer mandate for health insurance—a centerpiece of President Barack Obama's health-care initiative.

Some see these recent efforts as a calculated attempt to get ahead of government actions that are inevitable and a way for Wal-Mart to craft them in its favor. They also claim these moves are in Wal-Mart's economic best interests. Employee-mandated health care could raise the costs for retailers that offer less coverage than Wal-Mart does.

There is one area where Wal-Mart has not waffled: its staunch opposition to the Employee Free Choice Act, a bill that would make unionizing companies easier and has been supported by President Obama. The White House has been very quiet on that front recently.

## CORPORATE NEWS

# Cellphone makers get squeezed

### *Nokia trims forecast; Sony Ericsson posts loss amid weak sales*

By Gustav Sandstrom

**Nokia** Corp. posted a smaller-than-expected drop in second-quarter net profit but cut its forecast for both profit margins and market share, raising concerns that its strong competitive position might be under threat.

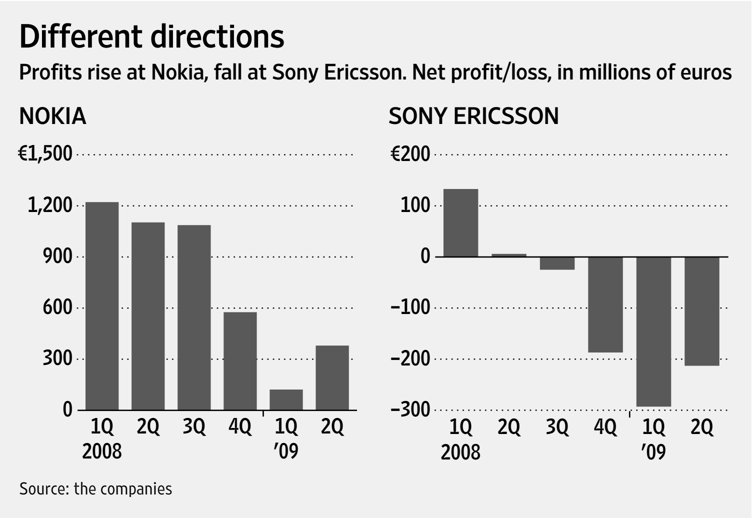
Shares in Nokia, the world's biggest mobile-phone maker by sales and market share, were down nearly 15% after the announcement.

The company, which had previously aimed to expand its market share in 2009 from last year, said it now expects its share of the mobile-device market to remain roughly flat.

It also said it expects the operating margin at its core devices and services business, excluding exceptional items, to remain approximately in line with the first half of the year—cutting its previous forecast for a second-half margin "in the teens."

Nokia's revised forecast implies a second-half margin of 11% to 12%, as the margin was 10.4% in the first quarter and 12.2% in the second, said Redeye analyst Greger Johansson.

The new forecast might simply be due to caution, but could also indicate that Nokia's newly launched phones may not have gone over so well with consumers, or that the company wants to focus on product investments rather than profitability, said Bernstein analyst Pierre Ferragu.




Over the past few months, the Finland-based handset maker has launched a number of high-end devices, such as the 5800, E75 and N97. So far, its broad focus on both high-end smart phones and less-expensive handsets has helped the company deliver solid sales and earnings in the economic slump.

But it is having to work harder to maintain its market position amid fierce competition from rivals such as **Apple** Inc.'s iPhone, BlackBerry maker **Research In Motion** Ltd. and Asian manufacturers such as **Samsung Electronics** Co. and **LG Electronics** Inc. It also has to contend with a raft of new phones powered by **Google** Inc.'s Android operating system.

Nokia's net profit for the three months ended June 30 totaled €380 million ($536 million), down 66% from a year earlier, but ahead of analysts' expectations for €316 million. Sales fell 25% to €9.91 billion.

The company's market share increased to 38% in the second quarter from 37% in the first quarter, though its average selling price fell to €62 from €65 during the period.

Nokia shares have lost a third of their value over the past 12 months as slumping consumer spending cut into sales and profits. However, they had risen sharply ahead of Thursday's report after Intel Corp.'s strong quarterly earnings report earlier this week buoyed the entire technology sector.

"Competition remains intense, but demand in the overall mobile device market appears to be bottoming out," Chief Executive Olli-Pekka Kallasvuo said.

Meanwhile, rival Sony Ericsson, a joint venture of Japan's **Sony** Corp. and Sweden's **Telefon AB L.M. Ericsson**, Thursday posted a €213 million net loss for the second quarter amid falling sales and weak market conditions in all regions. That compared with a €6 million net profit in the year-earlier period.

The report marks Sony Ericsson's fourth consecutive quarterly loss, although the result was an improvement on the €293 million net loss recorded in the first quarter.

Second-quarter sales fell 40% to €1.68 billion from €2.82 billion. The sales drop came even as the average selling price of Sony Ericsson's handsets rose to €122 from €116 a year earlier.

The global slump in demand for consumer electronic products has taken its toll on Nokia as well as its peers. The decline was pronounced in the first quarter when profits, sales and margins were under pressure across the industry. Nokia on Thursday kept its previous forecast for a 10% drop in industry volumes in 2009 compared with last year.

Nokia Siemens Networks, a joint venture between Nokia and Germany's **Siemens** AG, posted an operating loss of €188 million, compared with a €47 million loss the previous year.

# Lufthansa renews push for Austrian Airlines

By Sarah Sloat

FRANKFURT—**Deutsche Lufthansa** AG has made fresh proposals to the European Union in its bid to get clearance for its planned takeover of **Austrian Airlines** AG, spokesmen for the Austrian finance ministry and Lufthansa said. Neither gave details.

The European Commission said last week that it would start an in-depth antitrust probe into the takeover, straining a timetable Lufthansa had declared crucial to a deal. European Commission spokesman Jonathan Todd said the commission wouldn't be able to make a decision by the July 31 deadline because Lufthansa's most recent proposed antitrust remedies were worse than those the German airline previously offered.

Separately, Lufthansa said Thursday it aims to wring €1 billion ($1.41 billion) in savings from its passenger airline business by the end of 2011 in a bid to contain losses, Christoph Franz, head of Lufthansa's passenger airline operations, wrote to employees Thursday. Only last month, the carrier said in an investor presentation it had introduced measures, including capacity reductions, to save €300 million this year.

The new cost-cutting measures, which aim to ensure the airline's long-term competitiveness, will be detailed and introduced soon, a spokeswoman said. Lufthansa also said it plans to review deliveries of new aircraft. It won't delay orders scheduled for delivery this year, but couldn't rule out changes in plans for 2010, the airline said. Between 2008 and 2014, Lufthansa's passenger airlines business has to finance 160 new planes valued at about €16 billion.

Lufthansa is battling with a decline in passenger travel and, more important, according to Mr. Franz, an even sharper drop in the average revenue it generates per passenger as business travelers trade down to economy-class tickets.

"We are not earning enough to cover costs in the present year," Mr. Franz wrote. "Unless market conditions change, our losses will increase significantly in the coming year, owing especially to the rise in fuel prices."

In the medium term, Lufthansa wants to handle administrative tasks in the passenger business with 20% fewer staff, said Mr. Franz.

Last month, Lufthansa issued a profit warning, saying it was working to avoid a full-year operating loss. Earlier this year it had forecast a "distinctly positive" operating profit. In addition to weak demand, higher fuel prices contributed to the deterioration in outlook, and Lufthansa subsequently raised its full-year fuel-cost estimate to €3.55 billion from €3.4 billion.


Lufthansa said it is stepping up its cost-cutting efforts to contain losses in its passenger business. A Lufthansa jet, above, stood at Berlin's Tegel airport in 2006.

For the first quarter, the German flag carrier posted an operating loss of €44 million. First-half figures due out at the end of the month will show the negative trend continued, Mr. Franz wrote in the staff letter.

The savings plan indicates that demand could remain weak longer than it had previously forecast.

# Apple blocks Palm's Pre phone from iTunes store

By Ben Charny

**Apple** Inc. released an update to its iTunes software that blocks rival **Palm** Inc.'s Pre smart phone from accessing the online store.

Apple's online music and video bazaar now "disables devices falsely pretending to be iPods," which includes Palm's Pre, an Apple spokesman said. Apple regularly updates its iTunes software and users are prompted to download the new versions when they visit the site.

The Pre smart phone has been able to access iTunes since going on sale in the U.S. in early June. But it was always unclear whether the Pre was doing so with Apple's permission.

The development is a setback for Palm, which is counting on Pre sales to turn around the company. With the move, Apple has dramatically limited one of the Pre's competitive advantages: it's ability to download music and videos from iTunes much like an iPhone or iPod.

"If Apple chooses to disable media sync in iTunes, it will be a direct blow to their users who will be deprived of a seamless synchronization experience," Palm spokesman Lynn Fox said.

# Marriott profit sinks as slump in lodging lingers

By A.D. Pruitt

NEW YORK—**Marriott International** Inc.'s dour second-quarter earnings suggest a recovery in the embattled lodging industry isn't yet in sight.

The company reported Thursday that its quarterly earnings fell 76% amid weak lodging and time-shares demand. Although the report beat analysts' estimates, the company said it expects third-quarter revenue per available room to decline 20% to 23% in North America and 22% to 24% elsewhere.

Marriott "sets the bar for the outlook to decline," for the industry, said Chris Woronka, an analyst at Deutsche Bank. "Marriott tends to be the bellwether," he said. "I can't imagine the other [hoteliers] saying something dramatically different."

**Hotels have been cutting costs, but that strategy could soon lose its effectiveness.**

All types of hotels have been cutting costs, including work-force reductions, as tumbling occupancy and room rates have left some hotel companies without enough cash to cover expenses. Time-shares, a former industry profit center, are also suffering.

In wake of the earnings report, Marriott's shares declined 6.2% to $20.44 in 4 p.m. trading on the New York Stock Exchange. Other hotel companies also traded lower: Starwood Hotels & Resorts Worldwide Inc.'s shares declined 2.8% to $21.14, and Host Hotels & Resorts Inc. slipped 1.9% to $8.33.

Hotel companies have been able to offset pressures by steep cost cuts, but that strategy could soon lose its effectiveness, said Keefe, Bruyette & Woods Analyst Smedes Rose, adding "there is only so much they can do."

For the full year, Marriott expects revenue per available room, or revpar, to decline 17% to 20% globally. Revpar fell 24% in the second quarter, including a worse-than-expected 21% drop in North America.

Marriott, which operates and franchises hotels under the Marriott, Ritz-Carlton, Residence Inn and Courtyard brands, is coming off two straight quarters of losses. Its credit ratings have been hurt amid forecasts the industry downturn will be deep and continue into next year.

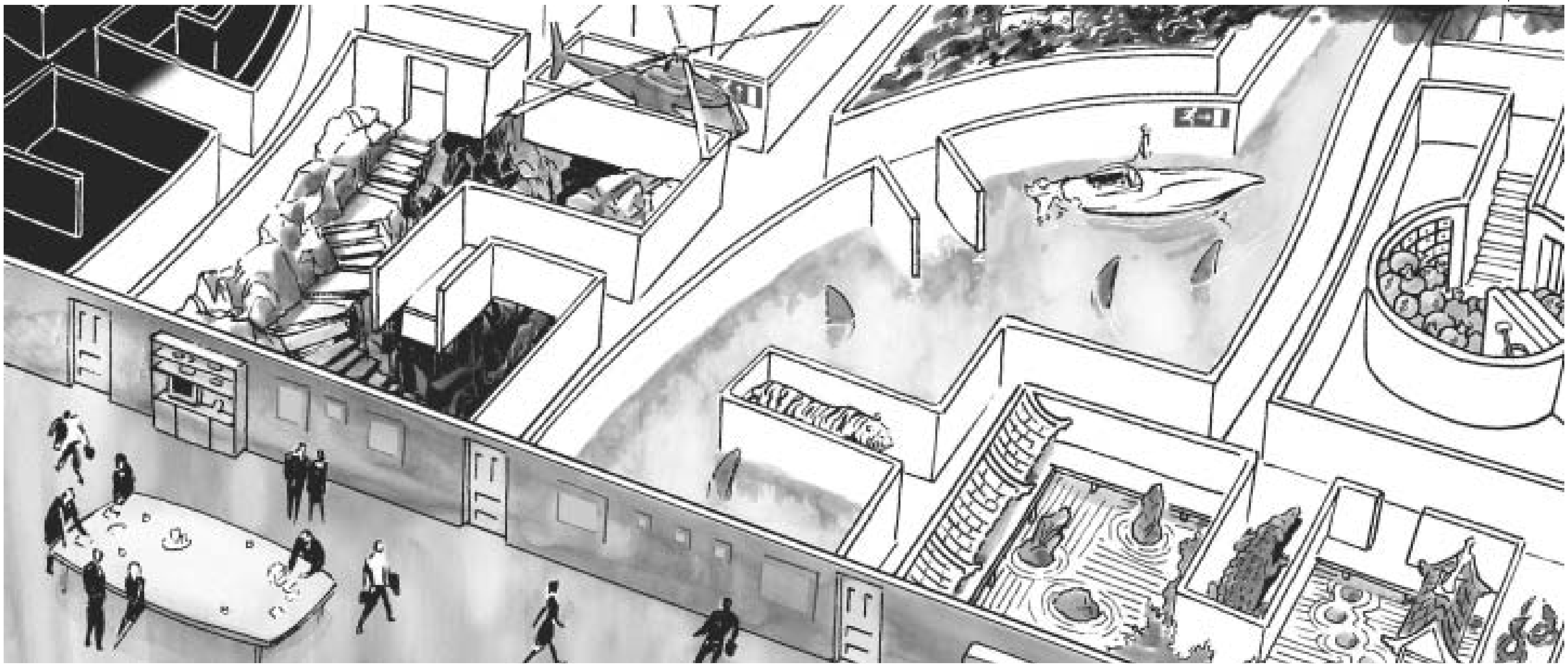
The company reported a second-quarter profit of $37 million, or 10 cents a share, down from $157 million, or 42 cents, a year earlier. Excluding restructuring and other charges, earnings fell to 23 cents from 52 cents. Revenue dropped 20% to $2.63 billion. Analysts polled by Thomson Reuters most recently were expecting $2.52 billion.

J.P. Morgan analyst Joseph Greff said that on a positive note, Marriott kept its domestic revpar guidance, which the lodging companies haven't done in several quarters. This could be "an indication perhaps of stabilization of domestic trends, at very low levels, and perhaps more confidence on the part of [Marriott] in overall visibility and in pricing/volume booking trends," Mr. Greff wrote.

SPECIAL ADVERTISING SECTION

# HIGH PERFORMANCE

Christopher Serra



# The right choices can prepare companies for a rebound

By **Catherine Bolgar**

WHAT divides the winners from the losers in a recession? For many companies operational excellence is the key.

This conclusion comes after years of research on thousands of companies conducted by Accenture, the global management consulting, technology services and outsourcing company, undertaken as part of its continuing High Performance Business research. Even outside of a recession, operational excellence is a major differentiator when it comes to business results, the company has found.

Operational excellence means an organization is doing more with less, doing it right every day — from supply chain to customer relationships — and beating the competition with superior operations using its people, assets and technology to compete more effectively in the marketplace, explains Narendra Mulani, Chicago-based co-leader of the Operational Excellence Initiative at Accenture.

Operational excellence is even more important today, as businesses, already strained by heightened competition of globalization, now are pummeled by the global slowdown.

"It's not just how you survive, but how you position yourself for the rebound," says Trevor Gruzin, also co-leader of Accenture's Operational Excellence Initiative, speaking from Sydney. "Companies can use this opportunity to put more daylight between themselves and their competitors."

Certainly, some highly distressed companies today just want to survive, or get dressed up for a sale. Others are suffering less but working to stay relevant, while a third category is actually doing well.

Accenture also divides responses into three categories, or journeys: continuous improvement; targeted intervention; and transformation. The best approach isn't linked to the financial condition of the company but rather its culture and DNA. Some companies are used to constant improvement efforts as with the Six Sigma process (which seeks to improve the quality of output of a business or manufacturing process by identifying and removing the cause of defects); others prefer one big program to completely overhaul a part of the business. This DNA extends to entire industries. Banks tend to go with targeted intervention, retailers with continuous improvement, consumer-products makers with transformation.

"Any of the journeys can get you there," Mr. Gruzin says. "The most important thing is to choose one and not try to do them all simultaneously."

## Continuous improvement

Continuous improvement is best-suited for companies with a federated model, Mr. Mulani says.

Regus PLC, the world's largest provider of outsourced workplaces, is federated by the necessity of operating more than 1,000 business centers in 75 countries from Chertsey, U.K. "The central role is clear but limited," says Rudy Lobo, chief operating officer at Regus.

Regus has opted for many changes in easy-to-digest sizes. Ideas come out of the field to a virtual head office made up of the top regional executives, who are based in Dallas, Paris, Hong Kong and Chertsey. This virtual head office works with a small "Smart Working" team to challenge and choose the ideas. The Smart Working team then researches and documents the changes, puts them through a trial feedback loop and prepares them for rollout. The system allows for rapid decision-making and execution, Mr. Lobo says, while maintaining consistency and high standards across its sites.

Regus wanted to reduce costs while improving its brand image and team morale — "things that don't always work together," Mr. Lobo says. The Smart Working team found key administrative tasks that occurred in all locations. These tasks were moved from the individual business centers and into four shared-service centers.

Meanwhile, Regus shifted from hiring administration-oriented business graduates to people-oriented sales experts, which has raised customer satisfaction. The change was possible because the shared-service centers do the paperwork, providing each business center a daily report of activities to expect, such as which customers will be using the business center or what kind of maintenance will be performed.

Another change Regus undertook was to flip the way it looks at inventory. It previously calculated how much of its space was occupied; now it looks at what is unoccupied, so employees can work on selling that space.

Regus expects net cost savings of £75 million (€86.7 million) a year when these changes are installed at all its business centers.

Amid the downturn, Regus has been quickly changing its product line, adding flexibility and choices for customers.

"Companies can use this opportunity to put more daylight between themselves and their competitors."

"Regus has done a lot of continuous improvement to quickly react to a changing marketplace," says Nate Bennett, professor of management at the Georgia Institute of Technology in Atlanta and author of "Riding Shotgun: The Role of the COO." Regus's changes have focused "on how customer needs are changing and how to realign the product."

## Transformation

At the other end of the spectrum from incremental change is an all-out business overhaul, usually driven from the top down.

In the late 1990s, Whirlpool Corp. made the strategic decision to be a branded consumer products company, rather than an appliance maker. That led to a company-wide transformation program focusing on design. Chuck Jones, vice president of global consumer design, took over the responsibility of global design in 1999 and led the transformation. The first stage was to establish design as a discipline within the Benton Harbor, Michigan, company — previously, products were designed by engineering and manufacturing departments. The next phase, between 2003 and 2005, focused on consistency of the quality of design, so that a Whirlpool refrigerator, for example, delivered branded coherence and consistency around the globe. The third phase is under way, as Whirlpool refines its design skill set and builds a design ecosystem, incorporating design into every step of every product as well as the elements surrounding the product — the entire user experience.

The company's KitchenAid stand mixer is an example of the tangible results. When Whirlpool bought the brand in the late 1980s, it sold some 200,000 mixers a year, Mr. Jones says. Whirlpool's designers didn't change the physical shape of the product — nearly the same as the 1930s original — but the colors and finishes, while retaining the unique KitchenAid sensory experience. The company now sells 250,000 mixers a quarter, and the mixer has attracted collectors, fan bases and blogs.

The transformation also led Whirlpool into new territory, such as its Gladiator Garage Works line, which started with a workbench, then added a matching refrigerator and a whole line of products for organizing the garage or basement. The innovation opened up Whirlpool, whose products tend to be bought mostly by women, to a bigger male audience.

## Targeted intervention

Between the incremental change of continuous improvement and the massive scale of transformation lies targeted intervention, where a company sees that a big change in just one area of its business can improve overall performance, says Mr. Mulani of Accenture.

Like Regus, Express Scripts Inc., a pharmacy benefits manager (a company that administers prescription drug programs on behalf of insurers), uses a small group, called the Leapfrog team, to evaluate change ideas that present opportunities in the $1 million to $10 million range. It first tests changes with a pilot pharmacy before rolling it out, franchise-style, across the company.

Express Scripts tends to undertake a few, big projects at a time, many to assimilate the company's steady stream of acquisitions. "We've grown 20% a year for the last six years," says Patrick McNamee, chief operating officer at the St. Louis-based company. "Acquisitions are how we grow and how we manage change."

For example, Express Scripts puts acquired members into its system immediately. Other companies keep legacy systems at acquired businesses, leading to multiple systems. "Our rapid changeover makes us more nimble, more efficient and it saves money," Mr. McNamee says.

Express Scripts is constantly looking for ways to "revamp key processes to take out big costs and improve productivity," he adds.

The company receives 40 million mail order prescription requests a year (mail order prescription drugs are increasingly popular among U.S. consumers, as they are usually cheaper and more convenient than their walk-in pharmacy counterparts). Each step — from scanning the requests, data entry, processing the packages and verification — holds opportunities for error. "We asked the Leapfrog team to spend time thinking about how to improve those variables and processes," Mr. McNamee says.

In each case, the companies have clear governance rules about who is accountable for a change, who provides inputs and how progress is measured, says Accenture's Mr. Mulani.

"In order to achieve high performance, organizations need to retune their operating model not only for a downturn, but taking into consideration how competitors will act," he says.

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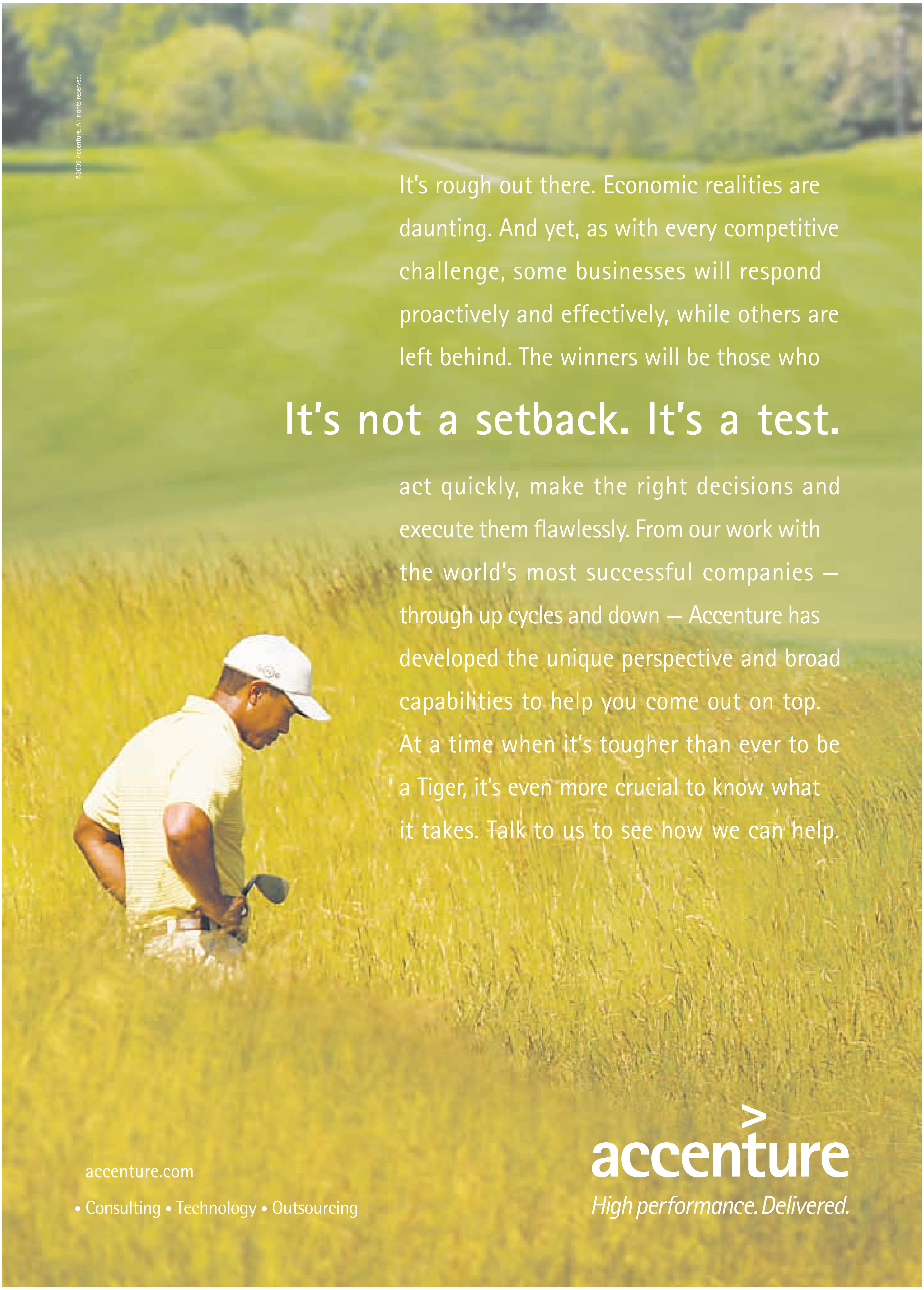
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It's rough out there. Economic realities are daunting. And yet, as with every competitive challenge, some businesses will respond proactively and effectively, while others are left behind. The winners will be those who
It's not a setback. It's a test.
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## CORPORATE NEWS

# Airlines log more declines

*Premium ticket sales in a 12-month slide, according to IATA*

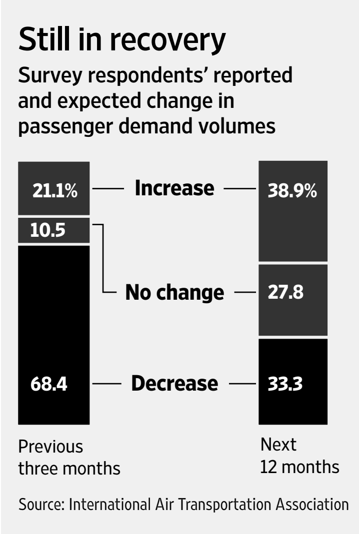
BY KAVERI NITHTHYANANTHAN

LONDON—The International Air Transport Association said Thursday that a fresh drop in passenger numbers in May raises doubts that the travel slump is bottoming out. In addition, the trade group's latest business-confidence survey shows many of its member airlines are pessimistic about future profitability.

IATA said the stabilization seen earlier in the number of passenger kilometers flown now appears to be due to a small rise in the average distance flown—because of a change in geographical patterns of where people travel—and doesn't signal a stabilization in passenger numbers.

The group, which represents about 230 global airlines comprising 93% of scheduled international air traffic, said the number of passengers traveling on premium tickets in May was down 23.6% from a year earlier. That's slightly steeper than the 22% annual drop for April. Premium travel, which includes first-class and business-class tickets, has now fallen for 12 consecutive months.

Economy-ticket travel fell at a slower pace, declining 7.6% in May from a year earlier. Economy travel showed a rise on flights from Europe to the Middle East and the Middle East to East Asia. However, IATA said the trend "may represent a shift by business travelers to the back of aircraft and a larger market share of Europe to Far East markets being gained by Middle Eastern airlines rather than any sign of travel demand revival."




Markets with growing economies showed signs of increased travel. The African cross-border markets, along with China's domestic travel, both showed premium travel up 1.1% in May, IATA said.

IATA's Quarterly Business Confidence Survey showed Asian airlines remain more optimistic than their counterparts from Europe and the Americas about the outlook for profitability over the next 12 months, IATA said. But it added that "even the optimistic respondents don't see significant recovery before the fourth quarter this year and others not until early 2011."

Carriers face uncertainty around the timing of a recovery, and the benefits of lower fuel prices have now been outweighed by other factors, such as passengers trading down to less-expensive seats.

A third of respondents expect demand over the next 12 months to fall further, while just below 40% expect an improvement.

Lower fuel surcharges, swine flu and passengers trading down to economy seats from premium class have all reduced airlines' yields, a measure of revenue per passenger. However, an even bigger threat to yields is airlines' struggle to cut capacity in line with waning demand.

Capacity cuts are coming at about half the rate of declining traffic, IATA said. About half of airlines expect further yield declines over the coming 12 months, while 31% expect some improvement.

More than 60% of respondents said they had cut back on employment over the past quarter, twice the number compared to the survey in April. Only 8% of airlines plan to take on more staff in the coming year.

# Rio Tinto tells foreigners on its staff to leave China

BY CHUIN-WEI YAP AND GORDON FAIRCLOUGH

BEIJING—Anglo-Australian mining company **Rio Tinto** has asked its foreign staff to leave China or not return to the country after four of its employees were detained earlier this month and accused of stealing state secrets, a person familiar with the situation said.

The alleged espionage case—which authorities say involved the payment of bribes for information related to iron-ore pricing negotiations between Chinese steelmakers and miners—has raised fears that others connected to the talks could also face legal jeopardy. Rio Tinto says it isn't aware of any misconduct by its employees.

The case has sparked increasingly heated comments by U.S. and Australian officials who say China's handling of the case will be watched and judged abroad, and Chinese officials, who say China is defending the country's economic security.

On Thursday, Chinese Foreign Ministry spokesman Qin Gang criticized what he called "noise" from Australia about the detentions, which include an Australian citizen who heads the company's iron-ore operations in China. "We absolutely oppose anyone stirring up this case or attempting to interfere in China's judicial independence," he said, adding that such actions wouldn't be "in Australia's interest."

Australian Prime Minister Kevin Rudd said Tuesday that the well-being of a citizen is in the country's national interest. Mr. Qin's comments directly followed remarks by Australia's foreign minister, Stephen Smith, that China should consider the potential fallout of the detentions.

"China itself does need to think about whether its handling of this matter has any adverse implications for it," Mr. Smith said in Sharm El Sheikh, Egypt, where he was expected to meet with China's vice foreign minister on the sidelines of a meeting of non-aligned nations.

Chinese authorities have made few public comments about the case and have leveled no formal charges. Mr. Smith called on Beijing to provide "more detail about Mr. Hu's case and the circumstances surrounding his detention."

The person familiar with Rio Tinto's move to get foreign employees out of the country said most non-Chinese nationals working at its China operations were on holiday when Mr. Hu and three other colleagues were detained July 5.

It isn't clear if all its foreign staffers in China at the time have since left. Also unclear, the person said, is when Rio might consider allowing its foreign employees to return.

"We still have a number of staff in China," said Nick Cobban, a London-based spokesman for Rio Tinto. The company wouldn't comment further on the movements of its employees.

Meanwhile, China pressed Australia's largest film festival not to show a documentary about exiled Uighur leader Rebiya Kadeer in the wake of ethnic conflict between Turkic-speaking and predominantly Muslim Uighurs and China's majority ethnic group, Han Chinese.

Police said a July 5 protest in the northwestern city of Urumqi by Uighurs, responding to the killing of two Uighur factory workers in southern China, turned into attacks on Han Chinese. Han Chinese then retaliated. The official death toll now stands at 192, at least two-thirds of whom were Han Chinese.

China has blamed Ms. Kadeer and the World Uyghur Congress, which she leads, for inciting the violence, an accusation Ms. Kadeer has denied. Mr. Qin, the foreign ministry spokesman, said, "We resolutely oppose any foreign country providing a platform for her anti-Chinese, splittist activities."

# Electrolux rebounds on cost cuts

BY IAN EDMONDSON

STOCKHOLM—Appliance maker **Electrolux** AB reported a sharp rise in second-quarter net profit Thursday, after restructuring costs weighed on year-earlier results, and said the U.S. market was showing early signs of recovery.

Net profit jumped to 658 million Swedish kronor ($84.8 million) from 99 million kronor a year earlier, when it booked restructuring costs of 539 million kronor. Savings initiatives and lower raw-material costs pushed up the bottom line.

Higher prices for Electrolux's products and the weakness of the Swedish krona against the dollar and euro, meanwhile, helped lift revenue 7.4% to 27.48 billion kronor from 25.59 billion kronor.

The company reaped benefits from a shift in production to lower-cost countries, where it has increased efficiencies and lowered its purchasing and product costs. Electrolux launched a restructuring program in 2004 that aims to save 3 billion kronor in annual costs. In December, it said it would lay off more than 3,000 staff, or about 5% of its work force.


Bloomberg News

Higher prices for Electrolux's products helped boost revenue. Above, Electrolux kitchen ranges on display at an appliance store in Garner, N.C., in March.

Most of the company's main markets for appliances continued to show a decline in the second quarter of 2009, Electrolux said. "There are no indications of an immediate improvement in any of the group's main markets, and, therefore, market demand for appliances around the world is expected to decline further in 2009."

Still, Electrolux said it had gained market share in North America, Latin America and Australia. "In North America we see certain early signs that we are beginning to reach the bottom," Chief Executive Hans Straaberg said in a statement.

Even though the number of fridges, dishwashers, vacuum cleaners and other products the company delivered in North America fell 14% in the second quarter, the decline was an improvement on the 16% drop recorded in the first quarter. Electrolux—one of the world's largest manufacturers of household appliances after Whirlpool Corp. —owns the Electrolux, AEG-Electrolux, Zanussi, Eureka and Frigidaire brands.

Shipments to North America have fallen for 12 consecutive quarters, and in Europe for six quarters. The two markets account for almost three-quarters of Electrolux's sales.

The Swedish appliance maker's cautiously optimistic comments on the U.S. offer further evidence that the worst of the recession in the world's biggest economy might be over. That sentiment was echoed by handset maker Nokia Corp., which Thursday said a slump in demand appeared to "bottoming out."

Investors cheered the results, despite the cautious outlook, and shares were up 9.2% in Stockholm. The value of the stock has more than doubled in the past six months to trade at its highest level since October 2007.

**International Investor**

## Swimming to court

*Indonesian shrimp producer faces off against overseas hedge funds* > **Page 25**

# Aegis names finance chief as its board reorganizes

BY RUTH BENDER

**Aegis Group** PLC Thursday named Nick Priday to be its finance chief, as the U.K.-based advertising and marketing company completes its board and management reshuffle.

Mr. Priday, who has held a variety of finance roles at Aegis since 2003, will take on the post of chief financial officer on Sept. 1. He succeeds Alicja Lesniak, who is retiring from Aegis in October. Mr. Priday wasn't immediately available for comment.

Aegis also said it appointed John Brady, Simon Laffin and Martin Read as nonexecutive directors.

"These appointments complete the major part of the reorganization of the Aegis board," John Napier, the company's chairman and interim chief executive, said in a statement.

The recent management changes come at a time when Aegis is struggling because of depressed advertising markets as companies curb media budgets amid the economic downturn. Aegis in May reported a 12% drop in first-quarter organic revenue, which strips out acquisitions, disposals and currency fluctuations.

Aegis has notably suffered client losses at Aegis Media in the U.S., and analysts say the company is more vulnerable to the downturn than bigger rivals such as **Publicis Groupe** SA or **WPP** PLC. In the past, Aegis has also faced pressure from its largest shareholder, French industrialist Vincent Bolloré, who has a 29.9% stake in Aegis and is also the controlling shareholder of French advertising group **Havas** SA.

Mr. Bolloré, who said on several occasions that a tie-up of Aegis and Havas would make sense, unsuccessfully tried to secure board representation at Aegis in the past. Since Mr. Napier took over Aegis's helm this past November, the relationship with Mr. Bolloré seems to have improved as the French investor recently said he is satisfied with Aegis's new management.

Aegis's management has undergone a series of changes in the past 18 months. In November, Chief Executive Robert Lerwill left the company following what was believed to be a fallout with the board. Earlier last year, Aegis edged out the previous head of Aegis Media, Mainardo de Nardis, three weeks after the chief executive of Aegis Media Americas, David Verklin, said he would leave.

# CORPORATE NEWS

## Mazda in talks with Toyota over hybrid cars

BY YOSHIO TAKAHASHI

TOKYO—**Toyota Motor** Corp. and **Mazda Motor** Corp. are in talks over the supply of components of Toyota's hybrid system to its smaller rival, a person familiar with the matter said.

The talks underscore Toyota's dominance of the hybrid market, with its patents on more than 2,000 systems and components proving attractive for rival companies who find it hard to develop their own hybrid systems quickly and cost effectively.

It remains uncertain whether the two companies will reach an agreement, the person familiar with the situation said.

If a deal is reached, Mazda will join **Ford Motor** Co. and **Nissan Motor** Co. as users of Toyota's hybrid technology in their own fuel-efficient models.

The president of **Fuji Heavy Industries** Ltd., the maker of Subaru-brand cars, said in May that the company also aims to roll out a hybrid model by 2012 using Toyota's hybrid system. Toyota holds a 16% stake in Fuji Heavy.

Toyota's talks with Mazda, in which Ford holds a 14% stake, come as major car makers are scrambling to develop more fuel-efficient cars as emission regulations become stricter in key markets.

But this is a tough task for many companies to face alone, as they cut back on research and development operations amid an industry-wide slump due to the economic downturn.

For Toyota, which enjoys strong demand for its redesigned Prius hybrid, a potential tie-up with Mazda could help reduce the cost of its hybrid system through increased production volumes, helping it to maintain its position as the world's number one maker of hybrid vehicles.

Mazda, which has so far lagged behind in the race to offer advanced fuel-efficient cars, would be able to roll out a low-emission model in a shorter time by using Toyota's technology.

It is unclear how closely Mazda will cooperate with Ford in developing its own hybrid technology, after the U.S. car maker last year sold part of its then 33.4% stake in Mazda.

The Hiroshima-based car maker currently sells in California a hybrid sport-utility vehicle powered by Ford's system, and leases to customers in Japan a hybrid minivan that runs on either hydrogen or gasoline.

In the near term, Mazda is focusing on improving the fuel-efficiency of its combustion engines, and has no plans to launch electrified cars before the targeted launch of its new hybrid car around 2012.

**News In Depth**

### In-house struggle

*U.S. program tries to help mortgage firms keep people in homes* > **Pages 16-17**

# GLOBAL BUSINESS BRIEFS

### Carrefour SA

**Sales fell 1.2% in quarter as demand remained tepid**

**Carrefour** SA reported a 1.2% drop in second-quarter sales as the French retailer continues to struggle to revive demand in its key European markets. The world's second-largest retailer after **Wal-Mart Stores** Inc. posted sales of €23.44 billion ($33.07 billion) for the three months ended June 30, down from €23.72 billion a year earlier. Carrefour is focusing on sales growth and a cost-savings program to steer the company through the economic slump, which is hitting retail consumption across Europe. Chief Executive Lars Olofsson, who joined Carrefour in January, said, "The strategic initiatives that we are implementing should show positive results in the second half.

### Rémy Cointreau SA

French drinks company **Rémy Cointreau** SA Thursday said it will focus on investment and developing its major brands this year as it reported a 7.5% drop in revenue in the first quarter ended June 30. Revenue fell to €138.6 million ($195.5 million) from €149.9 million as customers continued to reduce their stocks at the beginning of the quarter, Rémy Cointreau said. Chief Executive Jean-Marie Laborde said June 10 that the customer destocking trend should end in the next two to three months. Rémy Cointreau didn't provide any forecast for the full year. The Champagne division, which produces brands Piper-Heidsieck and Charles Heidsieck, reported a 39% fall in sales to €13.6 million. Sales in its largest division, cognac, fell 4.5% to €63.7 million.

### Alstom SA

Power-station-equipment and train maker **Alstom** SA posted a 6.8% rise in sales for its fiscal first quarter but said orders fell 27% as customers delayed investment in power plants and transport equipment. Sales rose to €4.81 billion ($6.79 billion) for the three months ended June 30 from €4.5 billion a year earlier as the company worked through its order book. However, the value of new orders dropped to €4.77 billion from €6.55 billion a year earlier. Since Alstom works with a large backlog of orders—which stood at €46.6 billion on June 30, equating 29 months of sales—new orders are the key variable for the company. Alstom, whose products include turbines for power stations and high-speed trains, said it nevertheless still expects a full-year operating margin of about 9%.

### Lloyds Banking Group PLC

**Lloyds Banking Group** PLC said Thursday it will cut 1,440 more jobs to reduce costs and consolidate operations after the government-backed merger of Lloyds TSB and Halifax/Bank of Scotland. Lloyds, whose biggest shareholder is the British government, said 650 jobs would go by the first quarter of next year. It said 180 staff would move to new positions and 370 agency and contract staff would be cut in its group operations and insurance divisions. In addition, Lloyds's insurance division is cutting 240 positions as it merges its Scottish Widows pensions and Clerical Medical onshore and offshore investment products into a single Scottish Widows brand.

### Barclays PLC

**Barclays** PLC tapped Sir Richard Broadbent as its deputy chairman to succeed Nigel Rudd, who stepped down in April. Sir Richard was chairman of the remuneration and risk committees of the Barclays board, and has been on the board for six years. Mr. Rudd stood down at the bank's annual general meeting in April after nearly 13 years as a director. By turning to foreign investors and asset sales, Barclays has managed to sidestep government intervention. In June, it agreed to sell its Barclays Global Investors unit to BlackRock Inc. for $13.5 billion. The bank last year raised £4.5 billion ($7.39 billion) through a partial placement with Asian and Mideast investors, £701 million to help pay for the acquisition of Lehman Brothers Holding Inc.'s North America investment-banking operations, and placed £7.3 billion with Middle East investors.

### Harley Davidson Inc.

**Harley-Davidson** Inc.'s second-quarter earnings fell 91%, and the U.S. motorcycle maker announced 1,000 more job cuts and again reduced its forecast for shipments. The company said it would lay off 700 hourly production workers and 300 nonproduction, mostly salaried, employees. It said it now expects to ship 212,000 to 228,000 motorcycles this year, compared with April's estimate of 264,000 to 273,000. The company already had cut 1,400 jobs this year. Second-quarter profit came to $19.8 million, or eight cents a share, down from $222.8 million, or 95 cents a share, a year earlier. The latest period included $101.1 million in write-downs and charges. Revenue decreased 27% to $1.15 billion.

### Infineon Technologies AG

German computer-chip maker **Infineon Technologies** AG said Thursday that sales for its fiscal third quarter fell 18% as customers placed fewer orders. Sales dropped to €845 million ($1.19 billion) for the quarter ended June 30 from €1.03 billion a year earlier, but were up 13% from €747 million in the previous quarter. The figures were disclosed in a prospectus detailing plans to raise €725 million in capital by issuing 337 million new shares between July 20 and Aug. 3. Last week, the company said Apollo Global Management LLC agreed to acquire about 326 million of the shares, which will be issued at a subscription price of €2.15. After the rights issue, New York-based Apollo is expected to hold a stake of between 15% and 30% minus one share in Infineon.

### Research In Motion Ltd.

BlackBerry maker **Research In Motion** Ltd. agreed to pay $267.5 million to closely held **Visto** Corp. to end a long-running patent dispute. In exchange for the payment, RIM will receive a perpetual and fully paid license on all Visto patents and the transfer of certain Visto intellectual property. The settlement is expected to be completed next week. Visto is the parent of Good Technology, a mobile email provider that filed its patent suit against RIM in 2006. RIM expects to expense the majority of the Visto payment as an unusual item in its fiscal second quarter, with the remainder being classified as an intangible asset. It marks the second large patent settlement from RIM, which in 2006 agreed to pay NTP Inc. $612.5 million to resolve a separate patent dispute.

*—Compiled from staff and wire service reports.*

# Moderate lawmakers hold key in U.S.

*Success of health-care and climate bills depends on making them appealing to a group of centrist senators*

By Gerald F. Seib

CAPITAL JOURNAL

U.S. Sen. Blanche Lincoln of Arkansas, a moderate Democrat, may have been surprised this week to discover that a television commercial was airing in her state, urging constituents to call her office and pressure her into voting for the big health bill working its way through

Such ads from outside groups or a lawmaker's political opponents aren't unusual, of course. In this case, though, the ad was being run by Ms. Lincoln's own national Democratic Party—specifically by a branch of the Democratic National Committee that was formed to keep alive the political network President Barack Obama built up during last year's campaign.

And Ms. Lincoln wasn't alone. The same ad was run in Indiana, Florida, Louisiana, North Dakota and Nebraska, all home to moderate Democratic senators who may be wavering on the big health legislation. The ad also went up in Ohio and Maine, home to three moderate Republican senators.

The DNC ad was an implicit acknowledgment that the balance of power in determining the course of events—and the fate of the Obama agenda—now lies with about a dozen centrist senators, a few of them Republicans but most Democrats. Much as former President George W. Bush once declared that he was the ultimate "decider," so too will these senators from the center be the deciders, determining what happens and how.

In particular, on the two big items of debate—a new national health plan and a cap-and-trade system to reduce greenhouse gases—these senators will have an outsize voice on how big and expensive the legislation will be, whether it will be bipartisan, and, indeed, whether there will be enough votes to pass the bills at all. In sum, they have the voices that will matter most in the legislative game's closing minutes.

Indeed, in a sign of that leverage, Mr. Obama met privately Thursday with two of the Dozen Deciders, Democrat Ben Nelson of Nebraska and Republican Olympia Snowe of Maine.

These senators matter so much because of the legislative dynamic of the capital, circa 2009, which was established during the great debate over an economic-stimulus package early in the year, and which now seems locked in. Provided House leaders can keep enough conservative Democrats there on board for health and climate legislation—a task that got a little tougher after the Congressional Budget Office on Thursday gave another gloomy analysis of the cost of current health bills—the House seems likely to push through legislation with almost exclusively Democratic votes. The result is that House versions of both health and climate-change legislation almost certainly will be to the left of what the Senate can tolerate—and perhaps to the left of what the White House really wants.

Then the question will be how far the Senate can pull the bills back toward the center. Democrats now claim 60 votes in the Senate—the bare minimum needed to cut off a Republican filibuster—so without moderates' support, climate-change legislation won't pass at all. It's possible, using budget maneuvering, to pass some version of health legislation with a simple 51-vote majority, but it's hard to find anybody in the Senate who likes the idea of passing such big legislation that way.

So the moderates have power—but toward what end? In general, they want to reduce the 10-year, $1 trillion price tag of the House health bill, and they surely don't like the idea of paying for the whole thing with a surtax on wealthier Americans. "I would hope what the Senate would look at would be more of a mix" of revenue sources, says moderate Democratic Sen. Mark Warner of Virginia. In addition, moderates are looking for a bill with more focus on holding down health costs rather than one that puts its oomph behind expanding coverage to all Americans.

And on climate change, several of the moderates recently signed a letter to Senate leaders calling for, among other things, creating a "short-term cushion" that holds down costs for both industry and consumers while a cap-and-trade system is phased in; "price relief" for working families that would be hit with higher utility bills; and a provision protecting U.S. manufacturers if their foreign competitors don't have to live with similar limits on carbon emissions.

If this role for moderates sounds familiar, it's because almost precisely the same pattern prevailed when the stimulus bill was passed in February. For the Obama administration and its agenda, the good news there is that Senate moderates' pushing and pulling ultimately produced a stimulus bill that could win enough votes in the center to pass. The bad news is that nobody on either side was entirely pleased with the final product. Such is the cost of legislative production in Washington today.

### A Dozen Deciders

**Moderate Senators who together will have a big say in Washington's agenda for the rest of the year**

DEMOCRATS:

- **Evan Bayh**, Indiana
- **Kent Conrad**, North Dakota
- **Mary Landrieu**, Louisiana
- **Joe Lieberman**, Connecticut*
- **Blanche Lincoln**, Arkansas
- **Ben Nelson**, Nebraska
- **Arlen Specter**, Pennsylvania
- **Mark Warner**, Virginia
- **Jim Webb**, Virginia

REPUBLICANS:

- **Susan Collins**, Maine
- **Olympia Snowe**, Maine
- **George Voinovich**, Ohio

*Independent, but caucuses as a Democrat

Joe Lieberman George Voinovich

# Hard times are boom times for bloggers on economics

By Kelly Evans

Nail-biting financial trauma has millions flocking to a surprisingly lively source of enlightenment: blogs written by economists.

Traffic to the top sites, such as Marginal Revolution, Freakonomics and the blogs from academics such as Paul Krugman, Greg Mankiw and Brad DeLong, surged anywhere from 80% to 250% from July to September 2008 as the financial crisis intensified, according to Compete.com, a Web site that measures Internet traffic. The most popular blogs can attract as many as 50,000 to 100,000 page views a day.

"The 'Financial Crisis for Beginners' page is the most successful feature of our blog," says Simon Johnson, a professor at the Massachusetts Institute of Technology's Sloan School of Management. Mr. Johnson started his blog, Baseline Scenario, in September along with his brother-in-law James Kwak to build on the popularity of his blogging stint as chief economist of the International Monetary Fund, and to help people make sense of the unfolding crisis.

"I think there's a big market for explaining to people what the heck is going on in a global context," says Mr. Johnson. "Blogging can now be part of this portfolio you can do as an academic."

Blogging, in return, helps academics raise their profiles. "I make no money from my blog, but I do make money selling books," says Mr. Mankiw, a Harvard University economics professor who served as chairman of President George W. Bush's Council of Economic Advisers earlier this decade. His blog has received some 10.9 million visits since he started it as an extension of his academic work in March 2006.

He is also known for being a conservative voice in the typically polarized blog universe, which came of age under the Bush administration and led to the popularity of liberal voices like Mr. Krugman, a Princeton University economics professor and newly minted Nobel laureate who writes and blogs for the New York Times, and Mr. DeLong, an economics professor at the University of California, Berkeley, known for his rants against Republican policies.

The financial crisis has helped crystallize the ideological split between the liberal economists who favor government action and intervention in the economy and the conservatives who prefer a more hands-off approach. The result often pits Mr. Mankiw and other conservatives—such as Arnold Kling, an economist and scholar with the Cato Institute who writes for EconLog, or Megan McArdle, a self-described libertarian who blogs for the Atlantic—against Mr. Krugman or Mr. DeLong in fast-paced, high-profile arguments over health care, budget deficits and stimulus packages.

Jared Walczak, a 22-year-old legislative director for a Virginia state senator says he prefers the blogs that instead point toward interesting research and ideas, such as Marginal Revolution, which was started by two George Mason University economics professors and examines a wide range of topics from poetry to autism to ordering at ethnic restaurants. "It's very eclectic and always a source of something new," he says.

Marginal Revolution is one of the best-read economics blogs, attracting more than 23 million visitors since its launch in 2003. Its success has boosted the careers of its co-founders, Tyler Cowen—the general director of GMU's Mercatus Center, which is known as a bastion of libertarian thought—and Alex Tabarrok, a research fellow there.

"It's really changed my life," says Mr. Cowen of the blog, saying he gets several requests for speaking or writing engagements every day and has been recognized "eight or nine times in public—and I don't even go out that much!" He and Mr. Tabarrok also have a textbook for introductory economics due out soon—the collaboration that years ago sparked their blog in the first place.

While economics blogs have helped fill a craving for guidance to the recession, some of them also became popular for helping alert readers—from the layman to the sophisticated investor—to the looming financial crisis before it hit. One in particular, Calculated Risk—run by Bill McBride, a retired executive in California —is often cited as being particularly prescient in warning about the housing bubble and bust.

Fans of the blogs say reading them has not only helped them understand the economy, but has also helped them make improvements to their everyday life. Even those who majored in the subject, such as Nate Chenenko, 23, who works in Washington, D.C., as a government business analyst, say they have a new appreciation.

Mr. Chenenko recently decided to hire a moving company rather than take the weekend off from his part-time job operating a bicycle taxi around the capital. "I realized the opportunity cost of taking the day off would be greater than paying movers," he says, "and I'm not sure I would have thought of that if I wasn't consuming economics on a day-to-day basis."

*—Justin Lahart contributed to this article.*