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A Yemenia Airways A310 jet with 153 people onboard crashed en route to the Comoros Islands from Yemen after hitting bad weather. The accident is likely to raise fresh questions about the small carrier's patchy safety record. **Page 3**

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■ **Died: Pina Bausch**, 68, a choreographer of modern dance, in Germany.

EDITORIAL OPINION

Spreading the Gospel Carbon-dating St. Paul's remains has uplifted Catholics. **Page 13**

Breaking news at europe.WSJ.com

Euro-zone inflation slips

Falling energy costs, economic weakness contribute to push down prices

BY JOELLEN PERRY

FRANKFURT — Euro-zone inflation slipped into negative territory in June, highlighting the challenge European Central Bank policy makers face in balancing a mandate to contain price declines with their desire to hold off on more measures to ease the recession.

Consumer-price inflation in the 16 countries that share the euro currency fell 0.1% this month, down from May's flat reading, according to a Tuesday estimate from Euro-

pean statistics agency Eurostat. June's rate is the lowest since comparable records began in 1997. Economists at the Royal Bank of Scotland estimate inflation in Europe's economic heartland hasn't been as low since 1953.

The bulk of the June decline likely stems from lower energy prices, but economic weakness also is helping pull down prices. ECB policy makers, who are slated to meet Thursday, aim to keep annual inflation just below 2%. They have long warned that energy prices

would push the bloc's inflation rate into negative territory for a few months this summer. The central bank maintains that deflation—a prolonged decline in wages and prices—is unlikely, though some economists say the risk is rising.

Data out Tuesday underscore the grim state of the euro-zone economy, despite some recent signs of stabilization. Germany's seasonally adjusted jobless rate rose to 8.3% in June from 8.2% in May, according to the Federal Labor Agency. Government-sponsored salary sub-

sidies for employees working shorter hours have helped contain unemployment in Europe's largest economy, but economists warn waning global demand will spur mass layoffs and push the jobless rate above 10% by mid-2010.

Spanish house prices fell 7.6% in the first quarter of this year compared with a year earlier, the National Statistics Institute reported. Ireland's annual economic output slipped 8.5% in the first quarter of 2009, worse than

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At least 13 people die in Italian railway disaster



GRIM AFTERMATH: Firemen inspect burned cars of a freight train in Viareggio. On Tuesday, a rail car filled with liquefied natural gas exploded just outside the station in the coastal northern town, setting off an inferno.

China delays Web-filtering plan

BY LORETTA CHAO AND JASON DEAN

China's government delayed its controversial requirement that manufacturers include Web-filtering software in all new personal computers shipped to the country starting on Wednesday—a move that shows the challenges Beijing faces in its wide-ranging efforts to rein in the Internet.

The government's apparent retreat follows intense criticism of the software plan at home and abroad. The official Xinhua news agency late Tuesday quoted a spokesman for the Ministry of Industry and Information Technology, which announced the plan in early June, as saying that the government was responding to concerns of PC companies that they had too little time to prepare for Wednesday's deadline. "Based on this fac-



Customers surf the Web at a Beijing café on Tuesday, after China backed down from a move to rein in Internet use.

tual situation, postponing of pre-installation is allowed," the spokesman was quoted as saying. The report didn't say how long the delay could last,

and officials couldn't be reached for comment.

The Xinhua report made clear that the government isn't explicitly abandoning

the filtering software, which is called Green Dam-Youth Escort. "We will encourage PC makers who have already pre-installed the software to actively expand the market," the spokesman said, according to the Xinhua report, adding that the government is "adhering to our path" and plans to continue providing the software free online in schools and Internet cafes. "As for how to do pre-installation on other PCs, MIIT will further solicit opinions from various sides, perfect the plan, improve our methods, and complete the relevant work."

The delay provides relief for global PC companies. They had feared that implementing the rules would leave them open to legal liability and charges of abetting censorship—especially

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Iraq gives oil rights to group led by BP

BY GINA CHON

BAGHDAD—A BP-led consortium won the right to develop Iraq's giant Rumaila oil field in southeastern Iraq on Tuesday, but the country failed to strike any deals for the remaining seven oil and gas fields as other companies balked at contract terms.

The disappointing outcome raised questions about how quickly Iraq could rehabilitate its oil sector, which has suffered from years of war and neglect. The country relies on oil sales for more than 90% of government revenue, and Iraq has faced a budget crunch because of the fall in oil prices.

But Iraqi officials hailed the sole award for the Rumaila field, believed to have 17 billion barrels in oil reserves, because the ministry managed to get the BP group to cut its bonus in half. At the same time, that offer will boost oil output from the current 2.4 million barrels a day to more than four million barrels a day, which was the ministry's goal in awarding the bid round.

"We're very pleased with what we've got, but we'll wait to see what happens next," a BP spokesman said, alluding to criticism from some lawmakers who have questioned the legality of

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Inside



Game of chicken

Recession sparks a standoff at a Georgia poultry plant **News In Depth, pages 14-15**

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DJIA	8447.00	-0.97
Nasdaq	1835.04	-0.49
DJ Stoxx 600	205.83	-1.06
FTSE 100	4249.21	-1.04
DAX	4808.64	-1.56
CAC 40	3140.44	-1.67
Euro	\$1.4027	-0.23
Nymex crude	\$69.89	-2.24

LEADING THE NEWS

Sanofi restructures R&D amid drug-industry shift

BY JEANNE WHALEN

French drug giant Sanofi-Aventis SA said it will shed eight of its 27 research sites worldwide and seek more partnerships with outside biotech and academic labs as it tries to cut costs and improve its discovery of new medicines.

Sanofi said the overhaul won't involve layoffs, but the company is considering offering employees "voluntary departures." About 1,300 of Sanofi's 100,000 employees will be eligible for voluntary departure, the company said.

Paris-based Sanofi declined to say how much the restructuring will cost or how much it will save in the long run, promising more detail at the company's second-quarter-results presentation next month.

The changes mirror those at other pharmaceutical companies, which have been trimming their internal research-and-development structures and relying more on external labs to discover the next generation of drugs.

In recent years, many of the world's most innovative treatments have been developed by small biotech companies, which often strike partnerships with big pharmaceutical companies for help both putting the drugs through clinical trials and marketing them. Sanofi and its rivals are hoping to sign more of those deals.

"Tomorrow's research will be carried out through networks. We will be open to knowledge from outside sources," Marc Cluzel, Sanofi's head of R&D, said in a statement.

Sanofi grew into one of the world's largest drug companies through a series of acquisitions that have left it with too many R&D sites, a Sanofi spokesman said. Several of them are quite small, employing fewer than 200 people, and will be merged with larger sites, he said.

The company will close four

Pharmaceutical companies have been relying more on external labs.

sites in France and aim to divest itself of a fifth, he said. Three additional sites—in the U.K., Japan and Spain—will also be closed or divested, he said.

The new R&D structure will focus on diabetes, cancer, age-related disease, inflammatory disease and anti-infectives, the spokesman said.

Sanofi needs to boost its output of new drugs if it is to replace the sales of its older products, which are gradually losing patent protection and succumbing to competition from low-cost generics.

The company is waiting for the U.S. Food and Drug Administration to decide whether to approve one of Sanofi's most important new drugs—Multaq, for atrial fibrillation, a kind of irregular heartbeat. A decision is expected shortly.

Turkey's economy shrinks

Contraction of 13.8% in quarter makes IMF loan an option

BY CHRISTOPHER EMSDEN

Turkey's economy contracted 13.8% in the first quarter from the same period a year earlier, notching the country's worst performance in postwar history and prompting officials to focus on a possible loan from the International Monetary Fund.

The country's statistics office reported on Tuesday that the drop in gross domestic product was led by collapsing private investment, down 36%, and household spending, which fell 9.2%.

Some economists say the depth of the fall likely marks the low point for Turkey, where surveys show consumer confidence has been steadily rising in recent months on lower borrowing and fuel costs.

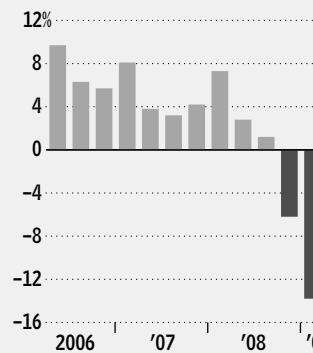
"The silver lining may be that the first quarter could be the trough of this recession," said Murat Berk, an economist for Unicredit.

Turkish GDP may decline 7% this year, almost twice the government's forecast of a 3.6% fall, said Goldman Sachs analyst Ahmet Akarli. The IMF has warned that Turkish GDP will contract 5% this year.

The first-quarter contraction

Contracting

Turkey's gross domestic product, change from previous year



Source: Turkstat

puts Turkey in a league with Europe's most crisis-ridden countries, Latvia and Estonia, whose economies contracted by respectively 18% and 15.1% in the first quarter.

The Turkish lira held up against the bad news, rising 0.6% against the U.S. dollar to trade at 1.517 lira to the dollar.

One reason for the resilience is that investors are becoming increasingly confident that Turkish Prime Minister Recep Tayyip Erdogan could soon drop his resistance to a new standby loan from the IMF, substantially bolstering the govern-

ment's finances. Mr. Erdogan said in Brussels Friday that his government was "very close" to signing a deal.

That has buoyed Turkish assets, said Timothy Ash, chief emerging-markets analyst at Royal Bank of Scotland. Turkish markets so far are reacting to the anticipated benefits of a presumed IMF program without yet factoring in the impact on the economy of IMF policy conditions on spending and monetary policy.

The sharp GDP drop will make the government "move toward the IMF's projections on the scale of the contraction in the real economy and increase optimism of a deal with the IMF," Mr. Ash said.

The recession has weighed heavily on Turkey's public finances. Public expenditure rose 5.7% in the first quarter from the same period a year earlier. But tax revenue dried up amid a 23% drop in industrial production and surging unemployment.

So far, the Turkish government has found ready buyers of its debt in local banks, who have benefited from handsome capital gains as the central bank aggressively cut interest rates, driving up bond prices.

But rate cuts are now beginning to slow, and private banks are competing against the government with handsome premiums to attract funds. This makes it more difficult to finance deficits, as a contracting economy drives down tax revenue and pushes up welfare bills.

Japan jobless rate rises to near 6-year high

BY TAKASHI MOCHIZUKI

TOKYO—Japan's jobless rate rose to its highest level in nearly six years in May as manufacturers continued to cut jobs despite improved conditions for the corporate sector.

The unemployment rate increased to 5.2% in May from 5% in April, the Ministry of Internal Affairs and Communications said Tues-

day. The reading was the highest since September 2003.

Despite positive signs coming out of Japan's corporate sector, including data Monday showing that industrial production rose for the third straight month in May, most companies appeared in no mood to hire workers because of expectations the economy won't recover to pre-financial-crisis levels in the near future. Companies are continuing to either lay off workers or hold off from hiring new employees, the data suggest. The jobless figures showed that 880,000 manufacturing jobs were lost in May, after a decrease of 630,000 jobs in April.

The jobs-to-applicants ratio fell 0.02 points to a record low of 0.44 in

May, meaning that only 44 jobs were available for every 100 people looking for work.

"We don't think firms will start hiring workers actively any time soon, despite the recent pickup in output, because the pickup is fairly moderate," a government official said at a news briefing.

The grim job market could increase consumers' pessimism and lead to reduced spending on worries about job security. That could weigh on prices, worsening deflation in the Japanese economy, some analysts said.

Yet, consumer spending data released Monday were better than expected. Spending by all Japanese households rose 0.3% in May from the previous year.

CORRECTIONS & AMPLIFICATIONS

Silvio Berlusconi is Italy's prime minister. An Economy & Politics article Tuesday about Iran's election recount incorrectly referred to Mr. Berlusconi as the president.

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LEADING THE NEWS

Yemenia plane crashes

France had banned jet that went down with 153 on board

BY DANIEL MICHAELS
AND STEFANIA BIANCHI

A Yemenia Airways Airbus A310 jetliner flying from Yemen to the Comoros Islands with 153 people on board crashed early Tuesday after hitting bad weather—an incident likely to raise fresh questions over the small Middle Eastern carrier's safety record.

Rescue teams found one survivor and retrieved "several" bodies from the Indian Ocean where the plane came down about 32 kilometers off the port of Moroni, the Comoros capital, a Yemeni aviation official told Yemen's official news agency, Saba. The survivor was a 14-year-old child, according to French news agency Agence France Presse.

The cause of the crash—the second in a month involving a plane made by Europe's Airbus—re-

mained unclear as rescue crews searched for more survivors and debris, including the plane's flight recorders, known as "black boxes."

Yemenia has a checkered safety record. The 19-year-old plane that crashed had been banned from landing in France as of 2007 because of safety lapses, and the carrier came close to landing on the European Union's "blacklist" of unsafe airlines the same year.

The EU in February separately suspended permission for the airline's maintenance operation to work on European jetliners. A spokesman for the European Aviation Safety Agency said the move was separate from any safety issues at the carrier itself. The spokesman said he didn't know the specific reasons for the suspension.

Yemenia's chairman, Abdulkalek Saleh Al Kadi, said the crash wasn't caused by safety lapses and that all Yemenia's planes are in "very good condition." "The plane crashed because of bad weather, not because of technical issues," Mr. Al Kadi said in an interview. He said the 19-year-old aircraft crashed because of "very

windy conditions" it encountered near landing.

The flight from Sana'a International Airport lost contact with controllers shortly before it was due to land in Moroni, officials said. It had 142 passengers and 11 crew members on board. Among them were 54 French and 26 Comorian passengers, according to the Saba news agency. The crash is Yemenia's first since an accident in 2001, in which no one was killed.

The spokeswoman for France's civil-aviation authority, Direction Générale de l'Aviation Civile, said that since the A310 plane had been banned in 2007, Yemenia had used more modern A330s to fly to France, and that its planes had been inspected with great attention.

Although inspectors found some faults with the A330s they weren't as serious as those found on the A310, which had included problems with equipment and maintenance on the plane, the spokeswoman said.

Italian and German aviation authorities had also found safety problems with Yemenia planes, prompting the EU review in 2008. The fail-



Relatives of passengers grieve at Marseilles airport in southern France on Tuesday after a jet from Yemen with 153 people on board crashed in the Indian Ocean.

ings weren't specified by the European Commission, the EU's executive arm, which documented the situation in its quarterly blacklist report in July 2008.

The commission gave Yemenia several months to tighten its safety program by hiring qualified safety consultants and to document its reforms. The carrier demonstrated compliance and wasn't included in the blacklist, the commission said in

November.

"The commission has been following closely the safety performance of the carrier" through airport inspections in the EU, the November report said. Its analysis indicated Yemenia was implementing its corrective steps "in a sustainable manner to avoid the recurrence of significant safety deficiencies." It called on EU states to continue monitoring the airline's safety.

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CORPORATE NEWS

Some Chrysler models in short supply

Factory closings have reduced stocks of unsold vehicles, helping to bolster prices for Jeeps and family minivans

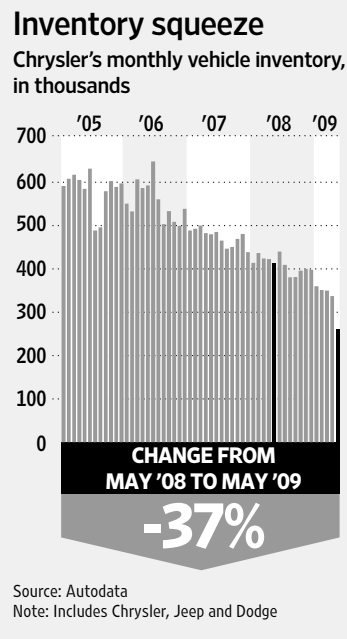
BY ANDREW GROSSMAN

The nearly nine-week long production halt at Chrysler Group LLC has left some of its dealers with an unusual problem: a shortage of high-demand models such as the Jeep Wrangler and the Chrysler Town and Country minivan.

The tightening supply is firming up prices and profit margins, and other auto makers are also seeing signs of stability. Ford Motor Co. said Monday that it will raise third-quarter production 16% from a year ago, citing lower inventory and increased demand.

The trend at Chrysler suggests it may be on the way to surmounting a key hurdle that has long stood between it and profitability. For the last several years, Chrysler has flooded dealers with inventory and dumped tens of thousands of vehicles a year into rental fleets. The excess supply forced the auto maker to offer rebates averaging \$5,600 in February to sell cars. A glut of unsold cars also cost dealers steep interest payments.

Chrysler shut down all 12 of its assembly plants when it filed for bankruptcy protection April 30. Since then, dealers have been drawing from existing inventories or purchasing from dealers who lost their franchises. At the end of May, Chrysler had 260,407 vehicles in stock, down from 479,501



two years earlier, according to researcher Autodata Corp.

Alan Helfman, owner of River Oaks Chrysler Jeep in Houston, has been sending drivers as far away as Kansas City to buy Jeep Wranglers from other dealers. "I could use all the Wranglers I could get," Mr. Helfman said.

Springtime is peak season for the Wrangler, the only off-road vehicle sold in the U.S. with convertible models. Town and Country is benefiting from increased demand



Chrysler's four-door Jeep Wrangler is in short supply in the U.S. as the car maker has halted production during bankruptcy proceedings.

Michael Stravato for The Wall Street Journal

and lower production than the Dodge Caravan.

The shortages have helped increase average sales prices for new and used Chryslers from a year earlier, according to online shopping site Edmunds.com. In May, the average new Chrysler vehicle sold for \$28,384, up \$1,431 from a year ago. The average Dodge sold for \$2,514 more. Some of that increase is due to a deep drop in fleet sales, but it can also be affected by a changing mix

among vehicles sold.

Chrysler still requires heavy incentives on many vehicles to sell them.

While it had less than a 40-day supply of a few vehicles, including the Wrangler, at the end of May, according to Autodata, it had a glut of others, such as the Dodge Caliber and the Jeep Patriot. Some dealers said they are being forced to buy less-sought-after vehicles from their fellow dealers in order to get a few coveted Wranglers or

Town and Country.

Chrysler's progress bodes well for General Motors Corp. GM has been working to achieve similar reductions in inventory. At 667,132 vehicles, it had a third fewer cars and trucks on hand at the end of May compared with two years earlier. That decline will likely accelerate this summer as GM shuts down most of its plants for nine weeks.

When both auto makers bring the plants that survived the latest round of closings back online later this summer or in the fall, they will be running fewer shifts and turning out fewer vehicles in an effort to manage inventory and keep transaction prices up.

Some of the supply shortages may ease slightly in coming weeks. Chrysler restarted seven plants Monday to finish building 2009 models that it had been working on when it filed for bankruptcy reorganization.

All its plants will close again for two weeks in the second half of July. Chrysler hasn't finalized its production for the rest of the summer, but expects to start production of 2010 models the week of July 27, it said.

WSJ.com

Online today

See photos from Houston's River Oaks Chrysler Jeep at
WSJ.com/Business

Toyota's new president encounters a quick challenge

BY NORIHIKO SHIROUZU

Toyota Motor Corp. President Akio Toyoda has been in his new position for about a week but already is confronted with a tough test following General Motors Corp.'s decision to end the companies' California vehicle-assembly venture.

The plant, called New United Motor Manufacturing Inc., or Nummi, has mostly been a money-losing operation since GM and Toyota established the partnership in 1984, and several Toyota executives said one possible outcome is the factory's eventual closure.

Nothing has been decided, and it might take several weeks before Toyota makes a final decision. But "even if there are benefits to weigh, which might drive us to keep the plant running on our own, it's still difficult ultimately to keep making sacrifices and try to save the plant when it loses money year after year," said one Toyota executive.

For Mr. Toyoda, the 53-year-old great-grandson of Toyota's founder, the decision involves weighing the political sensitivity surrounding the plant's future against the economic realities of the global auto industry.

The only thing that might save Nummi, a high-cost plant because of its location in the San Francisco Bay area, and its 4,600 workers may be an "executive decision" by Mr. Toyoda to keep it operating. In his first press conference as Toyota president late last month, he pledged not to shutter any plants despite difficulties in Japan, North America and elsewhere.

Nummi makes the Pontiac Vibe

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

Whatever decision Mr. Toyoda makes, it likely will help define a new direction for Toyota as he at-

tempts to turn around the world's largest auto maker and make his mark as the company's new president amid the historic demand collapse in major markets.

Toyota had a record net loss of 436.94 billion yen (\$4.55 billion) in its fiscal year ended March 2009 and is bracing for a bigger one this year.

Mr. Toyoda has said he is determined to give more autonomy to Toyota's operations in each major regional market around the world. He also is poised to push its units to come up with a product lineup tailored to their respective markets. His plans have been criticized for being vague, and analysts are eager to see significant action like shutting down

a North American or Japanese plant.

Nummi looms as a politically sensitive decision for Mr. Toyoda because of his pledge not to close any plants. Toyota traditionally values its commitment to the community that supports each plant and has avoided layoffs.

The executives familiar with the matter said the decision also is difficult because of the huge investments in Nummi Toyota and GM have made over the past 25 years, aside from the logistical complications of finding new manufacturing sites for the Tacoma and the Corolla.

According to the executives, some Toyota officials had hinted to GM that Toyota might be ready to

offer the Detroit auto maker a deal to start producing the Prius hybrid at Nummi and allow GM to sell a version of the hybrid—a last-minute effort by Toyota to salvage the joint venture.

Earlier this year, GM said it was phasing out the Pontiac Vibe, produced at Nummi, and decided to end the joint venture.

Some executives in Toyota's North American manufacturing division believe GM's decision may give Toyota a way to reduce excess capacity. Those executives also want to shift capacity to produce small cars to Mexico to take advantage of lower operational costs, but the status of that move remains uncertain.

Auto makers see U.S. car-sales decline moderating

BY SHARON TERLEP AND JEFF BENNETT

The beleaguered auto industry could see signs of strengthening demand when auto makers report U.S. sales for June on Wednesday, according to auto makers and analysts.

Buoyed by fewer jobless claims and improved consumer confidence, annualized U.S. sales could hit 10 million this month for the first time in 2009, Ford Motor Co. analyst George Pipas said on Monday. The deep discounts that General Motors Corp. and Chrysler Group LLC have offered to boost sales are also likely to bolster June sales.

Those factors suggest "the worst

is behind us," Mr. Pipas said. "Even if sales fail to hit the 10 million milestone, we're still not slipping back." A GM spokesman also said an annualized 10 million sales rate is possible for June.

J.D. Power and Associates predicts annualized June sales of 10.3 million new cars and trucks, up from 9.9 million in May, while Edmunds.com expects the sales rate to top 10 million, though overall sales will still be 25% lower than a year ago.

"Consumer confidence is improving, and market uncertainty is starting to decline, which has made consumers more willing to take ad-

vantage of deals on new vehicles," said Gary Dilts, J.D. Power's vice president of global automotive operations in a statement. He said Chrysler incentives also likely drove the month-over-month increase.

Underscoring its rosier outlook, Ford said it is now planning production for the third quarter that is 5.4% above its most recent quarterly target.

The company said it would build 485,000 new cars and light trucks during the quarter ending Sept. 30, a 16% increase over the 418,000 produced in the year-ago quarter. It is the second time Ford raised its output target.



Mark Fields

CORPORATE NEWS

Airlines cut IT spending

Resources are going to find devices that help customer service

BY DANIEL MICHAELS

As airlines face their worst slump in years, carriers are slashing investments in information technology overall, but boosting spending in customer-oriented areas, according to a survey to be released today by SITA, an information-technology company owned by airlines, airports and their suppliers.

One result: Air travelers will soon be able to trace their checked luggage at self-service airport kiosks, in a development typical of airlines' push to use computer technology to boost customer service while cutting costs.

According to the survey of 116 airlines world-wide, the carriers' spending on information technology and telecommunications will drop to 1.7% of revenue this year, the lowest level since 2002, when there was an aviation-industry crisis after the terrorist attacks of Sept. 11, 2001. The current downturn marks the first time since then that airline spending on technology posted a year-to-year decline, SITA said in a summary of the survey.

Airlines for years have invested billions of dollars in computers and data systems to handle back-office tasks that customers never see, such as seat reservations and ticket pricing. That back-office focus began changing a decade ago with the rise of Internet bookings.

Despite the cutbacks, passengers are seeing more self-service features. The SITA survey said that 60% of responding airlines now offer online check-in and 92% expect to offer the popular service within three years. Internet check-in allows travelers to select their seats up to one day before a flight, print boarding passes at home and avoid ticketing lines at airports. It also lets airlines cut their costs for airport staff and paper processing.

Mobile-phone services are a new growth area, with 38% of responding airlines saying they already offer notifications of flight status and delays via text messaging.



A new self-service kiosk will allow passengers to report missing bags in two minutes. Dealing with an agent now takes 45 minutes on average, industry officials say.

Airlines are also beginning to cut costs by sharing self-service check-in kiosks. SITA, which is a for-profit company owned collectively by more than 550 aviation-related companies, has been developing generic kiosks that all airlines can use.

SITA Chairman Paul Coby, who is also chief information officer at British Airways PLC, said the effort illustrates a shift under way at SITA, which was founded in 1949 by 11 airlines to transmit flight information globally. Over the past decade, it has become a technology company serving the companies that own it. "We need to provide the technology to have the services people want," Mr. Coby said in an interview.

One example of this, he said, is the baggage-tracing kiosk, to be rolled out later this year. The unit will allow passengers to scan the bar codes on their luggage tags to learn the location of their bags. SITA says the device should allow travelers to report missing bags in fewer than two minutes. Today, it takes on average of 45 minutes to report lost bags to an agent, according to SITA.

The International Air Transport Association, a global trade group, said Tuesday that its members posted a net loss of more than \$3 billion in the first three months of this year. IATA predicted carriers will post losses totaling \$9 billion for the whole year.

GM widens its product liability

BY MIKE SPECTOR

General Motors Corp. has expanded its agreement to take on future product-liability claims to include car-accident victims who suffered injuries after the auto maker filed for bankruptcy protection June 1, according to Connecticut Attorney General Richard Blumenthal.

GM, under pressure from more than a dozen state attorneys general, filed court papers late Friday saying the auto maker would assume legal responsibility for injuries stemming from vehicle defects after the company emerges from Chapter 11 protection. Now, the auto maker will also take on claims from consumers involved in accidents during the weeks or months GM stays in bankruptcy court, Mr. Blumenthal said.

The company's concessions mean consumers driving old GM cars who suffer injuries from vehi-

cle defects after June 1 will be able to sue the new GM. A GM spokesman declined to comment.

At issue was GM's original plan to leave all product-liability claims behind in bankruptcy court after selling its "good" assets to a new government-owned company, dubbed the "new GM." State attorneys general, including Mr. Blumenthal, joined several consumer groups in objecting to that plan, arguing it robbed consumers of their legal rights. GM and U.S. President Barack Obama's auto task force began talks with the attorneys general during the past several days amid the concerns.

"This agreement captures a very significant group of claims that wouldn't have been covered," Mr. Blumenthal said in an interview. Car-accident victims with pending law-

suits and those who had won damages against GM before it filed for bankruptcy protection would still be unable to bring claims against the new GM. They would remain with other unsecured creditors making claims against the "old GM." As GM's old estate winds down, those victims are likely to recover little or nothing.

A committee representing GM car-accident victims who have sued the auto maker said there are more than 300 people with personal-injury claims exceeding a total of \$1.25 billion.

GM went to court in New York Tuesday to ask a bankruptcy judge to approve its sale to the U.S. government, with Chief Executive Fritz Henderson testifying that the government is demanding a quick sale.



Richard Blumenthal

U.S. panel backs duties on low-cost Chinese tires

BY MEENA THIRUVENGADAM

WASHINGTON—The U.S. International Trade Commission recommended imposing punitive duties of as much as 55% on low-cost Chinese tire imports because they are disrupting the U.S. market, in a move that could sharply increase costs for consumers.

Trade commissioners Monday voted 4-2 in favor of charging additional duties, on top of existing tariffs of less than 4%. The new duties, which President Barack Obama must approve, would total 55% of total value in the first year, 45% in the second year and 35% in the third year. "In our opinion, these tariff levels would remedy the market disruption that we have found to exist," the commissioners said in a statement.

The White House and U.S. Trade Representative declined to comment on the case, which was filed on April 20 on behalf of the United Steelworkers union.

The union, which represents 15,000 tire workers, had sought a cap on the number of passenger-vehicle tires that can be imported from China annually, saying it could save domestic jobs.

China was the largest source of car-tire imports to the U.S. in 2008, shipping nearly 46 million tires valued at more than \$1.7 billion, according to the union. Chinese-made tires sell for about \$50 to \$60, half the price of some premium U.S. brands.

GITI Tire, China's largest tire manufacturer, on Monday called the move "decidedly protectionist" and said it would take its case to President Obama. "The administration has a broader set of responsibilities and a wider vantage point to devise a successful solution in this case," said Vic DeIorio, GITI's executive vice president in the U.S. "The duty will not have the effect of increasing domestic production of low-cost tires—it simply will not help U.S. workers."

Hyundai offers gasoline incentive

BY JOHN D. STOLL

Hyundai Motor Co., looking to fuel its recent market-share gains in the U.S., will kick off a new incentive program Wednesday offering consumers gasoline at \$1.49 a gallon for a year if they buy a car by Aug. 31.

Hyundai's offer, dubbed Hyundai Assurance Gas Lock, would save buyers about \$1 a gallon of gasoline from current prices, but the value of the offer will fluctuate as gas prices rise and fall. Hyundai expects gas prices to crest above \$3 a gallon this summer.

Earlier in the year, Hyundai launched an Assurance plan allowing buyers to return their cars if they lose their jobs within one year

of purchase, a tactic that helped boost its U.S. market share to 4.2%, from 2.9% a year ago.

Gas prices dipped to \$1.59 a gallon in late December, according to the U.S. Department of Energy, but haven't been as low as \$1.49 since January 2004.


"People are really nervous about gas prices. Consumers haven't forgotten about the horror stories from last summer," when gas was at \$4 a gallon, said Joel Ewanick, a Hyundai marketing executive. Like most auto makers, Hyundai sales have fallen in 2009 amid a weak economy and tight credit availability. Hyundai said the gas program is equivalent to a \$1,000 incentive for every car sold.

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CORPORATE NEWS

Japan invests in Elpida

Purchase of shares in chip maker begins bailout program

BY YUKA HAYASHI
AND DAISUKE WAKABAYASHI

TOKYO—The Japanese government has embarked on a controversial plan to prop up domestic electronics companies weakened by overseas competition and clobbered by the recession, echoing the automobile-industry bailout in the U.S.

Japan said Tuesday it will invest 30 billion yen (\$310 million) in Elpida Memory Inc. to help the semiconductor-maker survive the current downturn by beefing up its financial standing and modernizing its production facilities so it can beat overseas competitors.

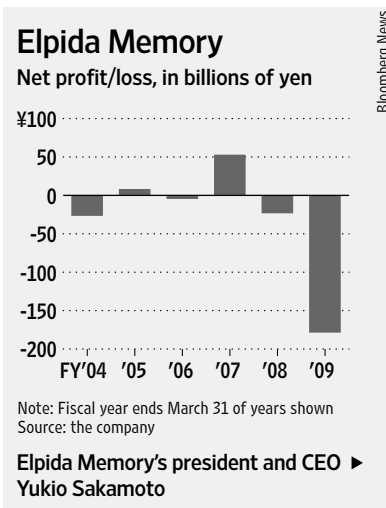
This made Elpida the first company to participate in a new program that puts public funds in nonfinancial companies, in exchange for stakes.

Elpida, the world's fourth-largest maker of DRAM chips, is Japan's only manufacturer of standard computer memory chips in an industry once dominated by Japanese companies but now ruled by South Korean rivals, Samsung Electronics Co. and Hynix Semiconductor Inc. Tokyo's investment takes the form of preferred shares with no voting rights, so it will play no official role in the company's management.

In January, as the financial crisis struck Japan's manufacturers and its export-dependent economy, Tokyo rushed to put together the bailout scheme and earmarked up to \$17 billion to back it. Governments world-wide are taking more active roles in their recession-hit economies. Many governments, including Japan's, have pumped capital into banks to ensure steady flows of money. Some nations have extended loans to troubled manufacturers, and eventually became shareholders, as in the case of the U.S. in restructuring General Motors Corp. and Chrysler Group.

But Japan's program allows the government to make investments in an unspecified number of manufacturers even before the companies near bankruptcy. The program takes in nonfinancial companies with at least 5,000 employees that have been hit by the recession and are deemed to have good prospects of revival within three years.

The companies that have expressed interest have been electronics companies. Others, such as auto



Elpida Memory's president and CEO ▶ Yukio Sakamoto



maker Nissan Motor, have opted for low-interest government loans.

The plan unleashed a debate as to whether the government should intervene—and invest—in the private sector at a time of economic stress. Elpida and other candidates for public funds had already been weakened by competition from other Asian nations for years, raising concerns that surviving the current crunch alone won't end their problems.

"This can be seen as an industrial policy by the government to help these companies and prevent hollowing-out of industries," said Shinjiro Takagi, who earlier in the decade played a key role in a government agency to restructure troubled companies. Mr. Takagi, who is now an adviser at Nomura Securities, says loans, rather than investments, are more appropriate to help these companies because of smaller risks to taxpayers.

The government described Elpida as vital to Japan's economy. "Elpida is the only company in Japan that manufactures [dynamic random access memory] and it faces an extremely difficult situation," said Toshihiro Nikai, minister of economy trade and industry, as he explained the government's decision Tuesday. "Securing [DRAM] supplies is essential to support people's lives and activities in the economy and industries."

Other manufacturers are expected to follow suit. Pioneer Corp., a manufacturer of car electronics and audio equipment, is preparing to apply for 40 billion yen in government funds, a company spokeswoman said. Chip makers NEC Electronics Corp. and Renesas Technology Corp., which are in talks for a possible merger, are also considering applying for public funds if a merger takes place by next April, according to people familiar with the

situation. A spokeswoman for NEC Electronics and a Renesas spokesman declined to comment.

For Elpida, the public fund is part of a 160-billion-yen aid plan that includes 100 billion yen in loans from Japanese commercial banks and an additional 10 billion yen loan from the state-owned Development Bank of Japan. It also plans to secure about 20 billion yen from a share issuance to Taiwan Memory Co., which was created by the Taiwan government to save its chip industry and a technology partner of Elpida.

Tokyo's preferred shares in Elpida are worth about 20% of Elpida's market capitalization, as of the close of Tuesday's trade. Elpida shares ended Tuesday at 1,045 yen, up 1.4% from Monday, and compared to a low of 305 yen in November but well off their peak of over 6,000 yen in late 2006.

As prices for chips tumbled and global demand for electronic gadgets slowed, Elpida and other memory makers incurred heavy losses. Elpida posted its biggest loss with a net loss of 178.9 billion yen in the year ended March 31. It was the company's fourth annual net loss in six years.

Yukio Sakamoto, Elpida's chief executive and president, said he sees the DRAM industry eventually consolidating so only two or three companies will exist. In order to remain in the game, Elpida needed the money to upgrade a production facility in Hiroshima so it can increase capacity and lower costs, he said.

After two years of losses, Elpida's ability to invest in new production equipment and technology has been depleted. "We are heading into the final stage of the DRAM race," said Mr. Sakamoto at a news conference. "If we didn't make these investments, we would be strangling ourselves."

Arcandor unit handed 'Massekredit' lifeline

BY HILDE ARENDS
AND ANDREA THOMAS

FRANKFURT—Insolvent German retailer Arcandor AG's mail-order retail unit, Quelle GmbH, was handed a lifeline by federal and state governments.

Quelle was given a €50 million (\$70.4 million) state-aid loan late Monday called "Massekredit" that has to be paid back by Dec. 31. A "Massekredit" is a special loan that can be granted to insolvent companies.

Preliminary insolvency administrator Klaus Hubert Goerg said the loan would allow Quelle to reorganize and refocus on its everyday business.

The Arcandor unit needs the loan because of upfront costs associated with the mail-order business. Catalogs must be printed and distributed and products stocked before customer orders are received. Quelle has said it needs the money to finance the printing of its fall-winter catalog.

Quelle executive Konrad Hilbers said his company would do what is needed to take advantage of this opportunity in order to make the company's business develop successfully.

Quelle, along with its parent company, filed for insolvency on June 9 after Arcandor failed to raise new financing and the German government denied it two requests for state-backed guarantees and rescue aid. The company was struggling to finance a big debt pile built up over several years of acquisitions, and its plight worsened as the recession in Germany hit sales. Arcandor's travel unit, Thomas Cook PLC, isn't affected by Arcandor's insolvency.

The German federal government will shoulder €25 million of the loan, while the state of Bavaria will pay €20.5 million and the state of Saxony will cover €4.5 million.

The loan was cleared Tuesday by the European Commission, the European Union's executive arm.

—Natali Schwab in Frankfurt contributed to this article.

Swedish software firm buys notorious Pirate Bay site

BY GUSTAV SANDSTROM

STOCKHOLM—In the latest bid to turn file sharing into a legal business, Swedish software company Global Gaming Factory X AB said it is acquiring a notorious Web site, called The Pirate Bay, for 60 million Swedish kronor (\$7.8 million).

The Pirate Bay, which directs visitors to places where they can download music or movies, is one of the world's largest file-sharing sites. In April, four men responsible for the site were sentenced to one year in prison and ordered to pay damages of 30 million kronor for copyright violations.

Hans Pandeya, the chief executive of Global Gaming, said in an interview that his company will run the Pirate Bay as a legal business and pay content providers.

He said the Pirate Bay users will pay for content, but would also earn some money by making their files available to share over the Internet. He said that, on balance, this would make the site free for users.

The site would earn money from

advertising, and also by offering services to telecom operators, such as helping them find more efficient ways to transport data, he added.

In a related move, Global Gaming also agreed to buy Swedish software firm Peerialism AB for 100 million kronor. Peerialism has created the new, file-sharing technology that will be used on the Pirate Bay.

Global Gaming expects to complete the acquisitions in August provided that it obtains necessary financing and so long as Global Gaming's board of directors find that the assets can be used in a legal way.

The Pirate Bay's biggest challenge will be to reach agreements with major content providers, Mr. Pandeya said.

John Kennedy, head of the International Federation of the Phonographic Industry, said it was too early to say how the new technology would work. "There are many questions to ask about how this will work in practice, but we would be delighted if this resulted in the Pirate Bay turning into a legitimate licensed service," he said.

BG buys stake in Exco shale assets

BY GUY CHAZAN
AND BEN CASSELMAN

BG Group PLC agreed to pay \$1 billion for a stake in Dallas-based Exco Resources Inc.'s shale-gas properties in Texas and Louisiana, becoming the latest European oil major to move into U.S. unconventional natural gas.

The deal follows similar moves by StatoilHydro ASA of Norway and the British oil major BP PLC, who both recently acquired interests in shale-gas fields in the U.S., one of the hottest new hydrocarbon plays.

Trapped in tightly packed sands, coal seams or dense rock called shale, unconventional gas can't be

extracted by traditional drilling methods. But recent technological breakthroughs have unlocked these vast resources. Combined with easy credit and high natural gas prices, they sparked an unprecedented four-year drilling boom.

BP paid Oklahoma City-based Chesapeake \$3.6 billion last year for stakes in fields in Arkansas and Oklahoma. StatoilHydro later also struck a \$3.4 billion deal with Chesapeake. In May, Quicksilver Resources Inc., a Fort Worth, Texas, gas producer, announced a \$280 million partnership with Italy's Eni SpA. Royal Dutch Shell plc has amassed a large position in the Haynesville Shale through a partnership with EnCana Corp.

In those deals, and in the one announced Tuesday, the U.S. companies got cash to drill, while the European majors gained experience in producing gas from shale. That's a boon to BG, which has little exposure to unconventional gas beyond its coalbed methane assets in Australia, where it extracts gas trapped in depleted coalfields.

Tuesday's deal involves Exco, a small but aggressive producer that has been one of the most successful players in the Haynesville Shale, a huge gas field in northern Louisiana and east Texas that Chesapeake discovered last year. Exco has grown quickly, increasing its gas production 19% last year.

Dell develops mobile Web device

BY JUSTIN SCHECK

Engineers at Dell Inc. have been developing a pocket-sized device for tapping into the Internet, said people familiar with the company's plans.

The gadget would run on Google Inc.'s Android software, these people said. Two people who saw early prototypes described the device as slightly larger than Apple Inc.'s iPod Touch, which is similar to the iPhone but does not have cellphone capabilities.

Another person who was briefed on the company's plans said Dell may begin selling the device later this year, though this person said the plan could be delayed or scrapped entirely.

The development effort is one of the first experiments by a big-name

PC maker in a nascent category of products known as mobile Internet devices, or MID, which are designed to fill a perceived gap between mobile phones and laptop computers.

A Dell spokesman declined to comment.

People familiar with the effort said Dell began developing the device last year, after the company aborted an attempt to compete with Apple in the music-player business. Some of the engineers working on the music player were then assigned to help develop the small mobile device.

One person familiar with the effort said Dell has considered selling the product through cellular carriers—much as Dell, Hewlett-Packard Co. and others have begun marketing netbooks.

CORPORATE NEWS



Bloomberg News

A parade at Hong Kong Disneyland earlier this year. Hong Kong's stake in the park will decline to 52% from 57% previously.

Disney to enhance park

Hong Kong converts loans in joint effort to draw more visitors

BY CHESTER YUNG
AND JEFFREY NG

HONG KONG —Walt Disney Co. said it will fund a 3.5 billion Hong Kong dollars (US\$452 million) expansion of its Disneyland park here that will include new attractions unique to Hong Kong in hopes of boosting subpar attendance.

The deal comes after more than two years of negotiations between the U.S. media and entertainment company and the Hong Kong government, which is a majority owner of the park.

While Disney was willing to fully finance the expansion, the government wanted to retain its controlling stake even as it remained reluctant to invest new funds in the park. Hong Kong government officials drew flak for using public money to finance construction of the park and related infrastructure, particularly

when traffic fell short of expectations.

As part of the deal announced Tuesday, the government plans to convert existing loans to the park into equity, but won't invest any new capital. Its stake in the park will fall to 52% from 57% currently.

Disney will invest HK\$3.5 billion and convert HK\$2.7 billion of existing loans to the park into equity, boosting its stake to 48% from 43%.

Hong Kong Disneyland has been plagued by weak attendance and disappointing financial returns since its 2005 opening. Critics have pointed to its size—it is the smallest of Disney's theme parks—and a lack of attractions that appeal to its key target market of mainland Chinese tourists, who are often unfamiliar with Disney stories and characters.

Under the expansion plan, three new themed "lands" will be added in phases over five years to create a total of seven, Secretary for Commerce and Economic Development Rita Lau said Tuesday. Ms. Lau said she expects construction of the project to start this year, pending legislative approval of the govern-

ment financing plans at a meeting scheduled for July 10.

The theme park's physical size will increase 23%, Ms. Lau said, with the new attractions aimed at broadening Disneyland's appeal to young adults.

Disney said Tuesday the expansion will focus on "universally understood" stories, adding that many of the new attractions will be unique to the Hong Kong park.

One new themed area, Grizzly Trail, is set in an American frontier gold-mining town and features a roller coaster patterned after a runaway mine train. Another, Mystic Point, emphasizes supernatural and mysterious forces. The third, Toy Story Land, is based on the film series by Disney's Pixar animation studio.

During its first year of operations, visitors to Hong Kong Disneyland fell 400,000 short of the park's target of 5.6 million. In the park's second year, attendance fell to four million visitors.

Disney's other theme parks are in the U.S., Japan and France.

—Peter Stein
contributed to this article.

Facebook adds CFO to new lineup

BY JESSICA E. VASCELLARO

Facebook Inc. announced it hired David Ebersman, former chief financial officer of biotech company Genentech Inc. as the social network's new chief financial officer.

In an interview, Mr. Ebersman, 39 years old, said he planned to focus on further expanding the fast-growing company and its infrastructure, but said it was "premature to get very specific." He reiterated that the company expected its revenue to grow by at least 70% in 2009 and to be cash-flow positive in 2010, noting that Facebook has maintained its momentum despite the rocky economy.

A 15-year veteran of Genentech, Mr. Ebersman served as its chief financial officer from 2006 to April 2009, after Roche Holding acquired the com-

pany. He said that he saw great similarities between Genentech and Facebook, describing both as "fast-growing companies with very strong corporate cultures."

Mr. Ebersman is the latest in a number of senior executives Facebook has hired in the past month or so, including Greg Badros, formerly a senior engineering director at Google, who is the company's new director of engineering.

Mr. Ebersman was chosen from a field of 11 outside candidates interviewed by Facebook's chief executive, Mark Zuckerberg, and his colleagues, according to a person familiar with the situation.

His appointment comes three months after the departure of Facebook's previous chief financial officer, Gideon Yu, who left the company amid disagreements

with Mr. Zuckerberg, according to people familiar with the matter. Facebook said at the time that it was seeking a successor with "public company experience" and had hired recruiters Spencer Stuart to handle the search.

Mr. Ebersman, who will assume his new position in September, joins the startup amid expectations that it will eventually go public, although Facebook executives have said they have no current plans to do so. Digital Sky Technologies, a Russian investment firm, recently took a small stake in the company at \$10 billion valuation for preferred stock.

He said that the investment would provide the company with a "considerable amount of room" but didn't rule out that the company—which already has more than 850 employees—may have to raise more money in the future. "You have to be open-minded about how the world could evolve," he said.

—Joann S. Lublin
contributed to this article.



David Ebersman

GLOBAL BUSINESS BRIEFS

Deutsche Post

DHL unit to add China hubs to meet increase in demand

DHL Supply Chain, the logistics unit of Deutsche Post AG's DHL, plans to add 10 transportation hubs in China by year end to meet growing demand for domestic shipping. "Our customers are growing in China," said Victor Mok, executive vice president of DHL Supply Chain Greater China, at the opening ceremony of the German company's \$25 million hub in Shanghai for transportation in eastern China. DHL Supply Chain, which focuses on warehousing and road transportation and distribution, also operates four major China transportation hubs in Beijing, Guangzhou, Tianjin and Wuhan. DHL Supply Chain is a key driver for the group's growth in China. The country continues to ban foreign companies from entering its domestic express-mail market.

Wolseley PLC

U.K.-based building-supplies company Wolseley PLC said Tuesday that its chief executive will step down and will be succeeded by an external candidate. The company said Chief Executive Chip Hornsby will be succeeded by Ian Meakins, who was recently head of foreign-exchange and payments business Traveler Holdings and ran Alliance UniChem before its merger with Boots in 2006. The company didn't say why Mr. Hornsby was leaving, and the executive wasn't immediately available to comment. Wolseley has been hit hard by the building slump in the U.S., U.K. and Ireland, and has been forced to slash jobs and close offices. Analysts said the move was inevitable, given what the company has been through recently.

Magna International Inc.

The head of Canadian auto-parts maker Magna International Inc. said Tuesday he is confident a deal to take over General Motors Corp.'s Adam Opel GmbH unit will be complete by the middle of July. Magna "wants to come to an agreement by July 15," Chief Executive Siegfried Wolf said. Magna and Russia's OAO Sberbank signed a nonbinding agreement last month, under which Sberbank would take 35% and Magna a 20% stake in the GM subsidiary. The deal was touted in Russia as a major coup for the country's troubled auto industry, based on signals that Magna would produce Opel cars in Russia. But the German government has said this week it is still talking with other bidders despite the ongoing negotiations with Magna.

Porsche Automobil Holding SE

Porsche Automobil Holding SE on Tuesday said it has been denied a €1.75 billion (\$2.46 billion) loan from Germany's state-controlled KfW Bank. Porsche, citing a letter from KfW, said it may approach the bank again for a new loan application. "Porsche has always stated that the loan was to be an operating loan not in any way burdening the German taxpayer," the auto maker said. Porsche is struggling to raise financing that would allow it to complete a takeover attempt of Volkswagen AG. Monday, Porsche said it received an offer from state-owned Qatar Investment Authority over a possible stake sale, although it didn't say whether the stake in question would be in Porsche itself or part of Porsche's holdings in Volkswagen.

Carrefour SA

French retail giant Carrefour SA executives said a cost-cutting plan should generate savings of around €4.5 billion (\$6.3 billion) between now and 2012. Carrefour has been restructuring its Italian business, selling stores and focusing on northern Europe. The executives said cost savings in France, Spain, Italy and Belgium will come from an overhaul of its operating model and a reduction in its inventories, among other measures. The company said the plan will entail about €1 billion of one-time expenses between now and 2012. Also Tuesday, Chief Executive Lars Olofsson said he expects the company to this year post between €2.7 billion and €2.8 billion in earnings before interest and tax excluding nonrecurring items. Mr. Olofsson was speaking at his first analyst presentation since becoming CEO.

Monsanto Co.

The European Food Safety Authority paved the way Tuesday for the European Union to renew its authorization for a genetically modified corn made by Monsanto Co.—the only biotech crop commercially grown in Europe. It also concluded that the corn was "unlikely to have any adverse effect on the environment in the context of its intended uses." U.S.-based Monsanto's insect-resistant MON 810 corn is the only GM crop that may be grown commercially in the EU. Although its original 10-year approval expired in April 2008, the corn may still be grown during the renewal process. EFSA's opinion is significant since it will provide the basis for EU regulators process of renewing a 10-year authorization for growing the GM corn, banned in several EU countries on environment and health concerns.

Deere & Co.

Deere & Co. said nearly 800 salaried employees accepted buyout offers, which will cost the agriculture-equipment giant twice as much as it projected. The company had expected pretax costs of \$50 million for the buyout effort, announced in April as part of the combination of its agricultural and consumer-and-commercial equipment businesses. But because of the strong response, the cost will be nearly \$100 million. It will be recorded in the fiscal fourth quarter, which begins Aug. 1. Deere, which has 55,000 employees, said the buyouts will save it some \$75 million in the first year. The Moline, Ill., company has been feeling the effects of the recession, with its latest-quarter profit down 38% amid weak equipment sales outside the U.S. and Canada. The company last month cut its fiscal-year earnings forecast.

—Compiled from staff
and wire service reports.

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ECONOMY & POLITICS

Iraqi militants inspired by Iran, U.S.

Tehran's crackdown motivates Shiites, while Gates sees more al Qaeda attacks as Baghdad's forces take charge

Some of the Iraqi Shiite extremists groups that the U.S. claims are backed by Iran say they are ratcheting up attacks in Iraq in tandem with Tehran's post-election crackdown on protesters.

By Gina Chon in Baghdad and Yochi J. Dreazen in Stuttgart, Germany

Shiite militia leaders say a toughening resolve among hard-liners in Iran is translating into direct orders from Iran-based leaders to increase attacks, as well as inspiring militants next door in Iraq to demonstrate their influence.

The threat of more violence is a fresh challenge for the Iraqi army and police, who took over responsibility for security in cities across Iraq from U.S. troops Tuesday. The handover was greeted with public celebrations across Iraq, where the move was hailed as the first step toward the planned U.S. departure from the country in 2011.

Iraqi forces will have to deal with Sunni militants as well as Shiite. U.S. Defense Secretary Robert Gates said Tuesday that he expected al Qaeda to mount new attacks in Iraq in the wake of the American withdrawal, but that the terrorist group appeared unable to spur large-scale Shiite reprisals.

In recent weeks, suspected al Qaeda militants have set off a string of car bombs in Shiite neighborhoods and marketplaces in Baghdad, killing dozens of civilians.

On Tuesday, a car bomb killed at least 20 people in Kirkuk, in northern Iraq. The explosion occurred in a market area, according to an Iraqi military official.

There have also been increased attacks in areas in Baghdad where Shiite extremists say they are regrouping, such as Baiyaa and Sadr City. An explosion in Sadr City last week at a market killed more than 70 people.

A member of a Shiite extremist group said that as the Iranian government became more aggressive in quashing the protests in Iran recently, pressure from Iran-based lead-

ers on Shiite extremist groups to increase attacks in Iraq also went up.

"We are coming back, and we have new missions now," the member said in an interview.

Analysts and officials have suggested that grim images of the crackdown in Tehran may stall the ascendancy of Iranian influence across the Middle East, and that the unrest may push Tehran to act more aggressively to show it remains undaunted by domestic strife.

The Iranian embassy in Baghdad and the Iranian mission to the United Nations in New York didn't respond to requests for comment for this article.

Iran has denied it aids violent groups inside Iraq. U.S. officials cite evidence such as rockets recovered in Iraq that appear to be made in Iran to support its claims of Iranian backing of Iraqi militias.

Mr. Gates said Tuesday that Iran was continuing to provide weaponry and other covert assistance to some of Iraq's armed groups, but said the "amount of it is down some."

Iran openly supports Hezbollah in Lebanon and Hamas in Gaza. Neither—both of which Washington designates as terror groups—has shown fresh aggression in the Iranian election's aftermath.

Early last year, U.S. officials blamed Shiite extremist groups, which they said had Iranian backing, for lobbing rockets and mortar at the heavily fortified Green Zone, the diplomatic and government enclave in central Baghdad. The attacks came from Shiite havens elsewhere in the city.

The groups were hurt by a government-led offensive last year. Many leaders and members were killed, arrested or fled to Iran, according to the U.S. military.

After just less than a year of relative quiet, rocket attacks on the Green Zone have increased again. They now occur several times a week. Some rockets have landed near the U.S. embassy.

Since the crackdown on protesters after Iran's June 12 elections, "our supporters are more determined now to have an influence in Iraq," said a cell leader for an Iraqi



Iraqi security forces in Basra on Tuesday celebrated the U.S. troop pullout from Iraqi cities, but significant challenges remain.

Shiite extremist group. This person said he receives orders from two Iraqi leaders who have been in Iran since seeking refuge there last year.

Alongside the crackdown by Iraq's security services, Iranian military commanders appeared on television to assure domestic and international audiences that Iran's military hasn't been diminished.

A U.S. official in Baghdad said there is concern that the paramilitary arm of the elite Iranian Revolutionary Guards, known as the Quds Force, could become more aggressive in its involvement in Iraq because of reaction against the election protests in Iran.

The threat at home against the regime could make the group more entrenched in its ideological beliefs and goals, this official said. The U.S. military says the Quds Force is the main supporters of Shiite extremists operating in Iraq.

Shiite extremists have also increased attacks to put pressure on the Iraqi government to release

more of its detained members at a faster pace, according to three militia members. They also said they hope that by targeting civilian populations in places like Sadr City, they will draw the Americans back into the fight, said these members.

America's top commander in Iraq, Gen. Ray Odierno, told reporters Tuesday that Iran is still supporting Shiite extremists in Iraq through training and financing, and he didn't expect that aid to end. "I think many of the attacks in Baghdad are from individuals that have been in fact funded or trained by the Iranians," he said.

U.S. military spokesman Brig. Gen. Stephen Lanza said the recent attacks show Shiite extremists are attempting to fracture the close relationship between the U.S. and Iraq, but also noted the groups have splintered, making them less potent than before.

Separately, Mr. Gates, speaking to reporters accompanying him on a trip to Europe, said al Qaeda was likely to mount new attacks in the weeks ahead in an effort to score points in

the wake of the U.S. pullback.

"Al Qaeda and others are trying to increase the level of violence to try to pretend that they were the ones who forced us out of the cities," he said. "I expect that there will continue to be sporadic attacks as people try to take advantage of our being out of the cities."

Mr. Gates is presiding over a U.S. shift in focus from Iraq to Afghanistan, but he continues to get vivid reminders that the war in Iraq is far from over. On Tuesday, he was at a change-of-command ceremony in Germany when he got word that four U.S. soldiers had been killed in Iraq.

Later in the day, Mr. Gates spent several hours at the nearby Landstuhl medical center visiting wounded troops, including a high-ranking U.S. officer, Lt. Col. Timothy Karcher, who lost both of his legs in a roadside bombing Sunday, near Baghdad's volatile Sadr City neighborhood.

—Iraqi staff of The Wall Street Journal contributed to this article.

The global slump slows migration and hurts immigrants

BY PATRICK BARTA AND PAUL HANNON

The global economic crisis is hitting immigrants around the world harder than native-born workers and putting the brakes on a decades-long increase in international migration, the Organization for Economic Cooperation and Development said Tuesday.

Wealthy countries including the U.S. should avoid taking too many steps to discourage immigrants from coming, because many developed nations will need immigrant workers in the long run, the Paris-based group said in its annual migration report.

The OECD found that unemployment rates for immigrants are rising faster than for native-born workers in many rich nations, in part be-

cause immigrants tend to gravitate to industries, such as construction, that are hard-hit by the downturn.

Immigrants also are more apt to fill temporary or part-time positions that are easy to cut when times are bad. In the U.S., the unemployment rate for immigrant workers is about 10%, compared with 9.4% for the overall population, the OECD said, a reversal of earlier trends.

Before the economic crisis, unemployment levels for immigrant workers were lower than for the native-born population—a state of affairs economists say is common because immigrants tend to be willing to take any job available. Other countries such as Spain also have seen big increases in unemployment for immigrant workers.

The data confirm what many economists say they have suspected

for months—that the rich world is becoming less attractive for immigrants. Until 2008, global migration flows increased steadily as prosperous economies ran short of workers and the cost of international travel and communications fell.

In the U.K., the OECD found, more than 70% of jobs created since 1997 were filled by foreign-born workers, while immigrant labor accounted for at least 40% of total employment growth in Austria, Denmark, Italy and Spain.

That surge in immigrant laborers had many critics, including politicians in the U.S. and elsewhere, who worry that immigrants are competing with locals for jobs and raising the costs of public health and education programs. The OECD said it is too early to know how much immigration is slowing, because it takes a

long time for economic shocks to alter migration patterns and much of the world's migration data come with a significant time lag.

It said some countries have already seen a decline in arrivals as workers cancel plans to move and governments ratchet down quotas for letting outsiders in. The declines could intensify throughout the year, the OECD said.

In the U.S., the number of H-1B temporary visas for overseas workers granted in the 2008 fiscal year was down 15% from the previous year, while in Spain, new entries under an employer-nomination scheme fell to 137,000 in 2008 from 200,000 in 2007. Australia, Ireland and Iceland also have seen declines in some categories of foreign workers, it said.

"It may be good to lessen migra-

tion for the time being," said Angel Gurría, the OECD's secretary-general, in remarks to reporters. That is because workers who arrive during times of economic stress often struggle to succeed in their new homes, he said. In the long run, Mr. Gurría said, "we need a balanced public discourse on immigration" that includes recognition that immigrant workers are still needed in some cases.

Many rich countries have aging populations and key sectors, including health care, that will struggle to find enough workers in future years, the OECD said. When developed economies start to grow again—a process the OECD expects to gather momentum early next year—concerns about labor market shortages "may reappear with a new urgency," the report noted.

ECONOMY & POLITICS

Hondurans show support for coup

Demonstrators fill streets as criticism mounts around globe

BY PAUL KIERNAN
AND DAVID LUHNOW

TEGUCIGALPA, Honduras—Thousands of Hondurans took to the streets to demonstrate in support of Sunday's military coup against their president, even as he won United Nations backing for his reinstatement and planned a Thursday showdown in which he would return to Honduras in the company of other Latin American leaders.

Both sides in the dispute, which has roiled Latin American politics, aimed their arguments squarely at Washington, where deposed President Manuel Zelaya was headed Wednesday to seek support in person. President Barack Obama has denounced the coup that ousted the Honduran leader from his bed at gunpoint and forced his exile.

But Mr. Zelaya's opponents, backed by the Honduran Supreme Court, have said they were legally trying to protect their democracy from an unconstitutional grab for extended power by the president. U.S. officials said Mr. Zelaya would not get an audience with Mr. Obama or Secretary of State Hillary Clinton, but instead meet midlevel diplomats.

In the capital, Tegucigalpa, and the second city of San Pedro Sula on Tuesday, protesters dressed in white shouted "we don't want Mel"—the nickname for Mr. Zelaya, a leftist and close ally of Venezuela's populist president Hugo Chávez. The protests were far larger than those outside the presidential palace in the previous two days calling for Mr. Zelaya's return.

Juan Carlos Ramirez, a 29-year-old vegetable vendor, said the ousted president "was a clown of Hugo Chávez."

"It wasn't a coup," he said of the



Ousted Honduran President Manuel Zelaya addresses a special meeting of the U.N. General Assembly in New York Tuesday.

military's move against Mr. Zelaya. "It was the substitution of one president for another."

Not everyone was seeing things that way. The World Bank said it will suspend all loans to Honduras until the crisis was resolved. Spain called on European nations to recall their ambassadors to Honduras.

The U.N. General Assembly passed a unanimous resolution calling for Mr. Zelaya to serve out his term, which ends in January. Mr. Zelaya delivered an emotional address to the body, casting himself as a humble public servant who wanted to help his country.

"If this is allowed to stand, no president anywhere in the world, man or woman, can feel comfortable knowing that their armed forces can just decide for one reason or another to oust the president," he said. He re-

ceived a standing ovation at the end.

The political crisis came to a head over Mr. Zelaya's plans to run for re-election, currently barred under Honduran law. The president wanted to hold a referendum on the matter, but the Supreme Court ruled the referendum was illegal and that Mr. Zelaya would have to leave office when his term ended. He pressed on. Hours before the referendum was due to begin Sunday, soldiers entered his home and forced him onto a plane headed for Costa Rica.

The provisional government, led by Mr. Zelaya's Liberal party colleague Roberto Micheletti, has sought to distinguish between the move against Mr. Zelaya and coups that have marked Latin America's past.

The White House said the only acceptable outcome to the crisis was the return of Mr. Zelaya to power.

On Thursday, Mr. Zelaya said, he plans to return to Honduras to take up his post. He said he will be accompanied by the head of the Organization of American States, José Miguel Insulza, as well as Argentine President Cristina Kirchner and Ecuadorean leader Rafael Correa.

Honduras's newly named foreign minister said Mr. Zelaya will be arrested upon returning, to face charges of violating the Constitution, drug trafficking and stealing millions of dollars from the public treasury. "It is very probable he will end up in prison," Enrique Ortez Colindres told CNN en Español.

There was no immediate response by Mr. Zelaya to the accusations from Mr. Ortez.

—José de Córdoba in Mexico City
contributed to this article.

One nation, two presidents, lots of turmoil

BY JOSÉ DE CÓRDOBA

Hondurans now live in a country with two presidents. One, who's in exile, is still recognized by countries around the world. The other, who enjoys the strong backing of all of Honduras's major institutions, has quickly become a diplomatic pariah.

Roberto Micheletti, a 63-year-old businessman and stalwart Liberal Party member, took the oath of office Sunday to replace another Liberal politician, Manuel Zelaya, 56, a rich rancher who was deposed in a predawn raid that day and exiled.

On Tuesday, the United Nations

General Assembly condemned removal of Mr. Zelaya, who addressed the body, the Associated Press said. Mr. Zelaya, who's vowed to get power back, is expected in Washington Wednesday and hopes to meet U.S. officials. Mr. Micheletti has said that if Mr. Zelaya returns, he could be met with an arrest warrant.

Mr. Zelaya served in Congress before running for president in 2006 on a populist platform that blasted the rich and promised to fight crime, corruption and poverty.

Once in power, Mr. Zelaya, who said he had been ignored by the U.S., made a sharp left turn, becoming a

close ally and confidant of Venezuela's populist President Hugo Chávez and Cuba's Fidel Castro.

Last year, Mr. Zelaya made the country a member of the Bolivarian Alternative of the Americas, known by its Spanish acronym ALBA, a trade and political bloc formed by Mr. Chávez to counter U.S. influence in the region. Honduras has been a member of the U.S.-sponsored Central American Free Trade Agreement since 2005.

Mr. Zelaya's friendships with Mr. Chávez, Mr. Castro, and Nicaraguan President Daniel Ortega, coupled with his apparent desire to continue in of-

ice by rewriting the constitution—as Mr. Chávez has done—put him in direct conflict with Honduras's Congress, courts and military. He alienated the media when he dictated that radio and TV stations had to broadcast two hours of government propaganda daily. Businessmen didn't like measures including a 60% increase in the minimum wage early this year.

Last week, the president insisted on holding a referendum on rewriting the constitution, which critics feared could have led to overturning Honduras's constitutional ban on re-election. That led to Mr. Zelaya's removal, which shocked the region.

German court ruling puts Lisbon Treaty on track

ASSOCIATED PRESS

BERLIN—Germany's highest court cleared the way for the country to complete ratification of a treaty designed to strengthen the European Union, rejecting complaints that it hands too much power to Brussels. However, the court did demand clarification of a German law on the national parliament's rights as EU integration deepens.

The ruling by the Federal Constitutional Court means the Lisbon Treaty remains on track. German President Horst Köhler had held off signing it into law while the court considered the case.

The treaty next goes before Irish voters, who are due to hold a new referendum in October; they rejected it last year, throwing years of EU diplomacy into doubt.

Germany's highest court, meeting in Karlsruhe, rejected complaints by conservative lawmaker Peter Gauweiler and the opposition Left Party that the treaty, meant to streamline how the 27-nation EU is run and to bolster its role on the world stage, violates the German constitution.

The court found that "the substance of German state authority is

protected" in the treaty. It said any decisions on transferring powers to the EU will be made "in a controlled and responsible manner."

Germany's constitution "says yes to the Lisbon Treaty but calls at national level for a strengthening of parliamentary responsibility," the presiding judge, Andreas Vosskuhle, said in his nationally televised verdict.

Obama pledges to press forward on gay rights

BY LAURA MECKLER

WASHINGTON—President Barack Obama, under fire from the U.S. gay-rights community over slow action on its priorities, promised to deliver by the time he leaves office.

The president gave no new details about how he would advance these issues, but he made passionate remarks saluting the pioneers of the gay-rights movement and expressed solidarity with those working for equal rights.

"Welcome to your White House," the president said at a reception Monday to mark the 40th anniversary of the birth of the modern gay-rights movement. His remarks were greeted warmly by a cheering crowd of some 250 gay and lesbian activists and supporters.

As a presidential candidate, Mr. Obama vowed to overturn the military's "don't ask, don't tell" policy, which prohibits openly gay men and women from serving, and to repeal the Defense of Marriage Act, which allows states to ignore same-sex marriages performed in other states and bars the federal government from granting marriage benefits to people in same-sex unions.

The Obama administration has said it will take congressional action to address both issues. But, aware of both the complex politics involved and its full agenda, the White House has done little so far to prod lawmakers along.

Many in the gay-rights community were also angered by the tone of an administration legal brief defending the Defense of Marriage Act.

Earlier in June, Mr. Obama offered a small step, promising to extend certain benefits available to same-sex partners of federal workers. But critics dismissed the move as amounting to little in practice.

The president appeared mindful of these criticisms when he stepped to the front of the East Room on Monday.

"It's not for me to tell you to be patient," he said, comparing the gay activists' struggle to that of African-Americans in the civil-rights movement. "I expect and hope to be judged not by words... but by the promises that my administration keeps."

He added that by the time his presidency is over, "I think you guys will have pretty good feelings about the Obama administration."

Mr. Obama said he had asked the secretary of defense and chairman of the Joint Chiefs of Staff to develop a plan to repeal the "don't ask, don't tell" policy. He reiterated his pledge to try to reverse the Defense of Marriage Act and said he would work for legislation aimed at preventing workplace discrimination, extending the federal hate-crime law to acts against gays and lesbians, and giving domestic partners of federal workers health and other benefits.

And he said he was committed to repealing rules that prohibit people with HIV from traveling into the U.S.

Joe Solomonese, president of the Human Rights Campaign, a leading gay-rights group, was at the event and said afterward that he appreciated the president's strong words. But he added: "It is the actions to advance equality—not simply the words—that will be the true marker by which this White House will be judged."

ECONOMY & POLITICS

U.S. high court split on race issue

Sotomayor would add fresh views to debate if she gets confirmed

BY JESS BRAVIN

WASHINGTON—Sonia Sotomayor, the New York appellate judge President Barack Obama has nominated to the U.S. Supreme Court, has credited her success in part to post-war America's efforts to correct centuries of racial discrimination.

If, as expected, her nomination is confirmed, the self-described "affirmative-action baby" will join a court divided on that very topic.

Chief Justice John Roberts came to the court with a deep-seated skepticism of race-conscious policies. In a

number of cases his court has ruled, often 5-4, in favor of limiting the scope of civil-rights laws and practices devised to address racial discrimination.

"It is a sordid business, this divvying us up by race," Justice Roberts wrote in a 2006 concurring opinion rejecting a Voting Rights Act challenge to Texas's congressional redistricting.

"This is an area where there are sharply divergent intuitions about the role of race in American society, and sharply divergent views about what should be done about it," says Goodwin Liu, co-director of the

Chief Justice Earl Warren Institute on Race, Ethnicity and Diversity at the University of California, Berkeley.

Some expect Judge Sotomayor would buttress the court's liberal wing, which has adhered to precedents that upheld aggressive race-conscious programs in an era when the sting of discrimination was fresh.

Although likely to be in dissent at least until a conservative justice retires, Judge Sotomayor could revive traditional liberal doctrines.

"Her own persona, as someone who is self-identified with an ethnic group, and one she believes has in some sense been discriminated against...will make her position more rhetorically powerful" on race cases than David Souter, the liberal-leaning justice she would replace, says

John McGinnis, a Northwestern University law professor.



Sonia Sotomayor

It also is possible that she could seek to hammer out a middle ground. Still, sometimes justices' views change, if subtly, over time. The chief justice himself has displayed a more moderate streak this term. During June, he wrote an opinion joined by seven other justices that left alive a bedrock provision of the Voting Rights Act of 1965.

The Supreme Court's decision Monday in the New Haven, Conn., firefighters' case highlights the justices' split. The four liberals would have upheld the city's decision to toss out test results that it worried were discriminatory. A concurring opinion from Justice Samuel Alito, joined by Justices Antonin Scalia and Clarence Thomas, effectively accused New Haven's leadership of pandering to a local black political leader in throwing out the test results.

U.S. home prices in April declined at a slower rate

BY KELLY EVANS

U.S. home prices eased their slide in April, but rising unemployment and shaky consumer confidence are weighing on prospects for a recovery in the housing market and broader economy.

Home prices in 20 major cities fell an average 0.6% in April, an improvement over the 2.2% decline the prior month, according to the Standard & Poor's/Case-Shiller index released Tuesday. Thirteen metropolitan areas had price gains in April, led by Dallas, Denver and Cleveland, where prices rose 1% or more from the previous month.

David Blitzer, chairman of S&P's index committee, said in a statement that while "some stabilization may be appearing in some markets," the spring buying season usually helps buoy housing-market activity. "It will take some time to determine if a recovery is really here," he said.

Despite the improvement, home prices are down 18% on average from a year ago, and nearly 33% from their peak in 2006. Patrick Newport, an economist with IHS Global Insight, said that while prices are "no longer in a free-fall," they are likely to keep falling as foreclosed properties grow in number.

Meanwhile, the Conference Board, a New York research group, said Tuesday that its index of confidence retreated to a level of 49.3 in June following three consecutive monthly increases that had led to a 54.8 reading in May. Both consumers' expectations and their assessment of current conditions deteriorated. The latest index contrasts with a more optimistic measure released Friday by Reuters and the University of Michigan, which rose in June to its highest level since February 2008.

Belarus will free U.S. lawyer held in prison hospital

ASSOCIATED PRESS

MINSK, Belarus—An ailing American lawyer who was imprisoned in Belarus last year on charges of using fake documents and attempted commercial espionage was pardoned Tuesday by the president of the former Soviet country, an official said.

Emanuel Zeltser, a 55-year-old diabetic, had been sentenced to three years in prison in August 2008. His supporters called the charges politically motivated. In November, Mr. Zeltser was placed in a prison hospital.

President Alexander Lukashenko "today signed a decree pardoning Zeltser," said Pavel Lyogkhy, a presidential spokesman, on Tuesday. "The speed of his release depends" on prison officials, Mr. Lyogkhy said, without elaborating.

Belarus and its authoritarian leader are courting better political and economic ties with the West, and the U.S. had said Mr. Zeltser's release would help the process.

A U.S. congressional delegation headed by Democratic Sen. Benjamin Cardin of Maryland was told of the release announcement during a meeting Tuesday with Mr. Lukashenko. Mr. Zeltser's lawyer, Dmitry Goryachko, said he had informed his client of the decision.

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