Leading the News: A Spanish limo theft embarrasses Germany's Social Democrats

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Bischoff to head Lloyds

Former Citigroup chairman says U.K. bank must focus on its strategy

By Vladimir Guevarra

Lloyds Banking Group PLC said Monday that it has appointed Sir Win Bischoff as chairman, succeeding Sir Victor Blank, who recently announced plans to retire following the bank's acquisition of troubled lender HBOS.

His appointment likely will appease shareholders who were unhappy with the HBOS acquisition, but his age will raise questions about the duration of his tenure. At 68 years old, Sir Win is two years older than the man he will succeed.

Sir Win recently left **Citigroup** Inc. in a shake-up after it sustained losses and faced a breakup of its businesses. He became chairman of Citigroup in late 2007, after leading Schroders PLC, which Citgroup acquired in 2000.

Win Bischoff

Sir Win said in an interview that he saw three immediate challenges facing Lloyds. "There is the economic environment, which is the challenge for all financial institutions at the moment. The second challenge is making sure the execution of its strategies are carried out. The third is to deliver value to all stakeholders," he said.

Sir Win said "it is still too early" to say what he could do differently on the Lloyds board. "But looking at it from the outside, it's important that Lloyds executes well on its strategy," he said.

U.K. Financial Investments Ltd., the government body that holds stakes in some of the U.K.'s largest banks, owns a 43% stake in Lloyds after the government bailed out the lender when it ran into problems amid the financial crisis and its takeover of HBOS.

Lloyds is putting increased focus on its integration strategy with the former HBOS and its subsid-

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French president leaves hospital after overnight stay

Associated Press

HEALTHY GESTURE: Escorted by his wife Carla Bruni-Sarkozy, left, Nicolas Sarkozy, who collapsed while jogging on Sunday, was discharged from the Val-de-Grâce military hospital in Paris.

FTSE matches its record for a rally

By Neil Shah

Britain's stock market matched its record for the most consecutive positive trading sessions, and many investors expect the gains to continue, despite the potential for modest stumbles in coming weeks as profits are taken.

On Monday, the U.K.'s benchmark FTSE 100 index notched its 11th consecutive day of gains, a feat achieved twice before in the index's 25-year history. The march upward has come in spite of hurdles such as gruesome new figures from the U.K. last Friday on economic output. The winning streak is a sign that some investors think the worst of the economic downturn has passed for companies.

The index rose 9.52, or 0.2%, to 4586.13 on Monday, up 11% during the 11 sessions from its starting point 4127.20 before the streak began. The size of the daily gains has generally shrunk as the streak has worn on, showing that some investors are pulling back a bit already.

But many observers see the moderating gains as speed bumps, not a brick wall the market is about to hit. "The market is losing a little momentum," says Mike Lenhoff, chief strategist at U.K. fund manager Brewin Dolphin. "But I think the rally is sustainable. We're here be-

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Speculators cleared in U.K. oil volatility

By Alistair MacDonald And Carolyn Cui

Britain's financial regulator has found no evidence that speculators are behind big swings in oil prices, as politicians in the U.S., the U.K. and elsewhere have suggested, according to people familiar with the matter.

Like other regulators around the world, the U.K.'s Financial Services Authority, which monitors all of the country's markets, has been examining whether speculation has driven big price changes in oil in recent months. The FSA is leaning toward the conclusion that recent volatility and price increases have more to do with uncertainty over economic growth than speculation, people familiar with the matter say.

The FSA's conclusions come as the U.S. commodities watchdog appears to be on track to smack down what it sees as "excessive speculation." The Commodity Futures Trading Commission has recently proposed a sweeping package of reforms to ensure the "fair, open and efficient functioning of futures markets," including more reporting requirements for hedge funds, application of caps on energy investors and elimination of existing waivers.

On Tuesday, the CFTC will hold its first public hearing in Washington to discuss various solutions to regulate energy markets. A second hear-

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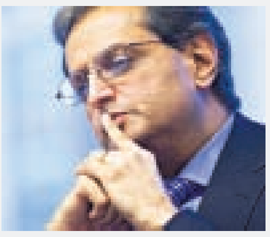
What's News

Inside



Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9108.51	+0.17
Nasdaq	1967.89	+0.10
DJ Stoxx 600	220.59	+0.42
FTSE 100	4586.13	+0.21
DAX	5251.55	+0.42
CAC 40	3372.36	+0.18
Euro	$1.4222	+0.15
Nymex crude	$68.38	+0.48

FSA to widen oversight

Regulator to toughen scrutiny of executives at financial firms

BY ADAM BRADBERY AND VIVEK AHUJA

LONDON—The U.K.'s financial regulator will introduce rules next month to broaden its scrutiny of executives who hold positions of "significant influence" at financial institutions and cover more proprietary traders.

The rules part of the regulator's wider efforts to toughen its oversight using the lessons of the financial crisis, are designed to ensure key staffers in financial firms have the skills and experience to manage a company effectively.

The FSA said the rules, which take effect Aug. 6, will expand to cover those whose decisions or actions are regularly taken into account by the firm's governing body. It also will include proprietary traders who aren't senior managers but are likely to exert significant influence over a company.

The FSA already has increased its oversight of company executives through its supervisory enhancement program, introduced in March 2008, which has focused on ensuring executives are competent to fulfil their roles and holding them accountable for poor conduct at their companies.

The regulator said it will proceed with rule changes it proposed in December to make sure it is monitoring all those individuals in a company who have a significant influence over its business strategy and operation.

But it clarified its proposed rules on Monday and said that not all proprietary traders will be covered by the new rules. Banks will decide which of their traders need to seek its "approved persons" status, it said.

The FSA can include people in its "approved persons regime" if they are "likely" to have "significant influence" on the firm's affairs. It said proprietary traders, through their ability to commit a firm's money, "have the potential to be able to exercise significant influence on the firm". The test in this case is whether they are likely to do so, it said.

Scrutiny of executives will also be extended to U.K. branches of overseas companies based outside the European Economic Area, the FSA said.

Executives on the hook

Rules governing the roles of senior executives and board members are being tightened.

■ **March 2008:** FSA launches supervisory enhancement program to boost its scrutiny of regulated companies and the staff within them by hiring more supervisors, improving their training and intensifying their methods of oversight.

■ **December 2008:** FSA proposes to broaden its scrutiny of executives who hold positions of "significant influence" at financial institutions by increasing the number of people it views as holding these roles.

■ **July 17, 2009:** David Walker publishes government-sponsored report on corporate governance standards at financial institutions in the U.K. which proposes non-executive directors and other board members be forced to dedicate more time to the job so they can challenge the decisions of senior management.

■ **July 27, 2009:** FSA decides to adopt its December proposals, by treating all staff whose decisions or actions are taken into account by management as having a significant influence, viewing some proprietary traders as key staff and expanding oversight to employees at U.K. branches of overseas firms based outside the European Economic Area.

Source: Dow Jones

North Korea says it is open to talks, but not 6-party

BY EVAN RAMSTAD

SEOUL—North Korea appears to have entered the next phase in its longtime pattern of provocation and negotiation, saying Monday it was open to international negotiations but not in the six-nation format that has been the main avenue of its diplomatic interaction since 2003.

The opening came in a sentence at the end of a lengthy criticism issued by North Korea's foreign ministry of the six-party talks it last participated in a year ago and formally declared over in April. At the end of the statement, the ministry said, "There is a specific and reserved form of dialogue that can address the current situation."

Analysts in South Korea interpreted the statement to mean North Korea wants to hold bilateral talks with the U.S., something it sought throughout the six-party process, which also involved China, Japan, Russia and South Korea.

The statement may signal a turn in the cycle of provocation and bargaining that stems from the early 1990s.

Report says U.K. faces tough job to pare deficit

BY LAURENCE NORMAN

LONDON—The U.K. government will struggle to achieve the efficiency savings it needs if it is to eventually rein in its deficit, a parliamentary report said.

The savings program—which outlines cuts to back-office and information-technology costs, revenue from property sales, and cost savings on government contracts, among other matters—is a central plank in the Treasury's plan to halve the deficit by March 2014.

With the recession biting into tax revenue and driving up welfare costs, the budget shortfall is set to rise above 12% of gross domestic product this year.

The report, published early Tuesday by the Treasury Select Committee—which is made up of lawmakers representing all parties—said a new approach to government costs was needed.

Alistair Darling

As the government piles up new borrowing, net debt is projected to soar to 80% of GDP five years from now.

In his April budget statement, Chancellor of the Exchequer Alistair Darling said the government would make savings valued at as much as £35 billion ($57.52 billion) a year in the current spending period, which started in April 2008 and ends in March 2011.

He also promised as much as £9 billion a year in additional savings between 2011 and 2014.

Under an earlier program, the government said it achieved £26.5 billion in savings between 2004 and 2008. In the parliamentary report, based on evidence from Treasury officials, outside consultants and industry experts, the committee questioned whether the previous savings were fully realized.

The committee noted there had never been a final report from the National Audit Office on the savings program and that an interim report from the auditors, in 2006, had confirmed only around a quarter of the savings.

That lack of proof "has led to a lack of confidence" over savings programs, the report said.

"At a time when the public sector will be pressed to make further efficiencies, it is vital that any savings made are properly recognized and quantified," the panel wrote. The government has committed to having the savings made from 2008 audited by the NAO.

The committee also raised concerns about the way the government had chosen its efficiency targets. It noted that in November's pre-budget report, the Treasury chose to lift the efficiencies target by £5 billion without prior consultation with other departments.

Looking ahead, in addition to measuring savings better to ensure they delivered real value, the report said the Treasury would need to employ a more comprehensive cross-departmental approach to generate promised efficiencies.

"Now, more than ever, efficiency savings that can be made in the public sector should be welcomed," the report said.

"However, we are concerned that these efficiencies will require considerable cooperation between departments... We have yet to see evidence that the necessary structures are in place to facilitate such cooperation."

The debate over efficiency savings come at a time when both the U.K.'s leading parties are locked in an argument about public spending levels amid the worst recession the U.K. has suffered in decades.

Prime Minister Gordon Brown's Labour Party has insisted it won't need to make spending cuts if it wins an election widely expected next year, with Messrs. Brown and Darling pointing to the efficiency savings, as well as planned tax increases, as means to avoid deep spending cuts.

The opposition Conservative party has said this approach is unrealistic and warned the U.K. could face a debt crisis if the government doesn't reduce the debt burden more quickly.

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

Struggling

Social Democrats are behind in opinion polls ahead of Germany's Sept. 27 election

Note: 2507 people were interviewed between July 13-17. Average error marginL +/- 2%
Source: Forsa

Associated Press

A row over a minister's use of her official Mercedes while on vacation is unlikely to help Social Democrats' low opinion-poll ratings

Car theft spurs questions

Missing Mercedes is an embarrassment for German minister

By Marcus Walker

BERLIN—Germany's health minister thought it would be a good idea to take her official, chauffeur-driven Mercedes on her Spanish vacation. It didn't make it back.

Thieves broke into an apartment where the minister's driver was staying on Spain's Costa Blanca, German officials said. The intruders absconded with his car keys while he slept and made off with the two-ton black limousine.

The theft occurred last week but the ministry only disclosed its disappearance over the weekend. Spanish police are still trying to locate the vehicle. If they fail, replacing it will be expensive—to save money, the health ministry didn't insure it against theft.

The incident is embarrassing for the minister, Ulla Schmidt, and an unwelcome distraction for her left-leaning Social Democrats, who trail far behind Chancellor Angela Merkel's conservatives with two months to go before Germany's national elections on Sept. 27.

The Social Democrats are struggling to win attention for their election campaign, with opinion polls showing that even many of their own voters give them little chance of unseating Ms. Merkel.

The case of the missing Mercedes-Benz has given an opening to German politicians from other parties to ridicule Ms. Schmidt and the Social Democrats.

"Frau Schmidt should get used to it—from Sept. 28 she won't have a government limousine anyway," said Patrick Doering, a lawmaker for the opposition Free Democrats.

The missing Mercedes was an S-Class, the brand's marquee sedan. For decades, the S-Class—short for *Sonderklasse* or "special class"—has been a favorite status symbol of German cabinet ministers as well as of heads of state, chief executives and oil sheiks around the world.

Some German leaders, such as Ms. Merkel and her defense, interior and foreign ministers, are obliged to travel everywhere—including while on vacation—in armored limousines accompanied by bodyguards, because they are considered at particular risk from terrorists. Other cabinet members, including the health minister, are free to choose their own means of transport abroad. Ms. Schmidt's colleagues in the cabinet went on vacation without their S-Class cars this summer, their spokespeople said.

While Ms. Schmidt continued her stay in Spain, her spokeswoman rejected any wrongdoing, telling reporters in Berlin that ministers are allowed to use their limousines both officially and privately, so long as they pay for the private portion, and that Ms. Schmidt obeys the rules.

The Mercedes' 4,800-kilometer round trip to Alicante, and the apartment for its chauffeur during Ms. Schmidt's three-week vacation, were paid for by taxpayers, the spokeswoman said, because Ms. Schmidt also had some official duties in Spain.

Ms. Schmidt's ministry has disclosed two work appointments: meeting the mayor of the town of Denia, where the minister is staying, and an address to German pensioners living in southern Spain on Monday night—which Ms. Schmidt had to drive to in a rental car. The ministry declined to say if she had any other appointments.

The German taxpayers' association on Monday demanded a full explanation of Ms. Schmidt's use of her government car on vacation.

German politicians are among the world's leading advocates of reducing carbon emissions to limit global warming. But their preference for heavy, powerful sedans such as the S-class underscores their close support for Germany's luxury-car makers.

Europe wary of lending, putting recovery at risk

By Nina Koeppen

Hitting the brakes

Private-sector loan growth in the euro zone

Source: ECB

FRANKFURT—Lending to euro-zone businesses cooled in June, indicating the economic recovery of the 16-country currency bloc is likely to run into financing constraints.

The annual growth rate of private-sector loans slowed to a record low of 1.5% in June from 1.8% in May, data from the European Central Bank show. The data show that banks were lending only reluctantly and that massive sums of state aid and liquidity provisions from the ECB haven't been fully passed on to end users.

"Having lent banks a record €442 billion ($628.3 billion) for one year at a fixed interest rate of 1% last month, the ECB will be pressing hard for them to step up their lending to businesses and consumers," said Howard Archer, chief European economist at IHS Global Insight in London.

In the U.K., which isn't in the euro zone, the government also was trying to coax more lending out of the banks. U.K. Chancellor of the Exchequer Alistair Darling met with U.K. bankers Monday after saying Sunday that he was extremely concerned about lending to small and medium-size companies.

Following the meeting, Mr. Darling said the government will comb through the lending activities of each bank over the coming weeks to see what is preventing them from lending more. Mr. Darling rejected the argument made by the banking sector that the government is making it hard for them by asking to both increase lending and repair their balance sheets. Mr. Darling said both can be done.

"There is no doubt that the banks must take some of the blame for this fiasco, but the government cannot escape responsibility either," said Philip Hammond, the opposition Conservative Party's shadow chief secretary to the Treasury. "They have been talking about this problem—and claimed on more than one occasion they had a solution—for months now while jobs and businesses continue to be lost."

In the 16 countries that use the euro, the annual growth rate of loans to nonfinancial companies decreased to 2.8% in June from 4.4% in May, the ECB data showed. Consumer-credit growth contracted 0.7% in the year through June. The rate was unchanged from May. Loan growth to euro-zone households, meanwhile, increased by an annual rate of 0.2%. Mortgage lending was flat in June, after contracting 0.5% in May.

U.K. urges Afghan leaders, liberal Taliban to reconcile

Associated Press

BRUSSELS — British Foreign Secretary David Miliband said the Afghan government must reconcile with Taliban guerrillas willing to take part in the political process in the aftermath of an allied military surge.

Mr. Miliband said that while hard-line fundamentalist commanders committed to a global jihad must be pursued relentlessly, ordinary rank-and-file Taliban should be given the opportunity "to leave the path of confrontation with the government."

David Miliband

He said Afghanistan's government must develop "a political strategy for dealing with the insurgency through reintegation and reconciliation" and an "effective grass-roots initiatives to offer an alternative to fight or flight to the foot soldiers of the insurgency."

Mr. Miliband cited Taliban members who have returned to the fold.

"Former Taliban sit in parliament. And Mullah Salam left the Taliban in late 2007 to become district governor of Musa Qala," said Mr. Miliband. "So there is no reason why members of the current insurgency cannot follow—if they are prepared to be part of a peaceful future and accept the Afghan constitution."

Britain's defense ministry said Monday that an offensive to oust Taliban fighters from a stronghold in Afghanistan before next month's election has been a major success. Brig. Tim Radford, commander of Britain's 9,000 troops in Afghanistan, told reporters that the five-week mission, named Operation Pather's Claw, had cleared insurgents from a key area in Helmand province in the south of the country.

More than 20 U.K. soldiers have died in July—most on missions unrelated to Panther's Claw.

Mr. Miliband reiterated a call for greater burden-sharing between the allies, some of whose contingents—including those from Germany, Italy, Spain and Turkey—are based in the relatively safe north and west of the country. Their governments have refused to allow the troops to be deployed to the much more dangerous southern and eastern provinces.

Also Monday, Sweden's Foreign Minister Carl Bildt, whose country holds the European Union presidency, said the 27-nation bloc must look at ways to accelerate political and economic progress in Afghanistan.

"To build a functioning state in one of the world's poorest countries which has been devastated by war for more than 30 years ... requires that we're there for the long haul," said Mr. Bildt, who visited Afghanistan last week. The EU provides about €900 million ($1.2 billion) a year in assistance to Afghanistan.

EU speeds Iceland's application

By Charles Forelle And Marc Champion

BRUSSELS—The European Union ordered its officials to begin examining Iceland's application to join the bloc just days after it was filed, in a clear sign the island nation will get swift treatment.

The speed of the move was in marked contrast to how some other applications to join the bloc have been handled. The EU still hasn't got back to Albania, which applied four months ago. It took 10 years for Turkey to be declared "eligible" after it applied.

But Iceland is a different matter. It is a country of 300,000—no great strain on anyone's labor market. It has bountiful geothermal energy. Its population is among the richest in Europe, though a hard crash in the financial crisis took it down a few pegs.

"Iceland's application will be treated by the book. There will be no short cuts," EU-enlargement commissioner Olli Rehn pledged at a news conference in Brussels on Monday. But he acknowledged that as "one of Europe's oldest democracies" and a member of the European Economic Area already, it had a shorter distance to travel.

For supporters of EU membership in Iceland, the major attraction is to join the euro, the bloc's common currency, and ditch the krona—which fell so precipitously last fall that it stopped being traded internationally. "If there is anything we have learned" from the crisis, said Össur Skarphédinsson, Iceland's foreign minister, "it is the fact that it is extremely difficult for a small country like ours to maintain an independent micro-currency in a world that's globalized."

Iceland's biggest hurdle to EU membership may be its own people, however. The bill to make the application passed Iceland's parliament narrowly, while a final decision to join the bloc would need approval in a referendum. A Capacent Gallup survey in May for broadcaster RÚV found 39% supporting EU membership and 39% opposed.

That contrasts strongly with Albania and other aspirants in the western Balkans—Croatia and Macedonia have also applied—which are keen to get in but are held back by disputes with existing EU members or by EU concerns over poverty or corruption. The EU said it wouldn't accept Albania's application unless it held free and fair parliamentary elections in June.

EU foreign ministers promised Monday in their statement on Iceland that they remain committed eventually to admitting the countries of the Balkans and that they will return to Albania's application once the country's election cycle is complete. On Monday, Albanian election officials said the party of incumbent Prime Minister Sali Berisha and a coalition partner had won just enough seats in June's election to form a government, following a recount.

The EU often touts the lure of enlargement as its most powerful foreign-policy tool. But the EU—now 27 members—has begun to suffer from "enlargement fatigue." As unemployment mounts, few EU governments are eager to tout enlargement's virtues while their own populations fear competition from cheap labor to the east.

CORPORATE NEWS

Pandit affirms Citigroup's faith in Asia

CEO sees region as key source of income, aims to expand in China, India; a slap at rivals for selling bank stakes

By Peter Stein
And Rick Carew

HONG KONG—**Citigroup** Inc. Chief Executive Vikram Pandit declared the bank wouldn't retreat from fast-growing Asian businesses even as the financial crisis has forced it to shrink its balance sheet by about 25%.

"There's no question in our mind that Asia is going to represent a disproportionate amount of the world's growth over the next decade," Mr. Pandit said in an interview at Citigroup's Hong Kong headquarters on Monday. That will result in big opportunities for Citi to expand its presence in trade finance, custody business and cross-border cash flows, he said.

Vikram Pandit

"The intra-Asia flows are going to grow exponentially."

At a time when Citi's business in the U.S. remains weak from bad consumer loans, Asia is becoming a critical source of income. In the second quarter, net income from the Asia-Pacific region accounted for nearly 40% of global revenues at Citicorp, the unit that contains what Citi considers its core business of consumer banking and institutional client services.

Mr. Pandit, 52 years old, has held the top job at Citi since December 2007. A native of India who has studied and worked in the U.S. for much of his life, Mr. Pandit says his background gives him "a sense of understanding how different parts of the world click," which is important to appreciating Citigroup's global business.

While Citi is eager to expand its Asian business, Mr. Pandit still acknowledges "a significant responsibility" on Citi's part to help be "an integral part of the American recovery." He cited Citi's efforts to help American homeowners and credit-card holders who are having trouble making their payments.

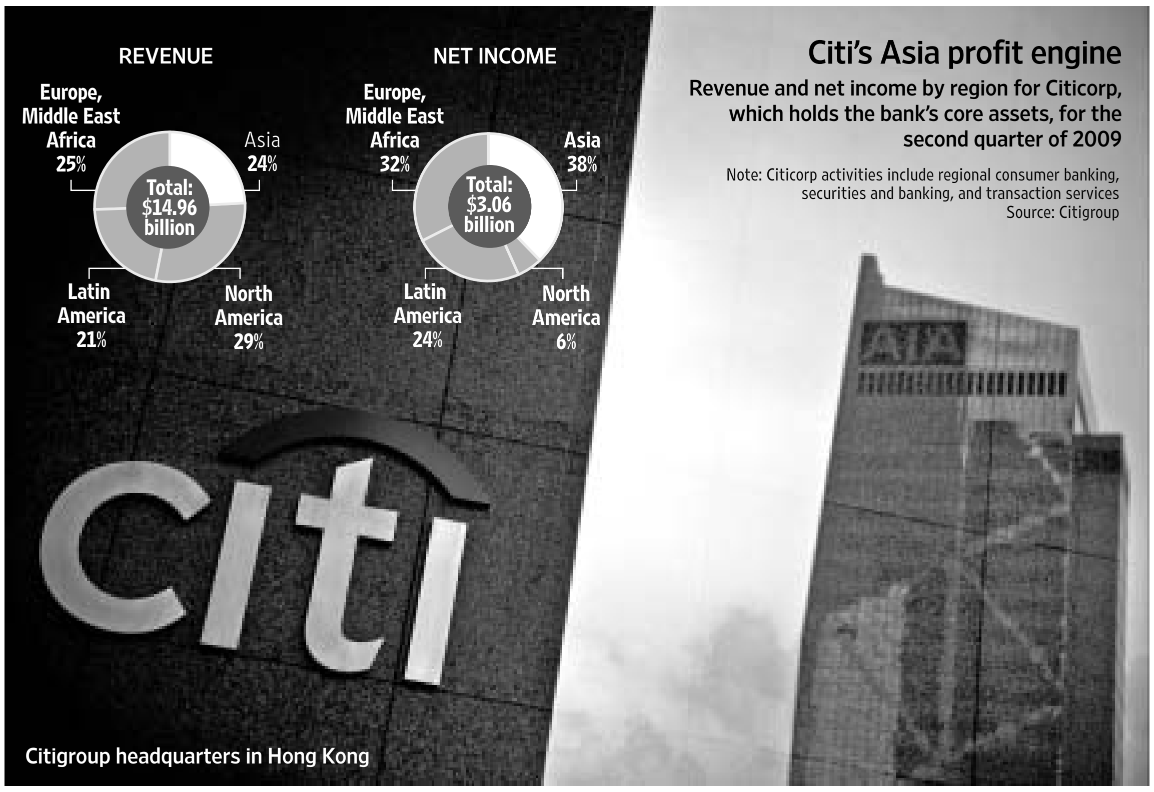
But "now it's the turn for the foreign consumer to rise," he said, and American businesses can help with the U.S. recovery through exports to overseas consumers.

Mr. Pandit said he hopes to continue expanding Citigroup's business in the two biggest engines of growth in Asia, China and India, despite tough local restrictions that tie its hands more than in some other markets.

He took a swipe at competitors who sold down strategic stakes in Chinese banks to raise billions of dollars in capital during the financial crisis. **Royal Bank of Scotland Group** PLC sold its entire stake in **Bank of China** Ltd. and **Bank of America** Corp. and **Goldman Sachs Group** Inc. have both pared their holdings in Chinese banks this year.

"There have been other companies in the U.S. who have sold positions in their banks during this turbulence," Mr. Pandit said. "Maybe for them China is a financial play, but for us China is an important part of Citi's strategy in the future."

In China, Citigroup has one of the largest networks among foreign banks, with eight corporate branches and 26 consumer bank outlets. It also owns a 20% stake in southern Chinese lender **Guangdong Development Bank**.



Citigroup headquarters in Hong Kong

Thomas Lee

Asked whether Citigroup would consider selling its stake in Guangdong Development Bank to help raise capital, Mr. Pandit said "our actions speak." He noted that Citi has "sold a lot of businesses or rationalized our businesses, and diluted our shareholders to raise a lot of equity." By contrast, it has held on to its biggest investment in China. "I think those actions stand for something," he said.

A just-completed exercise will end up converting some $58 billion of preferred and trust preferred securities into common shares, leaving Citi better capitalized. But it will also leave the government likely holding 34% of the bank. However, Mr. Pandit dismissed suggestions that competitors speaking ill of Citi's bailout from Washington are affecting the business. "I've usually found that you don't win business by talking down somebody," he said.

The global nature of Citi's fund flows can be controversial. Robust savings deposits in parts of Asia can be used to extend loans in an economically weaker U.S., potentially spreading default risk across borders. There are points in time, Mr. Pandit acknowledged, when companies in one part of the world need loans and liquidity available from elsewhere in the world.

"That's the business that we're in," he said. However, he added that the safety and soundness of its local businesses was critical and Citi worked closely with regulators everywhere it operated.

U.S. auto adviser vows to defer to GM, Chrysler boards

By John D. Stoll
And Josh Mitchell

The Obama administration's new top automotive-industry adviser, Ron Bloom, vowed to take a back seat to newly appointed directors overseeing **General Motors** Co. and **Chrysler Group** LLC following massive government bailouts of the two car companies.

GM, meanwhile, said it expects in the near future to receive additional funding commitments from the government to revamp its production lines to build more-fuel-efficient vehicles.

Mr. Bloom, speaking Monday in Detroit to the congressional oversight panel handling Troubled Asset Relief Program funds, said the administration will defer to newly installed boards of directors when it comes to the intense oversight needed to complete the auto makers' reorganizations.

"The companies are now being run as commercial enterprises by their management teams, and they will report to new, independent boards of directors," Mr. Bloom said. The administration had played a commanding role in preparing the companies for bankruptcy in recent months, and had ousted key executives and directors in an effort to breathe fresh life into operations.

The pledge to let GM and Chrysler run with less government oversight could ease fears related to the Treasury Department's equity stakes in the two. Mr. Bloom reiterated the government's plan to start selling its stakes of the two companies as early as next year, and be a silent shareholder in the meantime.

"There is no checking with the government," he said in relation to company leaders' approach to running their businesses, adding that board members will not need to "look back" over their shoulder to make sure the government is approving all decision making.

Bloomberg News

Ron Bloom, head of the Obama administration's auto task force, spoke at a Washington, D.C., hearing on auto-industry bankruptcies last Tuesday.

Chrysler's new nine-member board, headed by Chairman Robert Kidder, met formally for the first time on Monday. GM's new 13-member board will convene next week, under the leadership of Chairman Ed Whitacre.

Mr. Bloom, a former adviser to the U.S. Steelworkers union, joined the administration's so-called Automotive Task Force in February, initially working under private-equity veteran Steven Rattner. Mr. Rattner and other task force members have since decided to relinquish their posts, leaving Mr. Bloom to look over the government's massive investment in GM, Chrysler, auto suppliers and lenders.

The Treasury Department has committed over $60 billion in direct assistance to GM and Chrysler. Tens of billions more have been committed to **Delphi** Corp., **GMAC** LLC and suppliers. The Department of Energy has committed $25 billion in funding for auto makers to retool factories in order to develop and build fuel efficient cars.

GM Treasurer Walter Borst, speaking to the congressional oversight panel following Mr. Bloom's testimony, said the auto maker expects billions in additional Energy Department funding now that the auto maker is "viable."

GM has applied for more than $10 billion in Department of Energy funds, according to a spokesman. The spokesman said GM expects to receive most, but not all, of that funding if the DOE approves GM's loan request.

The DOE has thus far withheld putting funds into GM because of the auto maker's bankruptcy and financial troubles.

Mr. Borst, in remarks to the committee, said those funds are part of GM's shorter-term liquidity assumptions. He pointed to the monies as one of several liquidity sources that GM will use to meet its future capital requirements.

In an interview, Mr. Borst said that the DOE money is critical to helping implement business plans that "we believe strongly in." However, he said the company can operate without those specific funds. "We're not dependent on them."

Economy & Politics

Reaching out

India's low-key premier makes a high-stakes gamble on Pakistan > **Page 10**

CORPORATE NEWS

Ryanair turns in profit

Low-cost carrier issues a warning on full-year earnings

By Kaveri Niththyananthan And Daniel Michaels

LONDON—**Ryanair Holdings** PLC showed its resilience in a difficult airline market as it turned in a profit for its fiscal first quarter, but warned that full-year earnings will be at the lower end of its outlook.

The Dublin-based carrier, Europe's largest low-cost airline by passengers carried, previously forecast net profit for the year through March 31 at between €200 million ($284.3 million) and €300 million. In Dublin, Ryanair shares fell 32 European cents, or 9.3%, to €3.08.

Ryanair said it expects yields, or average revenue per passenger, to fall by at least 20% in the year. Unit costs, excluding fuel, are forecast to drop about 5%. Ryanair has among the lowest costs per passenger-kilometer in the global airline industry.

Airlines world-wide are suffering as people fly less and become more price sensitive. Ryanair, unlike most carriers, has operated profitably while growing and attracting passengers by slashing fares.

"We really love a recession because it clears out a lot of the dead wood and it focuses consumers on price," said Chief Financial Officer Howard Millar. He said Ryanair expects passengers to remain price sensitive for the rest of the year, but that it can capitalize on the economic downturn as rivals struggle.

Net profit for the three months to June 30 was €123 million, compared with a net loss of €90.5 million a year earlier, when Ryanair booked large charges.

Revenue slipped to €774.7 million from €776.9 million. Nonfare revenue, from areas such as inflight sales and passenger charges, grew 13% to €165.3 million.

Deputy Chief Executive Michael Cawley said the decision to drive fares lower was necessary to sell seats, especially during the winter season, when travel is typically weaker. He added that there is no limit to fare reductions if costs can be cut further.

The airline has been pulling out of airports with higher charges, such as Stansted Airport near London and Dublin Airport, in favor of cheaper European bases so it can maintain or raise margins. Mr. Cawley added that it would make further capacity cuts at Dublin Airport in coming weeks but declined to give details.

Ryanair's decision to shift out of U.K. and Irish bases could have more to do with the impact of recession on those economies rather than tourist taxes, or airline passenger duty, as the company has stated, said Wyn Ellis, an analyst at Numis Securities in London.

"There's no doubt the U.K. and Irish markets have taken a hammering," said Ryanair's Mr. Millar.

Ryanair plans to continue growing and doesn't plan to cut back on aircraft orders, executives said, in contrast to British rival **easyJet** PLC, which is expected Wednesday to disclose it is reining in fleet expansion.

Mr. Millar said he expects Ryanair's seat capacity to grow 15% this year. He said increases will slow from 2012, to between 5% and 9%. The airline has secured a $1.5 billion financing deal with three unnamed banks through the end of September 2010, which would help fund the purchase of 55 aircraft, the finance chief said.

First-quarter fuel costs fell 42% to €214 million and the airline has now hedged 90% of its fuel needs for the first three quarters at $620 a ton.

Associated Press

Ryanair swung to a fiscal first-quarter profit but warned full-year earnings will be at the lower end of its outlook. Pictured, Ryanair planes at Stansted Airport in England.

Lacroix in joint bid for own house

By Max Colchester

Italy's **Borletti Group**, an investment company that owns stakes in Europe's La Rinascente and Le Printemps department stores, is one of four firms to have submitted bids for Christian Lacroix fashion house, raising hopes that the struggling French brand won't be closed down.

Lacroix was placed under bankruptcy protection in June after failing to turn a profit since its creation in 1987.

"The Borletti Group wants to help a creator and protect haute couture know-how," said Diane d'Oleon, a spokeswoman for the Borletti. Ms. d'Oleon declined to comment on the amount the group would pay for the fashion house.

Borletti bid together with Christian Lacroix, a co-founder and designer of the fashion house. A spokeswoman for the fashion house said the designer declined to comment.

Christian Lacroix is currently owned by the **Falic** group, a U.S duty-free store operator that bought the brand from fashion group **LVMH Moët Hennessy Louis Vuitton** SA in 2005.

Since the takeover, the fashion house has struggled with a costly move to sell higher-priced goods—a strategy hampered by the global recession. In 2008 it recorded a €10 million loss ($14.2 million) on €30 million in sales.

The bankruptcy filing sparked an outcry in France, where Christian Lacroix is considered a cultural gem. On Monday, France's Industry Minister, Christian Estrosi, said he would meet with Mr. Lacroix on Tuesday to discuss the brand's future.

At the end of July, Christian Lacroix's 125 workers will be asked to go on holiday until the end of August, a spokeswoman for Christian Lacroix said. If a buyer isn't found, 112 staffers are expected to lose their jobs.

A spokeswoman for the court-appointed administrator of the Christian Lacroix brand said that the Borletti Group's offer was the only "serious" one on the table. The winner of the bid will be announced by the administrator in September.

LVMH feels squeeze from downturn

By Max Colchester

LVMH Moët Hennessy Louis Vuitton SA, the world's biggest luxury-goods group by revenue, posted a 23% drop in first-half profit as the global economic slump hit the company's watch and jewelry division especially hard.

Paris-based LVMH, whose brands include the Louis Vuitton fashion house and champagne maker Moët & Chandon, said revenue edged up 0.2% to €7.8 billion ($11.1 billion) in the six months ended June 30, compared with the year-earlier period. Profit fell to €687 million from €891 million.

The Louis Vuitton brand held up well, driving sales at the fashion division up 8% to €2.98 billion. LVMH reiterated its goal of gaining market share over the year and said it would pay an interim dividend of 35 European cents.

Yet the overall results underline how the world's $240 billion luxury-goods industry, at first slow to feel the effects of the economic downturn, is now suffering as even the world's highest-spending consumers cut back. On Friday, **De Beers** SA, the world's top diamond producer, posted a 57% decline in first-half sales of rough diamonds.

LVMH's results are a particularly important indicator of how the luxury-goods industry is faring—in large part because the company's divisions span many aspects of the market, including handbags, cosmetics and champagne. The company was due to release its results on Wednesday but unexpectedly announced them on Monday evening, saying its planned statement had been partially leaked to a news agency. Analysts said they were waiting for more details from the company during a Tuesday conference call.

In its statement, LVMH said first-half watch and jewelry sales fell 17% to €346 million.

Makers of videogames can't dodge the recession

By Yukari Iwatani Kane

The tentacles of the recession have reached into the videogame industry, a business that was long considered downturn-resistant.

As recently as six months ago, the videogame industry was racking up strong growth even as other businesses reported sharp declines in sales and profits. U.S. videogame sales jumped 10% in January as consumers snapped up $60 to $70 games, which can bring dozens of hours of at-home family entertainment.

But last month, videogame sales plunged by a record 29% year over year, according to market-research firm **NPD Group**. Meanwhile, hardware sales plummeted 38% as demand for **Sony** Corp.'s Playstation III and Nintendo Co.'s Wii dropped. The steep drops came on top of a gradual sales decline that began in March.

The turnabout is rippling out to companies such as online retailer **Amazon.com** Inc. Last week, Amazon blamed weak quarterly results from its media business on a decline in videogame sales. "You're seeing an industry slowdown in games and consoles," said Amazon finance chief Tom Szkutak in a conference call.

The reversal of fortune is likely to show up further in coming weeks. When Nintendo reports earnings Thursday, some analysts expect to see weaker revenue on a decline in Wii sales and slower-than-expected software sales. Videogame retailer **GameStop** Corp., which reports earnings next month, is also projected to post less-robust results. Game publishers **Electronic Arts** Inc. and **Activision Blizzard** Inc. are expected to post lackluster results when they report in early August, though EA has the advantage of a stronger roster of new games like "Tiger Woods PGA Tour 10."

"Initial orders for our products are tending to be lower," said Strauss Zelnick, chairman of **Take-Two Interactive Software** Inc., best known for its "Grand Theft Auto" action-game series. "It's not just us, but the industry as a whole." The New York company cut its annual earnings forecast earlier this month, in part because it postponed the launch of its BioShock 2 shooter game.

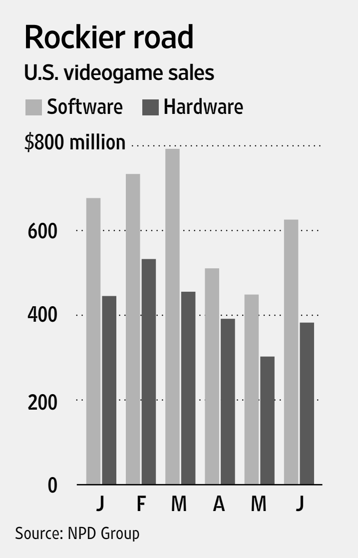
While the videogame industry had hopes of posting double-digit revenue growth this year, analysts now predict flat to 5% growth from $11 billion in 2008. Jesse Divnich, an analyst for Carlsbad, Calif., research firm Electronic Entertainment Design and Research, said he will "be happy if the industry grows."

The weakness stems from more consumers sitting on the sidelines and tightening their purse strings, especially as they wait for Nintendo, Sony and **Microsoft** Corp., maker of the Xbox 360, the maker of the PlayStation 3, to cut the prices of their consoles. Many console and PC game sales are also being cannibalized by digitally downloaded games and alternative entertainment sources like **Apple** Inc.'s iPhone, which offers thousands of games that can cost only 99 cents or even nothing at all.

The videogame industry also faces tough comparisons to last year's second quarter, which was particularly strong given the release of blockbuster games like Take-Two's "Grand Theft Auto IV" and Nintendo's "Wii Fit" and "Mario Kart Wii."

But the recession has clearly exacerbated the falloff. "It's highlighting the weak months because if people don't really have a reason to go out to the store, they're not," said John Taylor, a financial analyst for **Arcadia Investment** Corp. in Portland, Ore., alluding to the industry's tendency to see the biggest sales during the year-end holiday season.

Many videogame executives say they remain positive about the industry, pointing to coming releases of big titles. Nintendo is launching "Wii Sports Resort," a collection of resort sports games, this week. Meanwhile, MTV Games is releasing its "The Beatles: Rockband" music game in September and Activision will start selling shooter game "Call of Duty: Modern Warfare 2" in November.



Analysts expect Sony to cut the price on its PS3 by about $100 this year, leading to price cuts by Microsoft on some of its Xbox 360 models. The PS3 starts at about $400, compared with the equivalent Xbox 360, which costs about $300. Though Nintendo has said it won't cut prices on its $250 Wii this year, it is expected to do so indirectly by bundling games with the console.

Representatives for Sony and Nintendo say there are no plans for a price cut at this time. Microsoft declined comment. But Tony Bartel, GameStop's merchandising and marketing chief, said the company has factored in "a price cut in at least one of the platforms" and is "anticipating a very strong third and fourth quarter."

Still, videogame makers and retailers are likely to run into choosier consumers like Vaughn Forman. Mr. Forman, a 24-year-old gamer in Delray Beach, Fla., owns the latest consoles from Microsoft, Nintendo and Sony but said he is buying fewer games because he is still looking for work after graduating from college. While he wants to buy "The Beatles: Rockband" game, which will go for $250 with accessories, he said he "can't afford to buy it until I get a job."

Evan Wilson, an analyst with **Pacific Crest**, said many people are continuing to play games they already own, particularly since many of the games can now be refreshed with updates and new features online. "Games provide so much value that you don't necessarily need to buy other stuff," he said.

CORPORATE NEWS

Pearson gains on steady textbook sales

Profit falls 53% at newspaper unit as advertising slides

By Aaron O. Patrick

Publisher **Pearson** PLC reported surprisingly strong first-half earnings Monday, but its Financial Times unit was hit by a big drop in ad revenue.

Shares in the London-based media group jumped 12% to £6.79 ($11.16) on news that its textbook businesses are proving resilient to the global recession.

Net income swung to a £28 million profit from a £62 million loss in the year-earlier period, when it took a hit on an asset sale. Revenue rose 1% to £2.4 billion after stripping out the effect of currency shifts. Pearson generates most of its sales and profits in the second half.

The company is known for its Financial Times newspaper and Penguin book unit, one of the world's biggest publishers. But Pearson is dominated by its education division, which owns Pearson Prentice Hall and other textbook publishers.

In the U.S. and Canada, education sales rose 1% in the first half, after stripping out currency moves, to £943 million—a good result given that the recession has crimped budgets of state governments, which buy a lot of schoolbooks. Some analysts had expected revenue at the division to fall 4%, but Pearson kept revenue flat by winning market share from rivals.

The better-than-expected results allowed the company to stick by earlier full-year profit forecasts for all of Pearson in 2009, reassuring investors and sending the shares surging.

But the result highlighted that the FT Publishing division, which includes the Financial Times, has been unable to escape the problems affecting newspapers around the developed world.

Weaker advertising helped drive down sales at the unit 6% to £176 million from the year-earlier period. That contributed to a 53% fall in operating profit to £14 million—a sign of how a newspaper's profits can be quickly wiped out by even a small drop in ad revenue because of the cost of maintaining a large staff of journalists.

Pearson Chief Executive Marjorie Scardino said finance and recruiting ads were sharply down. Newspaper circulation often increase during a crisis but the Financial Times gave away fewer free copies in London's financial district, Mrs. Scardino said, contributing to a 6% decline in world-wide daily circulation to 421,429. In the U.K., its home market, 24% of the FT's circulation was given away or sold at a big discount in May, according to the U.K.'s Audit Bureau of Circulations Ltd.

"We're all about who is reading it, not how many people read it," Mrs. Scardino said at a press briefing in London.

While Pearson's education and book-publishing businesses have been fairly stable in recent years, results at FT Publishing have been more volatile.

To reduce its reliance on advertising, Mrs. Scardino has sold newspapers and bought publications that generate online subscription revenue, including financial data and news provider Mergermarket Ltd., which was purchased for £101 million in 2006. As a result of the deals, the proportion of FT Publishing's revenue from advertising fell from 67% in 2003 to 42% now, Pearson said.

In March, Pearson approached some of its large shareholders and asked if they would buy Pearson shares to fund another acquisition. Mrs. Scardino dropped the idea when the shareholders asked her to reveal the name of the target, she said Monday. "It always leaks," she said.

—Kathy Sandler contributed to this article.

Thomson shares jump after deal to revamp debt

By Ruth Bender

PARIS—**Thomson** SA shares surged Monday after the French media-technology and services company set out the terms of a debt-restructuring agreement with the majority of its creditors, ending months of uncertainty over its future.

The company, which supplies set-top boxes, video-production services and DVDs and whose customers include major Hollywood film studios and telecom operators , has suffered as the financial and economic crisis has hit consumer demand for its customers' products and services.

Shares surged 38% before trading was suspended at the request of the French market regulator Autorité des Marchés Financiers pending the company's full first-half earnings report. They didn't resume trading before the market closed.

Thomson late Friday said a majority of its creditors agreed to a far-reaching restructuring plan that will cut its gross senior debt by 45% to €1.55 billion ($2.2 billion), mainly through the conversion of debt to shares, and at least halve the value of existing shareholders' stakes.

The debt reduction will come via three instruments: A €350 million rights issue, the issue of €639 million of redeemable notes and up to €300 million of notes that will be paid by the end of 2010 with proceeds from the disposals of the Grass Valley, PRN and Screenvision units, Thomson said.

The agreement ends more than six months of negotiations, during which the company received two waivers from creditors after it announced in January that it was likely to breach covenants on some of its private placement notes.

Not all creditors have signed the agreement, notably Deutsche Bank AG, which is one of Thomson's big private-placement debt holders.

On Monday, the firm reported a €325 million first-half net loss, wider than the year-earlier €182 million loss. Revenue fell 1.9% to €1.80 billion from €1.84 billion.

CORPORATE NEWS

Tata Motors reports gain

Decline in car sales offset by lower costs, eased currency losses

By Santanu Choudhury
And Anirban Chowdhury

NEW DELHI—**Tata Motors** Ltd. on Monday posted an unexpected 58% rise in first-quarter unconsolidated profit as lower commodity prices and a smaller foreign-exchange loss helped offset declining vehicle sales.

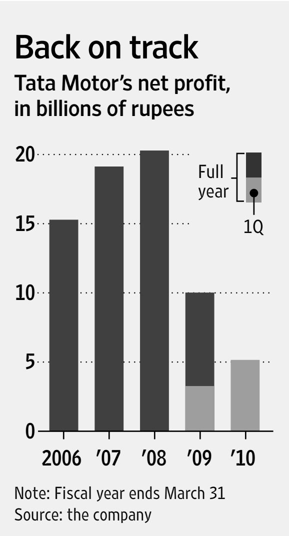
Profit in the April-to-June quarter, which doesn't include results of U.K.-based vehicle brands Jaguar and Land Rover, climbed to 5.14 billion rupees ($106.9 million) from 3.26 billion rupees a year earlier, India's biggest auto maker by sales said.

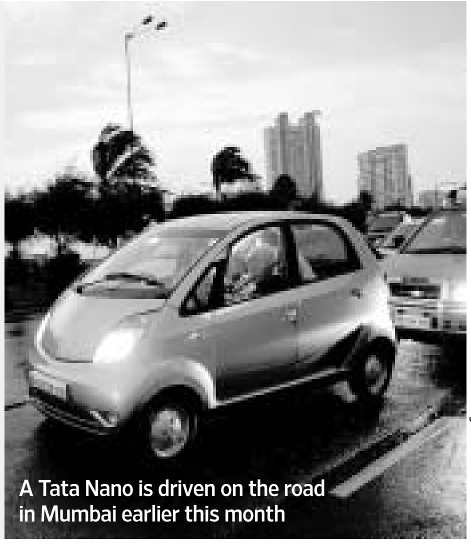
The average of estimates in a Dow Jones Newswires poll of 11 analysts had forecast Tata Motors' profit to shrink to 1.6 billion rupees during the quarter.

Quarterly sales slid 7.8% from a year earlier to 63.5 billion rupees.

"It is a good set of numbers," Surjit Arora, analyst at Mumbai-based Prabhudas Lilladher Pvt. Ltd. said. "On an operating basis, their numbers were ahead of expectations."

Tata Motors didn't say when it will issue consolidated results, including those of Jaguar and Land Rover. Tata Motors, maker of the Nano—the world's cheapest car—acquired Jaguar and Land Rover luxury marquees from Ford Motor Co. last year. The company had a consolidated loss of 25.05 billion rupees in the fiscal year ended March 31.





A Tata Nano is driven on the road in Mumbai earlier this month

The auto maker lifted its earnings before interest, taxes, depreciation and amortization margin to 11.4% in the first quarter from 7.1% a year earlier. Tata Motors attributed that to "continued focus on cost efficiencies, coupled with reduction of raw-material prices, inventory reduction and improvement in sales realization."

Quarterly profit included a one-time gain of 3.19 billion rupees from the sale of part of its stake in **Tata Steel** Ltd.

Tata Motors also had an unrealized foreign-exchange loss of 55.4 million rupees in the April-June period, compared with 1.62 billion rupees a year earlier.

The auto maker's local sales fell 1.4% to 122,120 vehicles during the three-month period, while exports declined 43% to 5,220 vehicles.

Local sales of trucks and buses rose 1.1% to 72,216 vehicles, while those of cars and sport utility vehicles, including **Fiat** SpA vehicles distributed by Tata Motors, dropped 4.9% to 49,904 vehicles.

Tata Motors' spending on steel and other raw materials, its single-biggest expense, fell 24% in the first quarter to 38.02 billion rupees.

Chief Financial Officer C. Ramakrishnan said the company is projecting between 25 billion rupees and 30 billion rupees in capital expenditures this fiscal year.

Aetna's net falls 28% as costs rise

Aetna Inc.'s second-quarter profit fell 28%, a drop the health insurer blamed in part on members' increased use of medical services.

By Avery Johnson,
Vanessa Fuhrmans
and Dinah Wisenberg Brin

For the second time this year, Aetna cut its 2009 per-share earnings forecast, this time to between $2.75 and $2.90, down from an original outlook of $3.85 to $3.95.

The difficult quarter comes as the health-insurance industry is being scrutinized by lawmakers seeking to wring costs out of the health-care system. Unlike its peers, Aetna had held up well as mounting unemployment has left more Americans without insurance and forced some companies to adjust their profit forecasts.

For the quarter, Aetna posted a profit of $346.6 million, or 77 cents a share, down from $480.5 million, or 97 cents a share, a year earlier. Excluding items, earnings would have fallen to 68 cents from 94 cents. The company said in June it expected 76 cents to 80 cents a share, and analysts, on average, were expecting earnings of 78 cents a share. Revenue rose 11% to $8.67 billion.

Total medical-benefits ratio, or the amount of premiums used to pay patient medical costs, jumped to 86.8% from 81.9% a year earlier. The company's ratio for commercial plans was 85.9%.

The Hartford, Conn., health insurer blamed the higher costs on recessionary factors, such as members accelerating their use of medical services and health providers billing for more services for a given diagnosis.

Aetna also noted delays in taking into account all of its medical costs from last year, which contributed to it underpricing some health plans for this year. Aetna said it would adjust its prices to keep up with higher costs, step up its efforts to manage costs and encourage doctors to stick to evidence-based procedures.

"We now know that our 2008 commercial medical-cost baseline was higher than we projected," and 2009 pricing "was insufficient to cover those higher medical costs," Aetna Chairman and Chief Executive Ronald Williams said.

Aetna said the increase in cost was driven by more services ordered per visit, not more visits.

Another possible factor is the growing number of members who are continuing their coverage under the federal Consolidated Omnibus Budget Reconciliation Act, or Cobra, rules. Aetna says that historically 1% to 1.5% of its membership has been from Cobra but that this year that number is closer to 2%. Patients on Cobra are nearly twice as costly for the insurer as patients in its regular commercial pool.

Meanwhile, hospitals and doctors are also under pressure. "If the economy is bad and the provider is seeing fewer people showing up, they want to get the most out of the people who come in," says analyst Carl McDonald of Oppenheimer & Co.

Stagecoach looks over National Express

By Michael Carolan

LONDON —**Stagecoach Group** PLC added itself to the list of companies looking to buy parts of struggling transport operator **National Express Group** PLC.

Last week, a team led by National Express's largest shareholder—the Cosmen family of Spain—made an indicative proposal to buy National Express in a cash bid. On Monday, Stagecoach confirmed that it was in exclusive talks to buy some assets of National Express, should the Cosmen bid succeed.

National Shore Capital said National Express's bus and coach operations would provide significant benefits for Stagecoach: Both companies operate in the U.K. rail, bus and coach sectors, as well as in the U.S. bus industry. National Express also has bus and coach operations in Spain.

The Cosmen family already owns 18.7% of National Express and last week teamed up with private-equity group **CVC Capital Partners** Ltd. to make the bid—estimated to be worth £500 million ($821.5 million). That offer was revealed soon after another bid for National Express was abandoned, this one from FirstGroup PLC, a rival U.K. operator and owner of Greyhound bus lines in the U.S.

Takeover interest in National Express has been prompted by a 60% fall in the company's share price in the past year.

GLOBAL BUSINESS BRIEFS

Thales SA

Airbus program woes leads to loss at Thales

French defense-electronics company **Thales** SA said Monday it swung deep into the red in the first half, partly due to a new €102 million ($145 million) provision against its work share in the troubled Airbus A400M military transport aircraft program. The company reported a €25 million loss, compared to a €244 net profit a year earlier. Thales said a purchase-price allocation, the amortization of goodwill related to past acquisitions, hit its bottom line by €37 million. Revenue rose 1.3% to €5.74 billion from €5.67 billion. Thales said the performance of its aerospace businesses was affected by higher-than-expected development costs for the flight-management system it is supplying for the A400M. That program is running three years late, and is incurring major cost overruns.

EADS

European Aeronautic Defence & Space Co. said Monday that Saudi Arabia ordered three additional Airbus A330 tanker-transport jets for the Royal Saudi Air Force. This brings the country's total order to six aircraft, as Saudi Arabia had ordered three similar aircraft in 2008, said the parent company of Airbus. EADS has additional orders for the military version of the Airbus passenger plane from Great Britain, Australia and the United Arab Emirates. Germany and Canada ordered the tanker version of another Airbus model, the A310.

TNT NV

Dutch postal and express company **TNT** NV on Monday posted a 61% fall in second-quarter net profit as its Express unit continued to struggle, and raised its annual cost-savings target. Net profit fell to €81 million ($115 million) from €205 million a year earlier as revenue dropped 10% to €2.53 billion from €2.81 billion. Sales at TNT's Express unit dropped 16%, while sales at the Mail unit, which is under pressure from recent liberalization of the Dutch mail market, were down 1%. Europe's second-largest mail and express delivery company after Deutsche Post AG said it has increased its €400 million savings program for 2009, and now aims to save between €550 million and €600 million. So far, it has realized €275 million in savings. TNT said it will nevertheless pay an interim dividend of 18 European cents, which the company says reflects the strength of and confidence in the cash flow and operational delivery of short-term objectives.

Freeport McMoRan

Police charged two employees of **Freeport McMoRan Copper & Gold** Inc. with involvement in a spate of deadly shootings at the largest gold mine in the world, an Indonesian police spokesman said Monday. The workers were among seven people who will go on trial for premeditated murder and illegal weapons possession, Col. Ketut Untung Yoga Ana said. It was unclear what positions the two held with Freeport, and the company declined to comment. Three people died and more than a dozen were wounded in a series of ambushes at Freeport's Grasberg mining complex that began on July 11. A 29-year-old Australian and a security guard working for Freeport were fatally shot, while a policeman fell to his death while seeking cover during an attack.

Sanofi-Aventis SA

French pharmaceuticals company **Sanofi-Aventis** SA Monday said it will pay €550 million ($781.8 million) to beef up its growing stable of new vaccines and expand in emerging markets by acquiring a majority stake in Indian vaccines maker Shantha Biotechnics. Sanofi-Aventis said its Sanofi-Pasteur vaccines arm is taking control of Hyderabad-based Shantha Biotechnics by buying ShanH, a subsidiary of French healthcare products group **Merieux Alliance**. ShanH, which consists of five companies working in healthcare prevention, diagnosis, prognosis, treatment and clinical follow-up, held a majority stake in Shantha. Sanofi will hold 80% of Shantha, with the 16-year-old Indian company's founder Varaprasad Reddy and other Indian investors owning the remainder of the shares. Reddy will stay on to head up Shantha. For 2009, Shantha sales are expected at around $90 million.

Telefónica SA

The Spanish court that tried **Telefónica** SA Chairman César Alierta in April for alleged insider trading said Monday that Mr. Alierta has appealed the decision. Earlier this month, a Spanish lower court dismissed charges of insider trading against Mr. Alierta, citing Spain's statute-of-limitations laws, but said he used insider information to enrich himself. Prosecutors appealed the dismissal last week, while Mr. Alierta's legal team is appealing on grounds that the sentence was harmful to him and violated his constitutional rights, news agency Efe said Monday. A Telefónica spokesman declined to comment.

Verizon Communications Inc.

Verizon Communications Inc. posted a 21% decline in quarterly profit and said it would cut more jobs as it battles a pullback in business spending. Verizon plans to eliminate 8,000 employee and contractor positions by the end of the year. The New York-based company, which employs about 235,000 people, eliminated the same number of jobs in the past 12 months. "We really don't have a crystal ball" for the outlook on business spending, Chief Financial Officer John Killian said in an interview. Strength in Verizon's wireless business, which saw revenue rise 28% helped by the acquisition of Alltel, drove growth in the latest quarter. Overall, Verizon reported profit of $1.48 billion, or 52 cents a share, for the second quarter, down from $1.88 billion, or 66 cents a share, a year earlier. Revenue rose 11% to $26.86 billion. Wireline revenue fell 5.2%.

Sohu.com Inc.

Chinese Internet portal **Sohu.com** Inc. said its second-quarter profit fell 23% as the divestment of part of its gambling unit outweighed growing advertising and online-gambling revenue. Sohu's net profit fell to $30.9 million from $40.2 million a year earlier. Revenue rose 25% to $127.1 million. Sohu said it expects third-quarter revenue of $133.5 million to $137.5 million. Sohu's online-gambling unit, **Changyou.com** Ltd., reported a 9% increase in its second-quarter net profit to $34.5 million from $31.6 million a year earlier. Its revenue rose 39% to $66.6 million from $47.9 million.

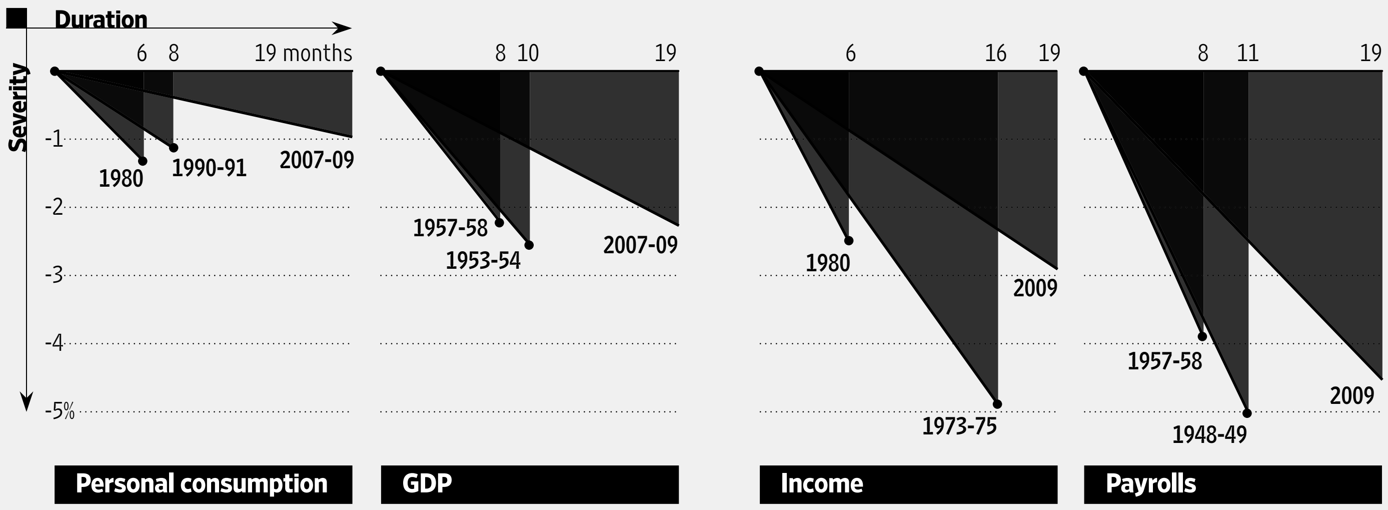
—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Peter Ferguson

The long downturn

The post-World War II recessions with the biggest declines in spending, payrolls, income and GDP. Data are from the month or quarter before the recession started to the month or quarter since it ended, except for the 2007-09 recession. In some cases, total declines in gauges of economic activity are larger than shown, because the declines' start or end points don't match the start or end of the recession.



Sources: Labor Department (payrolls); Commerce Department (all others)

U.S. recession is the worst since 1940s

Incomes hold up, but downturn eats away at wealth like never before, signaling a long-term drag on spending

BY JUSTIN LAHART

The final score cards aren't in, but the current recession will likely rank as the worst since the end of World War II.

Already it is the longest. The nonprofit National Bureau of Economic Research, which determines when the U.S. economy slips into recession, says the downturn began in December 2007, 19 months ago. That makes it longer than the wrenching, 16-month recessions of 1973-1975 and 1981-1982.

The unemployment rate is approaching the peak seen in the 1981-1982 recession and the scope of job losses is the worst since the 1948-1949 recession. The decline in gross domestic product is the deepest since the 1957-1958 downturn and Americans haven't seen so much of their wealth evaporate since the Great Depression.

The NBER defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months." Among the gauges it watches are GDP and employment, its most important measures, as well as income, sales and industrial output. Even if the recession is, as many economists believe, at or near its end, it looks more severe than its postwar predecessors on many measures.

With a dwindling number of people who remember the Great Depression, the 1981-1982 recession is many Americans' high-water mark for economic pain. To tame rampant inflation, the Federal Reserve pushed short term interest rates above 20%, slamming the brakes on the economy. Millions lost their jobs, pushing the unemployment rate to 10.8%.

Last month, the unemployment rate hit 9.5%. But most economists forecast it will keep climbing even after the economy recovers because firms will remain cautious about hiring. Making matters worse, the economy needs to add some 100,000 jobs a month to keep pace with population growth.

While the unemployment isn't yet as high as the early '80s, the job losses associated with this recession have already been deeper because it started with a lower unemployment rate than in the 1981-1982 downturn. Last month, there were 6.7 million fewer Americans working than in December 2007, when employment peaked—a 4.7% decline, compared to 3.1% in 1981-1982.

"In terms of employment, we're now way past 1982 and we're just about to cross the worst postwar recession, which was 1948," says Stanford University economist Bob Hall, who heads the NBER's recession-dating group.

In 1948, the demand that built up during World War II rationing programs had been sated. Companies, left holding more inventory than they could sell, throttled back production and laid off workers. The recession that began that year pushed payrolls down by 5.2%. Jobs came back quickly, however, after the excess inventory was cleared away.

In contrast, the past two recessions, in 1990-1991 and in 2001, saw payrolls decline long after the economy began recovering. That lagging drop is a shift in the way jobs respond to downturns that economists worry will continue.

Recent downturns have also been less abrupt, in part because the manufacturing sector, which responds to trouble by slashing production, is no longer as large a part of the economy. The declines in GDP—the value of all goods and services produced—associated with the 1990-1991 and 2001 recessions were slight.

That makes this recession's decline in GDP striking. Through the first quarter, GDP was down 3.1% from the peak it reached last year. The only postwar recession more severe was in 1958, when the U.S. was a manufacturing powerhouse. After consumer spending cooled in response to Fed rate increases, manufacturers ratcheted back, sending GDP down 3.7%. But the Fed cut rates, and the economy recovered quickly, making the downturn one of the briefest ever.

This downturn was set off by a housing and credit collapse, making Fed rate cuts less effective in spurring growth. Economists believe Friday's GDP report will show the economy contracted again in the second quarter and that, in combination with downward government data revisions, could make this recession's GDP drop even larger than 1958's.

The good news: This recession's drop in household income hasn't been nearly as severe as one of its predecessors. That is partly because many states have extended unemployment benefits. It is also because workers haven't seen their earning power eaten up by rising prices.

But this recession has eaten away at Americans' wealth like never before. Falling home prices have sent the equity the U.S. households have in their homes—that is, the value of their homes minus what they owe on them—down by $5.1 trillion, a 41% drop, and trillions more in stock-market losses. No other episode of wealth destruction since the 1930s comes close.

Getty Images

U.S. Defense Secretary Robert Gates, left, met Monday with Israeli Defense Minister Ehud Barak; the photo is an Israeli handout.

U.S., Israel split on Iran

Point of contention is nuclear program; diplomacy vs. strikes

By Yochi J. Dreazen

JERUSALEM—A simmering dispute between the U.S. and Israel over Iran's nuclear program burst into the open on Monday, as U.S. Defense Secretary Robert Gates, on a visit to Israel, called for continued diplomatic engagement with Tehran, while Israeli officials repeatedly warned of a possible military strike against Iran's nuclear facilities.

Iran's apparent pursuit of a nuclear weapon is emerging as a major source of tension between Washington and Jerusalem, which are already feuding over U.S. President Barack Obama's call for a complete freeze on Israeli settlements in East Jerusalem and the West Bank.

Several senior U.S. officials are visiting Israel this week to push Prime Minister Benjamin Netanyahu's government to halt Israeli settlement activity, a step he has so far refused to take. The Obama administration's Mideast envoy, George Mitchell, is already in the region, while National Security Adviser James Jones and White House Mideast adviser Dennis Ross are slated to arrive in coming days.

Israeli officials plan to use the meetings to underscore Jerusalem's growing unease about the Obama administration's diplomatic outreach to Iran. Israeli officials believe Iran may be less than a year away from enriching enough uranium to build a nuclear weapon, a move Mr. Netanyahu's government sees as an existential threat to the future of the Jewish state.

In a joint news conference with Mr. Gates, Israeli Defense Minister Ehud Barak emphasized that Israel believed "no option should be removed from the table" when it came to Iran, a clear allusion to a possible military strike against Iran's nuclear facilities.

After a later meeting with Mr. Gates, Mr. Netanyahu said he told the American defense chief of "the seriousness to which Israel views Iran's nuclear ambitions and the need to utilize all available means to prevent Iran from achieving a nuclear-weapons capability."

Mr. Gates, on his first visit to Israel in more than two years, said Washington shared Jerusalem's deep concern about the Iranian nuclear program. He said that the Obama administration's diplomatic outreach to Iran was "not an open-ended offer" and that the U.S. wanted a clear response from Tehran by the time the United Nations General Assembly convenes in late September.

"We're very mindful of the possibility that the Iranians would simply try to run out the clock," he said.

During a later stop in the Jordanian capital of Amman, Mr. Gates said Israeli officials told him they were willing to give the administration's diplomatic overtures more time to work before deciding whether to use force against Iran.

"I have the sense that as long as the process isn't completely open-ended that the Israelis are prepared to let it go forward," he said.

Israeli officials made clear they were unhappy with the administration's outreach to Tehran and that they wanted tougher measures. In his appearance with Mr. Gates, Mr. Barak said any negotiations with Iran should be "short in time and well-defined in objectives."

If the talks don't show quick signs of progress, the Israeli defense minister said Israel would push the U.N. to impose binding "Chapter 7" sanctions on Iran, a step the world body has so far refused to take.

Mr. Gates indicated the Obama administration would support stronger measures against Iran if progress isn't made. He declined to say whether the administration had begun crafting specific sanctions or canvassing American allies at the U.N. to drum up support for such measures.

Ghana signs agreement to develop major oil field

By Will Connors

LAGOS, Nigeria—Ghana, riding high from President Obama's visit earlier this month, quietly signed a long-awaited development plan for one of the biggest oil discoveries in West Africa in the past decade.

The agreement—reached July 15 with a group of international oil companies after months of negotiations—brings Ghana much closer to its stated goal of producing oil by the second half of 2010.

Celebrated for its democratic rule and stability on a continent more often associated with coups d'état and violence, Ghana is trying to figure out how to handle the oil discovery responsibly and avoid the problems that have beset other oil-rich African nations.

In 2007, a joint venture backed partly by two American oil companies discovered significant oil deposits off the coast of southwestern Ghana. The Jubilee Field, the most promising find, is estimated to hold at least 650 million barrels of recoverable oil, with estimates going as high as two billion barrels of oil.

The field is controlled by a partnership between London-based **Tullow Oil** PLC; Dallas-based **Kosmos Energy**, which is backed by U.S. private-equity firms Blackstone and Warburg Pincus; Houston-based **Anadarko Petroleum** Corp.; as well as the Ghanaian government. The operators expect Jubilee to produce about 120,000 barrels a day by the second half of next year.

While this isn't close to the amount being produced in the larger oil players in Africa—namely Nigeria and Angola—oil production could bring Ghana $1 billion a year in revenue by the end of next year, the IMF estimates.

Ghanaian officials are aware of the burden that oil and natural-gas riches have brought to countries like Nigeria, and they are carefully negotiating their position with the oil companies. During an industry conference last year in Accra, Ghana's capital, Nigerian oil and natural-gas professionals were invited to speak about what their country had done wrong.

Nigeria has squandered hundreds of billions of dollars in oil revenue over the past four decades due largely to corrupt government officials. It also faces a violent militant campaign that has led to hundreds of foreigners and locals being kidnapped and pipeline attacks that regularly shut down the flow of oil.

That Ghana has held five consecutive democratic elections—the last one in December—and is mostly peaceful has inspired confidence among many analysts that the country will better handle its oil and gas resources than Nigeria or Angola and Equatorial Guinea.

Ghana has a more diverse revenue stream than Nigerian and Equatorial Guinea: It is the world's second-largest cocoa producer after neighboring Ivory Coast and Africa's second-largest gold producer after South Africa.

But its per capita income is still among the lowest in the world, 30% of the population lives on less than $1.25 a day, and inflation increased to 20% earlier this year after food and fuel prices spiked.

A $600 million financing program from the IMF was approved July 16, and is meant to help Ghana bolster its economy, which is expected to grow by 4.5% this year, before oil production begins. The IMF predicts Ghana's growth could rise as high as 24% when oil starts to flow.

While the country has weathered the global slump relatively well, it faces a ballooning budget deficit and growing trade imbalances. President John Atta-Mills aims to bring the budget deficit down to 9.4% of gross domestic product this year from 14.9% at the end of 2008.

The development agreement between Ghana and the oil companies paves the way for concrete steps to be taken on the production of the Jubilee Field. The next expected move will be the sale of Kosmos's stake in the field, expected to sell for anywhere from $3 billion to $6 billion, according to industry officials.

Some international oil companies have expressed interest in the Kosmos stake. Ghana's state oil block, the **Ghana National Petroleum** Corp., or GNPC, also said it is considering buying the Kosmos stake. GNPC recently hired Morgan Stanley as financial advisers.

Vote strengthens Kurd opposition

By Charles Levinson

BAGHDAD—Kurdish opposition parties have taken nearly one-third of the vote in regional elections, according to preliminary tallies, threatening to fracture a Kurdish political front whose unity has helped Kurds accumulate power in the six years since the U.S. invasion of Iraq.

Two parties have dominated Kurdish politics since 1975: the Kurdish Democratic Party, headed by Masoud Barzani, president of the semi-autonomous Kurdish region, and the Patriotic Union of Kurdistan, led by Jalal Talabani, president of Iraq.

After a six-year civil war in the 1990s, the two settled on a power-sharing agreement that has held ever since. The two parties compete in elections on a joint list, splitting seats in the regional government's parliament 50-50. Mr. Barzani's KDP has taken the top leadership posts in the Kurdish region, while Mr. Talabani's PUK has assumed senior posts allocated to the Kurds in Iraq's central government in Baghdad.

Even as Iraq's other sectarian political alliances split apart, the Kurds stuck together, one reason they have gained significant political clout in Iraqi politics since 2003.

But the surprisingly strong showing in Saturday's vote by the Change Party, led by former members of Mr. Talabani's PUK, could put a fissure in Kurdish ranks. The PUK appears to have lost around half its support to the Change Party, while Mr. Barzani's KDP mostly maintained its support levels.

Preliminary results are based on the parties' own tallies. Official results will be announced later this week.

The KDP is unlikely to agree to the same generous power-sharing terms now that the PUK has been significantly weakened, Kurdish politicians and analysts fear. That puts the alliance in jeopardy. Safeen Dizayee, a senior member of Mr. Barzani's KDP, said his party would abide by the alliance's terms.

For the Kurds, the cracks in their coalition come at a critical juncture. Tensions between Arabs and Kurds in Iraq over disputed land are heating up. Iraq also is gearing up for national elections at the end of the year. By then the Change Party will have had time to build up and is expected to be an even more potent force.

Obama calls for cooperation with China in global crisis

By Henry J. Pulizzi

WASHINGTON—U.S. President Barack Obama called for deeper U.S. engagement with China, saying both countries can benefit by coordinating their responses to the economic crisis and working together to address climate change.

In remarks prepared for delivery Monday at the start of the U.S.-China Strategic and Economic Dialogue, Mr. Obama said the link between Washington and Beijing will shape the 21st century, making it as important as any bilateral relationship in the world. "That is the responsibility we bear," he said.

The two-day meeting in Washington focuses on a host of thorny issues, from the financial meltdown to North Korea's and Iran's nuclear ambitions. U.S. Secretary of State Hillary Clinton and U.S. Treasury Secretary Tim Geithner are heading the U.S. side. State Councilor Dai Bingguo and Vice Premier Wang Qishan are representing China.

"The United States and China share mutual interests," Mr. Obama said. "If we advance those interests through cooperation, our people will benefit, and the world will be better off—because our ability to partner with each other is a prerequisite for progress on many of the most pressing global challenges."

Mr. Geithner said that the successful efforts of the two economic superpowers to move quickly to deal with the downturns with massive stimulus programs marked a historic turning point in the relationship of the two nations.

—The Associated Press contributed to this article.

Meager monsoon menaces Indian economy

Lack of rain imperils farmers who anchor nation's growth

BY ABHRAJIT GANGOPADHYAY

NEW DELHI—An unusually dry start to India's monsoon season is threatening to hurt agricultural output in an economy still hugely dependent on rural areas for growth.

After India's driest June in 83 years, four of 28 provinces have declared drought, and many farmers don't have enough water to grow a full crop. More than half of Uttar Pradesh state, the most populous state and a key area for farming rice and sugar cane, is suffering from drought. Rainfall between June 1 and July 22 was 19% below normal, with the northern and northwestern regions worst hit.

Reuters

Farmers plant saplings Monday in a rice field in the northern Indian city of Mathura, where weak rains delayed planting.

A below normal crop yield could push up food prices, straining the government's budget and complicating the central bank's efforts to revive the economy without letting inflation get out of hand.

The Meteorological Department forecasts rainfall in the June-September wet season at 93% of the long-term average, which isn't an unusually large deviation. But the distribution so far has been uneven, with some areas flooded while others have been parched.

The June-September monsoon is critical for summer-sown crops, including oilseeds, rice and sugar cane. India's poor irrigation system forces farmers to bank heavily on annual monsoon rains. Most of the northern provinces depend on these rains for farm productivity: 60% of India's farmland is rain-fed, with the rest relying on irrigation. If rainfall remains sporadic through September, winter crop yields, such as wheat, could also be hurt, analysts said.

"I've sown only a third of wheat that I usually sow each year because there's no water," said Mohan Singh, a farmer from Punjab state, which is among India's top five rice-producing provinces.

Heavy rains last week lashed the Punjab, ending its dry spell. But more will be needed. "We're badly hurt," says Mr. Singh.

Two-thirds of India's 1.1 billion people live in villages, and agriculture accounts for around 18% of gross domestic product. Rural demand accounts for more than half of domestic consumption so any decline in farmers' incomes would hurt demand for everything from fuel and motorcycles to soap and gold, with ripple effects on the broader economy.

The government is alert to the risks but hasn't sounded the alarm yet. That may reflect confidence that various measures it has taken to spur economic growth in rural areas will help to offset some of the shock from a weak crop.

"It's premature to draw any doomsday conclusion and it's better to wait to check if rains revive," said Arvind Virmani, chief economic adviser to the federal Finance Ministry.

Economists are starting to pencil in the impact of sustained drought on the economy, which has remained one of Asia's most resilient to the global credit crisis thanks to India's relatively small dependence on exports.

Robust rural demand has helped to cushion the blow from the global downturn. Growth slowed to 6.7% in the year ended March 31 from 9% a year earlier. The government forecasts an expansion between 6.25% and 7.75% for the current year, but a poor harvest could cast that projection into doubt.

"If overall rainfall deficiency falls to 20%-25%, India's gross domestic product growth could be pared to sub-5% this fiscal year," said Mridul Saggar, chief economist at Kotak Securities.

The government forecast a 4% expansion in farm production when it unveiled its budget last month, but Morgan Stanley said low rainfall could limit growth to between 1.5% and 2%.

A slump in the agricultural sector would put pressure on the government to respond with support measures, even as it struggles with a deficit estimated to swell to a record 6.8% of GDP this fiscal year.

"The government can't look away from the problem and despite the tight fiscal situation, it will try to incentivize farmers, which may swell its subsidy bill," said Shubhada Rao, chief economist at Yes Bank.

A bigger hazard could be higher inflation. The wholesale-price index—the main gauge of inflation—fell 1.17% in the week to July 11 from a year earlier, a sixth straight week of decline. But economists say inflation will likely reappear in September, as food prices remain high because of supply pressures, and a recent fuel-price rise ripples through the economy. The Reserve Bank of India expects inflation at 4% by the end of this fiscal year on March 31.

Jahangir Aziz, chief India economist at J.P. Morgan Chase, said inflation could rise by two to three percentage points over that baseline forecast if the monsoon rains don't pick up.

Prices of sugar and tea have risen 30%, pulses 17%, and cereals 12% from year-earlier levels, said Citigroup economist Rohini Malkani. The government may be able to head off a serious spike in food prices, she says, given high stocks of rice and wheat from previous bumper crops and adequate foreign-exchange reserves for imports.

Singh forced to defend effort to improve ties to Pakistan

BY KETAKI GOKHALE AND PAUL BECKETT

NEW DELHI—Indian Prime Minister Manmohan Singh goes before lawmakers Wednesday in a key test of his efforts to improve relations with Pakistan.

Mr. Singh is preparing to address Parliament on the issue after more than a week of political flak from opposition lawmakers on his overtures to Pakistan. His actions have also received a lukewarm response from within the ranks of his own Congress party. Both sides are waiting to see whether he will defend his efforts or start backpedaling.

Mr. Singh, in an unusual series of public comments, has stuck to his course. On Saturday he dismissed the notion that there was any difference of opinion between him and his party, saying he has all the relevant information needed to allay any fears. A spokesman for the prime minister wasn't available to comment Monday.

On Monday, Janardan Dwivedi, general secretary of the All India Congress Committee, the Congress party's governing body, told reporters that the party was behind their prime minister. "The party is confident that when the prime minister speaks in Parliament, he will set at rest all questions, apprehensions and speculations relating to the India-Pakistan joint statement," he said.

The low-key prime minister returned from a multinational summit meeting in Egypt two weeks ago with a joint statement with Pakistan's prime minister, Yousuf Raza Gilani. They agreed to decouple discussions over terrorism from broader talks between the two countries on issues such as trade and travel. The statement also included a resolution to cooperate in the fight against terrorism and a passing reference to the insurgency in the Pakistani province of Baluchistan, another sore point between the two neighbors. Pakistani officials have recently suggested that India is helping the Baluch separatists, a charge India denies.

The statement stood in stark contrast to comments Mr. Singh made a month earlier, during a meeting with Pakistani President Asif Ali Zardari in Yekaterinburg, Russia. There, he had tersely told Mr. Zardari that his mandate for talks with Pakistan was limited to how the country handled terror.

Some observers say the prime minister, 76 years old, is willing to take the same kind of political risk on Pakistan that he did to ensure passage of the U.S.-India civilian nuclear technology deal last summer. At the time, Mr. Singh's willingness to face a vote of no confidence in Parliament over the nuclear deal was viewed by many as a rare sign of his determination to push through an issue he considered crucial to India's future.

The vote was precluded by the withdrawal from the governing coalition of the Left Front, a group of left-leaning parties that threatened the collapse of the government. But Mr. Singh recruited another party, the Samajwadi Party, to join the government instead. His brinksmanship paid off when the government won the no-confidence vote and the deal went through.

Agence France-Presse

Prime Minister Manmohan Singh, participating in a swearing-in ceremony for India's Planning Commission on Monday, faces questions about his overtures to Pakistan.

Mr. Singh was born in prepartition British India, in a small town called Gah that now lies in Pakistan. "He doesn't want to walk away from Pakistan," said Tarun Das, chief mentor of the Confederation of Indian Industry, an industry trade group. "He wants to leave a legacy of peace with Pakistan; he won't give up."

The personal role that Mr. Singh has taken on both the nuclear deal and Pakistan are in contrast to his usually timid, soft-spoken style. At many points during his last administration, those qualities were often viewed as weaknesses in the face of governing allies who opposed his reformist liberalization agenda.

But in the wake of a convincing victory for Mr. Singh's Congress party in May's elections—Congress itself won 206 seats and its United Progressive Alliance coalition won 262 seats out of 543—he has been emboldened to stand up for causes he wants to leave as his legacy, given that he is very unlikely to stand for another five-year term, his supporters say.

Many observers agree that Mr. Singh has a real interest in improving relations with Pakistan, but some say they wouldn't be surprised if Congress party leaders are able to pressure Mr. Singh into retracting his dovish statements.

"There's been a longstanding sense in the Congress party that he's not a career politician, that he doesn't give due importance to those who are, and who know what the grass roots want," said Seema Desai, a London-based analyst with consulting firm Eurasia Group. "There may be a political move to make him toe the party line"—specifically, that India has to see Pakistan take tangible action against terrorism before it will resume talks.

Ms. Desai added that the prime ministers' joint agreement has the "potential to become a big political stick that the opposition will beat him with continually."

Even if Mr. Singh resists pressure from his party, bringing peace between the embattled neighbors will be an uphill struggle. India has insisted that Pakistan beef up its action against domestic terror networks that target India, including Lashkar-e-Taiba, a militant group linked by officials in both countries to November's attacks in Mumbai. But many Indian and U.S. officials remain skeptical that Pakistan has sufficient determination to stamp out the groups, which long had links to Pakistan's premier spy service, Inter-Services Intelligence.

Pushing greater cooperation and friendly relations with Pakistan less than one year after the Mumbai attacks may not sit well with a wary Indian public.

Another attack would almost certainly scotch any reconciliation: Indian officials have suggested in the past that they would have little option but to respond with force were that to happen.