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What's News

Tech has blazed a path for the broader U.S. market this year, but the sector is under the spotlight as the second-quarter earnings season begins. Strong earnings would restore confidence that a recovery is afoot, at least for company profits. **Page 19**

■ European regulators outlined measures to reduce the risks of the over-the-counter derivatives market, drawing some backlash. **Page 19**

■ North Korea tested seven mid-range missiles, violating a new U.N. resolution created last month after it tested a nuclear explosive. **Page 3**

■ Bulgaria's rightist opposition was set to win parliamentary elections by a wide margin over the ruling Socialists, an exit poll showed. **Page 8**

■ French Finance Minister Lagarde said the role of global currencies is likely to change in the wake of the financial crisis. **Page 21**

■ Nigerian militants said they hit an oil-well head, amid reports a government amnesty offer will include cash for arms. **Page 10**

■ Ousted leader Zelaya vowed to return to Honduras to take up his post despite threats by the provisional government that he will be arrested upon arrival. **Page 2**

■ EU ministers this week will discuss ways to reduce risks in global financial markets, preparing the ground for September's G-20 meeting. **Page 3**

■ Beijing Automotive made an offer for a 51% equity stake in GM's Opel unit. GM would keep 49%. **Page 4**

■ British Airways said it will further cut summer and winter capacity, after reporting traffic fell in June. **Page 7**

■ Pakistani fighter jets targeted suspected Taliban positions in a tribal region near Afghanistan, killing as many as six people, officials said.

■ Sarah Palin said she would resign as Alaska governor, sparking speculation over the reason for the decision and her future. **Page 8**

■ Roger Federer won his 15th Grand Slam title and sixth Wimbledon championship, beating Andy Roddick. **WSJ.com**

■ Died: Bela Kiraly, 97, one of the leaders of Hungary's anti-Soviet revolution in 1956.

EDITORIAL OPINION

Obama in Moscow
America needs to aim for more than arms-control treaties. **Page 13**

Breaking news at europe.WSJ.com



Dmitry Medvedev speaks with journalists at a presidential residence outside Moscow on Friday.

U.S., Russia talks

Arms-control treaty tops agenda for Moscow summit

BY JONATHAN WEISMAN AND GREGORY L. WHITE

MOSCOW—U.S. and Russian negotiators were nearing completion of a new, nuclear-weapons treaty framework expected to be announced Monday, in what could prove to be the main achievement of a first summit between U.S. President Barack Obama and his Russian counterpart.

In a sign of the difficulties ahead, lawyers on both sides are exploring how to handle existing nuclear weapons-monitoring agreements if no final deal on how to reduce nu-

clear weapons is reached by Dec. 5, when the governing Strategic Arms Reduction Treaty expires. Russian President Dmitry Medvedev has said he was "moderately optimistic" about progress.

"There's a lot of work to be done," said Gary Samore, the White House coordinator for weapons of mass destruction.

Mr. Obama is set to arrive here Monday, amid friction between the two countries over an array of issues, such as Russia's relationship with Iran and the U.S.'s missile-defense plans for Eastern Europe. Ties also are tense between the

U.S. president and Russian Prime Minister Vladimir Putin.

Mr. Obama told the Associated Press last week that Mr. Putin has "one foot in the old ways of doing business."

Mr. Putin fired back over the weekend, telling reporters: "We don't stand bow-legged. ... We are firmly standing on both our legs and always look to the future."

With few other areas of agreement, arms control remains the major focus of the two-day summit. Messrs. Obama and Medvedev have

Please turn to page 31

Iran's clerics denounce vote results

BY MARGARET COKER

ABU DHABI—Members of Iran's powerful clerical class are stepping up their antigovernment protests in defiance of the country's supreme leader, just as Iran's political opposition was running out of legal avenues to fight what it sees as fraudulent presidential elections.

An association of religious scholars seen as politically neutral in the dispute between President Mahmoud Ahmadinejad and Mir Houssein Mousavi sharpened the debate, calling the country's highest election arbiter, the Guardian Council, biased and the June 12 election "invalid."

The statement carries moral weight—especially after the security forces have quashed street protests and jailed hundreds of opposition supporters—but has little practical ability to change the certification of Mr. Ahmadinejad as the election winner.

It does, however, highlight a growing unease among Iran's scholarly ruling class about the direction of the country, and it questions the theological underpinning of the Islamic Republic: the assumption that the supreme leader and the institutions un-

der him are infallible.

"I'm not sure the Persian equivalent of 'crossing the Rubicon,' but we are seeing it now. The future of the Islamic Republic, which has in recent years become a fig leaf for keeping a small clique of people in power, is now in question," according to Michael Axworthy, director of Exeter University's Center for Persian and Iranian Studies in the U.K.

With public protests withering following a crackdown, continued religious opposition to the electoral process could take on greater meaning.

Public statements from clerics about perceived government injustice challenge the state's position that the protest movement is part of a foreign plot to undermine the Islamic Republic.

Since Iran's top legislative body, the Guardian Council, certified Mr. Ahmadinejad's victory last week, the security forces and judiciary have moved to silence his political opponents. On Sunday, the head of the Revolutionary Guards' political office accused Mr. Mousavi of treason, according to the state news service. His statement came after the hard-line newspaper

Please turn to page 31



Mahmoud Ahmadinejad

British sniff at parts of bailout package

BY SARA SCHAEFER MUÑOZ AND ALISTAIR MACDONALD

LONDON—Six months after the U.K. government scrambled to initiate new bailout measures for Britain's floundering banks and economy, several of the programs face a problem: Few, if any, businesses have stepped forward to take advantage of them.

In January, for example, the government created a guarantee program meant to revive the dormant market for asset-backed securities. The program aims to spur purchases of banks' asset-backed securities, or bundled consumer loans, by guaranteeing them for buyers. Selling these securities would give banks more money that they could

turn around and lend.

The guarantees were made available in April, but since then, none of the major U.K. banks has issued a security with such a guarantee. Bankers say it is too expensive; the government says the program is under review. So far, no changes to its terms have been made, and the program is set to expire in October.

The flop is among several misfires by the U.K. government in recent months; programs haven't drawn interest from the banks and businesses they were intended to help. An effort to give firms trade insurance, for example, has had only limited participation. The same is true of a loan guarantee for small busi-

Please turn to page 31

Inside



Gangs' bankroll

Links to drug cartels haunt midterm elections in Mexico
News In Depth, pages 16-17

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8280.74	Closed
Nasdaq	1796.52	Closed
DJ Stoxx 600	204.08	-0.02
FTSE 100	4236.28	+0.05
DAX	4708.21	-0.22
CAC 40	3119.51	+0.10
Euro	\$1.4002	-0.16
Nymex crude	\$66.73	Closed



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LEADING THE NEWS

Capital-spending crunch squeezes chip-gear show

BY DON CLARK

A severe slump for suppliers to the chip industry is expected to cast a shadow over a big trade show in San Francisco this month.

But the clouds have a silver lining—a likely upswing in participation at a companion event for companies serving solar-panel makers.

The annual Semicon West event has been a mecca since 1970 for suppliers of machines for making chips, as well as materials and services used by semiconductor companies. At this year's event, scheduled to run July 14 to 16, organizers are predicting about 700 exhibitors, down 38% from the event last July. The number of booths at

among makers of chip-manufacturing tools, has opted for the first time not to have a booth at Semicon West for product demonstrations. In view of the economic slump, "we just don't think the customers are going to travel there," said Dave Miller, a spokesman for the company.

The company will still participate in the show, he said. And Applied, which is building a sideline in tools used to make solar panels, will show products at the affiliated Intersolar event across the street.

Other semiconductor suppliers also have been shifting their focus to the solar industry, which continues to attract government subsidies and venture-capital investment. In some cases, tools used to make products such as chips and computer displays can be adapted to make panels that generate electricity from sunlight. Both industries, for example, use silicon as a key ingredient.

SEMI expects exhibitors at Intersolar to more than double to 434 this year, while the number of booths also is expected to more than double, hitting 878.

Meanwhile, glimmers of optimism are beginning to appear in the semiconductor industry, too. Business for many chip makers bottomed out early this year and has started to recover gradually.

SEMI doesn't expect attendance at Semicon West to be off as sharply as activity by exhibitors. Preregistrations for the show are running at 18,781, or about 8% below last year, Mr. Morrow said. He conceded, however, that no-shows could reduce the final tally of attendees.

Dan Hutcheson, an analyst at the market-research firm VLSI Research, said that consolidation among chip makers also is weighing on the trade show. With five or so big manufacturers now accounting for the lion's share of purchasing, he said, most suppliers travel directly to those customers and don't do much business at the show. "This year it will mainly be people looking for a job," Mr. Hutcheson said of Semicon attendees.

Glimmers of optimism are appearing in the chip industry.

the show is expected to fall about 40% to 1,310.

It isn't surprising. Even before the recession hit, suppliers were suffering from a pullback in purchasing by manufacturers amid a production-capacity buildup and plunging chip prices. The trade group that organizes the show—Semiconductor Equipment and Materials International—expects capital spending by chip makers to drop 43% this year. "The capital-spending crunch is starving SEMI members," said Jonathan Davis, president of the group's North American organization.

Another factor is a gradual shift of much of the world's semiconductor production to Asian countries. SEMI has companion shows in Taiwan, Japan and China, which allow chip makers to attend at a lower cost for travel, said Tom Morrow, SEMI's vice president of expositions and marketing.

Applied Materials Inc., which has long ranked No. 1 in revenue

Honduras girds for showdown

Ousted leader says he's returning home despite arrest threats

BY JOSE DE CORDOBA AND PAUL KIERNAN

TEGUCIGALPA, Honduras—The stage was set for a dramatic confrontation in Honduras, with ousted president Manuel Zelaya announcing Sunday he would return to the country imminently to take up his post despite threats by the provisional government that he will be arrested and jailed upon arrival.

Mr. Zelaya's plans to return from Washington, however, could be upended by the new leaders of the Central American country. On Sunday, the Tegucigalpa airport was closed, according to eyewitnesses. Honduras' civil aviation director said Mr. Zelaya's plane was being redirected to El Salvador, the Associated Press reported.

Honduras has continued to defy the international community. Late Saturday, the Organization of American States voted to suspend the country from the multilateral body, which has 34 active members. Earlier, Honduras' provisional government said it would rather be kicked out of the OAS than allow Mr. Zelaya to return to the presidential seat.

Mr. Zelaya, a leftist who is allied with Venezuela's Hugo Chávez, told Venezuela's state-run Telesur TV network that he planned to fly to Honduras Sunday with Argentina's President Cristina Kirchner and Ecuador's Rafael Correa, also leftists.

"We will arrive at the international airport in Tegucigalpa, Honduras with several presidents, (and) members of international organizations," Mr. Zelaya told Telesur, according to the AP.

Mr. Zelaya took off for Tegucigalpa accompanied by the U.N. General Assembly president and a pack of journalists, the AP said Sunday afternoon. Speaking live from the plane through Telesur, Mr. Zelaya called on the Honduran military to leave the airport free for him to land, according to the AP.

The country's acting leaders don't appear to be bluffing about arresting the president if he returns.



Supporters of Honduras's ousted president Manuel Zelaya try to break a police blockade as they march toward the airport in Tegucigalpa on Saturday.

In the days after he was sent packing to Costa Rica by Honduras' military, the provisional government has accused Mr. Zelaya of multiple crimes, from treason to drug trafficking. The AP on Sunday said the interim government had ordered the military to prevent Mr. Zelaya's plane or any unidentified one from landing.

If Mr. Zelaya returns, the chances of a violent confrontation appeared high. Responding to a call by the ousted president, thousands of his supporters turned up at the Tegucigalpa airport to show their support.

Honduras' influential Cardinal Oscar Rodriguez, the highest ranking Catholic Church official in the country, went on national television to urge the exiled president not to come back. "We think that a return to the country at this time could unleash a bloodbath in the country," Cardinal Rodriguez said. "To this day, no Honduran has died. Please meditate because afterwards it would be too late."

The prelate also criticized Mr. Zelaya, suggesting the Church was throwing its weight behind the provisional government. "The day of your swearing in, you clearly quoted the three commandments of the sacred law of God: Not to lie, not to steal, and not to kill," said the Cardinal, who was seen as a leading candidate to succeed the late Pope John Paul II.

Mr. Zelaya, the son of a wealthy farmer who ran for office as a cen-

trist, polarized the country when his politics took a left turn and he aligned his government closely with Mr. Chávez. Honduras joined Mr. Chávez's trade pact, received cut-rate oil from Venezuela, and embarked on an attempt to rewrite the constitution that critics say would have let Mr. Zelaya extend his term.

To that end, Mr. Zelaya wanted to hold a referendum on whether voters wanted to change the constitution. The vote was declared illegal by Honduras' Supreme Court, but the president vowed to press on. Last Sunday, the day the referendum was set to take place, soldiers stormed the presidential residence and seized the leader at gunpoint. Congress later swore in Roberto Micheletti, the president of Congress.

So far, attempts at diplomacy have failed.

OAS Secretary General Jose Miguel Insulza arrived on Friday for talks with leading politicians and figures like Cardinal Rodriguez. But Mr. Insulza left soon after, saying the interim government didn't want to budge. "The break in the constitutional order persists and those that did this don't seem to have any intention of reversing that situation," he told a news conference late on Friday.

Mr. Insulza said officials on Friday presented him with a large quantity of charges against the former leader but that the diplomat still wasn't convinced the coup plotters took the right course of action.

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.

Advanced Micro Devices19	Banca Generali22	Boeing7	Friends Provident7	Nomura Holdings24
Alcatel-Lucent7	Bawang International (Group) Holding23	BP7	GAZ Group4	NRG Energy7
Amazon.com5	Beijing Automotive Industry Holding4	Brammo5	Gazprom32	Overstock.com5
Applied Materials2	Best Buy5,7	British Airways7	General Mills6	Procter & Gamble6
ArcelorMittal20	BHP Billiton23	Canara Bank24	General Motors4,19	Punjab National Bank24
Assicurazioni Generali22	Blackstone Group22	Chevron10	Gerdau20	PVM Oil Associates7
AT&T11	Blue Nile5	China Investment Corp.22	Goodman Group22	Qantas Airways23
Bain & Co.30		Dell22	Google5	Ranbaxy Laboratories23
		China Mobile7	Housing Development Finance23	Reliant Energy7
		China National Petroleum7	HSBC Holdings24	Royal Bank of Scotland PLC31
		China Qinfu Group23	Huawei Technologies7	Royal Dutch Shell10
		China Telecom7	ING Groep24	Ryanair Holding7
		China Unicom (Hong Kong)7	Intel23	Samsung Engineering7
		Cisco Systems19	Intesa Sanpaolo22	Sberbank Russia4
		CTX Technology7	Japan Petroleum23	Segway5
		Dell7	JDS Uniphase30	Siemens7
		Deloitte Consulting LLP30	Leighton Holdings7	Standard Chartered24
		Eni10	Lloyds Banking Group31	State Bank of India24
		European Aeronautic Defence & Space7	L.M. Ericsson7	Supervalu6
		Exelon7	Macarthur Coal23	Tata Realty & Infrastructure7
		F&C Asset Management7	Magna International4	TCP5
		Fortescue Metals22,23	Mars Inc.6	Teck Resources22
			Mitsui O.S.K. Lines23	Tesco PLC7
			Morgan Stanley22,23	Total SA7,10
			Nippon Steel23	ToteVision7
			Nokia7	UniCredit22
				ViewSonic7

INDEX TO PEOPLE

This index lists the names of businesspeople and government regulators who receive significant mention in today's Journal.

WSJ.com For more people in the news, visit CareerJournal.com/WhosNews

Arb, Sherrie Childers 4	Johnson, Jonathan 5	Reddem, Vasundhara ... 24
Baker, Stephen 5	Jung Yeon-joo 7	Reddy, B. Madhava 24
Bonenfant, Paul 30	Katsenelson, Vitaliy 19	Redward, Peter 23
Bramscher, Craig 5	Korn, Michael 21	Robinet, Michael 4
Carreri, Marco 22	Kyle, Barbara 7	Rosenberg, David 19
Chaltas, Alison 6	Lawrence, Christian 23	Rowe, John 7
Clark, Iain 19,20	Lichtenstein, John 20	Schroeder, Richard .. 19,20
Clarke, Troy 4	Lou Jiwei 22	Schwartz, Peter 30
Davis, George 20	Lynch, Philip 24	Shackelford, Dan 19,20
Davis, Jonathan 2	McDonagh, Michael 21	Sheng, Andrew 22
Dunn, Brian 5	Messori, Marcello 22	Simko, Sean 20
Forster, Carl-Peter 4	Meyer, Haley 6	Skovhus, Per 21
Foster, Andrew 19,20	Miller, Dave 2	Sohn, Sung Won 19
Franks, Julian 31	Morrow, Tom 2	Stern, Nicholas 22
Fromm, Fred 19,20	Nayakuti, Jyothi 24	Taraday, Bill 7
Girelli, Giorgio 22	Orecchio, Tom 19,20	Thomas, Bradley 5
Given, Jeff 20	Palmer, Clive 23	Trennett, Jason DeSena 19
Hallett, Simon 19,20	Perkins, Steve 7	Vellequette, Dave 30
Horsnell, Paul 21	Pickel, Robert 19	Verleger, Phil 21
Hutcheson, Dan 2	Pursell, Dave 21	White, Todd 20
Johannpeter, Andre 20	Raynor, Michael 30	Wolfensohn, James 22
Gerdau 20		Worah, Mihir 19,20

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LEADING THE NEWS

EU finance ministers aim to cut global market risk

Discussion this week will prepare the way for G-20 gathering

BY ADAM COHEN

BRUSSELS—European Union finance ministers this week will discuss ways to reduce risks in global financial markets, preparing the ground for September's meeting of the Group of 20 industrial and developing countries in Pittsburgh, where EU countries will press the U.S. and others for stronger regulations.

The ministers, at their monthly meeting Monday and Tuesday here, also will discuss the EU's economic situation, amid mixed signals that the downturn is becoming less severe.

No concrete steps are expected in terms of economic policy, however. The ministers last month agreed to let the bloc's €200 billion (\$280 billion) stimulus plan run its course and focus on reducing states' soaring budget deficits when the economy shows signs of recovery.

The ministers are focused on whether current financial-market regulations encourage booms and busts, particularly in the banking

business. This issue is known as "pro-cyclicality," a catchphrase that has emerged from the recent banking crisis. EU ministers are due to discuss a report from a high-level EU economic committee that suggests stricter capital requirements for banks, improved accounting rules and new remuneration standards designed to discourage risk-taking.

G-20 leaders in November called for an international review of policies that could create pro-cyclical conditions. The EU finance ministers want to establish a common view on this issue before the Pittsburgh meeting, hoping they can push the U.S. and other countries to adopt uniform rules, according to an EU diplomat.

The EU and the U.S. both have responded to the subprime mortgage crisis with a slew of new regulations and are considering further steps. EU policy makers are worried that if they write more stringent rules without international coordination, banks and other financial companies will migrate to countries that use a lighter regulatory touch.

European Central Bank President Jean-Claude Trichet will probably share his views on new rules. Mr. Trichet wants the ECB to have a stronger role overseeing EU banks, which currently are governed by a patchwork of national rules and overseers.

North Korea defies U.N., launching seven missiles

BY EVAN RAMSTAD

SEOUL—North Korea's test-firing of seven midrange missiles on Saturday, America's birthday, again demonstrated the ability of the country's authoritarian regime to grab headlines and defy penalties imposed on it by the United Nations, the U.S. and other countries for its pursuit of weapons of mass destruction.

North Korea tests short- and mid-range missiles several times a year and signaled last month that it was preparing new tests by issuing warnings to domestic vessels to avoid certain areas in the Sea of Japan, or East Sea, through July 10.

But the new test on Saturday of seven mid-range missiles capable of hitting Japan violated a new U.N. resolution created last month after North Korea on May 25 tested a nuclear explosive. Among the restraints in that resolution, North Korea was banned from making tests of ballistic missiles that might be capable of carrying a nuclear weapon.

Defense analysts in several countries, including the U.S. and South Korea, will take several weeks to determine whether Saturday's tests showed that North Korea is advancing its ability to carry nuclear warheads on those missiles.

North Korea fired the missiles into the Sea of Japan from military posts along its east coast. Last Thursday, North Korea test-fired four short-range missiles from the same locations.

Saturday's tests brought a new round of verbal condemnation from diplomats and politicians in neighboring countries, the U.S., France, Israel and Australia. China, North Korea's closest ally and chief economic benefactor, urged "calm and re-

straint," the lesser of the two types of criticisms its foreign ministry usually issues after North Korean provocations. The U.S. State Department urged North Korea to "refrain from actions that aggravate tensions and return to denuclearization talks."

U.S. Vice President Joe Biden, in an interview shown on ABC News on Sunday, said that the latest launch of missiles appeared to be an effort by North Korea to seek attention, the Associated Press reported. "The question is, is there anything that we should do about it?" Arguing that the U.S. policy to date has been correct, Mr. Biden said, according to AP, "We have succeeded in uniting the most important and critical countries to North Korea on a common path of further isolating North Korea."

Military and intelligence analysts in the U.S. and elsewhere several weeks ago tracked movement of long-range missiles to launchpads in North Korea and, for a time, prepared for the prospect that it would launch such a missile on July 4 or 5, as it did in 2006. Over the past two weeks, however, they detected no signs of further preparations for such a launch.

North Korea's leaders are able to push forward their weapons program because they show little regard for the impact of weapons-related economic penalties on the country's people. Also, they have South Korea and Japan pinned down militarily by hundreds of missiles and artillery rockets and they have China fearful that their ouster and resulting instability would send many North Koreans into northeastern Chinese provinces.

—SungHa Park contributed to this article.

U.S. Congress shifts into high gear

BY NAFTALI BENDAVID AND GREG HITT

WASHINGTON—U.S. lawmakers return to the Capitol on Monday for a five-week blitz that will help determine the fate of President Barack Obama's agenda.

The Senate will be occupied for much of the summer with confirmation hearings on Supreme Court nominee Sonia Sotomayor, beginning July 13, followed by a floor debate on her nomination. Democratic leaders also hope to push health plans through the House and Senate before their summer break begins Aug. 8.

It is a daunting schedule, and Senate Majority Leader Harry Reid (D., Nev.) and House Majority Leader Steny Hoyer (D., Md.) are keeping lawmakers in Washington for five-day workweeks in July, rather than their usual Tuesday-through-Thursday routine.

"This will be one of the most challenging periods in the legislative session," Reid spokesman Jim Manley said. "But with a little bit of cooperation from the Republicans—cooperation that has been mostly absent—we can get all of our work done."

Republicans say they have objected to the Democrats' initiatives because they involve massive spending with little benefit.

Several factors put pressure on Democrats to accomplish their major goals this year. Mr. Obama outlined an ambitious agenda upon taking office, in addition to programs to tackle the financial crisis and the ailing economy. A president's political

capital often dissipates over his tenure, and legislative compromise is harder in election years. In addition, the Democrats may lose seats in Congress in 2010, as a president's party often does in midterm elections.

That means Democrats need to make big progress this month. Congress is pressing forward on the dozen must-pass spending bills for the fiscal year beginning Oct. 1, and Senate committees will tackle the climate-change bill recently passed by the House.

But Ms. Sotomayor's confirmation and the health-care battle are the big items. Supreme Court confirmation fights have become fierce in recent years, and this one will be no exception, though it appears likely the Senate will confirm Ms. Sotomayor, a federal appeals-court judge in New York.

Republicans wanted to wait until after the August recess to vote on her nomination, giving them more time to scrutinize her record. But Democrats insisted on the earlier vote, fearing the delay would give critics time to undermine her.

On health care, House Democrats hope to engineer a floor vote by the end of this month. Their legislation will include a public health plan to give consumers an alternative to private insurers, and they are looking at a range of potential funding sources, including a surtax on the wealthy.

"Money, money, money," said Rep. Charles Rangel (D., N.Y.), when asked about the remaining decisions on health care. Mr. Rangel, who is chairman of the tax-writing Ways and Means Committee, declined to

discuss details, but added, "This is the roughest part of the process."

Still, Democrats want a House vote this month. "There is a clear understanding that health-care reform is the next item in the economic foundation we are building," said Nadeam Elshami, spokesman for House Speaker Nancy Pelosi (D., Calif.). "Our goal remains to get it passed in the House by the end of July."

In the Senate, Finance Committee Chairman Max Baucus (D., Mont.) is pursuing a centrist bill in hopes of winning Republican support. Rather than a public plan, Mr. Baucus is considering a network of nonprofit health cooperatives.

He is also weighing other financing options for the health overhaul, such as a tax on employer-provided health benefits for upper-income workers.

Even if Mr. Baucus can forge a bipartisan deal, it isn't clear that Democratic leaders can get a health bill through the Senate this month.

That is because the Baucus bill must be melded with a more-liberal alternative pushed by Sen. Chris Dodd (D., Conn.). Those negotiations could take days or weeks. And Democratic leaders have left themselves a narrow window for floor action on health care—the two weeks between Ms. Sotomayor's confirmation hearing and the Aug. 3 floor debate on her nomination.

If a bipartisan deal emerges on health care, "the prospects for that are rapidly improved," said Sen. Evan Bayh (D., Ind.). But he is dubious about the notion of quick passage. "If history is any guide," he said, "it'll take longer than we expect."

WHAT KIND OF ENTREPRENEURS GROW GREAT COMPANIES THAT STAY IN TOUCH WITH THEIR INNER GARAGE?

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CORPORATE NEWS

GM site choice stirs questions

Auto maker says politics wasn't part of decision to build compact car at Michigan plant

BY NEIL KING JR.
AND JOHN D. STOLL

When it was deciding where to build its new compact car, General Motors Corp. made a point of saying it would push politics aside and use strictly commercial criteria.

So Tennessee's three top officials were astonished last month, in a meeting with GM, when they were told the first two criteria were "community impact" and "carbon footprint"—how the choice would affect unemployment rates and carbon-dioxide emissions.

"Those didn't strike us as business criteria at all," said Tennessee Sen. Lamar Alexander, who was joined in the meeting by fellow Republican Sen. Bob Corker and the state's Democratic governor, Phil Bredesen. Those factors, Mr. Alexander said, "seemed odd for a company struggling to get back on its feet."

On June 26, after a monthlong competition, GM tapped an existing factory in Orion, Mich., pushing aside competing plants in Spring Hill, Tenn., and Janesville, Wis.

All the sites had merits, but the Michigan plant had additional attractions. It is embedded in a struggling state that is a Democratic stronghold. The Orion site, 55 kilometers from GM's Detroit headquarters, is also close to tens of thousands of current and former United Auto Workers union workers, whose pressure previously helped persuade GM to scrap plans to build the car overseas.

The area has one of the region's highest unemployment rates, at 12.4%, though the Wisconsin site's was even higher, at 12.9%. Janesville, by contrast, offered a less-expensive labor pool, according to people briefed on the plan. In Spring Hill, GM has a new, \$225 million paint shop. The Orion plant's paint shop needs to be replaced.

Set to emerge from bankruptcy within weeks, GM declined to disclose the factors it weighed in picking Orion, but said the process was free of political meddling.

"It's in the best interest of all involved to not discuss the selection criteria for the small-car plant," said GM spokeswoman Sherrie Childers Arb. "All three plants have individual merits, but when all told, the Orion plant scenario provided the best business case."

The federal government's outsize role in the new GM has already raised concerns about the

The General Motors Orion Assembly sign is seen at the plant in Orion Township, Michigan



Commercial criteria

Plant prospectus for GM's new subcompact

Plant	Year Opened	Local Unemployment
Spring Hill, Tennessee	1990	11.8%
Janesville, Wisconsin	1919	12.9%
Orion Township, Michigan	1983	12.4%

GM's site choice criteria

- Community impact
- Energy cost per unit of production and carbon footprint
- State, county and local support
- Investment level at site
- Available labor pool (GM's goal is 100% staffed by Tier 2 or lower wage employees)
- Logistics costs (both inbound and outbound)
- Manufacturing cost per unit of production
- Shipping container expense
- Long-term site viability
- State environmental issues
- Supply base proximity

Sources: GM/U.S. Bureau of Labor Statistics

mixing of politics and commerce. Lawmakers, such as Rep. Barney Frank (D-Mass.), chairman of the powerful House Financial Services Committee, have squeezed GM to reject plant closures in their dis-

line of compact cars the size of a Toyota Yaris from China. That sparked an outcry from the UAW and from Congress, which put pressure on the Obama administration to persuade GM to drop the plan

'All three plants have individual merits, but when all told, the Orion plant scenario provided the best business case,' says a GM spokeswoman.

tricts. Obama administration officials have prodded the car giant to develop smaller, more fuel-efficient cars.

The multistate tussle over the compact-car plant was itself the byproduct of political pressure. This spring, while seeking upward of \$50 billion in federal assistance to shed debt and keep afloat, GM disclosed plans to import a new

and build the cars in the U.S. GM, already deeply indebted to the government, agreed.

GM plans to invest more than \$800 million to retool the Orion plant, with the aim of building its first U.S.-made compacts by 2011. The operation is expected to employ 1,400 workers. The UAW agreed to allow GM to employ lower-cost workers making \$14 to

\$16.23 an hour, compared with the current base wage of \$28 an hour, with less-expensive benefits than traditional assembly-line personnel.

Troy Clarke, GM's head of North American production, told reporters after the Orion announcement that GM was confident "that we have the ability to do this on a very cost-competitive basis."

Even with the labor savings, analysts question the logic of building a compact car in the U.S. Margins are so tight that even Toyota and Honda have opted to build their smallest models in countries with lower labor costs.

"Virtually nobody makes cars that size in the U.S.," said CSM Worldwide automotive analyst Michael Robinet. "There is a reason why GM at the outset was going to bring this car in from China."

Various estimates peg GM's losses on U.S.-built small cars at roughly \$1,000 to \$2,000 per vehicle sold in recent years. Lawmakers and congressional staffers involved in the compact-car competition said GM acknowledged the company expected to struggle to break even on the venture.

GM views small cars as central to its bid to become what Mr. Clarke called "the greenest car company in the world." Anticipating higher gasoline prices, Mr. Clarke said the cars will be "more and more toward the sweet spot of the market" when they roll off the assembly line sometime after 2012.

Even before the competition got under way, GM officials told the U.S. auto task force in late May they were inclined to pick the Orion facility.

Tennessee's Mr. Corker said GM made it clear the winner would have to offer a large monetary incentive, a condition that put both Tennessee and Wisconsin at a disadvantage. "Our state doesn't write big checks," Mr. Corker said.

Michigan won the bidding by offering \$779 million in business tax credits over the next 20 years, along with \$130 million in federal funds for worker training. Local officials threw in another \$102 million in incentives.

In announcing the winner, Mr. Clarke said that the state of Michigan has put forward "a very, very, very good offer."

Sub finds signals from black boxes of Yemenia jet

ASSOCIATED PRESS

PARIS—A submarine scouring the Indian Ocean on Sunday picked up the signal beacons of the two black boxes of a Yemenia Airways flight that crashed off the Comoros Islands, the French aviation agency said.

The one-line statement Sunday from the French investigation agency BEA gave no indication of when the flight-data and cockpit-voice recorders in the black boxes of the Airbus A310 jet might be recovered.

Yemenia Flight 626 crashed while landing amid heavy winds off Comoros, an archipelago of three main islands 2,900 kilometers between Africa's southeastern coast and the island of Madagascar. A 12-year-old girl, Bahia Bakari, is the only survivor of Tuesday's early morning crash that killed 152 people on the flight from Paris to Moroni, the capital of the Comoros islands.

The BEA and Airbus have sent teams of experts to Comoros to investigate the crash, and French and U.S. ships are running a search mission off the northern end of the main island, looking for bodies and debris.

A Yemeni aviation committee said Saturday that divers have recovered pieces of the fuselage of the Airbus 310 and that Yemeni, French and Comoran officials listened to the communication between the control tower and the flight before it went down, but gave no further details.

Since many on board were French Comorans, anger has run high in France since the crash amid allegations that Yemenia aircraft are a safety hazard. Protesters picketed the airport, prompting Yemenia to announce Friday it was suspending all flights from Marseille to Moroni for an indefinite period.

At least 10,000 people marched Saturday in Marseille in memory of the victims and to denounce what some claimed were "flying garbage cans." Another protest kicked off in Sunday in Paris with 1,000 people marching.

Sixty-one of the people who died in the crash were from Marseille, many of them Comorans. France's transport minister, Dominique Bussereau, has said the crashed jet had issues that included broken seats for crew and passengers, out-of-date operation manuals, insufficient pressure on emergency exit doors and unrestrained equipment in the baggage hold.

French aviation authorities flagged the problems with the plane during a 2007 inspection. However, Yemenia's lawyer in France said it was too early to say that the plane's condition was the cause of the accident.

Beijing Automotive bids for GM's Opel unit

BY CHRISTOPH RAUWALD

MUNICH—China's Beijing Automotive Industry Holding, or BAIC, made a concrete offer for General Motors Corp.'s Adam Opel GmbH unit, a GM spokeswoman said.

A person familiar with the situation said Friday that BAIC handed in a nonbinding offer valued at €660 million (\$924 million) for an equity stake in GM's Opel and Vauxhall businesses.

Under the plan, BAIC would take a 51% stake and GM would keep 49%, the person said. No plants would be closed in Germany, but jobs would be cut, including staff at Opel's headquarters.

Meanwhile, German State Secretary Jochen Homann said Friday that Canadian auto supplier Magna International Inc. is the front-runner to take over Opel, but said that the U.S. parent company still has to make the final decision on a deal.

"GM is negotiating with the bidders, not the [German] government," Mr. Homann said at an industry conference here.

In remarks released Saturday, GM Europe chief Carl-Peter Forster said negotiations for the sale of Opel to Magna were progressing well and could be completed by mid-July.

In May, GM signed a nonexclusive memorandum of understanding to sell a majority stake in Opel

and British sister brand Vauxhall to Magna, whose bid is backed by Russia's Sberbank Rossia and auto maker OAO GAZ Group. Opel's powerful labor unions have already voiced support for the takeover.

The tentative agreement with Magna is backed by €1.5 billion in bridge financing provided by the German government to keep Opel afloat as parent GM filed for bankruptcy protection in the U.S.

Science Journal

Music's mystery

An ancient instrument speaks of melody's effect on the brain > Page 28



CORPORATE NEWS

Best Buy to sell green bikes

Electronics retailer adds electric vehicles to tap consumer trend

BY MIGUEL BUSTILLO AND NICK WINGFIELD

Best Buy Co., best known as a vendor of giant televisions, is veering in a new direction: selling green vehicles.

America's largest consumer-electronics retailer by sales has quietly begun offering electric-powered scooters, bicycles and Segway Inc. transporters in 19 locations in California, Oregon and Washington.

It is throttling up the venture this summer with the introduction of the Brammo Enertia, a futuristic electric motorcycle that can travel 72 kilometers at speeds of up to 80 kilometers per hour and plugs into a standard wall outlet. Best Buy wouldn't disclose when it will begin selling the motorcycle, but Brammo Inc. representatives said it would debut in a Portland store this month.

Priced at \$11,995, the Enertia is unlikely to fly out of stores right now no matter how cool it looks—a recession-era reality that prompted one investor at the company's recent annual meeting to question whether offering the motorcycle is a smart use of floor space.

But Best Buy Chief Executive Brian Dunn defended the biker excursion as just the type of venture the company needs to test as it retunes its retail formula amid changing technological trends.

"I'm not sure how it's going to do either," Mr. Dunn said. "But I like the muscles we're exercising."

Best Buy has been weathering the recession better than some retailers, and said last month that it boosted its already leading market share in the U.S. by two percentage points during the three months ending in April, as it picked up business from its former rival, Circuit City Stores Inc., which closed in March.

Still, Best Buy earnings fell 15% for the first quarter that ended May 30, and sales at U.S. stores opened at least 14 months dropped 4.9%.

Industry experts say that electric vehicles won't be a cash cow for Best Buy anytime soon. But many concur that the investment could prove wise over time, noting that Best Buy has a history of sharp turns that have kept it ahead of competitors.



Best Buy will sell the Brammo Enertia, an electric motorcycle, along with other electric vehicles in a bid to tap consumer trends and use open space in stores.

"When you look in your crystal ball and envision the world in five years, it's not hard to see a garage with an electric car or motorcycle that's networked into the home grid," said Bradley Thomas of Keybank Capital Markets Inc. "So this may not be as far-fetched as it sounds. Best Buy is taking a big swing and hoping to hit a home run."

Based in Richfield, Minn., Best Buy started out as Sound of Music, a small seller of high-fidelity stereo equipment, before branching out into personal computers earlier than many contemporaries. It also embraced sales of compact discs, videogames and movies sooner than Circuit City, which initially clung to a hardware-centric business model.

Some of Best Buy's forays have proved catastrophic, notably its acquisition of the Musicland Stores Corp. chain in 2001, just as Internet piracy began eroding CD sales. And skeptics say the jury is still out on its purchase of Napster Inc. for \$121 million last year in an attempt to capitalize on the name recognition of the Napster file-sharing program.

But another Best Buy experiment—sales of electric guitars and other musical instruments—appears to be a success and has now been implemented nationwide, typically in what used to be Best Buy's stereo-

speaker section back when such products were in vogue.

That reveals a key motive for the company's experiments: with flat-panel televisions replacing bulkier models, and music and movie sales declining, Best Buy needs to do something with the empty spaces in its cavernous stores.

"They're going to have a lot of space to fill, and are looking at technology-based categories where they can leverage their position in the market," said analyst Stephen Baker of research firm NPD Group, which is based in Port Washington, N.Y.

Indeed, Best Buy said its electric vehicles push is part of a re-imagining of the company's product mix involving a corporate division known as Best Buy Labs, which is looking to make better use of the company's Geek Squad electronics technicians.

Another frontier being explored: home automation systems that manage air-conditioning, lights and appliances, and reduce energy use.

Brammo Chief Executive Craig Bramscher, a former Internet entrepreneur, said he first approached Best Buy about selling his electric bikes two years ago after looking at their disassembled innards and realizing they resembled a computer server.

The motorcycles, Mr. Bramscher said, are "really consumer electronics you ride."

Google receives antitrust scrutiny

BY JESSICA E. VASCELLARO AND JEFFREY A. TRACHTENBERG

The U.S. Justice Department said it is investigating a settlement between Google Inc. and authors and publishers, saying that antitrust issues raised by the deal warrant scrutiny by the agency.

Deputy Assistant Attorney General William Cavanaugh disclosed the investigation in a letter to U.S. District Court Judge Denny Chin, who is scheduled to review the settlement. Mr. Cavanaugh wrote that the Justice Department hasn't reached any conclusions on "what impact this settlement may have on competition." But he added that the agency has "determined that the issues raised by the proposed settlement warrant further inquiry."

Judge Chin said the court will maintain an October hearing date and invited regulators to present views in writing by Sept. 18 or to appear in person during the hearing.

Google spokesman Gabriel Stricker on Thursday reiterated the company's previous statement that it had been contacted by the Justice Department and several state attorneys general about the settlement and said it remains confident in the settlement. "It's important to note that this agreement is nonexclusive and if approved by the court stands to expand access to millions of books in the U.S."

Samuel Miller, an antitrust lawyer at Sidley Austin LLP who isn't involved in the case, said the Justice Department's move is likely to "make the judge take a harder look

at the settlement." "It may encourage others to speak up or address their concerns to the DOJ," he said.

The agreement, struck to resolve a copyright lawsuit between Google, authors and publishers, gives Google copyright licenses over millions of digital books it has scanned since 2004 to include in its book search service and to sell in digital form to consumers and libraries. In exchange, it has agreed to share revenue earned by selling access to digital copies and advertising against books with rights holders.

Since it was announced last October, however, the court has received letters raising concerns about the settlement, including worries that the settlement would prevent other companies from entering the digital book market.

Lightbulb producer plans to widen use of TCP name

BY PAUL GLADER

Ellis Yan, the founder and CEO of fluorescent-light maker TCP Inc., said his company will begin selling TCP-branded products in North America this fall and plans to open a factory near Cleveland in about a year.

TCP already is the largest manufacturer of CFL bulbs sold in the U.S., according to industry players.

It produces 300 to 400 million CFL bulbs per year in China, selling many under brands such as GE Lighting, Osram Sylvania and Philips Lighting.

"You will see a TCP brand name in the U.S. in a few months," Mr. Yan said in an interview.

His company plans to sell a small 60-watt compact fluorescent light bulb as well as a chandelier light-emitting diode, or LED, bulb in the U.S.

TCP sells CFL bulbs under its own brand name in China, but until now hasn't in the U.S. Mr. Yan said he didn't expect sales under the TCP brand to jeopardize relationships with other CFL bulb makers, several of which are focusing on light emitting diode, or LED, technologies for future products.

TCP now manufactures exclusively in China but Mr. Yan, who moved to the U.S. from China in 1979, said increased automation reduces the importance of labor costs and makes it possible to manufacture elsewhere.

He said the company plans to open a plant near Cleveland employing 50 to 60 people.

Mr. Yan estimates a spiral CFL bulb produced in the U.S. would cost 20 cents to 30 cents more than a bulb produced in China that might retail for \$3.77 in the U.S.

Three years ago, all of the firm's bulbs were made in China by hand. Today, 60% are made by machines and the company has shrunk its work force to 8,000 workers, from



TCP plans a factory near Cleveland; above, a TCP worker near Shanghai

15,000 in 2007; the drop reflects automation, as well as a 7% decline in CFL bulb sales this year.

The move to establish a TCP brand could be a precursor to an initial public offering, but Mr. Yan is not confirming that is his long-term plan. The company filed for an initial public offering in 2001, but withdrew the plan in 2002.

The Freedomia Group Inc. in Cleveland expects U.S. demand for advanced lighting products—LEDs, CFLs, halogen lights and other products that will replace traditional incandescent bulbs—to grow nearly 11% a year to \$6.8 billion in 2013, driven by legislation that bans the sale of incandescent lamps starting in 2012.

While many of TCP's rivals are investing in LED technology, Mr. Yan says his company still believes that sales of CFL bulbs will grow in the U.S. He says CFLs can be made more efficient, less costly and longer lasting than LEDs.

States in U.S. plot new path to tax online retailing firms

BY GEOFFREY A. FOWLER AND ERICA ALINI

Amazon.com Inc. and other e-commerce companies are winning some skirmishes against cash-strapped U.S. states that want to force them to collect sales taxes, but their victories may be short-lived.

Several states are contemplating new laws or revisions to existing law that could eventually force online retailers to pony up. North Carolina, for instance, has a two-pronged approach to going after online retailers. If its current efforts to tax online sales fall through, the state's revenue secretary plans to interpret existing laws to require companies that have marketing affiliates collect sales taxes.

State Sen. David Hoyle on Thursday called the effort "a fairness issue." Collecting sales taxes from out-of-state sellers could bring between \$150 million and \$200 million annually in additional tax revenue, he said. Mr. Hoyle said current law allows the state to force online retailers retroactive sales taxes.

Texas is also investigating whether Amazon has a presence in the state through a subsidiary that handles distribution. If so, Amazon

could be forced to collect future taxes, and potentially pay tax on past sales.

E-commerce companies said they continue to believe they aren't required to collect such taxes. "We don't want to shoulder the unconstitutional burden of collection in states where we lack a physical presence," said Patty Smith, a spokeswoman for Seattle-based Amazon. She said the company is "in compliance with all Texas laws governing sales tax collections."

Overstock.com Inc. President Jonathan Johnson said the new efforts will be unsuccessful. "The state legislatures don't have the ability to change what the Supreme Court has said," he said. "We will sue any state that tries to unconstitutionally attack our business," Mr. Johnson added.

An effort by some states and retailers to streamline sales tax laws eventually could be used to force e-commerce companies to collect tax in 20 states. Congress has considered bills that would allow states that meet certain uniformity and simplification standards in their tax systems to demand that out-of-state sellers collect sales taxes.

CORPORATE NEWS

General Mills' new taste

Company to offer wheat-free mixes for cookies, cakes

BY ILAN BRAT

Mass marketer General Mills Inc. is carving out a niche in gluten-free food after realizing it could reach eager customers without costly ad campaigns.

The company's Betty Crocker brand is rolling out gluten-free mixes for cookies, brownies and cakes. The mixes are the first gluten-free offering from a major, mainstream brand in the cake-mix aisle. Gluten is a key protein in wheat, but many people react badly to it.

Ann Simonds, General Mills's

president of baking products, says the company decided to pursue gluten-free products last year after its customer-relations department noticed that customer inquiries about food allergies and sensitivities most frequently centered on whether items contained gluten.

"It used to be, as a marketer in the food industry, you needed a \$50 million idea to make the business model work," says Ms. Simonds. "Today, you can meet an unmet need that will be a \$5 million business....That would be worth it for a company like General Mills."

Last July, General Mills released a gluten-free version of its Chex cereal, and the company received thousands of grateful emails and phone calls.

Doctors increasingly are diagnosing Celiac disease—in which ingesting gluten causes the body to dam-

age the digestive system. Moreover, a diet fad is focusing on reducing gluten consumption.

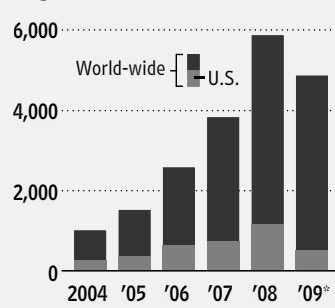
Although only about 1% of the U.S. population has Celiac disease, General Mills says its research shows about 12% of U.S. households want to eliminate or reduce their gluten intake, although some doctors say it's nutritionally important for those who aren't sensitive to it.

General Mills won't disclose how much it's spending for the gluten-free marketing, but says it's much less than what it normally dishes out for national product launches.

The company's move also reflects consumer goods makers' growing use of digital tools to market less expensively to niche segments of consumers. In recent years, companies such as Procter & Gamble Co., candy-maker Mars Inc.

Reaping profits

New products that claim to be gluten-free, world-wide



*Through July 1
Source: Mintel Global New Products Database



and others have launched new products without marketing through TV, magazines or newspapers.

Instead, big marketers have relied on Web sites, toll-free numbers and direct sales to customers such as doctors and specific retailers to introduce some new products, says

Alison Chaltas, a marketing consultant with Interscope LLC.

The Betty Crocker brand plans to spread the word by sponsoring online marketing, advertising in gluten-free lifestyle magazines, and participating in gluten-related events. In early May, Betty Crocker sponsored a booth at a Celiac Disease Foundation event in California.

The company paid for product links to show up more prominently when people search "gluten-free birthday cake mix" and "gluten free dessert mixes" on Google. The company also sent hundreds of product samples to bloggers who write about Celiac disease, motherhood and related issues.

General Mills, which reported higher-than-expected fiscal fourth quarter earnings per share of \$1.07 on Wednesday, plans to launch more than 50 new products—the gluten-free items among them—in the first half of the recently started 2010 fiscal year.

Even though retailers have been focusing on trimming products from their shelves recently, the new gluten-free products could get a welcome reception. "Gluten has increasingly become an area of dietary focus and concern for consumers, and we want to ensure our stores are able to meet their needs," says Haley Meyer, a spokeswoman for grocery giant Supervalu Inc., some of whose stores are now carrying the new Betty Crocker products.

Currently, mostly small food companies supply gluten-free products.

Producing gluten-free cookie, brownie and cake mixes that consumers would recognize as Betty Crocker products wasn't easy. Gluten in wheat flour makes dough springy, helps cakes rise in the oven, and keeps cookies together. Most traditional baked goods contain at least 30% wheat flour.

From September to December, General Mills food scientists baked more than 1,000 pans of brownies, cookies and cakes while conducting about 75 experiments with different formulations, says Jodi Benson, director of baking products research and development.

In initial experiments with yellow cake, the rice-flour mix wouldn't rise, leaving flat, dense and moist matter in the bottom of the pan, Ms. Benson says. The mix needed something to trap air.

They tried removing some water, substituting butter for oil and upping the egg ratios among other things to get the batter to rise in the oven.

After adding testing procedures in its own factories to assure a gluten-free environment, General Mills is rolling out the new mixes across the country. The mixes will sell for about \$2 more than the traditional Betty Crocker mixes.

"We refer to [the customer base] as narrow but deep," says Dena Larson, marketing manager in the baking products division. "This may be the only brownie [a customer] buys."

“You don't want a capital market that functions perfectly if you're in my business.”

— WARREN BUFFETT, CEO, BERKSHIRE HATHAWAY
as quoted in FORTUNE's 4.28.08 issue



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CORPORATE NEWS

British Airways cuts back

Capacity is reduced after traffic declines; 3,700 jobs on the line

By KAVERI NITHTHYANANTHAN

LONDON—British Airways PLC reported another month of declining passenger traffic, forcing the U.K. flag carrier to further cut summer and winter capacity.

The company also said it plans to shed as many as 3,700 jobs in the fiscal year through March.

BA said Friday it will cut capacity by 3.5% in the April-October period, compared with a previously planned reduction of 2.5%, and will cut its winter schedule by 5%, instead of a planned 4% reduction.

The airline said it expects a five-month delay in delivery of its first six Airbus A380 aircraft, which are due in 2012. The delivery of the remaining six A380s will be delayed by two years to 2016. Airbus is a unit of European Aeronautic Defence & Space Co.



British Airways' traffic fell 3.8% in June, led by a 15% drop in premium tickets.

BA said it will ground its remaining three mainline Boeing Co. 757 aircraft next summer and a further three Boeing 747-400s in

the winter of 2010.

The carrier said it expects capital spending to fall to £580 million, or about \$950 million, this fiscal year from its original target of £725 million.

Traffic fell 3.8% in June from a year earlier to 9.93 billion revenue passenger kilometers. Its total number of passengers fell 4.9% to 2.9 million. Premium traffic dropped 15%, and nonpremium traffic fell 1.3%.

A 1.7% cut in capacity still wasn't enough to counter waning demand. BA's passenger load factor, an indicator of how many seats were filled with paying passengers, fell 1.8 percentage points to 79.6%.

The airline said that on an underlying basis, premium and nonpremium volumes and seat factors have been stable for more than three months.

Separately, Ryanair Holding PLC, Europe's largest low-cost airline by passengers carried, said it had 13% more passengers in June than a year earlier at 5.8 million. Over 12 months, Ryanair carried 60.2 million passengers, the highest annual number in its history.

Exelon increases its offer for NRG

By MARK PETERS

Exelon Corp. boosted its hostile offer to acquire NRG Energy Inc. by 12% in an attempt to rebuild support for its bid to create the largest U.S. power generator by output.

The increased offer values NRG at \$7.8 billion, according to data provider Dealogic, and is a reversal for Chicago-based Exelon, which had stood fast on its original offer since launching its bid last autumn.

Although the new offer represents a premium of nearly 8% to NRG's closing share price Wednesday, shares of the Princeton, N.J., power-plant operator fell Thursday, and analysts said the sweetened bid is unlikely to sway NRG shareholders.

In recent months, Exelon has come under increasing pressure to raise its offer as stock moves wiped out any premium for NRG shareholders. NRG investors showed strong support for the old offer, tendering 51% of the company's shares. But that support has waned as moves in the two companies' stock prices have left NRG shareholders with little if any premium.

In addition, analysts said NRG's ac-

quisition of Reliant Energy Inc.'s Texas retail business and progress in its plans to build new nuclear reactors have raised NRG's value.

Exelon executives said they increased the offer after finding an additional \$1.5 billion in cost savings and other synergies, including a 30% cut in operation and maintenance costs at NRG, as well as benefits from NRG's purchase of the Reliant unit. Besides the benefits Exelon sees in consolidation, NRG would provide a strong position in Texas' power market and a leading plan for new nuclear development.

The new offer of 0.545 of an Exelon share for each NRG share, up from 0.485 of a share, is Exelon's best and final one, Exelon Chairman and Chief Executive John Rowe said. NRG said it will review Exelon's proposal, and told its shareholders not to take any action.

If a deal does go through, Exelon said it would issue \$1.1 billion in new stock and sell \$1.6 billion in assets. Exelon already had planned to sell several power plants as part of the deal but added NRG's Louisiana and international assets to its divestiture list.

The moves should help Exelon pro-

tect its credit rating if the deal closes, analysts said. The company said it is confident it will retain its investment-grade ratings after the transaction, under which Exelon could have to refinance \$4.7 billion of NRG's senior notes and other debt.

Like other utilities, Exelon has seen demand slump and the number of uncollected accounts increase as the economy has deteriorated. Last month, the company announced \$350 million in cost-cutting measures, including the elimination of 500 jobs.

The next key event in Exelon's hostile bid comes at NRG's annual meeting July 21. Exelon is proposing to expand NRG's board and add its own members to help push through the deal.

"This is all about the long-term value that can be created by consolidation," Mr. Rowe said on a conference call Thursday.

On the call, Exelon also reaffirmed its second-quarter and full-year earnings estimates, while saying it would only issue new equity if the NRG deal closes.

—Kerry Grace Benn
contributed to this article.

Electronics firms fight recycling laws

By RYAN KNUTSON

Small electronics makers are struggling with—and fighting against—new state laws in the U.S. mandating they pay for electronics-recycling programs for consumers.

Five companies, including ViewSonic Corp., CTX Technology Inc. and ToteVision Inc., are threatening litigation against Washington state's new electronics-waste law, which requires manufacturers to fund recycling and collection services for old TVs, personal computers and monitors.

The companies argue the law, which took effect this year, charges them too much and improperly includes out-of-state businesses.

Meanwhile, the Consumer Electronics Association, a trade group

representing 2,000 electronics companies, is negotiating with New York City officials to change a city ordinance that would require electronics companies to pick up old gadgets door-to-door.

The CEA says the ordinance, scheduled to take effect July 31, would cost the industry \$200 million annually.

"We're extremely alarmed" by electronic-recycling laws, says Bill Taraday, president of ToteVision, a Seattle maker of liquid-crystal-display screens with annual sales of about \$10 million. ToteVision has had to pay 4% of its profits to cover its recycling bills in Washington since January, he says. If legislation like this existed in all 50 states, "we wouldn't be in business," Mr. Taraday says.

State officials and environmen-

tal groups say electronics companies should be responsible for recycling costs. "The manufacturers will absolutely pass the costs along to consumers," says Barbara Kyle of the Electronics TakeBack Coalition, a consortium of environmental groups.

While some big players such as Dell Inc. and Best Buy Co. have expanded their recycling programs, parts of the technology industry are fighting the spread of legislation mandating industry-funded electronics recycling.

Since 2003, 19 states and New York City have passed such laws. Twelve other states have introduced similar legislation this year. The laws have taken effect in 10 states, including Washington, Oregon and three others this year.

GLOBAL BUSINESS BRIEFS

Friends Provident PLC

Stake in asset manager is unloaded to shareholders

Friends Provident PLC unloaded its majority stake in F&C Asset Management PLC on Friday, cutting the U.K. insurer free of losses at the troubled asset-management firm and letting it focus on reviving its core businesses. The insurer handed over the bulk of its 52% holding in F&C to its own shareholders after a fruitless attempt to sell it to a rival asset manager. The stake is valued around £170 million (\$277.5 million) based on F&C's closing share price Thursday. Shareholders with at least 2,500 Friends Provident shares were offered one F&C share for every 10 Friends shares they owned, while smaller shareholders were given the option to receive cash. The plan was announced in October and was approved by shareholders last month.

Tesco PLC

Tesco PLC secured just enough shareholder support at the retailer's annual general meeting to change its executive share-option plan. Fifty-five percent of investors voted Friday in favor of Tesco's plan to extend to three years the one-year period in which leaving or retiring executives can exercise options, while 41% voted against and about 4% withheld their votes. Shareholders at the meeting here passed all 22 resolutions put forward by U.K.-based Tesco. Shareholders rejected a special resolution put forward by U.K. union Unite and the West Yorkshire Pension Fund that called for Tesco to improve the treatment and pay of migrant meat workers employed by its suppliers. Tesco had recommended that shareholders vote against the resolution.

Telefon AB L.M. Ericsson

Telefon AB L.M. Ericsson said it was awarded contracts to provide fixed broadband access to China Mobile Ltd., China Unicom (Hong Kong) Ltd. and China Telecom Corp. The Stockholm-based telecommunications-equipment vendor said Friday it will roll out fiber-to-home networks for the operators, which are upgrading their networks in such provinces as Guangdong, Shanghai and Sichuan. It said it will provide design, consulting and other services as well. Ericsson didn't disclose the value of the orders. China has turned into a major source of potential sales growth for telecom-equipment vendors as demand elsewhere is hit by the eco-

nomie slump. Ericsson competes with European rivals Alcatel-Lucent SA and Nokia Siemens Networks, a joint venture of Nokia Corp. and Siemens AG, as well as Chinese players such as Huawei Technologies Co.

Total SA

Total SA of France and state oil company China National Petroleum Corp. now plan to bid for two large oil blocks being auctioned in Venezuela, instead of one in which they had previously shown interest, two people involved in the bidding round said. The near failure of Iraq's licensing round this past week, when just one of six blocks being bid for was awarded, may be a factor being taken into consideration by the 19 foreign companies showing interest in Venezuelan concessions when they make final adjustments to their offers. Coincidentally CNPC, in partnership with BP PLC, won the contract for Iraq's Rumaila oil field—Iraq's largest oil field and one of the world's biggest.

PVM Oil Associates Ltd.

Unauthorized trading by a broker, Steve Perkins, left oil brokerage PVM Oil Futures with a loss of nearly \$10 million. The brokerage confirmed Friday that Mr. Perkins was the broker involved in the unauthorized trades Tuesday. Mr. Perkins has been employed as a crude-oil broker at PVM for "a long time" and is currently suspended from his role, PVM said. Mr. Perkins, who had been identified in earlier news reports, couldn't be reached for comment. PVM suffered a loss totaling "a little under \$10 million" as a result of the trades, the company said in a statement Thursday. PVM Oil Futures, a subsidiary of PVM Oil Associates Ltd., started operations in 1993.

Samsung Engineering Co.

Samsung Engineering Co. signed a \$2.6 billion, three-year contract to modernize an oil refinery in Skikda, Algeria. The agreement with Sonatrach, Algeria's state-owned oil company, is the largest plant order received to date by a South Korean contractor, Samsung Engineering said. "This order has paved the way for further contracts...in the African market," Samsung Engineering Chief Executive Jung Yeon-joo said in a prepared statement. Samsung Engineering said it is keeping unchanged annual targets of seven trillion won (\$5.49 billion) in new orders and four trillion won in sales. Samsung posted 5.8 trillion won in new orders and 3.215 trillion won in sales last year.

Leighton Holdings Ltd.

Leighton Holdings Ltd. said it has signed a project alliance agreement with India's Tata Realty & Infrastructure Ltd. to build the Ramanujan IT Park in Chennai. The project is valued at around US\$230 million and involves construction of more than 570,000 square meters, including information-technology offices, a convention center and retail, residential, hospitality, entertainment and car-park facilities, it said. The alliance includes Tata Realty & Infrastructure, Leighton and a number of special consultants, Australia-based Leighton said. David Savage, managing director of Leighton International, said India is a core market for the company.

—Compiled from staff
and wire service reports.

EU raid targets glass companies; cartel suspected

By PEPPI KIVINIEMI

BRUSSELS—The European Commission Friday said it had raided the premises of several specialist glass sector companies on suspicion they may have operated a cartel.

The companies involved in the investigation produce special glass "used for optical and electronics applications, both commercial and industrial," the commission said.

The commission wouldn't name the companies involved in the probe but said the companies had been visited by commission officials March 4.

ECONOMY & POLITICS

Higher wages have potential to harm

Minimum pay set to increase this month, reviving debate about the impact of raises on job creation

BY KRIS MAHER

The U.S. federal minimum wage goes up this month just as job losses are sending new alarms about the economy, giving traction to perennial fears that higher wages will hurt job creation.

In the past, minimum-wage increases have done little to dent job creation. And pouring more money into people's pockets—especially low-wage workers who are likely to spend the increase to meet living costs—would normally boost the economy.

THE OUTLOOK

But these aren't normal times. "It's tough timing," said John Silva, chief economist at Wells Fargo, who expects low-skilled workers and teens will be hit hardest. "You're going to have a very negative response. In a recession like this, companies don't have the pricing power to pass on those costs."

History, in this case, isn't a reliable predictor, he says, because the current economic slump is much deeper than during previous times.

The job market remains weak and figures released last week show the unemployment rate is at 9.5%. Consumer confidence, consistently low, retreated in June, translating into weak traffic at restaurants, car washes and hotels, all

places that rely heavily on minimum-wage workers.

The impact of the higher minimum wage will resonate even beyond that group of earners and industries. Economists say there are 2.8 million workers earning between the current federal minimum wage of \$6.55 an hour and the new minimum wage of \$7.25 an hour, which takes effect July 24 and has had no signs of delay. But some estimates figure an additional seven million workers are affected because their wages are tied to the minimum and will go up accordingly.

Many economists see long-term positive effects for the economy.

Ryan Arfmann, who owns a Jamba Juice franchise in Idaho Falls, Idaho, is a case in point. He said he will have to boost pay to all of his 18 workers. The ones making less than \$7.25 an hour will be raised to the new rate. But he said he will have to give raises to those currently earning more than \$7.25 an hour because they have more experience.

As a result, he plans to cut hours for his part-time workers. "I'll definitely have to run a tighter shift each day and watch numbers like never before," said Mr. Arfmann, who estimates his business is down between 3% and 4% this year.

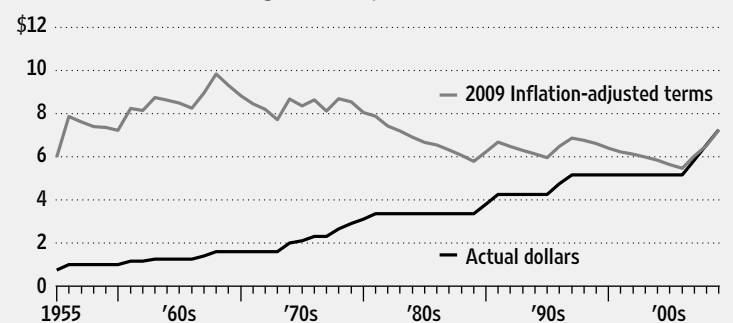
Still, many economists also see long-term positive effects for the economy from boosting the income of those at the bottom of the economic ladder. They note that many small businesses may benefit through higher productivity in the form of improved worker retention and less churn.

The Economic Policy Institute estimates that the minimum-wage increase will add \$5.5 billion to the economy, and that this money is likely to be readily spent by low-wage workers, giving a boost to local economies. Heidi Shierholz, an economist at the liberal think tank in Washington, argues that "it is actually a good time" for an increase in the minimum wage.

The change is welcome to workers such as Walter Jasper, 48 years old, who earns \$6.55 an hour at Shur Brite Hi Speed Car Wash in Nashville, Tenn. He has worked there for 14 years off and on. His wife earns \$7 an hour working at a discount store and will also get an increase in her paycheck. Mr. Jasper said he and his wife will be late with their rent payment of \$359 this month and that the

Keeping pace

A look at U.S. minimum wage over the years



Note: Annual CPI used to calculate inflation-adjusted price, not seasonally adjusted
Source: U.S. Department of Labor

extra income will be used to pay bills.

The minimum wage increase is the third step of a three-step increase passed by Congress in 2007, meaning businesses had time to prepare. Many states, including California, at \$8 an hour, already have minimum wages that surpass the federal level. Last year, as a presidential candidate, President Barack Obama proposed raising the federal minimum wage to \$9.50 an hour by 2011.

Before 2007, the federal minimum wage stayed for 10 years at \$5.15 an hour, undermining the actual earning power of low-wage workers.

"There is a long-term rationale: to make sure minimum wage at least keeps pace with inflation," said Nariman Behraves, chief economist with IHS Global Insight in Lexington, Mass. "If you're going to impose a minimum wage, you want to make sure it keeps up, which it hadn't been for a while." The legislation, he said, was an attempt to make sure people weren't getting hurt by inflation and that their wages were keeping pace.

But, he adds, this is probably the worst time to be raising wages. "This is an unfunded mandate that the government is imposing at a time when the economy is struggling," he said.

Bulgaria rightist opposition is set to win parliament poll

ASSOCIATED PRESS

SOFIA, Bulgaria—Bulgaria's right-wing opposition party won Sunday's parliamentary election by a wide margin over the corruption-tainted governing Socialist coalition, according to exit polls.

The Alpha Research poll showed that the Citizens for European Development of Bulgaria, or GERB, led by Sofia Mayor Boiko Borisov, had won 38.5% of the vote. The survey placed the governing Socialists second with 18.4% of the vote, while their junior coalition partner, the mainly Turkish MRF, won 13.5%.

The ultranationalist Attack Party is expected to finish fourth with 9.2%, followed by the right-wing Blue Coalition with 7.5% of the vote.

Official results are expected Monday.

"This is a serious victory for the

right-wing parties," said Petar Moskov, spokesman for the Blue Coalition. "It is the big comeback of the rightist parties and a considerable punishing vote for the incumbent coalition."

GERB, led by Sofia Mayor Borisov, has 38.5% of the vote, exit polls show.

It wasn't immediately clear, however, whether Mr. Borisov's party would have enough support to win an outright majority. The Blue Coalition has said it would be open to joining a coalition led by Mr. Borisov's party.

"I vote for a European Bulgaria, which has to prove that it is not the poorest and most corrupt country in Europe," Mr. Borisov said Sunday after casting his ballot.

Some 53% of Bulgaria's 6.8 million eligible voters cast ballots, according to exit polls.

Although Prime Minister Sergei Stanishev's Socialist government was credited with securing EU membership in 2007, it has widely been blamed for failing to crack down on corruption and to improve the quality of life for Bulgaria's 7.6 million people.

Bulgaria is the poorest member of the 27-nation European Union, with an average salary of €300 (\$420) a month.

Palin resigns as Alaska governor

BY JIM CARLTON

ANCHORAGE, Alaska—Amid the debate over Sarah Palin's reasons for resigning as Alaska governor Friday, one thing is clear: Her political position within the state had increasingly eroded since she returned from her run as the Republican vice-presidential nominee.

Over the past eight months, Ms. Palin's tenure had been marked by increased sparring with bloggers and activists in the state, some of whom filed numerous public-records requests with her office. Her once-warm relationship with the state Legislature turned sour over ethics probes, the use of federal stimulus funds and the blocked appointment of the state attorney general.

Ms. Palin was cleared in the 15 ethics investigations targeting her, but the activities appear to have weighed on her. Alaska Lt. Gov. Sean Parnell—who will take over on July 26—said on "Fox News Sunday" that Ms. Palin's decision to step down was primarily prompted by her concern over the \$2 million a year the state has spent on records requests and the multiple ethics investigations against her.

Ms. Palin's surprise move led some to speculate that she would try for a run as president in 2012. But others said that her departure could end her political career.

Former Arkansas Gov. Mike Huckabee, who challenged Sen. John McCain for the 2008 Republican presidential nomination, said that if Ms. Palin plans to run, she was taking a chance in resigning. "It's a

risky strategy and nobody knows if it's going to pay off or not," he told "Fox News Sunday."

Ms. Palin's departure isn't likely to derail her signature accomplishment in Alaska—getting a gas pipeline project from the North Slope oil fields to the lower 48 states. Several experts said work to build the planned line could even proceed more smoothly without what they called the distractions of controversy around her.

Ms. Palin declined a request for comment. In a statement posted Saturday on Facebook, the governor criticized the media's coverage of her resignation. "How sad that Washington and the media will never understand; it's about country," she said. "But every American understands what it takes to make a decision because it's right for all, including your family."

The attacks in the blogosphere and by activists seemed to particularly rankle the governor, who in her resignation announcement charged them with "silly accusations" that included mocking her infant son, Trig, who has Down syndrome.

Just a year ago, Ms. Palin's tenure had been relatively harmonious. Jesse Griffin, one blogger who criticizes her now, remembers writing "Let's give her a chance" when she was first elected in 2006. The Republican governor worked so closely with Democratic legislators in Juneau that she once brought cupcakes to celebrate the 60th birthday of one of them.

But relations between Ms. Palin and the Legislature and media turned frosty soon after she was nominated to be Sen. McCain's run-

ning mate in August. One point of friction was "Troopergate," in which Ms. Palin and her family were accused of using their influence to try to get her former brother-in-law fired from his job as a state trooper.

Ms. Palin eventually was cleared of any wrongdoing by state investigators, but the affair left a partisan divide after she called the inquiry politically driven by supporters of Democratic candidate Barack Obama. The legislative committee that headed the inquiry was dominated by Republicans.

The bad blood led to gridlock on some issues. Ms. Palin appointed Alaska lawyer Wayne Anthony Ross as attorney general, but legislators—in a move unprecedented in Alaska's 50-year history—in April vetoed the appointment, citing, among other things disparaging remarks he had made about gay people. Ms. Palin said legislators "didn't seem to represent their constituents."

That same month, the Anchorage Daily News noted the "circus" atmosphere in Juneau after the governor rejected the choice of Democrats to fill a seat in the Legislature vacated by a Democrat who left to join the Obama administration. After weeks of wrangling, the governor eventually agreed to the Democrats' choice.

On Saturday, Ms. Palin's lawyer, Thomas Van Flein, issued a statement attacking as "false and defamatory" allegations that the real reason the governor stepped down was because of a criminal investigation. He singled out by name "liberal" Alaska blogger Shannyn Moore. Ms. Moore said there was nothing defamatory about what she said.

—Deborah Solomon
contributed to this article.



Sarah Palin

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ECONOMY & POLITICS



Agence-France Presse

Indonesian President Susilo Bambang Yudhoyono, a former army general, is widely expected to win re-election.

Rising Indonesia to vote

Amid growth outlook, President Yudhoyono defends reform efforts

BY TOM WRIGHT

JAKARTA, Indonesia—On the eve of a national election this week, Indonesia is re-emerging as one of the world's hottest developing economies, a remarkable turnaround for a country that was once widely viewed as a basket case.

Despite the global financial crisis, Indonesia's economy is on track to grow nearly 4% this year, making it one of only a handful of major economies—including China and India—that International Monetary Fund expects to expand in 2009.

Its stock market is up 50% for the year, and companies including Volkswagen AG and British American Tobacco PLC are making new investments there.

Much of the credit goes to Indonesia's President Susilo Bambang Yudhoyono, a former army general who is widely expected to win re-election after five years in power. Under his watch, the government has stamped out Islamic terrorism and ended its civil war in the resource-rich province of Aceh. He has brought state spending under control and launched a popular anti-corruption drive, landing a number of senior politicians and central bank officials, including one whose daughter is married to Mr. Yudhoyono's son, in jail.

But critics say Mr. Yudhoyono will have to do more to attack corruption if the nation is to reach its potential of China-style economic growth rates of over 8%. Last year, China attracted six times more foreign direct investment than Indonesia. Foreign businesses say that a corrupt legal system and bureaucracy are major deterrents to doing business in Indonesia.

In a rare interview on Sunday at his home—a sprawling estate outside Jakarta that has a library of 13,000 volumes—Mr. Yudhoyono said that if he's re-elected, he will fill his next cabinet with technocrats, rather than hand out positions to a wide range of

under-qualified leaders from rival political parties, as he did to placate opponents in his first term. He acknowledged that in the past his government has included businessmen with conflicts of interest that made it harder for him to rein in corruption and push reform—a practice that he pledged to end in a second term.

"Five years from now, I have to complete my effort in reforming Indonesia," Mr. Yudhoyono said. "Good governance, bureaucratic reform, the anti-corruption campaign all have to be intensified."

A broad-shouldered man who dresses neatly in bureaucrats' safari suits or silk batik shirts, Mr. Yudhoyono, 59, is an unlikely reformer. He is a career military officer in a country where the military is widely associated with corruption and human rights abuses.

In a poll of 3,000 people released on Sunday by Lembaga Survei Indonesia, 63% of respondents said they will vote for Mr. Yudhoyono in the presidential election set for Wednesday. Twenty percent opted for his closest rival, former President Megawati Sukarnoputri, who has been pushing an anti-free trade stance. Trailing a distant third is Jusuf Kalla, chairman of the Golkar Party.

The question is whether Mr. Yudhoyono could carry his law-and-order campaign to a new level in a second term, putting Indonesia—the world's fourth-largest country with 240 million people—on a more sustainable path as one of the world's top emerging-market economies. Mr. Yudhoyono has taken a number of steps in recent weeks—including choosing a well-respected Wharton-educated economist with few political ties as his new running mate—that suggest he'll press for bigger changes during a second term.

In the interview, Mr. Yudhoyono said he would protect only a few crucial industries such as the local rice market, to make sure food security is maintained, but said he is otherwise committed to free trade and investment as a way to raise incomes in a country filled with natural resources.

For more than a decade, this ethnically diverse archipelago nation of more than 17,000 islands—cover-

ing a distance greater than Los Angeles to New York—was known for corruption and chronic instability, with one of the world's longest-running civil wars. Islamic terrorists struck Western targets in Indonesia with impunity, and foreign investors mostly steered clear. Indonesia seemed so unstable at times that some Western analysts feared it would turn into another Pakistan.

Recently, its fortunes are changing. Last month, a Morgan Stanley analyst report suggested Indonesia should be added to the famous "BRIC" grouping of fast-growing emerging markets that now includes Brazil, Russia, India and China.

Mr. Yudhoyono's reputation as a reformer in the Muslim world's largest democracy is far from assured. Indonesia's cozy business elite has barely changed since the fall of former authoritarian president Suharto in 1998. The judiciary and civil service remain graft-ridden, according to advocacy group Transparency International, despite Mr. Yudhoyono's personal reputation for probity. Without more serious changes, investors fear the recent surge in interest in the country will fizzle.

Despite his anti-corruption drive, Mr. Yudhoyono remains part of the nation's elite, making him cautious in going after the most powerful politicians, judges and other government officials involved in graft, critics say. Last month, New York-based Human Rights Watch issued a report alleging abuses by military special forces, including rape and torture, in Indonesia's easternmost province of Papua.

Mr. Yudhoyono hit back at critics who charge he has been slow at bringing reform. He says they underestimate the enormity of Indonesia's problems of graft and the need to weigh decisions carefully to bolster respect for the nation's laws and Constitution. "That's the way we have to run the country, it's not a small company where you can make decisions right away," he said.

While acknowledging that army reform isn't yet complete, Mr. Yudhoyono said there have been no major violations of human rights or other systematic repressions under his watch.

—Yayu Yuniar
contributed to this article.

Asian officials dispute theory of savings glut

BY ANDREW BATSON

BEIJING—Asian officials and scholars are pushing back against the notion that their countries' high savings helped cause the financial crisis by flooding the world with cash and driving down interest rates, arguing that lax U.S. financial regulation should bear most of the blame.

The comments at a weekend conference in Beijing came just before Chinese President Hu Jintao left for Italy, where he and the leaders of other major emerging economies this week hold a summit with the Group of Eight advanced nations. Mr. Hu, who arrived in Italy Sunday, is expected to argue that improving regulation in rich Western countries should be a bigger international priority than criticizing emerging economies that save and invest a lot.

"Asians financed cheap consumption in the rest of the world, this is what they say. This is something I just cannot understand," Supachai Panitchpakdi, the head of the United Nations Conference on Trade and Development, and a former Thai government official, told the Global Think Tank Summit in Beijing on Friday. "This is another theory we have to debunk. Asians have not been oversaving and underconsuming."

The idea of a "savings glut"—an excess of cash in Asian countries and oil exporters that pushed down global interest rates and encouraged riskier investments—was first popularized by Ben Bernanke in 2005, before he was chairman of the Federal Reserve. Economic officials in the Bush administration later endorsed the idea that it contributed to the financial crisis.

Critics of the savings-glut thesis have often argued that it simply pushes responsibility for U.S. policy mistakes onto other countries. Supporters reply that China's huge trade surpluses—a reflection of its large savings—clearly had real effects on the global economy. "It is just as silly to deny any role for Asian savings in funding the U.S. savings shortfall, as it would be to blame the imbalance entirely on an Asian savings glut. It takes two to tango," said David Cohen of Action Economics in Singapore.

Mr. Supachai argued that the real difference between Asians and Americans is that U.S. consumers borrowed heavily to finance their spending while those in Asian nations mostly didn't. He said that consumption levels in Asia are "normal," averaging about 40% of gross domestic product. He acknowledged that household consumption in China is relatively low, around 36% of GDP. But he said that's because growth in investment and exports have been very strong, not because consumption has been weak.

Chinese central bank governor Zhou Xiaochuan, speaking to the same conference, said that China's savings ratio does need to fall and its consumption needs to increase. But he argued that focusing too much on "macro" issues like savings imbalances risks diverting needed attention from "micro" factors such as financial regulation.

"The crisis originated from Wall Street and many indisputable facts have established that micro factors had played an overwhelmingly important role in causing this crisis," he said, naming issues such as accounting rules, credit-rating agencies, securitized lending and lax standards at banks.

Myanmar rebuffs U.N. chief on dissident leader Suu Kyi

BY A WSJ REPORTER

United Nations Secretary General Ban Ki-moon failed to reach a breakthrough in negotiations over the fate of imprisoned Myanmar dissident Aung San Suu Kyi during a high-profile visit to the country over the weekend.

He defended the trip, indicating it was better to keep talking to Myanmar's reclusive military regime than to cut it off from the outside world.

Some human-rights groups had opposed Mr. Ban's decision to spend two days in Myanmar, whose government has been accused of widespread human-rights violations and economic mismanagement since taking over in the early 1960s.

As expected, Myanmar's top officials refused Mr. Ban's request to see Ms. Suu Kyi, a Nobel Prize laureate who is being held in a Yangon-area prison on charges that she violated a longstanding house arrest by allowing an American well-wisher to visit her home in May. She faces a potential prison sentence of five years.

Mr. Ban did notch one achievement—a rare public speech in the country in which he was able to openly criticize the government's behavior. Speaking to a gathering of diplomats, aid workers and some Myanmar government officials, he called for "national reconciliation" and more progress on economic and humanitarian reforms.

China heats up fight over tariffs

BY CHUIN-WEI YAP

BEIJING—China's central government reiterated its opposition to carbon tariff policies and said they could provoke a trade war, ratcheting up the rhetoric as lawmakers in the U.S. consider legislation to reduce greenhouse gases.

A statement Friday on the Web site of China's Ministry of Commerce cited proposals in some nations to

put tariffs on imports from countries that don't limit greenhouse gases. Such policies violate World Trade Organization rules and are "not timely" ahead of global climate-change talks later this year, spokesman Yao Jian said in the statement.

While acknowledging global warming as a threat, China says rich countries should pay for cleanup, even though China is the world's top greenhouse-gas source.

ECONOMY & POLITICS

Data damp best hopes

Euro-zone figures serve as a reminder recovery will be slow

BY PAUL HANNON
AND NICHOLAS WINNING

LONDON—Retail sales in the 16 countries that use the euro resumed their long decline in May after a brief pickup in April—a fresh reminder that recovery from the worst recession since World War II could be painfully slow.

Other data released Friday also damped hopes that the economy will bounce back quickly. The latest survey of euro-zone purchasing managers showed that the contraction in output slowed for the fourth consecutive month, but the decline in the services sector gathered pace.

The volume of retail sales in the euro zone in May fell 0.4% from the previous month and 3.3% from a year earlier, the European Union's statistics agency, Eurostat, said. Eurostat also revised down its April data to a rise of 0.1% from the previous month and a 2.5% drop from a year earlier.

Prior to the April pickup, retail sales had been in decline since September as the currency area was throttled by the global credit crunch and rising unemployment. Eurostat said Thursday that the euro zone's

Sliding sales
Retail sales declined in May in the 16 countries that share the euro. Year-to-year percentage change



Source: Eurostat

unemployment rate rose to 10-year high of 9.5% in May, with 15 million people out of work.

The data suggest consumer spending is unlikely to undergo a sustained recovery for some months to come, even though consumer confidence has improved in recent months.

"It remains unlikely that consumers will pull the euro zone out of recession—exports will need to recover first," said Jennifer McKeown, an economist at Capital Economics.

The latest purchasing-managers' report from Markit Economics showed euro-zone private-sector output declined for the 13th consecutive month in June, albeit

at the weakest rate since September.

The Markit euro-zone final composite output index rose to a nine-month high of 44.6 in June from 44 in May, beating the market-consensus estimate and flash June reading of 44.4. A reading above 50 indicates an expansion, while a reading below 50 indicates a contraction.

Nevertheless, Markit chief economist Chris Williamson said the rise was disappointing compared with the improvement seen in previous months, even if it suggested the drop in euro-zone gross domestic product in the second quarter would be smaller than the record 2.5% plunge seen in the first.

The June figures "will raise questions about the strength and durability of the recovery process in the euro area," Mr. Williamson said in a statement.

There was also a sign the recovery in the services sector is stalling. Markit's services-business-activity index fell to 44.7 in June from 44.8 in May—beating the market consensus estimate of 44.5 but signaling a slight acceleration in the rate of contraction in output in the sector.

"The improvement in June PMIs was significantly less than seen in previous months, highlighting that this recovery is going to be slow relative to the recoveries seen following more normal recessions," Dominic Bryant, an economist at BNP Paribas SA, said in a note.

Iraqis say reconciliation is an internal matter

BY GINA CHON

BAGHDAD—Iraq welcomed U.S. Vice President Joseph Biden's encouraging words about America's commitment to the country, but government spokesman Ali al-Dabbagh said Saturday that political reconciliation is an internal matter best handled by Iraqis.

In an interview with ABC News aired Sunday, meanwhile, Mr. Biden said no when asked if the U.S. would put the lives of American troops at stake should violence in Iraq flare up again. By 2011, the U.S. still plans to withdraw all troops as "we believe the Iraqis will be fully capable of maintaining their own security," he said.

Mr. Biden was in Iraq late last week to visit troops for the July 4 holiday and to also urge Iraq's political, ethnic and sectarian factions to make more progress on divisive issues. The Obama administration recently announced that Mr. Biden will oversee Iraq policy for the U.S. government, part of which included encouraging more political progress from Iraq's leaders.

"Any party that is not Iraqi will not add to the success of this issue," Mr. Dabbagh said of political progress.

Mr. Biden began Independence

Day by greeting more than 200 U.S. soldiers from 59 countries who were becoming American citizens at a naturalization ceremony in a marble domed hall at one of Saddam Hussein's palaces at Camp Victory, the U.S. military headquarters on the outskirts of Baghdad.

He then had lunch with the 261st Theater Tactical Signal Brigade from Delaware, to which his son, Beau, belongs. In telling the brigade about the naturalization ceremony, the vice president used some of his characteristic colorful language.

"We did it in Saddam's palace," he said. "[He] is rolling over in his grave right now."

Mr. Biden met with Iraqi Prime Minister Nouri al-Maliki and other leaders on Friday, but plans to see top officials in the Kurdish north on Saturday were canceled because of heavy sandstorms.

There are tensions between the central and Kurdish governments because of claims over disputed territories. Those clashing views intensified last month when the Kurdish parliament approved a new constitution for the Kurdish region that will be voted on by residents at the end of July, when a new Kurdish parliament will also be elected.

Nigerian militants claim attack on oil-well head

BY WILL CONNORS

LAGOS, Nigeria—Nigerian officials are considering paying Niger Delta-based militants cash for turning in their weapons as part of an amnesty deal, despite government statements to the contrary, according to a person involved in the talks.

Violence persisted over the weekend, with Nigeria's main umbrella militant group claiming an attack Sunday on an oil-well head belonging to Royal Dutch Shell PLC. The attack was the third on Shell-operated infrastructure since President Umaru Yar'Adua announced the amnesty effort last month.

For weeks, senior government officials have conducted closed-door meetings with representatives of militant leaders and have agreed in principle that money-for-arms should be on the bargaining table, the person involved in the talks said.

Timi Koripamo Agary, a member of the government-appointed panel charged with implementing the amnesty offer, denied the allegation.

"Absolutely not," Dr. Agary said when asked if the government was considering offering cash for arms. "The reintegration program offers opportunities for education, skill training, [and] small and medium enterprises for sustainable livelihoods."

Ateke Tom, a prominent militant and leader of the Niger Delta Vigilante Forces, said he expected to get payment for his arms, which he said number in the thousands. "We have to get something," Mr. Tom said in an interview in one of his camps in the creeks of Nigeria's Delta region.

On Sunday, the spokesman for the Movement for the Emancipation for the Niger Delta claimed the group attacked a Shell well head feeding a major oil-export terminal.

The Anglo-Dutch oil company said it received a report of incident and was investigating.

The attack came two days after Niger, Nigeria and Algeria signed an agreement to build a \$10 billion Trans-Sahara natural-gas pipeline that will transport their gas to Algeria's Mediterranean coast to be shipped to Europe.

The first leg of the pipeline will be in the western part of the Niger Delta, where militant attacks have shut most oil output in retaliation for a recent military operation. Nigerian militants Saturday reiterated threats to attack the pipeline, which is scheduled for completion in 2015.

Recent attacks in the Niger Delta have shut down one million barrels of oil a day for Nigeria, the fifth-biggest oil exporter to the U.S.

Shell and U.S. oil company Chevron Corp. have been particularly hard hit by the attacks. Shell's operations in the western Delta have been closed after six attacks on oil installations, according to a company official.

The attacks throw into doubt the prospects of the government's amnesty proposal. The offer, which will grant militants full amnesty in exchange for the handover of weapons, will take effect on Aug. 6 and last for 60 days.

Similar efforts by the government in the past haven't fared well. In a 2004 federal government-initiated amnesty offer, militants were paid nearly \$3,000 for each weapon turned in—far above their market value. Mr. Tom said he was paid for each 360 AK-47 he turned in—and that he expects a similar deal now.

Militant groups, which regularly dissolve alliances and disagree on tactics, appear divided over the amnesty. Several militant leaders have said they would accept an offer if certain conditions, such as the release of their jailed leader, Henry Okah, were met. Others have denied the offer outright.

—Benoit Faucon
contributed to this article.

THE GOOD
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