Leading the News: Washington remains an obstacle to global trade talks

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Deal to cut nuclear arms

Obama, Medvedev agree to trim U.S., Russia arsenals by up to one-third

By Jonathan Weisman

MOSCOW—U.S. President Barack Obama and Russian President Dmitry Medvedev reached a framework agreement Monday to cut their strategic nuclear arsenals by as much as a third, but they left open a host of issues vexing U.S.-Russian relations.

The two heads of state had a "very useful and very open businesslike conversation"—as Mr. Medvedev put it—on issues from Iran to Georgia to missile defense.

Still, after a four-hour session, Mr. Obama acknowledged he has work to do to smooth over tensions when he delivers what aides call a major speech Tuesday to the Russian people on democracy, open society and the two countries' difficult relationship.

"We've had some frank discussions, and there are some areas where we still disagree," Mr. Obama said, singling out Georgia, where tensions remain high after last year's war with Russia. As the presidents met on Monday, Russian troops, tanks and warplanes conducted massive live-fire exercises just across the border from Georgia.

Still, the summit met the U.S. goal of fixing numerical targets for a nuclear-arms-reduction treaty that negotiators hope to conclude by Dec. 5. That is when the governing Strategic Arms Reduction Treaty expires. Under the agreement, deployed nuclear warheads targeted at each country would be reduced to between 1,500 and 1,675 over seven years from the current ceiling of 2,200. The cut is in line with negotiators' initial targets.

Nuclear-weapons delivery systems would be reduced to between 500 and 1,100 from the current ceiling of 1,600. That wide gap reflects continued division over four U.S. Trident submarines, the entire U.S. B-1 bomber fleet and dozens of B-52s that have been either converted to release conventional weapons use or mothballed. The Russians want such "phantom" nuclear

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Riots escalate in far western China

Agence-France Presse

A boy runs in front of the burnt wreck of a car in a street in China's far west Xinjiang province Monday, where Chinese officials say 156 people were killed and more than 1,000 injured as a longtime ethnic feud simmered. **Page 3.**

ECB frets over pace of loans by banks

By Joellen Perry

European Central Bank policy makers are worried the design of some European government bank-rescue plans is discouraging commercial banks from tapping public funds and could fail to resuscitate lending across the 16-country bloc.

Central bankers' concerns are rising as euro-zone private-sector loan growth hovers at record lows. Year-to-year growth in loans to the private sector slowed to 1.8% in May, down from 2.3% in April and the lowest since records began in 1992.

Both ECB and national euro-zone officials fret that banks' reluctance to lend could worsen the recession. Over the weekend, German politicians said banks benefiting from the ECB's funding and low rates should share the largess with corporate and household borrowers.

In an interview with the Bild am Sonntag newspaper, German Finance Minister Peer Steinbrück said "banks currently prefer to use that money to invest in foreign exchange, government bonds and shares instead of passing it on as credit." Mr. Steinbrück said the government would find new measures to stimulate lending if a credit crunch developed.

The ECB is chiding banks to lend more. Its president,

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Alierta court case could hurt Telefónica

By Thomas Catan and Jason Sinclair

MADRID—A Spanish court is expected to deliver its verdict this month in the insider-trading trial of Telefónica Chairman César Alierta—a long-awaited decision that could have profound consequences on Europe's biggest telecom firm and Spain's close-knit business community.

César Alierta

The charges leveled against Mr. Alierta relate to the late 1990s, when he was running the state-owned tobacco company. Yet analysts say Telefónica's market value is so tied to Mr. Alierta's reputation as a skillful manager that a possible conviction, which could carry a jail term of as many as four and a half years, would badly shake the company and hamper its development.

"It would be totally game-changing for the stock of Telefónica," says Robin Bienenstock, a London-based telecom analyst at Sanford C. Bernstein. "There is more of a cult of management around this stock than there is around most companies."

Telefónica declined to comment on how the out-

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What's News

General Motors considers Beijing Automotive "a formidable bidder" for its Opel business, whose offer could threaten an earlier bid by Magna International, a person close to GM said. **Page 7**

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■ **The U.S. has begun** an informal review into whether large telecom companies have abused market power. **Page 8**

■ **Germany's finance minister** said he thinks the dollar will keep its role as the world's reserve currency. **Page 11**

■ **Bulgaria's premier-elect,** Boiko Borisov, named a World Bank economist to be his finance minister. **Page 11**

■ **Chrysler named** five directors to complete its nine-member board, which will meet at the end of the month. **Page 3**

■ **Britain won't extend** incentives that encourage car owners to scrap older vehicles, one of several such plans in Europe to aid new-car sales. **Page 7**

■ **British Airways cabin crews** rejected job cuts and pay freezes sought by the carrier. Mediated talks are planned for Wednesday. **Page 4**

■ **Société Générale** said it will post a small profit in the second quarter. **Page 22**

■ **Buyout firm PAI Partners** struck a deal that gives senior lenders control of Monier Group, which it bought at the top of the boom. **Page 21**

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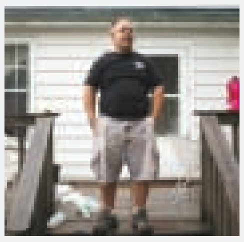

Waves of losses

U.S. firms, workers tangle over law to curb layoffs

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4 p.m. ET

	CLOSE	PCT CHG
DJIA	8324.87	+0.53
Nasdaq	1787.40	-0.51
DJ Stoxx 600	201.70	-1.17
FTSE 100	4194.91	-0.98
DAX	4651.82	-1.20
CAC 40	3082.16	-1.20
Euro	$1.3926	-0.54
Nymex crude	$64.05	+4.02

LEADING THE NEWS

G-8 nations make trade talks a priority

Crisis raises hopes to revive Doha Round but hurdles persist

By John W. Miller

The economic downturn, along with new leadership in the U.S. and India, is spurring G-8 nations to repair trade talks at their coming summit but Washington remains an obstacle, trade experts say.

Scaling Italy's summit

■ In L'Aquila, Berlusconi seeks to avoid seismic activity of any kind 9

The rest of the world "is waiting for the U.S." to detail its position on trade, Pascal Lamy, director of the World Trade Organization said in an interview at WTO headquarters in Geneva, days before the Group of Eight leading nations gather July 8-10 in L'Aquila, Italy.

Mr. Lamy has been invited to speak at the two-day annual G-8 meeting—a sign that the world's biggest economies are interested in returning to the negotiating table before the WTO's 153 member nations gather in November.

The so-called Doha Round of global trade talks—named for the Qatari capital where they began in 2001—is still in limbo after eight years of negotiation.

"I would like to move forward during the G-8 so Doha can be on the agenda in November," Mr. Lamy said.

The U.S., weighed down by its auto and financial sectors, unemployment and health-care costs, could stand in the way. In April, U.S. trade officials said President Barack Obama would make a major trade speech, but there is no indication when that might happen.

Mr. Lamy said the U.S. was "starting to engage," but noted that efforts to define a trade policy were proving difficult because of the slow confirmation process for senior U.S. trade negotiators and "a full legislative agenda with climate change and health-care reform bills before the Congress."

Trading partners are "getting impatient," he said.

Although big increases in import tariffs so far have been limited to specific countries, such as Russia, or products, such as steel, trade officials say they fear more tariffs as joblessness spreads.

A global trade deal could preempt protectionism by capping import tariffs at their current, relatively low rates, as well as dismantling barriers to trade in agriculture and industrial goods. Negotiations also "keep trade ministries in touch with each other, which makes everybody more careful about protectionism," says Simon Evenett, a professor of economics at the University of Michigan who specializes in trade issues.

A trade deal could keep protectionism at bay by capping import tariffs.

The key challenge to resuming the Doha talks, Mr. Lamy said, is persuading the U.S. and India to repair a rift that emerged at the global trade summit a year ago.

The talks broke up after Washington and Delhi clashed over whether developing countries should have the right to raise tariffs on products like cotton and sugar if imports surge. The dispute was fueled by a personality clash between Indian trade minister Kamal Nath and U.S. counterpart Susan Schwab, say trade officials from the EU, U.S. and WTO.

Mr. Nath used the summit as a campaign stop ahead of India's general elections in May, delivering speeches about "protecting 700 million farmers" and traveling back to India to cast a vote in parliament. Ms. Schwab was hindered by the Bush administration's falling poll ratings and the Democrats' control of Congress, analysts say.

Both countries' successors have softer styles, although it is unclear whether that will result in compromise on difficult issues.

Mr. Nath's Congress party won the recent Indian elections, but he was succeeded by Anand Sharma, who has a reputation at the WTO as being easier to deal with at the negotiating table.

Speaking to reporters in Washington recently, Mr. Sharma said he had a mandate from Indian Prime Minister Manmohan Singh to sign a global trade deal. Mr. Singh feels that, in the current economic crisis, "there should be a positive message for global trade barriers to be broken down further," Mr. Sharma said.

After the elections, India "is much more free to do a deal now," says Brendan McGivern, a trade lawyer with White & Case LLP.

The U.S., however, "barely registers right now on trade," says Scott Anderson, a trade lawyer with Sidley Austin. "The domestic politics are just too difficult." Congress, he says, currently has few champions of free trade.

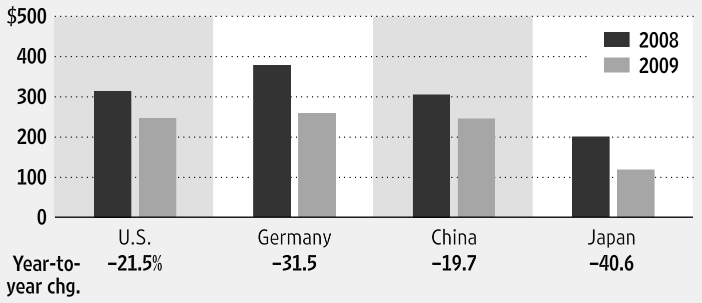
U.S. trade representative Ron Kirk, a 55-year-old former mayor of Dallas, came to prominence by defending the North American Free Trade Agreement, an accord with Mexico and Canada that benefits border states. In a speech this year, Mr. Kirk sketched the outlines of the administration's trade policy. The poorest countries, he said, "have a special place in the Obama trade agenda." At the same time, he promised to protect U.S. workers who lose their jobs to foreign exporters. U.S. unemployment is near 10%.

An Obama administration official said there is "no update" on when the president will give his trade speech.

Mr. Kirk, at the president's request, is "taking decisive steps to engage meaningfully with trading partner countries and also to cement stronger enforcement of global trade rules as a key element of U.S. policy," says USTR spokeswoman Carol Guthrie.

Losing markets

The world's four biggest exporters are all hurting. Exports, in billions of dollars, during the first three months of each year:



Doha Round

- **November 2001** The first meeting is launched in Doha, Qatar, with aim of rich countries dismantling barriers to food trade in exchange for developing nations importing more industrial goods.
- **September 2003** Developing nations reject EU and U.S. proposals at a tense meeting in Cancun, Mexico.
- **December 2005** Talks break down again in Hong Kong as nations again fight over farm subsidies and tariffs.
- **July 2008** After a gruelling 11-day summit, talks in Geneva collapse as India and the U.S. stalemate over farm tariffs.
- **July 2009** Trade officials, worried about creeping protectionism in the EU, U.S., China, Russia and others, hope to revive the Doha round at the G8 summit in L'Aquila, Italy.

Sources: Global Trade Information Services (exports); WSJ research (timeline)

Health Journal

Safe limits

The acetaminophen scare is a reminder for consumers to read labels > **Page 28**

CORRECTIONS & AMPLIFICATIONS

Two major Japanese banks, **Sumitomo Mitsui Financial Group** Inc. and **Mitsubishi UFJ Financial Group** Inc., already have raised capital totaling more than 1.3 trillion yen. An International Investor article in the Friday-Sunday edition incorrectly said the two banks have said they want to raise capital.

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LEADING THE NEWS

Uighur riots kill 156 in western China

Government blames overseas activists for ethnic unrest

Chinese authorities said 156 people were killed and more than 1,000 injured in riots in this northwestern city Sunday, representing a sharp escalation of a long-simmering ethnic feud that could fuel instability in a strategically important region.

*By **Shai Oster** in Urumqi, China, and **Gordon Fairclough** in Shanghai*

Demonstrations by Uighurs, a Turkic-speaking and predominantly Muslim ethnic group, protesting what they see as discrimination against them by the country's Han Chinese majority, erupted into clashes on Sunday here in the capital of the Xinjiang region.

The death toll, reported by the official Xinhua news agency, couldn't be independently verified. On Monday, security forces locked down large parts of the city, with armored cars patrolling the streets and squads of paramilitary police marching through narrow alleyways where rioting had occured.

Chinese officials blamed the violence on an overseas group, the World Uyghur Congress, and its leader, Rebiya Kadeer. Uighur activists dismissed the charge.

The World Uyghur Congress alleged that security forces used lethal force against protesters. Uighurs in Urumqi said they saw police shooting at Uighurs.

Han Chinese witnesses said groups of Uighurs attacked Hans, set fire to buses and cars and smashed shop windows.

The exact sequence of events couldn't be determined from incomplete and, at times, conflicting accounts offered by people caught up in the violence. The authorities didn't say how many of the dead and injured were Han and how many were Uighur.

An official in the nursing department of one of Urumqi's largest hospitals, the Uyghur Autonomous Region People's Hospital, said 291 people injured in the unrest were treated there, 233 of them Han Chinese, 39 Uighur, and the rest from other minority ethnic groups. Seven had suffered gunshot wounds and 17 died, the official said.

One of the deadliest outbreaks of unrest in China in decades came less than three months ahead of the 60th anniversary of the founding of Communist China on Oct. 1. It highlights China's inability to keep the peace in its sensitive Western border regions.

"There has been a substantial level of discontent" among Uighurs who feel they haven't shared equally in China's economic boom and chafe at political and religious restrictions, says Dru Gladney, a professor at Pomona College in California who studies the Uighurs. "Now it's erupted."

The unrest appeared similar to riots that engulfed parts of Lhasa in March 2008 after security forces confronted antigovernment demonstrators who had attacked Han Chinese and set fire to their businesses.

China's security forces were accused of abandoning large sections of Lhasa to rioters last year, leaving Han Chinese shopkeepers unprotected. In the Tibet riots, 18 people died, according to the government, and demonstrations spread across Tibetan areas of China.

Uighurs share many of the same grievances as Tibetans, complaining of restrictions on their civil rights and religious practices, as well as economic and social discrimination by Han Chinese who have migrated to the country's West in growing numbers.

But the cause of Uighur human rights has drawn far less international attention than that of the Tibetans. Tibetan activists have gained a large global following thanks in part to the backing of Western celebrities and the leadership of the Dalai Lama, Tibetan Buddhists' exiled spiritual leader.

Uighurs have garnered less international support, some human-rights campaigners say, because of fears in the West about Islamic extremism. One Uighur group, the East Turkestan Islamic Movement, has been labeled a terrorist organization by China and the U.S.

Lately, however, Uighur exile groups have become more organized and more vocal in challenging the Chinese government.

Xinjiang covers a sixth of China's territory and is an important source of oil and natural gas for the country. Uighurs have long chafed at Beijing's rule, and some, seeking independence from China, have waged sporadic and at times violent campaigns against the government.

Uighur activists Monday said hundreds of Uighurs, many of them students, ga thered Sunday to protest racial discrimination and call for government action against Han Chinese involved in a battle with Uighur migrant workers at a toy factory in southern China.

Two workers were killed and 60 injured, according to state media reports. The incident followed an allegation posted online by a former employee of the factory that Uighur men had raped two Han Chinese women. Police concluded the allegation was bogus and arrested the man, according to Xinhua.

The rioting shows the extent to which grievances in one part of the vast country can spark a conflagration far away, complicating the challenge for Chinese leaders who have sought to contain the ethnic problem in the west through heavy military security.

The protests appear to have spiraled out of control late Sunday. Demonstrators clashed with the police, witnesses said, and rioters smashed shops and attacked buses. "Most were young Uighurs. They were smashing everything on the street," said a Han Chinese man who works as a driver.

Another Han Chinese man, who owns a shop in the city's central bazaar, said he saw Uighurs "with big knives stabbing people" on the street. He said crowds of Hans and Uighurs were fleeing the violence. "They were targeting Han, mostly," he added. "We need to hide inside for a few more days."

According to a report Monday in the state-run Xinhua news agency, Liu Yaohua, a senior police official in Xinjiang, said rioters burned 261 vehicles, including 190 buses and two police cars, several of which were still ablaze as of Monday morning.

Xinhua said 57 dead bodies had been "retrieved from Urumqi's streets and lanes," while the remaining fatalities were confirmed dead at hospitals.

As evening fell in Urumqi Monday, paramilitary troops of the People's Armed Police, backed by armored personnel carriers, were patrolling largely calm city streets. Many businesses remained shuttered and gates of the city's central bazaar were closed.

Police said they were still searching for dozens of people suspected of fanning the violence. Several hundred people have already been arrested in connection with the riot, police said, and the government said it was bringing "ethnic officials" from nearby areas to help with interrogations.

Alim Seytoff, vice president of the Uyghur American Association, dismissed the government's claim that Ms. Kadeer, the Uighur exile, was behind the violence. "Every time something happens, they blame Ms. Kadeer," he said, adding: "It's really the Chinese government's heavy-handed policies that create such protests and unrest."

Unrest in Xinjiang mounted last year, as some Uighurs sought to emulate widespread antigovernment demonstrations in Tibetan areas. There were several violent incidents around the time of last summer's Beijing Olympics, including an attack on a border-police unit that left 16 dead. Ten militants died after another attack with improvised explosives in a Xinjiang city on the first weekend of the Games.

Although Chinese authorities restrict access by foreign journalists to Tibet, they invited both domestic and foreign journalists to visit Xinjiang in the aftermath of Sunday's violence, possibly calculating that keeping the media out would fuel suspicion in the outside world. Internet connections in Urumqi were blocked. Mobile-phone connections were working reasonably well.

Late on Monday night, many streets in Urumqi were cordoned off and largely deserted. Large numbers of Han Chinese milled around the People's Square. Asked whether he was afraid, one bystander said: "Why should I be afraid? The police and army are here."

—Ellen Zhu and Bai Lin in Shanghai and Kersten Zhang in Beijing contributed to this article.

Chrysler names five directors

By Kate Linebaugh

DETROIT—**Chrysler Group** LLC, seeking to rebuild after its exit from bankruptcy court, said five new directors were named to its board, finalizing the composition of the nine-member panel, which will hold its first meeting at the end of July.

The new appointees are: George F.J. Gosbee, chairman and president of Tristone Capital Inc.; Douglas Steenland, former chief executive of Northwest Airlines; Scott Stuart, a founding partner of Sageview Capital LLC; Ronald L. Thompson, chairman of the board of trustees for Teachers Insurance and Annuity Association; and Stephen Wolf, chairman of R.R. Donnelley & Sons Co.

The new management at Chrysler, which owes its survival to a U.S. government-financed restructuring, needs to devise a strategy to withstand the car market's current weakness while putting together a longer-term plan to expand Chrysler's vehicle lineup to include fuel-efficient small cars provided by its new alliance partner, **Fiat** SpA.

Fiat CEO Sergio Marchionne, who holds the same title at Chrysler, is determining which vehicle models the company will continue to produce. Mr. Marchionne aims to strengthen the identity of the company's three brands: Dodge, Jeep and Chrysler.

CORPORATE NEWS

The new green giant: wood pellets

For Europe's utilities, small combustible cylinders are the least expensive way to meet renewable-energy mandates

By Russell Gold

Among the fastest growing sources of renewable energy in the world are the wind, the sun—and the lowly wood pellet.

European utilities are snapping up the small combustible pellets to burn alongside coal in existing power plants. As a global trade emerges to feed their growing appetite for pellets, the Southeastern U.S. is becoming a major exporter, with pellet factories sprouting in Florida, Alabama and Arkansas.

Wood pellets—cylinders of dried shredded wood that resemble large vitamins—are the least expensive way to meet European renewable-energy mandates, utility executives and industry consultants say.

Burning wood pellets is widely regarded as largely carbon neutral.

Made from fast-growing trees or sawdust, pellets are a pricier fuel than coal, but burning them is a less-expensive way to generate electricity than using windmills or solar panels. Burning pellets releases the carbon that the trees would emit anyway when they die, so the process is widely regarded as largely carbon neutral.

The wood-pellet market is booming because the European Union has rules requiring member countries to generate 20% of their electricity from renewable sources by 2020. Europe imported €66.2 million (about $92.7 million) of pellets and other wood-based fuels in the first three months of 2009, up 62% from the same period a year earlier, according to the EU's statistical arm.

Government mandates are essential to the increasing use of pellets in power generation and the growing global pellet trade, experts say.

"You are looking at a totally artificial market," said Christian Rakos, chief executive of Propellets, an Austria-based trade group of pellet producers. "No power plant would consider using pellets for one minute if they didn't have to do it."

Still, Europe's eagerness for more pellets has turned the U.S. into an energy exporter. Until recently, there were only about 40 pellet factories in the U.S., which produced about 900,000 tons a year, mostly for heating homes.

But in May 2008, Green Circle Bio Energy Inc. opened a pellet plant in Cottondale, Fla., that produces 500,000 tons of pellets a year; it ships them by rail to the coast and then on to Rotterdam, Netherlands. The company, owned by the Swedish concern JCE Group AB, wants to build another big plant in the U.S., said Olaf Roed, chief executive of Green Circle.

Another 500,000-ton facility in Selma, Ala., owned by Dixie Pellet LLC, also opened last year. And Phoenix Renewable Energy LLC plans to break ground next month on a 250,000-ton-a-year pellet plant in Camden, Ark., along with a 20-megawatt power plant run off tree scraps that will feed heat to the pellet plant. The $100 million facility's output for five years has been contracted to go to Europe, and Phoenix is working on another five facilities.

Pellets can either be made out of sawdust left over from lumber production or from soft-wood trees such as pine. These aren't growing in wild forests, but in industrial plantations where they can be harvested easily and often.

Jason Henry for The Wall Street Journal

A trucker watches unloading of timber at the Green Circle Bio Energy plant in Cottondale, Fla., where wood pellets are made.

At Green Circle's Florida facility, bark is stripped off the tree and burned to generate steam used in making the pellets. The tree itself is cut up in a wood chipper, dried and hammered into a powder, which is formed into pellets under very high pressure.

It is easy for these pellet plants to find raw material. The pulp and paper industry is declining, and the housing slump has sapped the need for hardwood. Forest owners are ecstatic that pellet plants are stepping in.

"We are irrationally exuberant," said Lee Laechelt, executive vice president of the Alabama Forest Owners Association.

Australia, New Zealand, Argentina and Vietnam are also shipping pellets to Europe, as are Canada and South Africa, said Helmer Schukken, chief executive of GF Energy BV, a Rotterdam-based trader.

Wood pellets are becoming the newest global commodity, with prices posted on an Amsterdam energy exchange, Mr. Schukken said. "It is becoming like trading coal."

That will make it easier for England's Drax Group PLC, which is installing equipment at its giant 4,000-megawatt coal-fired power plant in North Yorkshire to use pellets in place of coal for up to 10% of the fuel. Pellet makers say Drax is lining up contracts in the U.S. Other big buyers include Dutch power company Essent NV, which is being acquired by Germany's RWE AG and French GDF Suez SA's Electrabel unit.

Of course, U.S. utilities may soon be as interested as their European counterparts in burning pellets instead of coal. California, which has a goal of producing 33% of its electricity from renewable sources by 2020, is looking at using wood products in coal plants.

If a federal renewable energy standard is approved, "we won't be shipping pellets overseas," said Phoenix Renewable Energy's development director, Steve Walker. "We'll be shipping them domestically."

BAE seeks range of U.S. contracts

By August Cole

The U.S. arm of **BAE Systems** PLC is aiming to broaden its security businesses further beyond the Defense Department, according to the subsidiary's new boss, Anthony Zinni, a retired Marine general who commanded U.S. forces in the Mideast and Central Asia during the 1990s.

Mr. Zinni's appointment as chairman and interim chief executive at BAE Systems Inc. last month comes as big defense contractors are increasingly interested in the U.S. government's nonmilitary efforts to improve economic and political stability in war-torn or dangerously dysfunctional countries, a concept often referred to as "smart power."

He plans to continue on a path mapped out by his predecessor, Walt Havenstein, who is taking the chief executive job at **SAIC** Inc., but Mr. Zinni's decades of experience in hotspots around the world are likely to help boost the firm's profile with the U.S. government and overseas leaders. He will have been on the BAE board nine years in November.

According to Mr. Zinni, BAE is looking at its existing capabilities in areas where it already has expertise—such as intelligence, energy and information-management technology—and "how can this be used to support some of the things that smart power is designed to focus on, like stabilization and reconstruction, and more balanced approaches to international and national security issues," he said.

"Smart power" in Washington is seen as an increasingly important market to large defense companies as spending on big and costly weapons systems comes under pressure.

Anthony Zinni

Mr. Zinni expects BAE to be at the forefront of these efforts but says the company will be judicious about how it approaches such work, and how it marshals the company's resources to win it. Already, in Iraq and Afghanistan, BAE has provided teams of anthropologists to the U.S. military to help troops navigate local culture.

"I've been involved in a lot of studies...on what [smart power] means, and I don't think everybody in [Washington] has it clear in their mind," said Mr. Zinni. "It's more than just diplomacy and development."

Acquisitions are also possible as a way to get further into this work, but "there's a danger in saying I'm going to buy into the so-called things that are evident in smart power" like security training or expeditionary construction because they are too far afield for the company, he said.

Given that approximately 58% of BAE Systems PLC's $34 billion in annual revenue comes from its U.S. arm, which has supplied mine-resistant trucks for Iraq and works on the Pentagon's newest fighter jet, the division's approach to doing business with U.S. agencies during a time of uncertain global defense spending is as important as ever.

Though BAE last week lost out on a major contract to provide the Pentagon with mine-resistant armored vehicles for Afghanistan, and under Mr. Gates's budget plan the Army has terminated a more than $80 billion program to make next-generation fighting vehicles that BAE was heavily involved in, Mr. Zinni said the company can handle the setbacks.

"We positioned ourselves where we don't have a lot of eggs in one basket," he said.

British Airways cabin crews reject job cuts, pay freezes

By Kaveri Niththyananthan

LONDON—**British Airways** PLC's cabin crews rejected job cuts and pay freezes proposed by the airline, U.K. union Unite said Monday.

Unite will now meet British Airways and a state-funded mediator, the Advisory, Conciliation and Arbitration Service, Wednesday to reconvene talks, said a spokesman for the union, which represents some 14,000 of the airline's cabin staff.

The U.K. flag carrier is looking to reduce costs and boost productivity as the global downturn cuts into travel demand. Last month, British Airways told the U.K. government that it might cut as many as 2,000 cabin-crew jobs, and on Friday it said that it plans to shed 3,700 jobs by March 31, the end of its current fiscal year.

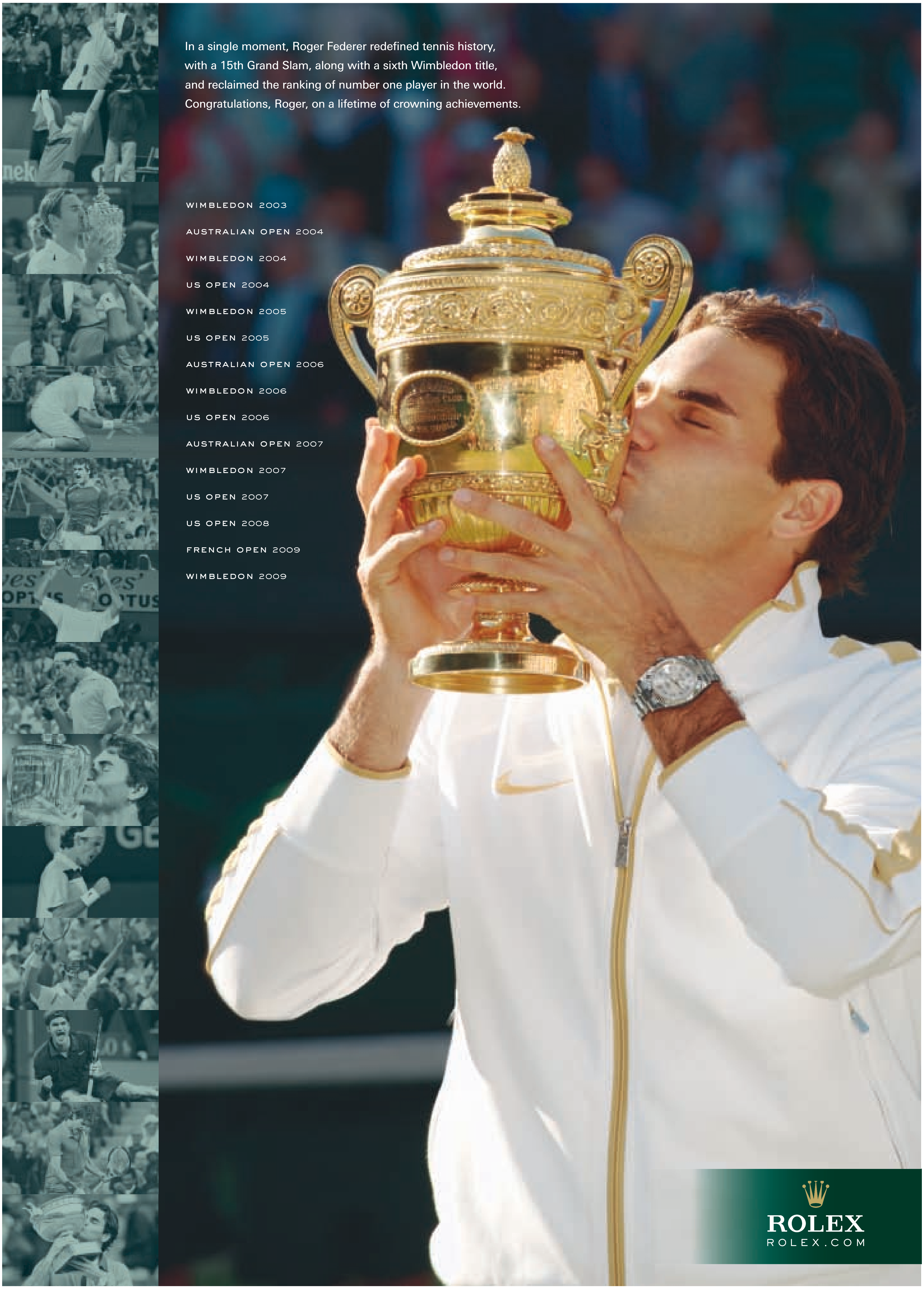
Some 7,000 of British Airways' 40,000 employees have already voluntarily accepted offers of unpaid leave, unpaid work and part-time work.

A spokesman for British Airways declined to comment on the vote, and said it was sticking by its comments made last week that any future talks with unions would be facilitated by ACAS. Tensions have run high between the airline and the union, with British Airways failing to turn up for talks called for by the union last Wednesday.

British Airways reported its biggest-ever annual net loss—£375 million ($615 million)—for the year ended March 31, and Chief Executive Willie Walsh recently told employees the carrier was "in a fight for survival." The airline has grounded planes, postponed investments and cut staff, but officials say those steps are insufficient.

On July 1, Steve Turner, Unite's national secretary for aviation, said he thought British Airways was being "opportunistic." Both sides have stressed they are eager to come to a deal, but the union is reluctant to allow British Airways to use the recession as a reason to push through permanent restructuring.

Mr. Turner has said that if British Airways tries to impose permanent restructuring, the union will consider its options, which include taking strike action.


In a single moment, Roger Federer redefined tennis history,
with a 15th Grand Slam, along with a sixth Wimbledon title,
and reclaimed the ranking of number one player in the world.
Congratulations, Roger, on a lifetime of crowning achievements.
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Designer Valli signs deal

Burani to license fashions amid decline in luxury spending

BY SOFIA CELESTE

ROME—Italy's **Mariella Burani Fashion Group** said it has signed a five-year contract to make and distribute the ready-to-wear collection of Italian fashion designer Giambattista Valli, a deal aimed at expanding both companies as the luxury-goods industry suffers through the economic crisis.

The licensing deal would give the 43-year-old Mr. Valli a stronger base on which to build his five-year-old namesake brand, which has garnered international attention through fashion mavens like Queen Rania of Jordan and actress Sarah Jessica Parker.

Burani, which is listed on the Milan stock exchange, expects Mr. Valli's ready-to-wear collections to generate around €60 million ($84 million) in sales over the next three years. Mr. Valli, who until now has produced and distributed clothes via another Italian company, had €20 million in sales last year on his ready-to-wear line and other businesses.

Partnering with the Giambattista Valli label, which is sold in key markets such as the U.S. and Middle East, is likely to boost the fashion cachet of Burani, which owns its own brands and distributes other labels, including La Perla, under license.

The deal is a blow to Burani's rival, Italy's **Gilmar Group**, which has been making and distributing Mr. Valli's collections since he first launched his label in 2004. Mr. Valli was Gilmar's most important creative figure; he also designed for its Iceberg brand.

Burani and Mr. Valli are also considering the possibility of starting an accessories line under the Giambattista Valli name. Financial details of the deal, including the breakdown of profits between the two companies, weren't disclosed.

In an interview, Mr. Valli said the licensing deal will allow him to stay independent, without seeking financial partners to take a stake in his business. "I want to keep this independence. This is important from even a creative point of view," said the designer, who shows his collections in Paris. "I am not involved with any investors or bankers. It is therefore very important to organize my business from a licensing point of view."

Kate Barry

The Burani licensing deal would give designer Giambattista Valli a stronger base on which to build his five-year-old namesake brand.

At first seemingly resilient to the global economic downturn, the €175 billion luxury-goods business is now suffering as high-spending consumers cut back. Profitability for the global industry as a whole, as measured by earnings before interest, tax, depreciation and amortization, is expected to fall 21% in 2009, according to Altagamma, an association of Italian high-end fashion companies.

Though few players are immune, the situation has been particularly difficult for small, independent fashion brands that are struggling to boost sales, pay off debts and cut costs—without being able to rely on the financial reservoirs of big groups such as **LVMH Moët Hennessy Louis Vuitton** SA or **PPR** SA.

Italian company **Itierre** SpA, which produces ready-to-wear collections for Italian designer Roberto Cavalli, and Itierre's parent company It Holding filed for bankruptcy protection in February after running out of money to service its debt or make royalty payments to designers, including Mr. Cavalli.

In an attempt to better manage their businesses and find ways to fuel sales, some independent fashion companies, including **Salvatore Ferragamo** SpA and **Gianni Versace** SpA, have recently hired nonfamily executives and branched out into new areas, such as furniture, hotels and interior design.

Burani—which designs, produces and distributes high-end footwear, leather accessories and jewelry collections—has also been hit by the global slump in demand. The company, which posted €700 million in sales in 2008, is currently evaluating a debt restructuring plan. The company sees new licenses as a way to bolster revenue and expand.

The Valli license "could help us enter into other markets that we are really interested in such as in the ex-Soviet bloc," said Andrew Burani, managing director of the company's product and operations, in an interview. "We have about 10 collections and we have the potential to do more. We are currently in talks for more licenses."

Mr. Valli's clothes are currently distributed in more than 220 locations in 42 countries. The new license will kick off with Mr. Valli's pre-Fall/Winter 2010 collection. In the interview, Mr. Valli said that smaller companies such as his may be able to emerge from the economic crisis strongly because they don't have too many overhead costs such as factories and expensive boutiques around the world.

"Small independent houses are going to surprise," Mr. Valli said. "They are the ones that have the potential to really jump as they are more agile," he said.

FOCUS ON AUTOMOBILES

Parts suppliers diversify

Bosch, Leoni, KUKA set sights on energy, aerospace, medicine

By Nico Schmidt

FRANKFURT—To reduce their dependence on the stagnating automotive market, German car-industry suppliers, such as **Robert Bosch** GmbH, **Leoni** AG and **KUKA** AG, are seeking to diversify by building up operations in the aerospace, energy or medical-technology sectors.

It is a smart move, industry experts say, but also a risky one. Companies branching out into new fields might make a bet on the wrong sector, or their timing might be off. If suppliers don't do careful research, the high starting costs won't pay off, said Bankaus Metzler analyst Jürgen Pieper. "I would have to calculate that well, as the cost effort should flow back in less than 10 years," he said.

The economic downturn has left deep marks on many car suppliers' balance sheets as the auto industry undergoes the most severe crisis since World War II. Vehicle sales are plummeting in almost all major auto markets. While some governments, including Germany's, have come to the rescue of car makers with scrapping incentives to encourage consumers to buy new vehicles, suppliers have been left out in the cold.

Car makers are currently mostly selling cars from their inventories, meaning that the suppliers' parts have already been booked.

An end to the auto crisis "is nowhere to be seen," said German automotive-industry association VDA. According to the most recent VDA data, German car suppliers' sales fell nearly 10% in 2008 from the previous year to about €68 billion ($95 billion). In the five preceding years, sales for the sector had increased by a third.

Financially strong companies such as Robert Bosch, which acquired solar company Ersol last year, have leeway to explore completely new business fields through acquisitions. But not every company has the capital strength for such a move.

Leoni, a supplier of wires, cables and wiring systems, is looking at the possibility of applying existing products in new areas with low costs. For example, car-production know-how can be applied to the aviation or train sectors.

Leoni's dependence on the automotive sector increased dramatically after the company took over the wiring-systems unit of French rival Valeo SA in 2007. The MDAX-listed company generates 70% of sales through business with the auto industry, but it aims to reduce this share to below 60% in the medium term by expanding into aviation and medical technology, as well as into cabling in infrastructure projects.

"Leoni has examined in which areas outside the auto industry they can use the existing know-how," said M.M. Warburg analyst Marc-Rene Tonn. The sectors are well chosen in terms of transferring Leoni's competencies, Mr. Tonn said, adding that the company has found a good way to reduce its dependence on the flagging auto sector.

However, it will take some time for the company's efforts to bear fruit, because Leoni faces financial restrictions and growth through acquisitions is only possible to a limited extent."Big acquisitions, with the aim of bringing us closer to reducing sales made with the auto industry to 60%, won't take place this year," a Leoni spokesman said.

Meanwhile, robotics and engineering company KUKA sees aviation, medical technology and the solar sector as promising fields.

Bankhaus Metzler analyst Eerik Budarz said KUKA's effort to explore new areas should be manageable, as a robot built for an auto-industry assemble can be redirected to another sector.

"KUKA has a very wide scope of sectors and directions which could be taken," Mr. Budarz said.

KUKA's share of sales made through business with the auto industry is set to shrink to about 50% from about 70% currently. In May, the company got an order to build facilities for airplane assembly, as well as for a facility to produce crystalline solar modules.

The trend toward diversification among suppliers can also be seen world-wide. The most recent Global Automotive Barometer, a survey conducted by A.T. Kearney's market-research institute SupplierBusiness, shows that more than a half of about 180 car suppliers interviewed are considering branching out from the auto industry.

Götz Klink, an analyst with A.T. Kearney, said: "The diversification must be strategically thought through—that means fit the existing business."

KUKA AG

Robotics manufacturer KUKA sees medical technology as a promising field as it reduces dependence on auto makers. Above, its Cyberknife, a radio-surgery tool

Beijing Auto in running for Opel

By Norihiko Shirouzu

BEIJING—**General Motors** Corp. considers **Beijing Automotive Industry Holding** Co. "a formidable bidder" for its Adam Opel GmbH unit, whose offer could threaten an earlier bid by **Magna International** Inc.

GM, which in recent weeks has described Magna as the front-runner to take over the European business, is increasingly attracted to the offer from Beijing Auto, which the Chinese state-owned car maker submitted last week, said a person close to GM.

GM is "becoming more enthusiastic about potentially striking a deal with Beijing Auto," the person said.

The offer from Beijing Auto, which is being advised by a former senior GM executive, is valued at €660 million ($922.5 million). An advantage of the offer, according to the knowledgeable person, is that Beijing Auto doesn't plan to close any Opel factories in Germany, and it would ask only €2.64 billion in German government guarantees, much less than the €4.5 billion Magna is asking for.

GM signed a nonexclusive memorandum of understanding in May 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.

In recent weeks, GM stepped up talks with Beijing Auto and with **RHJ International** SA, a Brussels-based industrial holding company linked to U.S. buyout group **Ripplewood Holdings** LLC, because GM's negotiations with Magna encountered some potential issues. One potential hitch is over what kind of access to GM's technology Sberbank and OAO GAZ might gain through Opel.

Beijing Auto's offer also has potential problems, including the potential competitive threat that a Beijing Auto-owned Opel might pose to GM's business in China. GM is hopeful that Beijing Auto would agree to limit the scope of technology it might use in Opel cars for the Chinese market.

—Christoph Rauwald contributed to this article.

U.K. to allow expiration of car-buying incentives

By Nicholas Winning And Laurence Norman

LONDON —The U.K. government Monday signaled it won't extend incentives that encourage car owners to scrap older vehicles, one of several similar plans across Europe that have helped new-car sales.

"We always made it clear that (the plan) would be capped—it was a fixed period of time, and when it comes to an end, then the market must be allowed to get back to normal," Business Secretary Peter Mandelson told the U.K. news channel Sky News.

The plan offers motorists £2,000, or about $3,300, in discounts on new cars when they trade in vehicles that are over 10 years old. The government, which splits the cost of the discount with auto manufacturers, set aside £300 million to fund the plan. The incentives are available until March 2010 but could be exhausted before that date if participation is high.

That looks increasingly likely. Analysts say that if current levels of demand continue, the plan could be drained by the fall. The government last week said that 87,000 orders had been placed under the car-scrapping plan as of June 21.

"What we've done in the meantime is give a shot in the arm to the car industry," said Mr. Mandelson.

U.K. new-car registrations, a measure of sales, in June fell 16% from the same month a year ago, the smallest year-on-year drop since July 2008, according to the Society for Motor Manufacturers and Traders, which compiles the data. New-car registrations last month totaled 176,264 vehicles, compared with 209,190 in June last year. Registrations to private buyers, as opposed to businesses, in June posted the first year-on-year rise since November 2007, by increasing 3.9%.

Across Western Europe in June, car markets got a dose of relief from government scrapping plans. Germany's version, which applies to vehicles over eight years old and offers €2,500 in discounts on new models, has had a dramatic impact on sales. Registrations last month climbed 40% from a year earlier to 427,140 vehicles.

Western European car sales in June grew 4.1% on the year to 1.37 million, fueled by incentives in key markets, according to J.D. Power Automotive Forecasting. Sales edged up from a year earlier for the first time in more than a year.

Bankruptcy judge approves GM asset sale to government

By Mike Spector

A federal judge approved the sale of **General Motors** Corp.'s assets to a new government-run company, removing a key hurdle to the auto maker's plan to exit bankruptcy.

Judge Robert E. Gerber of the U.S. Bankruptcy Court for the Southern District of New York issued an 87-page ruling late Sunday allowing the sale to go forward. He rejected pleas from dissident bondholders and product-liability claimants who objected to GM's plans.

Steve Rattner, a senior member of U.S. President Barack Obama's auto-industry task force, said Monday that the administration is confident that the ruling will stand against appeals and that plans for the new company will "proceed expeditiously."

"It's a very good day for General Motors and implicitly for all of us," Mr. Rattner told reporters.

Judge Gerber said the only alternative to GM's plans would be liquidation, "a disastrous result for GM's creditors, its employees, the suppliers who depend on GM for their own existence, and the communities in which GM operates. In the event of a liquidation, creditors now trying to increase their incremental recoveries would get nothing."

The ruling paves the way for GM's government-brokered restructuring, in which the auto maker will move its "good" assets—including automotive brands Chevrolet, Cadillac, Buick and GMC—to a new company owned by the U.S. Treasury. The sale approval clears the way for GM to potentially exit bankruptcy in less than two months.

In the deal, the U.S. government will take about a 61% stake in the new GM after lending the auto maker more than $50 billion. The Canadian government, which also aided GM, will hold about 12%. A retiree health-care trust for the United Auto Workers union will get a 17.5% stake, while unsecured bondholders will get a 10% stake.

Judge Gerber's ruling came after four days of hearings on the deal and 850 objections. Dissident bondholders and car-accident victims with product-liability claims, among others, argued against the sale, saying it trampled their rights.

Bondholders said GM's sale proposal ducked the bankruptcy code's requirement for companies to submit traditional reorganization plans subject to creditors' approval. GM said a speedy sale was necessary to get GM in an out of court quickly, or risk liquidation.

The government had set a deadline of July 10 for the sale to be approved.

Harry Wilson, a member of the administration's auto task force, testified in bankruptcy court last week that the government wouldn't finance GM beyond that date. Lawyers for bondholders argued the government was bluffing.

Judge Gerber rejected the bondholders' argument, saying it was "wholly unrealistic" to attempt to make GM reorganize through a traditional Chapter 11 plan subject to creditors' approval. "In fact, the notion that a reorganization plan confirmation could be completed in 90 days in a case of this size and complexity is ludicrous, especially when one is already on notice of areas of likely controversy," the judge wrote.

GM and the government hope to close the deal quickly, but could face appeals.

Steve Jakubowski, a lawyer for product-liability claimants, said he would appeal the ruling because it didn't require the "new GM" to be responsible for pending lawsuits from car-accident victims that arose before the auto maker's bankruptcy.

CORPORATE NEWS

India rejects Gleevec patent claim

Novartis cancer drug highlights troubles in emerging markets

By Jeanne Whalen And Anita Greil

An Indian tribunal ruled against granting a patent to **Novartis** AG's Gleevec cancer drug, underscoring the difficulties pharmaceutical companies face protecting their products in emerging markets.

India's Intellectual Property Appellate Board upheld a 2006 decision by the country's Patent Office to reject a patent for Gleevec, Novartis said Monday. Gleevec had global sales of $3.67 billion last year, making it one of Novartis's biggest drugs.

The ruling is a blow to the Swiss drug giant, which is counting on emerging markets to help drive sales growth in the future. Generic-drug makers currently sell copies of Gleevec in India. Even though that practice would have continued had Novartis won its appeal—thanks to a quirk in Indian patent law—the case represented an important principle to the company.

"We are currently reviewing the decision and will look at the various options available to us," the company said in an emailed statement. Gleevec is patented in nearly 40 countries, including China and Russia, "and we believe the same should be the case in India," Novartis said.

India's decision stems from a section of the country's patent law that prevents companies from patenting new versions of older drugs unless they offer significantly better efficacy.

The law, adopted in 2005, lets drug companies seek patents for medicines invented after 1995, or for new and more efficacious versions of older drugs. When India's patent office rejected Novartis's Gleevec application in 2006, it argued that the version Novartis wanted to patent wasn't that different from a version invented in 1993.

Novartis appealed that decision before the appellate board, but the board has upheld the Patent Office's ruling, Novartis said. The appellate board couldn't be reached to comment late Monday.

Multinational drug companies have long complained about this section of Indian law, saying that it discourages both Indian and foreign companies from developing new medicines. After its Gleevec patent was first rejected, Novartis filed a lawsuit in Indian court attempting to change the law, saying that it violates World Trade Organization rules. But the court ruled against the company.

Groups such as Oxfam and Doctors Without Borders say Indian law is good for public health because it prevents companies from patenting medicines unless they are truly new. Without patent protection, drugs can be copied and sold at lower prices by generic companies.

"We're pleased that the Indian court is implementing their own law. We think the law is a good law. We think other countries should adopt similar laws," Mohga Kamal-Yanni, a senior health- and HIV-policy adviser with Oxfam in the U.K., said in a telephone interview Monday.

Throughout the case, Novartis argued that it is doing its best to help patients who can't afford Gleevec. The drug isn't widely used, and the company said in a statement that it currently provides the drug free to 11,000 patients in India—a large portion of Gleevec's users in the country.

India adopted its 2005 patent law to fulfil its obligations as a member of the World Trade Organization. Before that, Indian law allowed domestic companies to sell copies of drugs patented in the West as long as they changed the process for making the drugs.

Pepsi, bottler to invest $1 billion in Russia

By Valerie Bauerlein

PepsiCo Inc. and **Pepsi Bottling Group** plan to spend $1 billion in Russia over the next three years, extending an investment in a key international market as the economy crimps growth in the U.S.

Pepsi Chairman and Chief Executive Indra Nooyi announced the investment on a visit to Russia. She also led the opening of a new bottling plant in Domodedovo outside Moscow, in what Pepsi said will be its biggest-ever global operation. PepsiCo said it will work with Pepsi Bottling Group, its biggest bottler, to expand distribution.

PepsiCo is pursuing an aggressive strategy to strengthen its presence in emerging markets around the world, where growth is faster than in the U.S. Ms. Nooyi just completed a 10-day tour of China, where Pepsi is investing $1 billion in four years. She has also pledged to spend $500 million in India.


Indra Nooyi

Russia's economy has slowed sharply, putting pressure on beverage sales, which had been fast-growing. But Ms. Nooyi said the investment "reflects very clearly our great confidence in Russia and our long-term commitment to this very important market." Last year, Pepsi spent $2 billion to buy Russia's largest juice company, OAO Lebedyansky, in partnership with Pepsi Bottling Group.

The investment steps up an already heated competition between Pepsi and **Coca-Cola** Co. in Russia's beverage market, an important front in their global battle. Pepsi's namesake cola was introduced 50 years ago during the 1959 American National Exhibition, an event commemorated during Ms. Nooyi's visit. Coke's famous soda overtook Pepsi in the 1990s but Pepsi has fought its way back.

Coke holds a slight lead, with a 22% share of carbonated soft-drink volume to Pepsi's 21%, according to Beverage Digest, a beverage industry publication and data service. Ms. Nooyi has said her strategy is not to be big everywhere, but to target investment in big markets such as Russia where PepsiCo already has a strong business and a chance to be the market leader.

PepsiCo also plans to open a new snacks manufacturing plant later this year in the southern city of Azov and will continue investing in local agriculture. Its snacks business is already the largest private user of potatoes grown in Russia.

Samsung Electronics sees jump in quarterly sales

By Jung-Ah Lee

SEOUL—**Samsung Electronics** Co., the world's biggest memory-chip maker by revenue, said Monday that it expects second-quarter sales to rise from a year earlier, and predicted that its operating profit will be between 2.2 trillion won and 2.6 trillion won ($1.74 billion and $2.05 billion).

The company, South Korea's biggest by market capitalization, said it expects sales for the three months ended June 30 to be between 31 trillion won and 33 trillion won, up from 29.1 trillion won a year earlier. Operating profit was 2.4 trillion won in the second quarter a year earlier.

All figures are based on a consolidated basis.

Samsung didn't provide a reason for the earnings guidance, which it gave for the first time. But analysts widely expected the company's performance to improve from the first quarter thanks to stabilizing prices for memory chips and liquid crystal displays.

It is slated to release second-quarter results July 24.

"Samsung believes that growing interest in the company's quarterly earnings and competing forecasts have led to more confusion in the market ahead of the recent earnings release announcements," it said in a statement.

The company said the latest guidance may differ from the earnings announcement as it hasn't completed an audit.

Analysts said the estimates were a surprise, because they were sharply higher than what the market was expecting. Samsung shares rose 5.5% to 634,000 won.

"Since the market was expecting a consolidated operating profit of somewhere between 1.8 trillion won and two trillion won, the guidance was a big surprise," said Kim Sung-in, an analyst at Kiwoom Securities.

"A sharp price hike in LCDs and stronger handset sales have largely contributed to the stronger earnings outlook. But, most of all, the biggest reason for the [guidance] was stronger shipments of [light-emitting-diode] TVs."

In the first quarter, Samsung's consolidated sales rose 10% to 28.67 trillion won from 26.01 trillion won a year earlier. Its first-quarter operating profit fell 82% to 470 billion won from 2.57 trillion won.

U.S. to review telecom firms' market power

By Amol Sharma

The U.S. Justice Department has begun an initial review to determine whether large U.S. telecommunications companies such as **AT&T** Inc. and **Verizon Communications** Inc. have abused the market power they've amassed in recent years, according to people familiar with the matter.

The review of potential anticompetitive practices is in its early stages and isn't a formal investigation of any specific company at this point, the people said. It isn't clear whether the agency intends to launch an official inquiry.

Among the areas the Justice Department could explore is whether wireless carriers are hurting smaller competitors by locking up popular phones through exclusive agreements with handset makers, according to the people.

In recent weeks lawmakers and regulators have raised questions about deals such as AT&T's exclusive right to provide service for **Apple** Inc.'s popular iPhone in the U.S.

The Justice Department could also review whether telecom carriers are unduly restricting the types of services other companies can offer on their networks, a person familiar with the situation said.

The Justice Department's antitrust chief, Christine Varney, has said she wants to reassert the government's role in policing monopolistic and anticompetitive practices by powerful companies.

GLOBAL BUSINESS BRIEFS

Veolia Environnement SA

North American portfolio sold to Covanta Holding

Covanta Holding Corp. said Monday that it agreed to buy **Veolia Environnement** SA's North American portfolio of waste-incineration contracts for $450 million. Covanta, the largest U.S. owner of waste-to-energy plants, will acquire seven facilities. Such plants burn garbage, and either sell the resulting steam to industries or use it for electricity generation. The deal is the latest part of Veolia's €3 billion ($4.19 billion) asset-divestiture effort as the French water, waste, transport and energy company focuses on generating cash flow. The head of Veolia's waste operations, Denis Gasquet, said the assets going to Covanta "are largely independent of the rest of our businesses." Covanta said it expects the acquisition, slated to close by year end, will increase cash flow by about $60 million annually.

Guangzhou Automobile

Guangzhou Automobile Group and Italy's **Fiat** SpA will set up a joint venture to produce cars and engines from May 2011 in Changsha, China, the Chinese company's Vice Chairman and President Zeng Qinghong said Monday. The plant, which will take a total investment of €400 million ($559 million), will produce 140,000 cars a year and about 220,000 motors after a first phase of development. Fiat said annual output could be increased to a maximum of 250,000 cars and 300,000 engines. The first model to be built will be the Linea, a small family car. Fiat has long sought a strong partner in China, where car sales are booming while demand in Europe and the U.S. sags.

BASF SE

German chemicals company **BASF** SE said Monday that the integration of Swiss rival **Ciba** will cost about €550 million ($768.8 million), its first estimate since the acquisition deal closed in April. BASF also said it will cut 3,700 jobs by the end of 2013, with most made by the end of 2010. It added that it will consider restructuring, closing or selling 23 of Ciba's 55 production sites. At the same time, the company expects to save €400 million annually beginning in 2012. Analyst Carsten Kunold of Merck Finck & Co. said the numbers are roughly in line with his expectations. "It wasn't a huge surprise," he said.

EMC Corp.

EMC Corp. raised its acquisition offer for **Data Domain** Inc. by 11% to $2.2 billion as it battles **NetApp** Inc. for control of the maker of data-storage products. EMC raised its all-cash offer to $33.50 a share from last month's bid of $30. The company first stepped in after Data Domain agreed to a cash-and-stock offer of $25 a share from NetApp. Data Domain subsequently agreed to accept $30 from NetApp to match the EMC bid. A Data Domain spokesman declined to comment. NetApp said it would review its options. Investors had been expecting still-higher bids for the company, with Data Domain's stock trading above $30 for much of the bidding battle.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Reuters

Italy's Prime Minister Silvio Berlusconi arrives for a news conference with China's President Hu Jintao in Rome on Monday. The Italian leader's advisers are seeking to head off any more unflattering media reports about his personal life.

Scaling Italy's summit

In L'Aquila, Berlusconi seeks to avoid seismic activity of any kind

By Stacy Meichtry

ROME—As leaders of the Group of Eight leading nations prepare to converge on the mountain town of L'Aquila, Italian Prime Minister Silvio Berlusconi is seeking to head off potential disasters—both natural and political.

L'Aquila, the site of a devastating earthquake in April, continues to tremble with seismic activity, prompting Italian officials to ready an evacuation plan for U.S. President Barack Obama and other G-8 leaders. Summit organizers are moving to find accomodations for thousands of government officials and journalists in police barracks and hotels.

Mr. Berlusconi's top advisers, meanwhile, are bracing for a different kind of jolt: More unflattering media reports about the prime minister's personal life.

The twin challenges have thrown Mr. Berlusconi and his advisers into overdrive. Mr. Berlusconi, who long relished the G-8 as an occasion to showcase Italy, is now discovering the pitfalls that come with being at the center of the world's attention.

On Sunday, Mr. Berlusconi's office issued a statement warning that any news organization that publishes unauthorized photos during the G-8 of the prime minister's private life could face legal action, including civil and criminal complaints. "We're trying to prevent a crime from being committed," Niccolo Ghedini, Mr. Berlusconi's lawyer, said in an interview. "If you knew someone was trying to shoot you, I imagine you'd call the police."

For months, Mr. Berlusconi has been under pressure from critics—ranging from members of Italy's left-wing opposition to his own wife—who question the premier's penchant for hosting young women at his private residences. Photos of women sunbathing and partying at Mr. Berlusconi's villa in Sardinia—published in various newspapers and on the Internet—have caused a media and political controversy in Italy over the past months.

An Italian diplomat said Mr. Berlusconi's troubles risked overshadowing Italy's foreign-policy agenda, adding that he hopes the G-8 could be an opportunity to turn the page. "We'd like to bring things back to serious business," he said.

Last week Gianfranco Fini, the speaker of Italy's Parliament, called on the public to respect Mr. Berlusconi "like any other leader." Italian President Giorgio Napolitano pleaded for a G-8 cease-fire. "At this moment, my hope and my wish are for a truce in the controversies," Mr. Napolitano said.

Yet some of Mr. Berlusconi's critics have already begun to zero in on the G-8 summit to sharpen their criticism of the premier. A group of women professors at universities across Italy issued an open letter last month calling on the wives of G-8 leaders to boycott the summit. "We feel deep indignation, as women committed to academics and culture, for the way women are treated in public and private by the Italian Prime Minister Silvio Berlusconi," the letter states.

Mr. Berlusconi remains popular in Italy. Last month a poll showed his approval rating has slid only two percentage points to 49% since May. At a recent news conference in L'Aquila, the premier dismissed his critics, adding that "Italians like me this way."

Beyond Italy's borders, however, political analysts are questioning whether G-8 leaders should heed the warnings of Mr. Berlusconi's critics. Ulrike Guérot, a political analyst who heads the Berlin office of the European Council on Foreign Relations, warned that German Chancellor Angela Merkel, who faces re-election in September, will have to exercise particular caution. "You have to be careful of which photos you take with Berlusconi in the context of the German election," she said in a phone interview.

By moving the summit to L'Aquila, Mr. Berlusconi aimed to focus the world's attention on efforts to rebuild the city. With just days before the start of the summit, however, there are signs that the change of venue has become a costly distraction to rebuilding efforts. Much of the L'Aquila's historical center remains without running water or electricity. Thousands of residents remain in tents outside the city.

On Friday L'Aquila was hit by an aftershock with a magnitude of 4.1. Italy's civil-protection agency has begun running evacuation drills designed to ferry G-8 leaders to safety in the event of a strong aftershock. Mauro Dolce, a Civil Protection official who is monitoring the tremors, said he expects the region to experience as many as 20 tremors a day during the summit with magnitudes between 1 and 3.

Last week, Mr. Berlusconi met reporters inside the cocktail lounge of a cruise ship docked in Naples to discuss the G-8 preparations. The well-tanned premier welcomed Mr. Napolitano's call for a truce during the summit. Mr. Berlusconi also denied that his personal troubles were beginning to unhinge his government, which he described as "the most stable in the Western world."

—Davide Berretta contributed to this article.

Health Journal

Safe limits

The acetaminophen scare is a reminder for consumers to read labels > **Page 28**

CAPITAL JOURNAL ▪ Gerald F. Seib

White House is in a corner as stimulus fight enters new round

THE FIGHT to enact a $787 billion economic stimulus package was the first big battle of the Obama administration—and it isn't over yet.

The stimulus package was designed to keep unemployment in check amid the worst recession since the 1930s. Yet the June jobless rate hit 9.5% and is climbing higher, eliciting a remarkably frank weekend admission from Vice President Joe Biden that the administration miscalculated how bad the jobless problem would be.

All that is reopening the bruising Washington debate over the stimulus package passed in February. Only now that debate is overlaid with a new question: Should the Obama administration dive back into the fray by seeking a second dose of stimulus from Congress this fall?

For now, the release last week of unemployment numbers has Washington dividing along three lines of argument about the existing stimulus package. Depending on your perspective, the stimulus plan:

a. Isn't working.

b. Is preventing unemployment from being even worse, or

c. Hasn't had enough time to really kick in yet.

Republicans are mostly voting for option A, of course, while the administration and its allies are picking various combinations of B and C.

"Four months ago we were on the precipice of rolling from a great recession into something deeper and darker," says Rahm Emanuel, President Barack Obama's chief of staff. "We've pulled the economy away from that precipice."

The stimulus package has played a significant part in preventing disaster, he argues, by, among other things, giving consumers and markets more confidence the economy wouldn't be allowed to collapse as well as keeping states from making even more draconian cuts in their spending plans. Moreover, he says, more than a third of the stimulus package consists of tax cuts, which are just starting to have an effect. So Mr. Emanuel maintains that it's time to let the combined forces of the stimulus package, the rescue plan for banks and financial firms, and programs to revive housing begin working in tandem. "People have forgotten too quickly the severity and depth of the recession," he says.

YET IT'S also true that the stimulus package Congress constructed has a heavy dose of spending on infrastructure projects, which roll out too slowly to be much help in fighting short-term unemployment. The Congressional Budget Office estimates that only 11% of the $308 billion of stimulus spending on discretionary programs such as highways, mass transit and energy efficiency will be spent in the current fiscal year, and only about half by the end of fiscal 2010.

There also may well be a case for more stimulus for next year, perhaps targeted to help state governments as they cope with what now promises to be a long-term double whammy of lower tax revenues and higher unemployment and welfare costs. Certainly in the left wings of the president's Democratic Party there is clamoring for Stimulus Round II this fall.

The problem with that idea, though, is that the administration is boxed in, politically and rhetorically. If the White House is going to argue that the main problem with the existing stimulus plan is that it hasn't had enough time to kick in, it's hard to simultaneously argue that a second stimulus is needed.

Moreover, concerns about budget deficits are rising almost as fast as concerns about unemployment, complicating notions of a second stimulus. The most recent Wall Street Journal/NBC News poll showed Americans growing more concerned about the budget deficit even as they fret over unemployment. Unemployment was cited by 35% as their leading worry. But the budget deficit is rising as a source of anxiety, and now is named by 24% as their top worry. Cranking up a second stimulus package would help address unemployment concerns—but also would add to the budget deficit, thereby aggravating the second big source of economic anxiety.

STILL, STANDING PAT also represents a gamble for the administration. Already Republicans are cranking up their attacks on the stimulus plan, arguing not so much that it was a mistake but that the kind of package Democrats put together was fundamentally flawed.

Republicans pushed for a stimulus package tilted more toward tax incentives for job creation, and now they are citing the new jobless numbers as proof that they were right. "We had a plan," says Rep. Eric Cantor, the second-ranking Republican in the House. "It was a plan that had at its base a tax credit for small businesses. We need to give people a break when it comes to creating jobs."

In fact, Rep. Cantor now advocates taking unspent stimulus money and redirecting it toward job-creation tax credits. "Speaking for myself, I just sense that there will be very little support for a second round of stimulus," he says. Even some Democrats agree. "We've barely swallowed the first medicine," says Rep. Jim Cooper of Tennessee, a leader of the House's conservative Democrats. "It's too early for a double dose."

Yet there may be room for a middle ground. Let's say, for example, that the administration pushed later this year for a bill extending unemployment benefits that otherwise would expire—and that lawmakers chose to attach a few additional doses of fiscal or tax stimulus to that bill. Whether that amounted to Stimulus II would be a question of labeling, but the effect would be the same.

Plum U.K. post draws ire

Obama's pick to fill ambassador job lacks credentials, critics say

By David Kesmodel

Landov

Associates of Louis Susman say the 71-year-old former banker and lawyer began educating himself for the post of ambassador to the U.K. years ago.

CHICAGO—U.S. President Barack Obama has raised some eyebrows with his decision to send as ambassador to the U.K. a little-known retired investment banker—and top fund-raiser—from his hometown who has little diplomatic experience.

The post at the Court of St. James's in London is one of the most prestigious in U.S. diplomatic circles. Though largely ceremonial and rarely controversial, it is a prominent position given the close relations between the U.S. and the U.K. In recent years, it has usually gone to political boosters of the president.

Still, the nomination of Louis B. Susman, whose confirmation hearing is scheduled for Tuesday, has rankled some watchdog groups and political commentators who say he was chosen chiefly because he raised money for Mr. Obama's campaign. "Clearly his appointment has nothing to do with anything but money," said Craig Holman, a government-affairs lobbyist at watchdog group Public Citizen.

Mr. Susman declined to comment before confirmation, a customary practice for nominees. "The president asked Mr. Susman to serve because he believes his strong background in public policy, diplomacy and business can help advance American interests," said White House spokesman Tommy Vietor.

Associates of the 71-year-old former banker and lawyer say Mr. Susman began educating himself for such a post years ago, when he brokered deals among feuding members of the Anheuser-Busch brewing dynasty and helped restore glory to baseball's St. Louis Cardinals as a team director. "I can't think of anyone who would be better as ambassador to the U.K.," said former Anheuser-Busch Cos. executive Denny Long.

Like many of his predecessors, Mr. Susman has limited foreign-policy experience. He served on the State Department's Advisory Commission on Public Diplomacy from 1988 to 1992, and is involved in the Chicago Council on Global Affairs, a think tank.

Only once in recent memory has the London Embassy—with its splendid residence, Winfield House, in Regent's Park—been awarded to anyone other than a political appointee. The exception was Raymond Seitz, an experienced career diplomat, who was appointed in the first Clinton administration.

Mr. Susman grew up in St. Louis as the son of a cloth-company owner, and was the first person in his family to attend college. He joined a prestigious St. Louis law firm and earned a reputation for his ability to attract clients and negotiate deals.

In 1975, August A. Busch III engineered a boardroom coup to replace his father, August A. "Gussie" Busch Jr., as chief executive of Anheuser, the biggest U.S. brewer. A furious Mr. Busch Jr., who was 76 and retained a big ownership stake, hired Mr. Susman to represent him in dealings with Anheuser.

Mr. Susman negotiated an accord that allowed the elder Mr. Busch to continue to preside over the St. Louis Cardinals, then owned by the beer maker. "That could never have happened without Lou," said Adolphus Busch IV, a son of August A. Busch Jr., who died in 1989. Mr. Susman, he added, became his father's "complete and total confidante" during what were "tough times in his life."

Mr. Susman frequently defused tensions between the elder Mr. Busch and August A. Busch III, according to people close to the beer maker.

Mr. Susman himself "never blew his cool, and there were times when that was easy to do," said Mr. Long, who was president of Anheuser's beer division during the period. "He was very, very smooth."

The lawyer also served as the executor of Mr. Busch's estate, which earned him significant fees. And he took an active role with the Cardinals, forming with Mr. Busch and Fred Kuhlmann a three-man executive committee that ran the team for more than a decade. The Cardinals reached the World Series three times during Mr. Susman's tenure, winning in 1982.

Mr. Susman had a hand in such key personnel moves as acquiring slugger Jack Clark before the 1985 season. He garnered his share of criticism from fans, too, for various moves, including the club's failure to re-sign relief pitching ace Bruce Sutter, who joined the Atlanta Braves.

Mr. Susman proved adept at brokering agreements among team officials about many issues, said Dal Maxvill, a former Cardinals general manager. "People who had been in disagreement would walk out of the room, and all of a sudden they're best friends," he said. "That's not an easy thing to do."

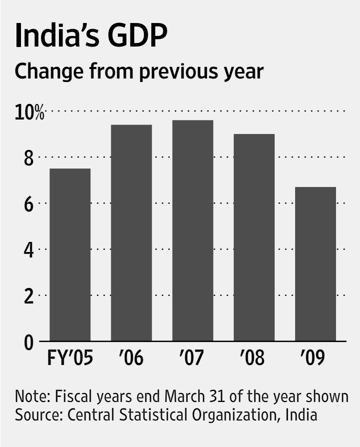
While in St. Louis, Mr. Susman raised money for Democratic politicians including Sen. Edward Kennedy of Massachusetts and former Congressmen Richard Gephardt and Thomas Eagleton of Missouri.

He moved to Chicago in 1989 to join Salomon Brothers Inc.—later part of Citigroup Inc.—as an investment banker overseeing corporate-finance activity in the Midwest. A tall man with a fondness for golf, wine and expensive cigars, Mr. Susman continued to help Democrats raise money. He was Massachusetts Sen. John Kerry's national finance chairman during his unsuccessful presidential bid in 2004, earning the nickname "the vacuum cleaner" for his money-raising prowess.

—Stephen Fidler and Jonathan Weisman contributed to this article.

India puts off reforms, opts for stimulus again

By Jackie Range And Abhraji Gangopadhyay



NEW DELHI—The new Indian government unveiled a $210 billion budget that vastly increases welfare and rural spending in an effort to stimulate economic growth, but also will likely widen the fiscal deficit to its highest level in 18 years.

Finance Minister Pranab Mukherjee said the government would make it a priority to reach 9% gross domestic product growth in the medium term and would seek to spend 9% of GDP on infrastructure development by 2014. Although global financial conditions have improved, there are still uncertainties on the revival of the global economy, Mr. Mukherjee said. "We can't afford to drop our guard," he told parliament. "We have to continue our efforts to provide further stimulus to the economy."

Many investors had been looking to the budget to outline a program of economic overhauls to attract foreign investment and the divestment of government stakes in state-owned companies to raise funds. But the budget was short on both, and the benchmark Bombay Stock Exchange Sensex index sank 5.8%, or 870 points, at 14043. The dollar gained against the rupee following the slump in local shares and closed in India at 48.55 rupees, compared with 47.88 before the budget announcement.

Pranab Mukherjee

Investors have bid up Indian shares since the ruling coalition, the United Progressive Alliance, convincingly won the general election in May. Monday's budget, however, gave little guidance on whether the government planned to pursue overhauls during its five-year term, after a previous term where its efforts were often stymied by leftist allies.

This time, it doesn't need the left's support to govern, but Monday's budget offered scant evidence that changes such as opening the economy further to foreign investors and companies was high on its agenda.

"The big picture and road map was missing in terms of attracting foreign direct investment and the disinvestment program to raise revenues," said Andrew Holland, chief executive for equities at Ambit Capital in Mumbai.

The new budget seeks to use spending to ramp up slowing growth. Health care, education and employment will see most of the investment. Among the big spending increases was a rise in the funds dedicated to the National Rural Employment Guarantee program, which pays otherwise unemployed rural workers 100 rupees ($2.09) a day for work.

The programs will add up to an increase of 16% in total spending from a year earlier. As a result, India will have to sharply increase borrowing, widening a fiscal deficit to around 6.8% of GDP in the year ending March 31, 2010, from the previous year's 6%.

Standard & Poor's sovereign-ratings director Takahira Ogawa said the projected fiscal deficit was "within the boundary of S&P's expectation," indicating that the news wouldn't likely prompt an immediate credit rating downgrade to junk. In February, S&P lowered its long-term sovereign credit rating outlook on some Indian debt to negative.

Still, some analysts expressed concern the government's finances could deteriorate. Sujan Hajra, chief economist at Anand Rathi Securities, said government borrowing is likely to be revised upward even further, increasing the risk that the fiscal deficit may hit 7% of GDP in the current fiscal year.

After the budget speech, Prime Minister Manmohan Singh said the budget will help accelerate economic growth. He said 7% economic growth is "achievable, but it's not enough."

Indian GDP grew 6.7% in the year ended March 31, slowing from a 9% expansion in the previous year. The government last week projected growth between 6.25% and 7.75% in the year ending March 31, 2010.

—Krishna Pokharel and Vibhuti Agarwal contributed to this article.

Nabucco natural-gas-pipeline project gathers momentum

By Guy Chazan

A major EU-backed natural-gas pipeline project designed to reduce the bloc's dependence on Russian energy imports will get a big boost next week when leaders of the participating countries meet in Turkey to sign a long-delayed treaty laying the groundwork for the plan.

Nabucco, which will carry natural gas from the Caspian Sea region and the Middle East via Turkey to the heart of Europe, bypassing Russia, beginning in 2014, has emerged as a priority project for the 27-nation European Union.

The intergovernmental agreement will be signed in Ankara by representatives of all five countries through which Nabucco will pass: Turkey, Bulgaria, Romania, Hungary and Austria. It's seen as a crucial milestone and could unlock billions of euros in financing for the project.

In another sign of the gathering momentum behind the $11 billion Nabucco pipeline, Joschka Fischer, a former German foreign minister, was appointed Monday as its chief lobbyist. Gerhard Schröder, the former German chancellor, is on the other side of the equation, heading Nord Stream, the Gazprom-led pipeline to bring Russian gas under the Baltic Sea to northern Germany, bypassing Ukraine.

The bloc currently gets a quarter of its gas from Russia and has been eager to find alternatives, especially in the wake of a spat between Russia and Ukraine last January that led to a cutoff of gas deliveries to Europe.

But Nabucco, named for a Verdi opera, has been hobbled by uncertainty. The six companies in the consortium have been reluctant to make investments until they know they can secure enough gas to fill the pipeline, while potential suppliers are unwilling to sign long-term gas contracts until they're sure the infrastructure will be built.

Another sticking point: the stance of Turkey, a key transit country, which had insisted on keeping back some 15% of the pipeline's capacity for its own use and for re-export.

Nabucco also faces competition from a rival Russian project, known as South Stream, which would run under the Black Sea into Bulgaria. Late last month, Azerbaijan indicated it would give Russia priority in sales of gas from a big new field in the Caspian—potentially a blow to Nabucco.

Now, however, the EU-backed pipeline is beginning to look more viable. A person close to the Nabucco consortium said Turkey has dropped its demand to keep some of the gas, though it reserved the right to contract gas imports independently with producer countries such as Azerbaijan and Iraq to satisfy domestic demand. A spokesman for the Nabucco consortium declined to comment.

The European Bank for Reconstruction and Development has said it's ready to take a "senior role" in funding Nabucco, but only after an intergovernmental agreement is signed.

The partners themselves—RWE AG of Germany, OMV AG of Austria, Bulgarian Energy Holding, Transgaz SA of Romania, Hungary's MOL Nyrt, and Botas of Turkey—will finance 30% of the project.