Corporate News: Beijing suspects Rio Tinto employee held in China of espionage

THE WALL STREET JOURNAL.

VOL. XXVII NO. 109 | EUROPE | THURSDAY, JULY 9, 2009

DOWJONES
A News Corporation Company

europe.WSJ.com

For information or to subscribe, visit www.services.wsje.com or call +44 (0) 207 309 7799 — Austria €3 - Belgium €3 - Croatia HRK 22 - Czech Republic Kc 110 - Denmark Dkr 25 - Finland €3.20 - France €3 - Germany €3
Greece €3 - Hungary Ft 650 - Ireland (Rep) €3 - Italy €3 - Lebanon L£ 6000 - Luxembourg €3 - Netherlands €3 - Norway Nkr 29 - Poland Zl 12 - Portugal €3 - Slovakia €3.32/SK 100 - Spain €3 - Sweden kr 29
Switzerland SF 5 - Syria S£ 210 - Turkey TL 4.5 - U.S. Military (Eur) $2.20 - United Kingdom £1.50

THE WALL STREET JOURNAL.

What's News

E.ON and GDF Suez were fined by the EU for agreeing not to compete on sales of natural gas in each other's home markets. The energy giants vowed to appeal the fine, the second highest ever assessed in an EU cartel case. Page 4

■ **The IMF sees** the world economy shrugging off recession in late 2009, but said leading nations still shoulder worrisome burdens. Page 2

■ **The ECB said** the global financial crisis has had little effect on the dollar's pre-eminence in international financial markets. Page 2

■ **New rules on pay** and tougher capital requirements highlight U.K. bank proposals, but regulation would remain mostly untouched. Page 32

■ **Fear is returning** to financial markets. U.S. stocks were narrowly mixed, while European shares fell for the fifth day in a row. Page 20

■ **Opec cut** its five-year forecast for oil-field spending by a third on expectations of lower demand. August crude fell 4.4% to $60.14. Page 11

■ **Google is planning** an operating system for PCs, a direct assault on market leader Microsoft's turf. Pages 5, 32

■ **John Meriwether** is shuttering his hedge-fund firm and splitting with a partner as efforts to jump-start their business have failed. Page 19

■ **Switzerland said** it will block UBS from giving confidential client data to U.S. officials, even if a U.S. court orders the bank to do so. Page 11

■ **Luxembourg has been** promoted to the list of countries that comply with international tax standards, the OECD said.

■ **Big drug companies will** face stepped-up antitrust scrutiny when making deals with smaller generic-drug makers, the EU warned. Page 10

■ **Moscow disappointed** international creditors by not helping a small aircraft-leasing firm repay a $250 million debt to bondholders. Page 19

■ **A tense calm settled** over Urumqi after China deployed security personnel. Page 3

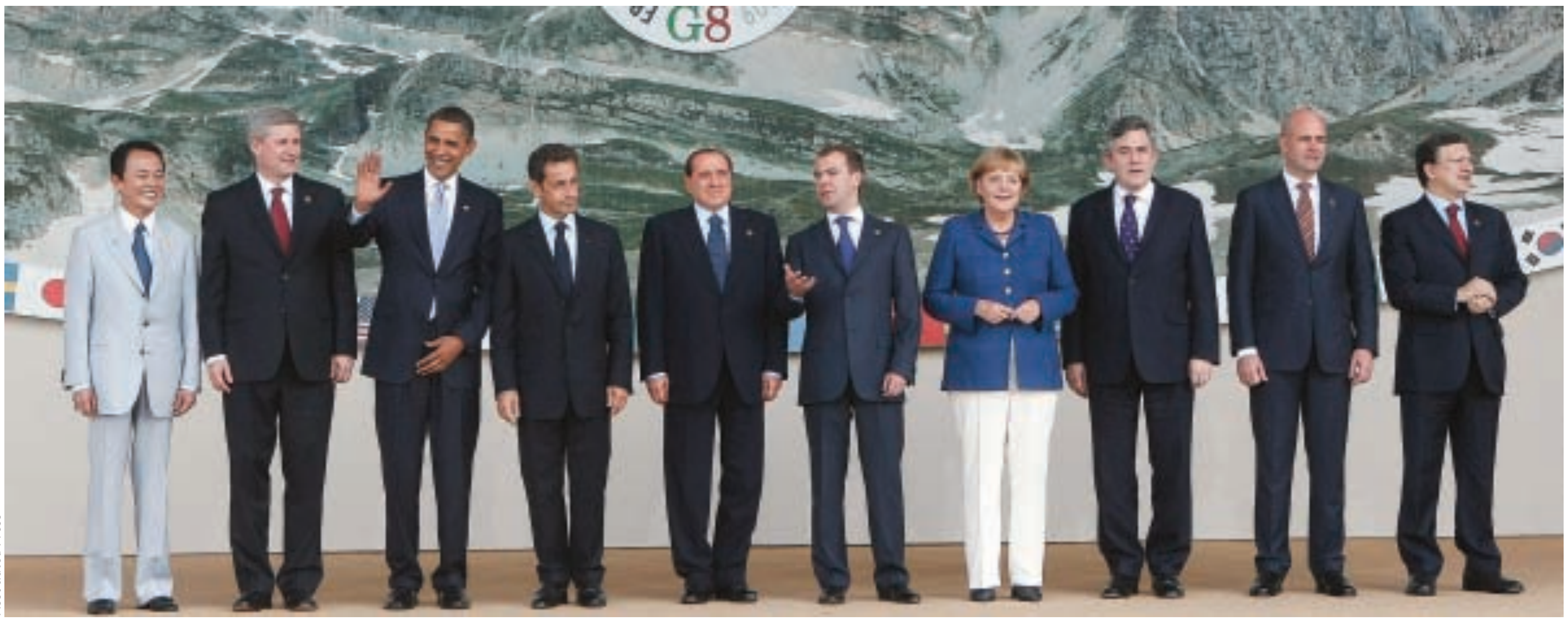
■ **Ireland set Oct. 2** as the date for a second vote on the EU's Lisbon Treaty.

■ **A Saudi court** sentenced an al Qaeda militant to death and gave jail terms and fines to more than 300 others.

Editorial&Opinion

Democratic danger
Obama cedes rhetorical ground to Putin and Khamenei. Page 15

Breaking news at europe.WSJ.com



Associated Press

The failure by leaders of the Group of Eight leading nations, seen gathered in L'Aquila, Italy, to reach shorter-term emissions-cutting targets prompted the Major Economies Forum, which includes polluters such as China and India, to backtrack from numerical targets they had planned to espouse on Thursday.

Summit leaders in climate deal

G-8 agrees to cut emissions of heat-trapping gases 80%, but wider group drops numbers

By Jonathan Weisman

L'AQUILA, Italy—Leaders of the Group of Eight leading nations agreed Wednesday to slash emissions of heat-trapping gases by 80% by 2050 and to recognize a two-degree Celsius ceiling for total global warming.

State of limbo?

But the G-8 leaders failed to agree on shorter-term emissions-cutting targets and on establishing a firm amount of aid for developing countries—a setback that marks a major blow to one of the biggest goals of the summit here, one that could have repercussions for a larger, major meeting on climate change in Copenhagen later this year.

Their declaration also leaves it to individual nations to decide the emissions baseline they will count their reductions from.

The failure by leaders of the G-8—the U.S., Japan, Germany, France, the U.K., Italy, Canada and Russia—to reach shorter-term targets prompted a larger group of nations gathered here to backtrack from numerical targets they had planned to espouse in another statement due Thursday.

The larger group, the Major Economies Forum, includes polluters such as China and India and consequently is more important for climate-change policies than the G-8. U.S. President Barack Obama, who will chair the 17-nation energy and climate forum meeting, had hoped for a breakthrough in his debut on the stage of the international climate debate.

Ever since the Kyoto Protocol of 1997, the unwillingness of developing economies such as China to sign on to global efforts to curb global warming has been the largest political and technical impediment to progress. The U.S. Congress and the Bush administration cited the omission of China from Kyoto's mandates as the biggest reason the U.S. wouldn't participate.

Wednesday's breakdown here only underscored how difficult a breakthrough will be when the world gathers in Copenhagen in December to try to complete a binding treaty to replace Kyoto.

"We still have time before Copenhagen," said Michael Froman, deputy White House national security adviser for international economics.

U.S. officials framed the L'Aquila climate-change decla-

Please turn to page 3

Total emissions

In billion metric tons of carbon dioxide

	In billion metric tons of carbon dioxide	Tons per capita
China	6.0	4.6
U.S.	5.9	19.8
Russia	1.7	12..0
India	1.3	1.2
Japan	1.3	9.8
Germany	0.9	10.4
Canada	0.6	18.8
U.K.	0.6	9.7
South Korea	0.5	10.5
Iran	0.5	7.3

Note: Figures for 2006, and have been rounded

Source: Union of Concerned Scientists

Bond plan is puzzle for Bank of England

By Neil Shah

LONDON—Investors are hoping that when officials at the Bank of England meet Thursday to decide how to manage a moribund economy, they will agree to ramp up their fight against recession by pouring more money into the bond market.

There is only one problem: Economists are beginning to doubt that the policy, known as quantitative easing, is actually working.

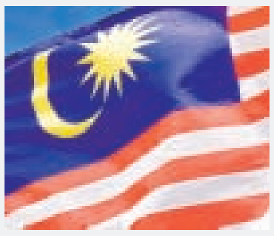
Over the past few months, the Bank of England, much like the U.S. Federal Reserve, has embarked on an experiment aimed at jump-starting the economy, promising to buy mostly government bonds with some £125 billion ($202 billion) in freshly printed money. By putting more cash in the bank accounts of bond sellers, and by pushing bond prices up and yields down, the policy is supposed to spur banks to lend and lower the interest rates at which they do so.

So far, though, there are few signs that the policy is having the desired effect. After an initial drop, yields on many government bonds have crept back up amid jitters about the parlous state of the U.K.'s government finances.

And while banks have seen their cash reserves rise sharply, they don't appear to be putting the money to

Please turn to back page

Inside



Business turbulence

Affirmative action is seen as a barrier to Malaysian growth

News In Depth, pages 16-17

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8178.41	+0.18
Nasdaq	1747.17	+0.06
DJ Stoxx 600	198.03	-1.08
FTSE 100	4140.23	-1.12
DAX	4572.65	-0.56
CAC 40	3009.71	-1.27
Euro	$1.3897	-0.69
Nymex crude	$60.14	-4.43

LEADING THE NEWS

Dollar's clout remains

ECB says greenback has kept its status amid global crisis

By Joellen Perry And Geoffrey T. Smith

FRANKFURT—The global financial crisis has had little effect on the dollar's pre-eminence in international financial markets, the European Central Bank said in a report Wednesday.

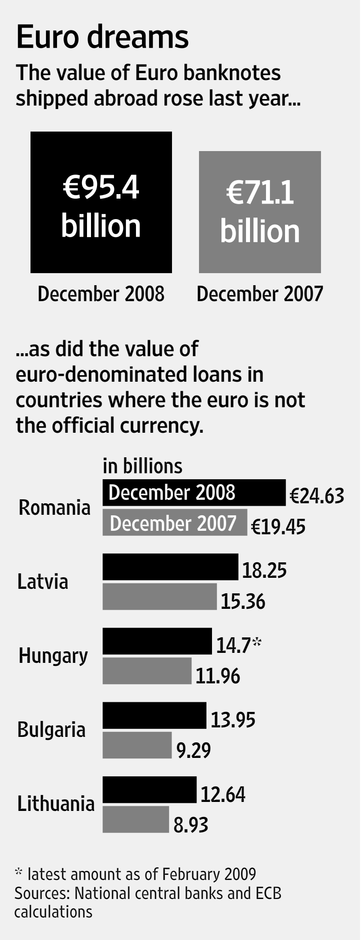
The ECB, which sets interest rates for the 16 countries that share the euro currency, said in an annual review of the euro's international role that the crisis left the shares of major international currencies in financial markets "broadly unaffected" in 2008.

The "depth and liquidity of U.S. financial markets" amid investors' search for havens helped the greenback maintain "its status as the most important international currency globally," the report said. Meanwhile, the euro's share in most global financial sectors, including debt markets and foreign-exchange reserve holdings, edged up only marginally last year from 2007.

The findings suggest emerging economic heavyweights such as China have had little success reducing the dollar's role in global affairs, despite public protestations against the currency's dominance. The Group of Eight leading nations didn't schedule a detailed discussion of the dollar's role as a global reserve currency at their summit meeting in L'Aquila, Italy, on Wednesday.

The euro's popularity did surge in Central and Eastern Europe, where financial-market upheaval has battered local currencies and pushed a number of countries to ramp up their aspirations to join the currency bloc. Emerging European countries that have joined the 27-nation European Union must adopt the euro eventually. But the ECB maintains that candidate countries must follow a lengthy official process that involves, among other things, keeping public debt loads low and local currencies steady against the euro for at least two years.

The crisis has made those goals harder to meet. But the ECB report showed the euro's prevalence is already rising in emerging European nations that haven't officially adopted the currency.



Consumers and companies rattled by the prospect of domestic banks going bust stockpiled euro banknotes last year, the report said. The value of euro bills shipped outside the currency bloc rose to €95.4 billion ($132.7 billion) in December 2008, up from €71.1 billion a year earlier, and the highest level since 2002. Nearly half of those purchases hailed from Eastern Europe.

Corporate and household borrowers across the region also continued taking out loans denominated in the euro, hoping to benefit from the bloc's low interest rates. Such loans have proved risky amid the crisis, as the falling value of emerging European currencies has left many borrowers facing rising repayment costs in euros.

The ECB, wary of seeing the crisis intensify in a region where many euro-zone banks have big investments, warned in the report that "the prevalence of foreign-currency lending may create significant macroeconomic risks" as borrowers rack up debt they may be unable to repay. Banks, too, could suffer if borrowers defaulted en masse, posing "potential risks to financial stability."

The ECB's report came amid mixed economic news for the euro-currency bloc. Output contracted by an annualized rate of nearly 10% in the first quarter of 2009 from the previous quarter, pulled down by steep drops in exports and corporate investment, statistics agency Eurostat said. But industrial production in Germany increased at the fastest pace in nearly 16 years in May, rising 3.7% compared with April.

The data reinforced economists' predictions that manufacturing in Europe's largest economy might be starting to stabilize, though a 17.9% fall from May 2008 showed the sector is still struggling amid the global slump.

Developing Countries Set To Boost Global Economy

By Tom Barkley

WASHINGTON—The global economy should emerge from recession by the end of the year thanks to strength in major developing countries such as China and India, the International Monetary Fund predicted.

Advanced economies continue to lag behind, facing risks from unfinished work shoring up financial sectors, as well as new concerns from the piles of debt governments are amassing from crisis measures.

"The worst is behind us, and the recovery is coming," said the IMF's chief economist, Olivier Blanchard. He warned that the recovery will likely be fragile, as the overleveraged global financial system continues to cast a shadow over the economic outlook. He urged policy makers not to become complacent about market improvements, saying that if supportive monetary, fiscal and financial measures are removed too soon "there would be a great risk that the recovery falters."

When asked about the recent retrenchment in global markets, Mr. Blanchard said investors are learning that the recovery will likely be a weak one.

In the report, the IMF predicted financial institutions will face "somewhat lower" write-downs on bad debt than expected in an April report, when it estimated global losses could top $4 trillion through next year.

Jose Viñals, director of the monetary and capital-markets department, said the fund is still revising that figure. He said it is reasonable to assume that loan charge-offs and mark-to-market losses on securities held by U.S. and European banks would be smaller given the rebound in markets.

The IMF upgraded its outlook for 2010 and lowered this year's forecast. The world economy is expected to contract 1.4% in 2009 instead of the 1.3% decline predicted in April.

The IMF now foresees a 2.5% rebound in global growth in 2010. That is up from a 1.9% growth estimate in April, as well as a 2.4% growth forecast cited by The Wall Street Journal last month from a briefing prepared for ministers of the Group of Eight leading nations.

G-8 leaders are in Italy this week to discuss progress in combating the global crisis, which finally appears to be losing steam. Encouraged by recent improvements in both markets and economic activity, the leaders are expected to focus more on devising exit strategies for when a recovery takes hold.

The IMF said it is too soon for governments to start unwinding crisis measures but clear and coordinated exit strategies should be laid out to avoid a potential wave of turmoil in sovereign-debt markets.

Mr. Blanchard said governments should also prepare for possibly extending stimulus measures. "It may well be that if the recovery turns out to be very weak, a bit weaker than we forecast, governments may actually have to continue the fiscal stimulus," he said.

The IMF said brighter prospects for the U.S. and Japan led to a better outlook for advanced economies, though activity isn't expected to pick up until the second half of 2010. The group is forecast to expand at a 0.6% pace in 2010 instead of the previous estimate for zero growth, but is still forecast to contract 3.8% this year.

CORRECTIONS & AMPLIFICATIONS

Global aluminum output in May averaged 63,600 metric tons a day. An article Wednesday about Alcoa incorrectly said May's daily output was 63.6 million metric tons.

Cablevision Systems Corp. in May said it is considering spinning off Madison Square Garden; it has never said it was considering a sale. A Corporate News article Tuesday incorrectly said Cablevision was no longer considering selling the Garden.

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.

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 Fax: 32 2 741 1600
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799
Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Daniel Hertzberg M-17936-2003

INDEX TO PEOPLE

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

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

LEADING THE NEWS

Troops impose calm on troubled China city

Massive deployments quell ethnic violence; threat of execution

By Shai Oster And Jason Dean

Chinese soldiers march on the streets of Urumqi on Wednesday, part of a show of force that brought a tense calm to the city.

Agence France-Presse

URUMQI, China—A sweeping deployment of security personnel established a tense calm in the capital of China's Xinjiang territory after days of ethnic violence, as the city's top official vowed to execute those responsible for the country's worst unrest in decades.

Sporadic unrest continued Wednesday in Urumqi, where clashes on Sunday between Uighurs and Han Chinese, the country's dominant ethnic group, left 156 dead and more than 1,000 injured, according to official figures. But the massive security presence appeared to largely contain hostility between the two groups, a day after revenge attacks by roaming gangs of Han in the city angered by Sunday's killings.

The week's violence has turned a region long plagued by simmering ethnic anger into a major crisis for China's Communist Party. In a sign of the intensity of official concern, President Hu Jintao, who is party chief, unexpectedly returned to China on Wednesday from Italy, where he was planning to attend the summit of the Group of Eight leading nations. His sudden departure, unusual for a Chinese leadership that generally sticks to its script, left much-lower-ranking officials representing China at the G-8 meeting, casting uncertainty over its role in discussions on a range of important issues.

Mr. Hu made no public appearance immediately after his arrival home, and was likely presiding over meetings of senior leaders to discuss the strategy for the government response to the unrest. Mr. Hu has personal experience with issues of ethnic unrest, having been the top official in Tibet during an uprising there in 1989.

Wednesday's show of force in Urumqi, which followed an 11-hour curfew beginning Tuesday night, was boosted by an influx of paramilitary police and soldiers from other cities, including Beijing and Lanzhou, the regional military headquarters. Earlier in the week the official Xinhua news agency reported 20,000 police and troops had been deployed, and as of Wednesday the security presence in Urumqi was even greater.

Helicopters patrolled overhead and cordons of security forces in riot gear patrolled the streets as other troops marched carrying assault rifles fixed with bayonets. The security presence was heaviest in Han parts of the city that saw resurgence of violence on Tuesday. There were scattered reports of violence Wednesday.

City officials declared the situation was "under control," and there was no repeat of the official curfew Wednesday night, although police throughout the city broadcast messages on loudspeakers urging people to return home and remain calm.

Li Zhi, Urumqi's top Communist Party official, in a televised news conference Wednesday, promised to deal harshly with those found responsible for the deadly violence. "To those who committed crimes with cruel means, we will execute them," he said, the Associated Press reported. The statements appeared to be intended to quell the ethnic bloodlust as well as warn Uighurs that they would be held responsible.

It remains unclear how Uighur protests Sunday erupted into large-scale ethnic violence. The government has yet to provide a breakdown by ethnicity of Sunday's fatalities. Officials said Wednesday they have identified the bodies of about 100 of those killed.

An uneasy calm also held in other Xinjiang cities. In Kashgar, an ancient Silk Road city to the west, shops along main thoroughfares were ordered to close for three days, starting Tuesday, residents said. Large numbers of People's Armed Police paramilitary troops patrolled Uighur neighborhoods there, and on the streets of Hotan, a city in southern Xinjiang, after nightfall.

Officials now face the difficult challenge of trying to reduce ethnic antipathy that was already intense before this week's events, to try to prevent further outbreaks of violence. "It's very hard in such a circumstance to find some kind of ethnic reconciliation," said Dali Yang, a professor of Chinese politics at the University of Chicago.

On Wednesday, the government tried to defuse anger over an event that helped to trigger Uighur protests on Sunday that then spiraled into rioting. Uighurs, a Turkic-speaking, mainly Muslim group, have long complained of discrimination by China's Han-dominated government, and were incensed in recent weeks by a clash between Han and Uighur workers in a southern Chinese factory last month.

In that incident, rumors that Uighur migrant workers at the plant had raped Han Chinese women prompted enraged Han workers to attack their Uighur co-workers. State media said two Uighurs were killed and dozens more injured.

The state-run Xinhua news agency Wednesday published an interview with what it said was the young woman at the center of those rape allegations of sexual assault, quoting her as saying that the whole episode was a misunderstanding. The woman, identified as 19-year-old Huang Cuilian, said she accidentally entered the wrong room of a factory dormitory and, frightened at the sight of two young Uighur men inside, let out an "unintentional scream" before walking away, unmolested.

Xinhua said that it was her scream, apparently misinterpreted by male Han workers, that triggered the deadly fight at the plant.

In Urumqi, some Han Chinese, familiar with state manipulation of information, remained convinced an assault took place and the government is covering it up to avert ethnic strife.

Chinese leader leaves summit, hobbling climate debate

By Jonathan Weisman

L'AQUILA, Italy—Chinese President Hu Jintao's sudden departure Wednesday from the summit of the Group of Eight leading nations dealt a potentially significant blow to the summit's ability to produce concrete results on issues from climate change to economic recovery.

China has been a driving force in international discussions about currency, debt and concerns over soaring budget deficits as nations struggle to pull themselves out of the global financial crisis.

Mr. Hu departed to deal with rioting in China's western Xinjiang territory before he could meet privately with U.S. President Barack Obama or attend critical meetings of the G-8 plus 5, which includes five leading developing economies.

He was also to have attended a 17-nation Major Economies Forum on Thursday, chaired by Mr. Obama and charged with reaching an accord on climate-change issues.

The Chinese president was dining with local officials and business leaders in Florence on Tuesday evening when the meal was interrupted by a flurry of phone calls. "In a matter of minutes everything froze, and then they left," said Matteo Renzi, the mayor of Florence.

The Chinese president left behind Chinese state councilor Dai Bingguo, whom U.S. Deputy White House National Security Adviser Denis McDonough describes as a powerful figure. Still, Mr. McDonough said, "It's a fair question" to ask whether Mr. Hu's departure will have an impact.

White House officials expressed disappointment at Mr. Hu's departure, but said the summit can produce results. They said they didn't expect currency issues to come up and that the biggest fights over fiscal imbalances and "exit strategies" for stimulus programs are with European nations such as Germany.

Without Mr. Hu at the Major Economies Forum on Thursday, a last-minute push by Mr. Obama for a broad accord on emissions reductions wasn't possible, U.S. officials here say.

The G-8, which includes the U.S., Canada, Japan, Germany, Italy, Britain, France, and Russia, has been struggling to maintain its importance as countries like China, India and Brazil rise in power. Mr. Hu has said the G-20 largest economies, not the G-8, should be the forum for global economic discussions.

Meetings at the summit were to include the G-8 plus 5 (China, India, Mexico, Brazil and South Africa), the G-8 plus 5 plus Egypt, and other iterations.

—Stacy Meichtry contributed to this article.

G-8 agrees to cut heat-trapping emissions, but drops numbers

Continued from first page

rations as progress. Numerical targets for emissions reductions by 2050 are largely meaningless anyway, since the target is so far in the future, they said. "It would be a big mistake to look at only at 2050," said Todd Stern, the chief U.S. climate-change negotiator.

But it was the failure of the developed nations to set short-term goals that gave the developing countries their reason for torpedoing a broader deal that seemed within reach just a week ago. The G-8 nations also couldn't agree on a pledge to help fund poorer countries' move toward cleaner energy sources and mitigate the effects of climate change they are already feeling.

A draft declaration had provisionally called for $400 million in this aid—a figure that many nations called too small and others called too large. In the end, they got nothing but theoretical commitments to help with finances and technology.

"The G-8 might have agreed to avoid cooking the planet by more than two degrees, but they made no attempt to turn down the heat anytime soon," said Antonio Hill, spokesman for Oxfam International, summing up the view of several liberal environmental groups here.

Complicating negotiations further was the sudden departure of Chinese President Hu Jintao early Wednesday to deal with rioting in the west of his country. That left Mr. Obama no Chinese head of state to try to persuade to come back to the table, said Daniel M. Price, a former White House official responsible for the G-8 and Group of 20 summits for President George W. Bush and now partner with the law firm Sidley Austin.

Still, the G-8 declaration did move the developed world toward stricter regulations on the emissions of climate-trapping gases such as carbon dioxide and methane. The developed nations agreed a year ago to a 50% reduction by 2050, but European negotiators argued a more aggressive target was needed ultimately to convince the developing nations. This year, they got 80%.

That may be less significant than it seems because the G-8 declaration leaves it to individual nations to decide their emissions baseline. Germany and other European countries wanted emissions cut 80% from 1990 levels. The U.S. wanted the cuts to be counted against current levels.

The declaration states the reductions will be counted against 1990 levels "or later years." "It recognizes multiple baselines," Mr. Froman said.

The acknowledgement that global warming should be held below two degrees Celsius from preindustrial levels is another breakthrough. The U.S. has long resisted setting a temperature ceiling. Translating that ceiling into action will entail dramatic changes that will affect every corner of the global economy, especially since temperatures already have risen nearly one degree.

CORPORATE NEWS

EU fines energy giants over collusion

Commission's $1.53 billion penalty on E.ON and GDF Suez is region's second-highest in a cartel case

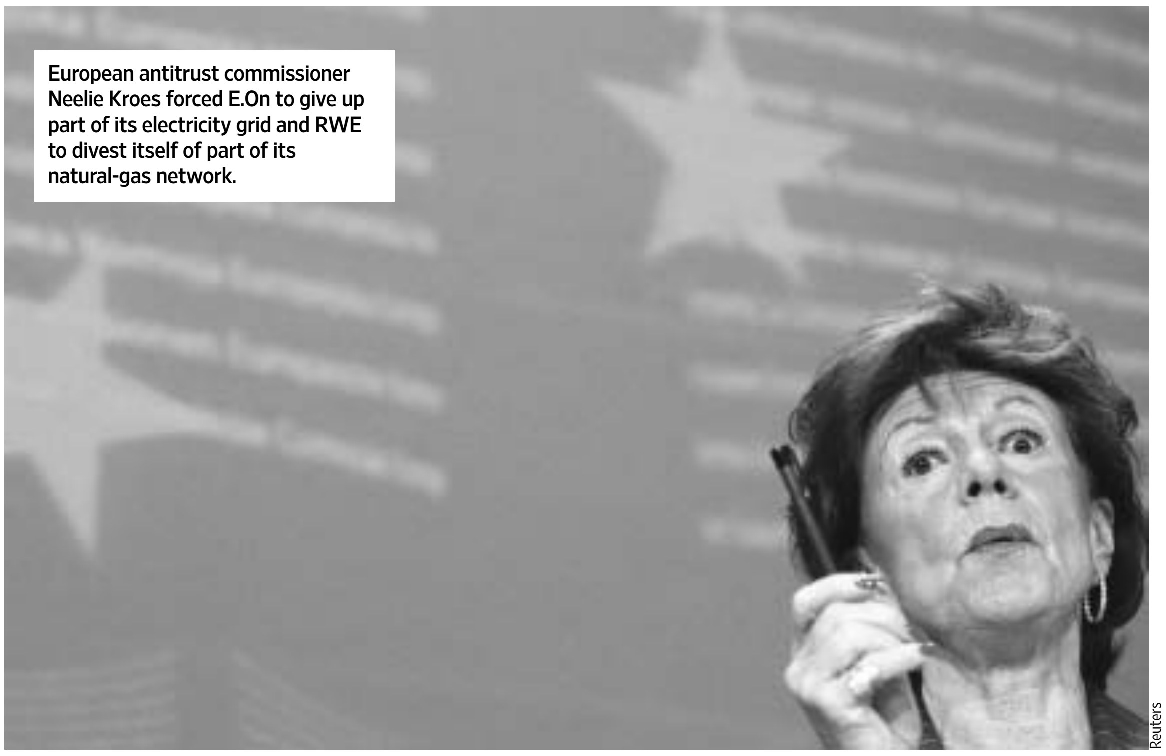
By Charles Forelle

BRUSSELS—The European Union fined energy giants **E.ON** AG of Germany and **GDF Suez** SA of France €1.1 billion ($1.53 billion) for agreeing not to compete on sales of natural gas in each other's home markets.

The fine, the second-highest ever assessed in an EU cartel case, reflects the desire of the European Commission, the bloc's executive arm, to force EU-wide competition in the energy sector—despite reluctance from some member countries to back vigorous reform.

Each company was fined €553 million. Both said they would appeal to an EU court in Luxembourg.

The case stems from an accord in 1975 by GDF and E.On to build a pipeline, called Megal, that moves Russian natural gas from the Czech Republic and Austria across Germany and into France. They agreed, in two "secret" letters, not to sell natural gas in each others' market, the commission said. The commission said the two companies continued to divvy up the national markets until 2005.



European antitrust commissioner Neelie Kroes forced E.On to give up part of its electricity grid and RWE to divest itself of part of its natural-gas network.

Reuters

For decades, the provision of natural gas was the domain of national monopolies, but an EU law in 2000 sought to open up Europe's natural-gas markets to competition. The commission has since been trying to persuade governments to agree to rules forcing the separation of gas transit and sales businesses, arguing that EU-wide competition would drive down prices and enhance energy security. Germany and France have so far blocked these efforts to "unbundle" the gas trade; both countries have big, incumbent energy companies that retain much influence.

In the past year, antitrust commissioner Neelie Kroes forced E.On to give up part of its electricity grid and German utility **RWE** AG to divest itself of part of its natural-gas network to settle antitrust cases.

Wednesday's fine "sends a strong signal to energy incumbents that the commission will not tolerate any form of anticompetitive behavior," Mrs. Kroes said. "By agreeing not to compete, these companies effectively eliminated price competition in that sector." She added that the commission "has no alternative but to impose high fines."

GDF and E.On responded to the decision harshly. Collusion "never took place between the companies," said Bernhard Reutersberg, chief executive of E.On's Ruhrgas subsidiary. The 1975 agreement was "never implemented," E.On said. It added that last year it sold 8.7 billion kilowatt-hours of natural gas in France.

GDF Suez "expresses its complete disagreement" with the finding that there was collusion, the company said. The period of time the fine covers is from when the EU's directive liberalizing the gas trade took effect until 2005, when the EU says the collusion stopped, said Antoine Lenoir, a GDF Suez spokesman. "There was competition with E.On after 2001. We have been supplying German clients since then," said Mr. Lenoir.

In recent years, the commission has sharply raised its fines for cartel behavior; new guidelines base the fine on the revenue in the affected sector and the number of years any collusion persisted, which can lead to huge fines in lucrative industries or for long-running cartels. Last year, it hit participants in an auto-glass cartel with €1.4 billion in fines, the largest to date.

The size of Wednesday's fine is likely to be at issue in the appeal. A key question is how the court will treat the fact that the agreement was made a quarter century before the gas markets were opened to competition.

"The arrangement does go back to a time when GDF was part of the French state," says Suzanne Rab, an antitrust lawyer specializing in energy issues at Hogan & Hartson in London. The case raises a "fundamental question about the legacy of state control."

The commission also said GDF Suez had offered to settle a separate antitrust investigation, this one focusing on whether the company was preventing competitors from importing natural gas into France. Under that proposed settlement, GDF Suez would scale back the long-term contracts it has for access to infrastructure, such as pipelines and liquefied natural-gas terminals, needed for imports.

The commission hasn't decided whether to accept the settlement offer. *—Sebastian Moffett in Paris contributed to this article.*

Carriers hold breath on air rules

By Scott McCartney

Airline customer service isn't the only thing in need of improvement these days. The air in airplane cabins needs some fixing, too.

A panel of experts across the aviation industry studied air quality and the spread of disease aboard airplanes and recommended firm standards for onboard air circulation, lower ozone exposure, new monitoring for contaminated air from oil or hydraulic fluid leaks and limits on pesticides used on planes.

THE MIDDLE SEAT

But one year after the new voluntary standards were issued, aviation regulators and airlines have yet to act.

"It's frustrating because these issues are important for crew members and for passengers, and should have been addressed a long time ago," says Judith Murawski, a cabin air quality expert for the Association of Flight Attendants.

The American Society of Heating, Refrigerating and Air-Conditioning Engineers, which usually focuses on climates inside buildings, conducted 12 years of work on air quality inside airliners—long a topic of concern for travelers and flight crews, particularly during health crises like the H1N1 swine-flu pandemic.

The ASHRAE committee, which included representatives from aircraft and equipment manufacturers, airlines, labor groups and even passengers' advocates, was formed at the behest of the aviation industry to offer definitive word on complex issues. Its new standards represent the most comprehensive study of in-flight environmental hazards yet.

The committee found that air quality and current regulatory standards are basically good, but some improvements should be made.

"In general, the air on an airplane is not too bad but when things go wrong, they can get really bad. And it happens in a hurry," says Byron W. Jones, the committee's chair and associate dean at the College of Engineering at Kansas State University.

So far, Dr. Jones and other ASHRAE committee members describe the response from regulators to the new standard as "fairly muted."

An FAA spokeswoman says the agency is awaiting more research currently under way before taking action on cabin air quality. Nothing is imminent, she said.

Surprisingly, air quality on planes is often worst when the plane is on the ground. Air-circulation systems sometimes aren't operated while passengers board, for example, or when planes sit for long ground delays, and problems can develop quickly. In some famously long delays, when planes have sat stranded for several hours, passengers have complained of hot, stuffy cabins with inadequate air conditioning.

"If you have it off even five minutes, you start to build up contaminants in aircraft," Dr. Jones says.

The ASHRAE group said the industry needs temperature limits, so cabins don't become sweltering on the ground on hot summer days. And its standard says air circulation should never be shut down on a plane with people aboard, unless necessary for operational reasons like de-icing so toxic fumes aren't sucked in, and that an absolute limit of 30 minutes without air circulation should be imposed.

The FAA says it issued an advisory to airlines in 2003 recommending that passengers be removed from planes no more than 30 minutes after air-circulation equipment is shut down, but the limit isn't mandatory.

Airlines and manufacturers have long argued that because air is moved quickly in cabins and scrubbed through sophisticated clean-room devices called HEPA filters, which can catch 99.9% of pathogens, airplane air is healthier than that in office buildings or other public spaces.

But the volume of air that circulates per person is higher in office buildings and anecdotal reports of illnesses among passengers and flight attendants have often sparked fears that cabin air could be hazardous. In addition, half the air circulated through a jet is drawn from the outside; half is re-circulated, leading to concerns.

Despite the diversity of the committee, the final recommendations were unanimously approved.

The standard includes new protections on pesticide use. More than 40 countries require disinfecting planes, some with pesticides banned by the U.S. Environmental Protection Agency.

Michael Sloan

Ozone in cabin air was another concern. Air drawn from outside can contain high ozone levels because it comes from the upper atmosphere. Many aircraft, particularly long-haul jets, have "ozone converters" that decompose ozone before it is fed into cabins, but Dr. Jones says a lot of aircraft, mostly planes that fly only short hops, still fly without ozone converters. "It's been an airline option whether to have ozone converters or not," he says. The new standard sets a maximum level of ozone contamination and requires converters on planes that fly routes where ozone is expected to be encountered.

The new standard would also require sensors to ensure that fresh air from outside and compressed inside engines isn't contaminated by an oil leak or a hydraulic fluid leak.

CORPORATE NEWS

Google plans PC software

Web titan to launch operating system, taking on Microsoft

By Jessica E. Vascellaro
And Don Clark

Google Inc. is preparing to launch an operating system for personal computers, a direct assault on the turf of software giant **Microsoft** Corp., which has long dominated the market for software that runs PC applications.

The Internet giant announced the new move in a blog post late Tuesday night. It said the software, which will initially target low-end portable PCs called netbooks, will be based on its Chrome Web browser and available to consumers in the second half of 2010.

The post—by Google's Sundar Pichai, vice president of product management, and Linus Upson, engineering director—said the operating system would be "lightweight" and optimized for running Web-based applications. Google's goal, they said, is to address shortcomings of PCs, including security problems and lengthy delays while computers boot up. "We hear a lot from our users, and their message is clear—computers need to get better," the Google executives wrote.

Eventually, Google hopes to scale the software to full-scale PCs as well, they said.

The effort marks Google's latest attack on Microsoft. The Mountain View, Calif., company—which makes 97% of its revenue from online advertising—has been trying to compete with Microsoft and other software makers by offering more software that runs in a Web browser and isn't downloaded directly to computers. Now it appears to be broadening its approach, in a move that could give it greater distribution of its own online software services, including word-processing and email software.

But whether it can chip away at Microsoft's dominance in the market remains unclear. In the months since its launch, Chrome has done little to challenge Microsoft's lead in browser software. And some hardware companies have been slow to adopt Google software—like its Android operating system, which is targeted at running applications on mobile phones—arguing it isn't robust enough to handle many tasks.

The Google blog post stresses that the Chrome operating system is a separate effort from Android—though, like Android, it will be "open source," meaning other developers can have access to and modify the code.

The software is designed to work on PCs running x86 chips—the design used by **Intel** Corp. and **Advanced Micro Devices** Inc. used in most conventional PCs—as well as chips based on designs from **ARM Holdings** PLC that are the standard in cellphones and are expected to be used in netbooks later this year, the executives said.

Though the software will be based on the core of Linux—its "kernel," in programming parlance—the Chrome OS, as it is called, will add a new layer of windowing software to manage what a user sees on a display screen.

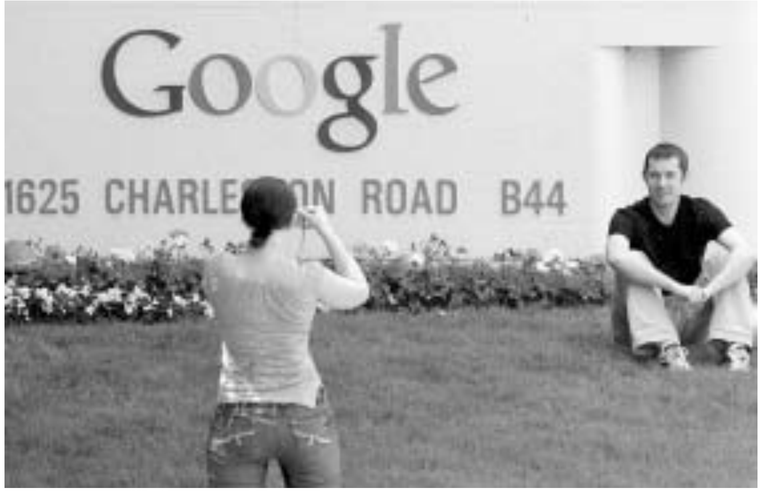
Instead of requiring programmers to write programs specifically for the operating system—an uphill battle at a time developers have many choices about where to focus their efforts—the Google engineers said that the Chrome operating system will simply run programs written for the Web.

"And of course, these apps will run not only on Google Chrome OS, but on any standards-based browser on Windows, Mac and Linux, thereby giving developers the largest user base of any platform," the Google executives wrote.

Google's incursion into operating systems could galvanize its critics, including privacy groups and competitors, who argue that the online search company already collects vast amounts of information about consumers' Internet use.

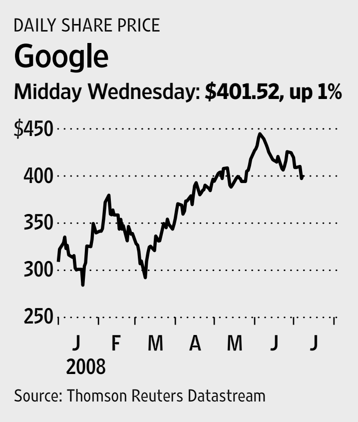
While Google is still a tiny player in many of the new markets it is exploring, like mobile-phone software and online applications, some worry it could leverage its massive online-search market share to quickly grow its share of new industries as well, gathering even more data about its users.

The move comes as the rise of netbooks poses a series of competitive challenges for Microsoft. Several variants of Linux are being offered for the new systems, though the company's aging Windows XP operating system remains prevalent. Besides Android, for example, Intel is backing a Linux-based operating system known as Moblin.



Reuters

Google said its new operating system, which will be based on its Chrome Web browser, will initially target low-end portable PCs called netbooks.



Rio executive is accused of spying

An employee of mining giant **Rio Tinto** being held in China is suspected by Beijing of espionage, the Australian government said—the latest twist in the company's increasingly fraught relationship with the country that is its biggest market for iron ore.

By ***Iain McDonald*** *in Sydney and* ***Andrew Batson*** *in Beijing*

Stern Hu, the general manger in China of Rio's iron-ore division, has been accused of stealing state secrets and could be charged, Australian Foreign Minister Stephen Smith said Wednesday. Mr. Hu was detained by China's Ministry of State Security, Mr. Smith said.

Mr. Hu is one of four Rio employees in China who have been held by Chinese authorities since Sunday. He is an Australian national, but the other three are Chinese citizens. The status of the Chinese citizens couldn't be determined.

Mr. Smith said there is no connection between the detentions and Rio's continuing negotiations with China over iron ore, or with Rio's recent failed alliance with **Aluminum Corp. of China**. "I've seen no evidence, and I have no basis for any such speculation," he said at a news conference.

The case is an unusual example of China's national-security apparatus becoming involved with a multinational company. The line between what is considered commercial information and state secrets often isn't clear in China, where many major companies are controlled by the government. As such, the Rio investigation could chill foreign businesses.

China's government hasn't commented publicly on the situation, and the country's Foreign Ministry and other government agencies didn't respond to requests to comment.

"We have been advised by the Australian government of this surprising allegation," a spokeswoman for Rio Tinto said. "We are not aware of any evidence that would support such an investigation."

The dependence of Australia's resource-heavy economy on demand from China, as well as China's attempts to balance its purchases by investing in Australia, have made relations between the two nations increasingly tense.

Rio last month walked away from a $19.5 billion alliance with Aluminum Corp. of China. Rio's rejection of what would have been a landmark deal was criticized in China.

—Ross Kelly and J.R. Wu contributed to this article.

Evraz sells bonds, shares but covenants remain at risk

By Alexander Kolyandr

LONDON —Russian steel producer **Evraz Group** SA launched $600 million of convertible bonds and issued new shares worth $300 million to refinance its debt.

Even so, it said Wednesday, it may breach some of its financial covenants in the future.

Evraz's global expansion in the past five years was mostly debt-financed. Billionaires Roman Abramovich and Alexander Abramov jointly have a 77.6% stake in the company through their 50-50 owned investment company, Lanebrook.

Unlike other Russian steel companies that are negotiating debt restructuring deals with lenders, Evraz has looked to raise cash from the market to ease its debt burden. Lanebrook plans to subscribe to $400 million worth of the new securities, divided roughly equally between the bonds and global depository receipts, or GDR.

Evraz, which had about $8.49 billion in debt as of June 30, said it is considering alternative ways to address a possible breach of covenants, including a waiver from its lenders. However, if these remain unresolved, it may trigger a cross default clause on its other debt instruments.

Evraz said its short-term debt is "more than covered" by cash and undrawn credit facilities, and it is in compliance with all debt-related terms.

Moscow-based KIT finance said it doesn't "believe that Evraz has material insolvency risks in the midterm, though high leverage may depress bottom-line profitability." The company had $665 million in cash and $1.08 billion under undrawn credits at June 30. Subject to fulfillment of certain conditions, the maturity of its $1.8 billion loan from state-owned VEB Bank was extended to two years from one. It said it has received a term sheet from VTB Bank confirming talks to extend a $321 million loan due October for four years.

Given those extensions and $446 million of revolving debt, which the company expects to continue rolling, Evraz would have $1.21 billion of expected maturities, while another $900 million will come from the bonds and share offerings.

"The terms of the convertible bonds look favorable enough to encourage existing Evraz investors to switch into the new instrument," said UniCredit SpA. This, combined with an estimated 3% to 5% dilution of the capital from the new shares, pushed Evraz GDRs in London down 11% to $16.43.

Evraz also said Wednesday it expects its second-half results to be better than those of the first half, as production in Russia and China's exports rise. "There have been some signals of firming market conditions in some regions recently that Evraz expects to benefit from in the second half of the year," it said.

Evraz said sales volume of steel products in Russia in the second quarter fell roughly 50% on year. Evraz's Russian steel mills run at full capacity utilization at 13.5 million metric tons a year, down two million tons from the peak of 2008.

Evraz runs its mills in the U.S. at 55% capacity and expects that "the unfavorable developments of the second quarter in the North American market may offset the gains achieved by the Russian operations."

Arcelor talks with banks on altering loan covenants

By Carol Dean
And Alex MacDonald

LONDON—**ArcelorMittal**, the world's largest steelmaker by volume, Wednesday said it was in advanced discussions with banks to change the covenant on its loans to give the company greater flexibility should market conditions deteriorate further.

The Luxembourg-based company said it didn't anticipate breaching the existing covenant but that it was "prudent given the current operating environment" to put new terms in place.

The covenant stipulates that net debt cannot rise beyond 3.5 times the company's earnings before interest, tax, depreciation and amortization, or Ebitda.

The steelmaker said it wants to change the covenant governing loans over a period of one year. The move doesn't increase the borrowing costs under the facilities under normal conditions of financial performance, the company said.

"It's better that they're asking to renegotiate now rather than later" when it would be much harder to renegotiate should market conditions become worse, said Matthias Hellstern, credit analyst at Moody's Investor Services.

At the end of the first quarter 2009, the company had access to around $24 billion in cash and credit facilities and has raised more than $11 billion from equity, convertible and other bond issues this year. The company said it has also made progress toward its target of reducing debt by $10 billion by the end of the 2009.

ArcelorMittal and other large steelmakers have cut production to cope with slowing demand in the economic downturn, but the market is showing signs of improvement. Producers are boosting prices and raising production in response to increased orders stemming from lower inventories. ArcelorMittal has increased prices and production in some regions, but is still operating at an average of 50% capacity.

Other steelmakers are also in talks to renegotiate their debt covenants. Russian steel producer **Evraz Group** SA said Wednesday it has launched $600 million of convertible bonds and $300 million of newly issued shares to refinance its debt, but may breach some of its financial covenants in the future unless it finds a way to waive them.

Mr. Hellstern said he expects ArcelorMittal to reduce net debt to about $19.3 billion by the end of the year, through its capital raising, net debt reduction plan and other actions. ArcelorMittal therefore would need to generate at least $5.5 billion in Ebitda to avoid breaching the covenant, a figure which he says is achievable.

CORPORATE NEWS

Luxury wine market reels from downturn

Price cuts pressure vintners' cash flow; drinkers trade down

By Jim Carlton
And David Kesmodel

Associated Press

Auction Napa Valley raised $5.7 million in Oakville, Calif., last month, down from $10.4 million it raised last year.

ST. HELENA, Calif.—Many of America's high-end wineries are reeling from the economic downturn, as even wealthy drinkers slash spending on fine wines.

The slump comes as Americans continue to drink more wine overall. Recession-weary consumers, however, are buying more mid- and low-priced wines, causing a sharp falloff in sales of wines priced at $25 a bottle and higher.

The shift is pinching the profits of luxury vintners in Napa and Sonoma counties and forcing many to cut prices and seek new distribution channels. Some hard-hit wineries have quietly put themselves up for sale. There is likely to be "a lot of M&A activity in the short term," says Mike Jaeger, president of Wilson Daniels Ltd., which helps luxury winemakers market their products.

The slump follows a long boom period for high-end wines fueled by Americans' rising wealth and interest in wine. In previous recessions, the high end—less developed than it is now—was relatively unaffected. "Nobody in the world has seen something like this," says Claude Blankiet, a maker of fine wines. Revenue at his Yountville, Calif., company, Blankiet Estate, has slipped 40% this year, he says.

Total U.S. wine sales rose about 5% in terms of volume in the first quarter from a year earlier, but wines priced at $25 a bottle and up fell about 12%, estimates Jon Fredrikson, an industry consultant with Gomberg, Frederikson & Associates in Woodside, Calif.

One sign of the times: Auction Napa Valley—the premier charity and social event of the year—raised just $5.7 million last month, down sharply from the $10.4 million raised last year.

The change in consumers' buying habits, which became pronounced last fall as the recession deepened, has prompted many retailers and distributors to cut orders of luxury wines. And when they do order the higher-end wines, they are often asking for steep discounts, which are being passed to consumers.

At Dominick's supermarket in Lincolnwood, Ill., a 2005 bottle of Gundlach Bundschu Merlot from Sonoma recently was marked down 30% to $23.09.

"Your ability to take advantage of the marketplace is as evident as ever," says Daniel M. Taub, a real-estate executive in Rye Brook, N.Y. He recently has been snapping up upscale wines at discounts of 10% to 25%.

But such price cuts are taking a heavy toll on wineries' cash flows, and could make it difficult for them to raise prices in the future. "If you're a $90 wine and all of a sudden you're on the Internet at $50, how do you ever become a $90 wine again?" says Elliot Stern, chief operating officer of the Sorting Table, a Napa Valley-based wine distributor.

One of the main markets for high-end wineries is luxury restaurants, and they have been hurt as Americans dine out less. Morton's the Steakhouse, an upscale restaurant chain, has revised its menu to offer more bottles in the $60 to $70 range. "A lot of our guests don't want to pay for $200 or $300 wine," says Tylor Field, vice president of wine and spirits for the Chicago-based chain.

Distributors are pulling back, too. Henry Wine Group, a distributor in Benicia, Calif., has cut its number of wine products to 3,000 from 3,600 a year ago. Fred Reno, chairman of the company, said many of the discontinued wines include high-end California labels.

The companies most vulnerable to the downturn, and which may not survive, are mom-and-pop vintners that began operations inthe past three to five years and lack established brands, analysts say.

Some of the newer operations are using new marketing techniques to cope. Alpha Omega, a boutique winery in Rutherford, Calif., has begun using online services Facebook and Twitter to reach out to its customers. The winery three years ago began targeting consumers directly, and the strategy is now paying off; revenue is up 40% so far this year, compared with a year ago, in part because it doesn't have to share many revenues with a distributor, says co-owner Robin Baggett.

The good news for high-end vintners is they are coming off an extraordinary run of near constant increases in sales over the past 15 years. Meanwhile, experts say the downturn has been mitigated by California's relatively lean grape crops in recent years, which have kept supply from outstripping demand.

Few industry observers expect many vintners to go under during this slump. But four wineries have consulted with Global Wine Partners, a Napa wine-industry investment bank, about needing to raise money, says Vic Motto, the bank's chief executive officer. And International Wine Associates Inc. is representing about 10 companies seeking to sell wineries or vineyards, an increase in activity from last year, says Robert M. Nicholson, a principal at the firm.

Industry layoffs have been milder than in many sectors because most Napa and Sonoma winemakers are small. Some larger players have made deep cuts. Jackson Family Enterprises, for example, laid off 12% of its staff in January.

Audi's sales, bucking trend, rose 1.3% in June

By Christoph Rauwald

FRANKFURT—**Audi** AG bucked the fall in demand for luxury vehicles Wednesday and said its June sales rose 1.3% from last year to about 91,200 cars.

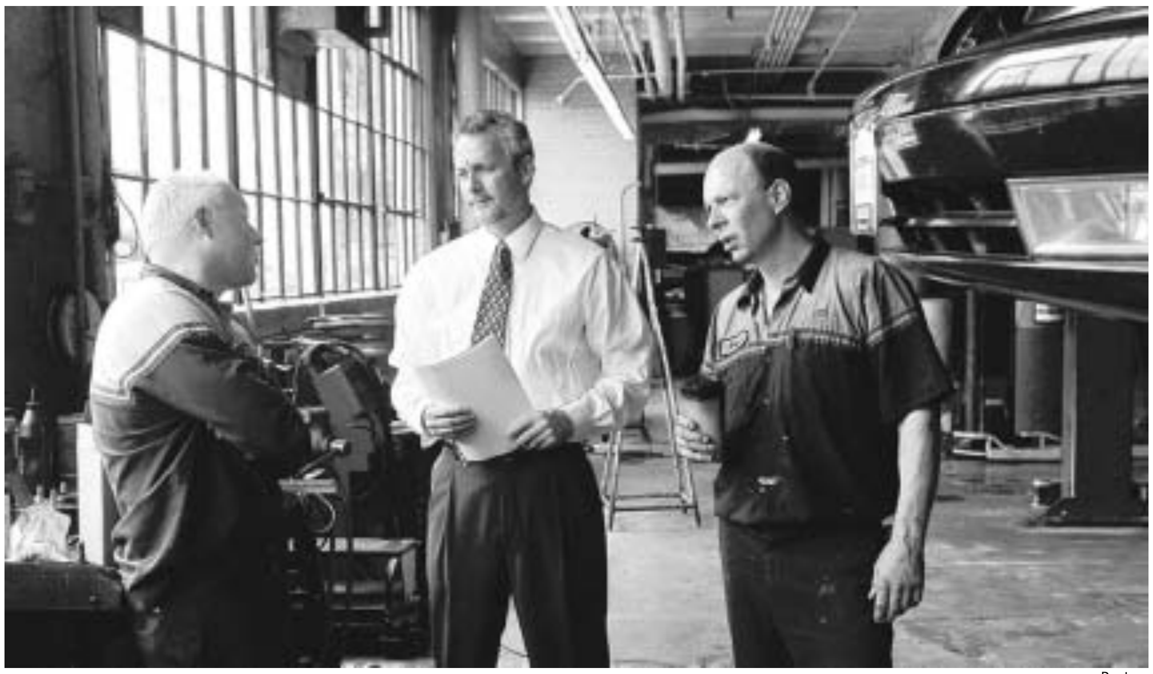
"Since April we see that sales are stabilizing. The trough of the crisis is reached," Audi executive board member Peter Schwarzenbauer said in a telephone conference. He said that the company's current order intake confirms its forecast of 900,000 cars sold in the full year.

Demand for cars deteriorated sharply toward the end of last year as credit markets turned sour and consumer confidence waned amid the financial crisis. Luxury-car makers also received less support than mass-market manufacturers from government-backed incentive plans to trade in old cars, as these programs mainly fostered sales of smaller vehicles.

But in recent months, Audi, part of **Volkswagen** AG, has narrowed the sales gap with German rivals **BMW** AG and **Daimler** AG's Mercedes-Benz. That is mainly due to the launch of new or revamped models. Audi also has a relatively small presence in the shrinking U.S. market and a large presence in the growing Chinese market.

Among the key models driving Audi's sales are the new-generation of its best-selling A4, the new Q5 small sports-utility vehicle and the new A5 coupe. Mr. Schwarzenbauer said Audi may return to its record sales level of one million cars, reached in 2008, in two or three years, with annual sales of the coming small A1 model accounting for about 80,000 vehicles.

FOCUS ON AUTOMOBILES



Reuters

General Motors has told Dalgleish Cadillac, which began selling Cadillacs in Detroit in 1954, it must close by September 2010.

Car buyers up for grabs

Surviving dealers fight for customers as sector shakes out

By John D. Stoll And Andrew Grossman

For more than 35 years, Jerry Wyatt was a loyal customer of Bobby Archer, a Houston-area Chrysler dealer. Mr. Wyatt bought 30 vehicles from the dealer, and neither rebates nor new models ever lured him to shop elsewhere.

But now Mr. Archer's three dealerships have closed as part of the consolidation of **Chrysler Group** LLC's retail network, and Mr. Wyatt says he is so upset he may switch to a different car maker.

"I just don't believe that Chrysler showed any sensitivity to the customers," says Mr. Wyatt, a 62-year-old city councilman in Missouri City, Texas.

Across the U.S., hundreds of car dealers have closed their doors amid slumping sales, and hundreds more will wind down this year because of the bankruptcy reorganizations of Chrysler and **General Motors** Corp. The upheaval means that many car owners are considered up for grabs—six million of them, according to R.L. Polk & Co., an auto-industry market researcher.

In an industry that's on track to sell 10 million new cars and light trucks this year, winning over even a small number could have an impact on dealers and auto makers.

As a result, surviving dealers are scrambling to win over as many as they can. Mr. Wyatt has already received a postcard from Finnegan Dodge offering oil changes for $9.99 on Fridays.

In Woodside, N.Y., Brian Benstock, owner of Paragon Honda, has sent postcards to thousands of area GM owners seeking their business, using a customer list from a nearby Pontiac dealer that closed.

"We're sending them an orphan letter that says we'd like to adopt them as customers, telling them that as a used-car dealer we service all makes and models," Mr. Benstock says. "Eventually, they might buy a Honda."

For dealers, attracting orphaned car owners could start a relationship that will eventually produce auto sales. But the potential service and repair business from those customers is also important. Service and parts generate $4 million in annual revenue for the average dealer, and they produce wider margins than sales of new vehicles.

According to industry estimates, at least 3,000 of the 20,000-plus dealers in the U.S. will have closed between 2008 and 2010. Chrysler dropped 789 stores from its network on June 9 as part of its restructuring, leaving the company with about 2,400. GM plans to shed about 2,400 to lower its dealer count to less than 4,000.

Dealers aren't the only ones trying to attract orphaned customers. Chrysler has also tried to reach out to them. In early June, it started sending letters offering $1,000 loyalty discounts on Chrysler vehicles at surviving dealerships.

But not everyone is buying. Mike Hinson, who purchased vehicles from Stearns Jeep in Graham, N.C., for about 15 years, says Chrysler's corporate pitch was impersonal and ineffective. Now that Stearns Jeep is out of business, he says he isn't sure where he will go when it comes time to replace his black 2008 Jeep Grand Cherokee.

Ted Teegarden, a retired advertising executive who lives in Birmingham, Mich., has also become an automotive free agent. He has long had deep ties to GM. In the 1970s, he worked on the company's iconic Pontiac advertising campaigns, and for the past 13 years he has bought Cadillacs from Dalgleish Cadillac in Detroit, which is closing.

"I'll probably find a good dealer, but I won't find someone like Doug Dalgleish," Mr. Teegarden says.

Scott Gruwell, the owner of Courtesy Chevrolet in Phoenix, expanded his orphan-adoption program last year when two competitors—Power Chevrolet and Bill Heard Chevrolet—went out of business. Mr. Gruwell was able to buy lists of customers who purchased from those dealers.

"When Bill Heard went out of business in the fall, we had meetings almost daily to figure out how we were going to earn customers' respect," Mr. Gruwell says.

He sent out letters and emails offering free oil changes, car washes and lunches to people who could show proof they had been customers of Heard or Power.

Mr. Gruwell says that buying lists from closed dealers or other sources is cheaper than other advertising techniques, such as radio and television.

So far, Courtesy says its share of the Phoenix market has climbed two percentage points, and sales at its service business are up about 15%.

"What I am noticing every day when I go into the service drive are Bill Heard and Power Chevrolet nameplates on people's vehicles," Mr. Gruwell says. "That feels good."

Opel's chief urges a speedy deal

By Nico Schmidt

The head of **General Motors** Corp.'s German unit Adam Opel GmbH said the interest of several potential investors strengthens the auto maker's negotiating position, but it must not delay the sales process.

"We need a deal fast," Hans Demant said Wednesday in an internal letter to staff.

Takeover talks are under way with **Magna International** Inc., **Ripplewood Holdings** LLC, **Beijing Automotive Industry Holding** Co. and **Fiat** SpA, Mr. Demant said.

Each investor has its own strategic approach, he said. Italy-based Fiat is focused on future technologies; BAIC wants to grow in the Chinese market; and Canada-based Magna plans to expand its product portfolio to create growth in markets such as Russia. U.S. buyout group Ripplewood, Mr. Demant said, wants to "help us as [an] investor through the difficult time."

Magna is the front-runner to clinch a deal with GM after it signed a nonexclusive memorandum of understanding in May to acquire a majority stake in Opel and British brand Vauxhall as part of a bid backed by Russia's OAO **Sberbank** and auto maker OAO **GAZ Group**.

Magna's supervisory board plans to discuss the bid at a July 14 meeting. BAIC launched a bid valued at €660 million ($918.2 million) for a 51% stake in the German car maker, according to a document outlining the takeover. Fiat has reiterated its interest in Opel, but so far has refused to improve its bid.

—Christoph Rauwald contributed to this article.

Hyundai's hybrid makes debut in South Korea

By SungHa Park

GAPYEONG, South Korea—**Hyundai Motor** Co. on Wednesday began selling its first hybrid car here in South Korea, an Avante compact sedan that runs on liquid petroleum gas and a battery, and said it would roll out gas-battery hybrids in other countries next year.

The company said the new car is the first hybrid to be powered by LPG. Many South Korean taxis and buses run on LPG, which burns cleaner and is less corrosive than ordinary gasoline. Hyundai has been successful with LPG-powered versions of its midsize Sonata sedan in South Korea, which has a sizable infrastructure of filling stations.

Hyundai will produce the Avante hybrid in three types, with the entry-level vehicle expected to sell for 20.5 million won, or about $16,100, after the effects of a tax break. That is about 8.5 million won more than the entry-level, gas-powered Avante, but the gap is reduced by other tax exemptions. (Outside South Korea, Hyundai uses the name Elantra for its compact sedan.)

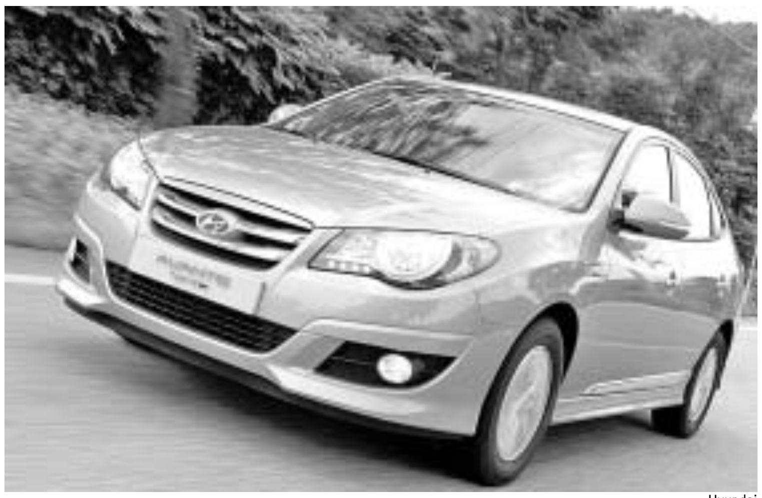
LPG is priced at about half the level of ordinary gasoline in South Korea, which means the payback from fuel savings with the Avante Hybrid is faster than seen with gas-hybrid cars that have gained popularity in the U.S. and elsewhere. Under a formula assuming 20,000 kilometers in annual driving, Hyundai estimates the new car would produce fuel savings of about 1.35 million won ($1,059) each year, based on current prices at the pump.

Rim Joung-hun, a marketing manager, said Hyundai is studying other countries where LPG vehicles are common but it doesn't plan to export the vehicle for now. The company plans to offer a gas-battery hybrid version of the Sonata in North America late next year, before selling it in South Korea, Mr. Rim said.

South Korea's government late last year introduced a tax benefit to encourage purchases of hybrid cars. The incentive, which took effect last week, gives buyers an exemption on taxes of as much as 3.1 million won. The tax break expires at the end of 2012.

Even with the tax break, South Korean government officials are forecasting slow sales of hybrid vehicles, with just 30,000 expected to be on the road by 2012, in a country where about 1.1 million new vehicles are purchased annually. Japanese manufacturer **Toyota Motor** Corp., the leading seller of hybrid vehicles worldwide, hasn't introduced its models in South Korea. **Honda Motor** Co. offers a hybrid version of its Civic compact in the country.

Hyundai said it aims to sell about 7,500 of the hybrid Avante in South Korea this year and 15,000 next year.



Hyundai

Hyundai's Avante compact sedan is the first hybrid to be powered by LPG, a clean-burning fuel often used in South Korean taxis and buses.

Toyota sees recovery in China

By Norihiko Shirouzu

BEIJING—**Toyota Motor** Corp. posted its second consecutive month of double-digit vehicle sales growth in China and could surpass last year's annual sales total, indicating that its troubles in a fast-growing market that has lifted foreign rivals are easing.

Because of a sizable slide in sales earlier this year, Toyota executives had feared that the Japanese auto maker might miss its 2009 goal of matching year-ago sales. But Wednesday, a senior Toyota sales executive said the company may be able to exceed last year's sales level of 585,000 vehicles by a relatively big margin.

The executive said Toyota has stepped up production of cars with smaller engines—a segment China's central government has been trying to emphasize through a sales tax cut and other measures as it pays greater attention to the nation's fuel consumption. A couple of new cars launched recently have been selling better than expected, while sales declines among bigger, more luxurious cars show signs of bottoming out.

"We think we may be seeing a full-fledged recovery in our China sales," the executive said.

On Wednesday, Toyota said its China sales in June rose 33% from a year earlier to 56,571 vehicles. That followed the 17% growth it posted in May. Toyota's first-half sales totaled about 284,000, unchanged from a year earlier.

Rival **General Motors** Corp., even as it has dealt with a turbulent U.S., market, has performed strongly in China. Its first-half sales—which include small vehicles produced by a joint venture in which GM has only a minority stake—rose 38% from a year earlier to a record 814,442 units. On Wednesday, GM China President Kevin Wale said he expects GM's sales growth in China to exceed 20% this year.

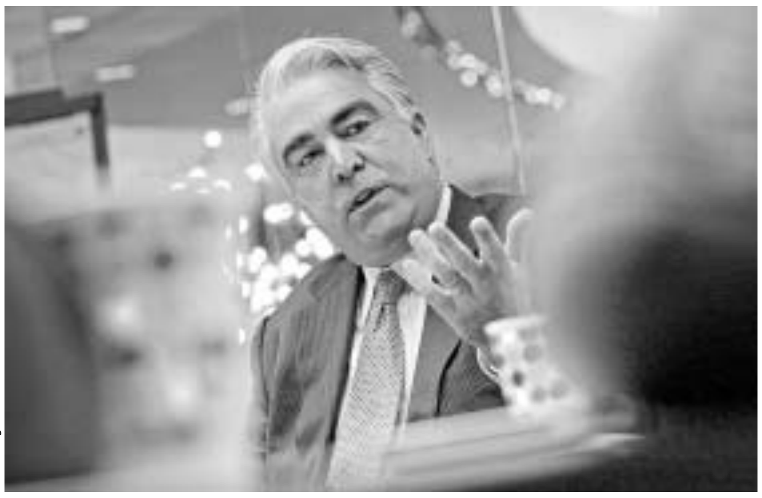
—Patricia Jiayi Ho in Guangzhou, China, contributed to this article.

CORPORATE NEWS

Kodak bets on printers

With cash stable, CEO touts firm's inkjet business

By William M. Bulkeley



Bloomberg News

Kodak CEO Antonio Perez, shown in February, sees signs of an upturn in business conditions, but said he doesn't expect growth to return until 2011.

Eastman Kodak Co. Chief Executive Antonio Perez said the embattled company is now in position to generate enough cash to survive, having suspended its dividend and cut more jobs.

Mr. Perez said, in a meeting with The Wall Street Journal, that there are recent signals that business conditions are improving, but "growth won't return until 2011."

The camera and printer maker's painful plan for refocusing on digital markets was just getting traction last year when the economic downturn hit, slamming consumer spending during the holiday season and squeezing credit for Kodak's commercial-printing customers.

Kodak's sales plunged 24% from a year earlier in the fourth quarter and 29% in the first quarter. The company forecast it would lose as much as $400 million from continuing operations this year. Its cash reserves fell 39% to $1.31 billion at the end of the first quarter.

But Mr. Perez said Kodak's "cash position now is fine" and if business recovers the company won't have any issue with liquidity. He added that Kodak has "plenty of options...if we think the fourth quarter will be lousy."

Although Kodak shares are trading near all-time lows, below $3 apiece, Mr. Perez is confident he would find investors eager to help Kodak recapitalize and continue operations, if needed.

Kodak is counting on two new products to help it grow and return to profits starting in 2011: a consumer inkjet printer and a very fast digital-inkjet printer for catalogs and direct mailers.

Mr. Perez said the consumer printer is performing better than Kodak originally expected because customers are buying about eight ink cartridges a year, double the industry norm.

Kodak designed its inkjet printers with expensive silicon technology inside the machine, rather than on individual ink cartridges. The change means that while Kodak's printers, priced at $149 to $299 each, cost 30% more than those of rivals such as **Hewlett-Packard** Co., it can offer ink cartridges at lower prices.

The company markets its printers to people who do lots of printing and resent paying high prices for ink. Kodak sells ink cartridges for about $25. List prices for competitors' cartridges average $47 and up.

Still the company needs to expand the installed base of its printers before there are enough buyers of the high-margin ink cartridges to bolster profits.

Last year, Kodak sold 793,000 of its All-in-One printers, less than 1% of the world-wide market of 92 million sold, said Larry Jamieson, printer analyst for Lyra Research, a market-research firm. Kodak has said in the past that it would eventually like to capture as much as 10% of the market.

In the commercial-printing business, the company is pushing a new digital-inkjet printer called Stream that will start selling in volume next year. Analysts say that the machine's output is almost as good as offset presses.

While he remains cautious, Mr. Perez said retailers the company deals with "believe Christmas will be much better than last Christmas." Kodak, which sells many of its digital cameras in Wal-Mart Stores, specializes in low-priced, point-and-shoot digital models.

He said retailers have been telling Kodak that they think the second quarter "is the bottom" for the economic downturn.

Ron Glaz, an analyst with market-research firm IDC, said unit sales of digital cameras are likely to be down 4% to 5% world-wide this year from 138 million last year.

At Banesto, provisions cut profits

By Christopher Bjork

MADRID—Spain's **Banco Espanol de Credito** SA said second-quarter net profit fell 14% as a deepening economic recession forced the bank to set aside more funds to cover rising loan losses.

Banesto, which is 88.5%-owned by Spanish banking giant **Banco Santander** SA, is the first bank to report second-quarter results in Spain and the first major one in Europe. Despite boosting its buffer against bad loans and reporting anemic loan growth, it managed to boost revenue by charging more for loans and raising its service fees.

Net profit was €198.7 million ($276.4 million) in the period, down from €231.9 million a year earlier. Second-quarter net interest income rose 15% to €440.8 million, and Banesto Chairwoman Ana Patricia Botin said she expects single-digit growth rate in the second half of the year.

In the past couple of quarters, lending margins at retail banks have been boosted by the "repricing effect" caused by a sharp drop in euro-zone interest rates. Banks' cost of funding falls instantly in interbank lending markets when rates drop, while they continue to charge higher rates to clients until a set date, when the rate is adjusted.

Banesto said the days of super-strong margins are over. "We won't see that [effect] again, and margins will trend lower in coming quarters," Ms. Botin said.

Nonperforming loans continued to rise, but at a slower pace than in recent quarters. Nonperforming assets were 2.32% of total loans in the second quarter, up from 2.13% in the first quarter and up from 0.79% in June last year. The bank set aside €85.4 million to cover existing loan losses, up 24% from a year earlier.

It set aside an additional €57 million in the quarter for restructuring costs resulting from the downturn and to cover potential future loan losses.

Banesto closed 115 branch offices and cut its work force by 414 in the last year, most of which was done in the second quarter. It now has 1,819 branches across Spain, and 9,304 employees. Total costs were up 1.8% at €223.7 million, while revenue grew 6.5% to €654 million.

Net interest income rose 15% to €440.8 million on loan growth of 0.5%. "Results were very good, with a powerful net-interest-income performance and lower-than-expected provisions," said Carlos Peixoto of Portuguese brokerage BPI.

Banesto's shares are down 6.5% since the beginning of the year, broadly in line with rival midsize Spanish lenders. Still, Ms. Botin, the daughter of Santander Chairman Emilio Botin, remained upbeat about her bank's prospects, saying she expects Banesto to steal market share from weaker rivals.

While the bank so far has been resilient in the economic downturn, most analysts favor the big banks—Santander and **Banco Bilbao Vizcaya Argentaria** SA—which both have exposure to emerging markets. Spanish gross domestic product fell in the first quarter by 2.9% compared with the year-earlier period, its biggest decline in more than 40 years.

GLOBAL BUSINESS BRIEFS

Amgen Inc.

Experimental bone drug benefits cancer patients

Amgen Inc. said a late-stage trial showed its experimental bone drug, denosumab, was superior to **Novartis** AG's Zometa in preventing complications related to the spread of cancer to bones. Full details from the 2,049-patient study won't be available until later this year, but Amgen said denosumab, which is expected to gain approval in October, significantly delayed the time to the first bone-related complication, which includes fractures, bone surgery or spinal-cord compression, in advanced breast cancer patients. The data from the study, the first of three similar trials, suggest the drug could ultimately add billions of dollars in sales to the drug maker.

Infineon Technologies AG

German semiconductor maker **Infineon Technologies** AG said it will sell its wireline communications business to U.S. private-equity firm **Golden Gate Capital** LLC for €250 million ($348 million) in an attempt to ease its refinancing problems. In Infineon's fiscal second quarter, the wireline segment had sales of €79 million, or 11% of overall sales. The company recently raised its outlook for its third quarter, which ended June 30, saying it expects to be near break-even, excluding certain charges, and for sales to grow more than previously forecast. However, analysts at Landesbank Baden-Württemberg questioned at the time whether the improved cash position would be sufficient to cover the company's refinancing needs. The analysts said Infineon needs about €300 million for operating.

Bertelsmann AG

German media company **Bertelsmann** AG and U.S. private-equity fund **Kohlberg Kravis Roberts** & Co. plan to form a joint venture in music-rights management, KKR said Wednesday. KKR will take a 51% stake in the venture, named BMG, with Bertelsmann taking the remaining 49%. A KKR spokeswoman said KKR will invest at least €250 million ($347.8 million) in the venture over the next few years, starting out with a €50 million investment and an additional €200 million later on. The venture includes Bertelsmann's BMG Rights Management unit, and division Chief Executive Hartwig Masuch will lead the new venture. Currently, BMG Rights Management has some 300 artists in its rights catalog. KKR expects to back BMG with equity investments through its European funds.

Actis LLP

London-based private-equity firm **Actis** LLP said it will pay $244 million for a 9.3% stake in Egypt's **Commercial International Bank**, making it CIB's largest single investor. Actis is buying 50% of a stake held by a consortium of investors led by New York private-equity firm **Ripplewood Holdings**, Actis said in a statement on the Abu Dhabi stock exchange's Web site. CIB is Egypt's largest bank by market value. The purchase makes CIB "an anchor investment" for the firm's global emerging-markets fund, Actis senior partner Paul Fletcher said. The Actis Emerging Markets 3 fund said in December it had raised $2.9 billion, exceeding its $2.5 billion target.

OAO Gaz Group

Russian car maker OAO **Gaz Group**, one of the bidder's for **General Motors** Corp.'s German unit, Adam Opel GmbH, will get state guarantees of 20 billion rubles ($634 million) for its loans, a top government minister and company officials said Wednesday. According to a government Web site transcript, First Deputy Prime Minister Igor Shuvalov told Prime Minister Vladimir Putin that the government's anti-crisis commission would do its best to issue the guarantees by Aug. 1. Mr. Putin reacted by urging him to do this "as soon as possible." The decision will help Gaz, controlled by tycoon Oleg Deripaska's investment vehicle, to back its unsecured loans and service its credit portfolio, the company said. The car maker's debt stood at more than 44 billion rubles, the company's senior executive said earlier this month.

StatoilHydro ASA

StatoilHydro ASA of Norway said Wednesday it will pay $263.2 million for the South Riding Point crude-oil storage terminal on Grand Bahama Island in the Bahamas. The stock-purchase agreement with Canadian company **World Point Terminals** Inc. includes World Point's 50% interest in the Freepoint tug-boat business. The terminal is located on property leased from a corporation controlled by the government of the Bahamas. The deal, which builds on a leasing contract StatoilHydro has had at the terminal since 1993, is conditional on a long-term extension of the ground lease with the Bahamian government, a satisfactory due-diligence procedure, and necessary approvals from relevant authorities in the Bahamas, StatoilHydro said.

Deutsche Bank

Deutsche Bank AG said its brokerage joint venture with **Shanxi Securities** Co. has been granted an operating license by China's securities regulator. Last month, China lifted a halt on new A-share listings after a nine-month freeze. Guilin Sanjin Pharmaceutical Co.'s $92 million offering is the first to test the market, and more than 30 companies whose listing plans already have been approved by the securities regulator are waiting in line to tap the equities market. The Beijing-based joint venture, Zhong De Securities Co., is 66.7%-owned by Shanxi Securities and 33.3%-owned by Deutsche Bank. The regulator gave approval for it to be set up in January. It will underwrite and sponsor deals in China's securities and debt markets.

Pepsi Bottling Group Inc.

Pepsi Bottling Group Inc.'s second-quarter profit rose 21%, helped by a tax benefit. Analysts said the bottler's volumes were lower than they had expected. Sales of bottled water and more expensive offerings, such as ready-to-drink teas, have weakened during the recession. The company is the subject of an acquisition bid by **PepsiCo** Inc. in April, but the bottler so far has rejected PepsiCo's $29.50-a-share offer, calling it inadequate. PepsiCo already holds a 33% stake in the bottler. Pepsi Bottling reported a profit of $211 million, or 96 cents a share, up from $174 million, or 78 cents a share, a year earlier. Revenue declined 7% to $3.27 billion. Analysts polled by Thomson Reuters were looking for earnings of 73 cents a share and revenue of $3.45 billion.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.S. could remake how it pays the pros

Finding quality measures in health and education prove tricky, while in business there are unintended consequences

BY DAVID WESSEL

CAPITAL

U.S. President Barack Obama believes you get what you pay for—in business, in health care and in teaching. And in each of those spheres, he doesn't think the way the U.S. pays professionals is designed to get what the nation really wants and needs.

In executive suites, he says, the U.S. rewarded reckless risk-taking and got the worst recession in half a century. In doctors' offices and hospitals, America pays for more care instead of better care and gets a wastefully expensive health-care system. In K-12 classrooms, the U.S. pays teachers, good and bad, for showing up instead of successful teaching and perpetuates schools that fail.

So Mr. Obama wants to pay professionals more only if they deliver more of what he thinks America needs, a bold bet on the economic principle that incentives do matter. If he succeeds, the changes to business, health care and education could last far beyond his presidency. But this is hard to do well. There's a chance we get more of what can be measured—not what we truly want or need.

In business, Mr. Obama and Treasury Secretary Timothy Geithner are trying to redirect calls for imposing salary caps to mandating "pay for performance." This isn't foreign to companies: They have long said they intend to peg compensation to numerical results and aren't insulted by the notion that professionals are motivated by money.

In health care, Mr. Obama and his budget director, Peter Orszag, insist that the only way the nation can afford to cover the uninsured and keep health costs from devouring the federal budget is to find better ways to define and measure quality in medical care—and then pay doctors and hospitals for providing it. "We need to move toward a system in which doctors face stronger incentives for providing high-quality care rather than simply more care," Mr. Orszag says.

With similar logic, Secretary of Education Arne Duncan insists that improving American schools requires evaluating and paying teachers, at least in part, on how much their students learn—as measured by gains in standardized-test scores. "Test scores alone should never drive evaluation, compensation or tenure decisions," he told a skeptical National Education Association convention last week. "That would never make sense. But to remove student achievement entirely from evaluation is illogical and indefensible." He rails against "firewall" laws in California that prohibit use of test scores in paying, promoting or evaluating teachers, as well as similar statutes in New York and Indiana.

In health care and education, measuring and paying for quality is still novel. Being a teacher or a doctor once was seen, by practitioners and the public, as a calling, not a job. Doctors and teachers were said not to be motivated by money. For some, that's still true. But for many, the world has changed: Their jobs more closely resemble those the rest of us have. The argument that there is something wrong in principle with paying them for quality is losing force.

In health, evidence abounds that doctors do more of what insurance covers. The issue isn't whether incentives matter, but which incentives are offered. In education, the status quo is clearly broken, and existing pay schemes and union contracts too often protect the worst teachers and discourage the best.

The stronger argument is that quality measures remain crude and pay-for-performance schemes don't work as intended, despite advances in information technology that make collecting and analyzing data far easier. Also, recent history illustrates the potential for unintended consequences. In the business realm, chief executives during the 1980s and '90s were seen as so eager to hold on to their empires that they resisted takeovers that would benefit shareholders. So companies were pushed to pay CEOs with stock options, instead of cash. That gave the executives reason to do whatever they could (including fudging the books) to run up stock prices in the short term, cash in their options and walk away before stock prices plunged.

"In health care, it's very difficult to get a measure that adequately takes account of all the different dimensions of quality," says Princeton University sociologist Paul Starr. The same goes for education. As a result, often the only quality that gets rewarded is the sort that gets measured—teaching to the test instead of inspiring students. "And however you structure the system," he adds, "there is almost certainly a way to game it."

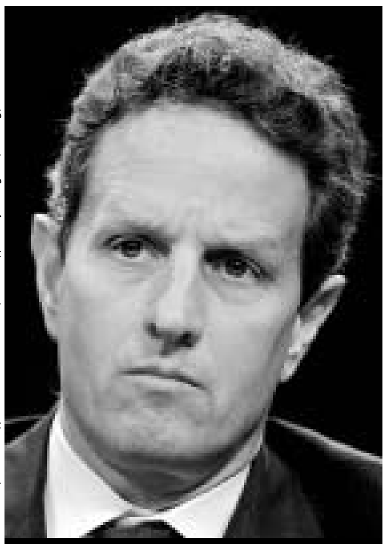
Scott Miller, who teaches English to middle-school students whose first language is Urdu, Bengali, Arabic or Spanish, told Mr. Duncan last week: "They don't perform well on standardized tests in their second or third language. How can anyone possibly suggest that my family's paycheck or my performance evaluation be based on their test scores?"

After the cheers from Mr. Miller's peers died down, Mr. Duncan acknowledged the need for better ways to measure progress of special-education children and English learners. But elsewhere he has argued: "Saying [that] since standardized tests are not perfect, eliminate testing until they are, I think that's simply ridiculous. We need to monitor progress. We need to know what is and is not working and why."

Maybe Mr. Obama will turn next to measuring the performance of Washington officials so they, too, can be paid for quality.

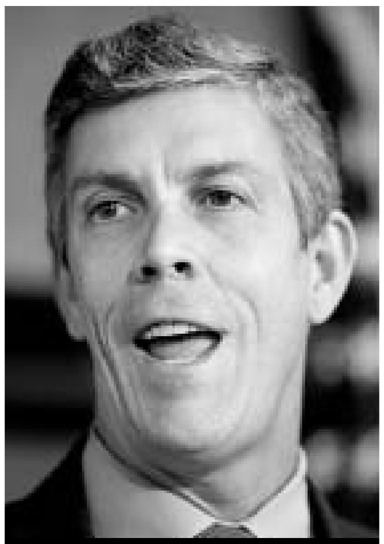
Write to me at capital@wsj.com. Discuss at wsj.com/capital.

Reuters (Geithner); Associated Press (Duncan); Getty Images (Orszag)



TIMOTHY GEITHNER
U.S. Treasury Secretary

"This financial crisis had many significant causes, but executive compensation practices were a contributing factor. Incentives for short-term gains overwhelmed the checks and balances meant to mitigate against the risk of excess leverage."



ARNE DUNCAN
U.S. Secretary of Education

"Test scores alone should never drive evaluation, compensation or tenure decisions. That would never make sense. But to remove student achievement entirely from evaluation is illogical and indefensible."

PETER ORSZAG
White House Budget Director

"We need to move toward a system in which doctors face stronger incentives for providing high-quality care rather than simply more care."

Polls show voters give Indonesian president new mandate

BY TOM WRIGHT

JAKARTA, Indonesia—Exit polls indicated President Susilo Bambang Yudhoyono comfortably won re-election in a national vote Wednesday, setting the stage for his plans to push harder for overhauls aimed at improving trade and foreign investment.

A number of exit polls that have proved reliable in the past indicated Mr. Yudhoyono had handily surpassed the threshold of 50% needed to avoid a second round of voting in September. Official results will be released at the end of July.

An electoral mandate would put the former military officer in a position to continue economic and democratic overhauls in a country of 240 million people that the Obama administration has held up as a model for the Muslim world.

Mr. Yudhoyono is popular in Indonesia because of a solid economy—which economists expect to grow 3% to 4% in 2009 on the back of healthy consumer spending and commodity exports—and an anti-corruption drive that has netted former governors, central bank officials and politicians.

But he's made less progress during his first five-year term with overhauls aimed at drawing more foreign investment. In 2008, Indonesia attracted $14 billion in foreign direct investment, only 15% of China's total for that year.

In an interview with The Wall Street Journal Sunday, Mr. Yudhoyono said he will announce a major plan to sell off state-owned industrial companies—a move investors say is needed to boost the size of Indonesia's stock market, which has a market capitalization of $160 billion, one-third the level of neighboring Singapore.

Mr. Yudhoyono has given few particulars of how he intends to break impasses on key policy changes. Indonesia's intertwined political and business elites have changed little since the fall of authoritarian President Suharto in 1998, and many people want to protect business empires built before Mr. Yudhoyono took power.

Political opposition has stymied past efforts to sell stakes in state companies such as PT **Bank Negara Indonesia** and PT **Garuda Indonesia**, the national airline, to foreign investors or through local stock market listings.

International advocacy groups rank Indonesia as one of the world's most corrupt countries, and foreign businesses complain that the prevalence of graft remains a major deterrent to investing here. Despite the nation's huge resources of copper, coal, gold and nickel, fresh mining investment has fallen in recent years due to uncertainty over laws governing the sector. Last month, Anglo-Australian international mining giant **BHP Billiton** Ltd. said it was pulling out of a multimillion-dollar coal project in the Indonesian part of Borneo island.

Efforts to improve Indonesia's decrepit ports, roads and airports have run into land disputes and other bureaucratic hurdles. Moving quickly to spend 12 trillion rupiah ($1.2 billion) on infrastructure, as promised in a stimulus package earlier this year, would show Mr. Yudhoyono is "more decisive and results-oriented in his second term," said Umar Juoro, chairman of the Center for Information and Development Studies, a Jakarta think tank.

Despite the country's problems, many foreign investors have grown more interested in Indonesia over the past year, largely because of signs Mr. Yudhoyono is slowly making progress in rooting out corruption and restoring order.

His backers say he will be able to tackle the remaining problems more forcefully now that his Democrat Party is the largest in the legislature, after parliamentary elections in April. On coming to power in 2004, Mr. Yudhoyono's Democrats were a small party and he gave cabinet positions to almost all opposition parties to help gain backing for his laws.

Mr. Yudhoyono pledged Sunday to appoint skilled technocrats to his next cabinet, which he is expected to roll out over the next several months.

"His stance toward the Parliament will be much stronger this time," said Anies Baswedan, president of Paramadina University in Jakarta. "He's way more experienced."

Runner-up Megawati Sukarnoputri's camp repeated claims made last week that it believed Mr. Yudhoyono's team had tampered with the electoral roll. Ms. Megawati, a former president, hasn't formally challenged the outcome with Indonesia's independent election commission, and the charges remain unproved.

Mr. Yudhoyono, who has a reputation for probity, denied the allegations Sunday.

A poll by Lembaga Survei Indonesia, conducted at 2,000 polling stations across the country, forecast Mr. Yudhoyono had won 60% of the vote, with Ms. Megawati, a former president, trailing with 27%.

Jusuf Kalla, head of the large Golkar party and vice-president during Mr. Yudhoyono's first term, was third with 13%.

Demonstrations continue in Iran

Opposition leaders and supporters start a three-day strike

By Farnaz Fassihi

BEIRUT—The three top leaders of Iran's opposition and their supporters joined forces on Tuesday and began a three-day national strike, signaling a resurrection of protests even as Iran's president announced to the nation that the post-election turmoil was over.

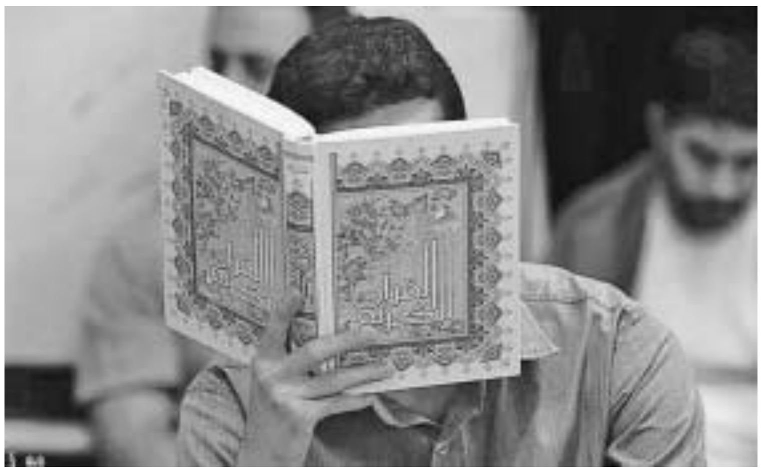
Opposition candidates Mir Hossein Mousavi and Mehdi Karroubi, joined by former President Mohamad Khatami, met on Tuesday to plot strategy and issued their first-ever joint statement, calling for an end to the government's arrests and what they called "savage, shocking attacks" on their advisers and supporters.

Meanwhile, hundreds of opposition supporters on Tuesday quietly flocked to mosques or retreated to their homes to begin an unusual form of three-day strike boycotting workplaces, banks and the bazaar.

In a novel attempt to outflank government restrictions, opposition supporters alerted one another to take advantage of an Islamic tradition rarely practiced in Iran called Etekaf. It calls for a retreat from worldly activities during these three days in the month of Rajab in the Islamic calendar.

The strikes come just ahead of a protest planned for Thursday to commemorate 18 Tir, the 1999 student uprisings that led to dozens of students getting killed. "By staying away from workplace, the brave people of Iran can show they will never accept this illegitimate government," wrote an Iranian columnist in Iran on a news Web site.

Tehran University students crowd into the campus mosque for the Iran tradition of Etekaf, a three-day retreat from worldly activities, as part of a wider strike.



Hossein Inanloo (2)

Protest organizers also have called for other creative forms of civil disobedience. Sympathizers have been asked to create a possible electrical blackout in Tehran by plugging in all of their household electric appliances exactly at the same time, and to spray green paint on walls in their neighborhood—moves that are difficult for the government militia to shut down.

The postelection uprising that rocked Iran starting in early June created the worst crisis the regime has faced in the Islamic Republic's 30-year history. It also appears to be leading to the first real opposition movement inside Iran. Previously, dissent was mostly limited to students and intellectuals, and exile groups were largely dismissed as out of touch.

But now, Iran's opposition is being led by three founders of the Islamic revolution who all have held official posts in the past, and two of whom—Messrs. Khatami and Karroubi—are clerics.

Their joint statement suggested the opposition could be restrategizing to show a stronger, united front intended to give demonstrators a boost and send a message to the government that they are not willing to back down.

"The wave of useless arrests must end immediately and all the people who have been imprisoned without committing the least bit of crime must be released," the statement said, according to Mr. Mousavi's Web site.

Simultaneously, Iran's government on Tuesday announced an unexpected public holiday for 48 hours due to emergency levels of pollution and a dust storm covering the capital. Some speculated that it could be an attempt to mask the impact of the public strikes.

The government ordered all industries and businesses in the capital to remain shut and only vehicles with emergency business to come out, though Tehran often faces high-level pollution and the dust storm is reported to be worse in cities to the south and east.

President Mahmoud Ahmadinejad, in a televised speech Tuesday night, dismissed all allegations of fraud in the election—in which he was announced the winner by a wide margin and hundreds of complaints of irregularities by other candidates led nowhere. Mr. Ahmadinejad said the election was the "most free" and "healthiest" in Iran's history. "No fault was discovered. This election has doubled the dignity of the Iranian nation," he said, in his first national speech in two weeks.

EU opens antitrust investigation of Servier

By Charles Forelle And Jeanne Whalen

BRUSSELS—The European Union opened an antitrust investigation of French drug maker **Les Laboratoires Servier** and several generic manufacturers, including giant **Teva Pharmaceutical Industries** Ltd., in the first formal probe to come from a broad inquiry into the sector.

Antitrust chief Neelie Kroes warned that more investigations could follow. The inquiry, which began dramatically in 2008 with surprise raids of several of the world's largest drug makers, has focused on whether companies used the patent system inappropriately to block generic competitors from coming on the market.

In a final report on the inquiry released Wednesday, the EU said it is concerned that generics take too long to come on the market. It blamed a convoluted patent system and efforts by drug makers to assemble "thickets" of patents to stop generics.

In a press conference, Mrs. Kroes singled out patent settlements in which generic companies agree to hold off on launching a copycat drug in return for a payment or other consideration.

In the U.S., the Federal Trade Commission has frequently criticized such deals. This week, the U.S. Department of Justice toughened its line in this area and said some types of patent settlements should be presumed unlawful.

So-called sector inquiries in the EU are fact-finding missions that can lead to formal investigations against individual companies.

The EU didn't charge any of the big branded-drug makers raided last year. Instead, as a first target it picked Servier, a small French drug company that produces the blood-pressure medicine perindopril, sold as Coversyl.

In opening its investigation of Servier, the EU said the company struck "possibly restrictive" agreements with several generic makers including Teva to slow the entry of generic perindopril. The other generic makers named by the EU as being under investigation are Slovenia's **Krka** DD, India's **Lupin** Ltd. and **Unichem Laboratories** Ltd., and U.S.-based **Mylan** Inc.

Servier said it has "defended its [intellectual property] rights where appropriate" and has "settled litigation with some companies."

In a report last year, the European Generic Medicines Association, a trade group, criticized Servier for creating a "thicket" of patents for perindopril to try to prevent generic competition. The association said there were 38 patents on the drug in Europe as of February 2008. The generic group's report said that when generic companies including Lupin, Teva, and Krka sought to launch generic copies of perindopril in the U.K., Servier won preliminary court injunctions stopping them.

Lupin and Servier eventually settled their dispute, a Lupin spokesman said Wednesday. In 2007, according to filings with the Bombay Stock Exchange, Servier paid Lupin €40 million ($56 million) for various patent rights relating to perindopril; the Lupin spokesman said that was a separate deal.

EU antitrust chief Kroes warned that more investigations could follow.

He added that Lupin is now launching the drug in several EU markets, and is "working with the European Commission to a resolution" of the EU concerns.

Servier and Krka also settled their dispute, a Krka spokeswoman said, who added that the company "has not done anything wrong" and is currently selling the drug in some European markets.

In a statement, Teva said it "will continue to cooperate" with the Commission's investigation and was "pleased" the EU noted "many examples of behavior whereby 'innovator' companies use blocking or delaying tactics."

Unichem and Mylan didn't respond to requests for comment.

The EU report on the inquiry also urged the creation of a "Community patent" and a special EU patent court, which would effectively put patent policy and disputes in the hands of Brussels, a longtime unrealized goal of the EU's executive arm, the European Commission.

Mrs. Kroes, the antitrust commissioner, said the "current lack of progress" on the EU patent "is very, very damaging."

Currently, the European Patent Office in Munich grants patents for EU countries, but companies have to turn to national courts to enforce or challenge them. That can make it difficult for a generic-drug company to challenge the patents on a drug, and also complicate the process of applying for patents.

Brian Ager, the director-general of the industry's trade group, the European Federation of Pharmaceutical Industries and Associations, said the report "still claims erroneously" that branded-drug companies work to delay generics. "There is nothing to substantiate these claims." Mr. Ager said the industry would welcome a Community patent.

Strike may delay World Cup sites in South Africa

Associated Press

JOHANNESBURG—South African construction workers at stadiums being built for the 2010 World Cup went on an indefinite strike Wednesday in a move that could derail next year's tournament.

About 70,000 workers at stadiums across the country dropped their tools after wage negotiations deadlocked earlier this week. Workers are demanding a 13% pay increase while employers are offering a 10.4% raise.

The strike could delay the completion of flagship projects such as the Soccer City stadium in Johannesburg, the Green Point stadium in Cape Town and the Moses Mobhida stadium in Durban. Stadiums must be completed by December in order to meet the tight FIFA deadlines before the tournament kicks off in June 2010.

Lesiba Seshoka, from the National Union of Mineworkers, which represents construction workers, said the strike would continue until employers met their demands. The unions have complained that some workers are earning about $1.50 an hour and others $5 a week. Workers in South Africa are supposed to earn a minimum wage of about $200 a month.

"It is a very sad situation in which people think workers must be sacrificial lambs because there is a recession whilst that recession also affects our members more," Bhekani Ngcobo, a union negotiator, said.

The workers have been criticized for jeopardizing South Africa's chances of hosting a successful World Cup. But the Congress of South African Trade Unions, or Cosatu, which represents the country's largest trade-union federations, has come out in support of the construction workers and says the dispute isn't targeted at the World Cup.

"Cosatu, and the construction workers, are as passionate about the 2010 World Cup as anyone, and will do everything possible to ensure its success. But we will not tolerate the stadiums being built by workers who are underpaid or working in dangerous or unhealthy conditions," the organization said.

Danny Jordaan, chief executive of the local organizing committee, said the strike would soon be resolved and was confident that stadiums will be completed on schedule.

"The construction workers have been the lifeblood of the 2010 FIFA World Cup project," he said. "Their hard work has ensured that we are on track to meet our deadlines and that our stadiums will be among the best in the world next year."

A spokesman from the employers' body, the South African Federation of Civil Engineering Construction, wasn't immediately available for comment.

Patrick Geqeza, a shop steward for workers at the Soccer City stadium in Johannesburg, said he understood the importance of having the World Cup in South Africa and completing the stadiums in time. "We feel bad about going on strike," he said, but added that he felt there was little alternative.