Leading the News: U.S. will remain a mediator in Iraq even after its military drawdown

THE WALL STREET JOURNAL.

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Associated Press

OUT OF STOCK: Employees gather at Arcandor headquarters in Essen after the department-store company filed for bankruptcy protection and paved the way for a tie-up with rival Metro. **Page 3.**

U.S. banks get approval to repay aid

By Robin Sidel and Deborah Solomon

The U.S. Treasury Department cleared the way for 10 large financial institutions to repay nearly $70 billion of government funds, setting some of the nation's strongest banks apart from hundreds of others that remain under Washington's thumb.

The move will release the banks from a slew of controversial restrictions that were part of the Troubled Asset Relief Program, established last year to help stabilize the banking system. Industry executives and investors recently have expressed confidence about the prospects for the beleaguered sector, although many institutions are still being hit by unemployment and a mountain of bad loans.

The Treasury Department gave the go-ahead to **J.P. Morgan Chase** & Co., **Goldman Sachs Group** Inc., **U.S. Bancorp**, **Morgan Stanley**, **American Express** Co., **Capital One Financial** Corp., **BB&T** Corp., **Bank of New York Mellon** Corp., **State Street** Corp. and **Northern Trust** Corp.

"It is a testament to our firm's strength and stability that J.P. Morgan Chase is able to repay TARP funding in full and with dividends to U.S. taxpayers at this time, and to be in the first wave of institutions permitted to do so," said James Dimon, chief executive officer of J.P. Morgan, in a memo sent to employees. Mr. Dimon, who has repeatedly said the bank didn't need the $25 billion in TARP funds that it took last year, has increasingly expressed frustration with restrictions associated with the program.

Government officials initially had planned for banks to keep the Treasury's investment for at least three years but were forced by Congress earlier this year to allow banks an early exit. With signs of the financial sector

Please turn to page 31

Giving it back

The 10 big banks that won approval to repay capital infusions from the U.S. government, with amounts in billions of U.S. dollars

J.P. Morgan Chase	$25
Goldman Sachs	$10
Morgan Stanley	$10
U.S. Bancorp	$6.6
Capital One	$3.56
American Express	$3.39
BB&T	$3.13
Bank of New York Mellon	$3
State Street	$2
Northern Trust	$1.58

Sources: U.S. Treasury Department; the companies

ECB official warns on Europe's banks

By Joellen Perry

LUXEMBOURG—The European Central Bank expects further financial-sector weakness could help keep the euro-zone economy from expanding before the middle of next year, a top policy maker said in an interview.

ECB officials believe the euro-zone recession could weaken the 16-nation bloc's strained banking system. "That is the reason why we are also cautious about the gradual recovery path in our scenario," said Yves Mersch, who sits on the ECB's 22-member Governing Council.

Mr. Mersch, head of Luxembourg's central bank, is a lawyer and political scientist whose influence on ECB policy exceeds the tiny nation's importance in the euro zone's economy.

In the interview, he said financial-sector weakness, which could push more European banks to fail, is "already penciled in" to policy makers' calculations. He suggested policy makers see their role shifting from actively shoring up the bloc's financial system and economy to monitoring the effect of measures they have taken.

Yves Mersch

"We must move away from an announcement policy to an implementation policy," Mr. Mersch said.

"But if the ceiling is falling on our head," he added, noting developments could turn out worse than the central bank expects, "we have to change."

In May, the ECB cut its key rate to a record low of 1% and announced a program to buy €60 billion ($83 billion) in low-risk bonds. Central banks in the U.K. and U.S. have taken their key rates close to zero and launched broader asset-purchase programs to boost economic activity.

The prospect that a worse-than-expected downturn could throttle European banks is spurring concern outside the bloc. The International Monetary Fund warned Monday that financial-sector weakness could thwart the euro zone's economic recovery. U.S. Treasury Secretary Timothy Geithner will press the Obama administration's case for European authorities to run tougher bank stress tests at a meeting of finance ministers from the Group of Eight leading nations at a meeting in Italy this week.

Mr. Mersch cautioned that differences in national accounting, regulatory and legal regimes make implementing pan-European stress tests unrealistic. He suggested that he sees scope for improvement in Europe's current plans, in which national regulators eschew individual bank-level tests and keep test results secret.

"National supervisors ought to come together and exchange views on the results of these national tests ... and the outcome of this exchange of views should be made public," Mr. Mersch said.

But European policy makers are wary of applying U.S.

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Markets

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	CLOSE	PCT CHG
DJIA	8763.06	-0.02
Nasdaq	1860.13	+0.96
DJ Stoxx 600	210.29	+0.48
FTSE 100	4404.79	-0.01
DAX	4997.86	-0.14
CAC 40	3296.73	+0.21
Euro	$1.3993	+0.86
Nymex crude	$70.01	+2.82

LEADING THE NEWS

U.S. is still Iraq mediator

As elections intensify rivalries, Hill says Iraq needs a broker

By Gina Chon

BAGHDAD—U.S. Ambassador Christopher Hill said Tuesday that recent signs of political rapprochement among Iraqi leaders are encouraging, but the latest heated rhetoric is a reminder that the situation here is still fragile.

Although the U.S. military drawdown will reduce its footprint in Iraq, America still plays a critical role as a middleman when Iraqis need a mediator to solve problems among themselves. That need shows how far the war-torn country still has to go in moving away from sectarian and ethnic agendas and achieving political stabilty.

Reuters

New U.S. Ambassador Christopher Hill said it is a positive sign that Iraqi politicians are working through their differences through politics and not violence.

The U.S. role is even more critical now as political factions jockey for position ahead of the national elections in January. The threat is that the rhetoric will escalate to the point where it threatens the election process, or leads to violence and instability.

For example, the relationship between the Kurdish and central governments, which is already tense because of claims over disputed territories what Baghdad sees as illegal settlement, has become even more heated because of the Kurdish elections in late July.

The U.S. role as a broker extends beyond national politics. Many local security groups, known as the Sons of Iraq, are still distrustful of the Iraqi government and prefer to be under American control. Provincial and city councils that feel they can't get their voices heard in Baghdad turn to American provincial reconstruction teams and U.S. military officials to act as liaisons.

Mr. Hill arrived in Iraq in late April. He said his past experience as lead negotiator for the U.S. in talks with North Korea and helping broker peace talks in Bosnia and Kosovo gives him some understanding of Iraq's factionalism. "Often in transitional political circumstances, there's a tremendous premium on people's personalities," he said.

Mr. Hill has spent the last month encouraging political leaders to find common ground when accusations among parties became what he called "a cause for concern."

After Iraqi Prime Minister Nouri al-Maliki's win in local elections in January, many political blocs, worried about another victory for the prime minister, have lined up against him recently. Mr. Maliki has called for majority rule instead of the current power-sharing formula, and a presidential system, similar to that in the U.S., in which Iraqis can directly vote for their leaders. His suggestion drew criticism from Kurds, Sunnis and other Shiite leaders.

Political sparring ahead of elections has been far from traditional campaigning, and includes serious charges and countercharges. In parliament, calls to bring government ministers to be questioned for corruption have irked Mr. Maliki, who sees them as attempts to undermine his government for political gain.

Mr. Hill said it is a positive sign that Iraqi politicians are still working through their differences through politics and not violence. He said democracy is still new for Iraq, so there is a need for patience.

"We try to be very active and engaged. But we're mindful that if it's going to work, it's going to work because it's the Iraqis and not the Americans who are solving things," he said.

Shifting maneuvers

■ The U.S. military is racing to remake itself for Afghanistan ... 9

Key Europe gender case is decided against Turkey

The European Court of Human Rights ruled against the Turkish state on Tuesday, finding that it failed to prosecute adequately a man who repeatedly attacked his wife, and eventually shot and killed his mother-in-law.

*By **Paula Park** in London and **Nicholas Birch** in Istanbul*

The case is a landmark ruling for Europe. For the first time, it classifies such cases as gender discrimination, giving the Strasbourg court jurisdiction in cases of domestic violence.

Andrea Coombers, legal practice director at the International Centre for the Legal Protection of Human Rights in London, said describing gender-based violence as discrimination "is what the rest of the world has thought for at least a decade. It is a significant step in the right direction by the European Union."

Mesut Bestas, the lawyer for Ms. Opuz, added: "European legislation on freedom of expression, freedom of assembly and right to life is clear, but when it comes to the issue of women's rights, the legal framework is murky. ... This trial begins to shed light on that murkiness."

Nahide Opuz, a woman living in the southeastern Turkish city of Diyarbakir, brought her case to the court in Strasbourg, France, after exhausting avenues in Turkey. As a member of the Council of Europe, Turkey is subject to the Council's human-rights court.

Ms. Opuz, now in hiding, started complaining to Turkish police in 1995 that her stepfather and his son—her husband—repeatedly assaulted and threatened her and her mother.

Her husband, Huseyin Opuz, was convicted of trying to run over Ms. Opuz and her mother in a car, but his three-month sentence was later commuted to a fine. Mr. Opuz was also fined for stabbing his wife in 2001.

On March 11, 2002, Mr. Opuz shot and killed his mother-in-law as she and her daughter were loading furniture on a truck to flee the area. He was convicted in 2008 and sentenced to life imprisonment, but the sentence was reduced. He was freed from jail having served several years, taking into account that the offense was a result of "provocation by the deceased."

On Thursday, a judge in Strasbourg demanded the Turkish state pay Ms. Opuz €30,000 ($41,700) in damages. The court ruling criticized "the overall unresponsiveness of the judicial system and impunity enjoyed by the aggressors" in Turkey.

Hidayet Tüksal, head of Turkish advocacy organization Capital Women's Platform, said the decision "will have an important effect on the way in which debates about women's rights develop in this country."

The European Commission has repeatedly raised the issue of combating domestic violence, among other issues, in membership talks with Turkey.

A judge demanded the Turkish state pay Ms. Opuz $41,700 in damages.

"Women's rights is an issue that is monitored very closely" said Krisztina Nagy, commission spokeswoman for enlargement. "We often take it up with our Turkish counterparts."

A spokesman for Turkey's Ministry of Justice was unavailable for comment. Turkish officials have said in the past that criticism over the country's record on domestic abuse is unfair, as all countries have difficulties in preventing domestic violence.

According to the commission's November 2008 progress report on Turkey, Turkey has trained some 30,000 police officers to deal with domestic violence and has opened more shelters for abused women.

CORRECTIONS & AMPLIFICATIONS

The minimum balance for HSBC's Plus accounts in Russia will be 75,000 rubles ($2,390). A June 9 Money & Investing article incorrectly reported that figure as 750,000 rubles.

INDEX TO BUSINESSES

This index of businesses mentioned in today's issue of The Wall Street Journal Europe is intended to include all significant references to companies. First reference to these companies appear in boldface type in all articles except those on page one and the editorial pages.

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

Retail group Arcandor files for insolvency

German rival Metro offers to acquire its Karstadt stores

By Cecilie Rohwedder

Long-struggling German retail and tourism group **Arcandor** AG filed for insolvency on Tuesday, paving the way for a possible linkup with rival **Metro** AG and a consolidation of the German department-store sector.

Arcandor is the third German department-store company to collapse this year as the plunge in consumer spending and scant credit accelerate a reshaping of the retail sector in Europe's largest economy. Arcandor's insolvency filing came after an unsuccessful plea for aid from the German government.

Arcandor said the court filing covered its Karstadt department-store chain and the Quelle mail-order business but not its majority stake in **Thomas Cook** PLC, Europe's second-biggest travel company.

Metro, Germany's remaining healthy department-store operator, moved quickly to repeat an earlier offer to take over about 60 of Arcandor's 91 Karstadt stores, combining them with its own Kaufhof chain. Metro would likely pay little or nothing to take control of the stores. The move would save many of the retail jobs at Karstadt. Arcandor said 43,000 jobs will be affected by the insolvency.

Under the plan proposed by Metro last month, it would take over Arcandor's department-store operations, including many of its employees. But it wouldn't take on Arcandor's headquarters, debt, administrative costs or employee obligations.

Metro has said that a deal would also require renegotiations of Karstadt's rent payments. Arcandor sold its real-estate assets in 2006 and has been renting back its stores for payments that have contributed to its current problems.

An insolvency administrator will now look at Arcandor's balance sheet and businesses to determine which parts of the company are viable. The administrator will then look for investors for those parts and determine which creditors and shareholders get their money back first.

Associated Press

German retailer Metro wants to acquire some of Arcandor's Karstadt stores.

Thomas Cook is unaffected by Arcandor's insolvency because its finances are largely independent from those of its parent company. Thomas Cook Chief Executive Manny Fontenla-Novoa said Tuesday that the company had been run as a stand-alone business and would continue its business as usual. That said, it is unclear what will happen to Arcandor's majority stake in the tour operator because it was given to banks as a security for loans.

Germany on Monday rejected Arcandor's bid for €650 million, or about $900 million, in guarantees from the government's €115 billion fund that was created to help companies hurt by the global credit crisis. The government also rejected a request for a six-month rescue-aid credit of €437 million from state-owned bank KfW.

Arcandor has struggled for over a decade and almost went bankrupt once before, in 2004. Karstadt's concept of selling "Everything Under One Roof," its slogan for decades, has come under pressure from out-of-town shopping malls and specialist retailers that offer a wider selection within a narrower range of goods.

"Selling everything under one roof means that 400,000 products have to be better than at any other store," said Bernd Hallier, managing director of the EHI Retail Institute in Cologne, Germany.

In Germany earlier this year, both the Hertie chain of small department stores and the German arm of Woolworth collapsed due to the spending slump.

Metro's Kaufhof is faring better than Karstadt because it carefully upgraded its stores and product mix in recent years.

CORPORATE NEWS

Porsche nears deal with Qatar

State investment firm weighs infusion that would help pare sports-car maker's debt

BY CHRISTOPH RAUWALD
AND EYK HENNING

Reuters

Porsche's cash flow has turned anemic in the global recession. Above, Panamera cars on a test track in Leipzig, Germany

FRANKFURT—**Porsche Automobil Holding** SE is nearing a deal for an investment from the **Qatar Investment Authority**, an infusion that would shore up the auto maker's balance sheet and strengthen its position in talks with **Volkswagen** AG over joining forces.

A Porsche spokesman said Tuesday that the Stuttgart, Germany, sports-car maker has entered exclusive talks with the Qatari state investment fund. He declined to elaborate. The talks are expected to wrap up within a couple of weeks, a person familiar with the situation said.

Wendelin Wiedeking

A spokesman for the investment authority declined to comment.

Porsche said weeks ago it had been in talks with other parties.

Porsche is under pressure because its net debt tripled to €9 billion ($12.5 billion) after the auto maker in January raised its stake in Volkswagen to almost 51%. Meanwhile, cash flow at Porsche's core sports-car operations has turned anemic in the global recession.

Porsche was forced to abandon its push for a 75% stake in Volkswagen, Europe's largest auto maker by sales, after credit markets turned sour and the so-called VW Law, which grants the German state of Lower Saxony a blocking vote on important company decisions, wasn't rescinded as Porsche had anticipated.

The bigger stake would have given Porsche full control of Volkswagen and access to the Wolfsburg, Germany, company's cash reserves.

The nature of the Qatari fund's potential investment in Porsche couldn't be determined, partly because the sport-car maker is expected to prepare a capital increase of as much as €5 billion, details of which are uncertain. But analysts said they believed the fund could take a direct stake in Porsche of around 20%.

Qatar's emir, Sheikh Hamad bin Khalifa al-Thani, in March told Spiegel, the German weekly, that "we will certainly invest in the German automotive sector." The emir said investing was just a question of finding the right time and the right price.

A deal with Qatar would mark a sea change for the sports-car maker, whose voting stock is 100% controlled by the Porsche and Piech families. Analysts said the Qatari fund could take over Porsche's highly complex stock options, which would give it access to a holding in Volkswagen of roughly 24%.

The governor of Lower Saxony, Christian Wulff, has repeatedly voiced support for an Arab investor becoming an anchor shareholder at Volkswagen.

Porsche last week sought to borrow €1.75 billion from state-controlled **KfW Bank**, as part of an effort to secure €12.5 billion in financing over the past several months.

The request for funding from a government-backed bank brought Porsche criticism because its chief executive, Wendelin Wiedeking, in recent years has slammed other companies for seeking state aid.

In March, Porsche obtained €10 billion of financing after a late-night conference call with banks. The auto maker last month raised another €750 million from Bank of Tokyo Mitsubishi-UFJ, leaving €1.75 billion to complete the targeted €12.5 billion in financing.

Former AT&T chief named GM's chairman

BY SHARON TERLEP
AND JOHN D. STOLL

Edward Whitacre Jr., who turned **AT&T** Corp. into the world's largest telecommunications company as chief executive, will become chairman of **General Motors** Corp. when the company leaves bankruptcy, the auto maker said Tuesday.

The 67-year-old Mr. Whitacre has never run a manufacturing company but is known as a straight-talking, no-nonsense executive with a track record of cutting big deals and working closely with the U.S. government. Those skills could prove critical for GM as it orchestrates a massive restructuring under close scrutiny of the U.S. Treasury.

His appointment comes amid a government-ordered overhaul of GM's board of directors.

Interim Chairman Kent Kresa, charged with recruiting new board members, said Mr. Whitacre had been under consideration since the end of March, when the Obama administration ousted Rick Wagoner as GM's chairman and chief executive officer.

"This is a guy who was very innovative, and who took a company that had a lot of advanced technology and merged it with a company that didn't have a lot," Mr. Kresa said, referring to SBC Communications Inc.'s acquisition of AT&T in 2005. The merged company took AT&T's name.

At the time, SBC was pursuing the landline phone business but Mr. Whitacre saw growth elsewhere, such as broadband Internet and cellphones. Mr. Kresa said the Treasury was impressed by what it saw as Mr. Whitacre's forward-thinking mentality and how it may help GM as it races to undo decades-old patterns that some say led to its troubles.

Edward Whitacre Jr.

GM filed for bankruptcy last week as part of a government-aided restructuring that will result in sweeping job cuts, benefit reductions and factory and dealership closings while leaving the U.S. owning 60% of the company.

Mr. Whitacre was chairman and CEO of AT&T and its predecessor companies from 1990 to 2007, when he retired with a $158 million package.

Mr. Whitacre, in a statement, said he was "honored to be able to serve GM at this critical juncture and take part in its reinvention." Since his retirement, Mr. Whitacre—who drives an old Chevrolet Suburban—has taught business at a small college in San Antonio called Texas Lutheran University.

By picking Mr. Whitacre GM is embarking on a structure that relies on a chief executive—Frederick "Fritz" Henderson—reporting to a strongly independent chairman. The last time the company had these two positions in separate roles was June of 2000 through 2003, when Mr. Wagoner reported to Jack Smith.

U.S. auto-parts firms to seek more government aid

BY JOSH MITCHELL

WASHINGTON—U.S. auto-parts suppliers plan to ask the administration of President Barack Obama for as much as $10 billion in new aid as the **General Motors** Corp. and **Chrysler** LLC bankruptcies deepen their troubles.

Supplier trade groups will meet Wednesday with President Obama's auto task force to warn that hundreds of companies could collapse without the aid. They are mainly requesting that the government guarantee between $8 billion and $10 billion in loans so banks will lend to suppliers.

Stabilizing supply is critical to ensuring the long-term viability of GM and Chrysler, said Neil De Koker, president and chief executive of the Original Equipment Suppliers Association.

His group, along with the Motor and Equipment Manufacturers Association, has prepared a presentation arguing that as many as 500 suppliers could be forced to liquidate this year. They cite several independent studies.

A Treasury Department spokeswoman said administration officials "will continue to work with the companies and monitor the auto supply base going forward." The Treasury earlier this year put in place a $5 billion program to guarantee GM and Chrysler payments to suppliers, but supply groups said the program falls short.

Visteon Corp. and **Metaldyne** Corp. filed for bankruptcy protection last month. **Lear** Corp. and **TRW Automotive Holdings** Corp. are trying to reach new agreements with creditors.

—Jeff Bennett in Detroit contributed to this article.

China's car sales rose 34% in May, aided by stimulus

BY PATRICIA JIAYI HO

BEIJING—China's policies to support its auto market drove sales up 34% in May, according to data issued Tuesday by a semiofficial industry group, as the country remained a bright spot for the struggling global car industry.

Auto sales last month totaled 1.12 million units, the China Association of Automobile Manufacturers said. In contrast, U.S. car sales fell 34% in May to 925,824 units.

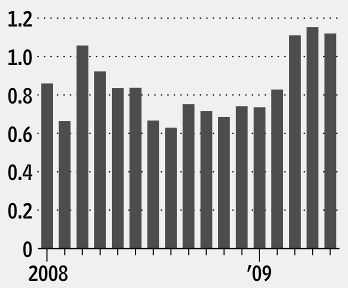
"Based on the current momentum, [China] sales this year will easily reach 10 million units," said Global Insight analyst John Zeng. "For this year, there is no question about growth."

China's auto sales in 2008 rose 6.7% to 9.38 million units. Sales in the first five months of this year rose 14% from a year earlier to 4.96 million units, according to the CAAM data.

The latest data show Chinese consumers are still responding to government measures implemented early this year to boost small-car sales, which included subsidies and a cut in taxes on auto purchases. Sales of minibuses, a segment that significantly benefits from the policies, rose 84% in May from a year earlier to 172,600 units.

Solid growth

Commercial and passenger vehicle sales in China, in millions of units



Source: China Association of Automobile Manufacturers

Sales of other vehicles have also been growing. Passenger-car sales rose 42% from a year earlier to 591,300 units, while sales of sport-utility vehicles rose 26% to 47,700 units, CAAM said.

Car sales in China are soaring even as those in developed markets are falling. New-car registrations in Japan fell 19% in May to 178,503 units, while in Europe they dropped 12% to 1.25 million units in April.

Mr. Zeng said the lasting impact of the measures has surprised some in the industry.

Forecasts by analysts and industry officials early this year called for flat or low-single-digit growth for 2009, and some observers had expected the impact of the measures to peter out by now.

To be sure, the strong sales so far this year could mean that some buyers are bringing forward the timing of car purchases, which could cut into sales numbers down the road.

However, as sales in the second half of last year were weak, on-year growth is still likely to be positive.

China's auto market likely has seen its peak for the year, Mr. Zeng said, adding that June has already shown signs of a slowdown. In China, the summer months have traditionally been slow, he said.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will be decided by him.
Congratulations, Roger, on your historic
2009 French Open victory.
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CORPORATE NEWS

Heritage Oil buys Turkish company, with eye on Iraq

BY SPENCER SWARTZ

LONDON—U.K.-based **Heritage Oil** Ltd. on Tuesday said it will buy closely held Genel Enerji AS, of Turkey, in an all-stock deal for about $2.5 billion, signaling the potential start of acquisition activity in Iraq's oil-rich northern region.

The two small oil-exploration companies are betting that combining their operations will beef up their capacity to more quickly develop their assets in autonomous northern Iraq. The region, home to about 20% of Iraq's proven oil reserves, has been a magnet for investment in recent years, and many of these mostly small companies are now discovering big volumes of easy-to-tap crude reserves.

Genel, a unit of Turkish conglomerate **Cukurova Group**, whose assets span from energy to media, has stakes in a few oil blocks in Kurdistan. Heritage announced in May that its Miran oil field in the region could contain as much as 4.2 billion barrels of reserves, a substantial amount if further well tests can certify that number.

Heritage Chief Financial Officer Paul Atherton played down the risk that Iraq's central government would take measures to block the acquisition. Genel's northern-Iraq oil assets were signed under contract with the autonomous Kurdish government in 2002.

Baghdad has called the Kurds' output-sharing deals with foreign firms illegal.

Baghdad has called all of the Kurds' 25 production-sharing deals with foreign companies illegal. The Kurds say the deals are permitted under Iraq's constitution, which Mr. Atherton echoed.

Analysts also brushed aside concerns about tense Kurdish-Baghdad relations derailing the deal. They generally applauded the acquisition and said it will help Heritage consolidate its position in Kurdistan, a region a bit bigger than the Netherlands, and generate attractive cash flow to expand funding of Heritage's operations in Uganda.

The U.K. company will pay Genel by issuing 260 million ordinary shares, valuing the deal at about $2.5 billion based on the current value of Heritage shares. The final value will be set once the new shares are issued. The acquisition, expected to close by the end of the summer if shareholders approve the deal, will result in Genel owners holding 50% of Heritage's enlarged ordinary share capital.

The combined company would have a market value of about $5.5 billion based on current valuations, Mr. Atherton said. Genel was valued at about $3.3 billion to $3.6 billion, he said. The new Anglo-Turkish company will be called HeritaGE Oil PLC and is expected to be listed on the FTSE 100 Index of leading U.K. shares.

Mr. Atherton said he expects the combined company to produce $400 million in cash flow next year and about $600 million in 2011, underlining cost savings expected from the deal and accelerated oil production in northern Iraq.

Shell settles Nigeria suit

Oil company denies complicity in deaths of activists in 1995

BY ISABEL ORDONEZ AND RUSSELL GOLD

Associated Press

Members of Nigeria's Ogoni community and their supporters rallied in New York May 27. Nine anti-oil activists were executed by a Nigerian military regime in 1995.

Royal Dutch Shell PLC agreed Monday to pay $15.5 million to settle a lawsuit over the 1995 deaths of Nigerian author and activist Ken Saro-Wiwa and others.

The Anglo-Dutch oil giant faced a lawsuit in federal court in Manhattan under the Alien Tort Claims Act, on allegations that it was complicit in the 1995 deaths of Mr. Saro-Wiwa and other activists. The lawsuit was brought by family members and surviving activists.

Shell has denied it played any role in the execution of Mr. Saro-Wiwa by the military government. In a statement, Malcolm Brinded, head of the company's exploration and production unit, said: "Shell has always maintained the allegations were false. While we were prepared to go to court to clear our name, we believe the right way forward is to focus on the future for Ogoni people, which is important for peace and stability in the region."

A massive oil spill in Ogoniland in 1970 inspired Mr. Saro-Wiwa, founder of the Movement for the Survival of the Ogoni People to launch two decades later a campaign against Shell's Nigerian onshore unit. The campaign led to the abandoning of oil production in Ogoniland in 1993.

The Ogonis' plight was the focus of global criticism of the oil industry when Mr. Saro-Wiwa and eight other activists were executed by a Nigerian military regime in 1995.

Plaintiffs said $5 million of the settlement amount would go into a trust fund for the Ogoni people and the balance for lawyers fees and to the 10 plaintiffs who brought the case.

"It has been a good case to help set the foundation for allowing human rights plaintiffs to get some degree of accountability from corporations," said Paul Hoffman, the trial counsel for the plaintiffs.

Mr. Hoffman said the plaintiffs decided to settle because "after 13 years, they believed this was a satisfactory result."

"The settlement prevented another four or five years of waiting [for appeals]. This is a fair way to resolve their claims and move on with their lives," he said.

The Ogonis' plight was the focus of global criticism of the oil industry when Mr. Saro-Wiwa and eight other activists were executed by a Nigerian military regime in 1995.

The Alien Tort Claims Act is a legal statute that dates back to 1789, when Congress enacted the law to ensure the newborn nation would abide by international laws. It allows foreigners—or aliens—to bring suit in U.S. courts charging violations of international laws.

The law sat largely unused until recent years, when lawyers began to use it as a tool to seek justice in U.S. courts for people who claim to be mistreated overseas.

Glaxo CEO cautious on economy

BY SE YOUNG LEE

SINGAPORE—**GlaxoSmithKline** PLC Chief Executive Andrew Witty said he isn't convinced there have been any real improvements in the world's economy, and that conditions will remain weak for some time.

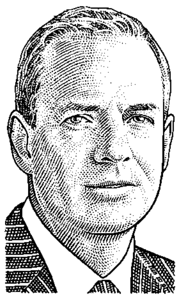
"Overall, I'm still cautious about the future of the economy," Mr. Witty said here, after the opening of a GlaxoSmithKline vaccine plant.

He said the current economic environment remains similar to that of the second half of 2008. "We're working on the basis that this could be a relatively anemic economic background for a while," he said.

Mr. Witty added, however, that the global slump hasn't significantly affected GlaxoSmithKline's operations, but he didn't provide a specific sales or earnings forecast for the year.

The Singapore plant, in which the pharmaceutical company has invested 600 million Singapore dollars (US$412 million) so far, will initially employ about 200 people. The plant is GlaxoSmithKline's first primary vaccine-manufacturing facility in Asia.

Mr. Witty also said he expects the company's vaccine for the A/H1N1 flu virus to be available starting in September, adding that GlaxoSmithKline has received orders for about 150 million doses of the vaccine from governments world-wide. "It's going to be a significant-scale operation for GSK, and it's going to be a very important part of our operations for the rest of the year," he said



Andrew Witty

Separately, the U.K.-based drug maker said it entered a venture with **Shenzhen Neptunus Interlong Bio-Technique** Co. to make influenza vaccines for China.

Glaxo will take an initial 40% stake in the joint venture for a contribution of cash and assets equivalent to £21 million (US$34 million).Shenzhen Neptunus will have the remaining 60% stake in the venture at a cost of £31 million.

Roche diabetes drug in late-stage test

BY ANITA GREIL

ZURICH —**Roche Holding** AG said Tuesday it is moving a new potential blockbuster diabetes drug into late-stage testing, paving the way for a possible launch in 2014.

The drug belongs to a class of medicines called PPAR agonists that has proved a big disappointment for many pharmaceutical companies.

GlaxoSmithKline PLC's Avandia suffered a sharp drop in sales after it was tied to a possible increase in the risk of heart problems. **AstraZeneca** PLC terminated development of a similar drug called Galida in 2006, and **Bristol-Myers Squibb** Co. halted development of Pargluva in 2005, also citing safety concerns.

Roche is hoping to avoid such problems by developing the drug as something that can help diabetes patients who already face a high risk of heart attack or stroke. It estimates that of the three million people who suffer a heart attack in the U.S. and the three biggest European countries each year, 500,000 are diabetes patients.

Roche's experimental medicine, called aleglitazar, was shown to be as good as or better at lowering blood sugar and certain blood fats in patients with type 2 diabetes as the market leader Actos, made by **Takeda Pharmaceutical** Co. of Japan. There were no major unwanted side effects observed in the study.

Should the drug win regulatory approval, which isn't likely to happen before 2015, the drug has the potential to eventually generate annual sales of $1 billion or more, Roche says.

"The reason why so many drugs of this class have failed is that you already have very good diabetes drugs out there, which is creating high hurdles for new entrants," said Luke Miels, Roche's head of strategic marketing for metabolic diseases.

First results from the late-stage study are likely to be available in 2013, which would allow for filing the drug for regulatory approval in 2014, Mr. Miels said.

CSL drops deal for Talecris, plans buyback

BY ANDREW HARRISON

MELBOURNE, Australia—**CSL** Ltd. abandoned its proposed US$3.1 billion acquisition of **Talecris Biotherapeutics Holdings** Corp. after the plan was blocked by U.S. regulators.

The Melbourne-based producer of human plasma products said it instead will buy back up to 1.59 billion Australian dollars (US$1.25 billion) of its shares in the next year, representing 9% of its outstanding stock.

CSL and Talecris late Monday agreed to end the plan for CSL to buy the Talecris, based in Research Triangle Park, N.C., because of opposition from the Federal Trade Commission on antitrust concerns.

Talecris is the third-largest producer of plasma medicines in the U.S., behind CSL and market leader **Baxter International** Inc.

Investors said the deal's collapse notwithstanding, CSL still has a wide range of products, including vaccines against influenza and cervical cancer, alongside its plasma business and can continue to grow.

CSL plans to buy back about 54.9 million shares at A$29 apiece. CSL shares ended 5.5% higher at A$30.49 Tuesday on the Australian stock exchange.

Source: Thomson Reuters Datastream

CSL Managing Director Brian McNamee said the company raised funds for the transaction last year and since the company is no longer buying Talecris it is appropriate to return the funds to investors.

The blood-products company raised A$1.75 billion last October, selling new shares at A$36.75 each, to help fund the Talecris transaction. "The buyback will improve investment return ratios, such as earnings per share and return on equity," Mr. McNamee said.

CSL will pay Talecris owners—private-equity firms **Cerberus Partners** and **Tribeca Investment Partners**—a US$75 million breakup fee. The plasma-supply contract the companies made in connection with the merger pact stays in effect.

CSL will take a A$80 million charge this fiscal year for costs related to the proposed transaction.

CSL reached a deal last August to buy Talecris, which would have boosted its share of the US$15 billion annual global market for plasma therapeutics. CSL was told last month that the FTC may pursue legal action to block the deal on competition concerns.

Talecris Chairman Lawrence Stern said the two companies "mutually agreed that litigation regarding the antitrust issue was not the path forward."

— David Rogers in Sydney contributed to this article.

GLOBAL BUSINESS BRIEFS

Fiat SpA

Auto maker says purchase of Chrysler stake could unravel

Fiat SpA and **Chrysler** LLC said in U.S. Supreme Court filings Tuesday that their government-brokered deal could still unravel if it can't close by a June 15 deadline. "If the sale transaction is not completed soon, there can be no assurance that a replacement transaction could be structured and agreed that would preserve any aspect of Chrysler as a going concern," Fiat said in its brief. Chrysler, in its own filing, said "every day past June 15 increases the risk that Chrysler's business will not be able to restart successfully." The high court on Monday issued a temporary order extending a stay imposed on the transaction. The order was issued by Justice Ruth Bader Ginsburg and could be superseded by new Supreme Court action at any time. Earlier Tuesday, a Fiat spokesman said the company wouldn't abandon its pursuit of Chrysler if the process goes beyond June 15.

Lloyds Banking Group PLC

Lloyds Banking Group PLC said it will cut as many as 1,660 jobs in a shake-up of its lending businesses. Lloyds, one of two big British banks being propped up by the government, said it would close its 164 Cheltenham & Gloucester branches in November. The bank's personal-loans team will be moved to one site in London by the end of next year. It is also cutting jobs elsewhere in the personal-loans business. Additional jobs will go as the Bank of Scotland and Intelligent Finance units cease writing new mortgages. The company took on a load of bad assets when Lloyds TSB acquired Halifax Bank of Scotland, or HBOS, in a government-backed deal. That deal made Lloyds the U.K.'s biggest retail bank, but it also forced it to seek support from the government, which now holds a 43.4% stake. Lloyds had announced nearly 3,000 job cuts. At the start of the year, it had 140,000 employees.

British Airways PLC

British Airways PLC has warned the U.K. government that there is a potential for 2,000 layoffs among the airline's cabin crew. A spokeswoman for British Airways said Tuesday the airline had informed the U.K. government's Department for Business Enterprise & Regulatory Reform the number could be less, depending on how many of the 14,000 cabin crew take up other options offered to them. Those options include unpaid leave, as well as working part-time on a temporary or permanent basis. The airline already has cut 2,500 jobs since last summer. It now employs about 40,000 people. British Airways is attempting to permanently restructure working practices, improve productivity and reduce its cost base.

TomTom NV

Navigation-products maker **TomTom** NV said Tuesday it will team up with **Apple** Inc. to provide the iPhone with navigation equipment, sending TomTom's shares up 17%. Netherlands-based TomTom said the navigation software can be downloaded from Apple's online retail outlet, the iTunes App Store. TomTom also will deliver a customized car kit that charges the iPhone. A TomTom spokesman said that details about pricing and availability will be announced in the summer, when the products are launched. TomTom's applications can be used for the iPhone 3G, but the spokesman couldn't say whether they are compatible with the latest iPhone version, the 3G S, which Apple introduced Monday. Shares in TomTom closed at €5.98 ($8.32) in Amsterdam, up 89 European cents.

Royal Caribbean Cruises Ltd.

Royal Caribbean Cruises Ltd. expects suspended port calls in Mexico amid the outbreak of the H1N1 flu virus to reduce 2009 earnings by about 22 cents a share. The virus "had a short but highly disruptive impact to our operations," said Chairman and Chief Executive Richard Fain on Tuesday. He added, "Fortunately, our vessels are quickly returning to their original itineraries." Royal Carribean in April had projected reduced 2009 earnings of $1.35 a share, higher than analysts' views at the time. The Miami-based company said Tuesday the launch of its Pullmantur Pacific Dream cruise ship was postponed as a result of the outbreak. Royal Caribbean has four cruise ships that regularly stop at Mexican ports, while two additional ships scheduled to make coming Mexican port calls have been repositioned.

Barclays PLC

Barclays Capital, the investment-banking arm of **Barclays** PLC, said it has hired Jim Chapman to head its power and utilities investment-banking operation for Asia excluding Japan, along with a five-member team, all from Bank of America Merrill Lynch. The team is a new one for Barclays and is part of Barclays Capital's effort, begun early last year, to build up its investment-banking arm. Mr. Chapman, who began at Barclays on Tuesday, was head of power banking for the region at Bank of America Merrill Lynch. Mr. Chapman and the five other bankers joined Merrill Lynch nine months ago from Lehman Brothers after that bank's collapse and the subsequent takeover of its Asian and European investment-banking operations by Japan's **Nomura Holdings** Inc. Merrill Lynch became part of **Bank of America** Corp. early this year.

Thai Airways International

Thai Airways International Ltd. is reviewing its order for six Airbus A380s as the slump in global travel undermines the profitability of flying the superjumbo jet. The airline, which lost 21.4 billion baht ($623.8 million) last year, had slated the aircraft for delivery next year and in 2011. It planned to use them for direct flights from Bangkok to London, Sydney and Tokyo, and possibly Frankfurt and Paris. Airlines operating A380s, manufactured by **European Aeronautic Defence & Space** Co., have found it difficult to achieve the yields they expected, Thai Airways Chairman Wallop Bhukkanasut said. Thai Airways also has been hit by a slump in Thai tourism. The review of the fleet plan is expected to wind up this month. A decision to cancel the order would need approval from the Finance Ministry, which owns 51%of Thai Airways.

Valeo SA

Shareholders in French car-equipment maker **Valeo** SA Tuesday rejected the termination payment for former Chief Executive Thierry Morin, who stepped down in March. After being released by the board over a difference of opinion on company strategy, Mr. Morin received a €3.2 million ($4.5 million) severance package. It was then discovered that Mr. Morin had bugged Valeo's boardroom. In an interview with newspaper Le Figaro, Mr. Morin said he had decided to record the meetings to avoid disputes later. The revelation of the recordings' existence prompted a move by Valeo's board to rescind the termination payout. The company has filed a lawsuit, and French legal authorities are investigating the matter. Mr. Morin couldn't be reached for comment.

—Compiled from staff and wire service reports.

TECHNOLOGY JOURNAL

Web surf in your very own Wi-Fi network

Verizon's MiFi lets users set up shop wherever they go

By Katherine Boehret

It's hard to remember a time not long ago when Web browsing required sitting in one place and using a computer plugged into a cable. Now, people expect to hop online whenever they want from wherever they want using wireless Internet connections.

THE MOSSBERG SOLUTION

But it isn't always easy. Mobile devices lose their capabilities when the carrier's signal drops out; laptop users struggle to find a public Wi-Fi network that will work; and the Wi-Fi networks that are available get slowed down by overcrowding.

Why not bring your own Wi-Fi? I'm not talking about stuffing a cumbersome router and cables into a backpack with hopes of setting up shop wherever you go. I'm referring to a new product called MiFi. It is what it sounds like: a private Wi-Fi network for you. It's a one-button gadget that measures about the surface size of a Altoids tin, only thinner and lighter.

This week, while I was traveling, I used **Verizon Wireless**' MiFi 2200, made for the phone carrier by **Novatel Wireless.** The MiFi brings in the Internet using Verizon's 3G network and creates a Wi-Fi zone that can be reached from up to 15 meters away, even through very thick hotel walls. Its connection can be used by up to five devices at once. At one point, I had a Lenovo ThinkPad, Apple MacBook, iPhone, Palm Pre and iPod Touch simultaneously using the Web via the MiFi's connection. Although video playback stuttered under these busy conditions, other tasks did well. And with just three devices using the connection at once, the connection worked normally.

Verizon Wireless' MiFi 2200, made by Novatel Wireless. Its connection can be used by up to five devices at once.

MiFi

The luxury of MiFi doesn't come cheap. The device itself costs $100 with a two-year service agreement and after a $50 rebate. Two monthly plan options are available: $40 buys 250 megabytes with a charge of 10 cents per megabyte over that allotment; and $60 buys five gigabytes with a five cents charge per megabyte of overage. Users who don't want to mess with the monthly service plan can buy the device at its full retail price of $400 and pay $15 per 24-hour access period, which is called a Verizon Wireless Mobile Broadband DayPass.

Of course, you already can get online over cellphone networks for similar monthly fees and at similar speeds, with external or internal laptop cards that usually cost less upfront. So why would anyone want or need MiFi? The answer is that it serves multiple devices at once, without requiring you to buy multiple cards or pay a separate fee for each.

I can imagine plenty of scenarios where the MiFi would come in handy, including colleagues traveling together, college students studying together with laptops on a campus lawn and families riding in a car with multiple laptops and/or portable game devices. In my trip alone, I used my MiFi and avoided paying for wireless Internet fees in the airport and four days of my hotel's expensive in-room Internet charges. As long as there's a Verizon network in the area, the MiFi will work.

Last week, **Sprint Nextel** entered the MiFi fray by offering its own MiFi 2200, also from Novatel Wireless. Like Verizon's MiFi, Sprint's costs $100 after a rebate and with a two-year contract. While Verizon offers all-data plans, Sprint offers a monthly plan of broadband-only for $60 as well as a $150 monthly Simply Everything Plan + Mobile Broadband for data and phone use. Both of these plans include five gigabytes a month with a five-cents-a-megabyte charge for overage. Sprint's device isn't available with pay-as-you-go options, like Verizon's MiFi. Unlike Verizon's MiFi, the Sprint device has built-in GPS.

The Verizon MiFi looks unassuming. It weighs just over two ounces, so it really could be held unnoticed in a pocket. In fact, it's so small, you could easily misplace it. Its glossy black exterior is interrupted only by a Verizon Wireless logo and a power button, which changes colors to indicate different things, like red for low battery and blue for when it's on. A separate indicator light blinks green when the MiFi is transmitting or receiving data. The MiFi runs on a rechargeable Lithium-Ion battery; spare batteries cost $40. Its battery charges when MiFi plugs into a Windows PC or Mac using a USB cable or plugs into a wall adapter.

After the initial registration of the MiFi device, which happens the first time you plug it into a Mac or Windows PC and takes just five minutes, the device is set to work without any wires simply by pressing its power button on. The personal Wi-Fi network shows up in a list of available networks on your device—and requires a password, which is written on the back of each MiFi. Users can change this password to something more memorable by adjusting wireless security settings in a browser menu.

Verizon estimates that if just one device is tapped into a fully-charged MiFi, the tiny gadget's battery will last for about four hours, and this was the case in my tests. The battery is designed to last 40 hours in standby, a plus for busy travelers who might not think to charge the MiFi each night.

Even when two laptops and a Palm Pre were connected to the MiFi, speed tests showed positive results of about 1.4 megabytes per second for downloads and roughly 500 kilobits per second for uploads. Verizon says its device uses something called NovaSpeed, which enhances upload and download performance.

The MiFi offers reliable Web access for you and the four lucky souls who are sitting near you, if you're feeling generous. Its ease of use—take out, turn on, start surfing the Web—means there aren't any excuses for not hopping online from anywhere at any time. And it comes just in time for those summer vacations that were meant to let you get away from it all.

Edited by Walter S. Mossberg. Email Mossberg.solution@wsj.com

Chinese bristle at rule mandating Web filters in new PCs

By Loretta Chao

BEIJING—Some Chinese Internet users criticized a government plan to require personal computer makers to ship Internet-filtering software with all new PCs, after state-run media publicized details of the initiative.

The "Green Dam-Youth Escort" software was developed by two government-linked Chinese companies to help parents keep children from seeing pornography on the Internet. But foreign industry executives, U.S. officials and Internet-freedom advocates say the software could extend the Chinese government's censorship powers and cause privacy and security problems.

The government said all PC makers must include the software with all PCs sold in China starting July 1. The notice detailing the plan was first reported Sunday by The Wall Street Journal, posted online in China Monday and publicized widely in state media Tuesday.

As word of the plan reached Chinese users, some people, in online forums, described it as a noble effort, though many questioned the software's effectiveness and voiced other concerns. "I don't know what Web sites they want to filter," wrote one Internet user on Tianya.cn, one of China's largest Internet forums. "Who is going to decide and make judgment about which Web sites are 'bad'?"

Others worried that the program could be used to collect private user data—something the primary developer says it has no intention of doing, though it is technically possible. "It's already hard to have privacy [on the Internet]. This could make things worse," wrote a user on Sina.com, one of China's largest Web portals.

On Tuesday, the Ministry of Industry and Information Technology posted on its Web site, for the first time, a copy of the official two-page notice that it distributed to PC companies in May. A ministry spokesman declined to answer questions about the notice or the plan.

Some Chinese Web users are keenly aware of government censorship—and they have the means to circumvent it, including the use of code words to discuss sensitive topics. But the vast majority of China's 298 million Internet users use the Web for entertainment, such as playing games, listening to music or sharing photos. It remains uncertain whether most people who buy a new PC will know the Web-filter software was included because of a government mandate. Or, they may see it as standard parental-control software.

The creators of the Green Dam software say it shouldn't be a cause for concern. In a demonstration Tuesday for The Wall Street Journal, Bryan Zhang, founder of **Jinhui Computer System Engineering** Co., which developed Green Dam with input from another company, said the software is used only to block pornography and other content inappropriate for children. He said the software doesn't collect user data and that it can be turned off, or uninstalled.

The government's notice indicates PC companies will have the option of installing the Green Dam software on the hard drive, or on a compact disk accompanying the PC—although industry officials remain uncertain whether the second option will really be allowed. In the demonstration, Mr. Zhang said users who have the software on the hard drive of their new PC would need to use an installer program to activate it. When they do so, they have the option of registering the software by providing some personal information. Users are given a standard password, which they can change, that enables them to access the program's settings or turn it off.

Mr. Zhang showed how parents can turn on or off filtering for five categories of content: "adult/pornography," "extreme adult/pornography," "violent games," "homosexuality" and "illegal activities/drugs." He said that "illegal activities" includes, but isn't limited to, gambling. Green Dam also blocks Web sites with images that it detects to have nudity. Users can also opt to turn off the notifications that appear when a Web site is blocked.

Mr. Zhang says the patented technology is sophisticated enough to differentiate between photos of scantily clad people and people who are completely naked. However, he acknowledged it's possible for the program to mistakenly block some Web sites, or allow Web sites with nudity to pass through filters.

Mr. Zhang said Green Dam blocks Web sites based on a "black list" maintained by his company. Parents can't alter that list, but can add sites to a personalized list for blocking. There is also a company-maintained "white list" of sites that are prevented from being filtered out, which includes CNN.com among others, and parents can add their own protected sites. Parents can download updates to the database via the Internet as they would for other software, but they don't have to.

Mr. Zhang's explanations aren't likely to satisfy all the concerns raised about the software. For one thing, users won't be told what's on the company-maintained black list. Mr. Zhang says the list won't be made public to avoid promoting the blocked Web sites.

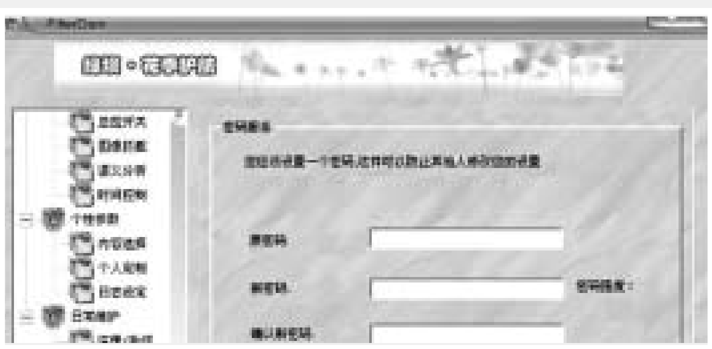
Industry executives and others have also raised concerns the government could decide to control the list of blocked sites. Mr. Zhang said he can't speak on behalf of the government.

Susan Stevenson, spokeswoman for the U.S. Embassy in Beijing, said the embassy is continuing to meet with industry groups about Green Dam concerns.

—Sue Feng, Ellen Zhu and Juliet Ye contributed to this article.

Control panel

Developers of Green Dam software say it is designed for blocking access to Web sites inappropriate for children. Pictured, a Green Dam interface where administrators can set or change the software's password:



ECONOMY & POLITICS

U.S. military revamps for Afghanistan

Shift from Iraq forces Pentagon to adapt equipment ill-suited for treacherous terrain; the trouble with MRAP axles

By Yochi J. Dreazen

ABERDEEN, Md.—The U.S. military, which built itself for Iraq, is racing to remake itself for Afghanistan.

The effort is on full display at the Aberdeen Proving Ground, a sprawling military testing facility north of Baltimore. Engineers here are testing bomb-resistant trucks that have been outfitted with new suspension systems designed for Afghanistan's unpaved roads and rocky mountain passes.

On a recent visit, military contractor Mark Jackson maneuvered one of the trucks down a steep hill. The truck's cabin shook violently, but the vehicle—a "mine-resistant ambush protected" truck, or MRAP—made it to the bottom without any problems. "You'd never even have tried that with an old MRAP," Mr. Jackson said inside the truck. "It wouldn't have made it even halfway down the hill."

The work at Aberdeen reflects the military's growing realization that the current versions of the $1 million trucks don't work in Afghanistan. The MRAPs are a good fit for Iraq, which has well-developed roads and highways, but the vehicles are so wide and heavy that their axles literally snap in half in Afghanistan.

"The MRAPs were bought for Iraq," said Marine Brig. Gen. Michael Brogan, who is leading the effort to install the new suspension systems. "They weren't bought with any vision of needing to handle the rough terrain that's common in Afghanistan."

The problems with the $28.2 billion MRAP fleet highlight the challenges facing the military as it shifts its focus from Iraq to Afghanistan.

For the past six years, the bulk of the military's training and equipping efforts have been devoted to Iraq, while Afghanistan was relegated to the back burner. The U.S. bought vehicles, body armor and other equipment designed for Iraq's urban war zones. It sent soldiers and Marines to desert training grounds that simulated Iraq's temperatures and topography, and had Iraqi-Americans pretend to be imams and tribal leaders in extensive role-playing sessions.

Agence France-Presse/Getty Images

Armored MRAPs are being retrofitted for Afghanistan's tough terrain as the U.S. military shifts its focus from Iraq.

Pentagon officials began ordering MRAPs to protect U.S. soldiers in Iraq in response to the mounting casualty toll from roadside bombs there. The military, still stung by criticism that it had failed to supply troops with adequate body armor early in the war, moved to deploy the vehicles quickly.

The military eventually purchased nearly 16,000 MRAPs, in what would become the Pentagon's largest wartime buying effort since World War II.

Today, the Pentagon is scrambling to reconfigure itself for a very different kind of war. Military officials are experimenting with new, lightweight body armor to aid troops faced with trekking through Afghanistan's mountainous terrain. It also is moving ahead with plans for a $2 billion fleet of armored off-road vehicles that are being specially designed for Afghanistan. The military hopes to award the first contracts for the next-generation vehicles this summer.

In the meantime, the military wants to retrofit nearly all 1,000 MRAPs being used in Afghanistan, at a cost of about $100,000 per vehicle. The Pentagon's cumbersome bureaucracy, and a complicated ramp-up for manufacturers, has slowed the effort—to date, only five trucks have received the new suspension system.

MRAPs were developed in South Africa in the 1970s and have been used by armed forces around the world for decades. The enormous trucks sit high off the ground and are designed to come apart in an explosion, dissipating the force of the blast. An MRAP had a cameo in the 2007 "Transformers" movie as an evil robot named Bonecrusher.

Military officials first began receiving reports of problems with the MRAPs in late 2007, shortly after sending some of the trucks to Afghanistan. Troops in the field said the trucks were regularly breaking down when they went off-road or along one of the country's dirt paths.

U.S. officials realized that the problem stemmed from the MRAP's basic design. Both sets of wheels on the trucks were connected to a single axle, preventing the tires from moving independently in response to uneven terrain. When the trucks went off road, the axles often snapped.

"The axles began failing at an alarming rate," said Kim Yarboro, a civilian program manager overseeing the Marine MRAP effort. "We'd normally only need to replace one or two per year, but we suddenly had 20 or 30 down for an axle at a time."

Working with contractors like Force Protection Inc., military engineers experimented with independent suspension systems, which allow each wheel to move on its own to better absorb shock. In an early test, a vehicle that that had been outfitted with the new axles reacted badly in a controlled explosion. The engineers solved the problem by installing additional shielding on the bottom of the trucks.

"It's not going to be as maneuverable as a Humvee or other vehicles that are designed to go off-road," Gen. Brogan said. "But it will be able to take a lot more abuse."

U.S. reports errors in Afghanistan airstrikes

By Yochi J. Dreazen

WASHINGTON—The Pentagon said U.S. forces involved in airstrikes that killed dozens of civilians in Afghanistan last month had failed to follow guidelines for preventing civilian casualties.

Pentagon spokesman Geoff Morrell said the military's internal investigation into the American assault on the village of Granai identified several problems, most notably that a B-1 bomber lost sight of one of its targets on the ground before dropping its bombs.

He said it wasn't clear whether the B-1 crew's loss of positive identification of its target resulted in civilian deaths, but that military investigators "did note that as one of the problems associated with how this all took place."

Washington and Kabul have feuded publicly for weeks over the airstrikes, with Afghan officials alleging that U.S. forces killed 140 civilians. U.S. officials have consistently put the number of civilian casualties at around 30, with at least 60 Taliban militants killed.

"There were some problems with some tactics, techniques and procedures, the way in which close air support was supposed to have been executed in this case," Mr. Morrell told reporters on Monday.

Associated Press

Civilian deaths in U.S. airstrikes in Afghanistan have fueled popular outrage there. Last month, students in Kabul, above, protested a raid on Bala Baluk district.

The investigation results, which included video taken by pilots involved in the airstrikes, were presented to Defense Secretary Robert Gates on Monday. Officials at the U.S. Central Command said an unclassified version of the report will be released in coming days.

Mr. Morrell said it was possible U.S. forces could be disciplined for their roles in the strikes, but that he didn't have any sense "that charges are imminent or warranted in this case."

He declined to disclose the report's final estimate of how many civilians died, but said "they were greatly outnumbered by the Taliban killed in this incident."

Airstrikes have triggered strong anti-American sentiment in Afghanistan, after hundreds of civilians were killed in U.S. raids in recent months.

The Obama administration's nominee to run the war, Lt. Gen. Stanley McChrystal, told a Senate panel earlier this month that he would review U.S. operating procedures to look for new ways to minimize civilian casualties.

"I believe the perception caused by civilian casualties is one of the most dangerous things we face in Afghanistan," he said at the June 2 hearing.

He said U.S. forces would only call in air strikes if the lives of U.S., North Atlantic Treaty Organization or Afghan personnel were at risk.

The American assault on the village of Granai began when Taliban militants beheaded three Afghan officials and then ambushed the Afghan and U.S. forces that responded to the killings. Marine units on the ground radioed for help, and American F-18 fighters, and at least one B-1 bomber, struck targets in the village.

U.S. officials involved in earlier phases of the investigation said most of the dead civilians were killed in houses that were used by the Taliban for the ambush.

Japan diplomat seen as favorite to head IAEA

Associated Press

VIENNA—A veteran Japanese diplomat emerged Tuesday as the favorite to succeed Mohamed ElBaradei as head of the U.N. nuclear agency after most agency board member nations backed him against four other candidates in an informal poll.

Yukiya Amano received 20 votes from the International Atomic Energy Agency's 35-nation board, diplomats inside the closed meeting said. South Africa's Abdul Sabad Minty was second with 11 votes in the nonbinding poll, while Spain's Luis Echavarri was third with four ballots, the diplomats said.

There was no support for Belgian candidate Jean-Pol Poncelet or for Ernest Petric of Slovenia.

Mr. ElBaradei steps down in November, and agency members participated in Tuesday's "straw poll" to narrow the field of possible replacements before they hold a formal vote, likely July 2.

Mr. Amano is generally endorsed by Western nations, while Mr. Minty has backing from developing countries—a split that led to the deadlock in the previous vote in March.

U.S. weighs IMF funds

White House lobbies Congress to support $108 billion pledge

By Bob Davis
And Greg Hitt

WASHINGTON—A White House bid to push a $108 billion contribution to the International Monetary Fund through Congress is in danger of unraveling because of an unlikely coalition of Republicans, liberal Democrats and antiglobalization activists.

A defeat would be a blow to the Obama administration's efforts to shape the global response to the financial crisis and continue its leadership at the IMF. The U.S. pressed hard at an April summit of the Group of 20 industrialized and developing nations to boost the IMF's lending coffers by about $500 billion. If the U.S. is unable to deliver on its share, that is bound to slow pledges from other nations.

IMF funding is sure to be discussed at the July meeting of the Group of Eight nations—the U.S., Canada, Britain, France, Germany, Italy, Japan and Russia.

The administration is lobbying to save the funding, calculating that it can persuade enough liberal Democrats to back the measure to stave off a defeat. Thus far, the votes aren't there. But Democratic allies of the White House are pressing the case among rank-and-file lawmakers, congressional aides say.

"We're continuing to talk to members and hope to move the bill this week," said a spokeswoman for House Majority Whip James Clyburn of South Carolina, the chief Democratic vote-counter.

Promises, promises
In April, the G-20 nations promised to lend as much as $500 billion to the International Monetary Fund to use to fight crises.

*Through IMF bond purchases
Sources: IMF; WSJ research

Winning Congressional support for IMF funding isn't easy because of a long-standing distrust of international institutions and a lack of powerful corporate sponsors. Anti-bailout sentiment among lawmakers is making the administration's task harder.

"The reaction (lawmakers) got in September" to the bank-rescue plan "makes them terrified of anything that can be called a bailout," said Robert Weissman, director of Essential Action, a corporate-accountability group, who has helped assemble a coalition of anti-IMF activists.

Last month, White House strategists persuaded the Senate to add the IMF money to a bill funding the Iraq and Afghan wars. Those involved in the Congressional fight say the White House figured Republicans wouldn't oppose the underlying war measure and that liberal Democrats would welcome the IMF funding as a way to help economically distressed nations. But that decision may have backfired.

"It appeared as if the Obama administration was trying to hide something" by attaching it to another bill, said Clay Lowery, a former Bush Treasury official.

House Republican leaders are threatening to oppose the bill unless IMF funds are stripped out. "A troop-funding bill should fund our troops, period," said House Minority Leader John Boehner, an Ohio Republican.

The administration needs to change the votes of at least 18 of 51 House Democrats who opposed an earlier version of the war-funding bill, which would put the bill over the top even if House Republicans unanimously oppose it.

That may be tough. Rep. James McGovern, a Massachusetts Democrat, says he supports more IMF funding but will vote against the bill because he opposes funding for the Afghan war. "I understand the politics" of attaching the IMF provision to the war-funding bill, he said. "But there's something to be said for the principle."

Forty-one Democrats, including Rep. McGovern, have signed a letter circulated by Rep. Maxine Waters, a California Democrat, that would require the U.S. to oppose IMF loans that force countries to cut spending or raise interest rates during an economic downturn.

Obama pushes for rules to match taxes, spending

By Henry J. Pulizzi

WASHINGTON—President Barack Obama, hoping to enhance his reputation for fiscal discipline at a time of increasing worry over runaway government spending, challenged lawmakers Tuesday to codify "pay as you go" budget rules in law.

Mr. Obama outlined a proposal that would require any new tax cut or entitlement program be paid for. "The pay-as-you-go rule is very simple," he said. "Congress can only spend a dollar if it saves a dollar elsewhere.

"Entitlement increases and tax cuts need to be paid for. They are not free, and borrowing to finance them is not a sustainable long-term policy."

The federal budget deficit is projected to approach $2 trillion in the current fiscal year, blowing through all records and triggering fears that the massive borrowing required to finance the government could damage the U.S.'s creditworthiness, push interest rates higher and stifle an economic recovery.

Republicans say Mr. Obama's push for so-called pay-go rules amounts to little more than a public-relations campaign, complaining that the rules won't bring down the deficit, but will allow Democrats to fund more government spending with tax increases. The rules would apply to mandatory spending only, not discretionary spending.

"It seems a tad disingenuous for the president and Speaker (Nancy) Pelosi to talk about pay-go rules after ramming trillions in spending through Congress proposing policies that create more debt in the first six months of this year than in the previous 220 years combined," said House Republican Whip Eric Cantor (R., Va.)

Earlier this year, members of the Blue Dog group of fiscally conservative House Democrats reached a pact with leaders in the House of Representatives that would subject several big-ticket budget items, including the annual fix of the alternative minimum tax, to pay-as-you-go requirements. Mr. Obama's comments Tuesday are likely to put pressure on the Senate, which has no such rule.

Mr. Obama's attention to pay-go rules came a day after he touted plans to speed up the implementation of the $787 billion economic-stimulus package and as he pushes for an expensive overhaul of the nation's health-care system.

It also follows a new Gallup poll that suggests Americans are less enthusiastic about Mr. Obama's stewardship of the budget. The percentage of people who approve of the president's handling of the deficit has fallen three percentage points since March to 46%, according to the poll released Monday.

In his speech Tuesday, Mr. Obama acknowledged public skepticism over the government's ability to restore its finances, but he said pay-go rules would help lawmakers cut through politics.

"The debate of the day drowns out those who speak of what we may face tomorrow. That is why 'pay as you go' is essential," Mr. Obama said. "It requires Congress to navigate the ebb and flow of politics while remaining fixed on that fiscal horizon."

Russia changes bid to join WTO

Russian Prime Minister Vladimir Putin said Moscow will pull its long-delayed application to join the World Trade Organization and reapply as part of a bloc with neighbors Kazakhstan and Belarus.

*By **Gregory L. White** in Moscow and **John W. Miller** in Brussels*

The move surprised U.S. and European officials, who had as recently as last weekend been in talks with their Russian counterparts on how to accelerate Russia's WTO bid.

Western officials and analysts said the abrupt shift appears to be a pressure tactic by the Kremlin, which has been frustrated by the slow WTO process, to force a quick deal.

"He's saying 'If you don't let us in, you'll have to deal with a customs union,' " says Nikolay Mizulin, a Russian trade lawyer with Hogan & Hartson LLP in Brussels. "That would complicate everything, they would have to redo all the agreements."

For years, Russia, Kazakhstan and Belarus have been planning to form a customs union, which opens trade among nations by harmonizing tariffs and rules.

Russian officials said the proposal to restart the talks as a bloc would stimulate economic integration in the former Soviet Union, a longtime Putin priority. They said the switch could be done without losing too much time on Russia's WTO bid, though the new application can't be filed until after Jan. 1, 2010, when the customs union formally launches.

Russia has been negotiating to join the WTO for 16 years. In recent months, Moscow's interest had revived after several years when it seemed to be on the slow track.

Western officials said restarting the WTO negotiations and adding the complexity of additional partners would require years of negotiations.

Russia's WTO accession—as one nation—is six to nine months away, according to European Union and WTO officials. It is held up by a few issues, including Siberian over-flight fees, gas prices and sanitary regulations.

At a meeting last week, Russian officials agreed to keep negotiating to join the WTO by the end of 2009. "We have agreed that WTO accession should be completed before the end of the year," EU trade commissioner Catherine Ashton said at the time. That was before Mr. Putin's statement Tuesday.

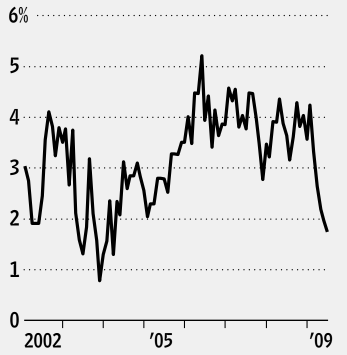
"We have no reason to believe there's any change in policy," Lutz Guellner, Baroness Ashton's spokesman, said after reading Mr. Putin's comments. "Should the basic parameters of the negotiations change, it would create a new situation."

The EU and U.S. might cave to pressure from Russia for a quick deal, says Mr. Mizulin. "They have much more to lose than Russia from talks collapsing." If Russia joins the WTO, its average tariffs would plummet. The EU and U.S. would get the right to sue to overturn unfair trade barriers.

More U.S. companies move to cut pay instead of jobs

By Kathleen Madigan

Pay cuts, rather than layoffs, have emerged as an alternative way for many companies to reduce labor costs as demand slumps during the recession.



Barely growing
Annualized three-month percentage change in average hourly wages

Note: Wages of production and nonsupervisory workers
Source: U.S. Department of Labor

If enough companies use pay cuts to avoid layoffs in the future, then the unemployment rate may no longer give a true reading on how workers are faring.

Employees, who have relied on pay raises to increase spending and boost their retirement-plan contributions, would no longer be able to count on more cash in their paychecks over time. Even Social Security benefits down the road could be less than anticipated if annual salaries zig and zag every year.

Cuts in compensation are "more widespread now than in past recessions," said John Challenger, chief executive of outplacement firm Challenger, Gray & Christmas Inc., which tracks employment trends. Last week, Challenger reported that more than half of human-resource executives surveyed in May said their companies had instituted salary cuts or freezes in an effort to cut costs. That was up from 27% in the same survey in January.

The U.S. Bureau of Labor Statistics' employment report Friday showed that average hourly pay for production workers rose only 0.1% in May for the second month in a row. Yearly growth has slowed to 3.1%—the weakest since 2005.

David Levy of the Levy Economic Forecasting Center said the distress in finance, autos, retailing and other industries is exerting downward pressure on compensation. He expects unemployment to rise to double digits, and said "pay rates may eventually cease rising altogether."

Pay cuts are likely to spread further until unemployment stops rising and workers' position strengthens. The jobless peak isn't expected until 2010, meaning layoffs will be the norm for at least another year.

—Jon Hilsenrath contributed to this article.

Bank of England urges more lending

By Paul Hannon

LONDON—Banks will have to increase their lending to U.K. businesses if the economy is to undergo a sustained recovery, Bank of England Deputy Governor Paul Tucker said Tuesday.

In a speech to insurance executives, Mr. Tucker said some indicators of economic activity have "improved a bit" in recent weeks, and that "confidence seems to have stabilized."

However, he said it is too early to conclude that the economy is on the path to recovery, and added that bank lending "remains subdued."

"For the moment it is unclear... whether the financial system can generate the expansion of credit that will most likely be necessary to support recovery," Mr. Tucker said.

The deputy governor urged banks to increase their lending, and said those that choose not to, in the hope that others will take up the slack, risk damaging their own medium-term prospects.

"There cannot sensibly be free riders," Mr. Tucker said. "If all banks were to adopt such a strategy, recovery might end up being anemic at best, which would feed back into the banking system itself, increasing defaults and depleting banks' capital."