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Tension surges after Iran election

Ahmadinejad defends win as security forces crack down on opposition leaders, demonstrators

By Farnaz Fassihi

TEHRAN—Iranian President Mahmoud Ahmadinejad on Sunday defended his weekend election victory while security forces cracked down hard on opposition leaders and demonstrators, who staged a second day of violent protests across the capital and in other Iranian cities.

Mr. Ahmadinejad's defeated challenger, Mir Hossein Mousavi, said in a statement that he was under house arrest and banned from appearing in public. He called on his Web site for more protests, but urged demonstrators to act peacefully.

Many parts of town resembled a war zone Sunday. Along several roads in both uptown and downtown Tehran, many government-owned banks had been attacked and their windows and doors shattered. Public property, including bus stops and street signs, was vandalized. At Mohseni Square in north Tehran, three buildings were burned completely.

From 9 to 10 p.m., neighborhoods across Tehran rocked with shouts from rooftops of "Allahu Akbar," ("God is Great") and "Death to the Dictator." This is a signature tactic from the 1979 revolution, when, also at 9 p.m., protesters shouted the same slogans from their roofs.

The civil disorder on display across the nation is arguably the worst protest the Islamic Republic has seen since then in terms of scope and reach. The student uprisings in 1999 and 2003, both violent events, mostly included students activists and intellectuals, and were limited to areas around university campuses.

Now, rioting has drawn in people from every age group, and social and religious background. Women clad in black head-to-toe chadors stand alongside young girls with tight-fitting outfits shouting "Justice, Justice!"

For years, analysts speculated that a widespread public uprising wouldn't occur in Iran because the disenchanted lacked a homegrown figure to rally behind. Now, Mr. Mousavi seems to have filled that vacuum.

In Germany, Foreign Minister Frank-Walter Steinmeier condemned the Iranian government crackdown on opposition protesters as "unacceptable."

Across the Arab world and in Israel, reaction was mixed. The results dealt a blow to some Arab and Israeli officials, who have grown increasingly alarmed by Iran's regional ambitions and hoped his ouster might rein in Tehran. But Mr. Ahmadinejad's win also could speed up a key goal that Arabs and Israel share: international consensus for tough action against Iran's nuclear program.

"You're not going to waste months and months trying to understand where the new guy is coming from," said one Arab official.

Meanwhile, Israeli analysts said the chaotic election validates Israel's perceived threat from Iran and increases Prime Minister Benjamin Netanyahu's leverage with Washington. Mr. Netanyahu argues that Iran, not Israel-Arab peace talks, should be the focus of American Mideast policy.

Assuming security forces are able to contain protests in coming days, the election fallout still poses a significant challenge for the clerical establishment that rules the Islamic Republic. Mr. Mousavi's allegations of widespread vote rigging are raising serious legitimacy ques-

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Associated Press

Supporters of Iranian President Mahmoud Ahmadinejad react as he speaks at a rally in Tehran on Sunday in the wake of his election victory.

The bull is charging but it bears caution

By Tom Lauricella

Many investors are now calling the rebound in stocks since early March the start of a new bull market. But it could be only a temporary respite from a longer-term bear market dating back to the beginning of this decade.

If the market is poised for a multiyear run, investors can be more aggressive about diving into stocks. If the bear market will regain its grip on stocks and send prices lower again, investors need to be cautious.

Historical data and the still struggling economy seem to point to the latter case, called a cyclical bull market in a secular bear market.

For now, stocks are fully in bull-market territory, even if it doesn't feel that way given the losses that many investors are still nursing.

After falling 33.8% last year, the Dow Jones Industrial Average finished last week 34% above its 12-year closing low on March 9. The Standard & Poor's 500-stock index is up nearly 40% from its low on that date.

The traditional definition of a bull market is a 20% gain from a low point and a bear market is a 20% decline from a high. But the Dow remains 38% below its record close in October 2007, and the S&P is nearly 40% below its record.

Even those who believe a more stable economy and lots of cash sitting on the sidelines will send the market higher re-

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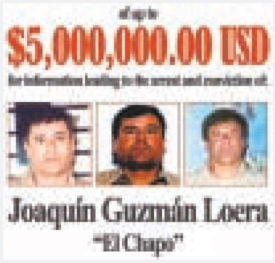

Hunting 'El Chapo'

Mexican drug lord unleashes mayhem on U.S. border.
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Markets

	CLOSE	PCT CHG
DJIA	8799.26	+0.32
Nasdaq	1858.80	-0.19
DJ Stoxx 600	214.35	-0.21
FTSE 100	4441.95	-0.45
DAX	5069.24	-0.74
CAC 40	3326.14	-0.26
Euro	$1.4006	-0.47
Nymex crude	$72.04	-0.88

LEADING THE NEWS

Netanyahu relents a bit

A Palestinian state would be acceptable with some provisos

BY MARGARET COKER

JERUSALEM—Israeli Prime Minister Benjamin Netanyahu broke with his past and announced Sunday that he would accept an independent Palestinian state as long as it was demilitarized and had limited governing powers.

In a speech meant to lessen pressure from a White House eager to end the vexing Middle East conflict, Mr. Netanyahu repeatedly said that his government was interested in peace with its Arab neighbors. But to achieve such an outcome, he reiterated his government's positions on the need to ensure the Jewish nature of Israel, the status of Jerusalem as its capital and the right for Jewish settlers to live in the West Bank, an issue that the administration of U.S. President Barack Obama says is an impediment to peace.

"A fundamental condition for ending the conflict is the Palestinians recognizing ... that Israel is the nation state of the Jewish people. If we receive this ... we will be prepared for a true peace agreement, to reach a solution of a demilitarized Palestinian state alongside the Jewish state," Mr. Netanyahu said

The conflicting tone of the 28-minute speech shows the tight balancing act the Israeli leader must follow between the conservative branch of his Likud party, which formally rejects a two-state solution, and a more liberal president in America, the Jewish state's most important ally.

Many Israeli political leaders, including those in his own party, gave Mr. Netanyahu's speech wide approval. Meanwhile, the Palestinians reacted with anger to the Netanyahu vision. Palestinian President Mahmoud Abbas said the Israeli leader had "sabotaged" future negotiations by limiting the issues Israel would be willing to discuss.

White House spokesman Robert Gibbs said President Barack Obama welcomed Mr. Netanyahu's stance, calling the speech an "important step forward" and saying it served as an "endorsement" of Mr. Obama's call for a viable Palestinian state.

"The president is committed to two states, a Jewish state of Israel and an independent Palestine, in the historic homeland of both peoples," Mr. Gibbs said in a statement.

Mr. Gibbs said Mr. Obama would continue working with all parties—Israel, the Palestinian Authority, Arab states and other countries involved in the talks—to ensure that they "fulfill their obligations and responsibilities necessary to achieve a two-state solution to the Israeli-Palestinian conflict and a comprehensive regional peace."

Other U.S. observers agreed that Mr. Netanyahu's statements were potentially significant.

Mr. Netanyahu "clearly gave the administration something," said Aaron Miller, a former State Department official now at the Woodrow Wilson Center, a think tank in Washington. Mr. Miller said he expected the White House to welcome the stance, since "they don't have anywhere else to go," but he questioned whether the position taken by Mr. Netanyahu in his speech would meet the administration's goals in the long term.

Israeli officials are hoping for upbeat response from Washington on the other major theme of Mr. Netanyahu's speech: the threat his nation sees in Iran. He opened his address by calling Iran's nuclear ambitions "the greatest threat facing Israel, the Middle East, the entire world and human race."

Since his election in February, Mr. Netanyahu has argued in Washington that Iran's nuclear ambitions, not Israel's conflict with the Palestinians, should be the central pillar of American Middle East policy. That argument now stands to get a boost after the re-election of Iranian President Mahmoud Ahmadinejad.Israeli leaders say they hope the election—not only the result, but alleged voting irregularities and a violent crackdown on demonstrators that followed—will help convert allies to their goal of enacting tougher international measures against Iran. They also see the elections providing a dose of realism to what many Israeli officials see as a dangerous level of naivete at the Obama White House about Middle East affairs.

Benjamin Netanyahu

Israeli analysts say that Friday's vote validates Israel's perceived threat from Iran and increases Mr. Netanyahu's leverage with Washington in his increasingly open disagreement with President Obama over a two-state solution with the Palestinians.

Mr. Netanyahu and his ruling Likud party believe that giving Palestinians territory in the West Bank will lead to an Iranian-linked Islamic government there. Hamas won Palestinian-wide elections several years ago, before forcefully taking over Gaza.

"We will not allow the establishment of a Hamas state in the West Bank," Mr. Netanyahu said on Friday, referring to the Palestinian faction that controls Gaza and receives support from Iran.

Israel's threat assessment from Iran is dire. Its intelligence community claims the Islamic Republic could enrich weapons-grade nuclear fuel by the end of the year, a timeline that most U.S. intelligence officials don't agree with.

—Peter Spiegel in Washington contributed to this report.

G-8 finance ministers look beyond end of crisis

BY MICHAEL M. PHILLIPS

LECCE, Italy—World financial leaders are starting to examine how they will unwind their emergency spending packages and bank rescues amid signs the economic crisis may have hit bottom.

Finance ministers from the Group of Eight major industrial powers on Saturday asked the International Monetary Fund to research strategies to slim budget deficits and reduce government presence in the financial sector, but in a way that wouldn't reignite the crisis.

Economic and financial recovery "will be stronger and more sustainable if we make clear today how we get back to fiscal sustainability when the storm has fully passed," U.S. Treasury Secretary Timothy Geithner told reporters at the close of two days of meetings here.

The U.S., now 18 months into its recession, has seen new jobless claims stabilize, while consumer spending has stopped falling on a monthly basis.

Mr. Geithner on Saturday pushed his counterparts from other countries to implement parts of the Obama administration's overhaul of financial-market supervision, arguing that a level playing field is necessary to ensure that the new safeguards aren't undermined.

Mr. Geithner called for tougher capital standards for globally active banks, powers in each country to wind down a faltering global financial company and more uniform transparency over complex products such as derivatives.

U.S. Treasury officials also want stronger supervision of large banks across major countries and better information-sharing arrangements so that U.S. and foreign officials can more closely supervise internationally active companies.

Mr. Geithner and other senior Obama administration officials have spent months crafting a plan to bolster supervision of financial markets and plan to present their recommendations on Wednesday.

As the G-8 meetings began, Canadian Finance Minister Jim Flaherty told reporters, "I think it's appropriate that we do look a little bit down the road and plan to get the private sector back into the markets and the public sector withdrawing from the markets."

Economic growth has picked up in China and some other emerging nations. Nonetheless, Mr. Geithner and his G-8 counterparts emphasized that the danger hasn't passed and that they don't advocate spending cuts now.

Good news in the U.S. remains spotty, while European economies have even less reason for optimism.

The ambiguity reflects the challenge faced by policy makers. On one hand, big government deficits could generate inflation and make it more expensive to borrow on international markets. Conversely, officials worry that premature belt-tightening could stifle any recovery.

Governments "will need to take very difficult decisions, and they should get ready to do so before they get pushed with their back against the wall by the markets," Marco Annunziata, chief economist of UniCredit Group in London, wrote to clients after the G-8 meetings.

In recent months, G-8 governments have injected hundreds of billions of dollars into faltering banks and implemented large spending packages to fend off a deeper contraction.

The IMF warned in a report last month that in 2014 public debt in the average advanced country would account for 36 percentage points more of gross domestic product than it did in 2007.

The G-8 finance ministers' meeting was in preparation for next month's summit of leaders from the U.S., U.K., Russia, Japan, Canada, Germany, France and Italy.

—Damian Paletta, Alessandra Galloni and Luca Di Leo contributed to this article.

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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

Boeing faces test of its military strategy

Defense, commercial sales are expected to fall in tandem

BY AUGUST COLE AND DANIEL MICHAELS

PARIS—For **Boeing** Co., the Paris Air Show today offers a chance to generate excitement around the much anticipated and long-delayed takeoff of its most sophisticated commercial jet, the 787 Dreamliner, which could take place next week.

But behind the hype, Boeing is facing a more profound challenge of the strategy it embarked on during the 1990s to offset jetliner-sales cycles with more stable military revenue. The logic undergirding that decision is being tested as military hardware spending is under pressure globally, at the same time commercial jet orders are slumping.

Boeing remains strong compared to companies in industries such as car-making and finance because it has years' worth of orders to fill and robust operating profits. But now it falls on Chairman and Chief Executive Jim McNerney to shepherd the company through a period in which both its core businesses could be hurting. The last time both slumped simultaneously was the early 1990s, predating Mr. McNerney and Boeing's role as a major defense contractor.

Jim Albaugh, chief executive of Boeing's defense business, said Sunday in Paris that the company has studied closely how companies successfully navigated the last defense downturn, and plans to continue to invest and make related acquisitions accordingly, as it has been doing in recent years. "Jim McNerney is not looking to me to shrink the business and to hunker down," said Mr. Albaugh.

Aerospace executives and investors are bracing for a bumpy ride. The U.S. Defense Department is aggressively curtailing spending on the high-tech weapons systems that in recent years buoyed defense-company revenues but aren't relevant in Iraq or Afghanistan. Commercial jetliner orders at Boeing and European rival Airbus have evaporated this year after several record years.

Boeing officials don't foresee a pickup in air travel until at least the middle of next year. "We remain cautiously optimistic that we can get through it," said Scott Carson, chief executive of Boeing's commercial airplane division, through a spokesman. Boeing has cut production of its big 777 models, and is working closely to help all its customers ensure they can pay for deliveries, Mr. Carson said.

The first flight of the 787 Dreamliner, which Boeing has pledged to conduct by June 30, begins a months-long program of flight-testing that is necessary before the plane can be certified to carry passengers.

Since acquiring defense giant McDonnell Douglas in 1997, Boeing has come to count on roughly $32 billion a year in defense sales to offset cycles in the commercial sector. Boeing has focused recently on growing through acquisitions in promising areas such as cyber-security and unmanned aerial vehicles. Export sales of its existing military fighters and transport planes also are growing in importance as U.S. orders for its warplanes are set to shrink.

Boeing is expected to announce Monday its latest buy of an intelligence contractor, according to company executives. Such transactions are increasingly important as Boeing believes Pentagon spending has peaked. "Last year or this year could be the high-watermark for defense spending in the United States," Mr. Albaugh said.

Despite challenges to Boeing's two-track strategy, Boeing's biggest rival, Airbus parent **European Aeronautic Defence & Space** Co. has followed the same tack by aggressively expanding its defense business to balance the cyclicality at Airbus.

"The crisis is confirming that our strategy is more valid than ever," said EADS Chief Executive Louis Gallois on Saturday.

Since its creation in 1999 from aerospace companies in France, Germany and Spain, EADS has pushed sales of its fighter jets, military transport planes and missiles. It is also using Airbus planes and its Eurocopter helicopters for defense systems. For example, EADS is following Boeing's lead by converting passenger planes into midair refueling tankers. The two are competing for a $40 billion contract from the U.S. Air Force to supply aerial refueling planes, a competition that restarts later this year.

Safety to supplant deal making as focus of Paris Air Show

BY DANIEL MICHAELS

The world aviation industry gathers Monday for the Paris Air Show with low expectations of big-money deals but plenty of attention on air safety in the wake of the recent Air France crash.

For Airbus, reassuring airlines that its A330 model—the same one that plunged into the Atlantic last month with 228 people on board—is a reliable plane isn't just about making passengers feel safe.

The A330, a workhorse of airlines world-wide, is one of Airbus's best-selling models. The jetliner, which has a catalog price of about $190 million, is also one of Airbus's most profitable; and it has orders outstanding for some 400 more.

Airlines and leasing companies so far have stood behind the two-engine A330 and its four-engine twin, the A340. There are nearly 1,000 of the two models, which were certified in 1993 and have operated largely without trouble, in service.

Scandinavian carrier **SAS** AB Friday became the latest airline to issue a statement affirming the safety of its A330s and A340s, following endorsements from carriers including **Singapore Airlines** Ltd. and Dubai's **Emirates Airline**.

Any dents to the plane's reputation could hurt the ability of Airbus—and its parent company **European Aeronautic Defence & Space** Co.—to cover several billion dollars in cost overruns on new models in development. It also could hurt the overall airlines business, which is coping with plunging demand.

Worries about safety come amid general economic gloom. The aerospace industry is bracing for a sharp drop in jetliner orders this year and a potential slide in production.

One Airbus supplier, **Thales** SA of France, already has drawn unwanted scrutiny because it manufactured the airspeed probes, or pitot tubes, on the crashed plane. The sensors, which had a history of malfunctioning, and were due to be replaced, may have contributed to the accident. No direct link has been established. A Thales spokeswoman declined to comment.

The crash of Air France Flight 447 en route from Rio de Janeiro to Paris is unusual because the plane disappeared while cruising high over the Atlantic Ocean. Almost two weeks after the accident, few clues have emerged as to why.

Naval crews have so far collected at least 44 victims and much debris, and searchers are scouring the region for the plane's so-called black boxes, which may sit on the sea bed. Without recordings of flight-data and cockpit conversations on the units, investigators may never fully understand the four-year-old plane's final minutes.

Airbus

Airbus in the spotlight

The A330 is a workhorse of airlines world-wide

	A330 (2-engine)	A340 (4-engine)
Planes flying	614	360
On order	405	20
Price* (millions)	$190	$232

- The A330 is the company's best-selling long-range model and one of its most profitable products.
- New cargo and military versions are being developed.

*Average catalog price

Source: the company

On Friday, Brazilian officials displayed recovered wreckage in Recife that included an oxygen mask, torn chunks of the plane's frame and an interior wall with two seats still attached.

A Brazilian air-force official said the search for bodies would continue for another week. The condition of the victims' bodies, including any burn marks, could help investigators understand what brought the plane down.

Airbus Chief Executive Tom Enders last week publicly stressed the A330's strong safety record and urged patience with the investigations. "These investigations can take months," Mr. Enders said.

Behind the scenes, Airbus has updated airlines with initial conclusions of the investigation, which Airbus said indicated nothing was fundamentally wrong with the plane.

But as with many accidents, the crash has focused new attention on the model and spotlighted incidents that otherwise would be little noticed. An A330 operated by a subsidiary of Australia's **Qantas Airways** Ltd. made an emergency landing in Guam on Thursday because of a small fire in the cockpit that caused no injuries.

Qantas officials stressed that the incident was "unrelated" to the Air France crash and the airline has "full confidence" in the A330.

Airlines badly want the planes to get a clean bill of health. Steven Udvar-Hazy, chairman of aircraft-leasing giant International Lease Finance Corp., said that among more than 20 airlines flying ILFC's A330s, many find it the "most profitable and flexible airplane in their fleet."

ILFC "has total confidence" in the A330, Mr. Udvar-Hazy said. ILFC, a unit of **American International Group** Inc., is the largest owner of A330s, with 97 of the model, according to Airbus.

Over recent years, the A330 supplanted U.S. rival **Boeing** Co.'s 767 as the industry's top-selling long-range model in the 250-seat range. Boeing officials have said that the 767 was previously their most profitable model—exceeding even their more prominent 747 jumbo jet.

—Antonio Regalado contributed to this article.

Sikorsky offers to join Lockheed in bid to revive helicopter pact

BY AUGUST COLE

Helicopter maker Sikorsky is willing to partner with former rival **Lockheed Martin** Corp. to resuscitate a recently cancelled contract to supply high-tech helicopters to the White House.

The presidential-helicopter program—which had been held by Lockheed using a design from **Finmeccanica** SpA's AgustaWestland—was nixed earlier this month for being too costly and too problematic. Sikorsky President Jeff Pino said Sunday he wrote to U.S. Defense Secretary Robert Gates early this month expressing interest in supplying Lockheed with helicopters as an option that could help save costs. Mr. Pino's comments were in response to a question about a possible alliance with Lockheed.

Lockheed doesn't manufacture its own helicopters and beat Sikorsky in the 2005 competition using a design from AgustaWestland that it would pack with Air Force One-like communications and safety features.

Sikorsky, a unit of **United Technologies** Corp., would team with Lockheed "in a heartbeat," Mr. Pino said in an interview in Paris on the eve of the Paris Air Show where he described the letter sent to Mr. Gates. "I just wanted to get on the record very quickly," he said of the letter to the defense secretary.

The overture underscores the troubled program's high profile in the aerospace industry and its value as a potential booster of sales for the maker of the White House fleet. If successful, Sikorsky would have an unmatched showcase for its S-92, which is used for everything from search-and-rescue missions to ferrying oil-rig workers and transporting VIPs.

Politically, using a U.S.-made helicopter design instead of a foreign model might help engender stronger support for the program than it currently has in Washington, where senior lawmakers such as Republican Sen. John McCain of Arizona have singled it out for being an example of wasteful military spending.

Citing expected costs that were set to more than double to more than $13 billion for 28 helicopters, Mr. Gates said in April he would cancel the program, and on June 1 the Defense Department formally terminated the contract with Lockheed. The contract went awry as the already-complex tasks taken on by Lockheed and its partners were made more difficult by shifting government specifications.

Mr. Pino said he was pretty sure Sikorsky could help Lockheed lower the costs and might even be able to help the government avoid the termination liability it incurs from ending the contract early if some kind of arrangement took shape.

Mr. Pino said Lockheed has a copy of the letter he sent to Mr. Gates, and he has meetings planned with Lockheed executives at the air show. "It should be clear to them we would work with them but I have not had any specific conversations," he said. The Pentagon also acknowledged receiving his letter, he said.

Lockheed said in a statement it is complying with the government's termination plans and supports the Pentagon's "directions on next steps for the program," noting that its AgustaWestland agreement remains in place.

Lockheed and Sikorsky are already partners on a Navy contract to provide special versions of the Black Hawk workhorse helicopter. The work is done at the same facility in New York state where Lockheed is developing and integrating much of the special electronics systems that were to be packed into the next presidential helicopter.

An AgustaWestland spokesman said its aircraft "prevailed because it's the only helicopter in the world that can both perform the mission and land on the White House lawn."

CORPORATE NEWS

Price drop boosts gas in U.S.

Coal, long the dominant source of fuel for electricity, could be losing its appeal

BY REBECCA SMITH AND BEN CASSELMAN

A precipitous drop in the price of natural gas means lower bills for some U.S. electricity consumers but spells trouble for coal producers, long the dominant source of fuel for the electric-power industry.

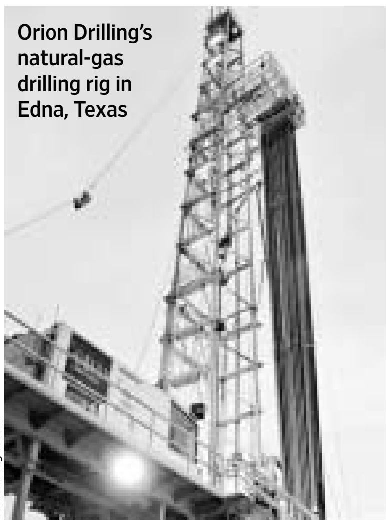
Abundant new supplies of natural gas, combined with reduced demand for electricity, have sent prices tumbling to less than $4 per million British thermal units from more than $13 last July. That drop could prompt power companies to invest billions of dollars in natural-gas fired plants.

"Nobody was talking about $3 gas a year ago," said James Daly, director of gas and energy supply for **Nstar**, the utility formerly known as Boston Edison. Nstar is cutting residential electricity rates 27% on July 1 and anticipates a similar reduction in January, if gas prices remain low.

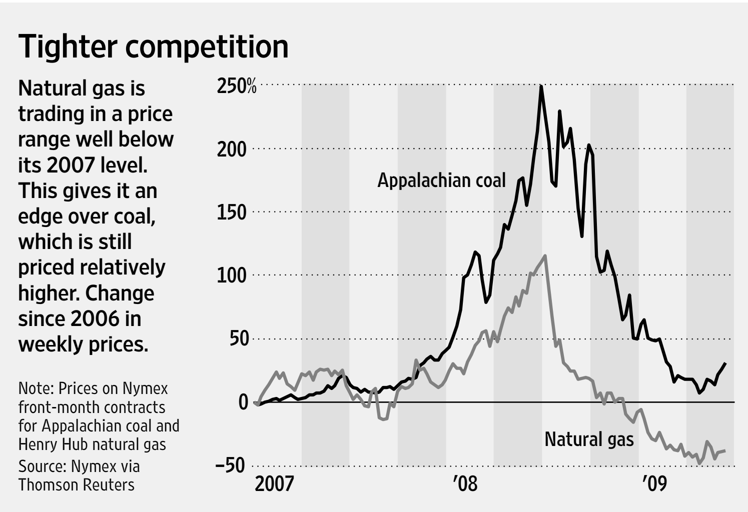
For more than a century, the U.S. has relied on coal to produce the biggest share of its electricity. Coal now accounts for about half of the nation's electricity, compared with about 21% from natural gas.

But natural-gas plants can be built more quickly and inexpensively than coal plants, and they release about half as much carbon dioxide as coal to produce similar amounts of electricity. That could be a big advantage if Congress passes a climate-change bill that would cap such carbon emissions.

This isn't the first time the power industry has embraced natural gas. In the late 1990s, as states deregulated their electricity markets, a new breed of so-called merchant generators built scores of gas-fired plants, encouraged by rosy supply forecasts and easy borrowing.


Orion Drilling's natural-gas drilling rig in Edna, Texas

Bloomberg News



Enthusiasm waned by 2002, when such merchant generators as **Calpine** Corp., **Mirant** Corp. and **NRG Energy** Inc., landed in bankruptcy court. Gas prices also began to rise sharply around 2007, following the run-up in oil.

New natural-gas discoveries, however, in Texas, Louisiana, Pennsylvania and elsewhere, have created a gas glut that analysts expect to linger. Energy consulting firm Wood Mackenzie predicts gas prices won't recover until 2015.

Power companies are beginning to ratchet back investments in coal-generated plants to take advantage of low gas prices and hedge against costly climate-change legislation.

"We're pulling back the coal throttle," said Ted Craver, chief executive of **Edison International**, Rosemead, Calif., which owns several coal-fired plants that sell power on the open market. With sales poor, his company took units out of service early for seasonal repairs this year, hoping sales will pick up this summer.

In parts of the U.S. where there are daily electricity auctions, gas generators are chipping away at coal market share with lower prices. Coal-to-gas switching has created incremental gas demand of three billion cubic feet a day, and "further switching potential is still large, in our view," said a research report released June 1 by Merrill Lynch & Co.

"Fuel switching aggravates a situation that's already bad for coal," said Shneur Gershuni, analyst at UBS Investment Research.

Coal consumption by the U.S. power industry is expected to drop by 2.3% this year, according to the Department of Energy's Energy Information Administration, and coal production by mining companies is expected to drop 5% to 10%.

"There basically is no spot market for coal right now," adds Jim Thompson, managing editor of the Coal and Energy Price Report in Knoxville, Tenn., a coal-industry newsletter. "Coal companies are living off their utility contracts."

Utilities mostly obtain coal through multiyear contracts. As a result, even though spot coal prices have fallen, prices paid by utilities are expected to rise 2% this year to an average of $2.11 per million BTUs. Next year, the EIA expects coal prices to dip slightly to an average of $1.91 per million BTUs.

Those numbers suggest coal is still about half the price of natural gas. But the numbers can deceive. Gas-fired power plants convert more fuel into electricity more efficiently than coal units, and it is cheaper to move natural gas than coal. As a result, gas can still have an advantage over coal even if the commodity cost is higher.

Exxon joins TransCanada on Alaska project

BY RUSSELL GOLD

Exxon Mobil Corp. is throwing its weight behind what could become one of the world's biggest engineering projects: a proposed $26 billion natural-gas pipeline connecting Alaska's North Slope to Chicago.

The oil giant said Thursday it is joining an existing effort by **TransCanada** Corp. to build a pipeline. Exxon controls the largest share of natural gas on the remote North Slope and its involvement was seen as critical to any project.

While Exxon's announcement tilts the scales in favor of the pipeline being built, the project faces numerous challenges and is still far from becoming a reality. Among the most serious questions it faces is whether the Alaskan gas is even needed. North America is in the midst of a natural-gas glut, driving down prices, and observers believe liquefied natural-gas imports are set to grow as overseas producers seek to unload their gas in the U.S.

The TransCanada proposal already has the backing of the Alaskan government, which last August passed legislation to provide up to $500 million in funds to pay for preliminary work. Even moving quickly, the pipeline isn't expected to receive certification from the U.S. Federal Energy Regulatory Commission until 2014, and wouldn't begin moving its four billion cubic feet of natural gas daily until the end of the next decade.

The $26 billion natural-gas pipeline would run from Alaska to Chicago.

Alaska Gov. Sarah Palin has urged the project forward. "It's absolutely needed and we can't be short sighted with these long-lead-time developments. There will be a 40% increase in natural-gas demand by 2030," she said in an email.

BP PLC and **ConocoPhillips**, which both control large gas deposits in Alaska, are working on a competing pipeline proposal, but it doesn't have the support of the state government. ConocoPhillips spokesman Charlie Rowton didn't rule out ultimately working with the Exxon Mobil-TransCanada pipeline. "We're willing to look at any and all proposals," he said.

The North Slope holds some 35 trillion cubic feet of known gas reserves. The state estimates undiscovered reserves could bump that figure to as much as 250 trillion cubic feet. By comparison, U.S. consumption in 2007 was just over 23 trillion cubic feet.

While the remote North Slope holds an enormous gas deposit, available gas in the Cook Inlet that feeds Anchorage and nearby cities has appeared thin in recent months. That has added urgency to the state's multiyear attempt to jump-start a pipeline. In addition, many Alaskans believe a pipeline would lead to an economic boom—much like the 1970s construction of the oil pipeline.

—Isabel Ordóñez contributed to this article.

Huntsman legal drama heads to Texas court

BY PETER LATTMAN

The final act in the legal drama over the busted buyout of **Huntsman** Corp. is expected to start Monday, when the chemical maker squares off against **Credit Suisse Group** AG and **Deutsche Bank** AG.

Big money will be at stake in the Conroe, Texas, courtroom. Huntsman seeks $4.65 billion in damages, more than three times its current stock market capitalization. It accuses the investment banks, who were facing billions of dollars in loan losses, of plotting to scuttle its 2007 leveraged buyout by Hexion Specialty Chemicals, a company owned by private-equity firm **Apollo Management LP**.

"The banks have done nothing wrong," said a spokesman for the two firms. "We are fully confident that we will be vindicated."

The case will test how a Texas state court jury views large Wall Street banks at a time when their reputations have been sullied by the financial crisis. Barring a last-minute settlement, the trial is expected to last six weeks.

The case is among the last in a spate of lawsuits that cropped up two years ago when the credit bubble burst. Private-equity firms and their lenders grew skittish about funding the deals and tried to renege on their commitments.

Struck in July 2007, the Huntsman deal was a classic boom-era leveraged buyout, entirely funded by $15.4 billion of newly issued debt. It collapsed 11 months later when Apollo asked a Delaware judge to cancel it, arguing that a combined Hexion-Huntsman would be insolvent and therefore didn't meet the banks' funding conditions.

After a six-day trial, a Delaware judge disagreed with Apollo, ruling that Hexion intentionally breached the merger pact to wriggle out of the deal. The judge ordered Apollo to use its best efforts to close the transaction.


Leon Black

After the Delaware ruling, Huntsman, based in The Woodlands, Texas, sued the banks in state court, alleging that they also interfered with the merger.

Last December, Huntsman and Apollo reached a $1 billion settlement that included a $325 million payment from the banks. That amount was far less than the $3 billion Huntsman had sought, but it came at a moment when the company needed cash.

Now Huntsman has taken aim at the banks. The company has accused Credit Suisse and Deutsche Bank of failing to fund the deal because they sought to avoid billions of dollars in losses. Huntsman is also accusing the banks of subverting a binding deal it had with chemical maker **Basell Holdings** BV, which had agreed to acquire Huntsman for $25.25 per share, funded by Citigroup Inc. Huntsman says it accepted the higher Apollo $28-per-share bid in large part because of the iron-clad financing promised by the banks, which stood to earn $250 million in fees on the commitment.

The banks argue that they didn't provide the financing for the deal because they didn't think a combined Hexion-Huntsman would be solvent, a requirement under the financing commitment letter.

Huntsman hopes to persuade jurors that the banks schemed with Apollo to squelch the buyout. The evidence is expected to included details of a meeting at the World Economic Forum in Davos, Switzerland, between Apollo boss Leon Black and Credit Suisse Chief Executive Brady Dougan in which the two men discussed the troubled buyout and ways to mitigate losses on the deal.

"We needed to find a solution that would limit the damage to both firms," reads a document prepared by a Credit Suisse banker marking what was said at the meeting.

The banks are expected to argue that this conversation and others are typical interactions, nothing more than loose talk between lenders and their private-equity clients.

A victory would be a boon for the Huntsman, which continues to suffer from a global slump in the chemical industry. In 4 p.m. New York Stock Exchange trading Friday, Huntsman was at $6.67, down 18 cents.

Wall Street will be watching the trial closely to see how the banks fare in the Texas courts, where a jury awarded Houston-based Pennzoil Co. $10.5 billion in a 1986 suit against New York-based Texaco Inc.

Legal experts say that Texas-sized verdicts aren't nearly as common as they once were. After years of tort reform, "Texas is nowhere near the plaintiffs' paradise that it was in the time of Texaco-Pennzoil," said Tom Kirkendall, a commercial litigator based in The Woodlands.

What's more, the case is being tried in Conroe, a small city 40 miles north of Houston, not considered a particularly plaintiff-friendly jurisdiction. The area has also held up relatively well during the downturn.

"I don't think you could be in a better county as far as the economic crisis is concerned," said Judge Fred Edwards to the banks' lawyers during a pre-trial hearing.

CORPORATE NEWS

Alcon deal puts Novartis in a bind

Options pact forged with Nestlé locks up cash; price is off

By Anita Greil

ZURICH—**Novartis** AG's pending acquisition of eye-care company **Alcon** Inc. is looking increasingly costly, cramping Novartis's ability to make acquisitions amid an acquisition spree in the pharmaceutical sector.

A year ago, Novartis bought from **Nestlé** SA a 25% stake for $11 billion in the company with an option to buy Nestlé's remaining 52% holding in 2010 and combine Alcon with its own eye-care operations, reducing costs and giving a boost to the development of new products.

But since then, Alcon's share price has dropped 24% from $148.44 to about $113. That leaves Novartis with a few unattractive possibilities. It can exercise an option to buy Nestlé's stake for $181 a share. Or Nestlé can exercise its option to sell its stake to Novartis at a premium of 20% to the market price—assuming today's prices hold, that would mean Novartis would pay around $136 a share, and this is the scenario Novartis says it would prefer. Both options run for 19 months, starting Jan. 1.

A Novartis spokesman said that it isn't trying to renegotiate the deal and that the underlying business logic of the tie-up remained, even if the financial terms of the deal couldn't be predicted.

Until the options expire, Novartis needs to have the cash ready in case Nestlé decides to sell, constraining its ability to look for other deals. A Novartis spokesman said that the company is still looking for companies to slot into its existing operations, citing the recent $1.2 billion acquisition of EBEWE Pharma in May.

Losing value

Alcon's shares have fallen since Novartis bought a stake

Sources: Thomson Reuters Datastream; Alcon; Dow Jones Research

However, that deal pales alongside the megadeals that have struck the pharmaceutical sector this year, such as Pfizer's $68 billion acquisition of Wyeth, Merck's $46 billion acquisition of Schering Plough and Roche's $47 billion takeover of Genentech.

"We've already started raising the debt necessary to fulfill what we see as an Alcon put beginning on Jan. 1, so we raised $5 billion in debt in February this year and you'll see us continue to do so through the course of the year," Jill Pozarek of Novartis investor relations told investors at the Deutsche Bank healthcare conference last month.

Earlier this month, Novartis raised a further €1.5 billion ($2.1 billion) through a bond sale. Add to that an estimated $4.5 billion in cash flow to be generated this year, and Novartis should have about half the required amount on hand next year, said Karl-Heinz Koch, analyst with Helvea SA, in Zurich.

"Now, they are stuck with 25%, and the cash for the second tranche is blocked, while it is unclear if Nestlé will even sell. This certainly wasn't a masterpiece in deal-making," said David Kaegi, an analyst at Sarasin.

Novartis officials have expressed confidence that Nestlé wants the deal. "We believe that Nestlé is looking forward to completing the transaction," said Ms. Pozarek.

However, analysts wonder if Nestlé has that much incentives to gain cash. Short-term interest rates have collapsed amid central banks' efforts to pump liquidity into the financial system, leaving little incentive for Nestlé to hold all that cash on its books. A spokeswoman for Nestlé declined to comment on what she called speculation about the deal.

"Holding on to Alcon quite probably still yields a better return on investment than parking all that cash in the money market," said Birgit Kulhoff, a pharmaceutical analyst at private bank Rahn & Bodmer in Zurich. "Thus, unless Nestlé plans a major acquisition next year or in 2011, they have not much of an incentive to sell their stake."

Nestlé Chief Financial Officer James Singh told investors earlier this year that "Alcon is a very strong company. We believe the underlying value of Alcon is sound and therefore there is no intention to negotiate any agreement at this stage."

"Given that the options run for more than a year, Nestlé is under no pressure to act, and time is on its side," said Patrik Schwendimann, food analyst at Zuercher Kantonalbank.

Analysts say Alcon's share are unlikely to recover their year-ago levels, given uncertainties over whether several drugs can keep their patent protection. Two drugs' patents have been challenged and a third drug is expected to lose its patent in 2013 or 2014. Those looming patent expirations and the need to replenish Alcon's pipeline were among the reasons why Nestlé last year decided to sell the business to a drug maker with expertise in developing new medicines.

This leaves Novartis in the uncomfortable position of waiting, and hoping that the deal will come through. Once it owns a majority in Alcon, it can start saving costs by reducing overlap with its own business, and get started on developing new products to make up for the key Alcon drugs are nearing the end of their patent-protected life.

—Martin Gelnar contributed to this article.

Vedanta to raise offer in Asarco bankruptcy

By Joel Millman

The advantage in the battle to take copper giant **Asarco** LLC out of bankruptcy is expected to shift this week as **Vedanta Resources** PLC increases its bid, countering an offer filed by Mexican mining conglomerate **Grupo Mexico** SAB.

An amended debtor's filing that may be submitted as soon as Monday will show that a unit of Vedanta, a London-based mining conglomerate with the bulk of its assets in India, will increase to $770 million from $600 million the note portion of its offer—which is valued at between $2 billion and $3 billion including all liabilities.

According to people familiar with a term sheet provided to a bankruptcy judge in Texas on Friday, the Vedanta unit, Sterlite Industries, also will improve its terms of payment to a crucial class of creditors: asbestos claimants, who had been seeking a settlement of personal-injury claims from damages arising from Asarco's mining, smelting and refining operations across the American West since 1899. Before the amended filing, asbestos claimants had been backing a bankruptcy reorganization plan submitted earlier this month by Asarco's estranged parent, Grupo Mexico.

"Grupo can beat [the Sterlite offer], and then the asbestos committee will recommend both reorganization plans to its constituents and remain neutral. If Grupo does not beat it then we will recommend only the Sterlite plan," said Sander Esserman, chief counsel for asbestos claimants. His clients originally sought in excess of $2 billion from Asarco, but now are expected to settle for about $1 billion as the Tucson, Ariz., company emerges from bankruptcy.

This latest move by Vedanta's Sterlite unit could well trigger a bidding war, especially now that a third party, bondholder **Harbinger Capital Partners**, also has decided to make a play for Asarco's assets.

Vedanta declined to comment on what a spokesman called "market speculation."

The struggle to determine control of Asarco as it emerges from its August 2005 Chapter 11 bankruptcy filing has involved legal and financial maneuvers in Europe, Asia, South America and North America with offers and counteroffers rising and falling with global copper prices. Asarco's management team, which was appointed by the bankruptcy court, and its unionized work force prefer that Vedanta ultimately be declared the winner.

Grupo Mexico acquired Asarco in a 1999 hostile takeover, exactly a century after the company was founded. The company played a role in the Mexican Revolution—Pancho Villa allegedly killed 17 Asarco employees, triggering a punitive raid by the U.S. Army into Mexico—and Grupo Mexico has said repeatedly that it intends to resume management of its U.S. subsidiary.

Grupo Mexico's chairman, Mexican billionaire Germán Larrea, told a U.S. court last year that it was always his company's intention to satisfy all creditors' claims, including environmental claims by the U.S. federal government and several Western states, once the amounts were determined. He said he hoped to have those amounts made clear in bankruptcy court.

—Jackie Range contributed to this article.

MGM Mirage, Genting talk tie-up

By Tamara Audi And Jonathan Cheng

Las Vegas-based gambling giant **MGM Mirage** and Malaysian gambling concern **Genting** Bhd. are discussing a broad range of business partnerships in the global gambling industry, MGM Mirage Chief Executive Jim Murren said Thursday.

Any partnership could give Genting access to lucrative business in Macau, China's gambling enclave where MGM operates, and offer MGM Mirage entree into other regions of Asia where Genting has a major presence.

Genting recently invested $200 million in MGM Mirage, with half of the amount for a 3.2% equity stake and half on a bond issue. Mr. Murren said officials from the two companies have had a long relationship, and are interested in working together on a variety of projects world-wide.

"We're just starting to brainstorm about global marketing relationships, strategic ventures and partnerships," Mr. Murren said.

Discussions between the companies are at a preliminary stage.

"We are constantly looking to broaden our portfolio of strategic investments and strengthening our partnerships around the world," said Justin Leong, head of strategic investments and corporate affairs for Genting.

Genting dominates the gambling industry in Malaysia and plans to open a casino resort in Singapore next year. MGM Mirage dominates the Las Vegas Strip with prominent properties like the Bellagio and the Mirage. It also operates an MGM Grand in Macau, considered the most lucrative gambling market in the world.

"We have no overlap of business and we have a very similar approach to business," Mr. Murren said of Genting.

Six Flags files prepackaged plan for bankruptcy

By Mike Spector

Six Flags Inc., one of the largest regional amusement-park companies in the U.S., filed for bankruptcy protection Saturday.

The company, shouldering more than $2 billion in debt, had been negotiating with lenders, selling parks and laying off staff in a race to restructure outside of bankruptcy court. But it couldn't outrun the deteriorating economy and a looming $288 million payment due preferred shareholders in August, along with $31 million in unpaid dividends.

Six Flags, based in New York, hopes to exit bankruptcy quickly through a prearranged reorganization plan. It struck a deal with senior secured lenders to a credit facility that would allow Six Flags to convert $1.8 billion in debt to equity.

The plan was backed by **J.P. Morgan Chase** & Co., which is the agent for the facility, and a steering committee of lenders, according to court documents. The plan also would wipe out more than $300 million in preferred-stock obligations.

Six Flags listed assets of $3billion and debt of $2.4 billion. Its total liabilities were $3.4 billion at the end of March. Among its largest unsecured creditors were HSBC Bank USA and Bank of New York Mellon as trustees for more than $1 billion in bond debt.

The filing, in Delaware, marked another highly leveraged company falling victim to the deep recession. Six Flags' 20 parks dot North America. Revenue in the first quarter fell 24% and the company delayed certain debt payments.

The filing under Chapter 11 of the U.S. Bankruptcy Code is a setback for investor Daniel Snyder, the Washington Redskins football team owner who took control of the theme-park company in a proxy fight in 2005 and installed his own management team. The bankruptcy would likely wipe out Mr. Snyder's 6% stake.

In the midst of his battle to wrest control of the company, Mr. Snyder wrote a letter to Six Flags stockholders saying they "would have been better off hiding their money under a mattress" than investing in the company under its prior management.

"The current management team inherited a $2.4 billion debt load that cannot be sustained, particularly in these challenging financial markets," Mark Shapiro, Six Flags' chief executive, said in a prepared statement. He said operations of the company's parks would be unaffected by the filing.

Also losing out in Six Flags' financial roller coaster: Microsoft Corp. founder Bill Gates, whose Cascade Investment LLC owns about 10.2 million shares, or an 11% stake.

Six Flags warned earlier this year that it could file for bankruptcy if it failed to reap concessions from lenders. Since April, it had been in discussions with lenders about a debt-for-equity swap, but failed to get enough takers.

A deadline for debt holders to swap certain notes for equity expired Friday night. Six Flags had extended that deadline by more than two weeks after falling well short of the 95% it had hoped would accept.

Last year, Six Flags brought in more cash than it spent for the first time. Its losses narrowed in 2008 to $112.9 million, about half those of a year earlier. Sales nudged 5% higher to $1.02 billion.

CORPORATE NEWS

EBay CEO is optimistic

Donahoe sees an end to drop in growth in U.S. business

By Geoffrey A. Fowler

Joe Schram/The Wall Street Journal

'I think this has been an important reset—especially in the U.S.—in terms of the use of credit and responsible consumer spending,' said eBay CEO John Donahoe.

EBay Inc. Chief Executive John Donahoe said he sees stability in the economy, with the company not experiencing further growth declines since February.

In an interview last week, the head of the online retailer said that he didn't have any "statistically significant" data to share about an overall recovery, but he is "cautiously optimistic" about the economy. Mr. Donahoe said he watched growth in the business decline from this past August through February but that it has since stabilized.

"Speaking from a personal perspective, I think this has been an important reset—especially in the U.S.—in terms of the use of credit and responsible consumer spending," said Mr. Donahoe. "In terms of the consumer, I'm cautiously optimistic."

EBay, based in San Jose, Calif., first saw signs of economic troubles May 2008 in transactions from its PayPal electronic payments unit. With that early warning, we were able "to get our cost structure in place," Mr. Donahoe said. As part of those cost cuts, eBay announced layoffs last October of 10% of its staff, or 1,600 people.

Mr. Donahoe said eBay is in the middle of a multiyear effort to turn around its slumping e-commerce marketplace, which includes online auctions as well as a fixed-price store and classifieds. "I want to get to a point where I feel really confident about the user experience, and I think we are two-thirds of the way there, or halfway there," he said.

He also said the company is weighing whether to scrap its separate Kijiji online-classifieds brand in the U.S. The company might merge Kijiji into the eBay brand as e-commerce formats—such as auctions, fixed-price and classifieds—begin to merge in a world where consumers use search engines to find what they are looking for regardless of format.

"Our perspective is that our own search will be able to come together over the next three to five years and bring a more seamless experience" to shopping, he said.

Separately, eBay has been lobbying the administration of President Barack Obama to not "forget small business" amid efforts to fix the economy, Mr. Donahoe said, noting that the company represents 18 million small businesses in the U.S.

"The specific issue I'm worried about is the notion of taxation on the Internet," he said. EBay is "fine" with the notion that e-commerce companies should have to collect taxes on out-of-state purchases—however, he thinks small businesses should be exempt.

"Our sellers don't have a finance department," he said. "We want the same small-business exclusion online that there is offline."

Simon & Schuster strikes a deal to sell e-books

By Jeffrey A. Trachtenberg And Geoffrey A. Fowler

CBS Corp.'s Simon & Schuster book-publishing arm has struck a deal to sell nearly 5,000 digital e-book titles on Scribd Inc., a Web site that allows people to post and read documents online.

Simon & Schuster said the works of such authors as Stephen King, Mary Higgins Clark, and President Jimmy Carter were available for sale on Scribd starting Friday.

The agreement is part of a broader effort by publishers to find new distribution channels for electronic books. Although e-book revenues are still small—some estimate they amounted to only $100 million in 2008—today they are one of publishing's fastest-growing categories at a time when book sales are lagging.

The Simon & Schuster titles sold on the Scribd site can be read on a computer and saved as Adobe Acrobat files but can't be printed. The company says those Acrobat files can be read on Sony Corp.'s e-book Reader, but not on Amazon.com Inc.'s Kindle e-book reader, which uses a different format. Scribd plans to soon release software that will enable the Scribd-purchased books to be read on Apple Inc.'s iPhone.

The publisher will set each book's retail price, a key factor at a time when many in the book industry are concerned about Amazon's practice of pricing its Kindle-formatted best-sellers at only $9.99. Simon & Schuster typically prices its e-books at parity with the latest print list price. It will offer Scribd customers a discount of 20%.

"It means new revenue on the sales side and lets us experiment with various pricing models," said Ellie Hirschhorn, chief digital officer at Simon & Schuster. "They [Scribd] have a large audience, which is important to us, and they've made an effort to install antipiracy measures."

Several thousand Simon & Schuster titles that haven't yet been published as e-books will be available for preview on Scribd via a search-and-browse option.

CORPORATE NEWS

Auto suppliers shift gears

Financial pressures spur work in energy and medical markets

By Timothy Aeppel

The auto-industry meltdown is forcing a transformation among automotive suppliers, which are slowly diversifying into more-promising markets such as medical devices and green energy.

The shift to nonautomotive products is under way at **Abbott Workholding Products** Inc. The Manhattan, Kan., company, which sells about half of its machine tools directly or indirectly to the auto industry, now makes tools used to craft artificial knees and bone reinforcements. Elsewhere, **Delphi** Corp. is considering adapting its electric-car batteries for use in residential energy systems.

"If you're really tied to auto, you're sweating bullets," says Abbott Chief Executive Carl Reed. "Those are the guys desperately trying to find something else."

Many auto suppliers, however, won't be able to make the change. A wave of bankruptcy filings is already swamping the sector, and some industry experts predict that as many as 20% of the industry's 1,700 core suppliers could go under this year. That figure doesn't include the far larger number of smaller businesses further down the supply chain, many of which are also under financial stress.

Moving into new markets often requires adapting the production process to serve a new type of customer. "It's not as easy as it sounds," says Cliff Waldman, an economist with the Manufacturers Alliance/MAPI, an Arlington, Va., trade association. "The cost of that transition to a small business may be tougher than the benefit they'll get over the long term."

Even larger ones are finding it difficult. Take Delphi, which recently tried to use its electronics expertise to make high-efficiency, industrial light bulbs at one of its factories in Indiana. The Troy, Mich., company abandoned that effort a few months ago before making a single bulb.

The problem, Delphi found, was that its production system was geared toward long-term contracts for high-volume products, whereas the light bulbs were to be made in lower volumes and under short-term contracts to better respond to the marketplace.

"We're used to a steady flow, which gives the best cost position—versus spasmodic orders," says Paul Ainslie, who heads the small team of Delphi engineers looking for ways to adapt the company's electronics for other markets.

Abbott is seeking opportunities in the alternative-energy industry and the medical-devices market. The company recently sold a set of six, 7-foot-tall, 8-foot-wide tooling columns, aluminum structures used in the manufacture of solar panels.

Mr. Reed, Abbott's CEO, says he isn't trying to reduce his exposure to autos, but rather focus on developing other sectors.

The key is picking the right sectors. **Die-Matic** Corp., a metal stamper based in Brooklyn Heights, Ohio, had 65% of its business tied up in autos and has the rest in construction, mining and small appliances. While those latter businesses have done better than the auto sector, the company is looking for higher-growth markets, in particular medical devices.

Bill Shepard, sales manager for Die-Matic, says it will have to change the way finished products are handled and shipped. Medical companies want parts shipped clean. Many auto parts are shipping with a coating of oil, which means Die-Matic would have to set up a system for washing the parts. "They also want parts protected more and in smaller boxes," he says.

The transformation is possible. **WJG Enterprise** Co., a 55-employee plastics company in Charlotte, Mich., was 100%-oriented toward selling to the auto industry until late last year. It made parts for air conditioners, decorative trim pieces for doors and speaker housings. The company has since developed a business making plastics for medical devices—including pieces used on X-ray machines and MRI equipment, and measuring cups used in medical settings.

William Grice, the company's founder and CEO, says the only equipment he had to invest in is seven new molds, which cost $1.2 million. The new molds run in his existing machines. He expects automotive to represent only 46% of his business by year-end.

Some suppliers are sticking to autos, rather than risk a potentially costly and unsuccessful foray into other markets. **Pittsburgh Glass Works** LLC is one of them. The company's strategy is to shrink its business to fit the smaller demand of the U.S. auto sector. Joe Stas, a spokesman for Pittsburgh Glass Works, an auto-glass maker, says, "Our focus has been on our footprint—with plant closures and right-sizing. We see a smaller market, but possibly a more-profitable one going forward."

Car-buying incentives rise in U.S.

By Josh Mitchell And Corey Boles

WASHINGTON—A U.S. program that would provide as much as $4,500 in government-funded discounts to consumers who trade in an old car could provide a much-needed boost to the auto industry.

The "cash for clunkers" program, which cleared a key hurdle late Thursday, would allow consumers to buy a range of vehicles—including large pickup trucks—with the government money when they scrap an older, less-efficient model.

Congressional leaders attached legislation for the program to a must-pass bill to fund troops in Iraq and Afghanistan. The agreement came despite efforts by several senators to require that new vehicles purchased through the plan be even more fuel-efficient.

The program still must be approved by both chambers of Congress, and voting could take place this week.

President Barack Obama has called for Congress to pass such a program to help stem a dramatic slide in auto sales.

The proposed program would subsidize the purchase of 600,000 to one million vehicles, lawmakers estimate. It closely resembles a car trade-in proposal passed by the House earlier last week that would last a year and cost about $4 billion.

One remaining question is where the funding would come from. Lawmakers set aside about $1 billion for the program in the war-funding bill. The remaining money might come from the economic-stimulus plan.

"We cannot wait any longer to pass this legislation," said Rep. John Dingell, a Michigan Democrat. "Every day we put it off, auto sales are depressed further."

The program was heavily supported by U.S. car makers, which argued that the Obama administration's auto-industry restructuring must include a component to lift consumer demand.

"We are at historic lows since 1937. The auto industry can only have sales down 30% for so long," said Pete Lawson, **Ford Motor** Co.'s top lobbyist in Washington.

Similar programs in Europe helped boost car sales. Proponents also argue the program will drastically reduce emissions of gases blamed for global warming.

Critics of the measure, including Democratic Sen. Dianne Feinstein of California and Republican Sen. Susan Collins of Maine, contended the program could provide vouchers toward the purchase of gas-guzzling sport-utility vehicles such as the Hummer H3.

But Democratic leaders came out strongly for the House bill, blunting criticism that it was the pet project of the auto industry.

Under the measure, trade-ins would have to get no higher than 18 miles per gallon, or about 7.5 kilometers per liter, and have been built in 1984 or after.

Taiwan may buy 10% of Elpida

TAIPEI—**Taiwan Memory** Co. is in talks to buy as much as 10% of **Elpida Memory** Inc. of Japan, and plans to acquire local chip makers as part of its plan to overhaul the island's struggling memory-chip sector.

Woody T.J. Duh, director general of the government's Industrial Development Bureau, said Taiwan Memory—a memory-chip company being set up by the Taiwan government—may finalize a deal with Elpida in July. An Elpida spokesman declined to comment Friday.

Taiwan Memory also plans to apply for less than 10 billion New Taiwan dollars (US$305 million) in funding from Taiwan's National Development Fund, Mr. Duh said. Taipei set up the National Development Fund in 1973 to help fund strategic industries such as semiconductors.

Based on Elpida's current share price, a 10% stake in the company would cost about 16.3 billion yen, or US$166 million.

Mr. Duh's comments came after Elpida said in April it was considering offering about a 10% stake in itself to Taiwan Memory.

GLOBAL BUSINESS BRIEFS

Vattenfall AB

Swedish utility in talks to sell German power grid

Vattenfall AB is in intense, binding talks with more than one buyer for its German power-transmission grid, its chief executive said Friday, as the Swedish utility aims to improve its cash flow by selling nonessential assets. Vattenfall Europe's power grid sale, first announced in July, has faced delays amid the financial crisis and regulatory concerns over its revenue parameters. But talks are now moving and Chief Executive Lars Josefsson said Vattenfall should find a successful bid in the third quarter and close the deal in the fourth. "We're talking real things now," Mr. Josefsson said, but declined to name the parties involved. Initially, the grid was valued at about €2 billion ($2.8 billion), but prices for similar assets have declined due to the credit crunch.

Rambus Inc.

European Union regulators confirmed they started a settlement procedure Friday with **Rambus** Inc. over an alleged antitrust violation. As part of the proposed settlement, the Los Altos, Calif., firm has offered royalty cuts for five years to its chip-technology customers, the European Commission said. If a settlement is reached, the commission will conclude the antitrust case without a fine. Rambus, meanwhile, could continue to disagree with the European regulators' preliminary findings that it had committed a "patent ambush" by participating in a technology-standards-setting body and not fully disclosing that it held patents on aspects of the standard that the body subsequently adopted. Rambus holds some key patents in Dynamic Random Access Memory, or DRAM.

Volkswagen AG

Volkswagen AG said Friday it eked out a 1.5% sales rise in May to 556,700 vehicles, despite weak global auto markets, as the company's core VW passenger-car brand benefited from the state-backed scrapping incentive on its German home turf and a strong presence in China. Europe's largest auto maker by sales said the core VW brand posted a 10% rise in sales to 351,000 cars from a year earlier. However, for the first five months of the year, Volkswagen sales were still down 7% at 2.49 million vehicles. The core VW brand accounted for 1.57 million cars, about the same level as last year. "We are benefiting from our strong position in Germany, Brazil and China," said Detlef Wittig, VW's sales chief. Several European governments have launched initiatives to trade in old gas guzzlers for smaller and more fuel-efficient vehicles.

Norske Skog ASA

Norske Skog ASA said Friday it will cut about 9% of its global work force and reduce investment in response to falling demand for paper. "Our utilization rate in the first quarter of 2009 was 76%," said Chief Executive Christian Rynning-Tonnesen. "Therefore, we are implementing vigorous new measures to reduce the group's overall costs, improve cash flow and eliminate surplus capacity." The Norwegian company said it will cut about 600 jobs. Between 170 and 200 jobs will go at Norske Skog's Dutch Parenco unit, where it will permanently shut production at one of two paper machines. It will also reduce its 2009 investment level by 400 million Norwegian kroner, or about $65 million, to 600 million kroner.

Arcandor AG

The prosecutor's office in Essen, Germany, has started an investigation into allegations of a breach of trust by **Arcandor** AG's former Chief Executive Thomas Middelhoff, a spokeswoman for the office confirmed Friday. This is simply a formal act, the spokeswoman said, adding there have been no new developments or findings. Arcandor, a retail and tourism firm, was formerly KarstadtQuelle. The legal procedure was launched as a result of the involvement of German Justice Minister Brigitte Zypries in the matter, said the spokeswoman. The allegations against Mr. Middelhoff pertain to his involvement in a real-estate investment fund that leases buildings to five of Arcandor's Karstadt department stores. Mr. Middelhoff said he would fully support the investigation, adding it would debunk the accusations leveled at him.

Aer Lingus PLC

Aer Lingus PLC said Friday it will cut long-haul seat capacity by 25%, make changes to the short-haul routes and offer pilots and cabin crew unpaid leave as it adjusts winter capacity to falling demand. "Aer Lingus yields have been declining in exceptionally poor market conditions," the company said. "Long-haul average fares fell by 19% in the first quarter of 2009 reflecting weak economic conditions and consumer confidence on both sides of the Atlantic." Service between Dublin and San Francisco and Dublin and Washington will stop on Oct. 25. The airline will also suspend the Shannon-Chicago route from Sept. 1 and reduce its services between Shannon and Boston. Service between Shannon and New York remains under close review. The cuts are planned to last through March, but the summer schedule is subject to review, the airline said.The Irish flag carrier said the cuts are being facilitated by the early termination of leased Airbus A330 long-haul aircraft.

Chrysler Group LLC

The U.S. Treasury on Friday said it was loaning **Chrysler Group** LLC an additional $6.6 billion as part of its exit from bankruptcy court, about $300 million less than the department had estimated in late May it would lend to the reconstituted car maker. Italian auto maker **Fiat** SpA took management control of Chrysler last week after the company emerged from bankruptcy protection. Chrysler earlier received billions in emergency government loans both before and after it filed for bankruptcy protection on April 30. After its revamping under the direction of Fiat, the auto maker changed its name to Chrysler Group LLC from Chrysler LLC.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

State budget woes loom as threat to U.S.

Washington weighs how to help governments close their widening deficits, but another stimulus isn't likely

By Jonathan Weisman

THE OUTLOOK

As the White House eagerly scans the economic landscape for signs of recovery, a looming drought in the form of state budget deficits could make any "green shoots" wilt.

States face a cumulative shortfall of $230 billion from this year through 2011, and there is little sign in bailout-weary Washington of any attempt to create yet another aid program to solve that problem. But if the federal government did want to hold that drought at bay, it has options: passing another stimulus plan; assisting states in the bond market; assuming a greater share of Medicaid payments. If the recovery stalls a few months from now, those may suddenly become central to the rescue efforts.

While discouraging talk right now of any federal response to state budget woes, the Obama administration is anxiously eyeing state efforts to close persistent budget gaps. So far, 42 of the 50 U.S. states have slashed enacted budgets to cope with rising demand for services and plunging revenue, according to the National Governors Association. About half have also raised taxes.

Those policies run directly counter to Washington's efforts to prime the economic pump, with a $787 billion stimulus plan, plus hundreds of billions of dollars more in new lending, mortgage relief and other efforts. About $246 billion of the stimulus funds are already going to the states, to offset rising Medicaid costs, stave off education cuts and help with infrastructure problems. Friday, the Treasury made $25 billion in bond authority available for state and local governments under the Recovery Zone Bonds program, a little-known piece of the massive stimulus law.

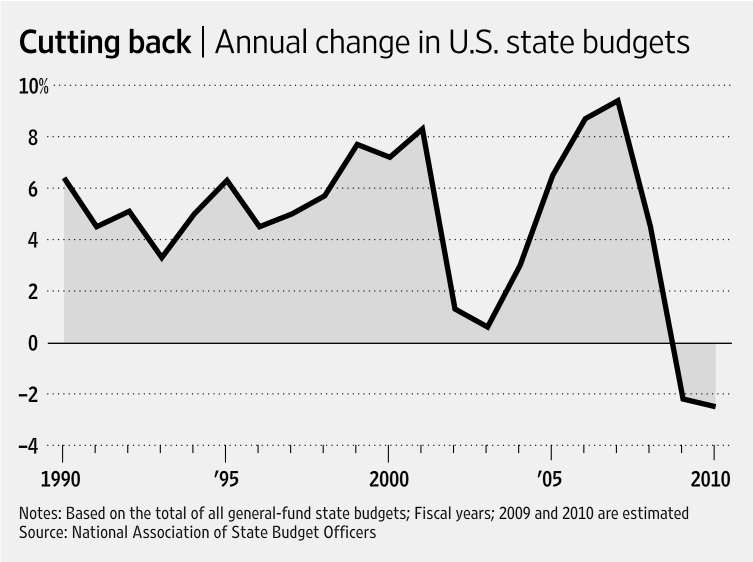
But all that money will start drifting away next year, when the administration hopes a recovery will be taking hold. And that is exactly when states anticipate their fiscal problems could be even worse.

"The states have so few options to respond," said Nick Johnson, director of the state fiscal project at the Center on Budget and Policy Priorities, a liberal think tank. "Drawing down reserve funds, various accounting gimmicks—those options are either gone or won't do enough. The remaining options threaten to slow the recovery."

If Washington were inclined to help, the easiest approach would be a second stimulus bill pouring more money directly into state coffers. But with a federal budget deficit approaching $2 trillion, there is little chance of that.

So creativity is in order.

House Financial Services Committee Chairman Barney Frank has been searching for low-cost ways to step in. His staff has looked into a raft of measures to loosen state borrowing and lower the interest rates state governments must offer on their bonds. The Massachusetts Democrat would like to create a reinsurance fund, financed through premiums paid by bond sellers, which would offer bond purchasers additional assurance that their money is safe.



Legislation also could mandate that ratings companies such as Standard & Poor's would have to use the same criteria to rate state bonds as are used to rate corporate bonds—a requirement that doesn't exist now, sometimes to the disadvantage of states.

"Where there's the full faith in credit behind these municipal bonds, where the full taxing power of a state or city is behind them, they never default," Mr. Frank said, yet the bonds are "treated as if they're risky."

In the short run, the Treasury or Federal Reserve could use existing programs established to prop up consumer borrowing to underwrite state bond offerings, he said. That would bring more lenders into the state bond market and lower interest costs for cash-strapped states.

President Barack Obama himself suggested in a recent C-SPAN interview that some kind of clever bond-market moves may be in the works. "We are talking to state treasurers across the country, including California, to figure out are there some creative ways that we can just help them get through some of these difficult times," he said.

But crafting the right balance would be tough.

Treasury officials have told California state legislators that the U.S. is monitoring the situation but isn't keen to provide assistance, according to people familiar with the matter. "It's hard to help just one state," says a government official. On the other hand, there is worry about setting up a broad short-term assistance program that some fret could turn into a permanent federal subsidy.

The move to bail out California—or any other state—is made harder by the current political climate, particularly opposition from home-state Republicans on Capitol Hill.

Rep. John Campbell, one of four California Republicans on Mr. Frank's committee, said a federal intervention would only halt state efforts to come to terms with out-of-whack budgets and could create incentives to spend even more.

"The states are kind of on their own because the bullets are out of the federal gun," he said, "not because they couldn't print some more money but because I hope there's a recognition in this town that printing and borrowing more money is going to have extremely negative consequences for a long time."

In response, Mr. Frank shrugs: "How am I going to get representatives from Pennsylvania and New York to send money to California if Republicans from California are fighting it?"

—Deborah Solomon contributed to this article.

Iran results stoke global caution

WASHINGTON—The Obama administration and its European allies openly questioned the results of Iran's presidential vote, but also reaffirmed their commitment to pursue direct talks with Tehran over its nuclear program, irrespective of the electoral outcome.

By Jay Solomon, Marc Champion and Chip Cummins

European and Arab governments offered conflicting responses in recent days to President Mahmoud Ahmadinejad's apparent re-election.

The initial U.S. and European response raised concerns among some Middle East democracy activists that Washington was legitimizing President Ahmadinejad's re-election, while undermining what they described as a gathering reformist movement inside Iran, fueled by the recent election campaign.

These activists, as well as some former U.S. diplomats, called on President Barack Obama to publicly challenge Mr. Ahmadinejad's victory as a signal of global support for Iran's reformers.

U.S. and European officials indicated Sunday, however, that they are likely to pursue a much more cautious approach toward the controversy surrounding the Iranian election in the weeks ahead.

Vice President Joe Biden and other senior U.S. officials declined over the weekend to call the Iranian electoral process an outright fraud and emphasized that America's national-security interests were best served by directly engaging the Iranian regime.

Arab League Secretary General Amr Moussa was quick to congratulate Mr. Ahmadinejad, saying he hoped it would translate into "progress in relations between Iran and the Arab world."

Privately, though, a number of Arab diplomats said Mr. Ahmadinejad's re-election would likely hasten a much sharper conflict between the U.S. and its allies and Iran in coming months. Few Arab officials said they believed the Iranian government is prepared to give any ground on the nuclear issues, and they said that Washington needed to be prepared to take much harsher measures to contain Tehran's nuclear program.

The election results deal a blow to some moderate Arab officials who have grown increasingly alarmed by Iran's regional ambitions and hoped Mr. Ahmadinejad's ouster might rein in Tehran.

But it could also speed up a major Arab goal: international consensus for tough action against Iran's nuclear program. "You're not going to waste months and months trying to understand where the new guy is coming from," said an Arab official.

Tensions between many Arab capitals and Tehran have escalated because of Iran's sponsorship of proxies Hezbollah in Lebanon and Hamas in Gaza and its nuclear program. Though Iran insists it is pursuing peaceful nuclear energy, Western officials worry that it wants to develop weapons.

In recent weeks, Israeli and Arab diplomats, in particular, had voiced concerns that a victory in Tehran for a moderate politician, such as the opposition leader Mir Hossein Mousavi, could potentially shield Supreme Leader Ayatollah Ali Khamenei and other Iranian hardliners from international pressure on the nuclear issue.

Obama administration officials have stressed since taking office that they believed all decisions in Tehran related to Iran's nuclear program were ultimately made by Mr. Khamenei, rather than the president.

"Talks with Iran are not a reward for good behavior," Mr. Biden said Sunday on NBC's "Meet the Press. "Our interests are the same before the election as after the election, and that is: We want them to cease and desist from seeking a nuclear weapon, and having one in its possession, and secondly to stop supporting terror."

Privately, a number of U.S. officials said Mr. Ahmadinejad's presidency could potentially prove helpful to Washington's efforts to build an international consensus on containing Iran's nuclear program.

Many Gulf states have courted Mr. Ahmadinejad in recent years, unwilling to openly antagonize their neighbor.

Leaders in Germany, France and the U.K. joined the U.S. in questioning the authenticity of the results, but also stressed that the election wouldn't change their commitment to engage Tehran quickly on the nuclear issues.

Monitors may abandon disputed Georgia regions

By Marc Champion

Disagreements between Moscow and the West over the status of two Georgian territories Russia has controlled since winning a brief war last year are threatening to force the withdrawal of international observer missions there.

Negotiations last week in New York aimed at agreeing on terms to renew the mandate for United Nations monitors in one of the territories, Abkhazia, failed to break the deadlock, according to an official familiar with the process.

Moscow objects to language in the draft resolution that would reaffirm Georgia's territorial integrity and call for all sides to abide by the terms of an Aug. 12 ceasefire that requires Russian troop withdrawals, Western diplomats say.

The U.N. Security Council is to vote on the mandate renewal Monday. The Security Council could then vote to temporarily extend the current mandate, which requires only tacit agreement to controversial language concerning Georgia's territorial integrity.

"But there is no guarantee," there will be an extension, said Eka Tkeshelashvili, secretary of Georgia's National Security Council.

Similar issues have caused the Organization for Security and Cooperation in Europe to call a time out on talks to renew the mandate for its mission to Georgia, which includes monitors for South Ossetia.

The OSCE mission will close unless there is a breakthrough by June 30, according to people familiar with the matter. OSCE monitors haven't been allowed back into South Ossetia since the war.

Russia accused Georgia of starting the war in South Ossetia in August, when Georgian President Mikheil Saakashvili ordered an attack on the Russian-backed separatist capital Tskhinvali, claiming a Russian invasion was imminent.

Russia's military intervened massively, claiming genocide, and temporarily occupied large swathes of the country. Moscow later withdrew to within the enclaves of South Ossetia and Abkhazia. But Russia also recognized the two territories' claims to independence, a move Georgia has described as de facto annexation. Russia says the territories can't be expected to return to Georgia after being attacked in the early 1990s, and in South Ossetia's case again last year.

Only Nicaragua has joined Moscow in recognizing Abkhazia and South Ossetia as independent. Russia, however, says its recognition has invalidated the August cease-fire, which required all sides to withdraw to positions before the conflict.

A spokesman for Russia's mission to the U.N. declined to comment.

—Joe Lauria at the United Nations contributed to this article.

Fresh violence wracks Pakistan

Army plans attack on Taliban leader after market bomb

By Matthew Rosenberg

ISLAMABAD—A senior Pakistani official said the army will launch an offensive against a major Taliban leader following a weekend of violence marked by a U.S. missile strike in one of the tribal areas bordering Afghanistan, fresh fighting between security forces and Taliban insurgents in another, and the terrorist bombing of a bustling provincial market.

Associated Press

Relatives help a child who was injured in a bomb explosion at a market in Dera Ismail Khan, Pakistan, on Sunday.

The latest bombing came Sunday in Dera Ismail Khan, a town near the tribal areas, where explosives planted in a fruit vendor's cart killed at least eight people, police official Mohammad Iqbal said.

No one took immediate credit for the bombing, which took place in a region with heavy Taliban influence. But officials quickly blamed the nominal leader of the Pakistan Taliban, Baitullah Mehsud, who controls territory that abuts Dera Ismail Khan district.

Hours after the bombing, the governor of the North West Frontier province, where Dera Ismail Khan is located, told reporters the army will launch an operation against Mr. Mehsud's forces, based in the neighboring region of South Waziristan, arguably the Taliban's most important stronghold in Pakistan. "The forces have been ordered to start the operation," Owais Ghani said.

Sunday's violence ended a weekend that began with the assassination Friday of a leading anti-Taliban cleric by a suicide bomber in the eastern city of Lahore. The Taliban claimed responsibility, saying Sarfraz Ahmed Naeemi was killed because of his vocal support of a military push against the insurgents in the Swat Valley, a strategic sliver about 160 kilometers northwest of Islamabad.

The recent violence served as a sharp reminder that Pakistan, despite its recent tough moves against the Taliban, is facing a resilient enemy that appears to have few qualms about taking its fight to the South Asian nation's densely packed towns and cities.

The militants have responded to the army's aggressive campaign in Swat with a series of deadly bombings in Pakistan's cities. The targets have ranged from the Pearl Continental Hotel in the western city of Peshawar, nearly destroyed in a bombing last week, to a security complex in Lahore that was leveled by a massive car bomb in late May.

While Gov. Ghani didn't say when the operation against Mr. Mehsud's forces would start, fighting already was under way in South Waziristan. Militants there have in recent weeks repeatedly attacked army and paramilitary forces, which have responded with artillery and airstrikes. That action led to widespread speculation in Pakistan that a full military offensive was in the offing.

Following Sunday's announcement, military spokesman Maj. Gen. Athar Abbas told the Associated Press that "the government has made the announcement. We will give a comment after evaluating the orders."

Apart from being Mr. Mehsud's base, South Waziristan and the neighboring region of North Waziristan are major bases for militants fighting in Afghanistan and al Qaeda, making them key to any Pakistani effort to overcome the Taliban and its allies.

But both regions are far more remote than Swat, and the militants there are far more entrenched. That is likely to make a military offensive in the Waziristans significantly more difficult than the operation in Swat, which began in late April.

Militants in both regions also have been targeted in repeated missile strikes from American pilotless drone aircraft. On Sunday, Pakistani security officials said a small convoy of cars in a village controlled by Mr. Mehsud was obliterated by missiles fired from a U.S. drone.

To the north, in the Bajaur tribal region, Pakistani forces pounded Taliban positions with jets, helicopter gunships and artillery, AP reported, citing officials who said at least 20 militants had been killed since Friday.

On Friday, Mr. Naeemi was killed with five other men minutes after his sermon at his Lahore mosque. Police said a lone suicide bomber walked into Mr. Naeemi's office near the mosque's main gate and detonated his explosives.

Mr. Naeemi, like the vast majority of Pakistanis, belonged to a moderate, mysticism-infused school of Islam at odds with the harsh brand of the religion preached by the Taliban and their Islamist allies.

—Rehmat Mehsud contributed to this article.

U.S. continues regional outreach, in Syria

By Chip Cummins

Syria has a significant role to play in forging peace in the Middle East, U.S. President Barack Obama's Mideast envoy said Saturday after meeting with Syrian President Bashar Assad.

Just a little more than a year ago, Syria was viewed as a pariah state, even among some of its Arab neighbors. But in recent months, Mr. Assad has emerged as a potentially important partner for Washington in the Middle East's suddenly shifting political and diplomatic landscape.

Former U.S. Sen. George Mitchell's short trip is the latest push in a diplomatic charm offensive by Washington across the region. Analysts said that outreach, including Mr. Obama's recent speech to the Muslim world in Cairo, may be having a positive effect on sentiment toward the U.S. across the Middle East.

In Lebanon elections a week ago, an American-backed coalition of politicians beat back a challenge by an opposition bloc led by Hezbollah, despite some polls predicting victory for the Iranian-backed group.

With Iranian President Mahmoud Ahmadinejad holding onto power in Friday's Iranian elections, Mr. Assad also could be a useful ally for Washington in pressuring Iran into meaningful talks.

Mr. Mitchell flew into Damascus Friday after a stopover in Beirut, where he met officials, including Saad Hariri, son of the slain prime minister and leader of the Western-leaning coalition that beat Hezbollah and its allies.

Lebanese politics are as much about family and clan loyalty as they are about policy. But several analysts attributed the surprise victory at least partly to Mr. Obama's outreach, and a general cooling of tensions between Washington and its regional irritants, Iran and Syria.

A big part of the thaw has been the dramatic rehabilitation of Syria's Mr. Assad in the eyes of many Western and Arab officials.

The Bush administration and its Western and regional allies spent years isolating Syria. Western officials suspected a Syrian role in the assassination of former Lebanese Prime Minister Rafik Hariri in 2005. The U.S. recalled its ambassador to Syria, and a popular outpouring in Lebanon forced Damascus to end its long occupation of the country. Washington also accused Syria of facilitating the flow of insurgents into Iraq, and the United Nations atomic watchdog is investigating evidence that Damascus was building a nuclear reactor before Israeli jets destroyed the site in 2007. Syria has denied the accusations.

But Mr. Assad also proved instrumental in a Qatar-backed peace plan last spring that ended a long political standoff in Lebanon. Shortly after, he entered into indirect peace talks with arch-foe Israel.

Mr. Assad's hands-off approach in recent months in Lebanon has encouraged some Western officials and analysts into thinking he is eager to play a supporting role in cooling Mideast tensions further.

Associated Press

Former U.S. Sen. George Mitchell, right, with Saad Hariri, leader of Lebanon's victorious Western-learning coalition, in Beirut Friday after meeting in Mr. Hariri's residence.

The Lebanon elections, though they went against Syria, may help pave the way for more productive talks with Washington, said Joshua Landis, co-director of the University of Oklahoma's Center for Middle East Studies. "This is a real strategic opening, this is an opportunity," he said. "Things were on hold until the Lebanon elections."

Mr. Mitchell's stopover follows lower-level visits by U.S. diplomats in recent weeks. U.S. officials are pressing for help stabilizing the Iraq-Syria border and for support in Arab-Israel peace efforts. They also want Damascus to clamp down on Hezbollah and Hamas.

Ian Kelly, a spokesman for the U.S. State Department said Mr. Mitchell's trip was part of crafting a "broad-based, comprehensive peace, dealing with all the different players in the region."

Damascus, meanwhile, is seen as pushing for the return of Golan from Israel as part of any comprehensive peace deal. Syria also wants the U.S. to loosen economic sanctions imposed on it for alleged links to terror financing. An ease-up of sanctions is seen as especially important because Syria's state-controlled economy is suffering from wide budget deficits and dwindling oil output and revenue.

Pirates attack cargo vessel off coast of Oman

By Chip Cummins

DUBAI—Pirates commandeered a cargo ship in the territorial waters of Oman, dramatically extending their area of operation and threatening shipping in and out of the oil-rich Persian Gulf.

The hijacking, reported over the weekend, took place Friday. It follows a failed attack nearby earlier last week.

A fleet of international naval vessels assembled to combat attacks around the Horn of Africa may be driving pirate gangs further afield, navy officials said. Seasonally bad weather also may be pushing them north.

Pirate attacks began soaring last summer in the Gulf of Aden and off the east coast of Africa, forcing up insurance and shipping rates in the region.

Pirates have attacked oil and petrochemical carriers, including a fully laden Saudi Arabian oil tanker that was released after a ransom payment.

Maritime officials say until now they viewed Persian Gulf shipping as relatively secure. Friday's attack is the first reported, successful hijacking so close to the Strait of Hormuz, the mouth of the Persian Gulf.

Ships with as much as 17 million barrels of oil, or about 40% of all seaborne oil traded, pass through the strait each day, according to the U.S. Energy Information Administration.

"Pirates continue to expand their area of attack," said Lt. Nathan Christensen, a spokesman for the U.S. Fifth Fleet, based in Bahrain in the Persian Gulf.

The M/V Charelle, an Antigua and Barbuda-flagged general-cargo carrier was attacked and boarded Friday afternoon, according to maritime officials at the North Atlantic Treaty Organization, one of several groups conducting antipiracy efforts near the Horn of Africa. Omani navy officials weren't available to comment.

The ownership of the vessel wasn't clear. Cmdr. Chris Davies, a public-affairs officer at NATO, said the ship was heading toward the Strait of Hormuz at the time of the attack. Pirates boarded it inside Omani territorial waters—or less than 12 nautical miles from shore.

The exact location of the attack wasn't clear, but Cmdr. Davies said reports put the hijacking south of the Omani city of Sur, near the easternmost end of the Arabian peninsula. That is just south of the Gulf of Oman, the waterway that feeds into the Strait of Hormuz.

After the attack, the Charelle was believed to be heading south-by-southwest—toward Somalia—with eight pirates aboard, Cmdr. Davies said.

It isn't clear how many crew were aboard. Pirates targeting the Horn of Africa typically anchor offshore Somalia's ungoverned coastline and demand ransom from ship owners.

JOURNAL REPORT: ENVIRONMENT

It's time to cool the planet

A futurist proposes more direct—and risky—action to cut greenhouse gases to deal with global warming

By Jamais Cascio

Viktor Koen

If we're going to avoid climate disaster, we're going to have start getting a lot more direct. We're going to have to think about cooling the planet.

The concept is called geoengineering, and in the past few years, it has gone from being dismissed as a fringe idea to the subject of intense debates in the halls of power. Many of us who have been watching this subject closely have gone from being skeptics to advocates. Very reluctant advocates, to be sure, but advocates nonetheless.

What has changed? Quite simply, as the effects of global warming have worsened, policy makers have failed to meet the challenge. As a result, if we want to avoid an unprecedented global catastrophe, we may have no other choice but to reduce the impact of global warning, alongside focusing on the factors that are causing it in the first place. That is, while we continue to work aggressively to reduce the amount of carbon released into the atmosphere, we also need to consider lowering the temperature of the Earth itself.

To be clear, geoengineering won't solve global warming. It's not a "techno-fix." It would be enormously risky and almost certainly lead to troubling unforeseen consequences. And without a doubt, the deployment of geoengineering would lead to international tension. Who decides what the ideal temperature would be? Russia? India? The U.S.? Who's to blame if Country A's geoengineering efforts cause a drought in Country B?

Also let's be clear about one other thing: We will still have to radically reduce carbon emissions, and do so quickly. We will still have to eliminate the use of fossil fuels, and adopt substantially more sustainable agricultural methods. We will still have to deal with the effects of ecosystems damaged by carbon overload.

But what geoengineering can do is slow the increase in temperatures, delay potentially catastrophic "tipping point" events—such as a disastrous melting of the Arctic permafrost—and give us time to make the changes to our economies and our societies necessary to end the climate disaster.

Geoengineering, in other words, is simply a temporary "stay of execution." We will still have to work for a pardon.

Altering the Earth's temperature, of course, is hardly anything new. Human civilization has been changing the Earth's environment for millennia, often to our detriment. Dams, deforestation and urbanization can alter water cycles and wind patterns, occasionally triggering droughts or even creating deserts. On a global scale, industrial activity for the past 150 years or so has changed the Earth's atmosphere, threatening to raise average world temperatures to potentially catastrophic levels, even if we were able to stop releasing carbon into the atmosphere immediately.

What we're talking about with geoengineering, however, is something new. It's a more deliberate manipulation of the environment, rather than a byproduct of other activities. And while we know more than we did just a few years ago about how it might work, there are still plenty of unknowns.

Geoengineering mainly takes two forms: temperature management, which moderates heat by blocking or reflecting a small portion of the sunlight hitting the Earth; and carbon management, which gradually removes large amounts of carbon from the atmosphere (as opposed to simply reducing the amount of additional carbon we're releasing into the atmosphere). Temperature management is the more likely course of action, as it has the advantage of potentially quick results, while carbon-management techniques that would have a global impact might take decades or centuries to show results.

Temperature-management proposals boil down to increasing how much sunlight the Earth reflects, rather than absorbs. (Increasing the planet's reflectivity by 2% could counter the warming effects of a doubling of CO_2 emissions.) While a variety of techniques have been suggested, some don't pass the plausibility test, either due to cost, clear drawbacks, or both.

For instance, one proposal would place thousands of square miles of reflective sheets in the desert to reflect sunlight—an interesting plan, until you realize that this would effectively destroy desert ecosystems. Another proposal calls for launching millions of tiny mirrors into orbit, where they would block some sunlight from reaching the atmosphere. But one study of the orbiting-mirror plan concluded that, to keep pace with the continual warming, we'd need to launch one square mile of sunshade into orbit every hour.

Two approaches hold the most promise: injecting tons of sulfates—essentially solid particles of sulfur dioxide—into the stratosphere, and pumping seawater into the lower atmosphere to create clouds. A recent report in the journal Atmospheric Physics and Chemistry Discussions identified these two approaches as having a high likelihood of being able to counter global temperature increases, and to do so in a reasonably short amount of time.

The sulfate-injection plan, which has received the most study, is explicitly modeled on the effects of massive volcanic eruptions, such as Mount Pinatubo in the Philippines; in the months after the 1991 eruption, global temperatures dropped by half a degree Celsius.

To trigger a drop in global temperatures, we'd need to loft between two million and 10 million tons of sulfur dioxide (which combines with oxygen to form sulfate particles) into the lower stratosphere, or at about 10,000 meters. The tiny particles suspended in the atmosphere act like a haze, reflecting a significant amount of sunlight—though not enough to notice at ground level (except for some superb sunsets).

While this seems like a large amount, several studies have shown it could be done using some combination of high-altitude balloons, dispersal in jet-aircraft exhaust, and even more exotic platforms such as artillery shells. As with volcanic sulfates, the particles would eventually cycle out of the atmosphere, so we'd have to refresh that two to 10 megatons of sulfur dioxide roughly every year.

Stratospheric sulfate injection appeals to many geoengineering proponents for a few reasons. It doesn't require a massive leap in technology to carry out successfully; arguably, we could start doing it this year, if we needed to. It's relatively cheap, probably costing just a few billion dollars a year. And because stratospheric sulfate injection emulates an effect of volcanic eruptions, we already have some idea of what to expect from it—for better and worse. We know, for example, that the cooling effect could start within weeks of the injection process.

We also know that stratospheric sulfates will likely damage the ozone layer (as happened after Mount Pinatubo erupted), potentially resulting in more skin cancer and damage to plants and animals. In addition, the scattering of sunlight will reduce the efficiency of some kinds of solar power, and some studies have suggested that it could disrupt monsoonal rain cycles.

The other high-impact proposal, cloud brightening, increases the amount of reflected sunlight by making more clouds and thickening existing ones. One idea is to use ships to propel seawater thousands of feet in the air, where it would form or increase cloud cover.

The technique has both advantages and disadvantages compared with the sulfate-injection method. Lofting seawater into the air to seed cloud formation would have fewer environmental side effects than the sulfates, and may allow for targeted use to counter droughts. Because it would be relatively low altitude, it wouldn't have the same scattering effect on sunlight as sulfate injection.

But increasing the extent and thickness of cloud cover could also have at least as powerful an effect on rainfall patterns as sulfate injection, increasing downpours in one area or contributing to unexpected droughts in others. Finally, the technologies required for cloud brightening are still experimental, though initial proposals look to be markedly more environmentally benign than those used for sulfate injection.

Both solutions could present a more dramatic problem if the geoengineering were to stop abruptly. According to some studies, global temperatures would rise once the geoengineering steps were ended, actually exceeding for a short time where they would have been without any geoengineering. Afterward, the temperature increase would continue as if nothing had been done to slow it. While this doesn't mean we'd have to undertake geoengineering indefinitely, it underscores why geoengineering must be accompanied by carbon cuts.

Also, neither would do anything to solve other problems that arise from excessive levels of carbon dioxide, such as oceans becoming more acidic from increased carbon loading.

Any kind of geoengineering would also face other issues. Most prominent are the political concerns. Since geoengineering is global in its effects, who determines whether or not it's used, which technologies to deploy, and what the target temperatures will be? Who decides which unexpected side effects are bad enough to warrant ending the process? Because the expense and expertise required would be low enough for a single country, what happens when a desperate "rogue nation" attempts geoengineering against the wishes of other states? And because the benefits and possible harm from geoengineering attempts would be unevenly distributed around the planet, would it be possible to use this technology for strategic or military purposes?

There are also more mundane questions of liability. If, for example, South Asia experiences an unusual drought during cyclone season after geoengineering begins, who gets blamed? Who gets sued?

With all of these drawbacks, why would I consider myself an advocate of geoengineering, no matter how reluctant? Because I believe the alternative would be worse.

The global institutions we rely on to deal with a problem like climate change seem unable to look past short-term roadblocks and regional interests. At the same time, climate scientists are shouting louder than ever about the speed and intensity of environmental changes coming from global warming.

In short, although we know what to do to stop global warming, we're running out of time to do it and show no interest in moving faster. So here's where geoengineering steps in: It gives us time to act.

That's if it's done wisely. It's imperative that we increase funding for geoengineering research, building the kinds of models and simulations necessary to allow us to weed out the approaches with dangerous, surprising consequences.

Fortunately, the deployment of geoengineering need not be all or nothing. Though it would have the greatest impact if done globally, some models have shown that intervention just in the polar regions would be enough to hold off the most critical tipping-point events, including ice-cap collapse and a massive methane release.

Polar-only geoengineering strikes me as a plausible compromise position. It could be scaled up if the situation becomes more dire and could be easily shut down with minimal temperature spikes if there were unacceptable side effects.

Still, we can't forget: Geoengineering is not a solution for global warming. It would simply hold temperatures down temporarily, doing nothing about the causes of climate change, let alone ocean acidification and other symptoms of a carbon overdose.

Our overall goal must remain the reduction and then elimination of greenhouse-gas emissions as swiftly as humanly possible. This will require feats of political will and courage around the world. What geoengineering offers us is the time to make it happen.

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Journal video

WSJ science columnist Robert Lee Hotz discusses geoengineering with Rutgers University environmental scientist Alan Robock and New York University environmental studies and philosophy professor Dale Jamieson at **WSJ.com/Reports**