Leading the News: Sorting out assignments will be job one at this week's EU summit

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What's News

Airbus and Boeing are placing greater emphasis on preserving existing plane orders than on pursuing new deals as customers request delivery delays and contract cancellations amid the economic downturn. The firms have cut production and held out the possibility of further reductions. Page 2

■ **U.S. stocks suffered** sharp declines, hurt by weak data, while shares in Europe fell as finance ministers said they would look to cut back on stimulus measures. Page 20

■ **Treasury prices rose** as equities sank. Softer data on manufacturing and housing tempered recent enthusiasm about the economy. Page 20

■ **The ECB said** euro-zone banks will need to take an additional $283 billion in write-downs by the end of next year. Page 10

■ **Euro-zone employment** fell 0.8% in the first quarter, the biggest decline since records began in 1995. Page 11

■ **The IMF expects** a solid U.S. economic recovery in mid-2010, but the group said exiting bailout programs will be a big challenge. Page 10

■ **Obama's plan** to revamp financial-market supervision used a different approach than his other priorities. Page 19

■ **A jury was selected** Monday for the $4.3 billion lawsuit AIG is bringing against ex-CEO Greenberg. Page 19

■ **Holcim agreed** to buy the Australian cement operations of Mexican rival Cemex for $1.64 billion. Page 5

■ **Dr. Reddy's teamed up** with GlaxoSmithKline, which will sell Dr. Reddy's drugs in emerging markets. Page 7

■ **At least three** kidnapped foreigners were killed in a remote Yemeni province, and officials in the capital said six others also were dead.

■ **American combat troops** are on schedule to leave Iraqi cities by the end of the month, moving to bases outside urban areas. Page 8

■ **Talks between Russia** and the West failed to break a deadlock on renewing the mandate for U.N. monitors in the region of Abkhazia.

■ **Virgin Media said** it will introduce an unlimited, music-download service in partnership with Vivendi's Universal Music publishing arm. Page 5

EDITORIAL&OPINION

Infected banks
It's time Europe sheds some light on its financial institutions. Page 14

Breaking news at europe.WSJ.com

Gunfire disrupts Iran protests

Violence caps day of mostly peaceful rallies after Khamenei orders probe of election results

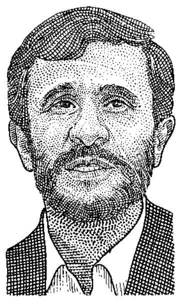
Agence France-Presse/Getty

Reformist presidential candidate Mir Hossein Mousavi, center, raises his arms at an opposition demonstration in Tehran on Monday, days after Mahmoud Ahmadinejad's disputed election victory.

BY ROSHANAK TAGHAVI

TEHRAN—Gunfire rang out Monday evening as hundreds of thousands of protesters gathered in a central Tehran square just hours after Iran's supreme leader ordered a probe into alleged voter irregularities in the country's presidential election—a dramatic reversal from his previous strong backing of the results.

Demonstrators protesting the weekend re-election of President Mahmoud Ahmadinejad—many wearing the green of challenger Mir Hossein Mousavi's campaign—defied a ban and gathered in Azadi Square.



Mahmoud Ahmadinejad

Amid the growing protests in Tehran and across Iran, Mr. Mousavi appears to have gained scope to pursue his grievances. Though he had said Sunday he was under house arrest, authorities allowed him to travel to the demonstration Monday.

Mr. Mousavi made brief remarks at the edge of the gathering, saying he would welcome a new vote. After he spoke, crowds chanted, "Mousavi, Karroubi, Unity," referring to Mr. Mousavi and Mehdi Karroubi, a reformist cleric who also lost the election.

Earlier Monday, state media quoted Iran's supreme leader, Ayatollah Ali Khamenei, as appealing to opposition leaders for calm, and ordering a probe into the weekend election. State media also reported that Mr. Khamenei met with Mr. Mousavi late Sunday and urged him to pursue alleged voting irregularities through legal means.

After two days and nights of violent confrontation between the security services and protesters, Iranian riot police stood by placidly during Monday's demonstration. They held their shields at their side, and watched the protests without interfering.

But gunfire broke out near the demonstration as it began to break up, and smoke rose from a building outside the square. As nightfall descended, state media reported that unidentified gunmen—who weren't wearing uniforms—fired into a crowd, but it wasn't clear whether the gunfire occurred inside the square.

The Associated Press reported that one of its photographers saw one person shot and killed, and several others who appeared to be seriously wounded. The gunfire came from a compound of volunteer militia linked to Iran's powerful Revolutionary Guard, the AP reported.

A group of demonstrators with fuel canisters attempted to set fire to the compound as the crowd in the square dispersed. As some attempted to storm the building, people inside could be seen firing directly at the protesters at the

Please turn to page 31

U.K. crisis leaves Olympians at a loss

BY MARK WHITEHOUSE

LONDON—Georgina Geikie, one of the U.K.'s most promising sharpshooters, is learning the hard way what the long-term cost of the financial crisis can be.

Over the past seven years, Ms. Geikie, 24 years old, has put much of her life on hold and made sacrifices to pursue her dream of winning a medal for Britain in the 2012 Olympics, which London will host. Now, though, the U.K. government has taken away the money she had been counting on to pay for her training, citing the need to cut back as it spends billions to bail out its troubled banks and economy.

"It feels like the rug has been taken out from under my feet," she says. "This is my one goal, my dream, my ambition, everything."

Her disillusionment reflects an unfortunate reality: Having fought for years to host its first Olympics in more than six decades, the U.K. is facing the daunting prospect of preparing for the Games amid the deepest economic downturn since the Great Depression. While officials say the promised £9.3 billion ($15.3 billion) budget to build stadiums and put on the show remains intact, the government has quietly scaled down plans for Britain's own team, focusing its limited resources on those sports in which it believes it has the best chance of

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Inside

Invisible hand

Washington has dug deep into American capitalism
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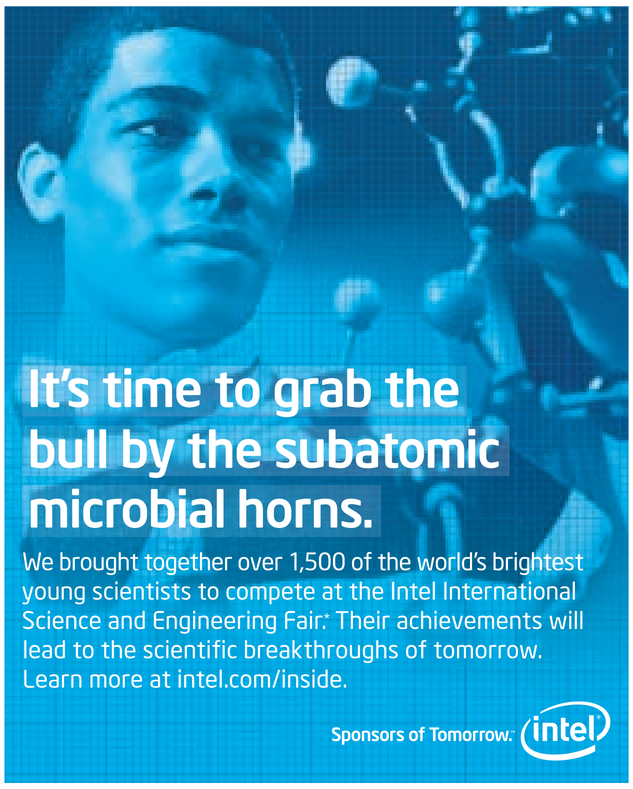
Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8612.13	-2.13
Nasdaq	1816.38	-2.28
DJ Stoxx 600	209.02	-2.49
FTSE 100	4326.01	-2.61
DAX	4889.94	-3.54
CAC 40	3219.58	-3.20
Euro	$1.3837	-1.21
Nymex crude	$70.62	-1.97



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LEADING THE NEWS

Odd warplanes win looks

Lower-cost aircraft move into spotlight at Paris Air Show

By August Cole

PARIS—Some of the warplanes drawing the most attention at this year's Paris Air Show are some of the slowest.

Aerospace and defense companies are trying to capitalize on the growing appeal of low-cost planes packed with high-tech surveillance gear and weapons. These planes are suddenly in vogue as the costliest warplanes are falling out of favor at the Pentagon.

At the Le Bourget airfield outside Paris, **Air Tractor** Inc., of Olney, Texas, is displaying its prototype Air Truck AT-802U, which is essentially a two-seat combat-ready crop-duster with weapons and advanced electronics.

Chunky no-nonsense looks are brutish enough to make passing generals stop and stare. Its 3,600-kilogram payload of missiles, rockets, cannons and bombs offers a contrasting image of air warfare to the larger, sleeker jet fighters that cost tens of millions of dollars and are the usual showstoppers here.

"One of the things people are most surprised by is all the munitions hanging off of it," said Lee Jackson, an Air Tractor design engineer.

L-3 Communications Holdings Inc. and **Alliant Techsystems** Inc. are among the major defense companies also showing off unarmed turboprop surveillance planes at the show. Executives at the companies say the demand for real-time battlefield intelligence is growing for the U.S. military, particularly with increasing numbers of U.S. troops in Afghanistan.

L-3 has provided the U.S. Air Force with surveillance planes based on a converted Hawker Beechcraft design that began operating in Iraq last week. Developing such planes has been a Pentagon priority under U.S. Defense Secretary Robert Gates.

"There's an unabated appetite" for battlefield intelligence and surveillance, said L-3 Chairman and Chief Executive Michael Strianese. "That unblinking eye is becoming more and more critical."

Air Tractor's Air Truck, with a top speed of 336 kilometers per hour, will never be a stand-in for the U.S. Air Force's F-22 Raptor, the kind of high-tech marvel that keeps enemies away so planes like an Air Truck can operate. But Mr. Gates, who plans to end F-22 production, is focusing on fighting insurgents and buying less-expensive weapons systems, making such planes increasingly attractive.

The U.S. Air Force has said it wants to build up the air wings of foreign militaries in places such as Iraq and Afghanistan to help fight insurgents. The U.S. could help facilitate sales to these countries.

Stephen Biddle, a counterinsurgency expert and Senior Fellow for Defense Policy at the Council on Foreign Relations, said such low-tech planes require less maintenance and can operate from smaller airfields, unlike fast-moving fighter bombers. That allows them to be based closer to combat forces living and operating in rural areas.

Air Tractor Inc.

Air Tractor's Air Truck AT-802U is essentially a combat-ready crop-duster. Such aircraft are attracting attention for their low cost and advanced electronics.

Airbus and Boeing shift emphasis to preserving orders

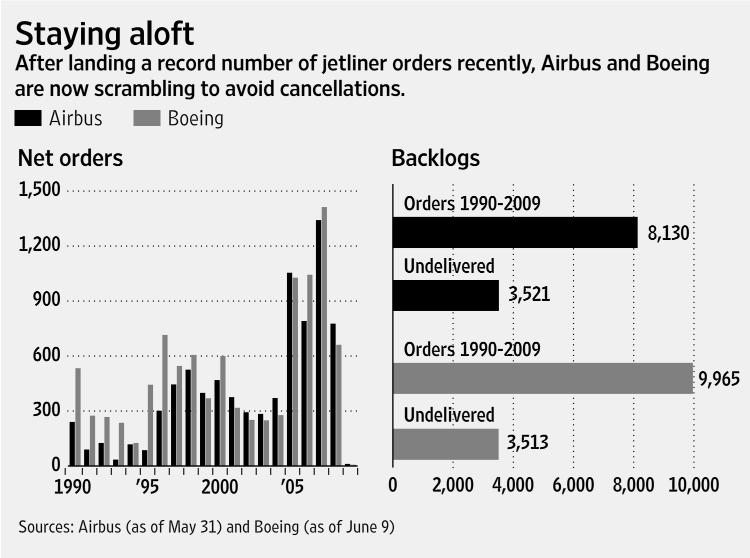
By Daniel Michaels

PARIS—Airbus and **Boeing** Co. are taking a break from competing for new jetliner contracts to focus on a more urgent issue: saving the orders already on their books, which are threatened by the economic crisis.

The world's two makers of big passenger planes normally use the Paris Air Show, occurring this week, to tout new sales. But airlines, struggling with shrinking passenger demand and trouble financing purchases, are placing few new orders and are instead pressing Boeing and Airbus to delay or cancel deliveries of jetliners they ordered years ago.

The two rivals are scrambling to keep output steady and to avoid big production swings, which are costly, complicate planning and can lead to job cuts.

"The priority is securing the orders we have and turning them into deliveries," said Airbus Chief Executive Tom Enders in an interview.



Customers only pay a fraction of a plane's price on order, with the balance coming near its delivery.

After three years of record orders, Mr. Enders said, new contracts are a barometer of airlines' health—not a necessity. "Orders these days are of more psychological importance," he said.

Airbus, a unit of **European Aeronautic Defence & Space** Co., Monday announced the air show's sole big contract signing, an order from state-owned Qatar Airways for 24 A320-family single-aisle jetliners, with a catalog value of $1.9 billion.

Vietnam Airlines said it expects to announce a $1.9 billion deal later in the week to buy two long-haul Airbus A350 jets and 16 medium-haul A321s.

But officials at Boeing and Airbus say deal announcements mask efforts by the companies to help existing customers. Boeing and Airbus over recent years built up record order backlogs equivalent to roughly eight years' worth of production at recent levels.

Recently, however, many customers who were supposed to take planes soon have asked to postpone deliveries. If the producers don't acquiesce, they risk building planes airlines can't pay for, but accommodating customers could also leave production gaps. As a result, Boeing and Airbus have been juggling their delivery schedules to satisfy stronger airlines first. Both companies aim to buy time for their weaker customers, on the hope they will still need the planes when economic conditions improve.

"Preserving our backlog this year is a much more critical task than whether we beat Airbus for orders in any given week," Scott Carson, Chief Executive of Boeing's commercial-aircraft business, said at a news conference. "The value of our backlog will be in delivery, not in the generation of new orders."

Boeing this year has won gross orders for 73 planes and faced 66 cancellations, for a net inflow of seven new orders. Airbus through May 31 had 32 gross orders and 21 cancellations, for a net inflow of 11 new orders. Last year, Airbus had 777 net orders and Boeing had 662. Both companies have trimmed production over recent months and said they may cut further, depending on market conditions, including air-traffic volumes and credit availability.

Neither plane maker wants to slash production, because of the costs associated with laying off workers and mothballing production facilities. Suppliers, who play an increasingly critical role in designing, building and financing jetliner development, also suffer in production cuts. Reining in production also makes an eventual increase more difficult.

—Dow Jones Newswires contributed to this article.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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LEADING THE NEWS

Deciding who gets what

EU countries jockey over powerful posts in next commission

BY CHARLES FORELLE

BRUSSELS—European Union leaders begin one of the world's most complex pieces of horse-trading at a summit this week: deciding which country gets which job in the union's powerful Brussels executive.

The top job in the next European Commission, which takes office this year, already appears taken. José Manuel Barroso's bid for a second term as commission president is expected to win approval at a two-day EU summit that begins here Thursday.

Negotiations for the other two dozen-odd appointments are likely to stretch over the summer. The most powerful of these is competition commissioner, the European official who runs the developed world's most activist antitrust authority. Also closely watched is the trade commissioner, who negotiates trade pacts on behalf of the EU's 27 states; that post is currently held by a Briton. At the bottom of the heap lies the commissioner for multilingualism, now a Romanian.

Commissioners—at present, one per country—are supposed to serve for the good of Europe and not to represent their own countries' interests, though they are nominated by national leaders and national politics can creep in. Their salaries are at least €238,919 ($329,400).

France is expected to lobby for a plum post, having won the less-important transport portfolio last time. French President Nicolas Sarkozy has made it clear that he wants competition law to be more friendly to European companies, particularly the so-called national champions that Brussels has sometimes sought to curtail, as well as to politically sensitive companies in need of government aid.

Speculation arose this spring that Mr. Sarkozy would push his high-flying finance minister, Christine Lagarde, for the competition job. Ms. Lagarde practiced antitrust law at Baker & McKenzie in the U.S. for years before entering politics. Her office denied the talk as rumor.

But the lesson of the current competition commissioner, Neelie Kroes of the Netherlands, is that you never know what you're going to get. When she was nominated in 2004, Mrs. Kroes, a member of the free-market VVD party, was excoriated for her service on corporate boards and close ties to business interests.

Fears she would carry water for the business lobby didn't come true. Since 2005, Mrs. Kroes has levied more than €8 billion in fines against companies that her office determined participated in cartels. The fines in one case last year against a glassmakers' cartel totaled €1.4 billion—more than the total of all the cartel fines that the EU issued in the entire decade of the 1990s.

Tack on monopoly-abuse penalties against U.S. technology giants **Microsoft** Corp. and **Intel** Corp., and the total of fines that Mrs. Kroes has issued is more than €10 billion.

The escalation has drawn a backlash from some antitrust lawyers, who say the penalties are too large for a legal process in which the competition commissioner acts as prosecutor, judge and jury. Mrs. Kroes has "pushed the level of the fines," says Denis Waelbroeck, a lawyer at Ashurst LLP in Brussels. "She needs also to change the procedural approach."

In a recent paper, Mr. Waelbroeck and colleagues argue that the fines' size makes them tantamount to criminal penalties that should be meted out by a court, not a politically appointed administrator.

In speeches and statements, Mrs. Kroes and EU officials have defended the fines as necessary to deter corporate malefactors. Unlike the U.S., the EU can't seek jail time for cartel offenders.

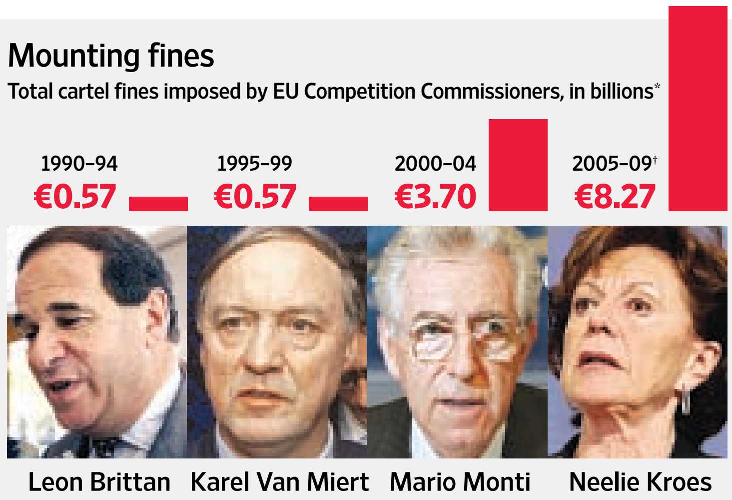
Whoever is picked for the post, their inauguration is likely to be delayed. Last year's rejection by Irish voters of the Lisbon Treaty, a package of institutional reforms, has muddied the waters on how many commissioners there will be. The EU's existing treaty calls for the current 27, one per country, to shrink by at least one this year, though it doesn't say how.

Leaders at this week's summit in Brussels are expected to discuss how to sidestep the problem. Ireland has said it will run the referendum again by November.

—David Gauthier-Villars in Paris contributed to this article.

Mounting fines

Total cartel fines imposed by EU Competition Commissioners, in billions*



*Terms of the commissioners typically run November through October and don't precisely match years provided
†As of Jan. 28 Source: European Commission Photos: Reuters (Brittan, Van Miert, Kroes); AFP (Monti)

Enel official partner of the World Swimming Championships, Rome '09

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Data refers to the 2008 Consolidated Balance Sheet and the 2008 Environmental Report.

CORPORATE NEWS

Web ad sales open the door to viruses

Complex system of middlemen, resellers, auctions in online advertising creates vulnerabilities for sites

By Emily Steel

On a Saturday night at the end of May, visitors to the forums section of Digital Spy, a British entertainment and media news Web site, were greeted with an ad that loaded malicious software onto their computers. The Web site's advertising system had been hacked.

A number of such attacks have occurred this year, as perpetrators exploit the complex structure of business relationships in online advertising, with its numerous middlemen and resellers. Web security experts say they have seen an uptick in the number of ads harboring malware as the economy has soured and publishers, needing to boost their ad revenues, outsource more of their ad-space sales.

ADVERTISING

Viruses can be incorporated directly within an ad, so that simply clicking on the ad or visiting the site can infect a computer, or ads can be used to direct users to a nefarious Web site that aims to steal passwords or identities. In most cases, the problem becomes apparent within a matter of hours and quick fixes are put in place, but that's not fast enough for Internet surfers whose computers end up infected or compromised.

"The system is only as safe as its least secure members, and some of these members can be strikingly insecure," says Ben Edelman, an assistant professor at Harvard Business School who researches Web security issues.

EWeek.com, a technology news site owned by **Ziff Davis Enterprise**, in February displayed an ad on its homepage masquerading as a promotion for LaCoste, the shirt maker. The retailer hadn't placed the ad—a hacker had, to direct users to a Web site where harmful programs would be downloaded to their computers, says Stephen Wellman, director of community and content for Ziff Davis.

Similar attacks occurred across a series of **News Corp.**-owned sites in February, including AmericanIdol.com, FoxNews.com and IGN.com. In January, clicking on an ad on Major League Baseball's MLB.com led visitors to a site with malware.

Rob Shepperson

Digital Spy, Ziff Davis, Fox and MLB all say that immediately after they detected the incidents, they isolated the ads and removed them from their sites.

Digital Spy sells the ad space on its forums section, visited by three million unique visitors a month, through a number of other companies, called ad networks. If one ad network doesn't sell the space to a marketer directly, it often will sell it to another network. The space also can be outsourced to ad exchanges, another set of companies, which hold an electronic auction for online ads.

"As that chain gets longer, it becomes more and more difficult to vet the ads to make sure there are no viruses in them," says James Welsh, co-founder of Digital Spy, owned by Hachette Filipacchi. "There was a lack of scrupulous checking somewhere along that line, and an attacker seized upon this and used it as a route to inject some very nasty malware onto our site."

"Hackers are like any other criminal out there. They look for opportunities where there is the largest number of people gathered, because they will get the best return on their efforts," says Hemanshu Nigam, who oversees safety, security and privacy for News Corp.'s online properties, including MySpace. News Corp. also owns Dow Jones, publisher of The Wall Street Journal.

Web publishers say they have started limiting the number of companies they outsource their ad selling to and are working with security vendors, such as San Francisco-based ClickFacts, to detect malicious software on their networks and remove it as quickly as possible.

Ad technology companies and Internet companies say they, too, are making efforts to boost the security of their systems. **Microsoft**, **Google** and **Time Warner**'s AOL say they use a series of technical and manual procedures to scan for malicious code in their systems.

AOL says that in addition to digital virus scans, it employs a team of people to review each of the thousands of Web sites interested in entering its ad network and each of the advertisers that want to run an ad campaign across these sites. Microsoft says it verifies the legitimacy of the companies it does business with and deploys technologies that scan ads and Web sites to mitigate attacks.

Battle for control of Data Domain exposes culture clash

By William M. Bulkeley And Ben Worthen

For many denizens of Silicon Valley, the bidding war for storage-device maker **Data Domain** Inc. is more than a takeover battle—it's a clash of cultures.

On one side: **EMC** Corp., the Massachusetts-based giant that has dominated the data-storage landscape for years. On the other side: **NetApp** Inc., an EMC rival based about 10 kilometers away from Data Domain in the heart of Silicon Valley, south of San Francisco.

Both companies have bid $30 a share, or about $1.9 billion, for Data Domain, which has an innovative product that companies use to maximize storage capacity and lower costs. EMC's offer is all cash, which often would be preferred over the stock-and-cash mix that NetApp is offering. But Data Domain has so far said it prefers the NetApp deal, saying it "will provide great value."

Data Domain's board on Monday urged shareholders to reject EMC's offer while affirming support for its deal with NetApp. EMC, meanwhile, reiterated that its all-cash offer is superior.

Some merger experts and West Coast technology workers say there may be another motive in the mix: Silicon Valley companies don't like being taken over by out-of-towners, especially East Coasters like EMC.

Twice in its discussions with EMC, Data Domain says in U.S. Securities and Exchange Commission filings, its executives discussed "the cultural fit" between the two companies. They rejected EMC meeting proposals.

"There's an East Coast-West Coast thing," says Peter Falvey, an investment banker with Revolution Partners, in Boston, who isn't involved in the battle. He says similar fears developed as **Sun Microsystems** Inc. workers contemplated reports that their company was about to be acquired by **International Business Machines** Corp. Sun ended up going to nearby **Oracle** Corp. for a slightly better price after Sun Chairman Scott McNealy turned to his Valley neighbor.

In Silicon Valley, home to technology giants Google Inc., Intel Corp., and Hewlett-Packard Co., engineers and entrepreneurs say the culture is unique. They say that there are so many opportunities for employees to change employers or get financing for a start-up that companies make an extra effort to keep workers happy.


Left: NetApp; right: Reuters

The bidding war for Data Domain pits Dan Warmenhoven, left, the CEO of NetApp, against Joe Tucci, chief executive of EMC.

Many Silicon Valley companies think of themselves as fast-moving and adaptive, with fewer rules and egalitarian "flat" management structures. They generally let workers wear what they want and, before the downturn, many offered free lunches and beer on Fridays.

In contrast, East Coast companies such as EMC, **Xerox** Corp. and IBM are viewed from California as rigid, bureaucratic, slow-moving and obsessed with Wall Street. The East-Coast culture "is coin operated. What's relevant is driving shareholder value. The average Silicon Valley company is passionate about the technology," says one California engineer whose company was acquired by EMC.

Giles McNamee, of McNamee Lawrence & Co., a Boston investment bank that brokers mergers says both EMC and IBM have shown they can successfully acquire Silicon Valley companies in recent years. But Silicon Valley workers "think the sun rises and sets in the Valley," he says. "They tend to have a pretty insular view."

Dan Warmenhoven, NetApp's CEO, says: "If you really look carefully at the culture of tech companies there is a very different style in internal styles between companies headquartered in the East and ones headquartered out here. People in a West Coast company are often resistant to an East Coast culture."

Mr. Falvey says cultural concerns helped influence **Yahoo** Inc.'s rejection of **Microsoft** Corp.'s overtures, but investment bankers say culture clashes rarely derail a financially attractive deal. Mr. McNamee says geographically-distant acquisitions don't have as many cost-cut opportunities because administrative roles like human resources must be retained.

EMC was concerned enough about the issue to publish an open letter to Data Domain employees in the San Jose Mercury News assuring them that EMC is "very mindful of culture—respecting and preserving the various cultures that made the companies we acquired successful in the first place." In the letter, signed by CEO Joe Tucci, EMC noted that it has 6,000 employees in the region after acquiring 11 Silicon Valley companies since 2002.

East Coast companies have sometimes acquired West Coast firms with disastrous results. IBM bought Sequent Computer Corp. of Beaverton, Ore., in 1999 for $810 million. Three years later it closed the operation.

On the other hand, EMC's 2002 acquisition of Silicon Valley's VMware Inc., a software company, has resulted in huge growth for VMware and a partial spinout that sharply boosted EMC's market value.

But last year, Mr. Tucci fired VMware co-founder and chief executive Diane Greene, who was widely admired as a successful entrepreneur in Silicon Valle after VMware growth slowed and its stock fell. Her husband and co-founder, Stanford University professor Mendel Rosenblum subsequently resigned as did some other executives. VMware has regrouped and begun to deliver new products under new management.

EMC and NetApp crave Data Domain because of a technology called "deduplication" that prevents data from being stored more than once in a computer system—a surprisingly common occurrence that eats up costly space.

NetApp announced an agreement to buy Data Domain for $25 a share or $1.5 billion in cash and stock in May. A few days later, EMC made its $30-a-share tender offer. NetApp then offered $30-a-share in cash and stock. The shares are trading above $30 now, indicating investors believe someone will up the bid.

Some investors predict that will be EMC, which has ample ammunition with $7.25 billion in cash. Analysts say that if EMC makes a superior financial offer, the Data Domain board would be hard-pressed to turn it down because of potential liability from shareholder suits.

Data Domain is less than eight years old, and still has the feel of a start-up. Engineers dress casually and work long hours. Many of the executives are professional managers who joined as the company grew.

Jack Mollen, executive vice president, human relations, at EMC, says he is sensitive to cultural concerns. "We know they have a lot of things that are sacred to them," he says.

Mr. Mollen says that with 50 acquisitions in the last five years, EMC has learned to be flexible and let different units keep elements of their culture. He says that some acquired Silicon Valley units continue to have Friday afternoon beer bashes, even though alcohol isn't served at headquarters in Massachusetts.

As EMC acquired California companies, "We changed the culture of EMC," Mr. Mollen says. "For years we wore ties to work except after Memorial Day. Now we say, 'dress appropriately.' "

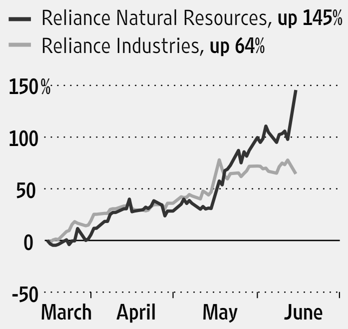
Ambani gas feud settles

Family controversy was linked to breakup of Reliance group

By Eric Bellman

Family business

Three-month performance:



Anil Ambani (top) and Mukesh Ambani (bottom)

Source: Thomson Reuters Datastream

MUMBAI—Score one to Anil Ambani in India's highest-profile family feud.

The billionaire has been battling his even richer elder brother, Mukesh Ambani, in the Bombay High Court for the past two years, claiming his company has the right to buy natural gas from Mukesh's company at below market cost. The claim was based on an agreement the two brothers reached in 2005 when they split the Reliance group of companies their father had built.

Companies controlled by Anil, 50 years old, were promised access to inexpensive gas from newly discovered reserves, but the brothers couldn't agree on its price. The court on Monday ruled in favor of Anil Ambani's **Reliance Natural Resources** Ltd., saying that Mukesh Ambani's **Reliance Industries** Ltd. has to sell gas from its gas field off the shores of eastern India to RNRL for 17 years at \$2.34 per million British thermal units. Reliance Industries wanted to sell the gas at \$4.20 per million thermal units. RNRL has the right to buy 28 million standard cubic meters a day.

The decision could mean billions of dollars in savings for RNRL and billions in lost revenues for Reliance Industries, analysts said. "It was a big shock for Reliance Industries," said Deepak Pareek, oil and gas analyst at Angel Broking in Mumbai. "The court has upheld an earlier agreement and [Reliance Industries] has to oblige."

A Reliance Industries spokesman declined to comment, saying the company needs to study the court ruling.

The court victory could jump-start construction on one of RNRL's planned power plants in Dadri in the northern Indian state of Uttar Pradesh, according to an executive at RNRL, which the executive said has been delayed for two years as the company waited to see if it would get gas at the lower price. "Now our Dadri project can move on the fast track," he said, adding that "the plant could be ready in 18 to 24 months."

Shares of RNRL jumped 24% to 108.35 rupees (\$2.28) while the benchmark Sensex index on the Bombay Stock Exchange fell 2.4%. Reliance Industries' shares fell 7.5% to 2,180.45 rupees.

Reliance Industries has the right to appeal the decision to India's Supreme Court. Otherwise, under the terms of the brothers' breakup agreement, they now have 30 days to come to a deal on how the gas will be supplied. If Reliance Industries refuses to sign an agreement within that time, the court said that according to their breakup agreement the brothers have to take the dispute to a higher authority—their mother, Kokilaben Ambani.

India assumes top spot as a target for retailers

By Eric Bellman

MUMBAI—Increased competition and slowing consumer demand have hurt India's retailing industry but it is nonetheless the most attractive market for international retailers looking to expand in emerging markets, an A.T. Kearney study found.

India topped the rankings of the annual study by the U.S. management-consulting company, climbing up from No. 2 last year. Vietnam slid to No. 6 from No. 1 on A.T. Kearney's Global Retail Development Index for 30 developing markets.

India's score on the index—which ranks places based on market attractiveness, country risk, growth and market saturation—fell 15% from a year ago, its lowest level since A.T. Kearney started the study eight years ago.

"Generally, it was not a good year for [modern] retail in India," said Hemant Kalbag, a Mumbai-based partner at A.T. Kearney. "There has been more competition, consumers are spending less...and traditional trade channels have been more resilient than any of us had planned."

International retailers delayed plans to enter India while locals have cut back growth plans as revenue expansion slowed and it became harder to raise money to build stores and supply chains.

"Sales growth in organized retail which approached 40% in 2008, slowed to low double digits in 2009, which led Indian retailers Reliance Retail and Future Group to delay their expansion plans," the report said.

But other countries had an even tougher year, allowing India to top the rankings. Egypt, for example, saw its ranking plunge to 15. Last year, it was the fifth most attractive destination for retail investment in developing markets.

India's ranking was also helped by the lack of modern retail penetration in its rural areas. "While the rural market is still dispersed and logistics networks are still inadequate, its economy is holding strong during the recession," the report said.

Shopping destinations

The 10 most attractive emerging markets for retailers

Rank	Country	Score
1	**India**	**67.7**
2	Russia	60.1
3	China	56.4
4	United Arab Emirates	56.3
5	Saudi Arabia	55.7
6	Vietnam	55.3
7	Chile	54.8
8	Brazil	52.7
9	Slovenia	52.1
10	Malaysia	51.3

Source: A.T.Kearney

Virgin to offer music downloads

By Kathy Sandler

LONDON—U.K. cable provider **Virgin Media** Inc. said it will introduce an unlimited, music-download service in partnership with **Vivendi** SA's Universal Music publishing arm.

Virgin Media, which operates solely in the U.K., said Monday the service is expected to be available by Christmas. The company said it is in discussions with the other major and independent music labels and publishers to add their music.

Universal hopes the service will offer an affordable alternative to illegally downloading music files.

With the as-yet unnamed service, Virgin Media broadband customers will be able to stream and download as many music tracks and albums as they want from Universal artists, who include U2, Elton John and Amy Winehouse. The monthly subscription fee will be roughly equivalent to the cost of a couple of albums: about £15, or roughly \$25, according to people familiar with the matter. The music will be the user's to keep and be in MP3 format, compatible with music players like **Apple** Inc.'s iPod or **Microsoft** Corp.'s Zune.

Services such as **RealNetworks** Inc.'s Rhapsody and **Best Buy** Inc.'s Napster don't typically offer unlimited downloads.

A person familiar with the matter said it is unlikely the Virgin-Universal service would be rolled out in the U.S. in the near term.

"This is the kind of partnership between a music company and an [Internet-service provider] that is going to shape the future for the music business internationally," said John Kennedy, chief executive of the International Federation of the Phonographic Industry, which represents the recording industry.

Although Universal Music is among the world's biggest music publishers, Virgin will need to secure similar deals with the other major publishers—such as **EMI Music Publishing; Warner Music Group** Corp.'s Warner Chappell unit; and Sony/ATV, a joint venture between **Sony** Corp. and singer Michael Jackson—to be able to offer a more comprehensive music selection. Virgin Media CEO Neil Berkett said the company hopes it can sign a significant number of music publishers by December's rollout.

Despite the rising popularity of legal download sites like Apple's iTunes, music publishers are still losing millions of dollars to file-sharing Web sites that bypass copyrights. As such, publishers are trying to find new ways to encourage people to use legal services.

—Ethan Smith contributed to this article.

Air India delays paychecks, squeezed by overcapacity

Associated Press

MUMBAI—Air India, India's national carrier, will defer salary payments for its 31,000 employees by two weeks, citing a cash crunch born of tepid demand and overcapacity.

"We are in a low-fare regime. The fuel tax is going up. The number of passengers is not that high. There is excess capacity in the market," Air India spokesman Jitender Bhargava said in an interview. "The situation is not peculiar to Air India."

Mr. Bhargava said the carrier, which is owned by the Indian government, lost about 40 billion rupees (\$840 million) in the fiscal year ended March 31 and would pay 3.5 billion rupees for June salaries on July 15 instead of July 1.

He said passenger volume has remained steady but that the airline has added a net of 20 planes to its fleet in the past 18 months, cutting into profit.

Civil Aviation Minister Praful Patel told the Press Trust of India Sunday that a government bailout for Air India was being considered. "I think it will happen because, as the owner of the airline Air India, the government has its responsibility to put in equity, like private airlines where their promoters put in money." he said.

"Air India is in a state of crisis," Kapil Kaul, chief executive of South Asia operations for the Center for Asia Pacific Aviation, said in an email. "It is continuing to induct new planes while it has no money to pay for the salaries. The state of AI is a national issue and needs urgent attention."

"The employees should not be made to pay for mismanagement," the Federation of Nacil Employees, a union group that says it represents 10,000 Air India employees, said Monday. It vowed to oppose the deferral, but didn't specify how.

Airline unions called an emergency meeting Monday, but don't have plans to strike, said Sanjay Lazar, general secretary of the All-India Cabin Crew Association, which represents 2,214 Air India employees and is affiliated with the Shiv Sena, a hard-line Hindu group.

Domestic air travel in India fell 15% in April from a year earlier, the 11th consecutive monthly decline, according to the Center for Asia Pacific Aviation.

Shares in Indian carriers **Kingfisher Airlines** Ltd., **SpiceJet** Ltd. and **Jet Airways (India)** Ltd. rose after national elections last month on speculation that the ruling Congress Party coalition would relax foreign investment rules in the sector. Foreign airlines currently can't acquire stakes in domestic carriers, cutting off a potential source of funding for cash-strapped carriers.

Jet Airways reported a net loss of 9.6 billion rupees for the year ending March.

Kingfisher Airlines reported a net loss of 4.1 billion rupees for the quarter ending December, the latest available data.

SpiceJet reported a net loss of 179.6 million rupees for the quarter ending December.

Holcim reaches Australia cement deal

By Martin Gelnar

ZURICH—Swiss cement maker **Holcim** Ltd. agreed to buy the Australian operations of Mexican rival **Cemex** SAB for 2.02 billion Australian dollars (US\$1.64 billion) and announced plans to raise two billion Swiss francs (US\$1.85 billion) to help finance growth.

The acquisition of Cemex Australia includes 265 concrete plants and 83 Australian sites to process building materials. It also gives Holcim an additional 25% stake in Cement Australia. The Swiss company already owns 50% of the unit. The deal remains subject to due diligence and regulatory approval.

Cemex had acquired the Australian operations in 2007 as part of its US\$15.3 billion buyout of Australian rival Rinker. However, Monterrey-based Cemex has been hit by the global downturn in the construction industry and the company is renegotiating US\$14.5 billion in bank debt. Cemex's net debt stood at US\$18 billion at the end of the first quarter.

The Australian operations last year generated A\$1.86 billion in revenue and A\$313 million in earnings before interest, taxes, depreciation and amortization, Cemex said.

"The acquisition makes strategic sense and we think the price is fair," said Bank Vontobel analyst Patrick Laager.

Holcim also said Monday that it plans to invest 1.6 billion yuan (\$234 million) in the private placement of China-based Huaxin Cement, in which Holcim owns a 39.9% stake. The placement by the Chinese government is valued at as much as four billion yuan and the Chinese cement maker will use the money to build two plants in new markets and expand capacities in existing markets.

—Anthony Harrup in Mexico City contributed to this article.

Owners take second jobs

Entrepreneurs seek additional income to ride out recession

BY RAYMUND FLANDEZ

Small-business owners who are struggling to keep their companies afloat are doing anything they can to ride the recession, even taking on second jobs.

For Darren Hammond, co-owner of Chile Blossoms, a Concord, Calif., importer of peonies from Chile, the winter was particularly harsh as clients stopped paying or fell behind in payments. Sales are down 60% from last season, Mr. Hammond says.

For the first time in four years, he had to stop taking a salary so that he could continue paying business expenses.

To manage personal expenses, such as cellphone bills and car payments, Mr. Hammond found a part-time job working two to three days a week as a customer-service representative and weekend guide for All-Outdoors California Whitewater Rafting in Walnut Creek. "Everybody has bills to pay," he says. "It'd be nice if I could sit back and collect money from Chile Blossoms and live a very comfortable life. At this stage, that's not the case."

Small-business owners like Mr. Hammond are looking for alternate sources of income to make ends meet and to fund their troubled companies. Some 18% of owners surveyed in April said they are working a second job, according to the latest findings from the American Express Open Small Business Monitor. Many of them have sacrificed their personal finances and have stopped taking a salary to deal with the current economic reality.

"It's an indicator that small-business owners are experiencing challenges the type of which they haven't faced for a very long time," says Alice Bredin, small-business adviser for American Express and president of Bredin Business Information Inc., a consulting firm in Cambridge, Mass. The goal for most is to simply bring in enough money until business picks back up. The second job, she says, is "a bridge to better times."

In an economic environment where hiring is bleak, many are using their networking skills and connections to secure a position.

Acting on a tip from a friend, August Wittenberg, chief financial officer of SayNoMore Promotions in Vail, Colo., applied in May for a job as caretaker of a ranch. His wife Kris, the owner of the promotional products company, is hoping to pad household income by launching a second business, a Web-based apparel store, at the end of June. The couple expect revenue at SayNoMore to fall this year to $700,000 from $1.5 million in 2008.

Adina's Deck

Debbie Heimowitz took on a second job at a start-up to keep her own educational-video company, Adina's Deck, afloat.

"We just don't want to get caught flat-footed and give up and say, 'OK, we can't run a business anymore,' and go bankrupt," Mr. Wittenberg says. "We're looking at every option to try to improve our situation."

Others, however, are wary about letting their job hunting known to their clients and to their small-business peers.

Many are using their networking skills and connections to secure a position.

Debbie Heimowitz, owner of Adina's Deck, a Palo Alto, Calif., maker of preteen educational videos, last fall quietly searched online for a second job as schools tightened budgets. "If I tell people that I was looking for a job, would they think I'm stopping the company?" she asked. "How is it going to look to my business contacts, to people in the community, that I'm looking elsewhere to get paid?"

Ms. Heimowitz picked up a temporary project with an independent film company, but her desperation grew when the work ended in December. So she turned to her social and business network. Through a mutual friend, she secured a part-time job as an educational consultant, which she works 10 hours a week while devoting 40 hours to Adina's Deck.

"It took me a while to get over my own fears about what people were going to think," she says.

A more pressing worry for some business owners is that moonlighting may hurt their focus or impede business growth. Indeed, "you don't want to get so busy with your job that you're letting your business die on the vine," says Ms. Bredin. "It's a balancing act, and it's challenging."

Mr. Hammond, the floral importer, says his side job takes up time he'd rather spend finding clients or working on Chile Blossoms' Web site. But he'll probably need an additional job for the next year or two. "Everybody has to re-evaluate what's going on. If you do believe in your business, if you do believe there's a future, then you stick with it," he says. "But it's tough. It's life."

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CORPORATE NEWS

Shenhua to expand coal output

Chinese company to double output, focus on home market

BEIJING—While many Chinese state resources companies are looking abroad for natural resources, **China Shenhua Energy Co.**, the country's biggest coal producer by market value, expects sharp growth at home and isn't feeling pressure to chase deals overseas.

Shenhua is focusing on doubling its annual coal output capacity to 400 million metric tons by 2014, getting a tailwind from Beijing's push to consolidate coal reserves in the hands of just a few big miners.

Its plan is a vote of confidence in China's coal sector at a time when Beijing, facing criticism from abroad over emissions growth, is looking to cut its share of coal in its energy mix by boosting renewable energy use.

China has the world's third-largest known reserves of coal after the U.S. and Russia, and relies on the fuel for 75% of its electricity needs. Vast amounts of new thermal generating capacity are installed each year, often near the mouth of mines.

However, Shenhua's focus on bulking up its domestic operations also allows it to avoid some difficulties that many of China's companies face when expanding abroad, including a lack of technical expertise. Companies often need to parachute management teams into each project, tying up resources and making the operational side of the business more complex.

"Our international strategy is very cautious because we haven't done business overseas before," said Huang Qing, board secretary of Shenhua. "Given that we start from zero, we prefer to begin with" a greenfield, or initial-stage, project like exploring for coal in Australia's New South Wales state, he said in an interview.

Shenhua paid 299.9 million Australian dollars (US$243.9 million) to the Australian government last November for a permit to explore the Watermark area in New South Wales, which has estimated reserves of one billion tons of thermal coal. Shenhua is also active in South Sumatra, Indonesia, where it has a project to produce up to three million tons of coal and build two 150-megawatt power generation units by 2012.

But these are small steps compared with the more than A$3 billion takeover of Australian coal miner **Felix Resources** Ltd. that **Yanzhou Coal Mining** Co. is negotiating. Yanzhou is China's third-largest coal miner by market value, after second-ranked China Coal Energy Co.

Wang Shuai, a coal analyst at Orient Securities, said Shenhua could afford to be cautious in expanding overseas as China's coal reserves are still able to meet the majority of the country's consumption.

This is in contrast to China's biggest oil companies, which can't find enough new oil fields to meet rising energy needs and replace output declines at existing hubs.

Shenhua, which also operates railways, ports and power plants, has adopted a two-pronged approach to securing growth at home. It is developing two new mines with an annual output capacity of 100 million tons each, and expects to bring them both on stream within five years, Mr. Huang said.

The company, listed in both Shanghai and Hong Kong, has also set its sights on buying three assets of its parent, Shenhua Group, although it has yet to fix a timetable, Mr. Huang said. They include a project to make synthetic fuels from coal in northern China's Inner Mongolia region.

Mr. Huang said the venture—one of only two large-scale coal-to-liquids plants approved by the Chinese government—requires oil prices above $45 a barrel to be profitable.

The other projects on Shenhua's radar are **Wuhai Energy Limited** Co., which is the largest coking coal producer in Inner Mongolia, and a coal-to-olefins project in Baotou in the same region.

—David Winning and Wan Xu

Reuters

Imax to team up with Chinese film studio

By Lauren A. E. Schuker

In the latest bid by a major Hollywood company to seek audiences abroad, **Imax** Corp. will announce a partnership Tuesday with China's largest film studio to release three Chinese-language movies.

The move marks the first time that Imax will show foreign-language films on its giant specialty screens, which were popularized through American blockbusters such as the "Matrix" movies and "Night at the Museum."

Huayi Bros. studio, the largest film studio in China, will produce the movies with Imax, which is helping to market and digitally remaster them. The first film, "Aftershock," will become the first big commercial film made outside of the U.S. to play on Imax screens when it hits theaters in China and all over Asia next summer.

The partnership reflects a growing movement in Hollywood, where studios and production companies are looking to expand their reach abroad by financing indigenous fare for audiences that increasingly prefer home-grown films in their local language. As the domestic marketplace dries up, Hollywood companies are turning toward the global arena for growth opportunities, hoping to satisfy the hunger for big-budget movies made on their native grounds.

Time Warner Inc.'s Warner Bros. has long had such operations abroad, while studios including **General Electric** Co.'s Universal Pictures and **News Corp.**'s Twentieth Century Fox are delving deeper into financing movies such as "Aftershock." The picture, an epic about a girl who survives a devastating earthquake and forges a new life in the wake of destruction, cost Imax and Huayi Bros. less than $25 million to make—a fraction of a Hollywood blockbuster, yet it could gross just as much.

Imax hopes "Aftershock" will open up an entirely new area of growth for the company, which has previously stuck to showing Hollywood blockbusters and documentaries. "When we look at the world and the potential markets for us, this partnership allows us to expand beyond our role as a distribution platform for Hollywood blockbusters and introduces a whole new global audience to our theaters," says Richard Gelfond, Imax's chief executive. "Seven out of the 10 top-grossing films in China last year were Chinese-language productions, so we want to make sure we can program the Imax theaters with top local production as well as quality Hollywood films.

Imax licenses its technology to developers in China, who build the theaters and pay Imax an upfront fee as well as royalties and between 10% and 15% of the box-office receipts. The structure works similarly to what Imax has set up in North America.

While China represents Imax's second-largest market after the U.S., the company hopes to increase its presence in China even further. Currently, there are 18 Imax theaters open in China; that number will climb to about 29 theaters by next summer and to as many as 42 by 2012, Mr. Gelfond says.

For Chinese companies such as Huayi Bros., Imax represents a marketing tool to elevate local films such as "Aftershock" to a global level. The studio and Imax are both planning to release the sweeping epic in other territories beyond China—perhaps even New York or Los Angeles. " 'Aftershock' isn't as special effects-laden as some recent American movies and it's more akin to how films used to be made in Hollywood years ago," says Mr. Gelfond, adding: "It will be interesting to see how audiences across the world respond to a more story-driven, as opposed to effects-driven, movie."

Warner Bros./Everett Collection

For Imax, noted for such blockbusters as the 'Matrix' movies, a Chinese deal will mark the first time foreign-language films are shown on its giant screens.

Glaxo to market Dr. Reddy's drugs

By Rumman Ahmed
And Sten Stovall

Indian drug maker **Dr. Reddy's Laboratories** Ltd. and U.K.-based **GlaxoSmithKline** PLC Monday announced a partnership focused on emerging markets, excluding India.

The pact is Glaxo's latest move under its new Chief Executive Andrew Witty in building its business in emerging markets. The products will be manufactured by Dr. Reddy's and licensed and supplied by Glaxo in various countries in Africa, the Middle East, Asia Pacific and Latin America. In certain markets, products will be co-marketed by GlaxoSmithKline and Dr. Reddy's.

Last month, GlaxoSmithKline agreed to acquire a 16% stake in South Africa's **Aspen Pharmacare Holdings** Ltd. in a deal valued at about $389 million and one that expanded an already-existing partnership with the maker of generic drugs. Last week, Glaxo agreed to a deal with **Shenzhen Neptunus Interlong Bio-Technique** Co. to make influenza vaccines for China.

The deal gives Glaxo exclusive access to Dr. Reddy's portfolio and pipeline of more than 100 branded pharmaceuticals in segments including cardiovascular, diabetes, oncology, gastroenterology and pain management.

GLOBAL BUSINESS BRIEFS

Punch Taverns PLC

Pub group offers shares amid effort to reduce debt

U.K. pub group **Punch Taverns** PLC launched a £375 million ($616 million) share issue Monday, saying it would use the proceeds to buy debt. The U.K.'s largest pub group by sales—whose net debt of £4.5 billion now dwarfs its market capitalization—said that the offer already has generated interest from institutional investors. The company said it would issue 375 million new shares at 100 pence each, a 33% discount to Friday's closing price. Punch, the owner of 8,400 U.K. pubs, has been selling pubs in recent months as it seeks to reduce the debt it accumulated to fund acquisitions. The company's gross debt has been cut by £404 million since the start of the current financial year at an average discount to par of 36%, the company said.

OAO Lukoil

Russia's state development bank, Vneshekonombank, has acquired a "large" stake in the country's biggest independent oil producer, OAO **Lukoil**. Neither Lukoil nor VEB would give the size or the price of the stake. However, it doesn't exceed 5%, as Lukoil, in which **ConocoPhilips** holds a 20% stake, is required to disclose any acquisition over that level. The government has been snapping up significant assets and equity stakes in recent months as the global financial crisis lowers company valuations, capitalizing on the downturn to gain greater control of strategic industries.

Dean Foods Co.

Dean Foods Co. agreed to buy the Alpro division of Belgium's **Vandemoortele** NV for €325 million ($455 million), in a move to boost its position in the global soy-foods market. Alpro, a leading soy-based beverage and food products maker, had net sales of about €260 million last year. The division has five manufacturing sites in Belgium, the U.K., France and the Netherlands. Its brands include Alpro and Provamel. Dean, the largest U.S. dairy processor by revenue, also sells the Silk brand soy beverage. Soy-food sales reached $4 billion in the U.S. for the first time in 2008, according to organic and natural foods market analyst SPINS.

Kohlberg Kravis Roberts

Private-equity firm **Kohlberg Kravis Roberts** & Co. said it completed a series of investments in **Ma Anshan Modern Farming** Co. for an undisclosed amount to help the company build 20 to 30 large dairy farms in China. The Chinese company's primary business is raising dairy cows and selling raw milk to branded dairy companies for processing into consumer dairy products. Ma Anshan is based in the central Chinese province of Anhui and has annual production capacity of more than 150,000 metric tons of raw milk. In December it was reported that KKR, based in New York, planned to put $100 million into the investment. The investment is among the few China deals for KKR, one of the world's biggest and oldest private-equity firms.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

If Iran game has changed, rules haven't

Disputed election may be a turning point, but Obama must push ahead with diplomacy, international pressure

By Gerald F. Seib

If you're trying to gauge whether change might be afoot in Iran after its tumultuous election weekend, it's worth noting that the fall of the Shah of Iran a generation ago likely began with, of all things, a party.

The Shah threw what was perhaps the world's most over-the-top celebration in 1971 to celebrate the anniversary of his nation's monarchy. Kings and presidents were summoned from around the world, champagne flowed, imported delicacies were flown in and the partying went on for days. The celebration became the very symbol of the Shah's decadence, fueling widespread grumbling that was used to great effect by the Ayatollah Ruhollah Khomeini to help precipitate the revolution that eventually overthrew Iran's leader.

CAPITAL JOURNAL

As Iranians take to the streets to protest the presidential election just completed, the Shah's grandiose party is a useful reminder that in Iran, as elsewhere in the world, you can never be sure when one striking event will take on a life of its own, crystallizing underlying feelings and setting off a chain of events with unpredictable results.

The question now before Iran, and the rest of the world, is whether the election now sending protesters into the streets of Tehran could become such a game-changing event. The vote has opened a wide rift between the more conservative, populist and lower-class supporters of President Mahmoud Ahmadinejad, the self-declared winner, and the more educated, urban and reformist supporters of his election rival, Mir Hossein Mousavi, a former prime minister.

Agence France-Presse/Getty

The White House must assume Iran's election dispute and ensuing protests, above, makes the country harder to deal with.

It is a wide and fundamental divide that goes to the heart of Iran's society as well as its government. Monday's stunning decision by the country's supreme leader, Ayatollah Ali Khamenei, to order an investigation of vote fraud, just one day after he had seemed to accept without question Mr. Ahmadinejad's re-election, suggests the dispute over the outcome may be deeper than the country's maximum leader realized. The turmoil now may continue for a while.

The problem for the U.S., though, is that while all this may represent a positive turn toward a more reasonable Iran in the long run, one can hardly count on it. The Obama administration, in fact, has little choice but to continue to deal with Iran as if nothing fundamental has changed—and in fact, assume that the dispute makes the country harder to deal with, not easier, in the short run.

There are at least four reasons that's the case. First, it was less than a decade ago that many people thought they saw a similar start to an uprising against the clerical establishment led by the young and the intellectuals. Students at Tehran University were organizing protests, police moved in to stop them, and riots erupted. The protests continued sporadically for several years, and early in the presidency of George W. Bush, top U.S. officials were intrigued by the possibility that some kind of regime change might unfold.

It didn't. In other words, there have been false springs in Tehran before, and not so long ago.

Second, the election outcome may end up making the Obama strategy of engaging Iran's leaders in diplomacy harder to execute.

Dealing with Mr. Ahmadinejad always figured to be a dicey proposition, given his erratic nature and his bizarre personal beliefs. To some extent, the Obama team would prefer to deal with the real power in Iran, the clerical establishment and Ayatollah Khamenei himself, but they're probably stuck with the civilian leader. If that leader remains Mr. Ahmadinejad, he will be not only an erratic diplomatic partner but one with a cloud of illegitimacy over his head.

Third, though Iran's politics may be frozen in place for a while, its nuclear program likely won't be. That may produce the worst of both worlds: Nuclear centrifuges continue to whirl in Iran, producing more raw material that could be used for nuclear weapons, while political paralysis makes it impossible for the U.S. and the rest of the world to figure out whether some combination of diplomacy and economic pressure can stop it.

Finally, U.S. policy makers must remember that more than seven years passed between the notorious anniversary party and the Shah's ouster.

So for administration officials, the bottom line for now is: Push ahead as before, cautiously figuring out how a diplomatic track might work, lining up international pressure in case it doesn't. "Our approach to Iran won't change, but Iran might have," is how one senior aide puts it. Adds another: "The main issues—nuclear and terror—are the same as the Thursday before the election. It was never going to be easy to address our concerns and the world's concerns on those, but we have to."

The curse of U.S.-Iranian relations is that things never come easily and are as likely to get more dangerous as less. Today's tantalizing prospect that a fundamental change may have begun in Iran is precisely that: a prospect.

U.S. set to withdraw troops from Iraqi cities by June 30

By Gina Chon

BAGHDAD—The top U.S. commander in Iraq, Gen. Ray Odierno, said American combat troops are on track to leave Iraqi cities by the end of June as scheduled, and that the U.S. so far has closed or handed over to the Iraqi government 142 former American installations.

Questions have lingered about the status of combat troops in volatile areas, such as Mosul in the north of the country. But Gen. Odierno said Monday that U.S. forces would pull back there as well as from Baghdad, Fallujah and other population centers, thanks to improved security conditions across the country.

"An important new phase for Iraq will start," said Iraqi government spokesman Ali al-Dabbagh, appearing at a joint news conference here with Gen. Odierno and other Iraqi officials, including Defense Minister Abdul Qader al-Obeidi and Interior Minister Jawad al-Bolani.

It's unclear how many U.S. forces are affected by the reassignment to large bases outside urban areas. As expected, a small number of support troops will remain behind in some high-population areas, Gen. Odierno said. In all, he said, U.S. forces will remain at 320 locations after the June 30 deadline for pulling U.S. combat troops out of Iraqi cities.

He added that the drawdown of American and remaining coalition troops would continue gradually throughout the year.

Meanwhile, British Prime Minister Gordon Brown authorized an inquiry into the Iraq war. He told the House of Commons Monday that an examination of mistakes made surrounding the 2003 U.S.-led invasion will begin next month. A panel of appointed experts will look closely at the build up to the invasion, how the conflict was conducted and problems with planning for reconstruction projects.

Agence France-Presse

U.S. Gen. Ray Odierno shakes hands with an officer of the 34th Red Bull Infantry Division during a transfer-of-authority ceremony at the Basra airport in Iraq.

In Iraq, Gen. Odierno said security conditions had improved enough to allow him to meet the timetable set by a bilateral security agreement that went into effect at the first of this year. That agreement, which also stipulates that all U.S. troops should be out of Iraq by the end of 2011, provides some wiggle room if security worsens and Iraqi officials want American forces to stay.

U.S. troops remaining in urban areas after June 30 are to focus on noncombat-related roles, such as training and advising. Gen. Odierno declined to provide the specific numbers of those troops.

He said there are about 130,000 coalition troops in Iraq now, compared with 160,000 forces this past September. U.S. President Barack Obama sped up the withdrawal timetable after he took office, saying American combat troops would leave Iraq by August 2010.

"The improvements in security have allowed for this moment," Gen. Odierno said. "The dark days of the previous years are behind us."

Defense Minister Ubeidi said American security forces will still be needed to provide such things as aerial fire power, aerial surveillance and engineering support. Iraqi officials also emphasized that all American combat missions require approval from the Iraqi government, and that American operations would be coordinated with Iraqi officials.

But the government spokesman, Mr. Dabbagh, warned of people still trying to destabilize Iraq.

Although security has improved, some Iraqis are feeling increasingly uneasy about a surge in large-scale violent attacks.

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ECONOMY & POLITICS

France's colonial ties to Africa are fraying

Network of treaties survived liberation but now is strained

By David Gauthier-Villars

PARIS—As French President Nicolas Sarkozy attends the funeral Tuesday of President Omar Bongo of Gabon, France is reopening a debate on whether it has turned the page on decades of close, often secretive relationships with the oil-rich central West African nation and other former African colonies.

Mr. Sarkozy pledged in his campaign and soon after he was elected in 2007 to do away with France's sub-rosa military and business operations in Africa. There is no clear sign, however, that he has moved in that direction.

A big test for France will come in the fall, when a Paris appeals court is due to rule on whether investigative magistrates have legal grounds to look into allegations of embezzlement in France by three African leaders, including the late Mr. Bongo, who led Gabon for 41 years.

The allegations came to the attention of the magistrates through a criminal complaint filed in Paris last year by an anticorruption group. But the Paris prosecutor's office, which reports to France's Justice Ministry, disputed the legitimacy of the case in an appeal.

"It will be a key test to gauge whether France is serious about breaking with the past," said Comi Toulabor, a professor at the Center for Black Africa Studies at Bordeaux University.

Patrick Maisonneuve, a lawyer for the late Mr. Bongo, said the anticorruption group's embezzlement allegations are groundless.

A spokesman for Mr. Sarkozy declined to comment on France's policy in Africa, saying "now is the time for [Mr. Bongo's] funeral, not for polemics."

Mr. Bongo, who was pronounced dead last week at a Spanish hospital where he was treated for a long illness, was widely considered a pillar of French-African networks that developed after 1960, when Gabon and other French colonies gained independence.

Back then, Gabon was a budding oil producer. To maintain its sway on the country, France sealed a series of military, monetary and trade pacts with Gabon. Although the African country was independent, France kept a military base there, minted its currency—the CFA franc—and secured priority access to its raw materials. Defense deals, some of which remain secret, allowed France's military to intervene in Gabon to protect the country's national security or help with internal policing. Mr. Bongo came to power in 1967, when he was just 32 years old, with French support.

In time, however, the relationship began to work both ways: France influenced Gabon; Gabon influenced France. Mr. Bongo summarized how the two-track relationship worked: "Africa without France is like a car without a chauffeur," he told French daily Libération in 1996. "France without Africa is like a car without gasoline."

The nature of Mr. Bongo's relationship with French officials, however, has raised questions. Last week, former French President Valéry Giscard d'Estaing told a French radio station that for many years President Bongo contributed to the campaigns of other French politicians—including former President Jacques Chirac.


Associated Press/Keystone

'France without Africa is like a car without gasoline,' said Omar Bongo.

Mr. Chirac says the comments are "absolutely groundless" and "part of a mediocre dispute," according to an aide.

Two years ago, Mr. Bongo's chief of staff, Mamadou Diop, told The Wall Street Journal that "if Mr. Bongo, with his own money, made payments to French politicians, it was out of generosity, not to influence French elections."

Over the past decade, both France and Africa have focused on other directions, with France working on European Union integration, while Gabon started to trade extensively with China.

Still, France maintains a military base in Gabon with 1,100 soldiers, and French oil company Total SA produces about a third of Gabon's oil. Mr. Sarkozy has moved slowly toward fulfilling his pledge of making Gabon and other former French colonies in Africa fully responsible for their own security.

The embezzlement case due to be examined by the Paris appeals court stems from a complaint filed in December by the French branch of anticorruption association Transparency International against the "ruling families" of Gabon, Congo and Equatorial Guinea for "embezzlement of public funds."

A preliminary investigation sparked by an earlier embezzlement complaint and conducted in 2007 by French police showed that Mr. Bongo, Congo President Denis Sassou Nguesso, Equatorial Guinea President Teodoro Obiang Nguem Mbasogo and their respective families owned luxury cars and real estate in France valued at millions of euros.

"No one can believe that these assets were bought with their monthly salaries," said Transparency International lawyer William Bourdon. "These assets reflect on a continuous plundering of government funds."

In May, the head of Paris's investigative magistrates, Françoise Desset, decided to take up the case. A few days later, the Paris prosecutor's office appealed the decision on the grounds that Transparency International suffered no direct damage from any of the African regimes and had therefore had no grounds to file its complaint. The appeals court now has to decide whether to follow Ms. Desset or the prosecutor's recommendation.

Mr. Maisonneuve, the lawyer for Mr. Bongo, said it was too early to discuss whether the complaint could reach any possible heirs of Mr. Bongo's assets in France.

Jean-Pierre Versini Campinchi, a lawyer for Mr. Sassou Nguesso, said his client has two properties in France—including one near Paris where he lived during the 1990s—but none of the numerous bank accounts that Transparency International alleged in its complaint that he has.

"This case amounts to entertainment for media because the court will never allow for a probe to be launched," said Mr. Versini Campinchi.

The presidential office of Equatorial Guinea issued a statement last month saying that Mr. Obiang owns only one property in France that was bought in 1986, long before the country became a significant oil producer.

In Gabon, authorities are organizing a week of ceremonies to honor Mr. Bongo, who will be buried Thursday in his native region of Franceville, in the country's east.

Under Gabon's constitution, Senate chairwoman Rose Francine Rogombé is assuming the role of president and is responsible for organizing elections within 45 days. Mr. Bongo's son Ali, Gabon's defense minister in the current administration, is seen as the leading contender to succeed his father.

Before heading to Gabon for Mr. Bongo's funeral, Mr. Sarkozy said France "stood by Gabon's side" at this difficult moment.

U.S. works to head off political extremists

By Gary Fields And Evan Perez

The recent killings of a U.S. Holocaust Memorial Museum guard and a Kansas abortion doctor came a few months after the Federal Bureau of Investigation stepped up efforts to pre-empt violence committed by just such political extremists working alone.

"Lone-wolf offenders continue to be of great concern to law enforcement," the agency said in a February memo reviewed by The Wall Street Journal. The FBI is "trying to identify a potential lone wolf before he or she would act out violently," Michael Ward, the bureau's deputy assistant director for counterterrorism, said in an interview earlier this year.

The lone-wolf initiative is one element of a broader strategy to fight domestic terrorism, dubbed "Operation Vigilant Eagle," launched late last year in response to what the memo identified as "an increase in recruitment, threatening communications, and weapons procurement by white supremacy extremist and militia/sovereign citizen extremist groups."

Vigilant Eagle's creation was first reported by the Journal in April.

The memo, and the recent killings, also show the limits of the lone-wolf effort. Both James von Brunn, who is charged with the Holocaust Museum shooting, and Scott Roeder, the man arrested in the murder of George Tiller in Kansas, had openly expressed to associates and on Web sites their extremist views, on anti-Semitism in Mr. von Brunn's case and on abortion in the case of Mr. Roeder.

The FBI, in fact, was aware of Mr. von Brunn because of the postings but wasn't tracking him. (The agency said Saturday that Mr. von Brunn, who was shot in the face by other security guards during the Holocaust Museum incident, would likely survive his injuries.)

Neither man appears to have been active in groups that might have tipped off authorities to the danger. In the search for potentially violent individual extremists, "an emphasis should be placed on the identification of individuals who have been ostracized from a group for their radical beliefs," the FBI memo said. It added that officials should look for "those who have voluntarily left a group due to their perception of the group's inactivity, or those forced from the group for being too extreme and or violent." That description doesn't appear to have fit either Mr. von Brunn or Mr. Roeder.

"The lone wolf is arguably one of the biggest challenges to American law enforcement," said Mike Rolince, a former FBI counterterrorism official who spent years focused on domestic extremists. "How do you get into the mind of a terrorist? The FBI does not have the capability to know when a person gets up in middle America and decides: 'I'm taking my protest poster to Washington or I'm taking my gun.' "

While much of the focus in recent years has been on international terrorism and on militant groups, authorities say the lone-wolf syndrome has always been a major concern, borne out by high-profile incidents such as the 1995 Oklahoma City bombing, the 1996 Olympic bombing in Atlanta and the series of bombings carried out over nearly two decades by Theodore Kaczynski, who lived in a remote cabin in Montana.

The stepped-up attention to the issue in recent months is part of a broader worry about rising threats and violence from political extremists. There are no concrete data showing recent trends. The FBI's hate-crime reports are more than a year behind. Still, the most recent data showed that from 2005 to 2007, the number of such incidents rose more than 6%.

In addition to the recent killings in Washington, and Kansas, recent lone-wolf cases include the killing of a soldier in Little Rock, Ark., last month, allegedly by a converted Muslim extremist, Abdulhakim Muhammad. Last August, a Florida man attending bail-bondsman training was arrested for making threats against then-Sen. Barack Obama and President George W. Bush. And in October, two men who identified themselves as skinheads were arrested in Tennessee where they were plotting to go on a nationwide killing spree targeting African-Americans.

The FBI memo also noted the scant academic study to date of violent individual extremists, and said the agency had recently stepped up efforts to analyze their actions. A study launched in partnership with Harvard University, the memo said, would seek to define characteristics and behavior that signal a potential lone-wolf offender.

A Harvard spokesman who contacted various departments to ask about the study said he was unaware of it. The FBI said there was no date for completion.

The FBI memo also called on bureau offices around the country to assess whether the leaders of known extremist groups might be open to cooperating with law enforcement in identifying potential lone offenders. The FBI advised its offices not to initiate contact at this time.

Meantime, the bureau has been working with the U.S. military and with prison authorities to identify people who may raise concerns, hoping that "anyone who would be inclined to act out, we'd have a sporting chance to take any kind of preventative measures we can," Mr. Ward said.

One constraint facing authorities is the need to balance monitoring of potential violent extremists with the protection of a suspect's civil liberties. The memo noted that the study had been cleared by the FBI's "institutional review board, which reviews all FBI research involving human subjects in order to help protect the rights and welfare of those subjects."

"Their hands are tied a little bit," said Heidi Beirich, of the Southern Poverty Law Center, which monitors hate groups. "We have to protect freedom of speech. It's kind of complicated."

EU will accept some detainees from U.S. prison

Associated Press

LUXEMBOURG—The European Union agreed Monday to help the administration of President Barack Obama "turn the page" on Guantanamo, saying individual EU nations will take detainees from the U.S. prison in Cuba.

The EU and the U.S. issued a joint statement saying some EU nations are ready "to assist with the reception of certain former Guantanamo detainees, on a case-by-case basis."

It didn't name the countries or how many detainees would be resettled across the 27-nation bloc, but said Washington was ready to pay some of the costs of their resettlement.

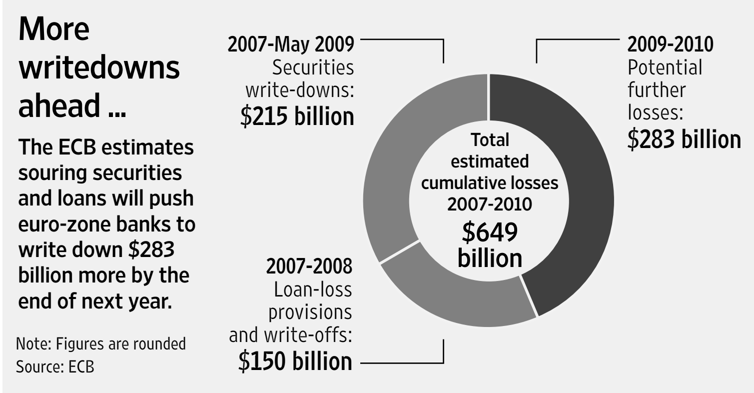
The U.S. is seeking a home for those cleared for release from the Guantanamo Bay detention facility without trial but who cannot go to their own countries for fear of ill-treatment. About 50 of the 240 or so detainees left on Guantnamo fall in that category. At one point there were 778 detainees at Guantanamo.

Some EU nations already have accepted their own nationals from Guantanamo, while Albania, France, Sweden and Britain also have accepted noncitizens. Germany is assessing a request to accept two after having refused at least nine. It will accept only people who pose no security risk and have some "connection" with Germany, German officials said.

ECB issues grim forecast

Central bank expects more write-downs by financial entities

By Joellen Perry



FRANKFURT—The European Central Bank says euro-zone banks will need to write down $283 billion more by the end of next year and sees the bloc's total crisis-related losses at $649 billion, far below the $904 billion the International Monetary Fund forecast in April.

In a grim edition of its twice-yearly Financial Stability Review, the ECB, which sets interest rates for the 16 countries that share the euro currency, warned that risks to euro-zone financial stability "remain high" despite some signs of stabilization in the economy, as well as in equity and money markets.

Among the central bank's worries: Sharper-than-anticipated falls in U.S. house prices, further winnowing of euro-zone banks' capital buffers and the possibility that economic upheavals across Central and Eastern Europe—where some euro-zone banks have big investments—could intensify.


Lucas Papademos

Other sources of concern include rising corporate-default rates, falling property prices in some euro-zone countries, and the potential for the bloc's recession to be worse than expected. European central-bank staff last week forecast euro-zone output will shrink by about 4.6% this year and around 0.3% in 2010.

Most big euro-area banks "appear to be sufficiently well-capitalized to withstand severe but plausible downside scenarios," ECB Vice President Lucas Papademos told reporters Monday, noting banks' participation in government efforts to prop up struggling financial institutions has so far been "satisfactory."

But he said pending losses, largely from souring domestic loans, mean banks should tap government coffers further.

"Looking forward, banks should be encouraged to take advantage of the governments' commitments ... and strengthen their capital buffers," Mr Papademos said. That, he said, could kick-start bank lending and bolster bank balance sheets once the ECB withdraws the programs it deployed to keep banks afloat.

The bleak outlook pushed the euro down to a two-week low under $1.38 as investors worried about the bloc's banks.

Still, the ECB estimates the crisis won't be as hard on euro-zone banks as the IMF has predicted. Since the IMF published its forecasts in April, many European policy makers have questioned the results, saying the figures don't take into account how European accounting and leverage standards differ from those in the U.S. Mr. Papademos said the ECB's figures account for those differences, as well as for how euro-zone loan-default rates differ from those in the U.S.

In April, the IMF said euro-zone banks still had $750 billion in pending write-downs, a figure that didn't include write-downs taken from January through May of this year. Accounting for that difference, the ECB says the IMF's methodology would result in a forecast of $539 billion in write-downs to come before the end of 2010—still well above the ECB's own estimate of $283 billion.

Mr. Papademos said all estimates of potential write-downs are "subject to a considerable margin of error." The IMF had no comment on the differences in estimates. In the past, the IMF has said its estimates of loan losses are important for the economic trends the data reveal as well as specific numbers.

The IMF's estimates of sharply higher write-downs around the world informed its view that the global economy in 2009 was heading to its first contraction since the Great Depression, with only a weak recovery to follow. It also has bolstered the IMF message that the U.S. and European governments had to act boldly to clean up bank balance sheets.

—Bob Davis in Washington contributed to this article.

IMF warns on U.S. debt and bailout exit strategy

By Maya Jackson Randall

WASHINGTON—Exiting unprecedented financial-rescue programs will be a big challenge for the U.S., the International Monetary Fund warned in a new report that also projects that a solid economic recovery in the U.S. should emerge in the middle of next year.

"Monetary and fiscal stimulus may stoke concerns about inflation and rising debt, exerting upward pressure on interest rates," staffers noted in the report. This makes it necessary to "develop and communicate strategies for exiting extraordinary support and for dealing with long-term challenges, and implement them rigorously, to underpin confidence," the report said.

The fund also warned about the U.S. fiscal situation as it projected that between 2009 and 2011, federal deficits will average 9% of gross domestic product and debt held by the public will nearly double to 75% of GDP.

"Looking forward, such a rise in debt may put significant pressure on Treasury bond rates, which—along with lower potential growth—will add to fiscal challenges," the report said.

The annual IMF report on the U.S. economy comes after world financial leaders discussed ways to unwind their stimulus and financial-market-rescue programs during weekend meetings in Italy.

It also comes as the Obama administration is preparing this week to roll out a broad plan for overhauling the U.S. financial system to better prevent future financial crises and as the administration grapples with a ballooning federal deficit.

Meanwhile, a fear of inflation and related concerns about how officials will exit costly rescue programs is pushing up long-term interest rates even as policy makers work to keep them low enough to help revive the economy. In the report, IMF staffers raised their outlook for the U.S. economy but also pointed out that it is still weak by historical standards and said "the near-term outlook is marked by an unusual level of uncertainty, with the balance of risks tilted to the downside."

The report listed upward pressure on interest rates, deterioration in the commercial-real-estate market, foreclosures and further home-price declines as significant risks to the economic outlook.

"Much will also depend on developments abroad, including progress made in strengthening financial institutions and markets," the report said.

The report projects U.S. GDP will contract by 2.5% this year, followed by a 0.75% expansion in 2010. In April, the fund projected the U.S. would contract 2.8% this year with no growth next year.

With U.S. unemployment expected to peak at close to 10% in 2010, the report projects that prices—as measured by the headline Consumer Price Index—will decrease by 0.5% in 2009 and increase by 1% in 2010.

Staffers see core inflation "at very low levels."

The IMF report outlines some bright spots, saying that financial conditions have "noticeably improved" and that the pain in the housing and labor markets might be easing.

Still, the report pointed out three significant challenges for U.S. officials: they must develop strategies for unwinding the massive programs they have launched to stem the crisis; reshape the financial system; and address the federal debt.

"Damaged household balance sheets" will be another challenge for policy makers, the report said.

The report said the most immediate priority is to complete the strengthening of banks' capital positions. The report said the stress-testing regulators recently performed on the U.S.'s top banks helped boost confidence.

Sweden's banks need to raise capital to cut risk, IMF says

By Joel Sherwood

STOCKHOLM—Swedish banks need to increase their capital bases to calm market worries as economic trouble brews in the nearby Baltic region, the International Monetary Fund said.

Swedish banks are heavily exposed to the economies of Estonia, Latvia and Lithuania. The three Baltic economies are set to contract by a double-digit percentage after overheated growth in the middle of the decade. Concern about the situation has weakened Sweden's currency, the krona, in recent weeks.

The IMF's view contrasts with that of the Swedish Financial Supervisory Authority, which just last week said after stress tests that banks are adequately capitalized should developments deteriorate further in the Baltics.

"We think the stress tests have been well done," said IMF representative Peter Doyle at a news conference in Stockholm. "However, it's clear from the reaction of the markets that they remain concerned about the banks. For that reason, it's clear also that capital needs to rise."

Mr. Doyle said he hopes banks will take steps soon to increase their capital, through rights issues to private investors, for example. He urged the government to inject public equity if the banks can't raise capital on their own. though he declined to say by how much their capital should be increased.

Among further measures needed, the IMF said, Sweden's FSA should expand its supervision to cover deposits taken from nonbank financial institutions, and cross-border authority cooperation should be deepened. There also is scope for Sweden's central bank to further pad its foreign-currency reserves beyond increases already announced, it said.

The Swedish Riksbank last week borrowed €3 billion ($4.2 billion) from the European Central Bank as part of plan to expand reserves by about €10 billion to safeguard financial stability.

The assessment that Swedish banks need further capital isn't due solely to Baltic exposure but incorporates all potential risk factors including a sliding Swedish economy. The IMF predicts Sweden's economy will contract 6% this year.

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