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What's News

Barclays officially accepted BlackRock's \$13.5 billion bid for Barclays Global Investors, the bank's asset-management unit, after CVC Capital Partners waived its right to make a counteroffer and accepted a breakup fee. **Page 19**

Gazprom will cut spending 22% and may delay the launch of the key Yamal field in Siberia. **Page 3**

The BRIC nations used a Russia summit to seek more influence in global financial affairs for the group's four developing powers. **Page 2**

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Tesco said sales increased 13% in the retailer's latest quarter, with the company reporting strong results in the U.K. and Asia. **Page 6**

MySpace will cut its work force by nearly a third, as the social-networking site's new managers strive for greater efficiency. **WSJ.com**

U.S. housing starts jumped 17.2% in May, but a drop in industrial output suggests a return to rapid expansion is unlikely anytime soon. **Page 10**

Germany's ZEW indicator of economic expectations posted a surprise gain, but other euro-zone indicators worsened. **Page 10**

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Airbus received orders from AirAsia X and Vietnam Airlines, but Jet Airways said it is deferring delivery of Airbus and Boeing planes. **Page 7**

Britain named a top diplomat at the U.N., John Sawers, as the new head of its international spy agency.

EDITORIAL OPINION

A letter to Khamenei
No tyranny has ever created a political system that lasts. **Page 15**

Breaking news at europe.WSJ.com



Clockwise, from top left: A Tehran rally; a pro-Mousavi demonstration in Berlin; Medvedev greets Ahmadinejad in Russia; protesters in Kiev

Iran violence flares again

Motorcycle gunmen fire into Mousavi supporters as thousands demonstrate

By WALL STREET JOURNAL STAFF
TEHRAN—Thousands of Iranians—supporters of both President Mahmoud Ahmadinejad and presidential candidate Mir Hossein Mousavi—poured into the capital's streets Tuesday, the fourth day of sometimes-violent protests in the country's political standoff.

Violence flared late in the day in at least one standoff between crowds and what appeared to be plainclothes security officials. Gunmen, riding motorcycles similar to those

commonly used by Basij militia loyal to the government, opened fire on a peaceful crowd of Mousavi supporters, seriously injuring at least one person, whose condition wasn't immediately clear.

The dueling demonstrations came hours after state media reported that the country's top religious oversight council would consider a partial recount of Friday's polls, which, according to official results, saw Mr. Ahmadinejad trounce Mr. Mousavi and two other challengers. Mr.

Mousavi has alleged wide-scale vote rigging, and has called for supporters to continue demonstrating peacefully against the results.

Reporter's notebook

Gunshots disrupted peaceful protest in Tehran9

Both sets of protests on Tuesday were scheduled for the same central Tehran square at roughly the same time, heightening concerns of further clashes. But Mousavi

supporters moved their demonstration out of the square up a main boulevard, apparently eager to avoid conflict.

Late Monday, a rally of hundreds of thousands of Mousavi supporters turned bloody as crowds were dispersing. State media reported seven people were killed in clashes Monday.

Following Monday's protest, the government issued tough restrictions on journalists, barring foreign media from covering rallies in Tehran. *Please turn to page 31*

English cricket faces a crucial test

By THOMAS DYJA

As the clouds float above Lord's, the "home of cricket," in St. John's Wood in northwest London, the weathervane—an image of Father Time himself—turns and scythes the breeze, and members of the Marylebone Cricket Club politely applaud in the red brick Pavilion, a grand Victorian pile. Around here, "old money" can date back to the Tudors. Lord's is the official keeper of cricket's relics and its history, the game's spiritual core.

But Lord's is no longer where the money is, or the power—India has those now. A global mutiny has swept the cricketing world, pitting the realities of the marketplace against the purity of the game, and it all centers on a faster, louder, harder-hitting version called Twenty20, whose



Umpires talk to West Indies Captain Chris Gayle after bad light stopped play during a cricket match with England at Lord's on May 7.

World Cup is being played here at the leafy, proper Lord's.

"In cricket," Mark Marqu-

see wrote in his book "Anyone But England," "there is always the fear that something will be lost," and in the traditional bas-

tions of the game, there's fear that T20 is forcing England to lose control of a sport considered fundamental to its identity.

Essential to the mystique of "test cricket," the highest version of the game, is that it defies easy explanation. A test lasts between three and five days, and in the broadest possible terms, involves two sides of 11 players, each batting twice through their entire order. The opposing side bowls to the batters in sets of six balls, called overs, and in a five-day test there will be hundreds of them.

T20 cricket is simple, and to the purists, that is the problem. In this format, Team One sets the target by piling on as many runs as it can in 20 overs from Team Two. Then Team Two takes its turn at batting and tries to beat the target in- *Please turn to page 31*

Swedish company will buy Saab

By IAN EDMONDSON AND SHARON TERLEP

Saab Automobile AB has another shot at survival after a consortium led by Swedish boutique sports car maker Koenigsegg Automotive AB agreed to a preliminary deal to buy the troubled company from General Motors Corp.

Under the agreement, Saab vehicles would remain on sale in the U.S. GM has agreed to provide engines, transmissions and technology to the new owners for an undefined time, and expects to build the brand's next new release, the Saab 9-4 X crossover.

The agreement is a major step toward resolving unknowns facing GM as it navigates through bankruptcy court. Saab's long-term future, however, remains uncertain.

If the deal goes through, Koenigsegg, founded in 1994 by a 22-year-old entrepreneur to make cars for the rich, faces the difficult task of reversing years of losses at Saab.

Saab has been "consistently unprofitable" since GM acquired the brand in 2000, GM Chief Executive Frederick "Fritz" Henderson said Tuesday in an online question-and-answer session. He said a "myriad of reasons" were responsible for the failure, but expressed confidence that the *Please turn to page 31*

Inside



Reversal of fortune

A Colorado town's friendly bank left a nasty mess **News In Depth, pages 16-17**

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8504.67	-1.25
Nasdaq	1796.18	-1.11
DJ Stoxx 600	208.80	-0.11
FTSE 100	4328.57	+0.06
DAX	4890.72	+0.02
CAC 40	3213.95	-0.17
Euro	\$1.3891	+0.39
Nymex crude	\$70.47	-0.21

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LEADING THE NEWS

Gazprom weighs delay in key Yamal field

Russian gas giant to cut spending 22% on fall in demand

BY GUY CHAZAN AND JACOB GRONHOLT-PEDERSEN

Russia's OAO Gazprom says it will slash capital spending and might delay the launch of an important field in Siberia as the global recession decimates demand for its natural gas in Russia and Europe.

The announcement about its flagship Yamal development in the far north of Russia, key to its plan to increase its market share in Europe, could have major implications for the Kremlin-controlled gas giant's future.

Gazprom's deputy chief executive, Alexander Ananikov, said in a conference call that the company was cutting its capital spending program for this year by 22% to 500 billion rubles (\$16 billion).

He said the start-up of Bovanenkovo, the largest gas field in the remote Yamal Peninsula, might be delayed by a year, until 2012. Gas output won't reach precrisis levels for several years, he said.

The global economic slowdown has damped demand for natural gas across Europe, leading to a sharp falloff in Gazprom's exports to the Continent. Big European customers this year have been purchasing the mini-



Pipeline workers at Gazprom's Bovanenkovo project, the largest gas field in the Yamal Peninsula of Siberia, in December.

mum volumes allowed under long-term contracts with Gazprom in the hope that gas prices, which are pegged to oil prices but with a six- to nine-month lag, will soon start to fall.

A Russian businessman close to

Gazprom said senior management is "close to panic," worrying that gas demand in Europe "may never come back."

"For the first time in its history, Gazprom's management has started

to...realize Europe will no longer buy everything we produce," he said.

Gazprom spokesman Sergei Kupriyanov said the company "never panics." "Certainly, we didn't expect such a sharp falloff in demand in the

first quarter of this year, but we are confident the situation will be rectified in the summer, when gas prices start to come down," he said.

News of a delay on Bovanenkovo would have caused consternation in Europe as little as a year ago. Energy experts had long been concerned that Gazprom, which supplies a quarter of Europe's gas, wasn't developing new fields like those in Yamal fast enough to satisfy surging demand for the fuel, both in Russia and Europe, and to compensate for falling production at its mature fields in Siberia.

Some analysts predicted a gas supply shortage unless Gazprom stepped up its investments.

As recently as February, company officials insisted that Bovanenkovo was on track and the field's development wouldn't be affected by the economic downturn.

Situated in the remote, freezing wastes of northwestern Siberia, Bovanenkovo is the largest gas field in Yamal, an area thought to contain more than 12 trillion cubic meters of gas. Russia says the field will ultimately produce 140 billion cubic meters of gas a year, or more than 80% of Gazprom's current contracted export volume to Europe.

The company is building a 1,100-kilometer pipeline to connect Bovanenkovo to a huge gas hub, Ukhta, in northern Russia, that will allow Yamal gas to be exported directly to Europe through Gazprom's existing pipeline network.

U.K. to restrict Internet access for repeat digital pirates

BY AARON O. PATRICK

Hoping to cut down on rampant online theft of music and movies, the British government plans to ratchet up pressure on suspected pirates with measures that would ultimately restrict the Internet access of repeat offenders.

The U.K. government on Tuesday announced new antipiracy measures based on coordinated action by Internet service providers, entertainment companies and Ofcom, Britain's broadcasting regulator.

The measures were part of a long-anticipated "Digital Britain" report that also calls for spending £200 million (\$326 million) to provide everyone in the country with access to high-speed Internet service by 2012.

To fund the high-speed network, the U.K. government plans to impose a 50-pence-a-month tax on most telephone landlines. The tax will be used to cover the one-third of the country, mostly rural areas, that probably won't be able to get broadband through commercial Internet providers, the report said.

BT Group PLC, Britain's largest telecommunications provider, said the tax is a "creative solution" to delivering very fast Internet services. The company is interested in building the network for the government, a spokeswoman said.

Under the proposed piracy rules, Internet companies would be required to send letters to customers suspected of illegal downloading. For repeat offenders, the Internet companies would be required to send users' information to content owners such as media companies, which can threaten the suspected offenders with court action.

If the initial warnings don't work after a year, Ofcom would have the

power to force Internet companies to limit a person's access to the Internet via bandwidth "shaping" or "capping," a technical process that curtails the amount of data a user can download.

A group representing the movie industry, Respect For Film, criticized the one-year delay before limiting a user's bandwidth; the group said sending letters would probably deter less than a third of people who use peer-to-peer networks to get illegal downloads. Respect For Film's members include major entertainment companies.

Some lawyers said the graduated approach isn't being used elsewhere to fight piracy, which has hurt the music industry and threatens the profitability of movie studios.

"It puts the U.K. at the forefront of thinking about this issue," said Lisa Peets, the head of European intellectual property at Covington & Burling LLP.

The music industry in the U.S. for several years attempted to sue suspected pirates in court, but the effort did little to slow the spread of online music theft and at times resulted in bad publicity. After several

years, the effort was abandoned.

In Britain, the report said the government believes "that most people, given a reasonable choice, would much prefer not to do wrong or break the law." The changes won't take effect until passed by the British Parliament, which could modify them. The legislative plans are due to be completed by August.

Britain's efforts reflect a broader attempt to clamp down on piracy across Europe. France is considering a law that would deny three-time offenders access to the Internet. In April, a Swedish court con-

victed the owners of the notorious Pirate Bay Web site for copyright infringement and sentenced them to jail. The four owners are appealing.

In another area, the report says 3.5% of the BBC budget could be made available to other news organizations after 2013 to provide services like regional news. The BBC currently receives about £3 billion from a tax on all TVs in Britain.

The chairman of the BBC, Michael Lyons, said in a statement the move would damage the broadcaster's output and reduce its independence.

Investors pursue some Anheuser brands

BY DAVID KESMODEL AND DANA CIMILLUCA

Kohlberg Kravis Roberts & Co. and other private-equity firms have expressed interest in buying part of Anheuser-Busch InBev NV's operations in Central and Eastern Europe in a deal potentially worth more than \$2.5 billion, people familiar with the matter say.

The brewing assets are spread across seven countries, including the Czech Republic, Romania and Serbia. They exclude the beer giant's operations in Russia and Ukraine, which represent larger markets deemed by analysts to be more crucial to the company's success.

Besides KKR, suitors include European buyout firm CVC Capital Partners and TPG of the U.S., according to the people familiar with the matter.

Anheuser, the world's largest beer maker by sales, was approached by private-equity firms and beer makers, according to one person familiar with the situation. It's unclear

whether any of the beer companies are still involved.

Anheuser, of Leuven, Belgium, is looking for offers in the range of eight- to 10-times earnings before interest, taxes, depreciation and amortization, this person said. That would translate to a price between \$2.6 billion and \$3.4 billion. Other people involved in the auctions said that achieving such a price will be a challenge.

The sale process is at an early stage, though an agreement could come within six weeks, the people said.

Anheuser, which brews Stella Artois, Beck's and Budweiser, has been selling various assets as part of an effort to repay debt taken on in InBev NV's \$52 billion acquisition last year of Anheuser-Busch Cos., the dominant U.S. brewer. KKR agreed earlier this year to acquire Anheuser's unit in South Korea for \$1.8 billion.

In addition to private-equity firms, other potential buyers of the European assets could include London-based SABMiller PLC, the world's second-largest brewer, which has a sub-

stantial presence in the region. Representatives of SABMiller could not immediately be reached for comment.

A spokeswoman for Anheuser declined to comment.

The potential sale may indicate that Anheuser intends to focus on its largest markets, forgoing some of the risks—as well as the potential for growth—tied to smaller emerging markets. "The central European markets are small, with many players," said Gerard Rijk, an analyst with ING in Amsterdam. "It's very difficult to reach scale there."

If a private-equity firm completes a deal, it would be a large buyout by recent standards, as credit to fund such deals remains tight. In the case of the Korea sale, Anheuser had to help finance the deal and KKR had to put up more cash than in normal times. That formula would likely need to be employed for this deal to succeed, bankers say.

The company's brands in the region include local beers such as Staropramen in the Czech Republic, Ka-



A sale would include Anheuser's Bulgarian Kamenitza brand and others.

menitza in Bulgaria and Niksicko in Montenegro.

—Marietta Cauchi and Matthew Dalton contributed to this article.

CORPORATE NEWS

Fiat hopes return to U.S. is a winner

Italian auto maker plans to introduce its iconic cars like the 500, some Alfa Romeo models under its own brands

BY DAVIDE BERRETTA

When Fiat SpA entered the U.S. market in the late 1970s, the Italian auto maker thought it had the answer to that decade's gas crisis: a fleet of small, fuel-efficient cars.

The debut, however, became a debacle as Fiat struggled to set up an efficient dealer network and complaints about quality piled up. Fiat was forced to exit the U.S. market in the early 1980s, dogged by the nasty acronym "Fix It Again, Tony."

Nearly three decades later, Fiat is readying its second attempt to crack the U.S. Its new alliance with Chrysler Group LLC gives the company access to an extensive dealership and service network and a company in need of car technology.

In recent years, Fiat's models have been faring well in Europe, with local sales comparable to those of Ford Motor Co. and Volkswagen AG. During the first four months of 2009, Europe's top-selling models included three Volkswagens, two Fords and two Fiats, according to auto consultancy JATO Dynamics.

To succeed in the U.S., however, Fiat will need to lure customers who are more accustomed to driving sport-utility vehicles and pickup trucks.

Fiat said it will try to crack the U.S. by introducing only its most iconic cars—the Fiat 500 and some Alfa Romeo models—under its own brands. The rest of the company's plan for Chrysler involves using Fiat technology and vehicle designs behind the scenes in models that will carry Chrysler's nameplates.

Fiat also may have to contend with any lingering U.S. memories about the reliability of its vehicles



Fiat plans to sell its 500 model, displayed during a promotional event in New York, to Americans through Chrysler dealers.

and the effectiveness of its repair network.

"The evidence in Europe is that they are not at the top of the list [in quality], but overall there has been an improvement," said Mark Fulthorpe, an analyst at auto consultancy CSM Worldwide. "That they haven't managed to surpass the German brands is no great revelation, but they're in pace with other competitors" such as French and American brands, he said.

Fiat spokesman Gualberto Ranieri said he believed any nega-

tive perceptions about quality won't be an issue, since the only U.S. car that will be sold as a Fiat is the 500, which Fiat believes has a strong brand of its own.

Fiat said it hopes to introduce the 500 in the U.S. by 2011, after it meets U.S. regulatory standards for crash-worthiness and emissions. At about four meters in length, the egg-shaped 500 would be one of the smallest cars available in the U.S., larger than Daimler AG's Smart car, but tinier than BMW AG's Mini Cooper.

Tailored for the narrow streets and tight parking spots of Rome and Paris, the 500 logs about 20 kilometers per liter and costs \$15,793 to \$24,146.

In 2008, the 500 was named car of the year by a panel of European automotive journalists. They praised the 500 for its "retro-chic" design, "efficient engines" and modern safety features.

"Based on the Mini and to a lesser extent the Smart, we have some evidence that there is a reasonable audience [in the U.S.] for

this kind of vehicle, largely in urban areas of the East and West Coasts," said Mr. Fulthorpe of CSM.

In 2008, the 500 was the third best-selling car in Italy, and in the first few months of 2009, 500 sales bucked the industry trend by growing in both Italy and Europe.

Part of the 500's appeal to Europeans lies in the car's iconic past. In Italy, the original Fiat Cinquecento, or "five hundred" in Italian, is remembered as a symbol of the nation's post-World War II economic boom.

Tino Maiolo, the 45-year-old president of a Fiat fan club in Queens, N.Y., said he knows about a hundred people who want to buy a Fiat 500 once it gets to the U.S.

After it launches the 500 in the U.S., Fiat hopes to begin selling Alfa Romeos, which are larger, faster and less fuel-efficient than Fiats.

The most likely Alfa candidate for the U.S. is the Mito, a sporty, slender car that averages about 17 kpl. The Mito is about 30 centimeters longer than a Mini Cooper, and sells at a starting price of about \$21,549. At its launch in Italy, Fiat Chairman Luca Cordero di Montezemolo called Mito "a perfect car also for the American market."

In addition, Fiat also hopes to sell in the U.S. the Alfa 147, a heftier hatchback similar in size and shape to Volkswagen's Rabbit.

It is still unclear which Fiat models the company hopes to adapt and sell under Chrysler brands.

A Fiat spokesman said that the company might derive a U.S. model from what has become Italy's best-selling car, the Fiat Panda, an inexpensive hatchback. It logs about 23 kpl and costs about \$12,396 to \$22,040.

European auto demand weakens

BY CHRISTOPH RAUWALD

FRANKFURT—European new-car registrations last month skidded 4.9% from a year earlier, though Germany's Volkswagen AG and Italy's Fiat SpA saw demand rise as scrapping incentives fueled sales of smaller cars.

New-car registrations, which mirror car sales, dropped to 1.27 million vehicles in May, the 13th consecutive month of shrinking demand. Scrapping initiatives in several major markets helped cushion the fall, the European Automobile Manufacturers Association, said Tuesday.

In the first five months of the year, registrations in Europe were down 14% from a year earlier at 5.96 million vehicles.

Registrations in Western Europe, a key source of earnings for global auto makers, were down 3.2% in May and 13% in the January-to-May period. May 2009 counted on average one fewer working day across the region than last year.

Volkswagen, Europe's largest auto maker by sales, posted a 3.1% rise to 278,933 new-car registrations in May. Fiat eked out a 2% rise to 116,243 cars in Europe.

General Motors Corp.'s trou-

Weak performance

Europe's new-vehicle registrations in May

Company	Units	Change from year earlier
Volkswagen	278,933	+3.1%
PSA Group	165,167	-5.9
Ford	125,395	-5.0
GM	118,602	-11
Fiat	116,243	+2.0
Renault	112,064	-4.4
BMW	65,490	-14
Daimler	61,714	-8.9
Toyota	59,266	-8.9
Hyundai	29,309	+25

Source: European Automobile Manufacturers Association

bled European division last month suffered a 11% fall to 118,602 new-car registrations, as a 3.9% rise to 17,295 registrations at the Chevrolet brand failed to offset a 9.6% fall at Opel/Vauxhall to 98,935 cars.

Opel and its British sister brand, Vauxhall, are currently in talks to finalize a takeover by Canadian auto supplier Magna International Inc. and its Russian partners OAO Sber-

bank and OAO GAZ Group.

Ford Motor Co.'s European unit posted a 5% fall to 125,395 registrations in May as the Swedish Volvo brand suffered a 20% fall to 15,197 cars. Ford's core brand saw registrations slip 2.4% to 110,198 cars.

French auto makers Renault SA and PSA Peugeot-Citroën SA performed roughly in line with the overall market. Renault saw its new-car registrations drop 4.4% to 112,064 cars while Peugeot's registrations fell 5.9% to 165,167.

The economic downturn continued to hurt luxury-car sales in Europe last month as the region's scrapping incentives sparked demand mainly for small and fuel-efficient vehicles rather than larger, premium cars. The world's two best-selling luxury auto makers, Daimler AG and BMW AG, saw sales fall 8.9% and 14%, respectively.

European new-car registrations for Toyota Motor Corp. were down 8.9% in May at 59,266 vehicles, with the Lexus premium brand posting a 48% fall to 1,234 cars.

Separately, Fiat and the European Investment Bank said they formalized a €400 million (\$551.8 million) loan to the car maker.

—Giada Zampano in Rome contributed to this article.

Michelin's unions expect job cuts amid auto slump

BY SEBASTIAN MOFFETT

French tire maker Michelin SA is expected to announce job cuts on Wednesday, showing how the crisis in the world automobile industry is hitting big suppliers.

Michelin, which is considered the world's joint biggest tire maker along with Bridgestone Corp. of Japan, was planning a meeting with workers' representatives for Wednesday morning, a Michelin spokeswoman said. She declined to give details of the meeting. Unions were expecting job cuts to be announced.

"Will there be a restructuring plan? Yes," said Alain Couderc, the Michelin representative of the Confédération Française Démocratique du Travail, or CFDT, one of France's big union federations. "But we are not sure of the numbers yet."

Mr. Couderc said workers' best hope was that the plan allowed workers to leave over time.

Michelin, based in Clermont-Ferrand, central France, makes tires for airplanes and specialist vehicles such as tractors as well as

for cars, giving it customers outside the ailing automobile industry. Unlike many car makers, Michelin posted a net profit for 2008, albeit down 54% to €357 million (\$492 million).

Still, the bulk of the company's business comes from cars and trucks, both of which are suffering during the global economic downturn. In the first quarter of 2009, Michelin's sales fell 14% to €3.5 billion from a year earlier.

The likely Michelin job cuts come after an announcement by Continental AG of Germany that it would close a French tire factory. Continental executives were pelted with eggs by angry workers.

In France, companies are sometimes suspected of using economic downturns as an opportunity to make capacity reductions that would be politically difficult when business conditions are strong.

But France's labor minister, Brice Hortefeux, said he didn't believe this was the case with Michelin. "I know how much the managers of Michelin are careful not to play with jobs," he told a French radio station.

A powerful technology is energising Antwerp and reducing emissions. It's called cogeneration.

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Luc Van Vooren, Engineer



CORPORATE NEWS

U.S. overpaid Blackwater

Firm says it's entitled to payments disputed in government audit

BY YOCHI J. DREAZEN

WASHINGTON—A U.S. government audit found that the State Department overpaid the contract-security firm once known as Blackwater Worldwide by tens of millions of dollars because the company failed to properly staff its teams in Iraq.

The report didn't identify any specific security breaches, but it said the State Department should have withheld at least \$55 million in payments to the company because of the shortfalls.

The audit by the Special Inspector General for Iraq Reconstruction and the State Department's Inspector General said the firm didn't employ enough guards, medics, marksmen and dog handlers to fully man the teams, which were responsible for protecting the U.S. ambassador to Iraq and other high-level officials.

The failure to consistently field the right numbers of guards endangered the U.S. officials whom the company was being paid to protect, the report concluded.

"We believe the full manning of protective details is important to the safety of the principal being protected, as well as to the members of the protective details," the audit noted. "Insufficient manning exposed the department to unnecessary risk."

The audit also found that Blackwater, which this year changed its name to Xe, sometimes overcharged for airfare to and from Iraq and failed to properly account for some equipment received from the U.S. government.



Blackwater contractors, shown in 2005, secure the site of a roadside bomb attack in Baghdad. An audit found the firm didn't employ enough guards, among other issues.

Anne Tyrell, a company spokeswoman, said it had been "fully compliant with the terms and conditions of the contract." She said the company believed it was entitled to all of the disputed \$55 million.

Officials in the State Department's Diplomatic Security office, which oversaw the contract, referred questions to the department's Bureau of Administration, which declined to comment.

The audit is the latest report to raise questions about Blackwater, which was for years the best known Western contractor in Iraq. Under the new name, Xe, the company is seeking contracts worth tens of millions of dollars in Afghanistan for services ranging from training Afghan personnel to flying cargo for the U.S. military.

Blackwater wound down its Iraq operations earlier this year, after the Iraqi government refused to renew its operating license because of a 2007 shooting incident involving one of its security teams in which 17 Iraqis died. In December,

U.S. prosecutors charged five former Blackwater guards with manslaughter and weapons charges for their alleged roles in the incident. Families of several of the dead Iraqis have also sued Blackwater in federal court seeking financial compensation.

The company also faces civil and criminal scrutiny stemming from the alleged killing of an Iraqi guard by a Blackwater employee inside Baghdad's protected Green Zone on Christmas Eve 2006.

In Afghanistan, four U.S. contractors affiliated with Xe are under U.S. military investigation in the shooting of a civilian vehicle in Kabul last month, wounding at least two Afghan civilians. The company has said it is cooperating with the investigations into all three incidents but denied responsibility.

When the five former guards were indicted in December, the company said it didn't believe "criminal violations occurred" but that the men should be held accountable for any wrongdoing.

Best Buy net drops 15% as electronics sales slip

BY MARY ELLEN LLOYD

Best Buy Co. reported a 15% drop in its fiscal first-quarter profit as recession-weary shoppers cut back on consumer electronics purchases.

The Richfield, Minn., retailer has benefited from the closing of rival Circuit City Stores Inc. But it said customer traffic in U.S. stores was lower than a year earlier and its average revenue per sale was flat, hurt by a decrease in sales of video games, appliances, cameras and movies.

"Circuit City's demise was a help but not enough to offset industry pressure," said Pali Capital retail analyst Stacey Widlitz.

Its shares fell 7.4%, or \$2.87, to \$35.79 in late-day trading on the New York Stock Exchange Tuesday. Executives said its market-share rose but sales were offset by industry-wide softness.

For the period ended May 30, Best Buy posted income of \$153 million, or 36 cents a share, down from \$179 million, or 43 cents a share, a year earlier. The latest quarter included six cents a share in restructuring charges.

Revenue increased 12% to \$10.1 billion, aided by the inclusion of revenue from Best Buy Europe, a nearly year-old joint venture with the U.K.'s Carphone Warehouse Group PLC. Same-store sales, or sales at stores open at least 14 months and including Internet sales, fell 6.2% companywide. Continued economic weakness in Canada and China and unfavorable foreign-currency exchange led to a 13.9% drop in same-store sales internationally.

"When customer demand accelerates, I am confident we will see growth in accordance with our share gains," said President and Chief Operating Officer Brian Dunn. Mr. Dunn noted that Best Buy contin-

ues to open stores and add new distribution channels at a time other retailers are pulling back sharply.

Best Buy's U.S. market share fluctuates depending on the time of the year, but it tallied more than 21% for the three months ending April 30, roughly two percentage points higher than the same period the year before, reflecting gains in notebook computers, flat-panel televisions and mobile phones.

The company left its earnings outlook for the year unchanged, at \$2.50 to \$2.90 a share, excluding restructuring charges. In the prior year, net income was \$1.41 billion, or \$3.12 a share.

Chief Financial Officer Jim Muehlbauer said, "Given the limited visibility to consumer spending in the back half of the year, along with the fact that majority of the company's earnings are derived from the holiday selling season, it is prudent to maintain our original guidance."

Best Buy's outlook assumes revenue of \$46.5 billion to \$48.5 billion and same-store sales flat to 5% lower.

Lower flat-screen television and laptop prices hampered Best Buy's sales total despite increased volume, but Mr. Dunn said, "I actually see that as a good thing," arguing that having new products in the hands of more consumers will boost Best Buy's service business.

The company said Tuesday it was still on track to open 20 large-format stores internationally this year and 45 in the U.S.

Bob Willett, head of its international operations, said, "Though we are never pleased to report a decline in comparable-store sales, we are pleased to see areas of strength across the business," including revenue growth in Europe and gross margin improvement in China.

—Kerry E. Grace
contributed to this article.

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Tesco's sales increase 13% amid gains in U.K. and Asia

BY LILLY VITOROVICH

LONDON—A strong performance in the U.K. and Asia and a recovery at its nonfood business helped Tesco PLC post a 13% increase in sales for its fiscal first quarter.

In the U.K., Tesco's biggest market, sales at stores open at least a year rose 4.3% excluding fuel and value added tax in the 13 weeks ended May 30. The increase compared with growth of 3.7% in the fourth quarter but was still below sales growth at some of Tesco's domestic rivals.

The 13% rise in sales, which excludes fuel, outpaced most of Tesco's U.K. competitors, retail analysts at Sanford Bernstein said.

International sales jumped 20% from a year earlier. In Asia, where Tesco has more than 1,000 stores, sales rose 44%, helped by currency fluctuations and a strong performance by the Homever stores in Korea that Tesco bought last year.

The world's third-largest retailer by sales, behind Wal-Mart Stores Inc. and Carrefour SA, is benefiting from price cuts, promotions and a focus on store-branded products. But smaller rivals J Sainsbury PLC, Wil-

liam Morrison Supermarkets PLC and Wal-Mart's ASDA Group Ltd. are chipping away at Tesco's dominance in Britain.

In the U.S., where Tesco operates 120 Fresh & Easy stores, sales more than doubled as the retailer opened new stores and lured customers with by revamping its offerings, said Tesco's finance director, Laurie McIlwee.

Sales were more subdued on the Continent, rising 1.9% amid difficult economic conditions in Ireland and Slovakia.

U.K. consumers are "slightly more confident" as a result of low interest rates and fuel costs, although fear of unemployment remains an issue, said Mr. McIlwee.

Tesco said its nonfood business, which has been hit by the economic downturn as shoppers deferred non-essential purchases, has resumed modest same-store-sales growth. Sales in categories such as electronics, housewares, horticulture, stationery and toys improved from the fiscal second half.

The solid sales momentum has continued in the second quarter, Mr. McIlwee said, adding that margins are "holding up well." He declined to provide specific margin figures.

CORPORATE NEWS

Chinese gain voice, if not clout, on Internet

Court drops charges after online uproar; Beijing on defensive

BY LORETTA CHAO

BEIJING—Public criticism in China of a requirement concerning an Internet filter, and the dismissal Tuesday of murder charges against a woman accused of killing a local official show how the Web has given Chinese citizens a greater voice in confronting their authoritarian government.

The government hasn't backed down on the requirement that personal computer makers, as of July 1, must ship all new PCs with a Chinese-made Web blocker. But it has been compelled to defend the plan. Tuesday's state-run China Daily newspaper quoted an official from the ministry that issued the requirement, who repeated that installation of the software is optional and said the government's role "is limited to having the software developed and providing it free."

Chinese Internet users, in an intense backlash since the requirement became public a week ago, have complained that the software has security flaws and could greatly expand the government's control over Internet use in China. Analysts who have examined the software say it blocks some political content; the government says it is only meant to block pornography.

The official defense of the plan suggests to some observers that the Web is requiring greater accountability from a government that in the past dictated policy with

By the numbers

Internet in China, as of Dec. 31, 2008

Internet users

298 million

Penetration: **22.6%**

Annual growth rate: **22.6%**

Blog authors

162 million

People who update their blogs

105 million

Top 3 Internet applications: network music, instant messaging, network news

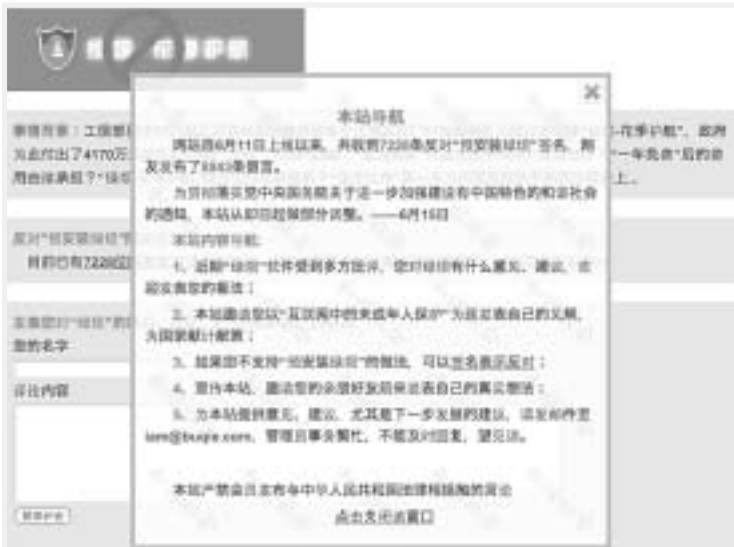
Social networking penetration: **12.3%**

Online forums

91 million

Online forums penetration highest among college students: **55.5%**. Office employees next highest with **34.6%**

Source: China Internet Network Information Center



A spoof of the official Green Dam-Youth Escort Web site invites people to express their true feelings on the software.

little concern for public opinion.

In another example of the impact of the Internet, a Chinese court on Tuesday dismissed murder charges against Deng Yujiao, who was accused of killing a local government official, after her cause was championed on the Web. Ms. Deng, a hotel worker in the central province of Hubei, said she acted in self-defense when the official and his colleague tried to rape her.

The case prompted an outpouring of public sympathy for Ms. Deng on the Internet by people who were angered by an apparent abuse of power by government officials, and who expressed concern that Ms. Deng would be given a heavy sentence despite the mitigating circumstances.

The case's outcome "is a signifi-

cant victory of Chinese Internet users and Chinese democracy," said one user from Guangdong on Tianya.cn, one of China's most popular online forums.

It's unclear whether the public complaints will lead to any change in policy. "The Chinese government clearly does pay attention to public opinion expressed on the Internet—the extent to which they choose to adapt their practices based on it, or ignore it, seems to vary," says Rebecca MacKinnon, a media studies professor at the University of Hong Kong.

When there is division on an issue within the government, Web-based criticism may be used to try to modify or kill a policy, but on key issues where there is government unity, dissent may be quashed or

ignored, says Ms. MacKinnon.

China Internet Network Information Center, a government research center, estimates nearly a third of the country's 300 million Internet users contribute to online forums.

Surveys have shown this mostly young population sees the Internet as a place where they can express their opinions more freely than offline.

Wan Yanhai, a prominent Beijing-based AIDS activist who started his organization with the help of online communications, says the Internet has "given people courage to change society."

Mr. Wan released an open letter to the government protesting Green Dam for infringing on people's freedom to decide what is "appropriate," specifically because he says

the software's default setting filters out many nonpornographic gay and lesbian Web sites.

"Public opinion online is a way that citizens participate in politics, because they don't have other means," said Li Fangping, a human-rights lawyer in Beijing who has filed a formal request that the government explain why it chose Green Dam for the requirement, and how the software will protect the privacy and security of Internet users.

An online petition started June 11 had over 7,000 signatures by Tuesday evening. Some complaints have been humorous: Spoofs of the software have been widely circulated, including a musical number called "Song of the Green Bully Lady."

The Web criticism appears to have triggered at least one change. The government required that Jinhui Computer System Engineering Co., which led the software's development, provide updates to fix security problems that would leave computers vulnerable to malicious software, according to China Daily. The order came after Internet users in China and abroad raised questions about security issues.

Both the Ministry of Industry and Information Technology, which issued the requirement, and Jinhui didn't respond to requests for comment Tuesday.

Meanwhile, a U.S.-based anticensorship group called Global Internet Freedom said Tuesday it had developed software that would enable users to disable or delete Green Dam. The group, which calls its software "Green Tsunami," said it is making it available free online.

—Gao Sen and Sue Feng in Beijing and Juliet Ye in Hong Kong contributed to this article.

Container haven

Container throughput volume at ports of the world, in millions of TEUs*, in 2008

Singapore	29.9
Shanghai	28.0
Hong Kong	24.5
Shenzhen	21.4
Busan	13.4
Dubai	11.8
Guangzhou	11.0
Ningbo-Zhoushan	10.9
Rotterdam	10.8
Qingdao	10.3

*Twenty-foot-equivalent units

Source: Marine Department of Hong Kong

Containers at the Yangshan Deepwater port in Shanghai



Discounting seen at Shanghai port

BY MICHELLE NG

SHANGHAI—Shanghai International Port (Group) Co., mainland China's largest port operator by volume, is letting carriers store empty containers at its terminals at deep discounts in an effort to keep the volume of containers it handles from slumping amid the global financial crisis.

China's port operators have been trying to cope with a severe decline in the nation's exports, which has reduced shipping volumes. SIPG, as the state-owned operator of Shanghai's port assets is known, is under additional pressure due to a Beijing directive that Shanghai be built into an international shipping center.

Overall, China's container through-

put was down 11% in the first four months this year, according to Credit Suisse.

The empty-container plan lets Shanghai-listed SIPG push up its container throughput volume—which measures container volume handled rather than cargo loaded and unloaded—and cultivate goodwill with clients. But the plan means forgoing storage revenue and standard handling fees. SIPG's first-quarter net profit fell 28% to 733.9 million yuan (\$107.4 million).

Last November, SIPG started offering the attractive terms to bigger clients who agreed to place a minimum number of containers at its terminals. Eligible carriers aren't charged storage fees for empty containers, and pay only deeply dis-

counted handling fees. An SIPG official said the handling fees just about cover its costs.

SIPG isn't the only Chinese port operator with free-storage service: Officials at Dalian Port (PDA) Co., Tianjin Port Co. and Ningbo Port Co. said they have offered similar programs to select container-carrier clients.

A senior SIPG official said that on average about 700,000 empty containers are parked at its terminals at any time.

John Chachamopoulos, general manager of the Shanghai branch of Wilhelmsen Marine Consultants, a Norway-based consultancy, said that as Shanghai is a state-owned port, state policy as well as market considerations can play a role in determining targets.

Airbus gets new orders from two Asian carriers

BY DAVID PEARSON AND ANIRBAN CHOWDHURY

AirAsia X, the long-haul, low-cost affiliate of Malaysia's AirAsia Bhd., said Tuesday it has placed firm orders for 10 Airbus A350 jets in a move that will boost the fast-growing airline's fleet of Airbus planes.

AirAsia X has options for another 10 A350 aircraft. No value for the contract, signed at the Paris Air Show, was given. The firm orders would be valued at more than \$2.4 billion at list prices, though aircraft are often sold at a discount.

Meanwhile, Vietnam Airlines said it has ordered 16 Airbus A321 single-aisle jets and signed a memorandum of understanding for an additional two A350s, while Jet Airways (India) Ltd. said it will defer delivery of five Airbus and three Boeing Co. planes.

The long-range, wide-body A350 is scheduled to enter into service with passenger airlines in 2013. To date, Airbus, a unit of European Aeronautic Defence & Space Co., has booked 493 orders for the plane from 31 customers.

AirAsia X will use the aircraft on routes between its hub in Kuala Lumpur, Malaysia, and Europe and Australia. AirAsia X's sister airline, AirAsia, has ordered 175 Airbus single-aisle A320s, making it Airbus's biggest single customer for the plane.

Rolls-Royce Group PLC, of the U.K., will provide engines for the 10 firm orders and five of the options. AirAsia X also has ordered Rolls-Royce engines for 10 Airbus A330s already on order. These orders together are potentially valued at \$1.8 billion, Rolls-Royce said.

AirAsia X director and founder Tony Fernandes said at a news conference that AirAsia is continuing to expand rapidly, in contrast to regional competitors, and that the airline's passenger numbers were up 21% in the second quarter.

Vietnam Airlines' order for the short- to medium-haul A321s is valued at \$1.4 billion at list prices, Airbus Chief Executive Tom Enders said. The A350-900s are valued at \$184 million apiece at list prices.

Jet Airways has been hobbled by the global recession, putting its international expansion plans on hold.

Saroj Datta, executive director at the Indian airline, said the carrier won't take delivery of five Airbus 330s and three Boeing 777s in the fiscal year through next March.

The eight planes were scheduled to be deployed on Jet Airways' international routes. The carrier's decision was preceded by similar moves by other Indian airlines, which lost an estimated \$2 billion in the year ended March 31.

CORPORATE NEWS

GLOBAL BUSINESS BRIEFS

Hotel files for Chapter 11

Extended Stay sinks under buyout debt; key investor endures

BY LINGLING WEI
AND KRIS HUDSON

In one of the biggest real-estate bankruptcies in the current slump, the **Extended Stay Hotels** chain filed for Chapter 11 protection Monday, collapsing under the debt from its \$8 billion top-of-the-market buyout in 2007.

But David Lichtenstein, whose **Lightstone Group LLC** led the buyout group, appears to be surviving Extended Stay's meltdown relatively unscathed. Lightstone contributed only \$200 million of equity and borrowed a chunk of that for the deal, according to people familiar with the matter.

Under the hotel chain's proposed restructuring plan, the 48-year-old Mr. Lichtenstein would avoid personal guarantees in the original loan agreement. He would also be kept on as manager of the 680-property hotel chain.

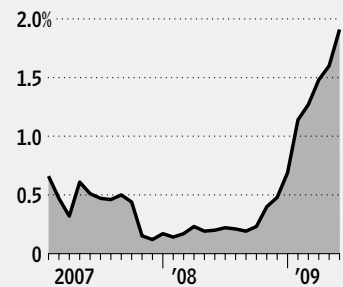
Mr. Lichtenstein on Monday declined to comment.

Creditors who aren't so lucky include some of the country's biggest banks and possibly U.S. taxpayers since one of the lenders was Bear Stearns, whose stake was assumed by the Federal Reserve after Bear collapsed in March 2008. As a result, the Fed had \$744 million in face value of various junior classes of the debt on Extended Stay; it also held \$153 million in the senior debt that was packaged and sold as bonds. A New York Fed spokeswoman declined to comment.

One mortgage holder who sup-

Falling behind

Monthly default rate for commercial-mortgage-backed securities on hotel properties in the U.S.



Note: Figures represent securitized mortgages on hotel properties that are at least 60 days delinquent or in foreclosure as a percentage of all such hotel mortgages rated by Fitch
Source: Fitch

ports the plan said Mr. Lichtenstein exercised his "fiduciary duty" in putting the chain into bankruptcy.

The high-wire act marks the latest coup for Mr. Lichtenstein, the son of Brooklyn school teachers, who came out of nowhere to build a real-estate empire. That empire was valued at \$13 billion at its peak but is now struggling, a sign of the spreading carnage in the commercial real-estate industry.

Still, Mr. Lichtenstein's situation shows that the architects of some deals are finding ways to limit their losses. In Mr. Lichtenstein's case it also helped that the capital structure was so complicated, enabling him to benefit from the infighting among different groups of creditors.

The hotel chain is now valued at \$3.3 billion, according to its filing. That figure isn't even 41% of the buyout price and even lower than the amount of the first mortgage, \$4.1 billion.



David Lichtenstein

Extended Stay's problems are partly due to hard times in the hotel industry. But the hotel chain's major problem was debt. The buyout group larded Extended Stay with \$7.4 billion in debt on the assumption that the chain's cash flow would increase sharply. At the time of the deal, it was generating \$545 million a year in earnings before capital expenditures. The group and its lenders, led by Wachovia, based its underwriting on the prediction that would increase to \$625 million within two years.

Such optimistic assumptions were the norm in commercial real-estate during the bubble leading up to the current recession. Cheap debt was available because banks could easily sell it as commercial mortgage-backed securities, or CMBS, to investors chasing yields.

Many investors thought that Extended Stay wouldn't be able to file for bankruptcy because of a provision in the CMBS structure. According to the loan documents, Mr. Lichtenstein would become liable personally for \$100 million if Extended Stay filed for Chapter 11 protection. But Mr. Lichtenstein reached a deal with secured lenders who have been negotiating a restructuring plan. Under that deal, lenders agreed to indemnify him as much as \$100 million in exchange for him supporting the plan that would put the lenders in control of the hotel chain.

It is unclear if he would be personally liable for the loan he borrowed to finance his equity stake in the deal.

As the ones left holding the bag, investors in the junior or "mezzanine" debt sued Extended Stay and its bank lenders this month in an effort to prevent them from seizing control.

—Mike Spector
and Jeffrey McCracken
contributed to this article.

Macquarie deal gets new support

BY LYNDAL MCFARLAND

MELBOURNE, Australia—A Canadian pension fund moved closer to sealing a 1.64 billion Australian dollar (US\$1.3 billion) takeover of **Macquarie Communications Infrastructure Group** after two key shareholders agreed to a sweetened offer.

The **Canada Pension Plan Investment Board** said Macquarie Communications investors will receive a special distribution of 50 Australian cents a share on top of its original A\$2.50-a-share offer if its takeover bid is approved later this month.

The sweetened offer was enough

to win over previously reluctant shareholders **Lazard Asset Management**, with a 10.8% stake, and **Tyndall Investment Management**, which holds 10.5% of the transmission-towers business.

Both now say they will accept the revised bid, which has the support of the Macquarie Communications board.

"At the time of our initial proposal, there was considerable uncertainty in the markets and the original value of our proposal reflected that market uncertainty," said Mark Wiseman, the Canadian pension fund's senior vice president for private investments.

Macquarie Communications, which owns broadcast and transmission towers in Australia, the U.S. and the U.K., said the special capital distribution will be funded by the pension fund through a loan to the company.

Credit Suisse analysts said that while they think the offer still undervalues the Australian company, they expect Macquarie Communications shareholders to pass the deal during a vote on June 30.

Shares in Macquarie Communications, which is 18.3%-owned by Macquarie Group, rose 26% to end at A\$2.93 amid expectations the deal will go through.

The pension fund, which man-

Macquarie Communications Infrastructure

Daily share price
Tuesday's close: A\$2.93, up 26%



Source: Thomson Reuters Datastream

ages Canada's state pension plan, originally offered A\$2.50 a share for Macquarie Communications in March.

The fund's head of infrastructure, Graeme Bevans, said that his fund, which has a long investment horizon of as much as 30 years, would be interested in buying more of Macquarie Group's assets.

"Most of their assets fall into the categories we're interested in investing in, and should they be a seller, we'd be interested in looking at them," he said.

British Airways PLC

Carrier asks employees to work without pay

British Airways PLC is urging staff to work without pay as it increases efforts to conserve cash. The U.K. flag carrier is offering staff one-week blocks of unpaid leave or unpaid work, with salary deductions spread over three to six months where possible, it said in its in-house newsletter. The company, which last month reported a £375 million (\$612 million) net loss for its fiscal year ended March 31, is expanding an existing plan that offers employees unpaid leave or the chance to work part-time. It said more than 1,000 workers have already taken advantage of that plan, which was announced last month. Chief Executive Willie Walsh and Chief Financial Officer Keith Williams had previously said they would work for no pay during July. BA has a work force of about 40,000 workers.

OAQ Lukoil

The head of Russian oil company **OAQ Lukoil** will lead a delegation to Iraq on Wednesday to continue talks on reviving a \$3.4 billion oil deal from the Saddam Hussein era, a Lukoil official said. Lukoil President Vagit Alekperov and the company's vice president, Andrey Kuzyaev, plan to meet top Iraqi officials to talk about development of the West Qurna 2 oil field in southern Iraq, the official said. Lukoil signed a contract in 1997 to develop that field but was expelled from the country in 2002. Company officials have been working to renegotiate that contract and talks progressed when Iraqi Prime Minister Nouri al-Maliki visited Russia in April. Mr. Maliki's office confirmed the visit but declined to give details.

Riversimple

U.K.-based **Riversimple**, a company founded by former race-car driver Hugo Spowers and backed by a Porsche scion, unveiled the prototype of a two-seat, hydrogen-powered car promising fuel consumption equivalent to 106 kilometers per liter. Instead of selling the car, touted as the world's first low-cost and practical hydrogen vehicle, Riversimple said it plans to lease the car for about £200, or roughly \$325, a month for the car's expected 20-year lifetime. Leases would include refueling, and the company hopes to begin production by 2013. The car can reach 80 kilometers an hour and travel 390 kilometers on a one-kilogram tank of hydrogen. The car is equipped with a six-kilowatt fuel cell that powers electric motors on each of its four wheels.

Caisse des Depots

The French post office is set to launch a €2.7 billion (\$3.72 billion) rights issue to which the government will subscribe, along with state-owned bank **Caisse des Depots et Consignations**, French junior minister Luc Chatel said Tuesday. The move is part of the transformation of the post office's capital structure. The overhaul is aimed at putting the post office in a better position to face the planned privatization of all postal services within the European Union by Jan. 1, 2011, Mr. Chatel said. The government plans to change the post office's status from a governmental entity to a limited company. The overhaul plans for the post office to retain the role of universal postal services operator for 15 years from Jan. 1, 2011, the minister added.

StatoilHydro

Norway's **StatoilHydro** on Tuesday raised its annual savings target related to the merger that created the company to 7 billion Norwegian kroner (\$1.08 billion) from an earlier forecast of 6 billion kroner, and said it is hoping for further cost reductions. The oil company said costs have been cut by a continuous focus on increased efficiency since late 2007, when Statoil took over Norsk Hydro's oil and gas assets. UBS analyst Jon Rigby said the additional savings are a "small extra." StatoilHydro also reiterated its equity production targets for 2009 and 2012—1.95 million barrels of oil equivalent a day and 2.2 million barrels a day, respectively. Norwegian oil and gas production is expected to make up 1.5 million barrels a day of StatoilHydro's global output over the next 10 years.

Sharp Corp.

Sharp Corp. said it won a preliminary ruling in a liquid-crystal-display patent case against Samsung Electronics Co. in the U.S. A Sharp spokeswoman said the U.S. International Trade Commission said last week that the South Korean electronics company had infringed on four Sharp patents related to a technology used to improve LCD picture quality. She declined to say what action the commission will take next or whether it will ban imports of the Samsung products in the U.S. Samsung declined comment. Patent infringement lawsuits are common in the highly competitive flat-panel-display industry and over the past few years several LCD makers have been fighting to protect their patents in court.

Vivendi SA

Pay-television company **Canal Plus Group** said it is launching a joint venture with Vietnam's public broadcaster, boosting the French company's international development after the group started broadcasting in North Africa earlier this year. The joint venture is 49% held by Canal Plus and 51% held by VTV's pay-TV affiliate VCTV, which has the only satellite TV license in Vietnam. Canal Plus, which is majority owned by French media conglomerate **Vivendi SA**, will invest about \$50 million over the next three years in the jointly owned channel, called BSTV, Canal Plus Chief Executive Bertrand Meheut said at a news conference. VSTV aims to have more than one million subscribers in three years and wants to break even in two years, he said. A

Smithfield Foods Inc.

Smithfield Foods Inc. reported its first annual loss in three decades on Tuesday but said it expects results to improve this fiscal year as the hog industry cuts production to raise prices. The biggest U.S. hog farmer and pork processor said it is reducing its own sow herd by another 3% after cutting the number of females in its breeding operations by 10% last year. Larry Pope, Smithfield chief executive officer and president, said the rest of the industry needs to reduce production by 10%. For the quarter ended May 3, Smithfield reported a loss of \$78.8 million, or 55 cents a share, compared with a year-earlier profit of \$2.4 million, or two cents a share. Sales fell 0.6% to \$2.85 billion. For the year, Smithfield's loss came to \$190.3 million, or \$1.35 a share.

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ECONOMY & POLITICS

Calm crowds, then gunshots, in Tehran

Security forces stand back as protesters march along Revolution Road—and then violence transforms the day

BY FARNAZ FASSIHI

TEHRAN—The sun was setting as I waited with my Iranian colleague in front of a local municipal office while my partner went to get our car, parked miles away. For much of the day, a seemingly endless crowd had covered a six-mile stretch of Revolution Road in downtown Tehran, marching peacefully as security forces stood by silently.

The demonstrators had come from all corners of the city and various backgrounds—religious and secular—to protest election results that they believe were rigged. For months many of them had campaigned night and day for Mir Hossein Mousavi, a candidate who had challenged President Mahmoud Ahmadinejad, promising to deliver a moderate reformed Iran.

We chatted with two clean-shaven young men dressed in shiny gray and brown suits who were sitting next to us. They complained about their wasted votes; they expressed outrage at the recent violence and admired the civility of the day. Then the younger man, Mohammad, said that he was a member of the plainclothes Basij national security force, but that because he supported Mr. Mousavi, he had defied orders to beat protesters.

“They have given us the go to beat the crowd, all the way,” Mohammad said. “There is a gang of Basij guys upstairs with batons and guns, but they can’t tackle this crowd, it’s too big.”

Then we heard gunshots, seemingly out of nowhere. We craned our necks and saw a gigantic plume of smoke coming from nearby. Mohammad and his companion rushed inside the municipal building. The mood turned tense. People were running back from Tehran’s central Azadi Square and yelling that Basij had opened fire on the crowd and a young man was killed. The smoke appeared to be coming from a burning motorcycle that belonged to the Basij. The protesters had set it on fire in retaliation.



Demonstrators carry a man allegedly shot Monday by pro-government militia near a rally protesting the result of last week’s election.

One woman told me she saw a man holding up a bloody shirt. Another told me one man was bleeding from his hands. A young man ran up to me and asked if I had Bluetooth. Yes, I answered. He wanted to send me the video clip of the man who had been killed, his body being carried by demonstrators.

It was now dark and demonstrators returning from the bloody scene were outraged. They began chanting “Allahu Akbar” and “Death to Dictator.” A man whizzed by on a motorcycle and threw two glass bottles on the road, sending off a flying confetti of broken glass. My colleague and I shielded our faces. “Don’t stay here, don’t stay here. This place will get attacked,” an older man warned us.

I had expected violence on Monday, having watched riots erupt

across Tehran over the weekend and be put down by security forces and plainclothes militia armed with sticks, batons and chains. I was surprised during the day on Monday that the antiriot police and security forces stood on the sidelines.

The afternoon had an almost carnival atmosphere at times. Children licked ice-cream cones, women clapped their hands and men whistled. They smiled at one another and waved their hands in the air, showing the victory sign.

The carefree, defiant mood swept me up despite my experience covering tense situations. I allowed myself to believe that a crowd this large would defy violent attacks. I lingered long and confidently at street corners chatting with people, walked for miles in the midst of the crowd and climbed

on rooftops to gauge the crowds.

The last time I had seen crowds this big marching on Revolution Road to protest the government was when I was 8 years old, at the height of the Islamic revolution in 1979.

My mother and aunt took me along then to watch the event. It was a charged and exciting atmosphere, even to a child, as people threw their fists in the air chanting slogans of “Independence, Freedom and Islamic Republic.” I couldn’t help but think about that time as demonstrators on Monday told me they had come to protect the “Republic” and make sure that their votes counted.

When the state announced, less than two hours after polls had closed on Friday, that Mr. Ahmadinejad had won by a landslide, supporters of his rivals were shocked. When they found out about allegations of

widespread cheating and rigging of votes, they were outraged.

“They have insulted us and our intelligence,” said Azzam, a 64-year-old grandmother clad in the long, black head-to-toe chador.

“We are not sheep, they can’t lie to us again and again and expect us to be silent,” said Alireza, a 30-year-old bookseller whose shop was around the corner.

“Look at all these people, look at these numbers. If we come to the streets like this every day, they can’t do anything,” said Jila, a 53-year-old retired teacher marching with her two sons.

After the gunshots Monday night, the demonstrators got closer and the chants grew louder. We went to the back of the building. Then the Basij in the municipal building smashed the second-floor window from the inside, throwing bricks and stones at the demonstrators.

“Shut up, traitors,” they yelled at the crowd.

“Don’t hit, don’t hit,” someone screamed. Broken glass, bricks and stones went flying in both directions, with us caught in the middle. We held our heads low and ran quickly into a dark alley. Motorcycles followed us as we skipped between parked cars and tried to stay away from their reach. I spotted a young man standing at his door.

He and his wife let us in. We stayed for two hours at the home of the young couple, sharing stories about the riots and the election. At one point we thought we would have to spend the night at their small, one-bedroom flat. The wife served us watermelon and tea.

I called our driver’s home and left directions with his wife on how to find us, in case he called her.

When my partner arrived where he had left us, he and the driver found broken glass and blood on the sidewalk. After looking for us at a nearby clinic and spending an hour trying to get through on my cellphone, they finally reached the driver’s wife and came to pick us up.

Obama voices concern about violent Iranian protests

BY JAY SOLOMON AND PETER SPIEGEL

WASHINGTON — President Barack Obama for the first time voiced concerns about the way Iran’s election was conducted, though he fell short of calls from some democracy activists that he formally denounce the vote.

Mr. Obama said Monday he was deeply troubled by the violence surrounding the election, but stressed it was up to the Iranian people to choose their leadership. He said he would maintain his policy of directly negotiating with Iran’s leaders on its nuclear program, irrespective of the vote.

“It is up to Iranians to make decisions about who Iran’s leaders will be. We respect Iranian sovereignty and want to avoid the United States being the issue inside of Iran,” Mr. Obama said.

“What I would say to those people who put so much hope and energy and optimism into the political process, I would say to them that the

world is watching and inspired by their participation, regardless of what the ultimate outcome of the election was,” he said.

The fluid political developments inside Iran are putting Mr. Obama in an increasingly difficult diplomatic position, U.S. officials and regional analysts said. Mr. Obama has pledged both to support democracy in the Middle East and to engage directly with Tehran’s clerical rulers over the future of Iran’s nuclear program.

Mr. Obama, altering the structure of his Iran policy team, is preparing to move career diplomat Dennis Ross to the White House from the State Department, a U.S. official said. As a member of the National Security Council, Mr. Ross, the administration’s point man on Iran and the Persian Gulf, is expected to maintain this role with “expanded responsibilities” tied to Arab-Israeli issues, the official said. He will report more directly to the president, rather than through Secretary of State Hillary Clinton.

Any push by Mr. Obama to overtly support Iranian opposition

candidate Mir Hossein Mousavi could make diplomatic talks more difficult, while potentially painting Mr. Mousavi and his supporters as American puppets, these officials and analysts said.

Still, a number of Iranian opposition leaders, inside and outside Iran, are calling on Mr. Obama to lend more direct public support to Iranians challenging the vote that re-elected President Mahmoud Ahmadinejad.

These activists fear any near-term dialogue between the Obama administration and Mr. Ahmadinejad or Iran’s Supreme Leader Ayatollah Ali Khamenei could result in legitimizing the Iranian regime and also validating the election results.

In his outreach so far to Iran, including in a speech on the Persian New Year, Mr. Obama has generally demurred on addressing democracy and human-rights issues while recognizing the rule of the Islamic Republic of Iran.

Many Iranian activists say his stance will have to change.

“During the Iran New Year

speech, he completely didn’t address the human-rights issue. I think he got this wrong,” said Hooshang Amirahmadi, president of the American-Iranian Council, which promotes dialogue. “If I was the U.S. government, I’d say this result calls for a coalition. The current system is wrong: it doesn’t respond to the interests of the Iranian people.”

Mr. Khamenei Monday ordered a probe into alleged irregularities in Iran’s presidential vote—a shift after his strong endorsement of Mr. Ahmadinejad’s re-election over the weekend.

United Nations Secretary-General Ban Ki-moon on Monday joined world leaders in supporting an inquiry into the disputed presidential election in Iran.

“My position and that of the United Nations is that the genuine will of the Iranian people should be fully respected,” Mr. Ban told reporters in New York.

French President Nicolas Sarkozy said he was “profoundly troubled by the political situation in

Iran.” The French foreign ministry on Monday summoned the Iranian ambassador to the ministry to explain his government’s actions, but the ambassador sent his press counselor in his place, according to an official at the French mission to the U.N. in New York.

State Department spokesman Ian Kelly said the U.S. was still evaluating the claims of election fraud, but reiterated the administration continued to have “doubts” about the returns.

Former U.S. officials said the Obama administration is walking an increasingly delicate line between supporting democracy in Iran and pursuing the abolition of Tehran’s nuclear program. Any rupture of a dialogue between Tehran and the West could have implications for global security, these officials said. Israel has vowed to attack Iran’s nuclear research sites if there isn’t diplomatic progress to contain the nuclear program.

—Joe Lauria
contributed to this article.

ECONOMY & POLITICS

U.S. housing starts increase 17.2%

Industrial output declines in a sign recession isn't over

BY BRIAN BLACKSTONE
AND JEFF BATER

WASHINGTON—The U.S. housing sector may have finally found its footing while inflationary pressures remain muted, government reports released Tuesday showed.

However, another steep decline in industrial output served as a sober reminder that even if the 18-month-old recession is losing some of its steam, it shows no sign of actually ending, and a return to rapid expansion is unlikely for many months at least.

Housing starts jumped 17.2% in May from April to a 532,000 annual rate, the Commerce Department said Tuesday, more than twice the gain economists in a Dow Jones Newswires survey had expected. Building permits, a leading indicator, rose as well. And single-family starts—which economists tend to focus on for a less-volatile reading on housing trends—rose 7.5% from April, their third straight rise.

“This adds to evidence that the housing market is no longer falling apart,” said Mike Larson, an analyst at Weiss Research.

But the problems of the housing sector are far from over. Inventories are still far too high relative to sales, while layoffs and tight credit are holding back home buying. Meanwhile, mortgage rates have started rising.

“The inventory overhang means any recovery in building will be very muted for an extended period, but at least the very worst is over,” said



Construction workers lift beams into place on a structure in Manassas, Va. Upbeat housing data were offset by another grim report on the state of U.S. manufacturing.

Ian Shepherdson, chief U.S. economist at High Frequency Economics.

The good news on housing was offset by another grim report on the state of U.S. manufacturing. Industrial production tumbled 1.1% in May from April, the Federal Reserve said. Capacity utilization fell to 68.3%, well below its long-run average, an indication there is still a great deal of disinflationary slack in the economy.

The latest production figures are somewhat at odds with survey-based measures suggesting signs of stabilization in manufacturing. Industrial production, along with non-farm payrolls, “are the two best indicators of the economy, and they still look horrible,” said Zach Pandl, economist at Nomura.

Tuesday, an economic advisory committee of the American Bankers Association said it expects the recession to end in the third quarter, and top Fed officials have said they expect a return to growth later this year.

However, “to me, looking at the data, it’s not a slam-dunk case that the recession will end in 2009,” Mr. Pandl said.

Reflecting the weak economy, U.S. producer prices posted their largest annual decline in 60 years last month, a Labor Department report showed, easing some of the inflation fears that have crept into the bond market in recent weeks.

The producer-price index for finished goods advanced 0.2% in May

from April, much less than the 0.6% rise that economists had expected. The PPI was down 5% from a year ago, the biggest decline since August 1949.

The core PPI, which excludes food and energy, slid 0.1% from April, the first decline since October 2006. Economists had expected a 0.1% rise.

Tuesday’s data suggest that while deflation risks may be waning amid rising oil prices, the falling U.S. dollar and apparent stabilization in the economy, there is little evidence that inflation is taking root.

Yields on U.S. Treasury securities have risen sharply in recent weeks on a mix of firmer economic data, soaring budget deficits and concerns that massive monetary and fiscal stimulus will eventually lead to inflation.

The PPI data should limit those fears somewhat: “With the amount of spare capacity at a 40-year high, there is little prospect of the surge in gasoline prices leading to a sustained period of worryingly high inflation,” said Paul Dales, economist at Capital Economics.

In the American Bankers Association report, the group projected that inflation-adjusted gross domestic product will rebound, picking up to a pace in excess of 3% in the second half of the year, spurred in part by a recovery in the battered housing sector. It forecast a rise in home starts this year with home prices moving “modestly higher” next year.

However, the ABA’s advisory committee predicted that credit would remain tight and warned that U.S. unemployment will continue to rise, peaking at a 10% rate in 2010.

—Maya Jackson Randall
and Judith Burns
contributed to this article.

Prosecutors ask court to drop Berlusconi case

BY DAVIDE BERRETTA
AND STACY MEICHTRY

ROME—Rome prosecutors have asked a court to shelve an investigation into whether Prime Minister Silvio Berlusconi allegedly abused his office by ferrying personal guests to his private villa on the island of Sardinia on state-financed flights.

The court, which handles allegations of abuse of power by government officials, will now decide whether to accept the prosecutors’ request or continue the probe, Giovanni Ferrara, the lead prosecutor in the case, said in an interview.



Silvio Berlusconi

Mr. Ferrara’s team has for two weeks been looking into whether Mr. Berlusconi improperly transported private guests on a government jet.

Mr. Berlusconi has said there was nothing improper because the guests were just hitching a ride on flights that were already carrying official guests to his villa.

The case stems from photos taken near the Italian leader’s estate in Sardinia.

Mr. Ferrara said he had asked the court to drop the probe because evidence showed Mr. Berlusconi was present on the flights. Mr. Berlusconi committed “no damage to the state” by giving musicians and singers a lift on state planes, Mr. Ferrara said in the interview.

The case against Mr. Berlusconi stems from pictures shot by a photographer at an airport near Villa Certosa, the prime minister and billionaire media mogul’s lavish estate in Sardinia. The photographer also snapped scores of photos of Mr. Berlusconi and his guests at Villa Certosa.

In late May, Mr. Berlusconi’s attorney filed a criminal complaint against the photographer for alleged violation of privacy and attempted blackmail.

Acting on the complaint, prosecutors placed the photographer under investigation and seized hundreds of his photos.

After reviewing photos taken by the photographer at the Sardinia airport, however, prosecutors decided to also place the prime minister under investigation for allegedly misusing state assets.

Mr. Berlusconi’s personal life has been the focus of public scrutiny since late April, when the prime minister attended the 18th birthday party of an aspiring model.

Days later Mr. Berlusconi’s wife, Veronica Lario, accused him of “consorting with minors” and announced she was seeking a divorce.

Mr. Berlusconi has denied having a “spicy” affair with the woman. So far, the controversy hasn’t cut into Mr. Berlusconi’s support among Italian voters.

German confidence indicator strengthens

BY NICHOLAS WINNING

LONDON—A surprising boost lifted a key economic-confidence indicator in Germany on Tuesday, but optimism was tempered by declines in Spanish home sales and other economic data.

Building concern

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The latest survey of economic expectations by the Center for European Economic Research, known as ZEW, showed the headline balance rose for the eighth consecutive month to 44.8 percentage points in June from 31.1 in May. It was the

strongest reading since May 2006.

The balance is calculated by subtracting the percentage of the 271 respondents who expected the economy to get worse from the percentage who expected improvement.

But other economic figures released Tuesday underlined the weak current state of the euro-zone economy. The annual inflation rate fell to a record low of zero in May, while labor costs in the 16 countries that use the common European currency increased at a slower rate during the first quarter. Spanish home sales collapsed in April.

Wolfgang Franz, president of the Mannheim-based ZEW, said the assessment suggested that the downturn was bottoming out and there was a likelihood of a turnaround by year-end.

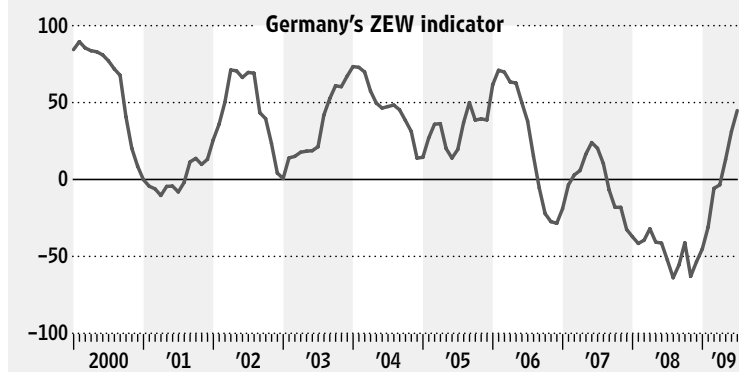
The ZEW’s reading for the current assessment of the German economy, the largest in the euro zone, also posted its first increase since last September, with that balance rising 3.1 percentage points to -89.7 points.

Nevertheless, economists urged caution, saying the unexpectedly strong rise in the ZEW’s headline measure was probably the result of optimism generated by rising stock prices, lower risk aversion, and the European Central Bank’s plan to buy as much as €60 billion (\$83 billion) of covered bonds to support credit in the currency area.

The Eurostat statistics agency said that for the first time since comparable records began in 1997, May’s

Confidence

Economic sentiment is improving in Europe’s biggest economy



Source: ZEW via Thomson Reuters Datastream

consumer prices were unchanged from a year earlier.

The ECB has damped expectations of interest-rate cuts by saying short-term movements in the inflation rate aren’t relevant.

Eurostat also said the year-to-year rise in euro-zone labor costs—including wages and nonwage costs such as employers’ taxes—eased to 3.7% in the first quarter from a record high of 4% in the fourth quarter of last year.

In Spain, the National Statistics Institute said April Spanish home-sales transactions were 48% lower than a year earlier, reflecting the collapse of a decadelong housing boom that has dragged the country’s economy into a deep recession.

In contrast to the euro zone, inflationary pressures are easing less rapidly than expected in the U.K., a sign that the proportionately larger stimulus provided by the Bank of England is providing more support for demand.

The year-to-year rise in consumer prices moderated only slightly to 2.2% in May from 2.3% in April, the U.K. Office for National Statistics said Tuesday. That was its smallest increase since December 2007, but was higher than a 2% rise tipped by economists polled by Dow Jones Newswires last week.

—Ilona Billington and
Natasha Brereton in London,
Roman Kessler in Mannheim
and Jonathan House in Madrid
contributed to this article.

The Property Report

Return engagement

Market downturn pushes Spanish owners back to the workout table > Page 29

