Personal Technology: Walter S. Mossberg makes a call on Apple's new iPhone

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Obama turns page on oversight

President's regulatory plan touches all sectors of financial world; mitigating booms and busts

By Damian Paletta

WASHINGTON—President Barack Obama urged policy makers to rewrite the rules that govern U.S. finance, unveiling a series of sweeping proposals that will affect almost every corner of banking and markets, from the way consumers use credit cards to how multinational banks compete overseas.

White House officials said the trauma caused by the financial crisis argued that a more muscular government arsenal is necessary to protect the economy from another near-collapse. The proposal is the latest example of the Obama administration's intervention in the private sector to set rules and urge new behavior.

New landscape

"Millions of Americans who have worked hard and behaved responsibly have seen their life dreams eroded by the irresponsibility of others and by the failure of their government to provide adequate oversight," Mr. Obama said Wednesday. "Our entire economy has been undermined by that failure."

The administration's vision of a new financial marketplace would offer consumers more "plain vanilla" financial products and would have regulators set rules designed to mitigate booms and busts, a goal often sought and rarely reached. The plan aims to smooth the handling of crises by giving the government power to take over and seize ailing financial giants.

Executive compensation and hedge funds would face much more scrutiny. Regulation would be streamlined. Banks would have to hold much more capital.

On Wall Street, there was relief the rules weren't more Draconian, but a realization that the reduced appetite for risk that took hold after the crisis might become a permanent feature of the landscape. Banks started imagining a future driven by lower profits and lower personal compensation.

Mr. Obama made the proposed overhaul, dubbed the "New Foundation," a central theme of his presidential campaign last year. The process now heads to Capitol Hill, where the president wants the overhaul finished by December. At least one of the plan's main tenets has already made some lawmakers uncomfortable—a push to centralize even more power within the Federal Reserve.

Banks, which are expected to lobby fiercely as legislation moves through Congress, have pushed back against a provision that would create a new regulator to oversee financial products offered to consumers. The industry argues that such an agency could stifle innovation and make loans more expensive.

The plan's scope is sure to run into opposition this week. Treasury Secretary Timothy Geithner could face tough questions Thursday when he testifies before two congressional committees.

"Haste is dangerous, especially when you are dealing with comprehensive change in our financial system," said Sen. Richard Shelby (R., Ala.), a conservative on such matters. "This could be the most important piece of legislation that we've had in the banking committee in 50 years."

Agence France-Presse

U.S. Treasury Secretary Timothy Geithner, from left, President Barack Obama and Fed Chairman Ben Bernanke in the White House Wednesday.

What's News

Obama faces public concerns about the U.S. budget deficit and government intervention in the economy as he works to enact ambitious health and energy legislation, a Wall Street Journal/NBC News poll finds. These concerns threaten to overshadow his personal popularity. Page 32

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Putin's bluff
The Kremlin seems to be in no rush to join the WTO. Page 13

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Iran arrests mount as protests heat up

By Farnaz Fassihi

TEHRAN—Two rival forces are competing for the upper hand in Iran's postelection dispute: the public demonstrations in streets around the nation and waves of quiet arrests of dozens prominent reform and opposition figures.

Strange bedfellows

The Iranian government, meanwhile, accused the U.S. for the first time of interfering in the postelection dispute and protested to the Swiss ambassador, who represents U.S. affairs in Iran because the two nations have had no diplomatic ties since they broke them off after the 1979 Islamic Revolution.

In Washington, White House spokesman Robert Gibbs said that U.S. President Barack Obama had struck the right tone in commenting about the dispute. Mr. Obama stands by his defense of principles such as the right of people to demonstrate in peace, Mr. Gibbs said.

On Wednesday, hundreds of thousands of people packed a major throughway in central Tehran for a fifth straight day of protests to support reformist presidential candidate Mir Hossein Mousavi, who has accused the

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Mortgage mire

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4 p.m. ET

	CLOSE	PCT CHG
DJIA	8497.18	-0.09
Nasdaq	1808.06	+0.66
DJ Stoxx 600	204.63	-2.00
FTSE 100	4278.46	-1.16
DAX	4799.98	-1.86
CAC 40	3161.14	-1.64
Euro	$1.3864	-0.19
Nymex crude	$71.03	+0.79

IRAN: ELECTION AFTERMATH

Iraq has muted reaction to Iran vote result

Lack of enthusiasm for Ahmadinejad reflects growing chill

By Gina Chon

BAGHDAD—After the fall of Saddam Hussein, Iraq mended ties with Iran, once a nemesis where many of Iraq's leading Shiite Muslim politicians found refuge from Mr. Hussein's repressive regime.

But Baghdad's so-far lukewarm reaction to the announced re-election of Iranian President Mahmoud Ahmadinejad over the weekend is the latest sign of a new chill in relations between the two, mostly Shiite, Middle East heavyweights.

Iraqi President Jalal Talabani publicly congratulated Mr. Ahmadinejad on his win, a customary diplomatic gesture. But other politicians, including Prime Minister Nouri Al-Maliki, who spent years of exile in Iran, have remained noticeably silent on the contested victory.

Abdul Aziz al-Hakim, the leader of Iraq's largest Shia party, also spent years in Iran and is there now, receiving treatment for cancer. He hailed Iranian supreme leader, Ayatollah Ali Khamenei, after the election, but pointedly left out any mention of Mr. Ahmadinejad.

When Shiite politicians took charge in Baghdad after Mr. Hussein's ouster, ties warmed considerably between Arab Iraq and Persian Iran, which were at war through the 1980s in a conflict that some estimate claimed as many as one million lives. Iran ratcheted up its economic and diplomatic presence here. Iranian pilgrims have flooded Shia holy sites in southern Iraq, lifting local economies. The two countries' leaders have visited each other.

U.S. officials have long accused Iran of meddling in Iraqi affairs.

More recently, Mr. Maliki's government has clashed with its neighbor and sometime-benefactor. The disputed Iranian election has triggered fresh carping at Tehran here, even among Shiite politicians who have the most to gain from warmer ties.

"We hope whatever the outcome, we can find ourselves dealing with a more reasonable Iran that knows it can't bully us," said a Shia lawmaker.

U.S. officials have long accused Iran of meddling in Iraqi affairs and backing Shiite militias. Iraqi officials have trod carefully because of past political ties and awareness that Iran provides significant economic investment. But in recent months, Iraqi officials have been more outspoken in complaining about Iranian interference.

Baghdad and Tehran have exchanged heated letters recently over a border dispute, and Iranian officials lobbied Mr. Maliki's government against agreeing to a bilateral security pact with the U.S. late last year. After months of negotiations, the Iraqi government approved the deal.

Iraqi businessmen and lawmakers, meanwhile, have lambasted Iran for economic encroachment, including flooding Iraqi markets with cheap goods.


Getty Images

Iranian women casting their ballots Friday in the southern Iraqi city of Najaf. Baghdad has so far had a lukewarm reaction to the re-election of Iran's president.

Part of the new Iran-bashing also is due to domestic politics. Iraq is bracing for its own elections early next year, and many politicians are eager to hone their nationalist credentials.

Still, Baghdad is far from making an open break with Tehran.

"This was an unfair election," said a government official close to Mr. Maliki, "but we can't say that publicly because we can't afford to affect our relationship with Iran."

Israel prizes Ahmadinejad in uniting opposition to Iran

By Yaroslav Trofimov

JERUSALEM—President Mahmoud Ahmadinejad has gained unlikely boosters amid spreading unrest in Iran: officials in Israel, a country he wants to eliminate.

Meir Dagan, chief of Israel's Mossad intelligence agency, told a closed Knesset committee hearing that Mr. Ahmadinejad's reputation as a Holocaust-denying rabble-rouser makes it easier for Israel to enlist international support against Iran's nuclear program, according to a committee member. A victory for Mr. Ahmadinejad's moderate challenger, Mir Hossein Mousavi, in last week's presidential elections would have presented Israel with "a graver problem," Mr. Dagan said.

Israel views a nuclear-armed Iran as a threat to its existence. The committee member said Mr. Dagan estimated that Tehran—where ultimate power is wielded by Supreme Leader Ayatollah Ali Khamenei—could produce its first nuclear bomb by 2014. Israeli officials in the past have raised the possibility of a preemptive military strike against Iranian nuclear facilities, and press for tough international sanctions. On Wednesday, Defense Minister Ehud Barak told Army Radio that "Iran is in the midst of a very dangerous process" and that "short-term plans must be made" because "we don't have too much time."

Tehran insists that its nuclear program is strictly peaceful. As Iranian prime minister in the 1980s, Mr. Mousavi jump-started Iran's nuclear drive, which has been accelerated under Mr. Ahmadinejad, Israeli officials say.

"Both of them pose the same threat. But it's better for Israel that you have a leader [in Iran] with a very dangerous ideology who speaks clearly so that nobody can ignore him," said Knesset deputy speaker Danny Danon, a member of Prime Minister Benjamin Netanyahu's Likud party.

A more careful, soft-spoken Iranian president who promised better relations with the West "would have made it harder for us to recruit the world to our side," Mr. Danon added.

Mr. Mousavi and his reformist supporters, who hold daily protests in Iran, say Mr. Ahmadinejad stole the election. These concerns were endorsed by several Western leaders.

On this crucial point, however, Mr. Dagan seemed to agree with Iran's president: In the Knesset committee presentation, Mossad's chief dismissed the alleged ballot-stuffing in Iran as no worse than the fraud that occurs during elections in liberal democracies world-wide. The Iranian protest movement, he predicted, will fizzle in days, the committee member said.

Israel would do well to pin no hopes on political change in Tehran, agreed former Mossad chief Efraim Halevy. While the current disturbances in Iran might temporarily weaken Tehran's support for Israel's Arab foes, such as Hamas and Hezbollah, he said, they will have no effect on the strategic problem of Iran's nuclear weapons.

"It's an issue of national consensus" in Iran, Mr. Halevy explained.

Israeli officials' preference for Mr. Ahmadinejad has irked some liberal commentators on Iran. They say this policy—which ignores the sympathy that the Tehran protesters have garnered around the world in recent days—is simplistic and narrow-minded.

Mr. Ahmadinejad's antics over the past four years, while fueling anti-Israeli sentiment across the Muslim world, have failed to persuade European nations to accept Israel's calls for sanctions against Tehran, argued Meir Litvak, senior research fellow at Tel Aviv University's Center for Iranian Studies.

"There is a diminishing return from Ahmadinejad's image. We may need to use more nuance than a black-and-white policy of the worse the better," he said.

He added that said he was encouraged by the extent of the continuing antigovernment campaign in Tehran.

"Even if the regime manages to quell it, the fissures of the ruling elite in Iran may in the long run have some positive effect," Mr. Litvak said. "The popular mood is for less adventurism, for a less radical foreign policy. They want Iran to be more normal."

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

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

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

IRAN: ELECTION AFTERMATH

Tehran moves to control spread of information

Clampdown shows rising technical skills of Internet censors

In the days following Iran's election, the government has slowed the speed of the Internet and limited access to Web sites in ways that show the growing technical skills of the country's Web censors.

*By **Christopher Rhoads, Geoffrey A. Fowler** and **Chip Cummins***

The government has clamped down on traffic by apportioning less bandwidth to so-called Internet connection providers—of which there are about 90 in Iran—that provide Web access to the country's hundreds of Internet service providers.

Iranians have shared online images, video, emails and "tweets" about the protests and spreading violence—circumventing state-controlled media. But as the public uprising has intensified, so has the government's attempt to control the flow of information. Internet speed is reduced and cellphone service interrupted.

After an increase in Internet use in the days leading up to the election, Internet traffic over broadband connections in Iran dropped 54% in the three days after the vote, compared with a week earlier, based on a sample studied by Limelight Networks Inc., an Internet content delivery company in Tempe, Ariz.

The protests have coincided with increased pressure and restrictions on foreign and local media, covering the election aftermath. The government also took unprecedented steps Tuesday to restrict reporters' access to demonstrations. The Ministry of Information and Guidance faxed a statement to bureaus and representatives of foreign media in Tehran informing them that their press credentials weren't valid for conducting interviews outside their offices, and banned covering any public gathering that didn't have a permit from the government.

Foreign correspondents that were in Iran to cover the elections were informed earlier in the week that their visas wouldn't be renewed.

On Tuesday, Iran's Ministry of Information and Guidance took further steps, informing foreign-media bureaus and representatives in Tehran that their press credentials were not valid for conducting interviews outside their offices. The ministry also banned foreign press coverage from any public gathering that didn't have a permit from the government.

The government also has put stringent limits on reporters' access to demonstrations. The protests have been front-page news across the Middle East, with heavy coverage on al-Jazeera and other Arab satellite news outlets. But the reporting ban affects all foreign reporters—Western and non-Western alike. Iranian state media released footage and still photos of a rally in support of President Mahmoud Ahmadinejad, but few camera crews appeared to brave the ban to capture footage of supporters of challenger Mir Hossein Mousavi. Al-Jazeera, the Arab news outlet based in Qatar, aired footage of Mousavi demonstrators. But it also said it had been told to respect the media ban.

Iran's approach to controlling the Internet contrasts with that used in Myanmar during the 2007 uprising there. Myanmar, which has a much lower rate of Internet use than Iran, eventually severed access entirely. China takes a more sophisticated tack, allowing high-speed access—with extensive censorship of Web sites deemed harmful by the government.

The Iranian government appears to be taking a more nuanced—and technically difficult—approach: allowing the Internet to operate, albeit at a slower speed, while using a more centralized approach to blocking specific Web sites.

Throttling bandwidth is almost the same as shutting off the Internet, since it makes accessing Web sites slow enough to discourage users, and makes Internet phoning difficult.

"A lot of people think this is just saving face," said Kaveh Ranjbar, a co-founder of one of Iran's largest Internet service providers and now an engineer with a Web regulator based in Amsterdam. "The government can say it didn't disconnect the Internet, but the reality is you can't really use it."

The Internet connection providers, or ICPs, on Monday filed a formal complaint to government officials about the reduction in bandwidth, in some cases about 10% of what they had bought, according to Mr. Ranjbar.

One Tehran resident, who asked to be identified only by his first name, Behzad, said his home broadband connection has slowed so much in the past few days that it's almost unusable. Simply loading Google Inc.'s home page, he said, takes up to a minute.

"At the moment, to a large extent, it is stopping communication," Behzad said.

When he called his Internet service provider to inquire about the speed issue, he got a recorded message saying bandwidth restrictions enforced by the government-run Telecommunications Co. of Iran were causing the difficulty, and that engineers were doing their best to resolve the problem.

TCI couldn't be reached to comment.

For years, the Iranian government censored Web sites by requiring Internet service providers to block sites on a constantly updated blacklist provided by the government. Now, it no longer needs service providers' cooperation—it can block content itself through the Internet arm of its telecom monopoly. That isn't easy, Mr. Ranjbar said, and it requires a lot of bandwidth.

Still, the government is dealing with a mature online population. The Iranian blogosphere, with an estimated 60,000 to 100,000 active blogs, is something of an anomaly in the Middle East. The government estimates about 21 million Iranians are online, about 28% of the population.

"What the government has found over the last few days is that blocking Internet sites is not enough," says Rob Faris, research director at Harvard University's Berkman Center for Internet and Society.

Some Web users in Iran report having found ways to post to services such as Twitter via proxy servers. California-based Twitter delayed Monday maintenance until Tuesday so it wouldn't disrupt Iranian Twitter users who have bypassed blocks. The State Department Tuesday again asked Twitter to delay maintenance, scheduled for 1:30 a.m. in Iran, but the firm didn't. Twitter said in a blog post Tuesday that the maintenance "took half the time we expected."

Crisis fuels fears, hopes of expats

Protesters in Los Angeles chant slogans in a demonstration Sunday against the outcome of Iran's presidential election.

At KIRN-AM, the Farsi-language radio station that serves the large community of Iranian expatriates in Los Angeles, general manager John Paley said the phones "never stopped ringing" as callers flooded the lines to talk about the situation in Tehran.

*By **Joel Millman, Tamara Audi** and **Peter Sanders***

In Texas, Iranian-American groups spent Tuesday working phones, persuading students from Iran at universities in Austin and San Antonio to attend a rally set for Wednesday at the state capitol to protest the results of the Iranian election. A similar demonstration is planned in Orange County, Calif., and rallies are set for Friday in Portland, Ore., and other U.S. cities.

This week, Iranian expatriates and Iranian-Americans around the U.S. have been riveted to cellphones, Web sites and social networks like Facebook as they try to glean information about what's going on back home. Their moods range from apprehension for relatives in Iran to elation at the possibility of a regime change.

Iranian-American groups estimate Iran's U.S. émigré community at more than 1.5 million, making it the largest colony of overseas Iranians outside the Middle East.

Hundreds of expatriate Iranians voted at polling centers around the U.S. last week, with the largest turnouts in Texas and Los Angeles.

For organizers like Hooman Hedayati, an Iranian citizen who recently graduated from the University of Texas, the spreading street actions unfolding in Tehran and around the U.S. hearken back to the mass demonstrations that helped bring down Iran's monarchy in 1979, when the parents of many of his contemporaries were U.S. college students themselves.

"The main similarities between the post-revolution generation and our parents who were protesting in the streets of 1978 is that we are both hoping to create a free democratic government where our civil rights and liberties are respected," said Mr. Hedayati, who voted at a polling station in Austin. "But the difference is that the young people who are protesting today, unlike in the '70s, are very educated and envision a more secular form of government with more personal freedoms."

Roxanne Ganji, a 46-year-old Iranian-American living in Sherman Oaks, Calif., has been organizing protests and vigils in Los Angeles to support protesters in Iran. Ms. Ganji, whose group supports restoring a monarchy, said she sees the current upheaval as an opportunity for Iran's many opposing religions and political groups to unite against the current regime.

"We all want our country to be free and move forward economically and politically. It's a scary time. But there is a possibility for that now," said Ms. Ganji, whose family, Shiite Muslims who favored a secular government, fled the country in 1979.

CORPORATE NEWS

U.S. picks firms to revive nuclear power

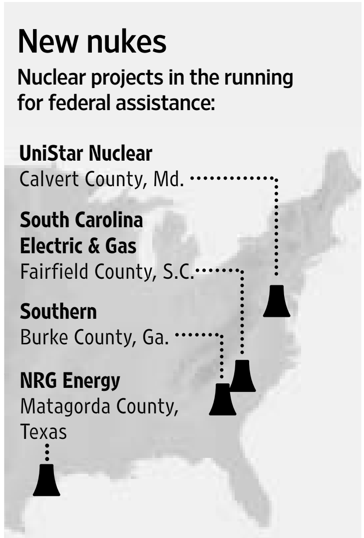
Four energy companies are expected to split $18.5 billion in loan guarantees, have plants operating by 2015-16

By Rebecca Smith

Four power companies are expected to split $18.5 billion in federal financing to build the next generation of nuclear reactors—the biggest step in three decades to revive the U.S. nuclear industry and one that could vault the utilities ahead of some of the sector's strongest players.

UniStar Nuclear Energy, NRG Energy Inc., **Scana** Corp and **Southern** Co. are expected to share a set of loan guarantees to be awarded by the Energy Department. The guarantees would enable the companies to start building the reactors as early as 2011, with the plants likely to come on line by 2015 or 2016.

The four companies have selected sites for their reactors and are at the front of the pack to receive licenses from the Nuclear Regulatory Commission to build and operate them. The government has yet to formally announce its picks, but interviews with Energy Department and NRC staff members, as well as officials at energy companies and reactor vendors, have identified the likely winners.



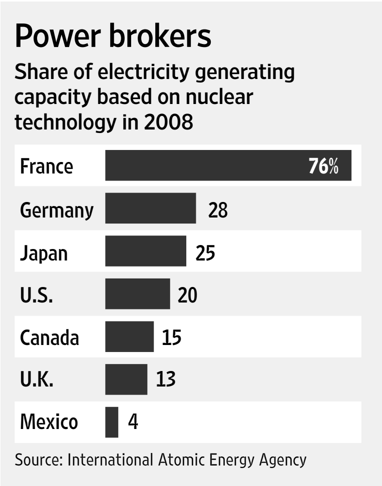
Seventeen companies applied for $122 billion of federal loan guarantees for 21 proposed reactors. In creating their shortlist, federal officials sought companies with strong development teams and plans that could be implemented quickly. They also wanted a mix of traditional utilities (Scana and Southern) and newer "merchant" generators (NRG, UniStar) that sell electricity at unregulated prices. Merchant operators have reaped big productivity gains in nuclear power in recent years. Foreign partners that might be able to contribute loans or equity were also considered a plus.

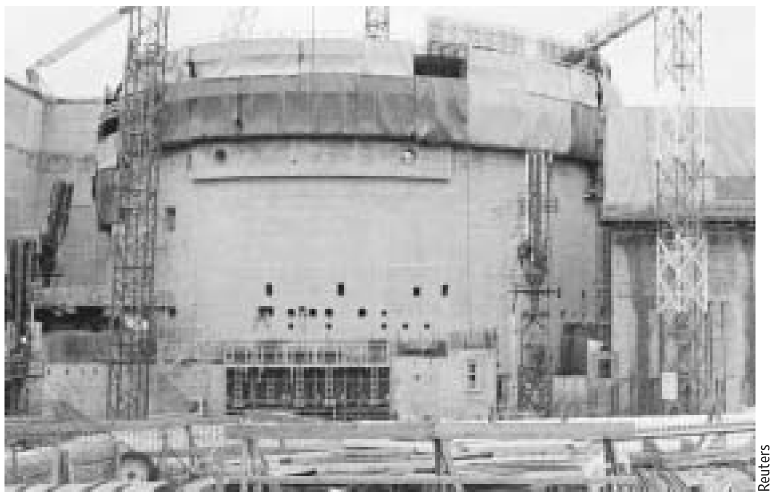
The likely launch of the next generation of nuclear reactors—a move in the making for at least a decade—has big implications for the economy and the environment. Expanding the use of nuclear power has the potential to make a significant dent in emissions of carbon dioxide, the most commonly produced greenhouse gas. And Energy Secretary Stephen Chu has made nuclear power an agency priority.

The first round of building would add about seven new reactors to the U.S.'s existing fleet of 104 at a likely cost of more than $40 billion. But the new plants cost so much—estimates range from $5 billion to $12 billion—that power companies could have trouble coming up with the equity they must put into the projects, typically 20% to 50% of the total. In addition, technical or regulatory problems could arise, and it isn't certain the plants could be run profitably.

Strong political opposition is also possible. Nuclear-power development in the U.S. ground to a halt shortly after a severe core meltdown at the Three Mile Island nuclear plant in Pennsylvania in 1979. Facing community resistance, ballooning costs and complaints about a looming radioactive-waste problem, power companies didn't file applications for new plants for more than 25 years.

Meanwhile, France and Japan,





Reactors likely to be built in the U.S. are similar in design to ones built elsewhere, such as this nuclear plant in Olkiluoto, Finland.

among others, proceeded with newer designs, eclipsing the U.S. in an industry it had pioneered. Currently, about a fifth of U.S. electricity is generated by nuclear power, compared with more than three-quarters in France and one-quarter in Japan. The reactors likely to be built in the U.S. are similar to ones built elsewhere, including in Finland, Japan and China.

The federal government's choice of these four companies could upend the hierarchy of the electricity industry. The first companies that can build new nuclear reactors will have a big leg up in delivering electricity with low carbon emissions. That could give them a major financial advantage if Congress passes legislation that caps carbon-dioxide emissions.

Absent from the government's list are two of the current leaders in nuclear power, **Exelon** Corp. and **Entergy** Corp., which have bought nuclear plants in recent years and now run a quarter of the nation's nuclear reactors. "We can't build without loan guarantees," said Craig Nesbit, an Exelon spokesman. Entergy's nuclear spokesman, Mike Bowling, conceded the company may sit out the first round. "We don't want to be left behind, but we think this first wave will pave the way for others," he said.

Some believe a nuclear revival would provide an opportunity to retool the nation's beleaguered manufacturing sector. The new reactors will require thousands of specialized parts and a skilled labor pool to make them, but few U.S. companies are still in the nuclear-supply business. "We're going to bootstrap the U.S. nuclear industry," said Steve Winn, head of NRG's nuclear-development company.

The government's selection also determines which nuclear-design companies will win lucrative contracts to build the plants. Scana and Southern want to use a design by Westinghouse Electric Co., now controlled by Japan's **Toshiba** Corp., at sites in South Carolina and Georgia. The Westinghouse design has emerged as the most popular and is one of the few already certified by the NRC for U.S. use.

NRG hopes to build two Toshiba reactors in Texas, using a design first developed by **General Electric** Co. UniStar, which is jointly owned by **Constellation Energy Group** and **EDF** SA, plans to use a reactor from France's **Areva** SA at its site in Maryland.

The reactor makers unlikely to be in the first round include GE-Hitachi Nuclear Energy, a joint venture of the U.S. and Japanese companies, and **Mitsubishi Heavy Industries** Ltd. Jack Fuller, chief executive of GE-Hitachi, said the company has been "in this business for 50 years. We're not overly concerned not to be in this first wave." The NRC has also said it will continue to work toward certification of other reactor designs.

George Vanderheyden, CEO of UniStar Nuclear Energy in Baltimore, said UniStar is involved in "complicated negotiations" with the French government to secure export-credit-agency financing for at least 15% to 20% of project costs, which could approach $10 billion.

Scana said it will seek support for half the cost because it wants to limit its debt load. NRG intends to finance the project with 80% debt.

Subsidies fuel construction of biogas plants in Europe

By Matthew Dalton

BERGHAREN, the Netherlands—European governments are quietly transforming the practice of turning manure into energy from a fringe technology into a tool for both slashing greenhouse gases from farms and boosting domestic energy supplies.

Plants that convert manure, corn, grass or organic waste into electricity were historically built by just a few environmentally conscious farmers. But the European Union now counts about 8,000 so-called biogas plants, and—fueled by rising subsidies—thousands more are expected to be built over the next decade. Farmers are building plants to make a profit, not to protect the environment, and orders are rising at companies that provide the technology.

Farm emissions account for 9% to 10% of the EU's total greenhouse gases—more than all industrial processes, such as steelmaking and chemical manufacturing, combined, according to the European Environment Agency. Much of the emissions come from two gases produced from livestock manure: methane, which has 20 times the global warming potential of carbon dioxide, and nitrous oxide, which is 300 times as potent as carbon dioxide.

Farmers usually spread manure on their fields, where the methane escapes into the atmosphere and the nitrogen forms nitrous oxide. The EU has been able to change the behavior of some industrial and energy polluters through its emission-credit trading scheme, but governments have largely avoided politically contentious laws that would force farmers to cut emissions by treating manure.

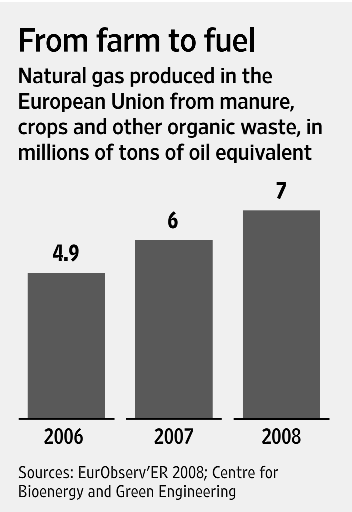
Experts say biogas plants offer a partial solution to this problem: Farmers can make money for capturing the methane from their manure, while governments get a renewable energy source that achieves substantial greenhouse-gas reductions and helps to reduce the EU's dependence on imported natural gas.

For Pieter Theunissen, the decision to build a biogas plant on his dairy farm in the Netherlands was strictly business. Dairy prices fell following EU farm-subsidy overhauls four years ago, sending him searching for another source of revenue.

Every day since his plant started up in December, Mr. Theunissen feeds 70 metric tons of dairy waste, corn and manure from cattle, chicken and pigs into a giant tank. The smelly mixture is stirred for several months to release as much methane as possible. The methane is captured and burned to power a turbine, producing enough electricity for 1,800 homes.

Mr. Theunissen says he believes few farmers will take the trouble to build a plant. His plans were put in jeopardy several years ago when the Dutch government cut renewable energy subsidies, endangering the viability of his project and others like it. (The subsidies were later reinstated.) Obtaining permits was a challenge, as was convincing a bank to finance the €2 million ($2.8 million) construction cost.

Still, **EnviTec Biogas** AG, the German company that built Mr. Theunissen's plant and owns half of it, is seeing strong interest in biogas plants in many European countries, said Jörg Fischer, EnviTec's chief financial officer. The company has an order backlog of more than €210 million, he said, but faces obstacles to getting permits and financing for plants.



"The big challenge now is to turn all these projects in the pipeline into sales," Mr. Fischer said.

Promoting biogas is an appealing public-policy option, experts say.

"We see these subsidies as worthwhile for society, because biogas is a secure supply, and it's utilizing resources that would have a negative impact on water quality and the climate," said Jens Bo Holm-Nielsen, head of the Center for Bioenergy and Green Engineering at Aalborg University in Denmark.

The greenhouse-gas savings from running a biogas plant are significant—sometimes approaching an 80% reduction—but to achieve these higher savings levels, the plant must use its excess heat. Mr. Theunissen uses the heat from his generator to heat his house, but the plant creates enough heat for about 1,200 homes, most of which simply escapes into the air. He and EnviTec hope to sell the heat to his neighbors and eventually find a large-scale customer.

Germany, the world leader in biogas with about 4,000 plants, is expected to build 500 to 700 plants a year over the next decade, said Andrea Horbelt, spokeswoman for the German Biogas Association.

Biogas production in the EU is now about seven million metric tons of oil equivalent—just 1.5% of the EU's annual natural-gas consumption of 438 million tons of oil equivalent—but the potential exists to produce 60 million metric tons equivalent annually, said Mr. Holm-Nielsen.

CORPORATE NEWS

Associated Press

Sainsbury, the U.K.'s third-largest supermarket group, plans to raise about $730 million for expansion. Above, a branch in south London

Sainsbury to raise funds for store expansion plan

U.K. food retailer outpaces rival Tesco in sales growth

BY LILLY VITOROVICH

LONDON—**J Sainsbury** PLC said Wednesday that it will raise about £445 million, or roughly $730 million, to accelerate its store-expansion plans, as the U.K. supermarket chain posted a better-than-expected rise in quarterly same-store sales, outperforming bigger rival **Tesco** PLC.

Chief Executive Justin King said Sainsbury, taking advantage of the recent steep drop in U.K. commercial-property values, aims to add 2.5 million square feet of store space by March 2011. That is a 15% gain from the company's current store space and up from previous plans for a 10% increase.

The company will open 50 stores during the next two years, as well as expand 30 to 35 stores. Sainsbury currently has 502 supermarkets and 290 convenience stores. It agreed to buy a further six supermarkets and three convenience stores from the Co-operative Group for £29 million, on top of the 19 supermarkets and five convenience stores it bought from the company in March for £83 million.

Sainsbury was the U.K.'s biggest supermarket chain until 1995, but was overtaken by Tesco and then Asda—now owned by U.S.-based **Wal-Mart Stores** Inc.—as its rivals used the last U.K. property-market collapse in the 1990s and acquisitions to expand aggressively. Sainsbury has had a renaissance during the past two years as Mr. King has modernized stores, revamped logistics and improved product quality and selection.

The grocer on Wednesday reported a 7.8% rise in same-store sales—or sales from stores open at least a year, excluding fuel and value-added tax—for the 12 weeks ended June 13. The rise in the fiscal first quarter compares with 7% growth in the fourth quarter and 4.9% in the third quarter.

Sainsbury outperformed Tesco, which Tuesday reported a 4.3% rise in fiscal first-quarter U.K. same-store sales, excluding fuel and VAT—its best performance in two years.

Sainsbury's total sales rose 3.2% in the quarter as it expanded two supermarkets and opened five stores.

Sainsbury said it will raise the new funds via a share placing and convertible bond offer. On Wednesday, **Morgan Stanley** and **UBS** AG sold 78.1 million new Sainsbury ordinary shares at 310 pence each to institutions, raising gross proceeds of about £242 million—just shy of the company's target of £255 million. The share placement represents 4.4% of Sainsbury's ordinary-share capital prior to the placement.

The placing weighed on the company's share price because it dilutes the holdings of existing shareholders, including the Qatari Investment Authority, which holds a 27% stake, and the Sainsbury family. Sainsbury shares fell 18.75 pence, or 5.7%, to 313 pence, one of the biggest declines on the FTSE 100, which declined 1.1%.

—Sonja Cheung and Mark Brown contributed to this article.

Boeing scores a deal at air show

A WSJ NEWS ROUNDUP

Boeing Co. scored its first jet order at the Paris Air Show but remained well behind rival Airbus in the race to sell planes to cash-strapped airlines and governments.

Boeing won an order for two of its updated 737-800 jets from MC Aviation Partners, valued at $153 million at list prices. The aircraft-leasing company is a unit of Japan's **Mitsubishi** Corp. The 737-800 is a short- to midrange, single-aisle aircraft that seats as many as 189 passengers. It competes with the Airbus A320, which has won dozens of orders at the air show.

Airbus, a unit of **European Aeronautic Defence & Space** Co., has made more than $6.2 billion in sales of 57 aircraft at the show, largely from Asian and low-cost airlines. That is still well below the order tally of recent years.

Philippines-based **Zest Airways** Inc. placed a firm order for a new single-aisle Airbus A320 on Wednesday to further its quest to expand across Southeast Asia. The list price of the jet is about $76 million, though airlines often negotiate discounts.

Airbus is suffering on the defense front.

As delays mount for the maiden flight of the A400M military transport, **Lockheed Martin** Corp.and Boeing are offering their C-130J and C-17 models, respectively, as alternatives to the European air forces.

Saab creditors agree to settle debt

BY GUSTAV SANDSTROM

STOCKHOLM—Saab Automobile AB's creditors Wednesday approved the auto maker's proposal for settling its debts by paying a quarter of what it originally owed.

Saab proposed to settle its debts by paying 25% of about 10.5 billion Swedish kronor ($1.34 billion) it owed to more than 600 creditors, including auto suppliers and the Swedish government.

The vast majority of the debt, almost 10 billion kronor, was owed to U.S. parent company **General Motors** Corp., which Tuesday said it agreed to sell Saab to Swedish sports-car maker **Koenigsegg Group** AB for an undisclosed sum.

Court secretary Ingrid Lund at Vanersborg District Court in Sweden, which is handling the Saab case, said that all creditors apart from the Swedish Tax Agency had approved the plan to pay a quarter of the company's debts. She said the proposal had thereby gained approval from more than 75% of the creditors and of creditors representing at least 75% of the total debt, as required.

"Writing down the debt has always been part of the plans" to attract a buyer for the car maker, Saab spokeswoman Gunilla Gustavs said Tuesday.

GM's agreement to write off three-quarters of Saab's debt implies a reduction of about 7.5 billion kronor in debt that would otherwise have been assumed by the buyer.

Saab had expected the plan to be approved because GM, which supported the proposal, held over 90% of its debt.

The Swedish auto maker, which entered bankruptcy protection in February, had asked creditors to support its proposal, arguing that they would likely end up receiving at most 15% of what they were owed if Saab was forced into bankruptcy.

GM itself filed for protection from its creditors earlier this month.

Sacyr, in shift, won't sell Repsol stake

BY PABLO DOMINGUEZ

MADRID—Highly indebted construction company **Sacyr Vallehermoso** SA is no longer trying to sell its 20% stake in oil company **Repsol YPF** SA, Sacyr Chairman Luis del Rivero said Wednesday.

Sacyr has narrowed its debt through recent asset sales, Mr. del Rivero said at a news conference ahead of the company's annual general meeting. In the first three months of the year, the Madrid-based company booked close to €1 billion ($1.38 billion) from land and home sales at a discount of 15% to valuations, he said.

Sacyr has been struggling with a decline in the value of its investments. At the height of the Spanish real-estate boom, when interest rates were low and liquidity was abundant, Sacyr embarked on leveraged purchases, among them the stake in Repsol. However, when the real-estate market imploded amid the global financial crisis, financing costs jumped at the same time as the value of many of Sacyr's investments fell sharply, forcing the company to put the Repsol stake on the block.

In 2006, Sacyr paid €6.53 billion, or €26.71 a share, for its Repsol stake. The shares are now trading €15.71 each, valuing the stake at about €3.84 billion.

The drop in value also forced Sacyr to come up with extra collateral for the loans used to buy the Repsol shares. However, it hasn't been forced to seek refinancing, nor has it breached covenants set in the financing for the stake acquisition, Mr. del Rivero said.

Sacyr wants to narrow its debt to €11 billion by year end from €13 billion currently, mostly using €1.8 billion from the sale of toll-road unit Itinere Infraestructuras SA to a **Citigroup** Inc. infrastructure fund. The deal was valued at €7.89 billion, including €5.01 billion in debt.

CORPORATE NEWS

BHP-Rio Deal Clears Trade Hurdle

Australia minister sees no problem in planned iron tie-up

By Ray Brindal

CANBERRA, Australia—A proposed iron-ore joint venture between **BHP Billiton** and **Rio Tinto** won't lessen competition between the two companies to market the raw material, Australia's trade minister said.

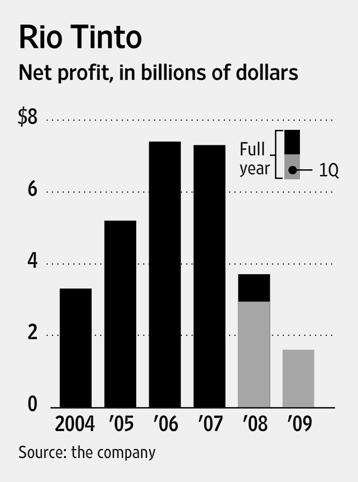
The proposed merger would see the Anglo-Australian miners, which dominate exports from the Pilbara region in Northwest Australia, share iron-ore-export facilities in Western Australia state in a bid to gain efficiencies and cut costs, Trade Minister Simon Crean said.

"They will still operate as separate marketing arms, they will therefore be competitors and so there won't be any lessening of competition," Mr. Crean said. "When the details of the proposal emerge there will be acceptance of that."

China has raised concerns about an Australian export monopoly emerging as a result of the proposal.

The proposed merger of the BHP and Rio iron-ore operations came after the collapse in early June of a proposed US$19.5 billion deal between Rio and **Aluminum Corp. of China**, or Chinalco.

Rio Chairman Jan du Plessis said that improving market conditions were behind the decision to terminate the tie-up with Chinalco, which had been designed to ease Rio's $38.7 billion debt burden.



Mr. Crean described the collapse of the Rio-Chinalco deal as an "eye-opener" for China. "It's going to be an important learning curve for China" to understand the role that shareholders have in these considerations, he said. "It was the shareholders' reaction that fundamentally saw Rio go off and cut another set of arrangements."

OZ Minerals Ltd.'s $1.35 billion sale of assets to **China Minmetals Non-Ferrous Metals** Co. is a good example of how Australia can accommodate Chinese investment, including by a state-owned enterprise, he said.

Separately, Rio said its first-quarter net profit fell 45% to $1.6 billion from$2.94 billion a year earlier as lower prices hit earnings from the company's aluminum and copper divisions.

Rio Tinto said lower prices had crimped earnings.

—Alex Wilson contributed to this article.

BAT expands into Indonesia with Bentoel buy

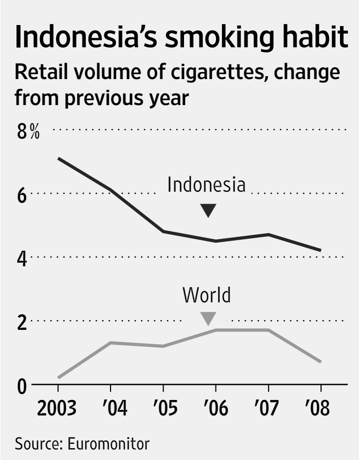
By Tom Wright

JAKARTA, Indonesia—**British American Tobacco** PLC paid $494 million for an 85% stake in PT **Bentoel Internasional Investama**, an Indonesian cigarette producer, as global tobacco companies look to offset sluggish sales in Western nations through acquisitions in the developing world.

London-based BAT, the world's second-largest cigarette producer by sales after **Philip Morris International** Inc. of the U.S., said Wednesday it hopes to complete a tender offer for the remaining shares by the end of August. The offer is a 20% premium on Bentoel's stock price and values the entire company at $580 million.

The purchase is the latest sign of renewed investor interest in Indonesia, the world's fourth-most-populous nation, which the International Monetary Fund forecasts will achieve between 3% and 4% economic growth in 2009 as solid consumer spending offsets lower exports to the U.S. and Europe. The government expects foreign investment—largely in consumer and resources sectors—to grow 9% this year from $14 billion in 2008.

BAT's purchase of Bentoel, which has a 7% share of the Indonesian tobacco market, the world's fifth-largest by volume with 250 billion cigarettes sold annually, brings it into competition with Philip Morris. In 2005, Philip Morris paid $5.2 billion to take over Bentoel rival PT **Hanjaya Mandala Sampoerna**, and has turned the company into the market leader, with a 29% share of local cigarette sales.



A man smokes next to a case of ▶ cigarettes at a store in Jakarta

BAT derives about two-thirds of its sales from emerging markets in Asia, Russia, Latin America and Eastern Europe—though Western markets still deliver the bulk of profit because of higher margins.

The company, whose brands include Dunhill, Kent, Lucky Strike and Pall Mall, has failed to build a large following in Indonesia, where 90% of consumers smoke pungent "kretek" cigarettes, produced by companies like Sampoerna and Bentoel from a mixture of cloves and tobacco.

BAT decided the only way to build sizable market share in Indonesia was to take over a kretek maker, said Simon Millson, a Hong Kong-based spokesman for the company. BAT's existing local unit in Indonesia, which doesn't sell kretek cigarettes, has a 2% market share.

The main seller to BAT was Rajawali Group, a diversified Indonesian concern that owned 56% of Bentoel. Deutsche Bank AG and UBS AG advised BAT on the Bentoel deal.

CORPORATE NEWS

Starbucks gets back to the grind

Coffee bars promise fresh brew all day to win back clientele

By Julie Jargon

Associated Press

Starbucks CEO Howard Schultz is leading the changes being made at the company, which now include the way it grinds and brews coffee.

Starbucks Corp. is making changes to the way it grinds and brews coffee as it tries to win back customers amid economic weakness and increased competition.

Instead of grinding coffee only in the morning, baristas will grind beans each time a new pot is brewed. Timers will buzz to signal when it's time to make a new batch, according to internal Starbucks documents reviewed by The Wall Street Journal.

The changes are part of the Seattle-based company's effort to reinvigorate the "Starbucks experience" in the face of competition from less-expensive rivals such as **McDonald's** Corp. and 7-Eleven Inc. With Starbucks's changes, customers will be able to hear the whir of grinders and smell the aroma of fresh coffee all day.

The adjustments will begin to roll out in Starbucks's more than 7,000 company-operated U.S. stores next month, a company spokeswoman said.

Two years ago, Howard Schultz, then chairman of the company, wrote a memo to executives blaming the chain's excessive focus on growth and efficiency for cheapening the coffee-shop experience he long had championed. Mr. Schultz wrote that an earlier switch to preground coffee had taken the "romance and theatre" out of a trip to Starbucks.

"We achieved fresh-roasted bagged coffee, but at what cost? The loss of aroma—perhaps the most powerful nonverbal signal we had in our stores," he wrote.

Mr. Schultz last year retook the CEO seat he had held earlier in an effort to stem slowing sales. To restore some of the theater, baristas began grinding beans in the morning and scooping the ground coffee as needed throughout the day.

Currently, baristas decide when to brew fresh batches "based on multiple signals ranging from demand (quantity), to expiration and timing," the new documents say, explaining that the revamped process "reduces this complexity by eliminating many of these signals."

Now, depending on how busy a store is at a particular time, baristas will use 24-, 12- or eight-minute "cadences" to brew coffee so that no variety runs out. And instead of dedicating one coffee brewer per variety, the new procedures require that containers be rotated as necessary through different varieties so customers don't have to wait for a certain type to brew.

The documents say that currently, "by using dedicated [containers] to brew coffee, our customers may experience a coffee outage 14 minutes out of every hour, or 23% of the time! This coffee outage occurs for seven minutes during every batch, making brewed coffee unavailable to our customers." As a result, customers can be forced to wait, choose another type of coffee or leave the store empty handed. "To solve the brewed-coffee outage problem, we must change the way we brew coffee," the documents say.

An advantage of the new grinding scheme is that stores will eliminate waste by using up all the beans they grind.

In some stores, grinders will be moved adjacent to the brewers to ease coffee making and bean bins will be located near grinders to "reduce walking and reaching. In some cases, it may be possible to relocate coffee beans to a countertop to reduce bending," the documents say.

Some baristas said the extra grinding and brewing might slow service and turn off customers with added noise.

But demonstrating to customers that coffee is ground and brewed on the spot could help Starbucks maintain its premium position, especially as rivals tout less-expensive alternatives.

The 7-Eleven convenience-store chain, a unit of Japan's **Seven & i Holdings** Co., recently started selling iced coffee. Food giant **Nestlé** SA has taken aim at Starbucks's Via instant coffee in ads for its Nescafé brand. One ad says, "Our instant tastes rich, not expensive (sorry Starbucks)."

And McDonald's recently began a national advertising campaign for its McCafé specialty coffee drinks.

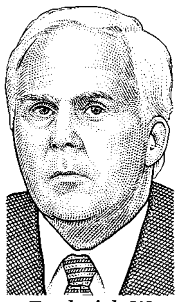
Morgan Stanley & Co. restaurant analyst John Glass recently surveyed 2,500 coffee consumers and found that Starbucks's traffic declines might be leveling off. Only 20% of the Starbucks consumers he surveyed said they're cutting back on Starbucks visits, compared with 28% last August.

FedEx reports a broader loss

By Alex Roth
And Bob Sechler

FedEx Corp. reported a wider loss for its latest quarter and issued a downbeat forecast for its current one.

But the shipping company's chief executive said there are signs "the worst of the recession is behind us," although he added that he has no idea "how long this bottoming out will take."



Frederick W. Smith

Revenue and daily package volume were down in the fiscal fourth quarter from a year earlier, but CEO Frederick W. Smith said the "rate of decline appears to have leveled off." The package-delivery giant is considered a bellwether of the economy.

While FedEx's quarterly results were grim, they weren't as weak as analysts had expected. Excluding items, the company on Wednesday reported earnings of 64 cents a share for the quarter ended May 31. Analysts surveyed by Thomson Reuters had forecast 52 cents a share.

For the current quarter, FedEx forecast earning 30 cents to 45 cents a share, compared with 71 cents a share predicted by analysts.

"I'm seeing increasing evidence that this downturn is a blessing for a company like FedEx," said Edward Jones & Co. analyst Daniel Ortwerth. He said the company has been forced by the recession to cut expenses but has managed to do so without sacrificing the quality of its service.

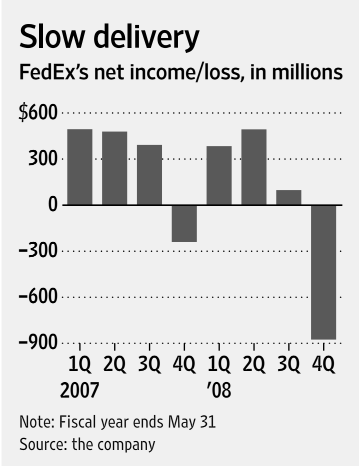
Cost cutting by FedEx in the past year has ranged from sidelining planes to cutting the company's work force. It has reduced its number of daily U.S.-Asia flights by 30%.

Mr. Smith, FedEx's CEO, offered a hint of optimism for the coming months, even as he warned that economic conditions continue to "throttle" the company. He said international shipping volumes at FedEx's Express unit "appear to have bottomed," falling only 12% in the fourth quarter after dropping 13% in the third quarter. The segment typically makes up at least 60% of FedEx's revenue.

Mr. Smith cited a number of other positive trends, including that customers' inventories are getting back in line with sales. That should fuel restocking by FedEx customers and thus an uptick in the courier's shipments later this year, he said during a conference call. He also said that conditions in the stock and credit markets have been improving, as have some economic indicators of manufacturing, housing and consumer confidence.

For the time being, however, Mr. Smith said the weak economy continues to hurt the company's results. FedEx said it doesn't expect gross domestic product trends to turn positive until the first calendar quarter of next year.

FedEx posted a fourth-quarter loss of $876 million, or $2.82 a share, compared with a loss of $241 million, or 78 cents a share, a year earlier.



The latest results included $1.2 billion in write-downs, most of which was related to the company's 2004 acquisition of Kinko's Inc. The write-downs lend credence to views that FedEx blundered with the $2.4 billion acquisition. Combined with an $891 million write-down in the year-earlier quarter, FedEx has taken write-downs totaling about 70% of the Kinko's purchase price.

Revenue fell 20% to $7.85 billion.

Thales Alenia signs contract with Orbital Sciences

By Andy Pasztor

Thales Alenia Space, seeking to carve out a bigger role in future European and U.S. exploration programs, has signed contracts to build nine cargo modules to service the International Space Station and to develop a separate, experimental atmospheric re-entry vehicle.

The contracts, announced at the Paris Air Show in the past two days, illustrate how Thales Alenia Space is trying to expand from its traditional satellite manufacturing business.

Thales Alenia is a joint venture between France's **Thales Group** S.A. and Italy's **Finmeccanica** SpA, and has factories and research facilities in France, Italy, Spain and Belgium.

Thales Alenia on Wednesday announced a contract with **Orbital Sciences** Corp. to design and provide pressurized modules to transport cargo, scientific experiments and other items to the space station.

The value of the contract wasn't disclosed.

On Tuesday, Thales Alenia and the European Space Agency announced an agreement to proceed with development of an experimental atmospheric re-entry vehicle, featuring advanced flight controls and thermal protection systems.

GLOBAL BUSINESS BRIEFS

Hennes & Mauritz AB

Jimmy Choo collection is planned for November

Swedish fashion retailer **Hennes & Mauritz** AB said British accessory brand **Jimmy Choo** Ltd. will launch a collection in 200 H&M stores on Nov. 14. Items will include men's and women's shoes, bags and clothing. The brand, known for sexy high-heeled pumps, was a favorite of characters on the television show "Sex and the City." H&M Creative Designer Margareta van den Bosch said it is the first time the company has collaborated with an accessory brand. H&M has previously collaborated with pop icons and designers including Madonna, Kylie Minogue, Stella McCartney, Karl Lagerfeld, Roberto Cavalli, Viktor & Rolf and Matthew Williamson.

Michelin SA

Faced with plummeting demand, French tire maker **Michelin** SA said Wednesday it will cut about 2,900 jobs in France as it strives to lower costs and boost productivity. The company said that the cuts will be made through voluntary departures and early retirement and that no workers will be laid off. The cuts will help Michelin achieve its goal of boosting productivity in Western Europe by 15% by 2011, said a company spokesman. About 495 of the affected employees will be able to take advantage of early-retirement measures, while 598 are expected to take other jobs within the company. Michelin also is targeting 1,800 voluntary layoffs over the next three years, the spokesman said.

Iberia Líneas Aéreas de España

Airlines **Iberia Líneas Aéreas de España** SA and **British Airways** PLC should be able to decide on their planned merger before the August summer break, Iberia's top shareholder said Wednesday. However, Miguel Blesa, chairman of Spanish savings bank **Caja Madrid**, which has a 23% stake in Iberia, said little progress had been made in the negotiations in recent months, adding that BA's pension deficit remains an issue. "We're not in a situation that's different from where we were a few months ago," he said when asked about the talks at a conference in Santander, Spain. Mr. Blesa, who is also the vice chairman of Iberia, said he nevertheless remains confident that the two carriers can reach an agreement to merge.

Arcandor AG

German travel and retail company **Arcandor** AG said Wednesday that it is filing to open insolvency proceedings for 15 additional units. Arcandor, which filed for insolvency last week, said the units affected by the latest filing primarily provide services exclusively or almost exclusively to other parts of the Arcandor group. The newest insolvency filing affects 6,700 employees, bringing the total number of employees affected to about 50,000, the company said. Arcandor said that its tourism unit Thomas Cook, home-shopping television station HSE24 and Primondo specialty mail-order business aren't affected by the filings.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Obama sees no need to damp ambitions

Despite having to make emergency repairs, president is charging ahead with broad changes to U.S. economy

By David Wessel

CAPITAL

One thing about Barack Obama: He isn't playing defense.

Much of the U.S. president's initial economic agenda was dictated by circumstance. The implosion of the financial system put the government in the banking and mortgage business and led the president to propose the biggest refashioning of the financial-regulatory regime since the Great Depression. The collapse of General Motors and Chrysler turned the government into the industry's most significant shareholder and strategist. The worst recession in a generation prompted fiscal stimulus that has lifted federal spending, as a share of the economy, to levels unseen since World War II.

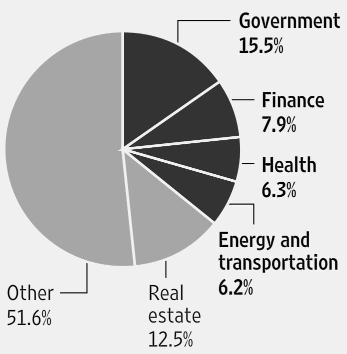
"Barack Obama didn't run for president to recapitalize banks, bail out insurance companies or take over automobile manufacturers," says Lawrence Summers, the president's economic adviser. "Unfortunately, none of this could be deferred given the economic crisis he inherited."

But Mr. Obama isn't stopping at emergency repairs. He's out to make the biggest changes to the American health-care system since the advent of Medicare in 1966. And, as if that's not enough, he wants to change the way the oil- and coal-addicted U.S. economy uses energy to lighten its dependence on foreign oil and reduce carbon emissions to restrain global climate change.

Add it up—government plus energy and transport, health and finance—and Mr. Obama is tinkering

The big fix

Sectors President Barack Obama is reshaping, by share of total value added in U.S. economy



Source: U.S. Bureau of Economic Analysis

A parking garage recently promoted 'Obama Stimulus' pricing in New York City

Associated Press

(and, in some cases, more than tinkering) with more than a third of the U.S. economy, using Bureau of Economic Analysis output-by-industry estimates as a gauge. The changes would touch anyone who gets a mortgage, sees a doctor, pays an electric bill—in short, everyone.

Most Americans don't appear worried about the president's ambitiousness. A new Wall Street Journal/NBC News poll asked whether Mr. Obama is "taking on too many issues and is not focused enough on the most important ones" or is "focused and is taking on this many issues because our country is facing so many problems?" The reply: 37% said he is doing too much and 60% said he is doing a lot because the problems are so many. (The other 3% weren't sure.)

Obama fans insist all this is necessary.

"They had to do something on autos. They had to do something on financial regulation. Health is different—except that it has been an issue for so long and is getting worse," says Laura Tyson, the University of California, Berkeley economist who worked in Bill Clinton's White House. "So that leaves energy and climate change. But there is a major international conference coming up. There is no answer to climate change without international cooperation. And developing countries aren't going to get involved without the U.S. taking leadership."

But the president is running big risks by tackling so much at once.

Finance, health care and energy are complex. Yes, there are reasons to reshape each. Yes, with the government already so deeply involved setting rules or structuring incentives in each, a decision to stick with the status quo would be a policy decision—and probably an unwise one.

But sit through a briefing on the intricacies of changing the way hospitals are paid or details of regulating the size of financial companies' capital cushions or formulas for allocating carbon-emission permits among industries, and it quickly becomes clear how many moving pieces are in each of the president's initiatives.

Unintended consequences are inevitable, no matter how much care is taken in fashioning the ultimate legislation and the regulations that follow. "The risks are you will damage things that weren't broken," says Douglas Holtz-Eakin, a former Congressional Budget Office chief who advised Mr. Obama's 2008 opponent, Sen. John McCain.

The risks of mistakes are heightened because the president is expecting so much so fast from people who work for him and from the Congress. Americans think of government as a vast army of bureaucrats. But on any of these major undertakings, big decisions are made by relatively few people in the White House and federal agencies and by leaders of pivotal congressional committees. None of them are getting much rest these days.

"The danger is that you do it real fast," Ms. Tyson acknowledges. "You may not have the people you need. You may not make the decisions you would have made had you had more time."

It may be impossible to get as much done as quickly as Mr. Obama wants. "All this will be difficult to get through Congress," says Mr. Holtz-Eakin. "There's not that much bandwidth."

But looking back at Ronald Reagan, John F. Kennedy (whose 1961 promise to put a man on the moon within a decade was achieved after his assassination) and Lyndon Johnson (on the domestic side, not Vietnam), the Obama White House sees no reason to be modest in its ambitions or its timetable. It seems to be hoping to get health care through this year, to get financial-regulatory legislation late this year or early next before memories of the crisis fade and, then, to prod the House and Senate toward a climate-change compromise in 2010.

Makes one wonder what Mr. Obama is planning for the second half of his term.

He aspires to a 'light touch,' not a heavy hand, in proposal

By Gerald F. Seib

CAPITAL JOURNAL

With the release of the most-extensive proposals to change financial regulations since the 1930s, U.S. President Barack Obama is a bit anxious.

Anxious, that is, for people—and specifically for his conservative critics—to know he isn't the heavy-handed meddler some suspect.

"I think the irony...is that I actually would like to see a relatively light touch when it comes to the government," he said Tuesday in a White House interview. (For a complete interview transcript, please see WSJ.com/Washwire.)

It is a counterintuitive case to make when his government is a majority shareholder of General Motors, and when he proposed Wednesday new oversight of big financial institutions, new capital requirements for banks and a new consumer-protection agency for small investors.

Which is precisely why Mr. Obama went to great pains to explain that there is a philosophy behind the changes he is about to propose to the nation's financial plumbing. Indeed, he says, it is the same philosophy that applies to his broader view of the government's role in the economy:

"You set up some rules of the road, ensure transparency and openness, guard against huge systemic risk that will lead...government potentially having to step in to avoid a depression, and then let entrepreneurs and individual businesses compete and do what they do.

The president and his aides have reached a point of potential political peril, where the massive interventions they have made to deal with the recession and virtual collapse of Detroit—to be followed soon by an attempt to overhaul the U.S. health system—can be seen as the opening stages of a reordering of the American economy.

For his part, Mr. Obama often returns to a particular set of words to explain what he's trying to do to the financial system: rules of the road, openness and transparency. If everybody knows what's going on in the marketplace, Mr. Obama argues, they will make the right decisions.

Stephen Voss for The Wall Street Journal

President Barack Obama, in an interview Tuesday, said he wants a more transparent financial system. The goal, he said, is to ensure everybody can see everything.

The goal, he says in effect, is to make sure that in the new economy, everybody can see everything.

"On a whole host of these issues, we want to do the minimum possible to assure that every stakeholder in the marketplace—consumers, workers, investors, entrepreneurs—have a clear set of rules of the road, they know what they're getting themselves into, they're making decisions based on the pursuit of profits," he said. "But we are not setting up so few rules that you have the kind of situation that we saw last year where we really were on the verge of a financial meltdown."

The Federal Reserve gets more power to oversee big financial institutions, large firms will have to raise more capital and meet higher liquidity standards, hedge funds will face higher scrutiny, and a new agency will be set up to protect consumers and small investors.

With the plan out, though, the president has the Goldilocks problem. Some will think his proposals too hot, some too cold. Only some will think them just right.

The right rules, he said, will allow a recovery that isn't built on speculative bubbles—and that don't stifle financial marketplace innovations that have helped lots of small guys in recent years.

"The question for us is how do we create the foundation for a more sustainable model of economic growth, one that doesn't impinge on the dynamism of the free market, the innovative products that are critical and the entrepreneurship that creates jobs, but also recognizes that the levels of debt and a model that's premised on an endless supply of foreign dollars is not one that is going to be sustainable over the long term?"

The Fed will be a big player in answering that question. Mr. Obama was lavish in his praise of Fed Chairman Ben Bernanke—who "has handled his position extraordinarily well under extraordinary circumstances"—but wouldn't say whether he would reappoint him to a new term early next year.

Even as he does more on the economy, Mr. Obama says his real desire is to do less.

He intervened on behalf of GM and Chrysler, he says, because his only options were to continue to send them taxpayer money without strings attached, or see them liquidate. "The only real regulatory approach I've been interested in is raising fuel-efficiency standards so we can wean ourselves off dependency on foreign oil," he says. "Beyond that, the last thing I want is to be running a car company..."

Or, he insists, the American economy.

Larger Fed role stirs controversy

Critics fault handling of financial crisis by U.S. central bank

By Sudeep Reddy

The Obama administration's financial-regulation plan envisions the Federal Reserve as the most powerful overseer of the U.S. financial system. But that approach is quickly becoming one of the plan's biggest flashpoints, as lawmakers and consumer groups attack the central bank for its handling of the financial crisis.

"How much power the Fed is going to have is going to be probably one of the most controversial issues about this plan," said Robert Litan, a senior fellow at the Brookings Institution. The central bank is "already knee deep in politics," he said, and its role in the new regulatory framework is most likely to be changed by lawmakers.

Under the proposal, the Fed would become the leading regulator to monitor risks to the financial system. It would gain sweeping authority to monitor any firm that could threaten financial stability, even if the central bank wouldn't normally supervise the institution.

President Barack Obama promised the plan would ensure "that lines of responsibility and accountability are clear" by placing the authority in the Fed's hands, while also creating an overarching council of regulators "to solve problems in oversight before they can become crises."

Critics say the Fed failed to use its authority to address loose lending practices and a growing housing bubble that ultimately pushed the economy into crisis. While the Fed responded aggressively after the crisis began, some say the Fed's track record in monitoring financial institutions to prevent instability needs to be considered before giving it more power.

"I don't have a lot of faith in the Fed being able to handle that big a universe," said John Taylor, president of the National Community Reinvestment Coalition, a group of 600 community organizations. "I think there's a question of capacity and performance that ought to be looked at."

The Obama plan would remove the Fed's responsibility for consumer regulation, handing it over to a new agency. But the attacks on the central bank from Capitol Hill don't stop there. Many lawmakers continue to criticize the central bank's role in bailouts of major institutions—from American International Group to Citigroup to Bank of America—and want its power to lend to nonbank financial institutions reined in.

A movement is also spreading in Congress to force the Fed to disclose the identity of borrowers at its discount window, a move that central bank officials say would discourage use by firms that need emergency stabilization. A large group of House members is pushing to audit the Fed.

Fed officials maintain they took action throughout the crisis because the central bank often was the only institution around with the ability to prevent deeper financial turmoil. The regulatory overhaul would provide a mechanism for the government to wind down failing nonbank financial institutions, freeing the Fed of the need to act. The central bank also has taken steps to release more details about its lending programs, though lawmakers still want more information.

Some lawmakers and outside groups worry that adding sweeping responsibility for financial stability could conflict with the Fed's role in setting monetary policy. Fed officials have said they can handle multiple responsibilities.

Both Senate Banking Committee Chairman Christopher Dodd (D., Conn.) and House Financial Services Committee Chairman Barney Frank (D., Mass.) on Wednesday said the Fed's role is the biggest issue in the plan. Mr. Dodd said there is well-founded concern that the Fed's responsibility for setting monetary policy and interest rates could affect its views on systemic risk. "There's not a lot of confidence in the Fed at this point, and I'm stating the obvious," Mr. Dodd said.

Mr. Frank said most of Mr. Obama's proposals reflect a broad consensus on Capitol Hill. The need for a systemic-risk regulator, for a strong financial consumer-protection agency, for regulating derivatives and for the abolition of the Office of Thrift Supervision are all issues that won't generate controversy, he said. But, Mr. Frank added, "the interplay between the Fed and the rest of the regulators on systemic risk" will be the thorniest problem to work through.

Some lawmakers want an inter-agency council to have responsibility for systemic risk—along with authority to act—instead of putting it squarely at the Fed. But Obama administration officials believe that kind of committee approach would allow problems at financial institutions to fester without a clear regulator responsible for addressing them.

The regulatory overhaul proposed by the Bush administration last year also would have given the Fed responsibility for financial stability. But that plan would have removed its bank supervision role. Fed officials quietly objected to the plan, saying the information gleaned in supervision would be key to the financial-stability mandate. The proposal gained little traction amid an escalating financial crisis.

The Obama administration proposal includes a nod to some of the Fed criticism. Given the central bank's proposed new powers, the plan calls for the Fed to work with the Treasury and outside experts to review the structure and governance of the entire Federal Reserve system, including the role of the 12 regional Fed banks in bank supervision and regulation.

The Treasury said it would use the report resulting from that review to propose changes to the Fed's structure "that are appropriate to improve its accountability and its capacity to achieve its statutory responsibilities."

—Jonathan Weisman contributed to this article.

U.S. revamp aims to make markets less bubbly

By Jon Hilsenrath

WASHINGTON—With his proposed regulatory revamp, U.S. President Barack Obama is setting out to do what history suggests can't be done easily—tame the financial system's tendency to drive itself off a cliff.

The objective of "stability" is all over Mr. Obama's plans, literally: The word shows up 53 times in his 88-page blueprint. His proposal, if approved by Congress, would make banks hold more capital in reserve for a rainy day, reducing funds available for making risky bets. It would require mortgage originators to hold a piece of the loans they sell, and the plan would steer compensation for a wide range of players away from risky practices.

The ultimate goal: rein in markets' highs and soften the inevitable lows.

Financial booms and busts have become especially familiar in the past quarter century. But until the credit squeeze that started in 2007, they seemed to have become more benign. The 1987 stock-market crash, the savings-and-loan debacle of the late 1980s, emerging-market crises of the 1990s and the tech bust early this decade came and went leaving only two modest U.S. recessions in their wake.

The current recession has emphasized to Mr. Obama and his economic team the threat that unstable financial markets pose to the broader economy. Lawrence Summers, Mr. Obama's chief economic adviser, speaks often about creating a new foundation for a less-bubble-driven economy.

"Over the past two decades, we have seen, time and again, cycles of precipitous booms and busts," Mr. Obama said Wednesday. "In each case, millions of people have had their lives profoundly disrupted by developments in the financial system, most severely in our recent crisis."

The Federal Reserve would stand at the center of the effort, with new power to regulate financial institutions that threaten broader stability. Derivatives markets that had been left to police themselves, on the premise that they help make the financial system more resilient, would no longer be left to do so. The Fed also is examining whether it can do more to deflate financial bubbles before they get too big.

"The thrust of this reform proposal is to insulate the system when and if the next bubble happens and then bursts," said Robert Litan, a scholar at the Brookings Institution. "The hope is that the next time around there will be some warnings."

The challenge is how to do all this without stifling Wall Street innovation or the economy's growth. Some Obama administration officials call it the "elusive frontier."

"We must recognize that the singular pursuit of stability, however well-intentioned, may end up making our economy less productive, less adaptive, and less self-correcting—and in so doing, less able to deliver on its alluring promise," Kevin Warsh, a Federal Reserve governor and former Bush administration official, said in a speech this week.

Another inevitable problem is that of unintended consequences. Regulators toughened capital requirements on banks after the S&L crisis, which encouraged the growth of a "shadow" banking system populated by unregulated financial institutions and markets. A Great Depression restriction on the ability of banks to pay interest on deposits, called Regulation Q, sometimes left them squeezed for funds and forced them to tighten credit.

This time, tougher restrictions on banks or insurance companies could push money further into less-regulated markets, such as private equity, hedge funds or institutions offshore.

Administration officials are conscious of the risk. One pillar of their plan is improving international cooperation on financial regulation. They also want to force hedge funds and other private money players to register with the Securities and Exchange Commission. But the White House isn't talking about imposing the same kinds of capital and liquidity requirements on many of them that it would for banks.

There also is a risk that officials, in responding to the last crisis, will miss the next one. Congress responded to the tech bust and accounting scandals of earlier this decade by passing Sarbanes-Oxley accounting regulations. But the current crisis was already brewing in housing, not stocks.

"The next problem is not going to be mortgage-backed securities," says Raghuram Rajan, a finance professor at the University of Chicago Booth School of Business. "It is going to be something else."

Mr. Rajan holds up **Citigroup** Inc. and its predecessor companies as an example of the pitfalls of regulating financial institutions. Citi "found three ways of getting itself into trouble in the last three decades," he notes. In the 1980s, it became burdened by emerging-market debt that had gone bad. In the 1990s, it was overexposed to commercial real estate. And in the last crisis, it suffered huge losses in residential mortgages.

"You can sharpen enforcement in one area, increase regulation, but if the underlying incentive to take excessive risk is not mitigated in some way, it is going to move somewhere else," Mr. Rajan says.

For that reason, White House officials want the Fed to be able to oversee the compensation policies of top executives at big financial institutions, to make sure they don't create perverse incentives. But for every action in Washington there is a reaction on Wall Street. Clamping down on compensation could send Wall Street's best and brightest to some new area of finance nobody has yet thought of.

Technology Journal

Hot air

Washington debates the best way to fight climate change > **Page 28**

U.S. inflation remains mild as prices rise 0.1%

By Brian Blackstone

WASHINGTON—Annual inflation in the U.S. slid deeper into negative territory in May as consumer prices posted their largest annual decline in almost 60 years.

Still, a slight rise from the prior month and an increase in core prices that exclude food and energy support the growing sentiment at the Federal Reserve that deflation risks have waned. However, there is little evidence that inflation is taking hold either, a concern that has crept into bond markets in recent weeks.

The consumer-price index rose 0.1% in May from April, the Labor Department said Wednesday, below the 0.3% increase economists in a Dow Jones Newswires survey had expected. The core CPI, which excludes food and energy, also rose 0.1%, in line with expectations.

Consumer prices fell 1.3% from a year earlier, the largest 12-month decline since April 1950. That is way off the 2% annual rate of inflation that most Fed officials think is consistent with their dual mandate of price stability and maximum employment.

Earlier this month, San Francisco Fed President Janet Yellen said that after once favoring 1.5% as an inflation objective, "I think if I now had to write down a number, I'd probably write 2%."

Annual inflation was above 5% as recently as August, before last year's energy- and commodity-price drops kicked in and the global recession eased pressure on import prices.

But the annual CPI decline aside, Ms. Yellen and others at the Fed have little to worry about. Annual inflation rates should turn positive later this year given the recent rise in energy prices. And the less-volatile core CPI index was up 1.8% in May from a year earlier, which is more in line with the Fed's objective.

Wednesday's CPI report showed that energy prices rose 0.2% in May from April and were down 27.3% over the past 12 months. Gasoline prices rose 3.1% last month, while food prices slid 0.2%.

In a separate report, the Labor Department said the average weekly earnings of U.S. workers, adjusted for inflation, fell 0.3% in May, an indication that paychecks aren't keeping pace with prices, which could threaten consumer spending.

Meanwhile, the U.S. current-account deficit shrank to $101.5 billion during January through March, the Commerce Department said Wednesday. The deficit was the narrowest since the fourth quarter of 2001.

The $101.5 billion deficit exceeded economists' expectations for a deficit of $85.0 billion in the first quarter.

In the fourth quarter, the deficit stood at $154.9 billion, wider than an originally reported $132.8 billion.

The current account balance combines trade of goods and services, transfer payments, and investment income.

The first-quarter shortfall of $101.5 billion made up 2.9% of gross domestic product, which was last reported at $14.09 trillion in current dollars for the three months ended March 31.

—Jeff Bater contributed to this article.

ECONOMY & POLITICS

EU, U.K. clash on rules

Financial regulation will top agenda for two-day summit

By Adam Cohen And Alistair MacDonald

BRUSSELS—A plan to tighten financial-market regulation is pitting the U.K., home of Europe's financial center, against other members of the bloc.

At an EU summit starting Thursday, a key issue will be how much power should be handed to regulatory bodies that the EU's executive arm, the European Commission, wants to esntablish and who will head them.

The U.K., home to the region's largest and most lucrative financial-services market, is resistant to pan-European regulators supervising individual banks and other financial-system players. France and Germany, among others, say the financial crisis has exposed flaws in the bloc's patchwork of national rules and enforcement bodies. They have called for a stronger EU-wide authority.

Under a commission proposal the leaders will debate during the two-day summit, the president of the European Central Bank would head a new European Systemic Risk Council that would broadly monitor the stability of the financial system. A second body would set standards for close supervision of banks, insurers and other financial institutions.

Giving the ECB a leading role on the risk council has rankled the U.K., which doesn't use the euro, as well as some Eastern European countries. EU finance ministers, meeting in Luxembourg last week, tentatively agreed that the ECB president or another member of the risk council could lead the supervisory group.

The ministers also tentatively agreed that the new overseers couldn't force countries to pay for bank bailouts, leaving unresolved a question that has plagued EU policy makers for years before the financial crisis: Who pays if a large-bank operating across the bloc's borders fails?

"We must avoid the situation that gave rise to this crisis," Czech Finance Minister Eduard Janota told journalists last week in support of stronger pan-European supervision. The Czech Republic currently holds the EU's rotating presidency.

But the U.K. likely will remain opposed to any deal that gives Brussels more sway over its financial markets, according to an EU diplomat. For the U.K., the proposals herald a further assault on what the country has guarded for decades: its sovereignty over financial services and taxpayers' cash.

Still, having battled for years against European attempts to tighten regulation, Britain has been among the first countries to ramp up its own rules after the financial crisis. It agrees in principle with the need for broader monitoring of financial stability in Europe but doesn't want a pan-European body supervising individual financial firms. The U.K. believes that only national regulators have their ears close enough to the ground to do that and doesn't want a pan-European body making decisions that could involve British taxpayers' money.

The plan under discussion at the European summit is an early text setting out the EU's intentions. Legislation creating the regulators—which would have to be approved by EU leaders—isn't expected until the fall.

Brussels also is skirmishing with the U.K. and in particular with its financial industry over proposed regulations of hedge funds, private-equity firms and other fund managers. The fund industry, the majority of which is based in the U.K., has expressed opposition to legislation proposed in late April.

The industry argues that the proposal would limit the ability of U.S. and other non-EU managers to market in Europe.

Hedge-fund managers and even some investors—whom the proposal is designed to protect—dislike the potential restrictions on how much leverage, or borrowed money, a fund manager can use to invest.

Complaints about the proposal are echoed by the private-equity industry.

—Cassell Bryan-Low contributed to this article.

Latvia's cuts impress EU but fray the government

By Joel Sherwood

A key government minister in Latvia resigned Wednesday, signaling how political tensions are likely to emerge from the Baltic state's attempts to elude bankruptcy and win international aid.

Other signals include a demonstration, organized by the trade unions, set for Thursday in the capital, Riga, and the teachers' union's call on education minister Tatjana Koke to step down.

The Latvian parliament decided Tuesday to tighten the 2009 government budget by €700 million ($968 million), including cuts on education, health care, pensions, and public-sector wages. Without the cuts, the country's deficit was likely to balloon as taxes fell while the Latvian economy contracted by an expected 20% this year.

"The cuts are terrible," said Ariana Abeltina, spokeswoman for the Latvian Free Confederation of Trade Unions, which is organizing Thursday's gathering. "No one can survive," she said, commenting on the plans for 50% wage cuts for teachers along with an expected 20% reduction to other government workers' salaries and a 10% decrease on pension payments.

Prime Minister Valdis Dombrovskis accepted the resignation of his health minister, Ivars Eglitis, the prime minister's office said.

Mr. Eglitis was unwilling to carry out deep cuts to Latvian health-care services. "As a doctor and health-care management specialist I cannot accept that," the Baltic News Service reported Mr. Eglitis as saying.

Despite the cuts' unpopularity, Latvian lawmakers Tuesday agreed to them at the urging of the European Union and the International Monetary Fund. The new budget is expected to satisfy the EU and IMF enough to win more than €1 billion in the next few weeks, the second tranche of an €7.5 billion emergency loan program established in December. The two institutions in separate statements late Tuesday commended Latvia for its "courageous" action.

Fears in recent weeks that Latvia might default sent jitters through Central and Eastern European markets, and weighed on the share prices of Swedish banks, which are heavily exposed in the region. Sweden's central bank has sought extra reserves to safeguard against the threat of financial instability from the Baltics.

Tuesday's budget moves increased confidence among market watchers that the aid will stave off national bankruptcy and the abandonment of Latvia's peg to the euro.

"Although short-term uncertainty surrounding the peg is likely to ease if the second tranche is granted, the worries aren't expected to disappear," said Annika Lindblad of Sweden's Nordea Bank. However, "social tensions are expected to increase," said the economist.

OECD can't predict the end to deep Italian recession

By Luca Di Leo

ROME—Italy is in a deep recession and it is hard to say when Europe's fourth-largest economy will recover, the Organization for Economic Cooperation and Development said in a report.

The OECD now expects Italian gross domestic product to contract 5.3% in 2009 after shrinking 1% last year, marking the deepest recession since World War II. On March 31, the OECD had forecast Italian GDP would fall 4.3% this year.

Italy has Europe's largest public debt, which limits room for fiscal maneuvers by the government to counter the recession. As a result, the OECD said, only a "slow recovery" can be expected in the Italian economy—and only in 2010.

The OECD praised Prime Minister Silvio Berlusconi's government's extension of unemployment benefits and increased support for low-income families, saying little more could be done given Italy's weak public finances.

The new OECD forecasts are broadly in line with Italian government predictions. Rome said in May that the economy would shrink 4.2% this year, but the Treasury's chief economist later said the 2009 GDP forecast would be revised by the end of June to a contraction of around 5%.

Italian banks have been less exposed than their European peers to the global financial crisis, but credit has tightened and the export-driven economy has been hit hard by the slump in world trade.

In the first quarter, the Italian economy shrank 2.6% compared with the previous three months—the fastest rate of decline in at least 29 years—as exports and investments decreased.

However, following recent tentative signs that the economy may have hit bottom, the OECD lifted its GDP forecast for 2010 slightly, predicting the Italian economy will expand 0.4%, compared with a March forecast that it would contract 0.4%.

Euro-zone trade surplus rises

By Ilona Billington

LONDON—The euro zone's balance of trade with the rest of the world increased in April to the largest surplus since October 2007, data from the European Union's statistics agency showed Wednesday.

In Britain, meanwhile, there was some evidence that the worst of the recession may be over, as the number of claimants for unemployment rose at its slowest pace in 10 months, official data showed.

The 16 countries that use the euro had a combined surplus in their trade in goods of €2.7 billion ($3.7 billion), compared with a surplus of €1.8 billion in March. Exports from the euro zone declined to €102.1 billion in April from €109.6 billion in March, while imports decreased to €99.4 billion from €107.8 billion.