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EUROPE

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## What's News

Shares in the U.S. and Europe declined on broad-based selling, with energy and materials sectors in the lead due to a sharp fall in commodities prices. Crude-oil futures for July settled down \$2.62 at \$66.93 a barrel. **Page 18**

■ **Anglo American rejected** Xstrata's proposal to merge and create a \$67 billion mining giant, setting the stage for what could be a prolonged takeover dance. **Pages 3, 32**

■ **RBS is under fire** for the \$15.8 million pay package granted its CEO. The bank has received billions in taxpayer support. **Pages 17, 32**

■ **The U.S. SEC filed civil** fraud charges against brokerage firm Cohmad Securities in connection with the Madoff investment fraud. **Page 18**

■ **Lufthansa agreed** to acquire British Midland Airways in stages, ending a dispute over price. **Page 5**

■ **Siemens expects** to land about \$21 billion in new orders globally as governments seek to help industries cut energy use. **Page 6**

■ **Bank of East Asia** is boosting ties to Caixa, a deal that lets the Spanish lender raise its stake to 12.5%. **Page 19**

■ **German companies** are more confident, the Ifo survey found, but rising unemployment is damping hopes of a quick recovery. **Page 8**

■ **Members of Britain's** House of Commons elected John Bercow, a member of the main opposition Conservatives, as their new speaker.

■ **Two rivals** to the proposed Nabucco pipeline look set to open a supply line meant to ease Europe's dependence on Russia for natural gas. **Page 17**

■ **Refinery workers** marched in the U.K. to protest layoffs and sympathy strikes broke out in other places. **Page 8**

■ **The U.S. commander** in Afghanistan will soon order his forces to break away from fights with militants in populated areas, an official said.

■ **ESPN acquired** rights in an auction to broadcast some Premier League football matches for the next four seasons. **Page 3**

■ **Lucas Glover won** the U.S. Golf Open, while defending champion Tiger Woods tied for sixth place. **WSJ.com**

EDITORIAL & OPINION

**Persian lessons**  
Obama still has a lot to learn about Iran.  
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Breaking news at europe.WSJ.com



French President Nicolas Sarkozy arrives at the Versailles Palace to address a special congress of both houses of Parliament. He was the first French president to address the legislature in more than a century.

## Sarkozy raps burqa

*French president says garment 'is not welcome'*

President Nicolas Sarkozy took sides in a growing debate on the burqa, a head-to-toe garment that is worn by some Muslim

By Susana Ferreira and David Gauthier-Villars in Paris

women and conceals their faces, saying it isn't a religious symbol but "a sign of enslavement and debasement" of women.

of women.

"The burqa is not welcome on French territory," Mr. Sarkozy said, addressing a joint session of Parliament at Versailles. "In our country, we cannot accept that women be prisoners behind a screen, cut off from all social life, deprived of all identity," he said.

Earlier this month, a group of 76 lawmakers called for France to ban the garment, which is often associated with the Salafi strain of Islam and is worn by only a small percentage of Muslim women. The lawmakers appealed for a parliamentary commission to study the

small, but apparently growing, phenomenon in French streets. Mr. Sarkozy said he endorsed holding a parliamentary inquiry to study the issue. The move could be the first step toward an outright ban on the coverings.

Some Muslim lobby groups, however, have urged the French government to refrain from holding a public debate on the issue, saying it would stigmatize France's Muslim community, Europe's largest.

Merzak El-Bekkay, vice president of the French Council of the Muslim Faith, questioned the timing of the issue. *Please turn to page 31*

## Bomber strikes Caucasus official

By ALAN CULLISON

MOSCOW—A suicide bomber critically wounded a top Kremlin appointee to the southern republic of Ingushetia on Monday, dealing a blow to President Dmitry Medvedev's efforts to quell an insurgency in Russian provinces bordering Chechnya.

The attack escalates a campaign of violence by Islamist insurgents targeting government and law-enforcement officials in the region. Earlier this month, Mr. Medvedev flew to the province of Dagestan to denounce the assassination of a top Interior Ministry official and buttress Kremlin measures to bring order. The killings resumed within hours of his visit.

Mr. Medvedev summoned top security officials and the president of Chechnya to the Kremlin Monday, and called for a "direct and harsh" response to the violence.

He called the attack on Ingush President Yunus Bek Yevkurov a "terrorist act" and said Mr. Yevkurov had been targeted because he was making headway in bringing peace and order to Ingushetia. "The bandits actively dislike this, of course," Mr. Medvedev said.

After effectively crushing a rebel bid for independence in Chechnya, the Kremlin has lately worried about stirrings of unrest in two Muslim-dominated neighboring provinces, Dagestan and Ingushetia. *Please turn to back page*

## Iran finds irregularities in vote count

By FARNAZ FASSIHI

TEHRAN—Iranian security forces clashed with around a thousand protesters in a central Tehran square Monday, scattering demonstrators with tear gas, batons and gunshots fired into the air.

Security services—present in large number—easily dispersed the crowd, arresting men and women, dragging them away in handcuffs and loading them onto buses, according to witnesses.

The protest was much smaller than recent demonstrations, and Monday appeared to mark



Mahmoud Ahmadinejad

the second day of relative calm in Tehran after security forces responded in force to demonstrations Saturday. Supporters of opposition candidates have staged more than a week of sometimes-violent protests against the declared victory of President Mahmoud Ahmadinejad in June 12 polls.

Iranian officials said over the weekend that from 10 to 13 people died in Saturday's violence, in addition to seven officials confirmed dead in the previous week.

After saying authorities had restored calm to Tehran, Iranian officials appeared ea-

ger on Monday to flex Iran's military and economic muscle. Iranian state media reported the country's air force started a low-altitude bombing exercise over the Persian Gulf and Sea of Oman. A senior oil official said petroleum output and exports remained unaffected by the recent unrest.

Britain, which Iran's supreme leader called "evil" in an address last week, said it was evacuating the families of diplomats and other officials based in Iran.

Meanwhile Iran's Guardian Council, a top review panel with responsibility for overseeing the presidential election, said it had uncovered some irregularities in the polls, finding the number of votes in 50 districts exceeded the number of voters.

The Guardian Council announcement, made Monday on state-run media, was the first admission by authorities of voter irregularities. But a council spokesman also said the irregularities were much less widespread than unsuccessful opposition candidates

*Please turn to page 2*

### Close watch

■ **Iran utilizes European technology to spy on Web... 31**

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#### Firmer foundation

Timely land deals help U.S. home builders survive  
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4 p.m. ET

	CLOSE	PCT CHG
DJIA	8339.01	-2.35
Nasdaq	1766.19	-3.35
DJ Stoxx 600	202.48	-2.78
FTSE 100	4234.05	-2.57
DAX	4693.40	-3.02
CAC 40	3123.25	-3.04
Euro	\$1.3880	-0.35
Nymex crude	\$66.93	-3.77

**See bar. Raise bar. Find next bar. Repeat.**

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THE WALL STREET JOURNAL.



LEADING THE NEWS

# Iran finds irregularities in vote count as clashes continue

Continued from first page had alleged in recent complaints, according to state media.

"Statistics provided by the candidates, who claim more than 100% of those eligible have cast their ballot in 80-170 cities are not accurate," council spokesman Abbas-Ali Kadkhodaei said. "The incident has happened in only 50 cities," Mr. Kadkhodaei said. Iran has more than 360 districts.

Mr. Kadkhodaei said that the affected votes could be as high as three million, but that it wouldn't noticeably affect the outcome of the election. Around 34 million to 36 million ballots were cast, in an estimate based on information provided by the government.

Mr. Kadkhodaei said, however, that the Guardian Council could recount the affected ballots if the candidates ask for it.

The country's Supreme Leader Ayatollah Ali Khamenei said Friday that the margin of victory in the race won by Mr. Ahmadinejad was so big that the ultimate result of the polls wasn't in question. That has convinced opposition supporters that a meaningful recount is unlikely.

Mr. Kadkhodaei said voter turnout of above 100% in some cities is a normal phenomenon because there is no legal restriction against people voting in a city or province in which they aren't registered. Chatham House, a London think tank, on Sunday also raised questions about excessive turnout based on voter returns and census data.

The Guardian Council admission was the latest in several apparent concessions to opposition candidates, whose supporters have flooded the streets of Tehran and other cities in demonstrations against the polls. The Guardian Council has said it was probing more than 600 complaints in the polling made by candidates, including opposition leader Mir Hossein Mousavi.

Also Monday, one of Iran's top petroleum officials said the postelec-



Iranian women light candles in front of an image of Neda Agha Soltani, who was killed when hit by a bullet during a Tehran protest.

tion unrest hadn't affected the country's oil output or crude exports.

"The recent developments in the country have had no impact on the oil industry or crude exports. The national oil industry is 100% normal," Mohammad ali Khatibi, Iran's governor at the Organization of Petroleum Exporting Countries, was quoted as saying on state media Monday.

Amid international worry that street unrest or possible calls for wide-scale industrial action or strikes could affect Iran's oil output, Mr. Khatibi said the country's oil fields and refineries were outside urban areas and far from the places where the people have been staging protest rallies.

"The unrest has not even affected gas stations, let alone the country's production and export of crude," he was quoted as saying.

In central Tehran, demonstrators

and authorities engaged in what's become a near-daily, cat-and-mouse routine: protesters gathered in groups of several hundred shouting angrily, "death to the dictator." Security forces chased them, waving batons and sticks, according to eyewitnesses.

On Monday, however, witnesses said security forces appeared particularly alert to spectators on balconies or nearby buildings above the fracas, taking pictures or filming the clashes. Homemade videos and personal photos have flooded the Internet, defying attempts by Iranian officials to restrict reporting of protests.

Authorities shouted at spectators of Monday's scuffles, ordering them to get inside. On several occasions, authorities broke down apartment doors, hunting down anyone who was documenting the protests or the response by security services,

witnesses said.

"I wish this would end and life would go back to normal," said a 45-year-old engineer who was on his way to a funeral at a nearby mosque for a relative. On the way, he was teargassed. He ran to splash water on his eyes from a runoff stream on the side of the road, but a woman grabbed his hand and told him it would make it worse. Instead, she called a young man over who blew cigarette smoke in his eyes.

A 33-year-old woman who has been attending protests said the stakes were getting higher as the crackdowns intensified and confessed she wasn't sure how long she and her friends would keep it up.

"It's now crossed the line, if you come out it means you are ready to become a martyr and I'm not so sure I want to die yet," she said.

The Revolutionary Guards issued a statement on Monday warning the public against participating in any illegal gatherings and demonstrations and said anyone taking

part in them would be dealt with forcefully.

Still, protesters were handing out pamphlets to one another Monday with information about future gatherings at set times and at set locations, according to eyewitnesses. International media are banned from covering the events.

As clashes erupted again in the streets of Tehran on Monday, news was traveling that authorities were placing restrictions on burial and funerals of dead victims from the clashes. Official tally of the dead stands at 13, with hundreds injured. According to local news Web sites, authorities have banned mosques around the city from holding memorial services for victims.

Security forces blocked a memorial service scheduled for Monday afternoon for Neda Agha Soltani, a 27-year-old woman slain in the bloody clashes on Saturday. After a video clip of her bleeding to death on the sidewalk was posted on the Internet, she has become a symbol for the struggle of the opposition.

On Monday, others also grieved for relatives killed during the protests. One family, clad in black, stood at the curb of a road in Tehran. The middle-age mother slapped her cheeks, letting out wails that could be heard several blocks away. The father, a frail older doorman of a clinic in central Tehran, wept quietly with his head bowed.

Minutes before, an ambulance had arrived from Tehran's morgue carrying the body of their only son, 19-year-old Kaveh Alipour.

On Saturday, amid the most violent clashes between security forces and protesters, Mr. Alipour was shot in the head as he stood at an intersection in downtown Tehran. He was returning from acting class at the City Theater.

The details of his death remain unclear. He had been alone. He wasn't politically active and hadn't taken part in the turmoil that has rocked Iran for over a week.

"He was a very polite, shy young man. He never bothered anyone," said Mohamad, a neighbor who has known him since childhood.

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## LEADING THE NEWS

# Xstrata offer is rebuffed

*Anglo American says merger proposal is 'unacceptable'*

BY DANA CIMILLUCA  
AND GUY CHAZAN

LONDON — U.K.-based mining company Anglo American Plc rejected rival Xstrata Plc's proposal to merge and create a \$67 billion giant, setting the stage for what could be a prolonged takeover dance.

Following Xstrata's written invitation last week to discuss an all-stock "merger of equals," Anglo's board responded late Monday saying the proposed deal—which would create the world's third-largest miner by market value, after BHP Billiton and Brazil's Cia. Vale do Rio Doce—is strategically unattractive with "totally unacceptable" terms.

Anglo's strongly worded rejection, which didn't address the possibility of talks or leave the door open to a sweeter offer, appears to leave Xstrata with few options. A number of Anglo shareholders also dismissed Xstrata's offer, under which the two companies' shareholders would each own half of the merged company, saying that if Xstrata wants to do a deal it should pay a premium for Anglo's shares. With its limited capacity to take on more debt, Xstrata would be hard pressed to afford such a move unless it is willing to settle for less than half of the combined company.

## Xstrata

Daily closing share price on the London Stock Exchange

Monday's close:  
635.10 pence, down 6.7%



Source: Thomson Reuters Datastream

Xstrata issued a statement saying it was disappointed with Anglo's "rapid" rejection and "surprised that the Anglo American Board has not seen fit to engage with Xstrata to discuss our proposal in view of the substantial value for both companies' shareholders that would arise uniquely from a merger of the two companies." Xstrata didn't discuss what its next move would be.

A person familiar with the matter said Xstrata, based in Zug, Switzerland, is likely to persevere. One option it is considering is to share with Anglo investors more detail about its rationale for the merger in an effort to convince them of its merits, in a so-called bear hug. Another

person familiar with the matter said Xstrata has told Anglo that combining the companies would mean cost savings of at least \$1 billion.

Hopes for an improved offer from Xstrata helped push up Anglo's shares by 4.6% in London Monday, to £16.98, giving the company a market value of £22.3 billion. The share price earlier reached as high as £18.25. Xstrata shares, meanwhile, fell 6.7% to £6.35, giving Xstrata a market value of £18.7 billion.

In its statement, Anglo indicated its portfolio of mining assets is more attractive than Xstrata's, saying the merger would dilute its exposure to the "structurally attractive" platinum, iron ore and diamond markets, while boosting its exposure to the less-desirable nickel and zinc segments. It also touted its own efficiency plan, which aims to boost results by \$2 billion by 2012.

"It's Xstrata shareholders who have been pushing this deal, as they stand to benefit disproportionately," said Anwaar Wagner, a portfolio manager at Old Mutual Investment Group, an Anglo shareholder. "Anglo is already in the process of making material improvements as an independent company."

Not all Anglo shareholders expressed displeasure with the proposed deal. "We think [a merger is] a very good idea," said James LaTorre of the Harbor International Fund, which owns more than 1% of Xstrata and nearly 1% of Anglo, noting that both companies have coal operations in South Africa and Australia.

# Foreign car makers seen passing Detroit at home

BY MIKE BARRIS

Foreign auto makers will out-produce the Detroit Three in North America by 2012, said auditing firm Grant Thornton LLP in a new report.

The report comes after months of production cuts by global auto makers, which have been battered by sharply contracting demand for cars. But some analysts now see auto-production rates picking up in the second half of the year.

By 2012, General Motors Corp., Ford Motor Co. and Chrysler Group LLC are expected to have reduced their combined North America assembly capacity to 7.5 million vehicles a year, down 35% from 2008.

All other car makers combined are projected to increase their capacity in the region by about 20% to more than eight million units, Grant Thornton said.

German auto makers Volkswagen AG and BMW AG have announced plans to double their combined capacity in North America, adding 500,000 potential vehicles.

Meanwhile, Toyota Motor Corp., Honda Motor Co., Nissan Motor Co. and Hyundai Motor Co. plan to expand their combined capacity by 20%, or nearly one million vehicles.

As such, the company says suppliers will need to increasingly sell their parts to European- and Asian-based auto makers while the auto-

supply industry shakes out from necessary consolidation and deleveraging.

Capacity use in North America should approach 90% in 2012, up from the 75% historical rate, assuming an annual sales rate of 15 million units. This year's depressed sales rate is expected to be about 10 million.

"In light of the dramatic restructurings that will occur over the next several years, North American suppliers have important strategic decisions to make, and the strategy

**Some analysts now see production rates picking up in the second half.**

must be defined and implemented quickly," said Kimberly Rodriguez, co-leader of Grant Thornton's automotive practice.

Separately, the Detroit auto makers managed to increase their new-vehicle quality scores by an average of 10% this year.

Ford, GM and Chrysler reduced the number of troubles reported by consumers during their first 90 days of ownership, according to the annual J.D. Power & Associates Initial Quality study.



Agence France-Press/Getty

Hull City player Giovanni, right, shoots at the goal as Arsenal goalkeeper Lukas Fabianski dives for the ball in a match between two Premier League teams this year.

# ESPN buys broadcast rights to Premier League matches

BY AARON O. PATRICK

ESPN bought broadcast rights to some games on England's Premier League football circuit, potentially establishing the U.S. sports-television network as a major player in Britain, but pitting it against a tough competitor.

ESPN and the league said Monday that ESPN bought the right to televise 46 games next season, which starts Aug. 15, and 23 matches in each of the following three seasons. The league auctioned off the broadcast rights after Irish broadcaster Setanta Sports Holdings Ltd. failed to meet a Friday deadline to pay £10 million (\$16.5 million) it owed the Premier League for the matches.

The deal puts ESPN up against British Sky Broadcasting Group PLC, one of Europe's largest media companies. BSkyB bought the TV rights to most of next season's Premier League matches for £1.6 billion at an auction earlier this year. BSkyB is partly owned by News Corp., which also owns The Wall Street Journal. ESPN is 80%-owned by Walt Disney Co.

In Britain, ESPN operates two channels on cable and satellite TV: ESPN Classic, which primarily shows old sporting events; and ESPN America, its flagship channel.

In a statement, ESPN said it plans to broadcast the Premier League matches on BSkyB's satellite network and other pay-TV networks.



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## CORPORATE NEWS

## GM plans to hold its ad budget steady

Auto maker says it will spend up to \$50 million a month — the same, reduced level of prebankruptcy

BY SUZANNE VRANICA

As General Motors prepares to drive out of bankruptcy court, Madison Avenue is breathing easier.

Late last week, the fallen auto maker said it will maintain an ad budget of between \$40 million and \$50

million a month while in bankruptcy proceedings—much less than in years past, but about the same as in the months leading up to its June 1 bankruptcy filing.

Advertising and marketing firms, which are facing an abysmal ad market, had been anxious about how much GM would spend to peddle its products as it struggled through bankruptcy. It isn't clear when GM will emerge from Chapter 11 protection, though some GM executives and advisers expect it to be a matter of weeks, say people familiar with the matter.

GM says it has ads in production that could appear in July. That marketing effort would be largely online and would include storylines about the "New GM." The ads could feature GM employees, it says.

The company says most of its ad spending will be focused on GM vehicle brands, including Chevrolet and Buick, which are handled by Interpublic Group's Campbell-Ewald and Publicis Groupe's Leo Burnett, respectively.

A spokeswoman for the car maker says its post-bankruptcy ad-spending plans "have not been determined."

GM was long the second-largest advertiser in the U.S. behind Procter & Gamble, shelling out more than \$2 billion for ads annually in recent years, according to WPP's TNS Media Intelligence. But last year, the auto maker



A shot from GM's 'Reinvention' spot, which juxtaposes auto scenes with people in positive endeavors.

slashed its ad outlays, and slipped to No. 3 behind P&G and Verizon Communications. It has continued to cut ad spending for much of 2009 and also cut the fees it pays to its ad firms.

The newly announced spending plans won't fully repair the broader problems GM has with ad conglomerates like Interpublic and Publicis, which are among its biggest creditors. As of May 31, the company owed ad and media-buying firms at least \$167 million, according to court documents. GM owes \$121.5 million to Starcom MediaVest, the media-buying unit of Paris-based Publicis, most of it for media purchases on GM's behalf, Publicis says.

Ad executives at Interpublic and Publicis say they hope the bankruptcy court will give the companies "critical vendor" status, making them eligible to get paid at least a portion of what GM owed them before it filed for bankruptcy protection. Publicis says Starcom's contracts with media outlets stipulates it doesn't have to pay them for ad space until it has been paid by the client.

GM's emerging ad strategy provides a peek into the difficult task GM and its ad agencies face in recasting a company in the midst of one of the highest-profile bankruptcies in history. "This has been the single biggest challenge I have had in my mar-

keting career," says Jay Spencian, executive director of GM's North American marketing strategy.

Leading up to its Chapter 11 filing, GM studied how other industries handled communicating with the public while in financial hardship, zeroing in on airlines and particularly Northwest Airlines, which filed for bankruptcy protection in 2005.

GM found that by using its frequent-flier database and sending email and letters to customers, Northwest, which has since left bankruptcy court and was acquired last year by Delta Air Lines, was able to reassure many customers very

quickly that it would continue to fly.

In a campaign that began airing shortly after its Chapter 11 filing, GM went beyond reassurance. In a TV spot dubbed "Reinvention," created by Interpublic's Deutsch, it acknowledged its problems but painted a more positive picture of the future.

"This is not about going out of business, this is about getting down to business, because the only chapter we are focused on is chapter one," intones the narrator of the ad, which is scheduled to end later this month.

The spot made some people "uneasy," says GM's Mr. Spencian. GM's marketing team alleviated insider's fears about the company's show of contrition with research that showed how well the ad scored in focus groups, he says.

BrandIndex, a firm that tracks consumer's perceptions of more than 1,100 brands, says it has seen a "modest jump" in positive buzz for GM. "The campaign has been far more convincing to women than men" and it is also generating a slightly more positive response with 18- to 34-year-olds than the 35 to 49 crowd, says Drew Kerr, a spokesman for BrandIndex, which is owned by YouGov.

While in bankruptcy proceedings, GM expects to sell its "good" assets, such as the Chevrolet, Buick, Cadillac and GMC brands, to a new company majority owned by the U.S. government.

Its next round of ads—likely to coincide with the company's emergence from bankruptcy—will focus on those brands under the "New GM" theme. "It's the car brands that will carry this company forward," says Mr. Spencian. The company began airing new ads for Buick's LaCrosse sedan last week.

## Ford tries to revive Taurus sedan, once a U.S. best seller

BY MATTHEW DOLAN

Ford Motor Co. is bringing a new Taurus to showrooms this summer, an iconic car that redefined the American family sedan in the 1980s but almost died before the company's chief executive personally revived it.

In late 2006, Alan Mulally took Ford's helm in part because of his respect for the onetime success of the Taurus. But Mr. Mulally said he was shocked that the company decided to pull the plug on the brand by the time he arrived, a move he quickly reversed.

"I have a personal interest in this car," Mr. Mulally said in an interview. He added that he had been impressed with the Taurus product-development team when he met its members while working at Boeing Co. in the 1980s. "It was the flagship then and it's the flagship now."

The redesigned Taurus is set to hit showrooms in August. On the outside is a sleeker, more muscular design, while on the inside it offers an array of technological options, from cruise control that adapts to the flow of traffic to a collision warning system to a voice-activated entertainment system.

"It's a proof-point of the new Ford," Mr. Mulally said.

But analysts say it's highly unlikely the Taurus will be as big a hit as the original version, which once



The 2010 Ford Taurus SHO at the Chicago Auto Show in February. Ford is rolling out a redesigned Taurus, but analysts are skeptical it will be as successful as the original.

was the most-successful Ford car model and at its peak sold more than 400,000 copies a year.

Analysts say the new Taurus is too expensive to attract a mass market, especially in the current economic climate. Prices start at \$25,995, but can top \$40,000 for a loaded version. That's more costly than the large-car segment's leader, the Chevrolet Impala from General Motors Corp. Other cars in the same size range include Toyota Motor Corp.'s Avalon and the Chrysler 300

from Chrysler Group LLC.

With memories of high gas prices still in consumers' minds, it also could be a tough time to convince U.S. buyers to purchase a large, heavy sedan.

"I think Ford is chasing the original Taurus fans with this car, all of which are much older than when that car was at its peak," said Karl Brauer, editor in chief at Edmunds.com, an auto-sales Web site. "The new model seems more like a Ford Town Car targeted at 45-plus drivers rather than

a high-volume family sedan."

Ford has some heavy baggage to unload before it can convince its old customers and new ones that the revamped Taurus is not the same as that bland sedan once encountered at airport rental lots.

When the Taurus debuted in December 1985, there was almost nothing like it from a U.S. maker. Building on the company's recent success with aerodynamic design in Europe, the Taurus made slick styling available at an affordable price.

"This was an American sedan that felt European," said John Wolkniewicz, a former product planner at Ford who now works as an automotive analyst at IHS Global Insight, a forecasting firm.

In 1996, faced with redesigning the Taurus, Ford product planners hung a big sign—"Beat Camry"—in their studios and engineering spaces, targeting Toyota's hugely successful sedan. But Mr. Wolkniewicz said the strategy meant the cost of the restyled Taurus "escalated to the moon," putting it out of reach of many consumers.

The 1996 Taurus used Ford's blue oval logo as a design motif, replicating it in the rear window, interior controls and the car's overall shape. But critics panned the design—Mr. Mulally called it "a football"—and customers abandoned the brand. Sales waned as Ford's Explorer and other

sport-utility vehicles became the new choice of American families.

Ford's branding of its large sedans in recent years further muddied the matter. In 2004, Ford came out with what was supposed to be the Taurus's replacement but called it the Five Hundred instead. Yet the company kept selling the old-style Taurus as well, marketing it only to rental and corporate fleets. A few years later, under Mr. Mulally, Ford reverted the Five Hundred to the Taurus name once again.

Still, Ford is optimistic about the new Taurus. It could be aided by the fact its main competitors, the Chevy Impala and Chrysler 300, are aging and their parents are financially strapped. With GM and Chrysler dealing with bankruptcy and its aftereffects, Ford could be poised to reassume dominance in the large sedan segment, company executives hope.

Ford's global product development chief, Derrick Kuzak, said his team shaved 12 months off the new Taurus program to speed the car to market.

While some industry analysts are forecasting as many as 120,000 Taurus sales a year, Jim Farley, Ford's global vice president for sales and marketing, said the company only expects to increase volume from the outgoing model, which had sales of 52,667 in 2008. "We have humble expectations," he said in an interview.

## CORPORATE NEWS



Under its agreement with British Midland Airways, Lufthansa will acquire an indirect 80% stake in the U.K.-based airline. Lufthansa aims to buy all of BMI.

## Lufthansa strikes a deal

*German carrier sets agreement to acquire BMI, ending dispute*

BY JAN HROMADKO

FRANKFURT—Deutsche Lufthansa AG said it reached an agreement with Michael Bishop, the co-founder of British Midland Airways Ltd., to buy BMI in stages—ending a dispute that has simmered for months.

The deal comes as the airline industry is facing one of its sharpest downturns, with passenger numbers and cargo volumes dropping amid the global economic slump. Lufthansa on Friday issued a profit warning for this year, saying its goal is to avert a full-year operating loss.

Lufthansa, which already owns 30% minus one share of BMI, has been in talks with Sir Michael since October, when he exercised a put option forcing the German carrier to buy his stake of 50% plus one share. The option—which also involved Scandinavian carrier SAS AB, the holder of the remaining 20% stake in BMI—had been in place since 1999.

The two sides had disagreed on the sale price since Sir Michael exercised his right, but have now reached an out-of-court settlement.

Under the deal, Lufthansa will

end up holding an indirect 80% stake in its unprofitable U.K.-based peer. It aims to buy all of BMI once it has made sure it won't fall afoul of U.K. airline-ownership rules.

Lufthansa will pay Sir Michael and his holding company a total of £223 million (\$367.9 million), considerably less than the €400 million (\$558 million) the German carrier put aside for the deal. Lufthansa will cancel the put option by paying Sir Michael £175 million in compensation. A Lufthansa-related U.K. holding company, LHBD Holding Ltd., will then acquire Sir Michael's shares, held by his BBW holding company, for about £48 million, Lufthansa said Monday.

The German airline will initially own a 35% stake in U.K.-based LHBD, but wants to raise the stake to 100% once it has obtained the necessary traffic rights for BMI.

A Lufthansa spokeswoman declined to reveal the identity of the other partners in LHBD but said they are U.K.-based. The U.K. could force BMI to give up some of its traffic rights, if it deems that it is being acquired by a foreign airline.

The Lufthansa spokeswoman said the airline is in talks with SAS. SAS in February said it intends to sell its BMI shares.

If Lufthansa can turn around BMI, the deal could prove lucrative because the British airline is the second-biggest user of London's Heath-

row Airport, after British Airways PLC, holding more than 11% of its takeover and landing slots.

However, the timing of the transaction is a problem. BMI has in recent years "experienced increasing financial challenges" Lufthansa said. "These have been strongly exacerbated by the sharp rise in fuel prices in the past year and the ongoing global economic crisis."

Lufthansa in recent months has made other acquisitions that are under regulatory scrutiny. The European Commission on Monday cleared Lufthansa to buy SN Airholding, the parent of SN Brussels Airlines, with the condition that the carrier give competitors access to four routes. The commission is still investigating a deal for Lufthansa to buy Austrian Airlines AG.

Separately, Virgin Atlantic Airways Ltd. said Monday that it ordered 10 Airbus A330-300s, valued at \$2.1 billion at list prices. Five of the planes are to be delivered in 2011 and the rest are due in 2012. Virgin Atlantic, 51%-owned by Virgin Group and 49%-owned by Singapore Airlines Ltd., currently has 38 aircraft.

Meanwhile, SkyEurope Holding AG, a Central European budget airline, said a Slovak court has granted its Slovak operating unit protection from creditors.

—Adam Cohen, Kirsten Bienk and Kaveri Niththyanathan contributed to this article.

## Wipro sees protectionism in fears of outsourcing

BY AMOL SHARMA

Azim Premji, chief executive of the Bangalore outsourcing giant Wipro Ltd., has become a feisty spokesman for India's tech industry as it tries to counter what it sees as rising protectionism in the U.S.

On a trip to Washington last week, Mr. Premji raised concerns with Obama administration officials—including senior White House economic adviser Lawrence Summers—about legislation circulating in Congress that would restrict Indian companies' ability to obtain temporary work visas, people familiar with the discussions said. He also urged U.S. companies that do business in India to speak up on behalf of the Indian tech industry, taking his case directly to General Electric Co. Chief Executive Jeffrey Immelt, he said.

In an interview, Mr. Premji declined to discuss specific meetings with U.S. officials but said he delivered a stern message that any protectionist moves by the U.S. could spark a major trade dispute with India.

"The message is: Don't generate trade wars," Mr. Premji said. "Without question there would be an Indian response" if the U.S. enacts new curbs on temporary work visas.

A GE spokesman declined to confirm the meeting with Mr. Premji but said, "We are firmly opposed to protectionist language that discourages competition and encourages retaliatory protectionist actions in other countries."

About 60% of India's \$47 billion in technology-services exports are to the U.S., with the financial-services and insurance industries making up the bulk of that business. Overall, U.S.-India bilateral trade is growing and totaled \$45 billion last year, though the two countries have sparred over some sectors. Each side has accused the other of unfair subsidies to farmers, a dispute that helped derail the Doha round of global trade talks last year.

India's recently appointed commerce minister, Anand Sharma, who was also visiting Washington last week, declined to comment on how India would respond to any new U.S. visa restrictions. But he said he brought up the issue with senior administration officials in the context of broader trade talks.

"Commitments don't come in such discussions, but we've sensitized them to the issue," Mr. Sharma said in a brief interview.

The focus for Mr. Premji and other officials from India's software industry is a U.S. Senate bill sponsored by Democrat Richard Durbin of Illinois and Republican Chuck Grassley of Iowa. The measure would introduce new restrictions on temporary visas known as H1-Bs, which are generally given to foreign workers in specialty fields like medicine, engineering, software, architecture and finance.

Those visas help U.S. companies such as Microsoft Corp. and Cisco Systems Inc. bring in needed engineering talent from overseas. But Indian companies, including Wipro, are among the biggest users of the H1-Bs. In fiscal 2008, large Indian firms were the top four H1-B recipients, with a combined 10,693 visa grants. Under the program, 65,000 H1-B visas are granted annually, plus another 20,000 for workers with an advanced degree from a U.S. university. Some visa

grants, such as renewals, don't count toward the cap.

Messrs. Grassley and Durbin say foreign companies abuse the program by sending workers into the U.S. to do jobs that Americans would be capable of doing. They also say the foreign companies are effectively facilitating the transfer of U.S. jobs overseas by using their H1-B personnel to gather information at client sites that helps them carry out major outsourcing contracts abroad with their low-cost workers.

The most controversial provision in the Senate legislation would require companies with more than 50 workers in the U.S. to have no more than 50% of their staff on H1-B visas or LI-visas, which are for intracompany transfers from abroad.

Mr. Premji and other Indian tech executives say that would effectively bar them from applying for any more temporary visas. He says the legislation should tackle outright fraud by visa applicants but not meddle with the Indian business model.

A spokeswoman for Sen. Grassley said the legislation doesn't single out Indian companies because the language applies to all applicants for H1-Bs. A White House spokesman didn't respond to requests for comment.

Mr. Premji's sharp language on protectionism is striking given his soft-spoken nature. The silver-haired, 63-year-old executive took over Wipro at the age of 21 when it was a maker of cooking oils and built it into a tech giant with \$5 billion in revenue. While some top Indian executives flaunt their wealth, Mr. Premji flies economy class domestically and drives a Toyota Corolla. He keeps his schedule on a small piece of paper that he folds several times and keeps in his jacket pocket.

The visa legislation is awaiting action in the Senate Judiciary Committee, and congressional aides and lobbyists said it is likely to move only as part of broader immigration reform, which is taking a backseat to major White House efforts on health care and financial regulation.

After several years of filling up quickly, this year's H1-B quota still hasn't been met, reflecting decreased demand by U.S. and foreign firms during the economic downturn. When executives from the Confederation of Indian Industry met with House Foreign Relations Committee Chairman Howard Berman (D., Calif.), they were told that the visa issue isn't on the front burner and they shouldn't worry, people familiar with the meeting said.

Mr. Premji said he is taking preemptive action, given what he says are the populist pressures.

President Barack Obama and members of Congress face U.S. unemployment hovering at 9%. Some new H1-B visa curbs were put in place in February for companies that received U.S. funds through the Troubled Asset Relief Program. And some of Mr. Obama's rhetoric—including his remark in May that the U.S. tax system levies "lower taxes if you create a job in Bangalore, India, than if you create one in Buffalo, N.Y."—worries India's business community, Mr. Premji says.

"It's important we are overprepared, not underprepared," Mr. Premji said. Part of that preparation involves hiring more U.S. employees, just in case the 50% rule becomes law.



Azim Premji

## China raises taxes on cigarettes

BY GORDON FAIRCLOUGH

SHANGHAI—China has raised levies on cigarettes, according to the official Xinhua news agency, in a move touted by some state media as an effort to curb smoking. It's not clear how much of an impact the tax increases will have, however, in a country with more smokers—roughly 350 million—than the U.S. has citizens.

Beijing's tax agency divides cigarettes made by state-owned tobacco manufacturers into different classes, based on their price. The consumption tax on one class of higher-priced smokes is rising to 56% from 45% of the price cigarette factories charge distributors. The tax on a class of less-expensive cigarettes will increase to 36% from 30%, Xinhua said. A tax of 5%, which is assessed on the price of the cigarettes as they are sold by wholesalers to retailers, is also being imposed, Xinhua said.

It is unclear how much the added levies will affect the price smokers must pay. So far, retail prices haven't changed, tobacco industry officials and retailers have said.

Public-health advocates have long urged China to aggressively raise cigarette taxes in order to push up prices. But the Chinese government, which earns significant revenue from tobacco sales, has resisted any sudden, sharp increase.

Higher prices for cigarettes are one of the most effective ways of reducing smoking rates, especially among more price-sensitive consumers, such as teenagers. Because smokers are addicted to cigarettes, they tend to be less responsive to price increases than consumers of other goods.

The World Bank estimates that in developing countries, such as China, where people have less disposable income, a 10% increase in

the price of cigarettes would translate on average into an 8% drop in cigarette consumption. That's good news for governments, since, in the short to medium term at least, they can earn more tax revenue, even as cigarette consumption declines—reaping both fiscal and public-health benefits.

"Whether it will affect the retail price, we still need to wait and watch," said Jia Kang, director of the Institute for Fiscal Science Research, a think-tank affiliated with the Finance Ministry. He said he expects tax increases to be passed along to consumers, eventually. "If the tobacco companies don't transfer the tax to consumers, it will be meaningless" for public health, Mr. Jia said.

One thing, however, is sure, Mr. Jia said, The tax increase will help offset a drop in government revenue, which in the first five months of the year fell 6.7% from the same period in 2008.

## CORPORATE NEWS

# Siemens expects lift from stimulus

German titan eyes \$21 billion in orders from global spending

BY PAUL GLADER

Industrial conglomerate Siemens AG of Germany said it expects to land about \$21 billion in new orders globally as governments seek to help industries cut energy consumption. The company could receive \$8 billion in revenue from the U.S. stimulus-spending plan alone.

"These government measures are at least partially cushioning, in some cases, sharp declines in private-sector demand," Siemens President and Chief Executive Peter Löscher said in a statement. "They should also have a stabilizing effect on our business."

Siemens expects governments world-wide to spend \$623 billion on infrastructure projects during the next three years, part of an estimated \$2.7 trillion of global stimulus spending. Most of the remaining stimulus monies will fund tax cuts.

Siemens estimates it is vying for about \$208 billion of the global stimulus spending. In the U.S., Siemens thinks it can compete for \$110 billion of the \$787 billion in the American Recovery and Restoration Act that Congress passed in February.

George Nolen, president and CEO of the U.S. subsidiary, Siemens Corp.,



German Economy Minister Karl-Theodor zu Guttenberg, left, joins Siemens CEO Peter Löscher at the opening of a Siemens gas-turbine plant in Berlin last month.

said the company expects stimulus spending to boost orders for its products such as "smart grid" utility systems, wind-power turbines and mass-transit technologies.

Mr. Nolen said mass-transit projects are picking up in cities such as Denver and Salt Lake City and his company is seeing more inquiries for proposals that rely on stimulus spending. The company also wants to be a large player in green buildings, by installing solar panels as well as heating, air-conditioning and lighting systems that manage energy more efficiently.

Siemens has laid off some employees in the U.S., where it has 69,900 employees, but the company added about 625 jobs and spent \$100 million during the past three months to open or expand factories to make energy-efficient technologies.

Siemens reported a 43% rise in operating profit in its primary energy and health-care units in the most recent quarter. It expects to earn at least €8 billion (\$11.16 billion) this year. The company is cutting costs as demand is down for some of its industrial equipment. Net income more than doubled to

€962 million for the first quarter. Sales rose 4.8% to €18.95 billion.

Siemens wants to challenge main rival General Electric Co. as a "green infrastructure giant," said Nicholas Heymann, an analyst at Sterne Agee in New York. He said Siemens has high labor costs in many markets where it operates but is expanding a "short workweek" program by June as a way to manage costs.

"Siemens's ability to surprise may rise as economic conditions remain challenging and the benefit of the company's expanding productivity programs gain further impact," Mr. Heymann said.

GE, of Fairfield, Conn., estimates it is positioned to garner as much as \$100 billion in stimulus spending on big-ticket items such as health-care technology and renewable-energy projects, but isn't saying how much revenue it expects to receive this year.

Globally, GE Chairman and CEO Jeff Immelt has said an additional \$400 billion in government "green" stimulus spending is coming in the next three years. The company estimates \$2 trillion in global infrastructure spending will happen in coming years. GE in recent weeks has announced a flurry of energy deals with foreign governments from Iraq to China.

"I think we will do better than most on the stimulus," Mr. Immelt said in April when the company released first-quarter earnings. "That is a little bit of 2009, but I really look at that more as 2010 and 2011."

## GLOBAL BUSINESS BRIEFS

### Independent News & Media PLC

#### Newspaper publisher seeks rights issue to repay bond

Newspaper publisher Independent News & Media PLC proposed to lenders that it issue a deeply discounted rights issue to help repay a bond and avoid breaching its banking covenants. The Dublin-based company also said Monday that it expects to get an agreement to further extend repayment of its €200 million, or roughly \$275 million, bond until July 24. The current standstill agreement is due to expire Friday. The publisher is struggling under the weight of £1.3 billion (\$2.1 billion) of net debt.

### Segro PLC

Industrial-real-estate investment trust Segro PLC said it agreed to acquire indebted rival Brixton PLC, the owner of industrial and logistics property near London's Heathrow airport, in an all-share offer valuing the company at about £107 million (\$176.5 million). Segro will offer 1.75 of its own shares for each Brixton share, valuing Brixton at 39.4 pence a share. Segro added that it will need to raise as much as £250 million in additional capital via a share issue. Shares in Brixton fell 30% to close at 43.5 pence in London after the offer was announced Monday. "The level at which the offer is pitched is clearly below what the market had hoped for," said Michael Burt, an analyst at brokerage Noble Group.

### Sibir Energy PLC

Oil producer Sibir Energy PLC said Monday it has reappointed Stuard Detmer as chief executive at the request of OAO Gazprom Neft, reversing a board decision taken last week—the latest move in a battle for control of the oil company between factions within Russia's government. Gazprom Neft, the oil arm of Kremlin-controlled OAO Gazprom, moved Friday to take operational control of Sibir by appointing a company insider, Igor Tselman, as the new CEO. But Gazprom Neft—Sibir Energy's biggest shareholder, with a 34% stake—reversed the move Monday and is in talks with the remaining shareholders "to manage" Sibir Energy, said Gazprom Neft CEO Alexander Dyukov. The Moscow city government owns 18% of the company, while business tycoons Chalva Tchigirinsky and Igor Kesaev each hold 23.5% stakes.

### Carrefour SA

Israel-based holding company Koor Industries Ltd. said Monday that it will invest 3.5 billion shekels (\$884.8 million) in French retailer Carrefour SA. Koor said it has already started the investment process and has invested 284 million shekels in Carrefour shares so far. In the past year, Koor has been investing in European companies, including Credit Suisse Group. During the first quarter of 2009, 163 million shekels of Koor's total net profit of 250 million shekels resulted from the buying and selling of Credit Suisse shares. France-based Carrefour is the world's second-largest retailer by sales after U.S.-based Wal-Mart Stores Inc.

—Compiled from staff and wire service reports.

# Apple's latest iPhone makes strong debut

BY TESS STYNES

Apple Inc. said it sold more than a million units of its iPhone 3G S in the first three days, defying predictions that it wouldn't reach the level of its predecessor's launch.

The iPhone 3G S went on sale Friday in the U.S. and seven other countries. Piper Jaffray analyst Gene Munster predicted last week that Apple would sell 500,000 new iPhones over the weekend, down from the one million 3G versions sold last year on its launch weekend. The lower expectations in part were because the new 3G S was released in fewer countries and offers less dramatic changes.

"Customers are voting and the iPhone is winning," Apple Chief Executive Steve Jobs said in a prepared statement Monday. It was the first time he was quoted in a company news release since he went on medical leave in January. The Wall Street Journal reported Saturday that Mr. Jobs had a liver transplant two months ago in Tennessee. He is

expected to return to work on schedule later this month, though he may work part-time initially.

Apple also said Monday that six million customers downloaded its new iPhone 3.0 software in the first five days since its release.

Earlier this month, Apple cut the price of its entry-level iPhone 3G in half, to \$99, and rolled out the next-generation model for \$199 to \$299, looking to sustain the momentum for its popular smart phone amid the recession and renewed competition.

Steady streams of customers into Apple stores over the weekend suggested consumer interest in the iconic smart phone remains high since the first version was released roughly two years ago, despite increasing competition from Research In Motion Inc.'s BlackBerry and Palm Inc.'s recently introduced Pre.

Adding to the competition, Deutsche Telekom AG's T-Mobile USA said Monday it planned to release in early August the follow-up to its first Google phone. The myTouch 3G touch-screen phone will lack the physical keyboard of the T-Mobile



The iPhone 3G S, above, went on sale Friday in the U.S. and seven other countries. Apple said it sold more than a million units in the first three days.

GI, the first phone that used Google Inc.'s Android software. It will cost \$199 with a two-year contract.

The myTouch looks much like an iPhone and has many of the same features. It will ship with software that

allows it to connect to corporate email servers. Such software became available for download to the GI some months after it launched.

—The Associated Press contributed to this article.

# NAB to acquire some of Aviva's assets

BY ANDREW HARRISON

MELBOURNE, Australia—National Australia Bank Ltd. said it has agreed to buy some of Aviva PLC's Australian business for 825 million Australian dollars (US\$665 million) to expand and enhance its own wealth-management business.

The purchase is expected to add to earnings per share and return on equity in its first full year after ac-

quisition, excluding estimated integration costs of A\$125 million, the bank said.

Before completion, Aviva's Australia unit will pay a A\$40 million dividend and also will pay a net asset adjustment of A\$60 million after the deal is completed, taking total proceeds for Aviva to A\$925 million, the largest U.K. insurer by market capitalization said in a statement.

National Australia Bank is seek-

ing to boost earnings from wealth management and insurance to offset bad debts and slower loan growth.

The bank will acquire all shares in Aviva Australia Holdings Ltd., which includes Norwich Union life insurance, Navigator investment platform operations and strategic stakes in four independent financial advisory firms. Morgan Stanley and J.P. Morgan Chase & Co. managed the sale.

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SPECIAL ADVERTISING SECTION

## ROMANIA

## Country has array of reform options for aiding economy

By Catherine Bolgar

COMPARED with its Eastern European neighbors, Romania has lagged at the back of the pack, slow to embrace economic reforms, joining the European Union only in 2007. With a global economic downturn in full swing, Romania again is late: Its economy hasn't yet contracted for two consecutive quarters, the official definition of recession.

"Being a laggard in reforms is now an advantage," says Liviu Voinea, executive director of the Group of Applied Economics, or GEA, an independent think tank in Bucharest.

Romania's lean neighbors have no fat left to cut, while Romania has a wide array of reform choices to rev up the economy, he says. When its neighbors built roads and pipelines, Romania didn't. Plowing money into infrastructure investment is a tried-and-true means of stimulating an economy, and Romania needs the infrastructure, he points out.

"Problems are opportunities," agrees Matei Paun, managing partner of BAC Investment Bank, a Bucharest-based regional investment bank, and one of the founders of the Romania Think Tank, an independent organization based in Bucharest. "Take infrastructure development. Someone at some point is going to get their act together and make money out of this."

Though Romania isn't yet officially in recession, it's likely to be by the end of the second quarter. The International Monetary Fund predicts Romania's gross domestic product will contract 4.1% in 2009, but some economists expect worse. The global slowdown has crimped Romania's exports, especially for its big automotive sector, and the financial crisis has dried up credit.

Romania received a €19.9 billion international bailout in early May, including a €12.9 billion IMF loan and €5 billion from the EU. The IMF agreement includes several measures Romania must undertake to shore up its economy, including reducing the budget deficit, setting inflation

targets and recapitalizing banks.

Romania "is going through a tough patch but it's not one of the big catastrophes," says Anders Aslund, senior fellow at the Peterson Institute for International Economics, a non-partisan research institution based in Washington. "It's not doing worse in terms of economic growth than Europe in general. Romania doesn't look all that bad."

Romania's government, elected in November, "is much more accommodating toward good economic policy than the previous one," Mr. Aslund adds.

The previous government "stimulated the economy when it was booming," cutting taxes while raising wages and pensions, says GEA's Mr. Voinea. "It was a missed opportunity for savings in good times."

The lack of resources ties the new government's hands to an extent, he says, but the previous expansion of the public sector means there's plenty to cut. In the past four years in the public sector, employment rose 15% and wages doubled as a percentage of GDP, Mr. Voinea notes.

Romania's government, elected in November, "is much more accommodating toward good economic policy than the previous one."

Each profession in the public sector — teachers, police, etc. — has its own wage act. The country's trade unions have agreed to negotiate a new wage act that will cover all public-sector jobs and potentially create savings.

Romania's EU membership also presents opportunities. The EU provides grants to help new members reduce disparities with the overall union. Romania has been allocated nearly €20 billion over 2007-2013. Some €445 million will help develop modern broadband networks and e-services. And €5.3 billion will go to new infrastructure, including 1,400 kilometers of new roads.

However, Romania's EU fund absorption rate, or the rate at which it uses EU grants, has been in the single digits, far below



EU investment of €5.3 billion should help Bucharest solve its traffic congestion problems and boost the country's road infrastructure.

GETTY IMAGES/TIM E. WHITE

that of its neighbors.

Romania lacks major transport routes traversing the country from north to south and from east to west. It has spent little in the past five years on new hospitals or new sources of energy. As Mr. Voinea puts it: "We have large efficiency reserves [ways the economy could work better], so we can improve in this area."

Romania also has large reserves of consumer appetite. Consumer spending and exports were the main drivers of the eight-year economic boom that dried up last fall. But even if Romans went overboard with credit, they didn't satisfy all their needs or desires. Consumption levels remain far below those in the rest of the EU, meaning that Romania, already one of the EU's bigger markets with 20 million people, has lots of pent-up demand that can translate into strong long-term sales for multinational corporations looking for high-growth markets.

Romania's position as an exporter of outsourced goods is likely to strengthen as the crisis subsides. It is one of the lowest-cost producers in the EU. Though some Asian destinations may be less expensive, Romania offers high quality, a skilled work force and intellectual-property protections.

"Romania will become much more [of a] subcontractor country that produces various things for the EU market," Mr. Aslund of the Peterson Institute says. After the global crisis ends, "in my opinion, Romania will easily get on track to European convergence."

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REUTERS/Francois Lenoir



Romania's President Traian Basescu (left) and Prime Minister Emil Boc.

## ECONOMY &amp; POLITICS

## Independents cool to Obama

U.S. voters who don't identify with either party grow more anxious about spending

BY GERALD F. SEIB

Independent voters are the canaries in the coal mine of American politics, telling a leader whether the air is safe or starting to fill up with some toxic gases.

Bearing that in mind, U.S. President Barack Obama and his team ought to start worrying about the health of those canaries.

While the president remains generally popular, his standing has eroded noticeably among political independents in recent weeks. That slide, among a set of citizens central to Mr. Obama's sizable victory in last year's election, means he has reached a politically hazardous juncture at the midpoint of his first, exceptionally hectic year.

The shifting attitude among independent voters, in fact, is the most significant change to emerge from a Wall Street Journal/NBC News poll, completed just last week. In that survey, Mr. Obama's job-approval rating among Americans overall slipped a notch, to 56% from 61% in April. That's not much of a drop, and is in keeping with the pattern for a new president at this point in his term.

But the slide was much more pronounced among self-identified purely independent voters—that is, Americans who express no loyalty to either party.

Among these people, who tend to reside in the middle of the ideological spectrum, the president's job-approval rating fell to 45% from 60% in April.

The drop is the result of a "much more critical evaluation by these voters of President Obama" than in the administration's earlier months, Democrat Peter Hart and Republican Bill McInturff, directors of the Journal/NBC News poll, write in their analysis of the findings.

In particular, the survey suggests, independents are developing gnawing fears about government spending. They are markedly more worried about the federal budget deficit as an economic issue than are Americans in general, and they are more likely to be skeptical of Mr. Obama's plan



Independent voters, who went for U.S. President Barack Obama in last year's election 52%-44%, are starting to see him as more liberal, a poll indicates.

for a health-care overhaul.

Above all, though, independents are starting to simply view the president as more liberal than they expected. The share of independents who say Mr. Obama is a liberal has risen to a substantial 64% from 46% two months ago. A large portion of them actually classify him as "very liberal." That's a particular problem because independents tend to view themselves as center-right—78% call themselves moderate or conservative—so they see a president moving to the left of where they are.

"This is a clear and important danger for him," says Mr. Hart, the

Democratic pollster. Independents, he adds, don't seem to worry so much that Mr. Obama is trying to tackle too many issues, but rather that "this administration is leaning much more left than they expected" as he handles those issues.

Of course, there also are more positive elements for the president in this picture. He remains personally popular among many independents; almost seven in 10 say they like him personally. "He is doing just fine with independents on a personal basis," Mr. Hart says.

In addition, any doubts among independents about the Obama

agenda aren't translating into much love for Republicans and their ideas. Only 18% of independents say they have positive feelings about the Republican Party. Moreover, some of the wavering among independents is to be expected from a group of Americans who are, by definition, not rooted in loyalty to any party or leader, and hence very fickle.

Still, independents are a crucial slice of the public. They make up about a fifth of the American electorate, and they tend to mirror America's broader demographics.

They also tend to decide most elections, and they went for Mr. Obama last year by a 52% to 44% margin. Their attitudes are of great long-term importance to Democrats' hopes that the 2008 vote was a transforming election that will usher in a durable Democratic majority.

Indeed, the broad contours of the 2008 vote were shaped by waves of previously independent voters who switched to calling themselves Democrats. They acted and voted that way last fall, which was a principal reason Mr. Obama became the first Democrat to win a majority of the popular vote in a presidential election in 32 years.

But Democrats were renting those voters last year; they don't own them, at least not yet. As a purely political matter, they remain up for grabs in many ways. Independents who moved toward Mr. Obama last year, and away from him now, could easily swing back toward him down the line.

Mr. Hart says independents want to see that the president is providing "a vigilant government, not a controlling government." And as with so much in the early stages of the Obama presidency, the economy's recovery likely is the key to Mr. Obama's long-term standing with independents. A durable economic recovery will make concerns about the deficit recede, and make an overhaul of the health system seem more affordable. Without that kind of economic recovery—well, everything will be hard, with independents as well as others.

To see results of the latest Wall Street Journal/NBC News poll, go to [WSJ.com](http://WSJ.com).

## German firms say economy will improve

BY MARCUS WALKER AND NINA KOEPPEN

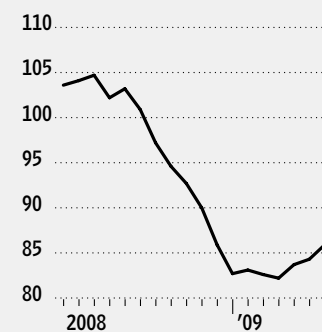
BERLIN—German companies are becoming more hopeful about their outlook, but rising unemployment and a dim assessment of current business conditions are damping hopes of a quick recovery.

The Ifo survey of German business confidence rose for the third straight month, to 85.9 in June from 84.3 in May, driven by firms' rising optimism about an economic improvement later this year. "The survey results confirm that the German economy is gradually stabilizing," said Hans-Werner Sinn, president of the Ifo economics institute in Munich.

However, firms' assessment of their current business situation grew gloomier, with that component of the Ifo survey falling to a low of 82.4. That means the recovery isn't here yet, said economists.

## Signs improving

An Ifo survey of German companies shows that the business climate is improving.



Source: Ifo Institute for Economic Research at the University of Munich

The German economy shrank by an unprecedented 3.8% in the first quarter of 2009 compared with the previous quarter, battered by a collapse in global demand for German manufactured goods.

The latest hard data from German industry suggest business activity is still contracting, but at a slower pace than earlier this year.

"We've seen the first signs of hope, but you can't call it any more than that," said Martin Lueck, economist at UBS in Frankfurt.

German gross domestic product is widely expected to fall by around 6% this year. The German finance ministry said the pace of the slump slowed in the second quarter, but warned that a return to meaningful growth depends on a pickup in German exports, which isn't expected before 2010.

In the meantime, the government said it expects "considerable deterioration" in the labor market during the rest of this year. The number of jobless is expected to rise to an average of 4.6 million next year, compared with an expected average of 3.7 million this year, the government said. Rising unemployment could drag down consumer spending, which has been stable so far in this recession, just as global demand improves, economists say.

In Sweden, meanwhile, a central-bank survey found Swedish companies are also "cautiously optimistic" that business activity is starting to stabilize but firms are anxious about potential setbacks. The Swedish central-bank report said Swedish banks are easing their credit conditions for domestic firms.

## Strikes spread in U.K., and Total workers march

BY ANGELA HENSHALL

LONDON — More than 600 laid-off contract workers demonstrated outside Total SA's Lindsey oil refinery in eastern England Monday, burning letters sent to them requesting that they reapply for their jobs.

Wildcat strikes at energy plants, meanwhile, spread across the U.K. to other facilities. More than 2,200 contract workers are thought to have downed tools in support of the Lindsey workers, who were laid off by Total last week after a series of unofficial strikes over job losses.

This is the third episode of rapid industrial action to hit the U.K.'s energy industry in five months, but the strikes have so far failed to affect output from plants, companies say.

The speed of the action has been attributed to the increased use of mobile technology and social-networking sites to mobilize workers.

"Neither the companies nor the unions concerned can accept illegal, unofficial strikes called without any democratic ballot," Total said in a statement. The main contract company involved at Lindsey, Jacobs Engineering Group Inc., has declined to comment.

In spite of government pressure to resolve the dispute quickly, unions said they are planning another large demonstration outside the Lindsey site Tuesday.

The Unite union's assistant general secretary, Les Bayliss, said he believes Total's refusal to negotiate has fanned the flames of the dis-



Workers demonstrate outside the Total Lindsey Oil Refinery in northern England Friday, a day after hundreds of striking construction workers were laid off.

pute. "It's time for Total to get serious about seeking a resolution to the problems at Lindsey. Its behav-

ior so far has only served to heighten the unofficial dispute," said Mr. Bayliss.



## ECONOMY &amp; POLITICS



Former Guantanamo detainees, left to right, Khelil Mamut, Ablakim Turahun, and Salahidin Abdulahat eat ice cream at a shop on the island of Bermuda.

## Bermuda premier faces scrutiny over detainees

*Amid new pressures on an old tax haven, a Guantanamo deal*

BY PAULO PRADA

HAMILTON, Bermuda—Bermuda's top elected official survived a vote of no-confidence after a 14-hour parliamentary debate over the weekend, but Prime Minister Ewart Brown remains the focus of fiery debate over what led him to accept four freed prisoners from the U.S. detention facility in Guantanamo Bay, Cuba.

Mr. Brown, in an interview, said the decision was "the right thing to do" and that he was happy "to be of help to the United States and to President Obama."

In recent days, he has called the move a "humanitarian gesture," considering that the former detainees, Uighur Muslims from western China, can't return to their homeland, where the government considers them a separatist threat.

Yet some observers here say that by cozying up to the Obama administration, Mr. Brown hopes to gain leverage for Bermuda as the U.S. looks to tighten rules on overseas tax shelters.

Mr. Brown has also stoked an old debate over independence for the island by making the decision without consulting Bermuda's territorial overseers in the U.K. or the British-appointed governor on the island.

"He's looking for Brownie points with Obama and at the same time trying to make the British get angry," said Ed Rainor, a 68-year-old diesel mechanic, discussing the Uighur transfer with a group of friends at Albouy's Point, a small waterfront park in Hamilton, Bermuda's capital.

Mr. Brown, like most Bermudians, has long navigated the cultural and political divides characteristic of the territory, a verdant and costly island east of the Carolinas.

A native of the island, Mr. Brown, 63 years old, is also a former citizen of the U.S., where he studied and practiced medicine in Washington and Los Angeles. Bermuda itself, while a member of the Commonwealth, depends on the inflow of American tourists and dollars from U.S. companies, many of which take advantage of its lack of corporate taxes.

Mr. Brown's decision to accept

the Uighurs, who were cleared of any suspicion by the U.S. and are now living freely in a guesthouse near Bermuda's airport, unleashed an outcry from critics enraged that he didn't first consult British authorities—or even his own cabinet. Bermudians learned of the decision on June 11, the morning after the Uighurs were flown here.

Last week, hundreds of protesters called for the premier's ouster in marches through downtown Hamilton. Signs read "good deed, wrong way," expressing displeasure not with the arrival of the former detainees, but with what protesters said was the premier's failure to govern with transparency.

Mr. Brown has enacted policies without sufficient public discourse since he took office in 2006, critics say.

Mr. Brown says his style is "assertive," but also that the decision to take the former Guantanamo prisoners conforms to his government's interpretation of the constitution.

Over the weekend, public speculation turned to the prime minister's motives. Some say Bermuda could press the U.S. for money it has long sought to clean up waste, including fuel spills, at abandoned facilities that the U.S. Navy once used on the island. But most say Mr. Brown wants to use the move to win Bermuda concessions ahead of any U.S. crackdown on offshore tax shelters.

During last year's U.S. election, Barack Obama campaigned on a promise to pursue such measures. A "Stop Tax Haven Abuse Act," now proposed in both houses of Congress, lists Bermuda as one of 34 overseas shelters that could be targeted for sanctions. A White House spokesman said Bermuda was offered no inducements to accept the Uighurs. After objections from the British government to his acceptance of the Uighurs, a move London says is under its authority as foreign and security policy, many Bermudians said they believe Mr. Brown is trying to push for the eventual goal of independence.

Though Bermudians have rejected votes on independence in the past, Mr. Brown and other leaders in the ruling party believe independence should eventually happen. "It's always on the agenda but not always on the front burner," he said. "When issues like this come up, it moves to the front."

# Hawaii unfazed by missile threat

By Stu Woo

POLIHALE STATE PARK, Hawaii—In Washington, officials are keeping a close eye on Hawaii amid concerns that North Korea will fire a missile at the state.

But in Hawaii itself, Paula Rego isn't worrying. As she sits on a beach here on the westernmost point on the island of Kauai—Hawaii's closest publicly accessible spot to North Korea, which is 4,500 miles northwest—the 37-year-old resident has more pressing concerns. One is comforting Noah, her sobbing 2-year-old son, who was just whacked with a toy lightsaber by his older brother.

Mrs. Rego and her family are part of a group of 21 people from five families who camped at this state park for Father's Day. "By the time you know you're in an earthquake, it's too late to do anything about it," says Mrs. Rego, a former California resident. "It's the same thing with a missile."

Reports that North Korea is planning to test-fire a missile with a 4,000-mile range toward Hawaii around July 4 have prompted U.S. officials to beef up defenses around the islands, a sign of the escalating tensions between the U.S. and North Korea over Pyongyang's recent moves to restart its nuclear-weapon program. But on Hawaii, many residents are indifferent, going about their daily lives and expressing more concern about issues such as the state's weak economy.

The islands' laid-back culture gets partial credit for the nonchalance about the missile. "There's a saying on this island," says Andrew Rego, Paula's husband and a Kauai native. "If can, can. If no can, no can." Translation: There's no point in fretting over what is beyond control.

Many residents don't believe North Korea will risk a missile



Nathan Rego, left, and Tyler Lewis play at Polihale State Park on the Hawaiian island of Kauai, joined by Noah and Isaac Rego, far right.

launch for fear of American retribution. Some say they think the country lacks the technological know-how to send a missile across half the Pacific Ocean, given previous missile-test failures. North Korean long-range missiles have failed three tests in the past 11 years.

Though the North Korean missiles don't carry warheads, the U.S. nonetheless doesn't want any country—let alone a hostile one—to fire its missiles toward American territory. And some U.S. officials favor shooting down an incoming missile to demonstrate American capabilities in case of actual hostilities as a deterrent.

Residents are confident the U.S. military is taking measures to protect Hawaii, especially given that the state's Pearl Harbor was attacked in World War II. Maj. Gen. Robert G.F. Lee, who as Hawaii's adjutant general directs the state's Army and Air National Guard, says Hawaiian residents and tourists aren't in danger. "I'd encourage visitors to visit our state," he says. "You will not be at risk."

Hawaii residents have other concerns, such as finding or keeping jobs. The state's tourism industry has been slammed by dual recessions in the U.S. and Japan. Unemployment in the state is at a 30-year high of 7.4% and rising. To close a massive budget deficit, Hawaii's governor has proposed cutting state employees' salaries 14% by furloughing them for three Fridays a month.

At the beach, the Regos were holding a Father's Day campout with four other families. The families knew of the missile threat, but that didn't deter them from setting up beach umbrellas and a half-dozen tents. "We're defying him," Mr. Rego jokingly says of North Korean leader Kim Jong Il.

As the sun sinks toward the horizon, Mr. and Mrs. Rego sit on the sand with Lissa Lang and Lisa Lewis to watch the sky turn a brilliant orange. They joke about facing annihilation as they look west toward North Korea. "At least we'll be at ground zero and we'll be done with quickly," Ms. Lang says. "We'll have a good sunset."

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## ECONOMY &amp; POLITICS

# EU expansion fosters stability, Bildt says

## Swedish minister hopes to revive Turkish candidacy

BY MARC CHAMPION

Expanding the European Union has few bigger fans than Sweden's foreign minister, Carl Bildt. But as Sweden takes over the bloc's rotating presidency from the Czech Republic for the second half of this year, even he is cautious about what he can do.

Mr. Bildt, who spent the 1990s in efforts to resolve the wars of Yugoslavia, says he still believes enlargement remains the EU's most effective foreign-policy tool and the key to stabilizing its neighborhood,

from the Balkans to the Caucasus.

"If we were to fail in our own neighborhood there is no question it would damage our credibility in the U.S. and in the rest of the world," said Mr. Bildt in an interview. The EU has to play to its strengths, because it doesn't have the military capacity to project large-scale force the way the U.S. can, he said.

Mr. Bildt said he hoped to push along the process of getting Montenegro and Albania, two relatively poor Balkan nations, on track for their candidacies, and to revive at least some parts of Turkey's troubled EU membership bid over the next six months.

But with xenophobic parties doing well in European Parliamentary

elections this month and the leaders of major EU countries such as France and Germany regularly arguing against the admission of Turkey in particular, Mr. Bildt acknowledged that the EU's "magnetism" has been weakened lately. He said a public debate over Turkish membership was needed in the EU, so those in favor of having it join can be heard, too.

Croatia had hoped to join the bloc by the end of this year, but that target is now in jeopardy because of a minor border dispute with neighboring Slovenia.

Already an EU member, Slovenia can block Croatia's admission. Asked if he would try to get the EU to intervene, Mr. Bildt said no.

The same went for Macedonia,

whose membership bid is being held back by a dispute with Greece over its name. EU member Greece maintains that Macedonia is the name of a region of northern Greece, and therefore could imply territorial designs by its ex-Yugoslav neighbor just to the north. Mr. Bildt said long experience in the Balkans had told him that the countries themselves need to work out such bilateral disputes.

Still, Mr. Bildt remains a committed fan of using the promise of EU expansion to reach some 100 million neighbors in Turkey and the Balkans, as well as 80 million more in a new so-called Eastern Partnership that he helped launch this year, touching countries from Ukraine to Azerbaijan. He notes that Iceland, hit hard by the financial crisis, could join very quickly, if, as expected, its parliament votes to apply. That, he

said, would give the EU a bigger voice in deciding resource and other issues related to the Arctic circle.

One thing that won't be on the agenda over the next six months for the first time in a while, says Mr. Bildt, is "fixing" the EU's relations with the U.S., which he describes as "the best in living memory." He noted that the EU and the Obama administration were closely aligned on most big foreign-policy issues, including Iran, the Middle East and Afghanistan.

Separately, Mr. Bildt explained the EU's recent decision not to loan Ukraine \$4.2 billion that both Kiev and Moscow have asked for, to enable Ukraine to pay its gas bills and fill up its huge reserves to secure supplies to customers in Ukraine and the EU over the winter. European Commission President José Manuel Barroso recently warned of another gas crisis "within weeks."

Mr. Bildt, a former conservative Swedish prime minister, said a number of questions need to be answered first, including Ukraine's ability to pay, whether the sums Russia's OAO Gazprom is demanding are contractually justified, and how much gas is already in Ukraine's reserves. Both Gazprom and the Ukrainian government are short of cash right now, Mr. Bildt said, and EU officials are being dispatched to nail down what's justified.



Carl Bildt

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**DOW JONES**

## Pentagon official heads to Beijing and then Seoul

ASSOCIATED PRESS

BEIJING—A U.S. Defense Department official is headed to Beijing for talks amid the tensions in the region over North Korea's missile and nuclear-weapons programs.

Defense Undersecretary Michèle Flournoy will lead the U.S. delegation for the U.S.-China Defense Consultative Talks on Tuesday and Wednesday, the U.S. Embassy said, without providing information on the agenda.

Ms. Flournoy is then scheduled to travel to South Korea for talks with officials in Seoul on Friday.

China is North Korea's most important ally and supplier of economic assistance. It played host to six-nation talks aimed at pressing Pyongyang to halt its nuclear programs in return for financial aid and diplomatic inducements.

North Korea has since snubbed those talks, conducted an atomic test in May and threatened war in response to U.N. sanctions. It also test-fired a ballistic missile and is believed to be preparing for another long-range missile launch and a third nuclear test.

China has publicly opposed North Korea's actions and supported U.N. sanctions against the regime. However, Beijing opposes harsher measures that could send its isolated communist neighbor tottering and spark a refugee crisis on its border.

Ms. Flournoy was expected to meet with Chinese officials including People's Liberation Army deputy chief of staff, Lt. Gen. Ma Xiaotian, who last month told an international security forum that Beijing "has expressed a firm opposition and grave concern about the nuclear test."

Despite closer consultations about North Korea, U.S.-China military contacts have proceeded only intermittently amid continuing suspicions about each others' intentions.