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THE WALL STREET JOURNAL.

What's News

U.S. GDP fell at a 5.5% annual rate in the first quarter, better than originally reported. Meanwhile, a prediction for the U.K.'s annual GDP was revised downward to a drop of 4.3%, a reminder of the reality of the recession after recent market rallies in the nation. Page 3

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Mousavi holds firm

Iran challenger restates defiance over vote results

BY MARGARET COKER

Iran opposition leader Mir Hossein Mousavi emerged Thursday from four days of silence, striking a defiant tone and making clear he is being pressured to cease contesting the results of the presidential election.

Mr. Mousavi, a former commander in Iran's Revolutionary Guards military force, was one of three challengers to President Mahmoud Ahmadinejad in the disputed June 12 balloting that triggered sweeping demonstrations—and a crackdown—across Tehran.

In a statement published on the Web site of his newspaper, Mr. Mousavi said that he wouldn't give in to "recent pressures" that he said were aimed at isolating him and "making me change my position regarding the annulment of the election." Security forces in recent days have arrested key members of Mr. Mousavi's campaign team as well as dozens of journalists working for his newspaper.

"I cannot modify black as white and white as black," Mr. Mousavi was quoted as saying on the statement posted on the Kalemeh Web site. "This is not the solution to expect me to express something in which I don't believe."

Mr. Mousavi, who became the rallying figure for swathes of disaffected Iranians, complained that the government had cut off all contact with his supporters. Mr. Mousavi also said the government was waging a campaign to discredit the call to recount the vote, which Iran's Supreme Leader Ayatollah Ali Khamenei has said was won by incumbent President Ahmadinejad.

A third candidate in the presidential election, reformist cleric Mehdi Karroubi, also continues to protest the results. On Thursday, Mr. Karroubi canceled plans for a public gathering to mourn protesters who had been killed, after authorities didn't grant him permits to hold the demonstration.

On Wednesday, state media reported that the fourth candidate, Mohsen Rezaie, was withdrawing his complaints to authorities after initially disputing official claims that Mr. Ahmadinejad had been re-elected.

Mr. Mousavi's continued defiance of the regime could galvanize protesters who have felt a more brutal crackdown this week by security services. Paramilitary forces have violently broken up daily demonstrations, which have been getting smaller and more sporadic as the total of those killed has climbed to at least 17

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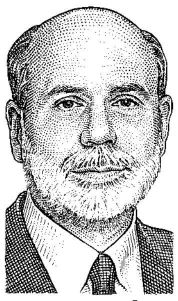
Lawmakers blitz Fed chief on BofA deal

BY MICHAEL CRITTENDEN

WASHINGTON—Federal Reserve Chairman Ben Bernanke faced open hostility from lawmakers as he defended the U.S. central bank's actions during tense negotiations with **Bank of America** Corp. over the acquisition of Merrill Lynch & Co.

Dispensing with the deferential tone usually reserved for Fed chairmen, lawmakers on the House Committee on Oversight and Government Reform at a hearing Thursday interrupted Mr. Bernanke and grilled him on how much pressure the Fed exerted on Bank of America to complete a deal that led to a $20 billion government bailout of the bank.



Ben Bernanke

The hostility comes after months of disquiet about the Fed's increasing role in the U.S. economy, fostered by many of the emergency moves it made during the height of the financial crisis. Much of the outcry is politically motivated—House Republicans in particular seek to demonstrate their opposition to the financial-sector bailout—but there are also some substantive questions, namely whether the central bank should be more open in its dealings.

The timing is poor for both the chairman and the central bank. Mr. Bernanke's current term as Fed chief expires in January. President Barack Obama hasn't indicated whether he will ask Mr. Bernanke to remain in the post. The White House reiterated Thursday that Mr. Obama has confidence in Mr. Bernanke and no concerns about the Fed's role in the Bank of America deal.

The Bank of America issue could also cast a shadow over the Fed's efforts to lobby lawmakers as Congress takes on a wholesale revamp of the U.S. regulatory structure. The Obama administration's proposal calls for the Fed to take on vast new power to oversee systemic risk, but officials' actions during the tumult at the end of last year could sour enthusiasm among lawmakers for giving the bank such power.

Usually, the Fed chief goes to Capitol Hill to take questions on monetary policy and the economic outlook. But the economy was barely touched on at Thursday's hearing.

Instead, lawmakers criticized the Fed as an agency that has too much power and yet too little transparency. They questioned whether the Fed should become an uber regulator of the financial system as envisioned by the Obama administration.

"It's time to yank the shroud off the Fed and shine some light on these events," said committee Chairman Edolphus Towns (D., N.Y.). "I believe that before Congress acts on the president's financial-services reform proposal, we need to have a thorough understanding of what caused the current financial crisis and how the federal government responded."

Lawmakers focused on one central issue: claims by Bank of America CEO Kenneth Lewis that officials threatened to oust management if they abandoned the Merrill Lynch deal.

"Did you personally tell Mr. Lewis that you would fire him or remove the Bank of America board?" Mr. Towns asked.

"I did not," Mr. Bernanke said.

But that simple response didn't sit well with lawmakers in light of a Dec. 21 email

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Over the edge

Professional kayakers seek out steeper, wilder waters
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8472.40	+2.08
Nasdaq	1829.54	+2.08
DJ Stoxx 600	204.66	-0.81
FTSE 100	4252.57	-0.64
DAX	4800.56	-0.73
CAC 40	3163.10	-0.68
Euro	$1.3906	-0.88
Nymex crude	$70.23	+2.27

LEADING THE NEWS

BP appoints a chairman

Oil giant surprises industry by tapping telecom's Svanberg

By Guy Chazan

BP PLC surprised the oil industry by appointing Carl-Henric Svanberg, chief executive of **Telefon AB LM Ericsson**, as its new chairman—ending the protracted search for a successor to Peter Sutherland.

The appointment marks the second time a Western major has tapped a top executive from the telecommunications sector. Anglo-Dutch oil giant **Royal Dutch Shell** PLC four years ago selected Jorma Ollila, then chief executive of Finnish mobile-handset maker Nokia Corp., as its chairman.

Both moves show how eager Western oil companies are to position themselves as technology companies rather than straightforward oil and gas producers, especially when Big Oil is under pressure to help fight against global warming by investing in high-tech solutions.

BP Chief Executive Tony Hayward said in an interview that Mr. Svanberg's lack of knowledge of the oil industry wasn't an obstacle. "There is plenty of expertise around oil and gas sector in BP," he said. Mr. Svanberg had been selected for his "leadership qualities" and "broad international experience," especially in emerging markets like China, Russia and India, Mr. Hayward said.

Mr. Svanberg, 57 years old, said in an interview that his commitment to fighting climate change—he is on the advisory board of the Earth Institute at Columbia University—didn't conflict with his new role at BP, one of the world's largest oil companies.

"We have to find more effective ways of dealing with energy," he said, "and in the middle of that, there is BP."

Investors appeared unperturbed by Mr. Svanberg's lack of experience in the energy industry. "Tony Hayward is an oil man through and through," said Colin Morton, of Rensburg Fund Management, which owns $100 million in BP stock. "It's sometimes useful to have someone without the baggage of having worked in the oil and gas industry all his life, who has a fresh outlook."

Carl-Henric Svanberg

Mr. Svanberg, an ice-hockey enthusiast, went to telecom-equipment maker Ericsson in 2003 from Assa Abloy AB, one of the world's largest lockmakers. He is credited with building the telecom into a giant in the sector, with revenue of $27 billion last year and more than 70,000 employees. Analysts praise him for taking advantage of sweeping consolidation in the sector to expand Ericsson's market share, which rose to 43% now from 30% when he joined the company.

But he also presided over one of the more painful episodes in Ericsson's history. In the fall of 2007, the company stunned the market with a profit warning just weeks after he had issued a bullish forecast. As its share price tumbled, some $16 billion was wiped off Ericsson's market value. "The market has never really forgiven him for it," said Richard Widsor, global technology analyst at Nomura.

Mr. Svanberg defended his record. "I think in total I delivered 60 quarters as a CEO—30 of them in Ericsson, and we had one quarter where we missed our estimates," he said. "So we should put that in perspective."

BP investors said they didn't see the 2007 incident as too much of a black mark against him. "There's not many people who have come through the last six or seven years unblemished," said Rensburg's Mr. Morton. "All of them have found the downturn a pretty tough place to be."

Mr. Svanberg will be succeeded as Ericsson's CEO by Hans Vestberg, the company's chief financial officer and long seen as heir apparent.

Mr. Svanberg will join the BP board as a nonexecutive director in September and will succeed Mr. Sutherland as chairman on Jan. 1.

Mr. Sutherland will be a tough act to follow. A former European Union commissioner and head of the World Trade Organization who has been chairman of BP since 1997, he had unsurpassed contacts in international business and presided over BP's transformation into a global supermajor. He was due to step down late last year, but BP had trouble finding a successor and he stayed on.

China recovers $3.9 billion in embezzled funds

Associated Press

BEIJING—China recovered 26.8 billion yuan ($3.9 billion) in public funds that were embezzled last year, according to its top auditor.

In a report submitted this week to the standing committee of the National People's Congress, Liu Jiayi, head of China's National Audit Office, said 30 people so far have been arrested, indicted and sentenced in connection with cases, the official Xinhua news agency reported late Wednesday. An additional 117 people were punished according to administrative and Communist Party rules.

Mr. Liu said much of the money had been directly embezzled or illegally transferred by officials, but other problems included bad loans, dereliction of duty, and insider trading.

Audits last year of central government departments showed that oversight of conference and trip expenses "is not strict enough," with instances of waste, false reporting of expenses and cheating, the report said.

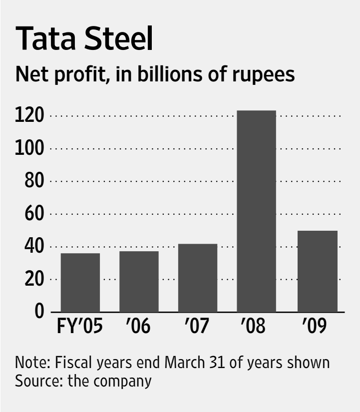
Mr. Liu also proposed drafting a budget law to promote transparent financial management.

Tata Steel's Corus cuts jobs as parent's net falls

By Alex MacDonald

Corus announced a second round of layoffs due to expectations that European steel demand will take some time to recover.

Corus, the European arm of India-based steelmaker **Tata Steel** Ltd., said Thursday it would lay off an additional 2,045 employees on top of the 3,500 job cuts already announced in January, bringing the total number of announced job cuts since the collapse in steel demand to 14.4% of its world-wide work force.



"We understand the difficulties these job losses are likely to cause our employees and their families," Corus Chief Executive Kirby Adams said. "Any recovery in Europe appears to be some time off, so it is vital that we take this proportionate and responsible action now."

The layoffs were announced at the same time that the parent company, Tata Steel, announced a 60% drop in net profit for the year ended March 31 to 49.5 billion rupees ($1.02 billion), due to weak European sales, and an exceptional charge of 40.95 billion rupees, due to restructuring, disposal and impairment costs related to Corus.

Steelmakers around the world have slashed production, cut jobs and shelved expansion projects in order to conserve cash after steel demand slumped last summer due to weak orders from key automotive and construction customers who were affected by the global economic crisis.

There are signs that steel demand is beginning to recover in the second quarter, albeit from a low level. Germany's **Salzgitter** AG announced plans to increase prices and production due to a slight pick up in demand. But European demand still remains weak and largely pinned on end-customers, who need to replenish inventories, rather than on a pickup in sales.

Global apparent steel demand is still expected to fall 15% this year, the worst drop since World War II, according to the World Steel Association.

Corus, which is still operating its steel mills at 47% below their full production capacity in the second quarter, said it would seek voluntarily layoffs but couldn't rule out compulsory redundancies.

Some 1,500 of the potential 2,045 job cuts will come from Corus's steel production facilities, of which 800 jobs will come from the company's engineering steels sites, mainly in Rotherham and Stocksbridge in the U.K.; 370 jobs in Corus Tubes division in the U.K. and the Netherlands; and about 375 jobs at its downstream rolling and finishing plants in Teesside, northeast England, and Scotland.

The company is also opening consultations on 500 white-collar jobs throughout the Corus Long Products-division, the majority in Scunthorpe, northeast England.

In a statement, Business Minister Pat McFadden said the government is working with Corus to try to secure the future for as many workers as possible.

"This is very disappointing news for those affected. We understand the difficulties that the company is facing caused by an extreme downturn in demand for steel around the world. It is restructuring as it seeks to match production to lower demand and to position itself for to the future," Mr.McFadden said.

U.K.-based labor union Community, which represents the majority of Corus's U.K. workers, said the new round of job cuts is "devastating" and will bring total layoffs to about 4,500 on the year.

—Jeffrey Sparshott and Laurence Norman contributed to this report.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

Britain hits bumps on the road to recovery

More bank lending, consumer spending are needed for growth

BY ALISTAIR MACDONALD

A brief suggestion that the U.K.'s economic propects were looking up has fizzled, with recent numbers showing that banks still aren't helping businesses invest, and consumers still aren't spending enough to spur a faster recovery.

Data including retail sales, house prices and manufacturing orders had suggested that the recession-plagued U.K. might be moving faster in the right direction. The numbers helped trigger rallies earlier this month in stocks, bonds and sterling.

More recent figures, however, were a reminder of the recession's reality. On Wednesday, the Organization for Economic Cooperation and Development predicted that weak lending will contribute to a 4.3% fall in U.K. gross domestic product this year—more pessimistic than a U.K.-based economists' consensus forecast for a 3.7% decline, or the 2.8% fall the OECD predicts for the U.S.

On Thursday, European Union statistics agency Eurostat said new industrial orders in the euro zone posted their sharpest year-to-year drop on record in April—a sign that the currency area's recovery could be painfully slow. Also Thursday, the Swiss National Bank intervened for the second day in the foreign-exchange market to weaken the Swiss franc. Though the bank didn't comment, it has said it wanted to weaken the franc to stave off deflation.

Until U.K. banks begin lending more vigorously and consumers around the world come out of hiding, economists predict Britons are in for a bumpy ride. "I don't think the recovery will be a smooth process—I expect it to come in fits and starts," Paul Fisher, the Bank of England's executive director of markets, told a parliamentary hearing Wednesday.

Optimism about an economic turnaround had surged in recent weeks. But in retrospect, many of those indicators may have been based on temporary factors.

Two weeks ago, Britain posted its first increases in manufacturing output since March 2008. **Acme Whistles** of Birmingham, England, has registered an increase in whistle orders of 17.5% in May and June from the year-earlier period.

But Chief Executive Simon Topman says that rather than heralding an upturn, the increase reflects a countrywide phenomenon: Businesses are restocking after running down their inventories during the last lean year. Other companies agree such restocking was a factor behind a 4.3% increase in imports in April.

"This is a spike—this is not the new business that will turn things around," Mr. Topman says.

Other figures also tell a positive, but temporary, tale. A burst of good retail numbers in April was followed by a fall in May. Some analysts put the spike down to good Easter holiday weather.

More-recent data have been downbeat, underscoring that the two factors needed for a significant turnaround—lending and spending—are still missing. On Tuesday, the British Bankers' Association said consumer credit growth remained minimal in May; net credit-card lending rose £200 million ($328 million), compared with an increase of £100 million in April. April Bank of England data showed the weakest flow of net bank lending to businesses since June 2000, and lenders reported lending remained "very weak" in May.

This "does little to dilute concern that credit conditions remain very tight and a potential significant obstacle to recovery prospects," says Howard Archer, European economist for consultancy Global Insight.

Supermarket chains are weathering the downturn, but other retailers are feeling the strain. A number of factors are holding back Britain's normally big-spending shoppers, including the highest level of consumer debt in the Western world. Unemployment, now at 7.3%, has added a brake.

Still, many economists and businesspeople agree the worst is behind Britain. As it wades out of recession, the U.K. can comfort itself with the knowledge that during the last downturn, in the mid-1990s, unemployment and interest rates were around or above 10%—compared with current interest rates of 0.5%.

—Nicholas Winning and Anita Greil contributed to this article.

U.S. GDP revised to 5.5% decline in first quarter

BY JEFF BATER

U.S. gross domestic product fell at a revised 5.5% annual rate from January through March, the Commerce Department said Thursday.

The final revision marks the second time first-quarter growth has been marked up. The department first estimated that GDP fell at a 6.1% annual rate, then last month raised that to a decline of 5.7%. The initial estimates are meant to give the public a sense of how the economy performed while the government finalizes its data.

The latest report showed that consumer spending and exports were a bit weaker in the first quarter than previously thought, but were offset by a smaller decline in business inventories, which the government counts as part of production.

Overall, the 5.5% drop marked a modest but meaningful improvement from the fourth-quarter fall of 6.3%, which is likely to be the low point of the recession.

Macroeconomic Advisers, a St. Louis forecasting firm, expects GDP to post a comparatively better decline of about 1.3% in the current second quarter, which ends June 30. The government's first estimate of second-quarter GDP will be released at the end of July.

Thursday's GDP data also included small upward revisions to first-quarter inflation and corporate profits.

The price gauge for consumer expenditures excluding food and energy—a gauge of inflation favored by Federal Reserve policy makers—was revised upward slightly to a 1.6% increase, following a 0.9% climb in the fourth quarter. Corporate after-tax profits were also adjusted upward, but are still well below their year-ago levels.

Dreamliner delay vexes leasing firms

Companies that placed early orders lose edge in deals with airlines; business plans, talks with carriers unravel

By Daniel Michaels

The latest delay in the launch of **Boeing** Co.'s 787 Dreamliner, which has riled airlines waiting for the new fuel-efficient jet, is also playing havoc with the business plans of aircraft-leasing companies, which are already struggling with the global credit crunch.

Those companies, which give airlines the flexibility to add to their fleets without the investment required to buy new planes, account for a sixth of Boeing's 866 orders for the Dreamliner. Already, they have made and announced leasing deals for scores of the new planes.

The leasing firms that were among the first to order Dreamliners had counted on the planes to give them edge they now fear they are losing. Those with later delivery schedules say the latest hold-up, which was announced Tuesday, has forced them to postpone planning.

"It is a big problem for us," said Frank Pray, Chief Executive of **AWAS Aviation Capital** Ltd., a major leasing company based in Dublin that has six 787s on order and had expected its first deliveries next year. "As a lessor, we are highly reliant on being able to place the plane" with airlines to make money, he said.

Aircraft lessors make money primarily by buying large numbers of planes at relatively low prices from Boeing, Airbus and other manufacturers, and then renting them out to carriers at profitable rates. Leasing companies that placed early orders for Dreamliners were positioned until recently to charge airlines premium rents for the sought-after new plane. Boeing says the Dreamliner will be 20% less expensive to operate than existing models like the Airbus A330.


Reuters

Dreamliners for rent

Leasing companies account for one out of six Boeing 787s on order

Leasing company/Country	787s on order	Placements announced	First delivery*
International Lease Finance Corp./U.S.	74	31	
ALAFCO/Kuwait	22	10	2013
DAE Capital/Dubai	15	0	2014
CIT Group/U.S.	10	2	2013
Vietnam Aircraft Leasing/Vietnam	8	0	2013
AWAS/Ireland	6	4	2010
Aviation Capital Group/U.S.	5	10	2015
LCAL/Dubai	5	5	2011

*Prior to most recent delay announced by Boeing

Source: Wachovia & Ascend Worldwide Ltd.

The 787's allure was so great that at one point last year, Boeing had orders for more than 900 of the planes. Airlines ordering the plane last year were given delivery slots years away.

The Dreamliner was originally slated to be delivered in May 2008. As recently as last week, Boeing said that the plane would start test flights by June 30, and that the first commercial delivery, to Japan's **All Nippon Airways** Co., would take place by April 2010.

But on Tuesday Boeing said it wouldn't meet that timetable due to structural problems discovered during ground testing. That marked the sixth delay in the Dreamliner program's six year history.

Boeing said it would announce a new schedule in coming weeks, but the delay has put existing lease contracts for the new jet into question and interrupted lease negotiations with airlines, lessors say.

"It is hurting our planning and talks with potential customers," said an official at a small leasing company. "It's all getting terribly complicated."

Another lessor, Aviation Capital Group, a subsidiary of **Pacific LifeCorp** Co., has five Dreamliners slated for delivery far into the production run. Partly because of uncertainty around the plane's timing, it has "deliberately held off any advanced discussions with potential lessees," said Executive Vice President Richard Cherney. He said ACG will probably keep waiting "until we have a better understanding of when to expect our aircraft."

Still, Mr. Cherney said, he is "fully confident there will be solid demand" for 787s when they do arrive.

Though Boeing's contracts call for it to compensate buyers of the Dreamliner and their leasing clients for delivery delays, the setbacks are taking some of the shine off the model. This year, Boeing has announced 58 cancellations of 787 orders. Gary Liebowitz, an equity analyst at Wachovia Capital Markets in New York, who tracks the aircraft-leasing industry, said 787 prices and lease rates also are likely to have slipped.

"The 787 was generating a premium price 12 to 18 months ago, but that's probably gone now," he said.

Lessors are already struggling with fallout from the financial crisis. Most of them built their businesses on being able to borrow cheaply in short-term credit markets, thanks to good credit ratings or deep-pocketed parent companies. That ended last fall when financial markets froze up, and most lessors have since been scrambling to find new sources of funding. Meanwhile, air traffic has slumped.

One bright spot for lessors is the A330, a Dreamliner rival made by Airbus, a unit of **European Aeronautic Defence & Space** Co.

Lease rates for the A330, which first flew in 1993, have fallen as much as 15% over the past year due to declining demand for air travel, said Mr. Liebowitz at Wachovia. Their asset value on lessors' balance sheets has declined up to 20%. But, said Mr. Liebowitz, "They would have dropped more if the 787 had been delivered on time."

Demand for A330s has risen from airlines who were unable to get 787 slots quickly. That's benefiting lessors holding A330s, even as overall demand dwindles.

Virgin Atlantic Airways Ltd., for example, ordered 15 Dreamliners in 2007. But to tide it over until it starts receiving them, it ordered 10 A330s on Monday for delivery over the next two years; those planes are being leased or financed by Dutch lessor **AerCap** NV.

Delay shows communication woes

By Peter Sanders

Boeing Co.'s disclosure Tuesday of the latest in a string of delays of its 787 Dreamliner exposed flaws not only in the plane's design, but also in the company's lines of communication—internally and with business partners, investors and the public.

The week before Boeing announced the Dreamliner program's sixth delay in six years, its executives were at the Paris Air Show affirming that the new jet was on track to make its maiden flight by the end of the month.

This week, however, Boeing said its engineers and senior executives alike had known since May of the structural problem that will keep the jet grounded, possibly for months. It said it decided late Friday to scrub the first flight, which was to take place by June 30.

Without any revised timetable for test flights or deliveries, investors have been left with few clues as to when the company's marquee product might get back on track. The uncertainty has contributed to a 12% drop in Boeing's share price over recent days.

For Boeing's management, the latest delay creates a pressing need to regain the trust of customers and investors. "We believe that had management been more upfront about this situation, perhaps the modest level of credibility on this topic it had started to re-establish over the past several months could have been sustained," wrote J.P. Morgan aerospace analyst Joseph Nadol, in a research note Wednesday.


Bloomberg News

Both Messrs. Carson, left, and McNerney, at the Paris Air Show earlier this month, have touted efforts to be forthcoming with customers about the plane's development.

Boeing spokesmen said neither Jim McNerney, Boeing's chairman and chief executive, nor Scott Carson, CEO of its Commercial Airplane unit, were available to comment.

The Chicago aerospace giant has been dogged by communications glitches since it rolled out the first Dreamliner test plane two years ago. Indeed, Boeing has staked much of its credibility on promises it hasn't met.

Both Messrs. McNerney and Carson have touted efforts to be forthcoming with customers about the plane's development, which began in 2003. And, by all accounts, Boeing was unusually open in the first four years.

Company officials say Mr. McNerney has been closely involved in the 787's progress since the supply problems began, but some analysts think internal communication remains a key element in the Dreamliner's woes.

Air-traffic turbulence shows some signs of stabilization

By Kaveri Niththyananthan

LONDON—The International Air Transport Association said Thursday that global passenger demand for air travel fell in May.

IATA said passenger demand fell 9.3% in May from a year earlier, a bigger drop than the 3.1% decline recorded in April. But demand during both months was stronger than the 11.1% decline reached in March, even after adjusting for the distortions caused by the timing of Easter—indicating a floor may have been reached, IATA said.

The group, which represents about 230 airlines comprising 93% of scheduled international air traffic, said freight demand dropped 17.4% from a year earlier. In April, cargo demand fell 21.7% from a year earlier.

The 5% cut in passenger capacity last month wasn't enough to keep pace with falling demand, and the industry's load factor, or the proportion of available seats an airline fills, fell to 71.2% from 74.5%, IATA said.

"We may have hit bottom, but we are a long way from recovery," said Giovanni Bisignani, IATA's director general and chief executive.

IATA said the outbreak of the A/H1N1 swine flu had a slight negative impact on passenger traffic, with Mexican carriers taking the brunt of consumers' reluctance to travel to the region.

Swine flu also had an impact on Asian-Pacific carriers, as residents recalled the 2003 outbreak of severe acute respiratory syndrome, IATA said. Airlines in the region recorded a 14.3% fall in demand, and were the most aggressive in cutting capacity, slashing it by 9.3%.

North American airlines saw passenger demand fall 10.9%—far worse than the 4.2% fall in April—as demand to Latin American destinations dropped.

In Europe, competition heated up, with full-service carriers losing market share to low-cost airlines. Low-cost carriers saw traffic increase 2.1%, while full-service carriers reported a 9.4% fall.

Middle Eastern carriers once again bucked the trend, experiencing a 9.5% increase in demand while expanding capacity by 14.5%.

Separately, German flagship airline **Deutsche Lufthansa** AG, which last week issued a profit warning, Thursday said it could achieve about €300 million ($418.3 million) in savings this year through measures such as capacity cuts, phasing out Airbus A300-600 planes and reductions in ground personnel.

—Natascha Divac and Kirsten Bienk contributed to this article.

Woolworths goes to Web

Retailer relaunches as an online brand after recession woes

BY LILLY VITOROVICH

LONDON—**Woolworths**, the biggest retail casualty so far during the U.K.'s recession, was relaunched Thursday as an online brand selling children's wear, toys and party goods.

The reincarnated retailer's new offerings will also include pick 'n' mix candy—a line that became synonymous with Woolworths, or Woolies, as it was affectionately known—rebranded click 'n' mix. The online store will also sell a new range of items, such as televisions, mobile phones and iPods, geared toward younger consumers.

Many mourned the loss of an era when the company's 807 shops closed in January, resulting in the loss of 27,000 jobs after 99 years of business.

Woolworths storefronts had been a fixture of nearly every U.K. prime shopping district since the retailer launched a big expansion drive in the 1920s. But for consumers, the appeal of the shops had long been spent.

Market experts had warned for years that the stores had lost focus and its unpredictable mix of products—including such disparate offerings as candy, books and DVDs, children's wear, gardening products and stationery—offered little competition against big supermarkets, specialist stores, or emerging Internet players.

Eventually, as sales declined, the company was unable to pay rent on its expensive store portfolio and it was placed in administration—a form of bankruptcy protection—in November.

The new owner, U.K.-based catalog and Internet retailing company **Shop Direct Group** Ltd., is relaunching the brand online with many of the products Woolworths once stocked. However, the offerings will be more focused.

Shop Direct asked one million British families what they would be likely to buy from the relaunched Woolworths brand, taking a poll via its own blog, email, as well as social-networking sites Twitter and Facebook.

The online version of Woolworths will sell clothes, toys and electronics geared toward younger consumers. The U.K. retailer closed its 807 stores in January.

"Customers wanted a more targeted offer," Shop Direct Chief Executive Mark Newton-Jones said in an interview. "It will be a one-stop-shop for the family."

The new Woolworths, which is primarily targeting families with young children, will be price-competitive but won't be a discounter or the cheapest on the market, Mr. Newton-Jones said. It will keep costs down by functioning only online and using Shop Direct's existing distribution and warehouse network. Woolworths' work force consists of about 10 executives—the rest are existing Shop Direct employees.

After attracting customers to its site, Woolworths aims to keep them by offering better customer service than its competitors and touting its "Very Important Families" club, which will include free movies on Saturday mornings for registered members, special movie screenings of the latest family blockbusters and the chance to win Woolworths products.

Despite the deepest U.K. recession since World War II and tough competition on the Internet and in city centers, Mr. Newton-Jones is adamant that Woolworths "will make a profit in its first year." He declined to provide any specific sales or profit targets.

The competition is formidable. Woolworths' targeted consumers can already shop at **Tesco** PLC's online and catalog business Direct. The business will also compete with the likes of **Home Retail Group** PLC's Argos chain, **Toys 'R' Us** Inc., **Mothercare** PLC, **HMV Group** PLC, Play.com and U.K. department-store chains.

Retail experts and competitors say the online Woolworths brand could struggle to compete in the current environment, fighting for market share that its predecessor lost.

"It is likely to take time to build volume through the site, but competitors that have benefited from major capacity withdrawal subsequent to Woolies' demise will find Shop Direct competing to win back market share through the Woolworths.co.uk site," said Singer Capital Markets retail analyst Matthew McEachran.

Woolworths started life in Britain in 1909 as F.W. Woolworth, an offshoot of the U.S. retailer founded in 1879. The U.K. chain really took off in the 1920s. The British arm was floated in London in 1931 after the Wall Street crash of 1929 hit its U.S. parent. The last Woolworths stores in the U.S. closed in 1997.

Yahoo's Bartz requests shareholders' patience

BY SCOTT MORRISON AND JESSICA E. VASCELLARO

Yahoo Inc. Chief Executive Carol Bartz told shareholders that the Internet company had "nothing to say" about any possible deal with software giant **Microsoft** Corp. and urged investors to remain patient as she attempts to turn the company around.

"If we ever have a deal with Microsoft, it will be announced publicly and until we do, we have nothing to say," said Ms. Bartz at Yahoo's annual shareholder gathering in Santa Clara, Calif. Thursday, her first stockholders meeting since she was appointed CEO early this year.

Carol Bartz

Microsoft CEO Steve Ballmer said at a conference in France this week that the company remains open to a partnership with Yahoo but didn't elaborate. Ms. Bartz's reticence over Microsoft followed several recent conference appearances in which she sent mixed signals about a deal.

In late May, she said she would be open to striking an Internet search deal with Microsoft if it offered "boatloads of money," a comment that raised Wall Street expectations that a deal could come sooner rather than later. But at a subsequent conference, Ms. Bartz said Yahoo's future would be "cleaner" if it didn't strike any sort of deal with Microsoft.

On Thursday, Ms. Bartz laid out her plan to increase revenue and profits at the Sunnyvale, Calif., company by retooling Yahoo products while keeping a close eye on costs. She reiterated previously announced plans to update Yahoo's main properties, like its home page and mail service. She said a new design for the front page, which Yahoo has been testing, is expected to go live "in the fall timeframe" and that the company was continuing to look at other products to "shut down, repair or outsource."

Overall, the mood at the meeting was more subdued than last year, when shareholders were upset that the company turned down a $45 billion acquisition offer from Microsoft. At last year's meeting, several board members, including Yahoo's then-CEO Jerry Yang, received shareholder approval ratings of less than 70%.

Several of the 40 or so shareholders in attendance said they were so far impressed by Ms. Bartz. "She did the things she said she was going to do, cut staff, improve the advertiser's experience and eliminate useless Web sites. What more can you ask?" said Shelton Erlich, a small shareholder from Palo Alto, Calif.

Hennes & Mauritz profit climbs

BY OLA KINNANDER

STOCKHOLM—**Hennes & Mauritz** AB on Thursday posted a 6.4% rise in fiscal second-quarter net profit, as it continued to fare better during the economic downturn than many of its rivals.

Sweden-based H&M—the world's third-largest fashion retailer after U.S.-based **Gap** Inc. and Spain's **Inditex** SA, which vie for the top spot—said its net profit increased to 4.19 billion Swedish kronor ($528.8 million) in the three months ended May 31 from 3.94 billion kronor a year earlier. Revenue rose 23% to 26.54 billion kronor.

The company said it "remains positive toward future expansion and the company's business opportunities."

H&M's quarterly earnings were "strong throughout," said Evli Bank retail analyst Anders Wiklund in Stockholm.

The retailer said the economic downturn has hurt demand in all its markets, especially in Spain, the U.S. and the Nordic countries. Still, Mr. Wiklund said the company is clearly handling the rocky times better than many other retailers, largely thanks to its low-price profile and strong brand name. "Everyone is affected by the downturn, but one continues to see that H&M is doing relatively well," he said.

H&M said its total sales for May were flat from a year earlier, while sales from stores open longer than a year fell 9%. Analysts expected May sales to be relatively weak because of exceptionally strong figures a year earlier, when total sales rose 25% and same-store sales grew 14%.

The upbeat earnings report comes days before Karl-Johan Persson, the 34-year old son of H&M's majority owner and grandson of its founder, takes over as chief executive.

Rolf Eriksen, who has been leading the company since 2000 and turns 65 this fall, is retiring next week. Mr. Eriksen said in an interview that H&M continues to win market share as many other retailers are suffering during the harsh economic environment.

"In a downturn, I think you should look more at how we're doing against the market than how we're doing compared to the previous year," Mr. Eriksen said.

The outgoing CEO said he is most satisfied by H&M's decision to stick to the idea of expanding the number of its stores by 10% to 15% annually.

H&M has more than 73,000 employees and 1,800 stores in 34 countries.

Toyota gets revival plan

New boss urges firm to tailor cars to meet regional demands

By John Murphy

TOKYO—The new president of **Toyota Motor** Corp. on Thursday acknowledged the company erred in the last decade with an all-out push to become the world's largest car maker and vowed to change priorities.

"I do not think we were wrong to expand our business to meet the needs of customers around the world but we may have stretched more than we should have," said Akio Toyoda, grandson of the company's founder.

Mr. Toyoda told reporters that his primary goal is to change the company's priorities, putting products first, not sales and profits.

"Rather than asking, 'How many cars will we sell?' or 'How much money will we make by selling these cars?' we need to ask ourselves, 'What kind of cars will make people happy?' as well as, 'What pricing will attract them in each region?' Then we must make those cars," he said.

Toyota had a record loss in its fiscal year ended March 2009 and is braced for a bigger one this year. Mr. Toyoda said it might be profitable again in the year ending March 2011.

But beyond promising that he will take a 30% pay cut and that Toyota will open a marketing company for its products in Japan, Mr. Toyoda's recovery plan was short on specifics.

The 53-year-old executive offered few details about how he will address the company's many troubles, including excess capacity at its plants worldwide, confusion over what to do with a new Mississippi plant, and the continued strain caused by the stronger yen. Instead, the U.S.-educated Mr. Toyoda, who was officially appointed president Tuesday, used a news conference to outline a back-to-basics management philosophy.

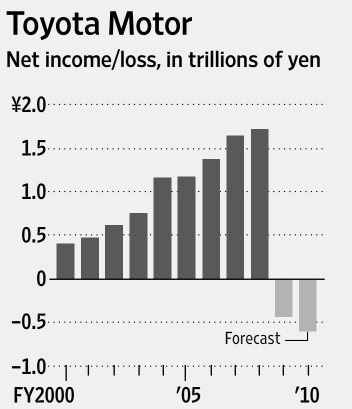
During the past 10 years, as it worked to successfully unseat **General Motors** Corp. as the biggest global auto maker, Toyota expanded rapidly, increasing production 500,000 vehicles a year to race toward its goal of producing more than 10 million vehicles in calendar 2009. In the fiscal year ended in March 2008, Toyota appeared on its way to that goal, making 8.9 million vehicles and posting a record profit of 1.72 trillion yen ($18 billion currently).

But the economic slump and financial crisis pushed sales off a cliff, leaving Toyota with bloated inventories, idle plants and huge losses. The company had faced some of the same problems Detroit makers have long contended with, including paying workers who aren't making cars and even a decline in vehicle quality.

For the fiscal year ended in March, the company reported a loss of 436.8 billion yen and made only 7.5 million vehicles. Toyota forecasts a net loss of 550 billion yen for the current fiscal year, during which it will make only 6.5 million vehicles.

—Yoshio Takahashi contributed to this article.

Associated Press



Note: Fiscal year ends March 31 of year shown
Source: the company

President of Toyota Motor Akio Toyoda, right, with executive vice presidents Shinichi Sasaki, left, and Yukitoshi Funo

Regulator advises pain reliever be banned in EU

By Jeanne Whalen

Europe's main medical regulator recommended that a 50-year-old painkiller, already largely ordered off shelves in some places, be withdrawn from the European market out of concern that patients have been fatally overdosing from it.

The drug is known by the generic names dextropropoxyphene in Europe and propoxyphene in the U.S. It is still on the market in the U.S., where the Food and Drug Administration is considering whether to withdraw it.

The drug is an opioid that is widely used to treat mild to moderate pain. It was first introduced in the U.S. in 1957 by Eli Lilly & Co., under the brand name Darvon. Today it is marketed by a variety of generic-drug makers. Critics of the drug have been trying to have it withdrawn from the market for years.

The European Medicines Agency, or EMEA, said a "significant" number of Europeans have died by overdosing with the drug, either accidentally or intentionally. An EMEA official didn't respond to a request for clarification on how many people have died.

The U.K. and Sweden ordered the drug—when used in combination with paracetamol—to be taken off the market in 2005, prompting a Europe-wide review, which the EMEA began in 2007. The EMEA makes recommendations that the European Commission must sign off on. The commission usually follows the EMEA's advice.

One maker of the drug, **Sanofi-Aventis** SA, said Thursday it would stop selling its products containing the drug in Europe.

In January, a panel of experts advising the FDA voted 14 to 12 in favor of pulling the drug from the U.S. market. An FDA spokeswoman said Thursday that the agency is still deciding whether to follow that recommendation.

A spokeswoman for Eli Lilly & Co. said the company sold the rights to propoxyphene in 2002. She declined to comment further.

CORPORATE NEWS

LG debuts ultra-thin TV

Electronics maker bests rival Samsung; unveils thinnest TV

By Evan Ramstad

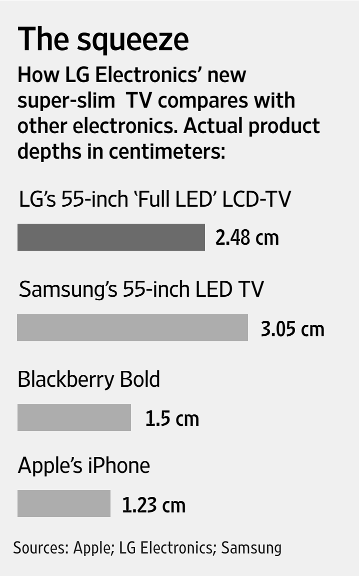
SEOUL—The race for the leading edge of the TV-making industry is down to millimeters.

LG Electronics Co., the world's second-largest maker of TVs by units and revenue, on Thursday unveiled a 55-inch flat-panel TV that is the thinnest yet—just 24.8 millimeters in depth, or 0.98 inches.

The company's new models bested the previous thin leader, **Samsung Electronics** Co., the world's top seller of TVs by units and revenue and LG's crosstown rival. Samsung in late March rolled out a full series of ultra-thin flat-panel TVs, with the 55-inch model measuring 30.5 millimeters in depth, or 1.2 inches.

The two companies are leading the way in an industry trend to make flat-panel TVs—which have supplanted the decades-old, tube-based TV in most of the world over the past five years—even thinner than they already are.

Such ultra-thin TVs are likely to account for less than 1% of the overall TV market, which is expected to sell about 200 million units this year. But they show the direction TV design is headed, and, for the moment, yield sizable price and profit premiums for manufacturers.



LG said its new 55-inch TVs will cost about $5,000 when they hit stores in South Korea and Europe in the next few weeks. The current list price for Samsung's comparable model is $4,000. By contrast, 55-inch TVs that are three to five inches thick sell for $2,000 to $3,000.

"The prices of those [ultra-slim] products are likely to fall toward the end of the year," said Yoon Hyuk-jin, analyst at Shinyoung Securities in Seoul, citing the likelihood of more competitors entering the product space.

Most of the slim-down achievements have been in liquid-crystal-display TVs, as a result of the improving cost efficiency of a chip-like component called a light-emitting diode. The LED is much thinner than the fluorescent bulbs that previously were used as the lighting source inside an LCD.

Manufacturers began putting LEDs into LCD TVs three years ago, but they gained far more attention earlier this year when Samsung started its ultra-slim line, called "LED TVs."

Samsung's breakthrough came from positioning the LEDs around the edge of a TV, removing a layer of circuitry behind the LCD panel. LG's new models still have LEDs arrayed across the back of the LCD panel, but also manage to be thinner.

Samsung said earlier this week it had shipped 500,000 units of LCD TVs with LEDs on the edges. At the LG rollout on Thursday, executives said they hoped to sell 400,000 units of the new model with LEDs this year.

—Jung-ah Lee contributed to this article.

GM adds plants to list of closings

By Sharon Terlep And Marie Beaudette

General Motors Corp. said it will close its vehicle assembly and metal-stamping plants in Shreveport, La., by 2012, a move that came as concerns surfaced over what will become of unprofitable assets and liabilities being offloaded by the company.

GM builds small pickup trucks and some Hummer models at the plants. Sales of the trucks have fallen sharply, while GM early this month announced plans sell the Hummer line to a Chinese manufacturer.

The plants join a list of nine others the auto maker plans to close permanently.

Separately, **Chrysler Group** LLC said it will permanently close its St. Louis North assembly plant effective July 10. The company had planned to shut the plant in the third quarter but accelerated the move because of declining demand. Production of the Dodge Ram pickup made there will be moved, as planned, to a Warren, Mich., assembly plant.

GM is expected to make public by next week a list of which assets will go to "old GM" under the company's proposed bankruptcy plan and which to the surviving "new GM." Not all idled factories will go to the old company, which will be liquidated, as some sit on valuable land and could turn a profit for GM.

On Wednesday, a committee representing GM's unsecured creditors asked the bankruptcy court in Manhattan to require GM to make some changes to the sale proposal, citing concerns over what will become of discarded assets and liabilities.

The creditor committee wants GM to permit lawsuits stemming from activities of the "old GM" to be filed against the "new GM" after that company emerges from bankruptcy. GM has said those lawsuits would have to be filed against the old company, which will have limited assets and resources to cover judgments from suits.

On Thursday, GM won bankruptcy-court approval to borrow the full amount of a $33 billion loan from the U.S. and Canada while it moves to swiftly wrap up its restructuring.

Judge Robert Gerber of the U.S. Bankruptcy Court in Manhattan gave final approval to the financing at a hearing. When GM filed for bankruptcy June 1, the judge said GM could borrow about half of the loan.

The loan is designed to prop up the auto maker until it can sell the majority of its assets to the new company owned largely by the U.S. government. The sale is the centerpiece of GM's plan to become viable.

The company hopes to emerge from Chapter 11 in mid-July, sooner than earlier projected.

As part of the plan, GM is looking to eliminate 10,000 to 16,000 hourly workers through retirement incentives and buyouts by Aug. 1, people familiar with the plan said. GM ultimately hopes to cut an additional 14,000 factory jobs by 2010, bringing total hourly-worker employment to 40,000.

—David McLaughlin contributed to this article.

Hertz provides an upbeat view

By Tess Stynes

Hertz Global Holdings Inc. projected second-quarter earnings above analysts' estimates as cost savings, stabilizing U.S. and European demand, and an improved summer-reservations outlook benefit the car-rental company.

Slumping demand because of reduced travel has hurt the industry over the past year, raising concerns about rental companies' ability to refresh their fleets and get financing for new-vehicle purchases.

Hertz on Thursday said it has increased its estimated 2009 cost savings by 14% to $570 million amid expectations the company will experience "no significant long-term financial impact" from the bankruptcies of **General Motors** Co. and **Chrysler** LLC.

Chief Executive Mark Frissora said Hertz is "literally scrambling to buy as many cars" as it can to prepare for anticipated demand.

In an interview on the cable-TV network CNBC, Mr. Frissora said Hertz has bought 16,000 vehicles—about $350 million in purchases—in the last six to eight weeks in the U.S. "In Europe, we're getting every car we can right now," he said.

The Park Ridge, N.J., company expects second-quarter earnings of nine cents to 12 cents a share, while analysts polled by Thomson Reuters recently projected one cent. For the year, Hertz expects profit of 12 cents to 15 cents, compared with analysts' views for a 23-cent loss. However, Hertz's revenue expectation came in below analysts' estimate. The company expects second-quarter revenue of $1.7 million to $1.75 million and 2009 revenue of $6.7 billion to $7 billion. Analysts' mean estimates were $1.89 million and $7.45 billion, respectively.

Reservations have been up for nine straight weeks in the U.S. and seven in Europe, helping to increase fleet utilization by about three percentage points from last year to 73% and 72%, respectively, this quarter.

GLOBAL BUSINESS BRIEFS

Air France-KLM SA

Search crews recover body of flight captain in crash

Search crews in the mid-Atlantic retrieved the bodies of the chief pilot of Flight 447 and a flight attendant, **Air France-KLM** SA said Thursday. The two are among 50 bodies pulled out of the ocean in the international search for remains of the 228 victims and wreckage of the May 31 crash. Air France, in a statement on its Web site, said the pilot and male flight attendant have been identified but didn't release their names. A pilots union named the flight captain as Frenchman Marc Dubois. The Airbus A330 plane came down in the Atlantic after running into thunderstorms en route from Rio de Janeiro to Paris. The cause of the crash is unclear.

OAO Gazprom

OAO **Gazprom** may lower its 2009 capital-investment program by about 30%, said the Russian gas company's deputy chief executive, Andrey Kruglov. Mr. Kruglov said that "the current difficult situation will call for a change of plans," but added that the state-controlled gas company has enough cash and credit facilities to maintain a high level of liquidity. In December, Gazprom's board approved a 2009 investment program valued at 920 billion rubles ($29.4 billion). The possible 30% cut is based on an average 2009 oil price of $41 a barrel. Mr. Kruglov said that financial results for the first three months don't make an adequate assessment of the financial forecast for the rest of the year. The new budget will be presented to management in August and to the board in September.

Nike Inc.

Nike Inc. said fiscal fourth-quarter profit dropped 30% amid $195 million in restructuring charges, as revenue and margins slid and future orders dropped across all regions. The sportswear market has begun to soften amid larger declines in the retail sector, leading the apparel and athletic-footwear company to trim its operations and cut 5% of its work force. Despite the woes, Nike's athletic-footwear trend has remained fairly healthy in recent months. For the quarter ended May 31, the Beaverton, Ore., company reported earnings of $341.4 million, or 70 cents a share, down from $490.5 million, or 98 cents a share, a year earlier. Revenue fell 7.4% to $4.71 billion. Gross margin fell to 43.4% from 45.8%, hurt by product markdowns.

Kimberly-Clark Corp.

Kimberly-Clark Corp. said it will cut its global salaried work force by 1,600 positions, as consumers have been trading down to private-label goods and have been slow to restock their pantries amid the recession. The maker of Huggies diapers, Scott paper towels and Kleenex tissues said the job cuts, out of a total work force of 53,000, will be completed by year's end in an effort to reduce annual costs by $150 million. The Irving, Texas, company anticipates savings of $60 million, or 10 cents a share, in the second half of the year. Kimberly-Clark expects restructuring-related charges of $140 million to $150 million, or 25 cents a share, spread over the rest of the year, with about $110 million of the costs recorded in the second quarter.

Tata Communications Ltd.

India's **Tata Communications** Ltd. Thursday signed a five-year deal with the U.K.'s **BT Group** PLC to share voice services, which could present a revenue opportunity of $300 million annually. Tata Communications will supply BT's international direct dial, or IDD, and other voice termination services in countries other than BT's "footprint countries," the company said in a statement. Under the deal, BT will also distribute Tata Communication's IDD services in the U.K. and later expand to other markets across Europe, the Mumbai-listed company said. BT declined to comment on the value of the deal. Tata Communications will shift much of its traffic traveling into these areas to BT's network, as it would help control costs and improve quality, Tata Communications said.

Infineon Technologies AG

Semiconductor company **Infineon Technologies** AG on Thursday raised its outlook for the current fiscal third quarter. The company now expects to be near break-even in terms of operating profit, excluding items, with sales rising more than previously forecast. Germany-based Infineon also said it expects positive cash flow and a gross cash position approaching €850 million ($1.19 billion) for the quarter ending June 30. The company said it expects third-quarter sales to rise by a low-teens percentage range compared with the second quarter. In April the company predicted that third-quarter sales would increase 10% with a negative operating margin. Infineon's second-quarter sales were €747 million and it posted an operating loss of €110 million. Its gross cash position was €665 million.

Walt Disney Co.

The Hong Kong government has reached a deal with **Walt Disney** Co. to expand the city's Disneyland theme park, and will present a plan to lawmakers Tuesday, people familiar with the matter said. Disney and the Hong Kong government have been in protracted discussions over financing an expansion to the first phase of Hong Kong Disneyland—57%-owned by the government and 43%-owned by Disney. Disney is willing to fully fund the expansion, but talks have been complicated by the government's desire to keep its controlling stake in the theme park. As part of the deal, Disney will finance the expansion, while the government will convert earlier loans to the joint venture into equity to keep a controlling share, a person familiar with the situation said earlier.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Scandals hurt Republicans' ambitions

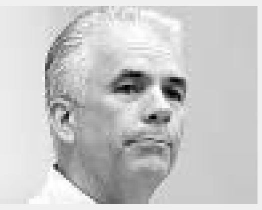
South Carolina governor becomes the party's latest rising star to be upended by a sexual indiscretion

BY JONATHAN WEISMAN AND SUSAN DAVIS

When South Carolina Gov. Mark Sanford stood choking back tears before a horde of cameras and reporters Wednesday, explaining his mysterious disappearance and confessing and apologizing for an extramarital affair, he said he would "lay it out" and "let the chips fall where they may."

Those chips may ricochet beyond the governor's mansion in Columbia. The personal travails on display during Mr. Sanford's awkward news conference became the latest symbol of the struggles vexing his Republican Party, as another of its rising stars was upended by a sexual indiscretion.

Affairs of state | Politicians involved in recent sex scandals



Sen. John Ensign
Republican, Nevada
June 2009: Said he had an affair with a female member of his campaign staff

Former Sen. John Edwards
Democrat, North Carolina
August 2008: Admitted to an affair with a former campaign worker

Former Gov. Eliot Spitzer
Democrat, New York
March 2008: Resigned after reports that he was a client of a prostitution ring

Sen. Larry Craig
Republican, Idaho
August 2007: Pleaded gu to disorderly conduct rela to alleged lewd behavior a Minneapolis airport men room

Sources: Reuters; Photos by Associated Press (Edwards, Craig, Vitter); Reuters (Ensign); Bloomberg News (Spitzer)

Mr. Sanford's confession came eight days after Sen. John Ensign of Nevada announced that he had engaged in an extramarital affair. Mr. Ensign resigned his post in the Senate Republican leadership. Mr. Sanford resigned his as head of the Republican Governors Association and appeared to give up his budding ambitions—to help the party redefine itself with a new message and new face, and possibly to challenge President Barack Obama in the 2012 election.

And the Republicans, still struggling after losing control of Congress in 2006 and the White House in 2008, were left to wonder when they would stop seeing their attempts to attract positive attention trumped by embarrassments.

"Republicans have stood on a foundation of moral principle, and each time one of our own engages in this type of behavior, it crumbles away," said Ron Bonjean, a Republican strategist and former leadership aide in Congress. "That's why this chipping away at our credibility can't continue."

Mr. Sanford nodded to that problem when he said: "If somebody falls within the fellowship of believers or the walk of faith, I think it makes it that much harder for believers to say, 'Well, where was that person coming from?' "

Rep. Bob Inglis, a South Carolina Republican, said it is time to rethink the party's notion of morality, and perhaps the governor's travails could help move that process along. "If it causes us to lose the stinking rot of self-righteousness and causes us to understand we are all in need of some grace, it could be a very good thing for the Republican Party," he said.

The sex scandals dogging the Republican Party the past three years have cropped up across the country: the September 2006 resignation of Florida Rep. Mark Foley after his inappropriate online communications with male teenagers in the House page program; the June 2007 arrest of former Idaho Sen. Larry Craig in a gay sex-sting operation in the Minneapolis airport; and the July 2007 admission of Louisiana Sen. David Vitter that he had been a client of a Washington-based escort service. Mr. Vitter is running for re-election against a porn star, who said she entered the race to highlight his hypocrisy.

Still, it is too soon to write the Republican obituary for 2010 or 2012. Democrats appeared similarly weakened in the wake of the 1988 election, but eventually defeated President George H.W. Bush in his 1992 re-election bid.

"Certainly we will get by this as Republicans," said former South Carolina Republican Party Chairman Katon Dawson, noting the popularity of Republicans such as Indiana Gov. Mitch Daniels and Mississippi Gov. Haley Barbour. The latter immediately took over as head of the Republican Governors Association.

Mr. Barbour is also spending some of this week in the early presidential-primary states of Iowa and New Hampshire, fueling speculation that he himself is gearing up for a 2012 run.

Neither Messrs. Sanford nor Ensign is exactly a household name—certainly not of the stature of, say, former Democratic Gov. Elliot Spitzer of New York, whose own pratfall featured his use of a prostitution service, or John Edwards, the 2004 Democratic vice-presidential candidate who admitted to an affair while his wife battles incurable cancer. The two Republicans' lack of renown could temper any blow to the party, former Bush White House spokesman Tony Fratto said.

Mr. Sanford's confession comes as the party is starting to gain some traction in battling Democrats, focusing on the still-weak economy and raising fears among voters about big budget deficits and an overly intrusive federal government. Circumstances are giving the Republicans their voice, Mr. Fratto said, regardless of some members' foibles.

But the Sanford scandal will neutralize, at least for now, one of the party's most vocal spokesmen for that emerging message.

Ever since Mr. Obama signed his $787 billion economic-stimulus law in February, the South Carolina governor has been one of the most ardent voices of opposition. He fought first with South Carolina Democrats, then with many Palmetto State Republicans over roughly $700 million of stimulus funds he didn't want South Carolina to accept. The battle had made him a hero among many small-government conservatives and had lifted his stature among Republicans beyond his home state.

Mr. Sanford was one of a class of Republican governors seen by party loyalists as possibly helping the GOP return to power. And he isn't the only one to have hit rough waters of late.

Alaska Gov. Sarah Palin has been hit with a number of ethics complaints as her approval ratings have slipped. She has also had high-profile spats with the party establishment over speaking gigs. Gov. Bobby Jindal of Louisiana was given a national platform to respond to Mr. Obama's first congressional address in February, but his speech was widely panned. Utah Gov. Jon Huntsman, meanwhile, chose to accept Mr. Obama's offer to become ambassador to China.

For U.S. voters, politician's sin goes beyond the affair

BY GERALD F. SEIB

CAPITAL JOURNAL

The spectacle of South Carolina Gov. Mark Sanford's dalliance in Argentina raises a fairly basic question: In American politics, is having an affair a mortal sin?

Probably not. In the 22 years since presidential candidate Gary Hart was caught sailing with an attractive young blonde on a yacht aptly named Monkey Business, American voters have grown a bit numb to politicians' sexual indiscretions. They are prepared to forgive the sin of adultery and have done so numerous times.

But there are two related failings they find much harder to forgive. The first is hypocrisy, and the second is abuse of office in pursuit of a sexual escapade. Ultimately, those now are the two mortal sins for which absolution is much harder to find.

"I think that Americans are becoming desensitized to politicians having affairs," says Ron Bonjean, a Republican political consultant. "It takes a couple of extra steps for them now to get the 'wow' factor in."

Mr. Sanford surely has provided some 'wow' material. He conducted not your garden-variety affair, but an intercontinental one; left a trail of emails with his lover now in the hands of his state's most important newspaper; and headed for a rendezvous over Father's Day weekend, leaving behind his four sons.

But those probably aren't his most grievous problems. His real predicament is that he is vulnerable on both the hypocrisy and abuse-of-office counts.

First, hypocrisy. Mr. Sanford always has been more a fiscal than a social conservative, but he also has talked openly about values. While in Congress in the 1990s he cited the need for a leader to have moral legitimacy as he voted to impeach former President Bill Clinton after his affair with Monica Lewinsky.

And in emails now made public by the State newspaper in Columbia, S.C., Mr. Sanford writes to his lover that "In all my life I have lived by a code of honor and at a variety of levels know I have crossed lines I would never have imagined." He even quotes from the Bible in the same email. In a socially conservative state, the latitude for a gap between public and private morality may be especially limited.

Yet Mr. Sanford's biggest problem ultimately is the appearance that he neglected and abused his office. He drove off to his Argentina rendezvous in a state vehicle. He

South Carolina Gov. Mark Sanford admitted to an affair earlier this week.

failed to let his own lieutenant governor (a fellow Republican) or the state's top law-enforcement official know where he could be found in an emergency. He allowed—in some ways encouraged—his staff to deceive reporters, legislators and the public about his destination.

"It was that he misled the state over his whereabouts in a very clumsy manner," says Scott Reed, who ran Sen. Bob Dole's 1996 presidential campaign. "At the end of the day he was elected to run the state, not to run to Argentina."

Americans' views about politicians' private affairs have steadily evolved over the past generation, as voters have grappled with a long list of leaders who have tested social and moral taboos. Some of those taboos have been knocked down along the way. Americans elected as president Ronald Reagan, a divorcee, and Bill Clinton, who essentially acknowledged in a national TV interview that he had cheated on his wife.

On the other hand, questions of private behavior and personal values have become more prominent features of political debate. Politicians now are expected to wear religion on their sleeves, while also seeing their moral failings exposed by a more aggressive journalism (and now blogosphere) community. As a result, the lines of what voters will tolerate and what they won't have moved and become a bit more clear.

Mr. Hart's indiscretion killed off his presidential hopes in 1987. By time Bill Clinton ran, he could survive the disclosure of past infidelities. And once in office as president, he survived the Lewinsky affair in large part because he didn't really look like a hypocrite—everybody knew he wasn't exactly a family-values icon—and because prosecutors and Republicans never quite pinned him down on abuse of his office in pursuit of his relationship with Ms. Lewinsky.

Former House Speaker Newt Gingrich remains a potent political force despite two divorces and publicly acknowledging he was having his own extramarital affair while pursuing the impeachment of Mr. Clinton. His advantage is that he was never really seen as a prominent carrier of the Republican family-values banner and that his private affairs never were seen as intruding on his public office.

Rudy Giuliani was in political peril after the disclosure of an extramarital affair—but mostly because of suggestions the former New York mayor may have misused taxpayer-funded drivers and security detail to facilitate it. He carried on but only after he put those concerns to rest.

On the other hand, former New York Gov. Eliot Spitzer seemed to realize instantly that the hypocrisy factor meant that he couldn't survive the revelation that he had frequented a prostitute. How could a man who made his reputation as a law-and-order attorney general explain away violating the law by paying for sex?

For Mr. Sanford, that helps underscore his problem. Abuse of office is far more likely to be seen by voters as a mortal failure than is abuse of a marriage.

Alcohol claimed many Russians, study reveals

Associated Press

MOSCOW — A new study by an international team of public-health researchers documents the devastating impact of alcohol abuse on Russia—showing that drinking caused more than half of deaths among Russians age 15 to 54 following the Soviet collapse.

The 52% figure compares with estimates that less than 4% of deaths world-wide are caused by alcohol abuse, according to the study by Russian, British and French researchers published in Friday's edition of the U.K. medical journal the Lancet. The Russian findings were based on a survey of almost 49,000 deaths from 1990 to 2001 among young adult and middle-age Russians in three industrial towns in western Siberia, which had typical 1990s Russian mortality patterns.

Professor David Zaridze, head of the Russian Cancer Research Center and lead author of the study, estimated that the increase in alcohol consumption since 1987, the year when then-Soviet leader Mikhail Gorbachev's restrictions on alcohol sales collapsed, cost the lives of three million Russians who would otherwise be alive today.

The deaths went largely unnoted outside Russia, but devastated Russian society—claiming the lives of millions during what should have been their most productive years.

Murray Feshbach, a senior scholar at the Woodrow Wilson Center for Scholars and a leading expert on Russian public health, called the study "very impressive, very substantive" and the overall methodologically sound. He wasn't part of the research team.

Some researchers have blamed the crumbling of the Soviet health-care system, increased smoking, changes in diet or a loss of jobs that raised stress levels for the mysterious rise in deaths. Many others, like Prof. Zaridze and his team, pin the blame squarely on increased drinking, which the report says roughly doubled in Russia from 1987 to 1994—from the equivalent of about five liters of pure alcohol annually to about 10.5 liters.

He argues that the social and economic shocks of the late 1980s and 1990s drove people to drink.

Russia and some of its Eastern European neighbors still have the world's highest levels of alcohol consumption, according to another study also published in the Lancet on Friday as part of series on alcohol and global health.

Bloomberg News

Drinking in Russia increased after the fall of the Soviet Union.

U.S. tries again on immigration

New set of politicians lead bid to alter policy amid many obstacles

By Jonathan Weisman

WASHINGTON—President Barack Obama was set to meet Thursday with a bipartisan, politically diverse group of lawmakers to begin discussing a rewrite of U.S. immigration laws.

But the effort faces stiff headwinds: a Washington agenda already packed with other priorities; a recession making Americans nervous about the job market; and the sidelining of the most vocal champions of an immigration overhaul.

"Greater presidential leadership is going to be needed," said Clarissa Martinez, director of immigration policy at the National Council of La Raza, the largest Latino advocacy group. "It's an absolute necessity."

The White House meeting was to bring together lawmakers who were involved in the failed immigration fights of the George W. Bush years, but who weren't the central stars. Gone will be Sen. Edward Kennedy (D., Mass.), suffering from a brain tumor. His Republican partner, Sen. John McCain of Arizona, planned to be at the White House Thursday. But bearing scars from his presidential battle with Mr. Obama and from his own party over his pro-immigration stand, Mr. McCain says he won't lead the fight this time.

Instead, it would be up to a new cast, including Sen. Charles Schumer (D., N.Y.) and opponents of the last immigration-overhaul efforts, such as Sens. Jeff Sessions (R., Ala.) and John Cornyn (R., Texas), to forge any bipartisan compromise, lawmakers say.

Mr. Schumer, who took over from Mr. Kennedy this year as chairman of the Senate's immigration subcommittee, said he believes an immigration bill can get done this year, though he admitted he is a lonely voice in Washington. Democratic officials say the passing of the baton has its advantages: The New Yorker is likely to be tougher on stemming illegal immigration, and less prone to support civil liberties for illegal immigrants, a stand of Sen. Kennedy that infuriated some Republicans.

"If you can convince Americans we can and we want to stop future waves of illegal immigration, they will accept a tough but fair path to citizenship and a very rational future flow of legal immigrants," Mr. Schumer said in an interview.

Business groups are ready to get on board, especially the high-tech industry, which faces a shortage of high-skilled workers, even with unemployment nearing 10%, said Ralph Hellman, chief lobbyist for the Information Technology Industry Council.

But business groups worry that Democrats will defer to the AFL-CIO on the issue of legal immigration. The labor confederation has opposed a robust guest-worker program or higher levels of legal immigration, fearing they would depress wages.

A larger labor presence would splinter the coalition of business and pro-immigration groups that embraced past immigration efforts, only to see them falter in the Senate.

U.K. to hire ex-hackers

Recruits will join security unit aimed against cyberattacks

Associated Press

British Prime Minister Gordon Brown, center, visiting the London office of Detica, owned by BAE Systems, as part of the launch Thursday of the U.K.'s new security unit.

ASSOCIATED PRESS

Britain is hiring former computer hackers to join a new security unit aimed at protecting cyberspace from foreign spies, thieves and terrorists.

The U.K.'s terrorism minister, Alan West, said the new recruits will join efforts to trace and cut off the source of cyber attacks on Britain's government, businesses and individuals.

The country also will develop its capability to wage cyber warfare against the country's foes, he said. Prime Minister Gordon Brown announced the creation of the unit Thursday as he published an updated national security strategy, detailing Britain's response to global terrorism and emerging threats.

"Just as in the 19th century we had to secure the seas for our national safety and prosperity, and in the 20th century we had to secure the air, in the 21st century we also have to secure our position in cyberspace," said Mr. Brown.

Mr. West said British government systems had probably come under cyber attack but that he didn't know of any specific cases where sensitive data had been lost. British telecom BT Group PLC, one of the world's largest telecommunications providers, estimates it has about 1,000 attempted cyber attacks per day on its systems, Mr. West said.

The head of Britain's domestic spy agency has previously warned that both China and Russia are using new technology to spy on Britain. British officials are concerned that some terrorist groups, including those linked to al-Qaeda, are likely to soon develop the capability to use cyber warfare to attempt attacks on Western targets.

Eugene Spafford, a professor of computer science at Purdue University, in Indiana, said it won't be easy for all former hackers to become cyberspace police.

"Knowing how to break a window is different from knowing how to fix it or to install it," he said. "They may find flaws, but that doesn't know they know how to fix the system." Mr. West also confirmed that—as the U.S. military does—Britain has the ability to carry out its own cyber operations.

EU will curb emissions from combustion plants

BY ALESSANDRO TORELLO AND FRANK HUETTEN,

European Union governments agreed to tighten the limits on the amount of polluting emissions from combustion plants, part of a broader plan to simplify rules and increase environment protection.

Environment ministers of the 27 EU member countries decided at a meeting in Luxembourg on Thursday that large combustion plants, such as power plants or installations in oil refineries and metal producers, would have to use state-of-the-art technologies to reduce their polluting emissions by 2020 at the latest, a spokeswoman for the European Commission said.

"After lengthy and difficult discussions, we reached an agreement," said Ladislav Miko, the Czech environment minister who headed up the meeting.

The new rules will merge seven pieces of legislation and also seek to limit the number of exemptions for the 52,000 installations covered.

Greece seeks ways to cut this year's budget deficit

BY ALKMAN GRANITSAS AND AYSE FERLIEL

ATHENS—The Greek government announced new taxes and other measures that will give it an extra €2.3 billion ($3.1 billion) this year as it tries to rein in its ballooning budget deficit, even as it revised down its economic forecast for the year.

Finance Minister Yannis Papathanassiou said Thursday that Greece will probably see no economic growth this year—compared with the government's previous forecast of 1.1% growth—and only return to growth in 2010. But he also reaffirmed in a news conference the government's goal of cutting the deficit to 3.7% of gross domestic product this year.

"The rate of growth for the Greek economy in 2009 is expected to slow more than original forecasts. Specifically, it will range around zero, compared with 1.1% that was forecast," Mr. Papathanassiou said. "To achieve our goal of reducing the deficit to 3.7% of GDP in 2009, we will need further measures in the order of €2.3 billion, or about 1% of GDP."

Due to higher interest payments on the national debt, slowing economic growth, higher outlays for social programs and rising tax evasion, Greece has seen its budget deficit widen to above 5% of GDP in 2008.

Because of that, the European Commission has given Greece until the end of 2010 to bring its budget gap below the European Union mandated level of 3% of GDP.

The measures announced Thursday, which have been expected for some time, include new taxes on certain property, fuel, mobile phones, cars, luxury boats and gambling income, which combined are expected to raise €1.91 billion in revenue.

In addition, the government hopes to raise €447 million by cracking down on widespread tax evasion by stepping up audits and other checks on tax cheats.

The new package follows a series of revenue and spending measures announced this year that included new taxes on the wealthy and freezing wages of almost half a million civil servants.

"Our goals are specific and clear: to reduce the deficit below 3.7% of GDP and to ensure the credibility of our country in the international market from which we borrow a large amount each year to service the high national debt," said Mr. Papathanassiou.

Many economists say, however, that even with the new measures, the government will face difficulty meeting its deficit targets.

"The latest data concerning the execution of the 2009 budget confirm earlier expectations of a significant deterioration in Greek fiscal accounts due to the economic slowdown," said Platon Monokroussos, an economist at EFG Eurobank Ergasias SA. "But even with the new measures to reduce the budget deficit, the risk remains of a significant overshooting of the target both this year and next."

China to boost its purchases of Turkmenistan natural gas

A WSJ NEWS ROUNDUP

China signed a 30-year deal to increase purchases of natural gas from Turkmenistan by 30%, Turkmen state media reported, a landmark agreement for Beijing as it competes with Moscow for access to Central Asia's energy wealth.

No value was announced for the deal, which also marks another step forward in Chinese efforts to find long-term, stable energy supplies.

Chinese Vice Premier Li Keqiang met with his Turkmen counterpart Wednesday to sign the contract, which increases gas deliveries to 40 billion cubic meters annually, the state-run newspaper Neutral Turkmenistan reported. Work on a 7,000-kilometer pipeline from Turkmenistan to China is expected to be finished by the end of the year.

The Turkmen deal comes a day after China's state-owned Sinopec Group agreed to acquire oil-exploration company **Addax Petroleum** Corp. for 8.27 billion Canadian dollars (US$7.18 billion), in what would mark the largest overseas takeover by a Chinese company. China has also committed to lending Turkmenistan's state gas company $4 billion on preferential terms, the Neutral Turkmenistan newspaper reported.

The deals come amid strained relations between Turkmenistan and Russia, which usually buys most of the Turkmen gas for onward sale in Ukraine and Europe. Earlier this year, Russia moved to reduce gas imports from Turkmenistan because of plunging demand and prices in Europe.

The two countries have also sparred over a blast in April that damaged a major pipeline transporting Turkmen gas to Russia.

New trial ordered in journalist case

ASSOCIATED PRESS

MOSCOW—Russia's Supreme Court on Thursday overturned the acquittal of three men charged with the murder of Anna Politkovskaya, a journalist whose reporting directly challenged the country's most powerful leaders.

A Moscow jury acquitted the defendants—two Chechen brothers and a former policeman—in February after a trial that Ms. Politkovskaya's supporters said was undermined by prosecution errors and omissions.

The acquittal was an embarrassment for the Russian government, which has appeared eager to fend off charges that journalists and Kremlin critics can be murdered with impunity. The prosecutors appealed the verdict, accusing the judge of making numerous procedural violations. The Supreme Court agreed there had been a violation of procedural rules, a court spokesman said. The court ordered a new jury trial.