

On Other Fronts: A pesky paparazzo stalks the wily Berlusconi

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As the U.K. prepares to announce another set of measures to cushion the impact of the recession, signs are emerging that two key sectors have stabilized and may even be about to recover. **Page 9**

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CLEANING UP: The shower trailer that American soldiers at Khadra had used is loaded up to be taken to another base. **Page 3.**

Arrests in Iran raise ire of U.K.

BY JEANNE WHALEN

Iran arrested nine local employees of the British Embassy in Tehran at the weekend, drawing a terse response from the U.K. government and signaling an escalation of tensions between two countries with a history of difficult relations.

Iranian media reported the arrests on Sunday, saying the employees had been detained for allegedly playing a role in post-election demonstrations in Tehran. Speaking during a visit to Greece, British Foreign Secretary David Miliband said some of the nine arrested Saturday, had been released, though he didn't say how many.

A U.K. Foreign Office spokeswoman said Sunday that some staff were still being held, but she declined to say how many. She also declined to comment on the circumstances of their arrest.

"The United Kingdom is deeply concerned at the arrest and, in some cases, continued detention of some of our hard-working, locally engaged staff in Tehran," Mr. Miliband said Sunday. "This is harassment and intimidation of a kind which is quite unacceptable."

"The idea that the British Embassy is somehow behind the demonstrations and protests that have been taking place in Tehran in recent weeks is wholly without foundation."

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Germany's tough options

As export slump persists, nation refuses to adopt alternative growth path

BY MARCUS WALKER

BERLIN—Germany, in the grip of a massive export slump, firmly believes it has no alternative to export-led growth. But there is an alternative—the country just doesn't

have the stomach for the changes it would require.

Germany's gross domestic product, the value of all its

goods and services, has fallen by nearly 7% in the past four quarters, driven largely by foreigners buying fewer German goods.

One lesson of this crisis: Just as bad as having a credit bubble burst, like in the U.S., is depending on customers whose credit bubble is bursting.

When exports make up 47% of your GDP, and exports drop by 17% year over year—as Germany's did in the

first quarter—the effect is to wipe out years of previous economic growth at a stroke.

There are three ways that Germany, the world's fourth-largest economy, could respond.

One is to sit tight and wait until global trade recovers. That's what Chancellor Angela Merkel's government and much of corporate Germany plan to do. In their view, this recession is an almighty cyclical hiccup, but Germa-

ny's economy is fundamentally sound.

Defenders of the status quo say Germany's export dependence reflects its comparative advantage: Germany is good at engineering, and other countries—especially fast-developing ones such as China—need a lot of new machinery.

So the government is subsidizing companies' payrolls to preserve their work forces

Please turn to page 31

UBS moves reflect CEO's challenges

BY STEPHEN FIDLER

Still buffeted by the financial crisis, UBS AG's move to boost its capital base underlines its continuing struggles to return to profitability even as its competitors are minting money.

The bank raised 3.8 billion Swiss francs (\$3.5 billion) late last week by placing 293 million shares, or 8.4% of its capital, with a few investment institutions. It marked the fourth time in less than two years that UBS shareholders have suffered a dilution of their holdings.

At the same time, the bank announced it would post a loss for the second quarter and said customers continued to pull money from its flagship

wealth-management business.

The announcement emphasized the hill the bank's new boss, Oswald Grübel, a former top banker with rival Credit Suisse Group AG who took over in February, must still climb to turn around the bank.

Mr. Grübel was installed in February, after the company's financial troubles led the Swiss government last year to inject six billion francs of new capital into the bank and to buy some \$60 billion of its toxic assets.

Many of UBS's high-net-worth customers have been scared off by the bank's dispute with the U.S. Internal Revenue Service, which wants it to hand over details

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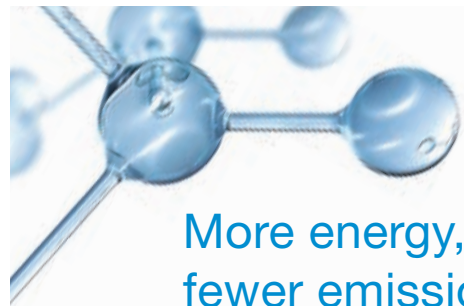


Perfect pitchman

The King of Pop was a prince on Madison Avenue
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DJIA	8438.39	-0.40
Nasdaq	1838.22	+0.47
DJ Stoxx 600	204.47	-0.09
FTSE 100	4241.01	-0.27
DAX	4776.47	-0.50
CAC 40	3129.73	-1.05
Euro	\$1.4070	+1.18
Nymex crude	\$69.16	-1.52



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LEADING THE NEWS

Embassy arrests rankle U.K.

Continued from first page
 dation. We have protested in strong terms, directly to the Iranian authorities, about the arrests that took place yesterday.”

Last week, Iran expelled two British diplomats from the country, accusing them of playing a role in the post-election protests.

After a meeting in Greece, EU Foreign Ministers condemned the the expulsion and the detention of British Embassy staff and said that any “harassment or intimidation of foreign or Iranian staff working in embassies will be met with a strong and collective EU response,” according to a statement released by Britain’s Foreign Office.

Hostility between Tehran and London has been mounting in recent days.

Mr. Miliband said Britain hasn’t yet had a response from Tehran.

Nader Mousavizadeh, a diplomatic expert and consulting senior fellow at the International Institute for Strategic Studies in London, said the arrests show that the forces around Iran’s President Mahmoud Ahmadinejad are attempting to create more antagonism with the outside world.

“They think it will serve their interests in the near term and justify their hard line in domestic policy because they can say, ‘Look, the rest of the world is out to get us,’” Mr. Mousavizadeh said. “A more open, engaged Iran is one that will want more choices about relations with the outside world, about women’s rights, about political rights. And that fundamentally doesn’t serve the interests of the hardline faction now in control.”

Hostility between Tehran and London has been mounting in recent days. Britain retaliated for the expulsions by expelling two Iranian diplomats.

U.K. Prime Minister Gordon Brown last week called Iran’s allegations that the U.K. diplomats had played a role in the protests “absolutely without foundation.”

“The onus is on Iran to show the Iranian people that recent elections have been credible and that the repression and curtailment of democratic rights that we have seen in the last few days will cease,” Mr. Brown told the House of Commons last week. “We too have an expectation of Iran—that it meets its obligations as a member of the international community. I hope that Iran will respond to our efforts to establish a genuine dialogue.”

Hostility between Iran and the U.K. stretches back centuries, stemming from Britain’s attempts to use Iran as a buffer zone to keep Russia out of India. The 20th century continued to see British interference as the U.K. tried to guard its oil and business interests in Iran.

In 1951, the Iranian government moved to nationalize the Anglo-Iranian Oil Company, in which Britain owned a majority stake. Britain and the U.S. retaliated in 1953 by backing a coup that deposed the democratically elected Prime Minister Mohammad Mossadeq and re-installed the pro-Western Shah, Mohammad Reza Pahlavi.

In a recent blog entry Mr. Miliband acknowledged the tensions: “The memory of foreign intervention throughout their history is deep within all Iranians,” he said.

As recently as 2005, Mr. Ahmadinejad accused Britain of complicity in a deadly terrorist bomb attack in southern Iran, despite strenuous British denials. In 2007, the Iranians held 15 British naval personnel for weeks.

Given the bad blood, Britain at first reacted moderately to the current events in Iran, saying only that Iran should respect media freedoms and avoid violent repressions of protests. But Mr. Brown has edged up his rhetoric in recent days.

—Alistair MacDonald in London contributed to this article.

Iran steps up its rhetoric

Guardian Council to certify vote result as protests continue

A day ahead of a deadline for confirming Iran’s election results, neither the government nor the opposition showed signs of backing down as fresh clashes broke out on the streets.

By Farnaz Fassihi in Dubai, Jeanne Whalen in London and Jay Solomon in Washington

The Guardian Council, a supervising clerical committee, is scheduled Monday to finalize its investigation into alleged election fraud in which it has been examining 10% of the ballots. The council is widely expected to uphold earlier announcements declaring President Mahmoud Ahmadinejad the winner of the race.

Opposition reform candidates Mir Hossein Mousavi and Mehdi Karubi both dismissed the investigation as not being independent and maintained their position that the results must be annulled, according to statements on their Web sites.

Clashes continued Sunday as security forces used tear gas to disperse a gathering in honor of slain revolutionary cleric Ayatollah Mohammad Beheshti, who was killed in a bombing in 1981.

Supporters of Mir Hossien Mousavi, the opposition leader and reform candidate, planned to use the occasion to draw attention to scores of protesters who have been killed, arrested and beaten in the past three weeks of postelection unrest.

Videos about the event posted on YouTube show that thousands of protesters defiantly stood outside the Ghoza Mosque and streamed into side streets clapping their hands and evoking the name of Shiite Islam’s martyred imam as they chanted what has become the signature mantra of the demonstrations, “Ya Hossein, Mir Hossein,” and “Death to the Dictator.”

In a sign of how far the children of the 1979 revolution have strayed from their founding fathers, Alireza Beheshti, the cleric’s son, who served as a key adviser for Mr. Mousavi’s campaign, is now in prison along with his son.

In Washington, senior Obama administration officials said the U.S. remains open to negotiating with Tehran over its nuclear program but sought to play down Iranian President Ahmadinejad’s future role in international diplomacy.

Mr. Ahmadinejad has intensified his criticism of U.S. President Barack Obama in recent days, alleging U.S. interference in Iran’s continuing political crisis sparked by a dispute over the results of its presidential election. The Iranian leader has said he would maintain a confrontational stance towards the West as he embarks on his second, four-year term.

U.S. officials on Sunday suggested that Mr. Ahmadinejad was increasingly viewed as irrelevant to the U.S.’s calculations on its Iran strategy. “Understand that whatever Mr. Ahmadinejad says, everyone understands that in Iran, he is not the person who makes decisions on foreign policy, on defense policy,” David Axelrod, Mr. Obama’s top political adviser, said on ABC’s “This Week.” He described the Iranian leader’s criticism of Mr. Obama as “blatant” and that he is politically motivated.

Susan Rice, the Obama administration’s ambassador to the United Nations, in an interview with CBS’s “Face the Nation,” also sought to play down Mr. Ahmadinejad’s influence.

“Ahmadinejad is, in fact, as we well know, not the principal decision maker when it comes to foreign policy and national security. It is the supreme leader,” Ms. Rice said, in a reference to Iranian Supreme Leader Ayatollah Ali Khamenei. “That was the case before the election; it is the case now.”

The Obama administration is walking an increasingly tricky diplomatic path when it comes to its Iran policy. Mr. Obama has voiced support for Iranian pro-democracy groups that have openly challenged the legitimacy of Mr. Ahmadinejad’s re-election. But Mr. Obama also has made it a priority to try to end Iran’s nuclear program through negotiations. The U.S. and other countries are concerned that Tehran could use the program to develop atomic weapons.

U.S. officials on Sunday sug-

gested that Mr. Obama remained committed to pushing ahead with that diplomatic initiative but not with Mr. Ahmadinejad as the focus. They also suggested that any engagement would largely be done through multilateral forms, such as the U.N. Security Council, rather than through direct U.S.-Iranian talks. “We’ve left the door open to bilateral diplomacy, but the choice is really with the Iranians now,” Ms. Rice said. “We need to see if indeed the offers that have been made by the international community will be opportunities that the Iranians choose to accept.”

Pentagon officials on Sunday charged Iran with continuing to try to destabilize neighboring Iraq. U.S. military officials have alleged that Tehran is supplying weapons and training to militias that have fought the U.S. and allied forces inside Iraq in recent years, a charge Tehran denies.

“I would say they still continue to interfere inside of Iraq. They still continue to conduct training. They still continue to pay surrogates to conduct operations in Iraq,” Gen. Ray Odierno, the top U.S. commander in Iraq, said on CNN’s “State of the Union.” “It might be a bit less than it was, but I think that’s more based on the success of the security forces here than it is on Iran’s intent.”

Gen. Odierno said the U.S. has already met the June 30 deadline to pull U.S. troops out of major cities in the country, and expressed confidence that Iraqi security forces could take more control. Speaking on “Fox News Sunday,” he dismissed the recent uptick in violence in Iraq.

“What we’ve had is we’ve had some extremist elements trying to bring attention to themselves as well as divert attention from the progress being made in Iraq,” he said. “So we’ve seen a couple high-profile attacks aimed at the—aimed at innocent civilians.”

Gen. Odierno said U.S. troops have been withdrawing from major Iraqi cities over the past eight months, and the final units moved out in recent weeks. He said Iraqi security forces have improved constantly in the last two years as has local and provincial governance. “I think all of these factors, combined with the continued improvement in overall stability and security, makes this the right time for us to turn this over to the Iraqi security forces.”

Under a security pact between the U.S. and Iraq, U.S. forces must withdraw from the country completely by 2012.

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LEADING THE NEWS

Unease is mounting over pullback in Iraq

Some worry over loss of U.S. intelligence as troops leave cities

BY GINA CHON

BAGHDAD—American commanders and Iraqi officials and residents are watching with growing unease as U.S. combat forces end their duty in Iraq's urban areas this week amid almost daily reports of violence.

U.S. officials worry that as they continue to battle the remnants of an insurgency and efforts to reignite sectarian strife, they will be losing critical, on-the-ground intelligence gleaned from the neighborhoods they once lived in and patrolled. The boots-on-the-ground approach was crucial to the Pentagon's mostly successful surge strategy in Baghdad.

Many Iraqis are still deeply suspicious of the sectarian leanings of the country's nascent security forces. For them, the pullout of American troops means the disappearance of what they considered an effective check on suspect Iraqi soldiers and police officers.

In Khadra, a neighborhood in western Baghdad, those fears are already playing out. Earlier this month, American soldiers from the Army's 5th Squadron, 4th Cavalry Regiment, 1st Infantry Division, handed over their base to an Iraqi unit. The same week, a local television station reported that some residents believed the Iraqi army colonel in charge of the area was behind several kidnappings for ransom.

A few days later, the same station broadcast pictures of homes in Khadra that had been spray-painted with red check marks, X's and other symbols. One Khadra resident, who awoke one morning to find a big, red X on the wall surrounding his home, said he thought the symbol had sectarian significance since it seemed, from talking to neighbors, that the mark appeared on homes belonging to Sunni families.

"We're very scared about the meaning of this," said the Sunni resident, in an interview. "Maybe we will be targeted for something."

Tuesday is the deadline for American combat troops to withdraw from cities and move to bases outside population centers. The date was established in a security pact approved last year that also sets the deadline for the complete withdrawal of U.S. forces from Iraq at the end of 2011.

Iraqi officials have hailed the American pullout from Iraqi cities as a victory against insurgents. June 30 is an official holiday here.

But headline-grabbing attacks have increased. At least 200 Iraqis have been killed in the 10 days leading up to the June 30 deadline.

U.S. military spokesman Brig. Gen. Stephen Lanza acknowledged that with most U.S. combat forces pulling back to the big bases, American troops will mostly be getting their information from local sources.

"There is a chance we could be flying blind at times because we won't always be able to see with our own eyes what is going on," said one American officer. "But that's the chance we have to take with this transition."

More worrying for Iraqis is the sudden evacuation of a force seen as a neutral buffer between Shiite and Sunni neighbors, and security forces long thought to have been in-

filtrated by Shiite militia. Top security officials have worked to root out personnel with sectarian agendas.

In Khadra, a largely Sunni, middle-class neighborhood, residents are worried about alleged sectarian leanings after this month's television reports on the Al-Sharqiya TV network. Khadra had once been seen as a stronghold for al Qaeda in Iraq but security began improving after U.S. troops set up bases there in 2007. The area west of Khadra, however, is still believed to be an al Qaeda safe haven.

Iraqi Army Col. Khaim Rusin Rahim, head of the 6th Infantry Division's 3rd Battalion denied the kidnapping accusations, saying the local television station had a personal agenda against him. He said the markings were meant to show

which homes were empty, and declined to comment further.

Col. Rahim, a Shia, said he is popular with the Sunni residents of Khadra. He showed a reporter a video of him going out in the neighborhood earlier this month and being greeted by residents with claps and banners hailing him.

"If the people were against me, why would they come out to greet me?" Col. Rahim said.

U.S. officers who were stationed at the base said they were unaware of the accusations against Col. Rahim and the markings on the homes, and would look into the matter.

But Capt. Maxwell Scott, an intelligence officer, and other officers, said the Iraqi soldiers largely worked on their own and "didn't really seem to need us anymore." They said that meant they wouldn't al-

ways know the details about what was going on in Khadra.

"We can't blame them, because this is about them taking over," Capt. Scott said. "And a lot of times, their intelligence is better than ours, anyway."

Still, many residents are uneasy. One Sunni resident, who had just moved back to Khadra three months ago after fleeing from an insurgent attack near his home last year, said he was worried about security once again.

"I don't think our soldiers can control the situation," he said. "It's better to still have the Americans here. They are our quality assurance for our own forces."

Separately, the Iraqi Oil Ministry said Sunday it had pushed back by one day the announcement of winners of a closely watched oil-bid-

ding round, citing a sandstorm that forced the shutdown of Baghdad airport. The ministry said it will try to announce the awards on Tuesday.

Many oil-company representatives, journalists and others had planned to fly into Baghdad on Sunday before the awarding of the bids at the Rasheed Hotel in Baghdad. But their flights were canceled because of the weather, so the Oil Ministry decided to delay the event for a day, said ministry spokesman Assem Jihad.

The winners are to develop six existing oil fields and two gas fields, marking the first opening of the petroleum sector to Western companies since Iraq nationalized the industry in 1972.

—An Iraqi staff member contributed to this article.

**WE DON'T SAY OUR
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GERMAN ONES.
THE GERMANS DO.**

The Renault Clio was ranked Number 1 for
reliability in its class (0 to 50,000 km)

by the German
certification
body DEKRA*

(results for 2008).

As for the Renault Laguna, ADAC placed it 2nd equal for reliability with the Audi A4 and the Mercedes

C-Class** (results for 2008). They also ranked both the Modus and the Clio as «excellent» in terms of reliability

and immobilising breakdowns (results for 2008), while the Renault Scénic became the first people carrier to beat

the Volkswagen Touran (results for 2008). These results are a testament to Renault's commitment to both product

and service quality, a major strategic focal point as defined by the company's President in the Contract 2009.

(*Source: Dekra Mängelreport 2009, **Source: Rapport Adac Motorwelt 5/2009). It's time to change.

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CORPORATE NEWS

Computers are suspected in jet crash

Investigators believe chain of failures in Air France flight deprived pilots of automation they typically rely on

BY ANDY PASZTOR
AND DANIEL MICHAELS

Aviation investigators, running out of time to find the "black boxes" with key information on the crash of Air France Flight 447, suspect a rapid chain of computer and equipment malfunctions stripped the crew of much of the automation pilots typically rely on to control a big jetliner.

An international team of experts is building a scenario in which it believes a cascade of system failures, seemingly beginning with malfunctioning airspeed sensors, rapidly progressed to what appeared to be sweeping computer outages, according to people familiar with the probe. The Airbus A330, en route from Rio de Janeiro to Paris, crashed into the Atlantic Ocean during a storm May 31, killing all 228 aboard.

Based on initial physical evidence and analysis of the sketchy information from automatic maintenance messages sent by the aircraft, these people said, the plane bucked through heavy turbulence created by a thunderstorm without the full pro-

tection of its highly computerized flight-control systems—safeguards that experts say pilots now often take for granted.

Relying on backup instruments, the Air France pilots apparently struggled to restart flight-management computers even as their plane may have begun breaking up from excessive speed, according to theories developed by investigators.

The investigators—from the U.S., France and Brazil—stress it is too early to pinpoint specific causes. But whatever the eventual findings, the crash already is prompting questions about how thoroughly aviators are trained to cope with widespread computer glitches midflight.

If such emergencies do occur on today's increasingly automated jetliners, many industry safety experts wonder how proficient the average crew may be in trying to rely on less-sophisticated backup systems.

"The difficulty is, they're rare enough that pilots can be unprepared, but likely enough to pose a real threat," according to Bill Voss, president of the Flight Safety Foundation, an industry-supported group based in Alexandria, Va. "We need to examine how to deal with automation anomalies."

Unlike jetliners built in previous decades—which required pilots to frequently manipulate controls and often manually fly the planes for long stretches—newer computer-centric aircraft such as the A330 and Boeing's 777 are designed to operate almost entirely on automated systems. From choosing engine settings and routes to smoothing out the ride during turbulence and landing in low visibility, pilots essentially monitor instruments and seldom interfere with computerized commands. So when those electronic brains begin to act



A diver stands on a piece of debris from Air France Flight 447 as searchers troll the Atlantic Ocean for the plane's 'black box.'

Crash clues

WRECKAGE

Debris may reveal if the plane broke up in midair and at what speed or angle it hit the water.

AUTOPSIES

Bone fractures may show if victims died on impact or at high altitude; lung exams may show smoke inhalation from a fire or explosion.

FLIGHT DATA

Automated transmissions point toward speed indicators and computers.

weirdly at 10,000 meters, the latest crop of aviators may be less comfortable stepping in and grabbing control of the airplane.

Airlines typically use simulators to train cockpit crews for such events, but a pilot may only hone skills to deal with major computer problems every few years. Pilots hardly ever experience multiple computer failures in real-world conditions.

Crews commanding a flotilla of

specially-equipped vessels are still trolling an area with a radius of at least 80 kilometers for the recorders. The sea floor beneath where debris was found floating is mountainous and up to 4,500 meters deep. The recorders are designed to last for at least 30 days. That deadline runs out Wednesday, though investigators and safety experts believe that signals may last for at least a couple more weeks.

Because the A330 is one of the most widely used planes in commercial aviation, crash sleuths "aren't likely to easily stick with an undetermined cause," according to John Cox, a former Airbus pilot who now works as an industry consultant. Instead, investigators "will exhaust every possibility" to pinpoint probable reasons and contributing factors, Mr. Cox said, though without the black boxes they may have to be cautious.

Wizz Air soars amid rivals' woes

BY SEAN CARNEY
AND LEOS ROUSEK

Wizz Air Hungary Airlines Ltd. is poised to benefit from the woes of Central European carriers hit by fallout from the economic downturn and internal problems.

Earlier this month, Bratislava-based, Vienna-listed carrier SkyEurope Holding AG, the oldest low-cost operator in the region, was granted bankruptcy protection as its continuing restructuring failed to stem the impact of worsening external factors.

Meanwhile, the Czech government is having trouble closing the privatization of struggling state-owned carrier CSA Czech Airlines. Earlier this month it postponed the deadline for binding bids by two months.

In contrast, business is booming for Wizz Air, and the closely held airline is quickly emerging as the likely candidate to dominate the region's short-haul market.

The lean-and-mean Budapest-based carrier earlier this month disclosed it is setting up a hub at Prague's fast-growing airport, where 12.6 million airline passengers passed through last year.

Wizz Air earlier this month ordered a whopping 50 new A320 jets

from Airbus, a unit of European Aeronautic Defence & Space Co., as part of its plans to expand its fleet to more than 130 planes by the middle of the next decade from the current 30.

The order shows how stronger carriers can use downturns to their advantage. Wizz got discounts on the planes far in excess of what A320 buyers recently received from Airbus, according to a person familiar with the transaction.

"Wizz is the Ryanair of Eastern Europe," said John Strickland, director of aviation consultancy JLS Consulting Ltd. Ryanair Holdings PLC, based in Dublin, is Europe's biggest low-cost airline by passengers carried.

Wizz Air, started by former pilots of Hungarian flagship carrier Malév Hungarian Airlines in 2004, is very disciplined and follows up opportunities keenly, Mr. Strickland said. It generally keeps to lower-cost, secondary airports, and is eager to take market share from struggling rivals, he added.

The government's postponement of Czech Airlines' privatization to Sept. 15 from July 13 fueled speculation that despite the airline's attractive slots and links with both Eastern and Western Europe, interested parties are getting cold feet. The airline has a hefty debt pile, which was incurred under previous management,

and high fixed costs tied to unfavorable personnel and leasing contracts.

The Czech government denied that lack of interest lay behind the delay, Finance Ministry spokesman Jakub Haas said.

Wizz Air is using the turmoil at Czech Airlines to its advantage to expand in Prague. Based on booked and projected seat-occupancy rates, Wizz could grab a 19% share of the low-cost-airline segment in Prague in August, said John Stephenson, the airline's executive vice president, citing industry reports.

Wizz Air—the region's second-oldest budget carrier and the low-cost-flight market leader in Poland, the area's biggest country—is also taking on SkyEurope. Later this summer, the airline plans to fly to all the destinations SkyEurope covers except two—Athens and the southern Italian town of Bari, Mr. Stephenson said.

"One day we see ourselves as the leading carrier for short-haul flights in Central and Eastern Europe," Mr. Stephenson said. "If SkyEurope doesn't emerge from its restructuring we're ready to step up our activities in the Czech Republic," he added.

Mr. Strickland said one flaw in SkyEurope's business strategy is that the airline "was initially focused on small airports and now is focused on higher-cost airports, which



Wizz Air moves into new airports vacated by other low-cost carriers across Central and Eastern Europe.

Taking off

Low-cost carrier share of booked flights to and in Hungary, Czech Republic, Poland, Slovakia, Bulgaria, Romania and Ukraine, January to August 2009

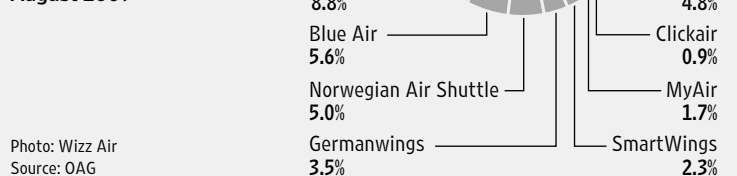


Photo: Wizz Air
Source: OAG

raises the costs base and increases competition."

In contrast, Wizz "has management experience from Ryanair and has kept a consistent strategy," Mr.

Strickland said, adding that some Wizz Air executives previously worked at Ryanair.

—Daniel Michaels
contributed to this article.

FOCUS ON AUTOMOBILES

Hummer bidder to seek approval

GM executive denies Tengzhong's offer has hit a roadblock

BY JOHN D. STOLL
AND TESS STYNES

The potential buyer of General Motors Corp.'s Hummer division will kick off formal discussions with Chinese regulators on Monday in an effort to win approval for its acquisition, according to people familiar with the matter.

Sichuan Tengzhong Heavy Industrial Machinery, based in China, has tentatively agreed to buy Hummer from GM but needs government approval.

On Friday, a China National Radio report stoked speculation that Chinese regulators will block the deal because of environmental concerns connected to Hummer's gas-hungry vehicles and the relative inexperience of Tengzhong as an auto maker.

But according to the people familiar with the matter, GM and Tengzhong have yet to formally present the transaction to the regulators responsible for reviewing it and the parties negotiating the deal haven't been informed that the transaction is in trouble. One GM executive familiar with the matter said rumors that the deal would be blocked are "not true" and should be considered "pure speculation."

Sealing the Hummer deal is one of several issues GM needs to take care of as it reorganizes under bankruptcy protection. The auto maker filed for Chapter 11 on June 1, and the U.S. government, which has committed more than \$60 billion in fi-



Customers walked among Hummer vehicles in a parking lot of an automobile market in Beijing earlier this month.

ancing for GM, is slated to own 60% of the company upon its emergence from court, which is expected to take place as early as next month.

This week could prove pivotal in GM's attempt to shed Hummer. Tengzhong's discussions with Chinese regulators are expected to take several weeks and include presentations of plans and legal documentation.

Executives from GM and Tengzhong met last week to firm up their plans, according to people familiar with the meeting, and they are operating under the assumption that they have a reasonable chance of getting the deal approved, even if the Chinese government harbors some concerns.

GM announced a tentative memorandum of understanding with Tengzhong shortly after filing for bankruptcy but said at the time it needed

to win government approval and take several other steps to complete the deal.

The nightly news broadcast on China National Radio is among the more authoritative news outlets in the country. But the Tengzhong information appears not to have come from that report and instead appeared on the state radio station's Web site, presented as a reporter's analysis. Such reports on Chinese news Web sites, even of state media, often have proven not to represent official position.

Also Friday, GM announced a key manufacturing decision, saying it chose two sites in Michigan to build small, fuel-efficient cars, and is in negotiations with Michigan and local governments about economic incentives. GM also had considered sites in Tennessee and Wisconsin.

GM selected its assembly plant in

Orion Township, Mich., and a metal-stamping facility in Pontiac, Mich. They are projected to employ about 1,400 workers combined if an agreement is reached over aid.

The plans fall under a tentative deal GM reached in April with the United Auto Workers. The union agreed to concessions that will allow GM to turn a profit on the vehicles, something previously almost impossible to do with small cars in the U.S. because of relatively high labor costs. In return, GM agreed to build the car in the U.S. rather than China as originally planned.

The Orion plant is expected to turn out a combined 160,000 small and compact vehicles a year. While a final decision hasn't been made on timing, retooling of the plants could begin late next year, with production starting in 2011, GM said.

Tata kicks off sales of Jaguar, Rover in India

BY ANIRBAN CHOWDHURY
AND SANTANU CHOUDHURY

MUMBAI—Tata Motors Ltd. on Sunday introduced the Jaguar and Land Rover luxury-car brands in India as the company tries to challenge BMW AG, Audi AG and Daimler AG in this potential growth market for premium vehicles.

The first showroom in the country in Mumbai will market models including the Jaguar XF, XFR and XKR sedans, as well as the Land Rover Discovery 3, Range Rover Sport and Range Rover sport-utility vehicles.

Luxury-car makers such as Daimler, BMW, Porsche Automobil Holding SE and Volkswagen AG's Audi brand are introducing vehicles in India to tap the country's growing number of millionaires. Shrinking demand in the U.S. and Europe also has led the auto makers to diversify into higher-growth markets such as China and India.

"It is an exciting time to be entering the Indian market, a country with increasing affluence and an economy which is still growing," David Smith, Jaguar-Land Rover chief executive, said in a prepared statement. "We believe that the Indian market holds significant growth potential in the long term."

Tata Motors posted a net loss of \$521.5 million in the year ended March 31.

Tata Motors acquired U.K.-based Jaguar and Land Rover from Ford Motor Co. in June last year to gain access to new technologies and widen its reach in overseas markets.

But the global financial crunch took a toll on sales of Jaguar cars and Land Rover SUVs, especially in the U.S. and Europe—which comprise about 65% of Jaguar-Land Rover's total volumes.

Sales of Land Rover vehicles fell 40% to 120,000 cars during June 2008-March 2009, while Jaguar sales declined 4% to 47,000 cars.

Tata Motors posted a consolidated net loss of 25.05 billion rupees (\$521.5 million) in the fiscal year ended March 31 amid lower demand.

Depressed demand for luxury cars has forced Tata Motors to cut jobs at Jaguar-Land Rover and shut factories in the U.K. The auto maker also asked for a U.K. government guarantee for a £340 million (\$561.9 million) loan sanctioned by the European Investment Bank for Jaguar-Land Rover.

Mr. Smith later told a news conference that Jaguar-Land Rover may cut more jobs if global demand for automobiles remains weak. "We have to take several stringent measures to reduce labor costs," he said.

He said labor unions at Jaguar-Land Rover are aware that more jobs losses may occur. Talks with the unions are under way, he added.

Ravi Kant, vice chairman of Tata Motors, also said Friday that Jaguar-Land Rover may shed more jobs in addition to the 2,000 job cuts planned until December.

The two brands currently employ a total of 15,000 workers, predominantly in the U.K.

GM agrees to assume liability for defects

BY MIKE SPECTOR

General Motors Corp., under pressure from state attorneys general, agreed to assume legal responsibility for injuries drivers suffer from vehicle defects after the auto maker emerges from U.S. bankruptcy protection.

The concession means consumers who are injured in car accidents after GM emerges from bankruptcy protection will be able to bring product-liability claims against the government-owned auto maker.

Under GM's original bankruptcy plan, the auto maker planned to leave such liabilities behind after selling its "good" assets to a new GM owned by the government. That meant future car-accident victims who believe that faulty manufacturing by the old GM caused their injuries would be unable to sue the new GM. Instead, they would have been treated as unsecured creditors, fighting over the remains of GM's old bankruptcy estate.

GM's agreement to take responsibility for future product-liability claims, outlined in a court filing late Friday, represents a partial victory for more than a dozen state attorneys general and several consumer-advocacy groups. They had objected to GM's original plan to shed these liabilities, arguing it would rob future car-accident victims of their legal rights because

they would have no way of knowing they might be entitled to claims.

GM advisers, members of President Barack Obama's auto task force and the attorneys general negotiated for several days to address concerns about product-liability claims, among other issues. The talks heated up Friday ahead of GM's Tuesday court date, when it will ask a judge to approve the auto maker's plan to create a new GM by selling its desirable assets to the government.

GM maintained in court papers that it wasn't legally required to take on the claims, saying federal pre-emption meant the bankruptcy code overrode state laws governing the rights of car-accident victims to sue the new GM. It also noted that Chrysler Group LLC, which recently emerged from

bankruptcy in a deal with Fiat SpA, wouldn't be responsible for such claims, after a bankruptcy judge dismissed objections to its plan.

GM said it ultimately agreed to take on future product-liability claims "to alleviate certain concerns that have been raised on behalf of consumers."

Car-accident victims with pending lawsuits, those who won damages against GM before it filed for bankruptcy and those who get in accidents while the auto maker is under bankruptcy protection will still be unable to bring claims against the new GM. They would remain with other unsecured creditors making claims against the old GM. Those victims are likely to recover little or nothing.

An ad hoc committee representing car-accident victims who have

sued GM said there are more than 300 people with personal-injury claims exceeding \$1.25 billion.

A committee representing GM and Chrysler car-accident victims called GM's move "a positive development."

The committee said new GM should take on claims from victims already hurt from defective GM vehicles. It said Chrysler also should take responsibility for future claims as well as those with pending lawsuits and successful cases brought against Chrysler before it filed for bankruptcy.

The committee said Chrysler's unwillingness to take on future claims as GM has represented "an unacceptable double standard."

A Chrysler spokeswoman declined to comment. A GM spokesman declined to comment beyond the auto maker's court filing.

VW denies it issued ultimatum to Porsche

FRANKFURT—Volkswagen AG said it hasn't issued an ultimatum to Porsche Automobil Holding SE to make a decision on planned merger talks.

German weekly Der Spiegel reported Saturday that VW and the German state of Lower Saxony had issued an ultimatum to Porsche to make a decision on a planned merger by Monday.

Porsche responded that it re-

jected such an ultimatum, citing a declaration.

But a Volkswagen spokesman said Sunday that "there is no ultimatum. This declaration doesn't exist."

Porsche is Volkswagen's majority shareholder with a stake of almost 51% plus a complex set of options that raise its stake by around 20%.

But Porsche's net debt tripled to €9 billion, or around \$13 billion, when it built its shareholding in Eu-

rope's largest auto maker by sales, forcing it to abandon its plan to push for a 75% stake and gain access to Volkswagen's cash reserves.

Porsche is in talks with the state-owned Qatar Investment Authority over a capital injection to shore up its balance sheet. It remained unclear if Qatar would take a stake in Porsche, take over Porsche's options on VW shares or a combination of both.

CORPORATE NEWS

U.K. workers recover jobs after protests

Total settles dispute at refinery project; a text-driven uproar

BY ANGELA HENSHALL AND LANANH NGUYEN

LONDON—Hundreds of laid-off U.K. workers got their jobs back this week after organizing mass protests at energy plants across the country, coordinated through text messages and social-networking Web sites.

The contractor companies at Total SA's 200,000-barrels-a-day Lindsey oil refinery met nearly all the striking workers' demands, which had become a rallying cry of sympathy strikes across the U.K.'s engineering-construction indus-

try. More than 8% of the industry's work force walked out, although the protests didn't have an impact on production.

"Total are pleased the contractors and their work force were able to reach a positive conclusion," a spokeswoman for the French oil major said. The strikes bypassed official trade-union channels as they weren't called after a vote by members and didn't go through the U.K.'s legal requirements for industrial action.

Employers agreed to reinstate the entire 647-strong work force at Lindsey and, on Monday, a full return to work on a £200 million (\$331 million) construction project to build a refinery unit, according to a joint statement late Thursday.

The speed and scale of the wild-cat strikes, unprecedented in the U.K., caught energy companies by

surprise, with protests organized by assembling large groups of people at specific sites through mass text messages.

"The idea of spreading it by text messages was just instinctive, you get your mate on the phone," said Alistair Tice, a regional secretary for the U.K. Socialist Party in the Yorkshire and Humberside region. The engineering-construction industry is largely comprised of itinerant workers with networks all over the country, making it easier for strikers to mobilize, he said. For years, U.K. governments have taken a hands-off approach to industrial disputes. However, as the U.K. recession has deepened, the government has appeared more willing to assert its views.

"I'm sure the government was concerned and was closely monitoring

the situation, but there was no direct pressure," said Mike Hockey, managing director of the Engineering Construction Industry Association.

On Friday, Prime Minister Gordon Brown's spokesman welcomed news of the deal. "It is a positive step forward," he said. "We've made clear on a number of occasions over the last week or so that it's important that talks do resume."

The government has monitored the walkouts at Lindsey, but a spokesman at the Department of Business, Innovation and Skills denied that the government had directly intervened. "This is a matter between the companies and the workers," the spokesman said. "The government welcomes the progress that talks have made."

This is the third wave of protests to hit the U.K.'s energy sector this

year, and the walkouts at oil refineries, power plants and other energy facilities have largely resulted in concessions from employers.

"Both unions have poured all their efforts in to this one showcase dispute and leveraged a solution that will show members a symbol of success," said Graham Botrill, CEO of industrial-relations consultancy the Gap Partnership.

Mr. Botrill expects a rash of similar disputes will occur in coming months, which could again target the energy industry. Meanwhile, the GMB and Unite unions are going ahead with a plan to poll a combined 50,000 of their members in the engineering-construction industry for a national strike over pay, conditions and job security in the sector.

"Because Lindsey workers won a 100% victory, I think there'll be a huge vote" in favor of a national strike, Mr. Tice said. A strike ballot is thought to be a difficult undertaking given the intermittent nature of the engineering-construction sector, where workers are often hired on short-term contracts, and any industrial action would likely face legal challenge from employers.

—Laurence Norman contributed to this article.

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U.S. regulators extend probe of Oracle-Sun

BY BEN WORTHEN

The U.S. Department of Justice extended its investigation into Oracle Corp.'s proposed acquisition of Sun Microsystems Inc.

The government's 30-day period to review the \$7.4 billion deal was set to expire midnight Friday. Instead of approving the acquisition, the Justice Department made a so-called second request, which asks the companies to provide more information, according to a statement issued by Oracle Friday.

Daniel Wall, an attorney who represents Oracle, said in the statement that "one narrow issue" about how the rights to Sun's widely used Java technology are licensed remains.

"I fully expect that the investigation will end soon and not delay the closing of the deal this summer," said Mr. Wall, an attorney at Latham & Watkins LLP in San Francisco.

Sun shareholders are scheduled to vote on the Oracle deal on July 16. A spokeswoman for Sun declined to comment. Spokespeople for the Department of Justice didn't immediately respond to requests for comment.

Oracle announced in April it had agreed to acquire computer-hardware maker Sun after earlier negotiations between Sun and International Business Machines Corp. didn't reach completion. Industry watchers widely believed that an acquisition by Oracle would face less antitrust scrutiny than an acquisition by IBM, whose products overlap with some of Sun's.

Java, the technology that Oracle said is at the center of the investigation, is a computer-programming language that is widely used in the tech industry, including by IBM and many cellphone makers. These companies currently license the technology from Sun.

CORPORATE NEWS



Pepsi, which makes Pepsi-Cola, Lay's potato chips and other snacks and drinks, has said it would invest \$1 billion in China over four years to bolster manufacturing.

Pepsi expands in China with plant in Chongqing

Five more factories planned for 'engine' of global economy

BY GORDON FAIRCLOUGH

SHANGHAI—PepsiCo Inc. opened a new Chinese factory on Friday and said it expects to build another five plants in China over the next two years as it attempts to boost business in the world's most populous country.

The new plants are largely to be located in less-developed areas and are part of Pepsi's effort to reach deeper into China's vast market, which has become increasingly important for international food and beverage companies as Chinese incomes have climbed.

"Despite the current uncertainty in many parts of the world, we have no doubt that China will remain a powerful engine of global economic expansion," said Indra Nooyi, Pepsi's chairman and chief executive, who is on a 10-day visit to China. Success in China is a critical part of her plan to strengthen Pepsi's position in developing markets.

Pepsi, which makes Pepsi-Cola, Lay's potato chips and other snacks and drinks, in November said it would invest \$1 billion in China over

four years to bolster manufacturing, expand local research and development and build a bigger sales force. China is Pepsi's second-largest beverage market by volume, after the U.S.

The company also has a large share of the potato-chip market in China, where it sells chips in flavors ranging from Beijing Duck to Cool Lemon and Lychee. And it is working to develop more drinks and snacks tailored specifically to Chinese tastes.

The new plant, in the southwestern city of Chongqing, will manufacture a range of beverages, from Pepsi-Cola and Mountain Dew to Gatorade, Tropicana juices and bottled water, the Purchase, N.Y., company said. The plant and the other factories, coming on line by mid-2011, will serve large population centers.

Pepsi said the Chongqing plant will use 22% less water and 23% less energy than the average Pepsi plant in China.

Pepsi's main beverage rival, Coca-Cola Co., also has big plans for China. Atlanta-based Coke this year said it will invest \$2 billion in China over three years to build new plants and expand marketing and distribution.

Coke's expansion plans were set back in March, when the Chinese government rejected on antitrust grounds the company's \$2.4 billion bid to acquire China Huiyuan Juice Group Ltd., one of the country's largest juice makers.

Suzlon profit declines 10%; turbine firm weighs job cuts

BY ANANT VIJAY KALA AND SUNIL RAGHU

MUMBAI—Suzlon Energy Ltd. on Sunday reported a 10% drop in fiscal-fourth-quarter consolidated net profit, hurt by one-time foreign-exchange losses and a delay in repairs to damaged wind-turbine blades.

Chief Operating Officer Sumant Sinha said demand from the U.S. market had been hit badly and added that the wind-power company is looking at reducing costs in the region to counter the slowdown.

"We are looking at rationalization of costs, and that could include job cuts too," Mr. Sinha told Dow Jones Newswires on the sidelines of a news conference.

The Indian company also might raise its stake in its German unit,

REpower Systems AG, to at least 95% from the present 91%, he said.

Consolidated net profit in the January-March quarter fell to 4.1 billion rupees (\$85.4 million) from 4.57 billion rupees a year earlier, the turbine maker said. However, consolidated revenue rose 85% to 91.21 billion rupees amid the inclusion of REpower's financial results.

On a standalone basis, Suzlon swung to a net loss of 1.83 billion rupees, from a profit of 4.83 billion rupees. Mark-to-market losses on foreign-exchange bets hurt earnings by 1.29 billion rupees, Suzlon said.

An increase in provisions related to blade restoration and retrofitting work hurt profitability by 1.04 billion rupees. Cracks had appeared in Suzlon turbine blades in the U.S. and Portugal.

Group urges study of Sanofi drug

BY JEANNE WHALEN AND PETER LOFTUS

New studies have shown a "possible link" between the use of the diabetes treatment Lantus and cancer, a European diabetes association said Friday as it made an "urgent call" for more research.

But the European Association for the Study of Diabetes cautioned that until more research is available, patients taking Lantus shouldn't rush to stop taking it.

Lantus is made by French drug giant Sanofi-Aventis SA. An artificial form of insulin, it is also known as an insulin analogue, and it has been widely used since 2000. Older forms of insulin are known as human insulin.

One study looked at 127,000 diabetics in Germany who were using Lantus or other forms of insulin. The risk of being diagnosed with can-

cer over an average of 1½ years was 9% higher in patients taking a low dose of Lantus than in people taking human insulin, the association said in a statement.

Patients taking a higher dose of Lantus had a 31% higher risk of being diagnosed with cancer, according to the study, which was published in *Diabetologia*, the association journal.

Another study in Sweden found that patients taking Lantus had double the risk of breast cancer compared with patients taking other insulins, the association said.

The association's president and the journal's editor cautioned that the studies had "limitations." They said the patients taking Lantus were generally older, more overweight and had higher blood pressure, making it possible that "any difference in cancer risk could be attributed to the pretreatment characteristics of the groups."

Also, they said, the number of cases of breast cancer in the Swedish study was very small, meaning the findings could have occurred due to chance.

"People are entitled to know that use of Lantus insulin might be associated with greater risk, but this must also be balanced against the possibility that we might be causing unnecessary alarm," said Edwin Gale, editor of *Diabetologia*, and Ulf Smith, the association's president.

Sanofi said Friday that the new data showed no conclusive link between Lantus and cancer. Sanofi shares came under pressure in Paris Friday after a note published Thursday by UBS equity research teams raised questions about the safety of Lantus, one of the company's important products. Sanofi's U.S. depositary shares fell \$2.20, or 7%, at \$28.01 Friday.

Takeda sees delay for diabetes drug

BY KAZUHIRO SHIMAMURA

TOKYO—Takeda Pharmaceutical Co. said the launch of its SYR-322 diabetes drug is likely to be delayed at least two years after U.S. regulators asked for an additional safety test.

SYR-322, also known by the general name alogliptin, is the most important drug in the pharmaceutical maker's development pipeline.

The recommendation by the U.S. Food and Drug Administration for

an additional cardiovascular study doesn't come as a surprise. Earlier this year, the regulator informed Japan-based Takeda that the drug doesn't fully meet the U.S. agency's recently created guidelines for diabetes treatments.

A Takeda spokesman on Saturday declined to comment about details of the contents of the FDA's so-called complete-response letter received on Friday, but he added that the letter doesn't mention any seri-

ous concerns about SYR-322 itself.

Takeda previously expected to commercialize SYR-322 in the fiscal year ending in March 2010. Japan's largest pharmaceutical company by revenue now expects to launch the drug in the fiscal year ending March 2012 or later, the spokesman said.

Takeda's SYR-322 is a class of drug known as a DPP-4 inhibitor, which works by blocking the degradation of compounds involved in the stimulation of insulin secretion.

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CORPORATE NEWS

China software rule is criticized

Business groups urge Beijing to scrap edict on Internet filtering

BY LORETTA CHAO

BEIJING—An international group of business associations that include most of the world's major technology companies submitted a letter to Chinese Premier Wen Jiabao urging the government to scrap a requirement that personal computers come with Internet-filtering software.

The move is extraordinary in a country where companies are reluctant to take issue publicly with the leadership. The rule has already drawn criticism from the U.S. government and free-speech advocates in China and abroad.

Submitted Friday, the letter was signed by the heads of 22 organizations, including the U.S. Chamber of Commerce, the European-American Business Council, the Information Technology Industry Council and other associations from North America, Europe, and Japan.

The letter reflects the deep concern among PC makers as the government's July 1 deadline approaches for shipping the software with all new PCs. China is the world's second-biggest PC market by unit shipments after the U.S.

The government says the filtering software, called Green Dam-Youth Escort, is aimed at blocking pornography and other content inappropriate for children. But industry officials fear it will also be used to block political content—exposing them to accusations of abetting censorship—and that the software contains security and technical flaws.

The letter, which was viewed by The Wall Street Journal, says the



A customer looks at computers in a Beijing store. Business groups are calling on Beijing to revoke an order to PC makers to supply machines with Internet-filtering software.

plan "raises serious concerns for us and seems to run counter to China's important goal of becoming a vibrant and dynamic information-based society."

It urges the government to "reconsider implementing the Green Dam requirements," and proposes an open dialogue on parental controls over content for children. "The Green Dam mandate raises significant questions of security, privacy, system reliability, the free flow of information and user choice," it says.

China's State Council Information Office and Ministry of Foreign Affairs didn't respond to requests for comment.

The letter adds to mounting pressure on the government to address concerns about the Green Dam plan, first made public by The Wall Street Journal earlier this month. On Wednesday, U.S. Trade Representative Ron Kirk and Commerce Secretary Gary Locke submitted joint letters to two Chinese ministries say-

ing the plan could run counter to China's obligations under the World Trade Organization. The plan also has been widely criticized by Internet users and media within China.

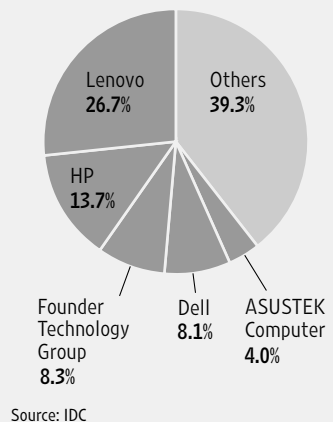
Most PC companies have yet to say how they plan to deal with the requirement. On Friday, Taiwan's Acer Inc., the world's third-biggest PC maker by sales, became the first big foreign company to state publicly that it plans to comply with the order.

So far, the government has shown no signs of backing down. There is a risk that the letter could make it difficult for Mr. Wen to intervene, because he might risk being seen as siding with foreign companies against members of his own government.

The letter also includes praise for the government, saying: "We applaud and respect your country's determination to integrate into the global economy, and carve out its rightful place as an international technology leader."

Big sellers

Market share of personal computers in China, by units shipped, first quarter of 2009:



An official with one of the associations that signed Friday's letter said, "Given the seriousness we attach to the myriad concerns involving the Green Dam mandate and with the deadline looming, we felt we needed to direct those concerns to the highest levels of the Chinese government."

The measure introduces a wide range of commercial implications for PC manufacturers.

Chinese officials say users will have a choice whether to install Green Dam, which the government has said must be either loaded on the hard drive of new PCs or included on an accompanying CD-ROM. But critics say the government has yet to address concerns such as how it will enforce its requirement, whether the software's alleged flaws can be addressed, and who would be liable if consumers have problems with the software.

—Ting-I Tsai in Taipei contributed to this article.

Chinese industrial profits decline

BEIJING—The profits of industrial companies in China fell 22.9% in the January-May period from a year earlier, the National Bureau of Statistics said Friday, with the pace of decline slowing from earlier in the year as price declines slowed and demand picked up.

The cumulative data show the decline in industrial profits narrowed to 15.4% in the March-May period, compared to the 37.3% fall recorded for January-February.

The statistics bureau said the smaller drop in profits came as prices for many goods stabilized after earlier sharp declines. Demand is also recovering amid heavy government stimulus; the bureau noted

that revenues grew 0.4% in the March-May period after falling 3.1% in January-February.

Moody's Economy.com economist Sherman Chan, noting that the data only cover companies with annual sales of more than five million yuan (\$731,500), warned that "smaller businesses may still be struggling or even closing down."

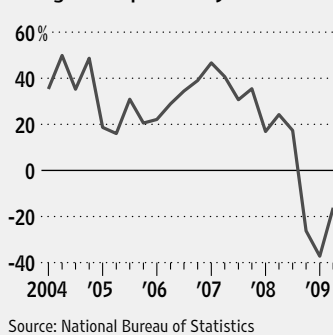
The worst performers this year are in commodity sectors such as oil, natural gas and metals, which all posted profit declines of more than 70% in the January-May period from a year earlier. The steel industry saw the biggest drop, with its combined profits down 97.2% from a year earlier.

Private-sector companies continued to perform better than average. Their combined profit in the first five months grew 2.4% from a year earlier to 230.3 billion yuan, while state-owned industrial companies' total profit tumbled 41.5% in the first five months to 246.7 billion yuan.

Although data in recent months suggest China's economic downturn has bottomed out, Chinese policy makers are still cautious, repeatedly warning that the recovery has yet to gain traction. Economists say the decline in profits is likely to weigh on China's economic growth in the future, as companies will have less money to spend on new in-

Road to recovery

Profits of industrial companies, change from previous year



vestment projects or higher wages for employees.

—Liu Li and J.R. Wu

GE plans research center near Detroit

BY PAUL GLADER AND DOUG CAMERON

General Electric Co. said it would open a \$100 million research-and-development facility near Detroit to employ about 1,200 scientists and researchers in a region hit hard by job losses and a sagging auto industry.

The Fairfield, Conn., conglomerate said the Advanced Manufacturing and Software Technology Center in Wayne County, Mich., will join

GE's network of four research labs in Niskayuna, N.Y., Shanghai, Munich and Bangalore, India.

GE said work at the center, on a site also occupied by auto-parts maker Visteon Corp., will focus on developing information-technology, clean-energy and transportation products. The company will also build a 100,000-square-foot building on the site. It said Michigan is offering more than \$60 million in incentives over the next 12 years.

GE Chief Executive Jeffrey Im-

melt touted Michigan's "world-class" engineering and technical talent. GE said it is looking for specialists in developing composites, machining, inspection, casting and coating technologies for its aviation and energy businesses. The auto industry employed many engineers with expertise in these areas.

Gov. Jennifer Granholm said the state will try to support GE by applying for federal stimulus money related to research on "smart" electrical grids.

GLOBAL BUSINESS BRIEFS

Palm Inc.

Loss widens in quarter, but tops expectations

Palm Inc. posted a wider fiscal fourth-quarter loss as revenue dropped in the latest full quarter before the release of the Pre smartphone, yet results topped analysts' expectations. The company is banking on the Palm Pre to revive its once-dominant smartphone franchise. But the competition isn't standing still, as Apple Inc. made over and cut prices on its category-leading iPhone. The Pre went on sale June 6. For the quarter ended May 30, Palm reported a loss of \$91.5 million, or 78 cents a share, compared with a year-earlier loss of \$41.1 million, or 40 cents a share. Excluding charges, the loss came to 40 cents a share from a loss of 22 cents a year earlier. Revenue fell 71% to \$86.8 million.

Siber Energy PLC

Russian oil major OAO Gazprom Neft, a unit of gas giant OAO Gazprom, said Friday it agreed with the Moscow city government to appoint Igor Tsibelman as chief executive of Siber Energy PLC, the troubled oil company in which they both own large stakes. A Gazprom Neft insider, Mr. Tsibelman was first appointed chief executive June 18, but the decision was reversed at the request of other shareholders. Gazprom Neft owns 34% of Siber, while the Moscow city government owns 18%. Gazprom Neft said it will appoint three of Siber's board members, and two will come from the Moscow government. Siber and Gazprom Neft jointly operate the strategically important Moscow refinery.

Wheelock & Co.

A Hong Kong court found former Wheelock & Co. Managing Director John Hung guilty of bribery and sentenced him to two years in prison, the city's antigraft agency said. The Independent Commission Against Corruption said in a statement that Mr. Hung was convicted for soliciting and accepting bribes totaling 450,000 Hong Kong dollars (US\$58,063) from a middleman, in exchange for using his position as a member of the Hong Kong Jockey Club to propose and expedite membership applications at the club. The statement didn't identify the people Mr. Hung proposed for membership or the middleman involved. Mr. Hung couldn't be reached for comment.

Sino Land Co.

The 50-50 joint venture set up by Sino Land Co. and Hopewell Holdings Ltd. will develop a project in Hong Kong Island's Wan-chai district at a total cost of about 8.3 billion Hong Kong dollars (US\$1.07 billion), the two companies said. The two will each contribute around HK\$4.15 billion to develop the sites. Sino Land will finance its portion by internal resources and bank borrowings, while Hopewell will fund the project by internal resources, existing corporate-banking facilities and project financing, the companies said in separate statements. The project covers a total site area of about 88,500 square feet and will provide about 1,000 luxury residential units and a shopping mall.

—Compiled from staff and wire service reports.

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ECONOMY & POLITICS

Signs of hope emerge in U.K. economy

Financial-services sector sees upturn as business sentiment improves; Brown expected to unveil agenda Monday

By NICHOLAS WINNING
AND ILONA BILLINGTON

LONDON—As the U.K. government prepares to announce another set of measures aimed at cushioning the impact of the recession, signs are emerging that two of the sectors worst hit by the economic downturn have stabilized and may even be about to recover.

A broad recovery would still be some way off. Monday's data are more optimistic than other recent indicators, such as falling retail sales and declining bank lending, both showing that consumers are increasingly feeling the pressure from rising unemployment and slowing income growth.

Later Monday, Prime Minister Gordon Brown is expected to outline a series of proposals, including initiatives to improve labor-market conditions, that will form the centerpiece of the government's agenda over the next 12 months, a period during which Mr. Brown will also have to call an election.

In fending off criticism of his leadership following disastrous local and European election results earlier this month, Mr. Brown said at the time that he wanted to reform a political system sullied by a parliamentary expenses scandal, improve the delivery of public services and continue as a prime minister to help the economy out of the downturn.

There are fresh signs that an economic recovery may begin later this year. According to a quarterly survey by a leading business group, the financial-services sector expects business to pick up in the third quarter after 21 months of decline, but optimism is being tempered by expectations of a continued drop in profits, jobs, and investment.

The Confederation of British Industry said that although business sentiment in the sector rose for the first time in two years in the second quarter, the outlook remained challenging due to concerns about soaring levels of bad debts, new regulations, and the weakness of the economy.

"Although demand looks like it is beginning to recover, it is doing so from a very low base," said Ian McCafferty, the CBI's chief economic advisor. "We can still expect lower profitability, significant job losses and cuts to investment in the coming months."

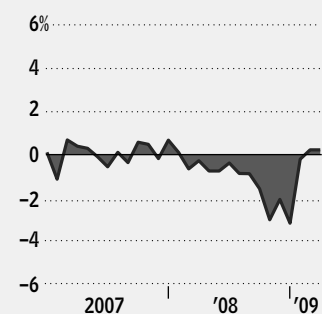


Workers laid off from van manufacturer LDV line up at the factory in Birmingham, England, this month to learn the details of their layoff packages.

Mixed signals | The U.K. economy's road to recovery could be bumpy

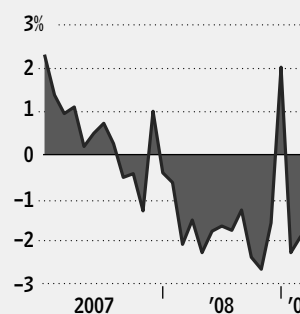
Manufacturing had two up months...

Change from the prior month in manufacturing output



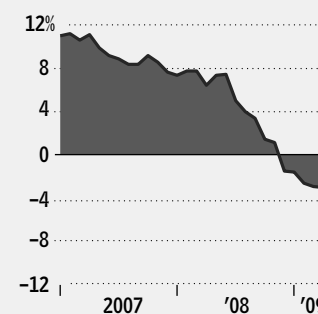
And falling home prices have put on the brakes...

Halifax house-price index, monthly change



But credit remains tight...

Net lending to nonfinancial companies and households, change from a year earlier



And wary consumers are socking away cash.

Savings as a percentage of income



Sources: Thomson Reuters (manufacturing output, house prices); Bank of England (net lending); U.K. Office for National Statistics (savings ratio); photo: Getty Images

A net balance of plus-11 of respondents expected business volumes to increase in the third quarter, the most upbeat level since March 2007, before the outbreak of the global credit crisis. The balance is the difference between the 29% of respondents that expected a rise in business and 18% that anticipated a drop.

Profitability is expected to decline further, albeit less violently than in previous quarters. The net balance for profitability recovered to minus-23 in the second quarter from minus-47 in the first, and was expected to rise further to minus-17 between July and September.

CBI said it expected the sector to shed 13,000 jobs in the third quarter, following 15,000 between April and June and 17,000 in the first quarter.

In a reflection of the weakness of the economy, the value of nonperforming loans, or bad debts, increased at its sharpest rate since the survey began in 1989, and a similar rise was expected in the third quarter.

"Business plans for the year ahead are largely defensive," said John Hitchins, U.K. banking leader at PricewaterhouseCoopers. "The probable impact of the recession on impairment charges and the impact of new regulation will remain a significant preoccupation for the sector for some time to come."

Also Monday, property research firm Hometrack said house prices were unchanged for the second straight month in June as demand for homes is rising more quickly than the number of available properties for sale.

The company said house prices

fell just 8.7% on the year, compared with a 9.6% decline in May.

"A lack of supply and rising demand have combined to prop up house prices in the last two months," said Richard Donnell, Director of Research at Hometrack.

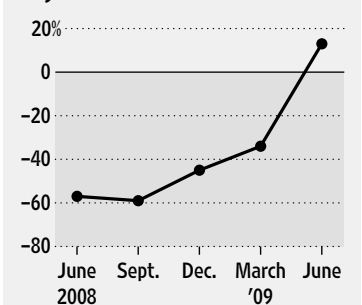
Hometrack said that since the beginning of the year the volume of buyers has risen by 36% while the number of properties for sale has risen just 6.4%. However, with the economy remaining in recession and unemployment set to rise in the coming months, a full recovery of the housing market is not a certainty.

"The jury is still out as to whether the momentum gained over the spring and early summer can be maintained for the rest of the year," Mr. Donnell said.

—Laurence Norman contributed to this article.

Optimism, U.K.

Q: Are you more or less optimistic about the overall business situation in your sector?



Note: Survey conducted between May 20 and June 3. All figures are percentage balances of respondents.

Source: CBI/PricewaterhouseCoopers

Fellow Democrats present challenges to Obama priorities

By NAFTALI BENDAVID
AND GREG HITT

WASHINGTON—As Congress tackles U.S. President Barack Obama's top two domestic priorities—climate change and health care—he faces his most serious challenges from fellow Democrats.

The narrow passage Friday of an environment bill came with nearly one in four Democrats defecting, and only after supporters from coal-producing and agriculture districts won concessions that eased the impact on business and aggravated some environmentalists. Prospects for the measure remain uncertain in the Senate, even though Democrats

hold a 59-40 voting majority.

Some Democratic defections were to be expected. Republicans' argument that the cap-and-trade program would effectively impose a national energy tax on consumers and businesses was a message likely to resonate in conservative congressional districts won by moderate Democrats in the past two elections.

The friction is emerging despite the fact that Democrats hold the White House and overwhelming majorities in both the House and Senate. But Mr. Obama, House Speaker Nancy Pelosi and Senate Majority Leader Harry Reid are pressing an unusually ambitious agenda, and most of the Democrats' recent gains

came from capturing seats in conservative areas, whose representatives are less likely to go along with his more far-reaching plans.

The question is whether the self-identified centrist Democrats will end up thwarting Mr. Obama's key priorities, or mainly act as an influence in scaling them back.

While lawmakers in both chambers craft health-care bills for votes later this summer, some Senate Democrats are whittling down provisions considered sacrosanct by liberal advocates, reducing proposed subsidies for the uninsured and opposing the creation of a government-run plan to compete with private insurers.

Democratic moderates' influ-

ence has been felt across an array of issues. Sen. Ben Nelson (D., Neb.) helped force a reduction in the price tag of Mr. Obama's \$787 billion stimulus bill. Other Democrats throttled an initiative to make it easier for homeowners to shed mortgage debts in bankruptcy court. Southern Democratic opposition has hurt the prospects of a law making it easier for unions to organize.

Republicans scoff at the notion that, on balance, Democrats are moderating their agenda. "Democrats are pushing a government takeover of our health-care system that will cost at least \$1 trillion," Ohio Rep. John Boehner, the House Republican leader, said in his weekly radio ad-

dress Saturday. That comes after "the president and Democrats on Capitol Hill continued their push for Speaker Pelosi's national energy tax," he said, referring to the climate bill.

White House officials play down the intraparty tensions. "The reality is that it passed, and it moves on," said Anita Dunn, the White House communications director. "We are asking the Congress to do big things, and big things are hard." Another senior Obama aide suggested that the climate vote "has helped health care enormously," demonstrating that Congress is capable of confronting big issues. "It sends the signal to everyone that something that wasn't supposed to happen, happened," the official said.

ECONOMY & POLITICS

Hariri acts in Lebanon

Premier-designate takes steps to form a new government

BY CHIP CUMMINS
AND NADA RAAD

Lebanese prime minister-designate Saad Hariri started efforts at forming a new government over the weekend, following his election victory earlier this month over an opposition backed by Hezbollah.

Lebanon's president tapped Mr. Hariri on Saturday to cobble together the country's next cabinet, a task that many analysts expect to be as difficult as the June 7 parliamentary election. Despite some polls predicting big gains by the opposition, Mr. Hariri's Western-backed coalition managed to hold onto its majority in parliament.

The weekend elevation of Mr. Hariri, the 39-year-old billionaire son of the late former Prime Minister Rafik Hariri, was expected. But it marks what many analysts say could be a fresh, hopeful chapter in Lebanon's recent, tumultuous politics.

Lebanon has long served as a proxy battleground for some of the region's bigger powers. Most recently, Mr. Hariri's so-called March 14 movement, backed by the U.S., Western European powers and Saudi Arabia, clashed with the opposition March 8 bloc, led by Hezbollah and backed by Iran and Syria.

But amid a fast-shifting political landscape across the Middle East, both sides—and their various sponsors—appear to have a new interest in seeing Lebanon stabilize.

"March 14 and March 8, and their patrons, have agreed to disagree, but have also agreed to coexist," says Paul Salem, director of the Car-



Lebanon's prime minister-designate, Saad Hariri.

negie Middle East Center in Beirut.

Relations between two key Lebanon power brokers—Washington and Damascus—are suddenly on the mend. The U.S. has long blamed Syrian President Bashar Assad for meddling in Lebanese affairs. Syria has been widely accused of orchestrating the killing of Mr. Hariri's father in 2005, a charge Damascus denies.

Mr. Hariri inherited his father's political machine. His bloc has clashed repeatedly and sometimes violently with the Hezbollah-led opposition. A stalemate between the two sides largely paralyzed the government.

The standoff ended only last year, when Hezbollah sent gunmen into the streets of Beirut. That forced a political compromise that gave the opposition more political power and paved the way for this month's vote.

Recently, Western diplomats have given Mr. Assad credit for his hands-off approach to Lebanon.

Last week, the U.S. indicated it would name a new ambassador to Damascus, after a four-year absence. Tense relations between Syria and sometimes-rival Saudi Arabia also appear on the mend.

The Obama administration, meanwhile, has embarked on an ambitious Mideast outreach that some analysts say has cooled tensions across the region and—by extension—eased friction between political factions in Beirut.

Since the election, an unusual atmosphere of compromise appears to have descended on Beirut. Hezbollah and its allied didn't challenge results. Late last week, Mr. Hariri held a rare meeting with Hezbollah leader Hassan Nasrallah.

Despite the election disappointment, Hezbollah has consolidated its political power in Lebanon. Analysts say they expect the Shiite political and militia group—designated a terror group by Washington—will want to play an active, though low-key, role in the next government. Amid the last two weeks of unrest in Iran, its chief backer, Hezbollah could be even more unlikely to want to rock the boat.

Nawwar Saheli, a Hezbollah member of parliament, said in an interview that the opposition wants "correct and effective participation" in the next cabinet.

Mr. Hariri says he will invite the opposition into the next government. But in an interview with The Wall Street Journal before the results of the election were announced, he also said he believes the current system that allows the opposition veto power over most big decisions is unconstitutional. That, and the issue of whether Hezbollah should disarm, will likely continue to be contentious issues between the two sides in the coming weeks.

U.S. weighs more rights for Guantanamo inmates

BY JESS BRAVIN

WASHINGTON—The U.S. Justice Department has determined that detainees tried by military commissions in the U.S. can claim at least some constitutional rights, particularly protection against the use of statements taken through coercive interrogations, officials said.

The conclusion, explained in a confidential memorandum issued last month, could alter significantly the way the commissions operate, and has created new divisions among the agencies responsible for overseeing the commissions. Defense Department officials warn that the Justice Department position could reduce the chance of convicting some defendants. Military prosecutors have said involuntary statements comprise the lion's share of their evidence against dozens of terrorism suspects now held at the detention center in Guantanamo Bay, Cuba.

The view, from President Barack Obama's Justice Department, is a sharp turn from that of the Bush administration, which argued that detainees have no constitutional rights. The dispute over what rights military-commission defendants can claim has intensified as President Obama tries to implement his decision to close the Guantanamo prison by January 2010.

The prison currently holds about 230 inmates, U.S. officials say. Of those, more than 50 have been cleared for release. About 100 may be held indefinitely because the U.S. lacks evidence to prosecute them but believes that they could be dangerous in the future. Roughly 50 or 60 are expected to be tried in the military commissions established by President George W. Bush after the Sept. 11, 2001 terrorist attacks.

Several aspects of the commissions and their related detention system been invalidated by the Supreme Court. A Justice Department task force has been seeking ways to try prisoners by military commission that would be more likely to survive further constitutional challenge. The task force is scheduled to complete its work by July 21.

As part of that process, the task force asked the Justice Department's Office of Legal Counsel which constitutional rights, if any, would apply if the president held military commission trials in the U.S., officials said.

In a May 4 memorandum, David Barron, acting assistant attorney general overseeing the office, responded that there is a "serious risk" that federal courts "would adopt a constitutional due-process approach" when evaluating military commission trials, people familiar with the memo say.

Mr. Barron advised that federal courts were unlikely to require strict adherence to Bill of Rights provisions spelling out specific procedures, such as the Sixth Amendment speedy trial right, or the Miranda warning, which the Supreme Court imposed in 1966 to ensure compliance with the Fifth Amendment right against self-incrimination and the Sixth Amendment right to an attorney.

But Mr. Barron advised that courts were likely to view the use of coerced statements to convict and punish defendants as violating any definition of the Fifth Amendment's Due Process Clause, which courts have cited in establishing a baseline

of fundamental rights. As a result, some officials believe a legislative fix to the Military Commissions Act should include additional rights for defendants in order to lower the chances courts would strike it down.

"The more you can due-process-proof it, the better," one official said.

Mr. Barron, a professor on leave from Harvard Law School, is temporarily in charge while Mr. Obama's nominee to head the legal-counsel office, Indiana University law professor Dawn Johnsen, awaits Senate confirmation.

Mr. Barron's conclusion has met opposition in the Pentagon.

"We believe that military commissions, as distinct from other courts, are designed to not provide constitutional rights," Navy Capt. John F. Murphy, the Obama administration's chief military prosecutor, said in an interview.

The one exception, he said, was that created by the Supreme Court last year, when it ruled that the Military Commissions Act of 2006 unconstitutionally stripped Guantanamo detainees of habeas corpus, a legal proceeding to challenge unlawful detention.

"There is a school of thought...that if they actually convene these things in the [U.S.], the courts will quickly find that all the due-process constitutional stuff we deal with in criminal courts will be applicable," said another military official familiar with the discussions. "The main push for this argument comes out of DOJ and OLC," the official said. "It hasn't gotten a lot of traction with other folks."

This person said that Pentagon officials preferred not to provide defendants additional rights unless courts forced them to.

On the other side, criminal defense lawyers representing Guantanamo detainees say that simply recognizing due process, without other constitutional rights, will not fix a system they contend is stacked against defendants. "The minute they're making a distinction of 'what we can get away with'... they are creating something of dubious legal viability," said Cmdr. Suzanne Lachelier, a Naval Reserve lawyer appointed to represent alleged Sept. 11 conspirator Ramzi Binalshibh.

By trying to patch a system that has been beset for years by internal disarray and court setbacks, "they are buying themselves more legal problems," she said. Rather than the "swift and certain justice" that President Obama has promised, it "means years of appeals when we're challenging all of these issues—most of which have already been resolved" for trials in courts-martial or federal court, she said.

The Obama administration hasn't publicly acknowledged the existence of the May 4 memorandum. The White House declined to comment Sunday.

Mr. Barron said he couldn't comment on the matter and referred questions to the Justice Department's public-affairs office. A spokeswoman there declined to confirm the memorandum's existence or discuss whether detainees had constitutional rights, citing "ongoing deliberations." Capt. Murphy, an assistant U.S. attorney before he was activated from the Naval Reserve, said he couldn't comment on "any document the government may or may not have generated."

Doubt raised on climate-bill tariff

BY GREG HITT
AND STEPHEN POWER

WASHINGTON—U.S. President Barack Obama said newly passed House legislation aimed at curbing greenhouse-gas emissions represents "an extraordinary first step," but cast doubt Sunday on the bill's call for tariffs on goods from countries that don't match U.S. efforts to combat global warming.

The 1,200-page bill—formally known as the American Clean Energy and Security Act—will reach almost every corner of the U.S. economy. By putting a price on emissions of greenhouse gases, such as carbon dioxide, the bill would affect the way electricity is generated, how homes and offices are designed, how foreign trade is conducted and how much Americans pay to drive cars and heat their homes.

The House bill, approved by a 219-212 vote Friday evening, would mandate that 15% of U.S. electricity come from renewable sources such as wind and solar power by 2020, potentially expanding the market and profit potential for companies in those sectors.

But it isn't clear how much of the sprawling House bill will survive in the Senate, where moderate Democrats and Republicans could form a majority that backs less ambitious action. Among the potential problem areas is a provision that would impose

tariffs on goods imported from countries that don't match U.S. carbon-dioxide restrictions—a slap at China and India that some business interests fear could provoke a trade war.

Supporters say the proposed tariff is needed to shield U.S. firms from unfair competition. Under the broader bill, the tariff would take effect in 2020, and would fall on a range of products from countries that do not adopt programs to curb heat-trapping emissions.

"At a time when the economy world-wide is still deep in a recession, and we've seen a significant drop in global trade, I think we have to be very careful about sending any protectionist signals out there," Mr. Obama said.

In an interview with newspaper reporters, Mr. Obama vowed to give the idea some "careful analysis" and said he was "mindful" of the need to level the playing field internationally for U.S. companies. But Mr. Obama suggested that "there may be other ways of doing it than with a tariff approach."

The measure is intended to protect trade-sensitive U.S. industries, including steel and cement, and inclusion of the proposal helped build support among lawmakers from Rust Belt states. Among other things, the proposal is designed to give Congress some leverage to force imposition of the border fee, if the president at the time resists.

Business factions split on the bill. The Edison Electric Institute, which represents investor-owned utilities, backs it. Other companies—particularly those with big investments in alternatives to fossil fuels—praise the vote. "The House has taken an important first step on a road that will help the industry scale to a point at which we no longer need government incentives," said Bryan Ashley, vice president of Suniva, Inc., a Georgia solar cell manufacturer.

The U.S. Chamber of Commerce and the National Association of Manufacturers lobbied against passage. Groups that represent airlines, oil producers and mining companies expressed disappointment, saying the bill, if enacted, would lead to onerous new costs to consumers. "It will affect every aspect of the American economy, harming our ability to compete in the world and provide secure and affordable energy to American consumers and businesses," the National Mining Association said in a statement.

The nonpartisan Congressional Budget Office has estimated the bill would have a modest impact on family budgets. The CBO projected an annual economywide cost in 2020 of \$22 billion, or about \$175 per household. The CBO's study didn't consider the broader effect of the legislation on employment or gross domestic product.

—Russell Gold
contributed to this article.