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Breaking news at europe.WSJ.com

Madoff gets 150-year sentence

Judge sparks cheers in giving financier maximum sentence, calling fraud 'extraordinarily evil'

By CHAD BRAY
AND AMIR EFRATI

Bernard Madoff was sentenced to 150 years in prison Monday after admitting in March to running one of the largest and longest financial frauds in recent memory.

At a packed hearing, U.S. District Judge Denny Chin in Manhattan ordered Mr. Madoff, 71 years old, to serve the statutory maximum sentence in prison. Applause briefly broke out after the sentence was announced.

"Here the message must be sent that Mr. Madoff's crimes were extraordinarily evil," Judge Chin said.

The sentence dwarfs other prison terms handed out for other high-profile white-collar fraud in recent years, such as former Worldcom Inc. Chief Executive Bernard J. Ebbers, 67, and Adelphia Communications founder John Rigas. Mr. Ebbers is serving 25 years in prison, while Mr. Rigas, 84, is serving 12 years in prison.

Ira Sorkin, Mr. Madoff's lawyer, had asked for a sentence of as little as 12 years in prison, citing Mr. Madoff's health, age and life expectancy.

During the hearing, he said the government's request of a 150-year sentence,

or a recommendation by the U.S. Probation and Pretrial Services of a 50-year sentence, "defies reason."

"Vengeance is not the goal of punishment," he said.

He declined to comment after the sentence was imposed. Mr. Sorkin asked that Bernard Madoff be housed at the Federal Correctional Institution in Otisville, N.Y. The judge indicated he would recommend Madoff be housed in the Northeast. The U.S. Bureau of Prisons will ultimately determine where he serves his sentence.

Following the sentencing, Mr. Madoff's wife, Ruth, released a statement in which she described herself as "betrayed and confused," saying "The man who committed this horrible fraud is not the man whom I have known for all these years."

On March 12, Mr. Madoff was ordered directly to jail after pleading guilty to 11 criminal counts, including securities fraud, mail fraud and money laundering, in a decades-long Ponzi scheme that bilked thousands of investors out of billions of dollars.

"I'm sorry; I know that doesn't help you," said Mr. Madoff, briefly turning to face his victims at the hearing prior to the judge's sentence.

Dressed in a dark, charcoal-gray suit and dark tie, Mr. Madoff stared down at the defense table during much of the hearing.



Bernard Madoff



Defrauded investor Norma Hill speaks to the media outside the United States Courthouse in lower Manhattan on Monday after convicted swindler Bernard Madoff was sentenced to 150 years in prison.

"I cannot offer you an excuse for my behavior," Mr. Madoff said. "How do you excuse betraying thousands of investors who entrusted me with their life savings? How do you excuse deceiving 200 employees who spent most of

their working life with me? How do you excuse lying to a brother and two sons who spent their entire lives helping to build a successful business? How do you excuse lying to a wife who stood by you for 50 years?"

Mr. Madoff said he made "a terrible mistake" and an "error of judgment" and that he lives in a "tormented state" now. He also denied that he and his wife have been silent and not sympathetic to

Please turn to page 31

Porsche rebuffs VW, gets offer from Qatar

By CHRISTOPH RAUWALD

FRANKFURT—The battle over Porsche Automobil Holding SE's future escalated Monday as the German sports-car maker said the state-owned Qatar Investment Authority has offered to invest in the company.

The Qatari offer came just hours after Porsche ruled out selling a 49.9% stake to Volkswagen AG.

Porsche holds a stake of about 51% in Volkswagen, but it assumed a large chunk of debt in accumulating the shares and is now seeking a merger with VW, Europe's biggest car maker by sales. Porsche on Monday said if it sold the stake to Volkswagen, it would immediately have to re-

negotiate a €10.75 billion (\$15.13 billion) credit facility.

Porsche might now sell a stake in itself to QIA, or give QIA some of its VW options, or a combination of both. A Porsche spokesman declined to elaborate on details of the Qatar offer but said it will form the basis for upcoming talks on a purchase price. The Porsche and Piech families—which control all of Porsche's voting stock—still have to examine the Qatari proposal.

The battle over Porsche and its holding in Volkswagen is becoming increasingly acrimonious.

Porsche has a complex set of options that would enable it to increase its 51% stake by about 20%, if exercised. But

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A lack of PPIP

Wary U.S. banks hobble plan to dump toxic assets
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	CLOSE	PCT CHG
DJIA	8529.38	+1.08
Nasdaq	1844.06	+0.32
DJ Stoxx 600	208.03	+1.74
FTSE 100	4294.03	+1.25
DAX	4885.09	+2.27
CAC 40	3193.68	+2.04
Euro	\$1.4060	-0.07
Nymex crude	\$71.49	+3.37

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

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LEADING THE NEWS

Oil demand forecast cut

IEA trims outlook for 2013 to 7% less than July's report

BY SPENCER SWARTZ

LONDON—The International Energy Agency made a large cut to its medium-term forecast for total world oil demand, suggesting the impact of recession and energy-efficiency efforts may help check future increases in the price of crude oil.

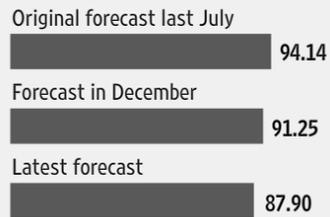
The Paris-based IEA said in a report it expects global oil demand by 2013 to average 87.90 million barrels a day, down 3.7%, or 3.35 million barrels a day, from its December forecast. The latest projection is a massive 6.24 million barrels a day, or almost 7%, below the IEA's 2008-13 forecast issued in July.

But the report also highlights how reduced investment and other "above ground" factors—such as the practice of reserving the best blocks for national oil companies—are hurting supply. That could mean

Shrinking outlook

The International Energy Agency has twice trimmed its medium-term forecast of world oil demand

Forecast for 2013, in millions of barrels a day



Source: IEA

much higher crude prices down the road if economic growth quickly returns to rates of more than 3%.

The agency now expects output from non-Organization of Petroleum Exporting Countries to drop 400,000 barrels a day in the 2008-2014 period, led by Mexico and Russia, compared with a previous forecast of an increase of 1.5 million

barrels a day. OPEC's 12 members are expected to add 560,000 barrels a day in new pumping capacity.

Despite the forecast, crude prices closed up \$2.33 per barrel, or 3.37%, at \$71.49 in New York trading Monday, lifted by news that an attack by militants in Nigeria partially shut down an offshore oil platform belonging to Royal Dutch Shell PLC.

The IEA is seen as one of the more reliable energy statisticians in the industry because of relatively high-quality data from its member countries. These include the U.S. and most of the world's biggest energy consumers.

But IEA forecasts, like others in the industry, are subject to frequent revision. The IEA maps out a more shaded approach in its latest medium-term outlook, with lower and higher economic growth scenarios.

From next year, oil consumption globally could grow on average anywhere between 0.5% to 1.4% a year over the next five years, depending on economic growth, the IEA said. Up until the past year, world crude demand grew by about 1.5% to 2% a year this decade.

Euro-zone's confidence grows despite problems

BY ILONA BILLINGTON AND ADAM COHEN

BRUSSELS—Business and consumer confidence in the 16 countries that use the euro improved for the third straight month in June, but the European Commission warned that problems persist.

According to a monthly survey by the European Union's executive arm, the overall economic-sentiment indicator for the euro zone rose sharply to a seven-month high of 73.3, from 70.2 in May.

In the U.K., which is outside the euro zone, the Commission's economic-sentiment index rose sharply for a third straight month to 68.8 in June from May's 66.1, with services confidence and consumer confidence picking up strongly.

The gains fortified evidence that the European downturn could begin bottoming out.

The continued pickup in euro-zone confidence from record lows is consistent with other recent survey evidence that has indicated the economy won't contract as sharply in the second quarter as it did in the first.

That's unlikely to change the European Central Bank's medium-term view that it should take additional measures to support growth in the euro zone, although nothing is expected to change this week, economists say.

The ECB's governing council meets Thursday and is expected to keep its key interest rate steady at 1.0% and also to announce no fresh unconventional policy measures to inflate money supply.

Many economists warn that improving sentiment has yet to be followed by real gains in output of goods and services.

"It must be borne in mind that sentiment is still at a historically low level, so both businesses and consumers are likely to remain very cautious in their actions for some time to come," said Howard Archer, chief European and U.K. economist for IHS Global Insight. "It is therefore imperative that the European Central Bank doesn't rule out taking further efforts to boost euro-zone economic activity."

In a separate quarterly report

Inching up

The euro-zone business climate indicator increased slightly in June but remains negative



Source: European Commission

on the euro zone, the commission said problems persist in the region's economy, with financial markets still on shaky ground. Money and credit growth have slowed further in recent months, reflecting weak economic activity and some supply constraints, the commission said.

"Overall, the situation in the sector remains fragile and further bank balance sheet adjustment will be needed," the commission said. "In particular, recent ECB estimates suggest that further significant asset write-downs are still to be expected."

Production expectations for the euro area picked up sharply, while the output trend over recent months also rose significantly in June.

Consumer confidence in the euro zone, meanwhile, rose three points in June to minus 25 from minus 28 in May. This was the highest level since November last year.

CORRECTIONS & AMPLIFICATIONS

Wizz Air Hungary Airlines Ltd. was in part founded by some former employees of Hungary's state-owned airline Malév Hungarian Airlines. No former Ryanair executives work at Wizz Air. A Corporate News article Monday incorrectly said that Malév pilots co-founded Wizz Air and that some former Ryanair managers work at Wizz Air.

Ukraine is told it needs less to fund gas

BY ALESSANDRO TORELLO AND MARC CHAMPION

BRUSSELS—The European Union and international lenders told Ukraine's state gas company, Naftogaz, it needs only half the financing it has demanded to avoid a further European gas-supply crisis this winter.

At a meeting in Brussels, the EU and international financial institutions told Naftogaz executives they believe Ukraine needs \$2 billion to fund its gas purchases, rather than the \$4.2 billion the company said earlier this month was required, according to

two people familiar with the talks.

Russian and EU leaders have worried that if Ukraine, its economy hammered by the downturn, can't pay to fill its gas reserves this summer, disruptions to Russian gas supplies to the EU, which in January left several of the bloc's nations without heat, will likely be repeated.

The institutions and the commission said in a joint statement that progress was made toward resolving the payment issue Monday but also that any financial support for Ukraine would be conditional upon continuing reform of the gas sector. Naftogaz offi-

cials weren't immediately available to comment. Ukraine already has a \$16 billion IMF standby loan.

An initial test comes July 7, when Naftogaz is due to make a regular payment to Russia's OAO Gazprom.

Meanwhile, Russia appeared to score a success Monday in its competition to retain control over gas-supply lines from the Caspian Sea region to the EU. Azerbaijan's state oil and gas company, SOCAR, signed an agreement to sell gas to Gazprom, beginning with a relatively modest 500 million cubic meters per year, the Associated Press reported.

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LEADING THE NEWS

Aston Martin to sell iQ

Toyota's tiny model will get a redesign and be called Cygnet

BY YOSHIO TAKAHASHI

TOKYO—Toyota Motor Corp. said it will produce its ultracompact iQ model for U.K. car maker Aston Martin, in its first tie-up under the leadership of its new president, Akio Toyoda.

Toyota, the world's biggest car maker by sales volume, will supply the iQ—built at a plant in Japan—to the U.K. car maker. Aston Martin will redesign the car to sell it as the Cygnet under its own brand.

"Now is the right time for Aston Martin to take this first bold step to embark on this special project," Aston Martin Chief Executive Ulrich Bez said in a news release.

A spokeswoman at Aston Martin's Japanese unit said the company will sell the Cygnet in Europe and other countries, though details such as sales targets and launch dates have yet to be determined.

The deal comes as global auto makers introduce smaller, lower-emission cars to meet stricter emission regulations in markets world-



Toyota's iQ compact car, shown at an international auto fair in Leipzig, Germany, in March, will be sold in Europe under an Aston Martin badge.

wide, a big challenge for makers of large, gas-guzzling automobiles such as Aston Martin, whose cars have been featured in James Bond films.

The Japanese car maker is trying to rebound after posting its first net loss in almost six decades in the most recent fiscal year. The company's new president is the first mem-

ber of the founding family to take up the post in 14 years.

For Toyota, the move could boost output volume and improve production efficiency for the iQ. Amid an economic slump, the car isn't selling as strongly in Japan and Europe as the company had initially hoped.

Merkel pledges tax cuts despite a rising deficit

BY ANDREA THOMAS

BERLIN—German Chancellor Angela Merkel defended her plan to cut taxes despite the country's soaring budget deficit as she introduced her conservative alliance's manifesto ahead of national elections in September.

Lower incomes taxes would "provide motivation" and encourage economic growth, Ms. Merkel told a conference of her party, the Christian Democratic Union, and its Bavarian sister party, the Christian Social Union.

"It would be wrong not to do what is right and necessary for growth, and so prevent ourselves emerging quickly from this crisis," Ms. Merkel said in her conference speech.

The conservative parties' election platform promises tax cuts worth €15 billion (\$21 billion), but gives no time frame. The parties plan to cut the lowest income tax rate to 12% from 14% at present, raise the threshold for paying the top income tax rate of 42%, and reduce the degree to which a rising income leads to a progressively higher tax rate.

However, Germany's widening budget deficit has led to expectations the next government might have to plug the budget gap with

higher taxes. Some state governors and lawmakers from the Christian Democrats have in recent days suggested raising some sales taxes to increase revenue, a debate Ms. Merkel is struggling to stamp out.

The left-leaning Social Democrats, who govern Germany as part of Ms. Merkel's awkward bipartisan coalition but who are campaigning against her in the election, have mocked the Christian Democrat's tax-cutting promises, saying the money isn't there at a time when Germany is racking up record public debt to tackle its deepest recession in the postwar era.

"When the economy is back on its feet, we must consistently bring down new borrowing," the Social Democrats' Secretary-General Hubertus Heil told German public radio. "There is no room for tax gifts on a broad front," he said.

Ms. Merkel has repeatedly ruled out the possibility of tax increases in the event she wins the election, saying the German economy wouldn't be able to deal with the burden of higher taxes when it is struggling to regain some growth momentum.

But analysts, including the head of the government's council of economic advisers, have predicted the next government may have no choice but to raise taxes.



Angela Merkel

Brown outlines programs to soften the U.K. recession

BY LAURENCE NORMAN AND ANITA LIKUS

U.K. Prime Minister Gordon Brown announced Monday new plans to cushion the impact of the recession, including extra money to fight youth unemployment and build affordable housing.

A year into a severe recession and less than 12 months from the next general election, Mr. Brown's proposals also included public-services reforms and changes to the political system.

He said he would boost funding for affordable housing over the next two years to £2.1 billion (\$3.5 billion) from £600 million. The money will be brought forward from future years' spending plans.

Mr. Brown said the extra spending will deliver 20,000 new affordable homes, creating 45,000 jobs in the construction sector. But analysts were skeptical of how much the program would help the U.K.'s beleaguered house builders.

Most of the U.K.'s house builders are currently only building to meet new orders, and have stopped land purchases as they seek to conserve cash. Many have said a recovery in their businesses depends on banks offering more mortgage products and the threat of unemployment receding. U.K. net mortgage lending posted its weakest gain on record in May, but the number of mortgages approved hit a 13-month high, industry data showed Monday.

Mr. Brown said he planned to give local governments will gain more responsibility for building social housing, but industry experts

warned that local authorities would need to be able to self finance in a tight credit environment to meet the targets.

Numis Securities analyst Chris Millington said that companies most likely to benefit from the new social housing plan include broader construction companies like Rok PLC, Kier Group PLC, Morgan Sindall PLC and Balfour Beatty PLC, rather than companies focused on building houses.

Mr. Brown said the new jobs program, which will start January 2010, would guarantee a job or training for those under 25 who have been out of work for a year. Those who don't accept the guaranteed job or training will have their welfare benefits cut. He said this £1 billion program, which will be financed from funds set aside in the budget, will provide 100,000 jobs for young people.

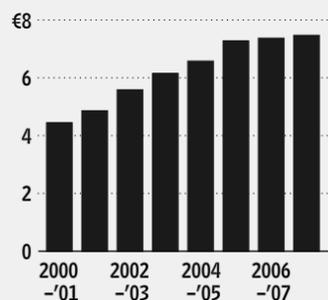
Mr. Brown announced various other reforms, including greater choice in public services and further reforms of the upper house of parliament.

He also confirmed the creation of a £150 million Innovation Fund that will be able to lever up to £1 billion of funding for key sectors, like life sciences and low carbon technologies. Mr. Brown reiterated that the new economic programs would be paid for by reprioritizing its policies, not by adding to existing spending levels or debt.

Mr. Brown's Labour Party must hold an election by June 2010. Labour has been far behind in the polls and Brown faced challenges to his leadership in early June.

Slowing growth

Porsche Automobil Holding's annual sales, in billions



Source: the company

Porsche plant in Leipzig, Germany



Reuters

Porsche receives offer from Qatar

Continued from first page
the credit crunch and the stock-market collapse meant Porsche ran into financing trouble.

The company's net debt tripled to €9 billion when it built its VW shareholding, forcing it to abandon its plan to push for a 75% stake and gain access to Volkswagen's cash reserves.

Volkswagen's powerful supervi-

sory-board chairman and former chief executive, Ferdinand Piech, who also sits on Porsche's supervisory board, favors an outright sale of Porsche's core sports-car operations to Volkswagen. Porsche would then be integrated as a 10th brand into Volkswagen, along with nameplates such as Audi, Skoda and Seat.

Volkswagen spokesman Michael Brendel reiterated that VW denies

having issued an ultimatum to Porsche to make a decision on a merger by the end of this month, after Porsche on Saturday said it had rejected such an ultimatum.

"It appears that...the relations...between VW and Porsche have hit an all-time low," said IHS Global Insight analyst Tim Urquhart. "What was already a difficult negotiation is rapidly descending into farce," he added.

Porsche this month said its controlling families unanimously support the plan to get an outside investment to safeguard the company's independence.

The maker of models such as the Cayenne and 911 on Friday said talks with the QIA were nearing completion after the Qataris completed due diligence.

Porsche and Volkswagen's history has been deeply entrenched ever since Ferdinand Porsche designed Volkswagen's iconic Beetle in the 1930s. Volkswagen's supervisory-board chairman, Mr. Piech, is the grandson of Ferdinand Porsche. Porsche's supervisory-board chairman, Wolfgang Porsche, is Mr. Piech's cousin.

Jackson promoter plans refunds

BY LIAM PLEVEN AND ETHAN SMITH

Concert promoter AEG Live spent the weekend after Michael Jackson's death planning what could be one of the biggest ticket-refund programs in history, a challenge likely to be complicated by the possibility that the company may have trouble collecting on its insurance. Yet insurance may help some fans get reimbursed for tickets they bought to now-canceled concerts.

Insurers had sold an \$18 million policy through Lloyd's, the London insurance market, that was intended to help

AEG recoup costs if concerts it was staging with Mr. Jackson were canceled due to an accident, according to a person familiar with the matter.

AEG said it sold nearly one million tickets to a 50-date run at its O2 arena in London, with a total face value of more than \$85 million.

The policy also could have provided coverage in case of a cancellation due to medical issues, says the person familiar with the matter, but that part of the coverage was dependent on the results of a physical that Mr. Jackson was scheduled to take in the coming days.

CORPORATE NEWS

Grocers test concepts in Czech Republic

Discounters and small-format stores opened by international companies may squeeze out mom-and-pop shops

BY LEOS ROUSEK

PRAGUE—Supermarket operators are aggressively expanding in the Czech Republic, particularly in the discount and convenience-store sectors, a move that's likely to spark further consolidation and drive out local mom-and-pop shops still operating in small towns.

Leading the charge are U.K.-based retail giant **Tesco PLC**, closely held German retailer **Rewe Group** and **Zabka**, a closely held convenience-store chain with operations in Poland and the Czech Republic.

The push for opening small-format and discount stores and expanding beyond larger cities herald yet another stage in the evolution of the Czech retail market, the most crowded in Central and Eastern Europe.

In January, the Czech Republic had nearly 23 hypermarkets per one million inhabitants, compared with eight hypermarkets per one million people in Poland, according to the Incoma GfK retail consultancy.

One reason behind the discrepancy is Czechs' deeper wallets. Per capita gross domestic product—a tally of goods, services and capital—totaled \$21,027 in nominal terms in the Czech Republic, compared with \$13,799 in Poland, data from the International Monetary Fund for the end of 2008 showed.

Poland is still the biggest market in the region because of its size: At 38.5 million, the population of Poland is nearly four times as big as the Czech Republic's 10.5 million.

Czechs spend 400 billion korun (\$21.66 billion) on groceries a year, with international players, including Tesco and Rewe, accounting for



Tesco, which already has 113 Czech stores, is adding small convenience outlets called Tesco Express

Leos Rousek/The Wall Street Journal

about 70% of the total. Local independent stores, including mom-and-pop corner shops, account for the remaining 30%, according to data from the Czech Confederation of Commerce and Tourism, an industry association. Analysts expect the share of locally run stores to drop to 25% at most as a result of further consolidation.

Tesco, which operates 113 stores in the Czech Republic, recently began pushing into the small-format sector. It has opened discount grocery stores with areas of about 1,000 square meters, called Tesco Supermarkets, and even smaller convenience stores called Tesco Express.

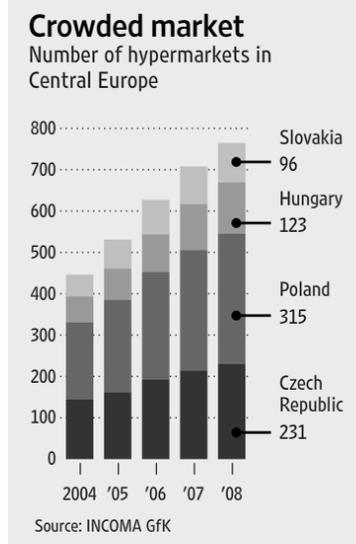
The Tesco Express format is "perfect for quick shopping when one needs to top up milk or other basic food supplies at home," said Gabriela Gaskova, 22 years old, shopping

at a Tesco Express in Prague's Vrsovice neighborhood. Tesco Express, she added, "isn't good for large weekly grocery shopping."

Tesco has 40 Czech supermarkets and 14 convenience stores, having added about a dozen stores in the past 18 months. The company plans to open 36 new outlets, mostly including supermarkets and Tesco Express stores, in the Czech Republic and Slovakia by the end of 2010.

"In the Czech market the only room left to expand is for discounters and convenience stores," said Ivan Styk, who oversaw the launch of the Tesco Express stores in the Czech Republic and is now responsible for Tesco hypermarkets in the Czech and Slovak markets.

Unlike traditional supermarkets, food discounters cut their costs by carrying fewer products and displaying them unpacked in boxes shipped



directly from producers.

Tesco's operations in the Czech Republic, Poland and Slovakia generated sales of £4.12 billion (\$6.81 billion) in the fiscal year ended in February, making up a quarter of the company's non-U.K. sales.

To be sure, Tesco's total international sales are still less than a half of the £41.52 billion the retailer generated in its U.K. home market. But the retailer's sales in the Czech Republic show solid growth, having risen threefold in the latest fiscal year from £473 million in 2006. The retailer's Czech sales also include nonfood goods sold through Tesco-owned Czech department stores.

Germany-based Rewe Group, meanwhile, plans to invest as much as €100 million (\$140.7 million) to solidify its No. 1 spot among Czech food discounters.

The company became the leader

in the Czech discount sector last year by taking over 155 local Plus discount stores from German rival Tengelmann AG in a deal valued at 9 billion korun and rebranding them as Penny Markets. Tesco had also bid for Tengelmann's Czech operations.

Rewe, which also operates 97 Billa supermarkets in the Czech Republic, plans to expand its Penny Market chain to 400 outlets by as early as 2012 from 309 stores at present. It also aims to open stores in towns with fewer than 10,000 inhabitants, which have been largely ignored by major retailers.

The overall grocery market in the Czech Republic is crowded as a result of Western European retailers' expansion efforts in the 1990s. Back then, almost all European retailers were present in the Czech market, attracted by the relatively high purchasing power of Czech consumers, a good road system and a dense population, said Pavel Cabal, a retail-sector analyst at Incoma GfK.

Retailers from Western Europe "used the market for pilot testing ahead of expansion elsewhere in the region," Mr. Cabal said. But by the early 2000s, the market became overcrowded, leaving little room for growth, he said.

Cutthroat price competition caused several foreign retailers to abandon the market in early 2008, including Carrefour SA, Delhaize SA and Tengelmann.

Netherlands-based Ahold NV and Germany's InterSpar and Lidl Stiftung & Co. are still active in the Czech Republic, but only Tesco, Rewe and Polish-Czech convenience-store operator Zabka are actively opening new stores.

—Lilly Vitorovich in London contributed to this article.

CEO refocuses Carrefour on prices

BY CECILIE ROHWEDDER

Six months after Lars Olofsson became chief executive of French retailer Carrefour SA, his efforts to tame the problems that felled two of his predecessors are on display at a hypermarket south of Paris.

At the huge store in Villabé, Mr. Olofsson is testing a new strategy meant to restore Carrefour's low-price reputation among consumers who have come to see it as too expensive, especially amid the recession.

The store's signs are bigger, bolder and simpler than they were a few months ago. Small gray and white signs have been replaced by large yellow discount posters above the aisles, with prices in bold, red print. In the past, almost all Carrefour stores had banners bearing the slogan "Quality for All." Now most in-store advertising is about price.

On Tuesday, Mr. Olofsson makes his first detailed report to investors on progress repositioning Carrefour's price image. But Carrefour's problems are bigger than just prices: Its future appears endangered by the hypermarket approach of selling everything from appliances, to clothes and groceries.

With smaller households and a growing craving for convenience, shoppers are less interested in driving to out-of-town hypermarkets to

load up on groceries. Meanwhile, their non-food needs are largely met by specialist clothing chains such as Zara or electronics retailer Darty, owned by Kesa Electricals PLC.

Carrefour—the world's second-largest retailer by sales after Walmart Stores Inc.—has struggled to blunt the inroads by these specialists. Net profit dropped steeply last year, and in November, the previous chief executive was ousted and replaced in January by Mr. Olofsson, who joined from Nestlé SA. In April, the retailer reported its first quarterly sales drop in six years.

Carrefour operates in 33 countries and had €86.97 billion (\$120.36 billion) in net sales last year. But its problems are most pressing in France, which accounts for 44% of group sales. Its food business is under attack from cheaper rivals and deep discounters such as Germany's Aldi. Elsewhere, it is threatened by fast-moving specialists, like Inditex SA's Zara clothing chain.

In a recent interview, the 57-year-old Mr. Olofsson said he hopes the vast reach of Carrefour's hypermarkets will help it quickly alter its image. "We have one million customers a day in our hypermarkets," he said. By changing the way it communicates value, "we can very rapidly start, at least, to change percep-

tions," he said.

Mr. Olofsson, tall and imposing with crew-cut white hair, is tackling the problems with a mix of tactics borrowed from other retailers.

He wants to cut prices and boost price marketing, like recent comeback kid William Morrison Supermarkets PLC of Britain. He wants to revive Carrefour's hypermarkets, partly by tailoring each store to its clientele, much like Kroger Co., which uses information from customer loyalty cards to stock individual stores. And he wants to open smaller stores, like Tesco PLC and J Sainsbury PLC in Britain.

Mr. Olofsson said one of Carrefour's biggest mistakes was its history of inconsistent pricing practices, shifting from comparatively high prices and strong margins for a time, then to lower prices and bigger volumes. "Ikea, Wal-Mart, Tesco, Zara, H&M—they have for the last 20, 30 years hammered on the same nail every time," he said.

Early signs of his prescription appear at a Carrefour hypermarket in Auteuil, an affluent suburb of Paris. To match the merchandise to the wealthy shoppers in the area, the newly renovated store sells 20% more produce, including more organic fare. It has added luxury brands such as Fauchon, from a Parisian gourmet food store of the same



Lars Olofsson, CEO of French retailer Carrefour, on Tuesday outlines progress on his efforts to improve the world's second largest retailer's low-price reputation.

name, and a "farm shop" for exotic fruits and vegetables prepared for cooking. Most non-food offerings have been reduced by 40%, but the sales area for perfume and beauty products has doubled.

Carrefour prices, Mr. Olofsson decided, are competitive, but not evident to consumers. So Carrefour revamped its promotional flyers to highlight low prices. Flyers now show fewer products per page and emphasize discounts such as "three-for-two" or 50% off for loyalty-card holders. In May, Carrefour launched its biggest advertising campaign in years, for a new range of value items

called "Carrefour Discount."

Analysts applaud his ideas but many caution that they are similar to those of his predecessors, who never fully put them in practice.

"Although we see potential for Carrefour's new CEO to restructure the business, we remain somewhat skeptical," said Bernstein Research analyst Christopher Hogbin in a note earlier this month.

Admirers say Mr. Olofsson is right for the job. "He loves provocation, he loves ideas," said Shelley Lazarus, chairman, Ogilvy & Mather Worldwide, who met Mr. Olofsson during his time at Nestlé.

CORPORATE NEWS

Boeing feels pressure to placate 787 buyers

Dreamliner delay gives airline clients leverage to bargain

BY PETER SANDERS
AND DANIEL MICHAELS

The latest delay to hit Boeing Co.'s 787 Dreamliner has complicated an intricate set of negotiations, giving airlines a chance to wrangle concessions from the plane maker on delivery dates, installment payments and even the final purchase price.

Already nearly two years behind schedule, the Dreamliner was the fastest-selling commercial airplane in Boeing history—at one point more than 900 orders were on the books. After a spate of cancellations that number is now closer to 850. Last Tuesday, Chicago-based Boeing said a structural flaw detected during ground tests required additional reinforcement on the Dreamliner, a problem that will delay the plane's first test flight, possibly for months.

Delivery delays can wreak havoc on an airline's ability to plan its routes and schedules. But they also can provide an opening to renegotiate complicated contracts that govern airplane purchases. Boeing is coming under pressure from its customers to offer fresh concessions.

Industry officials say that Boeing has recently stopped discussing compensation terms for delays to the 787 and speculate it is waiting until its actual delivery schedule is clear. Already, the delays have cost Boeing millions of dollars in penal-



A Boeing 787 sits in a paint hangar at the plant in Everett, Wash.

ties and concessions to customers.

"Our focus is always on our customers and as we've done throughout the development program, we will work closely with them regarding the program and the impact of this issue," said a Boeing spokesman.

Even before the recent delays, some airlines were getting frustrated with Boeing's frequent schedule changes. Akbar Al Baker, chief executive of Qatar Airways, threatened to cancel orders for both 787s and larger 777s, which are now in production, because of disruption caused by problems at Boeing.

"Boeing doesn't realize how much they're hurting their customers' plans," Mr. Al Baker said at the recent Paris Air Show. Qatar Airways has firm orders for 30 787s and options for 30 more. The first

were due for delivery in 2011 but that arrival date is now uncertain.

Boeing says its delivery timetable for the aircraft hasn't been updated. A Boeing spokesman said the company was trying to work with Qatar Airways to resolve problems.

Airlines world-wide are struggling with rising oil prices and falling passenger revenue. Fitch Ratings recently downgraded the corporate ratings of UAL Corp. and Delta Air Lines Inc.

Actual cancellations are rare, but last week Australia's Qantas Airways Ltd. said it scratched orders for 15 787s and delayed deliveries on 15 others slated to arrive in 2014-15. Qantas—which is still the largest Dreamliner airline customer with 50 planes on the books—had some leverage to cancel, say industry observers. Qantas also kept options to

Cancellations

Some customers that have cut back on Dreamliner orders



buy dozens more of the planes.

Qantas executives cited a global economy that is far different today than it was when it placed the order in 2005. It said it had been in discussions with Boeing for months.

For Boeing, the cancellations have a silver lining. The jet maker now has a little more breathing room it can use to fill remaining orders more quickly, thereby avoiding some penalties.

"From Boeing's perspective, that's not necessarily bad news when you have a rollout going this poorly," said Peter Barlow, an aviation attorney with Smith, Gambrell & Russell LLP. "The way purchase agreements are drafted, a savvy purchaser will obtain daily damages, and if a plane isn't delivered on time, the customer receives a daily penalty [from the manufacturer]

that can be a very big number."

Though the 787's list price is roughly \$178 million, customers typically receive discounts. The price negotiated at the time of the order is rarely the price paid when the plane is delivered years later.

Typically, customers make "pre-delivery payments" every six months, beginning about 18 months prior to delivery, that amount to around 30% of the total purchase price. Payments often escalate as the delivery date approaches, said Mr. Barlow. Everything in that process is negotiable, Mr. Barlow said.

Several carriers, including Air New Zealand Ltd., British Airways PLC and Virgin Atlantic Airways Ltd., are coping with 787 delays by ordering current-model planes from either Boeing or Airbus, a unit of European Aeronautic Defence & Space Co.

Virgin, for example, last week announced an order for 10 Airbus A330s, which are slightly larger than Dreamliners and not as cutting-edge, but are available next year and in 2011.

"We weren't prepared to have six years of no new aircraft being delivered," said Virgin spokesman Paul Charles. He said Virgin is still talking to Boeing about compensation.

"We would like to see the compensation reflect the ongoing delays," Mr. Charles said.

Ethiopian Airlines, one of the first airlines to order 787s, has kept its order even after bank-financing that it had arranged fell apart, according to a banker familiar with the situation. The airline will instead initially finance its purchase with its own cash, this person said.

Officials at Ethiopian Airways didn't respond to requests for comment.

—Susan Carey and
Stefania Bianchi
contributed to this article.

Portugal to build refueling sites for electric cars

ASSOCIATED PRESS

LISBON—Portugal announced a plan to install about 1,300 recharging sites for electric vehicles over the next two years, part of an effort to create a mass market for environmentally friendly electric cars expected to go on sale next year.

The center-left Socialist government is aiming to reduce energy imports and emissions.

Having no oil or coal, Portugal has long imported most of its energy. But in recent years it has become a European pioneer in the development of clean energy. The government claims renewable sources can already meet 43% of the country's electricity needs.

The first phase of deployment will include recharging sites in 21 cities and rural districts chosen for their high population density and traffic volume, the Economy and Innovation Ministry said. The sites are to be established at gas stations, shopping malls and wired parking spots, among other places.

The network is being built by a consortium of five companies, the government said.

The government has promised tax breaks to encourage the purchase of zero-emission vehicles. It predicts that Portugal could have 180,000 battery-powered cars on the roads by 2020. By that time, there could be 25,000 recharging sites, it said.

Valero harnesses wind energy for oil refining

BY ANA CAMPOY

SUNRAY, Texas—In this wind-swept corner of the high plains, a big oil refiner is embracing new green technology in order to make more money producing old-fashioned fossil fuels.

Valero Energy Corp., which can process more crude than any other U.S. refiner, recently installed 33 windmills to supply a refinery here with green electricity to produce gasoline and diesel.

The marriage is one of convenience, Valero executives say. "We didn't build the wind farm so we could get into the wind-energy business," says Tom Shetina, the refinery's manager, who expresses awe at the windmills' size. "We built the wind farm so we could support the refinery and run it more economically."

The company hopes to lock in fluctuating electricity prices by developing its own source of power, rather than relying on the grid, and to cut the \$1.4 million-a-month electricity bill at the seven-decade-old refinery. The \$115 million wind farm, which will be ready to operate at full capacity in August, will pay for itself in about 10 years at current electricity prices, company officials said.

Valero, which is based in San Antonio, does have some environmental motives. It hopes to produce its petroleum-based fuels more



Valero Energy's \$115 million Sunray, Texas, wind farm is helping to power an oil refinery. It will pay for itself in about 10 years at current electricity prices.

cleanly, something it could be forced to do if Congress enacts legislation to curb greenhouse gases.

While the wind farm will make the refinery greener, it won't reduce the greenhouse gas emissions spewed by cars and trucks as they burn the fuels that Valero makes.

Transportation generates 33% of U.S. carbon emissions, with gasoline accounting for the bulk of them, government data show. Transforming crude oil into fuels accounts for less than 5% of U.S. emissions, according

to industry trade groups.

Valero is experimenting with alternative fuels—it bought several ethanol plants earlier this year—but it and other refiners are betting that Americans will continue to fill their tanks mostly with gasoline and diesel for years to come.

And faced with increasing competition from refineries located in lower-cost areas overseas, it wants to make those fuels more cheaply.

According to Ken Starcher, director of the Alternative Energy Insti-

tute at West Texas A&M University, the cost of electricity from a typical wind farm in the area averages 4.5 cents per kilowatt hour during the project's lifetime, including the initial investment and maintenance. That's about 1.5 cents less than the current utility-company rate, he says.

After the Sunray wind farm is completed in August—and when the wind is blowing—Valero expects to generate 50 megawatts of electricity an hour, the full load required to run the refinery next door. That should cover the refinery's needs 40% to 45% of the time, it says, an estimate that experts say is reasonable for the area if the wind farm is well managed.

Valero says it will also receive tax credits from the project and could potentially sell the renewable-energy certificates from its wind power, which will displace electricity that is mostly generated by burning Wyoming coal.

The refinery, which was built here in the 1930s to take advantage of nearby oil wells, happens to be in one of the most desirable wind-power-producing regions in the U.S. Located some 65 kilometers north of Amarillo, the refinery has few neighbors aside from cattle and prairie dogs, which don't seem to mind the towering white windmills.

CORPORATE NEWS

McDonald's expands in India

Fast-food chain says traffic is increasing; McNuggets catch on

BY ERIC BELLMAN

MUMBAI—McDonald's Corp. plans to bring the Chicken Maharaja Mac to more of India.

While much of India's retail sector is struggling, McDonald's has been largely unaffected by the slowdown and is planning on accelerating its expansion on the subcontinent, according to Amit Jatia, chairman of McDonald's in western and southern India.

McDonald's plans to open another 40 restaurants across India, bringing the total to close to 200, he said in an interview. Last year, the

fast-food giant opened about 25 restaurants. Mr. Jatia said the number of customers visiting McDonald's restaurants has continued to climb between 10% and 15% each month compared with a year earlier.

At McDonald's India, vegetable patties and chicken replace beef on the menu.

McDonald's adapts its restaurants in India to local tastes; in a nation that is predominantly Hindu and reveres the cow, beef isn't on the menu, for instance, replaced by chicken burgers and vegetable patties.

McDonald's India is a joint venture

between the Oak Brook, Ill., company and two domestic partners. Mr. Jatia manages half the franchise in India.

"People in India are used to McDonald's and now starting to rely on it" as it becomes more than just the occasional treat for India's increasingly affluent middle class, he said. "All through the time of the [global economic] crisis we have been running double-digit sales growth."

The popularity of Chicken McNuggets has helped boost sales since their May introduction in India, he said. The deep-fried chicken pieces have sold so well that some McDonald's stores were running out, he said. "We had to slow down the marketing campaign."

Mr. Jatia also is the managing director of developer **West Pioneer Properties India**, which has a mall near Mumbai. The company, listed on the AIM in London, reported Monday



Amit Jatia, inset, chairman of McDonald's in western and southern India, says McDonald's plans to open 40 more stores nationwide. Main image shows an outlet in Bangalore.

Eric Bellman/The Wall Street Journal (main); West Pioneer Properties (inset)

that its profit before tax fell more than 50% to \$6.4 million in the year ended March 31.

The company will delay plans to expand the mall and is instead planning to build low-cost housing on the site.

Stimulus TV

Handset makers to standardize chargers in EU

A WSJ NEWS ROUNDUP

BRUSSELS—European Union officials reached a deal with 10 of the world's leading mobile-phone makers to introduce a universal charger for smart phones.

Monday's agreement with **Nokia Corp.**, **Sony Ericsson**, **Apple Inc.**, **Motorola Inc.**, **Research in Motion Ltd.**, **Samsung Electronics Co.** and other major manufacturers means phones compatible with standard charging devices will be available in Europe from next year, said the European Commission, the EU's executive branch, which had pushed for such a deal. Sony Ericsson is a joint venture of Sweden's **Telefon AB L.M. Ericsson** and Japan's **Sony Corp.**

EU Industry Commissioner **Günter Verheugen** said selling a single, standard charger will cut costs for manufacturers and reduce the number of chargers thrown away when consumers buy new phones.

"I am very pleased that industry has found an agreement, which will make life much simpler for consumers," Mr. Verheugen told reporters.



Günter Verheugen

The commission said the deal would involve the creation of an EU norm, and that the new generation of smart phones would use a standard micro-USB socket to ensure compatibility. Mr. Verheugen said he wants to see the common charger expanded to other phones, cameras and laptops.

There are an estimated 400 million mobile phones in Europe.

Bridget Cosgrove, director general of DigitalEurope, which represents the digital-technology industry, said her group is "optimistic" other countries will adopt the same universal charger soon.

Consumer-rights groups, however, called for more-ambitious plans. "You could have extended this to different small appliances, such as MP3 players," said Gabriele Fleischer from the Consumers' Council in Berlin. She said it was also important that all mobile-phone producers join the agreement.

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CORPORATE NEWS

Diabetes drug pressures Sanofi

Some analysts cut outlook as studies suggest cancer link

BY JEANNE WHALEN
AND MIMOSA SPENCER

The emergence of studies suggesting a possible link between the diabetes treatment Lantus and cancer is likely to create a long-term headache for drug giant Sanofi-Aventis SA, even as some medical experts caution that the studies are inconclusive.

Some analysts have cut their Lantus sales forecasts and downgraded Sanofi's stock in recent days. Shares in the French drug maker have fallen about 14% over the past week, as rumors of the studies' imminent publication circulated. The studies were published Friday in *Diabetologia*, the journal of the European Association for the Study of Diabetes.

Lantus, an artificial form of insulin known as an insulin analogue, has been used widely since 2000.

Some patients see it as more convenient because it needs to be injected only once a day, compared with twice or more with older insulins.

The association said the studies, while having some "limitations," showed a "possible link" between Lantus and cancer, and called for further research. The American Diabetes Association called the studies "conflicting and inconclusive," and cautioned "against over-reaction until more information is available."

The European Medicines Agency on Monday called the study results "inconsistent" and said a relationship between Lantus and cancer "cannot be confirmed nor excluded" as a result. It advised patients taking Lantus to continue doing so, and called for further study of the matter.

Still, analysts said the negative publicity could weigh on sales of a product that Sanofi is relying on to offset declining sales of older products. Lantus had sales of €2.45 billion (\$3.45 billion) last year.

"Investors will likely remain cautious until more data are published," Exane BNP Paribas said in a

research note Monday, after downgrading Sanofi shares to "neutral" from "outperform."

Société Générale cut forecasts for Lantus sales to reflect no growth in the second half of 2009, and mid-single-digit percentage growth from 2010. At the slower growth rate, annual sales of Lantus in 2012 could be €3.4 billion, it estimated—less than the €5 billion Société Générale was forecasting in February.

Monday, Sanofi Chief Executive Christopher Viehbacher called the new studies inconclusive and flawed, adding that clinical trials in Sanofi's database involving 70,000 people have shown no link between Lantus and cancer.

Mr. Viehbacher said Sanofi plans to investigate the matter, but hasn't yet decided what kind of extra study is needed. Investors, he said, have reacted more harshly to the studies than the medical community has. The company had a conference call over the weekend with Sanofi sales managers to advise them how to respond to questions from doctors.

In the studies, researchers in

four European countries reviewed data of patients taking Lantus and other insulins. In one study involving 127,000 Germans, the risk of being diagnosed with cancer over an average of one-and-a-half years was 9% higher in patients taking a low dose of Lantus than in people taking human insulin, an older kind of insulin. Patients taking a higher dose of Lantus had a 31% higher risk of being diagnosed with cancer.

A study in Sweden found that patients taking Lantus had double the risk of breast cancer compared with patients taking other insulins. But the number of breast cancer cases was small, meaning the findings could have been due to chance, the European diabetes association said. A study in the U.K. showed no link between Lantus and cancer.

Patients taking Lantus in the studies were generally older, more overweight and had higher blood pressure, making it possible that "any difference in cancer risk could be attributed to the pre-treatment characteristics of the groups," the European association said.

Justice Department objects to airlines' pact

BY SUSAN CAREY
AND DOUG CAMERON

The U.S. Justice Department has belatedly objected to a plan by United Airlines parent UAL Corp. and Continental Airlines Inc. to cooperate closely within the larger Star Alliance of air carriers.

UAL and Continental received preliminary approval for the arrangement from the U.S. Transportation Department nearly three months ago. The DOT tentatively agreed to let Continental join the Star group, granting 10 of the Star members provisional antitrust immunity to act as a single carrier on some international routes.

The Justice Department technically has no authority over international aviation agreements, but typically weighs in on such DOT rulings. In this case, however, it waited nearly two months after the comment period closed before filing its comments with the DOT on Friday.

The department's objections could lead the DOT to reconsider or

agree to changes in the plan. That could spell trouble for United, which was counting on closer ties with Continental to give it a lift after failing to find a merger partner last year.

The Justice Department's position could also portend problems for a separate application for antitrust immunity by members of the oneworld group of carriers, led by British Airways PLC and AMR Corp.'s American Airlines.

The Justice Department declined to comment Monday.

The department's objections are another signal of the tough antitrust-enforcement taken by the Obama administration. Separately, Rep. James Oberstar (D-Minn.) has introduced legislation that would require a study of airline alliances and possibly wind them down after three years.

Because U.S. law forbids airlines from engaging in cross-border mergers, U.S. carriers have tried to achieve some of the same benefits by cooperating with overseas rivals. Since sharing revenue and coordinating pricing,

scheduling and marketing normally would be deemed collusive and illegal, both foreign and domestic carriers have sought antitrust immunity from the DOT, which can exclude certain routes on which there is little competition.

After over 15 years of the DOT's blessing such arrangements, there are many cooperation deals between carriers and now clubs of airlines are asking for immunity to cooperate collectively on international routes.

If the DOT takes the Justice Department's objections to heart and reverses its decision to approve closer domestic cooperation between United and Continental, that could reduce the revenue benefits and marketing clout United hoped to extract from having Continental in its club. It also could leave Continental isolated. The carrier had planned to leave a rival alliance in October on the assumption that it would be joining Star.

United, the No. 3 U.S. airline by traffic, said Monday that it is confident its

application will receive final approval. No. 4 Continental, in a separate statement, declined to comment on the specifics of the Justice Department's comments, but said, "In this economic crisis, it is more important than ever for the U.S. government not to hamper our industry's and company's efforts to remain competitive."

In its comments to the DOT, the Justice Department called the immunity request by the airlines "unprecedented in scope and breadth, sanctioning collusion by United and Continental on all international service, eliminating or significantly reducing competition between certain Star alliance members on routes where they provide the only—or almost all of—the competitive alternatives, and removing previously imposed protections."

The department said the result would likely be higher fares and diminished competition and called on the DOT to amend its order granting the airlines' request.

—Daniel Michaels contributed to this article.

Apple says Jobs is back in office a 'few days' a week

BY YUKARI IWATANI KANE
AND JOANN S. LUBLIN

Apple Inc. said Chief Executive Steve Jobs is back at work after a six-month medical leave.

In a statement, Apple spokesman Steve Dowling said, "Steve is back to work. He's currently at Apple a few days a week and working from home on the remaining days."

Mr. Jobs had been on leave since mid-January. At the time, he said he had a "hormone imbalance" but gave no other details. Earlier this month, The Wall Street Journal reported that the 54-year-old CEO had a liver transplant in Tennessee about two months ago. The Methodist University Hospital Transplant Institute in Memphis later confirmed Mr. Jobs had undergone a liver transplant at the facility and that his prognosis was "excellent."

Tim Cook, Apple's chief operating officer who has been running the Cu-

pertino, Calif., company's day-to-day operations, may take on a "more encompassing role," including a seat on the board, a person familiar with the thinking at Apple has said.

Apple has been criticized for failing to keep investors abreast of Mr.

Jobs's health. Earlier this year, the Securities and Exchange Commission opened an inquiry into Apple's disclosures about Mr. Jobs's health.

The surgery "isn't relevant until he becomes the full-time CEO again," said Charles Elson, head of

the Weinberg Center for Corporate Governance at the University of Delaware's business school. Still, the board's failure to tell investors about the surgery "shows the problems of running a company by cult," he said.

Gazprom Neft chief defends move on Siber

BY GUY CHAZAN

State-run Russian oil company Gazprom Neft's move on Sibir Energy PLC, the independent U.K.-listed oil producer, made "perfect sense" for the company and will strengthen its position in the Moscow retail market, Gazprom Neft's new deputy chief executive, Igor Tsibelman, said in an interview.

Gazprom Neft's buildup of a stake in Sibir—it has bought out mi-

nority shareholders while affiliates have acquired further stakes—has been seen as an example of the Kremlin's exploiting the global financial crisis to strengthen its control of industries considered strategic, such as oil and gas.

But Mr. Tsibelman said there was "no political dimension" to the acquisition. The deal made sense for both companies due to the "numerous synergies" between them, he said.

Sibir and Gazprom Neft, he said,

are already joint owners of the Moscow Oil Refinery, and the big Siberian oilfield Sibir owns in a joint venture with Royal Dutch Shell PLC, Saly, is adjacent to one of Gazprom Neft's fields. "We see Sibir as a company with world-class assets and Saly is one of them," he said.

Mr. Tsibelman, formerly head of international legal affairs at Gazprom Neft, was appointed deputy CEO of Sibir earlier this month. He will succeed Stuard Detmer, an American.

GLOBAL BUSINESS BRIEFS

Iberia Líneas Aéreas de España

Carrier gets waiver on deal for a large stake in Vueling

Iberia Líneas Aéreas de España SA, Spain's largest airline, won't need to make a bid for all of Vueling Airlines SA, Spain's stock-market regulator said Monday. Iberia's budget unit, Clickair, is in the process of merging with Vueling. On completion of the deal, Iberia is set to own 45.85% of the new company, exceeding the 30% threshold that normally requires companies to make a full bid. This month, Iberia requested exemption from that obligation. The creation of the new airline, which will also be called Vueling, will save €25 million (\$35.2 million) a year in costs over three years and boost revenue by €40 million to €45 million a year, according to Vueling's projections.

Celesio AG

German pharmaceutical retailer and drug wholesaler Celesio AG agreed to buy a 54% stake in closely held Panpharma, Brazil's largest wholesale pharmaceutical company, as part of its strategy to expand beyond Europe. Celesio said the deal is subject to supervisory-board approval, but that, if given the green light, it will participate in a capital increase by Panpharma. The companies didn't disclose further terms of the deal and analysts said an acquisition price is difficult to determine because Panpharma is family-owned and its margins are unknown. Sal. Oppenheim estimates Celesio could pay between €215 million and €332 million (\$302 million to 467 million), based on the company's 2008 sales of about €1 billion.

Pearl Group

Liberty Acquisition Holdings (International) Co. agreed to acquire U.K. insurer Pearl Group in a move that could form a £2.3 billion (\$3.8 billion) London-listed insurance business targeting investment opportunities created by the financial crisis. The deal values Pearl at about £1.6 billion and Liberty will inject up to £600 million into the company once the acquisition is completed. The new business will keep the Pearl name and could rekindle rivalries between Pearl shareholder Hugh Osmond and U.K. entrepreneur Clive Cowdery. Last year, Mr. Cowdery launched Resolution Ltd. to acquire and restructure financial companies in the U.K. and Western Europe. Mr. Cowdery had been chairman of Resolution PLC, which Pearl bought for £5 billion two years ago.

—Compiled from staff and wire service reports.

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ECONOMY & POLITICS

Iran's institutions emerge as key players

As protests continue, cracks in the military and clergy's support of Ahmadinejad have potential to aid opposition

BY GERALD F. SEIB

It's hard to avoid the conclusion that the flames of protest are being slowly smothered in the streets of Iran. Still, even that will leave behind embers of opposition, and the key question in weeks ahead is whether there are any forces within Iran able to keep those embers smoldering.

Anyone who has followed recent Iranian history knows there are two

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places to look for the answer to that question: the military and the clerical establishment.

If cracks in the support for President Mahmoud Ahmadinejad start appearing in those institutions, the Tehran Spring set off by protests over Iran's presidential election could evolve into a movement with reach and consequence, and not just a short-lived outburst of frustration.

It's hard for any outsider to know what currents run through these two opaque institutions, of course. At this point, though, a reasonable guess is that the clerical establishment is a more likely source of meaningful opposition to the Ahmadinejad regime than is the military—but that neither is emerging yet as a real force for change.

Look first at the military. Iran essentially has two different military forces—or, perhaps more accurately, two and a half.

It has a traditional military, the descendant of the Shah of Iran's imperial army, which is in charge of defending Iran's borders and maintaining a traditional military infrastructure.

But the force that has the real power is Iran's Revolutionary Guard Corps. The Revolutionary Guard is a parallel military organization set up after the 1979 revolution to ensure that clerical leaders would have at their disposal a force with unques-



Iranian President Mahmoud Ahmadinejad has drawn some protest from the nation's clerical establishment.

tioned loyalty and a check on traditional military officers, who were suspect because of their roots in the Shah's regime.

During the long and grinding Iran-Iraq war, the Revolutionary Guards also developed a kind of junior offshoot, the Basij militias, to bring more idealistic and fearless young men to the war front. Mr. Ahmadinejad himself is believed to be a former Basij member, and the force now has evolved into loosely organized civilian militias spread across the country.

The Revolutionary Guards appeared to back Mr. Ahmadinejad when he was first elected four years ago, and appear reliably loyal to him now that his re-election has been ques-

tioned. Indeed, the Basij have been brutally active in putting down protests.

But this parallel military structure has, as one would expect, bred deep animosity among regular army officers, who resent both their second-class status and the drain of weapons and resources going to the Revolutionary Guards. "It can't be overstated, the hatred the regular army feels for the IRGC," as the Revolutionary Guards are known, says Joseph Lydon, an intelligence briefer for the U.S. Navy and Coast Guard who specializes in Iranian affairs.

That means the regular army, with ample reason to resent Mr. Ahmadinejad and his Revolutionary Guard loyalists, is a potential force

to power the opposition. One U.S. official says there are reports of "discomfort" among some army officers—and even among some leaders of the Revolutionary Guard—at how opposition is being crushed within Iran.

But the regular army has been cowed over the years, and there are no indications of organized opposition taking shape. "The big players in the Iranian military are just standing by and watching," says one analyst. That could change if protesters manage to keep their movement alive, but for now the traditional military seems far more likely to follow a sustained opposition movement than to lead one.

The story might be different inside the nation's clerical establish-

ment, where at least some voices of protest have been heard over the way the presidential election and its aftermath have been handled by Mr. Ahmadinejad and the nation's supreme leader, Ayatollah Ali Khamenei.

For instance, one cleric, Ayatollah Asadollah Bayat Zanjani, initially called the election a "gross injustice," and in recent days has defended protesters.

But the great hope of reformers is former President Hashemi Rafsanjani, who is one of Iran's most influential clerical figures and a long-time critic of Mr. Ahmadinejad. He also is chairman of the Assembly of Experts, a group of 86 clerics charged by the Iranian constitution with the task of overseeing the supreme leader—and vested with the power to remove him.

Mr. Rafsanjani has periodically, but unreliably, been reported to be working behind the scenes to organize clerical opposition to Mr. Ahmadinejad, and possibly to Ayatollah Khamenei. But the hope that Mr. Rafsanjani might lead a charge to overturn the election or force regime change cooled a bit over the weekend, when he issued an elliptical statement calling for a thorough investigation of election complaints, but also saying "suspicious hands" were trying to drive a wedge between the public and the government.

So for now, those hoping for change in Iran, including the U.S. government, are left to wonder and hope, mostly helplessly, about the country's key institutions. "It is utterly impossible to predict revolutions, and the only time revolutions succeed is when the regime loses the will or the capacity to use violence," says Kenneth Pollack, director of the Saban Center for Middle East Policy at the Brookings Institution. "And I don't see any evidence this regime has lost its will or capability to use violence."

Iran declares Ahmadinejad win after a partial recount

BY MARGARET COKER
AND ROSHANAK TAGHAVI

DUBAI—Iranian officials on Monday held a partial recount of disputed elections and confirmed President Mahmoud Ahmadinejad's overwhelming victory over his reformist challenger Mir Hossein Mousavi.

"The Guardian Council after studying the issues in numerous sessions, dismisses all the complaints received, and approves the accuracy of the 10th presidential election," Press TV reported, quoting an official statement by the Council.

The declaration closes off Mr. Mousavi's last legal challenge against what he and fellow opposition candidate Mehdi Karrubi claimed was widespread fraud during the ballot held on June 13. Both men have signaled they wouldn't accept the partial recount results, according to state media. Yet, it was unclear how they would push their protests further.

The U.S. and European Union were weighing response to the final vote count. Asked if the White House would recognize Mr. Ahmadinejad as Iran's legitimate president, Secretary of State Hillary Rodham Clinton said, "We're going to take this a day at a

time." Meanwhile Italian President Silvio Berlusconi said European nations would discuss the possibility of further sanctions against Iran, according to the Associated Press. Mr. Ahmadinejad received congratulations from China, Russia and Turkey after the original tally following the vote.

In Iran, members of the country's ruling elite appeared to close ranks around Supreme Leader Ayatollah Ali Khamenei amid his call to end criticism of the election, leaving Mr. Mousavi more isolated. Iranian state television reported that the head of the parliament's powerful national security committee, Alaeddin Bouroujerdi, a man considered close to Mr. Khamenei, met Monday with two leading clerics in the holy city of Qom, and all agreed to work to calm tensions in the country.

That gathering came after a Sunday meeting with former reformist President Mohammad Khatami, a key campaign supporter of Mr. Mousavi, according to state media. Press TV, the English-language arm of the state broadcaster, reported that Mr. Khatami agreed to work with the government to resolve tensions that have sparked one of the most critical challenges to the Is-



Mir Hossein Mousavi has run out of options for legal challenges to results.

lamic Republic since the early days of the revolution.

Violence has left at least 20 protesters dead and hundreds wounded, according to state media. The government has blamed much of the unrest on foreign agitators, including U.S. and British intelligence.

Mr. Ahmadinejad appeared to support the theory of foreign agitation in a letter to the Justice Ministry asking for an investigation into the shooting death of Neda Agha Soltan, the young woman who has become a global icon of the protest.

"Amid vast propaganda by foreign media and many other evidence about the heartfelt event, it seems definite that opponents of the Iranian nation interfere [in Iran's internal affairs] for their political misuse," Press TV reported the president's letter as saying.

Witnesses to the shooting have said the shots that killed Ms. Soltan were fired by a member of the militia known as the Basij, whose forces comprise a large share of the anti-riot forces, and which make up one of Mr. Ahmadinejad's main bases of political support.

The semiofficial Fars news agency reported Monday that the caliber bullet that killed Ms. Soltan didn't match the standard weapon issued to the Basij. It didn't elaborate.

The head of the Basij, Commander Hossein Taeb, said his men captured an undetermined number of "imposters" who had dressed in Basij and police uniforms, infil-

trated the protests and were responsible for creating "havoc," according to Press TV. Mr. Taeb, told local reporters that his men had been deployed unarmed to dispel protesters, the agency reported.

Intelligence Minister Gholam Hossein Mohseni Ejei warned that suspects found guilty of organizing the protests would face tough sentences, while those engaged in "anti-revolutionary" activity "would never be freed," according to the Fars news agency.

Partial results published by state media showed Mr. Ahmadinejad receiving more votes in electoral districts than he had won in the original tally. Final tallies were expected late Monday night.

Mousavi supporters who took part in the latest protest held Sunday night said they were fighting a feeling of despair that their calls for justice would be permanently quashed.

"Everyone is worried and no one knows what will happen next. In some ways people are hopeful and in some ways they feel hopeless. Things are all mixed up," according to a 31-year-old Iranian interviewed by telephone.

ECONOMY & POLITICS

Nations condemn Honduras coup

Chávez rallies leftists around ousted leader as Clinton weighs in

BY PAUL KIERNAN
AND DAVID LUHNOW

TEGUCIGALPA, Honduras—A day after Honduras's military ousted leftist President Manuel Zelaya, the country's new government found itself isolated on Monday amid international condemnation of the coup, but said it was acting to defend the country's democracy instead of subverting it.

Leaders from several Latin American nations, including Venezuela and Ecuador, met in Nicaragua to discuss how to manage the first coup in Central America since the end of the Cold War. Within hours, they announced they were recalling their ambassadors from Honduras.

Mr. Zelaya, a populist and close ally of Venezuela's Hugo Chávez, turned up in Managua's airport early on Monday after being sent into forced exile in Costa Rica on Sunday. He was greeted like a hero by Mr. Chávez, Nicaragua's Daniel Ortega and Ecuador's Rafael Correa.

Mr. Chávez cast the dispute in Honduras as a wider rebellion by the region's poor against elites. Mr. Chávez also threatened to "overthrow" the new Honduran leader sworn in late on Sunday by lawmakers, congressional President Roberto Micheletti. In response, Mr. Micheletti told local Honduras radio: "Nobody scares us."

In Washington, Secretary of State Hillary Clinton described the situation in Honduras as a "coup," and said



Honduras's ousted leader Manuel Zelaya, in white shirt, was feted by Daniel Ortega, left, Rafael Correa, right, and Hugo Chávez, in Managua Monday.

Washington still considers Mr. Zelaya the rightful president. She said the U.S. was working with other nations in the region to restore the rule of law and democracy in Honduras.

Mrs. Clinton signaled the U.S. might try to find a negotiated solution to the crisis.

While the U.S. position put it on the same side as leftist such as Messrs. Chávez and Ortega, who normally clash with the U.S. over regional issues, Mrs. Clinton also signaled the U.S. might try to find a negotiated solu-

tion to the crisis that didn't necessarily mean Mr. Zelaya would be returned to power.

"We haven't laid out any demands that we're insisting on, because we're working with others on behalf of our ultimate objectives, which are shared broadly," she said.

The Organization of American States called for Mr. Zelaya's return to power and called a meeting for Tuesday. The OAS is likely to send a mission to the country, and Honduras could be suspended from the organization under its 2001 democratic charter, which bars "the unconstitutional interruption of democratic order."

The coup resulted from a bid by Mr. Zelaya to hold a referendum that could allow him to change the constitution and stay in office past January, when his term ends, something

Messrs. Chávez and Correa have both done. Honduras's constitution calls for a single, four-year presidential term—a response to the country's long history of military dictatorships.

The country's Supreme Court had ruled the vote was illegal, and the country's entire political establishment, including the army, lined up against the president. But he vowed to press ahead anyway, with the vote scheduled for Sunday. Honduran soldiers made sure it didn't happen, raiding the president's home and dragging him to a waiting military aircraft.

The new government argued the coup was legal. The designated foreign minister, Enrique Ortez, said the military was upholding the constitution "that the earlier government wanted to reform without any basis and in an illegal way."

Mr. Micheletti, a member of Mr. Zelaya's Liberal party, said he would only serve out the end of Mr. Zelaya's term, and that presidential elections slated for November would go ahead as planned. "We respect everybody and we only ask that they respect us and leave us in peace because the country is headed toward free and transparent general elections in November," he said.

Tegucigalpa was relatively calm. Troops with riot shields continued to surround the presidential palace. Several hundred pro-Zelaya protesters gathered nearby, burning tires and trying to block streets by building a chain link fence.

A 9 p.m. curfew was imposed Sunday and Monday. Honduran newspaper La Prensa reported that some 500 protesters in Honduras's second city of San Pedro Sula had rioted in the city's central plaza, burning tires and debris.

Hungary passes a tax bill needed to gain IMF loan

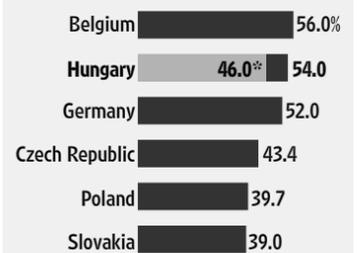
BY MARGIT FEHER

BUDAPEST — The Hungarian parliament approved Monday a tax bill for 2010, a cornerstone of the country's attempts to boost its competitiveness and comply with conditions for International Monetary Fund loans.

The parliament passed the tax bill on its last day before the summer recess as the ruling Socialist Party, which is a minority government, gained the backing of the liberal SZDSZ Party, whose support was critical.

Widest wedge

Hungary's tax wedge, or the ratio of total labor taxes to total labor costs, is currently the second largest among OECD countries



*New rate effective Jan. 1, 2010
Source: Organization for Economic Cooperation and Development

The bill was a major test for the government, led by Prime Minister Gordon Bajnai, who isn't a member of the Socialist Party. The government has been in power for 75 days and is essentially a caretaker government as Mr. Bajnai plans to step down after the 2010 general elections.

The new tax system will shift the tax burden more toward consumers and away from business. The bill will include a reduction in personal income taxes for average-income earners, a lowering of social security contributions for employers, and the launch of a real-estate tax next year, as well as an increase starting July 1 in one of the country's value-added taxes. The reformed system is revenue neutral for the budget, the government said.

"The overhaul of the tax system is in line with the SZDSZ's long-pursued goal that property should be taxed instead of labor to increase the Hungarian economy's competitiveness," SZDSZ's parliamentary leader Janos Koka said in a statement.

The tax changes are part of the conditions Hungary agreed to implement in exchange for a \$25 billion standby credit line that it secured in October from the International Monetary Fund, the European Union and the World Bank.

"Monday's vote will show the world whether Hungary is capable of tackling the crisis in the long term, and not only in the short-term," Mr. Bajnai said in parliament, before the vote was taken.

Mr. Bajnai's government has carried out painful budget spending cuts, which his predecessor Ferenc Gyurcsány failed to do. Popular support for the Socialists and the SZDSZ is at an all-time low. The center-right Fidesz party, which is well ahead in the polls, has pledged to abolish the real estate tax.

Argentine voters swing away from Kirchner

BY MATT MOFFETT

BUENOS AIRES—The crushing repudiation of leftist President Cristina Kirchner in midterm voting Sunday leaves her government a lame duck and opens the door for more moderate leaders to seize influence in Argentina.

Hurt by the faltering economy and a confrontational style, Mrs. Kirchner saw her faction of the governing Peronist party lose control of both houses of Congress. Meanwhile, the Congressional slate headed by her husband and predecessor, Nestor, lost in Buenos Aires province, the most populous and economically important. Kirchner-backed legislative candidates even lost in Mr. Kirchner's home state of Santa Cruz.

Investors on Monday sent Argentine bonds soaring, and bid up the local currency and stocks, raising hopes for a friendlier environment for business and foreign investment.

Analysts said the vote was a rejection both of the Kirchners' combative style and interventionist policies, including price controls and high farm taxes. "Argentina has shifted toward the center," said Carlos Germano, a Buenos Aires political consultant. "Argentines voted for moderates who seek dialogue and build consensus."

Mrs. Kirchner has two years left in her term but becomes a much more marginal actor. Parliamentary analysts said the Kirchners and their allies had lost more than a score of seats in the lower house and could

now control only around 115 of the total 257 seats. The Kirchners lost four Senate seats and now have 36 of a total of 72. They can muster a Senate majority only with the help of allies.

Riordan Roett, a Latin American specialist at Johns Hopkins University, termed the legislative result "a mortal blow" to the Kirchners. He said that from now on governors and other power brokers from the dominant Peronist party will keep the Kirchners on a much shorter leash.

However, Alberto Ramos, an economist for Goldman Sachs, said the policies of the government might not change much in the short run. The new Congress isn't seated until December. Even after that, "beyond tighter oversight, Congress might also find it difficult

to impose a meaningful change in the current discretionary policy mix," he wrote. That would leave Argentina in a position of muddling through until 2011 presidential elections.

The Sunday voting helped narrow the field for that election. The Peronists may now close ranks behind Sen. Carlos Reutemann, who won re-election in the province of Santa Fe. He is an ex-Formula One driver who has good relations with the country's powerful agribusiness sector and who farms himself.

Another probable candidate is Julio Cobos, who is Mrs. Kirchner's vice president but who has spent most of his political career with the opposition Radical Party. His allies fared well in Sunday's voting. Mr. Cobos is also liked by farmers, for having broken with Mrs. Kirchner



Cristina Kirchner

Albania race is close as votes counted

ASSOCIATED PRESS

TIRANA—Albania's governing party was in a close race with the Socialist opposition Monday as the votes were counted in the country's parliamentary election, which the European Union has said it will use to judge whether Albania is ready to start the process of becoming a member.

Albania's Central Election Commission spokesman said the voting and counting process had been "free of incidents." But monitors from the

Organization for Security and Cooperation in Europe said that, despite improvements from previous elections, violations had persisted.

An OSCE statement said observers "noted procedural violations related in particular to inking procedures and widespread family voting."

"The country has matured, it has made progress, and many of the fears we had only some months ago have not materialized," said Wolfgang Grossruck, among the 500 in-

ternational election observers.

Exit polls from Sunday's vote indicated Albanian Prime Minister Sali Berisha's Democratic Party had won another term in office. But official results from 42% of the ballot boxes counted by midafternoon local time Monday indicated the Democrats were neck-and-neck with the opposition Socialist Party, led by Tirana Mayor Edi Rama.

The first nationwide results were expected to be announced Tuesday.