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What's News

Chinalco's failed Rio Tinto deal shows cash-strapped producers have more alternatives than they did a few months ago. A rally in commodity prices has drawn new investment opportunities, and funding is becoming easier to find. Page 32

■ **Frontier markets** are gaining allure as investors anticipate these economies have room for sharper improvements in productivity and personal wealth. Page 19

■ **Oil prices reached** $70 a barrel Friday before slipping. Some say crude's recent surge is setting up a repeat of last year's tumble. Page 21

■ **Roger Penske agreed** to buy rights to Saturn's dealer network and name but not its production plants. Page 3

■ **The U.S. government** pressed for an alliance between Chrysler and Fiat despite the Detroit auto maker's reservations. Page 4

■ **Ford will face** leaner, better-financed domestic rivals as a result of the Chrysler and GM bankruptcies. Page 5

■ **The U.K.'s Brown** announced a reorganization of his cabinet that appeared to shore up his command of the Labour Party. Page 9

■ **Lebanon's tight race** for parliament drew high voter turnout, as Hezbollah's bloc looked set to make gains. Page 10

■ **Pakistani tribesmen** angry over a bombing at a mosque laid siege to several Taliban strongholds in the northwest, killing at least 11 militants.

■ **Cadbury is taking aim** at lower-income people in India, hoping to gain millions of customers with chocolates that sell for pennies. Page 6

■ **Expensive diabetes drugs** did no better than cheaper treatments at preventing deaths in a study of diabetics with heart disease. Page 30

■ **Ukraine's Prime Minister** Tymoshenko said talks with the main opposition party on forming a coalition collapsed.

■ **Obama paid tribute** to the Allied landings that broke Nazi Germany's grip on France in a speech Saturday marking the 65th anniversary of D-day.

■ **Roger Federer won** his first French Open championship to tie Pete Sampras's record of 14 major titles and complete a career Grand Slam.

EDITORIAL & OPINION

"Meltbrown"
The British prime minister is dying a slow political death. Page 13

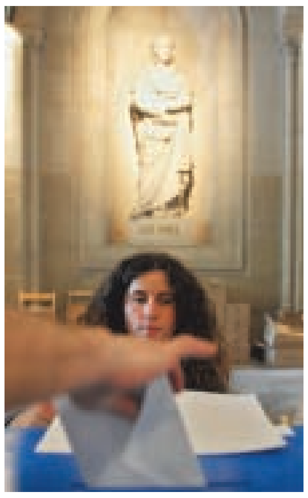
Breaking news at europe.WSJ.com

Europeans punish ruling parties

Extreme-right and rival groups gain in parliamentary elections marked by crisis, low turnout

Governments from Germany to Ireland lost seats to rivals and extreme-right fringe parties in European Parliament elections, as voters punished ruling parties in many parts of the Continent on Sunday.

By John W. Miller and Charles Forelle in Brussels and Marcus Walker in Berlin



Clockwise, from top left: Voters in Romania, Slovakia, Bulgaria, Germany and Spain cast ballots in European parliamentary elections.

Agence France-Presse (Romania, Slovakia, Bulgaria); Reuters (Germany); Associated Press (Spain)

Political leaders and analysts described the vote, involving an electorate of 385 million across 27 nations, as a bellwether for the public's mood in the wake of a crisis that has cost hundreds of thousands of jobs.

Voters voiced their unease by sending record numbers of far-right candidates to Brussels—or by staying home. Turnout fell for the seventh straight time, to a record low of 43.01%, according to preliminary estimates, despite a concerted effort by European Union civil servants to get out the vote through splashy ad campaigns.

There was no clear shift toward leftist parties, despite wide public blame of free-market policies for the financial crisis. The European People's Party, an umbrella group of center-right parties, appeared likely to maintain its status as the largest parliamentary group.

German Chancellor Angela Merkel's conservative Christian Democrats won a relatively strong result with only four months to go until national elections in September.

Early results and exit polls suggested the CDU would get 38% of the vote in the EU's most populous country, down from 44% in 2004. However, Ms. Merkel's main rivals and governing coalition partners, the left-leaning Social Democrats, did much worse. They were on course to get only about 21% of the vote—the party's worst result in a German nationwide election, whether for the national parliament or for the European Parliament, since March 1933, shortly after Adolf Hitler became Chancellor.

The Social Democrats have been losing voter support since they cut back Germany's welfare state under Ms. Merkel's predecessor as chancellor, Gerhard Schröder, a policy that alienated much of the party's working-class base. "We were ex-

Please turn to page 31

China plans to block Web sites on new PCs

By Loretta Chao

BEIJING—China plans to require that all personal computers sold in the country as of July 1 be shipped with software that blocks access to certain Web sites, a move that could give government censors unprecedented control over how Chinese users access the Internet.

The government, which has told international PC makers of the requirement but has yet to publicly announce it, says the effort is aimed at protecting young people from "harmful" content—primarily pornography, say executives involved in the effort.

But the Chinese government has a history of censoring a broad range of Web content. While the software needn't be preinstalled on each new PC—it may instead be enclosed on a compact disc—the new requirement could force PC manufacturers to choose between refusing a government order in a major market or opening themselves to charges of abetting censorship.

Industry executives also warn that the software could cause PCs to malfunction, and could make them more vulnerable to hacking.

Foreign industry officials who have examined the software say personal information could be transmitted through the software and that it will be difficult for users to tell what exactly is being sent.

Please turn to page 31

Inside

The great u-turn

Migration flows reverse as work in rich world dries up
News in Depth, pages 16-17

Markets

	CLOSE	PCT CHG
DJIA	8763.13	+0.15
Nasdaq	1849.42	-0.03
DJ Stoxx 600	210.76	+0.62
FTSE 100	4438.56	+1.18
DAX	5077.03	+0.24
CAC 40	3339.05	+0.82
Euro	$1.4019	-1.12
Nymex crude	$68.44	-0.54

LEADING THE NEWS

Airlines survive but need new flight plan

On eve of meeting, IATA sees big losses; major culling ahead?

By Daniel Michaels

The airline industry has delivered a surprise amid the global economic meltdown—it didn't collapse.

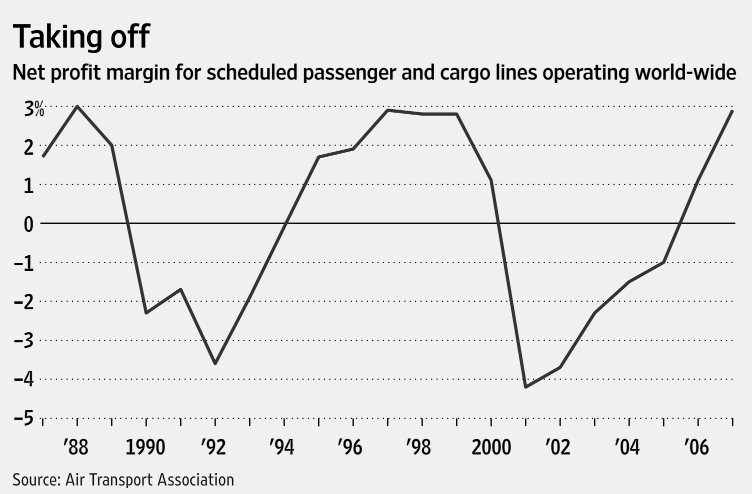
Even in boom times, flying people around generates dismal profits. During downturns, carriers often bleed red ink. This time, however, airlines are scraping by, which is good news in the short term for both them and budget-minded travelers.

THE OUTLOOK

But carriers' ability to survive this crisis may paradoxically bode ill for their long-term profitability. The global airline industry needs a major shakeout before it can generate sustainable returns.

Airlines are unquestionably in bad shape. As many of them gather Monday in Kuala Lumpur, Malaysia, for the annual meeting of their trade group, the International Air Transport Association, the crisis-prone club will probably proclaim this one of their worst crises ever.

IATA predicts its members will lose $4.7 billion this year and plans Monday to update the increasingly pessimistic forecast. International passenger traffic fell by 9.1% in this year's first three months compared with the same period a year earlier, IATA says. During that quarter, revenue from pricey first- and business-class tickets plunged by as much as 40%. Air cargo—a leading indicator of both passenger traffic and broader economic trends—has dragged along at volumes more than 20% below year-earlier levels since November, which points to a continued slump for airlines and the world economy.



Airlines' chronic problem is familiar to any Econ 101 student: too much supply—of planes and seats—chasing too little demand. In some industries, discounts jump-start demand, lifting sales volumes and boosting profits. For airlines, "lower pricing doesn't necessarily boost revenue," says David Swierenga, who runs AirEcon, a consulting firm in Vienna, Va. The demand airlines need is from passengers who can pay fares that are high enough to cover carriers' costs.

For fliers, that glut means bargains. Airline seats are as perishable as fresh fish because unsold tickets are useless once an airplane door closes. When carriers get desperate, they ignore their costs and instead scramble for cash by dropping prices.

"Competition does bring down prices, which brings down profitability," says Peter Morris, chief economist at Ascend Worldwide, an aviation-consulting firm in London. "But speaking as a consumer, I say, 'Hooray,' " he adds.

Service can be abysmal, as domestic U.S. passengers know, but we get what we pay for. The inflation-adjusted price of an airline ticket has barely budged—or has even fallen—over recent decades. This summer, fares globally are down roughly 15% overall compared with last year, analysts say. In some markets, such as between Europe and Asia, the drop hits 30%. Business class offers some of the most extreme markdowns: **UAL**'s United Airlines and **British Airways**, for example, are both offering two-for-one sales or 50% discounts in the front cabin between the U.S. and London.

Yet only a handful of small carriers have gone out of business over the past year. After the Sept. 11, 2001, attacks, more than a dozen major players disappeared, filed for bankruptcy protection or flirted with insolvency. Airlines in April showed their tenacity by filling three out of every four seats on international flights, according to IATA, which would be a strong showing in good times and is remarkable during a crisis. Carriers are grounding old gas-guzzling planes, but they also are still finding money to buy shiny new ones.

U.S. airlines, which struggled for the past decade, have led the industry in adapting. When oil prices soared last spring, American carriers slashed their fall schedules and fleets to cut expenses. Then fuel costs plunged, but demand did, too. Thanks to the precautionary cuts, U.S. airlines—perhaps for the first time ever—were braced in crash position when their market tanked last fall. European and Asian carriers belatedly followed.

Airlines averted a blood bath because, after years of belt-tightening, they know how to cut back just enough to survive. Even as fares drop, they are ginning up other revenue sources, such as charging for checked bags. They also are expert at extracting concessions from staff and suppliers. Another factor is the industry's odd magnetism, which has reliably enticed people with a lot of cash to bankroll moribund carriers. That's despite airlines' formidable track record of failing to cover their cost of capital, be it debt or owners' equity.

The net result of this mix is that airlines globally made no net profit on revenue of $3.6 trillion in the decade through 2007, the most recent year for which data are available, according to the Air Transport Association, U.S. carriers' trade group.

To fix that, carriers need sustainable pricing power. Airline executives and analysts say the only way to gain that is through a serious culling. "If airlines don't cut enough now, the industry will come out of the downturn with too much capacity to make money in the upturn," says Chris Tarry, an independent airline analyst in London.

The mass extinction that looked imminent with high fuel prices might still happen.

The mass extinction that looked imminent when fuel prices soared last year might still happen. If oil prices continue their recent rise, if credit markets don't thaw, or if demand plunges further, carriers may be forced to shrink more drastically, and some may fail.

But with signs the global economy has hit bottom, the prospect for dramatic upheaval amid the airline industry's pain looks increasingly remote.

Safety in the skies

■ Air France crash could aid efforts to improve in-flight weather data 11

On Other Fronts

Dowry of a runaway

A surplus of bachelors spurs a new marriage scam in China > **Page 29**

CORRECTIONS & AMPLIFICATIONS

Harbinger Capital Partners hasn't attached a value to its reorganization plan for copper miner **Asarco** LLC, a unit of **Grupo Mexico** SAB that is in bankruptcy proceedings in the U.S. Other parties in the proceedings have estimated the plan offers Asarco creditors a total of $1.8 billion. A June 3 Corporate News article wasn't clear about the source of the valuation. In addition, a $250 million sum identified in the article as a settlement of asbestos claims represents only an initial payment of those claims, not the entire settlement.

Connect Kentucky was founded in 2001 and run by Dr. Linda Johnson Vitale, a former Western Kentucky University professor who left the organization in 2004. A June 4 Marketplace article incorrectly said the nonprofit was founded in 2004 by Brian Mefford.

The size of the International Monetary Fund and European Union bailout package for Latvia is €7.5 billion ($10.47 billion), not €5.7 billion as was incorrectly stated in a Heard on the Street Column in some editions on June 5.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

FOCUS ON AUTOMOBILES

U.S. auto retailer to buy, remake Saturn

Former racer Penske likely to leave output to Renault, Samsung

BY SHARON TERLEP AND JOHN D. STOLL

Roger Penske, the hard-charging former racer turned auto magnate, will add **General Motors** Corp.'s Saturn brand to his automotive empire.

His **Penske Automotive Group** Inc., the second-largest U.S. auto retailer by revenue after **AutoNation** Inc., agreed to buy Saturn's brands and its service and parts-and-distribution operations, but not its manufacturing operations.

Saturn dealers said they were relieved the 19-year-old nameplate and their franchises would continue under the auspices of the $11.65 billion Bloomfield Hills, Mich., auto retailer.

Mr. Penske, 72 years old, outlined a car company that will outsource production, using deals with auto makers such as GM and France's **Renault** SA, to fill out and replace the now five-model Saturn portfolio.

The agreement propels Mr. Penske into a new, and largely untested role in the auto industry—orchestrating the marketing and servicing of autos designed and supplied by a variety of companies.

Mr. Penske said Friday he believes he will be able to achieve what GM couldn't for Saturn's nearly 20-year life: turn a brand with stronger customer loyalty into a profitable entity. "We will have a completely independent company, and it will be lean," he promised.

Saturn dealers expressed relief that GM found a buyer who was well versed in the auto industry. "The perception in a marketplace is that he is a winner, and any time you are associated with a winner it's a good thing," said Rob Cochran, a Pittsburgh-area Saturn dealer.

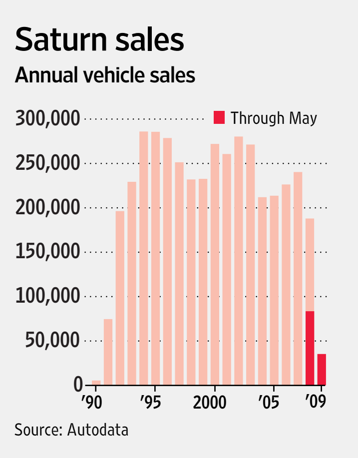
"The future we don't know yet. But we will have to be a car company of small, fuel-efficient cars with good design," said Carl Galeana, who owns two Saturn dealerships north of Detroit.

Each of GM's 350 Saturn dealers will receive offers to continue selling the vehicles, Mr. Penske said. The sale is expected to preserve about 13,000 jobs at Saturn and its dealer network.

Mr. Penske initially will buy GM vehicles that are already part of the Saturn lineup but eventually will branch out to purchase vehicles from Renault and its Samsung Motors unit of South Korea. Other auto makers could become suppliers, too.

Terms of the agreement weren't disclosed. Mr. Penske and GM are still ironing out terms, according to people familiar with the matter. The deal includes the purchase of service and parts operations valued at more that $100 million. Still to be decided are the compensation GM will provide dealers that take buyouts, and investments by GM to maintain Saturn production.

GM's initial plan was to kill Saturn by gradually phasing out production. But its dealers objected, pressing the auto maker to find a buyer.



Early on, 16 groups had expressed an interest in Saturn. GM whittled the contenders to a handful before agreeing to Mr. Penske's offer.

In order to find a buyer for Saturn, GM hired Steve Girsky, a one-time Morgan Stanley auto analyst who worked briefly in 2006 as an aide to former GM Chief Executive Rick Wagoner, and has in recent years been a partner at private-equity firm Centerbridge Partners LP.

Saturn, which produced an average annual pretax loss of $1.1 billion, drew several bids, as Mr. Girsky—working with other former GM executives—highlighted the strong loyalty of Saturn buyers, and the bulletproof reputation the brand has for customer service.

By sealing a Saturn deal in a matter of months, Mr. Girsky executed one of the quicker asset sales for GM . It took a year to line up a buyer for Hummer.

Expected to be completed by September, the deal would more than double the size of Mr. Penske's retail network, which includes 152 franchises in the U.S. and 158 abroad, mostly in the U.K. and Germany. Mr. Penske also owns auto-racing team Penske Racing.

Mr. Penske is a Detroit billionaire who led the committee that brought the Super Bowl to the beleaguered city in 2006. In the weeks before the game, he drove himself through its neighborhoods to ensure they were presentable, calling city officials to clean up unseemly areas.

FOCUS ON AUTOMOBILES

U.S. pressed Chrysler to accept Fiat deal

Email messages reveal resentment at U.S. auto maker

BY NEIL KING JR.
AND JEFFREY MCCRACKEN

WASHINGTON—The Obama administration rushed an alliance between Chrysler LLC and **Fiat** SpA despite Chrysler's worries about Fiat's financial health and its willingness to share technology, according to internal company emails.

The emails show Fiat ignoring requests for documents and trying to change contract terms late in the talks. A Chrysler adviser at one point said the deal risked looking as if the U.S. auto maker and the Treasury Department, which helped broker the pact, were "in bed with a shady partner." In another note, an official referred to the Treasury Department as "God."

The documents, filed in the Southern District of New York as part of Chrysler's bankruptcy proceedings, provide a glimpse at the tense debates that shaped Chrysler's final days as it raced to find a suitor.

On Friday, a federal appeals court upheld Chrysler's Fiat deal, dismissing a challenge by dissident Chrysler debt holders. But the court also issued a stay until 4 p.m. Monday—leaving a small window for Thomas Lauria, the lawyer pursuing the case, to appeal to the Supreme Court. One judge on the three-judge panel suggested the Supreme Court should have "a swing at this ball."

A group of Indiana pension funds on Saturday filed an emergency appeal with the Supreme Court to stay the sale while they continue their attempts to block it. A coalition of consumer groups lodged a separate stay request Sunday, arguing the sale terms applied to the deal would wrongly shield the new company from injury lawsuits involving current Chrysler vehicles.

The requests seek extension of the stay issued by the appeals court.

Emergency stays are rarely granted by the Supreme Court. But should the high court grant a stay, the Chrysler-Fiat deal could be delayed for months while the issue is pending at the high court. Extending the appellate court's stay would buy time for the pension funds and consumer groups to lodge a formal appeal at the high court, and both said they plan to file separate challenges in coming days.

Mr. Lauria's persistence led one government lawyer in the Chrysler case to dub him a "terrorist" in an email to a Chrysler adviser.

In a written statement, Chrysler said "comments extracted from emails exchanged in the heat of negotiations reflect the normal hyperbole that occurs in the final stages of negotiating any complex transaction." Chrysler said its concerns about the deal were answered.

Fiat said it "provided full access to all information relevant to the due-diligence exercise performed by Chrysler and the prospective lenders."

The revelations come as the Obama administration is rushing to get a bankruptcy court to sign off on the Chrysler-Fiat merger as early as this week. Fiat has the right to walk away from the deal if it isn't consummated by June 15.

Email traffic | Chrysler, government went back and forth on Fiat deal

Getty Images

Robert Nardelli, chairman and CEO, Chrysler

Associated Press

Tom LaSorda, vice-chairman, former President, Chrysler

Associated Press

Ron Kolka, CFO, Chrysler

Associated Press

Ron Bloom, senior adviser to Timothy Geithner

Bloomberg

Matthew Feldman, member, President Obama's auto team

"We are concerned that Fiat is trying to be squirely (sic) on this documentation point on all technology now and in the future." Consultant Bob Manzo to Treasury's Matt Feldman

Chrysler filed for bankruptcy protection April 30 armed with $12 billion from the government. Last week, the government ushered **General Motors** Corp. into what it hopes also will be a speedy bankruptcy.

In an interview, an administration official said any concerns about Fiat were resolved in the final week. The Italian company gave Chrysler and the U.S. "total access to technology" and revealed enough about its financial status to persuade the U.S. the company was not just stable, but strong, the official said.

The official called the negotiations "a high-wire act" in which a small team of government advisers had to quickly pull together a complicated deal. In such situations, "people speak in elevated tones," the official said. "People get threatening."

The emails, which run from mid-March until early May, were put into the court record following a request by Mr. Lauria, the lawyer fighting the bankruptcy on behalf of various Indiana pension and investment funds that hold Chrysler bank debt. They argue that the case has trampled on established bankruptcy law.

In early March, both Chrysler and the government seemed unsure about Fiat. In a March 10 letter to the Treasury auto team, Chrysler Chief Executive Robert Nardelli said he shared some of the government's worries about a Fiat alliance, including that the introduction of Fiat in the U.S. "may have a negative impact" on General Motors and Ford.

Mr. Nardelli also noted how Treasury officials had complained Fiat was "not bringing enough to the table" and had to be forced to put up cash for an equity stake.

A Chrysler spokeswoman said Mr. Nardelli wouldn't comment beyond his affidavit. In the affidavit, he said that by April's end, "Chrysler's management became comfortable with entrusting our precious assets to Fiat."

Chrysler's advisers told the company their Italian counterparts were refusing to provide sufficient financial information to evaluate the deal. A team sent to Fiat headquarters in Turin, Italy, reported back on March 14 that "no financial due diligence...has or can be performed."

An internal memo 13 days later from Chrysler's advisory team also said Fiat's "off-balance-sheet investments" in joint ventures around the world posed an economic risk and a political risk," including the appearance that "Treasury/Chrysler" was "in bed with a shady partner."

Eight days before President Barack Obama announced his support for the alliance in an April 30 speech, Chrysler officials were still bristling over what they considered Fiat's unwillingness to provide even basic information about its finances. "They requested us to resubmit a written request" for the information, one Chrysler official wrote on April 22 to Mr. Nardelli, the CEO.

Treasury officials, meanwhile, worried about Fiat's willingness to share technology with Chrysler, one of the deal's underpinnings. Fiat stands to get an initial 35% stake in Chrysler, and potentially 50%, based on its ability to help upgrade Chrysler's technology. Fiat is putting in no cash.

On April 22, Mr. Manzo of Capstone, the Chrysler adviser, sent a note—like some of the emails, containing misspellings—to the Treasury's Matthew Feldman to complain that Fiat "is trying to be squirely" about sharing technology.

Mr. Feldman emailed back, "We know."

Mr. Feldman declined to comment on the emails.

At the outset, the Chrysler team appeared leery of the role being played by the Treasury, which was leading the effort to save the auto maker. "I think we are clearly getting more cooks in the kitchen," Mr. Nardelli said in an email.

However, Chrysler quickly learned to defer to the Treasury team. In one email chain, Ron Bloom of the Treasury chastised a Chrysler official for trying to hammer out some lingering issues with Daimler, Chrysler's former partner, without looping in the Treasury.

"I am more than a little surprised," Mr. Bloom wrote, that Chrysler was proceeding "without our approval."

Mr. Nardelli jumped in, "Ron, thought we were helping, how would you like to handle!"

Later, the Chrysler executives deleted Mr. Bloom from the address line, and continued talking. "I guess the UST is running it!" said Mr. Nardelli, referring to the Treasury.

"26 days and counting," said Tom LaSorda, Chrysler's then-president, referring to the April 30 deadline to either do a deal or file for bankruptcy.

"Amen!" responded Mr. Nardelli.

Mr. LaSorda didn't return calls seeking comment.

Despite the push to do a deal with Fiat, Chrysler advisers continued into April urging the Treasury to think again about a potential merger with GM. Earlier talks between the two auto giants had broken down in November, and the Obama administration put little stock in the idea.

On April 10, Mr. Manzo emailed Mr. Nardelli to say he told the Treasury to reconsider a GM pair-up. Four days later, Mr. Manzo sent an email to several Treasury officials, as well as Messrs. Nardelli and LaSorda, urging them to reconsider.

"We continue to believe that revisiting the combination/alliance discussion with gm from the fall is the best alternative for all parties," he said.

In an interview, Mr. Manzo said conflicts will happen when a company like Chrysler is asking for money from a lender, particularly the government. He also said the emails reflected his "fiduciary duty to get the best value" for Chrysler.

Just before the filing, tensions boiled over. Mr. Manzo offered a suggestion to Mr. Feldman about making a last-minute offer to Chrysler's debt holders. "I'm now not talking to you," Mr. Feldman wrote back.

The next morning, hours before President Obama announced the bankruptcy, Chrysler President Mr. LaSorda emailed Mr. Manzo asking if Chapter 11 filing was inevitable.

"Not good," Mr. Manzo replied. "These washington guys want to show the market (gm, delphi....) that they can be tuff. We are the gueni pigs unfortunately."

—Alex Kellogg, Stacy Miechtry and Jake Seward contributed to this article.

Magna deal would give Opel access to China

FRANKFURT—Adam Opel GmbH won't enter the U.S. car market if the takeover by **Magna International** Inc. goes ahead as planned, according to a German Economy Ministry document viewed Friday.

By Nico Schmidt, Katharina Becker and Christoph Rauwald

However, **General Motors** Corp.'s European unit would have partial access to the important Chinese market, and to the Canadian market from October 2012, the document said.

Austrian-Canadian car-parts maker Magna has teamed up with Russia's OAO **Sberbank** and auto maker OAO **GAZ Group** in its bid for the Rüsselsheim, Germany, company and its U.K.-based sister brand, Vauxhall.

Under the plan, Magna's consortium would invest €500 million, or about $700 million, in Opel. Of that amount, €100 million would come as equity payable as soon as the deal is signed and €400 million as an interest-free loan, according to the document. The loan would be converted to equity gradually through a convertible bond, with €50 million due Jan. 1, 2011, an additional €50 million due Jan. 1, 2012, and the remaining €300 million due Jan. 1, 2013.

Bloomberg News

A consortium led by Austrian-Canadian car-parts maker Magna would invest about $700 million in Opel. Above, Opel headquarters in Rüsselsheim, Germany

Opel would get access to GM's intellectual property and the current license fees of 5% would be lowered temporarily to 3.25% until the end of 2012, but will return to 5% from 2015, the document said.

Opel spokesman Jörg Schrott said the decision on license fees was a mutual agreement. He declined to comment further. A person familiar with the matter said that in return for the license fees, GM will pay Opel for any research-and-development services.

GM would also receive €200 million in preferred stock in January 2011 and a special dividend of 9% from 2013 onward. In addition, Opel would pay €300 million in cash to GM in January 2018, according to the document.

—Andrea Thomas in Berlin contributed to this article.

Ford to face tougher rivals in the U.S.

Auto maker remains saddled with debt, fat dealer network

By Matthew Dolan

DETROIT—**Ford Motor** Co. is the healthiest of the Detroit's Big Three auto makers but could face a rough ride facing off with its newest competitor: the U.S. government.

General Motors Corp. and **Chrysler** LLC are in line to get $62 billion in investments from the Treasury Department.

As a result, the pair are expected to cut their debt and shrink their dealership networks, which will make them leaner competitors once they emerge from bankruptcy-court protection. And **GMAC** LLC, the giant lender now serving Chrysler as well as GM, has received billions of dollars in aid from the Treasury and has been granted access to low-cost capital from the Federal Reserve.

Meanwhile, Ford, which has lost more than $30 billion since 2006, is still saddled with about $33 billion in debt including its obligations to retirees. Its lending arm isn't getting government support, and Ford is moving ahead with a bloated dealer base.

"What bankruptcy does for GM and Chrysler is give them some opportunity to change quickly. Ford will have to fight for those same changes," said Christopher J. Ceraso, an automotive analyst with Credit Suisse.

Ford Chief Executive Alan Mulally said Ford faces no long-term disadvantage because of the bailout of Chrysler and GM and has no plans for government assistance.

"Clearly, we are in a different place because we have taken a lot of that restructuring action," he said in an interview Thursday. "That's what some of our competitors are doing now."

Ford has been restructuring since Mr. Mulally's arrival almost three years ago, shedding more than 40,000 jobs, closing 17 plants and reducing costs by more than $5 billion. And its global operations are moving forward on the development of new models. GM and Chrysler's product-development operations are only now being reshaped.

In the short term, however, Wall Street analysts and advisers to Ford see challenges for the company.

One of the biggest is in auto loans.

GMAC in January became a bank holding company, making it eligible for bailout funds from the Treasury Department and low-cost lending programs from the Fed. GMAC has since received $12.5 billion in financial aid from the government. GM on Wednesday began issuing $3.5 billion in three-year debt backed by the federal government. This should cost GMAC about 2.2% a year.

Ford CEO Alan Mulally says his company isn't at a disadvantage.

Ford Motor Credit Co., meanwhile, just priced a five-year bond and is paying 8%.

After getting help from the Treasury, GMAC in the beginning of the year started offering 0% loans on some GM vehicles. Ford Motor Credit finally followed suit last week.

Ford Motor Credit has applied to become an industrial bank, which would help lower borrowing costs as a federally insured lender. A spokeswoman said it hopes to have to have the classification by year-end.

GM and Chrysler are also expected to emerge from bankruptcy reorganization with considerably less debt than Ford, which would lower their fixed costs. GM's debt load is likely to fall postbankruptcy to about $17 billion, plus its obligation for retiree health care, from more than $70 billion.

While Ford has been able to reduce its debt burden with some equity swaps, which analysts expect to continue, the auto maker still is carrying more than $30 billion in long-term debt and isn't getting the kind of cash infusion GM and Chrysler just received. Coming payments include $5 billion for Ford Credit due in October and $10 billion due in 2011 on a revolving credit line the auto maker drew from in January.

Another challenge for Ford is its agreement with the United Auto Workers. The union has reached deals with Ford, GM and Chrysler to cut the amount they have to put into a trust fund to pay for retiree health care. UAW President Ron Gettelfinger estimated at a recent news conference that GM now is obligated to fund the trust at about 25 cents on the dollar, and Chrysler at 30 cents on the dollar—down from original payments of 60 cents.

It was unclear what level Ford is paying but many analysts believe it is higher than GM and Chrysler. A person familiar with the matter at Ford said the company expects additional concessions from the UAW long before its current contract expires in 2011. Mr. Gettelfinger said it was too early to talk about renegotiations with Ford, but union officials have said they want the auto maker to remain competitive with its domestic rivals.

Lastly, GM and Chrysler are using the bankruptcy process to shed hundreds of small or money-losing dealerships. The auto makers hope the surviving dealers will reinvest in their operations and give the auto makers a stronger retail presence. GM plans to drop 2,600 of its 6,000 dealers and Chrysler 789 of its 3,200.

Ford, however, is unable to match its competitors' moves outside of bankruptcy court because of state laws that favor the dealer franchises. The auto maker had 3,723 dealers as of March 31 and has been only able to trim it very gradually. Ford executives said the company has cut its total number of dealers by 15% since 2005.

Ford says it remains optimistic. The auto maker will increase production of cars and trucks in the third quarter by about 10% from a year earlier and is gearing up a marketing campaign in hopes of grabbing market share from its cross-town rivals.

"Our current estimates assume that Ford gains about 25% of GM share losses, given the extent of the product overlap and the likelihood that customers will remain loyal to domestic brands," Goldman Sachs auto analyst Patrick Archambault wrote in an investors note Friday.

GM to help finance Platinum Equity's buyout of Delphi

By Peter Lattman

Flush with $30 billion in new capital from the U.S. government, **General Motors** Corp. agreed to finance a private-equity firm's buyout of bankrupt auto-parts company **Delphi** Corp.

GM will provide more than $2.5 billion of the $3.6 billion necessary for Beverly Hills, Calif., buyout firm **Platinum Equity** LLC to gain control of Delphi, according to a person familiar with the matter.

Since last Monday, GM and the government have been mum about who would provide the money to help Delphi emerge from bankruptcy. A GM spokeswoman declined to comment on specific figures but noted in a written statement that funding for the Delphi buyout was "incorporated into GM's revised viability plan."

GM's involvement represents new ground in its use of government support. The Obama administration has begun to use private-equity firms to take over failed banks but has yet to use them in the auto industry.

Such transactions can prove hugely profitable for a buyer, depending largely on financing costs and the buyer's ability to turn around an unprofitable business.

Under the terms of the transaction, Platinum is expected to invest no more than $750 million, according to the person familiar with the deal. GM would provide the balance in financing.

Those financing commitments may or may not be drawn upon in the future, depending on how Delphi performs. The terms of the GM loans couldn't be learned.

As part of the deal, GM is buying back four Delphi plants and Delphi's Saginaw, Mich., global steering unit. In addition, it is providing a $250 million loan to fund Delphi's operations while it remains in Chapter 11.

The Delphi rescue is a turnabout for GM. Delphi has languished in bankruptcy court for nearly four years, and it has been an enormous cash drain on GM, which has long subsidized its operations. Earlier this year, GM said it wasn't interested in propping up the auto-parts maker any further.

Platinum is controlled by Tom Gores, a Michigan native who has recently made several acquisitions in the auto sector. Earlier this month, his firm announced a deal to acquire **Alcoa** Inc.'s wire-harness and electrical-distribution business, based in Farmington Hills, Mich. Platinum also owns Acument Global Technologies, a fastening manufacturer in Troy, Mich., that it acquired from **Textron** Inc. in 2006.

The Platinum deal remains subject to bankruptcy-court approval. GM has said that if the company doesn't get that support, it will try to complete the transaction through a sales process under the U.S. Bankruptcy Code.

CORPORATE NEWS

Cadbury looks to cheaper sweets

For growth in India, candy maker courts lower-income groups

By Sonya Misquitta

MUMBAI—As more Indians begin to treat themselves to little luxuries, **Cadbury** PLC hopes to capture millions of new customers with chocolates that sell for a few pennies.

The British candy maker has been in India for more than 60 years and dominates the chocolate market. Still, it says, less than half of India's 1.1 billion people have ever tasted chocolate. Traditional milk-based sweets, or *mithai*, still dominate the industry here, where they are given and eaten at festivals.

Cadbury's sales have been growing by 20% a year for the past three years, spurred by the country's economic growth and its increasingly affluent middle class. Now, the company is taking aim at lower-income consumers by offering cheaper products.

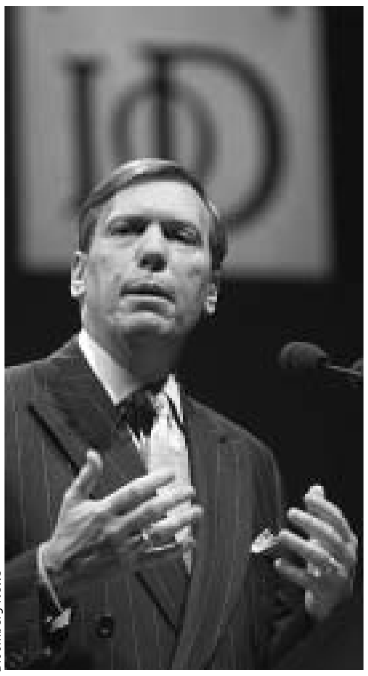
"We seek to reach out to all of those consumers that are away from the cities and to sell [small] piece products at low price points," says Cadbury Chief Executive Todd Stitzer, in an interview.

Similar strategies have been used successfully by consumer-goods makers like **Procter & Gamble** Co. and **Unilever** to sell shampoo and soap to India's poor.

The candy maker's latest product for the low end of the Indian market is Cadbury Dairy Milk Shots. The pea-sized chocolate balls, which were introduced this year, are sold for just two rupees, or about four U.S. cents, for a five-gram packet of two. They have a sugar shell to protect them from the heat.

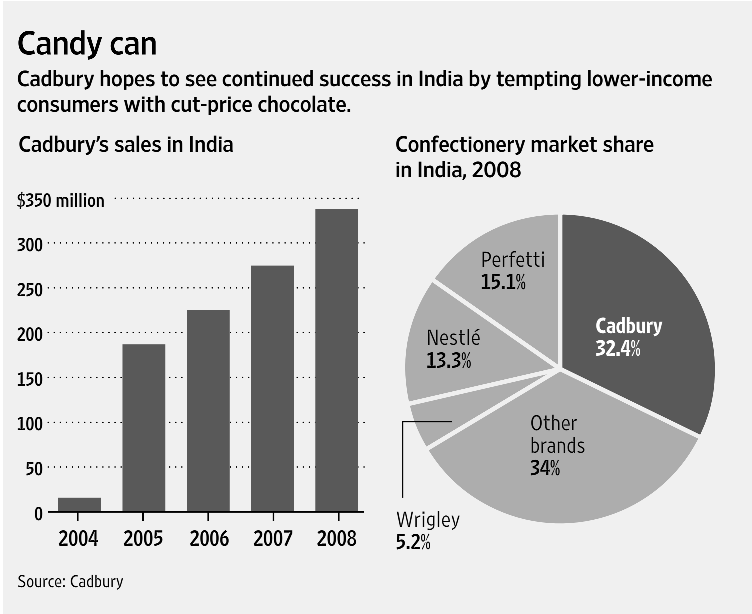
"It is a sort of temperature-friendly chocolate treat," says Mr. Stitzer. "It's priced at a lower range to make it more accessible."

Cadbury also sells other small, low-cost candies, such as Eclair caramels, which have been on the market since 1971 and cost about two cents each.



Bloomberg News

Todd Stitzer, Cadbury Schweppes chief executive officer



India and other emerging markets are increasingly important for Cadbury as sales growth slows at home. Last year, emerging markets accounted for 35% of Cadbury's sales and around 60% of its sales growth, Mr. Stitzer says.

"Emerging markets like India are a key growth driver," says Anand Kripalu, president of Cadbury Asia. Low prices are the key, he says, to make chocolate more affordable to the average consumer.

Cadbury began operations in India in 1947, importing milk-chocolate bars. It wasn't until 1957 that it set up its first factory. At the time, Cadbury was considered a luxury product purchased only by the elite.

Today, Sriram Singh, a night watchman for a building in Mumbai, can afford to buy Cadbury chocolate bars. "I bought my daughter a Cadbury chocolate a few days ago because she did well in her exams," he says. He adds that he buys chocolate for his daughters as a rare treat but prefers traditional sweets on special occasions.

India has among the lowest per capita consumption of chocolate in the world. According to Cadbury, the size of the Indian chocolate market is $465 million a year, compared with $4.89 billion in Britain, which has one-tenth the population. Cadbury estimates India's chocolate and confectionery market will grow at more than 12% a year.

Cadbury controls 70% of the chocolate market and 30% of the confectionary market in India, with combined sales of more than $338 million, according to market researcher ACNielsen. **Nestlé** of Switzerland has 25% of the country's chocolate market.

Cadbury is seeking to extend its lead with heavy advertising. It is the 16th-largest advertiser in India, in terms of spending, according to Sanjay Purohit, the company's executive director for marketing, and has invested in its big brands like Cadbury Dairy Milk, Five Star and Perk chocolate bars while introducing new ones like Bournville dark chocolate.

To keep prices low for its cheapest treats, the company has had to shave costs. It has cut its work force in India by around 11% in the past five years, moved factories from high-cost locations around Mumbai and streamlined its supply chain. To slash its dependence on imported cocoa, it is also backing a nationwide push to increase cocoa production here.

In Palamattom village in the southern Indian state of Kerala, Cadbury has set up a nursery where hundreds of thousands of cocoa saplings are grown. It is one of 20 such nurseries across southern India, from which Cadbury provides free cocoa saplings to nearby farms for cultivation.

Cadbury also encourages farmers to grow cocoa by providing technical expertise and advice on where they can get free inputs from the government like fertilizers. It later buys cocoa beans from the farmers.

The company plans to make India self-sufficient in cocoa production by 2015. Already Cadbury imports only 50% of its cocoa needs. Local cocoa costs around 30% less than imported cocoa, largely because there is a 30% tariff on imports.

—Eric Bellman contributed to this article.

Doctors question study of Glaxo's Avandia

By Jeanne Whalen

A large clinical study designed to test whether **GlaxoSmithKline** PLC's diabetes drug Avandia can be harmful to the heart appears to have raised more questions than it has answered, with some physicians calling the study flawed.

Safety concerns have dogged Avandia since 2007, when an analysis of the drug suggested that people taking it had a higher chance of suffering a heart attack than people taking other diabetes pills. That analysis helped cut Avandia's sales in half, from £1.65 billion ($2.67 billion) in 2006 to £805 billion last year, and it sent researchers scrambling to scrutinize the drug.

Avandia and other diabetes drugs are designed to control blood-sugar levels, which can reduce a person's risk for cardiovascular disease. But much is still unknown about the way diabetes drugs affect the heart.

Results of a large, Glaxo-funded trial published in the medical journal The Lancet Friday showed that people taking Avandia didn't have a higher risk of being hospitalized or dying from cardiovascular problems than people taking other drugs for Type 2 diabetes, an outcome that Philip Home, chairman of the study's steering committee and a professor at Newcastle University, said "provides a robust assessment of [Avandia's] cardiovascular safety."

The study "provides important and reassuring information about Avandia for physicians fighting diabetes," said Ellen Strahlman, Glaxo's chief medical officer.

Bloomberg News

GlaxoSmithKline's Avandia treatment, pictured in 2007

But a pair of doctors writing an editorial in The Lancet said "definitive conclusions" about Avandia's effects on the heart "remain elusive" because of the study's "limitations."

The 4,447 patients in the study, called Record, were divided into groups. One group received Avandia plus one of two older diabetes drugs; the other received the two older drugs in combination. They were followed for 5½ years.

In their editorial, the endocrinologists Ravi Retnakaran and Bernard Zinman of Mount Sinai Hospital in Toronto said the rate of cardiovascular problems in the trial was lower than expected, making it difficult to draw firm conclusions.

One potential reason, they said, was that a significant number of people in the Avandia group took cholesterol-lowering statins, which are known to reduce a person's risk of heart attacks or other cardiovascular problems.

A relatively high level of patients, 45%, dropping out of the trial may also have compromised the results and led to a lower number of cardiovascular problems, some physicians said. A Glaxo spokeswoman said the dropout rate didn't affect the primary aim of the study.

Concerning heart attacks, there were 60 cases in the Avandia group versus 52 in the other group.

Versace CEO resigns position as expected

By Stacy Meichtry And Sofia Celeste

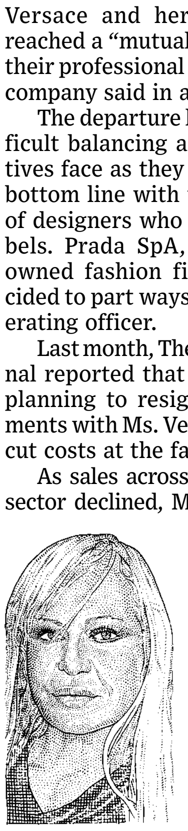
ROME—Italian fashion house **Gianni Versace** SpA is seeking new leadership to navigate the global economic downturn, the company said Friday, announcing the resignation of Chief Executive Giancarlo Di Risio.

Mr. Di Risio and Versace's board, which includes designer Donatella Versace and her brother Santo, reached a "mutual decision to close their professional relationship," the company said in a statement.

The departure highlights the difficult balancing act fashion executives face as they try to square the bottom line with the creative egos of designers who own high-end labels. Prada SpA, another family-owned fashion firm, recently decided to part ways with its chief operating officer.

Last month, The Wall Street Journal reported that Mr. Di Risio was planning to resign over disagreements with Ms. Versace over how to cut costs at the fashion house.

As sales across the luxury-goods sector declined, Mr. Di Risio unsuccessfully urged the designer to rein in spending on promotional events and simplify her designs in order to lower prices on items ranging from clothes to handbags, according to a person familiar with the matter.



Donatella Versace

Mr. Di Risio, a former executive at LVMH Moët Hennessy Louis Vuitton SA, will remain on Versace's board temporarily to ensure a smooth transitional period as the company looks for a new chief executive, the company said.

Over the past two weeks, Versace family has entered into talks with fashion executives to potentially succeed Mr. Di Risio, according to people familiar with the matter.

Hired in 2004, Mr. Di Risio was brought in to pull Versace out of a financial tailspin that occurred after the fashion house's founder, Gianni Versace, was murdered in 1997.

Mr. Di Risio cut Versace's debt by selling assets, overhauled licensing deals and homed in on luxury accessories that generate fatter profit margins than clothes.

Ms. Versace owns a 20% stake in the company; her daughter, Allegra Versace Beck, owns 50% of the fashion house; while Santo Versace owns a 30% stake in the company.

Focus on Automobiles

Key driver

The U.S. Supreme Court could soon decide Chrysler's fate > **Page 4**

CORPORATE NEWS

Electric-car line from Mitsubishi aims for Japan

By John Murphy

Looking to gain an early lead in the emission-free vehicle market, **Mitsubishi Motors** Corp. Friday launched a compact, four-door electric car that it will market in Japan to corporate customers starting in late July.

The lithium-ion battery-powered i-MiEV, which can travel 160 kilometers on a single charge, is the first step into the eco-friendly car market by the small Tokyo-based auto maker better known for its brawny SUVs like the Pajero.

By bringing its electric car to market this year, Mitsubishi is hoping to gain a lead over **Nissan Motor** Co., Japan's third-largest auto maker by sales units, which plans to sell its own electric vehicle starting in 2010.

But sales volume will be small. Mitsubishi expects to sell 1,400 vehicles in Japan in the fiscal year ending March 2010, raising sales to 5,000 vehicles next fiscal year when it starts individual sales in Japan.

Mitsubishi is testing the car in the U.S. but hasn't announced when it might go on sale there. World-wide, Mitsubishi plans to ship the i-MiEV in limited quantities to the U.K., New Zealand, Hong Kong and Singapore starting this year. It has also agreed to supply i-MiEVs to French auto maker **PSA Peugeot-Citroën** SA in late 2010 or early 2011.

By 2020, Mitsubishi says it expects electric vehicles will make up 20% of its overall production volume.

For now, Mitsubishi's ambitions are constrained by its production capacity and by the high cost of the vehicles. Mitsubishi plans to produce about 2,000 electric cars in the fiscal year ending March 2010, ramping up to 30,000 vehicles by 2013, as its lithium-ion battery production operations are expanded at **Lithium Energy Japan**, a joint venture run by Mitsubishi Motors, sister company **Mitsubishi** Corp. and **GS Yuasa** Corp.

Nissan is putting the finishing touches on its own lithium-ion battery plant outside Tokyo and plans to roll out 50,000 electric cars in the first year of production.

With a 4.59 million yen ($46,500) price tag, the i-MiEV may also struggle to find buyers during the worst recession to hit Japan since World War II. Mitsubishi is counting on generous government incentives to stimulate the market for the vehicles. The national government is currently offering subsidies of up to 1.39 million yen on "clean energy" vehicles like the i-MiEV. Some local governments are also offering additional subsidies that could bring the price of the i-MiEV down to as low as 2.2 million yen.

In addition to Nissan's electric car, the i-MiEV will likely compete with gas-electric hybrids like **Toyota Motor** Corp.'s Prius and **Honda Motor** Co.'s Insight, which each sell in Japan for about two million yen. Nissan hasn't announced the price for its electric car.

Still, many auto makers and analysts remain skeptical of the potential for large-scale sales of electric cars because of their limited range and the need to build more recharging stations to support them.

Mitsubishi is selling its electric car to corporate customers in Japan first to allow more time for local governments and businesses to set up recharging stations around the country to support electric car drivers.

Tenneco pursues growth in China

Auto-parts maker expects sales gains from emission rules

By Gordon Fairclough

SHANGHAI—Auto-parts maker **Tenneco** Inc. is taking steps to boost production and expand research and development in China as an economic downturn hobbles North American and European vehicle markets.

Tenneco Chairman and Chief Executive Gregg Sherrill last week said the Lake Forest, Ill., maker of emissions-control equipment, shock absorbers and other automotive components expects demand for its products to keep rising in China as car and truck sales climb and the government tightens environmental rules.

"There is no higher priority than China," Mr. Sherrill said in an interview. "Nowhere else are we going to see, over the next decade, the growth" in vehicle-sales volumes that are forecast for China. "If there's a bright spot in the automotive world at the moment, it's China," he said.

Gregg Sherrill

Tenneco on Tuesday said it had formed a joint venture with a Chinese partner, **Beijing Hainachuan Automotive Parts** Co., to make emissions-control and exhaust systems at a plant in the Chinese capital. Initially, the venture will supply the China operations of South Korea's **Hyundai Motor** Co.

The Beijing plant—51%-owned by Tenneco—will be the company's sixth joint venture in China. It also operates one wholly owned plant. Later this year, Tenneco also will start work at a plant in Guangzhou. The factory will supply emissions-control systems to Japan's **Nissan Motor** Co., which has manufacturing operations in southern China. Mr. Sherrill said Tenneco has yet to decide whether it will work with a partner or open the plant entirely on its own.

"Emissions control is our real growth engine," said Mr. Sherrill, as governments in China, the U.S. and elsewhere enact more stringent rules governing car and truck emissions. "Our growth is being pulled by regulations."

In China, tougher emissions standards are set to kick in next year, something Mr. Sherrill expects to drive growth in Tenneco's sales, especially of emissions-control systems for diesel-powered commercial vehicles. Tenneco makes components that filter particulate matter from diesel exhaust and reduce emissions.

The severity of the downturn in the U.S. and Europe has required Tenneco to cut costs and restructure to preserve cash and outlast the crisis, Mr. Sherrill said. But he said the company has continued to invest in developing emissions-control technologies that he says will drive Tenneco's growth.

CORPORATE NEWS

Jobs is ready to return

Apple CEO's return appears on track ahead of new phone

BY YUKARI IWATANI KANE AND JOANN S. LUBLIN

After months of uncertainty about Steve Jobs's health, the **Apple** Inc. chief executive appears on track to return from medical leave this month, said people familiar with Apple.

The big question now among Apple's business partners, investors and fans: Will Mr. Jobs make his reappearance at Apple's annual software developers' conference this week in San Francisco, possibly to unveil a new iPhone?

Mr. Jobs, a survivor of pancreatic cancer, went on medical leave in January. He had earlier exhibited significant weight loss, and cited a nutritional problem related to a hormone imbalance. The unexpected departure, and the few details about Mr. Jobs's ailment, left some investors worried about whether he would return.

Steve Jobs

Since then, Apple hasn't provided any updates on Mr. Jobs's health.

While Mr. Jobs has been on sick leave, some Apple directors have gotten weekly updates about his medical condition from the CEO's physician, according to a person familiar with the matter. Mr. Jobs's recovery "is coming along" and he is on schedule to return to work later this month, said this person, who has seen Mr. Jobs in recent weeks.

"He was one real sick guy," added this person. "Fundamentally he was starving to death over a nine-month period. He couldn't digest protein. [But] he took corrective action."

Mr. Jobs occasionally has come into Apple's headquarters since his leave began, said a person who has seen him there.

Speculation is mounting among Apple's business partners and analysts about whether Mr. Jobs will make an appearance at the company's Worldwide Developers Conference this week—particularly because he is known for making surprise announcements at events.

Much of the buzz appears to be conjecture of the type that has swirled around Apple and Mr. Jobs for years. But two people who do business with Apple said senior Apple managers have told them the company is now trying to coordinate Mr. Jobs's return with a product launch or public event.

"We look forward to Steve returning to Apple at the end of June," Apple spokesman Steve Dowling said Thursday, reiterating the company's previous statements. Mr. Jobs didn't respond to a request for comment. Apple has said its marketing chief, Philip Schiller, will give Monday's keynote address—a role reserved for Mr. Jobs in past years—and that the conference will focus on the new operating systems for its iPhone and Macintosh computers.

With or without Mr. Jobs at the conference, Piper Jaffray analyst Gene Munster expects Apple to unveil a new iPhone model, even if the company doesn't immediately start selling it.

Others caution against expecting Mr. Jobs back next week. "He likes to surprise people, but we don't think that's likely to happen at WWDC," said Richard Doherty, an analyst at technology consultancy Envisioneering Group. Mr. Doughtery said he has "talked to people who've seen him and he appears to be doing well," but he expects Mr. Jobs will make a public appearance at a product launch some time later this summer, possibly the end of June.

Apple is ready enough with its latest iPhone to be in a position to unveil it this week, said a person who has seen the new model. The new phone will look similar to last year's model but has more processing power and some new features like video editing, this person said.

A June or early July release of the new iPhone would be timely because original iPhone owners on a two-year service contract with **AT&T** Inc. will be eligible to upgrade their devices. The first iPhone came out in late June of 2007, and the iPhone 3G was released in mid-July of last year.

Mr. Jobs never fully retreated from managing Apple during his leave. Mr. Jobs has remained closely involved in key parts of running the company and has reviewed products in meetings at his home, according to people familiar with the situation.

It isn't clear whether Mr. Jobs would return to his full set of duties immediately. But whatever role Mr. Jobs officially takes up, many Apple watchers think Chief Operating Officer Tim Cook will continue to run the day-to-day operations as he had been doing even before Mr. Jobs went on leave.

Mr. Jobs's return may not alleviate concerns about his long-term health. Mr. Jobs and Apple haven't provided details about his health, and people who have contacts inside thecompany, as well as people who have business relationships with Apple, say that they are still worried about how long he would be able to continue to stay involved.

The past five months without Mr. Jobs have given investors confidence that Apple can run smoothly without him. Apple's shares have risen 68% since Mr. Jobs announced his leave Jan. 14, compared with a 24% increase in the Nasdaq Composite Index over that period.

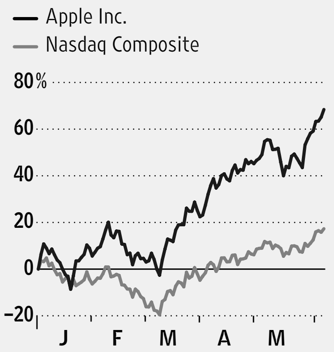
"I think it's becoming less and less of a key variable," says Mike Binger, a fund manager at Minneapolis-based Thrivent Asset Management, which owns Apple shares. "This past time period has proven that Apple as an entity can survive without Steve Jobs going to work on a daily basis."

Josh Lowensohn/CNET News

Speculation is mounting about whether Steve Jobs will appear at Apple's developers' conference. Workers prepare San Francisco's Moscone center.

Bearing fruit

Year-to-date performance



Source: WSJ Market Data Group

GLOBAL BUSINESS BRIEFS

Arcandor AG

German retailer says aid needed to avert bankruptcy

German retailer **Arcandor** AG will have to file for insolvency on Monday if the German government turns down its request for state aid, a spokesman for the company said on Sunday. "If we unexpectedly do not find a solution, which would need to include government support, then we would know on Monday that we would be unable to pay on Friday, and then we would have to file for insolvency on Monday," said spokesman Gerd Koslowski. A government committee is due to meet on Monday to discuss Arcandor's request for a €437 million ($619 million) loan from state development bank KfW. Berlin has pushed Arcandor to consider a deal with rival **Metro** AG, which has proposed to merge its department store chain with Arcandor's.

Carphone Warehouse PLC

Carphone Warehouse PLC posted a sharp increase in net profit for its full fiscal year Friday, thanks to the sale of 50% of its distribution business to Best Buy Inc. Net profit jumped to £550 million ($890 million) for the 12 months ended March 31, from £73 million a year earlier, even though revenue fell 2.1% to £1.39 billion from £1.42 billion. The changes were mainly due to Carphone selling 50% of its distribution business to create the Best Buy Europe retail joint venture, which is now accounted for as an associate. The company, which operates broadband provider TalkTalk and Best Buy Europe, said it is close to finalizing separate banking facilities for them as a precursor to a demerger, which it expects to complete by July 2010 at the latest.

Promotora de Informaciones SA

Spanish media company **Promotora de Informaciones** SA, or Prisa, said Friday it is in talks with production company Mediapro to merge their television assets. Prisa said the companies had set out a period of one month to negotiate corporate governance, shareholding structure and the business model for the new combined operation. "We expect the negotiations will include all aspects of our TV businesses," said Mediapro Chairman Jaume Roures, adding that negotiations could take longer than a month. Spain's TV stations are being squeezed by falling advertising revenue and growing competition from the country's new digital terrestrial channels that have pushed traditional archrivals to the negotiating table. Shares in Prisa closed up 17.7%.

Procter & Gamble Co.

Procter & Gamble Co. is wiping U.S. drug-store shelves clean of its Max Factor cosmetics, a line that isn't popular enough to hold its own in America anymore. The storied beauty brand—namesake of Max Factor, the pioneer of Hollywood makeup artistry—will continue to be sold internationally, where it garners most of its $1.2 billion in annual sales. Max Factor ranks among the top brands in strategically important markets such as Russia and the U.K., P&G says. P&G hopes to focus extra resources on its more promising CoverGirl brand, which the company says has increased its U.S. market share for the past seven years. P&G bought Max Factor from Revlon in 1991 as part of a billion-dollar deal meant to build P&G's share of the mass-market beauty aisles.

Publicis Groupe SA

Publicis Groupe SA said late Thursday it has a maximum €55 million ($78 million) exposure to General Motors Corp.'s bankruptcy filing after Standard & Poor's Ratings Services put the French advertising company's stock on watch for a downgrade. Analysts had previously estimated an exposure of up to €70 million. Publicis said the €55 million estimate accounts mostly for advertising space its media-buying agencies have already acquired but for which GM may not be able to pay. Earlier Thursday, S&P put its credit ratings on Publicis on watch for a downgrade. The outcome of the ratings review will depend on Publicis's business and financial performance in the first half of the year, S&P said. The ratings agency at the same time affirmed its A-2 short-term corporate-credit rating for the company. Analysts estimate GM accounted for about 3% of Publicis's total sales in 2008.

Continental AG

German car-parts maker **Continental** AG plans to cut almost one in every 10 jobs in its automobile unit in Germany. The company said it is set to eliminate 2,600 of the about 27,000 positions in the automotive division by the end of the coming year. A spokeswoman said forced layoffs can't be ruled out, but that they should be avoided as much as possible. Employees in production, administration and development are among those affected. Talks with employee representatives are under way. The spokeswoman said the job cuts, which will save a "significant amount" of money, aren't related to the discussed merger with family-owned engineering company Schaeffler, she added. In the first quarter, the auto division's proceeds declined by up to 40% from a year earlier.

Fiat SpA

Fiat SpA Chief Executive Sergio Marchionne on Friday reiterated the car maker's interest in taking over **General Motors** Corp.'s Adam Opel Gmbh unit but said it isn't up to him. "The interest is still there," Mr. Marchionne said on the sidelines of an event in Turin, Italy. Last week, the German government agreed to provide €1.5 billion ($2.1 billion) in bridge financing to keep Opel afloat and enable it to forge a deal with **Magna International** Inc. and Russia's **Sberbank**. But German government officials, as well as U.S. authorities and GM, have underlined that the deal with Magna is preliminary and the process is still open for all bidders. However, German government spokesman Thomas Steg on Friday played down prospects of Magna failing to complete the deal.

Sony Corp.

Recording company Sony Music Entertainment has joined Vevo, an online music-video site set to launch this year with the backing of **Vivendi** SA's Universal Music Group and YouTube. The music unit of **Sony** Corp. will take an equity stake in the venture. The other two major recording companies, **Warner Music Group** Corp. and **EMI Group** Ltd., are also in talks about joining. The service will operate at Vevo.com and have its own channel on **Google** Inc.'s YouTube. Plans are in the works to offer song downloads, merchandise and concert tickets.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.K.'s Brown seeks to recover his grip

After a damaging week, Mandelson says prime minister is happy with new cabinet and will focus on economy

BY ALISTAIR MACDONALD AND ILONA BILLINGTON

U.K. Government Minister Lord Mandelson said Sunday that Prime Minister Gordon Brown was happy with his new cabinet and would carry on with plans to help lift the economy out of recession.

The beleaguered prime minister had suffered another blow to his authority on Friday, even as he announced a reorganization of his cabinet that appeared to shore up his command of the Labour Party.

Just as Mr. Brown announced his new team, news surfaced that another member of his government, Europe Minister Caroline Flint, had turned down a role in the reshuffled cabinet and quit instead. Ms. Flint—who had only the night before appeared on television to support Mr. Brown—accused him in an open letter of using her as "female window dressing" for his administration, in a criticism of male dominance in Mr. Brown's political world.

The incident came after a week in which senior resignations and poor local election results left Mr. Brown politically damaged. His standing in recent months has been weakened by the swift decline of the British economy and a series of damaging scandals, including revelations about politicians abusing the parliamentary expense system.

Speaking to the BBC on Sunday, Mr. Mandelson said that while the public were skeptical about government amid the expenses row and various resignations, Mr. Brown and the government should continue pushing forward with bold plans to aid the economy.

Despite the problems, Mr. Brown said in a press conference Friday to announce the cabinet reshuffle that he is committed to his job. "I will not waiver, I will not walk away, I will get on with the work and I will finish the job," he said, in an unusually emotional tone.

Friday's reshuffle appeared to strengthen Mr. Brown's position. He has survived so far thanks in part to the logistical difficulties of toppling a Labour leader under party rules. Moreover, any replacement for Mr. Brown would likely have to call a general election—a move the Labour party doesn't want to make, because it would likely lose.

Yet Mr. Brown is sufficiently wounded politically that it may make it more difficult for him to govern, not least because almost continual speculation over his future recently has often sidelined discussion of policy. Eleven government ministers, including six from the cabinet, left their posts last week—five of whom had resigned before the reshuffle had even begun.

Meanwhile, the Labour Party's declining standing in the public's eye has come into sharp focus. On Sunday, the Labour Party was expected to see further poor results, when the outcome of the European elections are announced for the U.K.

On Friday, Mr. Brown named a new cabinet, tying big hitters closer to him through either promotion or letting them stay in favored jobs. Alan Johnson, widely seen as a potential successor for Mr. Brown as prime minister, was promoted from health minister to home secretary, replacing Jacqui Smith, who resigned on Tuesday.

Other major players whose resignations would have hurt the prime minister were kept in their jobs, including Treasury Chief Alistair Darling, long-serving Justice Minister Jack Straw, and Foreign Secretary David Miliband. Peter Mandelson, a former foe of Mr. Brown who has become a stout defender during the prime minister's troubles, saw his role as business minister widened.

Mr. Johnson on Friday said he "genuinely believes" Gordon Brown is "the best man" to be leading the country. Mr. Johnson added that, at this time, he could "see no way that he would ever be prime minister."

Downing Street had considered moving Mr. Darling, a person familiar with the matter said. One reason, among others, was that the treasury chief had suffered several embarrassments in the scandal over government expenses. But Mr. Darling argued that his experience and having continuity in his job was important at a time when the country was battling recession, this person said. Critics seized on what they saw as a change of heart by Mr. Brown, saying it showed his inability to push through his choices.

A mooted plot by at least one member of Parliament to gather names of Labour politicians for a challenge to Mr. Brown had yet to materialize by Friday evening.

But other Labour rebels said that the prime minister could still see a challenge and a number of Labour backbench members of Parliament went on television and radio to say that Mr. Brown should go.

—Laurence Norman contributed to this article.

Gordon Brown's bad week

- **Sunday, May 31:** Mr. Brown (pictured left) seeks to dig out from a scandal over expenses, proposing a code of conduct for Parliament. A revelation of dubious expenses claimed by Treasury Chief Alistair Darling clouds the day.
- **Monday:** Mr. Darling apologizes for expense claims — he had earlier denied any wrongdoing.
- **Tuesday:** Home Office Minister Jacqui Smith and Tom Watson, a cabinet office minister, resign.
- **Wednesday:** Communities Secretary Hazel Blears steps down, suggesting the Labour government has lost touch with voters. Talk circulates of a plan to challenge the prime minister.
- **Thursday:** James Purnell, a rising star in Mr. Brown's cabinet, resigns, calling on the prime minister to follow suit. The Labour Party braces for a poor showing in local and European elections.
- **Friday:** Mr. Brown's government reshuffle is overshadowed by resignations and weak local election results.

Associated Press

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Latvia works to keep financial troubles from spreading

BY ALEX FRANGOS

Latvian officials worked to assemble an international aid package, aiming to avert a currency devaluation as neighboring countries voiced concerns about financial contagion.

The International Monetary Fund and the European Union are requesting steep budget cuts as a condition for the money Latvia needs to contain its crisis and maintain the value of its struggling currency.

While European and Latvian leaders said that Latvia's peg to the euro would remain in place, traders, bankers and economists said a devaluation was inevitable and probably necessary to avoid a deep and prolonged recession in the Baltic nation.

The pressure on the Latvian currency, the lat, has shown that the stitches on the edge of the European economy are frayed and that Eastern Europe in general remains fragile.

Latvia had kept its currency pegged to the euro in hopes of joining the monetary union, and a devaluation would prove embarrassing.

Fear that Latvia's problems could spread to its neighbors, in particular fellow Baltic nations Lithuania and Estonia, intensified Friday.

Dariusz Filar, a member of Poland's Monetary Policy Council, said, "The situation in Latvia is a threat, everyone is afraid of regional spillover, though we see that different markets are reacting differently."

"The situation requires an international response," Mr. Filar added. Other currencies potentially at risk are the Polish zloty, the Bulgarian lev and the Hungarian forint.

"More steps are needed and maybe additional funds," said Marek Belka, the head of the IMF's mission to Latvia.

Some called for a coordinated response to the entire Baltic region. Lithuania and Estonia have similar currency pegs and similar macroeconomic problems.

"If I were a super-economic commissioner, I would organize a coordinated devaluation of all three currencies," said Alf Vanags, director of the Baltic International Center for Economic Policy Studies, a think tank based in Latvia's capital, Riga.

Latvia's biggest creditors are Swedish banks, who hold $23.2 billion of assets there, according to the Bank for International Settlements. The Swedish banks say they are ready for a devaluation and high loan-default rates.

Swedbank AB's chief executive, Michael Wolf, said in a statement Friday that "we feel comfortable about our action preparedness regardless of which way the Latvian government chooses to go."

To be sure, Latvia's problems might be contained to the Baltics and not spread more widely. Latvia has half as much borrowing from foreign banks as Iceland did when its currency collapsed, yet has seven times the population, at around 2.2 million people.

In addition, European countries with floating exchange rates, such as Russia, Ukraine, Hungary and the U.K., have already seen substantial devaluations during the crisis, while Latvia has stuck to its peg.

Interest rates in Latvia have soared since the country's currency came under sustained attacks this week, with overnight rates for lending among banks rising to 19.6%, from 16.8% Thursday.

The IMF is leading the negotiations with Latvia over how big a budget deficit the IMF and European Union should allow before they approve the next disbursement of aid.

In similar circumstances, the IMF has insisted countries devalue their currencies. That has the effect of spreading the pain of adjustment throughout the economy rather than the current situation, where Latvia's government workers are taking the brunt of adjustment through pay cuts. A devalued currency also makes exports cheaper, giving a troubled country a path toward recovery.

Latvian homeowners and businesses are saddled with $40 billion of loans originated by foreign banks, most of it denominated in euros. Gross domestic product is expected to fall at least 18% this year as asset prices, especially in the housing market, have cratered as much as 60%.

Some said the EU's attempt to avoid devaluation would only delay inevitable pain for Latvia and its creditors.

"It looks like a train wreck to me. It's a crazy idea" not to devalue, said Simon Johnson, a professor at the Massachusetts Institute of Technology and a former IMF chief economist. Propping up the lat will force intense pain for Latvians in the form of wage and benefit cuts. It will also stifle any chance at economic recovery, which will keep loan-default rates high.

"The Europeans keep supporting [the peg] because they are operating a fixed exchange-rate system in Europe and don't want to undermine the undertaking," said John Williamson, a senior fellow at the Peterson Institute for International Economics in Washington. "I don't see the sense of trying to defend marginal currencies like that," he added.

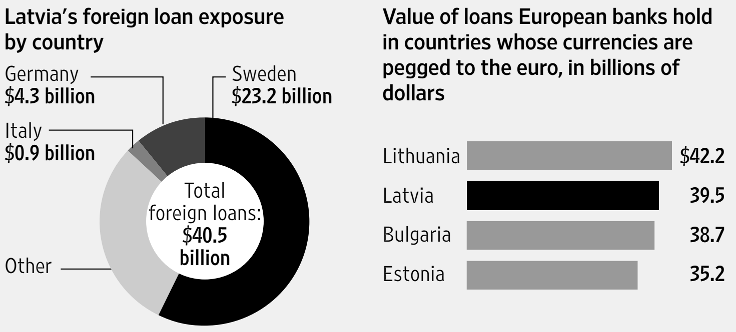
The official public support for the lat could also be the familiar public performance that always occurs before a currency falls.

"In every devaluation in history, the prime minister and the central bank governor go on television the night before and say a devaluation will happen over their dead bodies," said Anatole Kaletsky, chief economist at GaveKal, a research and fund management firm.

—Bob Davis, Charles Forelle, Malgorzata Halaba and Marynia Kruk contributed to this article.

Europe's Latvian loan woes

Swedish banks have the largest exposure to loans in the ailing Baltic states, including Latvia.



Source: Bank for International Settlements

Pakistan taps tribes' anger with Taliban

Violence spurs disenchantment in border areas

BY MATTHEW ROSENBERG AND ZAHID HUSSAIN

PESHAWAR, Pakistan—When the Taliban began filtering into Gul Khan Mehsud's town along the Afghan border nine years ago, residents offered food, shelter and ammunition.

"How could we turn them away? The Americans were killing them. We wanted them to fight," says the 38-year-old from South Waziristan, one of the tribal regions that border Afghanistan and arguably the Taliban's most important stronghold in Pakistan. "We thought the Taliban would help us."

Instead, Mr. Mehsud was forced from his home in South Waziristan earlier this year after the Pakistan Taliban, which grew out of the militants who fled the 2001 U.S.-led invasion of Afghanistan, accused one of his cousins of helping the U.S. plot missile strikes from drone aircraft.

Mr. Mehsud now lives with nearly two dozen relatives in two rooms in this city, the gateway to the tribal borderlands. "I didn't want to be shot," he says.

With Pakistan on the brink of taking its anti-militant campaign to the tribal areas on the restive border with Afghanistan, civilian and military leaders in Islamabad are banking on growing anger with the Pakistan Taliban among tribesmen such as Mr. Mehsud, whose Pashtun ethnic group straddles the frontier and lives in the core of the insurgency in both countries.

Popular support for the insurgents has undermined years of attempts to subdue the border areas, where the Taliban hold sway and al Qaeda operates openly. Residents who have fled report an intensifying reign of terror. The region is largely off limits to outsiders—foreigners and Pakistanis alike—and there are signs of growing disgust with the Taliban's hard-line tactics.

Pakistan's military hopes to channel that disenchantment behind its coming campaign in North and South Waziristan, which is likely to be grueling. An estimated 15,000 militants from the northwestern mountains of Pakistan and parts of eastern Afghanistan have massed in the area before an offensive expected to begin in the next month or two.

Anger at the Taliban in tribal areas mirrors a broader anti-Taliban sentiment across Pakistan that backed the military's recent offensive in the Swat Valley, a onetime vacation area overrun by the Taliban in the past two years. The military launched its assault in Swat, which is roughly 160 kilometers from Islamabad, about a month ago after the Taliban violated a peace agreement that gave them control of the area.

Pakistan's top brass say the army has cleared militants from most of Swat, but there still are pockets of resistance in the valley and sporadic violence around the region. On Friday, a suicide bomber killed at least 33 people attending afternoon prayers at a mosque in the Upper Dir district, a remote area to the west of Swat. According to Pakistani officials, there was no immediate claim of responsibility, but one local government official blamed the Taliban, saying it was likely in retaliation for the Swat offensive.

A day later, some 400 people in Upper Dir attacked Taliban fighters in five of the district's villages and by Sunday had taken control of three, said Atif Rehman, an official in Upper Dir. The villagers killed at least four militants and knocked down nearly two dozen houses they believed were used to shelter insurgents, he said.


Associated Press

Pakistani troops checking a vehicle Friday at a post in Malakand area, where government forces are fighting Taliban militants.

The tribal areas—remote, mountainous and untamed by outside authority for centuries—represent a far greater challenge. Pakistani intelligence officials say the top leaders of the Swat Taliban have retreated, with hundreds of followers, to North and South Waziristan.

North and South Waziristan are part of the so-called Federally Administered Tribal Areas, a rugged region cut off physically and politically from the rest of the country. Unlike Pakistan's four main provinces, the region has historically been under only loose federal government control.

There still is broad popular support in the area for militants fighting U.S. and North Atlantic Treaty Organization forces in Afghanistan. And the Pakistan Taliban hasn't lost its allure among the tens of thousands of people whose relatives were killed or homes were flattened in military attempts to reassert authority in the tribal areas.

"Each time there is badly aimed artillery firing or the Americans fire missiles, if one person is killed, all his brothers and sons and cousins join the Taliban," said Hazrat Muhammad, 36, who last year fled fighting in the Mohmand tribal area near South Waziristan.

Even among those, such as Mr. Muhammad, who say they now oppose the Taliban, there is deep distrust of the government, which has done little for the tribal areas since Pakistan was created six decades ago. In social and economic indicators, the region trails the rest of Pakistan. Per-capita annual income is about $500—roughly half the national average—and literacy hovers under 20%.

Rustam Shah Mohmand, a former official who served as top administrator for both Waziristans, said the people "don't want the Taliban. But they don't want the army. They want to go back to their old ways."

The old ways allowed Islamabad to govern through a network of moderate tribal elders, known as maliks. Pakistani law didn't apply to the tribal areas, and the army stayed out of the region. The system, which originated more than a century ago when Britain ruled the subcontinent, was upended by the Taliban and al Qaeda after the U.S.-led invasion of Afghanistan. Hundreds of maliks were killed or forced to flee, and the few government officials in the region brought to heel.

The army sent in soldiers in 2003, but they did little to restore civilian authority. A new generation of Taliban warlords filled the vacuum, banding together in 2007 to form the Tehrik-e-Taliban Pakistan and fight Islamabad.

In one indication of the growing anger at the Pakistan Taliban, a rival from within Mr. Mehsud's tribe is gathering fighters to challenge the commander, helping security forces identify his men and hideouts, security officials in the region say.

"The government is an enemy," said Gul Khan Mehsud. "First the Taliban must go. Then the army should go," he said.

—Rehmat Mehsud contributed to this article.

Lebanon's tight parliament race draws strong turnout

BY CHIP CUMMINS

BEIRUT—A Hezbollah-led bloc of candidates headed toward gains in parliamentary elections here, though it wasn't clear late Sunday whether it had wrested a majority from a Western-leaning coalition.

Official results weren't expected until at least early morning Monday. Despite isolated reports of skirmishes between rival supporters, voting across the country went smoothly. Turnout was well above 50%, according to the interior ministry. Fireworks lit up the skyline of the capital hours after polls closed.

Almost as important as which side wins a majority in the country's next parliament is how Lebanon's various political parties and personalities react to the results. Some analysts and pollsters were predicting a margin of just one or two seats in the 128-seat body. A handful of independents could also win races, making calling a clear winner more difficult.

Lebanon apportions parliamentary seats and its top government posts by sect. Sunni Muslims were expected to vote for the Western-leaning "March 14" movement, a bloc that currently holds a majority in parliament. Shiite Muslims were expected to vote for an opposition bloc led by Hezbollah, the Shiite political and militia group that receives funding from Iran and is close to Syria.


Agence France-Presse

Lebanese men line up at a polling station in downtown Beirut in a high-stakes parliamentary election that could see gains for a Hezbollah-led coalition.

That dynamic left just a few races, most of them in Christian areas, crucial for the outcome of the nationwide race.

If Hezbollah and its political allies were to triumph, they'd lead efforts to form Lebanon's next government. Hezbollah is designated a terrorist organization by the U.S. and by Israel, which fought a month-long war against the group in 2006. But a Hezbollah-dominated majority also would be restricted in choosing ministries and other key posts, likely forcing consensus with political foes.

"There is momentum for compromise," said Paul Salem, director of the Beirut-based Carnegie Middle East Centre. "Hezbollah's immediate interest is to not rock the boat and not to make dramatic policy changes," he said.

Washington has doled out significant aid to Lebanon in recent years. During a visit last month, U.S. Vice President Joe Biden warned further aid, including military support, would depend on the composition and policies of the next government.

A victory for the Hezbollah-led opposition would be deeply troubling for Israel and U.S.-allied Arab neighbors, loath to see Tehran boost its regional influence. March 14 leaders have warned that Hezbollah gains could push Gulf Arab states and investors to think twice about sending more money to Lebanon.

Hussein Hajj Hassan, a Hezbollah member of parliament from Baalbek, said Lebanon could survive without additional Western aid, and that he isn't worried about Arab investment drying up. He also said Hezbollah wasn't out to radically alter government policy. "If we win, it's not a coup d'etat," he said in at his campaign headquarters ahead of the vote. "It's not a revolution."

Voting districts have been redrawn since the last polls in 2005, benefiting the so-called "March 8" opposition bloc, led by Hezbollah.

March 8 holds 58 seats in the current parliament. The pro-West March 14 movement, led by Saad Hariri, son of assassinated former Prime Minister Rafik Hariri, holds 70 seats.

Hezbollah officials say despite expected gains for their political allies they will forfeit one of their 14 seats because of the redistricting. They also have said they are open to inviting Mr. Hariri's bloc into a national-unity government if they wind up on top in the polling.

In an interview Sunday, Mr. Hariri said he would stay out of any March 8 government. "I would rather sit in opposition," he said from his heavily fortified compound in the center of Beirut.

—Nada Raad contributed to this article.