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## What's News

Western banks are keen to woo Russia's rich, who they think will emerge quickly from the downturn. Citibank has profited from the upper middle class, while HSBC is making a push into Russia's retail market with a chic event Tuesday near the Kremlin. **Page 19**

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■ The U.S. Supreme Court delayed Chrysler's sale to Fiat at the request of several Indiana pension funds and consumer groups opposed to the deal. **Page 3**

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■ Police fired on protesters in Indian Kashmir, injuring at least seven people, as unrest continued over the deaths of two women last month.

■ Pakistani tribesmen seeking revenge for a mosque bombing attacked several Taliban strongholds, killing at least 13 militants, officials said.

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Breaking news at europe.WSJ.com

# Left wilts in U.K. and Germany

## Brown dodges a bullet, for now

BY ALISTAIR MACDONALD

U.K. Prime Minister Gordon Brown won the backing of his Labour Party in an emotional meeting on Monday, snuffing out an internal rebellion, but he hasn't extinguished long-term questions over his leadership following the party's embarrassing loss in elections for the European Parliament.

Mr. Brown's political fortunes have spiraled downward with the electoral drubbing Labour has suffered in recent days, but the party's slide has been years in the making—rooted in a nasty internal split, divisions over the Iraq war, a deep recession and a steady drip of scandal.

Labour finished third in elections for seats in the European Parliament—behind not just the opposition Conservatives, but also the fringe UK Independence Party, a weak showing for the party that has governed the U.K. since Tony Blair became prime minister in 1997. Labour captured just 15.7% of the vote, its lowest share of a national vote since 1910.

The results are widely seen as further evidence that Labour will be ousted by the Conservatives and their

*Please turn to page 31*



Top, U.K. Prime Minister Gordon Brown leaves Downing Street before a Labour Party meeting Monday. Below, German Chancellor Angela Merkel after a meeting of the Christian Democrats in Berlin.

## Rival to Merkel shunned at polls

BY MARCUS WALKER

BERLIN—Sunday's European election suggests many German voters have written off the country's Social Democrats, who are falling further behind Chancellor Angela Merkel's conservatives with less than four months to go until German national elections in September.

The Social Democrats, the main left-leaning party in the European Union's most populous country, won only 21% of the vote in the European Parliament election at the weekend, compared with 38% for Ms. Merkel's conservatives.

That was the Social Democrats' worst result in a nationwide election in the post-war era and is a big blow for the party's candidate for chancellor, Frank-Walter Steinmeier. By choosing Mr. Steinmeier and campaigning for state aid to protect workers' jobs at recession-hit companies, the party hoped to revive its appeal for its traditional, unionized-labor base.

But so far, voters haven't warmed to Mr. Steinmeier. Instead, Social Democrats are still paying for having cut back Germany's welfare state under former chancellor Gerhard Schröder. That welfare over-

*Please turn to page 2*

## Stunning backlash in Latvia, Hungary

BY GUY CHAZAN AND CHARLES FORELLE

RIGA, Latvia—Results of Sunday's elections show how Eastern Europe's economic crisis is reshaping its political landscape, with ruling parties in Hungary and Latvia punished by angry voters.

One of Latvia's main governing parties suffered a drubbing, as voters defected in huge numbers to a left-leaning opposition party backed by the country's sizable Russian-speaking minority.

Developments in Latvia were echoed in Hungary, another country hit disproportionately hard by Europe's worst downturn since World War II. There, Sunday's vote

amounted to a revolt against the ruling socialists and a decisive shift to the right.

The results are seen as a protest vote from an electorate traumatized by recession. Latvia, whose economy is expected to contract by as much as 20% this year, was forced to go cap-in-hand to international lenders late in 2008 to stave off bankruptcy, and there is talk the country may have to devalue its currency, the lat—an option the central bank chief firmly ruled out in an interview Monday.

One party in the governing coalition, the People's Party, was voted off the city council in the capital, Riga, and failed to reach the 5%

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#### Peak coal?

Current U.S. production level might be unsustainable  
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### Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8764.49	+0.02
Nasdaq	1842.40	-0.38
DJ Stoxx 600	209.29	-0.70
FTSE 100	4405.22	-0.75
DAX	5004.72	-1.42
CAC 40	3289.66	-1.48
Euro	\$1.3873	-1.04
Nymex crude	\$68.09	-0.51

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LEADING THE NEWS

# Post-war low for Germany's SDP

Continued from first page  
haul—which Mr. Steinmeier helped design—has left “working-class voters who used to be core supporters disillusioned,” says Richard Stöss, political scientist at Berlin’s Free University. Many have simply stopped voting for any party, he says.

European Parliament elections with poor turnout aren’t a reliable guide to national elections, but Sunday’s result shows how far Mr. Steinmeier has to climb to catch up with Ms. Merkel’s Christian Democrats, analysts say.

That tilts the odds toward a center-right victory in September. Ms. Merkel hopes to form a new government with the tax-cutting Free Democrats. But the Christian Democrats’ own voter support has proved brittle in the past two election campaigns.

Another stumble near the finish line would probably force Ms. Merkel to renew her awkward governing coalition with the Social Democrats, a government both parties would enter in a weak state. On Monday, Ms. Merkel said that the “trend” favors the center-right but that her party should “keep its feet on the ground.”

The Social Democrats’ struggle



Franz Müntefering, right, chairman of the Social Democratic Party and Foreign Minister Frank-Walter Steinmeier, left, at their party’s headquarters in Berlin.

to rebuild their electorate is symptomatic of left-leaning parties’ problems in much of Europe, where strained public finances have forced overhauls of benefit systems even as growing global competition has created losers among low-skilled, low-income groups who need government help.

Social Democrats are “somewhat at a loss” after Sunday’s poll disaster, the party’s deputy chairman and German Finance Minister Peer Steinbrück said on Monday.

Most Social Democrats pinned the blame on low turnout in the European Parliament ballot, when only 43% of those eligible cast a vote. The party’s working-class supporters tend to know and care less about the workings of EU institutions than center-right voters, said Johannes Kahrs, a Social Democrat lawmaker. By September, the impact of Germany’s recession will be more severe, and more voters will appreciate the Social Democrats’ efforts to defend ordinary workers’ jobs, Mr. Kahrs said. “The wider public mood is not yet pro state help,” he said.

But Mr. Kahrs acknowledges that the controversial benefit cuts of past years remain a burden: “Part of our

electorate is still angry, and that’s why they didn’t vote” on Sunday, he says.

Social Democrats scotched suggestions that Mr. Steinmeier might not be the right man to challenge Ms. Merkel. Analysts say the party has no other heavyweight candidate. Mr. Steinmeier has high approval ratings as foreign minister, but lacks the charisma and campaigning skills of his former boss, Mr. Schröder.

Germany’s once-simple party system has grown steadily more fragmented along with its society in the past two decades. New movements, including the Greens and the hard-line socialist Left, have chipped away at the traditional duopoly of the Social Democrats and the Christian Democrats.

But Sunday’s election showed just how far the Social Democrats are falling in former urban strongholds such as Berlin and Cologne, where they dropped behind the Greens. In the states of Bavaria and Saxony, only five of every 100 eligible voters backed the Social Democrats. “That’s not a mass party any more; it’s almost a sect,” says Manfred Güllner, head of opinion-polling institute Forsa.

# Euro-zone banks need recovery plan, IMF says

BY JOELLEN PERRY

LUXEMBOURG—Lack of a coordinated and aggressive cleanup plan for euro-zone banks could hamper economic recovery in the 16 countries that share the euro, the International Monetary Fund said Monday in a report that suggests recent glimmers of hope could yet be quashed by banking-sector weakness across Europe’s economic heartland.

“To secure recovery and a return to self-sustaining growth, policy makers need to take further decisive action, especially in the financial sector,” the IMF said in its twice-yearly assessment of the euro-zone economy. The report lauded policy makers for the massive bank-rescue and fiscal-stimulus packages already launched and praised the European Central Bank for an “impressive” crisis response. But it said “a key missing element is a proactive strategy to deal with a weakened financial system.”

The IMF, which in May urged European authorities to follow the U.S. in conducting stress tests, said in the report that euro-zone policy makers should review banks’ capital needs, develop plans to cleanse the financial system of its toxic assets and restructure banks battered by the crisis.

“The financial sector holds a key to the shape and robustness of the recovery,” the report said, noting euro-zone banks are still having trouble accessing funding, and lending across the bloc remains sluggish. The euro-zone economy contracted by an annualized rate of nearly 10% in the first three months of this year, its worst showing on record. The ECB forecast last week that the bloc will contract by around 4.6% this year and only start growing again in the second half of 2010.

The IMF report Thursday underlined those expectations, saying “the recovery is likely to be slow and its shape and timing highly uncertain.”

Developments Monday underscored the conflicting forces in the \$13.6 trillion euro-zone economy, second in size only to the U.S.

German manufacturing orders in April held steady from the month before, after a sharp increase in March. Germany’s economics ministry said in a statement that the plateau—which marked the first time since November 2007 in which orders in Europe’s largest economy had avoided a decline for two consecutive months—“palpably” raised the prospects for a medium-term recovery in Germany’s hard-hit industrial sector.

But rating agency Standard & Poor’s downgraded Ireland’s debt for the second time this year, citing the country’s rising tab for propping up its ailing banks. S&P said the cost of rescuing the banks may rise to as much as €25 billion, up from a prior forecast of €15 billion to €20 billion.

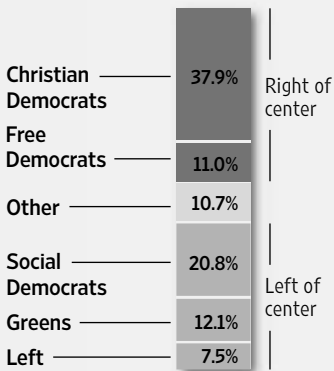
Ireland lost its AAA rating in March; Monday’s move took it down a notch further to AA, on the same level as Japan, Slovenia and the United Arab Emirates. S&P gave the new, lower rating a “negative” outlook, indicating the rating is more likely to fall than to remain unchanged or rise. Irish output is expected to shrink by 9% this year—the euro-zone’s worst showing—meaning tax revenues are likely to fall even as the government struggles to pay for its bank-rescue package.

European Union bank regulators said in May they will conduct confidential national stress tests for their banking sectors by September, but they are designed to assess risks across the European market, not to determine how much capital banks need.

—Adam Cohen  
contributed to this article.

## Right advantage

Percentage of votes won by German parties in the European Parliament election



Source: ARD/Infraestat Dimap

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## LEADING THE NEWS

## U.S. high court delays Chrysler sale to Fiat

*Creditors get chance to argue their case as deadline looms*

BY MARK H. ANDERSON

The U.S. Supreme Court on Monday delayed Chrysler LLC's sale to Fiat SpA at the request of several Indiana pension funds and consumer groups that opposed to the transaction.

Earlier, Chrysler and the federal government warned such a delay might lead to the liquidation of the auto maker. But the high court, in a brief order, said it will extend a temporary stay put in place by an appeals court until it has the chance to receive and review routine appeals from groups opposed to the sale.

Fiat previously set a June 15 deadline for the transaction to close. The Supreme Court's freeze on the sale is likely to stay in place for several months.

Supreme Court Justice Ruth Bader Ginsburg issued an order that said the bankruptcy court's decision to allow the sale is "stayed pending further order of the undersigned or of the court."

Last-ditch appeals were filed over the weekend after the 2nd U.S. Circuit Court of Appeals in New York approved the acquisition of most of Chrysler's assets by a group led by Fiat. The appeals court stayed the sale until Monday so the funds could make their case to the Supreme Court. A U.S. bankruptcy judge early last week approved the transaction.

The fast-paced stay process played out in a series of legal filings. Investors and creditors lined up on one side or another of the transaction while both Chrysler and the federal government argued in briefs that the deal did not warrant Supreme Court review.

"There is no other bidder for Chrysler's assets," Chrysler said in a legal brief. "The only other viable alternative for Chrysler is to proceed

with a liquidation that will return no more than \$800 million for all constituents."

Chrysler cited a June 15 deadline set by Fiat for the sale to close that it said is based on the auto company's "fragile state and daily erosion of value."

According to a Chrysler filing, the Indiana pensions challenging the deal are set to lose only \$5 million dollars under the terms of the Fiat purchase. The funds spent \$17 million to acquire Chrysler debt and are set to receive \$12.2 million after the transaction is complete, the automaker said. The pension funds, in their own filing, put their losses in the "millions of dollars."

The pension funds argued the sale, orchestrated by the U.S. and Canadian governments under bankruptcy laws, was illegal and that the federal government exceeded its bailout authority with its involvement. "The negative economic consequences of permitting an unlawful sale to proceed may well over time dramatically outweigh Chrysler's short-term harm," the funds said.

Were it to be approved, however, the Chrysler deal with Fiat could be delayed for weeks or months while the issue is pending at the high court. A stay approval would buy time for the pensions and consumer groups to lodge a formal appeal at the high court, and both said they plan to file separate challenges in coming days.

The key to Chrysler's restructuring is an alliance with Fiat, which has promised to share its small cars and fuel-efficient engines with its proposed U.S. partner in exchange for an initial 20% stake in Chrysler.

Chrysler employs 54,000 people world-wide, about 38,000 of them in the U.S.

The Indiana pension funds—the Indiana State Teachers' Retirement Fund, the Indiana State Pension Trust and the Indiana Major Moves Construction Fund—argued the sale is unconstitutional because it puts the rights of junior creditors ahead of the rights of senior lenders.

## Western companies shutter their back offices in India

BY BEN WORTHEN

Many Western companies that opened centers in India to perform back-office tasks on the cheap have recently sold or closed those facilities, reversing a decade-long trend as companies look to slash costs and eliminate headaches during the recession.

Citigroup Inc. and insurance firms AXA SA and Aviva PLC, among others, have sold offshore computer-programming shops and other operations to companies in India over the past year. Some have received hundreds of millions of dollars for their centers, while others have sold their sites for the cost of the equipment inside. Almost always, the buyer gets a multiyear contract to provide the same services back to the seller. Other companies, including Delta Air Lines Inc. and UAL Corp., have shut down centers in India during the past few months.

The moves represent an about-

face from earlier this decade, when companies raced to open so-called captive units in India and other countries where workers cost a fraction of those in the U.S. At least 500 Western companies have such centers in India, according to estimates by several research and consulting companies.

In the first quarter, four more companies opened offshore centers in India, says consulting company Everest Group.

But the recession has other firms re-examining the costs of running such centers. In the past, companies calculated that building their own offshore office could save them from paying the 15% to 20% margin that outsourcers typically charge. That sent Time Warner Inc.'s AOL, Bank of America Corp. and others into India with their own centers.

Now as many companies cut costs, the benefits of managing their own facilities don't appear as substantial as once thought.

## Luxury cars remain a hard sell

BY CHRISTOPH RAUWALD

Global luxury-car sales remained weak in May as the economic downturn continued to eat into demand, but Audi AG narrowed the gap to its two larger German rivals: BMW AG and Daimler AG's Mercedes-Benz brand.

BMW, the world's best-selling premium auto maker by sales, said sales of its core BMW brand fell 18% to 90,643 vehicles from 110,707 in May 2008. For the first five months of the year, BMW's sales declined 21% to 408,370 vehicles from 515,989.

However, the Munich-based company indicated that sales could recover gradually in coming months and said it is on track to keep its top position in terms of sales volume this year.

"Sales decreased much more slowly in May than in recent months," Ian Robertson, BMW's executive-board member responsible for sales and marketing, said in a prepared statement. "Overall, I am cautiously optimistic that our global sales figures will continue to improve over the course of the year."

The car maker is pinning its hopes on new generations of some of its best-selling model lines between 2010 and 2012, and the launch of new cars such as the small X1 sport-utility vehicle, which is expected to boost sales momentum.

Daimler's core Mercedes-Benz brand sold 86,300 cars in May, down 12% from 98,100 a year earlier. The fall was cushioned by ris-



Audi's China sales increased 28% in May and 6.8% in the year's first five months. Above, an Audi A6 at the company's assembly plant in Neckarsulm, Germany

ing demand for the recently launched E-Class, a key model both in terms of sales volume and revenue per car, as well as the compact A- and B-Class models in Germany. In the first five months of the year, Mercedes-Benz sales slipped 22% to 383,000 vehicles.

Audi, the premium division of Volkswagen AG, Europe's largest auto maker by sales, posted sales of about 82,800 cars in May, down 6%. The company, based in Ingolstadt, Germany, has sold about 374,750 cars year to date, a decline of 12%.

Audi has suffered less than its German peers from the dramatic downturn in the auto industry, thanks partly to its large presence

in China and its relatively small exposure to the sharply contracting U.S. market. The U.S. is BMW's largest single market and the second-largest for Mercedes-Benz.

In China, Audi's sales in May soared 28% to 12,435 cars, with sales in the first five months rising 6.8% to 53,601. China, a rare bright spot in the current industry gloom, is Audi's second-largest market after Germany.

"Demand for our A3, A4 and A5 core models is strong thanks to our range of efficient four- and six-cylinder engines," said the Audi executive-board member responsible for sales, Peter Schwarzenbauer, adding that the new Q5 SUV "is driving sales as well."



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## CORPORATE NEWS

# Apple lowers price on iPhone

Company to offer least-expensive model for \$99 in U.S. as it unveils new, faster version

BY BEN CHARNY

SAN FRANCISCO—Apple Inc. Monday introduced a new iPhone that will be available this month and dropped the price on its least expensive iPhone model to \$99, as it looks to maintain the momentum for its popular smart phone.

The news was revealed during a presentation by Apple executives at an annual conference for Apple software developers. Chief Executive Steve Jobs, who has been on a medical leave, didn't appear on stage.

The new iPhone 3G S, which resembles current models but is more powerful and can capture video, will be available on June 19 in the U.S., Apple said. A model with 16-gigabytes of storage will cost \$199 and a 32-gigabyte model will cost \$299, with a two-year service contract with AT&T Inc.

Apple said the U.S. price for the current eight-gigabyte iPhone 3G will drop to \$99, down from \$199.

The company also unveiled two new lower-priced laptop computers and dropped the sales tag on its next Macintosh operating system, addressing the issue of affordability that has been raised about its popular products amid a sharp global recession.

At the conference, Apple unveiled a new 15-inch MacBook Pro laptop with extended-life batteries that the company says can be recharged 1,000 times. The new machine, which



Phil Schiller shows the new iPhone 3G S Monday. Separately, Apple is dropping the price on its least expensive iPhone to \$99.

will have Apple's fastest processor ever, will sell for \$1,699 and is being shipped Monday.

The company also announced a 13-inch MacBook for \$1,199 and cut the price on its ultrathin MacBook Air to \$1,499. Both are about \$300

less than previous models.

Apple marketing chief Phil Schiller introduced the new products and pricing, which he dubbed "the most affordable line-up" Apple has ever had.

The Cupertino, Calif., consumer

electronics giant said its new operating system, Mac OS X Snow Leopard, will cost just \$29 for computer users, about \$100 less than the previous upgrade. Apple also announced a new version of its Web browser, known as Safari 4.

## Pre faces challenge of breaking iPhone's spell

BY AMOL SHARMA

As Sprint Nextel Corp. and Palm Inc. market their new Pre smartphone, one of their biggest challenges will be to break the spell Apple Inc.'s iPhone has cast on many consumers.

That task got even tougher Monday, as Apple announced a new version of the iPhone that will be available in the U.S. on June 19 and dropped the price of its least expensive model to \$99.

Sprint's early TV and print advertising for the Pre, which has gone into circulation in recent days, focuses on features that distinguish it from the iPhone, especially the ability to switch easily between multiple open applications and Web sites. On the iPhone, users must press the home button to switch between various screens.

A print ad calls the Pre "the multitasking, multi-updating, multi-awesome phone," and shows a sampling of various applications—Twitter, a calendar, a news Web site and some photos—that users could keep open and easily toggle between.

"There are multiple differentiators between the Pre and the iPhone, but this is definitely a key one," said Tracy Palmer, Sprint's director of advertising, in an interview ahead of Apple's announcement.

The Pre went on sale in the U.S. Saturday in Sprint stores and sold out in some locations. The company had limited inventory on hand, though it wouldn't provide exact numbers. Initial sales estimates by analysts suggested Sprint sold between 50,000 and 100,000 units

over the weekend.

The Pre sells for \$199, after a \$100 rebate and with a two-year Sprint contract. The new iPhone is being billed as "faster" than the current iPhone 3G, which will be priced down to \$99, a significant discount to the Pre.

In addition to the multitasking, Sprint is trying to highlight the "real time" nature of the device, how the data in various open applications keep getting updated. A TV spot for the Pre opens with a rock band playing in a music video. The camera zooms out to show the video embedded in a Facebook profile Web page. A status update is scrolling across the screen. Then the view backs up even further to show the Pre phone itself.

"For us, it's a demonstration that the Internet is alive," says Rich Silverstein, co-chairman of Omnicom Group's Goodby Silverstein & Partners, the San Francisco agency that created the campaign.

Avi Greengart, an analyst with Current Analysis, says Sprint would be smart to focus on the "information management" capabilities of the Pre—in particular, the "Synergy" function that automatically merges a user's various personal and professional contacts, calendars and social-networking accounts into one cen-

tral viewing point.

Even with those distinguishing features, it will still be difficult for the Pre to slow down the iPhone's momentum. The Pre will be far behind, at least initially, in the availability of small software applications, one of the key features of the iPhone and other popular smartphones, such as Research In Motion Inc.'s BlackBerry Storm and HTC's G1. Apple offers more than 50,000 "apps" and has made them a centerpiece of its advertising. "I do think the [number] of applications is going to be a factor" working against the Pre, says Mark Lowenstein, a wireless-industry consultant and former Verizon Wireless executive. Still, he says, overall the Pre gives Sprint a very good chance to court smartphone users.

Sprint is seeking to regain market share after losing millions of contract customers in the past few years and falling to a distant third behind industry-leading Verizon Wireless—a joint venture of Verizon Communications Inc. and Vodafone PLC—and AT&T Inc.

"You need some event or opportunity to go tell your story to consumers," says Kevin Packingham, who runs product development at Sprint. "The Pre is that opportunity."

Initially, Sprint's ads won't focus on the price advantage of its Pre service plans versus the iPhone. Sprint says Pre users could save \$600 a year on its unlimited voice and data plan versus a comparable iPhone plan from AT&T. That point will be weaved into the campaign later, assuming Apple and AT&T don't respond with revised pricing.

—Roger Cheng  
contributed to this article.



Rob Shepperson

## Ticketmaster takes the paper out of ticketing

BY ETHAN SMITH

Ticketmaster Entertainment Inc. may have figured out how to lock scalpers out of a major concert tour, and it plans to use singer Miley Cyrus as its guinea pig.

The centerpiece of the ticketing giant's antiscalping strategy is eliminating, well, the tickets.

Ms. Cyrus's 45-date outing this fall, for which seats went on sale Monday, will be the first major concert tour to rely exclusively on "paperless tickets," according to a news release announcing the tour.

The technology, which Ticketmaster tested last year, is meant to make seats impossible to sell or transfer because they can be redeemed only at the concert, using the credit card with which they were bought. The plan has scalpers and resale sites crying foul.

Tickets for the concerts by Ms. Cyrus, the star of Walt Disney Co.'s popular "Hannah Montana" TV series, will cost \$39.50 to \$79.50, plus fees. When purchasers arrive at the concert, their credit card will be swiped with a handheld scanner that will print out a "seat locator."

Ticketmaster also plans to offer prime seats as part of premium packages that include other perks. That will allow Ms. Cyrus and the company to capture revenue that normally flows to scalpers.

Most states have legalized scalping in recent years, and professional scalpers say they are just charging what the market will bear. They predict the new paperless tickets will cause problems ranging from bottlenecks at concert sites to personal-safety risks for Ms. Cyrus's fans and their parents.

Ms. Cyrus's previous tour, in 2007, became a flashpoint in the debate over ticket resales. The attorneys general of Arkansas and Missouri investigated whether scalpers had broken laws to acquire seats quickly, and the Kansas City Council held hearings. Ticketmaster alleged that many brokers had used special software that let them snap up tickets more quickly than normal fans, in violation of its terms of service.

This time, it appears unlikely that parents will have scalpers to blame if they can't get their children tickets. Unlike most tours, there have been almost no Miley Cyrus seats "prelisted" on resale sites like eBay Inc.'s StubHub in the days leading up to Monday's kickoff of sales.

StubHub spokesman Sean Pate says the company is looking for a way to resell the tickets, but adds that it won't be ready when tickets go on sale—if ever. "We're going to do our very best to create a marketplace for these events, if at all possible," Mr. Pate said in an interview. "[But] we will not have a solution built out by Monday."

Mr. Pate contends that the paperless arrangement will cause long lines at venues and force parents to accompany children who don't have their own credit cards.

Ticketmaster executives and spokesmen say they will have a dedicated staff of up to 10 people on hand at every venue to work out problems. The company posted a video on its Web site demonstrating how to buy and redeem paperless tickets. They add that the decision to go paperless was up to the tour's promoter, AEG Live, along with Ms. Cyrus and her manager, who works for Ticketmaster's artist-management division.

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## FOCUS ON AVIATION

# Wide passengers don't sit well with airlines

**More carriers require buying extra ticket; advocates' big idea**

BY SCOTT MCCARTNEY

The scales have tipped against oversize airline passengers, much to the glee of some frequent fliers.

As travelers complain over losing any of the scant 43 centimeters of

**THE  
MIDDLE  
SEAT**

width they get in many coach seats, airlines are increasingly trying to force "passengers of size" to buy extra seats when they fly. Earlier this year, UAL Corp.'s United Airlines joined Southwest Airlines Co. and several other carriers in implementing a formal policy to get obese customers into two seats instead of trying to shoehorn them into one.

"Airlines mandate that carry-ons have to fit certain sizes, so why not passengers?" says Willis Reed, a credit union vice president who was miserable on a US Airways Group Inc. flight when the passenger beside him didn't fit into his seat.

"I was just sitting there thinking, the company paid for me to sit here but what do I get?" Mr. Reed said. "Do I surcharge them for encroaching on my seat?"

With a population of expanding girth, frequent travelers and advocates for the obese would like to see airlines offer a few rows of wider coach seats and charge extra—just as they do with rows of expanded legroom.

Instead of six seats across a typical single-aisle plane, why not have four or five seats and charge 50% extra on a coach fare? That is still a lot less than first-class prices, and perhaps an effective way for airlines to meet a customer need while boosting revenue at the same time.

"We're willing to pay for what we are rightfully using," says Peggy Howell, spokeswoman for the National Association to Advance Fat Acceptance.

Buying two seats is a bad solution because of safety issues with seatbelts and comfort issues with arm-

rests that don't fully retract, she noted. Plus, most people don't need two full seats. "What we really need are seats half-again as wide," she said. "Legroom is fine for nice tall men but does nothing for fat passengers who are being imposed on right now."

United, which offers extra legroom in "Economy Plus" rows to frequent fliers and customers who pay extra, says it will review the wide-seat idea. The economics may be different from "Economy Plus" rows since seats might have to be custom-made, spokeswoman Robin Urbanski says.

JetBlue Airways, another airline that sells extra legroom to customers, says it hasn't considered selling extra-wide seats. JetBlue does note that its Airbus A320 aircraft have wider cabins than the comparably sized Boeing 737, and so seats are more than 46 centimeters wide, compared with 43 centimeters for Boeing 737 and 757 jets. "This is one of the reasons we chose the A320," a JetBlue spokesman said.

The tight squeeze of seats on Boeing single-aisle jets has been an issue for many years.

In the 1950s, Boeing and other aircraft makers began designing planes with 46-centimeter-wide seats—in 1954 designing the 707 airframe at 3.8 meters wide, needing the narrow body to give the plane the speed and range to fly coast-to-coast.

Boeing stuck with that layout for the 737 and 757 jets, despite complaints that coach seats were too narrow. The first 737s were originally designed for short trips, so tight seating was considered adequate. Later versions of the world's most popular commercial airplane had better wings and engines for longer range—and still the same 43-centimeter seats. There has been no accommodation since for widening passengers.

United said it received 700 complaints last year from customers who had to "share their seats with their neighbor," Ms. Urbanski said. With those complaints rising, the airline found eight other competitors had instituted "passenger of size" policies, and so United joined in.

If a passenger doesn't fit into the confines of his or her seat, United can force the oversize customer to leave the plane and wait for another flight with two empty seats side-by-side. If



Rob Shepperson

the traveler doesn't want to wait on the standby list for two empty seats, United will sell a second seat at the same ticket price the customer paid.

"In the past, we re-accommodated the customer in a seat with an empty seat beside it. But if there was no empty seat, in past we said, 'Sorry, if you've got to travel, have a nice flight,'" Ms. Urbanski said.

Southwest has had a similar policy since the 1980s, and has largely automated the process. "Customers of size," in Southwest parlance, can book two seats online by repeating the passenger's name with XS as a middle name for the second seat. At check-in, the customer gets a boarding pass, a Reserved Seat document to block other passengers from trying to take the extra seat during Southwest's open boarding process and a form to file for a refund if the plane doesn't oversell and the airline

doesn't have to bump passengers.

More than 97% of all customers who buy the second seat end up with refunds because flights didn't oversell, spokeswoman Beth Harbin said. Fewer than 1% of customers require a second seat, but complaints about passenger discomfort from encroaching seatmates have declined substantially in the last two years, she said.

Southwest's policy requires that armrests must be "comfortably lowered into position without trapping the passenger in the seat," which would be a safety hazard. There is some discretion for crew members, a spokeswoman says, in deciding whether to force a customer to purchase a second seat. Some airlines require an extra seat for passengers who can't buckle up without a seatbelt extender. Many say they handle this on a case-by-case basis. But even rules are strict, standards

aren't uniformly enforced.

In Canada, forcing one passenger to buy two seats is now illegal on domestic flights. Canada's Supreme Court ruled last fall that charging extra to someone who is "functionally disabled by obesity" was discriminatory.

Airlines' response to the ruling has sparked controversy. Canada's largest carriers, Air Canada and Westjet, decided in January to require a doctor's note, complete with derriere dimensions, to prove disability before a passenger is given a free second seat. The Canadian Medical Association has complained that the required form "shows a disregard for the use of scarce medical resources."

A spokesman for Air Canada says government regulations require doctor's certification of disability. The court ruling and ensuing transport policy don't force airlines to give obese customers free second seats just for comfort.

Rebecca Puhl, director of research at the Rudd Center for Food Policy & Obesity at Yale University, criticized United for its new policy, however, saying on the Rudd Center's Web site that the policy "stigmatizes a significant number of passengers because of their weight" and doesn't consider the "well-being" of those customers.

Some 34% of Americans now meet the criteria for obesity, Ms. Puhl says, and weight discrimination is prevalent. Obese workers face wage discrimination, for example, research has shown.

"People of all sizes have the right to travel in public transportation without discrimination," she wrote in response to United's policy change.

But frequent fliers say it is real estate, not discrimination, at issue—if they buy a seat, they want the whole seat.

"That is the absolute worst part of travel. The worst," said Cam Marston, a consultant based in Mobile, Ala. who says he is often on flights, especially on small regional jets, where he only gets about three-quarters of his seat because of large neighbors.

"If people are so large or overweight that they can't get the armrest down," Mr. Marston said, "then these people should be required to sit elsewhere, pay for an additional seat or pay me for the part of my seat they are spilling into."

## China considers merging airlines

BEIJING—The Chinese government is planning a share swap between China Eastern Airlines Corp. and Shanghai Airlines Co., paving the way for a merger between the two state-owned carriers, a person familiar with the situation said Monday.

The move signals that Beijing is

treating the turnaround of its state airlines as an urgent matter amid the global recession and marks a step toward China's long-term goal of creating a globally competitive aviation sector dominated by a few big carriers.

Under the proposed deal, Jinjiang International Holdings Co., which recently boosted its stake in Shanghai Airlines to 23.62% from 7.93% through a share placement, would transfer 17.05% of the airline's stock to China Eastern Air Holding Co., China Eastern's parent, said the person.

The size of China Eastern Air Holding's future stake in Shanghai Airlines hasn't been finalized, the person said.

Both Jinjiang International, Shanghai Airlines' second-largest shareholder, and China Eastern Air Holding are controlled by China's state asset regulator.

Media-relations executives from the airlines couldn't be reached for comment.

Talk of a merger between the two Shanghai-based carriers surfaced late

last year when airlines world-wide were struggling with sinking demand and high fuel costs. Chinese carriers also had made bets that turned sour on derivatives contracts to shield themselves against fuel-price swings.

"A merger can help boost the two carriers' business by eliminating price competition," said Zhang Qi, an analyst at Orient Securities.

According to Ma Xiaoli, an analyst at Citic Securities, a merger with Shanghai Airlines is likely to increase China Eastern's market share in Shanghai to 50% from 30% and make the airline more competitive against bigger rivals Air China Ltd. and China Southern Airlines Co.

China Eastern's first-quarter net profit fell 81% from a year earlier to 40.1 million yuan (\$5.9 million), while Shanghai Airlines' earnings decreased 29% to 26.27 million yuan. Both airlines have received capital injections from the government after posting big losses last year.

—Steven Yang, Jin Jing and P.R. Venkat

## Carriers forecast to lose about \$9 billion this year

BY P.R. VENKAT AND K.P. LEE

KUALA LUMPUR, Malaysia—Global airlines may post losses of \$9 billion in 2009 because of low demand and poor yields amid a global economic slump and the spread of the A/H1N1 flu virus, the International Air Transport Association said.

The forecast, presented by the body representing some 230 airlines world-wide, is almost double the \$4.7 billion loss estimated in March.

Asian-Pacific airlines are likely to be the worst performers this year and are expected to report losses of \$3.3 billion, followed by European carriers, which are forecast to post losses of \$1.8 billion.

The global financial crisis has badly affected the industry, which

posted a revised loss of \$10.4 billion last year, broader than a previous loss estimate of \$8.5 billion.

"Our industry is in survival mode," Giovanni Bisignani, IATA's director general, said at the group's annual meeting.

Mr. Bisignani said total revenue for the airline industry is likely to fall 15% to \$448 billion in 2009 from \$528 billion last year. The decline would be much wider than the 7% drop in revenue after the Sept. 11, 2001, terror attacks, he said.

Meanwhile, the cargo sector is showing signs of stabilization after falling 23% year-to-year in December, he said. IATA said air-cargo demand is likely to decline 17% in 2009.

Passenger demand is expected to contract 8% to 2.06 billion travelers from 2.24 billion.

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## CORPORATE NEWS



Former HBOS Chief Executive Andy Hornby, shown above in September, was forced to forgo his 2008 bonus amid public outcry over executive pay at U.K. banks.

## Alliance Boots hires former chief of HBOS

*Hornby, criticized for risky loans, becomes new CEO*

BY MARIETTA CAUCHI

Health-care company Alliance Boots PLC of Britain on Monday tapped former HBOS Chief Executive Andy Hornby as its new CEO.

Mr. Hornby was criticized for his tenure at HBOS, which teetered on the brink of collapse last year after the company made overly risky loans in the U.K. commercial-property sector. It was acquired by Lloyds TSB to form Lloyds Banking Group PLC.

Mr. Hornby was forced to forgo his 2008 bonus as HBOS CEO and saw his total pay cut 25% to £1.08 million (\$1.7 million) amid a public outcry over executive pay at U.K. banks that was viewed as excessive in light of government interventions and collapsing share prices.

Mr. Hornby has prior retail experience, including senior roles at Asda Group Ltd., the U.K. business

of Wal-Mart Stores Inc. He couldn't immediately be reached for comment.

Boots, which was created from the merger of U.K. health-and-beauty retailer Boots Group PLC and pan-European drugs distributor Alliance UniChem PLC in July 2006, didn't have a CEO until now. Mr. Hornby's appointment frees up Chairman Stefano Pessina, who owns Boots together with buyout firm Kohlberg Kravis Roberts & Co., to focus on the company's strategy and development.

KKR funded the £11.1 billion buyout—Europe's largest at the time—with £9.02 billion, capping the amount of debt banks were prepared to lend.

"Both KKR and I are very pleased that Andy is joining the Group," Mr. Pessina said. "We believe that his collaborative management approach aligns with our values, culture and team spirit."

Last month, Boots posted net profit of £101 million for the year ended March 31, up from £10 million a year earlier, lifted by a solid performance at its health-and-beauty division and acquisitions in Germany and France.

## Russia prepares to sell Telenor's stake in Vimpel

BY WILL BLAND

MOSCOW—Russia is ready to sell Telenor ASA's multibillion-dollar stake in Russian mobile operator OAO Vimpel Communications to repay damages owed.

Documents are prepared for the sale of the 15.3 million ordinary shares in VimpelCom that were frozen March 11 as collateral, Russia's Federal Bailiff Service said Monday.

A stake sale would alarm foreign investors who have been watching the case closely.

A Siberian court earlier this year ordered Telenor to pay \$1.7 billion in damages for allegedly obstructing Vimpelcom's expansion into Ukraine. Bailiffs later froze most of the Norwegian company's 29.9% stake in the Russian operator as collateral against the claim.

Telenor's stock closed down 3.4% to 51.30 kroner in Norway after the bailiff service's statement.

The telecommunications operator is appealing the Siberian ruling,

which it says is illegal. It claims the lawsuit is a pressure tactic in a long-running battle with Alfa Group, the Russian conglomerate that also owns a stake in VimpelCom.

Telenor is negotiating with Alfa Group to restructure their jointly held assets—stakes in VimpelCom and Ukrainian operator Kyivstar—and analysts said that the Siberian court ruling has weakened its position in the talks.

The original damages claim was brought by Farimex Products Inc., a small VimpelCom investor that Telenor says is acting on behalf of its co-investor Alfa. Farimex and Alfa both deny this.

Telenor's appeal against the damages award will resume Wednesday, and the company's regional head Jan Edvard Thygesen said he is confident that the claim will be overturned. It would be "outrageous if the bailiff's office should go ahead with a sale now," he said.

—Andrew Langley contributed to this article.

## Steiff's CEO is accused of rape

BY JOSEPH PEREIRA

A marketing official at the U.S. unit of Margarete Steiff GmbH accused Martin Frechen, chief executive of the German toy maker, of rape and making repeated unwanted sexual advances over several years.

In a civil lawsuit filed in New York state court Monday that also names Steiff as a defendant, Jane Collins, assistant U.S. marketing manager at the company's U.S. offices in Raynham, Mass., asked for \$80 million in compensatory, punitive and other damages.

Ms. Collins also named her boss, James Pitocco, CEO of Steiff's North American unit, as a defendant, alleging he failed to help her when she made him aware of the situation.

Michael Rosen, an attorney for Mr. Frechen, said the executive "believes the plaintiff's claims are entirely without merit. He intends to vigorously defend himself against these allegations, and he believes he'll ultimately prevail." Mr. Rosen declined to elaborate.

"Steiff North America Inc. is committed to providing a safe and comfortable working environment for all of its employees," said David Rosenthal, an attorney representing Steiff in the lawsuit. "It does not comment on pending litigation." However, he added, Steiff North America, Margarete Steiff and Mr. Pitocco "resolutely deny the allegations in Ms. Collins's complaint and will vigorously defend the claims made by her in court."

The lawsuit alleges that from the fall of 2004 to the winter of 2009, Mr. Frechen frequently asked Ms. Collins to have sex with him and manipulated

her assignments so he could create opportunities to sexually assault her.

Ms. Collins claims that the harassment went unchecked by the company even though she complained to Mr. Pitocco and other company officials.

In an interview with The Wall Street Journal, Ms. Collins, a 32-year-old mother of two, said she didn't go to the police about the alleged rape "because I was afraid I would lose my job if I did." She said she has continued to work at Steiff because she needs the job, and because it pays better than similar positions elsewhere.

Closely held Steiff, based in Giengen, Germany, makes an assortment of stuffed animals. It is best known for its high-end teddy bears. Older versions have become prized collectibles, commanding hefty prices.

According to Ms. Collins's complaint, the alleged incidents began in September 2004 around the time that Mr. Frechen, who had been head of Steiff's North American unit since 2002, was preparing to leave the company for a position with another firm in Germany. Mr. Frechen later returned to Steiff.

The complaint alleges that on Sept. 23, 2004 Mr. Frechen asked Ms. Collins at a corporate event in Plymouth, Mass., to help him retrieve something from his hotel room for a speech he was about to give. At the time Ms. Collins was his personal assistant. The complaint alleges that Mr. Frechen coaxed Ms. Collins to enter his hotel room and attempted to "engage in sexual contact with her." She "struggled to pull away" and left the room, the complaint adds.

Later in the evening, the lawsuit

alleges, Mr. Frechen approached Ms. Collins when she was with a colleague, and whispered that she should meet him behind a gas station later that night. The complaint doesn't identify the colleague.

In an interview, Tonya Lavigne, then a customer-service representative at Steiff, told the Journal she was the colleague referred to in the lawsuit. Ms. Lavigne, of Taunton, Mass., said she overheard Mr. Frechen's invitation. "Both Jane and I got weirded out by what he said," Ms. Lavigne said. "I was like 'what did he say?' I definitely took it as a sexual comment."

Ms. Lavigne said Ms. Collins grew visibly nervous when Mr. Frechen proposed the meeting, and that she accompanied Ms. Collins to her car in the parking lot to make sure she was safe.

The complaint alleges that about a week later Ms. Collins was asked to make payment arrangements for storing Mr. Frechen's wife's car at a Massachusetts facility. Mr. Frechen and Ms. Collins took the automobile to the facility where, according to the complaint, Mr. Frechen drove the vehicle into the storage unit "allegedly in order to test if the car would fit." Once inside, he closed the storage-unit door and forced her to have intercourse with him in the front passenger seat, the complaint alleges.

In the interview, Ms. Collins claimed that she wasn't able to escape. "He's six four and very strong, and I'm five seven," she said. The complaint alleges that during the assault, Ms. Collins repeatedly told Mr. Frechen to stop and he responded by saying that this would be their "last time together," and that "it is OK."

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## GLOBAL BUSINESS BRIEFS

### McDonald's Corp.

#### Sales increase 5.1%, led by demand outside the U.S.

McDonald's Corp.'s sales rose 5.1% last month as the fast-food chain continued to attract consumers amid the global economic downturn and rising unemployment. McDonald's global sales increase, at outlets open at least a year, was tempered by a 2.8% rise in the U.S. The company said gains were held back in comparison with last year's successful introduction of the Southern Style Chicken Biscuit and Sandwich, though this year's results were aided by the introduction of new McCafé beverages. McDonald's, based in Oak Brook, Ill., said last month that early coffee sales had exceeded expectations. McCafés are planned for Europe. Overseas increases outpaced gains of earlier this year, with sales in Europe rising 7.6%. U.S. growth was less than earlier in the year. Sales rose 6.4% in the Asia-Pacific, Mideast and Africa segment.

### OZ Minerals Ltd.

OZ Minerals Ltd. rejected a US\$1.22 billion recapitalization proposal, clearing the way for shareholders to vote Thursday on a China Minmetals Non-ferrous Metals Co. deal to purchase assets from the Australian miner. The Melbourne-based copper and gold miner rejected the recapitalization proposal made last week by RFC Corporate Finance and RBC Capital Markets, saying it "wasn't sufficiently certain" and doesn't have any prospect of becoming a superior proposal to the Minmetals deal. RFC Corporate, an Australian investment and advisory business, and RBC Capital, an investment-bank unit of Royal Bank of Canada, jointly proposed raising US\$1 billion in equity and convertible bonds and a further US\$220 million under a working-capital facility for OZ Minerals.

### Lloyds Banking Group PLC

After raising funds from a heavily discounted rights issue, Lloyds Banking Group PLC began repaying the U.K. government's financial support Monday. Shareholders bought 87% of the £4 billion (\$6.39 billion) of ordinary shares offered at 38.43 pence each in the initial offer. Later Monday, Lloyds said bookrunners had placed the remaining shares with investors at 60 pence each—a premium of 21.57 pence. Lloyds will use proceeds to redeem the government's preference shares. However, because the government owns 43.5% of the bank and used its right to buy £1.7 billion in ordinary shares, the actual repayment to the government will be about £2.3 billion. Replacing its preference shares will save Lloyds £480 million in annual interest to the government.

### GAZ Group

Administrators took control of British van maker LDV Group Ltd. on Monday and put more than 800 people out of work, hours after the company was placed under bankruptcy protection following the collapse of a rescue bid by a Malaysian company. Administrators from PriceWaterhouseCoopers said they were keeping a skeleton staff of 40 and hoped to find a way to keep the business going. LDV's Asian distributor, Weststar Group, had sought to take over LDV but that effort fell apart last week when the Malaysian company said it couldn't arrange financing. LDV, formerly Leyland DAF Vans, has been owned by Russia's OAO GAZ Group, controlled by billionaire Oleg Deripaska, since 2006.

### Barclays PLC

Barclays PLC said it is still in talks with U.S. investment firm BlackRock Inc., among other bidders, over the potential sale of its investment arm Barclays Global Investors. The U.K. bank said there was no certainty that it would find a different buyer for San Francisco-based iShares, which generates half the profits within BGI and which Barclays had agreed to sell to CVC Capital Partners for \$4.4 billion. Barclays has until June 19 to make a better deal under a "go shop" clause in the sale agreement. "The discussions are not yet concluded and there are a number of significant open issues which could affect the nature and terms of any transaction," Barclays said in a statement. Separately, BlackRock said there was no certainty of reaching a deal. Barclays would have to pay CVC Capital Partners \$175 million to break their sale agreement on iShares.

### Hitachi Ltd.

Hitachi Ltd. said it aims to increase the operating-profit margin of its information-technology and telecommunications business in the next two fiscal years. It plans to do this by strengthening its computer-system-integration and consulting services. Hitachi said it expected sales in the segment, excluding hard drives, to increase to two trillion yen (\$20.3 billion) in the fiscal year ending March 2012 from a projected 1.837 trillion yen this fiscal year. The Japanese firm said the economic woes will weigh on the division's profit. But efforts to expand its integration and outsourcing services will help, it said.

### Talbots Inc.

Talbots Inc. said it will sell virtually all of the J. Jill brand to private-equity firm Golden Gate Capital for about \$75 million, seven months after the apparel retailer announced it would shed the acquisition after paying \$517 million for it. Results at J. Jill, a women's casual-apparel retailer with 279 stores, have slumped since the Talbots takeover three years ago. Under the Golden Gate deal, which is expected to close within 60 days, J. Jill will continue to be led by current President Paula Bennett. The deal is the latest retail acquisition for Golden Gate, based in San Francisco. Its holdings include Express. Talbots, Hingham, Mass., is scheduled to release results Tuesday for its fiscal first quarter. The company is expected to report its fourth-straight quarterly loss.

### Air France-KLM SA

Air France-KLM SA passenger traffic fell 8.1% last month from a year earlier as it cut capacity 5.7%. The decline in traffic outpaced capacity cuts because there were more public holidays this May than a year earlier, the Franco-Dutch airline said. The carrier's load factor, which measures the proportion of seats an airline fills with paying passengers, dropped to 77.3% from 80.5% in April. Cargo traffic fell 1%, as the contribution of Martinair, which was consolidated Jan. 1, offset a steep decline in international freight volume. Stripping out the Martinair contribution, cargo traffic fell 18%. Air France-KLM said the data confirmed signs of stabilization in cargo activity in recent months as well as the carrier's ability to adjust capacity to demand.

—Compiled from staff and wire service reports.



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# Breaking the spiral: how to keep employees engaged during the economic downturn

Based on Hewitt's research, 31% of organisations reported a decrease in employee engagement – compared to just 15% in previous years

Employee engagement is dramatically endangered in an economic downturn - just when companies need their employees to be most productive. The good news is that this can be prevented. Rita Veres, who leads Hewitt Associates' engagement practice in Europe, assures business leaders that it is possible to break the spiral of falling motivation. Findings from Hewitt's latest research have confirmed some practical steps that Best Employers are already taking to improve engagement and regain employees' commitment and trust.

## THE RELATIONSHIP BETWEEN ENGAGEMENT AND BUSINESS SUCCESS

You may recognise the following bold words: 'Take everything and leave my 20 best people, and I'll build a successful business again.' In the context of today's economic climate, the CEO of one automotive company admits that he is struggling with this familiar illustration of the value of people. "I agree that people are the most important asset we have," he said, "but I'm wondering what we are supposed to do about this today. We have no choice but to focus on cost reduction and I'm afraid people don't feature in that equation."

He is not alone. While every business leader knows that engaged and committed employees drive performance, the enforced focus on cost reductions and recovery strategies often means that the workforce gets less direction and attention. These leaders must never allow themselves to forget that their businesses risk collapse if they lack engaged and committed employees, effective leadership and the culture to support a productive workforce. It is crucial to understand what drives employee engagement and performance in order to survive and prosper in turbulent times.

## THE DESTRUCTIVE EFFECT OF ANXIETY

Loss of confidence is a huge issue: in Central Eastern Europe 10% more employees said that they are worried about losing their job this year as well as observing, quite rightly, that finding a new job would be a challenge. Although this can increase short-term retention, trust and commitment are undermined. As anxious employees focus on securing their own future instead of the success of the organisation, their behaviour ceases to be productive.

## WHAT CAN COMPANIES DO TO ADDRESS THIS SITUATION?

A number of Best Employer organisations have demonstrated that it is possible to maintain or even improve engagement during turbulent times and workforce reductions. The trick is to take a positive approach to increasing trust and motivating people to help them build for the future.

## DELIVERING TOUGH MESSAGES

Leadership and communication are always important. During times of turmoil they are critical. Few of us like delivering tough messages and many leaders respond by communicating less, not wanting to spread the doom and gloom. This lack of communication increases employee anxiety and starts to undermine trust. People read the papers, they know it's tough and so they start to wonder, 'how bad is it if no-one's talking?' As employees look for direction, leaders must be able to communicate the reality of the business—however tough it may be—as well as recapturing employees' hearts and minds to inspire them to do something about it. People need information about the potential impact of the downturn on the organisation and what they can expect so that they can start to gain some clarity about the future. Consistency of message is essential, too. If leadership, HR and line managers are sending different messages, rumours start to spread and confusion sets in. Leaders must ensure that messages are cascaded efficiently to managers as well as demonstrating their own commitment to the organisation and its people.

They must also lead by example. Employees need to see their leaders in action: sharing plans, setting priorities, speaking the truth and making as many sacrifices as everybody else. It is important not to over-promise and to deliver on any promises made.

## FOCUS ON CRITICAL EMPLOYEE SEGMENTS

Whatever the economic climate, organisations always depend on their top talent. Amid the current uncertainty, companies must make sure that their very best people are motivated and focused on the things that matter. Employees who are responsive to the changing needs of the business must be rewarded and recognised. As their contribution to business success becomes more important than ever, these individuals must continue to feel valued.

## BEST EMPLOYERS IN CENTRAL EASTERN EUROPE 2008 / 2009

SMALL AND MEDIUM SCALE COMPANY CATEGORY			
RANK	COMPANY	COUNTRY	INDUSTRY
1	The Ritz-Carlton, Istanbul	Turkey	Hospitality
2	Abbott Slovak Republic	Slovakia	Innovation-driven health care
3	Quintiles Hungary	Hungary	Clinical research
4	Adobe Romania	Romania	IT
4	Syngenta Romania	Romania	Materials/ Chemicals
6	Miklos Radnoti Primary School	Hungary	Education
7	Wrigley Hungary Ltd.	Hungary	FMCG
8	EMC Computer Systems Poland	Poland	IT
9	Tuca Zbarcea & Asociatii	Romania	Legal Consultancy
10	ComAp	Czech Republic	Electro technical industry
11	Toyota Katowice	Poland	Motorisation
12	Starcom	Poland	Media and Advertising
13	Johnson & Johnson MD&D sector	Hungary	Healthcare
14	LLC "Mary Kay (Ukraine) Limited"	Ukraine	Direct Sales
15	EKOPLON	Poland	Production

LARGE SCALE COMPANY CATEGORY			
RANK	COMPANY	COUNTRY	INDUSTRY
1	Ceva Logistics	Turkey	Logistics
2	Avendi	Bulgaria	Marketing and Distribution of FMCG
2	McDonald's Russia	Russia	Food Service Retailer/ Quick Service Restaurants
4	Quintiles Poland	Poland	Clinical research
5	McDonald's Romania	Romania	Food Service Retailer/ Quick Service Restaurants
6	ZPC Mieszko	Poland	FMCG
7	Pramerica	Poland	Finance and Insurance
8	GlaxoSmithKline (Hungary)/ Pharma division	Hungary	Pharmaceuticals
9	MARS Sales	Hungary	FMCG
9	Mirgorod Plant of Mineral Water	Ukraine	Production of mineral waters
11	McDonald's Bulgaria	Bulgaria	Food Service Retailer/ Quick Service Restaurants
12	Microsoft Hungary	Hungary	IT
13	Mediaedge:cia Hungary	Hungary	Media
14	DHL Express Turkey	Turkey	Transportation and Logistics
15	Microsoft Russia	Russia	IT

## AND SPECIAL RECOGNITION GOES TO...

MICROSOFT, DHL, HILTI, GLAXOSMITHKLINE AND MCDONALD'S

This year five companies received special recognition for demonstrating excellence as Best Employers. These organisations entered the competition in at least three countries and achieved excellent results across the region. The most outstanding results were achieved by Microsoft. The company has been awarded regional Best Employer status for the third time, proving

that it is possible to sustain this standard of excellence. This year they entered the competition in seven countries and achieved Best Employer status in all of them. Keeping people at the top of the priority list is one of Microsoft's founding principles and is incorporated across every level of the organisation.

## CONTINUE TO MONITOR EMPLOYEES

While it may be tempting to cut budgets for employee research, companies need to continue to understand the changing employee perspective. Even if assessments are shorter and more focused, they offer another opportunity to connect with people, reinforce key messages and underline the importance of employees to the organisation. This will create value by driving performance and sustaining engagement.

## NO MIDDLE WAY

The writing is on the wall. Global research shows that engagement can and must be managed and organisations can break the demotivation spiral. But there is no middle way. Alongside the in-

creased percentage of companies that can manage employee motivation, the study also showed an increase in the percentage of companies where engagement and trust have broken down. Engagement remained stable for only 17% of companies. Businesses can make an impact on engagement, but only if they are prepared to fight for it. If they don't they can expect to lose the motivation of their people.

Best Employers are living proof that positive action can be taken to keep employees positive in turbulent times. They face the same external factors as other organisations. The difference lies in their sustained determination to focus on key human capital elements without losing sight of the main business goal. This is the secret to maintaining a good balance between short-term business pressure and long-term sustainable success.

## ECONOMIC DOWNTURN: RISKS VS BENEFITS

Smart companies realise that an economic downturn represents opportunities as well as threats. The true winners are those who both manage the risks and seize the benefits that can be gained from reducing costs and increasing efficiency. Some of the main risks and potential benefits highlighted in feedback from Hewitt clients are listed below:

### TOP RISKS

- reduced employee retention, increased turnover and loss of key talent
- the negative impact of falling morale on productivity and customer satisfaction
- a lack of flexibility preventing a swift response and ramping up when the economy turns around

### TOP OPPORTUNITIES

- a leaner, more efficient organisation (thanks to reduced costs, enhanced productivity and process improvements)
- the right workforce (thanks to elimination of poor performers and non-value added roles)
- a better engaged workforce (because employees are happy to have a job, no longer feel that this is their automatic right and show more company loyalty, leading to improved solidarity and teamwork)
- a stronger focus on the core business and strategic priorities
- the company remains competitive or even emerges as a stronger organisation after the downturn

## ABOUT THE HEWITT BEST EMPLOYERS STUDY

This extensive study was conducted by Hewitt Associates in 2008/09 in 11 Central Eastern European countries (Austria, Bulgaria, Czech Republic, Hungary, Slovakia, Slovenia, Turkey, Poland, Romania, Russia and Ukraine) to find out what drives employee motivation in the region. Almost 160,000 employees and 4,000 C-Suite leaders shared their points of view about their workplaces and HR professionals from 495 companies gave information on their current HR practices. Participation was free and voluntary. Any company which has been functioning for at least two years and employs more than 50 people could take part. All questionnaires were handled by Hewitt, maintaining confidentiality in data gathering and processing. In line with Hewitt Associates' international assessment standards, rankings for Best Employer are based on an objective evaluation of participating companies. Two-thirds of the score comes from the opinions of employees and the remaining third is determined by an alignment index based on a joint analysis of several factors: business strategies, HR strategies, knowledge of employee opinions, effectiveness of internal communication and synergy between particular systems and procedures. Hewitt announced Best Employers in two categories in line with the European Union's recommendation: small and medium scale companies; and large scale companies.



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## ECONOMY &amp; POLITICS

## Obama's speeches setting a high bar

Cairo address raises pressure to carry through on several initiatives; tensions with European leaders remain

BY JONATHAN WEISMAN  
AND LAURA MECKLER

WASHINGTON—U.S. President Barack Obama returned home from abroad Sunday to find that his own oratory laying out an ever-more-ambitious agenda, both in foreign and domestic policy, is ratcheting up demands for concrete achievements.

"Expectations are rising with every speech," said Shibley Telhami, Anwar Sadat professor for peace and development at the University of Maryland, who was consulted by White House aides on the president's speech to Muslims in Cairo on Thursday. "And the more issues you articulate, the more pressure you create to produce actual policies and achievements."

While the president is popular among many Europeans, he returned from his second trip to Europe with little more progress on key issues than he achieved during his first trip there in April, including over committing additional troops for Afghanistan and Pakistan.

White House officials have said the president's address to the Muslim world has been overwhelmingly positive—among Arabs and beyond. Mr. Telhami said Mr. Obama's evenhanded, tough assessment of the Israeli-Palestinian issue and his promises of progress have grabbed the region's attention and stimulated constructive debate.

But it also has raised the pressure on the administration to carry through, not only on peace initiatives but also on the withdrawal of combat troops from Iraq, the closure of the U.S. military prison at Guantanamo Bay, Cuba, and the enforcement of a ban on torture.

White House aides said they hoped Mr. Obama's Cairo speech would help decrease tensions with the region and win Arab government support for U.S. priorities, notably resolution of the Israeli-Pales-



Top, U.S. President Barack Obama at D-day ceremonies last week with, from left, Britain's Prince Charles, Canadian Prime Minister Stephen Harper, French President Nicolas Sarkozy and British Prime Minister Gordon Brown; bottom, Mr. Obama in Dresden with, from left, governor of Saxony Stanislaw Tillich, bishop Jochen Bohl and German Chancellor Angela Merkel.

tinian conflict. Mr. Obama wants Arab governments to help pressure Palestinians to reach a peace deal, a point he pressed in public and in private meetings with the president of Egypt and king of Saudi Arabia.

In the longer term, Mr. Obama hopes the speech could reduce some of the influence among Muslim youths of Islamic extremists, who use hatred of the U.S. as a recruiting tool, his aides said.

"We were able to reach the target audience we had wanted to reach, namely young Muslims in communi-

ties throughout the world, to get them to take another look at the United States," said Denis McDonough, deputy national-security adviser for strategic communications.

The president is facing a challenge to the key breakthrough from the April summit of the Group of 20 economic powers. Last week, Democratic House Speaker Nancy Pelosi was forced to pull a war-spending bill from the House floor over objections to a measure that would provide billions of dollars to the International Monetary Fund. The G-20 had pledged that assistance at the London summit.

A failure to secure the U.S. end of that promise would be a major embarrassment for Mr. Obama ahead of the Group of Eight summit July 8, said Mark Weisbrot, co-director of the Center for Economic and Policy Research and an opponent of the IMF funding.

In bilateral meetings in Europe, Mr. Obama and his French and German counterparts discussed issues from climate change to the financial crisis that could be a barometer of future U.S.-European cooperation.

The leaders appeared to enjoy consensus on the approach to Middle East peace talks, North Korea and

Iran. French President Nicolas Sarkozy said he had personally pressed the U.S.'s offer to work with Tehran on improving ties with the Iranian foreign secretary in "very frank and open terms," telling him it is important that he "take the hand outstretched by President Obama."

But at a joint news conference, Messrs. Sarkozy and Obama spoke openly about their disagreement over whether Turkey should be admitted to the European Union.

In Germany, tension was apparent regarding the nations' differing approaches to the economic crisis. "We also obviously debated the situation on world markets," Chancellor Angela Merkel said at a news conference. "We exchanged views on the different stimulus programs that we pursue in our countries."

She added that Germany is closely monitoring the president's push for legislation to address climate change.

The issue of what to do with detainees at Guantanamo also came up. The U.S. hopes European countries will take some of the detainees, but in Germany, Mr. Obama said of his counterpart: "We have not asked her for hard commitments, and she has not given us any hard commitments beyond having a serious discussion about are there ways that we can solve this problem."

Mr. Obama's July trip to Moscow also is expected to have major ramifications for a range of global issues. The White House has moved to damp tensions with Moscow by accelerating nuclear-disarmament talks with President Dmitry Medvedev's government and indicating that the U.S. could slow the deployment of a missile-defense shield in Europe. But it remains uncertain whether Mr. Obama's moves would result in greater cooperation from Russia on U.S. foreign-policy priorities, such as restraining Iran's and North Korea's nuclear programs.

—Jay Solomon  
contributed to this article.

## Some wins emerge in fight against Islamic extremism

BY GERALD F. SEIB

The struggle against Islamic extremism will be long and difficult, so it's a mistake to attach too much significance to one or two positive turns. Still, this is worth noting: Suddenly there is surprisingly good news for the U.S. on two different fronts in that struggle.

First, and most obviously, week-end elections in Lebanon delivered a blow to the Hezbollah Islamic movement. Hezbollah forces stood at the very doorway to political control of Lebanon until the country's voters Sunday turned them back and instead gave continued control of Parliament to a Western-leaning coalition.

That outcome does many good things all at once. It provides the perfect and immediate response to President Barack Obama's speech to the Islamic world last week urging the Islamic street to reject extremism; it vindicates the American decision to try to tip the balance toward the Western-leaning parties; and it

makes it easier for the U.S. to deal with Israel, which now will be slightly less nervous, and with Syria, which now is a chastened sponsor of Hezbollah.

At the same time, a few glimmers of hope are starting to emerge in the troubled country of Pakistan, the government of which is trying to contain the forces of both al Qaeda and the Taliban. A secretive campaign of air strikes by unmanned American Predators has made significant progress in knocking out al Qaeda leaders and bases, showing that President Asif Ali Zardari is cooperating with the U.S. by playing a tougher game against extremism than he is given credit for. For its part, the Pakistani army also finally seems to be embarking on a serious anti-Taliban campaign.

At the same time, in a vigilante movement worthy of an old Western movie, Pakistani tribesmen have begun to rise up to expel Taliban militants who are trying to take control of their towns and villages. Most recently, reports over the weekend said that residents of the Upper Dir district began taking up arms on

their own to drive out Taliban fighters, in reaction to a Taliban attack on a local mosque last Friday. Reports from the region say the local militia has pushed Taliban forces out of three villages and is moving on a couple of others.

After these positive turns in Lebanon and Pakistan, does one dare hope for the trifecta: a defeat of Iranian President Mahmoud Ahmadinejad in national elections in his country Friday? Certainly the aggressive campaign being waged in the closing days by his main rival, the more pragmatic Mir Hossein Mousavi, suggests a defeat of the ever bombastic, always erratic Mr. Ahmadinejad is at least possible.

Of course, before getting too carried away with these happy thoughts, it's necessary to pause and inject the necessary caveats. In Lebanon, Hezbollah still will be a powerful political force and actually may find it easier to operate in opposition. In Pakistan, the government hasn't yet shown it can hold onto areas from which the Taliban is driven. And in Iran, it would be a mistake to underestimate Mr. Ahmadinejad's populist

appeal, or to overestimate the moderate nature of the opposition.

Still, in each case, the trend lines are at least better than just a few weeks ago. And the most important effect of that may be psychological. One grave danger in the rise of Islamic extremists is the risk that people will conclude that the tide of history is with the radicals and against moderate forces willing to be aligned with the U.S. At that point, fearful governments, particularly in the Arab world, could decide they no longer can resist the tide and instead switch to accommodating it in hopes of simply surviving. At that point, the further rise of extremism might well become inevitable.

So every turn in favor of the forces of moderation helps head off that outcome. Certainly the Lebanese election, coming just three days after Mr. Obama's speech to the Islamic world, will be particularly welcomed in the White House. It's hard to know whether to draw any cause-and-effect relationship between the election results and Mr. Obama's appeal for reason and moderation, but certainly a Hezbollah

victory would have taken some wind out of the president's sails and had an adverse psychological impact.

Similarly, the rise of village-level anger in Pakistan suggests the Taliban isn't winning the battle for hearts and minds there. "The spontaneous movements against the Taliban are sort of sporadic, they're not extremely organized and they probably don't have the same level of expertise and equipment the Taliban has," says Shuja Nawaz, director of the South Asia Center at the Atlantic Council. "But they are a good sign."

Of course, the Pakistani government also is capable of losing the battle for hearts and minds if it doesn't take care of the tens of thousands of villagers being displaced by its offensive against the Taliban, notes Daniel Markey, a former U.S. State Department expert on Pakistan now at the Council on Foreign Relations. Still, Mr. Markey notes, the latest developments suggest "a broad Pakistani recognition that they've got a problem on their hands" that can't be avoided: "These are the kinds of things we would want to see."