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What's News

TNK-BP could name a new acting CEO this week, and an option under consideration is to appoint one of the oil venture's Russian billionaire shareholders to the position. **Page 7**

■ **British Airways** reported an annual loss amid weak demand and higher fuel costs. The U.K. flag carrier scrapped its dividend and didn't give a forecast. **Page 3**

■ **The SEC** imposed tough rules on securities trading by its staff following a probe into dealings of two veteran enforcement lawyers. **Page 22**

■ **Morgan Stanley** will raise base salaries for most top officers to compensate for limits on bonuses. **Page 20**

■ **Horst Köhler** won a second term as German president, in a boost for Merkel's hopes for a new government. **Page 2**

■ **Unemployment** in Russia reached its highest level this decade amid lower oil prices and the global crisis. **Page 2**

■ **GM** received \$4 billion in U.S. aid as part of its plan to pay suppliers and dealers before a June deadline. **Page 4**

■ **Auto lender GMAC** said it needs to cut \$1 billion in costs, or 20% of its expenses, by the end of the year. **Page 4**

■ **Segro** approached Brixton about buying the troubled U.K. property firm. **Page 5**

■ **Venezuela** will pay \$1.05 billion for the local unit of Spain's Banco Santander, in the latest nationalization by President Chávez. **Page 19**

■ **PetroChina** agreed to buy a \$1 billion stake in oil refiner Singapore Petroleum as China extends its reach in natural resources. **Page 25**

■ **The U.S. dollar's** retreat may broaden this week if the Fed increases its buying of Treasury securities. **Page 19**

■ **The U.S.** said the number of high-profile attacks in Iraq has declined this year. **Page 9**

■ **Pakistan's** army said it had made gains in the main Swat town, but Taliban are digging in for a long fight. **Page 11**

■ **The U.S.** concluded North Korean leader Kim Jong Il has initiated a political transition in which his brother-in-law and a son are key players. **Page 9**

■ **"The White Ribbon"** directed by Michael Haneke won the top prize at the Cannes Film Festival.

EDITORIAL & OPINION

Property games
The Olympic Committee ignores Russian violations in Sochi. **Page 15**

Breaking news at europe.WSJ.com

Brawl rocks Sikh temple in Vienna



MASS MELEE: Austrian police secure the area in Vienna-Rudolfsheim on Sunday. At least 16 worshippers were wounded when rival religious groups clashed at a prayer meeting, police said. **Page 2.**

Immigrant offspring quit France for home

By Sebastian Moffett

PARIS—Nawal El Kahlaoui grew up near Paris as the daughter of a mechanic who left Morocco to seek a better life in France. But after finishing her university studies here, Ms. Kahlaoui moved back to Morocco to find work.

"I love Morocco, as the country gave me a chance," says the 35-year-old retail consultant in Casablanca. "It's a land of opportunity."

A growing number of well-educated French people of immigrant backgrounds are returning to their parents' homelands. There are no official figures on the number of "returnees," and government officials, scholars and employ-

ment agencies say the number is small. Still, this gradual U-turn reflects a relative decline in the desirability of life in parts of Europe, compared with some developing countries.

Mass immigration to France started in the 1960s, as the economy grew strongly, creating jobs. In addition to migrants from southern Europe, workers came from France's former colonies, in particular Algeria, Morocco and Tunisia.

As France's economy slowed in subsequent decades, however, unemployment rose, and hasn't dipped below 7% for the past quarter of a century. In recent years, the jobless rate for immigrants has been

Please turn to page 31

EU's appetite for Russia gas seen waning

By Guy Chazan

The latest round of pipeline politics between Moscow and the European Union masks a new reality: Changes under way in Europe are likely to damp the Continent's appetite for Russian gas, weakening Russia's vaunted status as an energy superpower.

Russian and EU leaders met Friday in the eastern Russian city of Khabarovsk to heal a relationship badly damaged by the January cutoff of Russian gas that left thousands of people in Eastern Europe shivering in their homes.

The EU sought assurances this would never happen again. Russia refused to provide any. Instead, President Dmitry Medvedev said Moscow doubted that transit state Ukraine had enough money to pay for the gas Russia supplies, hinting at more disruptions.

But behind the bravado, Russia is worried. Europe's economic slowdown has led to a collapse in demand for natural gas, while January's crisis has triggered a new push by EU states to find alternatives to Russian imports. Added to that, many industry analysts are revising down their long-term projections for natural-gas use in Europe,

with far-reaching implications for Russia's resource-based economy.

"The days of high growth rates for European gas consumption are surely over," Bernhard Reutersberg, chief executive of German energy company E.ON Ruhrgas AG, told a conference in Berlin last week.

Such pronouncements strike a chill in the Kremlin. OAO Gazprom, the state-run gas export monopoly, is Russia's largest company and its export revenues account for about a tenth of gross domestic product. Over the past 10 years, it has become a symbol of Russia's growing self-confidence and international clout.

As oil and gas prices rose, Gazprom's ambitions grew. It talked of increasing its share of the European gas market from 25% to a third by 2015. Last summer, it said it would be the world's most valuable company by 2015, with a capitalization of \$1 trillion.

But as recession demolished Europe's appetite for gas, Gazprom's fortunes turned. IHS Global Insight says it expects gas demand in Europe to fall nearly 10% this year. Gazprom has responded by slashing production: Output fell 28% in April, to the lowest level in a decade. Gazprom's market cap is now

Please turn to page 31

Inside

Wealth

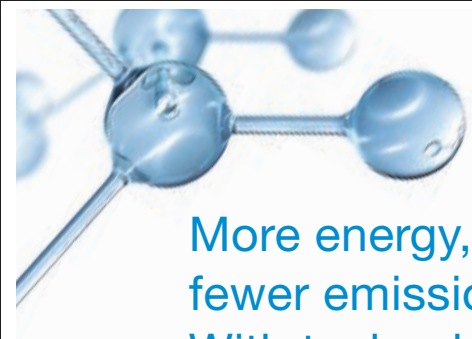


All in the family

Inside the offices that advise Europe's super-rich clans
Wealth Bulletin

Markets

	CLOSE	PCT CHG
DJIA	8277.32	-0.18
Nasdaq	1692.01	-0.19
DJ Stoxx 600	207.01	-0.27
FTSE 100	4365.29	+0.46
DAX	4918.75	+0.37
CAC 40	3227.97	+0.33
Euro	\$1.3993	+1.69
Nymex crude	\$61.67	+1.02



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LEADING THE NEWS

British Airways swings to loss on weak demand

Higher fuel costs add to pressures; slack market is seen

BY KAVERI NITHTHYANANTHAN

U.K. flag carrier British Airways PLC on Friday posted a full-year loss driven by weak demand and higher fuel costs, and Chief Executive Willie Walsh warned that he sees no signs the market is recovering.

The airline scrapped its dividend after reporting a loss of £375 million (\$596.5 million) for the 12 months ended March 31, compared with a profit of £712 million a year earlier. The loss came as passenger and cargo volumes slumped and fuel costs rose 45% to £3 billion.

The airline said it would cut

costs further and take an additional 4% of capacity out of the market this winter by grounding 16 planes. It expects to reduce fuel costs by £400 million.

"The prolonged nature of the global downturn makes this the harshest trading environment we have ever faced and, with no immediate improvement visible, market conditions remain challenging," Mr. Walsh said.

Mr. Walsh told reporters the airline wouldn't give a forecast because of market uncertainty. In early March, the airline said that it expected revenue to decline 5% in the year ending March 31, 2010.

The CEO said further job cuts should be expected. The airline,

which now employs about 40,000 people, has already shed 2,500 jobs since last summer and is offering all staff unpaid leave as well as some part-time work.

To help contain costs, Mr. Walsh and Finance Director Keith Williams said Friday that they will work for no pay in July.

"I want everyone seriously to consider these options. Personally, I don't want extra leave or to work part-time. But I certainly want to make a contribution in recognition of the extremely challenging position we face. This is no

stunt. I don't easily give up anything I have earned," said Mr. Walsh, who earns £735,000 a year. Mr. Williams is paid £440,000 a year.

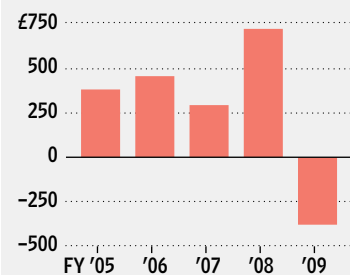
British Airways' expansion plans



Willie Walsh

Lower altitude

British Airways net profit/loss, in millions of British pounds



Note: For fiscal years ended March 31
Source: the company



also remain stalled. It said its merger talks with Spain's Iberia Líneas Aéreas de España SA, which have been in progress for almost a

year, will still take several months to conclude.

—Steve McGrath contributed to this article.

Versace board prepares for exit of chief executive

BY STACY MEICHTRY

ROME—Italian fashion house Gianni Versace SpA has called a board meeting for Monday, when directors will discuss the expected departure of its chief executive, according to people familiar with the matter.

Versace Chief Executive Giancarlo Di Rasio will discuss his intentions with the Versace family in the meeting in Milan and could formally tender his resignation in the days that follow, said people familiar with the matter. The board is also expected to review the findings of a restructuring plan drawn up by an external consultancy, they said.

According to people familiar with the matter, designer Donatella Versace, who owns 20% of the fashion house, will be joined at the meeting by her brother Santo Versace, who holds a 30% stake in the firm. Ms. Versace's 22-year-old daughter, Allegra Versace Beck, who holds a 50% stake, is studying for college exams in the U.S. and won't attend the meeting, one of the people familiar with the matter said. However, two legal representatives of Ms. Beck who sit on the Versace board will be present, the person said.

Challenges are acute for family-owned luxury-goods companies that lack the scale and financial muscle of publicly traded rivals to ride out the financial crisis. As profits slide, family owners have begun to question the strategies of executives who were hired to boost growth during healthier times for the luxury market.

Mr. Di Rasio and Ms. Versace have been at odds for months over what measures the Milan-based fashion house should adopt to navigate the global economic downturn, according to the people familiar with the matter. Mr. Di Rasio has pushed Ms. Versace to simplify her designs so the house can sell clothes and accessories at lower prices, one of the people familiar with the matter said. The two have also clashed over how to cut costs for some promotional events, the people said.

Two months ago, the company tapped consultancy Bain & Co. to draw up a restructuring plan for the house that will be presented to the board Monday, the people said. Bain didn't return phone calls seeking comment.

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You are what you eat. And for Etienne, haute cuisine is a case in point. As the restaurant director of the celebrated Reflets, he meticulously controls all aspects of the dining experience. Because only attention to detail guarantees the desired result. A meal fit for a king.

Etienne Haro is the restaurant director of Reflets par Pierre Gagnaire at the InterContinental Dubai Festival City.

CORPORATE NEWS

GM gets \$4 billion in U.S. aid

Funds are for dealers and suppliers; Canadian auto union agrees to wage concessions

BY SHARON TERLEP
AND NORIHIKO SHIROUZU

General Motors Corp. on Friday said it received \$4 billion in U.S. aid, \$1.4 billion more than it had originally requested, as part of its plan to pay suppliers and dealers before a June deadline.

The auto maker, already subsisting on \$15.4 billion in government loans, previously had asked the Treasury for an additional \$2.6 billion before June 1 and \$9 billion after that date for working-capital needs.

Separately, GM reached a tentative cost-cutting deal with the Canadian Auto Workers union Friday that, along with a similar agreement from GM's major U.S. union, paves the way for an expected bankruptcy filing as soon as next week.

The union deals, which must be ratified by workers, came amid signs of progress Friday on a sale of the auto maker's European operations. GM is unlikely to consider a Chinese auto maker's interest in its Opel unit because talks with others are well along, said a person familiar with the matter.

The auto maker is eager to wrap up cost cuts that would allow it to execute a quick bankruptcy restructuring. GM, in a statement, said the request reflects "updated timing of when certain expenses would be incurred" and not additional funding.



General Motors took more U.S. aid as it tackled labor-cost cutting and brand sales efforts in advance of a June deadline. Above, its Detroit headquarters last month.

The company's shares fell 26% in heavy volume Friday to \$1.43 in 4 p.m. composite trading on the New York Stock Exchange.

The labor agreements leave unsecured bondholders as the major impediment to any fast exit from bankruptcy. Bondholders have opposed a plan to pay them 10% of GM's equity.

In Friday's deal the CAW agreed to freeze wages, increase employees' share of medical costs and bar pension rises until 2015. Thursday, the United Auto Workers union

agreed to similar concessions for GM's U.S. workers.

CAW President Ken Lewenza said Friday that a bankruptcy filing by GM is now "very likely." GM still hopes for an out-of-court restructuring but wouldn't try to void the deal in bankruptcy court, Mr. Lewenza said.

The Canadian government followed President Barack Obama in shooting down an earlier round of concessions and demanding deeper cuts as a condition of its support. Mr. Lewenza said the government

agreed to the deal late Thursday. "The consequences of saying no would have been disastrous," Mr. Lewenza said. "Government support comes with a price. And, for us, that price is a growing list of demands."

Workers were expected to vote on the contract Sunday and Monday. Mr. Lewenza said the deal will save GM \$8,600 Canadian dollars (US\$7,555) per member over the life of the contract.

In another development, Ford Motor Co. said it would extend to June 26 the deadline for its hourly workers to accept buyouts. The deadline was Friday. The extension could be a sign Ford hasn't achieved a desired level of acceptances.

Separately, GM signaled it was unlikely to consider a Chinese auto maker's interest in Opel, according to a person familiar with the matter. A letter expressing interest in the operation was received Thursday. It didn't include a specific offer, that person said. He declined to identify the auto maker.

GM has bids from three parties and considers the process too far along to reopen, the person said. Italy's Fiat SpA submitted a formal offer for Opel and Vauxhall. It plans to integrate GM's European, Latin American and South African operations into a global alliance with its own auto unit and Chrysler.

Chrysler dealers are likely to face a difficult battle

BY ALEX P. KELLOGG

DETROIT—The move by Chrysler LLC to eliminate about a quarter of its dealerships through a bankruptcy-court filing is running into opposition from lawmakers and franchise owners, but the objections are unlikely to derail the company's efforts to put dealers out of business in the coming weeks.

A number of members of Congress voiced concern over the closures.

Wednesday, Sen. John D. Rockefeller IV (D., W. Va.), wrote to Chrysler, General Motors Corp. and the Treasury Department, saying the time frame for dealership closures in Chrysler's case is "egregious." Sen. Kay Bailey Hutchison (R., Texas), introduced a proposal Thursday to give dealers at least 60 days before they shut down, instead of the 30 or so planned by Chrysler.

As part of its reorganization in bankruptcy court, Chrysler last week named 789 dealers that it wants to drop from its network of about 3,200 stores. It told the court it wants those dealers to stop selling its cars and trucks by about June 9.

GM said it plans to get rid of roughly 1,100 dealers, a move that suggests the auto maker is likely to file for bankruptcy-court protection on or after June 1.

So far, two groups representing about 350 dealers have filed objections to Chrysler's move.

A Chrysler executive on Thursday defended the auto maker's decision, arguing that if the company didn't sell most of its assets to Fiat SpA as planned, all of its remaining dealers would go out of business. "The auto industry cannot support the number of dealers in the marketplace," said Steven J. Landry, Chrysler's marketing chief.

Legal experts said Chrysler dealers face an uphill battle because bankruptcy laws generally give courts wide latitude to tear up contracts such as dealer licenses. As a result, many dealers are choosing not to join the battle in bankruptcy court, concluding the legal costs would be high and the chances of winning slim.

"The dealers I've spoken to... don't think it's worth their time," said Scott Silverman of McCarter & English LLP in Boston. He had expected some dealers to hire him to fight for survival. But "the few dealers that we are working with right now aren't even sure they want to be saved," Mr. Silverman said.

Mr. Silverman and other attorneys working with dealers said many of their clients are focusing on landing other franchises or selling or making some other use of the land where their stores are located.

Bob Archer owns three Chrysler franchises in metropolitan Houston that are supposed to close, and his brother Jim Archer Jr. owns a fourth, which is also on the closures list. But while Bob Archer is among the dealers who are objecting to Chrysler's move, his brother has decided not to fight in court.

Jim Archer said that if the other dealers prevail in bankruptcy court, he would benefit even if he isn't actively involved. Jim Archer's dealership once employed 80 people, but now he is down to just four staffers, along with \$8 million in vehicles in his inventory.

Obama's fuel rules risk complicating rescues

BY NEIL KING JR.

WASHINGTON—The Obama administration's push to boost fuel-efficiency standards could complicate its bid to revive two of the country's largest auto makers, making the task both riskier and more costly.

Under a plan announced last week, the administration intends to impose rules mandating that U.S. car makers raise overall fuel economy to 35.5 miles per gallon (15 kilometers per liter) by 2016, up from about 25 mpg.

Pulling that off could be particularly hard for General Motors Corp. and Chrysler LLC, the two companies the administration is trying to save. Both have for years drawn most of their profits from large sport-utility vehicles and pickup trucks, while having less success marketing the sort of cars envisioned under the stricter efficiency rules.

In the short term, GM and Chrysler need to generate cash flow by building and selling many more of the comparatively fuel-thirsty vehicles—pickups such as the Chevrolet Silverado and Dodge Ram, and family haulers such as the Chrysler minivan and Chevrolet Traverse.

Meeting the administration's goals for more-efficient fleets will cost GM, Chrysler and other auto makers substantial sums.

GM warned last month in a government filing that the tightened standards—then meant to take effect in 2020, instead of 2016—could significantly disrupt its operations, leading it to cut sales of its more profitable models and ramp up production of hybrid and electric cars.

GM said in the same filing that complying with the new standards would cost the U.S. auto industry at least \$100 billion.

Obama aides say there is no con-

flict between the administration's dual role as both a major investor in GM and Chrysler, and a regulator of the industry.

Retooling to meet the new standards will be expensive, Obama aides acknowledge. The Energy Department plans to grant \$25 billion in loan guarantees to support more-efficient cars, including hybrids and electrics. The climate bill now in the House would double that amount to \$50 billion, a provision the White House supports.

The White House insists that the more-efficient technologies will add no more than \$1,300 to the price of a car by 2016. Analysts at the auto research firm Edmunds.com dispute that math, pointing out that within similar models today, an extra 10 miles per gallon in added mileage can add well over \$2,200 to the price.

The same analysts also pointed

out Thursday that a discrepancy exists between the fuel-efficiency numbers put out by the administration—known as the corporate average fuel economy, or CAFE—and the numbers issued by the Environmental Protection Agency. The difference could be confusing for consumers as they try to figure out whether new models meet the government's aspirations.

Under the CAFE numbers, car fleets are supposed to average 39 mpg in 2016. But that is comparable to 29 mpg under the EPA figures consumers will find on the stickers affixed to new models.

WSJ.com

Online today

Neil King discusses the Obama administration's competing efforts to both regulate and boost the auto industry, at

WSJ.com/Video

GMAC says it needs \$1 billion in cost cuts this year

BY APARAJITA SAHA-BUBNA
AND DAN FITZPATRICK

GMAC LLC has told employees it needs to cut \$1 billion in costs, or 20% of its expenses, by year's end, as the auto lender hopes a restructuring will get it through the crisis and return it to profitability, said people familiar with the matter.

Leading the effort is Christopher Marshall, brought in this past week as a senior adviser to GMAC Chief Executive Al de Molina. The 49-year-old Mr. Marshall is well-known on

Wall Street, most recently as a senior adviser with private-equity firm Blackstone Group.

The cost-cutting effort could fundamentally reshape Detroit-based GMAC, the lending affiliate of General Motors Corp., and test a culture heavily influenced by GM. Mr. Marshall is being asked to examine every part of the business, looking at possible structural changes and asset sales, as well as ways to make the lender more efficient. The effort to reduce expenses at GMAC follows a separate \$1 billion restructuring

last year of its mortgage unit, Residential Capital LLC.

GMAC converted to a bank holding company last year as it accepted federal bailout funds and recently announced a new name for its online bank, Ally Bank. GMAC suffered a net loss of \$675 million in the first quarter, widening from a \$589 million loss a year earlier.

The U.S. Treasury Department confirmed Thursday it will inject \$7.5 billion in GMAC, which needs to figure out by June 8 how it will fill an \$11.5 billion equity hole. The Treas-

ury investment includes \$4 billion earmarked for loans to Chrysler LLC dealers and consumers. The remaining \$3.5 billion will go to strength GMAC's capital position.

The Treasury also said it would swap \$884 million of its existing preferred-stock investment for common stock, giving the government a 35.4% equity stake in the lender. This stake could increase to more than half if GMAC, amid potential mounting losses and meager capital levels, was to convert the government's investments into common equity.

CORPORATE NEWS

Segro approaches Brixton over a buyout

U.K. property firm weighs move to buy smaller, ailing rival

BY ANITA LIKUS
AND JONATHAN BUCK

LONDON—U.K. industrial property developer and investor Segro PLC said it has made a preliminary approach to buy troubled Brixton PLC in a potential all-share deal.

Segro, which has a market capitalization of £1.47 billion (\$2.33 billion), said Friday that any offer would be in the form of its shares, but reserved the right to introduce other payment options.

Shares in the much-smaller Brixton have lost about four-fifths of their value over the past 12 months amid a selloff in the U.K. property market and concerns about its financing. Its shares soared 24% Friday to 61.75 pence.

Brixton said earlier Friday that it was in talks with a few parties that could lead to possible offers

for the company. It said the discussions were at an early stage and there could be no certainty that any offer would be made.

Selling the company might be the only option for Brixton's shareholders because it is expected to breach its debt covenants at the June 30 valuation unless it raises £250 million in new equity and sells

Selling the company might be the only option for Brixton's shareholders.

more assets. Debt covenants are terms written into bank documents specifying minimum levels of cash and interest coverage and maximum levels of debt and capital expenditure. A breach can constitute a default.

While the tie-up would make sense strategically, Segro doesn't have sufficient funds to deal with

the combined debt of both companies, industry experts said.

Segro's debt stood at £2.53 billion as of March 31, but the company said in April it had reduced it to £2.03 billion following a rights issue. Brixton reported £862.2 million of net debt as of the end of last year.

The companies' operations complement each other. Segro provides industrial space and offices across Europe, while Brixton focuses on industrial space and warehouses and operates only in the U.K.

Brixton owns nearly 1.8 million square meters of U.K. industrial and warehouse property. Of that amount, 72%, by value, is located around Heathrow Airport and the nearby Park Royal area, where land supply is constrained.

Brixton's wholly owned portfolio is valued at £1.6 billion and it has about £650 million of debt approaching maturity. Its most pressing repayments are a £275 million bond and a £370 million bank facility, which mature by the end of 2010.

The company sold four industrial units for £70.25 million earlier



Brixton PLC's double-decker X2 warehouse. The company owns nearly 1.8 million square meters of U.K. industrial and warehouse property.

this month at 19% below book value, but industry experts warned that the company would have to sell some prime properties to raise enough cash.

Brixton said its board continued to consider options to provide addi-

tional financial flexibility. Those options include a restructuring of the company's debt arrangements, a potential equity raising and further asset disposals.

—Ainsley Thomson
contributed to this article.

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CORPORATE NEWS

FedEx labor bill moves ahead

Measure would ease unionization effort; threat to plane orders

BY ALEX ROTH

The U.S. House of Representatives approved a bill that would make it easier to unionize FedEx Corp. workers, prompting the company to renew its threat to hold off buying billions of dollars of new planes if the bill becomes law.

Supporters of the bill, including the Teamsters and FedEx's biggest rival, United Parcel Service Inc., applauded Thursday's vote. But the measure faces a difficult climb in the Senate. A similar bill passed the House in 2007 but died in the Senate.

The vote represents the latest chapter in a battle over whether some 100,000 FedEx Express drivers and other employees should remain governed by the federal Railway Labor Act, written decades ago to limit strikes at railroads and airline companies. The House bill would remove the drivers from the jurisdiction of the Railway Labor Act and place the drivers under the National Labor Relations Act, which allows unions to organize companies on a location-by-location basis.

Unlike FedEx Express, UPS, which is unionized, is governed by the National Labor Relations Act. The reason is a quirk of history; FedEx was initially formed as an air-



U.S. lawmakers advanced a bill that would make it easier to unionize FedEx workers. Rosa Santiago sorts packages at a New York facility last December.

line and UPS was initially formed as a trucking company. Today, both companies operate their own airlines and fleet of trucks.

UPS argues that the current law places it at a competitive disadvantage. The current House bill was supported by the Teamsters and co-sponsored by House Transportation Committee Chairman James Oberstar, a union ally.

"Employees performing the same functions in the same jobs in the same industry but at different companies should be covered under the same labor law," said Malcolm Berkley, a spokesman for the Atlanta-based package delivery company.

In March, FedEx threatened to cancel as many as 30 new orders for Boeing Co. cargo planes if the bill becomes law.

FedEx spokesman Maury Lane on Thursday called the bill a "legislative bailout" for "profit-laden UPS." Mr. Lane also reiterated that if the bill becomes law, FedEx "will not purchase the additional 30 planes due to economic uncertainty that it could create in our business model."

The U.S. Senate has yet to introduce its own version of the bill. The provision concerning FedEx and UPS is part of a larger bill that would authorize \$70 billion for the Federal Aviation Administration over the next four years.

U.S. airline that trained pilots is accused of lapses

BY ANDY PASZTOR
AND SUSAN CAREY

An airline that has trained many of the U.S.'s commuter pilots—including the captain of the Continental Connection flight that crashed near Buffalo, N.Y., in February—faces a possible \$1.3 million government penalty for alleged crew scheduling and maintenance violations.

The Federal Aviation Administration accuses Gulfstream International Airlines Inc. of faulty record keeping and substandard aircraft maintenance. Congressional investigators, who conducted their own probe into the airline, allege the company falsified flight time records and forced crews to fly more hours than federal rules permit.

The carrier, and its affiliate, Gulfstream Training Academy, provided training and initial airline experience to Marvin Renslow, the captain of Continental Connection Flight 3407. Fifty people died in the Feb. 12 crash of the plane. The FAA has notified Gulfstream that it could face the penalty, giving Gulfstream 30 days to respond to the allegations, according to a filing Gulfstream made with the Securities and Exchange Commission earlier this month. After that period, the FAA will decide whether to assess the penalty.

Robert Brown, chief financial officer of Gulfstream International Group Inc., the parent company of both the airline and the training academy, said Thursday that the company intends to submit evidence refuting the alleged FAA infractions. He said the company would offer additional information to demonstrate that no violations occurred. Mr. Brown declined to comment further and referred questions to the company's chief executive, David Hackett, who didn't return calls.

Capt. Renslow had flunked a number of proficiency checks as a private pilot and while training at Gulfstream, and he failed at least one other flight test while he was at Colgan Air Inc., the airline that operated Flight 3407, according to the National Transportation Safety Board.

Investigators say all of the plane's systems appeared to have been functioning well and that the crash was the result of pilot error. They are examining whether Capt. Renslow was adequately trained on emergency equipment installed to protect against an aerodynamic stall on the Bombardier Q400 turboprop plane, according to testimony.

Pilots in the two previous fatal U.S. commuter crashes—both caused by pilot error—also spent time at either Gulfstream International Airlines or Gulfstream's training operations, according to reports by the NTSB.

The FAA said Gulfstream Academy relinquished its certificate as an FAA-approved flight training school May 12, the day the NTSB opened a public hearing on the Buffalo crash. Not having the certificate limits the type of training the academy can offer.

The proposed FAA penalty and other troubles confronting Gulfstream, of Fort Lauderdale, Fla., reflect broader concerns about the safety of commuter airlines, which account for 51% of all commercial U.S. flights. Gulfstream International's shares Thursday were up 2.1% to close at \$2.90 on the American Stock Exchange. The shares are up 93% for the year to date.

Major carriers increasingly rely on commuter airlines to ferry passengers to airline hubs from smaller cities. Regulators and federal safety experts are examining whether pilots at some of these commuter carriers receive sufficient training. They are scrutinizing whether independent training institutes such as Gulfstream Academy produce pilots with sufficient skill and experience to fly the growing number of turboprops and jets at these smaller airlines.

Some of the questions about Gulfstream go to the heart of another safety concern: pilot fatigue. Gulfstream, which primarily serves Florida and the Bahamas, and some routes through Cleveland, flies routes for Continental Airlines Inc., UAL Corp.'s United Airlines and Delta Air Lines Inc.'s Northwest Airlines unit.

According to congressional investigators, the FAA's probe of Gulfstream Airlines was touched off last summer by pilots who claimed they had been fired or threatened after they raised safety concerns about flight schedules that exceeded the maximum number of hours allowed by federal regulations.

Gulfstream could face a \$1.3 million penalty for alleged violations of U.S. rules.

Some pilots claimed they had been punished for refusing to fly substandard aircraft, including planes allegedly dispatched in stormy weather with inoperative systems such as weather radar, according to congressional investigators. The House Transportation and Infrastructure Committee, according to one of these investigators, began looking into the allegations after some of the pilots said their previous efforts to raise the issue with the FAA's office responsible for investigating so-called whistle-blower complaints had stalled.

House investigators interviewed witnesses, who claim that Gulfstream engaged in systematic falsification of records to cover up flight schedules that exceeded maximum hours allowed under federal rules.

One retired Gulfstream official, according to a House investigator, alleged that when pilots were asked to fly trips that they believed would put them in violation of federal rules, airline schedulers routinely used a second set of flight-schedule books to hide the excess flight hours. The House committee raised the issue with the FAA last summer in response to pilots' concerns that their allegations had not been properly vetted by the FAA, according to congressional investigators.

In response to questions from The Wall Street Journal on Thursday, the FAA said the alleged crew overscheduling stemmed from a failure to accurately transfer data from manually generated aircraft logbook records to an electronic record-keeping system. "The discrepancies resulted in scheduling crew members in excess of daily and weekly flight-time limitations," according to an FAA release. An agency spokeswoman said, "We didn't find any evidence of deliberate action" to falsify records.

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CORPORATE NEWS

Galaxy is hoarding its cash

Macau market share shrinks, but revenue rose 10% in quarter

BY JONATHAN CHENG
AND PETER STEIN

HONG KONG—Even as some of its high-profile rivals struggle, Galaxy Entertainment Group Ltd. executives believe the casino operator has the financial breathing space to wait out uncertainties in the Asian gambling capital of Macau.

In an interview, Galaxy Vice Chairman Francis Lui cited the Hong Kong-traded company's buyback of US\$223 million of debt at roughly 50 cents on the dollar, its cost-cutting efforts and its decision to slow construction of a new showpiece casino project.

Galaxy, the No. 4 gaming concern in Macau by market share, now sits on about HK\$5 billion, or US\$645 million, in cash.

"Before, it was about expanding at all costs, and that meant a lot of overinvesting," Mr. Lui said Friday. In 2004, Macau had 450 gaming tables, and at its peak last year that number had risen tenfold, he said. "The growth was not sustainable, and an adjustment should be expected," he said.

Two big stumbling blocks last year got in the way of Macau's growth. Mainland China tightened visa approvals, cutting into the territory's biggest source of traffic. Shortly afterward, the global financial crisis went into overdrive.

Las Vegas Sands Corp. shook up the market when it opened its massive Venetian Macao casino and resort two years ago, and it has since put the expansion of the resort on hold.



Galaxy's StarWorld Hotel and Casino holds a 13% share of Macau's gambling market. The company is Macau's No. 4 gaming concern in terms of market share.

Mr. Lui said he turned down pitches from bankers for aggressive expansion plans at the height of the boom and now says 2008's trouble may have been a "blessing in disguise," paving the way for more sustainable long-term growth in Macau.

Galaxy's main StarWorld Hotel and Casino has seen its share of Macau's gambling market shrink, Mr. Lui said, and it now stands at about 13%. But revenue is improving: The casino's take rose 10% to HK\$1.93 billion in the first quarter from a year earlier.

"We made a conscious decision to slow it down," said Robert Drake, Galaxy's chief financial officer. "We want to see the market absorb the new capacity, and to do it profitably."

Macau's gambling sector as a whole has done well this year on the stock market, but Galaxy has done even better, with its share price more than doubling this

year. On Friday, the shares fell 7.8% to close at HK\$2.25 amid profit-taking.

A big test for Macau's market comes next week, when Melco Crown Entertainment Ltd.—a joint venture of gambling heirs Lawrence Ho and James Packer—opens City of Dreams in Macau's Cotai area. City of Dreams, the only casino to open in Macau this year, sits across the street from Sands' Venetian Macao and near Galaxy's Cotai project.

Mr. Lui said his own Cotai project, the Galaxy Macau hotel-resort, could be ready to go late next year, but said Galaxy is prepared to put the project on hold if the market doesn't stage a full recovery.

"We're very fortunate to be in the cash position that we're in," Mr. Drake said. He said Galaxy has no immediate plans to seek financing, saying it is well-capitalized enough to weather the current storm.

TNK-BP CEO search intensifies

The search for a new chief executive for TNK-BP Ltd., BP PLC's Russian oil venture, is heating up and one of the possibilities under consideration would be to name one of TNK-BP's Russian billionaire shareholders as acting chief, according to people close to the company.

By Gregory L. White in Moscow
and Guy Chazan and Alexander Kolyandr in London

Under an agreement reached last year to resolve a bitter conflict at the 50-50 joint venture, the British giant and its Russian partners agreed to appoint an independent CEO to succeed Robert Dudley, a BP veteran who fled Russia under pressure last summer. But the search took longer than expected after talks with the preferred candidate broke down over compensation. In the interim, Tim Summers, a former BP executive who had been chief operating officer at TNK-BP, was serving as acting CEO.

But Mr. Summers' current contract expires June 1 and both BP and the Russian shareholders have said they want a permanent executive in place as soon as possible. A decision could come as early as this week, people close to the company said.

"A company of this size can't continue to function without an inde-

pendent CEO," said a person close to the Russian shareholders. "We're six months into this temporary arrangement and there's no light at the end of the tunnel."

People close to both sides said the discussions are cooperative, without any sign of the tensions that marred the relationship between BP and its Russian partners during the conflict last year.

If BP and its Russian partners can't agree on a new CEO soon, they are considering extending Mr. Summers as acting CEO or possibly appointing another top executive at

Under the TNK-BP agreement, BP nominates CEO candidates.

the company as acting CEO, people close to both sides said. A potential candidate is Viktor Vekselberg, who now heads TNK-BP's natural-gas business and owns the Renova industrial group. Along with Mikhail Fridman of the Alfa Group and Len Blavatnik of Access Industries, Mr. Vekselberg is one of TNK-BP's Russian shareholders.

Mr. Vekselberg couldn't be

reached for comment Sunday.

"If he's just going to be an interim CEO, we don't mind," said a person close to BP. "But it's not our preferred solution." Last year, BP officials had criticized the management roles of Mr. Vekselberg and German Khan, another Russian shareholder, saying they undermined governance at TNK-BP.

"Maybe this will accelerate BP's search," said the person close to the Russian shareholders, of the possibility of Mr. Vekselberg's appointment. "It's only reasonable for the other shareholder to appoint their representative for the next three to six months while we complete the search."

Under the terms of the TNK-BP shareholder agreement, BP nominates CEO candidates, subject to approval by both shareholders. A person close to the British company said that after months of making little progress on the search, BP has proposed a new candidate this week. He is Pavel Skitovich, formerly CEO of Russian gold miner OAO Polyus Gold and a longtime executive at the Interros industrial group in Russia. He couldn't be reached for comment late Sunday. A person close to the Russian shareholders said they were still studying his candidacy.

GLOBAL BUSINESS BRIEFS

GAO Mobile TeleSystems

Operator reports a loss amid ruble's depreciation

GAO Mobile TeleSystems, Russia's most widely used mobile operator, Friday reported its first quarterly loss as a publicly listed company after depreciation of the ruble reduced revenue, which is reported in dollars, and raised the book value of its debt. The operator, which has 93 million subscribers, reported a net loss of \$57.7 million for the first quarter, compared with a net profit of \$610.2 million a year earlier. The results were hit by a foreign-exchange loss of \$462.4 million reflecting the increase in the book value of foreign-denominated debt. Revenue fell 24% to \$1.81 billion, and rose only slightly in ruble terms, as the contraction of the Russian economy held back growth in phone traffic.

eBay Inc.

A British court on Friday ruled that eBay Inc. isn't liable for bogus beauty products sold on its Web site, dealing a blow to cosmetics company L'Oreal SA's campaign against the online auction giant. L'Oreal claims there is an increasing volume of counterfeit goods being sold on eBay. The online auctioneer said negotiations between the companies on the issue broke down because L'Oreal was being unreasonable. Justice Richard David Arnold ruled in London's High Court that eBay Europe wasn't liable for trademark infringements committed by its users. eBay said in a statement that the British ruling was "a victory for consumers and the thousands of entrepreneurs who sell legitimate goods on eBay every day." L'Oreal said it is satisfied with the U.K. judgment, noting the court agreed with its view that eBay could do more to prevent trademark infringement.

Vodafone Group PLC

Vodafone Group PLC has lost a U.K. tax-avoidance case in the Court of Appeal that could cost it as much as £2.2 billion (\$3.5 billion), although the company can still apply to the House of Lords to appeal the decision. The appeal, brought by Her Majesty's Revenue & Customs after Vodafone won a High Court ruling last July, relates to the payment of taxes on one of the company's Luxembourg subsidiaries. The ruling Friday means HMRC's inquiry into Vodafone's relevant tax returns can go ahead. In its most recent annual report, Vodafone said it had set aside about £2.2 billion for tax liabilities and interest that could arise from the case. This amount is expected to have increased slightly because of the interest payments. The company expects to appeal its case to the House of Lords.

Kirin Holdings Co.

Kirin Holdings Co. completed the acquisition of a 48.3% stake in San Miguel Corp.'s brewery business in the Philippines for 79.2 billion yen (\$835.3 million). The Japanese beer and soft-drink maker executed the acquisition in tranches over April and May. Kirin also completed the sale of all 19.9% of the outstanding shares it held in San Miguel Corp. to Q-Tech Alliance Holdings for 79.2 billion yen. San Miguel Brewery Inc. is the largest producer of beer in the Philippines, with a total market share of about 93%. Kirin also has the option of a six-month period of exclusive negotiation for San Miguel Corp.'s overseas beer business.

E*Trade Financial Corp.

E*Trade Financial Corp. once was an online broker with an affiliated bank. Now, at the request of U.S. banking regulators, the broker is becoming a subsidiary of the bank. The Office of Thrift Supervision has requested the change, which E*Trade said it is undertaking, in order for earnings from the brokerage unit to support E*Trade's bank unit. E*Trade disclosed the request on May 8, and ratings firms have recently mentioned it as a factor in downgrading the company's credit ratings. The New York company has set aside billions of dollars to offset losses from bad loans in its bank's mortgage portfolio. E*Trade applied for an \$800 million investment from the Treasury Department's Troubled Asset Relief Program, but has yet to receive approval. The OTS, E*Trade's primary banking regulator, also has told the company it needs to raise capital.

SK Telecom Co.

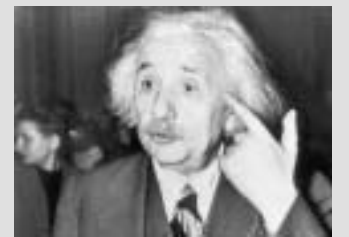
SK Telecom Co. said its board approved the purchase of a leased line business from an affiliate for 892.85 billion won (\$717.1 million) and the assumption of 627.8 billion won of debt. SK Telecom, South Korea's largest mobile-phone carrier, has for years leased SK Networks Co.'s lines, which connect switchboards to base stations, to ensure network capacity for its mobile-phone service. SK Telecom said it expects the purchase to slash that leased-line expense. The company said it has paid SK Networks about 300 billion won annually for the leased lines since 2002, accounting for roughly 71% of its total network rental cost. In a separate filing, the company also said its board has agreed to take part in the capital increase of SK Broadband Co., which is 43.4%-owned by SK Telecom, and approved subscribing to as much as 300 billion won of new shares of SK Broadband. SK Broadband said Thursday it will raise capital by issuing 60 million common shares via a rights offer.

—Compiled from staff
and wire service reports.

Science Journal

The physical mind

A researcher studies how Einstein's brain shaped his insights > Page 29



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ECONOMY & POLITICS

Ex-leader's death divides South Korea

Mourning gives way to political backlash as nation reacts to apparent suicide of former President Roh Moo-Hyun

BY EVAN RAMSTAD
AND SUNGHA PARK

SEOUL—Former South Korean President Roh Moo-hyun committed suicide on Saturday, sowing shock, sadness and anger among his supporters and the prospect of new political upheaval for his successor, President Lee Myung-bak.

Thousands of people visited a community center Sunday in Mr. Roh's hometown to lay flowers on an altar, a traditional Korean mourning practice. Similar altars were set up in train stations, temples and civic buildings around the country.

Mr. Roh, 62 years old, jumped from a 30-meter cliff near his home in Gimhae, along the country's south coast, early Saturday morning, police and aides said. In a note composed an hour earlier, he wrote of despair about the impact of an unfolding bribery investigation. Police said they determined there was no wrongdoing in the death.

Views on suicide are complex in South Korea, with some people considering it a shameful act and others a heroic one. And not all members of the public were ready to mourn Mr. Roh, because of the divisive way he practiced politics in a career spent challenging the country's political and business establishments.

"He never intended to be the president for all, so the reaction of the Korean people to his death is split," said Chae Su-chan, an economist and former lawmaker who advised Mr. Roh on U.S. relations. "It was his choice. It was his style."

The unique circumstances have produced a volatile moment for the nation. The immediate impact is likely to be a lashing out by Mr. Roh's political



Roh Moo-hyun



Mourners holding flowers wait Sunday to participate in a service for Roh Moo-hyun near the former South Korean president's house in Gimhae. Thousands of people came to pay their respects after his death on Saturday.

base—progressive-nationalist parties, politicians and supporters—at the bribery investigation.

Over the past two months, prosecutors examined \$6 million in payments to members of Mr. Roh's family by a businessman whose companies prospered during Mr. Roh's time in office. They questioned Mr. Roh on April 30, but hadn't charged him at the time of his death.

The investigation of Mr. Roh will now be closed, prosecutors said, but it was unclear what would happen with the rest of the case.

If the anger among Mr. Roh's supporters is handled poorly by Mr. Lee and the conservative party that now controls the South

Korean government, it could grow into broader protests and turmoil that would distract the country just as it is turning the corner on the global economic crisis.

"Politically, I think we're heading into a very sensitive time," says Eugene Yun, a private equity fund manager who was an adviser to Mr. Roh during his 2002 campaign. "President Lee has a very, very difficult situation to manage. It's going to test his political skills to the maximum."

Little of the political politesse that's common in other countries after the death of a leader was evident in South Korea this weekend. Supporters of Mr. Roh issued news releases denouncing Mr. Lee and prosecutors. Memorial sites were festooned with political banners and, at the main site in Gimhae, support-

ers turned away mourners they considered unfriendly.

The rebuffed visitors included the man Mr. Roh defeated to become president in 2002; the speaker of the National Assembly; and Prime Minister Han Seung-soo, South Korea's senior statesman who served presidents of both major parties.

Late Sunday, aides to Mr. Lee were trying to schedule a time for him to visit Mr. Roh's family, but none had been arranged. Mr. Roh's family agreed to a state-assisted public funeral, likely to occur on Friday.

"Unfortunately, I assume there will be huge protests by the end of the funeral period," said Kim Kijung, political scientist at Yonsei University in Seoul. "It will be another big incident to polarize the public."

Mr. Roh was a self-taught lawyer who built a reputation as a human-rights attorney defending student activists who fought for democracy in the 1980s. His election was seen as the ascendancy of a new generation, and he filled his administration with former activists.

Mr. Roh was the country's fourth president after the adoption of a democratic constitution in 1987. He presided over a period of strong growth, and extended his predecessor's efforts to reach out to North Korea, climaxing with a summit with leader Kim Jong Il.

Mr. Roh's death is likely to fuel long-term debate about three powerful institutions that he spent much of his life trying to reshape and that turned on him in the end of his career: South Korea's political parties, justice system and news media.

During his tenure as president from 2003 to 2008, Mr. Roh severed connections between the executive branch and prosecutors and gave judges more authority, though he stopped short of creating grand juries to check the power of prosecutors. He also tried but failed to break the cartel-like, uncompetitive behavior of news organizations and reporters.

As the bribery investigation unfolded, prosecutors leaked damaging details to reporters, virtually trying Mr. Roh in the media rather than in court, a practice that's become common in high-profile cases in the country.

Park Kyung-joo, a Seoul resident on her way to a memorial for Mr. Roh Sunday, said she barely trusted the justice system and resented the treatment Mr. Roh received in recent weeks. "When he was in office, I was sometimes disappointed at him," Ms. Park said. "But now I think there must have been a reason that he did things the way he did."

Myanmar charges Suu Kyi with violating house arrest

BY A WSJ STAFF REPORTER

Myanmar's military rulers on Friday alleged that the American man who illegally swam across a Yangon lake to visit pro-democracy leader Aung San Suu Kyi was working to embarrass the regime and undermine its relations with the West.

American Army veteran John Yettaw triggered a fresh trial for Ms. Suu Kyi this month after swimming to the house where Ms. Suu Kyi has been detained.

The court formally charged Ms. Suu Kyi and her two female housemates for violating her house arrest under a draconian security law.

"Are you guilty?" the presiding judge, U Thaung Nyunt, asked Ms. Suu Kyi on Friday.

"No, because I did not commit any crime," she replied, according to her lawyer Nyan Win.

The court is expected to hear from more prosecution witnesses on Monday, according to Reuters News Service. Ms. Suu Kyi's lawyers will also submit a list of defense witnesses for the trial, which the lawyers said could run two more weeks.

Mr. Yettaw also pleaded not guilty to breaking the same law, immigration violations and a charge of

illegal swimming.

A conviction could result in a five-year prison sentence for Ms. Suu Kyi, who won a Nobel Prize in 1991 for organizing peaceful resistance to Myanmar's military regime. She was placed under house arrest without trial six years ago.

For two days, Mr. Yettaw stayed at the house where Ms. Suu Kyi has been detained for years. Authorities fished him out of the lake as he tried to leave, and charged Ms. Suu Kyi with breaking the terms of her house arrest by allowing him to stay after he said he was exhausted.

Ms. Suu Kyi's lawyers and supporters say Mr. Yettaw wasn't invited and has caused the dissident more legal trouble just as her current period of house arrest is about to expire on May 27. Ms. Suu Kyi, 63 years old, and two assistants who legally reside with her went on trial Monday along with Mr. Yettaw.

The 53-year-old from Falcon, Mo., last week told the court he dreamed someone would try to kill Ms. Suu Kyi, and wanted to warn her.

The Myanmar junta offered a different explanation. The state-controlled New Light of Myanmar



American John Yettaw is shown being questioned at a police station in Yangon, Myanmar, in this handout photo from the Myanmar News Agency from May 13. Myanmar alleged Mr. Yettaw was working to embarrass the military regime.

newspaper on Friday reported that the country's foreign minister on May 18 told his Japanese counterpart to say that antigovernment activists inside and outside Myanmar had orchestrated Mr. Yettaw's nighttime swim to force a crackdown on Ms. Suu Kyi.

Myanmar's Foreign Minister U Nyan Win said major economies such as Japan, the U.S. and European Union had earlier been review-

ing their policies of isolating Myanmar. "It was likely this incident was trumped up to intensify international pressure on Myanmar by internal and external antigovernment elements who do not wish to see the positive changes in those countries' policies toward Myanmar," the New Light of Myanmar reported him as saying.

The paper reported that Japan's Foreign Minister Hirofumi Nakasone

called U Nyan Win to register his concern about the way Ms. Suu Kyi was being treated. A representative at the Japanese foreign ministry declined to comment on the conversation.

If Ms. Suu Kyi is found guilty, as some observers say they believe is likely, she would effectively be prevented from playing a role in elections the military plans for 2010.

—News services
contributed to this article.

ECONOMY & POLITICS

New Pyongyang power structure?

U.S. concludes Kim has set in motion a political transition

The Barack Obama administration has concluded that North Korean leader Kim Jong Il, still recovering from an August stroke, has initiated a political transition inside his reclusive state in which his brother-in-law and third son are emerging as major players in a newly assertive power structure.

By Jay Solomon,
Evan Ramstad
and Peter Spiegel

This political shift in Pyongyang, senior U.S. officials say, has contributed to North Korea practicing an increasingly aggressive foreign policy. North Korea withdrew from diplomacy aimed at ending its nuclear-weapons program shortly after Mr. Kim's believed stroke. And on April 5, the nation test-fired a three-stage rocket, underlining concerns that North Korea is trying to develop a ballistic missile that can carry nuclear warheads.

Leading U.S. officials are now publicly voicing their belief that Pyongyang will conduct its second nuclear test in the coming months.

U.S. officials say Washington hasn't faced such uncertainty in North Korea in 15 years, when Kim Jong Il succeeded his father following a fatal heart attack. But even then, Washington at least had a clear sense of the transition line as Kim Il Sung had clearly anointed his son. Today, say current and former U.S. officials, the exact succession line remains unclear and Pyongyang appears to be reverting to a hard line on national-security issues as the North Korean elite jockey for power.

"We don't know if it's a new leadership right now, but they're clearly looking at contingencies," said a top U.S. official working on North Korea. "It complicates how they view the world."

The Obama administration has been focused on the deteriorating security situation in Pakistan and Afghanistan since taking office, as well as on Iran's continued efforts to develop nuclear technologies. But the uncertainties about Pyongyang's political transition, U.S. officials say, are emerging as a significant concern.

So far, the Obama administration has responded cautiously to North Korea's moves on the nuclear issue and its test-launch last month of a multistage rocket, in part, because of concerns about Pyongyang's politi-



Kim Jong Il, center, visits a North Korean air force unit in a photo released by state media; at right, a picture thought to be of his son, Kim Jong Un, at the age of 11.

cal instability. Senior U.S. officials stress that they remain open to holding bilateral talks with North Korea. But they are also developing mechanisms to further undercut North Korea's economy, and particularly its weapons trade, if Mr. Kim doesn't come back to the negotiating table.

"It's very clear that the North Koreans want to pick a fight," said Gary Samore, President Obama's coordinator for weapons of mass destruction policy, this month. "They want to kill the six-party talks" focused on Pyongyang's nuclear program.

U.S. officials have been closely watching the unfolding drama in North Korea since Mr. Kim became sick in August, while also acknowledging their limited access to information about the secretive country. Secretary of State Hillary Clinton openly discussed the uncertainty about Mr. Kim's grip on power for the first time during a visit to Asia in February.

A big sign of change in North Korea came last month when Jang Seong Taek, the husband of Kim Jong Il's younger sister, took a position on North Korea's National Defense Commission.

The National Defense Commission, which Kim Jong Il chairs, is North Korea's most powerful institutional body and combines leaders from the military and the Korean Workers' Party. Now, Mr. Jang is seen as positioned to potentially take power himself if Mr. Kim's health fades in the near-term. Longer term, he could guide one of Mr. Kim's three sons to a position of supreme leadership. U.S. and South Korea officials increasingly describe Mr. Jang as a "regent" entrusted by Kim Jong Il to safeguard



his family's interests.

"Clearly he played a major role over the course of the last year or so during the health issue," said a senior U.S. defense official monitoring North Korea. "Kim Jong Il has never wanted someone to come to the fore previously."

Mr. Jang's growing power has surprised many North Korea analysts because of the up-and-down nature of his career. Mr. Jang met Kim Jong Il's sister, Kim Kyung Hee, at a Pyongyang university in the late 1960s but was subsequently banished to Moscow by North Korean leader Kim Il Sung. The elder Kim apparently opposed Mr. Jang's union with his daughter before consenting in 1972.

But since Kim Jong Il's return to public life after his stroke, Mr. Jang repeatedly has been seen standing at the dictator's side in photos and videos distributed by state media.

Mr. Jang's appearance "is a signal from Kim Jong Il that he has a plan for succession," said Dennis Wilder, who served as President George W. Bush's top Asia adviser until January. "Kim needs a regent to guide the process."

North Korean state media formally announced Mr. Jang's appointment. Pyongyang has denied Mr. Kim has experienced any health problems and said North Korea has been the victim of Western propaganda.

U.S. diplomats and intelligence officials also increasingly believe

Kim Jong Il's third son, Kim Jong Un, is emerging as a possible successor to his father. South Korean and Japanese media have widely reported the younger Kim has also been named to the National Defense Commission, though U.S. officials stress they haven't confirmed this.

Still, U.S. officials said they increasingly view Kim Jong Un as an important player in North Korea's power equation. The 26-year-old has emerged as a stronger contender than either of his brothers. Kim Jong Nam, Kim Jong Il's eldest son, was widely discredited in 2001 when he was detained in Japan for traveling on a forged Dominican Republic passport in a bid to visit Tokyo Disneyland. The middle son, Kim Young Chol, has been described as frail and unlikely to possess the stature to lead.

Kim Jong Il seems to view Kim Jong Un as the most like him in views and values, said the senior U.S. defense official. The younger son's mother, Ko Yong Hee, who died in a 2004 car crash, is also believed to be Kim Jong Il's favorite of his three wives.

Kim Jong Un fascinates North Korea analysts as he studied at an international school in Bern, Switzerland and is reported to be a fan of Western pop stars.

"Kim Jong Il was very insular, but now you have this fellow who's exposed to the West," said Victor Cha, a North Korea specialist who also served in the second Bush administration. "How could this impact North Korea? It's unknown."

Pyongyang's political transition has led North Korea to tighten its grip within the secretive nation, say U.S. officials. North Korean authorities detained and are trying two U.S. journalists on spy charges. North Korea also has expelled South Korean business executives from a jointly developed industrial park.

U.S. officials say they have maintained some low-level communication with North Korean diplomats through Pyongyang's United Nations mission in New York. But Mr. Obama's chief envoy on North Korea, Stephen Bosworth, has been rebuffed in his efforts to visit Pyongyang. And even diplomats from traditional North Korea allies, such as Russia, haven't been granted meetings with senior North Koreans in recent months.

U.S. and South Korean officials said it is possible North Korea may never agree to return to the international diplomatic process. One South Korean official said that if Pyongyang tests another missile, "the reaction would be strong enough to send lessons to the North."

As flu spreads, Japan is facing a mask shortage

By JURO OSAWA

TOKYO—Japanese makers of surgical masks say that despite increasing production, they can't keep up with demand amid the spread of the A/H1N1 flu virus.

Japan had confirmed 289 cases of the A/H1N1 flu as of Friday, according to the health ministry. Of those, 285 were in western Japan, where the country's first domestic infection was confirmed earlier this month. Tokyo found its first case of the flu Wednesday and now has three confirmed cases.

"We are receiving inquiries from municipal governments all over Japan, informing us of a mask shortage," said Ryosuke Ikemi, managing director at the Japan Hygiene Products Industry Association, a trade group.

The group said a production boost doesn't immediately increase supply, because it can take as many as 10 days for masks produced in China to arrive, clear customs and reach retailers.

No other countries have reported similar shortages. In the U.S., which has registered more than 5,700 cases of the flu, Minnesota-based 3M Co. has increased production of masks known as N95 respirators, said spokeswoman Jacqueline Berry. Stores may periodically run out, she said, but the masks are generally available.

The Centers for Disease Control and Prevention in the U.S. says evidence that masks control the spread of flu among people is "extremely limited." Still, the CDC suggests individuals consider wearing the masks in certain high-risk situations, such as caring for a family member with a respiratory infection in an area where the spread of the A/H1N1 flu has been confirmed.

The World Health Organization has said that other preventive measures may be more important than wearing a mask. These include refraining from touching the mouth and nose, frequently washing hands and avoiding crowds.

Surgical masks aren't an uncommon sight in Japan's cities, where commuters and office workers often wear masks during winter months and hay fever season in February and March. But May is usually a quiet month for makers and sellers of masks.

In the past few weeks, at **Matsutomotokiyoshi Holdings Co.**, Japan's biggest drug-store chain, mask sales have skyrocketed. A spokesman said the retailer built a system for stockpiling masks after the bird-flu outbreak in recent years, but it is struggling to catch up with the current surge in demand.

Seijo Corp., which operates 276 drug stores mainly in Tokyo and the surrounding region, said mask sales this month so far are 10 times the company's usual figures. One Seijo store in central Tokyo has limited purchases to two packages per customer since early May.

At mask maker **Uni-Charm Corp.**, which produces its masks in Japan, factories are operating around the clock. Uni-Charm shares have gained 8% since April 27, following the flu outbreak. **Chugai Pharmaceutical Co.**, which sells flu remedy **Tamiflu** in Japan, has jumped 10% over the same period. The **Nikkei 225 Stock Average**, meanwhile, added 5.9%.

—Jacob Goldstein in New York contributed to this article.

In Iraq, significant attacks are declining

By GINA CHON

BAGHDAD—Although a recent surge in violence has claimed the lives of almost 300 Iraqis in recent weeks, the U.S. military said on Sunday that the number of high-profile attacks has fallen more than 50% so far in May from April.

U.S. military spokesman Maj. Gen. David Perkins said there had been 13 significant attacks in Iraq this month as of Saturday compared with 28 during the whole of April. The number of mass casualties this month as of Saturday is down 58%

from the equivalent period last year.

Gen. Perkins also said that as U.S. combat forces prepare to withdraw from Iraqi cities by June 30, Iraqi and U.S. security forces are working to ensure the transition is as smooth as possible and to avoid a spike in violence.

In addition, the Iraqi government could ask the U.S. for assistance past the June 30 deadline in line with a security agreement signed last year, Gen. Perkins said. That means American forces could still patrol urban areas and have temporary lodging there if that

were deemed necessary.

Iraqi military spokesman Maj. Gen. Qasim Atta said there are clear signs that security is improving, including the planned opening of a main road from the Green Zone to the rest of Baghdad.

Citing a rocket attack in the heavily fortified Green Zone on Friday evening that killed at least one American contractor, Gen. Atta said that while insurgents and other violent groups aren't defeated, this time the Iraqi security forces were on the offensive instead of the defensive. The security forces' capabili-

ties have grown to the extent that they are pursuing insurgents in proactive operations instead of just reacting as they had in the past, he said.

Gen. Atta said that at the height of Iraq's violence, Baghdad suffered at least 400 violent incidents a week, but the number now has fallen to about 20 to 25 attacks a week. He also said that recent attacks aimed at reigniting sectarian violence have failed, and that there have been no retaliatory acts for bombings that targeted Shiite populations in recent weeks.

ECONOMY & POLITICS

Lebanese election draws American visitors

U.S. seeks to counter Hezbollah's influence through June 7 polls

BY CHIP CUMMINS
AND NADA RAAD

BEIRUT—U.S. Vice President Joe Biden visited Lebanon Friday in the home stretch of a political campaign pitting a Western-backed coalition against a bloc led by Hezbollah.

Mr. Biden's trip follows last month's stopover by Secretary of State Hillary Clinton. The visit underscores the regional stakes in Lebanon's parliamentary elections scheduled for June 7.

The vote, to determine who has the upper hand in forming the next

government, is the first election since a Qatari-brokered deal last year ended a political stalemate between the two sides. The race is expected to come down to a handful of battleground districts.

A strong showing by Hezbollah and its allies could be interpreted across the region as further encroachment by Iran and its proxies. Israel and many Western-allied Arab states have grown increasingly concerned about Tehran's influence.

"We are part of the big game," says Boutros Harb, a member of parliament for the West-leaning bloc. Mr. Harb is seeking to keep his seat in the closely fought Christian district of Batroun, a Beirut suburb.



Joseph Biden

Hezbollah, a Shiite political and military group backed by Iran and Syria, accused Washington of interfering. "The U.S. high interest in Lebanon triggers strong doubts over the reasons behind it," the group said in a statement Friday. The two high-ranking visits "constitute explicit meddling in Lebanese affairs."

Mr. Biden said he didn't come to take sides. But after meeting with President Michel Suleiman, he told reporters he would "urge those who think about standing with the spoilers of peace not to miss this opportunity to walk away from the spoilers."

In May 2008, Hezbollah's militia briefly seized swaths of Beirut, during the final throes of an 18-month

political stalemate between Lebanon's Western-leaning government and an opposition umbrella spearheaded by Hezbollah. The muscle-flexing forced the government into a series of political concessions, including granting the opposition veto power.

Lebanon's 128 parliamentary seats—which are all up for election in June—and its top government posts are allocated along sectarian lines. That limits the power of any one group, including Hezbollah and its allies, no matter who wins next month. Big decisions must be made by consensus. Lebanon's president, Mr. Suleiman, is a popular former army commander largely seen as independent.

Still, any gains by Hezbollah, which Washington and Israel designate a terrorist group, could cause

regional concern. They could also jeopardize U.S. assistance to Lebanon.

Washington has doled out significant aid in recent years, including hundreds of millions of dollars in security-related assistance. Mr. Biden said Friday that future U.S. aid to Lebanon will be based on the policies of the new government.

Sunni districts are largely expected to vote for the pro-West bloc, called the March 14 movement. Shiite districts are expected to vote for Hezbollah or its allies. The March 14 movement holds 70 seats in Parliament. The opposition has 58; of those, 14 are Hezbollah.

Hezbollah and its partners appear to have all but locked up the vote in southern Lebanon. The group's yellow flags and campaign posters plaster the region's roads and towns.

That has meant much of the campaigning is aimed at Christian districts, such as Batroun, an affluent, hilly enclave of apartment buildings. The district has two seats, both of which must be held by Maronite Christians, who make up 70% of the district's 58,000 registered voters.

Mr. Harb says he thinks he is ahead, but acknowledges it's a close race with his opponent—Lebanon's telecommunications minister and a political ally of Hezbollah.

"We accept the possibility" of defeat, he says.

Independent polls are rare here, making it difficult to gauge voter sentiment. Complicating matters, voting across Lebanon often hinges more on clan and family loyalties than campaign issues or candidates' positions. That means districts can become divided early on, analysts say.

Swing voters can represent as little as 8% of most districts' electorate "because we have a lot of extremists," says Rabih Haber, a political pollster who does work for the March 14 movement.

"It's a very close race," he says. Lebanon has long served as a proxy battleground for bigger regional players, who have for decades pumped in cash, guns and fighters. In the current election, both sides have accused the other of using funding from overseas to finance campaigns.

In Kfar Kila, a Hezbollah stronghold along the Israeli border in the south, a large Iranian flag flutters above a plaque thanking Tehran for funding a newly paved road.

—Mohammed Aly Sergie
in Riyadh contributed
to this article.

“We do no market research. We just want to make great products.”

— STEVE JOBS, CEO & CO-FOUNDER, APPLE
as quoted in FORTUNE's 3.17.08 issue



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Mixed ballot

Lebanon allots parliamentary seats by sect. The breakdown:



Source: Lebanon Ministry of the Interior