Best on the Street: In a grisly market, top analysts knew when to be bears

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.

What's News

Investors are coming to the rescue of cash-strapped companies in Europe, piling into even risky bonds at a time when banks fear to lend. They have snapped up $268 billion in corporate bonds this year, the highest level since at least 1995. Page 25

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Toxic rescues
The intransparent government plans to fix the banks won't work. Page 16

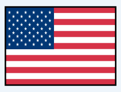
Breaking news at europe.WSJ.com

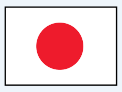
Reuters

▲ South Korean protesters during an anti-North Korea rally in Seoul on Monday.

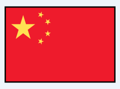
The world reacts

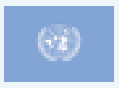

SOUTH KOREA
"Intolerable provocative act"


U.S.
"Matter of grave concern"


JAPAN
Vows "stern action"


U.K.
"Danger to the world"


CHINA
"Resolutely opposed"


UN
"Deeply worried"

Nuclear test sparks anger at Pyongyang

By Evan Ramstad, Jay Solomon and Peter Spiegel

North Korea declared it tested its most powerful nuclear explosive yet Monday, challenging international efforts through sanctions and diplomatic outreach to force the closure of a weapons program that appears to be growing as a security threat.

The country also tested three short-range missiles, including one from the same site from which it fired a long-range missile over Japan and into the Pacific Ocean in early April.

The United Nations Security Council called a meeting in New York Monday afternoon to discuss a response to the tests. U.S. officials say it is unlikely China and Russia would agree to the types of expansive sanctions that could destabilize the regime of North Korean leader Kim Jong Il.

But the declaration of tests and recent North Korean statements showed that recent diplomatic overtures by the Obama administration to Pyongyang have also failed to subdue the regime.

Leaders of countries including the U.S., the U.K., China, Russia, Japan and South Korea, denounced North Korea's actions.

"North Korea's nuclear and ballistic-missile programs pose a great threat to the peace and security of the world, and I strongly condemn

Please turn to page 39

Deripaska nears deal to retain his empire

By Gregory L. White

MOSCOW—Embattled Russian tycoon Oleg Deripaska is close to agreements to restructure his companies' multibillion-dollar debts that should allow his empire to survive without losing control of its major assets, a top lieutenant said in an interview.

"We're now in the position where, except for a few difficult situations, we think the businesses will make it," Olga Zinovieva, first deputy chief executive of Mr. Deripaska's Basic Element holding company said. "The acute phase is past, and if we sign binding documents with creditors, the situation will be normalized and the businesses will get through it calmly."

Mr. Deripaska, once one of Russia's wealthiest men, was also one of its most aggressive businessmen. He borrowed heavily over the past few years from Russian and foreign banks to expand his empire, which ranges from metals to manufacturing, construction and finance. When the financial crisis hit last fall, he was among the first Russian tycoons to be forced to cede assets to creditors and sought a $4.5 billion bailout loan from the Kremlin. Many bankers and businessmen expected him to lose control of large swathes of his empire, whose companies had debts exceeding $20 billion.

For the Kremlin and many of his Western creditors, Mr. Deripaska has turned out to be too big to fail, according to people close to his debt-restructuring discussions. His companies account for just under 2% of Russia's gross domestic product and employ hundreds of thousands inside Russia, where unemployment is surging. Government officials so far have been reluctant to nationalize major com-

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Tarnished results

■ Norilsk Nickel posts first net loss as a public company 3

Gates warns on Afghan war

By Yochi J. Dreazen And August Cole

American public support for the Afghan war will dissipate in less than a year unless the Obama administration achieves "a perceptible shift in momentum," Defense Secretary Robert Gates said in an interview.

Mr. Gates said the momentum in Afghanistan is with the Taliban, who are inflicting heavy U.S. casualties and hold de facto control of broad swaths of the country.

The defense chief has been moving aggressively to salvage the war in Afghanistan, signing off on the deployments of 21,000 American military personnel as reinforcements and recently taking the unprecedented step of firing the four-star general who commanded all U.S. forces there.

Mr. Gates, speaking in his cabin on an Air Force plane, said the administration is rapidly running out of time to turn around the war.

"People are willing to stay in the fight, I believe, if they think we're making headway," he said. "If they think we're stalemated and having our young men and women get killed, then patience is going to run out pretty fast....We need to see some shift in momentum."

Mr. Gates, a Bush administration holdover, also waded into the debate over the Guantanamo Bay prison and Bush-era antiterror tactics. He said critics of the Obama administration's plans to close Guantanamo and move some prisoners to the U.S. were guilty of "fear-mongering."

"If people begin to absorb the fact that we've got several dozen very dangerous terrorists in our jails right now... maybe a little greater perspective would be brought to the issue," he said.

Mr. Gates, a former director of the Central Intelligence

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Inside

Job fight

Locals, immigrants jockey for low-paying positions in U.S.
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8277.32	Closed
Nasdaq	1692.01	Closed
DJ Stoxx 600	207.36	+0.17
FTSE 100	4365.29	Closed
DAX	4918.45	-0.01
CAC 40	3236.16	+0.25
Euro	$1.4006	+0.09
Nymex crude	$61.67	Closed

LEADING THE NEWS

Decision is near on Opel

Germany is hoping to tap favored bidder by Wednesday night

The German government is hoping to name its preferred bidder for auto maker Adam Opel GmbH by Wednesday night, as it fights to separate Opel's fate from that of parent **General Motors** Corp.

*By **Marcus Walker** in Berlin and **John D. Stoll** in Detroit*

Chancellor Angela Merkel said Monday that decisions were needed by midweek to avoid Opel being caught up in possible GM insolvency proceedings in the U.S. The expected announcement of a favored bidder, following intensive talks at the chancellery with all interested parties Wednesday, would open the way for Germany's government to provide interim financing that would allow Opel to continue operating. Any sale of Opel isn't expected to be completed until late fall, although a contract could be signed this summer, people familiar with the matter said.

Canadian auto supplier **Magna International** Inc. is widely viewed as the front-runner, since several high-ranking German politicians as well as Opel labor leaders have expressed support in recent days for Magna's bid, which it submitted jointly with Russian state-controlled bank OAO **Sberbank**.


Angela Merkel

A rival bid from Italian car maker **Fiat** SpA has drawn skepticism from Opel workers and some German politicians, even though Fiat scaled down its job-cutting plans at the weekend. Saving Opel has become one of the top issues for German politicians, who are competing to present themselves as defenders of German jobs ahead of national elections in September.

Ms. Merkel discussed the bid in a meeting with Magna's management and with Russian Prime Minister Vladimir Putin during the weekend, and is scheduled to meet Fiat Chief Executive Sergio Marchionne on Tuesday, according to the chancellor's spokesman, Ulrich Wilhelm.

The outlook for a third bidder, investment firm **RHJ International** SA, dimmed Monday when Mr. Wilhelm said its proposals weren't as detailed as Magna's or Fiat's. RHJ, which is part-owned by U.S. financier Timothy Collins has met with German officials, but not with the chancellor, Mr. Wilhelm said.

Ukraine's economy contracts

Associated Press

Ukraine's economy may have contracted 23% in the first three months of this year, President Viktor Yushchenko said Monday, calling it one of the fastest-shrinking economies in Europe.

The economy has been devastated by falling demand for steel, its chief export, and by a currency and fiscal crisis that has led to a bailout by the International Monetary Fund.

The government of Mr. Yushchenko's rival, Prime Minister Yulia Tymoshenko, hasn't yet published official data on first-quarter economic output. Ms. Tymoshenko's office declined to comment on Mr. Yushchenko's figures, saying she was on a foreign trip. The Economy Ministry also declined to comment, saying its spokeswoman was out of town.

However, Anastasia Golovach, an economist with investment bank Renaissance Capital Ukraine, dismissed Mr. Yushchenko's forecast as overly optimistic. She said the economy is likely to have contracted up to 30%, given that industrial output fell 32% in the first quarter, output in the construction industry fell nearly 50%, the transport industry shrank about 25% and trade fell 17%.

The International Monetary Fund forecasts an 8% contraction of the economy this year, and inflation of 16.8%. Ukraine is relying on a $16.4 billion emergency loan from the IMF to help avoid a meltdown.

So far, Kiev has received less than half those funds, as Ukraine struggles to meet strict stabilization requirements that are a condition for the IMF loan.

Thai protest group votes to form political party

By James Hookway

PATHUM THANI, Thailand—Members of Thailand's yellow-shirt protest movement voted to form a political party, creating a potentially influential force as the country struggles to pull itself out of recession.

Tens of thousands of members of the People's Alliance for Democracy—a movement instrumental in bringing down two governments—converged on a sports stadium in this town near Bangkok on Monday and voted to transform the grass-roots campaign against corruption into a formal political party.

The apparently overwhelming assent—almost the entire stadium stood up to vote for the change—points to an expanded political role for the group's leaders after gaining global notoriety for shutting down Bangkok's international airports for a week last year.

The new party, which the PAD hasn't yet named, could further elevate publisher and broadcaster Sondhi Limthongkul, the 61-year-old driving force behind the movement.

The PAD's vote comes as the country grapples with its worst economic downturn in more than a decade. The state economic planning agency said GDP contracted 7.1% in the first three months of 2009 from a year earlier, the worst performance since the 1997-98 Asian financial crisis.

The government and economists say the economy is probably at or near the bottom. However, exports have been hammered by the global downturn, and tourism has slumped amid political unrest.

Many PAD supporters say the launch of a political party marks a fresh beginning for Thailand.

The country has oscillated between populist civilian leaders and military-appointed technocrats for decades. Vote-buying and corruption is widespread. As Thailand's export-dependent economy stumbles, a vocal portion of Thais are less willing to tolerate the status quo.

"We want to make a change starting now," said Thanakit Buranapawang, a 52-year-old businessman, at Monday's stadium vote. "It won't happen overnight, but the PAD is our best chance."

In the stadium, many supporters wore yellow shirts symbolizing the PAD movement.

The PAD transformed Thailand's political scene when it emerged in 2006. Galvanized by Mr. Sondhi's crusade against former Prime Minister Thaksin Shinawatra, the PAD coalesced around the publisher with a series of massive rallies.

The movement alleged that corruption in Mr. Thaksin's administration was rampant. In September 2006, Mr. Thaksin was ousted in a military coup and fled the country. He is now in self-imposed exile, avoiding imprisonment on a corruption conviction which he says was cooked up to justify the coup.

The PAD movement dwindled in 2007 but reconvened last year to push for more checks and balances in politics. It helped topple a government led by Somchai Wongsawat, Mr. Thaksin's brother-in-law, after months of protests, including taking over the airports, which stranded hundreds of thousands of travelers and tarnished Thailand's reputation as a holiday destination.

Shortly after, parliament elected Democrat Party leader Abhisit Vejjajiva prime minister after senior army generals helped put together a coalition government with lawmakers from Mr. Thaksin's old government. Prime Minister Abhisit told reporters in Bangkok Monday that he isn't concerned by PAD plans to contest seats in parliament. He said he didn't expect many Democrat legislators to shift to the new group. Parliamentary elections are likely in 2010.

Thitinan Pongsudhirak, a political-science professor at Bangkok's Chulalongkorn University, says the PAD's core constituency of urban, middle-class voters overlaps with that of Mr. Abhisit's reform-minded but electorally weak Democrats.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

Medvedev warns of budget cuts as Russia slumps

BY LIDIA KELLY

MOSCOW—Russia's President Dmitry Medvedev painted a gloomy picture of the economy, warning that the deepening global crisis will necessitate deep budget cuts over the next three years.

At a Kremlin meeting, the president instructed the cabinet of Prime Minister Vladimir Putin to shift to a regime of tough economizing as Russia's commodity-driven economy is deteriorating faster than expected.

"We all understand what a difficult situation the country and the economy are in," Mr. Medvedev said.

Low oil prices, massive outflows of capital, a record drop in industrial production and two-digit decline in investment have dragged Russia's economy to its worst crisis in a decade.

The nation's economy shrank 9.5% in the first quarter of the year, while this year's budget is still based on a contraction of 2.2% for the year.

The Ministry for Economic Development's new forecast envisages the economy shrinking between 6% and 8% this year.

The Kremlin's top economic adviser, Arkady Dvorkovich, said the government should have a better idea of which areas can be cut in the next two to three months. Officials emphasized that spending would have to be reduced next year to help control the deficit—the first year of reduced expenditures in almost a decade.

Mr. Medvedev called on the government to base the 2010-2012 budget on a conservative assessment of the price of oil—the chief contributor to the government's revenue. The conservative scenario is based on prices of $50 a barrel in 2010, $52 in 2011 and $53 in 2012, Finance Minister Alexei Kudrin said after the meeting.

The Federal Tax Service said Monday that the country's fiscal revenue from taxes and other dues fell by a fifth on between January and April. "The budget deficit will reach at least 7% of gross domestic product" in 2009, Mr, Medvedev said. "And that's an optimistic estimate."

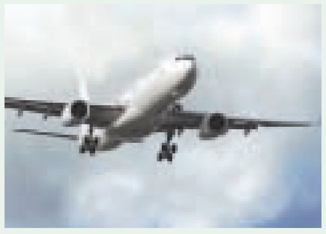
This would be Russia's first budget deficit in a decade marked by hefty budget surpluses.

Mr. Kudrin also reiterated that the government still aims at reducing the budget deficit to 5% of GDP in 2010 and 3% in 2011. But he added that to achieve those goals, spending must be addressed again.

Marketplace

Taking wing

A new bird radar system could prevent some dangers to flights > Page 35



Norilsk swings to a loss

Russian miner hit by acquisition costs, cuts output forecast

BY ALEXANDER KOLYANDR AND WILL BLAND

MOSCOW—Russian miner OAO **Norilsk Nickel** said write-downs related to recent acquisitions triggered its first net loss as a publicly traded company, and lowered its nickel-production outlook for 2009.

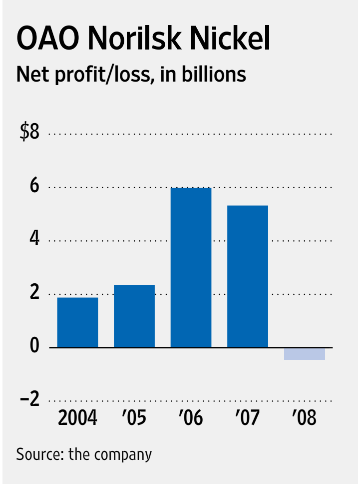
Norilsk reported a net loss of $449 million for 2008, compared with a net profit of $5.33 billion for 2007. It shouldered a $4.73 billion charge as it revised down the value of Canada's LionOre Mining International Ltd. and Russian power generator OAO OGK-3, both of which it acquired in 2007, when prospects for the economy were brighter. Revenue fell 18% to $13.98 billion as demand for stainless-steel production—the main use of nickel—continued to stagnate, and base-metals prices almost halved.

Norilsk spent more on production in 2008 than the previous year. The cost of labor, which accounts for 30% of total costs, increased by 6% from 2007, while consumables and spares, which account for 23% of the total costs, were up 25%. The company said it aims to keep its ruble-denominated costs at the 2008 level, which translates to about a 30% cut in dollar terms due to the ruble's drop.

Norilsk debt as of Dec. 31 stood at $6.4 billion, with net debt at $4.4 billion. Debt that reaches maturity this year totals $873 million, while in 2010, Norilsk is due to repay $3.19 billion.

Deputy Director Dmitry Kostoyev said while the company has "more than sufficient amount of capital" to service its debt, it could consider going to market for additional capital. During 2008 the company spent $5.8 billion on financing activities, including loan repayments and a share-buyback program, which left it with $2 billion in cash at the end of 2008, down from $4.01 billion a year earlier.

The company trimmed its 2009 nickel production outlook and its copper production target. The company said it expects to produce between 615,000 ounces and 640,00 ounces of platinum and between 2.685 million ounces and 2.710 million ounces of palladium. The previous outlook stood at between 600,000 ounces and 620,000 ounces for platinum and 2.61 million ounces and 2.625 million ounces for palladium.



Alexey Ivanov, Norilsk's director for investor relations, said the company isn't reviewing its "conservative budget," which is based on a nickel price of $10,000 a ton, or about 20% below the current market price, and on copper price of $3,300 a ton, which is 45% below the current market price.

CORPORATE NEWS

Luxury firms find courts less genteel

L'Oreál , LVMH feud with online marketplaces over sales of fake goods; eBay makes headway in latest rulings

Luxury companies' attempts to control who sells their brands online in Europe are taking a hit.

*By **Geoffrey A. Fowler** in San Francisco and **Max Colchester** in Paris*

On Friday, **eBay** Inc. won its second victory this month as a U.K. court said the online marketplace wasn't responsible for the sale of fake **L'Oréal** SA products on its Web site. Earlier this month, a French court also ruled in eBay's favor over L'Oréal in a similar case. Of five suits that L'Oréal has brought against eBay over counterfeits in Europe, eBay has won three, with one decision pending.

The latest ruling comes as European policy makers review the extent to which companies can restrict trade through their authorized dealers. Luxury companies including L'Oréal and **LVMH Moët Hennessy Louis Vuitton** SA have been feuding with e-commerce marketplaces such as eBay over whether the sites are responsible for people who sell fake and gray-market products on the Internet.

At stake for luxury companies is a carefully nurtured reputation for quality and exclusivity, which helps justify the high prices they charge. EBay argues that the European lawsuits about counterfeits are just a way for the luxury companies to control who sells their products and at what price.

"They're trying to maintain market segmentation and have certain consumers around the world pay more for goods than other consumers," says Tod Cohen, eBay's vice president of government relations.

EU Competition Commissioner Neelie Kroes, left, speaks with fashion designer Karl Lagerfeld in Brussels in February.

Associated Press

The latest court decision contrasts with how European courts and regulations have handled some past cases. Currently, European competition rules are friendly to the luxury companies, saying that manufacturers can impose restrictions, known as vertical restraints, on what distribution channels sell their goods.

Last year, a French court ruled in favor of luxury companies LVMH and **Hermès International** SA and against eBay. The court said eBay should pay damages to LVMH and Hermès for not doing enough to prevent the sale of counterfeit products. While eBay is appealing that ruling, the site can't in the meantime display listings for certain perfume brands.

In the U.S., the regulations and courts have typically favored e-commerce marketplaces. Last year, **Tiffany** & Co. lost a case against eBay in U.S. District Court in New York. The court ruled that trademark holders—not eBay—bore the main responsibility for monitoring sites for fakes.

EBay says it spends $10 million a year on technology and staff to track fakes and remove counterfeit goods from its site. Yet luxury companies say that eBay is profiting by enabling individuals engaged in the trade of counterfeits, which hurts the reputation of the luxury companies' brands. "We are for the Internet. But the consumer must have quality and assurance that the product is genuine," says an LVMH spokesman.

For those who sell online, the situation is confusing. Saber Mahani, a 29-year-old Parisian, has been selling L'Oréal perfumes on eBay for a year by buying them from official distributors in the U.S. and shipping them to France. He sells about 500 bottles a month and earns about €15 ($21) on each sale.

"I don't think what I do is illegal," Mr. Mahani says. "I pay taxes on what I sell and the product is inspected by customs."

The European Commission, which sets regulatory guidelines for its member nations, is reconsidering how much control companies get in deciding who sells their products. Next year, it will revise regulations on the issue. Both eBay and luxury companies have been lobbying the commission. In February fashion designer Karl Lagerfeld met with European Commissioner for Competition Neelie Kroes.

A draft of the new regulations seen by The Wall Street Journal says a supplier "cannot reserve for itself sales and/or advertising on the Internet." But that still leaves gray area about what sorts of active marketing unauthorized sellers would be allowed to take on.

Luxury brands say the Web makes it difficult for them to manage their exclusive images. After his meeting with Ms. Kroes, Mr. Lagerfeld said the Internet doesn't convey "the unique feel and sophistication of luxury materials."

But eBay says governments and companies will increasingly come to the Internet as an opportunity to give the best deals to customers. "Our position has always been open markets," Mr. Cohen says.

Bharti, MTN move to revive cross-border cellphone deal

Bharti Airtel Ltd., India's largest cellphone company, has resurrected merger talks with South Africa's **MTN Group** Ltd. in a potential $23 billion deal to create a new international phone giant powered by the developing world.

*By **Eric Bellman** in Amritsar, India, **Jackie Range** in New Delhi and **Robb M. Stewart** in Johannesburg*

A combination would become one of the world's 10 biggest phone companies by sales. A pairing of the New Delhi and Johannesburg companies would have more than 200 million subscribers and annual revenue of $20 billion.

The arrangement is far from done, however. Merger talks between the pair failed a little over a year ago. And many companies have tried in vain to take MTN to the altar. Still, MTN agreed to engage in exclusive talks with the Bharti until July 31.

If the proposed deal goes through, MTN would be able to use Bharti's technology and techniques for expanding networks inexpensively and quickly. Bharti, India's No. 1 cellphone company by subscribers, would be able to diversify beyond the borders of India, where expanding its base means having to reach out to poorer consumers.

"Both companies would stand to gain significant benefits from sharing each other's best practices," Bharti Chairman Sunil Bharti Mittal said Monday.

Under the proposed deal, Bharti Airtel would take a 49% stake in MTN, while the South African company and its shareholders get roughly a 36% stake in Bharti Airtel. Bharti said the potential value of the transaction was more than $23 billion. While both companies said they hope to join forces, they have yet to work out how the merged entity would be managed or where it would have its headquarters.

"The rationale for this potential transaction between MTN and Bharti is highly compelling, said MTN Chief Executive Phuthuma Nhleko. "It addresses our strategic imperative of becoming one of the pre-eminent emerging-market telecommunications companies, with leading positions in three of the fastest growing wireless markets globally: India, Africa and the Middle East."

Bharti's shares fell 5.4% to 811.40 rupees ($17.32) each in Mumbai. MTN rose 9.2% to 129.90 rand ($15.64) a share in Johannesburg.

That both companies again are trying to enter a partnership indicates some industries are confident they have been shielded from the worst effects of the global credit crunch. Halving the value of the joint shareholding in the Bharti-MTN deal would make it the second-largest international deal by an Indian company, following Tata Steel Ltd.'s $12 billion deal for Anglo-Dutch steel maker Corus Group PLC in 2007.

Telecom giants | How the companies compare

	MTN	Bharti Airtel
Subscribers Through March 31	98.2 million	96.6 million
Revenue	$12.3 billion (2008)	$7.8 billion (Fiscal year ended March 31, 2009)
Market capitalization	$28 billion	$33 billion
History	Launched in South Africa in 1994; now operates in 21 African and Middle Eastern countries	Began mobile operations in 1995

Sources: the companies; Johannesburg Stock Exchange; WSJ reporting

It would also revive a moribund Indian acquisitions market. The value of international acquisitions by Indian companies has dwindled to less than $375 million this year, 95% below the same period last year, according to Thomson Reuters. With hopes that the worst of the global recession is over in India and with the stock market surging, some Indian companies may become big buyers again, analysts said.

A Bharti-MTN merger would create the largest cellphone operator in Africa and India and have a large presence in the Middle East. It would also bring an Indian phone company to Africa, which is dominated by domestic and European companies, including **France Télécom** SA and **Vodafone Group** PLC.

A deal also would represent another feather in the cap of Mr. Mittal, who began his career in the 1970s making cycle parts and is now one of India's richest men. In addition to interests in telecommunications, his businesses include Bharti Wal-Mart, a retail joint venture with Wal-Mart Stores Inc. (see related article on page 5), and Bharti AXA, a financial-services joint venture with AXA of France.

MTN twice has failed to secure a tie-up with Indian companies. Talks with Bharti broke off last May when the companies couldn't agree over control. Talks with India's second-largest cellular company, **Reliance Communications** Ltd., also failed.

Pressure on MTN to remain an African champion has made it difficult for the company to find the right partner. The country's strong labor unions could try to block a deal that has the appearance of MTN ceding control.

"The rationale of a MTN-Bharti deal makes sense," said Jan Meintjes, a fund manager at Gryphon Asset Management in Cape Town. "But how they manage the issue of control is complicated. Maybe this time some of the egos will have shrunk a bit."

Under the deal being discussed, MTN would pay roughly $2.9 billion in cash and newly issued shares that would account for a 25% stake in the South African company. MTN's shareholders would hold an additional interest in Bharti that would bring the overall stake to roughly 36%.

Bharti, meanwhile, would buy about 36% of MTN's issued shares at 86 rand each in cash and 0.5 newly issued global depositary receipt for Bharti shares. The shares it would receive in exchange for selling a stake in itself would bring its stake in MTN to 49%.

—Sonya Misquitta in Mumbai contributed to this article.

CORPORATE NEWS

Citic Pacific offers assurances on capital

Conglomerate plans mining investments, business disposals

BY YVONNE LEE

HONG KONG—**Citic Pacific** Ltd. said the company performed well in the first quarter and has sufficient capital for investments.

The blue-chip Chinese conglomerate said in October it faced billions of dollars in losses from foreign-exchange trades that went bad when the U.S. dollar unexpectedly rose against the Australian dollar. As a result, Citic Pacific reported a net loss for 2008 of 12.66 billion Hong Kong dollars (US$1.63 billion).

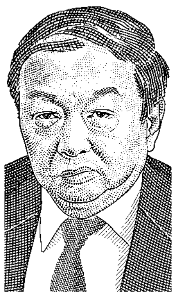
Chairman Chang Zhenming said after an annual shareholders' meeting Monday that Citic Pacific plans to spend 15 billion yuan, or about $2 billion, over the next two years to invest in its iron-ore mining operations.

He said Citic Pacific will continue to divest noncore businesses but has no plan to sell its 17.5% stake in **Cathay Pacific Airways** Ltd.

"We don't have a timetable on assets disposal, but we hope to sell some low-return assets at a suitable time to maximize return to shareholders," Mr. Chang said.

He said the restructuring of the conglomerate's noncore assets would take time and the company's business focus will be special steel, iron-ore mining and China property.

Citic Pacific said last month it planned to sell a 20% stake in a power producer in Inner Mongolia for 1.98 billion yuan as part of efforts to sell shares in companies in which it doesn't have a controlling stake.


Chang Zhenming

Mr. Chang, the 52-year-old vice chairman and president of Citic Group, Citic Pacific's state-owned parent, joined the conglomerate in April after a management shake-up following the foreign-exchange debacle last year.

Mr. Chang said Citic Pacific plans to hire a new managing director in the next few months to succeed Henry Fan, who resigned with former Chairman Larry Yung over the foreign-exchange loss.

Mr. Chang said he doesn't know when an investigation by Hong Kong's Securities and Futures Commission into the company's foreign-exchange losses will be completed.

Citic Pacific shares have surged 69% since Mr. Chang's appointment April 8, outpacing a 17% gain in the benchmark Hang Seng index.

Citic Pacific shares finished down 0.4% at HK$16 (US$2.06). Its last closing price in October before disclosure of the foreign-exchange losses was HK$14.52.

Bharti Wal-Mart delays new store, citing violence

BY R. JAI KRISHNA

NEW DELHI—Bharti Wal-Mart Pvt. Ltd., a joint venture between India's **Bharti Enterprises** Ltd. and U.S.-based **Wal-Mart Stores** Inc., has delayed the opening of its first wholesale store in the northern Indian city of Amritsar because of violence there.

"Due to the suspension of commercial activity in Amritsar, the Bharti Wal-Mart store opening has been delayed. We will open the store as soon as [commercial activity] resumes," a spokesman for Bharti Wal-Mart said Monday. The company didn't provide a new opening date.

Violence erupted in Amritsar late Sunday and elsewhere in Punjab state after clashes between two Sikh groups at a temple in Vienna that left one person dead and more than a dozen injured. Punjab is a Sikh-dominated state. (See related article on page 10.)

Recent elections raised hopes for more retail-sector foreign investment.

Wal-Mart, the world's largest retailer by sales, and many of its largest competitors long have coveted access to India, which boasts a $300 billion retail industry made up almost entirely of mom-and-pop shops. Indian rules don't allow multiple-brand retailers such as Wal-Mart to sell directly to consumers, but they can run wholesale operations and provide back-end support to Indian retailers.

The joint venture with Bharti was announced in 2006 but ran into opposition from a key ally of India's ruling coalition amid fears it might hurt the livelihoods of millions of small-shop owners.

Recent federal elections have raised hopes for economic changes such as greater foreign investment in the retail sector.

Raghav Sehgal, a retail analyst at Angel Broking Ltd., said he doesn't expect the delay to affect plans of other foreign companies entering the retail sector in India. **Carrefour** SA, **Marks & Spencer Group** PLC and **Tesco** PLC all have plans to open stores in the country.

CORPORATE NEWS

Vying for title of Battery Capital, USA

Makers, states apply for funds to produce packs for electric cars

By William M. Bulkeley

The Obama administration has set off a gold rush to power new environmentally friendly cars.

In one of the government's biggest efforts at shaping industrial policy, the Energy Department has been soliciting applications for $2.4 billion in funding to turn the U.S. into a battery-manufacturing powerhouse. At the deadline last week, the department said it had received 165 applications.

Companies vying for the federal money include **General Motors** Corp., **Dow Chemical** Co., **Johnson Controls** Inc. and **A123 Systems**, a closely held battery maker backed by **General Electric** Co. and others. States including Michigan, Kentucky and Massachusetts are also weighing in with applications, usually in alliance with their favored battery makers.

When the winners are decided, as soon as the end of July, the Energy Department may anoint Livonia, Mich., or Indianapolis or Glendale, Ky., as the future U.S. hub of car batteries. A 2008 study by researchers at Alliance Bernstein forecast the current $9 billion-a-year auto-battery market, based on lead-acid batteries, could reach more than $150 billion by 2030.

The companies and state governments are proposing sites for plants that will make lithium-ion batteries, the technology that has emerged as the leading choice to power future electric cars.

The world-wide market for these types of power cells is now dominated by four big Japanese and Korean companies—including **Sony** Corp. and **Panasonic** Corp.—but their batteries are chiefly small ones used in laptops and cellphones.

Reuters

Companies and state governments are proposing sites for plants that will make lithium-ion batteries, which will be used in vehicles such as the Chevrolet Volt, above.

Car makers currently use another technology—nickel-metal-hydride batteries—in hybrid vehicles such as **Toyota Motor** Corp.'s Prius because they aren't as prone to fire as lithium-ion batteries are.

Lithium-ion batteries are lighter and more powerful than lead or nickel-metal hydride batteries. Several American companies have demonstrated technological improvements that make big versions safe and practical for use in cars and trucks.

While mass production of such batteries hasn't been demonstrated, U.S. companies "seem close to building a facility and getting a product out there," said Kent Furst, battery analyst for Freedonia Group, a market-research firm in Cleveland.

States are desperate to attract manufacturing plants that would boost employment while reducing greenhouse gases. Some officials argue a big battery factory will attract or preserve job-heavy auto assembly plants.

"If you're the place where the batteries are made, there's an opportunity to spin it into other things as well," said D. Gregory Main, president of the Michigan Economic Development Corp., a state agency that has committed up to $400 million in incentives for battery manufacturers.

Kentucky is promising $110 million in aid and a 1,550-acre site, in Glendale, that it assembled in an unsuccessful effort to land a Hyundai plant several years ago.

"We're not in that financial league," said Ian Bowles, the Massachusetts secretary of energy and environmental affairs. But Mr. Bowles said Massachusetts has a chance of landing federal funding because it has several in-state battery makers such as **Boston Power** Co.

Manufacturers are proposing to build four plants in Michigan that would require a total capital investment of $1.7 billion, although not all are likely to be funded.

Among them is A123, a Massachusetts company that makes batteries in China for Black & Decker power tools. It wants to build a $600 million lithium-ion plant in Livonia, outside Detroit. A123, which recently raised $70 million from GE and other investors, declined comment.

Meanwhile, Johnson Controls, the Wisconsin auto supplier that is currently the industry's leading lead-acid battery supplier, has allied with **Saft** LLC, a French battery maker, with plans to build lithium batteries in an existing plant in Holland, Mich.

In Kentucky, part of the proposed Glendale site will be occupied by the National Alliance for Advanced Transportation Batteries, a 51-company consortium, which plans a research campus with potential battery-making plants in the future.

The consortium was started by Chicago lawyer James J. Greenberger, the head of the energy and project-finance team at Reed Smith LLP. He said the federal funding is "almost too much money," considering the early stage of the market.

In Indiana, battery maker **Ener1** Inc. has applied for a grant to expand a lithium car-battery plant it already operates in Indianapolis. The company has an agreement to supply batteries to closely held Fisker Automotive, a California company with plans to build and sell $88,000 luxury-hybrid cars.

Ener1 Chairman Charles Gassenheimer said the Energy Department grants would help it expand, but "it's not life or death," for the company, which has raised some $250 million on its own. He said the grants can "accelerate the industry to develop two or three years faster" than it would on its own.

Danone to launch big rights issue to reduce debt

By Aaron O. Patrick

French dairy giant **Groupe Danone** SA plans to raise €3 billion ($4.2 billion) through a share sale—a move that will test the confidence of European investors following the recent stock-market rally.

Most of the cash will be used to pay down debt from Danone's €12 billion acquisition of baby-formula maker Royal Numico NV two years ago. But some of the money raised also could be spent on small and mid-size acquisitions, a company spokesman said Monday.

The sale is timed to take advantage of a 15% rise in Danone's share price since March to €39.62 ($55.48) Monday. Stock markets in Europe and the U.S. have risen in recent months on expectations that the end of the global recession could be in sight.

The dairy giant could spend some of the cash it raises on acquisitions.

If the sale is completed, Danone's relative debt will fall to 1.7 times times its annual earnings before interest, tax, depreciation and amortization from 2.8 times, the spokesman said. The average for the food industry is about 1.5 times.

Danone plans to provide more information about the sale to analysts and investors on a conference call Tuesday. However, the price at which the shares will be sold and when the sale starts won't be known for several days, the spokesman said.

Monday's announcement was made after trading on the Paris stock exchange closed.

Chevron cuts Nigeria output after attack on its pipeline

By Will Connors

WARRI, Nigeria—**Chevron** Corp. halted production of 100,000 barrels a day of crude oil here Monday after an attack on one of its pipelines, as fighting between Nigeria's military and militant groups in the southern delta region entered a second week.

The country's main militant group, the Movement for the Emancipation of the Niger Delta, or Mend, said it conducted the attack, which occurred in the Abiteye area of Delta state. The group also claimed it attacked four other pipelines leading to Chevron's oil-tank farm in the region.

Monday's incident marks the first major retaliation by Mend since a sustained offensive by the Nigerian military's Joint Task Force began ten days ago.

"We will continue our cat-and-mouse tactics with [the Nigerian military] until oil export ceases completely," Mend said in a statement.

Chevron, of San Ramon, Calif., confirmed the attack on Abiteye and the production shutdown but didn't comment on other pipelines alleged to have been targeted. The incident is being investigated by the relevant stakeholders, a Chevron spokesman said.

Human-rights groups say they fear that thousands of villagers have been displaced and hundreds killed during recent fighting—the worst the region has seen in years. Independent confirmation of casualties has been difficult amid limited access to affected communities.

The Joint Task Force commander in the region said humanitarian worries have been exaggerated. "The area is still infested with militants, but not as bad as before," said Major-Gen. Sarkin-Yaki Bello, the regional commander.

The Joint Task Force claimed several victories over the past week. It says it has killed or injured many militants, recovered weapons caches and destroyed the camp of the most powerful militant leader in the area.

So far, no suspected militants have been arrested, and none of the Joint Task Force's claims of killings have been independently verified.

The offensive has led to a major reduction in Nigeria's oil output. "We're very concerned this could make the situation a lot worse for production," a Nigerian oil offcial said.

Since 2006, unrest in the Niger Delta has shut down around 20% of Nigeria's oil production.

CORPORATE NEWS

PetroChina tries flying solo

Singapore Petroleum is first overseas deal without parent's aid

By David Winning

PetroChina Co.'s proposed US$1 billion purchase of a minority stake in **Singapore Petroleum** Co. shows that China's largest listed oil company is ready to go it alone when expanding overseas.

PetroChina, based in Beijing and listed in Hong Kong and Shanghai, has previously relied on support from state-owned parent **China National Petroleum** Corp. when making deals abroad, with all business handled via a joint venture known as CNPC Exploration & Development Co.

PetroChina has owned 50% of CNPC E&D since June 2005 when it paid CNPC 20.74 billion yuan (US$3.04 billion). A senior PetroChina official said at the time that all overseas assets would be developed by the joint venture.

However, PetroChina has become increasingly keen to take full control of overseas assets, which would lower the potential for conflicts of interest between itself and its parent even as it reduces its ability to rely on state funds.

PetroChina's purchase of **Keppel** Corp.'s 45.51% stake in Singapore Petroleum, which will likely trigger an offer for the whole company, comes as China's resources firms are meeting resistance to their overseas expansion because of their close ties to the state. In that climate, a deal by listed PetroChina alone increases the transparency of the transaction and may limit accusations of a nationalist push to grab resources.

While the joint overseas venture with the parent will likely continue to be of use to PetroChina, it said Sunday that the Singapore Petroleum deal will become "a new platform for the implementation of our international strategy," signaling that strictly commercial transactions may be made by the listed company in the future.

Noting the relatively small size of the Singapore deal, KGI Asia's Ben Kwong said it is a sign that PetroChina is "testing the water" with its global expansion program.

PetroChina isn't alone among China's listed companies in wanting more freedom to make overseas deals. **China Petroleum & Chemical** Corp., known as Sinopec, wants to invest directly in overseas upstream projects, instead of deferring to state-owned parent **China Petrochemical** Corp. for such deals.

Sinopec, China's second-largest oil producer by capacity and Asia's biggest refiner, said March 30 it plans to seek shareholder approval to modify legal arrangements so that it can carry out overseas mergers and acquisitions.

Heavy involvement by state companies in deal making has helped China to expand rapidly its energy footprint abroad, including a deal earlier this month with Brazil's state-run energy giant Petroleo Brasileiro SA to guarantee oil supplies in exchange for financing help. Chinese policy banks have also entered into recent oil-for-loan deals with national oil companies in Russia and Kazakhstan.

But analysts say the listed oil companies' top management are concerned that direct involvement by their parents in M&A may become a liability.

Since a US$18.5 billion offer for California-based Unocal Corp. by Cnooc Ltd. failed in 2005 after criticism by the U.S. Congress, China's acquisitions have focused on politically sensitive regions, like Sudan and Myanmar, that were largely ignored by Western oil companies.

But such opportunities are more rare now and if PetroChina, Sinopec and Cnooc want to add meaningful amounts of oil and gas reserves, they may have to bid for companies listed on Western exchanges. In a sign of the hurdles they may face, PetroChina has been subjected to an activist campaign in the U.S. because CNPC E&D has major stakes in oil and gas blocks in Sudan. Activists have encouraged U.S. investors to sell out of PetroChina.

Singapore Petroleum, one of the Singapore's three major refining companies, has exploration interests in Australia, China, Indonesia and Vietnam. It reported 2008 revenue of 11.1 billion Singapore dollars (US$7.7 billion).

For PetroChina, having refining operations in Singapore helps it protect its refining margins when China's low, state-set fuel prices make it hard to recoup greater costs from a rebound in oil prices.

—Robert Li in Hong Kong contributed to this article.

IMG China deal opens with tennis

By Loretta Chao

BEIJING—Sports-marketing giant **IMG Worldwide** Inc. said it has received the necessary clearance to operate a joint venture with China Central Television and will kick off its 20-year sporting-event partnership with the state broadcaster by organizing two tennis events.

The CCTV-IMG Sports Management Co. venture was announced last August but won't have its first board meeting until Tuesday. Top IMG officials said Monday that it took longer than they expected to receive the licenses needed to begin operations.

CCTV sports director Jiang Heping will be chairman of the partnership, which is majority-owned by the broadcaster. CCTV-IMG intends to develop sports events across China that could be broadcast on CCTV, which has the biggest daily audience in the world, with 740 million daily viewers.

"We see that the sports industry in China will become gigantic—the largest in the world," Robert Kuhn, one of IMG's partners and representatives in the venture, said in an interview Monday.

Financial details of the partnership haven't been disclosed, but Ted Forstmann, chairman and chief executive of closely held IMG, said it was a "modest" investment by the company. It is an investment "that can lead to nothing, or something really very important. And I think the [latter] is very achievable," he said.

Mr. Forstmann, chairman and chief executive of closely held IMG, said the company expects to own at least part of every event run by the joint venture, which means it will arrange and earn revenue from any sponsorships or event merchandise. He said the deal would also aid the company's business world-wide by providing a channel through which IMG's international clients can gain access to the Chinese market.

CCTV-IMG will target sports covering various demographics, including polo and sailing in the luxury category, tennis and golf for the white-collar category, and American football for younger fans, an IMG spokesman said. IMG, one of the world's largest producers and distributors of sports, owns or manages more than 4,000 sporting and entertainment events around the world.

The first events of the partnership are the China Open tennis tournament, to be played in Beijing in October, and the Chengdu Open tennis tournament in Chengdu, capital of Sichuan province, in November.

—Sue Feng contributed to this article.

U.S. to block plasma firms' deal

By Andrew Harrison

MELBOURNE, Australia—**CSL** Ltd., the world's second-largest plasma-products maker, said the U.S. Federal Trade Commission is likely to block its US$3.1 billion takeover of U.S. rival **Talecris Biotherapeutics** Inc.

CSL Managing Director Brian McNamee met with officials Friday to argue for the transaction and present potential remedies to address antitrust concerns, the Australia-based company said.

CSL said it was informed during the meeting that FTC staff have recommended its commissioners start legal action to block the deal. The commissioners are likely to vote on the proposed acquisition by Thursday.

A CSL spokeswoman said if the deal isn't forthcoming the company would reconsider returning surplus funds to investors.

The blood-products company raised 1.75 billion Australian dollars (US$1.37 billion) in October, selling new shares at A$36.75 each, to help fund the Talecris transaction.

Talecris, based in North Carolina, is the third-largest producer of plasma medicines in the U.S., behind CSL and market leader **Baxter International** Inc. The three companies control 83% of the U.S. market.

GLOBAL BUSINESS BRIEFS

Qantas Airways Ltd.

First-class travel is shelved on 42 international flights

Qantas Airways Ltd. will temporarily scrap first-class travel on 42, or 7%, of its weekly long-distance international flights starting in July. Qantas will remove its first-class offering from Boeing 747 aircraft on 14 weekly routes, including four between Sydney and San Francisco, three between Sydney and Buenos Aires, and its daily services from Melbourne, Australia, to London via Hong Kong, on flights between July 6 and Oct. 31. The changes come as a drop in global corporate traffic hits demand across premium classes.

Thales SA

To save money and work off its inventories, French aerospace and defense-electronics company **Thales** SA will idle its aerospace plants in France for two weeks in August and also accelerate measures to enhance competitiveness, a senior executive said Monday. While Thales would like to trim aerospace stocks, "they are not out of proportion," the company's head of aerospace operations, Jean-Georges Malcor, told reporters. He said customers are also demanding lower prices and easier payment terms.

Ford Motor Co.

The head of Volvo Cars, the Swedish unit that owner **Ford Motor** Co. wants to sell, Monday met with the leader of Belgium's Flemish government to discuss state aid for the struggling car maker. Volvo's biggest plant, employing almost 3,800 workers, is located in Ghent in Belgium's northern Flanders region. A Volvo spokeswoman said Volvo Cars Chief Executive Stephen Odell and Flemish Minister-President Kris Peeters had a "constructive" meeting during which they discussed the possibility of the Flemish government backing a loan for Volvo either from the European Investment Bank or a commercial bank.

Toyota Motor Corp.

Toyota Motor Corp.'s passenger-vehicle joint venture in China with **Guangzhou Automobile Group** Co. has increased its annual capacity by 80% to 360,000 units, the Japanese auto maker said Monday. The venture invested 4.26 billion yuan ($624.3 million) into a second production line and has started manufacturing the Highlander sport-utility vehicle, it said. Toyota's lineup in China has been criticized for being short on affordable, fuel-efficient small cars. Its first-quarter China sales fell 17% from a year earlier, even as the total Chinese market increased 4% to 2.7 million vehicles.

Sime Darby Bhd.

Sime Darby Bhd.'s earnings dropped 86% for its fiscal third quarter, but it said higher prices for crude palm oil will boost earnings for the current quarter. Net profit fell to 150.6 million ringgit ($43.1 million) for the quarter ended March 31 amid weak prices for crude palm oil. Revenue fell 13%. Chief Executive Ahmad Zubir Murshid said he was confident Sime Darby would be able to meet its target of 1.9 billion ringgit in net profit for the fiscal year ending June 30. Crude-palm-oil futures have risen to 2,445 ringgit a metric ton from about 2,000 ringgit at the end of March.

Jet Airways (India) Ltd.

Jet Airways (India) Ltd. Monday reported a net profit for its fiscal fourth quarter as gains from a tax credit and lower fuel costs outweighed a decline in passenger traffic. India's second-largest domestic carrier by market share posted a net profit of 529.9 million rupees ($11.3 million) for the January-March quarter, compared with a net loss of 2.21 billion rupees a year earlier. The airline's net sales fell 16% to 22.63 billion rupees. Jet Airways expects the slowdown in air travel to continue this year.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

CEOs seek global deal to curb pollution

World leaders urged to provide guidance on emission targets ahead of December meeting to replace Kyoto Protocol

By Guy Chazan

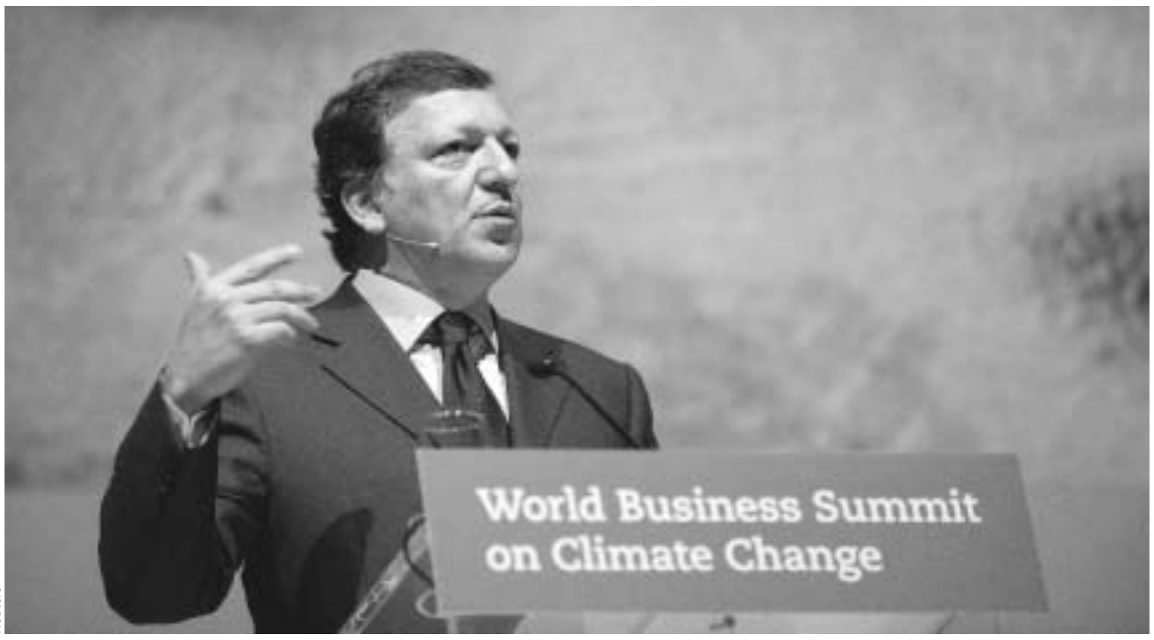
COPENHAGEN—Chiefs of some of the world's largest companies are urging global leaders to cut a strong deal this December to curb pollution, saying they need certainty on emissions targets to be able to make long-term investment decisions.

The World Business Summit on Climate Change, which brought together more than 500 business leaders, is being seen as a crucial milestone on the road to December's meeting here, at which governments will try to hammer out a successor agreement to the United Nations' Kyoto Protocol. Many of them said a global deal would provide the regulatory certainty and price signals they need to invest in renewable fuels and low-carbon technologies.

Business leaders said they were working on a draft statement that would call for emissions to be cut by at least 50% by 2050, an ambitious target also endorsed by the U.N.

In a speech to the summit Sunday, U.N. Secretary General Ban Ki-Moon said that only a few businesses had made climate change a priority, with most sitting on the fence and others defending "the old order." "For those who are directly or implicitly lobbying against climate action, I have a clear message: your ideas are out-of-date and you are running out of time," he told delegates.

But in some respects the meeting only served to highlight the divisions in international business over climate change. Some companies have argued that setting deep emissions-reduction targets in the midst of an economic slowdown could jeopardize any recovery.



Reuters

European Commission President Jose Manuel Barroso told the World Business Summit on Climate Change in Copenhagen that the economic crisis is "an impetus for change, not an excuse for inaction" on climate change.

Such views are particularly prominent in the U.S., which has signed but not ratified the Kyoto Protocol, adopted in 1997. The pact doesn't require developing countries to cut emissions. The U.S. and China are the globe's biggest generators of greenhouse gases, together accounting for nearly half of all pollutants emitted each year. Neither country has been willing to cut emissions without a similar commitment by the other. Agreement between the two nations is seen as critical for reaching a new global climate treaty in Copenhagen that will stick.

The U.S. Chamber of Commerce has come out against moves to curb emissions, in particular the Waxman-Markey global-warming bill now going through Congress, saying it will cost U.S. jobs and lead to higher energy prices for consumers. Oil and gas producers and manufacturing companies have been at the forefront of opposition to the legislation, which would create a system to cap CO2 emissions and trade emission allowances.

"The problem is that the voice of progressive companies is often overwhelmed by the lobbying muscle of the traditional business groups, which spend more money and are more aggressive," said Jules Kortenhorst, head of the European Climate Foundation, a non-government organization focused on fighting global warming.

That in itself has led to fissures opening up in some of these groups. **Johnson & Johnson** and **Nike** Inc. have both distanced themselves from the Chamber of Commerce, saying it doesn't reflect the full range of views of its members on climate change.

European Commission President Jose Manuel Barroso told the Copenhagen meeting the economic crisis is "an impetus for change, not an excuse for inaction" on climate change, and said there will be more than one million jobs in the renewables industry by 2020. Carbon markets also will create business opportunities, especially for Europe, he said.

Many of the CEOs speaking in Copenhagen—who included heads of companies like **PepsiCo** Inc. and Unilever PLC—said they were committed to greening their companies and reducing their carbon footprints. But that is relatively easy for a mobile phone supplier like Telefon AB L.M. **Ericsson**, which doesn't cause much pollution. It is much harder for, say, utilities, since power generation accounts for 40% of emissions worldwide.

One of them, **Vattenfall** AB of Sweden, a big utility that is one of the largest emitters of CO2 in Europe, has pledged to be carbon neutral by 2050 at the latest, mainly by investing in the technology to sequester carbon at its power plants and store it safely underground.

But Lars Josefsson, Vattenfall's CEO, said governments will have to help. "Clearly the commercialization of carbon capture and storage cannot be made without public support," he said. Even if there is government backing, it will be "very difficult" to have power plants with carbon capture and storage producing electricity by 2015.

Speakers said a new deal with global targets will be crucial in creating a level playing field, especially for energy-intensive industries. Failure at Copenhagen in December could, they warned, lead to a free-for-all and "green protectionism"—where industries in countries with tough rules would lose out to rivals in countries with less strict policies.

"I fear the consequence of failure will be trade anarchy, with individual countries pursuing their own policies," said Georg Kell, executive director of the U.N. Global Compact, a coalition of companies committed to sustainability and one of the sponsors of this week's meeting. "That would undermine the principle of nondiscrimination in trade and put at risk what we've built over the last six decades."

EU seeks new ways to limit fishing

By John W. Miller

BRUSSELS—The European Union is considering closed-circuit cameras for fishing boats as part of a plan to revive the bloc's efforts to stop overfishing in its waters.

Fishery ministers from the 27 EU nations launched discussions Monday on how to change the quota policies introduced more than 25 years ago to preserve fish stocks. The talks follow the release in April of an EU report that said those policies had failed: It found that 88% of fish species in EU waters are being fished out faster than they can breed.

Ahead of the two-day talks, which aren't expected to produce a result until next year, Denmark secured support from several countries for measures—including the cameras—to combat an especially perverse consequence of the current system: EU fishermen throw overboard an estimated 50% of the fish they catch.

Fishery ministers are also considering a proposal to let fishermen trade quotas across the EU, a system that Denmark says cut the size of its fishing fleet by 25% in 18 months as smaller fishermen sold out. Another proposal would ban payments to countries such as Mauritania and Senegal to fish in their waters, a practice scientists say hurts poor fishermen in those countries.

Last year EU fleets sold 6.4 million tons of fish, according to the United Nations' Food and Agriculture Organization. The EU's quotas limit the size of the annual catch that countries and their fleets can sell on their return to harbor. The goal was to reduce catches, after increasingly efficient trawlers equipped with sonar began to decimate fish stocks in the 1970s. But the quotas caused fishermen to dump huge quantities of lower-value fish at sea to maximize profit. Most of these fish die, according to officials in the European Commission's fisheries office.

"Fishermen discard half of what they catch," says Mogens Schou, a Danish fishery official. "They 'high-grade'—in other words, only keep the most profitable fish."

As a result, fish stocks in EU waters have plummeted as much as 75% since 1982 for popular species such as cod. EU fishermen chucked 38% of the 24,000 tons of cod they caught last year, according to the International Council for the Exploration of the Seas.

EU officials admit the current fisheries policy has failed and are considering a ban on the practice of discarding fish at sea. Denmark is proposing that an amended quota system should count the amount of fish caught, rather than the amount returned to port. To deal with the challenge of policing the EU's 85,000-strong fishing fleet, Denmark is proposing that fishermen equip their boats with on-board cameras. In exchange, the fishermen would get bigger quotas.

Mr. Schou and his Danish colleagues came up with a surveillance kit that includes four cameras, similar to those used by Scotland Yard to police the London underground. There's also a GPS to identify what waters the boats are fishing in and sensors to pick up when they are hauling or dumping fish. Each kit costs roughly $10,000; they are currently being tested on six boats.

Separately, dairy farmers from Berlin to Paris marched Monday to protest falling milk prices. They are demanding that EU governments underpin prices by buying up supplies and setting tougher quotas. Agriculture commissioner Mariann Fischer-Boel rejected the calls. The market must plays its role, she said; "what farmers need to do is produce less."

Sarkozy travels to U.A.E. to inaugurate military base

French President Nicolas Sarkozy arrived Monday in the United Arab Emirates, where he is set to inaugurate a French military base at a time of growing pressure on neighbor Iran to give up its nuclear ambitions.

*By **Chip Cummins** in Dubai and **David Gauthier-Villars** in Paris*

The U.A.E. announced early last year it would host the small French installation. With 400 to 500 troops, the outpost comprises a naval base and a training camp. In addition, three French combat aircraft will be stationed at a nearby airbase.

The base opening, scheduled for Tuesday, comes amid recent saber-rattling from Iran in its standoff with the West over its nuclear ambitions.

Last week, Iran test-fired the latest in a series of sophisticated rockets that Western officials worry are part of a nuclear-weapons program. Iran says it is pursuing peaceful nuclear energy.

The administration of Barack Obama is reaching out diplomatically to Iran. However, Washington and other Western powers, in particular France, also are threatening tougher sanctions if talks fail.

On Monday, Mr. Sarkozy brought that message to Tehran's backyard, just weeks ahead of Iranian presidential elections. The northern tip of the U.A.E. is less than 160 kilometers from Tehran's southern coast on the Persian Gulf.

"The Iranian authorities have to choose now," he was quoted saying in an interview conducted by the U.A.E.'s state news agency, ahead of his arrival. "Either they return to the international community fold, or face more...isolation."

The new base marks a shift in France's military strategy. It is the first time in decades that Paris has set up a permanent military presence outside its traditional sphere of influence, centered around its former African colonies.

Abu Dhabi, the federal capital of the U.A.E., has long maintained strong defense ties with both Washington and Paris. Analysts say the French base gives Emirati officials a second, big military partner in the volatile Gulf.

ECONOMY & POLITICS

Obama, Netanyahu feel each other out

Both leaders score a diplomatic edge in talks on key issues

By Gerald F. Seib

This is a tale of two leaders.

Both are smart and articulate, and carry themselves with a palpable self-confidence. Both studied at elite American schools, achieved ultimate political power at a precocious age, and now see themselves as wrestling with problems of historic scope.

CAPITAL JOURNAL

Yet they also are poles apart ideologically and destined to butt heads as they try to deal with one of the world's most explosive issues, Iran's nuclear program, which is moving steadily ahead at the same time North Korea's nuclear-weapons program is resurgent. All told, their relationship is one of the most important in the world.

They are American President Barack Obama and Israeli Prime Minister Benjamin Netanyahu, who spent almost two hours eyeball-to-eyeball in the Oval Office last week. Talks afterward with officials on both sides suggest the two men find each other interesting, maybe even intriguing. Indeed, one Israeli official says that after he first met Mr. Obama in 2007, Mr. Netanyahu told aides and his wife he had just met the next leader of the U.S., who at the time was a lowly senator.

But these two men also are busy trying to outmaneuver each other, and already they have succeeded in doing a bit of that. The best way to think of their relationship is that they resemble a couple of those guys in a park playing multiple chess games simultaneously—and the most important chess game is the one they are playing against each other.

The two most important issues on the table for Israel and the U.S. are Iran's nuclear program and the foundering Israeli-Palestinian peace process. Messrs. Obama and Netanyahu have some tactical disagreements on both.

To Mr. Obama, the two are intimately related. One underappreciated effect of the Iranian nuclear program is that many Arab leaders are nearly as horrified about the idea of a nuclear-armed Iran in their midst as are Israel and the U.S. But those same Arab leaders have spent years convincing their people that the region's paramount issue isn't Iran, but rather getting the Palestinian people a state of their own.

Agence France-Presse

Israeli Prime Minister Benjamin Netanyahu, left, and U.S. President Barack Obama met in the White House last week. The two have tactical disagreements on dealing with Iran's nuclear program and the Israeli-Palestinian peace process.

So if the U.S. and Israel are moving on the Palestinian front, the president believes, it will be a lot easier politically for those Arab leaders to do what they would secretly like, which is to cooperate with the U.S., Israel and others in a concerted effort to stop Iran's nuclear efforts.

Thus, Mr. Obama's goal in his meeting with Mr. Netanyahu, who has been in office for less than two months, was to get him to commit to negotiations with the Palestinians. The president was relentless. At one point in their private session, one U.S. official says, Mr. Obama was pressing again for negotiations when Mr. Netanyahu replied: "Nobody can say you're not focused and determined to get what you want. I hear you, Mr. President."

Later, when the two talked to reporters publicly, Mr. Obama immediately boxed in his Israeli counterpart by saying he didn't want Mr. Netanyahu to miss a "historic opportunity" for diplomacy with the Palestinians. At that point, the Israeli leader had little choice. He replied that he would be starting talks with the Palestinians "immediately."

Mr. Obama had another, unstated reason to push his Israeli counterpart so hard on talks with the Palestinians. The president is going to Egypt on June 4 to deliver a much-anticipated speech to the Muslim world, and he knows his words will go down better, and his credibility will be greater, if he's seen as having pushed a new, hard-line Israeli leader into negotiations with the Palestinians.

He appears to be succeeding in doing that. Israeli leaders say to look for movement toward diplomacy after Palestinian leader Mahmoud Abbas visits Washington this week. In a symbolic gesture to the U.S. and the Palestinians, the day after Mr. Netanyahu returned home, Israeli police cleared out an unauthorized outpost of Israeli settlers on the West Bank. Mr. Netanyahu also said at an Israeli cabinet meeting Sunday that he wouldn't allow new Israeli settlements in the West Bank. Advantage, Mr. Obama.

Yet Mr. Netanyahu doesn't want to get pushed too fast toward a peace process that could disrupt his fragile governing coalition. So he has refused to do two things Mr. Obama would have liked. He won't say he favors a "two-state solution" to the Palestinian problem, which would imply accepting a Palestinian state with full powers, including power to raise an army. And he won't agree to an outright settlement freeze; he said Sunday that he would allow existing settlements to expand. A standoff there.

And he really doesn't like the idea of linking the Palestinian question to Iran's nuclear program. The latter is vastly more pressing to Mr. Netanyahu, and he thinks moderate Arab leaders see a nuclear Iran as such a strategic threat that their cooperation won't depend on diplomacy with the Palestinians.

Mr. Netanyahu is more afraid that Mr. Obama's commitment to talking with Iran's leaders will simply provide them time and cover to complete their nuclear program. So he doesn't want diplomacy to drag on. And on that, Mr. Obama gave ground last week, saying he wants progress in talks with Iran by year's end. Advantage, Mr. Netanyahu.

The chess match continues.

Las Vegas puts its bet on Obama appearance

By Tamara Audi And Jonathan Weisman

When a high roller, known as a whale, arrives in Las Vegas, the town opens up like the Red Sea. On Tuesday, Las Vegas will greet the biggest whale of them all: U.S. President Barack Obama.

The industry is hoping that the president, even without spending a penny at the tables, will bring back some luck and help remove some of the stigma that has befallen the gambling hub lately. Some in the industry believe much of that stigma was placed there by Mr. Obama himself, who on Feb. 9 excoriated corporations that had taken federal bailout money, warning, "You can't go take a trip to Las Vegas or go down to the Super Bowl on the taxpayer's dime."

Many in Las Vegas believed the remark unfairly singled out a region already hit hard by declines in gambling revenue. Nevada's unemployment rate hit double digits this spring.

"Your comments are harmful to the meetings and convention industry as a whole and Las Vegas specifically," Las Vegas Mayor Oscar Goodman wrote in a February letter to the president.

However, the president's trip—tied to a fund-raiser for Senate Majority Leader Harry Reid of Nevada, who faces re-election next year—isn't skimping on Las Vegas-style glitz. The Tuesday night fund-raiser at the Colosseum at Caesar's Palace will feature Sheryl Crow, Bette Midler and comedian Rita Rudner. Tickets will go for $50 to $250, with $2,400 buying access to a backstage reception with the president. Before the concert, two more intimate receptions are planned with Messrs. Obama and Reid. The crowd is expected to include many casino executives.

The following day, after an energy speech at a Nevada Air Force base, Mr. Obama heads to Beverly Hills, Calif., where he will host entertainment-industry heavyweights at a fund-raising dinner.

The White House didn't say whether Mr. Obama planned to address his February Las Vegas comment at the Reid fund-raiser. And not all believe that he must.

"I don't think the president said anything inappropriate," said Jan Jones, senior vice president of government relations for Las Vegas-based Harrah's Entertainment Inc., which owns Caesar's Palace. "The location he mentioned was Vegas. I just wish he'd said Orlando."

In the fourth quarter of 2008 and this year's first quarter, businesses canceled 402 conventions and meetings in Las Vegas, according to figures from the Las Vegas Convention and Visitors Authority. While many of those cancellations were cost cuts—even though Las Vegas's supporters point out the city is expert at hosting huge groups at low rates—some appeared to be an effort to avoid public criticism.

According to the mayor's office, Las Vegas hosts more than six million business travelers who bring in $8.5 billion annually. Some in the gambling industry are hoping the president's trip will work as a sort of seal of approval for the destination.

The February comment "was extremely damaging," said Bill Lerner, a Las Vegas-based gambling analyst for Union Gaming. "It's important that it is addressed. If Vegas is removed as a target in his comments that would go a long way to making businesses feel more comfortable booking business here."

Confidence in Germany rises but still is low

By Nina Koeppen

FRANKFURT — German business confidence improved in May, although business conditions in Europe's largest economy remain weak.

The Ifo business-climate index rose for the second straight month, to 84.2 in May from 83.7 in April. "This points to a gradual stabilization of economic output at a low level," Ifo president Hans-Werner Sinn said in a press release. The index measuring firms' business expectations over the next six months improved for the fifth consecutive month, to 85.9 from 83.9.

"This confirms the view that the worst is over," BNP Paribas Dominique Barbet wrote in a note to clients.

The Ifo participants were less upbeat about their current business situation.

Still, the signs of recovering optimism among the 7,000 companies Ifo surveys are unlikely to shift economists' gloomy predictions for Germany's growth. German gross domestic product is widely forecast to shrink around 6% this year—the steepest decline since World War II—before growing modestly in 2010.

The Ifo poll's participants were less upbeat about their current business situation than they were about the end of 2009. That indicator dropped unexpectedly, to 82.5 from a revised 83.5 in April. Ifo's indicator of the business climate in manufacturing was unchanged between April and May, but improved in the services retailing and wholesale sectors. Ifo said the mood in services improved in May amid fewer indications of plans to reduce staff levels.

Career Journal

Dumbing down

Job seekers afraid of looking overqualified diminish résumés > **Page 37**

India aims to quell riots in Punjab

Sikh guru's shooting at Vienna temple touched off violence

India deployed paramilitary troops to the northern state of Punjab Monday to quell riots in several cities sparked by the fatal shooting of a preacher at a Sikh temple in Vienna Sunday.

By **Paul Beckett** in New Delhi and **David Crawford** in Berlin

One person was killed when police fired on protesters, authorities said. India's Prime Minister Manmohan Singh, who was reappointed Friday for another term and is India's first Sikh leader, appealed for calm. Home Minister Palaniappan Chidambaram told reporters the central government had advised state authorities to enforce a curfew which was being ignored, adding he was "hopeful that the situation will return to normal."

Rioters torched several train carriages and attacked police stations. K.K. Attri, the state director general of police, said there were 86 incidents of violence. The epicenter was the Punjabi city of Jalandhar, the bastion of a Sikh sect called Dera Sach Khand. It comprises mainly Dalits, or "untouchables." Although caste is most closely associated with the Hindu faith, it also permeates other religions in India.

The violence postponed the scheduled opening Tuesday of **Wal-Mart Stores** Inc.'s first Indian store, which it is operating through a joint venture with **Bharti Enterprises** Ltd. of India. Bharti Wal-Mart Pvt. Ltd. said it would open the store in the Punjabi city of Amritsar once normal commercial activity had resumed.

The catalyst for the violence was an attack at a Sikh temple in Vienna on Sunday night that left at least 15 worshippers wounded as religious groups clashed with guns and knives. Vienna police spokesman Michael Takacs said the investigation is focusing on an alleged rivalry between worshipers from three Sikh temples in Vienna.

Mr. Takacs said police arrested six Indian nationals in connection with the killing of a 57-year-old guru, identified as Sant Rama Nand, who was visiting Vienna along with a more senior guru, identified as Sant Niranjan Das. Mr. Das was also seriously injured in the attack and is being kept in an artificial coma, Mr. Takacs said.

Four of the alleged attackers—who had previously applied for political asylum in Austria—were also hospitalized. Two other suspects, whose identities are unknown, were being held in pretrial detention, Mr. Takacs said. None of the suspects was cooperating with police, Mr. Takacs said.

Vienna police have cordoned off the three Sikh temples along with the Indian embassy and Indian consulate. "We plan to prevent congregations of Sikhs until things calm down," Mr. Takacs said.

Opposition party claims victory in Mongolia vote

Associated Press

ULAN BATOR, Mongolia—Mongolia's opposition Democrats claimed victory Monday in presidential elections after pledging to crack down on graft and better distribute the country's mining wealth.

The ruling People's Revolutionary Party had already conceded Sunday's election and said it considered the balloting fair.

With all but one remote western province reporting, the country's General Election Commission said Mongolian Democratic Party candidate Elbegdorj Tsakhia won 51.24% of the vote, while incumbent Enkhbayar Nambaryn of the Mongolian People's Revolutionary Party, the former communists, won 47.44%. Turnout was 73.52% of the country's 1.6 million registered voters, the commission said.

A two-time former prime minister, Mr. Elbegdorj campaigned on themes of change and graft-busting pleasing to urban voters, especially in the capital of Ulan Bator.

The General Election Commission said preliminary results showed Mr. Elbegdorj won seven of the capital's nine districts. His rival, incumbent President Enkhbayar Nambaryn, took 13 of the country's 21 rural provinces, sparsely populated regions that make up the ruling party's power base.

The election comes as the landlocked country struggles to cope with plummeting mineral prices, which have hit the economy hard. One-third of Mongolia's 2.7 million people already live below the poverty line.

Mr. Elbegdorj has promised to share more of the country's mining wealth with the public—a pledge that has also been made by Mongolia's ruling party. Both have been stymied by the government's difficulties trying to renegotiate terms on mining concessions with big foreign companies.

Mongolia's president oversees the armed forces and security council, and has the power to veto parliamentary decisions. However, a two-thirds vote by lawmakers can overturn a presidential veto.

Prime Minister Bayar Sanjaa, the ruling party chairman, congratulated Mr. Elbegdorj at a press conference and said he hoped his victory would increase interparty cooperation.

About 20,000 people joined a victory rally in the capital's central square, where Mr. Elbegdorj thanked his supporters and pledged to work at improving ties with China, Russia and other regional partners.

The often U.S.-leaning government has had to rely more heavily on China and Russia for loans and other economic support since the economic downturn.

The election result was a cordial end to a tight race that some had feared would turn violent if it was too close to call. When Democrats lost in parliamentary elections last year, Mr. Elbegdorj's allegations of voting fraud triggered fighting that left five dead and 300 injured.

It was the worst outbreak of political violence since the 1990 overthrow of communism.

Mongolian political analyst Dagdandorj Amgalanbaatar said Mr. Elbegdorj faced the challenge of meeting high expectations with a parliament controlled by a rival party.

"He has to tackle widespread poverty, continue infrastructure development and lead Mongolia's foreign policy even though the presidential role and power are limited. That is going to be his biggest challenge," Mr. Dagdandorj said.