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What's News

Fiat chief Marchionne met with Merkel to discuss details of the Italian car maker's bid for GM's Opel unit. The German chancellor plans Wednesday to bring together GM, Opel's suitors and U.S. and German officials. **Page 2**

■ **The UAW said it agreed** to a deal with GM that will lead to the union owning 17.5% of the auto maker once it restructures. **Page 5**

■ **U.S. home prices continued** their multiyear decline in March. Separately, U.S. consumer confidence improved sharply in May. **Page 22**

■ **A jump in U.S. consumer confidence** pushed stock prices higher on both sides of the Atlantic. The Dow industrials rose 2.4%. **Page 18**

■ **Sibir said Gazprom Neft** offered to buy out Sibir's minority shareholders in a deal valuing the Siberian oil producer at \$3.07 billion. **Page 2**

■ **Music-rights holders** are nearing agreement on a pan-European license that would allow consumers to buy music online across the EU. **Page 5**

■ **Santander agreed to pay** \$235 million to settle potential legal claims tied to Madoff, making it the first "feeder" fund to do so. **Page 19**

■ **Tight curbs on the TALF aid** program in the U.S. will bar thousands of developers and commercial-property owners from participating. **Page 17**

■ **Capital is pouring into** Hong Kong, boosting property and stock prices even as the economy falters. **Page 17**

■ **A U.S. military officer and** a State Department employee were among three Americans killed by a bomb in Iraq.

■ **South Korea joined the** U.S.-led Proliferation Security Initiative, a step Pyongyang in March said it considered a "declaration of war." **Page 9**

■ **Germany and France** posted resilient consumer-spending indicators, in another sign the worst of the recession may be past. **Page 8**

■ **The European fund industry** had its first quarterly net inflow since the start of the financial crisis. **Page 19**

■ **South Africa entered** recession, with first-quarter GDP falling an annualized 6.4%. **Page 8**

■ **California's Supreme Court** upheld a voter-approved ban on same-sex marriage.

EDITORIAL OPINION

'Saving' jobs

Berlin may manage to top even Washington's bailout mess. **Page 11**

Breaking news at europe.WSJ.com

Reform grips U.K. parties

With elections looming, Labour, Conservatives seek to cash in on change

By ALISTAIR MACDONALD

LONDON—The U.K.'s political system is facing what could be its biggest overhaul in decades, as the country's leading parties push dueling reform agendas in the wake of a bruising scandal over parliamentarians' expenses.

With public anger high, and with a majority of the Parliament's 646 seats likely to change hands at a general election to be held by June 2010, both the incumbent Labour Party and the opposition Conservative Party are seeking to seize the initiative by offering sweeping change.

The proposals range from abolishing the requirement that parliamentarians be addressed as "Honorable Member," to limiting the prime minister's powers and giving more autonomy to local governments.

"What started out as an expense scandal has mushroomed into a very significant constitutional debate," said Patrick Dunleavy, professor of political science and public policy at the London School of Economics.

While previous efforts to reform Parliament—typically led by one or another party—have met with varying success, both major parties

have a strong motivation to act this time around. An explosive series of newspaper articles detailing lawmakers' dubious expenses, which included charges ranging from dog food to major home renovations, has hit public faith in the nation's political institutions. Twelve members of Parliament, including Speaker Michael Martin, have already stepped down or said they will not stand for reelection.

Labour and Conservative politicians alike are rapidly expanding what began merely as a reform of the way lawmakers compensate

themselves through pay and allowances. In a speech Tuesday, Conservative leader David Cameron, whose party has a strong lead in opinion polls, set out an agenda for what he called a "massive, sweeping, radical redistribution of power."

Among other things, Mr. Cameron proposes eliminating the prime minister's power to set the date of general elections, introducing instead a four-year fixed term for each Parliament and whittling down the number of members. His proposals would give lawmakers the authority to decide the

Please turn to page 31

Flagging faith in Georgian leader sparks show of strength



JEERING SQUADRON: More than 50,000 opposition supporters packed the national sports stadium, left, for an antigovernment rally in the capital, Tbilisi, on Tuesday, as part of their campaign to force President Mikheil Saakashvili, right, to step down. **Page 8.**

Obama's first pick for Supreme Court

By JONATHAN WEISMAN AND NAFTALI BENDAVID

WASHINGTON—U.S. President Barack Obama tapped appeals-court Judge Sonia Sotomayor for the Supreme Court Tuesday, hoping to elevate the first Latina to the nation's highest court—and challenging conservatives who contend she is a liberal activist unfit for the post.

In an emotional introduction, the president escorted the New Yorker into the White House's crowded East Room, hailing "an extraordinary woman" who would bring to the nation's highest court "the wisdom accumulated from an inspiring life's journey."

A beaming Judge Sotomayor, 54 years old, called her-



Sonia Sotomayor with U.S. President Barack Obama Tuesday.

self "an ordinary person who has been blessed with extraordinary opportunities and expe-

riences."

In succeeding retiring Justice David Souter, Mr. Obama is seeking to make history, picking a Hispanic who rose from public housing in the Bronx to an extensive legal career as a prosecutor, corporate lawyer, trial judge and federal appellate-court justice on the Second Circuit in New York. White House officials called her the most qualified nominee in a century.

The president is banking on a strong Democratic majority in the Senate to deliver quickly her confirmation in time for the Supreme Court's October session. Democrats, liberal activists, Latino organizations and women's groups hailed the pick and vowed to fight for her quick approval.

But as the front-runner in

the selection process, Ms. Sotomayor had already attracted the attention of conservative judicial activists seeking to slow down the process, and potentially derail it. Their main line of criticism focuses on Mr. Obama's comments in recent days that he was seeking a judge with "empathy" and a "common touch," remarks seized on by opponents as a signal that his court pick would use overly wide discretion in interpreting the U.S. Constitution, veering from interpreting the law to making it.

Sotomayor critics are highlighting comments she made at a 2001 lecture at the University of California, where she said, "I would hope that a wise Latina woman with the rich-

Please turn to page 31

Cook to depart high post at Shell

By GUY CHAZAN

Linda Cook, one of the most senior women in the global oil industry, is stepping down as an executive director of Royal Dutch Shell PLC after losing the contest to become the Anglo-Dutch oil major's new chief executive.

Shell said she will resign Monday after working at the company for 29 years. A spokesman said the decision was "by mutual agreement." He said she "will be available to advise the company on strategy and...ensure an orderly succession in gas and power."

Shell declined to make Ms. Cook available for comment.

The 50-year-old Ms. Cook, who had headed Shell's gas-and-power division for the past five years, had been widely tipped as a possible successor to outgoing CEO Jeroen van der Veer, who is stepping down at the beginning of July. But she and the head of exploration and production, Malcolm Brinded, lost out to Peter Voser, the chief financial officer.

Analysts said her departure showed Mr. Voser's determination to form a new management team.

Some observers said the removal of Ms. Cook could pave the way for a major overhaul of Shell's corporate structure, with the exploration-and-production division possibly be-

Please turn to page 31

Inside



Buy, buy, bidders

Auctions fade as eBay tries to grow and diversify. **News in Depth, pages 14-15**

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8473.49	+2.37
Nasdaq	1750.43	+3.45
DJ Stoxx 600	208.96	+0.77
FTSE 100	4411.72	+1.06
DAX	4985.60	+1.37
CAC 40	3270.09	+1.05
Euro	\$1.3986	-0.14
Nymex crude	\$62.45	+1.26

Please turn to page 31

LEADING THE NEWS

Fiat CEO, Merkel meet

Marchionne presses case for takeover of GM's Opel unit

ASSOCIATED PRESS

BERLIN—Fiat SpA CEO Sergio Marchionne pressed his takeover offer for General Motors Corp.'s ailing Opel unit in direct talks with German Chancellor Angela Merkel as a decision neared on Opel's future.

The meeting at the chancellor's office in Berlin came ahead of another planned for Wednesday at which Ms. Merkel hopes to bring together German and U.S. officials with GM representatives and Opel's potential suitors.

Fiat spokesman Gualberto Ranieri said Mr. Marchionne discussed the details of his bid with Ms. Merkel for an hour.

"He outlined the Fiat offer and underlined the various industrial aspects and the process of the Fiat proposal," Mr. Ranieri said. Neither Mr. Marchionne nor Ms. Merkel addressed reporters after the meeting.

Economy Minister Karl-Theodor zu Guttenberg said after the meeting that he had a "serious impression" of Fiat's offer but that all bid-



Karl-Theodor zu Guttenberg

ders are still in the running.

"We must keep all options on the table," including a possible Opel bankruptcy filing, Mr. Guttenberg said.

Ms. Merkel's government is examining three bids for Germany-based Adam Opel GmbH: one from Fiat; one from a consortium that includes Canadian auto-parts maker Magna International Inc. and state-controlled Russian lender Sberbank; and one from New York-based buyout firm Ripplewood Holdings LLC.

Mr. Guttenberg later said that, in addition, "interest has been signaled from China." He didn't elaborate, saying that "we don't know more at the moment."

Fiat's rivals, Magna and Ripplewood, were expected to present their plans to Opel worker representatives Tuesday at the unit's Ruesselsheim headquarters in western Germany.

With many German politicians indicating a preference for Magna, Mr. Marchionne has sought to allay fears that Fiat's offer—which foresees wrapping Opel into a global powerhouse along with Chrysler LLC—would mean drastic job cuts.

On Sunday, Mr. Marchionne was quoted as telling the Bild am Sonntag newspaper that "in the worst case, a maximum of 2,000 jobs in Germany would be affected"

by the planned integration.

Ms. Merkel has said that decisions will have to be made by mid-week, though the choice of an investor ultimately falls to GM and the U.S. administration. Germany would decide on whether to provide assistance, and if so, what kind.

A government spokesman said Ms. Merkel would host a meeting Wednesday evening that would include cabinet ministers; governors of the four German states that have Opel plants; top officials from Fiat, Magna and possibly Ripplewood; and representatives from GM, GM Europe and the U.S. Treasury Department.

Opel employs some 25,000 people in Germany, nearly half GM Europe's total work force. With elections looming in September, Berlin is keen to save as many jobs as it can.

U.S. parent GM faces a June 1 deadline to restructure or file for bankruptcy protection.



Angela Merkel

Gazprom arm courts holders of Siberian oil producer

BY ANDREW LANGLEY

MOSCOW—Sibir Energy PLC said Russia's OAO Gazprom Neft offered to buy out Sibir's minority shareholders in a deal that values the oil producer at £1.93 billion (\$3.07 billion).

Sibir, which has fields in Western Siberia and a refinery in Moscow, said Tuesday that the oil arm of state gas monopoly OAO Gazprom offered 500 pence (\$7.95) a share. Sibir's shares have been suspended from trading on London's Alternative Investment Market since February. They last traded at 174.75 pence.

Gazprom Neft's offer excludes stakes held by Bannfield Ltd., Central Fuel Co., Bank of Moscow and Gazprom Neft itself, which together control more than 93% of Sibir's shares outstanding.

"It's a way for minority shareholders who missed Gazprom Neft's previous offers to exit at an attractive price," a person close to Sibir said.

By late last week, Gazprom Neft had amassed a 27.5% stake in Sibir, having won almost 17% in April by outbidding bigger rival TNK-BP Ltd., BP PLC's Russian joint venture. As recently as Friday, Gazprom Neft

had said that it wouldn't seek more than 30% of Sibir.

Analysts have widely predicted acquisitions of smaller oil producers after a slump in their shares and said a full takeover bid by Gazprom Neft was likely in order to maximize what it can extract from Sibir's assets.

Gazprom Neft declined to comment.

Open-market trading in Sibir's shares were suspended in February when the company began a probe into dealings with major shareholder Chalva Tchigirinski. The tycoon, who through Bannfield had owned a 47% stake with partner Igor Kesayev, had sought to sell hotel and other real-estate assets to Sibir.

Despite canceling those deals, Sibir said Mr. Tchigirinski owes it \$400 million, in lieu of which the businessman has transferred a 2.7% stake—separate from his Bannfield block—back to the company.

Sibir last month said it had filed suit against Mr. Tchigirinski and former Chief Executive Henry Cameron, accusing them of share-price manipulation and unauthorized payments. Messrs. Tchigirinski and Cameron weren't available for comment.

TNK-BP partners to hold tryouts for CEO position

BY GREGORY L. WHITE AND GUY CHAZAN

Struggling to find a new chief executive, BP PLC's TNK-BP Ltd. Russian venture is hiring two men into less-senior posts to try them out for the top job while a representative of BP's Russian partners takes over as interim chief, people close to the companies said Tuesday.

The two potential candidates are Maxim Barsky, a board member at West Siberian Resources, a small Russian oil company, and Pavel Skitovich, former CEO of OAO Polyus Gold, a Russian gold miner. Both will be named to senior posts in the next few weeks, the people close to the matter said.

Mr. Barsky brings oil-industry experience but at a company much smaller than TNK-BP, which is Russia's No. 3 oil producer. Mr. Skitovich has more management back-

ground but not in the oil business. BP recently nominated Mr. Skitovich as CEO but then agreed to the tryout arrangement.

The selection process could last three to nine months or more, the people close to the matter said.

"We don't want to set an artificial deadline, but it's in nobody's interest to drag this out," said a person close to the Russian shareholders, a group of billionaires led by Mikhail Fridman of Alfa Group, Len Blavatnik of Access Industries and Viktor Vekselberg of Renova.

The appointment of a CEO independent of BP and its Russian partners was a key element of a deal the two sides made last fall to settle a conflict over governance at the 50-50 venture. The previous CEO, a U.S. citizen and BP veteran, fled Russia last summer amid official pressure and accusations from the Russian partners that he was favoring BP.

But BP, which nominates the CEO under its deal with the Russian shareholders, has had a hard time finding a candidate with the combination of industry expertise, language abilities and experience that both sides agreed would be needed. For the last six months, Tim Summers, a former BP executive who was TNK-BP's chief operating officer, has been interim CEO.

The Russian shareholders want a rotation in the interim post, so Mr. Summers will be succeeded by a representative of the Russian shareholders when his contract ends June 1. BP and the Russian partners expect to finalize the choice of the interim CEO in the next few days. One potential candidate is Mr. Vekselberg, according to people close to both sides.

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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

Ackermann, Josef 17	Cook, Dick 29	Hackenberg, Ulrich 4	Marchionne, Sergio 2	Stone, Biz 27
Archer, Howard 8	Cook, Linda 1	Hackett, David 4	Möller, George 21	Summers, Tim 2
Baker, Malcolm 20	Cordes, Eckhard 28	Harris, Melvin 18	Morgan, Daniel 18	Tchigirinski, Chalva ... 2
Balloch, Hugh 17,18	Costopoulos, Yannis .. 6	Hillenbrand, Eric .. 17,18	Munsters, Roderick .. 21	Tse, Gordon 17
Barsky, Maxim 2	Creswell, Robin 21	Hutton, Peter 31	Parkus, Richard ... 17,18	van der Veer, Jeroen .. 1
Bentz, Tom 18	Di Risio, Giancarlo 6	Jonsson, Sigurdur 21	Pervan, Mark 6	Vekselberg, Viktor 2
Blavatnik, Len 2	Downey, Morgan 18	Kesayev, Igor 2	Picard, Irving 19	Versace, Donatella 6
Blitzer, David M. 22	du Plessis, Jan 23	Khan, Razia 8	Ranieri, Gualberto 2	Versace, Santo 6
Börsig, Clemens 17	Eick, Karl-Gerhard ... 28	Kim Dong-ho 6	Reilly, Joe 19	Versace Beck, Allegra .. 6
Branson, Richard 6	Franco, Lynn 22	Laurens, Jean-Louis .. 21	Ridgway, Steve 6	Villanova, Juan Tuesta .. 6
Brinded, Malcolm 1	Fridman, Mikhail 2	Leung, Cusson 17	Rogers, James 3	Voser, Peter 1
Bucco, Tullia 8	Fung, Andrew 18	Liddell, Roger 19	Shroff, Nilesh 19	Walsh, Sam 6
Buffett, Warren 4	Gasnier, Olivier 8	Madoff, Bernard 19	Skitovich, Pavel 2	Weiner, Allen 27
Chung, Ivan 23	Greenfield, Rich 29	Magnússon, Hrafn ... 21	Small, Whitney 4	Williams, Evan 27
			Stafford, Gary 20	Zhang Xiaojun 23

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.

ABB6	Banco Santander (Spain)19	Centerline Capital Group17,18	Hartz Mountain27	Rio Tinto6,23
Access Industries2	Bank of China23	Central Fuel2	Heidelberger Druckmaschinen18	Ripplewood Holdings.....2
After Weatherford International.....5	Bank of Moscow2	Chimera Investment.....18	Home Depot.....18	Robeco.....21
Alcoa18	Baoshan Iron & Steel ...6	Chrysler2	Hyundai Heavy Industries22	Royal Dutch Shell ..1,5,18
Alfa Group2	Bayer27	Citigroup20	IMI5	RWE6
Alpha Bank6	Bennfield2	Commonwealth Bank of Australia22	JFE Holdings6	Samsung Electronics...22
Aluminum Corp. of China23	Bertelsmann5	Continental Airlines4	J.P. Morgan Chase ..17,18	Sanofi-Aventis.....27
Amazon.com Inc.14	BHP Billiton6	Continental Corp.6	KB Financial Group.....22	Sberbank.....2
American Express18	Blackstone Group20	Daimler4	Kobe Steel6	Schaeffler Group6
American International Group20	Borletti Group28	Danone18,32	LCH.Clearnet19	Sibir Energy2
Apple5,18	BP2,18,31	Deutsche Bank ..17,18,28	LN Property17,18	Siemens5
Arcandor18,28	BYD4	Deutsche Postbank17	Lucent Technologies...5	Singapore Airlines.....6
Bain6	Canon Inc.22	eBay14	Magna International ...2	Sony22
	Carphone Warehouse Group6	Électricité de France ...32	MAP Pharmaceuticals ..18	Sumitomo Metal Industries6
		EMI Group.....5	Merck & Co.27	Sun Hung Kai Properties17
		ENI18	Metro18,28	Sun Microsystems.....5
		Essent6	Microsoft27	Telefónica6
		Fiat2	Morgan Stanley19,20	Tesla Motors4
		First Solar.....18	News Corp.29	Time Warner29
		Ford Motor.....4	Nikon6,22	Tiscali6
		Freddie Mac17,18	Nippon Steel6	Toshiba4
		Freenet6	Oracle5	Total SA18
		Gazprom2	PanAust20	Twitter27
		Gazprom Neft2	Peugeot18	United Internet.....6
		General Motors ..2,5,18,23	Pirelli & C. Real Estate28	United Therapeutics...18
		Gianni Versace6	Polyus Gold2	Vale do Rio Doce6
		Goldman Sachs Group20,28	Posco6	Viacom29
		Google27	Ranbaxy Laboratories ..22	Virgin Group Holdings...6
		Guangdong Rising Asset Management20	Reliance Communications.....22	Volkswagen4
		Gulfstream International Group4	Renova2	Walt Disney29
			Research In Motion....18	West Siberian Resources2
				Westpac Banking22

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LEADING THE NEWS

CEOs call for carbon cuts

Business leaders say cap-and-trade plan is better than taxes

ASSOCIATED PRESS

Global business leaders agreed that the world must cut greenhouse-gas emissions in half by 2050 by setting specific limits on carbon.

Some 500 chief executive officers and other top business experts said at the conclusion of the three-day World Business Summit on Climate Change in Denmark that "immediate and substantial" emissions cuts were needed by 2020, followed by cuts of at least 50% of 1990 levels by 2050.

They said governments should use the marketplace to set a global price on carbon instead of taxing it, according to a statement from conference organizers. Under cap-and-trade, the government establishes a market for carbon dioxide by selling credits to companies that emit greenhouse gases.

The companies can then invest in

technologies to reduce emissions or buy credits from other companies that already have met their emission reduction goals. But there is widespread dispute over the details of how cap-and-trade would work, with critics saying it would lead to higher costs for some consumers and could hurt bruised economies.

The business leaders said governments' overriding aim at a December United Nations meeting in Copenhagen on a successor to the 1997 Kyoto Protocol should be limiting the global average rise in temperature to a maximum of 2 degrees Celsius.

The U.N.'s chief panel on climate change estimates that the risk of increased severe weather will rise if the global average temperature increases between 1 degree Celsius and 2 degrees above 1990 levels.

"We're going to have to fundamentally redefine our business models in a low-carbon world," said James Rogers, chairman of U.S.-based electricity provider Duke Energy Corp.

But a Paris meeting of ministers from the world's biggest polluting

nations made limited headway in setting the kinds of limits the CEOs called for. French Environment Minister Jean-Louis Borloo said the U.S. had backpedaled on promises to slash carbon emissions but China appeared "absolutely determined" to make deep cuts.

U.S. President Barack Obama has called for an 83% reduction in greenhouse gases from 2005 levels by the year 2050 using cap-and-trade. His budget plan banks on raising \$646 billion in revenues from 2012 to 2019 from auctioning emission credits to companies. The top U.S. negotiator on climate change, Todd Stern, said the overall U.S. targets were on a par with what Europe is proposing, though are calculated differently.

"I don't think they are going to match. I don't think they need to match," he said. "We advanced the ball, though we have a long way to go to get to Copenhagen."

U.S. Energy Secretary Steven Chu said Tuesday that the U.S. is willing to take the first steps in tackling emissions. "The U.S. will move, inevitably it will move first, as a more developed country we should be mov-



At the World Business Summit on Climate Change, Danish Premier Lars Løkke Rasmussen urged developed countries to cut emissions 80% from 1990 levels by 2050.

ing first, and I hope China will follow," he said at a London conference organized by Prince Charles and Cambridge University.

The U.S. never signed on to Kyoto, citing the costs to the economy and lack of participation by China, India and other fast-developing countries. But some of those countries have said rich countries aren't

aggressive enough in cutting their emissions.

The hosts of the Paris meeting said they made progress on finding \$100 billion a year to help poor countries limit pollution and adapt to climate change. The next major round of U.N. climate talks toward a new treaty will begin in days in Bonn, Germany.

Float like a butterfly, sting like an apis mellifera.

Li Boynton, 17, of Houston, TX, USA; Olivia Schwob, 16, of Boston, MA, USA; and Tara Adiseshan, 14, of Charlottesville, VA, USA are the winners of the 2009 Intel International Science and Engineering Fair, a program of Society for Science & the Public. Each year we bring together over 1,500 of the world's brightest young scientists whose achievements will lead to the scientific breakthroughs of tomorrow. Meet them at intel.com/inside.

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CORPORATE NEWS

Scrutiny of U.S. airline intensifies

Some Gulfstream pilots allege unsafe practices; regional carrier says it follows federal rules 'to the letter'

BY ANDY PASZTOR
AND SUSAN CAREY

On Dec. 10, 2007, Kenny Edwards, then a captain with Gulfstream International Airlines, noticed that the collision-avoidance system on the Beech 1900 turboprop he was scheduled to fly was malfunctioning.

The system had helped the commuter aircraft narrowly avoid a mid-air collision with a private plane on the leg he had completed just hours earlier, from the Bahamas to West Palm Beach, Fla. He says he told airline management he wasn't "comfortable" flying another leg in and out of clouds at dusk if the equipment wasn't working properly, particularly at low altitudes, which are often crowded with small aircraft.

He was fired on the spot for insubordination. In a termination letter dated the following day and viewed by The Wall Street Journal, the airline's chief pilot at the time said the plane had been legal to operate and that the pilot's refusal to fly it delayed the departure "and inconvenienced our customers without just cause."

The details of that incident—as alleged in a lawsuit and a Federal Aviation Administration "whistleblower" complaint, both filed by Capt. Edwards—are adding to the scrutiny of Gulfstream, a regional airline that operates out of Fort Lauderdale, Fla. Gulfstream operates flights for Continental Airlines Inc. and other carriers.

On Monday, David Hackett, chief executive of the airline's parent company, Gulfstream International Group Inc., said, "no pilot that I am aware of has ever been fired" for refusing to fly an aircraft, adding that Gulfstream follows federal safety rules "to the letter." Mr. Hackett said Capt. Edwards was fired for previous poor job performance and "for basic insubordination" after refusing "to come into the chief pilot's office per company policy to discuss the situation." Capt. Edwards disputed that he had performed poorly and says he

'The culture seemed to be that you can get around the safety regulations.' — Kenny Edwards, former Gulfstream International Pilot



Gulfstream International, flying as Continental Connection with planes including the 19-seat Beech 1900 turboprop, above, serves primarily destinations in Florida and the Bahamas. It also flies some routes out of Cleveland.

Airlines served by Gulfstream International

Continental
Airlines

UNITED

nwa

was punished for complaining about alleged safety issues.

A Continental spokeswoman said Monday that the company expects its partners to adhere to the highest safety standards. "We think it is appropriate that the FAA exercise this oversight," she said.

Today, Capt. Edwards still contends he did the right thing by refusing to take off. While the aircraft technically would have been legal based on minimum standards established by the airline and the FAA, he said late Monday, the specific conditions that night made the flight unwise. The darkness, worsening weather and other factors meant such a trip would have "peeled away layers and layers of safety" and unnecessarily exposed passengers and crew to midair hazards, according to Capt. Edwards.

In an interview, Capt. Edwards

also said that several mechanics had told him they were pressured to sign off on planes with known problems. "The culture seemed to be that you can get around the safety regulations," he said. Capt. Edwards's claims couldn't be independently verified.

In other recent interviews, several former and current Gulfstream pilots made allegations about planes flying with known defects and other unsafe operations. The turmoil at the airline also has affected management personnel. Lily Harvey, a former senior training manager who recently failed two flight tests, resigned as a captain from the airline and is now working as an instructor in ground school, according to Gulfstream. Ms. Harvey couldn't be reached to comment.

Last week, the FAA proposed a \$1.3 million penalty against Gulfstream for

alleged 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. Both the FAA and the congressional investigators interviewed Capt. Edwards as part of their inquiries.

On Friday, Mr. Hackett disputed the assertions made by the FAA and congressional investigators. "No records were ever falsified, period," he said in an email. He said there were "extremely isolated incidents" of schedulers making mistakes and allowing pilots to fly over required limits. The CEO said he believes Gulfstream will be cleared on a majority of the items under FAA scrutiny.

There has been heightened concern about safety at regional airlines

since the Feb. 12 crash of a Continental Connection flight near Buffalo, N.Y., in which 50 people died. That flight was operated by regional carrier Colgan Air Inc., a unit of Pinnacle Airlines Corp. Many regional carriers fly under the flags of major airlines and ferry passengers to their hubs from more remote locations.

Investigators say they believe the crash near Buffalo of the Bombardier Q400 turboprop was caused by mistakes committed by relatively inexperienced pilots who hadn't been adequately trained on crucial emergency equipment.

Gulfstream plays an important role within the regional-airline sector. Though it is relatively small, flying 630,000 passengers last year, many young pilots work there or train at its affiliated training academy.

Capt. Marvin Renslow, the pilot of the Continental Connection flight that crashed in February, attended flight school there and also had worked at Gulfstream International. 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 the National Transportation Safety Board. Mr. Hackett said Capt. Renslow's record at Gulfstream was uneventful and he passed all his simulator proficiency tests and check rides.

Capt. Edwards said he refused in October 2007 to take a Gulfstream plane that lacked operational ground-steering and full instrument-landing systems. Capt. Edwards said the company didn't punish him for that incident. These claims were also detailed in the lawsuit he filed against the company in September in state court in Broward County, Fla.

Several other current and former Gulfstream pilots interviewed by The Wall Street Journal also allege that crews were pressured to fly despite malfunctioning safety equipment.

In his response Monday, Mr. Hackett reiterated there "are very clear rules" followed by Gulfstream that "no airplane can be flown legally with required equipment inoperative."

VW looks to China for batteries

BY CHRISTOPH RAUWALD
AND NORIHIKO SHIROUZI

Volkswagen AG said it is exploring options for teaming up with China's BYD Co. on hybrid and electric vehicles powered by lithium batteries—highlighting auto makers' efforts to secure battery supplies for alternative-energy vehicles.

The companies are exploring the possibility that Shenzhen-based BYD would supply a lithium-ion battery technology it developed for plug-in hybrid and all-electric battery-powered cars, people familiar with the negotiations said.

Volkswagen, based in Wolfsburg, Germany, would be the first major automotive partner for BYD, which moved into the spotlight last year when a company controlled by investor Warren Buffett invested \$230 million in the Chinese car maker, mainly because of BYD's cost-effective technology.

BYD—one of the world's biggest producers of cellphone batteries and a fledgling, fast-rising auto

maker in China—caused a stir in December by launching a plug-in car ahead of more-established foreign rivals.

"Hybrids and electric vehicles will play an increasingly important role," Ulrich Hackenberg, VW's executive board member for technical development, said in a prepared statement. "Particularly for the Chinese market, potential partners such as BYD could support us in quickly expanding our activities."

BYD also is talking to Ford Motor Co. and another European auto maker about similar arrangements, the people said. The status of those negotiations wasn't clear.

"We are always in discussions with many suppliers as a standard course of our business, but we have nothing to share at this time," said Whitney Small, a Ford spokeswoman in Bangkok.

Concerns over gasoline shortages and climate change have prompted a global race to commercialize affordable electric-battery cars and plug-in hybrids that get

most of their power from batteries.

A big obstacle is insufficient industry capacity to produce lithium-ion batteries, which is pushing auto makers like VW to team up with multiple lithium-ion battery suppliers. Aside from BYD, Volkswagen has signed letters of intent with Sanyo Electric Co. and Toshiba Corp., both of Japan. Volkswagen's premium Audi AG brand last year agreed to cooperate with Sanyo on developing lithium-ion batteries, saying the new technology should be ready for large-scale production in 2012.

While lithium-ion batteries are widely seen as the technology that will ultimately power most plug-in cars, the batteries' use has been hindered by a relatively high price, limited durability and safety concerns. BYD says it has largely resolved those issues by turning to a safer, more cost-effective technology: iron-phosphate-based lithium-ion technology.

Lithium-ion batteries produced in China are generally about half the



BYD hopes to sell to other car makers the same lithium-ion battery it uses in its F3DM plug-in hybrid, above. BYD began offering the vehicle in December.

cost of such batteries made in Japan and the West. Costs may rise as Chinese auto makers invest to improve their technology, however.

Germany's Daimler AG last week announced it will buy a 10% stake in Silicon Valley electric-vehicle start-up Tesla Motors Inc. for "a sum in the double-digit millions of euros." Daimler and Tesla already

were moving to integrate Tesla's lithium-ion battery packs and charging electronics into the first 1,000 electric versions of Daimler's tiny Smart two-seater. As part of the closer relationship, Daimler and Tesla will intensify development of battery systems, electric-drive systems and individual vehicle projects.

CORPORATE NEWS

Deal nears on music sales in EU

License would clear way for purchases online across Europe

BY PEPPY KIVINIEMI

BRUSSELS—Music-rights holders are nearing agreement on a pan-European license that would allow consumers to buy music online across the European Union, the European Commission said Tuesday.

Currently, most online retailers limit sales of digital media to the countries in which they are based, or where the buyer is based, because of complex copyright rules and fees across Europe.

The commission, the EU's executive arm, said that several key organizations have committed to agreeing to a pan-European license after it invited industry participants

to submit views on cross-border music sales.

"There is a clear willingness expressed by major players in the online distribution of music in Europe to tackle the many barriers which prevent consumers from fully benefiting from the opportunities that the Internet provides," said Competition Commissioner Neelie Kroes.

Sacem, which levies copyright fees on behalf of French artists, is willing to entrust other royalty-collecting societies with pan-European licensing of its song collection, the commission said.

Multinational record company EMI Group PLC has also indicated it is ready to give its whole repertoire of songs to rights managers to look after its interest in all of Europe, the commission said.

Meanwhile, Apple Inc., which operates online music store iTunes, would consider making its content available online to all European con-

sumers, if it was able to license rights on a pan-European basis, the commission said.

Apple has in the past come under commission scrutiny for restricting consumers to buying music only in the country in which they live by asking them to use a credit card issued in that country. Apple has maintained that the need to restrict online sales is due to restrictive licensing pacts.

EU countries all have their own collecting societies, which have the exclusive right to collect royalties from pubs, filmmakers and advertisers that use the music of songwriters in that country. A percentage of the royalties is passed back to the artist.

Last July the commission ordered the national collecting societies to open up their national markets to competition. It argued that the societies' practice of forcing artists to use their national collecting society for rights management had created 27 monopolies in Europe. However, until now, the rights managers have resisted the call for more competition, and have taken the case to the Euro-



Neelie Kroes



EMI Group, which carries the Beatles, is ready to join the pact, the EU said.

pean lower court.

Pan-European broadcaster RTL Group, part of Bertelsmann AG, said it was cautiously pleased with Sacem's position.

U.S. steps up effort to halt corporate bribes

BY DIONNE SEARCEY

The U.S. Justice Department is increasing its prosecutions of alleged acts of foreign bribery by U.S. corporations, forcing them to take costly steps to defend against scrutiny.

The crackdown under the Foreign Corrupt Practices Act, or FCPA—a post-Watergate law largely dormant for decades—now extends across five continents and penetrates entire industries, including energy and medical devices. Among the companies currently under Justice Department review: Sun Microsystems Inc. and Royal Dutch Shell PLC, according to the companies' disclosures.

At least 120 companies are under investigation, according to Mark Mendelsohn, a deputy chief in the Justice Department division overseeing the prosecutions, up from 100 at the end of last year.

The effort began in the wake of a series of business scandals earlier this decade, including the collapse of Enron, that stirred up a new corporate-reform movement.

Today, companies across the U.S. are working to figure out if they are at risk. In some instances, companies have called the Justice Department to come clean, in hopes of obtaining leniency.

"If we call them before they call us, it's not where they want to be," Mr. Mendelsohn said.

The law prohibits U.S. companies from paying, or offering to pay, foreign-government officials or employees of state-owned companies to gain a business advantage. It covers nonmonetary gifts or offers in addition to cash payments, and is worded broadly enough that it is spawning an army of consultants, some of whom once prosecuted bribery cases for the Justice Department, who offer to interpret the gray areas.

"When you have a law that can result in criminal sanctions and jail time and that you can violate without actually realizing you're violating it, that's terrifying," said Alexandra Wrage, president of Trace International Inc., a Washington-based nonprofit specializing in antibribery compliance.

The gray areas of the law sometimes apply to actions—for example, the giving of seasonal gifts—that can be common in some countries. This has left corporations concerned about other practices, such as picking up the cost of trips or meals for foreign officials.

In 2007, the Justice Department settled charges against telecommunications company Lucent Technologies Inc. for failing to properly record millions of dollars in travel to Disney World, Las Vegas and other sightseeing destinations for about 1,000 Chinese foreign officials who worked for state-controlled telecom companies. The company, which had characterized the trips as factory tours, admitted to the conduct and paid \$2.5 million in fines.

The FCPA became law in 1977 amid investigations into alleged contributions to Richard Nixon's re-election fund. At that time, a Securities and Exchange Commission inquiry revealed that some companies had been maintaining offshore slush funds used to sway business decisions abroad. After the passage of the 2002 Sarbanes-Oxley Act, which is intended to hold executives more accountable for their companies' actions, the Justice Department dusted off the FCPA law as part of the overall crackdown on corporate shenanigans.

The FCPA began its recent rise in prominence when, in 2004, a Justice Department overseas-bribery probe of defense-services company Titan Corp. sent its stock on a slide and eventually scuttled a \$1.6 billion merger with aerospace giant Lockheed Martin Corp.

Titan pleaded guilty and eventually paid \$28.5 million to settle SEC charges that it allegedly bribed government officials in Benin to develop a telecommunications project.

Mr. Mendelsohn currently has a team of eight Federal Bureau of Investigation agents working on overseas bribery cases, up from five last year.

For years, taking business associates to lavish dinners and giving them expensive holiday gifts, and even outright cash, was expected and done in many countries. Among them, according to legal experts and corporations: Nigeria, South Korea

and China.

As a result of stepped-up enforcement of bribery laws, corporations are re-evaluating their practices and hiring costly consultants to help them. If companies sniff out problems in-house, many have felt compelled to come clean to the Justice Department, which has given a break to some that do so.

Control Components Inc. of Rancho Santa Margarita, Calif., said in 2007 it began an internal investigation after finding "irregular payments" in trading contracts. Its parent company, British-based IMI PLC, said in a statement in the U.K. that it last year set aside £26.3 million, or about \$42 million, for legal costs as well as expected fines in the matter.

In April the Justice Department indicted six former employees of the company, which makes valves for energy equipment, accusing them of having made at least 236 payments to win contracts in more than 30 countries. The indictment accuses one former employee of flushing incriminating documents down a ladies' room toilet.

Control Components hasn't itself been indicted. The company declined to comment, other than to note that no current employees are being prosecuted.

Several major multinational companies have been targets. German industrial conglomerate Siemens AG agreed in December to pay \$800 million in U.S. fines to settle bribery investigations involving alleged payments to government officials around the world to win infrastructure contracts.

Justice Department officials alleged the corruption at Siemens reached the highest levels of management. In its indictment in federal court in the District of Columbia, it accused Siemens of spending more than \$1 billion bribing government officials around the globe to win infrastructure contracts in recent years. Munich-based Siemens, which didn't admit to the bribery allegations as part of the settlement, said it had inadequate controls and kept improper accounts. U.S. law applies to the German company because its stock trades in the U.S.

In February, energy companies

Kellogg Brown & Root LLC and its former parent, Halliburton Co., agreed to pay a total of \$579 million for U.S. charges involving bribery of officials in Nigeria. KBR pleaded guilty to charges involved in the case. As part of the settlement, the federal government agreed not to prosecute Halliburton.

The Justice Department probes can be particularly extensive during merger-and-acquisition activity. As a result, companies are becoming increasingly careful to scrutinize their own practices when a deal is brewing to ensure they don't inherit a bribery problem. Just two weeks ago, Sun Microsystems—which is in the midst of a potential \$7.4 billion purchase by Oracle Corp.—said in a regulatory filing that it might have violated bribery laws in an unnamed country.

The two companies declined to elaborate on whether the potential violations would affect the deal. Oracle has said in an SEC filing that Sun informed it of the matter.

Hiring a consultant to ferret out trouble internally can be costly. One global investigative firm, Nardello & Co., says it starts its billing at about \$7,500 for each employee a company wants to scrutinize. The bill can rise quickly if the employee works in multiple countries.

After Weatherford International Ltd., an oil and gas company, reported in an SEC filing in 2007 that it might have a bribery problem with a European subsidiary, it started sending compliance officers to some of the 100 countries where it operates, to train many of its 45,000 employees, according to a person familiar with the company.

A spokesman at Siemens, which paid the largest foreign-bribery fine to date, said the cost of addressing its own corruption allegations was nearly as much as its total fine of €1.22 billion (\$1.7 billion), including fines to the German government. The company is spending more money now on compliance programs and a government-mandated monitor.

A Siemens spokesman said in an email that it is wise for a company "to have an adequate compliance system in place and a corporate culture that stands for clean business."

Union agrees to 17.5% stake in revamped GM

BY JOHN D. STOLL AND SHARON TERLEP

The United Auto Workers union, in a key cost-cutting deal with General Motors Corp., has agreed to accept at least 17.5% of GM's stock, \$6.5 billion in preferred stock, and representation on the company's board in exchange for concessions on future health-care obligations.

The UAW will also receive a \$2.5 billion note that will be repaid in installments through 2017, and stock warrants for an additional 2.5% of the company. The \$6.5 billion in preferred stock includes a 9% cash dividend that will pay out \$585 million annually.

The details of the agreement, spelled out in a union brochure obtained by The Wall Street Journal, come as GM moves toward a June 1 deadline on deciding on whether to file for bankruptcy protection.

The agreement represents a significant change from the original outline of GM's government-led restructuring, which would have left the union's health-care trust holding a 39% stake in the company.

When the UAW agreed to a health-care trust deal with GM in 2007, the company committed a total of \$35 billion to fund future retiree health care, comprising \$20 billion in cash payments and \$15 billion in other assets, including funds that had been set aside in previous years to fund these benefits. But the company's financial health has deteriorated.

The \$15 billion had been set aside in an independent trust in 2008, but the union said Tuesday that, given the turmoil in the markets, the value has fallen to \$10 billion.

In addition, GM has cut the \$20 billion cash obligation in half, and will now deliver half of that commitment in the form of the \$2.5 billion note, up to 20% of the company's common equity and \$6.5 billion in preferred stock.

The outcome of another critical piece of GM's reorganization—a \$27 billion debt-for-equity exchange with bondholders—is expected late Tuesday or Wednesday. GM has offered bondholders a 10% stake in the company in exchange for at least \$24 billion in debt, but bondholders have complained, mainly because they were supposed to get a much smaller stake in the company than the UAW.

Because the UAW is taking 17.5% stake in GM, rather than GM's initial 39% offer, there is a chance the company could sweeten its deal to unsecured bondholders. The offer to the bondholders, set to expire Tuesday night, needed the approval of 90% to go through.

Securing a revised agreement with the UAW is an essential piece of the company's reorganization effort. The key issue facing the UAW is related to renegotiating GM's contribution to a trust that the union will manage and use to cover the cost of health care for retired workers.

According to the UAW, Treasury officials "insisted" that retirees take immediate reductions in benefits. The UAW said the government has committed to "providing massive additional financial support to assist GM in completing its restructuring" and avoid a liquidation.

The agreement also includes a provision for job buyouts, as well as to forbid strikes until 2015, these people said.

—Alex P. Kellogg contributed to this article.

CORPORATE NEWS

Iron-ore contract prices dive

Rio Tinto accepts cuts of at least 33% in Nippon Steel deal

BY ALEX WILSON

MELBOURNE, Australia—Rio Tinto Ltd. said it has struck a deal with Nippon Steel Corp. of Japan for a 33%-to-44% cut in iron-ore term prices for the 2009-10 contract year that started April 1.

Industry officials close to negotiations said JFE Steel Corp., a unit of JFE Holdings Inc.; Sumitomo Metal Industries Ltd.; and Kobe Steel Ltd. have accepted the same terms, with other Japanese mills expected to follow suit, effectively making this the official Japanese price for the year.

Rio Tinto said it has agreed on a price of 97 U.S. cents per dry metric ton for Pilbara and Yandicoogina iron-ore fines, a type of low-grade ore, compared with US\$1.446 last year, and US\$1.12 a ton for high-grade lump iron ore, down from US\$2.0169.

This is the first deal of the year and could become the benchmark for the other two big miners, BHP Billiton Ltd. and Cia. Vale do Rio Doce, which are continuing negotiations with steel mills over 2009-10 prices.

"We believe this settlement is a realistic outcome for both parties—one that reflects the global market for iron ore and the current challenging market conditions facing our customers," Rio Tinto Iron Ore Chief Executive Sam Walsh said.

The price cut is the first downward movement in contract prices in seven years, reflecting weaker demand from steelmakers hit by the global recession. But amid stiff resistance from steel mills, it remains to be seen if this can become an industrywide price for the year.

A Posco official in Seoul said the South Korean steelmaker hasn't yet agreed on prices with any of the miners. "Iron-ore talks for this year are not over yet," spokesman Kim Dong-ho said, without elaborating.

A spokesman for BHP declined to comment on Rio's settlement with Nippon Steel.

Tuesday's price cuts weren't as deep as some in the market had been expecting and mining stocks rose in reaction to the news. But analysts said Chinese steel mills could hold out for larger cuts, un-



Rio Tinto's agreement with Nippon Steel calls for a 33%-44% drop in iron-ore term prices in 2009-10. Above, Nippon Steel's Kimitsu mill near Tokyo

dermining the already ailing benchmark pricing system.

Chinese steelmakers have been pushing for prices to be cut back to levels seen in 2007, when prices were set at 80.4 U.S. cents per dry-metric-ton unit.

Mr. Walsh said at an industry event in Canberra, Australia, that iron-ore prices wouldn't be returning to 2007 levels this year.

The deal could become the standard for BHP Billiton and Vale do Rio Doce.

After the announcement of Rio's deal with Nippon Steel, a senior official at a Chinese government-owned steelmaker said China won't be changing its stance on not accepting a cut of less than 40%. He said the China Iron and Steel Association is meeting now to discuss Rio's settlement with Nippon Steel.

An official at Baoshan Iron & Steel Co., China's biggest steelmaker, said the company was trying to confirm the latest prices with Rio. Ding Shouhu, Baosteel's chief negotiator, said he had "to confer with Rio directly" before comment-

ing on the prices. Baosteel has been leading the Chinese side in annual price negotiations.

The China Iron and Steel Association has said Chinese mills want a 45% cut from Rio and a 40% cut from Vale to reflect weaker market conditions. The association has said that if a benchmark was set outside China, it wouldn't accept a cut of less than 40%.

The inflexible pricing system showed signs of strain last year, when Vale first got a 65%-to-71% price increase for different ore grades. But Australian miners held out, eventually getting higher increases of 80% to 97% in recognition of the lower cost of shipping their ore to Asian mills.

ANZ commodity strategist Mark Pervan said this year looked set to mark a further breakdown of the benchmark system, as Rio would have to offer Chinese steel mills a bigger cut, recognizing that China's iron-ore consumption is three times Japan's.

China is the world's biggest importer of iron ore, accounting for more than half of the global seaborne trade in the key steelmaking input.

—Kazuhiro Shimamura in Tokyo, Kyong-Ae Choi in Seoul and David Rogers in Sydney contributed to this article.

Versace board approves overhaul

BY STACY MEICHTRY

The board of Gianni Versace SpA on Monday said it had approved a restructuring plan drawn up by an outside consulting firm for the Italian fashion house.

The move effectively sidelines Versace's chief executive, Giancarlo Di Risis, who is expected to step down over the next few days. Mr. Di Risis wasn't involved in drawing up the plan by the consulting firm Bain & Co., according to a person familiar with the matter.

The board, which includes designer Donatella Versace and her brother Santo Versace, said the plan aimed to help the fashion house navigate the global economic crisis that has sapped lux-

ury sales world-wide. The statement didn't provide any detail regarding the nature of the restructuring plan.

Mr. Di Risis, who attended the board meeting on Monday, is expected to leave the company in the coming days after clashing with Ms. Versace over company strategy, according to people familiar with the matter.

Last week, The Wall Street Journal reported that Mr. Di Risis was expected to step down.

Versace tapped Bain & Co. to craft a new strategy for the fashion house two months ago as tensions between the designer and Mr. Di Risis rose, the people said. Amid falling profit, Mr. Di Risis has pushed Ms. Versace to sim-

plify her designs, so that the house could introduce new accessories and clothes with lower prices, according to one person familiar with the matter. The two have also disagreed over how to cut costs at the fashion house, the person said.

In its statement Monday, however, the board denied that there has been recent "friction" between Mr. Di Risis and Ms. Versace. The statement didn't address whether Mr. Di Risis would remain at the company.

Ms. Versace holds a 20% stake in the firm and is backed by her daughter Allegra Versace Beck, who owns 50% of the fashion house. Santo Versace holds a 30% stake in the label.

GLOBAL BUSINESS BRIEFS

Virgin Atlantic Ltd.

Net income increases 17% but challenges remain

British airline Virgin Atlantic Ltd. posted a 17% rise in net profit for its fiscal year as it boosted market share in the premium market and hedged against currency fluctuations and high fuel prices. But Chief Executive Steve Ridgway warned that the carrier is facing challenges in the premium market as rivals cut prices. Net rose to £45 million (\$71.6 million) for the year ended Feb. 28 from £38.6 million a year earlier. Sales rose 8.4% to £2.58 billion, while traffic edged up 1.2% to 5.77 million passengers. Virgin said it did well in the lucrative premium segment. The carrier is 51%-owned by Richard Branson's Virgin Group Holdings Ltd. and 49% by Singapore Airlines Ltd.

United Internet AG

German broadband provider United Internet AG agreed to acquire Freenet AG's broadband operations for €123 million (\$172 million). United Internet agreed to use cash and stock to buy about 700,000 customers of Freenet's digital-subscriber-line service, although it retains the option to pay entirely in cash. It will also set up a sales partnership with Freenet. The deal, the latest in the lengthy consolidation process in European broadband, shows a steep decline in valuations. In February analysts valued Freenet's DSL operations at about €300 million. Carphone Warehouse Group PLC earlier this month clinched a deal to buy the U.K. assets of Italian Internet-service provider Tiscali SpA with its 1.45 million customers for £236 million (\$376 million).

ABB Ltd.

Electrical-engineering company ABB Ltd. said it is continuing to curb costs and is planning job cuts in France because of sagging demand, particularly in the automotive and construction sectors. According to union officials, Zurich-based ABB is considering reducing its head count in France by about 540 employees, or around 20% of its staff there. ABB employs about 120,000 workers worldwide. An ABB spokesman declined to confirm the number of job losses but said the company has alerted French officials about its plans. Since the global economy has plunged into recession, ABB has been reluctant to reduce its head count, introducing short-time work and cutting temporary services instead. But the recent rapid fall in demand for its engineering services has prompted the company to take more drastic measures.

Alpha Bank SA

Greece's Alpha Bank SA said its first-quarter net profit fell 58%, weighed down by higher provisions and weak net interest income, and added it remained cautious about the year ahead. In the three months ended March 31, Alpha Bank's net profit totaled €85.7 million (\$120.1 million), down from €205 million a year earlier. Provisions more than doubled to €157.3 million from €67.6 million. Net interest income was down 8.9% to €402.6 million, reflecting higher financing costs. "We are confident that Alpha Bank is well placed to prosper now and over the long term but remain cautious on our outlook for the economy in the near term," said Chairman Yannis Costopoulos. As the economic crisis begins to affect Greece and its neighbors, banks have seen lending growth slow and bad debts rise.

Schaeffler Group

German car-parts maker Schaeffler Group agreed not to lay off workers for the next year under a plan that aims to save costs by cutting work hours, among other measures. Closely held Schaeffler said earlier this month that it needed to save €250 million (\$350 million) in annual costs. It said that could translate into as many as 4,500 job cuts in Germany, but pledged to avoid layoffs. Under the deal reached Tuesday with the IG Metall industrial union, Schaeffler ruled out layoffs until June 30, 2010, so long as its cost-cutting target can be achieved. Schaeffler is squeezed by a huge debt load after its attempted takeover of larger German peer Continental AG amid a steep decline in the global auto market, and has asked for state aid to weather the storm.

Telefónica SA

Telefónica SA said it lowered the price for broadband Internet access for some clients by 30% in an attempt to counter a migration to rival operators. Spain's largest telecommunications company has in recent weeks lowered the price of subscriptions with a three-megabyte Internet speed to €28 (\$39.21) a month from €40 a month for some customers, a Telefónica representative said. The offer comes in response to a fall in Telefónica's share in new broadband subscriptions that has become unsustainable, Banco Español de Crédito analyst Juan Tuesta Villanova said. The offer is valid for clients that are determined to migrate to other operators and can't be swayed by other offers from Telefónica.

Essent NV

The Dutch Economy Ministry on Tuesday approved a plan to separate Essent NV's power-grid business from its production and supply operations, clearing the way for a €9.3 billion (\$13.03 billion) takeover of the company by Germany's RWE AG. The decision to unbundle Essent's power-network business is crucial for RWE's planned takeover because Dutch law requires that the grid remain in the hands of public authorities. RWE's takeover of Essent's commercial production and supply activities also came a step closer when a majority of Essent's shareholders, including several Dutch regional and local authorities, recently voted in favor of selling Essent to the German utility.

Nikon Corp.

Nikon Corp. said it will streamline semiconductor-related production as part of a program to cut fixed costs by 18 billion yen, or about \$200 million, over the next three years. Nikon said it will integrate four units that make devices used to produce semiconductors into two units in October. The Tokyo-based company's plans reflect worsening conditions in the chip industry, where major players have suffered huge losses. The restructuring, which also includes shrinking global sales and service operations, will lead to cuts of about 1,000 permanent and contracted jobs. The restructuring will result in a special loss of more than four billion yen in the fiscal year through next March. Nikon forecasts a net loss of 17 billion yen for the year.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Sri Lanka's refugees trapped after war

Tamils wait to be released from camps, where resentment festers and government tries to win hearts and minds

BY PETER WONACOTT

VAVUNIYA, Sri Lanka—Before reaching the corrugated metal shelters of a refugee camp here, Noroshan Nallathambi and his family faced a dilemma: disclose what they say was his forced conscription to the Tamil Tiger rebels or keep quiet.

In the end, the 21-year-old Mr. Nallathambi decided to step forward at an army checkpoint 10 days ago, according to his family members. They haven't seen him since. "We don't know where he's gone," says the young man's 60-year-old grandfather, Shivasubramaniam Indrani.

After Sri Lanka's army finished off the Tamil Tigers as a fighting force last week, the Sri Lankan government turned its attention to rooting out those who may have served in the separatist guerrilla movement—willingly or unwillingly. Though the government says the security screening is necessary to squeeze the last breaths from a 26-year insurgency, the process is proving wrenching for families who survived the war only to be separated in peace.

So far, say army officials, the screening process has netted more than 9,000 Tamil Tigers. Most came forward voluntarily, army officials say. They are expected to spend about six months at rehabilitation camps, where they will be taught vocational skills and monitored to make sure they don't harbor allegiance to the Tigers and their violent separatist movement. A few hundred hard-core insurgents will be kept longer, army officials say.

As these screening efforts unfold, the government has confined hundreds of thousands of refugees to overcrowded camps with an uncertain timetable for returning home. President Mahinda Raja-



Civilians stand inside a refugee camp outside Vavuniya in northern Sri Lanka on Tuesday.



paksa has promised to resettle most of the refugees by the end of the year, as part of the process of reconstructing the island's war-torn north and reviving its economy.

Until then, most are stuck behind the barbed wire of the camps.

The hardships underscore the government's delicate task of providing humanitarian aid amid a security blanket, and the potential for tensions among the ethnic Tamils to escalate.

"The people are willing to give the government some time," says Suresh Bartlett, national director in Sri Lanka for World Vision, an aid organization working in the camps. "But if it goes on," he warns, "there could be agitation."

With the help of foreign relief agencies, the Sri Lankan government has taken in about 300,000 refugees in 41 camps. The government is scrambling to put up tents, organize schools and provide food to ac-

commodate the tens of thousands who have arrived after the Tamil Tigers were defeated.

The government's treatment of civilians caught in the fighting has attracted international scrutiny. United Nations Secretary-General Ban Ki-moon toured the camps over the weekend, although his call for free access for aid deliveries was rejected by the government.

The U.N.'s top human-rights official, Navi Pillay, on Tuesday called for an independent investigation into alleged atrocities committed by both sides.

A military spokesman, Brigadier V.U.B. Nanayakkara, says allegations of atrocities from the government side were baseless. "We rescued 295,000 people," he said. "It was a humanitarian operation to liberate these zones."

The war for a separate Tamil state, which was fought off-and-on beginning in 1983, ended early last

week in a bloody showdown in which much of the senior Tiger leadership was killed. The body of Tiger chief Velupillai Prabhakaran was discovered last week, say army officials, near a mangrove forest, contrary to earlier statements that he had died trying to escape in an ambulance.

Since vanquishing the Tigers, the government has gone on a public-relations offensive seeking to win over the ethnic Tamils. At a news conference Tuesday in Vavuniya, a defector from the separatist cause lambasted the Tigers and their chief for how little was gained from the decades of violence that killed an estimated 100,000 people.

"Thirty years of war and we got nothing. Zero," said Col. Karuna Amman, who helped to identify his former commander's body.

The U.N. has estimated that 7,000 civilians have been killed from the beginning of the year. Some died in the final days of the conflict, leav-

ing widows and orphaned children, say residents of refugee camps around Vavuniya.

Foreign journalists were taken on a guided military tour of camps now seeing an influx of refugees, and allowed to interview refugees without official escorts.

In one camp, called Zone 4, 34,000 people were housed in long rows of tents pitched in recently cleared dirt. A second, Anandakumragami, offered thousands of inhabitants shelters with corrugated tin roofs, but residents complained of little water and only two meals a day. In lieu of a school, classes were held under a tree.

A refugee at Zone 4 who identified herself as Ranjithan said she lost her husband in an artillery barrage that struck their bunker near Mullaitivu. Two toddlers in the same tent, which sheltered seven families, lost their father in a May 12 blast, according to another refugee. Three days later, their mother died the same way, he said.

Asked where the bombs came from, a woman frowned. "The government," she whispered.

Brig. Nanayakkara, the military spokesman, says the army refrained from using heavy weapons in the civilian safe zone. "When you are on the receiving end, you can never tell where the bombs are coming from," he said.

Those who straggled into the safety of the camps then had to clear an additional hurdle: the security check. The army says it was screening out those who were trained by the Tamil Tigers and carried guns.

Shiva Rubi, a 47-year-old woman in a green polka dot blouse, said her son was detained as they made their way to the camps, but she maintains the 21-year-old student had no connection with the Tamil Tigers. Rasalin Kam, a 46-year-old bricklayer with bandaged ribs, said he was questioned by soldiers because he had been shot. Eventually, they let him move on to the camps.

Myanmar appears calm during trial of dissident Suu Kyi

BY A WALL STREET JOURNAL REPORTER

YANGON, Myanmar—As the trial of famed dissident Aung San Suu Kyi continues in this crumbling, monsoon-soaked city, residents are privately expressing anger and dismay over the proceedings. But they are giving little indication they intend to challenge the trial's outcome or launch the kind of widespread protests that Myanmar has witnessed in the past.

"I don't want to talk about" the trial, says Khin Aung, who makes \$26 a month guarding a religious shrine along a quiet street in this predominantly Buddhist city. Like many people, he is afraid of openly challenging the country's military junta, which has ruled Myanmar—and silenced most opposition—since the 1960s. "I am no one. I am not in a position to do anything to change the state of the country," he says.

Dissidents and advocacy groups accuse Myanmar's military regime of an array of human-rights violations, including the use of forced labor and imprisonment of 2,000 or more opposition leaders, including Ms. Suu Kyi, a Nobel laureate whose political organization won Myanmar's last election in 1990. The regime ignored those results and has

kept Ms. Suu Kyi, 63 years old, under house arrest for 13 of the past 19 years, including the last six.

The current trial, in which Ms. Suu Kyi is accused of violating her house arrest by allowing an American well-wisher to swim to her lakeside home, has drawn sharp rebukes from Western governments and parts of Asia. It is widely viewed as a ploy by the government to extend its imprisonment of Ms. Suu Kyi until after a new national election is held sometime next year.

Ms. Suu Kyi, who pleaded innocent Friday, told a court Tuesday that she didn't think she was breaking the terms of her house arrest when she gave what she described as "temporary shelter" to Missouri resident John Yettaw, 53 years old, who illegally swam to her lake-side house on May 4.

Asked if she had reported the presence of Mr. Yettaw to the authorities, Ms. Suu Kyi said, "No, I did not," according to an Associated Press reporter. She said she had spoken with Mr. Yettaw and had given him "temporary shelter." He left around midnight on May 5 and was later arrested

swimming back across the lake.

Ms. Suu Kyi earlier told her lawyers that she didn't report Mr. Yettaw's uninvited visit because she didn't want him or security personnel in charge of her house to get into trouble. She also told her lawyers that the security forces should be held responsible for letting Mr. Yettaw in, the AP reported.

Some residents say they think a verdict could come as early as Wednesday, the day when Ms. Suu Kyi's current house arrest was supposed to expire, according to her lawyers. But in a briefing Tuesday morning with diplomats, the government indicated it could legally hold Ms. Suu Kyi until as late as November before reaching a decision, according to a person familiar with the proceedings.

While Myanmar's government rarely speaks directly with foreign reporters, it has defended the trial in state-controlled media, including a statement published Monday in the official New Light of Myanmar newspaper that said officials had "no option but to open legal proceed-



Aung San Suu Kyi

shackle streets. Some residents say that they believe the regime is too powerful to challenge and that widespread protests would only destabilize the already weak economy, making life harder for average citizens.

"Everyone is talking [about the trial], but they whisper," says Frankie Nyi, a manager of a local travel agency. When he discusses Ms. Suu Kyi in the office, he says, other staff look at him like he has lost his mind. "People are afraid."

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ECONOMY & POLITICS

Thai early elections possible

Abhisit says measures to support economy need to be in place

BY LEIGH MURRAY
AND PIYARAT
SETHASIRIPHAIBOON

BANGKOK—Thai Prime Minister Abhisit Vejjajiva, whose coalition government is looking increasingly fragile because of infighting, said he wouldn't rule out early elections this year once the support measures for the economy are in place.

Mr. Abhisit said his government would work to cut corporate and personal taxes to help strengthen Thailand's competitiveness in the region.

He maintained that Thailand would return to economic growth in the fourth quarter despite gross domestic product shrinking 7.1% year-to-year in the first three months of the year—its biggest decline since the 1997-98 Asian economic crisis.

Mr. Abhisit also expressed concern over the recent strength of the baht against the dollar and its potential negative impact on Thailand's competitiveness.

In a wide-ranging interview, Mr. Abhisit didn't dismiss the idea of calling elections this year despite his government having been in power for just five months.

"I wouldn't rule it out," he said, adding that voters would go to the polls "when things cool down a bit, when the ... economic package is all set, so people can be reassured that whatever happens there are measures that look after their economic problems, particularly unemployment."

The Thai cabinet this month approved a 1.43 trillion baht (\$41.6 billion) budget for investments in infrastructure projects between 2009 and 2012 to help shore up the domestic economy and create as many as two million jobs.

Mr. Abhisit expressed some con-



Voters in Thailand could go the polls later this year to choose a new prime minister, as infighting weighs on Abhisit Vejjajiva's coalition government.

cern over the recent strength of the baht, which has continued to rise against the dollar.

"It seems to be over the last few months stronger than other regional currencies, so there's concern about the loss of competitiveness," he said, but added that Asian countries with weaker currencies didn't appear to be doing better in regards to exports.

Mr. Abhisit said that to help bolster Thailand's competitiveness, the government also plans to trim personal and income tax rates, which are significantly higher than those in Malaysia, Singapore and Hong Kong.

"We just need to look at the right timing," he said. He wouldn't offer specific target levels or a timeline for tax cuts, but said any changes will make Thailand "more competitive than we are now."

Mr. Abhisit also said interest rates, which were held steady at 1.25% by the Bank of Thailand last week, weren't too high.

The central bank has cut rates a total of 2.5 percentage points since December but the cuts have failed to spur lending growth among Thai banks.

"The problem is not really whether interest rates are too high,

they're clearly not," he said. "The issue I think with the monetary or the financial sector now is the risk attitude, which is something that's always a problem during a recession."

He said Thai banks would become less risk-averse once the government's investment program kicks in and the economy shows strength.

Mr. Abhisit reiterated the economy would return to growth in the fourth quarter despite Thailand sinking into recession in the first quarter. He said GDP in the second quarter would be better than the first three months of the year, thanks to government stimulus measures.

He said that since February the number of job layoffs had fallen, while manufacturing capacity utilization had increased to around 60%. "We have to obviously be watchful to make sure that that's a trend, not a blip. But there are some encouraging signs. We are still confident that come the end of the year the growth rate will be back up in positive territory," he said.

Exports, which make up 70% of GDP and have slumped this year, will gradually return to growth as Thailand's major trading partners recover later this year and in 2010, he said.

Consumer-spending data gain in Germany, France

BY NINA KOEPPEN
AND NICHOLAS WINNING

FRANKFURT—Surprisingly resilient consumer spending in Germany and France, Europe's biggest economies, and early indications that the decline in euro-zone new industrial orders is slowing offered fresh signs Tuesday the worst of the recession may have passed.

However, economists said the manufacturing sector probably won't see a marked recovery for a while, and also cautioned against reading too much into the consumer-spending patterns in Germany and France, noting that these were supported partly by government car-scraping incentives in both nations.

New orders to industry in the 16 countries using the euro currency fell 26.9% in March from a year earlier, the European Union's statistics agency, Eurostat, said—though that was an improvement compared with the revised 34.2% drop in February. New orders fell 0.8% in March from the previous month, after being revised up to unchanged in February.

"Going forward, euro-zone manufacturers should increasingly benefit from the substantial de-stocking that has occurred in recent months as well as a possible bottoming out in global trade," Howard Archer, chief U.K. and European economist at IHS Global Insight, said in a note. "Nevertheless," he said, "manufacturers are likely to find life pretty difficult for some considerable time to come."

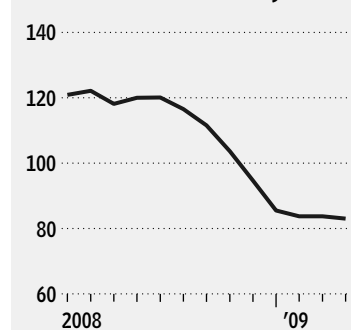
Meanwhile, Olivier Gasnier, an economist at Société Générale, said consumer spending could be hit by difficulties in the second half of the year, "as unemployment rises, inflation stops falling and the marginal effect of car purchase incentives fades."

German market-research group GfK's forward-looking consumer climate index for June, also released Tuesday, was steady at 2.5 points. But although consumers are assuming that the worst has passed, job anxieties remain high, GfK said.

In France, April data from the In-

Breaking the fall

Index of euro-zone industry orders



Note: Seasonally adjusted
Source: Eurostat

stitut national statistics office showed that consumer spending, which accounts for about two-thirds of gross domestic product in the euro zone's second-biggest economy, was boosted by the country's car-scraping program, under which consumers trade in their old cars to get money off a new, more-efficient model. Consumer spending on manufactured products, a good proxy for consumer spending as a whole, rose 0.7% in April from the previous month and 0.6% from a year earlier. That compared with March's revised 0.6% gain from the previous month.

"Overall, today's reading suggests private consumption may remain resilient in the second quarter, and continue to support economic activity," said Tullia Bucco, an economist at BNP Paribas.

Germany's Federal Statistics Office on Tuesday confirmed its earlier estimate that GDP in the three months ended March 31 declined 3.8% from the previous quarter and 6.9% from a year earlier, the sharpest decline since records began in 1970.

However, household spending increased 0.5% from the previous quarter, supported by Germany's car-scraping incentives.

—Gabriele Parussini
and A.H. Mooradian
contributed to this article.

South Africa falls into recession

BY ROBB M. STEWART

JOHANNESBURG—South Africa's gross domestic product contracted sharply in the first quarter as manufacturers and mining companies slashed output and jobs, pushing Africa's largest economy into recession for the first time since 1992.

GDP fell an annualized 6.4%, the most since 1984, after shrinking an annualized 1.8% in the final quarter of 2008, according to data Tuesday from Statistics South Africa.

The abrupt end to more than a decade of growth will give the South African Reserve Bank—the country's central bank—further impetus to cut interest rates when its monetary-policy committee meets this week, and is likely to weigh heavily on the government. President Jacob Zuma led his African National Congress party to another majority last month on a campaign against poverty and joblessness.

The GDP data should cement the case for a one-percentage-point cut, said Razia Khan, head of regional research at Standard Chartered in Lon-

don. This would bring the central bank's benchmark rate to 7.5%, following the 3.5 percentage points cut since December as inflation has eased.

Manufacturing, which makes up more than 15% of the economy, fell a record annualized 22.1%, while mining shrank 32.8%, another record decline, Statistics South Africa said. The finance sector contracted 2.3%, the biggest fall since 1990 for a former driver of the economy.

Construction remained one of the few growth areas, expanding an annualized 9.4%, in large part due to government spending on roads, energy and stadiums for the 2010 football World Cup.

"The storm is more ferocious than initially thought," said Lesetja Kganyago, director-general of the National Treasury.

Mr. Kganyago said the economy should improve in the year's second half.

South Africa initially seemed insulated from the global credit crunch that has pushed the country's biggest trading partners into recession, thanks to banks that were

conservative in lending and had little direct exposure to the U.S. However, as demand for goods faded and commodities prices plunged, car makers pared output, mines postponed capital expenditure, and employers cut thousands of jobs.

Still, South Africa's recession is likely to be less severe than those in many other countries, Mr. Kganyago said. He said he sees tentative signs of a global recovery, and that South Africa could benefit from renewed international interest in emerging-market debt and equities.

"South Africa has indeed not escaped the global downturn and the implications are frightening for jobs, living standards and economic growth," said the Congress of South African Trade Unions, which supported Mr. Zuma in the election.

The labor federation is calling for an immediate two-percentage-point cut in interest rates, emergency measures to protect vulnerable industries, and a shift by the new government to more expansionary economic policies, including an expanded public-works program to create jobs.

Georgian opposition steps up effort to force president out

BY MATTHEW COLLIN

TBILISI, Georgia—More than 50,000 Georgian opposition supporters packed the national sports stadium for an antigovernment rally in the capital, Tbilisi, on Tuesday, reviving their campaign to force President Mikheil Saakashvili to step down.

The rally caused the authorities to cancel the annual Georgian Independence Day military parade to avert a potential confrontation.

Opposition activists have been blockading streets outside parliament and the presidential residence for more than six weeks, calling for the pro-Western president to resign. But with the protests dwindling in recent weeks, Tuesday's rally was intended as a show of strength.

The activists accuse Mr. Saakashvili of becoming increasingly authoritarian and leading the country into a disastrous war with Russia in August. "The people deserve independence, democracy and freedom, and they will get it," Nino Burjanadze,

leader of the Democratic Movement-United Georgia party, told the rally. A former speaker of the Georgian parliament, she is one of several former senior allies of Mr. Saakashvili who are now in opposition.

On Monday, the U.S. and the European Union issued a joint statement calling for dialogue to end the "stalemate on the streets." But Mrs. Burjanadze said the protests will continue. "We will not step back; we will struggle for victory," she said.

Mr. Saakashvili has declined to resign, and analysts and pollsters have suggested that he retains significant core support despite widespread poverty and last year's war.

Commenting on the rally, the Georgian president acknowledged that some of the discontent in the country is legitimate. "One can't be satisfied when one is poor, and so one part of society is protesting," he said, although he insisted that his reforms had improved living standards. He has offered the opposition dialogue on democratic reforms, but his proposals so far have been rejected.

ECONOMY & POLITICS

Gates optimistic on weapons moves

Dropping of programs drew muted protest, U.S. defense chief says

BY AUGUST COLE
AND YOCHI J. DREAZEN

Defense Secretary Robert Gates said he is "modestly optimistic" that his plans to curtail or cancel billions of dollars worth of the Pentagon's most costly weapons systems will weather opposition from Congress and the defense industry.

Mr. Gates, who believes that future wars will involve conflicts more like those in Iraq and Afghanistan rather than taking on superpowers such as China or Russia, is using one of his most potent weapons—the annual budget—to quickly bring about changes.

He is taking aim at some of the most entrenched forces in Washington. But so far, he says, he has been "surprised by the modest pushback" from the defense industry. "I think partly it's because most of these companies are seeing plus-ups in other programs," he said in an interview.

In one of the Pentagon's biggest budget shake-ups since the end of the Cold War, Mr. Gates put a stop to buying more big-ticket weapons such as the Air Force's F-22 Raptor fighter, a stealthy plane with unmatched maneuverability and a devoted following in Congress. He canceled an \$85 billion armored-vehicle effort that is part of the larger Future Combat Systems Army modernization program.

"I ultimately could not convince [Mr. Gates] that we had taken enough of the lessons that we learned from the current fight and incorporated them into that vehicle



U.S. Defense Secretary Robert Gates, in Afghanistan earlier this month, said officials are working to avoid contracting mistakes.

program," said Gen. George Casey, the Army's chief of staff, in an unusually blunt assessment earlier this month. "I thought we had, but he thought we hadn't."

The move on the F-22, made by Lockheed Martin Corp., posed a key test for Mr. Gates. In addition to building the F-22, Lockheed is the lead contractor on a plane known as the Joint Strike Fighter, a deal that promises to be worth billions of dollars to Lockheed in the future. Lockheed officials decided not to fight Mr. Gates's decision to cancel the F-22.

Although, in Mr. Gates's words, the defense spending "spigot" is being turned off, the Pentagon is increasing its commitment to select military hardware, among them the most costly weapons program ever, the Joint Strike Fighter, as well as

various ships and submarines. Spending on soldiers and their families is also on the rise.

Aboard the Navy amphibious assault ship USS Iwo Jima, which was docked in New York last week, Mr. Gates could be overheard quietly engaging in a discussion with two young Marines standing before a massive mine-proof armored truck about plans to modify its suspension for Afghanistan's rougher roads. The trucks are a hallmark of Mr. Gates's efforts to protect troops in Iraq from roadside bombs by forcing Pentagon officials to move faster on weapons buying than any time since World War II.

The focus on Afghanistan brings other challenges. Mr. Gates said officials are working to avoid repeating contracting mistakes from Iraq in Afghanistan, which

has much less infrastructure and will require bringing in firms to handle construction and other support efforts.

"When we have to build roads and expand airfields and do things like build some kind of housing for all these additional troops that are going in, I'm not sure I want to use up numbers of troops to do all that infrastructure construction," he said.

After an ambitious spring, Mr. Gates plans to keep up the pace. "I think I have to sustain it," he said. He said he plans to finish the 2010 budget and then will see through a major Pentagon defense policy review set to be unveiled next year, as well as other studies. "Then I want to shape the [fiscal 2011] budget and we'll see where we are," he said.

Seoul acts to halt arms trafficking by North Korea

BY EVAN RAMSTAD

SEOUL—South Korea on Tuesday lashed back at North Korea's latest weapons tests by announcing full participation in a U.S.-led effort to halt nuclear-weapons trafficking, a step that Pyongyang said in March it would consider a "declaration of war."

Later in the day, a South Korean news agency reported North Korea test-fired two short-range missiles, but South Korean defense officials said they couldn't confirm the report.

North Korea on Monday tested a nuclear device for the second time ever, as well as three short-range missiles.

South Korea's full entry into the effort called the Proliferation Security Initiative means that it will play a bigger role in enforcement to prevent the North from selling weapons and related technology to other countries or terror groups.

The PSI issue has been at the center of diplomatic jockeying between the two Koreas since the North began preparing in February for its latest round of weapons tests.

South Korean officials publicly discussed upgrading the country's status in PSI from "observer" to "full participant" in March, saying it would take the step if the North followed through on its threats at the time to test a long-range missile.

North Korea responded on March 29 with a statement deriding PSI as a "mechanism for aggression set up by the U.S. and its followers to apply sanctions and stifle those countries incurring their displeasure." It added it would consider South Korea's participation in it "a declaration of war and take a resolute countermeasure against it."

South Korean officials formally decided to take the step a few days after North Korea's April 5 test of a multistage missile. Just as they were to make a formal announcement, Pyongyang offered to hold the first inter-Korean talks in nearly a year.

The inter-Korean meeting, held on April 21, lasted just 20 minutes as North Korean officials demanded more money for a joint industrial complex in the border city of Kaesong and refused to discuss other matters.

After North Korea tested a nuclear device on Monday, South Korean officials decided to wait no longer, an official in the South's foreign ministry said. He acknowledged Pyongyang's meeting maneuver had delayed it earlier but declined to discuss specifics.

Just before Seoul announced the move, U.S. President Barack Obama thanked South Korean President Lee Myung-bak by phone. The two presidents also discussed further ways to encourage North Korea to give up its pursuit of nuclear weapons, according to a U.S. official.

South Korea's participation may help the U.S. and other countries slow some of North Korea's arms dealing. Weapons sales provide North Korea with about \$1.5 billion in foreign income annually, according to a recent estimate by the Institute for Foreign Policy Analysis, an independent think tank in Cambridge, Mass. Its major customers for missiles, weapons and related technology have been Syria, Iran and Myanmar. —SungHa Park contributed to this article.

Pelosi sees opportunity with China on climate

BY SHAI OSTER

BEIJING—U.S. House Speaker Nancy Pelosi, in the past one of China's sharpest critics, Tuesday promoted common ground with China in the fight to combat global warming.

"I think this climate crisis is game changing for the U.S.-China relationship. It is an opportunity we cannot miss," Ms. Pelosi told the U.S.-China Clean Energy Forum, which brought together experts and businesses from both sides.

Ms. Pelosi, traveling with a delegation of members of Congress including Edward Markey (D., Mass.), the co-author of the carbon-cap bill that has just passed a key House committee, said she would be meeting with Chinese officials to learn more about their position ahead of climate-change talks in Copenhagen in December.

The U.S. has been moving toward passage of a "cap and trade" bill that would for the first time put a limit on the amount of carbon dioxide emitted by domestic industries. The Obama administration has indicated it will back efforts in Copenhagen to come up with a successor to the Kyoto Protocol on global warming. However, the administration has tied its signing of an international agreement to a commitment by China—the world's largest emitter of carbon dioxide—to "signifi-

cant, robust" reductions of the greenhouse gas.

U.S. Senate Foreign Relations Committee Chairman John Kerry, also in China, stressed the importance of U.S.-China agreement on climate change as well.

"Copenhagen will be defined by what the U.S. and China agree on in the next few weeks," Mr. Kerry said. "The fate of Copenhagen will be defined by the positions people take now," he said.

Ms. Pelosi, a California Democrat, will be meeting Wednesday with Chinese President Hu Jintao and Premier Wen Jiabao, according to Ms. Pelosi's office. Her trip comes just before one of the most sensitive dates in China, the 20th anniversary of the June 4, 1989, crackdown on the student pro-democracy protests in Tiananmen Square.

Ms. Pelosi famously unfurled a banner on Tiananmen Square in 1991 to honor the victims of the crackdown, opposed normal trade relations with China in the 1990s, and last year urged President George W. Bush to consider boycotting the opening ceremony of the Beijing Olympics, but she has been careful to avoid public criticism of her hosts this time.

In her talk Tuesday, she did link

environmental issues to human rights. "Workers rights, human rights, people's rights are part of environmental justice. Environmental justice is a principle that must be upheld as we go forward," she said. One of the leading sources of social unrest and protest in China is pollution.

She also praised the role of the evangelical community in supporting environmental causes in the U.S. The ruling Communist Party is officially atheist, though the government allows limited freedom of worship for some official recognized religions.

"One important part of the coalition is the faith-based community, including the evangelicals, because they believe as many of us do, that this planet is God's creation and it is our moral responsibility to preserve it," Ms. Pelosi said.

Finding common ground with China on climate change could be hard—though it will be crucial to passage of a new agreement, analysts say.

Just last week, the Chinese government called for rich countries to commit to reduce greenhouse gases by 40% below 1990 levels and give as much as 1% of their gross domestic product to help poorer nations develop climate-change mitigation



Nancy Pelosi

ECONOMY & POLITICS

Court paves Sharif's return

Pakistan decision lets former premier run for parliament

BY MATTHEW ROSENBERG AND ZAHID HUSSAIN

ISLAMABAD—Pakistan's Supreme Court paved the way for opposition leader Nawaz Sharif, arguably Pakistan's most popular politician, to return to parliament, presaging a change in the nation's political landscape.

Tuesday's widely expected Supreme Court decision to overturn a ban on Mr. Sharif, a two-term former prime minister, holding elected office removes an immediate political flashpoint and potential source of instability.

But in Pakistan, where the president is deeply unpopular, the decision also raises the prospect of sweeping political change, at a time when the government is fighting Taliban militants and struggling to shore up a shaky economy.

National elections aren't due for four years, but only a single Pakistani government has served a full, five-year term since independence in 1947.

A recent poll by the International Republican Institute, a Washington-based group with a track record of reliable polling in Pakistan, found Mr. Sharif's approval rating was 75%. President Asif Zardari's rating stood at 19%.

The court decision also gives the U.S. another option in Pakistan. Concerned about the declining political fortunes of Mr. Zardari, who has had close ties with the U.S., American officials have in recent months begun cul-

tivating closer ties with Mr. Sharif.

The U.S. had long viewed Mr. Sharif as too cozy with Islamist politicians and potentially weak on militant extremism. But he says he opposes Islamist militancy and has supported the military offensive against the Taliban in the Swat Valley, northwest of Islamabad, that has forced more than two million people from their homes. Members of his party have criticized the army's decision to fight the militants in such a heavily populated area.

Following Tuesday's decision, Mr. Sharif told reporters that his party, the Pakistan Muslim League-Nawaz, which holds the second-most seats in parliament after Mr. Zardari's Pakistan Peoples' Party, would decide when he would contest a by-election.

Mr. Sharif has said in the past few months that he doesn't want to



Nawaz Sharif greets supporters at his residence near Lahore, Pakistan, after Tuesday's Supreme Court decision allowing him to run for elected office.

destabilize the current government. Yet his return to parliament could aid efforts to return the job to its largely ceremonial role.

Such a move would require action

by the parliament, setting up a struggle with the president's party. Mr. Zardari has said that he, too, supports such a move, but he has done little to make it happen, leading critics inside and outside his party to contend that he wants to hold on to his powers.

Pakistan was plunged into political turmoil in February when the Supreme Court upheld Mr. Sharif's ban, imposed after he was ousted in the 1999 military coup because of criminal convictions that he says were politically motivated. The Supreme Court also nullified the 2008 election of his brother Shahbaz Sharif, who had been chief minister of Punjab. Both decisions were final, the court said.

Mr. Sharif called the February decisions politically motivated and responded by organizing nationwide protests that in March forced Mr. Zardari to back down and let the government appeal February's decision, allow the reinstatement of ousted chief justice Iftikhar Mohammed Chaudhry, and end federal rule in Punjab.

The court soon restored Shahbaz Sharif to his post as chief minister of Punjab.

While Nawaz Sharif can now stand for parliament, he is still blocked from the premiership by a ban on prime ministers serving a third time. That, too, could be overturned by the Supreme Court.

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DOW JONES A NEWS CORPORATION COMPANY

Ahmadinejad offers to debate Obama at U.N.

BY ROSHANAK TAGHAVI

TEHRAN—Just weeks ahead of Iran's June 12 presidential elections, Mahmoud Ahmadinejad ruled out backtracking on Tehran's nuclear-energy ambitions and also said he would like to debate U.S. President Barack Obama at the United Nations.

His comments Monday came on the heels of increased outreach by Washington to engage Tehran. Iran says it is pursuing peaceful, civilian nuclear energy, but officials in the U.S., Europe and elsewhere accuse it of pursuing nuclear weapons.

Mr. Ahmadinejad said he welcomes talks with the U.S. and, if re-elected, will invite Mr. Obama to have a debate at the U.N. "We responded to Mr. Obama's question very clearly. We welcome real change based on justice and mutual respect," he said.



Mahmoud Ahmadinejad