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THE WALL STREET JOURNAL.

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Obama unveiled a far-reaching proposal to overhaul international tax rules, sparking opposition from many multinational businesses and concern among some U.S. lawmakers. The president said his plan was a way to restore fairness and provide new incentives for companies to create more U.S.-based jobs. **Page 2**

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Bring in Ukraine
The promise of a Europe "whole and free" remains unfulfilled. **Page 14**

Breaking news at europe.WSJ.com

A tense standoff at a French prison

Agence France-Presse

ARRESTING DEVELOPMENT: Prison guards protesting working conditions clash with police at Fleury-Merogis, the biggest correctional facility in Europe, located outside of Paris.

EU estimate of recession gets gloomier

By Adam Cohen

BRUSSELS—The European Union said Monday that the recession will last at least six months longer than it originally thought, and predicted a 4% contraction for the EU economy, more than double its earlier forecast.

The commission in January forecast the economy of the 27-state bloc would shrink 1.8% in 2009 while that of the 16 countries that use the euro would contract 1.9%. Both the EU and euro-zone economies are now expected to contract by 4% this year, with unemployment and fiscal strains hindering any recovery.

The more-pessimistic outlook lines up with the International Monetary Fund's forecast, published late last month, that the EU economy is set to contract 4% this year.

"The European economy is in the midst of its deepest and most widespread recession in the post-war era," European Commissioner for Economic and Monetary Affairs Joaquín Almunia said in a statement. Mr. Almunia added that he saw signs—such as slight gains in the euro-zone purchasing managers' index—that the downturn is bottoming out.

The commission's forecasts indicate the EU likely will

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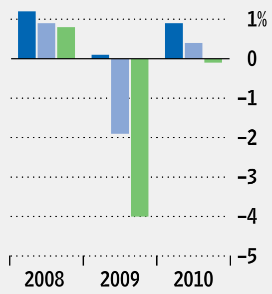
Contracting

GDP forecasts of the 16 countries that share the euro



Source: European Commission

New York Fed chief's Goldman ties at issue

By Kate Kelly And Jon Hilsenrath

The Federal Reserve Bank of New York shaped Washington's response to the financial crisis late last year, which buoyed Goldman Sachs Group Inc. and other Wall Street firms. Goldman received speedy approval to become a bank holding company in September and a $10 billion capital injection soon after.

During that time, the New York Fed's chairman, Stephen Friedman, sat on Goldman's board and had a large holding in Goldman stock, which because of Goldman's new status as a bank holding company was a violation of U.S. Federal Reserve policy.

The New York Fed asked for a waiver, which, after about 2½ months, the Fed granted. While it was weighing the request, Mr. Friedman bought 37,300 more Goldman shares in December. They have since risen $1.7 million in value.

Mr. Friedman also was overseeing the search for a new president of the New York Fed, an officer who has a critical role in setting monetary policy at the Federal Reserve. The choice was a former Goldman executive.

The case illustrates what a tangle of overlapping interests can arise at a hybrid institution like the New York Federal Reserve Bank, especially as the U.S. government, in addressing the financial and economic turmoil, grows ever more deeply enmeshed in American business and banking.

Mr. Friedman, who once ran Goldman, says none of these events involved any conflicts. He says his job as chairman of the New York Fed isn't a policy-making one, that he didn't consider his purchases of more Goldman shares to conflict with Fed policy, and bought shares because they were very cheap.

Last week, following questions from The Wall Street Journal, Mr. Friedman, 71 years old, disclosed he would step down from the New York Fed at year's end. In an interview, he said he made the decision because the waiver letting him own Goldman stock and be a Goldman director expires at the end of the year. He added: "I see no conflict whatsoever in owning shares."

Jerry Jordan, a former president of the Fed bank in Cleveland, says Mr. Friedman should have stepped down once Goldman became a bank holding company in September and thus fell under the Fed policy barring stock ownership by certain directors of Fed banks. "Any kind of financial transaction at all by any of the directors is always a problem," Mr. Jordan said. "He should have resigned."

New York Fed officials disagree. Last fall, then-New York Fed President Timothy Geithner was President-elect Barack Obama's choice to head the Treasury, and New York Fed officials say that to have forced Mr. Friedman off the board while it sought a Geithner successor would have deprived it of two leaders at a crucial time.

"Steve Friedman is a very capable chairman," said Tom Baxter, the New York Fed's general counsel, "and was the

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Inside

Brand new drill

The U.S. is now flush with natural gas, fueling hopes

Money & Investing, page 19

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8426.74	+2.61
Nasdaq	1763.56	+2.58
DJ Stoxx 600	203.77	+1.77
FTSE 100	4243.22	Closed
DAX	4902.45	+2.79
CAC 40	3237.97	+2.47
Euro	$1.3348	+0.63
Nymex crude	$54.47	+2.39

LEADING THE NEWS

U.S. tax changes loom

Business resists plan from Obama but girds for broader overhaul

By John D. McKinnon

WASHINGTON—President Barack Obama's far-reaching plan to overhaul international tax rules sparked opposition from many multinational businesses and concern among some lawmakers. But even if the proposal doesn't advance rapidly, business executives conceded that there is a growing likelihood of broader corporate tax change over the next two years.

Mr. Obama, speaking in the White House grand foyer on Monday, vowed to push forward with his plan, which would curb some of the biggest overseas tax advantages enjoyed by multinationals. He said it was a way to restore fairness and provide new incentives for companies to create more U.S.-based jobs.

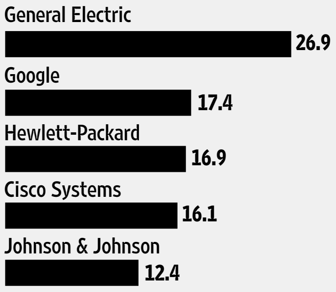
The U.S. tax code has made it "all too easy for a...small number of individuals and companies to abuse overseas tax havens, to avoid paying any taxes at all," the president said. "And it's a tax code that says you should pay lower taxes if you create a job in Bangalore, India, than if you create one in Buffalo, New York."

A few lawmakers on Monday expressed reservations with some aspects of the Obama plan, which would require passage by Congress. Sen. Max Baucus (D., Mont.), chairman of the Senate Finance Committee, said further study is needed to determine the impact of the plan on U.S. businesses. "I want to make certain that our tax policies are fair and support the global competitiveness of U.S. businesses," he said.

Rep. Charles Rangel (D., N.Y.), chairman of the House Ways and Means Committee, was more supportive of the White House plan, saying it would strengthen investment and job creation in the U.S. "Closing these loopholes and investing the money in American jobs will help millions of American families regain some of the economic security they lost in recent years," he said in a statement.

Tax break

Percentage-point reduction in U.S. tax rate in 2008 fiscal year due to offshore earnings reinvested overseas



Source: WSJ analysis of securities filings

Mr. Baucus said the Obama administration's ideas "set the table for tax reform, and I look forward to sitting down with the administration soon to take up these issues."

The White House plan would curb corporations' ability to park their overseas business earnings indefinitely outside the U.S., allowing them to defer paying U.S. taxes on such earnings, a practice known as deferral. The plan also would seek to change the legal treatment of many international subsidiaries that companies have used for the past decade or so to shift earnings into offshore tax havens. And it would put new limits on corporations' ability to use offshore subsidiaries to generate unjustified tax credits.

White House officials said nearly one-third of all foreign profits reported by U.S. companies in 2003 came from a handful of low-tax countries, including Bermuda and Ireland.

Business groups on Monday said Mr. Obama's plan would eliminate American jobs, not add them. They said the current U.S. rules are aimed primarily at putting U.S. companies on an equal tax footing with their international rivals, many of which benefit from more generous tax treatment by their home countries. U.S. business representatives said changing the rules would give an unfair advantage to European and Asian firms.

While the U.S. purports to tax profits of American companies no matter where they are earned, most other developed countries only tax the activity that occurs within their borders.

"The overseas operations of U.S. multinational companies support jobs and higher living standards here at home," said John Castellani, president of the Business Roundtable, a trade association for multinationals. "If the U.S. moves unilaterally to raise the taxes on U.S. companies operating abroad, it will put our employers at a big disadvantage with foreign competitors."

Such an argument could appeal to lawmakers who will be weighing the Obama proposal—and who are concerned about employment rates in their home districts during the economic downturn.

A coalition of dozens of business associations and corporations, known as PACE or Promote America's Competitive Edge, also criticized the plan. It announced the establishment of a Web site, www.pace4jobs.org, which it said could serve as a one-stop source for information on deferral and related corporate tax issues.

Business tax lobbyist Ken Kies said some sort of tax overhaul is likely, given the deep federal budget deficits expected in the next couple of years. "We've put ourselves in a fiscal hole so deep it's hard to comprehend, so we're going to have a major tax debate sooner or later," he said. "My guess is that these [Obama proposals] will be considered in that context."

Businesses, faced with likely changes to tax rules, said they hope to win concessions, such as a lower corporate rate in exchange for a curb on breaks such as deferral.

At least one of Mr. Obama's ideas could be implemented quickly, some observers said. Overhauling the legal treatment of offshore subsidiaries could result in more revenues that could help cover the costs of some other initiatives, such as extending a business tax credit for domestic research costs.

Fiat plan for Opel raises specter of job reductions

By Stacy Meichtry And Marcus Walker

German auto maker Adam Opel GmbH might close one of its plants if it merges with Italy's **Fiat** SpA, according to a senior German official, signaling for the first time that Fiat's plan to create one of the world's biggest car makers could lead to significant job cuts in Europe.

Fiat Chief Executive Sergio Marchionne met with German officials Monday to present his plan for merging Fiat with the European operations of **General Motors** Corp., which include Opel and British auto maker Vauxhall. The plan calls for Opel to maintain three of its four plants in Germany, German Economy Minister Karl-Theodor zu Guttenberg told a news conference after the meeting.

Sergio Marchionne

Mr. Marchionne described potential job cuts in Germany as "not too dramatic," Mr. zu Guttenberg said, adding that the plan left in doubt the fate of Opel's engine plant in Kaiserslautern.

Fiat has been in talks with GM for months about a potential merger with the troubled U.S. auto maker's European and Latin American operations. As part of a potential deal, Mr. Marchionne aims to create a public company that would combine Fiat's auto unit with Opel, as well as Fiat's 20% stake in **Chrysler** LLC, which entered bankruptcy proceedings in the U.S. last week. Fiat expects the three-way alliance to generate annual revenues of about €80 billion ($106 billion).

To reach a deal, however, Mr. Marchionne would need to wrest concessions from labor unions in Italy and Germany, which both have laws making it difficult to lay off workers. Amid the current slump in auto sales, many European auto makers have been forced to temporarily suspend production at their plants, rather than shut them down.

Mr. Marchionne hasn't said whether he intends to eliminate jobs in Europe, but says that auto makers need to rein in production costs to survive.

Fiat, which is saddled with €6.6 billion in net debt, would need the financial backing of the German government to help fund its proposed alliance. Mr. zu Guttenberg said the combined company would need as much as €7 billion in short-term financing, which could be covered by government loan guarantees.

Mr. Marchionne's plans to restructure Opel also would need the support of Germany's powerful unions, which strongly oppose job cuts and hold seats on Opel's board. The potential closure of the Kaiserslautern plant would put about 2,300 jobs at risk.

A Fiat spokesman didn't respond to a request for comment.

Mr. Marchionne's pursuit of Opel comes ahead of German elections in September. Foreign Minister Frank-Walter Steinmeier, the Social Democrats' candidate for chancellor, has compiled a list of 14 criteria for judging a bid for Opel. The list, reviewed by The Wall Street Journal, cites the preservation of jobs and factories in Germany, as well as the question of where the new auto group would be based.

Though the list reflects Mr. Steinmeier's position, rather than the government's, the Social Democrats hold half of the seats in Chancellor Angela Merkel's cabinet, and thus are in a position to push for concessions from Fiat or another bidder. The sale of Opel would be GM's decision, but the government would have to authorize any state-guaranteed loans.

Opel workers were skeptical of whether Mr. Steinmeier's initiative would achieve much. "As we all know, there's an election campaign going on, and all sorts of people are getting involved" said Rainer Einenkel, head of the works council at Opel's factory in Bochum, Germany.

Health Journal

Food for thought

A lot of what you eat may not be as healthy as it appears > **Page 29**

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

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INDEX TO PEOPLE

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

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LEADING THE NEWS

Chrysler starts ad blitz

Auto maker records loss of $16.8 billion; sees profit in 3 years

By Jeff Bennett

Chrysler LLC is launching a marketing campaign to reassure customers and potential buyers that the auto maker is still alive and expects to bounce back from bankruptcy.

The auto maker also will back its ads with a new slew of incentives starting Tuesday, according to dealers briefed on the campaign.

Print and TV ads began Monday using the tag line, "We're building a better car company....Come see what we're building for you."

Separately, Chrysler lost $16.8 billion last year and expects to lose $4.7 billion this year, according to documents the Auburn Hills, Mich., auto maker submitted to bankruptcy court in Manhattan.

The documents, which were included in a statement by the company's bankruptcy adviser, said Chrysler believes it can become profitable in 2012 if it gets through the Chapter 11 reorganization process quickly and goes ahead with its planned alliance with Italian auto maker **Fiat** SpA.

An income-statement forecast submitted to the court shows the company earning about $100 million in 2012 and $1.6 billion in 2013. It sees net income climbing to $3 billion by 2016.

The statement was attached to an affidavit filed by Robert Manzo, executive director of the Capstone Advisory Group LLC, a consulting firm that works with distressed companies. Capstone started working with Chrysler in November and helped prepare the company for its bankruptcy filing last week.

Mr. Manzo's affidavit was submitted as part of a bid to urge the court to expedite Chrysler's stay in bankruptcy court. Many of the company's forecasts are based on exiting bankruptcy by July 1.

Chrysler filed for Chapter 11 bankruptcy protection last week after it and the U.S. Treasury Department failed to reach a debt-reduction deal with 46 secured lenders. The auto maker had hammered out two other key agreements, with the United Auto Workers union to cut labor costs and with Fiat, which will take a stake in Chrysler as part of a strategic pact.

Regarding the new ads, Chrysler sales and marketing chief Steve Landry said the campaign is geared to addressing concerns consumers might have about buying cars from a company in bankruptcy. "We want to establish a level of trust and confidence that customers can still buy cars and trucks from us and it's business as usual," Mr. Landry said. "We are working to exit bankruptcy as fast as we can."

Chrysler on Friday reported that its vehicles sales declined 48% in April to 76,682 cars and light trucks, a steeper decline than the other major auto makers. Overall new vehicles fell 34% in April.

Bloomberg News

As expectations of a bankruptcy filing increased, showroom traffic declined at many Chrysler dealers. Above, a Bloomfield Hills, Mich., dealership last month

Car sales decline by 7% in France despite incentives

By A.H. Mooradian

PARIS—The number of new cars registered in France fell 7% from a year earlier in April, despite a boost from government incentives to scrap old cars.

Domestic car makers **PSA Peugeot Citroën** SA and **Renault** SA saw their sales decline at a slower pace than the overall market, according to data published Monday by the French car manufacturers' association. New registrations in France of Peugeot Citroën cars fell 5.9% last month, while those of Renault declined 5.8%.

In Italy, meanwhile, new-car registrations fell 7.5% in April to 188,406 vehicles from 203,750 vehicles a year earlier, according to figures released by Italy's Infrastructure Ministry. **Fiat** SpA increased its share of the country's auto market to 35.17% in April from 32.62% in March.

April's weakness in France compares with an 8.1% rise in registrations in March, when government cash incentives for car owners to scrap aging vehicles and buy new ones bolstered sales of small and fuel-efficient automobiles.

CORPORATE NEWS

Publishers nurture rivals to Kindle

Newspapers and magazines, unsatisfied with Amazon's e-reader, team up with consumer-electronics companies

By Shira Ovide
And Geoffrey A. Fowler

Some newspaper and magazine companies, feeling let down by the Kindle electronic reader from **Amazon.com** Inc., are pushing for alternatives.

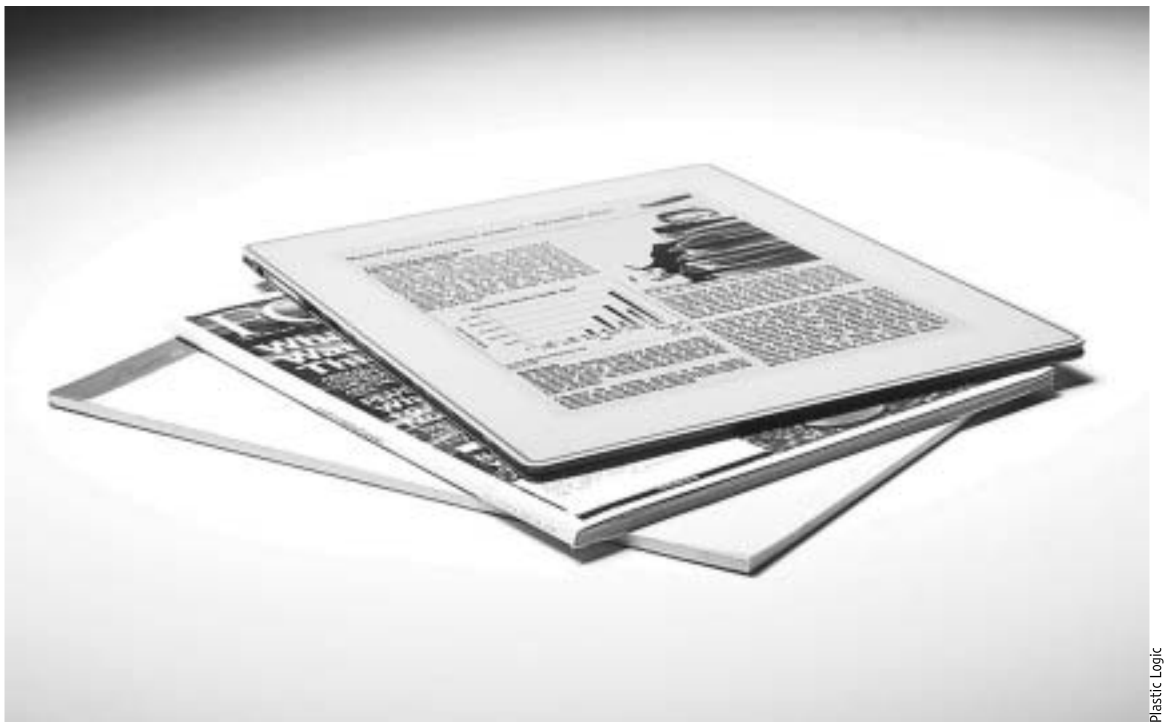
A few publishers are forging alliances with consumer-electronics firms to support e-readers that meet their needs. Chief among their complaints about the Amazon portable reading gadget is the way Amazon acts as a middleman with subscribers and controls pricing. In addition, the layout isn't conducive to advertising.

Hearst Corp., which publishes the San Francisco Chronicle and Houston Chronicle as well as magazines including Cosmopolitan, is backing a venture with **FirstPaper** LLC to create a software platform that will support digital downloads of newspapers and magazines. The startup venture is expected to result in devices that will have a bigger screen and have the ability to show ads.

Gannett Co.'s USA Today and **Pearson** PLC's Financial Times are among newspapers that have signed up with **Plastic Logic** Ltd., a startup that is readying a reading tablet, the size of a letter-sized sheet of paper, that can displays books, periodicals and work documents. The device, which uses digital ink technology from **E Ink** Corp., the same firm behind the Kindle, is slated to be rolled out by early next year, and will offer publishers the chance to include ads.

People familiar with the matter have said **Apple** Inc. is readying a device that may make it easier to read digital books and periodicals, a prospect some publishers are eagerly awaiting. **News Corp.**, which owns The Wall Street Journal, also is exploring a possible investment in a Kindle competitor.

Amazon declined requests for comment.



Plastic Logic

USA Today and the Financial Times have signed up with start-up Plastic Logic, which is readying a reading tablet, above.

Behind the publishers' e-reader efforts are hopes for a digital-distribution mechanism that offers new venues to expand readership and collect revenue for news and information, publishers say. The tablet-style devices play a role in the debate about charging for electronic content. Some publishers regret not charging people for newspaper and magazine subscriptions on the Web. They believe mobile devices—whether it's the iPhone or e-readers—are new enough that consumers won't balk at paying for the digital content.

"This channel potentially could revolutionize the consumption of content in much the same way the Internet did," said Rob Grimshaw, managing director for the Financial Times's Web site.

Publishers see an opening in the failings of existing electronic reading devices, the Kindle most prominently. The Kindle, introduced in 2007, has the U.S. periodical market pretty much to itself. **Sony** Corp.'s Reader is sold in the U.S., but it it isn't yet adapted for newspaper and magazine subscriptions.

Sony said it will launch a wireless e-reader device that can download "daily content," and is currently in talks with publishers. A Sony official declined to say when that device would make its debut.

Critics gripe that Kindles don't allow for displaying ads and are poor substitutes for the look and feel of thumbing through pages. Magazine and newspaper executives also stew that Amazon won't let them set subscription prices for their own publications. Publishers keep less than half of the revenue from sales of their subscriptions on the Kindle, according to publishers.

Amazon has kept figures on Kindle hardware and title sales confidential, but the number of people reading periodicals on the Kindle remains small, partly because of price. The latest generation, the Kindle 2, costs $359.

The Wall Street Journal— the second-most-popular newspaper for the Kindle after the New York Times—has more than 15,000 subscribers, according to a spokeswoman for the paper, compared to its paid circulation of more than two million daily. Fortune magazine has roughly 5,000 subscribers, according a person familiar with the matter, while the magazine has an average print circulation of nearly 866,000.

Subscription prices vary, and are set by Amazon. In general, newspaper subscriptions range from about $5.99 to $14.99 a month, and magazines range from $1.25 to $7.99 a month.

Some publishers chalk up any Kindle shortcomings to early growing pains, and Amazon itself is developing a new Kindle, according to people familiar with the matter, with a bigger screen more suited to newspapers and magazines.

The Detroit Free Press and Detroit News are placing some bets on the competition, though. They hope to have roughly 100 Plastic Logic devices to test with readers this summer, months after the papers stopped delivery of the print newspaper most days of the week.

"We believe the Plastic Logic experience is going to be so much better," said Janet Hasson, senior vice president of audience development and strategy for the Detroit Media Partnership, which manages business functions of the two Detroit papers. Executives are discussing plans to lease the Plastic Logic e-reader to long-term subscribers, with the money going toward purchase of the device.

The papers also are prepping for sales on the Kindle because readers have requested it, Ms. Hasson said.

Van Baker, consumer electronics analyst for research firm Gartner Inc., said e-readers likely will appeal to only small numbers of people because of their cost, and he wonders whether a slew of devices will confuse consumers. "If the newspaper has one reader, and the book store has another reader and the magazine publisher has another reader, it just doesn't make any sense," he said.

New ad campaigns will stir up coffee wars

By Julie Jargon

The coffee war between **Starbucks** Corp. and **McDonald's** Corp. is coming to a boil this week in the U.S., as the two chains launch national marketing campaigns.

Starbucks aims to persuade consumers that its coffee is superior to the competition's, while McDonald's is trying to build a quirky new brand around its mochas, hot cocoas, lattes and cappuccinos, with ads showing consumers how the drinks can brighten—or "McCafé"—their day.

The faceoff comes at a critical time for both companies: Starbucks is struggling to hold on to cash-strapped consumers, while McDonald's, which has been riding a strong wave of sales, helped by its inexpensive menu, is betting it can persuade people to buy fancy, though still relatively cheap, coffee drinks during a recession.

This Tuesday, McDonald's will begin marketing its coffee drinks on TV, radio, the Internet and in print, portraying McCafé as a fun, affordable brand that can make even the most mundane daily tasks more enjoyable.

One commercial shows a woman standing at a bus stop looking annoyed, while a smiling man holding a McCafé mocha has turned his commute into a commuté (pronounced commute-ay, to rhyme with McCafé). The ad goes on to say that McCafé makes a better day "possiblé."

McDonald's espresso-based coffee drinks typically range from $2.29 for a 12-ounce cup to $3.29 for 22 ounces. By contrast, a caffè mocha at a Starbucks in Chicago ranges from $3.10 for a 12-ounce cup to $3.95 for 20 ounces.

The fast-food giant won't disclose how much it plans to spend on the campaign, but said the outlay constitutes a "significant investment." It calls the coffee push its biggest menu initiative since it began offering breakfast in the 1970s.

McDonald's says the new campaign isn't planning to target Starbucks, though some past marketing efforts took direct aim at the Seattle-based coffee chain, ridiculing its prices. Last year, an advertising cooperative for McDonald's franchisees in the Seattle area ran a billboard with the message, "Four bucks is dumb."

Starbucks has taken barbs seriously from McDonald's and other rivals, including **Dunkin' Donuts**, and is fighting back. Over the weekend,

McDonald's

McDonald's is promoting McCafé as a way to enliven mundane tasks.

Starbucks began running newspaper ads advising consumers against trading down to cheaper coffee. "If your coffee isn't perfect, we'll make it over," one ad says, "If it's still not perfect make sure you're in a Starbucks."

"We don't want the public to be misled that all coffee is equal, because it's not," Starbucks Chief Executive Howard Schultz said in an interview, adding his company buys the best beans and takes other steps to assure quality.

Mr. Schultz said he isn't worried about McDonald's luring away Starbucks customers. "We know from our research that customers are not defecting away from Starbucks; they're just coming less often or cutting out the occasion," he said.

Starbucks has a lot riding on its campaign. Last week, the chain said traffic and average transactions fell during its fiscal second quarter ended March 29. Earnings tumbled 77% amid restructuring charges related to store closures and lower real-estate values. The company announced plans to adjust its pricing in some markets, with some of the more complicated drinks costing more and some basic drinks costing less.

Profit at McDonald's rose 4% in its latest quarter, but its coffee push isn't without risk. Some fast-food chains, including **Burger King Holdings** Inc., have seen a slowdown in breakfast sales. McDonald's still is posting growth in the morning, "but we're watching it closely," Mr. Thompson said.

Breakfast accounts for about half of the chain's coffee sales.

GDF Suez reaps earnings gains on cold weather

By Adam Mitchell

PARIS—French utility **GDF Suez** SA reported higher first-quarter earnings and revenue, helped by cold winter temperatures.

GDF Suez, created in July by the merger of French state-controlled Gaz de France SA and Franco-Belgian utility Suez SA, said earnings before interest, taxes, depreciation and amortization rose 15% to €5.3 billion ($7.03 billion) in the three months ended March 31 from €4.6 billion a year earlier.

Revenue rose 12% to €25.6 billion. The company didn't report net-profit figures. The year-earlier figures were calculated as though the two utilities already had merged, for comparison purposes.

Cold temperatures and disruptions to Russian gas supplies to Europe allowed the company to put extra gas on the market and reap the rewards of high prices, even though the company said it couldn't pass on the full cost of gas to consumers in France, which has a state-regulated tariff.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We face a challenging environment. But while some organisations struggle to survive, others will emerge even stronger. How can you give your company an edge? Making the right decisions, based on your unique strengths,
Why high performers shine even when the sun doesn't.
is more critical than ever. Whether your goal is maintaining your market position or improving it, flawless execution is a must. Having worked for decades with the world's most successful companies — through up cycles and down — we have the experience to help you come out on top. At a time when it's tougher than ever to be a Tiger, it's even more crucial to know what it takes. Talk to us to see how we can help.
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Pepsi Bottling rejects bid

Offer from PepsiCo to unite operations is deemed too low

By Valerie Bauerlein

Bloomberg News

Pepsi owns 33% of Pepsi Bottling. Officials of the bottler said they believe Pepsi has 'substantially understated the synergies' that would come from a merger.

Pepsi Bottling Group Inc. rejected the nearly $4.2 billion offer from **PepsiCo** Inc. to buy the remaining two-thirds stake it doesn't already own of its biggest bottler, saying the bid "is grossly inadequate."

The move shows that PepsiCo's bold strike to acquire its two biggest bottlers won't be simple to accomplish. Two weeks ago, PepsiCo Chairman and CEO Indra Nooyi launched what she described as a friendly offer to bring the bottlers in house. She said consolidating operations would allow Pepsi to cut costs and rebuild a soda bottling system to better serve a business increasingly dominated by teas, waters and juices.

PepsiCo is by far the biggest shareholder in Somers, N.Y.-based Pepsi Bottling and owns over two-fifths of Minneapolis-based PepsiAmericas, its other big bottler.

Both bottlers convened independent committees to evaluate the bids. In a written response to Ms. Nooyi today, Pepsi Bottling Group CEO Eric Foss and lead independent director Ira Hall said PepsiCo's bid was opportunistically timed, as it came just before Pepsi Bottling released first-quarter earnings that exceeded analysts' expectations.

Messrs. Foss and Hall also said the Pepsi bid undervalued the company and "substantially understated the synergies" that would come from a merger. They said likely savings would be "multiples" of the $200 million Pepsi predicted.

PepsiCo declined to comment.

Bill Pecoriello, chief executive officer of ConsumerEdge Research LLC, said he expects cost savings to be more than $600 million a year by 2011, not including the amount Pepsi would reinvest in its bottling operations. Mr. Pecoriello estimates the price could ultimately be about $38 a share, compared to the $29.50 PepsiCo initially offered and Mr. Pecoriello's estimates of Pepsi Bottling's intrinsic value, based on free cash flow and other variables.

"They're going to sit down and negotiate, and we think that ultimately, the deal is going to get done," Mr. Pecoriello said.

A spokeswoman for PepsiAmericas said the company's board committee will respond to PepsiCo's proposal in "due course."

PepsiAmericas operates under a shareholder agreement that restricts the amount of shares PepsiCo can own. Any acquisition by PepsiCo that would put the company over a threshold of 49% of the outstanding common stock must have the approval of a majority of directors not affiliated with PepsiCo, the approval of shareholders not affiliated with PepsiCo, or meet criteria setting a minimum price.

Robert Pohlad, PepsiAmericas CEO, is the second-largest shareholder after PepsiCo, with 10.4% of the company's common stock. The shareholder agreement specifies that PepsiCo may not enter an agreement with Mr. Pohlad that would enable the company to surpass the threshold.

Pepsi shares fell 67 cents, or 1.3%, to $49.13 in afternoon trading on the New York Stock Exchange. Pepsi Bottling shares were down 13 cents or 0.4% to $31.42, and PepsiAmericas shares were up 21 cents or 0.9% to $24.63.

Lauder posts profit drop, says retail remains soft

By Anjali Cordeiro

Slumping consumer spending and a stronger dollar contributed to a decline in **Estée Lauder** Cos.' fiscal-third-quarter earnings and sales, and the maker of high-end beauty products expects continued retail weakness.

Estée Lauder executives said there have been early signs of economic improvement in the U.S. but retail sales remain soft, particularly at high-end department and specialty stores. The company said it remains cautious in its outlook for consumer spending and is expecting a challenging economic environment for at least the next 12 months.

Fabrizio Freda

For the quarter ended March 31, Estée Lauder said net income fell 70% to $27.2 million, or 14 cents a share, down from $90.1 million, or 46 cents a share, a year earlier. The latest period included two cents in restructuring charges. Analysts surveyed by Thomson Reuters expected earnings of five cents a share.

Revenue decreased 9.8% to $1.7 billion from $1.88 billion but was off 2.2% excluding currency effects. A stronger dollar diminishes the value of overseas earnings. The New York-based company expects fiscal-year earnings of $1.32 to $1.44 a share, excluding items.

Estée Lauder shares were up $4.18, or 13%, to $35.31 in afternoon trading on the New York Stock Exchange.

The company, which sells its namesake perfumes and other brands like Clinique, is making a greater push to convey to consumers that its high-end brands are good values.

Executives said some Estée Lauder brands are launching new products at lower retail price points. Clinique salespeople are highlighting to consumers that the products are good values because they can be used for several months, while the Estée Lauder brand is creating smaller-size fragrances. The hope is that smaller sizes at lower price points will encourage consumers to try new products.

"We see the consumer being interested in reducing the risk of new trials," said President Fabrizio Freda on a conference call.

The beauty-products industry has been hit hard as consumers have continued to curb spending, with high-end and mass-market producers netting fewer sales and cutting forecasts. Estée Lauder, whose Clinique, MAC and namesake line dominate the beauty counters of U.S. department stores, unveiled a four-year restructuring plan in February that includes a 6% work-force reduction.

Mr. Freda is set to take over as chief executive in July, and the Procter & Gamble Co. veteran is expected to streamline operations and attempt to reduce dependence on U.S. department stores.

Arcelor drops Indonesia project

By Tom Wright

ArcelorMittal is suspending a potential $8 billion investment in Indonesian steelmaking facilities, amid the economic downturn and after more than a year of deadlocked negotiations.

The deal was aimed at capturing key supplies of iron ore and reducing the reliance of the company, the world's largest steelmaker by production, on big suppliers like **Cia. Vale do Rio Doce** SA, **BHP Billiton** PLC and **Rio Tinto** PLC. But the market for steel products has deteriorated significantly since last year, with ArcelorMittal last week reporting a first-quarter loss of $1.06 billion and saying its plants were operating at about 50% capacity. The company has cut production at plants around the world and has made efforts to slash costs.

The collapse of the plan is also a missed opportunity for Southeast Asia's largest economy at a time when it needs significant new foreign investment, analysts said.

In announcing results last week, Chief Executive Lakshmi Mittal said that the company had for now ruled out establishing steel facilities in Indonesia because there was not "enough feasibility" for projects to go ahead, including a possible investment in struggling state-owned steelmaker PT **Krakatau Steel**. He didn't elaborate.

In March 2008, Mr. Mittal and Indonesian President Susilo Bambang Yudhoyono discussed a plan for ArcelorMittal to take a 40% stake in Krakatau Steel and to set up a new steel plant somewhere in the country. ArcelorMittal was also to jointly invest with a state-owned miner to prospect for iron ore, nickel and manganese as part of the company's global efforts to control its supply of raw materials.

Maxi Gunawan, a co-chairman of the Indonesian British Business Council, who helped set up the meeting between Mr. Yudhoyono and Mr. Mittal, says ArcelorMittal is walking away because of complications caused by opposition to the plan by Krakatau Steel's management and Indonesia's parliament. "The momentum [for a deal] has gone," he said. "Of course [ArcelorMittal] is frustrated."

A spokesman for ArcelorMittal said the company had no comment beyond Mr. Mittal's remarks last week. Attempts to contact Krakatau Steel weren't immediately successful.

Opposition from management and nationalist politicians in Indonesia has stymied attempts to sell stakes in a number of state-owned companies in recent years. Nevertheless, Indonesia's economy grew 6.1% in 2008, largely thanks to high commodity prices. Now, with commodity prices in the doldrums, foreign investment will likely become more important for maintaining growth. Private economists expect growth of 3% this year.

—Robert Guy Matthews contributed to this article.

Tata Nano bookings exceed supply

Tata Motors Ltd. said Monday it has received bookings from more than 203,000 customers totaling nearly 25 billion rupees ($503 million) for its Nano minicar, which with a basic price of about $2,500 has been called the world's cheapest car.

The rear--engine car measures just over three meters in length.

Tata Motors offered the Nano for bookings from April 9 to April 25 at all its dealerships as well as outlets of Tata Group's retail chains.

As much as 70% of the reservations were financed, while the remainder were fully paid by the customers, it said. Due to supply shortages of the Nano, the first 100,000 buyers are being selected by lottery.

Tata Motors said delivery of the first 100,000 cars will begin in July and is expected to be completed in the last quarter of 2010.

Police arrest two in sabotage of Reliance chief's helicopter

By Eric Bellman

MUMBAI—Police arrested two men Monday for allegedly sabotaging the helicopter of Indian billionaire Anil Ambani, and said a dispute between the company that maintained the aircraft and its employees was behind the sabotage.

Mumbai police say the two employees of Air Works Pvt. Ltd. poured pebbles and soil into the gear box of the helicopter on April 23.

Mr. Ambani's pilot and others said the tampering could have caused a crash landing and may have been an attempt to kill one of India's most powerful industrialists. A spokesman for Mr. Ambani declined to comment on the arrests.

Police said the tampering wasn't a murder attempt. They said they will charge the two men, Uday Warekar, 32 years old, and Palraj Ganpat Tewar, 38, with violating the Unlawful Activities (Prevention) Act and the Civil Aviation Act. The suspects could face life in prison if convicted.

The suspects' lawyers couldn't be reached for comment.

Air Works issued a statement saying: "Air Works strongly condemns the cowardly and malicious act of two of its employees," who worked as assistants to engineers. "The employees' disagreement with management appears to be used as a justification for their criminal activities."

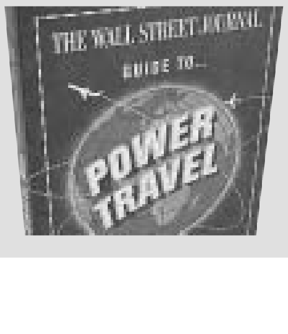
Police launched a criminal investigation after a mechanic found gravel had been poured into the engine of a helicopter Mr. Ambani was scheduled to use the next morning. The mystery deepened after Bharat Borge, the mechanic who uncovered the attempt, was found dead a few days later, run over by a commuter train. Police officials say they believe Mr. Borge committed suicide.

Mr. Ambani, whose fortune is estimated at more than $10 billion, has interests in energy, finance, cinemas and movies. His flagship company, **Reliance Communications** Ltd., is India's second-largest cellphone company in terms of subscribers.

Marketplace

Rules of the road

The Ten Commandments of Travel can make journeys more joyous > **Page 29**



CORPORATE NEWS

GM picks Saturn adviser

Girsky to review offers as the car maker races to shed some brands

By Sharon Terlep

DETROIT—**General Motors** Corp. on Monday said it hired veteran auto-industry adviser Steven Girsky to help it sell the Saturn brand by the end of the year.

Mr. Girsky, a former Morgan Stanley analyst and one-time adviser to departed Chief Executive Rick Wagoner, will assist GM as it reviews offers from potential buyers, the company said.

GM, scrambling to avoid being forced into bankruptcy protection alongside Chrysler LLC, is working to offload Saturn, along with its Hummer, Saab and Pontiac brands. Meanwhile, it survives on federal loans.

The auto maker has until June 1 to convince the Obama administration it can survive without seeking bankruptcy protection under a Chapter 11 filing.

First marketed as "a different kind of car company," Saturn has incurred losses since GM launched the brand in 1984 as a way to fight off competition foreign competitors such as Toyota Motor Co.

Saturn generated enthusiasm and a reputation for top-notch customer services, but never delivered a competitive edge for GM.

GM spent big in its efforts at reviving the lineup, producing a fresh line of vehicles. Those efforts proved insufficient, however, and the company said earlier this year it would sell or dismantle Saturn as part of restructuring plans.

The company had hoped to garner interest at least in Saturn's retail network.

Saturn dealerships often are newer and more modern than the average GM-brand dealership, and they tend to be stationed in more-desirable locations.

A group that includes private-equity firm **Black Oak Partners** LLC came forward last month as potential buyers. The group proposed a plan in which it would sell GM vehicles through Saturn's network of 440 U.S. and Canadian dealers, and later aim to add vehicles from other auto makers and seek to transform Saturn into a fuel-efficient brand.

A spokesman for Oklahoma City-based Black Oak said Monday the group is still interested in Saturn, but has received no official word from GM in response to its offer.

Associated Press

Saturn has incurred losses since GM launched the brand in 1984.

Tyson loss widens to $104 million as demand drops

Tyson Foods Inc. reported a wider second-quarter loss amid weak consumer demand, even as some clouds started to part for the meat packer.

Tyson's interim chief executive and president, Leland Tollett, said the company's chicken business returned to profitability in February and that its negative grain hedging positions have moved "mostly behind us."

The recent A/H1N1 influenza outbreak has cut into pork demand in the U.S. and abroad.

Tyson, based in Springdale, Ark., said its loss widened to $104 million, or 29 cents per Class A basic share, for the period ended March 28, from $5 million, or two cents a share, a year earlier.

Sales slipped to $6.31 billion from $6.34 billion.

Chicken sales rose 9.4%.

GLOBAL BUSINESS BRIEFS

TNT NV

Earnings tumble by 58% as mail, express volume falls

Dutch postal company **TNT** NV reported a 58% drop in first-quarter net profit, hit by shrinking volume at its express and mail units. Net profit fell to €76 million ($100.8 million) from €179 million a year earlier, as sales declined 10% to €2.44 billion. TNT's express unit was hit particularly hard, with sales falling 16%, although the company said its performance "seems stable since February." At its mail unit revenue fell 2.2%, mainly caused by a decline in addressed-mail volume in the Netherlands. TNT's mail unit faces increased competition as the Dutch postal market is deregulated. The company said it is ahead of schedule in its €400 million savings program for this year. After union members last month rejected plans to cut wages in return for a no-layoff guarantee, the company now is threatening to cut 11,000 jobs in coming years.

Philips Electronics NV

Philips Electronics NV it acquired Traxtal Inc., which makes software for image-guided medical procedures. Philips, based in Amsterdam, didn't provide financial details but said it expects that the global market for image-guided navigation to reach $600 million by 2015. Traxtal's software functions as a GPS for medical instruments, designed to make some radiology procedures more accurate while aiming to reduce contrast, radiation dose and the length of the procedures. Toronto-based Traxtal was founded in 1996 and has 45 employees. Philips has had a partnership with Traxtal since 2006. Traxtal will become part of Philips's Ultrasound business within the health-care division. The Ultrasound business represents about $1 billion in sales a year for Philips.

—Compiled from staff and wire service reports.

THE FLU OUTBREAK

Accepting confinement for 'greater good'

French dishes help guests quarantined in Hong Kong hotel

By Jonathan Cheng
And Peter Stein

HONG KONG—Guests at the Metropark Hotel received a thoughtful gift Sunday: a box of Godiva chocolates sent to each room.

"Please accept my profuse apologies for the horrendous inconvenience," a note accompanying the sweets read. "You have earned tremendous respect from us Hong Kong people, and we would like to say thank you, from the bottom of our heart." It was signed by York Chow, Hong Kong's secretary for food and health.

The inconvenience in question is a seven-day-long involuntary confinement in the hotel. Recipients of the chocolate had the bad luck to share the same residence as a 25-year-old Mexican who tested positive for the new A/H1N1 flu virus, also known as human swine flu. The confirmation prompted authorities here Friday to impose a strict quarantine on everyone else staying at the four-star lodging in Wanchai, a short walk from a handful of popular bars and strip clubs. The Mexican flu victim is being treated in isolation at a hospital.

Far left, guests quarantined at the Metropark Hotel meet with authorities Monday. Above, shampoo, facemasks, newspapers and laundry powder distributed by the hotel.
Left, Shi Wenjing, a 27-year-old translator from Shanghai, is among those quarantined at the hotel.

In Mexico, the U.S., Canada, New Zealand and other places where the new flu strain has appeared, authorities have urged patients and those in contact with them to remain isolated to prevent the infection from spreading. Hong Kong opted to make the isolation mandatory. This is because of Hong Kong's painful experience with Severe Acute Respiratory Syndrome, which killed 299 people in the territory and sickened 1,755. Mainland China, which was also badly hit by SARS, has imposed its own quarantines on dozens of Mexicans arriving in the country on holiday and business trips.

The Hong Kong SARS outbreak—and the spread of the disease to other countries as well—could be traced back to a single infectious guest from China who stayed at a Hong Kong hotel: the Metropole in Kowloon, which coincidentally has changed its name to the Metropark. Hong Kong lawmakers later took health officials to task for failing to impose timely quarantines to keep the disease from spreading.

Six years later, the 240 or so confined guests of the Wanchai Metropark have fallen victim to Hong Kong's "never again" policy.

Outside the hotel, policemen in clinical face masks stand guard at the hotel's entrance and at nearby crosswalks blocked by yellow police tape. In the first 24 hours or so, throngs of journalists and television cameramen hovered near the glass windows of the hotel lobby.

One masked hotel guest held a handwritten sign up to the lobby window that read: "We will exchange information for beer and food and cigarettes."

Inside the hotel, government staff and medical workers administer flu tests and check guests' temperatures every few hours. Those with fevers are taken away to a hospital for more testing. So far none have tested positive for the virus.

The confinement has led to some tense moments. On Saturday morning, health workers met with guests to answer some of their questions, according to several in the hotel. A Korean man said that he had a traveling companion with a health condition and some heart medication, and that confining him there could be dangerous for his health, recalled Kevin Ireland, a 45-year-old Indian apparel exporter from Delhi who was at the meeting.

Shi Wenjing, a 27-year-old translator from Shanghai, was there too. She remembers the man growing more and more agitated. "He shouted loudly at the health officiers and insisted that he should be released," she said. Both she and Mr. Ireland recall him telling the health officers that if anything happened, "I'll kill you!"

But others spoke of their resignation to life in confinement for the sake of the greater good.

David Mahiet, a 32-year-old Frenchman and guest at the Metropark, was out of the hotel when the quarantine was imposed Friday night. He checked into another hotel. But after talking to staff at the French consulate, Mr. Mahiet decided Saturday to return to the Metropark to do his time.

"It's better for my health and better for Hong Kong city for me to go directly in the hotel, to check if I have the swine flu," he said Saturday after returning to his room, where he smokes cigarettes, watches TV, surfs the Internet and waits.

Food is a complaint for some. Guests say they eat buns and milk or water for breakfast, and are brought simple lunches of rice and curry or spaghetti. So an active takeout business has sprung up. Guests order food delivered to the hotel, and policemen can be seen sorting out orders at the lobby entrance. Mr. Ireland called Pizza Hut and had a pizza and beer party with some of his friends, who include three Spaniards with whom he is traveling.

French guests, however, have taken it up a notch: their local consulate has arranged for French dishes like *poulet à la moutarde* to be brought in, said Mr. Mahiet. "For French people, this is very, very nice," he noted.

Some guests question the logic of the quarantine, concerned that infected guests could transmit the disease to those who aren't. "If you're quarantined, that means they think you have an easily communicable disease that is easily passed on," Mr. Ireland said. But guests mill around the lobby and go from room to room. "There seems to be no protocol," he said.

Ms. Shi even heard that a party was planned in the lobby for Tuesday to celebrate a French guest's birthday. "But I guess I won't go, since it's better to avoid public contact," she said.

At a meeting Monday afternoon, a group of guests pressed officials to let them go free since hospital tests showed them negative for the disease. Mr. Mahiet said that he and some other guests shouted the agitators down, and officials explained that all guests would have to stay under quarantine for the full period, since scientists say human swine flu can incubate for up to seven days.

"If you have a brain, you understand the situation," Mr. Mahiet said.

The quarantine hasn't been totally effective. As of Monday, authorities said between 40 and 50 guests were still unaccounted for. Police were in pursuit of those who may be hiding out with friends or staying at other hotels. But some who thought they could escape the dragnet were mistaken.

One was Pete Cannon, a 63-year-old commercial real-estate developer from Charleston, S.C. He checked into the Metropark last week. On Friday night, he returned to the hotel to find it surrounded by police and health workers clad in protective clothing. Instead of entering the quarantine, he gave the people his passport number and left to spend the night at another hotel.

The next day, he went to meet a friend up in mainland China. "When I got to the border, they had my passport number," Mr. Cannon said. "They stopped the whole train station to escort me out."

After tests found nothing wrong with him, he was taken to another quarantine site at a government-run holiday camp with bungalows in a rural section of Hong Kong's New Territories.

"I feel like that guy in 'The Great Escape,' Steve McQueen," he said. "No matter where he goes, he's taken back to the camp."

Hong Kong officials said they are doing their very best to make the seven days tolerable. On Monday, guests under quarantine received another letter, this one from Rita Lau, Hong Kong's commerce secretary. In it, she wrote: "We look forward to welcoming you back to Hong Kong with your family and friends."

—Juliet Ye contributed to this article.

In Egypt, pigs are center of tensions

Christian farmers protest Cairo's move to kill nation's swine

By Margaret Coker

Egypt pressed ahead Monday with plans to kill all pigs in the country amid rising concerns in the country that the animal considered unclean by Islam may cause a swine-flu epidemic there.

Officials in the majority Muslim nation say they are targeting the estimated 250,000 pigs raised by the nation's minority Christian community as a public-health measure, despite international scientific opinion that the animals don't spread the disease to humans. But what was intended to be a vigorous response to the global flu scare has instead highlighted gaps in public-health policy and acted as a lightening rod of religious tension.

On Monday, state veterinarians visited Christian neighborhoods to mark animals for the cull, a process that could take a year due to the lack of slaughterhouses authorized by religious authorities to handle pork.

"I don't see the logic in the government decision. Our pigs aren't sick but they want to kill them anyway," said Hala Morcos, managing director of Maison Morcos, one of Egypt's largest pork manufacturers. "They are killing our capital."

Egypt hasn't diagnosed any cases of A/H1N1, but it has a poor record of handling health crises. More than two dozen Egyptians have died of bird flu since it hit the country three years ago. The latest fatality was in April. Cairo's crowded neighborhoods, where families live closely with farm animals, offer a fertile environment for illness to spread.

The order from the Health Ministry on Wednesday to kill the country's pigs satisfies a widespread cultural belief that pigs are unclean. The announcement came on the heels of a health conference held outside of Cairo by Islamic scholars, who likened swine flu to heavenly retribution against an unfaithful world.

Health Ministry officials didn't return calls seeking comment.

Egypt's response to the flu crisis has been mirrored in other Arab nations. Health authorities from the Persian Gulf countries met in Qatar last week to discuss the flu. They agreed to step up observation of travelers at airports, but didn't announce precautionary moves such as raising stocks of antiviral medicine.

"There is a misconception, fueled by religion, that pigs are to blame. What people need to realize is that if people fall ill, then it will be governments, not animals, that will be responsible," said Kareem Gohar, a Coptic Christian who runs a consulting business in Cairo.

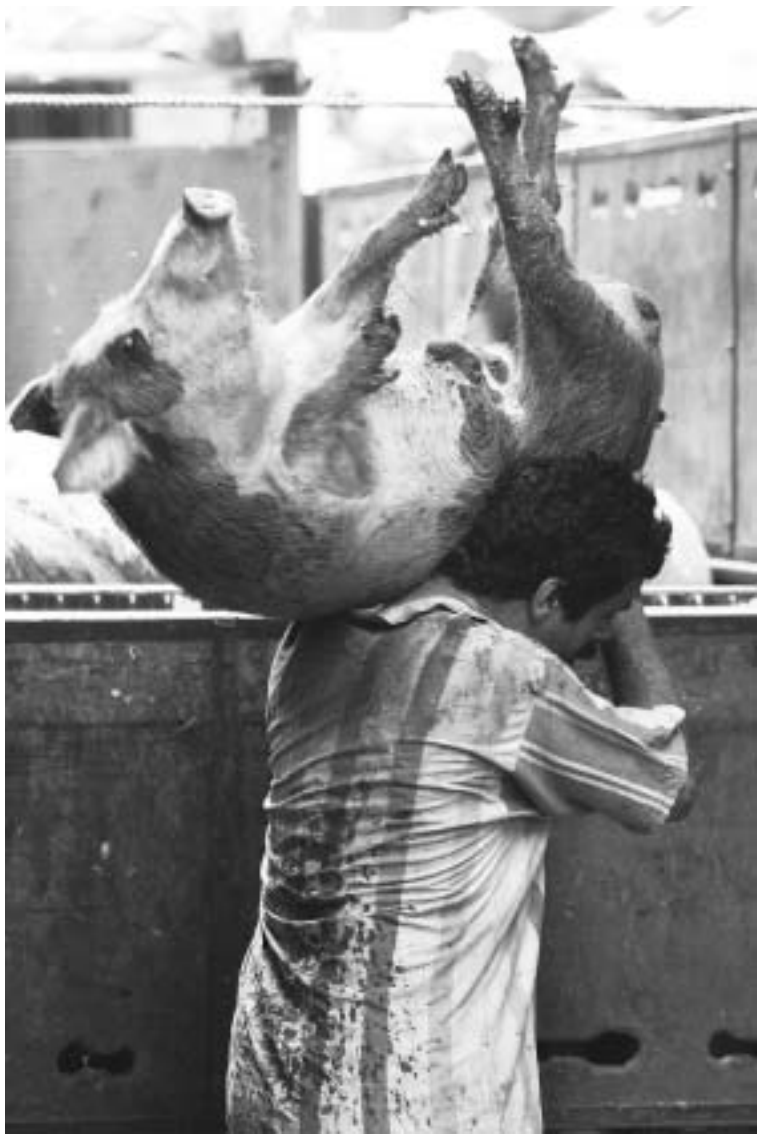
Last week, Egypt's daily press started a media war against pigs, with some papers printing maps showing the location of pig farms to warn citizens away from the areas. "Egypt is not far from the illness because it has pig farms, and many visitors and tourists coming in and out," warned an editorial in the pro-government Al Ahram newspaper.

Such pieces have fueled tensions between the majority Muslim population and the Coptic community, which makes up roughly 10% of Egypt's 80 million people.

On Sunday, hundreds of Christians took to the streets when police moved to start the cull. In two Cairo neighborhoods, security forces fired tear gas and rubber bullets into crowds of protesters, arresting dozens of Christians, according to witnesses. In a third neighborhood, five police were injured by rocks thrown by the pig farmers, according to the state-run news agency.

The streets were quiet Monday, as pork farmers and industry leaders said that instead of calling for new protests, they will lobby the government for higher compensation for the loss of their herds. The government says it will pay 100 Egyptian pounds, or $14, for each male pig slaughtered and 250 Egyptian pounds, or $35, for each pregnant sow. These sums are less than half the market price for pigs, farmers say.

Mai al Farraj contributed to this article.



Reuters

An Egyptian worker carried a pig to a slaughterhouse truck in Cairo after protests against the animal extermination ended.

China, Mexico hash out details of charter flights

By Shai Oster

BEIJING—China said Monday it reached an agreement with Mexico to use special charter flights to repatriate nationals affected by the flu outbreak, days after Mexican officials criticized Chinese health authorities' decision to quarantine scores of Mexican tourists and businessmen.

China's Ministry of Foreign Affairs said in a statement on its Web site Monday that the two countries had reached an agreement on returning nationals home and were working out the details of the flights.

More than 70 Mexicans have been quarantined around China, according to Mexican officials. China has been rounding up all travelers who arrived Thursday in Shanghai aboard an AeroMéxico flight from Mexico with a 25-year-old Mexican man, who is now ill with human swine flu in Hong Kong. He is the only known Mexican sufferer in China to date. Mexicans on other flights say they also have been singled out for quarantining, despite showing no signs of illness and even though in some cases they flew to China from places other than Mexico, the country hardest hit by the current outbreak of A/H1N1 flu.

Meanwhile, Chinese travelers in Mexico have been trying to return home, too, but some flights have been canceled.

On Saturday, Mexico's foreign minister said Mexican nationals were being held in "unacceptable conditions." Chinese officials have denied the charge. "The measures are non-discriminative and not targeted at Mexican citizens. This is simply a hygienic inspection issue," Ma Zhaoxu, spokesman for the Ministry of Foreign Affairs, said in the transcript of an interview posted Monday on the ministry's Web site.

It was unclear from China's statement when the charter planes would be arriving. Mexican embassy officials had told people quarantined in a hotel in Beijing that a plane would be arriving as early as Tuesday. But one passenger in quarantine said that Chinese officials had told them that they might be released on Wednesday.

Ministry of Health officials didn't immediately reply to requests for comment.Mexican President Felipe Calderón urged other countries around the world to treat Mexicans with respect. "We ask that they not engage in discriminatory acts against Mexico or Mexicans," he said in a television interview. Mexico City Mayor Marcelo Ebrard said China's move was a "xenophobic reaction to Mexico, casting us as the villains."

—Jonathan Cheng contributed to this article.

WHO director-general discusses procedures

By Betsy McKay

New reports showed the A/H1N1 swine flu had spread to 20 countries, as the World Health Organization moved closer to officially declaring the new strain a global pandemic.

Incidents of the new flu continued to turn up, including in a herd of swine in Canada, U.S. officials said. But health officials cautioned that declaring a pandemic doesn't mean the disease, which has proved mild outside of Mexico, is deadly to most people or will sweep the entire globe.

"There is a lot of misunderstanding in terms of fear and death," said Margaret Chan, director-general of the WHO, in an interview. Declaring a pandemic "doesn't mean death in big numbers is going to happen."

Last week, concerns about a deadly flu swept the world. Mexico, where 25 deaths have been blamed on the virus, shut schools and discouraged public gatherings. In Hong Kong, 300 guests and staff at one hotel were quarantined after a Mexican visitor tested positive for A/H1N1. Cases were reported across the U.S., and some schools were closed, though by week's end evidence suggested most symptoms were mild.

Unease in the agriculture sector, particularly in the pork industry, was amplified by the weekend discovery of the flu in a swine herd in Canada, which raised the specter of a new avenue of transmission to humans. The infected herd was quarantined and the source of the virus was determined to be a worker recently returned from Mexico, officials said.

Officials have emphasized that people can't get the flu by eating pork products. Global transmission of the disease is the subject of intense research by scientists from the WHO, the Atlanta-based Centers for Disease Control and Prevention and other agencies and governments.

Their challenge has been to balance the danger of a serious outbreak with the risk of overreacting, a decision that must be made before the virus's full lethality becomes clear.

"We cannot overreact and we cannot be complacent either," Dr. Chan said. "We haven't seen the full spectrum of the disease.... One thing I have learned is that with any new disease, they're unpredictable."

Michael Osterholm, director of the Center for Infectious Disease Research and Policy at the University of Minnesota, said the WHO and CDC have been consistent and on target with their messages, stressing the disease needs to be taken seriously because it's new and it isn't clear yet how lethal it might eventually be. "It's the media that has really created the roller coaster in terms of over- and underreacting," he said.

Dr. Chan said she couldn't say when the WHO, a United Nations agency, would raise its alert level to phase 6, which signals all public-health authorities in the world to activate their pandemic-preparedness plans. The agency declares a pandemic when community outbreaks are occurring in two countries in one region of the globe and at least one country in another region. This would be the first flu pandemic since 1968.

Margaret Chan

The A/H1N1 strain had been reported in 20 countries and sickened 985 people as of Monday, according to the WHO, which counts only cases that have been confirmed by a laboratory test. Those cases include 590 infections in Mexico, with 25 deaths—far fewer than Mexican authorities originally indicated. The U.S. has confirmed 286 infections in 36 states and one death, the CDC reported Monday. In Asia, four cases have been confirmed in New Zealand as well as one each in Hong Kong and South Korea.

The disease is spreading within communities in the U.S. and Mexico, and case counts are mounting in Canada. Health officials have said community outbreaks could occur in other countries where case counts are fairly large, such as Spain and New Zealand. The WHO has lifted its global pandemic alert level twice in the past week, to phase 5 from phase 3.

Dr. Chan said the WHO acted appropriately in raising a global alarm over the new strain, given its unpredictability after it emerged at the tail end of this flu season. An initial outbreak of flu in spring 1918 was followed by a second, far deadlier wave months later that killed millions of people around the world, she said. "It may come back," Dr. Chan added. "The world should prepare for it."

But a pandemic declaration "doesn't mean every country in the world will be affected by this wave of infection," Dr. Chan said. "We know fully from the data that most people make a full recovery and some people don't even need to take medicine." The new strain of A/H1N1 flu could remain mild or morph into a deadlier bug, so public health authorities must respond aggressively, she said.

—Lauren Etter, Scott Kilman and Peter Stein contributed to this article.

ECONOMY & POLITICS

In search of progressive vision

Obama's ideal candidate for top court would articulate views that speak to ordinary people

BY JESS BRAVIN

WASHINGTON—U.S. President Barack Obama is likely to seek a nominee for the Supreme Court who will not only defend the liberal jurisprudence that reshaped American society in the mid-20th century, but who may also aim to build a progressive legal vision for the century ahead.

Mr. Obama's ideal candidate, speculates Harvard University professor Laurence Tribe, would "bring majorities together [on the court] around a compelling vision of the law with the elfin touch of someone like [William] Brennan, someone who can move the ocean liner without making terrible waves." Mr. Tribe taught constitutional law to Mr. Obama and today is among the president's legal confidants.

The late Justice Brennan, whose 1990 retirement opened a seat for retiring Justice David Souter, molded many of the civil liberties and civil-rights decisions of the 1950s and '60s, and protected them from a conservative majority in the 1970s and '80s.

While many of those precedents have survived, if sometimes in diminished scope, liberals have bemoaned more recent conservative successes in framing public debate over the courts and the Constitution.

Few scholars of any ideological stripe dispute the intellectual acumen of Justice Souter, or his fellow liberal justices John Paul Stevens, Ruth Bader Ginsburg and Stephen Breyer. But it is conservative members of the court, such as Clarence Thomas, Antonin Scalia and John Roberts, who have in recent years seized the public imagination, whether through their backgrounds, wit or charisma.

Thus, said Mr. Tribe, the president would want not merely a nominee of academic and professional excellence, but one who—like Mr. Obama himself—can "articulate the vision in a way that speaks to ordinary people."

The president on Friday said he would seek a nominee "who shares my respect for constitutional values on which this nation was founded and who brings a thoughtful understanding of how to apply them in our time."

An initial list of candidates, Mr. Tribe said, likely would include federal circuit judges Sonia Sotomayor, Kim Wardlaw and Diane Wood; Stanford law professor Kathleen Sullivan; and Solicitor General Elena Kagan, former dean of Harvard Law School.

During the presidential campaign, Mr. Obama cited the late Chief Justice Earl Warren as exemplifying the type of background he would like to see in a justice. A former California governor, attorney general and district attorney, Mr. Warren had never been a judge. His experience with the criminal-justice system influenced rulings intended to deter once-common forms of police misconduct.

Should Mr. Obama seek a candidate with similar practical experience, he might turn to his Homeland Security secretary, Janet Napolitano, a former U.S. attorney, state attorney general and governor of Arizona. Another candidate with electoral experience is Georgia Chief Justice Leah Ward Sears, who overwhelmingly won her statewide office in a Republican-leaning state.

Douglas Kendall, president of the Constitutional Accountability Center, a liberal advocacy group with ties to some administration officials, said he expects that Mr. Obama "will be looking for a nominee that can thread the needle in the way John Roberts did, pleasing progressives while also appealing to voters in the middle."

Chief Justice Roberts is an unflinching conservative, but his modest approach and upbeat demeanor helped him win the votes of all Senate Republicans and half the Democrats in his confirmation.

Mr. Obama is likely to seek "someone who can explain his or her judicial philosophy in a way that comports with basic American values and views about the role of a judge," Mr. Kendall said.

Republicans acknowledge that a Democratic president is likely to nominate a liberal justice, but they warn that they will be on guard against an ideologue.

"I have no illusions about President Obama appointing a conservative," Sen. Richard Shelby (R., Ala.) said Sunday on CNN's "State of the Union." "But if he will appoint a pragmatist, someone who is not an ideologue...I think that would be good for the country."

Although many Republicans complained when Justice Souter, who was named to the court by President George H.W. Bush, proved more liberal than they had hoped, Sen. Orrin Hatch (R., Utah) said Sunday on ABC's "This Week" that "it would be a slam dunk if [Mr. Obama] picked somebody who was center-left like Souter. Souter became very liberal, but he also stood for a lot of principles."

Associated Press (2)

U.S. Solicitor General Elena Kagan, left, and Homeland Security Secretary Janet Napolitano are potential Supreme Court nominees.

Republicans in U.S. try to dig out of a hole

BY GERALD F. SEIB

CAPITAL JOURNAL

If you're trying to figure how bad things are for U.S. Republicans, consider this: More Americans say they are conservatives than say they are part of the Republican Party—which is supposed to be, after all, the party of conservatives.

That picture emerges from deep inside the latest Wall Street Journal/NBC News poll. Yet the numbers also suggest the party might be able to start climbing out of its hole.

In the Journal/NBC News survey, just 31% of those polled called themselves Republicans. That's down from 37% eight years ago. More important, a larger share of Americans now call themselves Democrats than Republicans in every region of the country, including the South.

At the same time, there are many potential Republicans out there. Of those surveyed, 35% called themselves conservatives—as opposed to 24% who called themselves liberals—and four in 10 of those self-identified conservatives identified themselves as something other than a Republican.

These numbers suggest that, as Republicans tell themselves repeatedly, America still is basically a center-right nation, which should be good news for their party. Clearly, though, Republicans are having trouble luring back potential followers in the middle of the spectrum.

"People want some hope, and they want to understand where the country is going," says Rep. Eric Cantor, the second-ranking Republican in the House. He has just launched a new effort, called the National Council for a New America, which is going to send party leaders fanning out across the country to talk and listen.

The first question for Republicans to ask, of course, is how they got into this situation in the first place. Obviously, the 2008 election showed the toll that an unpopular war in Iraq and an economy in decline had taken on the party.

Yet since the election, Republican problems have, in some ways, compounded. President Barack Obama's popularity is winning him at least the tentative backing of many Americans who have doubts about his policies. A striking 30% of those surveyed said they like Mr. Obama personally but disapprove of many of his policies.

At the same time, economic anxiety has left many Americans who usually want limited government prepared to accept more government activism.

The best sign of that: Republicans are the ones getting hammered in public opinion for the lack of bipartisanship in the era of Obama. Americans are twice as likely to say Republicans, rather than Mr. Obama, are to blame for being too stubborn in dealing with the other side.

That is precisely the situation Rep. Cantor is trying to change. He has organized Republican leaders from Congress, a few Republican governors and party elder statesmen Mitt Romney and Jeb Bush to sponsor town-hall meetings and online forums with voters in search of what the group calls "commonsense conservative solutions" on the economy, energy, health care and national security.

"Essentially what we did was put this group together to put us in a position where we can go out across the country and listen," says Rep. Cantor.

U.S. construction, housing reports hit positive note

BY KELLY EVANS

An increase in housing-market activity and a gain in construction spending were the latest signs of a brighter outlook for the U.S. economy.

Pending sales of U.S. existing homes rose in March for the second-straight month, the National Association of Realtors said Monday. It marked the first back-to-back gains in that index in nearly a year, and the latest hopeful sign for the beleaguered housing market. Pending sales serve as a leading gauge of home sales, as they are based on contracts signed, but not yet closed, a process that typically takes a month or two.

Activity was strongest in the South and West in March, the Realtors' group said, as the index overall increased 3.2 points from February to a level of 84.6. Sales of new and existing homes have fallen sharply in the past year, but have shown signs of life in recent months, as falling prices and low mortgage rates are helping to make home buying more affordable.

Meanwhile, the Commerce Department said Monday that spending on construction projects rose in March by 0.3% to $969 billion, the first gain in six months. Spending was down on residential construction, but strong for nonresidential projects, particularly power plants and government structures, possibly reflecting a jump-start in spending as the government begins to distribute funds from its $787 billion stimulus package.

Spending was strong on nonresidential projects in the U.S., such as power plants.

While both reports were encouraging for the economy, there are still plenty of storm clouds on the horizon. Rising unemployment, in particular, threatens to damp the outlook: The nation's 8.5% unemployment rate is expected to jump toward 9% when April figures are released Friday by the Labor Department, and to flirt with double digits as layoffs continue to mount.

Nomura Securities chief economist David Resler wrote in a note to clients about construction spending: "We [still] expect that these expenditures will remain under considerable pressure this year due to rising vacancies and difficult financing conditions."

But the increase does suggest the U.S. economy contracted at a slower rate than initially reported during the January-through-March period.

The government last week reported the U.S. economy contracted at a 6.1% annual rate in the first quarter, as sharply lower spending on new building projects, in particular, weighed on growth. Morgan Stanley economists said they expect that figure will be revised upward to a drop of 5.9%, and they also raised their forecast for the current quarter to a drop of 3.3% from a decline of 3.5% prior to the release of Monday's reports.