

"All the News  
That's Fit to Print"

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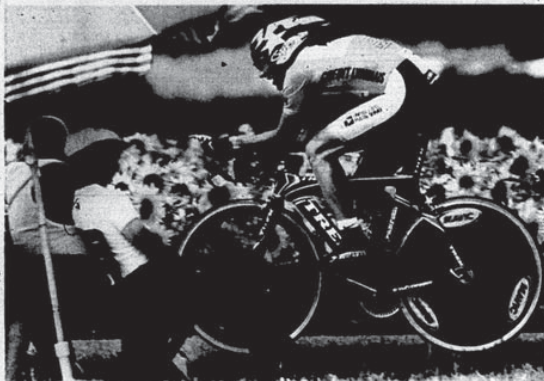
NEW YORK, SATURDAY, JULY 28, 2001

It brought the greater New York metropolitan area.

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## Late Edition

New York: Today, sunshine dimmed by clouds; high 77. Tonight, increasing clouds; low 63. Tomorrow, rain arriving; cool, high 72. Yesterday, high 78, low 62. Weather map is on Page B8.



### Watching a Cyclist at His Peak

Lance Armstrong added to his lead in the Tour de France yesterday by winning his fourth stage, a time trial from Montluçon to St. Amand Montrond. The race ends tomorrow in Paris. Sports Saturday, Page D1.

## Macedonia Village Is Center Of Europe Web in Sex Trade

By CARLOTTA GALL

VELESTA, Macedonia — This village, tucked down in the southwestern corner of the country near the border with Albania, is one of the strangest places in this part of the Balkans. It has the high-walled brick homes and rutted lanes typical of villages here, but amid the hay barns there are more than a dozen neon-lit nightclubs and sex bars with names like Madama and Paradise. And beneath the strange combination of rural quiet and nighttime glitz, the place has a very sinister reputation. The first bar on the main street is the Espresso. A group of young men and several young women in skimpy clothes stood by their cars outside the club on a recent night. Nearby, in a black Mercedes, a thickset man with a shaved head and half a dozen gold chains around his neck sat next to his driver. It was Dilaver Leku, the richest man in Velesta.

Hundreds of foreign women, mostly from former Communist bloc countries, have passed through Velesta and Mr. Leku's bar and restaurants in the last few years, according to townspersons, the police, foreign civil rights workers and some of the women themselves. A large proportion of them, these people say, are women who are tricked into the job, forced into prostitution and held against their will. The women are bought by bar owners and sold when the customers tire of them. They are moved along by a network of traffickers across borders and ethnic communities, part of a web that spreads across the Balkans and into Western Europe. A decade of conflict in this region, and the grinding poverty of post-Communist Eastern Europe, have helped breed this network. Across

## Pornography Traders Use Internet Outlets

The file-swapping services that have grown in popularity as Napster has waned can be used to trade pornography as well as music, presenting a new environment in which minors can be exposed to hard-core photographs and even videos, two members of Congress warned.

A report released by Representatives Henry A. Waxman, Democrat of California, and Steve Largent, Republican of Oklahoma, cautioned that the use of the popular methods that parents use to block access to pornography on the World Wide Web are not useful against the new services, which use decentralized "peer-to-peer" technology that is difficult to control or to trace. The congressmen did not call for legislation to address the issue, but suggested greater vigilance by parents. They also called on the Attorney General to step up enforcement of existing obscenity laws.

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Business Day, Page C1

## U.S. Economy GREW AT A SNAIL'S PACE IN SPRING QUARTER

SLOWEST SINCE EARLY '93

Still, the Expansion Continues Despite a Steep Decline in Spending by Businesses

By DAVID LEONHARDT

WASHINGTON, July 27 — Economic growth nearly halted in the second quarter, as businesses made severe cuts in investment and consumer spending grew less quickly than it had at the start of the year, the government said today. The economy is now in its weakest condition since early 1993, although most economists say that companies' swift responses to the slowdown, combined with a tax cut and declining interest rates, have made an improvement likely in the coming months.

The economy grew at an inflation-adjusted annual rate of 0.7 percent in the three months that ended on June 30, the Department of Commerce reported in its initial estimate of the quarter's economic activity. Overall spending by businesses and consumers actually fell slightly, but a surge in spending by state and local governments allowed the nation's longest recorded expansion to extend into its 11th year.

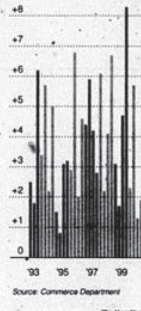
Still, from the middle of 2000 to the middle of this year, the economy grew just 1.3 percent, less than a third the rate of the late 1990s and the slowest 12-month pace in nearly 10 years. "The economy is sputtering along — it's not nearly as strong as it should be," President Bush told members of the Future Farmers of America today, adding his expectation that the tax cut be championed would provide "an incredibly important boost to economic vitality and economic growth."

Stocks fell slightly today, with the Dow Jones industrial average dropping 38.96 points, to 10,416.07, on moderate trading. Bond prices rose slightly, as analysts said the new data further increased the chance that the Federal Reserve would encourage more borrowing and spend-

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## Sputtering Along

The economy grew at a 0.7 percent annual rate in the second quarter, the slowest since 1993.



Source: Commerce Department

The New York Times

## Israel Is Wary Of Long Reach In Rights Cases

By CLYDE HABERMAN

JERUSALEM, July 27 — A warning went out this week from Israel's Foreign Ministry to government, army and security officials. Be careful in choosing destinations when traveling abroad, it cautioned, because certain nations might be prepared to charge ranking Israeli members of the Future Farmers of America today, adding his expectation that the tax cut be championed would provide "an incredibly important boost to economic vitality and economic growth."

The advisory was not worded quite that bluntly. It recommended, as a senior ministry official put it today, that high-level officials, "do their homework" to avoid stumbling into "a legal embarrassment."

But the message was clear. Some countries, notably in Europe, believe that Israel has been unduly harsh toward the Palestinians — firing on young protesters disproportionately, singling out Islamic extremists for assassination, and restricting the movement of ordinary people to such an extent that Palestinians say their economy is nearing collapse. Israel's insistence that Palestinians have their own leaders to blame for their troubles, and that whatever it does is purely in the name of security, leaves many Europeans cold.

So watch out, the Foreign Ministry told Israeli officials. This is a new age of lawyers without borders when it comes to human rights. Prosecutors are prepared to reach far beyond their own lands to put on trial political figures accused of gross violations. Witness, Israeli officials say, the international cases brought against Augusto Pinochet of Chile

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## HOUSE DEMANDING STRICT GUIDELINES ON ARSENIC LEVELS

REJECTS BUSH APPROACH

19 in G.O.P. Join to Preserve Clinton Rule on Tap Water — White House Objects

By DOUGLAS JEHL

WASHINGTON, July 27 — The House of Representatives voted 218 to 189 today to require the Bush administration to keep in place restrictions on the amount of arsenic allowed in drinking water at least as stringent as those set under former President Bill Clinton.

The move was another setback for the administration on environmental policy and a defeat for the House Republican leadership; 19 Republicans joined with 189 Democrats.

If it is upheld by the Senate, which is uncertain, today's vote would allow the administration to choose only between putting in place the Clinton rules or tightening them further, thus guaranteeing at least an 80 percent reduction in the arsenic standard by 2006, when the rules are due to take effect. The Democrats' one-vote edge in the Senate makes passage of such a measure a real possibility, and President Bush might find it politically difficult to veto a bill calling for less arsenic in tap water.

The Bush administration announced in March that it would suspend arsenic rules established under the Clinton administration, which set the standard at 10 parts per billion. At that time and since, it was questioned whether the Clinton decision was based on an adequate understanding of the level at which arsenic in drinking water might pose an unacceptable risk to human health.

Today the White House criticized the House vote, saying it would preempt a fair and reasonable review now under way.

While Mr. Bush wanted to pursue an approach based on "sound science," said Scott McClellan, a White House spokesman, it appears some are moving forward to score points for partisan politics based on sound science.

The White House has promised

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## White House Sets Up Clean Air Act Battle

The Bush administration wants Congress to combine several of the most contentious air pollution control programs into a more flexible and less intrusive system that is strongly favored by leading electric utilities. In trying to overhaul the Clean Air Act to reduce paperwork for utilities, the White House faces a protracted and politically charged battle in Congress.

Article, Page A8

## Devil Rays and Marlins? Fans Just Won't Bite

By RICK BRAGG

MIAMI, July 27 — In a way, all the empty space surrounding Michael Lawson at the baseball stadium only made the day a little finer. There was no beer being spilled, no blowhard belting into his ear. There was just the game, the green field fanning out below him, and row after row of orange, vacant seats.

Mr. Lawson, who came to watch the Florida Marlins play the Cincinnati Reds on a recent Sunday afternoon, believes the fans will eventually return to the Marlins, one of the worst draws in baseball. But just in case major league baseball in Miami is only a passing dream, "I'll relish every moment I can," he said.

Across the state in Tampa Bay, where a domed stadium protects fans of the worst team in baseball from thunderstorms that frequently stab the state with lightning on summer afternoons, Jay Horning, 76, wondered at the Devil Rays' home crowds, which are among the smallest in baseball.

"It's kind of depressing, when you see so many empty seats," said Mr. Horning, who grew up a Chicago Cubs fan in Richland, Iowa. But like Mr. Lawson, he hopes. He believes the Devil Rays will one day win, and the stands will fill.

"Anybody who can stick with the Cubs," he said, "ought to be able to stick with the Devil Rays." Tampa Bay fans got more bad news today when the Rays' star first baseman, Fred McGriff, a Tampa native, accepted a trade to the Cubs. How different it was a decade ago, when major league baseball in Florida seemed so promising. How could baseball fall in a state populated with large numbers of retirees and transplants, many of them lifelong baseball fans from the Northeast and Midwest? Latino, the state's fastest-growing group, bring with them a passion for the game from Cuba, the Dominican Republic, Puerto Rico and other points south. They could not crowd into every game? Spring training for generations brought a migration of fans, and minor-league parks, for much of the century, lit up both Florida coasts.

"The recipe was there," said Mr. Lawson, 36, an artistic development

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The day Michael Lawson watched his Marlins, July 22, attendance was 15,381. Only the Tampa Bay Devil Rays had fewer fans that day: 14,732.

## INSIDE

### Teacher's Killer Sentenced

A 14-year-old boy who shot his favorite teacher to death a year ago was sentenced to 26 years in prison without parole.

### Mets Trade Two Relievers

The Mets traded Dennis Cook and Turk Wendell to the Philadelphia Phillies for two minor league pitchers.

### United-US Air Merger Ends

United Airlines and US Airways ended their plan to merge after the Justice Department said it would block the takeover.

### A Discovery of Art Under Art

A historian who found a fresco under another in Rome says it may lead to new ideas on when the Renaissance began.

## COMING ON SUNDAY



### GOOD DRUG, BAD DRUG

As a pill, OxyContin brings pain relief. As a powder it brings euphoria. It takes about five seconds to make the transformation, and not much longer to create an addict. A report by Paul Tough in The Times Magazine.

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## BUSINESS Digest

### Economic Growth Slows To 0.7% Rate in Quarter

Economic growth nearly halted in the second quarter, as businesses made severe cuts in investment and consumer spending grew less quickly than it had at the start of the year, the government said.

The economy grew at an inflation-adjusted annual rate of 0.7 percent, the Commerce Department said, leaving it at its weakest condition in a decade. [Page A1.]

### Dow Jones Declined 1.5% This Week

Wall Street held steady, despite light selling on the government's weak gross domestic product report. The Dow Jones Industrial average declined 38.96 points, or 0.4 percent, to 10,416.7. The Dow ended the week down 1.5 percent, even after a sell-off on Monday and Tuesday when the index lost 335 points. The Standard & Poor's 500-stock index gained 2.89 points, to 1,205.82, while the Nasdaq composite index rose 6.11 points, to 2,029.7. For the week, the two gauges lost less than a percent. [C4.]

**E.P.A. Rules Against Modified Corn**

The Environmental Protection Agency has decided not to let even trace amounts of genetically modified StarLink corn into human food, officials said. An agency advisory panel concluded on Thursday that there was not enough evidence to rule out possible allergic reactions, even from small amounts. [C4.]

**House Bars Easing of Water Rules**

The House voted 218 to 189 to bar the Bush administration from easing rules on the amount of arsenic allowed in drinking water beyond those set under President Clinton. [A1.]

The Bush administration wants Congress to collapse several of the most contentious air pollution control programs into a more flexible and less intrusive system strongly favored by leading electric utilities. [A8.]

**Regulators Close Superior Bank**

Federal regulators have closed Superior Bank, a Chicago-area savings and loan that has had huge losses on loans to high-risk borrowers. The institution, half-owned by the Pritzker family, is expected to cost the Federal Deposit Insurance Corporation \$500 million. [C4.]

**Thailand Ponders Time Zone Change**

The government of Thailand is considering whether to set clocks ahead. By doing so, financial markets in Bangkok would operate in closer harmony with larger markets in Singapore, Hong Kong and Kuala Lumpur, attracting more foreign investment. [C3.]

**Campbell Soup to Bolster Marketing**

In an effort to turn its business around, Campbell Soup will increase marketing spending and investment to raise sales of its soups, sauces and snacks. It warned that earnings next year would be below current expectations and cut its dividend 30 percent. [C3.]

<b>YESTERDAY</b>		
Dow industrials	10,416.67	▼ 38.96
Nasdaq composite	2,029.07	▲ 6.11
10-yr. Treasury yield	5.09%	▼ 0.04
The euro	\$0.8763	▼ 0.0015
The dollar	125.34 yen	▼ 0.44

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### About Mutual Funds

As a result of growth in the number of mutual funds, The Times is eliminating entries for some of the smallest ones and making its daily table more concise.

The table now lists Nasdaq funds with assets of \$50 million or more, no longer \$30 million. The omitted funds are accounting for 18 percent of the space formerly occupied by The Times's table — represent slightly more than 1 percent of the total money invested in the listed funds. When a fund offers more than one share class, its classes are now grouped, no longer listed in separate categories.

On Sundays in Money & Business, the mutual funds table will continue to list funds with assets of \$30 million or more, but grouped as they are in the daily table. The order of fund family names will change slightly.

Information on more than 12,000 mutual funds is available at The New York Times on the Web at [www.nytimes.com/business](http://www.nytimes.com/business).

Comments about the changes may be e-mailed to [table@nytimes.com](mailto:table@nytimes.com) or telephoned to (212) 556-8443.

## Antitrust Challenge Stops United Merger With US Airways

By KENNETH N. GILPIN

United Airlines' \$4.3 billion bid to acquire US Airways died yesterday after the Justice Department said it would go to court to block the deal. The government asserted that the proposed takeover would "reduce competition, raise fares and harm consumers" on airline routes across the country.

Shortly after the government's announcement, US Airways, a unit of the US Airways Group, said it would no longer pursue the transaction.

"While disappointed that the merger with United will not go forward, we never-

theless must respect the Justice Department's decision," a US Airways statement said.

United's parent, the UAL Corporation, also issued a statement, saying, "UAL Corporation and US Airways have terminated their merger agreement."

The government's opposition to the deal did not come as a surprise, and analysts said it seemed to indicate antitrust enforcement in the Bush administration would not differ much from the approach taken by the Justice Department under President Bill Clinton.

There was a naive sense on the part of people who don't pay attention to antitrust

that Republicans would differ a lot from Democrats when it came to enforcing antitrust laws," said Jeff Eisenach, president of the Progress and Freedom Foundation, a free-market research organization based in Washington.

"The challenge in the US Airways case was to see whether there was a way around some fairly substantial market power issues," he added. "What this indicates is, first, that those attempts were not successful and second, just any old merger won't fly under the Bush administration."

Steven C. Sunshine, who from 1993 to 1995 served as the Justice Department's deputy assistant attorney general for

merger enforcement, said: "I don't think this administration will be as aggressive on all fronts as its predecessor. But in mainstream merger cases they are going to continue to bring cases."

Wall Street analysts said the collapse of the proposed takeover removes what could have been a financial alibi for UAL, which along with much of the airline industry is suffering losses. And it once again raises questions about the strategy US Airways will pursue to remain viable.

Signs that the deal was in serious trouble had popped up repeatedly. Earlier this

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## Another Stem Cell Debate

### Ethics Aside, a Good Business Model Remains Elusive



Photo by Richard Perry/The New York Times

By ANDREW POLLACK

A pioneering biotechnology company claims its cells can cure diabetes and Parkinson's disease. But opponents of abortion and President Bush considers extending a ban on federally financed research on the cells.

These cells, however, are not embryonic stem cells. The scene was from the late 1980's, when the current president's father was in the White House and a California company called Hana Biologics began implanting cells from the pancreases of aborted fetuses into diabetics, in hopes the cells would produce insulin.

But Hana had an even bigger problem than the ethical debate — the cells did not work. The company abandoned its effort and faded into oblivion. More than a decade later, no

"It's really brought a lot of investors into this space that wouldn't be here."

MARTIN MCGLYNN  
President and chief executive of StemCells Inc.

therapy using fetal cells to treat any disease has reached the market.

Hana's difficulties have implications for today's controversy. Embryonic stem cells are just the latest candidates to come along in a field known as cell therapy that has been extremely difficult to turn into a viable business.

"I don't think a great business model with high profits has come out yet," said Irving Weissman, a professor at Stanford Medical School, who has started two stem cell companies.

Embryonic stem cells can be turned into any type of cell in the body, potentially providing new heart, liver or pancreatic tissues to people whose own organs are damaged. One hope, for instance, is a new nerve cells to allow people in wheelchairs to walk again.

But Ron Cohen, chief executive of Acorda Therapeutics, which is developing treatments for spinal cord injuries, said other approaches, like drugs, are likely to be ready before stem cells. "Stem cells is one piece of the puzzle," he said. "I certainly would not elevate it above the others."

Dr. Cohen said that Acorda, based in Hawthorne, N.Y., was doing research on commercial uses for stem cells, but, after consulting academic experts, came away stunned at



Photograph by Richard Perry/The New York Times

Gargi Roy, above, working recently in the laboratory of Acorda Therapeutics in Hawthorne, N.Y. An Acorda executive said he was stunned at how little was known about growing and using stem cells.

"Stem cells is one piece of the puzzle. I certainly would not elevate it above the others."

RON COHEN  
Chief executive of Acorda Therapeutics Inc.

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## File-Swapping Is New Route For Internet Pornography

By JOHN SCHWARTZ

The file-swapping services that have grown in popularity as Napster has waned can be used to trade pornography as well as music, presenting a new environment in which minors can be exposed to hard-core photographs and even videos, two members of Congress warned yesterday.

A report released by the lawmakers warned that most of the popular methods that parents use to block access to pornography on the World Wide Web are not useful against the new services, which use decentralized "peer-to-peer" technology that is difficult to control or to track.

The file-swapping systems "give children access to the vilest hard-core pornography," said Representative Henry A. Waxman, Democrat of California, who released the report yesterday with Representative Steve Largent, Republican of Oklahoma. They did not immediately call for legislation to address the issue, but suggested greater vigilance by parents.

Since legal troubles with the recording industry forced Napster to heavily restrict the use of its service to download copyrighted files, competitors with names like Gnutella, BearShare, Alimster and MusicCity's Morpheus have drawn millions of users, including teenagers, looking for ways to find free music. While Napster created a centralized directory for trading music files, most of the newer systems can be used to trade directly any string of digital bits that computers use to store information, whether it be music by the Canadian rockers Barenaked Ladies or photographs of bare naked ladies.

Now, the new report found, some of the most popular search terms on the Gnutella file-sharing network show that visitors are

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## China Feud Has New Risks For Taiwan

By MARK LANDLER

HONG KONG, July 27 — In a sign that Taiwan's political standoff with China is starting to alienate its corporate customers, Dell Computer has criticized the reluctance of the authorities on Taiwan to establish direct trade and transportation ties with the Chinese mainland.

Max Fang, Dell's senior representative in Taipei, the island's capital, said he sold senior economic and trade officials last week. "How can you expect to be an Asia-Pacific procurement center if you are isolated from the biggest market in the region?"

The president of Taiwan, Chen Shui-bian, has been under increasing pressure from industrialists there to establish direct links with China. But this is the first time that a foreign company has joined in the call.

Dell, based in Austin, Tex., is no ordinary foreign company. It is the largest buyer of laptop computers from Taiwan's suppliers, ordering 1.5 million to 4 million machines this year.

Taiwan has built its economy over the last two decades by becoming the subcontractor of choice for the global computer industry. Companies there make 55 percent of the world's laptops and 25 percent of desktop PCs. Most are sold under American brand names like Compaq, Gateway and Dell.

"Dell is just looking for the best way to do business," said Horace Tsang, chief executive of First International Computer, a PC maker in Taipei. "They've been the price leader; they want to stay the price leader."

As if to underline its point, Dell moved its top procurement executive to Hong Kong earlier this year. The executive, Robert

Continued on Page C3

## Purchase of Contractor Gives KeySpan Indigestion

By NEELA BANERJEE

While other utilities and power companies were announcing banner results, KeySpan, the Brooklyn-based seller of gas and electricity, said this week that it had an \$8 million loss in the second quarter.

KeySpan said it blamed the loss on volatility in power markets. Rather, it said the problems all had to do with a New Jersey engineering and contracting company it acquired 18 months ago — but never had full control of.

KeySpan reported a \$30.1 million charge because of work by the contractor, the Roy

Key Companies of Freehold, N.J., that KeySpan says it will have to redo and money that is simply unaccounted for on Roy Key's books, according to statements by the utility. Without the charge, KeySpan, with headquarters in Brooklyn and Hicksville, would have posted a profit of \$22.1 million for the quarter.

While the loss may not be much during a summer of multibillion dollar write-downs, it has proved an embarrassment for KeySpan. And just getting access to Roy Key's books has snarled KeySpan in a thicket of restraining orders, calls to the police, and lawsuits and counterclaims that make charges of everything from malfeasance to physical intimidation.

What is KeySpan doing owning a contractor like Roy Key? The restructuring of the electricity industry gave companies the chance to venture into new businesses on the fringes of power and gas. One flavor-of-the-month was the heating, ventilation and air-conditioning sector. Utilities power those systems, so they began acquiring the businesses that build and maintain them.

Few of those unions have so far been successful, industry analysts said. The corporations themselves may not be able to do the due diligence they need to make a sound choice. The heating and ventilation companies are usually entrepreneurial out-

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